The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries[1]

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Since the 1970s, market-based economic policies have been institutionalized as a nearly global policy paradigm. Using four national case studies, this article shows that economic and financial globalization played a critical role in fostering the transition to neoliberal policies, but that local institutional conditions were decisive in shaping the nature and meaning of the shift. While the analysis finds that developing countries appear more dependent upon direct external pressures than developed ones, it also shows that institutionalized patterns of state-society relations determined the way in which neoliberal transitions were carried out, somewhat irrespectively of the level of economic development. In Chile and Britain, poorly mediated distributional conflict created the ideological conditions for a "monetarist" revolution. In Mexico and France, on the other hand, neoliberalism was understood mainly as a necessary step to adapt the country to the international economy.

During the final decades of the 20th century, markets came progressively to be seen as the most desirable mechanism for regulating both domestic and world economies. A set of economic principles often identified as "neoliberalism" became part of the accepted framework for thinking about, and acting upon, the economy. One after another, national governments of both left and right implemented a wave of reforms—privatizations, dismantling of social welfare apparatuses, retreat

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of the state from economic regulation, tax cuts, opening of national boundaries—that profoundly transformed the relationship between their citizens and the economy (Campbell and Peterson 2001; Rodgers 2001). For the most part, these changes proceeded apace for over two decades without encountering much opposition.

This article is concerned with the general shift in "policy paradigm" that such policies indicate (Hall 1993)—in other words, it seeks to understand why the market has become such a taken-for-granted way to represent, and act upon, the economic world. Our interpretation is that the reshaping of established social and ideological arrangements along market lines reflects a deep transformation of both the way in which modern economies are understood *and* the way they function. Polanyi (1944) already suggested that classical economics (or, in his words, the "liberal creed") was as much a discourse on, or about, 19th-century British "market society," as the ideological force shaping it. Similarly, we emphasize how deep transformations in the structure of domestic and international economies contributed to change the cognitive categories with which economic and political actors come to apprehend the world.

We develop this perspective through an analysis of the historical trajectory of four national economies (Chile, Mexico, Britain, and France) during the 1970s and 1980s. We suggest, first, that the economic and financial globalization of the 1970s created a profoundly new environment for policy actors in both developing and developed nations. We show that countries' heightened vulnerability to international capital movements represented an especially critical change, which worked in favor of a general realignment of policies and economic representations along free market lines. Second, we argue that the transition to neoliberalism itself was highly uneven in its timing, scope and nature. Local institutional conditions and dynamics shaped perceptions of the necessity and purposes of economic liberalization, and the channels through which neoliberal ideas could diffuse and influence policy.

EXPLAINING THE REBIRTH OF THE LIBERAL CREED

Where does this hardly challenged legitimacy of the rule of the market in the modern economy come from? Often, views of the seemingly universal transition to "neoliberalism" from a more interventionist era tend to fall into one of two camps. On the one hand, critics of neoliberalism understand the transformation as a manifestation of the increasing control of capital (both domestic and international) over labor (see Epstein and Gintis 1992; Strange 1988), or the imposition, by a set of international agencies and financial institutions, of disciplinary policies (e.g., conditional

loans, retaliation measures) that ultimately serve the interest of the world hegemonic power, the United States (Krasner 1968; Stallings 1992; Stiglitz 2002). In this "coercive" perspective, the shape of the economy is mainly viewed as a by-product of the state of power relations among social groups or nations.

On the other hand, proponents of free markets argue that neoliberal transitions simply reflect the growing recognition around the world that the policies they are associated with "work" better than statist ones. This "economic" view has been distinctly associated with a vast international community of economic experts, many of who also participated directly in the implementation of neoliberal reforms (see Williamson 1994; Edwards 1995; Radelet and Sachs 1997).[2]

These two views, however, are not necessarily incommensurable. A growing body of scholarship suggests that postwar economic globalization was the driving force behind the worldwide spread of market-friendly policies after the 1970s (Frieden 1995; Maxfield 1997*b*; McNamara 1998; Kitschelt et al. 1999). In a context where production and finance have become "flexible" and globalized (Piore and Sabel 1984; Helleiner 1994; Boyer and Hollingsworth 1997; Castells 2000), the economy is increasingly perceived as exogeneous—and therefore relatively uncontrollable. Following the disciplining logic dictated by international market forces thus comes to be understood as the only way to achieve growth—whether such course of action is rationalized in negative terms (e.g., "If we don't adapt to the global economy by making labor more flexible and opening our capital markets, we will fall behind") or more positive ones (e.g., "If we want to reap the benefits of economic and financial globalization, then we have to be more free trade and market oriented").

Some sociologists have also pointed toward the importance of international normative pressures in constructing the liberalization process as "inevitable" (Centeno 2001). According to this analysis, international norms (e.g., the belief in the "market logic") should be regarded as social constructions whose systematic institutionalization worldwide is effectively organized by "rationalized others"—mainly, international organizations (e.g., the United Nations, the Organization for Economic Cooperation and Development [OECD], the International Monetary Fund [IMF]) and associations, science, and the professions (DiMaggio and Powell 1983; Haas 1992; Finnemore 1993; Meyer 1994; Meyer et. al. 1997). As has been widely shown, these institutions routinely produce, teach,

[2] Recent critiques of this liberal and open international economic order have been voiced, however, including some by the economics profession mainstream, which have denounced its potentially harmful effects on developing nations (Rodrik 1997; Stiglitz 2002; Krugman 2002).

and thereby contribute to the worldwide diffusion of a set of "norms," including economic ones—from standards for the collection of economic data to analytical categories for thinking about economic questions and courses of action regarding economic policy.

While this "normative" analytical framework correctly identifies some important vehicles for the dissemination of an economic consensus, it does not account for the latter's substantive nature, nor does it explain why the consensus changes over time. In particular, it cannot explain where the norms come from—including why and how certain countries (in our case Chile, which accomplished the transition the earliest, and, albeit to a lesser extent, Britain) emerge as the "makers" of such norms. Finally, it leaves little room for the idea that there might be some important variation within the boundaries of the consensus itself—in other words, that countries and policy actors may still exert "agency," both in their actions and in their own justifications for the neoliberal turn.

This article represents an attempt to deal with these issues by comparing the social and economic sources of the neoliberal transition across several nations (Chile, Mexico, Britain, and France) from the mid-1970s to the mid-1980s. By focusing on the individual countries' paths toward the market paradigm, we want to account for the specific processes whereby new policy norms get institutionalized. While we show the importance of the international (financial, institutional) environment in the emergence of neoliberal policy strategies in all four countries, we also argue that important *differences* remain in the way each of these four nations came to liberalize its economy, and to *understand its own reasons for doing so*.

Below, we suggest that the shifting international economic order of the 1970s created new forms of economic instability in the form of currency crises. These contributed to foster a global realignment of cognitive frameworks along freer market lines by dramatically strenghtening the influence of global finance as a key constituency of national economic policy. Nonetheless, national governments had very different reasons for turning toward neoliberal frames, some of which (as in Chile and Britain) were in fact largely determined domestically. If all four countries came to converge toward policies that emphasized tight money and market mechanisms, their rationale for adopting these policies relied on different perceptions and assessments of their own economic problems and what the shift to the market (e.g., away from the state) was meant to accomplish. In institutionalist terms, the emergence and path of the neoliberal policy regime was socially constructed through the mediation of national institutions and culture (Hall 1989; Dobbin 1994; Guillén 1994).

THE CHANGING INTERNATIONAL ECONOMIC ORDER AND THE RISE OF THE MARKET PARADIGM

The immediate postwar economic regime throughout much of the world could be characterized as a unique compromise between national economic objectives (e.g., industrialization/development, full employment, and social welfare) on the one hand, and an international system of cooperative and liberal multilateralism, on the other—a combination often described as "national capitalism" (Block 1977) or "embedded liberalism" (Ruggie 1983; Ikenberry 1992).

In practice the implementation of Keynesianism in each national context was quite specific and had to do with the mediating effect of local institutions or "governance regimes" (Weir and Skocpol 1985; Hall 1989; Campbell and Lindberg 1990). In industrialized nations, states regulated economies mainly through fiscal policy. Meanwhile, developing countries experimented with more extreme forms of state intervention, from various versions of "mixed" economies to outright socialism. In Latin America, the guiding postwar paradigm was import-substituting industrialization (ISI), through which governments fostered economic development by protecting domestic industries from foreign competition.[3]

This variety of postwar social contracts was made possible by a strong system of international monetary regulations, which were bound together by the political hegemony of the United States. In order to prevent global capital movements (whether outflows from the United States or inflows to Europe) from upsetting the system of pegged exchange rates, a consensus emerged for the establishment of capital controls. In limiting the pressures that could be brought to bear on the exchange rate, these restraints to capital mobility allowed governments to pursue domestic objectives other than currency stability (like full employment and a welfare state in Europe and industrialization in the developing world), and thereby satisfy the social demands formulated by their democratic electorates (Eichengreen 1998).

Over the course of the postwar period, however, this system was put under considerable stress that culminated during the 1970s. On the domestic front, expansionary policies were beginning to exhaust their potential and were becoming increasingly inflationary (Boyer and Mistral 1978; Boyer and Drache 1996). On the international front, the rapid progress of financial innovation and the multinationalization of firms had engendered a movement in favor of the liberalization of capital movements, supported by Britain (initially) and the United States (later). Both

[3] Although ISI was not Keynesian per se, Hirschman (1981) has argued that, by emphasizing the role of state investment in economic development, it drew its inspiration from Keynesian thinking.

emerging and European economies were flooded with foreign capital, which made it even harder to sustain noninflationary courses of action and increased the vulnerability of currencies to speculation (Goodman and Pauly 1993; Helleiner 1994; Loriaux 1997*a*; Simmons 1999, pp. 38–51; Devlin 1989). In 1971, the U.S. commitment to such a liberal financial order was ratified by the country's decision to let the dollar float, which in effect brought the Bretton Woods system to an end.

The new, post–Bretton Woods economic environment not only appeared difficult to control with established economic strategies (Hall 1993), but it also changed the political opportunity structure that governments faced. Previously, national policies had been determined chiefly by the interplay of domestic parties, local interest groups, and national institutions. In contrast, now international finance constituted an increasingly powerful constituency, which could be presumed to have its own set of policy preferences—such as low inflation, balanced budgets, and strict monetary policy managed by an independent central bank (Garrett 1998; Podillo and Guillén 2003; McNamara 2002). Characteristically, the adoption of neoliberal measures in all four countries was precipitated by a crisis of the balance of payments, itself spurred by a combination of macroeconomic difficulties and international speculation. Figure 1 illustrates that the move to neoliberal policies in Chile, Britain, Mexico, and France quickly followed currency crises. These were particularly dramatic in the two poorer countries: the national currency depreciated by 270% in Chile in 1973 and by 130% in Mexico in 1982 and continued to slide in subsequent years. In all four cases, neoliberal turning points lag balance of payment crises by three to five years, a period that corresponds to a time of intense national debate on the proper economic strategy and sometimes experimentation with alternative policy courses.

In the next four sections we examine how the interplay between these international and national dynamics helps account for the emergence of market-friendly policies in these four countries. We suggest that this variation in timing and nature is rooted in postwar institutional differences and state-society relations. In comparative analysis, there are three related political-economic variables that distinguish Chile and Britain from Mexico and France. First, "embedded liberalism" was clearly more successful in producing economic growth in the latter two nations. Whereas annual GDP growth averaged 6.7% in Mexico and 5% in France between 1961 and 1974, in Chile and Britain during the same period it averaged only 2.3% and 2.7%, respectively (World Bank 2002).

Second, Mexico and France were more effective at containing social unrest during the period under investigation—partly a result of the weakness and fragmentation of the labor movement itself. In France, the state was able to impose wage restraint (even temporary wage freezes) through

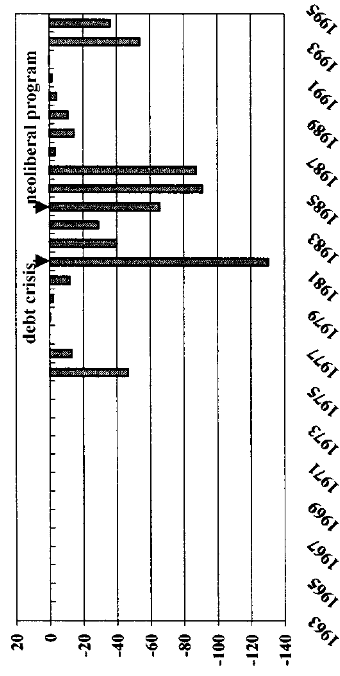
centralized bargaining, and placed limitations on firm-level bargaining (Chapman, Kesselman, and Schain 1998); in Mexico, demands for higher wages were quashed by more a more repressive form of corporatism. In both Britain and Chile, however, the postwar compromise between the unions, the firms and the state broke down in the face of poor economic performance (Durcan, McCarthy, and Redman 1983). After the 1960s, production was far more likely to be interrupted by labor unrest than in the other two countries (see figs. 2 and 4 below); wage demands, in particular, escalated.

Third, rampant social conflict in the context of relatively poor economic performance fueled a rapid acceleration of prices. As table 1 illustrates, postwar inflation in Chile and Britain was *comparatively high* relative to relevant "peer" nations (the OECD countries on the one hand and other Latin American countries on the other). Throughout the 1970s, prices in Britain increased by more than 12% annually on average, against 9% in France and 5.4% in Germany. In Chile, price increases were an ongoing problem since the 1960s and reached the spectacular level of over 600% in 1973—by definition, Chile was then undergoing a bout of hyperinflation. Rising prices also decreased the competitiveness of exports with respect to imports, thereby putting pressure on the national currencies.

Differences in the ability to mediate distributional conflicts and control inflation affected not only the *timing* of neoliberal transitions, but also their qualitative *nature*. In Chile and Britain, failed economic policies, ongoing social conflict, and inflation turned large fractions of capital and labor against the state and strengthened political groups that proposed alternative economic ideas. As these fractions gained control over the executive, whether through military (Pinochet) or democratic (Thatcher) means, they opened the channels of state administration to a new set of experts who identified themselves with a militant stance against inflation—the monetarists.[4]

In contrast, the Mexican and French moves to freer markets occurred later and in a much less revolutionary manner. They were initiated by a combination of macroeconomic difficulties and deliberate political commitments in favor of transnational economic integration (with the United

[4] In the strictest sense, monetarism is the theory according to which the central bank should commit to a simple and stable monetary rule (Friedman 1968). In practice, it promotes a course of action, which (1) delegitimizes the discretionary use of monetary policy for macroeconomic steering and (2) places important constraints on other policy levers (such as fiscal policy), thereby further curbing the margin of maneuver of governments. Intellectually, the commitment to a monetarist monetary policy is thus part of a general laissez faire philosophy, which explains why it has often been connected to broader "structural reforms" intended to liberalize the economy (e.g., privatization, cutbacks on public spending, liberalization of labor and financial markets, etc.).


Mexican Peso
debt crisis
neoliberal program
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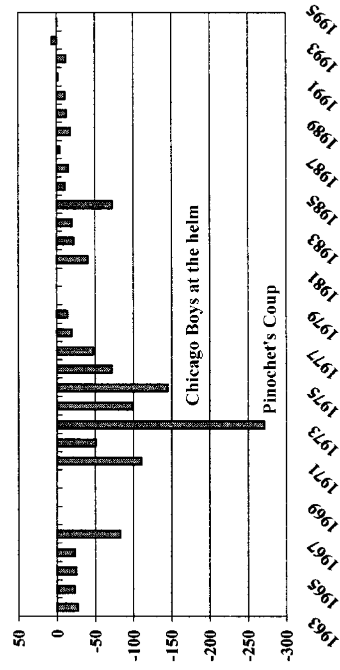
Chilean Peso
Chicago Boys at the helm
Pinochet's Coup
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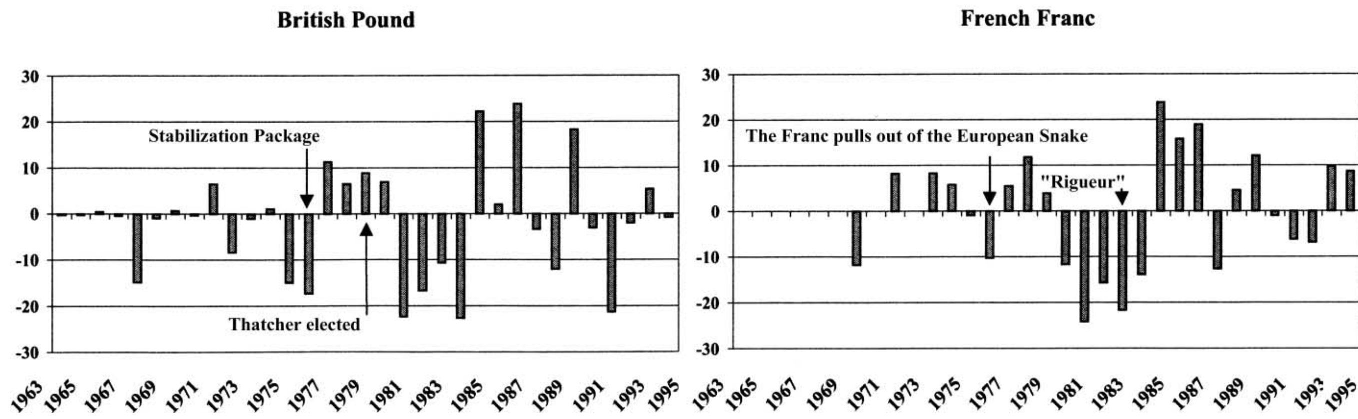


FIG. 1.—Balance of payment (currency crises); continuously compounded devaluations; data are from DRI/IMF. The continuously compounded devaluation rate at year t is calculated as the difference of the logarithms of the exchange rate between year $t-1$ and year t. This method treats exchange rate depreciations and appreciations symmetrically.

TABLE 1
CUMULATIVE INFLATION, 1961–75

Country	CPI (%)
Chile	294,534.7
Mexico	129.6
Argentina ...	8,105.7
Britain	170.5
France	127.0
Germany	72.9

NOTE:—Data for calculation of percentage change in Consumer Price Index (% CPI) are from the International Monetary Fund.

States and the European Community, respectively), whereby each national state sought to pursue its historic mission of modernization. In both cases, the full-fledged neoliberal transition resulted from deliberate choices by technocrats, rather than from the capture of key state institutions by previously marginal groups of monetarist true believers.

CHILE: MONETARIST PROTOTYPE IN AN AUTHORITARIAN REGIME

Chile was the first nation in the world to break with the dominant postwar policy paradigm by implementing a radical package of free-market reforms. It is well known that Chile's free-market revolution followed the military coup of 1973, which replaced the democratically elected Marxist president, Salvador Allende, with a military dictatorship under General Augusto Pinochet. We wish to emphasize the following points about this period. First, although American Cold War policies were an important catalyst for the events in Chile, this neoliberal experiment must also be understood as the outcome of a process of unresolved *domestic* social conflict. Second—and in sharp contrast to Mexico—Chile's neoliberal revolution started as a social movement *outside* of the state, rather than an internal project of state elites. These two facts help explain why Chile's early neoliberal policies were so exceptionally doctrinaire—and why they were ultimately abandoned for a more pragmatic neoliberal stance.

ECLA Developmentalism and Postwar Democracy

As elsewhere in Latin America, postwar economic policy in Chile was based on the notion that government intervention was the way to promote

the country's industrialization and development. Headquartered in the Chilean capital of Santiago, the United Nations Economic Commission for Latin America (ECLA) argued that peripheral countries needed to end their reliance on exports of primary materials and foodstuffs through active government policies aimed at protecting "infant industries" from foreign competition, and protecting salaries to maintain demand for domestically-produced industrial products (Villarreal 1984, p. 165). In Chile, postwar developmentalist policies included a mixed economy, protection for domestic industries from foreign imports, and an array of social welfare policies (Stallings 1978, pp. 30–32, 46–48).

Its conformity to the Latin American pattern notwithstanding, postwar Chilean economic development was unusual in two important respects. First, it was unusually unsuccessful at producing economic growth, which averaged only about 2% per capita from 1950 through 1971; unemployment during these years was also a chronic problem (Stallings 1978, p. 49). While the small size of Chile's internal market made import-substituting industrialization more difficult to achieve than in larger countries, the state's notable inability to mediate social conflict effectively seems to provide the most convincing explanation for the failure of Chilean developmentalism. Simmering conflict over how to divide the economic pie was reflected in extremely high and persistent inflation (see table 1), which Hirschman (1963, p. 222) observed was a sort of substitute for civil war. Such conflict ultimately exploded into more overt class warfare, exemplified by the Allende government's nationalization of private assets and the subsequent military coup backed by large business groups.

In Chile, inflation averaged almost 30% per year between 1940 and 1970 (Stallings 1978, pp. 46–50). The annual government wage readjustment (*readjuste*) was a recurring focal point for political conflict over who should "pay for" inflation (Stallings 1978, pp. 76–124). In theory, the state set minimum wages, salaries, and prices on consumer goods; in practice, it had little control over the trade unions, which were prone to strike in opposition to government policies. The result was high levels of disruption of economic activity (see fig. 2). Meanwhile, the private sector was generally allowed to pass on (or even to exceed) wage increases in the form of higher prices.

Persistent inflation and low economic growth contributed to escalating political polarization. By 1970, Chilean politics was characterized by a "hyperideologization" that made class compromise impossible (Silva 1991, p. 388; Moulian 1997). It was in this context of political polarization that the Marxist Salvador Allende was elected president in 1971, with a scant plurality of 36.6% of the vote in a three-way contest. Although many of his economic arguments were borrowed from ECLA developmentalism, in his first congressional address in 1971, Allende characterized his policies

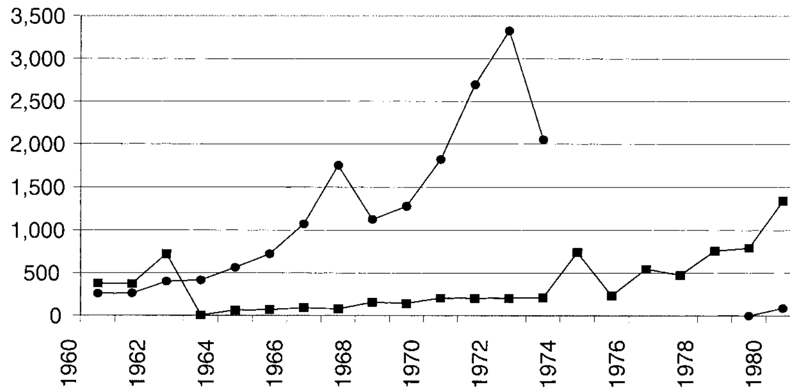


FIG. 2.—Number of industrial disputes, Chile (circles) and Mexico (squares), 1960–80. The traditional and more correct measure is the number of days lost to strikes per thousand workers; however, in the absence of satisfying data, we use the absolute number of industrial disputes (in the cases of Chile and Mexico) instead. Because Chile is a much smaller economy than Mexico, we believe that our argument regarding the discrepancy in industrial conflict between the two countries during the period under consideration is vindicated. Data are from the International Labor Organization (data for Chile, 1973–79 are missing).

as "the true beginning of socialism" (Allende quoted in Stallings [1978, p. 66]). His administration's policies included the nationalization of the copper mines, extensive expropriations in land and industry, major increases in industrial wages, fixed consumer goods prices, and worker participation in running of state-controlled industries (Stallings 1978, pp. 125–30; Schamis 2002).

By 1973, Chileans had to live with massive inflation, persistent shortages of consumer goods, and a major balance of payment crisis (see fig. 1 and table 1), yet high electoral turnouts for Popular Unity in 1973 showed that Allende's economic program was more popular than ever among the masses (Oppenheim 1993, p. 97). Allende's policies, however, antagonized large segments of the landed upper classes and the Chilean business elite, as well as the U.S. government, which strongly objected to the nationalization of the copper mines. Initial attempts by business groups to reach a compromised solution were rebuffed by the Popular Unity government. Under the auspices of the "Monday Club" (which met over Monday lunches), Chile's wealthiest business elites began to organize opposition to the Allende government. After the CIA-backed military coup of 1973, Monday Club participants were given prominent cabinet positions under the dictatorship of General Augusto Pinochet (Silva 1996, pp. 48–57).

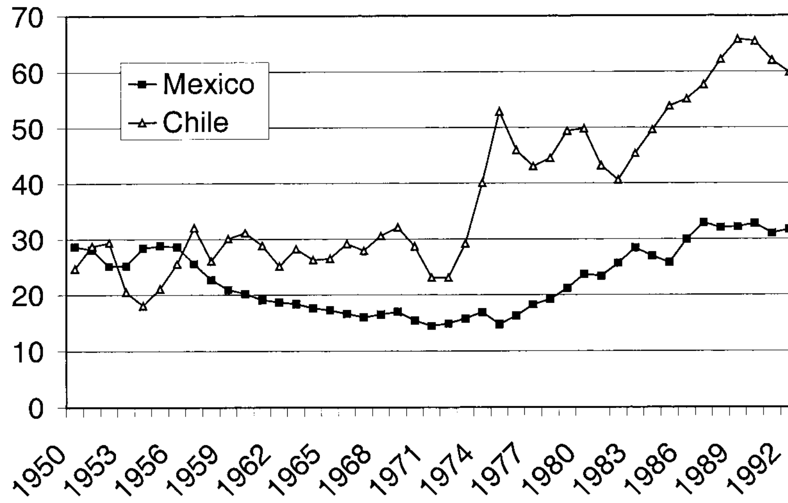
Pinochet's Revolution

The military government was renowned both for its brutality and for its free-market economic policies, overseen by a group of U.S.-trained technocrats known as the "Chicago Boys." Under their guidance, the Chilean economy was subjected to a severe structural adjustment package. By 1979, this orthodox approach toward fiscal deficits and inflation had evolved to become a full-fledged, radical neoliberal set of policies. Tariffs were reduced moderately beginning in 1975 and more drastically thereafter (see the dramatic opening of the Chilean economy illustrated in fig. 3). Public industries were privatized, and expropriated lands returned to their former owners. Labor legislation was revised to favor industrialists over workers, and social security was transformed into a system of private pensions. Monetary policy was redesigned according to the Chicago model: by pegging the Chilean peso to the dollar, rising and falling interest rates were supposed to allow Chile's balance of payments to automatically adjust to fluctuations in the world economy (Foxley 1983, pp. 62–71; Silva 1996, pp. 110–17).[5]

Chilean economic policy under Pinochet was uniquely radical for its day. Although the military dictatorship in Argentina emulated some Chilean policies, they were much less consistent: the Argentinian junta maintained sectoral policies that supported particular business interests (such as protectionism), as well as a large fiscal deficit (Frieden 1991, p. 207). Moreover, Chile's post-coup economic policies went against the reigning policy orthodoxy of the time, which was still Keynesian and developmentalist. During the 1970s, most Latin American nations were using access to cheap international credit to spend beyond their means, the exact opposite of what the Chicago Boys prescribed.

Chile's exceptional policy path has generated a proliferation of scholarly interpretations, all emphasizing different structural or ideological factors. In the interest of reconciling these views, Kurtz (1999) points out that Chile's structural reform was fundamentally an *incremental* process, with different variables more or less important at different times. It was not until 1975 that the Chicago Boys rose to power, and not until several years later that Chilean economic policy had become identifiably "neoliberal." The Chicago influence was a critical factor in shaping the overall direction of policies between 1975 and 1978—the years that the Chilean neoliberal experiment was consolidated (Valdes 1995; Montecinos 1988). A recent comparative study of the dictatorships in Chile, Argentina, and Uruguay in the 1970s similarly suggests that Chile's unique policy path

[5] According to Frieden (1991), this monetary approach to the balance of payments was sometimes known as "global monetarism" (p. 158).



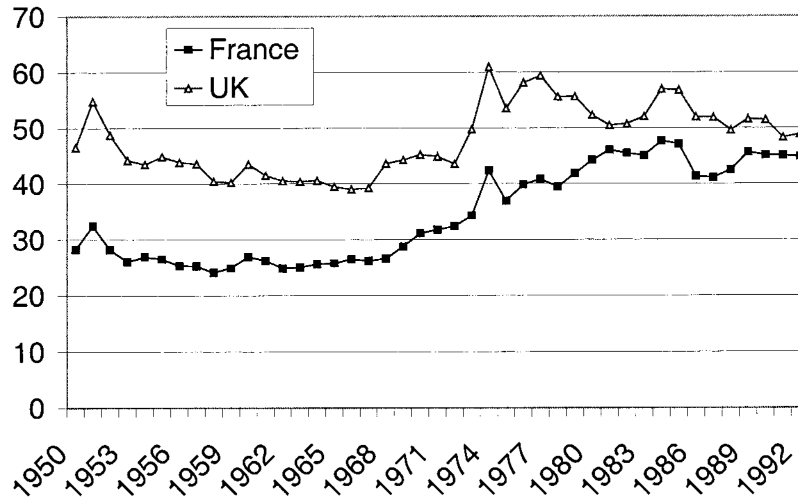


FIG. 3.—Openness of the economy ([exports + imports]/nominal GDP). Data are from the Penn World Tables (see Heston and Summers 1999).

can largely be attributed to a uniquely powerful and ideologically coherent team of free-market technocrats, with a long-term vision for the Chilean economy: in neither of the other national cases did economists have such an overwhelming presence in top policy positions (Biglaiser 1999).

The Rise of the Chicago Boys

How did a group of Chicago-trained economists come to have so much influence in Chilean economic policy in the 1970s? Three factors coincided to make Chile's technocratic experiment possible. First, a U.S. program for training Chilean economists at the University of Chicago became the ideological inspiration for a domestic social movement of economic elites. Second, an economic crisis in 1975 created the ideal conditions for the Chicago Boys to come to power at a time when negotiations with the IMF were vital to the regime's survival. And third, the enormous concentration of power in the hands of a single military leader—Pinochet—gave the Chicago Boys the autonomy to run economic policy as they saw fit.

During the 1950s, a U.S. government program designed to combat a perceived leftist bias in Chilean economics established an exchange program between the private Catholic University and the economics department at the University of Chicago. Between 1955 and 1964, 30 Chilean economists from the Catholic University were trained at the University of Chicago; most were converted to monetarism and free-market ideas. Similar Cold War programs were launched in Argentina and Colombia but were nowhere near as influential in the realm of policy as the Chilean Chicago Boys were to become (Biglaiser 2002; Valdés 1995, pp. 112–127, 181–83).

At the time, Chicago was viewed as an eccentric outpost of free-market ideas that was on the margins of the reigning Keynesian consensus. But in the highly polarized political environment of Chile during the 1960s and early 1970s, the Chicago program found support within an important segment of Chilean big business. Some Chicago-trained economists returned to work as professors at the Catholic University; others found lucrative jobs within Chilean firms (Silva 1996, p. 74). A business organization, known as the Inter-American Committee on Trade and Production (CICYP), helped finance a new campus for the School of Economics at the Catholic University and helped found the CESEC (Center for Social and Economic Studies), which served as a forum in which the Chicago Boys could disseminate their ideas to a broader public. After 1968, the news daily *El Mercurio* and the weekly *Qué Pasa* (both owned by a prominent business group active within the Monday Club) published articles on economic analysis that educated businessmen on the Chicago

point of view. Some of the Chicago Boys were also important participants in the Monday Club meetings, for which they prepared a postcoup recovery plan.

By the early 1970s, the Chicago project was not just an obscure U.S. Cold War program: it was an integral part of an indigenous social movement of dissatisfied economic elites. At first, the Chicago Boys had trouble finding political backing for their proposals. The political parties initially supporting the military regime included the Christian Democrats and the right-wing National Party, neither of which was "neoliberal" (Kurtz 1999; p. 406, Silva 1991, pp. 390–92). Pinochet's principal rival for control of the military junta, air force commander General Gustavo Leigh, was a Keynesian (Biglaiser 1999, p. 12). As a result, during the first two years of the dictatorship, the influence of the Chicago Boys on economic policy was quite modest.

Subsequently, however, the political fortunes of the Chicago Boys began to rise. In 1975, Pinochet appointed Chicago graduate Sergio de Castro as minister of the economy. The following year, de Castro rose to the even more important position of minister of finance, and fellow Chicago graduate Pablo Baraona took over at the head of the Economy Ministry. From 1975 through 1982, a series of Chicago graduates headed the Chilean central bank.

The circumstances that favored the Chicago-trained economists' rise to positions of influence were both domestic and international. By 1975, inflation was getting worse, imported petroleum costs were rising, and the price of copper—Chile's major export—was falling, which would cost Chile an estimated $1 billion a year in lost export earnings. Multilateral organizations and even the Paris Club were reluctant to lend to Chile because of the dictatorship's human rights abuses. The IMF was, quite literally, Chile's lender of last resort. Chile had entered into a standby arrangement with the IMF in 1974, but in part because of the unfavorable international environment, few of the Fund's conditions had been met. Disappointed with Chile's performance, in 1975 the Fund required a much harsher set of measures to restore price stability and external balance.

For a combination of economic and political reasons, it made sense for Pinochet to place the Chicago Boys at the helm, where they could conduct their unique experiment in neoconservative economics. The Chicago Boys were the self-proclaimed experts on inflation—they were the "money doctors" who would cure Chile's monetary ills. Their Chicago training facilitated mutual understanding with IMF staff, which was notorious for its strong antiinflationary stance. They had a postcoup economic recovery plan ready for deployment (Silva 1996, p. 47). Finally, their policies were anathema to Pinochet's main rival for power within the Chilean military, General Gustavo Leigh.

At the same time, the Chicago-inspired experiment was possible because Pinochet was a uniquely powerful and autonomous dictator. With the private sector and the old oligarchic regime devastated by Allende's nationalizations, and struggles for power among different branches of the military quashed, the Pinochet regime was able to delegate tremendous responsibility to the Chicago Boys, who could carry out their programs with little political resistance (Portes 1997; Kurtz 1999, p. 409). This was not the case in either of the other Southern Cone dictatorships (Argentina and Uruguay), where nothing so extreme as the Allende presidency had occurred, and military power was either factionalized or divided among different branches of the armed forces (Biglaiser 1999).

But even more important, no other Latin American country had experienced the equivalent of the Chicago experiment—a long-term investment in foreign economic ideas that became the core of a social movement of disgruntled economic elites. Had the Chicago Boys not been standing in the wings, ready to implement their ideas in the realm of policy, things in Chile might have turned out very differently. As it was, however, Chile found its place in history as a neoliberal pioneer. Only a few years later, it was joined by a nation on the other side of the world with which it apparently had little in common: Britain, where a similarly orthodox set of policy reforms was implemented under the administration of Prime Minister Margaret Thatcher.

BRITAIN: MONETARISM AS A POLITICAL PLATFORM

Not unlike the Chilean case, the rise of the neoliberal agenda in Britain came to be located in a powerful political platform, which was built on a complete repudiation of the entire postwar British social contract (Kaldor 1983, p. 1), and drew strength from a number of powerful institutional bases in society and politics.

Accounts of the British transition generally focus on the penetration of the state by "monetarist" ideas and their carriers in the wake of the conservative electoral victory in 1979 (Hall 1992). However, any explanation focused purely on Thatcherism misses the fact that the seeds for "paradigm change" were planted in British society well before Margaret Thatcher came to power. As will be demonstrated below, institutional features of the British economic and social environment made British Keynesianism particularly vulnerable to the rhetoric of market discipline. In particular, England's early dedication in promoting an open international financial order—firmly rooted in the political desire to maintain the international stature of the pound—created the conditions for a particularly low level of tolerance for inflation among the British financial world and the tech-

nocracy. Thus when the social consensus started breaking down in the late 1960s, with increasingly confrontational labor activism and spiraling inflation, monetarist arguments had some reason to resonate within British society.

National Keynesianism and the Bretton Woods System

From the 1940s until the mid-1970s, British economic policy was predicated upon the goal of full employment, which was to be achieved through fiscal policy, or via the manipulation of taxation and public spending. In this scheme, monetary policy played a supportive role, but, consistent with Keynes's own beliefs, it was not expected to have much influence on the economy.[6] In practice, Keynesian macroeconomic policies took the form of the famous "stop-go" cycles. Typically, the government would initiate a "go" process by cutting taxes, increasing public spending, and moderately loosening interest rates, thereby stimulating demand. When the expansion of activity ran into a trade deficit, and consequent balance-of-payment problems, the government would reverse its strategy and implement a bout of "stop."

Throughout the 1950s and 1960s, these domestic goals tended to conflict with Britain's historical commitment to a strong pound. With Britain's heritage as a first-rank colonial power, and consequently the pound's role as the second international reserve currency, both prevailing policy frameworks and economic interests (at home and abroad) had a long history of bias in favor of an overvalued sterling. The imperative of currency defense bore an almost "moral" character for the political and administrative class. The Labour Party, for instance, lived its implementation of a long-delayed devaluation of the sterling in 1967 as a political trauma (Harmon quoting Prime Minister Harold Wilson [1997, p. 51]; see also Hall 1986, pp. 48–68).

The British turn to monetarism, then, must be understood in relation to this particular macroeconomic history, articulated within a changing international context. First, the performance of the British economy after the 1973 oil shock was much worse than that of its main OECD counterparts. Reflationary efforts after 1973 generated massive budget deficits (over 7% of GDP in 1975). Combined with the government's inability to control union demands for continuing increases in wages, the policy trig-

[6] The consensus among postwar experts, as exemplified in the policy investigations of the Radcliffe committee where three prominent academic Keynesians testified (Harrod, Kahn, and Kaldor; see H. M. Treasury 1959) and later by the theoretical work of Fleming (1962) and Mundell (1963), was that within a fixed exchange rate system, monetary policy was ineffective (Oliver 1997, p. 25–27).

gered a rapid acceleration of inflation. In 1975, unemployment broke the politically sensitive one million mark, and the consumer price index rose 26% above its 1974 level, making inflation a major political issue (Hall 1986, p. 120; Middleton 1996). Second, this dramatic macroeconomic deterioration, coupled with the breakdown of the international financial system (which became official in 1972) drastically increased the speculation against the pound, thereby weakening the government's margin of maneuver on domestic matters.[7]

Monetarist Discourse in British Civil Society and Politics

The impotence of the administrative establishment in the face of growing economic difficulties, the relative disengagement of academics lost in internal theoretical quarrels, and the increased visibility and influence of actors and institutions associated with the financial markets, also created the conditions of an important movement of intellectual reconstruction. While there existed a significant tradition of intellectual anti-Keynesianism in Britain (recall Hayek's controversies with Keynes during the 1930s), for much of the postwar period it did not possess effective channels of diffusion. By the 1970s, however, the situation had changed and the discourse of market evangelism could rely on three particularly important institutional vehicles: the think tanks, the economic and financial press, and Britain's financial sector, the City of London.

The rise of the think tanks and conservative research institutes is an especially important development to consider in any explanation of the ascent of neoliberal ideas (Hall 1993; Cockett 1995; Dixon 1998). Postwar think tanks in Britain originally emerged as a reaction to the progovernment, antimarket, left-wing Keynesianism of (especially) Oxford and Cambridge, and against the economic commitments and policies of the postwar Labour governments. This movement for a revival of classical liberalism crystallized in 1955 when members of the Conservative Party, together with a few captains of industry, created the Institute for Economic Affairs (IEA), a "libertarian" think tank devoted to the promotion of free-market views. During the 1960s and 1970s, the IEA published a series of pamphlets and monographs applying free-market principles to a large variety of microeconomic problems, and helped spread neoliberal views toward a broad public in business, administration, and politics. Two later organ-

[7] Indeed, in an open economy with a floating exchange rate system, an important depreciation of the currency was now likely to trigger even more inflation, due to the rapid rise in the price of imported goods. This type of mechanism would prove especially important in the case of Britain, which, partly as a result of a deep cultural commitment in favor of free trade, had maintained an exceptionally high level of economic openness throughout the postwar period (see fig. 3).

izations, the Center for Policy Studies (CPS) and the Adam Smith Institute (founded in 1974 and 1976, respectively) were conceived with a more directly political purpose in mind. The CPS, in particular, was essentially a lobbying organization, which lent critical support to the efforts of the right wing at reconstructing the Tory mainstream (Cockett 1995).

There was no inevitability in the success of these ideas, however. The British research institutes, unlike their American counterparts, did not have access to institutionalized channels of entry into the British legislative process. Moreover, they tended to be relatively small organizations. Much of their political influence, then, was exerted informally, through the mediation of interpersonal networks.

In many ways, the emergence of the think tanks on the public scene would not have been possible without a broader transformation in the organization of the British public sphere. Between the 1950s and the 1970s, the locus of production of economic discourse slowly moved away from elite academics (who had controlled the journalistic field until then) toward a new generation of economic writers and columnists. Following the lead of the *Financial Times*, which catered to new audiences in the financial markets, the main newspapers started recruiting specialized economic commentators, many of whom also entertained close links with the think tanks and the conservative party (Parsons 1989). In contrast to the American mavericks, who were spreading the supply-side gospel across the Atlantic, the journalists who launched the "monetarist" crusade in Britain were a quite distinguished crowd, with widely respected credentials. For instance, the two most prominent disseminators of anti-Keynesian ideas were indisputably well-connected members of the "establishment": Samuel Brittan, at the *Financial Times*, had been trained at Oxford University and at the Treasury and was also the brother of a high government official; Peter Jay, at the *Times of London*, was the son of a famous Keynesian mandarin and Oxford don, and the son-in-law of a future Labour prime minister (James Callaghan). Furthermore, both of these personalities had started their careers as staunch defenders of the "old" paradigm and had come to embrace the new doctrine only gradually, out of disillusionment.

Perhaps the most important vehicle for the monetarist views, however, was the network of financial institutions that comprise the City of London—Britain's equivalent of Wall Street. In 1971, the government freed the financial sector from previously imposed restrictions on lending and interest rates and switched to a floating exchange rate system, which made capital movements much more volatile. This policy, combined with the rapid pace of financial innovation, stimulated the resurgence of the City as an international financial marketplace, and strengthened its political influence. Indeed, much of the crusade against the Keynesian establish-

ment was launched from the "bank reviews" and stockbroker offices, notably the monthly financial bulletins edited by the monetarist guru Gordon Pepper at Greenwell (Keegan 1984; Middleton 1998).[8]

This movement was also channeled into the state via the traditional networks between the City and the administrative sphere—the Treasury and the Bank of England in particular. Since the mid-1960s, these institutions had started to evolve from a body of generalist administrators into a staff of specialist economic professionals more sensitive to economic arguments (Coats 1981; Middleton 1998). Sympathy for monetarist ideas—that is, the tendency to regard inflation as a monetary phenomenon, which warrants a tight control of the money supply—was first evident in the traditional "ally" of the financial sector, the Bank of England: in an attempt to appease the markets, the institution adopted internal monetary targets in 1973 and public ones in 1976 (Hall 1986, p. 97).

The changing internal make-up of the Treasury provided another vehicle. While the 1960s had seen a rapid expansion of those branches of government that dealt with the domestic economy (with the creation of a short-lived Department of Economic Affairs in 1964), administrative developments during the 1970s were much more concerned with building up expertise in the area of international finance, which enhanced the access of financial interests to the core of the state. In this process of institutional transformation, which continued through the 1980s as financial liberalization proceeded apace and alternative sources of influence (such as the unions) were ruthlessly crushed, the concerns and preferences of international investors were more effectively and directly channeled toward the economic policy machinery (Baker 1999, pp. 87–88).

The growing influence of the City on national economic policy is exemplified by the ill-fated Alternative Economic Strategy (AES), an approach defended by a group of Cambridge University professors and Labour politicians from the early 1970s on, which had recommended the imposition of capital controls as a way to counter the destabilizing effects of capital mobility on the British economy. Failure of the AES to gain influence, however, is a testimony to the fact that no British government was ready to alter one of the world's most liberal financial regulations and depart from their "historic commitment to maintain London's position as an international financial center" (Helleiner 1994, p. 99).

[8] In 1977, e.g., the London magazine the *Economist* characterized Gordon Pepper as the "chief prophet of the new monetarist orthodoxy" ("A Dose of Pepper for the London Market," November 26).

The Speculation against the Pound and the End of Keynesian Politics

By the mid-1970s, then, economic liberalism possessed an influential constituency in British society and economy, and was increasingly seen as an acceptable element of political discourse. Moreover, mistrust against the state did not only come from business and finance. It was further buttressed, on the popular side, by successive governments' poor management of industrial relations through income policies, which gradually "turned labor unions into public antagonists with the state," and created a situation of permanent social conflict bound to infuriate the electorate (Hall 1986, p. 84; Durcan et al. 1983; Gourevitch et al. 1984; Overbeek 1990). The deadlock led to the wage-push of the late 1960s and the wave of strikes of the next decade, which culminated in the widely unpopular "winter of discontent" of 1979. As figure 4 shows, the number of days lost to strikes and workouts increased dramatically during the period, and remained very high even compared to France.

In this context, ideological polarization between the parties reached an all-time high (Beer 1982). While Labour fell momentarily under the spell of the "New Left," the Conservative Party formally embraced a free-market program in 1970 (Thompson 1996). The Heath government, which Hall (1986) considers to be the "starting point of the British journey toward monetarism," was elected on a nascent neoliberal platform in 1970. The two subsequent Labour administrations (1974–79) also accomplished some important steps in a conservative direction. Acknowledging implicitly its inability to stimulate growth through the manipulation of public spending, Labour after 1976 presided over the gradual desacralization of fiscal policy as the main tool of economic policy, the abandonment of the full employment objective, and the introduction of money supply targets (Cairncross 1996; Thain and Wright 1995). Thus one of the most respected commentators on the British economy, and a loud participant in the monetarist campaign, *Financial Times* journalist Samuel Brittan (1983, p. 100), wrote: "However much they were denounced by Labour in opposition, the most characteristic features of financial Thatcherism were also pursued by the last Labour government from 1976 to 1979, with only modest backsliding in the period approaching the 1979 election."

It is particularly noteworthy that the turn toward austerity in 1976 was also determined by the intervention of international constituencies. As pointed out earlier, Britain had inherited an overvalued currency from the fixed exchange rate system, which made it extremely vulnerable to speculative attacks. In the midst of the 1976 macroeconomic crisis, pressures against the pound mounted to such a point that the Callaghan government had to seek external financing from the IMF and foreign central banks (the Bundesbank in particular). Suspicious of Labour's will-

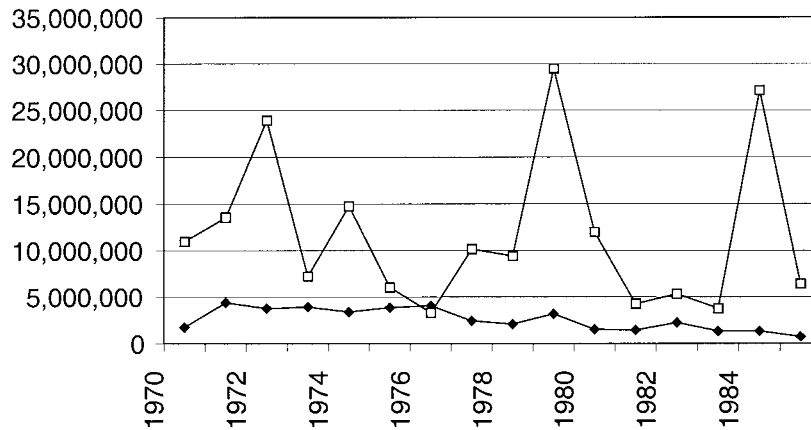


FIG. 4.—Number of working days lost to strikes, France (solid diamonds) and Britain (open squares), 1970–85. The traditional and more correct measure is the number of days lost to strikes per thousand workers; however, in the absence of coherent employment measures, we use the absolute number of lost working days. Because Britain was a smaller economy than France, we believe that our argument regarding the discrepancy in industrial conflict between the two countries during the period under consideration is vindicated. Data are from the International Labor Organization and Walsh (1982).

ingness to adopt a tough domestic stance, however, those institutions made their intervention dependent upon Britain's commitment to a stabilization package including strict monetary targets and spending cuts (Schamis 2002, p. 92; Helleiner 1994, p. 125).

Labour's "conversion" to monetarism stemmed more from the necessity to appease the financial markets and secure U.S. support and IMF assistance than from sincere conviction (Keegan 1984; Smith 1987; Hall 1992; Thain and Wright 1995). Yet neoliberal ideas also received key support from some important segments of the economic technocracy, especially those that were closely networked with the foreign financing institutions behind the package (i.e., IMF, U.S. Department of the Treasury, Bundesbank). Taking advantage of the perceived threat posed by the "uncontrollable" forces of the financial markets, on the one hand, and the "irresponsibility" of the trade unions, on the other, some senior officials also saw in the externally imposed austerity plan a means to replace the failing domestic solutions of wages policy and industrial strategy and to regain initiative in the economic policy debate (Helleiner 1994, p. 130).

Thatcherism and the Politics of Articulation

If Britain's "monetarist turn" somewhat predated the Conservative electoral victory of 1979, Thatcherism's critical innovation was to bring self-

confidence to a pragmatic and still experimental shift—that is, to articulate "retrenchment" with a full-blown ideology for a national revival, underpinned by a strong conviction in the Hayekian and Friedmanite doctrines, an almost visceral distaste for inflation, and a ferocious desire to break the power of the labor unions (which was confirmed in successive pieces of repressive labor legislation during the 1980s). The uncompromising character of her economic program, which Thatcher authoritatively maintained in the midst of the worst economic recession in decades, cannot be understood without reference to these ideological elements. Ruling together with a small number of enthusiastic monetarists as economic ministers and personal advisers, she organized the systematic implementation of an agenda of deflation, privatization, deregulation, and downsizing of the public sector.

Although Thatcher's monetarism eventually softened into a more pragmatic stance, the ideology produced some very lasting effects. Perhaps the most significant change brought about by Thatcher's articulation of the neoliberal creed was a shift in the avowed objectives of economic policy, with the money supply (believed to be the main feeder of inflation), and public-sector borrowing replacing output and unemployment as the main goals of governmental action. By signaling publicly the unwillingness of the Treasury to use public expenditures to reflate the economy and turning, instead, toward massive privatizations as a means to raise public revenues, the government turned away from the economic rationale that had supported the British social contract since World War II.

The Social and Political Roots of Monetarism

In a famous paper, Albert Hirschman argued that "inflation is a highly technical and at the same time a highly political problem" (1963, p. 163) whose roots have to be found in patterns of social conflict. The cases just discussed suggest that where such conflict exists, the *political* solution is likely to be radical. Neoliberalism entered Chile and Britain through the monetarist path, as an enterprise to rid those countries of inflation and to crush the perceived causes of price increases—union demands in particular.

In Mexico and France, on the other hand, the main economic problem was perceived to lie in the insufficient adaptation of the economy to international challenges. The turn to neoliberal economic policies was largely pragmatic and motivated in great part by international integration. As we argue below, part of the similarity in these two countries' transition processes can be traced back to similar features of their governance regimes after the Second World War, most notably the role of the state in

organizing economic growth via the use of credit, the autonomy and power of the technocracy, and a relatively weak labor sector (Loriaux 1997*a*).

MEXICO: FREE-MARKET TECHNOCRATS IN A SINGLE-PARTY STATE

As in many other developing countries, the Third World debt crisis of the 1980s generated the conditions leading to Mexico's adoption of free-market reforms. The debt crisis both created material incentives for market-oriented reforms, and also helped propel a new team of U.S.-trained economists in charge of Mexican economic policy—economists who believed in the correctness of liberalizing policies (Centeno 1994; Babb 2001). In contrast to Chile, however, these technocrats were neither political outsiders nor the organic intellectuals of the bourgeoisie. Rather, they were insiders who saw international financial pressures as an opportunity to advance both their political careers and their particular ideological program.

Mexican Economy and Society, 1940–82

As in Chile, postwar economic policy in Mexico was founded on the ideal of industrial development promoted by a strong state. Mexican developmentalism included a system of tariffs for protecting domestic industries, an array of government-run monopolies (including petroleum, telecommunications, and electricity), and government intermediation for the financing of Mexican firms. These policies were apparently successful. During Mexico's famous "stabilizing development" period (1952–70), economic growth averaged over 6% per year, while inflation was maintained at impressively low levels (see table 1).

In stark contrast to Chile, Mexican developmentalism was founded on a harsh but effective system for controlling social and political conflict. From 1929 onward, the country was ruled by a single party with a series of different names (most recently, the oxymoronic "Institutional Revolutionary Party"). In the 1920s and 1930s, workers, peasants, and "popular" sectors were incorporated within the party, which was supposed to mediate among the interests of different social sectors. After 1940, however, this corporatist infrastructure was increasingly used as a means of controlling organized dissent from below as the private sector, foreign investors, government elites, and burgeoning middle classes benefited from strong and sustained economic growth (Middlebrook 1995; Hansen 1971). As a result, social and labor unrest in Mexico was remarkably low throughout the period following World War II (see fig. 2). Formal political

pluralism was a mask for a de facto one-party system that fended off electoral challenge through a skillful combination of pork-barrel politics, electoral fraud, and outright repression (Middlebrook 1995; Hansen 1971). Unlike the *dictaduras* (dictatorships) seen elsewhere in Latin America, Mexico was jokingly referred to as a "*dictablanda*," or "soft dictatorship."

The political stability upon which the "Mexican Miracle" was built began to falter in the late 1960s. The famous 1968 massacre of demonstrating students in Tlatelolco Plaza reinforced the impression that the ruling party was rapidly losing legitimacy. At the same time, observers of the Mexican economy began to speak of the "exhaustion" of the import substitution model—although the signs of exhaustion were neither as clear nor as early as they were in Chile (Solís 1973, p. 8; Reynolds 1977). A new model had to be found, and at a time when statist economic policies were still in vogue around the world, Mexico began to pursue a "populist" form of capitalism under the presidencies of Echeverría (1970–76) and López Portillo (1976–82) (Bazdresch and Levy 1991). Although Echeverría focused more on social programs and education, and López Portillo more on investing in Mexico's increasingly lucrative state-owned petroleum industry, both presidents enormously increased government spending.

The vast government expenditures of the 1970s were made possible by developments in the international economy that gave the Mexican government unprecedented access to international financing. The "reglobalization" of financial markets facilitated financing through loans from First World banks (and, later, portfolio investors; see Frieden 1991). In general, the 1970s were a decade of immoderate lending by international banks and foreign investors and imprudent levels of external borrowing in Latin America and other parts of the developing world, and Mexico was no exception: by 1982, the debt stood at over 36% of Mexico's GDP, or 92.4 billion U.S. dollars (Gil Díaz 1984; Bazdresch and Levy 1991, pp. 246–149).

By the early 1980s, Mexico and other developing countries were inextricably dependent on international financial markets—a dependence for which they would pay dearly. Skyrocketing international interest rates after 1979 made debt burdens increasingly unmanageable (Loriaux 1997*a* p. 13; Maxfield 1997*a*). In August, 1982, the Mexican finance minister informed the U.S. government, the IMF, and the world financial community that Mexico would be unable to meet its debt payments. Thus, Mexico had the honor of inaugurating the beginning of the Third World debt crisis. After 1982, the country underwent a nearly complete reversal of its postwar tradition of interventionist policymaking.

Mexico's Move to Free Markets

In contrast to Chile, no military coup preceded Mexico's neoliberal transition. Although business in Mexico was mobilized in support of the government's liberalizing program (Thacker 2000), the original impetus for neoliberal reforms did not come from the private sector, but from within a single-party state under increasingly strong international pressures. Mexican neoliberalism was bureaucratic rather than political in origin.

Mexican liberalization proceeded in stages. The first was a period of structural adjustment measures, conducted under the auspices of an IMF program, beginning in 1982. This period was characterized by the imposition of fiscal and monetary austerity, and the beginnings of a gradual and selective opening to free trade and other market mechanisms. The second period, which began around 1985, was one of "structural reforms"—in other words, of recognizably "neoliberal" policies. This phase was marked by a much more radical opening to free trade (see fig. 3), and the imposition of a host of other liberalizing reforms associated with the administration of Carlos Salinas (1988–94). The financial system was liberalized, and policy toward foreign investors was modified such that foreign firms could acquire up to 100% ownership in publicly traded Mexican firms (Moffett 1989, p. A11). Amendments to Article 27 of the Mexican Constitution effectively ended Mexico's revolutionary history of land reform and opened Mexican lands to purchase by private investors, both domestic and foreign (Córdoba 1994, pp. 256–57). And in 1994, the North American Free Trade Agreement (NAFTA) was put into effect, obligating Mexico to lower tariffs and eliminate nontariff barriers on goods imported from the United States and Canada.

How did Mexico undergo this radical turnaround from the free-spending "populism" of the 1970s to the free-market capitalism of the 1990s? There is no doubt that international factors played a critical role. In particular, the globalization of finance in the 1970s, and the consequent Third World debt crisis, created a new set of constraints and opportunities for Mexican policy makers. This had two outstanding consequences for Mexican policy: first, the internationalization and professionalization of Mexican economic policy makers; second, the creation of significant material incentives to pursue neoliberal policies.

For most of Mexico's postrevolutionary history, economic policy was made by amateurs—self-taught lawyers (or occasionally engineers) with little or no formal training in economics. Beginning in the late 1950s, however, professional economists began to move into higher-level policy positions. This process of professionalization was accelerated during the 1970s, as foreign loans flowed with ever-greater rapidity into the coffers of the Mexican government. It was increasingly a particular *kind* of econ-

omist that was most favored: namely, the kind with a graduate degree from a foreign university. These young technocrats were fluent in English and had important old-school ties with foreign banks and multilateral institutions (Babb 2001).

In 1981, rising international interest rates and falling international petroleum prices were leading to speculation about the impending devaluation of the peso and widespread capital flight. Different factions of foreign-trained economists within the Mexican policy bureaucracy favored distinct approaches to Mexico's blossoming debt crisis: a group of "radical developmentalists" associated with the López Portillo government (many trained at Cambridge University) and an opposing group of fiscal and monetary conservatives (mostly trained in the United States).

A critical event in determining which group of technocrats prevailed was President López Portillo's selection of Miguel de la Madrid as the ruling party's official candidate for the presidency—essentially anointing him as Mexico's future president. At a time when multilateral agencies, foreign lenders, and government officials all needed to be mobilized to help bail Mexico out, de la Madrid was an ideal candidate: he had a master's degree in public administration from Harvard University.

Even before assuming the presidency in November 1982, de la Madrid was allowed to appoint two Yale-trained economists to head the Finance Ministry and Mexico's Central Bank. The newly appointed finance minister, Jesús Silva Herzog, immediately began to steer the Mexican government toward a negotiated settlement with the IMF, the U.S. Treasury, and the banks. This course was vehemently opposed by the "radical" Cambridge graduates, who favored imposing capital controls and were even rumored to be discussing forming a debtor nations' cartel and defaulting. With the IMF and U.S. Treasury on their side, the Yale-trained fiscal conservatives prevailed. In return for the financial support of these external organizations, Mexico pledged to implement a package of harsh IMF structural adjustment measures (Kraft 1984, p. 46).

Toward the middle of the 1980s, Mexico's commitment to fiscal and monetary austerity was expanded to become a full-fledged neoliberal program, complete with widespread privatization and the lifting of tariff barriers. Once again, international circumstances favored the policy program of those supporting a more market-oriented course. On the issue of free trade, there were deep disagreements regarding the speed and depth of the trade opening: on one side were the fiscally conservative developmentalists within the Ministry of Commerce and on the other the "free traders" in the Mexican Central Bank (Heredia 1996). Aligned on the side of free trade was central banker and University of Chicago graduate, Francisco Gil Díaz, who mobilized numerous allies in other branches of public administration—almost all of them with graduate training in ec-

onomics from the United States. In 1984, the Central Bank began to disseminate policy proposals in favor of accelerated trade opening. Later that year, the World Bank granted Mexico the first Trade Policy Loan in the bank's history; under its terms, Mexico was provided a series of loans in return for comprehensive trade liberalization. In 1986, the Reagan administration further strengthened the hand of international financial institutions and free traders within the Mexican government by announcing that it would not negotiate on Mexico's behalf with international banks unless Mexico "implemented substantive structural reforms" and arrived at a new agreement with the IMF (*Economist* 1986, p. 81).

With such powerful international allies to help them argue their case, the free-trade technocrats within the Mexican government prevailed. In 1987 the Mexican government implemented a program of trade liberalization that was essentially a prelude to NAFTA. That this program went even *beyond* the requirements of the General Agreement on Tariffs and Trade (GATT) showed that the technocrats who implemented these policies were not being forced against their will: they believed in them. As one *Financial Times* correspondent observed, "Mexico went much further in reducing its trade barriers than the [World Bank] required. . . . The two sides agree on almost everything. . . . World Bank economists and Mexican officials often spend weekends together brainstorming on policy issues. Many are graduates of the same U.S. universities, and friends" (Fraser 1992, p. 7).

The U.S.-trained economists whose views emerged during the De la Madrid administration were promoted to top policy positions during the subsequent administrations of Carlos Salinas (1988–94) and Ernesto Zedillo (1994–2000). Thus, in the ensuing years, Mexico's free-market policy path was consolidated.

Neoliberal Transitions in Developing Countries: Some Lessons from Mexico

When compared to other nations, Mexico's neoliberal transition had some unusual features. For one thing, the Mexican single-party system, coupled with weak democratic institutions, strong corporatism, and a powerful centralized presidency, insulated technocratic policy makers from political pressures and enabled them to carry through reforms more quickly than would be tolerated in most full-fledged democracies (Centeno 1994; Shadlen 2000). Developing nations with stronger democratic traditions are likely to have neoliberal transitions that are neither as rapid, nor as complete, nor as technocratic as they were in Mexico.

But despite these particularly "Mexican" features of the Mexican case, it is also typical of developing countries in an important respect: namely,

in that neoliberal reforms were initiated during the Third World debt crisis, when governments became more vulnerable to external pressures. The debt crisis, in turn, must be conceived as part of the larger historical process of financial globalization, which has changed the structure of constraints and opportunities within which governments must operate.

FRANCE: PRAGMATIC NEOLIBERALISM IN THE CONTEXT OF EUROPEAN INTEGRATION

The move to freer markets was less "dramatic" in France than in the other three cases. It was neither associated with a strong political movement, as in Britain, nor sustained by authoritarian political will, as in Chile, nor imposed in the wake of debt relief, as in Mexico. Conducted with little rhetorical fanfare, France's liberalization was nevertheless very real. After 1983, successive governments dismantled remaining price controls, removed restrictions on labor and financial markets, brought down trade barriers through further integration with Europe, privatized public enterprises, and pursued a policy of "Franc fort" which, by keeping interest rates high, condemned the country to a slow—but noninflationary—growth well into the mid-1990s.

The other notable feature about France is that the departure from the country's tradition of "social colbertism" was effected by left-wing coalitions, in power for much of the period under scrutiny here (1981–86; 1988–93; 1997–2002). Elected in 1981 on the promise to restore growth through the active use of state intervention, the Socialist Party soon abandoned the euphoria of its first year in power and came to preside over a long decade of austerity in macroeconomic affairs and a gradual distancing from the national tradition of central industrial planning (Hall 1986). In 1991 one of France's foremost high functionaries gave a disillusioned verdict: the glorious days of France's model of economic governance, whereby "the state commands to the economy in the name of political ambition and social progress," were gone (Albert 1991, p. 266).

The French Political Economy in Transition

The development of the French political economy in the post–World War II period is familiar enough. Partly out of an effort to appease the highly confrontational political context that had emerged from War World II, as well as out of a fervent modernizing drive, whereby public authorities sought to overcome the perceived economic backwardness of the country, postwar governments committed to a policy of economic *volontarisme* identified with mercantilist policies of industrial development (Kuisel

1981; Hayward 1986). In a country with a long tradition of defiance against free competition, this program of *rattrapage* was administered from above by centrally administered institutions of economic management, such as the Central Planning Agency, the Ministry of Finance, and nationalized enterprises (Fourquet 1980; Hall 1986).

The entire French economic management system in the postwar period was thus geared toward the objective of rapid and sustained growth. The *technical* implementation of expansion, however, was very un-Keynesian.[9] In fact, France until 1975 was one of the most "virtuous" of all OECD countries regarding public deficit and had one the lowest ratios of government debt to GDP of all major industrialized countries (Hayward 1986, pp. 220–21). The French practice was characterized by a credit-based economy, whereby the state, via the constellation of public and semipublic institutions around the Treasury (including three large state-owned deposit banks), provided investment subsidies in the form of cheap loans to the economy (Zysman 1983; Loriaux 1991).

The institutional "bias for growth" in French economic policy was also rooted in the political elites' deep concern about the social and electoral consequences of high unemployment. In a country where the Communist Party represented more than 20% of the electorate through the late 1960s, the uncontrolled explosion of worker militancy—as experienced during the strikes of 1947, and later 1968—served as a forceful reminder of the power of the working class. The political emphasis on mitigating social conflict by "delivering" expansion and channeling energies toward national modernization help explain why deflation did not seem, at least at first, like a viable option when the economic situation started to go sour at the beginning of the 1970s (Goodman 1992; Loriaux 1991).

The other reason is that notwithstanding the now commonplace caution about the downside of excessive state involvement in the economy, the course upon which the country had embarked in 1946 had produced quite remarkable results. The performance of the French economy during the first three decades of the postwar period was one of the best among all OECD countries. For a time, France even seemed immune to the international crisis associated with the first oil shock in 1973, continuing to grow at nearly 3% in 1974, while the rest of the OECD remained stuck at 0.3%.

[9] It is now well known that the impact of Keynesian ideas in France was greatly delayed. First, the general prescription for an active role of the state (through industrial policy, e.g.) was old news in the land of Colbert and was thus not perceived as revolutionary (Rosanvallon 1989; Dobbin 1993). Second, the use of budget deficits ran against the traditional fiscal conservatism of elite administrators at the Ministry of Finance.

Early Responses to the Slump

The passage to a floating exchange rate system in 1972 triggered a fundamental reevaluation of the French political economy regime. Indeed, and in contrast to Britain, domestic adjustment under Bretton Woods had been traditionally born by the exchange rate, which successive French governments had selectively manipulated in order to favor export-led growth. As the British case showed, however, under floating rates uncontrolled currency depreciation stood a greater risk of becoming inflationary (Loriaux 1991, pp. 24–31).

This new international logic came to be experienced firsthand in the middle of the 1970s. The right-wing government's initial reaction to the worldwide slump had been to stimulate the economy with a reflation package. Helped by a healthier macroeconomic record than many of its neighbors, unhampered by an independent central bank imposing restrictive monetary policies (as in the United States and Germany), or by IMF conditionality (as in Britain), and under strong political pressure to reflate, France in 1975 embarked on a much more expansionary policy than its major trading partners. However, in the absence of a comparable strategy elsewhere, this course of action rapidly ran into trouble, with the franc being forced to pull out of what was then the European monetary snake and threatening to start a new spiral of inflation and depreciation.[10] In 1976, President Valéry Giscard d'Estaing drew the consequences of the debacle and replaced Prime Minister Jacques Chirac with the "best economist in France"—conservative economics professor Raymond Barre.

In many ways, the appointment of Barre signaled the end of the "French model" (with the exception, of course, of the years between 1981 and 1983, when France tried to revive its "third way"—and failed miserably). The policies implemented after 1976 (and, even more, 1978) were decisively shaped by the constraint of European economic integration (with the humiliation of the franc's pullout of the snake serving as an example not to be repeated), as well as by the desire to emulate Germany's policy successes (McNamara 1998, pp. 69–70). This critical emphasis on anchoring France more firmly in the international (and, in particular, European) economy after the mid-1970s appears quite clearly in the lower portion of figure 3. In essence, European integration pegged France to the country in Europe with the most restrictive monetary policy—Germany—despite the incurring social costs in terms of high levels of unemployment. Monetarism in the French context was thus imposed largely as a by-product of European integration—much less (as in Britain) as a way to solve distributional conflict.

[10] The "snake" is the Common European currency float.

The other area in which the French model came under attack was microeconomics. With the deepening of the economic crisis, the *volontarist* impulse of modernization started losing its imperious character. After the 1978 legislative election, Barre unveiled a set of policies that dismantled price controls, brought down restraints on the business sector, and reduced state subsidies to nationalized industries and ailing firms. All these changes signaled a decisive radicalization in favor of a restoration of the mechanisms of the market economy. In a context highly charged with the consciousness of international competition (with Japanese and American consumer goods flooding the market), the perception was that only a market economy could force French business to make the necessary adjustment to restore its competitiveness abroad.

The Failure of Keynesianism in One Country

Although the conservative government had initiated the breakdown of the French model of macro- and microeconomic regulation, the victory of the United Left at the 1981 presidential and legislative elections suggested that a complete reversal of course was very likely. Implementing its program of "redistributive Keynesianism" in macroeconomics (to be achieved via public sector hires, reduction of the workweek, longer vacation time, increases in social transfers) and restoring the state's role in microeconomics (via a nationalization program and a return to active industrial policy), the first socialist-communist government initially turned toward demand stimulation as a solution for pulling the economy out of the crisis.

Although the policy experienced some (limited) domestic success, particularly on the unemployment front (Hall 1986, p. 195), it was also met by considerable levels of capital flight and a huge trade deficit, both of which fed a massive movement of speculation against the franc (see fig. 1). Between 1981 and 1983, the French currency had to be devalued three times, and was almost forced out of the European Monetary System (EMS). In the face of such massive external turmoil, in March 1983 the government announced an austerity plan of tax increases and spending cuts aimed at curbing inflation and restoring the balance of payments situation.

Like the British decision to accept the IMF package in 1976, the Socialists' turn toward "rigorous" (the program was called the *rigueur*) economic policies in 1983 was not inevitable. France, in fact, could have gone another way. For one thing, the move to austerity would have dramatic political consequences, ultimately splitting the governing majority and throwing the Communists in the opposition. Second, alternatives to the *rigueur* seemed possible still. In fact, an economic plan designed to

insulate the national economy from international pressures through increases in tariffs and capital controls was hotly debated.[11]

Given prior experiences and the political imperative of European integration, however, this other, more autarkic, policy appeared very risky. Austerity was pressed forcefully not only by segments of the government and the high administration (such as the then-director of the French Treasury, Michel Camdessus), who feared the country's depleted reserves would be insufficient to resist another speculative attack,[12] but also by foreign institutions, most prominently France's European partners—worried at the perspective of a collapse of the EMS—and the U.S. government, which from the very beginning had regarded the French experiment with considerable skepticism (Helleiner 1994, pp. 140–41).

In that respect, the broader significance of the French government's about-face, beyond its character of urgent response to a very pressing crisis, lies not so much in the implementation of austerity itself, as in the *exclusion of alternatives*. In 1983, the establishment of a new policy regime was understood as a vital discipline for a successful insertion of France into the European and international economies in a highly volatile environment, and from then on it took precedence over other commitments (e.g., democratic equality or full employment). Nothing is a better testimony to this abandonment of political vision in the name of economic efficiency than the narrowing of the ideological gap between the left and the right, whose economic stance became barely distinguishable during the 1980s (Théret 1991).

In spite of a dominant political discourse that remains highly defiant of market liberalism, and considerable intellectual and popular turmoil around the *pensée unique* (single doctrine) of the governing elite and the Bank of France (itself recently prolonged by a powerful social movement against "globalization"; see Meunier 2000), France has thus proceeded apace in reforming its institutions to meet the discipline of the global markets (Schmidt 1996; Gordon and Meunier 2001). The program of "privatization" of publicly owned companies, started by right-wing governments in 1986–88 and 1993–97 but later extended by the returning Socialists, the liberalization of the financial sector (completed in 1986), the establishment of central bank independence (1993), and the commitment to the Maastricht target limiting budget deficits to 3% of GDP—but also

[11] Between 1982 and the spring of 1983, a number of government members and presidential advisers —nicknamed the "evening visitors" because of their tendency to meet with the president at night—actively promoted a strategy of protectionism, tight exchange controls, and exit from the EMS (Helleiner 1994, p. 143; Attali 1983).

[12] See Helleiner (1994, p. 194). Camdessus was subsequently director of the IMF from 1986 to 2000.

a number of microeconomic initiatives destined to "flexibilize" an economy and labor market perceived as too "rigid" (Schmidt 1997, p. 40)—must thus be seen in light of this pragmatic conviction of the governing elite that only market-based policy instruments can allow the French economy to survive in a neoliberal international economic order.

The Vehicles of the Neoliberal Transformation in France

Still, there remains something puzzling about the transformation, which took place in the homeland of state-led development. However dramatic, real-world "encounters" with the new environment of the post–Bretton Woods era (such as the 1976 and 1983 crises) are only part of the explanation of the French commitment to neoliberalism. Indeed, neoliberal ideas did not possess strong organizational bases in French society (in contrast with Britain or the United States). There is no French equivalent to the influence of the British newspapers and financial sector or to the role of U.S. think tanks. Neither has the French right wing been really comparable to the ideological movements, which brought Margaret Thatcher and Ronald Reagan to power.[13]

The French revolution, indeed, was much more silent. It took place without much fanfare, behind the scenes, within the technocracy and the political elite. Nor did it encounter much social opposition: with the left in power during much of the period, the unions were essentially pacified (Chapman et al. 1998). To be sure, neoliberalism had its preachers, identified as the *Nouveaux économistes*. For the most part, however, they remained isolated and were never able to generate a true social movement behind their ideas nor to motivate the business world to lend them financial support (Fourcade-Gourinchas 2000). Instead, neoliberalism in France emerged as a process of pragmatic normalization that was carried in the name of modernity and progress. In particular, the higher administration (both in the generalist and technical grades) came to see in the internationalization of the French economy (via integration with Europe in particular) the means to pursue its historic mission of modernization and free the "stalled society" (Crozier 1973) from its rigidities. From the 1970s on, this shift in orientation was perceivable, for instance, in the transformations of economics teaching at the prestigious National School of Administration (ENA), which started to follow a neoliberal orientation (Kesler 1985, pp. 393–94; also see Lebaron [2000] on the evolution of the National School of Statistics and Economic Administration, or ENSAE).

[13] As a matter of fact, the only minister of finance who tried to claim his personal affiliation with free market ideas, Alain Madelin, was promptly fired in August 1995 after only three months in office.

Compounded with the politicians' tendency to defer to the high administration in matters of policy making and with the fact that a great proportion of the governmental elite (esp. ministers, secretaries of state, and members of ministerial cabinets) is also composed of high functionaries,[14] these facts suggest that a fairly large sector of the state had been exposed to the new economic ideas by the time the socialists assumed power (Théret 1991, pp. 363–66).

GLOBAL TRENDS, NATIONAL INSTITUTIONS, AND INDIVIDUAL PERCEPTIONS

This article has been a study in global trends and national peculiarities. The four countries we examined diverge on a number of critical characteristics, such as political regime, level of economic development, and cultural tradition regarding the role of the state versus the market. These differences notwithstanding, in many respects Chile, Mexico, Britain, and France converged toward a set of economic policies that emphasized the role of markets in economic regulation, promoted the free trade of goods and capital, and prioritized the fight against inflation, increasingly by means of an independent central banking institution.[15]

Social Learning in the Global Village

Our case studies suggest that this set of policy *choices*, often identified as a "neoliberal" policy consensus because of its affinity with classical economic liberalism, was rooted in the constraints imposed by the rise of a global—and increasingly volatile—financial order, which limited the range of policy options available to governments around the world (Boyer and Drache 1996; Loriaux 1997*b*). This altered transnational economic order changed not only the way policies were made, but also the way politicians, technocrats, academic experts, and even democratic electorates thought about policy. A form of what Hall (1993) calls "social learning," we argue, took place in this global village, not only as a result of the direct imposition of ideological frames devised elsewhere (although that aspect played a nonnegligible part, as the Mexican and Chilean examples demonstrate), but as an outcome of practical encounters with elusive and powerful real-world events (e.g., currency crises, oil shocks), combined with clear political choices in a global and open era (e.g., the maintenance

[14] "Les énarques omnipresents," *Le Monde*, June 6, 1997.

[15] The Central Bank of Chile was made legally independent in 1989; the Bank of France, 1993; the Bank of Mexico, 1994; the Bank of England, 1997.

of the sterling's international position, the construction of a European economy, or the integration into the global division of labor). In all cases, acute balance-of-payments crises demonstrated to local actors the impossibility of pursuing a nationalist economic policy in isolation from the broader international environment. The Chilean hyperinflation and balance-of-payment crisis of 1973, the pound crisis of 1976, the Mexican debt crisis of 1982, the failure of the reflation under the first French Socialist government, are all examples of such encounters.

Our purpose is not to deny the importance of ideological factors in the diffusion of the "market paradigm," but to underline the latter's interaction with real-world events. Market-based policies were constructed as providing a ready-made "solution" for combining the constraints imposed by the global economic and financial order with a "workable" national strategy. As an ideological force, the neoliberal creed was self-reinforcing, in the sense that there "were no alternatives" simply because everybody believed this, and acted upon this belief. Thus, when faced with the choice between yielding to the neoliberal discipline supported by international financial markets and constituencies, and attempting a more protectionist, domestically centered, economic strategy, political decision-makers in all four countries resolved in favor of the former, legitimating market reforms as an inevitable course imposed upon them by an increasingly globalized economy. In keeping with Polanyi's (1944) observations, we find a strong affinity between the shape of the world economy (here, global), and the ideology sustaining it (the free market).[16]

Neoliberalism and the Rise of Economists

In this article, we have also emphasized the varied national paths leading to the adoption of a neoliberal strategy, and the variant conceptions of why such changes were deemed necessary. One persistent difference, naturally, is that between developing and developed nations. Thus while we hope to have convincingly shown that all countries—not simply developing nations—are subject to the discipline of international financial constituencies, we still believe that countries' margin of maneuver in the face of a balance of payment crisis can be highly unequal. For instance, the IMF package to salvage the pound in 1976 caused some turmoil among developing nations, which found the "conditions" imposed upon Britain

[16] From this point of view, the end of the 19th century bears a certain resemblance with our current era. Indeed, the glorious days of "laissez faire" and classical liberal theory were associated with a very open international trade regime (dominated by Britain) and large and erratic international capital movements (Bairoch 1996; Helleiner 1994).

to be much softer than those they themselves had to abide by in order to secure similar assistance (Harmon 1997).

In sum, position in the world system has important consequences for the mechanisms through which neoliberal paradigm shifts occur. There is little question that poor nations are particularly prone to having their economic policies imposed from without, rather than developed from within. More acute external pressures in medium-income developing countries such as Mexico and Chile tend to make the state more porous by allowing actors with external forms of legitimation (e.g., doctoral degrees in economics from American universities) to turn their linkages with foreign constituencies into valuable assets for entry into the higher technocracy at the expense of the traditional professions of law and engineering (Centeno 1994; Montecinos 1998; Schneider 1998; Markoff and Montecinos 1993; Babb 2001; Dezalay and Garth 2002). In the cases of Chile and Mexico, this "technocratization" of economic policy making was facilitated by nondemocratic regimes. However, neoliberal transitions in less developed democracies (such as that of Brazil and Argentina after 1990) were also accompanied by the rise of U.S.-trained economists in government (Domínguez 1997). By contrast, neoliberal reforms in wealthy nations were *not* accompanied by such a profound transformation of the professional structure of the higher technocracy.

Two Routes to Neoliberalism?

At the same time, our study suggests a very different dimension of cross-national variation—one, interestingly, that cuts across the dividing line between developed and developing countries, as well as regime type. Chile and Britain exemplify two cases of what we may call the "ideological road" to neoliberalism, in which neoliberal commitments were at once early, radical, and highly politicized. In many ways, Mexico and France represent two instances of a much more "pragmatic" transition.

First, the intellectual force that inspired the Chilean and British monetarist "revolutions" during the 1970s was very radical—and was supported by actors and theories who, at the time, held a minority position within the field of economics. In contrast, neoliberal transitions in both Mexico and France were more tame and reflected an emerging consensus among the economics profession worldwide. Second, the free-market projects in Britain and Chile both had strong moral overtones, which combined with a fiercely repressive attitude in social and political affairs.[17] This "prophetic" dimension was largely absent in Mexico and France:

[17] Some authors, e.g., Wacquant (1999), have suggested that this repressive attitude is an essential part of the neoliberal mode of economic regulation.

neither were Mexican nor French technocrats appealing to the idea of creating a better society built on the ethics of the market. Third, in contrast to Britain and Chile, where neoliberal intellectuals burst on the public scene from a previously marginal status and market reforms were implemented by a new party (or even regime) in power, both Mexico and France had "revolutions from within." Thus economic liberalization was carried out by the same governing parties that had earlier advocated state-led expansion as a response to the economic crisis.

Fourth, and finally, the extreme versions of neoliberalism that were implemented in Britain and Chile were subsequently viewed as impractical and eventually considerably toned down. In Chile, this occurred after 1981, when the fixed peso-to-dollar exchange rate contributed to a massive balance-of-payments crisis, ruinous domestic interest rates, and a drastic economic downturn: official statistics reported a GDP collapse of 14.1% in 1982 (Kurtz 1999, p. 419). This caused the most orthodox version of monetarism to become discredited and a more moderate version of neoliberalism to be followed thereafter. The British turn toward pragmatic neoliberalism is usually dated from 1983, when the Thatcher government openly abandoned strict monetary growth targets as the means to conduct policy (Oliver 1997). Thus, although the neoliberal policies subsequently adopted in France, Mexico, and in many other nations around the world bore a general resemblance to the Chilean and British experiments, the ideological "edge" was gone. Monetarism, as a political project, was dead; what remained was neoliberalism, a much broader set of common understandings concerning the best way to run an economy.

What accounts for these different types of neoliberal transition, we believe, are two very different kinds of historical institutional legacies and, consequently, different politicoeconomic dynamics in the periods leading up to the neoliberal transition. We summarize these differences and their outcomes in table 2. In both Mexico and France, highly technocratic, directly interventionist states successfully mitigated social conflict during the postwar period and created the conditions for strong economic growth. For the purpose of this article, the most important result was a relative social consensus on wages, which limited inflationary pressures, as well as a political consensus on the ultimate authority of the technocracy in economic matters. Altogether, business (especially large businesses) generally accepted (and benefited from) the type of economic modernization that was promoted by the state, which was for a long time also vindicated by high levels of economic growth.[18]

[18] This is related to an institutional feature Peter Evans (1996) famously described as the "embedded autonomy" of the state in the social structure, and which refers to the close interpenetration between the business sector and the administration. See Schmidt (1996) on France, Thacker (2000) on Mexico.

TABLE 2
A Comparison of Neoliberal Transitions

	Chile	Britain	Mexico	France
Balance-of-payment crisis	Yes	Yes	Yes	Yes
Inflation	Hyperinflation	High relative to neighbors	Low	Medium relative to neighbors
Social conflict (strikes)	Very high	High	Low	Medium
Business support for neoliberal ideas	High	High	Mixed	Low
Origin of neoliberal ideas	Political	Political	Technocratic	Technocratic
International opening	Very rapid after transition	Already very open	Progressive before and after neoliberal transition	Progressive before and after neoliberal transition (common market)
Outcome	Ideological transition, 1973–79	Ideological transition, (1976) 1979–83	Pragmatic transition, 1985–	Pragmatic transition, 1978 and 1983–

The predominance of technocratic leadership on economic issues also explains why the transition to neoliberalism took place relatively late, and in a pragmatic manner in Mexico and France. In both cases, the experience of crisis convinced the higher administration that the modernization goal could only be salvaged through further integration with the global economy, which, by ruling out alternatives, promoted the gradual acceptance of the neoliberal creed. But this transformation came largely from within: in sum, the rhetoric of the market provided the technocracy with the tools to rearticulate its historical political project within a new global context. By contrast, the same event in Chile and Britain involved a more complete political redefinition.

Part of the reason for this is that neither Chile nor Britain experienced a similar level of consensus during the postwar period. On the contrary, both countries exhibited a combination of mediocre economic performance (at least in relative terms), higher levels of inflation, and deep political and social conflict. In the British case, this situation fueled a growing defiance of economic sectors (both labor and private) against the state, which grew dramatically after the failure of the corporatist experiment

in the 1960s.[19] In Chile it led to a political crisis of even more intense proportions. In both countries, segments of the business and financial communities came to lend their support to political projects that sought to promote a more advantageous (for them) economic strategy. One of the critical aspects of the "monetarist revolution," which gave it much of its political appeal, was its willingness to redefine inflation as the central economic issue faced by the country, and its promise to break the power of the working class and labor unions that was largely seen as one of the main causes of escalating prices.[20]

This article has demonstrated that the challenges of globalization are met differently by different nations (Biggart and Guillén 1999; Guillén, 2000). While four very different countries all underwent a neoliberal transition as global conditions changed and they faced a series of sometimes dramatic balance of payments crises, they came into the new environment with strikingly different institutional and cognitive legacies. The legitimacy of the market was constructed through the interplay between national and international dynamics, between distinctive national histories and experiences, on the one hand, and different modes of interaction with the international economy, on the other. The rebirth of the liberal creed certainly was a normative process, but it was not "normal" in any way. If policy elites in Chile, Britain, Mexico, and France, all acted out of a common belief that they had to make their economies more market and free-trade oriented, their understanding of why abiding by this "norm" was warranted and how the norm should be implemented varied considerably across nations.

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[19] However, this defiance could also rely on a long history of mutual suspicion between technocrats and the business community (Dobbin 1994): e.g., Britain's successive attempts at comprehensive industrial policy in the 1960s and 1970s failed repeatedly.

[20] In part, then, this article can be read as a call for sociologists to revisit the old "structuralist" literature on inflation, which understands the behavior of prices largely as a consequence of sociopolitical dynamics—not as a purely monetary phenomenon (see Sunkel 1958 and Seers 1962 for classic statements about structuralism).

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