

We can build a new society out of the wreckage of neoli...

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As the [FT noted](#) in an editorial last night, when discussing the riots in France at the weekend:

One reason the [French] government has struggled to defuse the high school protests, which now threaten to swell into something more generalised, is they have no money to throw at the problem — the traditional response to social grievances.

Macron found some €11bn in giveaways to defuse the Yellow Vests protests of 2018-19. This time the coffers are truly empty. Bond markets are piling pressure on Paris as investors fret about the lack of an agreed path to debt stabilisation. The government intends to make €43bn in spending cuts and tax rises in next year's budget. Any attempt to spend its way out of trouble could rebound with a renewed debt sell-off and higher borrowing costs.

This analysis is framed in the way that almost everything I am reading about the crisis in France is. The suggestion almost universally made is that the people of France want a level of government services and activity that conflicts with the wishes of financial markets, which are withdrawing their funding of the French government as a consequence, leaving it with no choice but to impose the austerity that finance is demanding.

The conflict is, then, in the opinion of all such authors, very straightforward. It is between the interests of financial capital and those of people. Call it, in plain terms, class warfare as a result, because that is what it is. That the FT does not put it that way does not mean it is not. They just are not keen to be seen as the oppressor, although they very clearly are.

This does then require that I ask what the timeline and narrative of this conflict that is now being played out in plain sight is? I suggest, though I may refine this in due course, that it is as follows.

In 1947, Friedrich Hayek and Milton Friedman were terrified of the rise of social

democracy and the threat it posed to returns on capital and the society they wished to preserve from the pre-war era, and they created the Mont Pelerin Society to promote neoliberalism.

From the 1950s onward, the society secured powerful backing, and the Atlas Network of linked think tanks was created to promote it. In the UK, the Institute of Economic Affairs led the charge, and still does.

Nobel Prizes for figures like Milton Friedman and James Buchanan lent respectability to this cause.

Margaret Thatcher and Ronald Reagan became the first leading political exponents of neoliberalism and secured power in 1979 and 1980 respectively. Their objective was quite simple. They sought to crush working-class power, expressed through the trade union movement, treating the consequent destruction of their countries' manufacturing capacity as collateral damage. Their aim was to increase the returns to capital, and they secured this by promoting deregulation to enhance the power of financial capital, giving it the right to roam freely across the planet in search of unearned income derived from the extraction of rewards earned by the effort of others.

The promotion of market supremacy led to the idea that markets priced accurately, ignoring, when suggesting this, the presence of market externalities such as pollution that leads to climate change, and the fact that not everyone participates in market exchanges on an equal footing, contrary to the assumptions of neoliberal theory. Mispricing and inequality were therefore baked into this theory despite its denial.

The demand that government get out of the way of markets became normalised, not least through the Washington Consensus promoted by the World Bank and the International Monetary Fund, which spread this idea around the world.

Everywhere, this led to demands for privatisation, reduced regulation, lower taxation, especially on the wealthy, and most particularly a smaller state, to be achieved by reductions in the size of the social safety net that had been created in the post-war era to reduce inequality, to protect the vulnerable, and to prevent harm created by market volatility.

The focus on short-term market returns reduced long-term investment. The focus was almost entirely on short-term financial returns, with speculative gains, or even anticipated accounting of those gains, given higher priority than the actual production of tangible products and services that met people's needs.

The result was reduced investment in tangible economic activity in many countries.

At the same time, a rapidly widening disconnect was created between savings and investment, with it becoming normal for savings to be used for entirely speculative

activities, almost unrelated to any actual return generated by meeting genuine economic need amongst people, meaning that almost none of the financial wealth being created by the financial services industry was actually devoted to the creation of genuine economic activity.

The consequence has been states with very large amounts of supposed financial wealth, concentrated in the hands of ever fewer and ever-ageing people, with access to this supposed wealth being denied to all but those who might inherit it because the tangible property on which these claims rest, such as housing, has been priced as a consequence of speculation, beyond the reach of most people on wages now paid within neoliberal economies.

We have therefore reached a point where the social divide created by neoliberalism has become too stark to maintain, and the fractures it has created are too deep to gloss over any longer.

At the same time, continuing demands from supposedly rational financial markets for returns from economies they do not serve but seek to dominate have made these divisions so apparent that the only remaining option for many is to reject them.

This is the moment that we are living in. The stress we are experiencing is the direct and inevitable consequence of the divisions that neoliberal economic and political policy was intended to create by reconfiguring society around a division between those who had claims upon capital and those who had not, which created a simultaneous division between those who might enjoy economic security and those who would inevitably be vulnerable, or be in the precariat, as Guy Standing described it.

The precariat have now had enough. We are seeing the signs in France, Italy, Spain, Albania and elsewhere, and the stress will only spread.

What is the required response?

Courageous government standing up to markets is one of them, and in the UK that test is going to arrive very soon, over Thames Water and whether financiers, or the government, will decide whether millions of people, including the population of London, should have their right to access to water determined by government or the vulture creditors of a failed privatisation. Everywhere, the challenge will be between financial markets and people's real needs. Needs must win, and people will refuse any other outcome.

At the same time, the need to release capital to reprioritise the creation of sustainable wealth is the real issue of the moment. As the structures of neoliberalism begin to fail, which will inevitably happen with an AI crash, the consequent crash in secondary financial markets, including hedge funds and private equity, and the resulting failure of the banking system for the second time in less than two decades as a consequence of

reckless lending, with the need for government bailouts, the question will this time arise as to what can replace this deeply corrupt political philosophy.

The answer lies in two places. One is the awakening to the state's capacity to create money to meet need. This reality, and the liberation from financial markets it provides, will transform the state's role in society.

At the same time, the creation of new forms of socially backed capital for investment in the infrastructure of society will create the work, the underpinnings of prosperity, and the dreamed-of future for people, which can be achieved when the savings of millions, and across the planet billions, of ordinary people are redirected from use by those whose sole goal has been financial speculation into the creation of economic infrastructure for the delivery of sustainable living that meets the needs of all people so that they might thrive. Simple changes to how tax relief on savings works, which directs most saved funds in most countries, can create this outcome.

We are at a pivotal moment. Neoliberalism is failing. But there is an alternative. If we truly understand money, the role of government, how inflation is actually controlled, how resources should really be managed and how savings and investment can be reconnected in a way that creates positive economic and social outcomes, we can build a new society out of the wreckage of neoliberalism which has the possibility of delivering well-being.

That is the timeline that I believe in and the end of the story that I think is possible.