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Neo-liberalism and its impact on the global political economy

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ABSTRACT

Since the late twentieth century has risen to prominence as one of the most powerful ideologies that influences the global political economy. Defined by a focus on market efficiency, restricted state intervention, privatization, deregulation, and free trade which gained traction following the economic crises of the 1970s' and the perceived waning of Keynesian economic management. This article investigates the transformation of neo-liberal ideologies have been materialized into actual policies and how these policies have transformed global economic and political structures. It delves into the historical roots of neo-liberalism, its dissemination via international organizations such as the International Monetary Fund (IMF), World Bank and World Trade Organization (WTO), and its execution in both developed and developing countries. Attention is specifically drawn to the influence of trade liberalization and market reforms in propelling globalization and fostering economic growth, with a spotlight on significant cases like India's reforms post-1991. Simultaneously, the article critically examines the social and political impacts of neo-liberalism, highlighting issues such as the increasing inequality, diminished welfare system welfare systems and the intensification of political unrest. By assessing the efficiency and growth that neo-liberalism asserts against its disparate outcomes, this study confronts the fundamental question: In what ways has neo-liberalism influenced the global political economy? The article wraps up by considering current criticisms and discussions concerning the potential for the global political economy to move past the neo-liberal paradigm.

KEYWORDS: Neo-liberalism, Globalization, Inequality, Market reforms, International institutions, Global political economy.

INTRODUCTION

Neo liberalism endorses a free-market economy system in which the function of governments is limited to optimizing the efficiency of global markets, including the establishment of property rights. Neo liberalism fundamentally strives to diminish the government's economic influence via corporate deregulation, the reduction of social welfare benefits, privatization of state -owned assets, and tax cuts aimed at corporations and investing elite. It facilitates the unimpeded transfer of goods, services, capital, and finances within nations and across the globe.

The global profanation of neo liberalism began in the 1970s' and 1980s'. During the 1980s, neo liberalism secured fervent supporters in political figures such as Ronald Regan in the United States and Margaret Thatcher in the United Kingdom. Both leaders enacted policies that were indicative of neo liberal ideologies.

Neo liberalism has an exerted a considerable effect on global economic policies worldwide. The impact of neo liberalism on the evolution of economic development.

ORIGIN AND CORE PRINCIPLES

In the aftermath of World War 2, a variety of countries implemented Keynesian economics, which is named after the British economist John Maynard Keynes. Keynesianism promoted the idea of proactive government involvement in regulating economic fluctuations, particularly in times of recession. By spending money, governments aimed to increase demand and create job opportunities, ultimately

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revitalizing the economy. But, stagflation, which describes the dual phenomena of stagnant economic growth and soaring inflation, emerged as a significant concern. This economic upheaval established a favourable setting for the proliferation of alternative economic philosophies, resulting in the swift rise of neo liberalism. Numerous prominent intellectuals and decision makers significantly contributed to the development and advocacy of neo liberalism like Milton Friedman. Friedman's theories garnered extensive acknowledgement through his most notable work, "Capitalism and Freedom", articulated the argument for minimal state intervention and emphasized the benefits associated with a free market economy. Market possesses an inherent efficiency and involvement of the government often brings about inefficiencies and distortions. Another one was Friedrich Hayek from the Austrian school of Economics. The emphasis of his research was on the critical nature of personal liberty and the perils linked to central planning. In his pivotal publication, "The Road to Serfdom", served as a warning about the possible diminishment of freedom due to significant government regulation of the economy. The principles proposed by Hayek were well-received by a wide array of policy.

Debates continue over whether neo-liberalism weakens democratic governance or can function alongside it. Supporters argue that market-oriented reforms encourage economic efficiency and individual freedom, which may strengthen democratic institutions over time. Critics, however, contend that neo-liberal policies reduce the role of the state, shift decision-making power toward markets and private actors, and limit democratic accountability. The growing influence of multinational corporations and international financial institutions is often seen as constraining national policy choices, particularly in developing countries. As a result, neo-liberalism is viewed by many scholars as creating tensions between economic liberalization and popular political participation, raising important questions about representation, sovereignty, and democratic control in the global political economy.

Rising political backlash and the growth of populist movements are often linked to the social and economic consequences of neo-liberal policies. Market-oriented reforms have, in many cases, generated uneven growth, job insecurity, and declining welfare support, leaving certain groups feeling economically and politically marginalized. These conditions have fuelled public dissatisfaction with political elites and established institutions, which are frequently perceived as promoting globalization at the expense of ordinary citizens. Populist leaders and movements have capitalized on this discontent by challenging free trade, immigration, and international economic cooperation. Consequently, the spread of populism reflects broader tensions within the global political economy over inequality, representation, and the perceived failures of neo-liberal governance.

Neo-liberal reforms have had significant effects on labour markets and systems of social protection. Policies

emphasizing labour market flexibility, deregulation, and privatization have often reduced employment security and weakened collective bargaining mechanisms. As a result, workers in many economies have experienced more temporary contracts, informal employment, and wage stagnation. At the same time, reductions in public spending and the restructuring of welfare states have limited access to social protections such as unemployment benefits, pensions, and healthcare. While these reforms were intended to improve efficiency and competitiveness, they have also increased workers' vulnerability to economic shocks. From a global political economy perspective, these changes have contributed to greater inequality and social insecurity, intensifying debates over the balance between market efficiency and social justice.

Neo-liberalism is often defended on the grounds that it promotes economic efficiency and long-term growth by allowing market forces to operate with minimal state intervention. Supporters argue that deregulation, privatization, and trade liberalization enhance competition, improve productivity, and attract investment. By integrating national economies into global markets, neo-liberal policies are believed to expand trade, stimulate innovation, and raise overall income levels. In several countries, particularly emerging economies, market-oriented reforms have coincided with periods of rapid economic expansion and increased participation in the global economy.

However, these positive outcomes have been accompanied by significant social and political challenges. The benefits of growth generated under neo-liberal frameworks have frequently been distributed unevenly, contributing to widening income and wealth inequalities. Reduced public spending and weakened welfare systems have left vulnerable populations exposed to economic shocks and labour market insecurity. Moreover, the social strains produced by inequality and exclusion have, in many cases, translated into political instability, declining trust in institutions, and the rise of populist movements. Consequently, while neo-liberalism has delivered efficiency gains and growth in certain contexts, its broader impact on social cohesion and political stability remains deeply contested within the global political economy. The principles proposed by Hayek were well-received by a wide array of political makers and thinkers. Several important transformations highlighted the international proliferation of neo-liberal policies. Many policies were implemented that mirrored the tenets of neo-liberal thought, such as tax cuts, deregulation and privatization in the United States. On the other hand, labour market reforms privatization and fiscal austerity in the United Kingdom.

NEO-LIBERALISM IN PRACTICE

The scope of neo liberalism reached international organization like the International Monetary Fund (IMF) and the World Bank. These institutions significantly contributed to the dissemination of neo liberal policies, particularly in nations that are still developing. The IMF

frequently associated its loans with certain stipulations, requiring that borrowing nations implement Structural Adjustment Programs (SAPs). These programs generally encompassed strategies like decreasing public expenditure, opening up trade, and privatizing government owned enterprises.

The World Trade Organization (WTO) has been crucial in lowering trade barriers and enhancing global market integration since its global inception in 1995. As stated in a WTO working paper concerning trade policy trends in emerging markets, the decrease in tariffs and non-tariff barriers has markedly improve market access for member nations, promoting more profound engagement in global trade systems. Likewise, the liberalization of services as stipulated by the WTO's General Agreement on Trade in Services (GATS) has bolstered policy transparency and commitments across financial and other service sectors, facilitating broader economic reforms in developing and transition economies. Trade liberalization pertains to certain categories of products, such as environmental goods, where the reduction of tariffs can facilitate both a rise in exports and modest GDP improvements across the region. Studies from developing contexts, like Bangladesh, indicate that liberalized trade can produce welfare benefits, although these gains are affected by variations in world prices and economic frameworks present within the country.

IMPACT ON THE GLOBAL POLITICAL ECONOMY

Economic growth and globalization

One of the key tenets of neo liberalism posits that market-driven reforms enhance economic growth by linking national economies with global markets. Since the late twentieth century, numerous countries have implemented policies such as trade liberalization, deregulation, and a reduction in state intervention in industries. The purpose of these reforms was to improve efficiency, attract foreign capital and increase in international trade. Consequently, global economic integration hastened, transforming the patterns of production, investment and consumption across various regions.

Market reforms frequently facilitated enhance trade flows through like reduction of tariffs and the alleviation of non-tariff barriers. By liberalizing domestic markets to international competition, countries could tap into larger export markets and obtain cheaper imported inputs. This assimilation into global trade frameworks stimulated specialization based on the principle of comparative advantage, which neo-liberal maintain results in heightened productivity and economic growth. Concurrently, the liberalization of financial markets allowed for improved capital movement across borders, thus making it more straightforward for multinational corporations to invest in emerging and developing economies.

The role of Foreign Direct Investment (FDI) has become pivotal as a means through which globalization has influenced economic growth. The implementation of

liberal investment policies, the privatization of government-owned enterprises, and the establishment of regulatory frameworks that favour investors have attracted capital from advanced economies. The expansion of global value chains occurred as firms strategically placed different production stages in countries that offered cost efficiencies, thus deepening the integration of developing economies into the global political economy.

The journey of emerging markets serves as a testament to both the transformative possibilities and the uneven results associated with neo liberal globalization. A significant illustration of this is found in India's economic reforms post-1991. In response to a balance-of-payments crisis, India launched a series of structural reforms that liberalized trade, relaxed foreign investment controls, and deregulated critical sectors of the economy. This marked a transition from a state-led development approach to a greater reliance on market dynamics and global integration.

From the perspective of global political economy, neo-liberal driven globalization has thus resulted in mixed outcomes. On one hand, market reforms have enabled the expansion of trade, the flow of investments, and economic growth in several emerging markets. These benefits have been unevenly distributed both within and between countries, raising concerns about the sustainability and inclusiveness of neo liberal globalization. Understanding these dynamics is vital for evaluating the broader consequences of neo-liberalism on the global economic framework.

Inequality and social welfare

The association of neo-liberal policies with the expansion of income and wealth gaps is well-documented, particularly in economies where market reforms were paired with a reduction in state welfare services. The prioritization of deregulation, privatization, and lower taxes has typically benefited capital owners and affluent groups more than those with lower incomes. As labour markets have become more flexible, job security and collective bargaining have diminished in numerous countries, leading to a more uneven distribution of income. From neo liberal standpoint, decreased government intervention is regarded as a means to boost efficiency and encourage growth. However, critics maintain that these policies often undermine the state's ability to redistribute wealth. Reduction in public expenditure on health, education and social welfare have diminished access to vital services for at-risk populations, leading to greater dependence on market-driven alternatives. This trend has, over time, contributed to wealth concentration and a decline in social mobility.

Empirical evidence by certain institutions reveals that benefits of such growth, driven by market-oriented policies can eventually enhance overall welfare are not automatically distributed evenly. In numerous instances, income increases have been disproportionately concentrated among higher earners, while welfare systems have struggled to provide support for those negatively

affected by globalization and market competition. Consequently, neo-liberalism reforms have sparked increased discussions within the global political economy about issues of inequality, social justice and the proper role of the state in overseeing economic outcomes.

The fundamental premise of neo liberalism was to release individuals from the constraints of governmental regulation, thus facilitating greater opportunities for individual success in market settings. Neo liberal political economy have led to a stark intensification of both national and global inequalities in distribution of wealth.

Political and Institutional Effects

The discourse continues on the extent to which neo liberalism may erode democratic governance or whether it can exist alongside it. Advocates assert that market driven reforms foster economic efficiency and enhance individual freedom, which might, in turn, fortify democratic institutions as time progress. Critics argue that neo liberal policies diminish the state's role, transfer decision making power towards market forces, private actors and restrict democratic accountability. The expanding impact of multinational companies and international financial entities is often viewed as a constraint on the policy alternatives of nations, particularly those are still developing.

Consequently, a variety of academics regard neo liberalism as instigating discord between economic liberalization and the involvement of the populace in politics, which prompts significant inquiries regarding representation, sovereignty, and the nature of democratic oversight in the global political economy.

The escalation of political dissent and the expansion of populist movements are typically connected with the social and economic ramifications of neo liberal policies. Market-focused reforms have frequently produced uneven economic growth, increased job insecurity, and diminished welfare provisions, leaving specific groups feeling both economically and politically excluded. These circumstances have exacerbated public discontent with political elites and established institutions, which are regularly regarded as advancing globalization to the disadvantage of the ordinary citizen. Populist leaders and movements have leveraged this discontent by opposing free trade, immigration and international economic collaboration. Therefore, the proliferation of populism indicates more extensive tensions in the global political economy concerning inequality, representation, and the perceived inadequacies of a neo liberal governance.

CRITICAL PERSPECTIVES

The dimensions in which capitalism grounded in neo-liberalism, can be criticized for some reasons, such as neo-liberal policies overlook the conflicts arising from class relations, the relentless and cumulative quest for consumption does not fulfil human needs. The private ownership of productive resources can skew economic incentives, suppress entrepreneurship, result in idleness and individualistic catalexis transactions fail to collectively satisfy the requirements of communities.

The effects of neo liberal reforms on labour markets and the frameworks of social protection have been substantial. Policies that prioritize labour market flexibility, deregulation and privatization have commonly led to reduction in employment security and a deuteriation of collective bargaining mechanisms. Thus, employees across numerous economies have seen rise in temporary contracts, informal employment, and wage stagnation. Simultaneously, reduction in public expenditure and reconfiguration of welfare states have curtailed access to social safety nets such as unemployment benefits, pensions, and health care. These reforms although designed to enhance efficiency and competitiveness, have also rendered workers more susceptible to economic shocks viewed through the lens of global political economy, these alterations have led to increased inequality and social insecurity, fuelling ongoing debates about the trade-off between market efficiency and social justice.

Neo liberalism promised to liberate individuals from the constraints of state regulation, facilitating their success in market competition. The expectation was that firms would experience rising profits, leading to a trickle-down effect of wealth as they competed for employees. Nevertheless, the reality over the past forty years of neo-liberal political economy has been a significant increase in both national and international wealth disparities.

CONCLUSION

Neo-liberalism is often supported on the premise that it advances economic efficiency and long-term growth by allowing market forces to function with minimal state intervention. Advocates assert that privatization, deregulation and trade liberalization boost competition, increase productivity draw in investment. By connecting national economies to global markets, it is believed that neo-liberal policies enhance trade, stimulate innovation and raise overall income levels. In numerous nations, especially emerging economies, market-oriented reforms have coincided with periods of swift economic growth and heightened engagement in the global economy.

Nonetheless, these positive developments have been met with considerable social and political hurdles. The growth benefit derived from neo liberal frameworks have often distributed unevenly, exacerbating income and wealth inequalities. Diminished public expenditure and weakened welfare system have rendered vulnerable groups susceptible to economic shocks and instability in the labour market. Additionally, the social pressures stemming from inequality and exclusion have frequently resulted in political instability, diminished trust in institutions and the rise of populist movements. Consequently, while neo-liberalism has provided efficiency gains and growth in certain contexts, its wider implications for social cohesion and political stability is still hotly debated within the realm of global political economy.

Diverse experiences such as those observed worldwide, reveal that emerging market have faced analogous questions for decades. The spread of neo-liberalism has been inconsistent across these markets, and

correspondingly, a number of them have been progressing beyond neo-liberalism for many years, yielding important insights into the merits and drawbacks of neo-liberalism and future landscape of economic and political policy making in a world beyond neo-liberalism.

This report, which emerges from an academic workshop that took place in January 2019, endeavours to furnish some initial responses to some questions such as growth strategies and industrial policy, inequality, finance and monetary policy, the environment, power and politics, where neo-liberalism fails to provide complete or satisfactory policy guidance.

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