THE ECONOMIC ORIGINS OF NEOLIBERISM

Ilkben Akansel

Assist. Prof. Dr., Artvin Coruh University Hopa Economics and Administrative Sciences Faculty (Sundura mah. Lise cad. No.79 08600 Hopa/Artvin/Turkey)

Hopa/Artvin/Turkey

iakansel@yahoo.com

iakansel@artvin.edu.tr

Abstract

Neoliberalism is a notion which cannot be described definitively. Nevertheless, it is a notion affecting economics system in terms of its components. Taking effects since 1970, premises justifying freedom and social efficiency can only be provided by private ownership and free market; therefore, it opposes state intervention. Broadly, arguments of neoliberalism differentiate from liberal arguments, which justify classical liberalism based upon individual and firm, whereas its failure in practice causes many critical arguments. The basis of these failures is upon debating implementations of economics system that is carried on the core of neoliberalism.

Neoliberalism can basically be divided into three eras: Chicago School in 1970's opposing Keynesian economics, end of 1980's Washington Consensus and since mid-1990's the era of re-discussing the regulatory role of state. This study aims to examine these three economics era which are the basis of neoliberalism. Examining the features applied for each three political economics, the failure points of neoliberal discourse can be visualized. Consequently, analysis of the economics origin of neoliberal discourse will enlighten the resolution of recent economic crisis.

Keywords: *neoliberalism, Chicago School, Keynesian Economics, Washington Consensus, free market, state regulator*
Jel Classification: P1

1. INTRODUCTION

Neoliberalism is not a notion dates back to distant past; however, in regards to its structure and worldview, it can be dated back almost to 18^{th} century. Besides that, its total domination around the world begins as of in the midst of 1980's. There is no doubt that a series of social and economic process experienced before 1980's affected neoliberalism's hegemonic structure dominating the whole world.

Historical course establishes some notions. These historical courses are not independent from a range of economic, social, and political processes, so does neoliberalism. In this study, we initially urge upon what neoliberalism stands for; in other words, how to define neoliberalism. After that, we aim to probe historical and economical events that made neoliberalism came up. Hereby, where the opponent and proponent opinions derived from can be scrutinize better. Thus, it will be easier to seek for pros and cons of neoliberalism and its positive and negative effects on human life.

It can be said that neoliberalism, as a worldview, is supported by a historical process, named Washington Consensus (WC). As it will be discussed in forthcoming sections, Consensus is not a complement of decisions taken in unanimity by different classes gathered on a common idea. Conversely, it comes up as a reflection of hegemony that dominant classes established on ruled classes. For this reason, in generally, neoliberalism is considered as a reason of failure. In addition to that, WC, which constitutes the core of neoliberalism, should be understood first.

This study will probe Washington Consensus which affects neoliberalism, supply-side economics and by means of this, practices forging economic life.

No political practice emerges by itself. Practices upon which many institutions agree come up as policy offer. Neoliberalism is that kind of notion. Although liberal policies holding on since the 18^{th} century was defeated by Keynesian policies after II. World War, decline of the profit ratios led to neoliberalism. This brand-new notion, indeed, needed political practices to have been agreed on. These agreed-on practices showed up as 'consensus', or 'Washington Consensus', as a common perspective of major institutions direct the world economy. Neoliberal policies and neo-classic economic theory are in coherence with each other. This coherence takes its power from Washington Consensus and be carried on by major institutions have an influence on world economy. In this case, Consensus can be defined in the strict sense as following manner:

> This 'consensus' reflects the convergence of three institutions based in Washington, D. C., the World Bank, the International Monetary Fund (IMF) and the US Treasury Department, around neoclassical economic theory and neoliberal policy prescriptions for poor countries. (Saad-Filho, 2005, p.113).

Besides its strict sense definition, we can make a definition of Washington Consensus in the broad meaning as following manner:

> The term of Washington Consensus is used to state neoliberalism's stability and structural adjustment policies adapted to under-developed countries while its economical and political foundations can be found under tenure of office of Reagan in USA, and Thatcher in England. The notion is […] put forward by John Wiliamson (Williamson, 1990: 7, 8). In another words, Washington Consensus notion is considered as synonym of neoliberal strategies offered to under-developed countries by International Monetary Fund (IMF), World Bank (WB), and World Trade Organization (WTO), and well accepted by USA and other capitalist countries (Chang & Grabel, 2005: 30). […] IMF, WB, and WTO, in context with developed countries, target regulations accelerating capital accumulation on national/international level, structural adjustment, and articulation to international capitalist system in accordance with international division of labor with patterns of continuous high capital accumulation. For this purpose, in order to articulate under-developed countries to the system, they apply for

> sectorial adaptation loans, notably structural adjustment loans for infrastructural projects, and support macro-economic stability policies by given financial loans. Decreasing profit rations in USA since 1960's have altered WC institutions' functions as well. Tendency of decreasing of profit ratio resulted in high inflation and increasing unemployment, that is, an unprecedented crisis stagflation. This situation disfavored Keynesian demand-sided economy policies as of 1970's. "Keynesian social welfare state considered as responsible for crisis and neoliberalism, which is proponent of minimizing state's extent and role in economy, became prominent. […] Ascent of interest rates as a result of disinflation policies by which developed capitalist countries conducted in order to defuse crisis, two petrol crisis experienced in 1970's, increasing external debt service constituted the turning point of this devastation for under-developed countries. Slowing down of accumulation of capital -in accordance with increasing interest rates, balance of payments deficit, fast ascent of inflation and expanding unemployment were main indicators of crisis in under-developed countries. (Altıok, 2008, p. 1297, 1298).

> The Washington of this paper is both the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board, and the think tanks. (Williamson, 2002, p.1).

Then, it should be understood clearly that USA is the resource of WC, which is one of the root of neoliberalism. Congress and other institutions working with it simultaneously were fictionalized in order to spare developing countries, notably Latin American countries, from the situation they were in. Nevertheless, not all people in Washington were in unanimity about how this should be.

Neoliberalism feed itself with neo-classic economics while supported by Washington Consensus. On the other hand, neo-classic economics generated new manners by different ways. One of these ways is supply-sided economics. However, it should be bear in mind that without understanding WC's logic, it is not possible to understand origin of neo-liberalism. WC will be probed more detailed under the following chapters.

2. FOOTPRINTS OF NEO-LIBERALISM

> Neoliberalism represents a reassertion of the fundamental beliefs of the liberal political economy that was the dominant political ideology of the nineteenth century, above all in Britain and the United States. The arguments of political economy were based on institution and assertion rather than on rigorous analysis, but their strength rested on their ideological appeal rather than on their analytical rigor. The ideological appeal of liberalism waned towards the end of the nineteenth century, with the growing demands for 'social reform' predicated by the rise of the organized working class and a growing awareness of the 'social problems' that the development of capitalism had thrown up in its wake. […] Neoliberalism emerged as an ideological response to the crisis of the 'Keynesian welfare state', which was precipitated by the generalized capitalist crisis associated with the end of the postwar reconstruction boom and was brought to a head by the escalating cost of the US war against Vietnam at the beginning of the 1970s (Clarke 1988, chs 10, 11). (Clarke, 2005, p. 57, 58).

Furthermore, neoliberalism is an ideology of which foundations derive from liberalism, and rely on USA-England hegemony. In spite of the fact that liberalism is a market focused system, socio-economic events are required to focus on market profit as well as prevent social events. Although socio-economic problems that capitalism invented created Keynesian welfare state system, after a while economic crises were reborn; and neoliberalism showed up as a response to this.

"Neoliberalism arose as government reaction to the economic disasters of the second half of the 1970s". (Lapavitsas, 2005, p. 33).

> Implementation problems can be grouped into five areas. First, Washington consensus policies systematically favor large domestic and foreign capital, especially financial capital, at the expense of smaller capitals and the workers. The ensuing transfer of resources to the rich, and the growth slowdown triggered by the neoliberal obsession with inflation, have led, in virtually every country, to higher unemployment, wage stagnation and concentration of income […] (Saad-Filho, 2005, p. 116).

Moreover, as the first point, WC is interested in distribution of income, which neo-classic economics is already obsessed. It advocates that by eliminating economic problems like inflation, unemployment, and stagnation, distribution of income would be fairer. However, the real reason of unfair distribution of income, transferring incomes from low income group to high income group, is being remained implicit deliberately. This situation becomes as an important deficit of WC in practice. It is such an important deficit that it is in obsessive tendency to optimal distribution of income.

> Equal and fair distribution of income, indeed, is the most auld ideal of mankind. Rules that regulate fair distribution of social welfare had a wide coverage almost in every Holy Scripture; however, ironically, neoliberal and conservative transformation of economics having been experienced in last 30 years tend to consider distribution of income out of economics and degrade economics education to the technical endeavor that only questioning optimal distribution of income. (Yeldan, 04.19.2014).

> Second economic deregulation reduces the degree of co-ordination of economic activity and state policy-making capacity, and precludes the use of industrial-policy instruments for the implementation of socially determined priorities- for example it can be difficult to reduce production costs through the optimization of the country's transport network if the ownership of the network is fragmented between competing firms. 'Market freedom' increases economic uncertainty and volatility, and facilities the onset of crises. (Saad-Filho, 2005, p. 116).

According to WC, economic deregulation aims to decrease production costs of countries; nevertheless, conversely, it created obstacles making difficult to compete. This situation reveals itself as a contradiction of neoliberalism, which has a close relationship with neo-classic economics. Deregulation policy is an instrument to deregulate market system. Proceeding to neo-liberal era, in accordance with Keynesian economy policies, there were state interventions to the economy when malfunction of market system emerged. In fact, the course of market mechanisms was affected by the direction of decline of profit ratios. Neoliberalism annihilates this situation by its deregulation policies. A de-regulative market is presented as an instrument as a way of gaining more profit.

> Third, the neoliberal reforms introduce mutually reinforcing policies that destroy jobs and traditional industries that are defined, often ex post, as being inefficient. The depressive impact of their elimination is rarely compensated by the rapid development of new industries, leading to structural unemployment, greater poverty and marginalization, the disarticulation of existing production chains, and a more fragile balance of payments. (Saad-Filho, 2005, p. 116).

In this situation, again, competitive market logic of neo-classic economics is incongruous. Although it is not an expected situation that small industry puts away large industry, raise in the economic factors like poverty, balance of payment etc. is accelerating when they become as effective as to revolutionize entire country's production.

> Fourth, the neoliberal macroeconomic strategy is heavily oriented towards 'business confidence'. This is unsatisfactory because confidence is both intangible and elusive, and it is subject to sudden and arbitrary changes; moreover, this strategy almost invariably overestimates the levels of investment that can be generated by the adherence to neoliberalism. (Saad-Filho, 2005, p. 116).

As is known, market logic in neo-classic economics trusts in perfect competition market, even if in theory. It assumes that there will be high competition between firms, as deeming pure freedom of entering/exiting to market. Its reflection in neoliberalism shows up as just opposite. The reason behind this is that a market setting that experiencing deregulation, altering whole production process, depriving workers of safeguarding of job will propose additional options for people; however, it will not build the freedom of entering/exiting to market. Similarly, in sectors involving business established with great quantity of capital, freedom of entering/exciting market will not be guaranteed precisely. Briefly, while neoliberalism, as a pillar of Washington Consensus, advocates 'freedom of market', it actually creates just opposite implementations.

While one pillar of neoliberal policies composed of decisions taken by WC, biggest support is taken by supply-sided economics with Milton Friedman's leading in economic field.

> In mainstream economic theory, the charge against Keynesianism was led by Milton Friedman's monetarism, which is a resurrected version of the Quantity Theory of Money. Inflation, the key economic problem the 1970s, was treated by Friedman as purely monetary phenomenon resulting from too much Money chasing after too few goods. For Friedman, it is not impossible for governments to choose among combinations of inflation and unemployment. He argued that capitalist economies have a 'natural rate' of unemployment, and any attempt to bring the actual rate of unemployment below the 'natural' would merely lead to inflation. (Lapavitsas, 2005, p. 34).

Thus, roughly, implementation manner and logic of WC is within the context drawn above. An important question that we encounter here is: Where does the state belong to among these implementations?

A 'state' and 'what a state's responsibilities should be' are controversial subjects. "Why a state is needed in economic field? What is the role of a state in an economy? How a state plays a role in an economy? What should a state's responsibilities and mandates be in economic manner? What the share to a state and market is in regards to direct economic life and organizing social life?" (Öztürk, 2006, p. 17). The tension between state and economics affects all political and economic life. The reason for this is that fiscal policies being conducted by state will affect distribution of income eventually. Will state be involved directly in economy or take primary task like education, health, security and hand over remaining economic issues to private sector? This question has been studied for last 300 years, and considered as one of the most difficult questions to have been discussed. Besides that, another question shows up: If a state will pave the way for private sector, then what are the ways for this? How should the relationship between state and private sector be? Does state exist for private sector or does private sector use state? Specially, for the last two questions, in regards to developed countries, the possibility of exploiting state by private sector minimizes by means of settled democratic rules, and strict supervision and accounting mechanisms, while it is not same for under-developed countries.

Liberalism established its structure by giving more tasks to market in regards to market-state relationship. However, for neoliberalism, state-market dilemma is carried to different dimension. State becomes as the primary responsible to remove the likely obstacles for market. Shortly, state is degraded to an institution exists for market. Thus, in transition period from liberalism to neoliberalism, every step taken in terms of economy is to strengthen it.

> In the nineteenth century, reformism focused on the regulation of the monetary system, since distress always appeared as a shortage of money imposed by bankers seeking to exploit their control of credit to their own advantage. In the twentieth century, reformism came to focus more on the direct intervention of the state in the regulation of markets, protecting the vulnerable from the full of competition." (Clarke, 2005, p. 51).
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> Neoliberalism is supposedly all about regulating economic life by means of free markets, with a minimal role for the state; imperialism is traditionally about the exercise of power by one state over other states, through political and military means. (Radice, 2005, p. 91).

Therefore, there are assertions of that neo-liberalism is sophisticated version of imperialism. Moreover, this claim gets two opposite poles face to face: Main-stream and Marxist economics.

"For the liberal political economists, of course, periodic crises and bankruptcy were part of the healthy operation of the market, the stick that accompanied the carrots offered to the more enterprising producers." (Clarke, 2005, p. 51).

WC's impact on coming up of neoliberalism cannot be denied. Economic policies, constituting WC's economic infrastructure, revealed in response to Keynesian economics not having ability to give reflection to current economic structure. To be remembered, elements of economic structure were then:

> Three characteristics of the post-1945 order posed serious challenges to the attempt to restore the fortunes of capitalism under the auspices of the Keynesian/developmental state models. The heightened international competition of the 1960s not only undermined the Bretton Woods international monetary order-fixed exchange rates and the gold-dollar link-but also generated strong inflationary tendencies as workers sought to maintain and extend their postwar economic gains. Attempts to shore up the Keynesian compromise, centered on incomes policies and fiscal and monetary expansionism, served only to make matters worse, with inflation accelerating and being transmitted around the world through trade and currency speculation. (Radice, 2005, p. 94).

The circumstances showing up WC revealed as a result of that institutions like IMF, WB etc. having trouble with getting through economic problems like unemployment, inflation, notably after Bretton Woods system, hedging currencies, was abolished. These problems that capitalist economic logic denied required new approach.

As a development process of neoliberalism, WC is a notion developed by Williamson. Anyway, its origin, as can be understood, roots in USA. Besides that, it is a program initiated towards Latin American countries firstly.

> The term Washington Consensus, as Williamson conceived it, was in principle geographically and historically specific, a lowest common denominator of the reforms that he judged 'Washington' could agree were required in Latin America at the time. 'Washington', for Williamson, incorporated the International Monetary Fund (IMF), the World Bank, and the US executive branch, the Federal Reserve Board, the Inter-American Development Bank, those members of Congress interested in Latin America, and the think tanks concerned with economic policy; it is an amalgamation of political, administrative and technocratic Washington. The goal and content of the Washington Consensus was macroeconomic prudence, outward orientation, domestic liberalization, and free market policies consistent with

> mainstream economic theory within the Latin American context. (Marangos, 2008, p. 227).

In addition to this, failure of Washington Consensus required a new consensus. This newly established formation is named as post-Washington Consensus. Main differentiating characteristics between them are: 1) In WC, Williamson is the first person to suggest the notion, while it is Joseph Stiglitz for post-Washington Consensus. 2) WC is interested in Latin American countries, while Post-WC is interested in East Asia.

> Joseph Stiglitz presented the 1998 Annual Lecture of the World Institute for Development Economic Research (WIDER) of the University of the United Nations, where the set of policies of the Post-Washington Consensus was originated. Stiglitz in his lecture presented for the first time his new concept of a 'Post-Washington Consensus', as an antithesis to Williamson's 'Washington Consensus'. […]Hence, the question arises: was there a new consensus in existence as articulated by Stiglitz or were Stiglitz's ideas on economic development presented as a consensus? […]At least in the case of Williamson there were elements of some agreement in Washington to justify the Word 'consensus'. The same cannot be said for the Post-Washington Consensus, as there was no consensus about Stiglitz's policies in either Washington or anywhere else in the world. In Stiglitz's words, it was 'an emerging consensus'. The context for the Post-Washington Consensus is East Asia (Stiglitz 1998: 4), not Latin America as for Williamson. East Asian countries had not closely followed the Washington Consensus recommendations, but had by some means managed the most successful development in history. On the one hand, some of their policies, such as low inflation and fiscal prudence, were a perfect fit with the original Washington Consensus. […]For Stiglitz, although the Washington Consensus provided some of the foundations for well-functioning markets and certain recommendations, like low inflation and low budget deficits, resulted in countries engaged in successful stabilization programs, the next step was 'designing the second generations of reforms' (ibid.: 4). […]The Washington Consensus was not troubled with stabilizing output and promoting long-term growth; however, avoiding major economic contractions as a result of business cycles should be one of the most important goals of macroeconomic policy. Variability of output almost certainly contributes to uncertainty and thus discourages investment. Effective macroeconomic policy requires counter-cyclical monetary policy and a fiscal policy that allows automatic stabilizers to operate. Hence the counter-cyclical monetary policy component would be placed in the new row, institution building, created by the Post-Washington Consensus. (Marangos, 2008, p. 229, 232).

It is the desire for positive change, as a result of taking lessons from past failures, that Post-WC is giving importance to macro balances. However, there will be disrupting of macro balances as a consequence of problems like inaccurate credit facility, wrong investment policies of firms etc.; because, by the nature of financial liberalization, the interest ratio that market determined will increase investment ratio initially. Unemployment will decrease and income will increase. The positive atmosphere established at the beginning will later on pose a crisis by instituting a fragile economy, as a result of extreme downsizing of the state, decreasing tax revenue resulting from low tax rates etc.

Moreover, when we consider developed countries, it seems that it is unlikely not having state intervention on economy. At least, by means of severe investments to education and health, labor force is being increased easily. The raise of labor force is possibly the best notion to eliminate market malfunctions; it is because of that a society composing of individuals equipped with knowledge and technology will have a better understanding of probing production and consumption demands.

> […] Countries with successful economies have governments that are involved in a wide range of activities, for instance regulation, social protection and welfare. The government should undertake actions that make markets work better and correct market failures, for example building human capital and transferring technology. Without government intervention the market will not only tend to under-provide human capital, but will also discriminate against the poor. Thus government's role is to provide public education, making education more affordable and enhancing access to funding. (Marangos, 2008, p. 233).

The reason making neoliberalism a controversial notion derives from its hegemonic and ideological structure. This hegemonic and ideological structure cannot be taken apart from historical course. Moreover, if its class character were ignored, it would lead severe failures, because it is not possible to think 'class' regulations apart from capitalism's developing process.

> Neoliberalism is the ideological expression of the return to hegemony of the financial fraction of ruling classes. The meaning of this movement can only be understood from a historical perspective. Modern finance, linked to the real economy, appeared in the wake of the structural crisis of the late nineteenth century. It lost its unrivalled domination, when the Keynesian compromise was ushered in by the succession of the great depression and World War II. Its return to power followed the crisis which began in the 1970s. The class character of neoliberalism is evident from an examination of the available figures. It prolonged the deficient profit rates of non-financial corporations and, thus, slow growth and unemployment. It was responsible for the deficits and the growing indebtedness of the states, as well as for the crisis of the debt of Third World countries, etc. But not enough attention has been paid to the benefits that finance gleaned from its return to hegemony during the crisis: the stunning rise of the profits and growth of the financial sector, only delayed in the US by the banking and thrift crises of the 1980s. It is not that finance organized to minimize its own costs during the crisis. It actually benefited from the crisis in amazing proportions, already during the crisis as in France, or after as in the US financial sector. One should not underestimate the sufferings of the unemployed and homeless, or of Third-world countries. But perhaps the biggest cost stemming from the rise of finance is the increase in the domestic and international instability. (Duménil & Lévy, 2010, p. 578).

That is, the instruments used by modern finance dependent to real economy forge neoliberalism. Moreover, it should not be forgotten that many economic problems derive from excessive market fluctuations, not having been considered. As capitalism's ultimate desire is 'gaining more profit', it will obtain this profit by going beyond its space and time. It found a lot of way to achieve this purpose, throughout its developing process. However, it most favored mean is not having state intervene in economy. Actually, the reason behind this motive is to eliminate every single market obstacle inhibiting its profit. In state-individual and state-economy paradoxes, it position state besides to economy, even if it harms to individual's interests. Herein, 'globalization' and 'internationalization' are used as key instruments. Moreover, by means of these terms, neoliberalism is being constructed.

With all that, neoliberalism positioned itself in a sort of way that even crisis are turned into profit-raising instruments. Of course, these are financial crises. After all, the main problem results from handover of financial instruments not relying on production. Besides that, it should be bear in mind that real sector crises can be experienced much more firmly than financial crisis. Moreover, the process of overcoming crises is being experienced slowly.

> Although the return of finance to hegemony was accomplished in close connection with the internationalization of capital and the

> globalization of markets, it is important not to misinterpret the relationship between these various phenomena. It is finance that dictates its forms and contents in the new stage of internationalization; it is not internationalization or globalization that creates the insuperable necessity for the present evolution of capitalism. Once the leadership of finance has been identified at the root of neoliberalism and the internationalization of capital, one is very close to an interpretation of recent trends in class patterns. (Duménil & Lévy, 2010, p. 579).

Of course, besides negative definitions of neoliberalism, it can be said that scientists evaluate neoliberalism on three main categories:

> Neoliberalism shares many attributes with 'essentially contested' concepts such as democracy, whose multidimensional nature, strong normative connotations, and openness to modification over time tend to generate substantial debate over their meaning and proper application (Gallie 1956). […] First, neoliberalism is employed asymmetrically across ideological divides: it is used frequently by those who are critical of free markets, but rarely by those who view marketization more positively. In part, proponents avoid the term because neoliberalism has come to signify a radical form of market fundamentalism with which no one wants to be associated. Second, neoliberalism is often left undefined in empirical research, even by those who employ it as a key independent or dependent variable. Third, the term is effectively used in many different ways, such that its appearance in any given article offers little clue as to what it actually means. […] Neoliberalism is not exclusively a bad word, but one rarely sees it used as a good word‒as the term that an author chooses when emphasizing the positive aspects of a pro-market philosophy, development model, or reform policy. (Boas & Gans-Morse, 2009, p. 138, 140).

It is depended on scientists' point of view that neoliberalism is regarded as a positive term. If he/she believes that neoliberalism will contribute country's economic development, then his/her approach will be positive as well. As there are plenty of academicians using the term in negative way, the reason behind this should be the question. The answer is simply that the poor conditions derived from neoliberal economic policies.

Financial liberalization is one of the forecasts that Washington Consensus desire for markets, as it is also one of the important assumptions of supply-sided economy. However, every liberalization view is not stated by same manner. Different thinkers have different implementation assumptions in regards to practice it.

> A number of writers questioned the wisdom of financial repression, the practice of setting financial prices by central banks, especially in developing countries, a fairly common practice in the 1950s and 1960s. Goldsmith (1969), in the late 1960s, and McKinnon (1973) and Shaw (1973), in the early 1970s, challenged that practice, arguing that it had detrimental effects on the real economy. They propounded instead the thesis that has come to be known as 'financial liberalization,' which can be succinctly summarized as amounting to freeing financial markets from any intervention and letting the market determine the allocation of credit. Goldsmith (1969) argued that the main transmission channel of financial liberalization was the effect on the efficiency of capital. McKinnon (1973) and Shaw (1973) stressed two other channels: first, financial liberalization affects how efficiently savings are allocated to investment; and, second, through its effect on the return to savings, it also affects the equilibrium level of savings and investment. […]Successful reform of the real sector came to be seen as a prerequisite to financial reform. […]Sequencing

> becomes important again. It is thus suggested that liberalization of the "foreign" markets should take place after liberalization of domestic financial markets. In this context, proponents suggest caution in "sequencing" in the sense of gradual financial liberalization emphasizing the achievement of macroeconomic stability and adequate bank supervision as preconditions for successful financial reform. […] There are five such issues that can be succinctly summarized: (1) free banking leads to stability of the financial system, (2) financial liberalization enhances economic growth, (3) savings cause investment, (4) absence of serious distributional effects as interest rates change, and (5) there is no role for stock markets and speculation. (Arestis, 2005, p. 254, 256).

> The Second World War rescued international capitalism form the Great Slump of the 1930s. […] Abundant labour supplies, continuous technological progress and gradual emergence of mass consumption sustained a long economic boom unprecedented in the history of capitalism. The boom rested on US hegemony operating through international institutions, such as the Bretton Woods Agreement, which fixed exchange rates, the International Monetary Fund and the World Bank. […] But the majority of working people in the USA and Western Europe in the 1950s and 1960s could expect stable employment and rising real wages. (Lapavitsas, 2005, p. 31).

Especially, when is considered from the point of view of developing countries, in case of any liberalization process without accomplishing required real sector investments, it is observed that it will definitely resulted in crises. For example, it is being experienced in Turkey. Financial liberalization experienced before fulfill needed infrastructure requirements is eventuated in a crisis. Recently, although the implications of some major capital institutions made, the reason why Turkey has not encountered a severe economic crisis is short term capital flows. However, this does not mean that Turkey will not experience a crisis. High interest policy, downgraded to 'organization of welcome party to foreign capital', as Dani Radrik said, is fictionalized to draw hot money flow wandering in global economy to Turkey (Yeldan, 02.05.2014).

1. After 2003, Turkey involved in international division of labor as an economy offering high interest rate.
2. Cheap foreign currency, as a result of entering hot cash inflow in consequence of high interest rates, has become the main source of Turkey's speculative economic growth.
3. Although Turkish economy grew up only %40 (a poor performance in comparison to similar developing countries), an illusion of growth is created as if there were three times more growth than the reality, on the basis of cheaper dollar; and this was presented as a miracle.
4. High interest rates – cheap foreign currency policy is the main point of neoliberal economy policies conducted by Turkey after 1990's. (Yeldan, 02.12.2014).

> From this point of view, the reason that we have poverty, unemployment and periodic economic crises in the modern world is because markets have been constrained by labor unions, the state, and a host of social practices rooted in culture and history. (Shaikh, 2005, p. 41).

Neoliberalism has three more frequent means: development model, ideology, and academic paradigm. One of the fulcrums of scientists opposing to neoliberalism is its consideration as development model. Actually, this criticism is reasonable. As 'modernization theories' are presented as only and unique way of path that developing countries should follow, and consequently criticized; so did neoliberalism. But, the ties between neoliberalism and modernization theories should not be overlooked. This ties results from the phenomenon to be explained by the terms of 'develop' and 'progress', as neoliberalism does as well.

Serving neoliberalism as an ideology is imposing specific norms to individuals. The logic that relies on certain manner obligations and desires market's profitability rather than individual's welfare is the part that neoliberalism criticized. The point that proponent of neoliberalism advocate is its ties with neo-classic economics. There is also a rule maker; but, they believe that this situation derives from the requirement to regulate the market.

> A second use of neoliberalism refers to a development model. A neoliberal model is a comprehensive development strategy with economic, social, and political implications. Rather than merely a technocratic list of solutions for economic ills, a model involves a set of economic theories linking disparate policies together into a coherent recipe for growth or modernization; prescriptions for the proper role of key actors such as labor unions, private enterprise, and the state; and an explicitly political project to carry out these prescriptions and ensure that actors play by the rules of the game. In this sense, the neoliberal model can be contrasted with its predecessor, the state-led development model, which implied very different political roles for labor, capital, and the state. Thus, many scholars maintain that the implementation of a neoliberal model involves a restructuring of state-society relations (e.g., Kurtz 1999: 414; Riethof 1999: 1050). A third way that neoliberalism is used is to denote an ideology. When speaking of a neoliberal ideology, scholars refer to normative ideas about the proper role of individuals versus collectivities and a particular conception of freedom as an overarching social value. David Carruthers (2001: 345), for instance, argues that 'neoliberal ideology seeks to restrict the state to a minimum and to maximize the scope of individual freedom…. Political leaders should not impose any single utopia; rather, individuals should be free to pursue their own, mediated by exchange relationships in the marketplace.' If a neoliberal development model is a specific plan for how a certain society will be organized, a neoliberal ideology is a more general statement about how society should be organized. A final use of the term neoliberalism is to characterize an academic paradigm. Unlike a normative ideology, a neoliberal paradigm consists of positive assumptions about how markets operate; in this sense, it is often seen as closely related to neoclassical economic theory. (Boas, Gans-More, 2009, p. 144).

'Washington Consensus' notion, of which named by Williamson, established in US Congressional Committee in 1989 for Brady Plan. It is put forward in order to overcome the debt crisis experienced in 1980's in Latin America as a result of high interest rates, low commodities price, and commercial bank loans (Marangos, 2009, p. 198).

This means that Washington Consensus, as a pillar of neoliberal policies, was initiated in Latin America firstly. However, neoliberalism is presented it to the whole world by developing it. Besides that, whether this presentation is successful or not is controversial.

> In the following I outline the 10 policy reforms of the Washington Consensus based on Williamson (1990a, 1993, 1994, 2004–5).
>
> 1. Fiscal discipline: budget deficits should be small enough to be financed without recourse to the inflation tax.
>
> 2. Public expenditure priorities: public expenditure should be redirected from politically sensitive areas that receive more resources than their economic return can justify toward neglected fields with high economic returns and the potential to improve income distribution, such as primary education and health, and infrastructure.
>
> 3. Tax reform: to broaden the tax base and cut marginal tax rates.
>
> 4. Financial liberalization: an ultimate objective of market determined interest rates.

> 5. Exchange rate policy: a unified exchange rate at a level sufficiently competitive to induce a rapid growth in non-traditional exports. A competitive exchange rate is a rate that is either not misaligned or undervalued; nevertheless overvaluation is worse than undervaluation (Williamson, 2004–5, p. 200).
>
> 6. Trade liberalization: quantitative trade restrictions to be rapidly replaced by tariffs, which would be progressively reduced up to a uniform low rate in the range of 10–20% was achieved.
>
> 7. Foreign Direct Investment (FDI): abolition of barriers impeding the entry of FDI.
>
> 8. Privatization: privatization of state enterprises.
>
> 9. Deregulation: abolition of regulations that impede the entry of new firms or restrict competition.
>
> 10. Property rights: the provision of secure property rights, especially to the informal sector. (Marangos, 2009, p. 198, 199).

> The neoliberal manifesto has been taken to imply that the policies to achieve economic growth in developing countries, as the experience of Latin America revealed, were: macroeconomic stability, fiscal austerity, market liberalization, privatization and 'getting prices right' (Stiglitz, 1998, p. 1, 2000, p. 13, 2002, p. 53). It was assumed that fiscal discipline, accompanied by deregulation, trade liberalization and privatization would be sufficient to eliminate stagnation and launch economic growth in developing countries and in transition economies. (Marangos, 2009, p. 202).

The formulas presented to the rest of the developing and underdeveloped countries were successful as was in Latin American countries. For example, as a result of policies like market liberalization, privatization etc. developing countries' sources become more limited. Being entirely market focused and downsizing of the state can have different results in developed and developing countries; because, capital accumulation of developed countries is remarkably high. Being entirely market focused, downsizing the state, and chasing for more profit will affect less severely to developed countries. For instance, there cannot be any resemblance between a marked already established liberalization and an economic structure that just initiated liberalization. In first market, free competition rules are already in force, while in the second market need time to have free competition setting. Even if it has, if it does not supported by a powerful democracy, it will have malfunctioning.

The second problem is that, even after these rules settled liberalizations as a response to international demands rather than national sources will eventually make them foreign-dependent.

Maybe, the reason behind the overwhelming oppositions to Washington Consensus is it continually presents new offers by renewing itself even after its failures.

> As part of the obsession with liberalization, the Washington Consensus recommendation was to deregulate labor markets, since mainstream economic theory treated labor like any other commodity. The greater flexibility in the labor market was supposed to lead to lower unemployment and to generate more investment and thus more demand for labor. The evidence in Latin America was not supportive of those conclusions (Stiglitz, 2000, p. 17).Wage flexibility had not been associated with lower unemployment and job creation. Labor market flexibility 'too often . . . moved people from low productivity to unemployment, which is even lower productivity' (Stiglitz, 2000, p. 21). (Marangos, 2009, p. 203).

Neoliberalism is politically stated by Ragan in USA and Thatcher in England.

> "[…] what distinguished the Reagan and Thatcher revolutions, as they would be called, was their forceful articulation of very particular sets of neoliberal ideas and claims and their successful translation into concrete policies and programs." (Steger & Roy, 2010, p. 22).

Price and wage elasticity that neoliberalism and one of its pillars Washington Consensus offered actually suppress individual's life. Individuals concerning with dismission make them prefer jobs offering fewer wages and offer less job security.

Briefly, the path we walk when we follow neoliberalism's footprint with the decisions taken by Washington Consensus will lead opening of markets entirely. Intimacy between neoliberalism and neo-classic economics, notably by being supported by supply-sided economics' assumptions, implemented in economic field. In initial term of neoliberalism, its first supporters as political authority were Reagan and Thatcher. So, it can be said that neoliberalism is an implementation supported by political authority and offering a more profitable fields to market by downsizing the state.

3. CONCLUSION

Capitalism has experienced many crises and founded many ways to overcome it since its establishment in 18^{th} century. These founded ways leaded capitalism go further and unbalanced distribution of income of large mass of people.

Although ‘welfare state’ principle came up after the Second World War, decreasing profit ratios leaded capitalism to another survey. Seeking for ‘stability’ and ‘adjustment’ policies revived an old friend: neoliberalism. This new situation differentiating from liberalism in a number of ways takes its force from WC which constructed unanimously by institutions directing world economy, like World Bank, IMF etc. WC is the notion firstly put forward by John Williamson.

Decreasing profit ratios after 1970’s paved the way for born of neoliberalism in 1980’s. Actually, it is implementation of liberal policies by changing its shape. However, it developed itself with new applications. Its major assumption is based on deregulation of markets. Main rules that WC accepted are; obtaining fiscal discipline, restricted public expenditure by only education, health etc., tax reformation, financial liberalization, liberty for foreign currency, freedom of trade, liberalization for foreign investments, privatization, deregulation, property right etc. By means of these rules, neoliberal logic advocates that countries will develop economically, while its failures in practice interrupt its operability.

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