

Introduction

Economic liberalism is an ideology and thus a comprehensive vision of how economic matters should be conducted. In the pattern of world affairs, economic liberalism is an ideology correlating to internationalism in the politico-strategic and individualism in the politico-social sphere. The underlying concept of human nature is that of calculating individuals.

History of economic liberalism

Historically, there have been two periods of economic liberalism, each resulting in a more globalized economic world order. The first era of economic liberalism has its roots in the industrial revolution, which generated trade between Europeans and their colonies. Especially Britain, with its relatively matured industries and its hegemonic position in trade, supported laissez-faire attitudes towards globalized trade. The first era of globalization came to an end in the Great Depression of the 1930s. The second phase of global economic liberalism started shortly after World War II, when the United States, as the new economic hegemon of the world, revitalized the war-ridden economies of Europe through the means of the Marshall plan. Nevertheless, the full breakthrough of laissez-faire ideologies, the period of neo-liberalism, had to wait until Margaret Thatcher revolutionized Britain in 1979. New Zealand followed suit in the early 80s, and transformed its economy from one of the most regulated OECD economies to the freest within 15 years.

But what does economic liberalism, or neo-liberalism, entail?

The highest aim of economic liberalism is efficiency. The most important keywords are “comparative advantage”, a theory credited to David Ricardo, and “the invisible hand”, by Adam Smith. According to Smith, people will unintentionally improve their community if prevailing conditions allow them to pursue their own wants and needs. “An end which was no part of his intention” is the consequent outcome of an investor’s thrive for personal gain. Therefore, the principles of free trade, competition and choice, can spur economic development and reduce poverty, if the invisible hand is unleashed from its mercantilist ties. Ricardo’s concept of “comparative advantage” sets out conditions for a maximisation of free trade’s benefits: if everybody would just focus on minimizing his opportunity costs and produce according to his comparative advantage, efficiency would thrive. As such behaviour would unconditionally benefit all parties involved, the economy should not be interfered with. The best extent of government’s involvement in the economy would be no involvement at all. As all humans would become free to thrive in pursuit of their own wants and needs, which are consequently materialistic, efficiency and commerce could replace war and conflict as a new natural order of world affairs. The incompatibility of such ideologies with philosophies such as Buddhism seems to be of no concern to liberalists or neo-liberalists alike.

Neo-liberalism, as in Great Britain or New Zealand, entails the abolishment of the “cradle to grave” welfare state. States, scholars such as Karl Polanyi recognized as the main achievements of the post-WW II transformation; achievements, that would secure society from its demolition by unchecked market mechanisms. According to Alexis de Tocqueville, a supreme shepherd (the government) reduces its stupefied people to “a flock of timid and industrious” animals. Even though de Tocqueville’s observations date back to 1835, neo-liberals such as Don Brash like to refer to them. Interestingly, Tocqueville also described Manchester, one of the hot-spots of early industrialization, as a “filthy sewer (where) pure gold flows” where “civilized men is turned back almost into a savage”. Could it be argued that even Tocqueville would not have minded a little more “government” in Manchester?

According to neo-liberalism, deregulation and free trade by a business-like run government are cure-alls, but the advocates of free trade have to defend themselves against the claims of infant economies, Europe in the early days of Great Britain’s liberalism and the less or underdeveloped world nowadays, that free trade has little in common with fair trade. Structural adjustments aimed at free trade in goods and services, the free circulation of capital and a freedom of investment by powerful institutions such as the IMF or World Bank are often seen as resulting in neo-colonialism.

Conclusion

In conclusion, economic liberalism identifies the spirit of commerce as a spirit of peace and prosperity. Unlimited trade transcends all other powers and can unite the artificially un-united people of the world in a common enterprise. It thus encourages international friendship and understanding. Obstacles such as the reprehensible results of mercantilism, government’s inefficient ownership of natural monopolies or strong labor unions have to be overcome during the erection of the anarchic jungle economic liberalists favour. The world becomes flat (Friedman), as the spread of technologies and investment capital levels the world’s economic playing field. The “invisible hand” should be free to advance mankind’s development, but it is highly disputed whether the invisible hand would push everyone along the right path, or the losers off the cliff.