Historical Efficacy of Ideas, Ideological Work, and Economic Policy: Chile, 1975—1994*

Kurtuluş Gemici

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ABSTRACT

Though existing scholarship analyzes how ideas affect policy-making, there is an absence of theoretical elaboration on why some ideas have more historical efficacy than others. This article advances a set of propositions on the dynamic links between ideas and policy by investigating the logic of ideological struggle in the field of economic policy. It introduces a theoretical framework that relates competition between different ideological carriers to the power struggles and relations of domination that enable access to authority in policy-making. This framework is used to compare and explain the efficacies of radical neoliberalism (promoted by the Chicago Boys) and pragmatic neoliberalism (advocated by the CIEPLAN Monks) in shaping two distinct regimes of openness to international capital inflows in Chile between 1975 and 1994. Using historical data, macroeconomic aggregates, and interviews with key Chilean policy-makers, the analysis shows how particular constellations of ideological, economic, and political power underlay the authority of the Chicago Boys and the CIEPLAN Monks, and how and why such power struggles produced different capital mobility regimes.

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> The categories of perception, the schemata of classification, that is, essentially, the words, the names which construct social reality as much they express it, are the stake *par excellence* of political struggle, which is a struggle to impose the legitimate principle of vision and division, that is, a struggle over the legitimate exercise of what I call the 'theory effect.'
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> Pierre Bourdieu, *In Other Words*, p. 134.

> Economic theories prevail . . . only when they have mobilized political authority, that is, only if those who believe the theories get the resources that enable them to take authoritative action.
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> Peter Gourevitch, *Politics in Hard Times*, p. 54.

Introduction

There is an extensive and cross-disciplinary literature on the relationship between ideas[1] and economic policy (Berman 1998; Blyth 2002; Campbell 1998, 2002; Haas 1992; Hall 1989; Rueschemeyer and Skocpol 1996; Weir and Skocpol 1985). Despite its richness, this literature focuses overwhelmingly on how ideas and knowledge structures impact policy-making. With the exception of a select number of studies (Dezalay and Garth 2002; Fourcade-Gourinchas and Babb 2002; Hall 1993; McNamara 1998; Somers and Block 2005), the majority of the scholarship on this subject is silent on the fact that "ideas get selected, modified, or ignored depending on constellations of power" (Campbell and Pedersen 2008: 4). The existing literature aims to explain how policy changes with respect to ideas, but why certain ideas win and others lose in this process is seldom explored. The warrant for focusing on this question derives from the fact that ideas do not always shape policy-making, and that not all ideas have an influence on economic policy. As Swidler (1993) notes in the context of Weber's sociology of religion, investigating the variation in the power of ideas in particular historical settings—the historical efficacy of ideas—is as important as studying how ideas guide action.[2] Accordingly, in this article I develop a set of propositions concerning the historical efficacy of ideas in shaping economic policy and examine these propositions in the context of a crucial case in the global history of neoliberal reforms—Chile between the 1973 military coup and the early years of transition to democracy in the 1990s.

[1] In this article, I use "ideas" as a term that comprises cognitive paradigms, normative frameworks, and programmatic prescriptions, following Campbell (2002). Cognitive paradigms involve claims about how the world is and how it works, whereas normative frameworks give guidelines on how to weigh different objectives and how the world ought to be. Programmatic prescriptions are precise statements about instruments that should be used to achieve a given effect in policy settings. They can be thought of as a subcategory of cognitive paradigms, much more restricted in their comprehensiveness.

[2] I borrow the notion of "historical efficacy" from Bourdieu (1987), who discusses it in the context of religious beliefs and legitimation.

In analyzing the currency of different ideas, I introduce a comprehensive theoretical framework that explains the historical efficacy of ideas through a number of factors: authority relations in the field of economic policy, resources mobilized by carriers of economic ideologies, ideological work performed by organizational carriers, and how such ideological work provides comparative advantage to certain carriers by enabling economic cooperation and domination as well as political legitimation and coalition-building. This theoretical framework draws attention to the enactment and reproduction of knowledge and ideas in a field populated by distinct ideological carriers (Weber 1978: 512) and knowledge-bearers (Skocpol and Rueschemeyer 1996) who compete in order to gain political and bureaucratic authority in economic policy-making—i.e., the direct and indirect authority to regulate the production, allocation, and consumption of goods and services.[3] I explain the process of competition for direct and indirect authority in the field of economic policy and the outcomes such competition bears by resources mobilized by ideological carriers and the elective affinities between their ideological work and the organization of economic and political power. I specify a number of mechanisms that shape the elective affinities between ideological work and a particular source of social power.

I employ this analytical framework in the analysis of openness to international capital flows in Chile, which had been one of the earliest countries to implement neoliberal ideas and which has a long history of engagement with different types of neoliberalism. Capital inflows are both a blessing and a curse for developing countries like Chile. On one hand, capital inflows give these countries access to scarce capital at low prices in the world markets. On the other hand, opening to capital inflows takes away policy autonomy, preventing developing countries from formulating policies that aim at industrial transformation and full employment through monetary and fiscal policies. Furthermore, it increases their vulnerability to the vagaries of international and underdeveloped domestic financial markets.

Accordingly, in this article I focus on explaining two distinct policy outcomes regarding the regulation of global capital flows by the Chilean state. I conduct this analysis by comparing the development of two episodes of capital flow management in Chile. The first period studied is the financial opening between 1978 and 1982 that brought the 1982 financial meltdown. The second period analyzed is 1991—1998, when controls—the most important being an unremunerated reserve requirement (the *encaje*)—were imposed on capital inflows.

These two periods were characterized by the role of two different groups of ideological carriers, who embraced different sorts of neoliberalism in their quest to modernize and reform the Chilean economy. Radical neoliberalism, brought to the Chilean political scene by the famous Chicago Boys, involves one of the most extreme and pure forms of market fundamentalism. Its guiding philosophy is rooted in the proposition that the impersonal and

[3] This conceptualization relies on a widely agreed definition of politics. As Pierson (2000: 259) expresses: "Politics involves struggles over the authority to establish, enforce, and change the rules governing social action in a particular territory." I extend this understanding of politics to the field of economic activities, which involves the production, allocation, and consumption of goods and services.

decentralized mechanism of market should govern all social relations, and that the state has no a priori role in economic life. In contrast, pragmatic neoliberalism, which became the dominant economic doctrine with the rise of the CIEPLAN (*Corporación de Investigaciones Económicas para América Latina*) Monks, sees market as a potentially efficient form of resource allocation mechanism that fails in various occasions in real life.[4] As a consequence, pragmatic neoliberalism assigns a positive role to the state: it accepts the regulation of markets as a necessary and welfare-enhancing instrument that can be performed only by the state.[5]

This article begins by outlining the theoretical framework, research design, and case selection that guide the empirical analysis. After offering a preview of the empirical argument, I first analyze the historical development of the unrestricted capital mobility regime between 1978 and 1982 under the radical neoliberalism of the Chicago Boys. I then trace the declining authority of radical neoliberalism and the emergence of pragmatic neoliberalism following the 1982 financial crash. Subsequently, my analysis focuses on the implementation of capital controls in 1991, when voluntary capital flows returned to Chile. I conclude with a discussion of the theoretical and empirical findings.

Theory: Historical Efficacy of Ideas and Authority in the Field of Economic Policy

Partly as a result of the conflict between approaches that emphasize interest-driven explanations (where interests are conceptualized in a narrow fashion and in opposition to ideas) and historical institutionalism that pays attention to the role of ideas in policy-making, a great deal of intellectual energy has been spent on showing how ideas influence economic policy (Campbell 1998, 2002; Yee 1996), rather than on analyzing why certain ideas have more historical efficacy than others. This literature yields important insights. First, it points out that cognitive paradigms are essential resources in diagnosing policy problems and identifying objectives of policy (Hall 1993). As a consequence, comprehensive cognitive paradigms are indispensable tools to address uncertainty about a certain policy issue (Blyth 2002). Second, normative frameworks suggest how to evaluate the merit of certain policy objectives and tools vis-à-vis others (Haas 1992; Campbell 1998). In this capacity, normative frameworks enable policy action by making otherwise incommensurable goals comparable. Third, this literature shows that ideological carriers and knowledge bearers are central actors in policy-making and policy change, especially in times of crisis and uncertainty (Blyth 2002; Skocpol and Rueschemeyer 1996; Weir and Skocpol 1985). A great deal of empirical

[4]The name "CIEPLAN Monks" was coined by Fernando H. Cardoso (Silva 1991: 386).

[5]Thus, in this article I build upon the work of Silva (1991), who examined the transition from the reign of the Chicago boys to that of the CIEPLAN Monks. I extend the analysis presented in that article in several directions, most importantly to the issue of the different economic doctrines' currency in economic policy-making; and I investigate the consequences of this transition for the management of capital flows in Chile.

research documents that in different time periods and parts of the world, from Fabian Society intellectuals to German social scientists in the *Verein für Sozialpolitik* and to technocrats and technopols in Latin American countries, a constant aspect of policy change is the pivotal role played by different ideological carriers (Dezalay and Garth 2002; Domínguez 1997; Rueschemeyer and Van Rossem 1996; Williamson 1994). However, an important question is left unexamined. What determines the comparative effectiveness of certain ideas over others, given the fact that not all ideas influence economic policy? Four different streams of scholarship on the role of ideas in policy-making implicitly address this problem.

The first one, *powering*, which is predominantly influential in historical institutionalism within political science and international political economy, exposes the role of ideas in policy-making by identifying power struggles among different social groups within and over public institutions (Blyth 2007). It is possible to identify several variants, attributing more power to certain variables over others. For example, Gourevitch (1986) pursues what he calls a "political sociology of political economy," by which he means the analysis of political coalitions among civil servants, interest groups, and most importantly economic actors that provide support to particular economic ideas (19–20). The explanatory power here is on the side of coalitions among different social groups. In contrast, Weir and Skocpol (1985) stress the state as an arena of autonomous action, and thus analyze the complex processes through which state structures shape power struggles as well as policy outcomes.

The second one, *puzzling*, looks at policy-making as a process of social learning (Heclo 1974; Hall 1993). The emphasis is on identifying social paradigms that define courses of action in policy circles, and how these paradigms change over time. As Hall (1993: 278) defines, social learning is "a deliberate attempt to adjust the goals of policy in response to past experience and new information." Consequently, the process of problem-solving takes the central stage. This approach enables the analysis of policy change and the role of ideas in such change by investigating both state-structures and power struggles among different social groups, depending on where and how puzzling and learning occur (state vs. broader social arena). Furthermore, Hall's formulation of the social learning approach recognizes that one finds both continuity and discontinuity in the world of economic policy. As a result, he envisages policy change admitting an incremental process as well as major breaks such as the shift from Keynesian to monetarist paradigms (1993).

The third one, *the rational-choice approach to ideas*, emerges from the disciplines of international relations and international political economy. In an influential contribution to this literature, Goldstein and Keohane (1993) argue that ideas order the universe of possible action, the morally acceptable courses of action, and the means-ends relationship between preferences and ends (3, 8–9). As a result, they reach the conclusion that ideas shape policy because (1) they "serve as road maps," (2) they enable cooperation and coordination among individual and collective actors in strategic action situations, and (3) they structure incentives whenever they are embedded in institutions (12–13).

The fourth one, *ideational embeddedness* (Somers and Block 2005), finds its origins in the fields of economic sociology and sociology of ideas. In their contribution that coins the term, Somers and Block (2005: 261) aim to unearth "the *causal mechanisms* that allow certain ideas to exert extraordinary political influence." That they do by focusing on the mechanisms of ideational embeddedness: epistemological infrastructures, epistemic privileges, and internal claims of veracity of certain ideas in comparison to others (Somers and Block 2005). Such causal mechanisms allow these authors to examine how ideational re-embedding underlies ideational battles and thus ideational regime change.

Despite being quite illuminating, each one of these perspectives exhibits shortcomings. Powering makes the role of ideas derivative of power struggles in society (Blyth 2002), which ignores that ideas are both *resources in* and *stakes of* power struggles. Puzzling makes policy-making a rather benign process of problem-solving, whereas ideas and policy solutions they guide are never free of the interests of particular social groups. In the rational choice approach, it is not clear why some ideas are more effective than others in serving as road maps or solving action problems, which begs the question. Ideational embeddedness, by emphasizing ideational mechanisms, fails to see that ideological battles are intimately related to economic and political struggles.

An alternative approach, based on Weber's comparative studies of religion (1978) and Bourdieu's political economy of social practices (1990b), offers an encompassing perspective that can incorporate the insights of the existing scholarship as well as address its fault lines. Its main propositions are as follows.

Following Bourdieu (1985, 1996), I view state institutions and organizations where economic policies are shaped as a social space that is characterized by struggle over representations, schemas, and symbols to define economic life, the objectives of economic policy, and its instruments. With the rise of the modern nation-state, the power to regulate economic activities and to determine the levels of key macroeconomic aggregates is monopolized by the state and organizations affiliated with the state (Mann 1986; Polanyi [1944] 2001; Poggi 1990; Roy 1997). As a consequence, the power to regulate economic activities and determine key macroeconomic aggregates is institutionalized in specific power and authority relations within state structures and organizations.[6] This historically specific organization of economic policy-making suggests that the structure of economic policy-making in modern nation-states is best described as an organizational and intellectual field—"[a socially constructed arena] within which individuals or groups with differing resource endowments vie for advantage" (Fligstein 2008: 6).

The main stake in this struggle is obtaining prestige, recognition, and the legitimate

[6]In this article, power denotes "transformative capacity"—the capacity to transform nature and secure the performance of other actors (Giddens 1979: 88; Marx 1978: 225–227; Mann 1986: 6; Parsons 1963: 237; Weber 1978: 53). Authority is the institutionalization of a certain power relation; it involves the right to use power by virtue of occupying a certain position in the network of interactions and organizations that constitute the field of economic policy (Bourdieu 1969: 105; Parsons 1963: 243). In other words, if, following Parsons (1963), power can be conceived as a generalized medium akin to money (Mann 1986), a similar analogy can also be established between authority and credit, following Bourdieu (1976, 1977, 1987). This amounts to seeing authority as a special kind of capital, which itself emerges from occupying a particular social position.

authority to set rules and regulations that pertain to economic life, as demonstrated by Gourevitch (1986).[7] The main actors in this struggle consist, increasingly, of professional economists and bureaucrats with a technical education in economics. Following Weber (1978: 512), I see them as *ideological carriers* who have command over a technical (and esoteric) body of knowledge not easily accessible to the layperson. These ideological carriers use ideas and expertise in order to secure access to authority positions within the organizations of policy-making.[8]

The labor of these actors involves the dissemination of classifications and schematizations pertaining to economic life as well as the provision of instruments to alter it. Economy, economic policy, and the instruments of economic policy can be defined in a number of ways. Obviously, there is a difference in seeing economy as populated by individual economic agents versus seeing it as consisting of classes. Different economic doctrines are different generative schemas to classify economic life and to assign differential weights to objectives that can be pursued in it. In other words, classifications such as the invocation of profit versus surplus-value and labor contract versus exploitation are not disinterested. To the contrary, ideological carriers, through their labor, provide legitimacy for policies that disproportionately benefit certain social groups.

Accordingly, ideological competition within the organizations of policy-making is not independent of the economic and political struggles and relations of domination that are external to the field of economic policy.[9] The chances of obtaining authority within the field of economic policy are closely related to economic and political struggles in society, and especially to class struggles. Struggles that are external to the field of economic policy matter because they structure the field of competition, creating channels of inclusion and exclusion. Furthermore, economic and political struggles provide material and symbolic capital to ideological carriers, which increase their chances of success in obtaining authority within the field of economic policy. Thus, while ideological carriers gain prestige, recognition, and

[7]The relative lack of attention in the literature to authority is surprising, because as Hall (1993: 280) himself points out, authority is a crucial determinant in policy paradigm shifts: "Issues of authority are likely to be central to the process of paradigm change. . . . The movement from one paradigm to another is likely to be preceded by significant shifts in the locus of authority over policy." Despite the influence Hall's article on social learning (1993) exercised in the field, few authors followed his insights on the importance of authority in the field of economic policy (Dezalay and Garth 2002; Fourcade-Gourinchas and Babb 2002).

[8]It should be recognized that indirect authority can be as effective as direct authority. The following passage from Schmoller (taken from Rueschemeyer and Van Rossem 1996: 123) is an excellent example of the importance of indirect authority in the field of economic policy: "Today the Verein für Sozialpolitik dominates the people who govern. And that is the essential thing. . . . The decisive people in the Imperial Office of the Interior were during the last ten years Caspar and Wiedenfeld; they take our position completely. And the ministers Bülow, Posadowsky, Bethmann, Delbrück basically do the same; they just cannot announce it as openly as we do, because they would too much irritate agrarians and feudalists as well as the barons of coal and iron."

[9]In line with following Fourcade's (2009: 23–24) generalization concerning intellectual fields, the twin insights that "(1) every intellectual field is stratified according to the nature of the competition that takes place within it, and that (2) these internal struggles are related to external struggles in society as a whole" are applicable to the field of economic policy as well.

material resources—in other words both symbolic and material capital and profit—from their associations with dominant political and economic groups, their ideological work provides legitimation for economic and political relations of domination.

Research Design and Case Selection

In line with the theoretical framework presented above, I conduct the investigation of the relation between authority in the field of economic policy and the nature of implemented economic measures at two complementary levels of analysis. The first level involves a historical sociology of authority relations in a given field, and my method of inquiry is within-case causal process observation (Collier, Brady, and Seawright 2004). By employing this method, I aim to reconstruct the generative mechanisms (Bhaskar [1975] 1978; Elster 1989; Machamer, Darden, and Craver 2000; McAdam, Tarrow, and Tilly 2001; Salmon 1984; Stinchcombe 1991) producing authority in the field of economic policy. In other words, I seek to examine the events, processes, and organizational forms that lead to the production, destruction, and reproduction of power relations that culminate in securing authority positions for a group of ideological carriers in the field of economic policy. The second level involves a comparative analysis of authority and economic policy. Here, I look at whether or not economic policies on a well-defined issue (capital mobility) vary with authority relations, and whether causal significance can be attributed to this co-variation. As such, my inquiry focuses on different data points (in this essay, historical episodes culminating in different capital mobility regimes). For both types of inquiry, I utilize a variety of strategies to assess the causal bridges linking historical events, processes, and phenomena to authority relations and economic policies implemented. These strategies include, among others, the examination of macroeconomic phenomena through statistical data, Verstehen aiming to unearth the intentions and motivations of relevant social actors by employing process observation as well as interview data (Bransen 2001; Weber 1949), and counterfactual analysis.

Chile stands as the ideal case for carrying these two types of inquiries. First, the long history of engagement with neoliberalism (from 1975 onwards) provides a rare opportunity to investigate the production and reproduction of authority relations in the field of economic policy. Second, while the field of economic policy was monopolized by the famous Chicago Boys between 1975 and 1982 (the ideological carriers of radical neoliberalism, as will be explained below), macroeconomic pragmatism replaced the radical neoliberalism of the Chicago Boys between 1984 and 1988. With the fall of the Pinochet regime, pragmatic neoliberalism advocated by another famous group of economists, often called the CIEPLAN Monks after their association with a think-thank with Christian-Democratic leanings, gained currency. Third, Chile faced two episodes of a surge in global capital inflows with similar characteristics (1977—1982 and 1989—1991). In each episode, the surge came after a period during which Chile received negligible amounts of capital inflows. In each instance of rising capital inflows, the amount of finance capital was sizeable with respect to the Chilean GDP.

Furthermore, in both episodes the private sector rather than the state was the main recipient of the inflows. Fourth, the Chilean authorities implemented divergent policies in response to surges in capital flows. The period between 1977 and 1982 was the period of almost unrestricted openness. In contrast, Chilean policy-makers reacted to the surge between 1989 and 1991 by implementing policies that aimed to limit capital inflows to Chile. Finally, Chile is, arguably, the most famous case of neoliberalism's rise in the developing and emerging world. As such, it has been a test-case for the implementation of ideologies developed and nurtured in the United States by groups of local ideological carriers and entrepreneurs, who employed cultural capital and ideological legitimacy obtained abroad to put into effect significant economic and social transformations. Deciphering the transmutations and reproduction of neoliberalism has a broader significance for understanding the past and future influence of particular economic doctrines in other developing and emerging economies.

Radical and Pragmatic Neoliberalisms

Although the current discussions of neoliberalism as an ideology and economic doctrine uses the term in the singular (Harvey 2005), it is crucial to observe that neoliberalism is not a monolithic body of ideas and values. In fact, neoliberalism involves various different modalities that are best analyzed as a family of thought rather than a singular ideology. I distinguish between two variants of neoliberalism that have strongly impacted Chilean economic policy since 1975: radical neoliberalism and pragmatic neoliberalism.[10]

Radical neoliberalism's originality lies in (1) a narrow conceptualization of liberty and freedom, (2) extending modern economic analysis[11] to all areas of social activity, and especially to the sphere of the state and political economy, and in (3) denying an active role to economic policy through monetarist doctrines and rational expectations approach. First, liberty and freedom are defined with respect to the market: freedom is the ability to fulfill wants and needs through contractual exchange in the marketplace (Hayek 1960; Friedman 1962). Second, all social relations—including political, familial, and affectionate—are seen as analogous to market exchange among atomistic individuals. In other words, there is no

[10] My classification follows the works of Fourcade-Gourinchas and Babb (2002) and Prasad (2005), who explore such economic doctrines in the context of other developed and emerging economies.

[11] In modern economic analysis, the starting point is the individual, who is assumed to be rational. The individual is self-sufficient and isolated in her decisions, her wants and needs are captured by the utilitarian calculus, and she reaches decisions by maximizing her utility. Market exchange of goods and services between two individuals is assumed to be contractual and governed by the price mechanism. Because prices convey essential and complete information about desired goods and services, and because exchange is contractual, market exchange is Pareto-optimal. The existence of private property is an assumed natural condition of markets. If markets are competitive, there is a unique equilibrium, which is also an efficient allocation of resources. The codification of this conceptual machinery can be found in Samuelson (1947), Debreu (1959), and Arrow and Debreu (1954). An extended and mathematically rigorous exposition can be found in Mas-Colell, Whinston, and Green (1995).

civil society except the marketplace. Since markets attain an equilibrium that is Pareto-optimal and that provides an efficient allocation of resources, radical neoliberalism draws its most audacious conclusion: all social life, including the public realm and the state, should be governed by rules similar to market exchange. In other words, there is no a priori reason for the state to exist, because market society can achieve a better governance outcome (Lepage 1978). The state, robbed of its raison d'être, should be avoided and replaced by markets whenever possible. Third, monetarist teachings emphasize that fiscal policy is ineffective, that an active monetary policy aiming to boost employment leads to inflation, and that the best economic policy is to follow a minimal set of rules such as increasing the money supply at a "natural rate" of 3 to 5 percent annually (Friedman 1961, 1968).[12]

Radical neoliberalism contains a remarkable level of doctrinaire purity. Overall, from various different angles, it reaches the conclusion that the market as a governance mechanism is superior to any other governance institution. As such, radical neoliberalism strictly advocates for placing authority on the impersonal and diffuse mechanism of markets rather than the state.

In contrast, pragmatic neoliberalism is rather eclectic. It shares with radical neoliberalism the reliance upon the methodological tenets and tools of modern economic analysis. As a consequence, pragmatic neoliberalism too follows Walrasian equilibrium analysis and sees market equilibrium as a potentially efficient allocation of resources. However, this conclusion is accepted with a number of caveats. First is the recognition that information is limited, asymmetrical, and imperfect (Stiglitz 2000). This implies that market equilibrium through decentralized prices conveying essential information might not be Pareto-optimal. Instead, most markets are subject to failures, in the sense that the allocation of resources through the decentralized mechanism of the market might not be efficient (Akerlof 1970; Grossman and Stiglitz 1976). Second, the existence of public goods (i.e., non-excludable and non-rivaled goods) implies that the price mechanism and demand-supply relationship do not function efficiently for a number of goods (Samuelson 1955). This leads to market failure in the production of fundamental goods such as security. A related market failure and inefficiency arises from negative externalities, where the market provision of certain goods adversely affects other private actors (Coase 1960). Fourth is the theory of second-best (Lipsey and Lancaster 1956), which suggests that if there are market imperfections preventing the attainment of optimal outcomes, moving away from what competitive and decentralized market equilibrium would require can improve welfare. This means that government intervention can improve welfare, rather than decrease it.

Consequently—and this differentiates pragmatic neoliberalism sharply from radical neoliberalism—pragmatic neoliberalism assigns a positive role to the state. The state should play a role in market economies as long as it can correct for market failures and provide the public goods that the market cannot produce. To be sure, the role assigned to the state is a minimal one, and all state actions are viewed with deep suspicion. Nevertheless, pragmatic

[12]Rational expectations school takes some of the monetarist conclusions even further. See Blaug (1985: 683–686) for a discussion of the relationship between monetarism and rational expectations school.

neoliberalism places considerably more authority with the state compared with radical neoliberalism.

Preview of the Argument

The empirical analysis of how different economic doctrines shape capital mobility regimes begins with the overthrow of the Allende government in 1973. I first analyze how the Chicago Boys—and thus radical neoliberalism—gained authority in the field of economic policy under the Pinochet regime. I then focus on the collapse of the Chicago Boys' hold on authority and show how a different version of neoliberalism gradually obtained authority in Chile. The historical analysis concludes with an examination of why the economists of the transition government—following pragmatic neoliberalism—opted for implementing "market-friendly" capital controls when faced with a massive surge of capital inflows in 1989.

In the first episode (1978–1982), the Chilean authorities pursued an imprudent financial opening strategy by eliminating barriers to the mobility of capital across Chilean borders. This was not just an oversight or coincidence; it was a direct result of a particular group of ideological carriers exercising authority in the field of economic policy. The authority obtained by the Chicago Boys—the ideological carriers of radical neoliberalism—was reinforced and supported by the power relations in other areas of social activity. Global capital flows fed a booming economy, which provided much-needed political legitimacy to the military regime. Furthermore, the most influential economic actors, big financial conglomerates, owed their power to their financial investments. Thus, despite significant appreciation in the real exchange rate, damage to small and medium businesses, and eroding competitiveness in export sectors, the Chicago boys of the military regime did not see a need for restricting capital flows.

The economic consequences, as analyzed below, were grave. The bubble spurred by capital inflows burst rapidly. Chilean economy faced a financial crisis coupled with a severe recession. These economic events reversed the growing economic and political power of financial conglomerates, discredited the Chicago Boys, and created the opportunity structure for the disenfranchised and repressed social groups to challenge the Pinochet regime. As a consequence, macroeconomic management began to be governed by pragmatism rather than radical neoliberal doctrine.

The management of capital flows between 1989 and 1992 stood in stark contrast to the first episode. After the debt crisis of the early 1980s, Chile lacked access to international finance. As growth resumed by the second half of the 1980s and as global economic conditions changed, Chile started receiving large amounts of capital, both in the form of FDI and short-term capital inflows. Such inflows put pressure on the exchange rate and threatened macroeconomic stability. The economic team in the Aylwin administration rejected short-term economic expansion and chose to defend a competitive exchange rate by implementing novel capital controls. The concern for long-term growth based on export dynamism was paramount in shaping this decision. The newly elected government after the military regime identified economic growth as originating in export sectors and designed its macroeconomic policies accordingly. Most importantly, the economists of the *Concertación* government saw market intervention in order to control a key price—the exchange rate—as a desirable and necessary objective. Such an outcome would not have been possible, had the Chicago Boys continued to hold authority in the field of economic policy.

Capital Mobility Regime I: The Efficacy of Radical Neoliberalism

Crisis, Ideological Competition, and the Rise of Radical Neoliberalism

The Chicago Boys were the product of a foreign assistance program between the University of Chicago and the Universidad Católica, which was funded by the U.S. International Cooperation Administration and a number of North American foundations.[13] The explicit objective of this program was to train experts and national leaders capable of applying the principles of modern economic analysis to the development and policy problems of an underdeveloped country. The exclusive contract with the University of Chicago reflected a desire to train economists sympathetic to the principles of free markets. The program was a significant success, especially in terms of producing a cohesive and ideologically homogeneous group of experts who take the principles of Chicago-school economics as articles of faith (Valdés 1995).

While the program was successful in terms of indoctrination, the Chicago boys were, from the beginning, at odds with the main economic, political, and ideological currents in the Chilean society. Since the 1930s, the state played an increasingly central role in the Chilean economic life (Mamalakis 1976). At the time the first generation of Chicago boys returned back to the Universidad Católica as professors, state intervention in the economy was generally seen as both desirable and necessary (Valdés 1995: 101). Only a certain fraction of the rightist alliance—big businesses with significant international connections and presence in finance—constituted an exception to this, as it increasingly voiced concern over the role of the state and favored private property and initiative (Stallings 1978). Thus, with their unconditional belief in the superiority of free markets and price as the most efficient allocation mechanism, the Chicago-stamped new professors at the Universidad Católica found themselves to be contrarians.

Such a contrarian position meant institutional and political isolation, as well as open conflict with the dominant views. The dominant development and economic ideology in Chile was gradualism, which aimed national industrialization and saw state's role in economic regulation and production as essential. The Chicago Boys diligently worked

[13]Hence the famous name given to them: los Chicago Boys. See Silva (1991: 391) for a list of these economists.

against this paradigm, in order to gain influence as a tight-knit intellectual community. They mobilized important resources in this process. Their conservative background and institutional connection to the Universidad Católica ensured the group's survival. In this process, the Chicago Boys formed alliance with a fraction of the bourgeoisie that had close ties to international markets. This fraction included the owners of the influential newspaper *El Mercurio*, where the Chicago Boys found an outlet to publish their opinions on matters related to economic policy (Délano and Traslaviña 1989; Vergara 1985).

The Chilean society experienced intensified class polarization and political conflict throughout the 1960s. The Unidad Popular government (1970–1973), under the leadership of Salvador Allende, exacerbated the existing tendencies of class mobilization and conflict by implementing a radical transformation project in favor of labor (Valdés 1995; Stallings 1978). This project produced a severe economic crisis. The Chilean economy came to a virtual stalemate by 1973 (Baltra 1973; Collier and Sater 2004: 344–46; De Vylder 1976; Landsberger and McDaniel 1976). Since the Unidad Popular policies lacked the support of propertied classes, political chaos accompanied economic turmoil. The military, under the leadership of Augusto Pinochet, put an end to the long tradition of democracy in Chile on September 11, 1973.

Neoliberal market reforms did not—at the beginning—have sufficient support within the military junta (Silva 1991: 392). Economic policies were piecewise and there were important setbacks to implementing free market reforms (Edwards and Cox 1987; Fortín 1989; Foxley 1983; Huneeus 2007; Kurtz 1999; Ramos 1986; Silva 1996). For this reason, the period between 1973 and 1982 is best analyzed, following Silva (1996), in terms of two periods of policy formation: gradualism and radical neoliberalism that corresponds to the implementation of global monetarist prescriptions. While gradualism dominated between 1973 and 1975, radical neoliberalism gained favor from 1975 onwards (Silva 1996). What distinguished gradualism from radical neoliberalism was the extent to which deep structural reforms for the construction of unfettered markets were implemented. As shown below, the period after the second half of 1975 is markedly different in this aspect from the previous period. In fact, radical neoliberalism exerted its influence most forcibly between 1975 and 1982.

Even before the end of the Unidad Popular rule through the military coup d'état, there were preparations for an economic plan and set of policies to counter the socialist reforms that shaped the period between 1970 and 1973. These preparations started with the Monday Club, which consisted of private business leaders who held regular meetings each week (Valdés 1995: 247). It was at these meetings that a special group was established in order to analyze Unidad Popular's economic policies. Initially, the group produced reports on the Chilean economy, gradually establishing deep ties with various business associations and political opposition to Unidad Popular (Valdés 1995: 248–249). In 1972, as economic conditions worsened, the group undertook the preparation of a new economic program (Valdés 1995: 249–250). The request for a new program came from the Chilean Navy (Huneeus 2000: 465). The document was given the name *el ladrillo* (the brick). It outlined the measures that formed the backbone of economic policies in the post-coup era. The team that produced *el ladrillo* consisted mostly of economists trained at University of Chicago (Collier and Sater 2004: 365).

There are several reasons why gradualism dominated radicalism in economic policy-making until mid–1975 (Silva 1996). First, there was indeterminacy on the part of military rulers about which economic policies to adopt. Thus, to a certain degree, implemented economic policies were ad hoc, rather than being coherent (Stallings 1989: 183). Second, the balance of power within the core capitalist group that influenced economic policy-making in the period immediately after the coup was in favor of "internationally competitive producers for domestic markets" (Silva 1996: 76–78). To be sure, such conglomerates also wanted economic liberalization. However, given the high-levels of protection they enjoyed for decades, a rapid liberalization of tariffs would be detrimental for such businesses (Silva 1996). Third, the core capitalist group, which had a key role in the preparation of *el ladrillo*, expanded to form a large bourgeois and upper-class coalition involving various business associations (Silva 1996: 68–69). A gradualist reform agenda rather than a radical set of reforms was more instrumental for bringing such a diverse array of interests together (Silva 1996: 69).

In other words, the economic and political power relations at the time did not lend sufficient support to the radical reform agenda of the Chicago Boys. As a result, the military junta opted for gradualists rather than the more radical reformers associated with the Universidad Católica in its appointments for key macroeconomic management positions (Silva 1991: 392). Radical reformers initially took secondary positions in key ministries and staffed ODEPLAN (*Oficina Nacional de Planificación*)—the state planning agency (Huneeus 2000). Thus, these economists did not obtain authority in the field of economic policy until the second half of 1975. As a result, despite the free-market radicalism of some of these economists, structural reforms, such as drastic tariff reduction and financial opening, were not implemented (Silva 1996).

Two factors, directly related to the political legitimacy of the military regime, led to the shift in authority relations: the growing urgency of the economic crisis and the inefficacy of the gradualist measures. Contrary to the expectations of gradualist policy-makers, the measures were ineffective in reducing inflation. The inflation rate was 369 percent in 1974 and 343 percent in 1975 (Edwards and Cox 1987: 32). The deterioration in economic conditions presented a potential crisis of political legitimacy for the military junta, which employed brutal methods of repression in the name of saving Chile's economic—and capitalist—future. The military junta, and Pinochet in particular, began to seek an alternative approach in economic management that could produce positive results quickly.

It was at this juncture that the radical Chicago Boys replaced moderates in key posts and gained control of economic policy-making (Silva 1991: 393). Beginning in April 1975, a considerably more radical and extensive set of reforms were implemented. The first element of these reforms was a shock treatment. It consisted of a demand shock through drastic cuts in public employment and expenditure as well as further reduction in real wages (Foxley

1983: 55–56). The economic team started implementing fundamental structural reforms, such as tariff reduction and rapid privatization.[14] Domestic financial liberalization began in 1974–75. First, in 1974, the establishment of private financing societies (*financieras*) was allowed. These financial institutions were favored over commercial banks—which were nationalized under the Allende government—since there were effective controls on commercial bank interest rates (Ffrench-Davis 1983). As such, the conglomerates owning such financing societies obtained considerable economic advantages. Second, a large number of banks were privatized through auctioning in the middle of the 1975 recession (Harberger 1985). Because of depressed economic conditions, these banks were sold to certain large conglomerates for values not reflecting their real worth.

These structural reforms had significant consequences in the organization of economic power. Tariff reduction effectively killed the Chilean manufacturing industry and changed the structure of Chilean production. Hasty privatizations led to the concentration of wealth and economic power in few hands (Collier and Sater 2004; Edwards and Cox 1987; Ffrench-Davis 1983; Foxley 1983; Ramos 1986). The center of gravity in the organization of economic power shifted to large conglomerates with ties to privatized banks and *financieras*.

The economic policies started bearing fruit by 1977, producing an economic boom between 1977 and 1982. However, the main engine of growth was the heavy influx of capital from the rest of the world, which began after the opening of the Chilean financial system to international capital flows.

Radical Neoliberalism and Capital Mobility Regime

Cross-border capital flows were deregulated between 1977 and 1982 (Foxley 1983: 58). The first step in deregulation occurred in September 1977. Commercial banks were allowed to trade in capital inflows through the Article 14 of the Exchange Law (Corbo 1985: 915). Chilean authorities did not allow short-run capital movements. However, the maturity restrictions on capital movements were not effective in curbing unbalanced fiscal expansion. As a result, the Chilean financial system as a whole accumulated a large amount of assets (loans to private parties) with short-term maturity.

The financial opening pursued in this period, and the ensuing capital mobility regime, were the direct corollaries of the global monetarist views espoused by the Chicago Boys. The neoliberal economists had a dogmatic belief in the adequacy of the macroeconomic policies they implemented. Indeed, the economists who ran the Chilean economy at the time followed a textbook version of open economy macroeconomics (Ffrench-Davis 1983).

One consequence of this rigid doctrine was the belief in the universality of neoclassical economic theory, which left no room for doubt in the implementation of economic policies. An example can be seen in Sergio de Castro's (the most influential Chicago Boy and the

[14] By 1979, all tariffs were lowered to a standard 10 percent (Foxley 1983: 56–60).

finance minister until 1982) unconditional belief in economic theory and market forces, illustrated in the following passage, where he elaborates on economics and its application in Chile (Arancibia 2006: 354):

> Any economist who studies economics in any part of the world knows that what we did was to apply economic theory to the specific problems Chile was having. I believe that there is only one economic science, whose principles hold universal validity; what changes is the application of these principles, their emphases, which is the essence of political economy.[15]

Empowered by such a doctrine, the Chicago Boys did not hesitate in adopting a simplified version of the monetary approach to balance of payments. Furthermore, they did not pay attention to institutional factors and economic heterogeneity (Edwards and Cox 1987; Ffrench-Davis 1983). Textbook-style economic management was especially evident in the intended use of the fixed exchange rate as an anti-inflationary tool. The measure itself was inspired by the monetary approach to balance of payments that was gaining currency in orthodox academic circles at that time. The main implication of this approach was the view that all balance of payments disequilibria were monetary phenomena and that such phenomena were simply transitory (Johnson 1977: 226–228). The economic team stipulated that under the fixed exchange rate system, an automatic adjustment mechanism through international capital flows would bring balance of payments equilibria. They saw domestic money supply as endogenously determined by domestic credit expansion and international capital flows (Fausten 1979: 661; Whitman 1975: 499).

The evolution of Chile's foreign debt between 1977 and 1982 illustrates the magnitude of the boom spurred by financial deregulation and capital account liberalization. Financial deregulation, coupled with the capital account liberalization that was completed in 1980, allowed domestic firms and banks to borrow at an increasing pace from abroad. Chile's foreign debt jumped from \$6.6 billion to \$17.1 billion between 1978 and 1982 (Edwards and Cox 1987: Table 3–8). In fact, Chile was replacing domestic savings by foreign savings (Edwards and Cox 1987: Table 3–8). The surge in foreign indebtedness was predominantly due to borrowing by Chilean banks (Cowan and De Gregorio 2007: 246). The excessive borrowing by the Chilean banks fed a spurious financial development. Between 1978 and 1982, financial assets in the Chilean economy grew at rates of 30–40 percent a year, several times more than the rate of GDP growth (Barandiarán and Hernández 1999: Table 2–6). Indeed, for each year between 1978 and 1982, the growth rate of financial assets that was due only to foreign loans was higher than the real GDP growth. Not surprisingly, the ratio of loans to GDP increased from 0.232 to 0.733, while the ratio of assets to GDP registered a three-fold increase between 1978 and 1982 (Barandiarán and Hernández 1999: Tables 2–3, 2–6). The massive amount of capital inflows caused a remarkable asset value boom in Chile.

[15] Unless otherwise noted, all translations from Spanish are mine.

Political Interests and Legitimation

As observed by several scholars (Frieden 1991: 427; Kaufman 1979; Silva 1991), the financial opening and economic growth between 1977 and 1982 was crucial for solidifying the military rule in Chile. The economic recovery following the 1975 recession became an economic boom between 1979 and 1981. It was this economic performance that produced a triumphalist discourse about the "Chilean miracle" (Vergara 1985: 184–87). The economic boom was instrumental for the military rule and the radical neoliberal project. First, it helped consolidate Pinochet's hold on political power through a referendum in 1978 and then through the 1980 constitution. Second, it provided the justification for implementing major neoliberal reforms, known as "seven modernizations." Third, economic growth was an indispensable component of a politically conservative vision for the future of Chile, defended by a certain faction of right-wing intellectuals.

Huneeus (2000: 468–71) argues that the Chilean state under Pinochet was a dualist state, employing distinct rationalities within the spheres of economy and polity. In one way, these two rationalities—one stressing minimal state and regulatory framework, the other embodying authoritarianism and encompassing control over society—were contradictory. This ideological contradiction notwithstanding, the two rationalities were linked to each other through the politics of growth. As Silva (1991: 395) argues, "[Pinochet] was well aware of the fact that for the definitive consolidation of his personal rule he needed the continuous achievement of successes on the 'economic front.' " Not only Pinochet, but a team of right-wing intellectuals, the Gremialistas,[16] envisioned economic growth as part of a comprehensive political model of limited democracy (Oppenheim 2007: 115–19).[17]

This political strategy found its expression in the 1980 constitution, which was a coercive attempt to provide legitimacy to the military government and to the dictatorship of Pinochet (Silva 1991: 396). The practical motivation for enacting the 1980 constitution was twofold. On one hand, the constitution carried the objective of determining the successor regime, since the junta did not aim for a permanent authoritarian rule (Barros 2002: 178–79).[18] On the other hand, and because of internal and external pressures, the junta and Pinochet sought

[16]The Gremialistas were a group of right-wing intellectuals headed by Jaime Guzmán, who founded El Movimiento Gremial Universitario in 1966 (Huneeus 2000). Guzmán and the Gremialistas were the main political ideologues behind the military regime (Barros 2002; Cristi 2000; Huneeus 2000). For example, it was Guzmán who wrote the famous Chacarillas speech of Pinochet, which laid out the program and goals of the military regime (Huneeus 2007; Oppenheim 2007). He was also one of the principal authors of the 1980 constitution.

[17]In the words of Huneeus (2007: 357), "It was thought that the economic boom would take the country out of underdevelopment and further legitimize the regime, which was to progress gradually toward a limited democracy." Furthermore, as compellingly shown by Huneeus (2000), this group of right-wing intellectuals were closely linked to (or overlapped with) the Chicago Boys.

[18]The junta and its ideologues envisioned a transition period after which a right-wing government could continue the conservative political project under democracy (Oppenheim 2007: 117–19; Ramón 2001: 254–55). The constitution named Pinochet—the only individual recognized in the constitution—as president until 1989, which could be extended until 1997 through a plebiscite (Barros 2002; Ramón 2001).

legitimacy for the military rule (Ramón 2001: 250–52).[19]

The constitutional reform and the concurrent economic boom instituted the political basis for implementing encompassing neoliberal reforms that targeted a structural change in market-society relations (Huneeus 2007: 166; Silva 1991). This was achieved through modernizations in seven major areas, including labor, health, education, pension, judiciary, administrative, and agricultural reforms (Délano and Traslaviña 1989: 79). All of these reforms invoked replacement of functions carried by the state with market forces. Furthermore, they embodied the atomization of economic relations. There was a close affinity between Pinochet's desire for a politically atomized society and the Chicago Boys' goal of an economically atomized society (Oppenheim 2007: 133), which implied strong complementarity between the Pinochet regime and radical neoliberalism.

To sum up, the economic boom produced by capital inflows provided legitimacy to the military junta and the dictatorship of Pinochet. On the economic front, the Chicago Boys received considerable support from finance-oriented big business groups. As a result, they ignored that financial opening was to the detriment of the Chilean manufacturing industry as well as small and medium-scale enterprises. It was this particular structure of power relations in the Chilean society that enabled the Chicago Boys to shun criticism, repress ideological competition, and thus advance a radical neoliberal agenda of economic reforms.

The Fall of Radical Neoliberalism

The economic boom between 1977 and 1981 came to an abrupt end with a financial meltdown. In fact, Chile had the most severe financial crash among all Latin American countries that experienced debt crises during the 1980s. As might be suspected, the main culprits were unrestricted financial opening and accommodating monetary policies. The collapse of the economic growth in 1982 was a severe blow to the projects of political conservatism and radical neoliberalism in Chile. The 1982 crisis led to a transformation of political and economic power. Gradually, a less hawkish variety of neoliberalism replaced monetarism. This section traces this change in economic and political power structures.

The 1982 Crash

The 1982 crisis originated in a classic loan-based bubble under inadequate financial supervision. The bubble burst as the world economic climate changed from high liquidity/low

[19] The intellectual motivation was the notion of "autocratic, protected, and technified democracy" that was thought of as the sine qua non of transitioning into a better government (Ramón 2001: 250–58). "Autocratic, protected, and technified democracy" aimed to limit separation of powers and political participation; it aspired to enact a form of government which was "purified of the vices and bad habits" (quoted in Huneeus 2007: 142).

interest rates to low liquidity/high interest rates, when Paul Volcker implemented tight monetary policies in the United States (Brenner 2002). A major financial group went bankrupt in March 1981. Financial distress exacerbated in the second half of 1981, when international banks cut credit lines to Chile (Silva 1991: 396–97). Concomitantly, the Chilean terms of trade deteriorated as the price of copper plunged. As a result, economic conditions in Chile worsened in 1982.

Despite an initial reluctance, the Chilean authorities had to abandon its fixed exchange rate policy in June 1982. As the early financial distress transmuted into a full-blown financial collapse, the government had to intervene and provide assistance to two large private banks. The monetary authorities intervened in 21 financial institutions between 1981 and 1986 (Barandiarán and Hernández 1999: 42–43). This, ironically, constituted a re-nationalization of private banks (Rozas and Marín 1989). In addition to active interventions, the government implemented various other programs (such as debt rescheduling, preferential exchange rates, and debt recapitalization) in order to overcome financial meltdown and debt crisis. The economic consequences of the 1982 crash were disastrous. The value of imports collapsed by one third in 1982. As of late 1983, those in absolute poverty constituted 50 percent of the total population (Barandiarán and Hernández 1999: 1).

The Reordering of Political and Economic Power

The triumphalism of radical monetarists came to an end in mid–1982 as the deteriorating economic conditions obligated concessions in radical neoliberal reforms. The team led by Sergio de Castro proposed to address the economic crisis by further privatizations and wage cuts (Huneeus 2007: 362–63). However, as the economic boom turned into a major crisis, such measures became politically unacceptable. Instead of following his proposals, Pinochet replaced de Castro in April 1982 (Rozas and Marín 1989: 45).

The firing of de Castro marked the defeat of radical neoliberalism in Chile. The fixed exchange rate and thus "automatic adjustment" policy was abandoned in June 1982. Until April 1984, there was a quick succession of finance ministers coming from the ranks of Chicago Boys. As these technocrats shared the same ideological rigidity with their predecessors, the policies they implemented lacked coherence (Valdés 1995: 262–263). These technocrats were forced, in the midst of a financial meltdown, to implement policies that were diametrically opposed to their economic doctrines (e.g., providing public guarantees to private debts).

Meanwhile, massive social protests shook Santiago and the whole of Chile in 1983 and 1984. Protests began in May 1983 under the initial leadership of the Copper Workers Federation (CTC) (Garretón 2001: 266; Schneider 1995). Unemployed people from middle and lower-class backgrounds, university students, shantytown dwellers, and workers from various sectors participated in these protests (Oxhorn 1995; Schneider 1995). Although the government responded to protests by repressive measures, such regular protests with participation from various social groups limited the level of repression that could be used (Garréton 2001).

As a result, Pinochet was forced to make a limited set of concessions in order to control the increasing opposition. A major concession was the appointment of an interior minister coming from the old right, Sergio Onofre Jarpa Reyes (Silva 1991: 397). Sergio Jarpa followed a policy of political opening. Likewise, the military government started responding to demands from groups such as small-size business owners and sectoral associations. In other words, as Vergara (1985: 240) puts it fittingly, the military government transitioned from essentialist politics to transactional politics as a result of the economic crisis.

At the same time, conglomerates whose economic strengths were based on the burgeoning finance sector and financial openness took a heavy blow during the crisis. This implied that a different segment of capitalists, which included exporters and producers for domestic sectors, began articulating economic demands and propositions (Silva 1996: 176).

It was in this environment that pragmatic neoliberalism began to exert its influence in Chile. This variety of neoliberalism also shared the vision that economic growth and development originated from free markets. However, it was more flexible and allowed controls, regulations, and incentives that complemented the operation of markets. In the words of Valdés (1995: 269), "The dogmatic approach to economic science was rejected, given its failure to deal with an economic reality that it found evasive and unmanageable." The rise of pragmatic neoliberalism was a result of effective ideological competition and criticism from another group of ideological carriers, CIEPLAN Monks.

CIEPLAN was founded in 1976 under the leadership of Alejandro Foxley (Giraldo 1997). Over time it established close links with the Christian-Democratic movement in Chile (Silva 1991: 403). From the very beginning, the CIEPLAN economists were critical of the radical neoliberal project. They continually challenged the Chicago Boys' economic measures, pointing to the need for greater state involvement in the regulation of the economy. Of particular concern to these economists was the increasing level of inequality and poverty in Chile under the authority of the Chicago Boys in the field of economic policy (Giraldo 1997). As a result, CIEPLAN economists produced alternative policies that were still market-oriented while rejecting the market fundamentalism of the Chicago Boys. While their criticisms in the late 1970s faced obstacles in gaining traction, the deteriorating economic conditions by 1982 created an opportunity structure for these carriers to wield influence over economic policy.

The Emergence of a New Segment of Capitalists

Given the severity of the 1982 crisis and the atmosphere of gloom that characterized Latin America in the 1980s, the Chilean recovery that began in 1984 and 1985 was remarkable and unexpected even to the most perceptive observers. Indeed, the Chilean disaster became the Chilean economic miracle in a few years, the real GDP surpassing the peak performance of 1981 in 1988 (Barandiarán and Hernández 1999).

The rapid Chilean economic recovery was possible due to the combination of several factors. A crucial component was the pragmatic macroeconomic policies that allowed Chilean exports to expand and diversify at a rapid rate. Chilean economic authorities implemented monetary and fiscal policies that maintained stability in key macroeconomic aggregates. Chile was also successful in establishing a policy to convert accumulated foreign debt to equity through an innovative policy instrument, which subsidized foreign direct investment in export sectors (Mayorga and Alvear 1992; Meller 1991; Somerville 1992: 108). Furthermore, financial regulation and supervision infrastructure was modernized. There was improvement in Chilean terms of trade. The exchange rate was sustained at competitive levels. All of these factors enabled the build-up of productive capacity in sectors such as agriculture and fishing to be transformed into an export boom. The consequence of this export boom was a new configuration of economic and political power relations.

Pragmatic Macroeconomic Policies and Export Success

In 1983, as the control of monetarists over economic policy loosened, the implementation of pragmatic policy measures began (Silva 1996: 181–93). For example, small and medium-sized businesses obtained preferential exchange rates for their debts (Silva 1996: 179). In 1983, the uniform tariff rate was increased to 20 percent (Stallings 2001: 30). Competitive exchange rate policies promoted the transfer of resources to export sectors and specifically to sectors producing tradable goods (Agosin 1999: 90; Ffrench-Davis 2002: 226). Policies aiming at a rapid growth in exports were not limited to this. Another major component was a significant fall in real wages. This ensured that the labor cost of producing tradable goods decreased (Meller 1991: 1555–7). The fall continued in the following years. At the end of 1985, the level of real wages was 20 percent lower than the 1980–81 period (Meller 1991: Table 9). Real wages remained at low levels, despite great cost to wage-earners, until 1988 (Labán and Larraín 1995: Table 4.1).

In addition, while keeping the vision of economic development and growth driven by private business and markets (and specifically by export industries), the Chilean state took an active role in the economy (Martínez and Díaz 1996; Moguillansky 1999). This active role is best exemplified in the export promotion policies adopted after 1985. These policies include various drawback systems, recuperation of duties and taxes paid for inputs used in exported goods, and exemption of tariffs on capital goods (Agosin 1999: 93; Ffrench-Davis 2002: 167; Moguillansky 1999: 48).

In brief, the 1982 crisis—and the transformation of economic and political power that followed the crisis—led to significant changes in Chilean economic policy. Instead of an orthodox set of economic measures and automatic adjustment mechanisms, economic authorities initiated "the realignment of relative prices to increase exports" (Martínez and

Díaz 1996: 54). This realignment involved mini-devaluations, control of interest rates, low real wages, and adjustments in tariffs (Martínez and Díaz 1996: 54–55). Furthermore, the state took an active economic role through its various macroeconomic and export-promotion policies. Moguillansky (1999: 16) calls this role a new "dirigism," which discriminated between sectors and types of economic activities.

Economic growth was quite strong in the second half of the 1980s. The source of the economic dynamism and recovery was exports, which registered the highest rate of growth. By the end of 1991, the share of exports in the Chilean GDP was 34.7 percent.[20] Exports became the chief source of dynamism and growth for the Chilean economy. Furthermore, the Chilean economy grew through the diversification of export industries. The strength of export diversification growth was particularly noticeable in agricultural, fishery, and wood products (Agosin 1999: 84).

Ramifications: Exporters and Realignment of Political Power

It is clear that, during the 1980s, the Chilean state reorganized itself and the rules and regulations pertaining to the operation of markets around export-led growth. This model provided ample success and growth in the second half of the 1980s. The successful realization of the export-led growth had several political implications.

First, it led to the formation of a bloc of capitalists whose interests lay in competitive exchange rates. In the period after the 1973 coup, the Chilean economy was dominated by conglomerates expanding through investment in financial intermediation. In the period after the 1982 crash, the center of gravity in the economy moved toward exporters, including small and medium-sized companies as well as large conglomerates (Martínez and Díaz 1996; Meller 1996).

Second, such a transformation in the Chilean economy resulted in the identification—on the part of Chilean policy-makers—of exports as the key to the Chilean economic growth. This brought forth a preference for the promotion of exports as well as the maintenance of a competitive level of exchange rates.

Third, the export-led growth defined a new role for the Chilean state. This role consisted of intervention into the markets for "adjusting" key prices such as the exchange rate. It also involved the use of public and semi-public agencies for the promotion of Chilean exports. Naturally, this role did not conform to the tenets of radical neoliberalism, which dominated the economic policy-making between 1975 and 1982.

[20] All figures are my calculations unless otherwise noted. Source: *Indicadores Económicos y Sociales de Chile, 1960–2000*, Banco Central De Chile.

Capital Mobility Regime II: The Efficacy of Pragmatic Neoliberalism

Chile's access to foreign capital markets came to a sudden stop in mid–1981. Throughout the 1980s, Chilean authorities battled high interest payment on the stock of foreign debt without access to global financial markets. External finance was obtained through international financial institutions (i.e., IMF and World Bank) and the debtor was the Chilean state. As the Chilean economy recovered in the late 1980s and as its export industries soared, Chile again became an attractive country for foreign investors.

The massive surge in capital inflows to Chile occurred during the "transition" to democracy after 17 years of military government. However, unlike the period between 1978 and 1982, Chilean authorities exercised caution and prudence in their management of capital flows. Given high income inequality, it was remarkable that the Chilean authorities did not opt for rapid expansion of the economy. Instead, Chilean authorities implemented carefully designed policies to achieve macroeconomic stability and economic growth. This was achieved through an innovative policy measure, the *encaje*, which was an unremunerated reserve requirement on capital flows with short-term maturity. This policy tool was further strengthened by other economic measures, such as a stamp tax on capital flows and allowing capital outflows.

Three factors contributed to the increasing authority of pragmatic neoliberalism, which produced a prudent approach to the management of international capital flows. First, unlike the late 1970s and early 1980s, the dominant capitalist group constituted of export-based conglomerates and the Chilean economic growth depended on exports. Second, the fiscal health of the Chilean state enabled the transition government to implement distributive policies without relying on populist policies, which could potentially be financed by capital flows. Third, the center-left coalition (*La Concertación de Partidos por la Democracia*) identified the continuation of strong growth and macroeconomic stability as a necessary element of successful transition to democracy. The first of these factors, export-led growth, was analyzed in the previous sections. The following analysis focuses on the second and third factors to illustrate the political dynamics of capital controls in Chile.

The End of the Pinochet Regime and Priorities of the Concertación Government

The 1980 constitution ordained a plebiscite that would allow Pinochet to remain as president for an additional eight years. In October 1988 Chileans voted on whether or not to continue with Pinochet as president. In line with the rules laid out in the 1980 constitution, the defeat in the 1988 plebiscite forced Pinochet to hold free elections in 1989. Facing a highly probable defeat, the authoritarian regime constrained future democratic governments by implementing various institutional ties such as the binomial electoral system, appointed senators, and a conservative supreme court (Loveman 1995: 309). In the 1989 elections, the right-wing candidate—the former finance minister Hernán Büchi—was defeated by Patricio Aylwin—the candidate of the *Concertación*. Aylwin's government took power in March

1990. Pinochet remained as the head of armed forces. This meant that, despite Pinochet's continuing role in the armed forces and despite institutional ties, Chile began its transition to democracy. The comprehensive social, economic, and political transformation under the authoritarian rule shaped the nature of this transition.

The initial period under the *Concertación* government was marked by various uncertainties associated with transition from authoritarian rule to democracy (Boylan 1996). First, there was uncertainty about the future and scope of democracy. Although the government came to power as a result of free elections, Pinochet was still the head of the armed forces; he wielded both military and political power. Second, there was uncertainty arising from mistrust toward *Concertación*'s economic policies. Business organizations, powerful media with a salient right-wing bias, and conservative political parties suspected that the *Concertación* would pursue populist policies, abandon free market reforms, and activate a greater presence of state in the economy.[21]

Facing uncertainty, mistrust, and a hostile Pinochet continuing to hold power, the *Concertación* followed a strategy of compromise and prudence in almost all policy fronts (Huneeus 2007: 485; Ramón 2001: 287; Valdés 1995: 254–56). The determining factor was the strong desire to guarantee a smooth transition to democracy (Boylan 1996; Drake and Jaksić 1995; Loveman 1995; Oppenheim 2007; Silva 1996). As such, political polarization and populist mobilization were perceived as perilous by *Concertación* leaders (Loveman 1995: 305).[22]

In its economic policies, the *Concertación* opted for continuity rather than a break (Huneeus 2007: 461–63). Unlike the previous administration, which had managed the economy in a heavy-handed manner, the Aylwin administration paid attention to building consensus.[23] The following quote from Alejandro Jadresic, the sectoral policies coordinator of the Ministry of Economy at the time, illustrates the tone and tenor of the *Concertación*'s approach to macroeconomic management:[24]

> In essence, political economy has not changed. It is still managed in a technical way, but with a little bit more openness and humility. ... The former administration's economists were somewhat dictatorial. We, on the other hand, make an effort to recognize and listen to those who are not economists.

The success of pragmatic neoliberalism in the second half of the 1980s was a key factor in shaping this policy. As Silva (1991: 399) put it, "Despite the general criticism of the

[21] Interview with Manuel Marfán (macroeconomic coordinator and main advisor to the minister of finance in the transition government), Santiago, November 6, 2006.

[22] Yet, moderation, prudence, and consensus-building involving a diverse set of actors—including right-wing parties—entailed some difficult choices. Most significantly, a full-scale investigation of human rights violations during the authoritarian rule could be carried only after the year 2000.

[23] This can be seen through an examination of various speeches given by Alejandro Foxley during this time, collected in his aptly titled book *La economía política de la transición: el camino del dialogo* (The Political Economy of Transition: The Path of Dialogue) published in 1993.

[24] *Qué Pasa*, April 15, 1991, pp. 26–27.

negative social aspects of the neoliberal model, many people within the leftwing political parties admit (openly or tacitly) that at present the Chilean economy functions well and that it is now in better shape than at any other point during the last 25 years."

It should be noted that continuing the neoliberal economic model was a sensitive topic at the time, especially within the *Concertación*.[25] The economic team headed by Alejandro Foxley (the Minister of Finance),[26] which consisted of economists educated at U.S. universities, identified quasi-orthodox measures such as controlling inflation and fiscal prudence as key to economic growth. "Los nuevo boys" who ran the economy were neoliberal as well, albeit of a very different kind than the radical neoliberalism of the Chicago Boys.[27] A great number of the most influential posts in the field of economic policy were filled with the members of the private research institute that mounted the most effective academic criticism against the policies of the Chicago Boys: CIEPLAN (Silva 1991: 406).

The Aylwin administration, guided by the CIEPLAN economists, opted for economic stability, and aimed to continue the economic growth trend of the late 1980s (Silva 1991: 405). The *Concertación* government was well aware that the political success of the transition and return to democracy was closely related to economic growth. Consequently, one of the first priorities of the transition government was the promotion of export-led growth. Foxley made the commitment to an export-led growth strategy amply clear in a meeting with business leaders on November 8, 1990 (1993: 111):

> We want no less than to export 35% of our goods product in the year 1995. And that 35% of product should be constituted 70% in goods other than copper. If we face this task in an adequate manner, the export growth will carry the whole country along. It will transform the Chilean productive structure.

Another priority for the Aylwin government was fiscal prudence. Thus, the *Concertación* government adopted the neoliberal economic model. Yet, the government's commitment to macroeconomic stability, fiscal prudence, and export-led growth presented a significant challenge. The *Concertación* triumphed over the Pinochet regime not only because of the collective memory of a past laden with repression, but also because of disenchantment with rampant poverty and economic inequality. The coalition capitalized on economic inequality and poverty heavily in its electoral campaign, with the promise of fighting poverty and inequality. Indeed, "growth with equity" (*crecimiento con equidad*) was one of the most salient slogans of the *Concertación* (Frank 2002; Weyland 1997). However, its commitment to continuing the neoliberal economic model—thus its commitment to controlling inflation, maintaining low corporate taxes, and fiscal prudence—were not particularly conducive to redistributive policies that could alleviate extreme poverty and decrease income inequality.

[25] See Foxley (1993) and Valdés (1995).

[26] The other influential figure was Carlos Ominami, who was the Minister of Economy.

[27] See Silva (1991: 406) and the April 15, 1991 issue of *Qué Pasa*, which has an informative article on "los nuevo boys" who ran the Chilean economy during the transition to democracy.

Hence, continuity of the neoliberal model carried the danger of embittering the electoral base of the *Concertación*.

The *Concertación* government addressed this problem by implementing tax and labor reforms. The tax reform, while moderate, had the objective of creating revenue in order to increase social spending. The labor reform, less successful than the tax reform, aimed to give rights and greater bargaining power to workers (Ffrench-Davis 1999: 150–53). These two reforms implied a moderate modification of the neoliberal orientation in a pragmatic manner.

Defending Export-Led Growth under Pragmatic Neoliberalism: Capital Influx and "Market-Friendly" Capital Controls

As President Aylwin assumed power in March 1990, the Chilean economy confronted, once again, the return of voluntary capital inflows. The sudden increase in capital flows to Chile was based on the burgeoning opportunities for arbitrage and the perception of a strong Chilean growth prospect among international investors (Agosin 1998; Cowan and De Gregorio 2007; Ffrench-Davis et al. 1995; Labán and Larraín 2000; Laurens 2000). The key was the high domestic interest rate that prevailed in the Chilean market at that time and the low domestic interest rates in international markets, especially the United States. Naturally, the high inflow of funds from the rest of the world to the private sector in Chile put tremendous appreciation pressure on the domestic currency. The real exchange rate appreciated sharply beginning in February 1991, immediately after significant amount of foreign funds entered the economy.

A speech by Alejandro Foxley given in September 1991, just after the heavy influx of capital to Chile, illustrates that the economic authorities at the time identified the pressure on the exchange rate as a central policy issue (1993: 174–75):

> Instead of talking about the debt crisis, we are beginning to talk about the 'dutch disease problem': how to absorb a massive inflow of capital without seriously hurting exports? A massive movement of foreign capital puts pressure on the exchange rate, leading to an appreciation of the domestic currency, and eventually puts export performance under risk. That forces us to focus on the aspects that really matter for economic success in the long run.

Thus, policy-makers recognized that exchange rate was a crucial price for the Chilean economy, given its high level of openness and the growth of the export sector. This price had to be competitive in order for Chile to take advantage of further trade integration with the rest of the world.[28] In addition, this price had to be stable and predictable to ensure the

[28] Interviews with Roberto Zahler, Ricardo Ffrench-Davis, Jorge Desormeaux, Pablo Garcia, Guillermo Le Fort, and Manuel Marfán, Santiago.

long-term development and success of export sectors. For Guillermo Le Fort, who took an active role in the management and design of the encaje after 1992, this was one of the main motivations of the capital control scheme implemented in Chile:[29] "Chile being an open economy, a country that had to develop on the basis of the development of its exports, you need to have a strong and well-diversified export base. For that to happen, you need to have some stability in the real exchange rate."

Hence, as Labán and Larraín (1995: 125) put it aptly, "It was recognized that external markets provide the best opportunities for small economies, and thus the government must try to maintain a competitive real exchange rate." To forestall the continuing pressure toward the appreciation of the Chilean peso, Chilean authorities introduced the *encaje*—an unremunerated reserve requirement for foreign loans—in June 17, 1991 (Laurens 2000: 71).[30] As Cowan and De Gregorio (2007: 249–50) note, "The encaje required that a fraction of the capital inflow be deposited in a non-interest-bearing account in the Chilean central bank." The initial rate of this reserve requirement was 20 percent. The *encaje* was an innovative and market-based tax on capital flows, similar to the famous Tobin tax (Labán and Larraín 1994; Tobin 1978). As such, it functioned as a market-based capital control.[31]

Thus, the performance of the export sector as the source of dynamism in Chile had an important role in shaping how Chilean policy-makers perceived capital inflows. Jorge Desormeaux, an influential economist who later became Vice Governor of the Central Bank, expressed this point in unequivocal terms:[32]

> The export sector was ... the darling of the economy and policymakers went to great lengths basically to protect the profitability of the export sector. That's why the encaje appeared, because the last thing we wanted in the economy to happen was to have the exchange rate to appreciate. So basically we tried everything that was in the book and what wasn't in the book we invented it, you know, in order to protect the export sector.

In evaluating the defense of the exchange rate, one point is worth emphasizing. The decision to defend export-led growth and reject expansionary policies through capital flow finances was a political one. This decision was facilitated by a commitment to fiscal prudence and austerity on the part of the government. The economic team at that time was aware that capital inflows presented opportunities for expansionary policies.[33] The determination to avoid excess spending through rising external debt (be it private or public) is illustrated in the following statement by Alejandro Foxley (1993: 100):[34]

[29] Interview with Guillermo Le Fort, Santiago, December 5, 2006.

[30] Interview with Manuel Marfán, Santiago, November 6, 2006.

[31] One difference with the Tobin tax was that the *encaje* was asymmetric in the sense that it targeted exclusively capital inflows (Laurens 2000: 70).

[32] Interview with Jorge Desormeaux, Santiago, November 1, 2006.

[33] Interviews with Manuel Marfán (November 6, 2006) and Guillermo Le Fort (December 5, 2006), Santiago.

[34] The quote comes from a speech made in November 1992.

> For some time we have had problems with the dollar due to an excess entry of capital. Here we have the paradox that we as a government are trying to decrease the amount of external credits toward Chile—we are telling the World Bank and the Inter-American Development Bank that we want to decrease the flow of credits—and we are telling the private sector they should not go out and create debt in an indiscriminate manner—as they did at the beginning of the 1980s—because now we have a much higher level of domestic saving.

Finally, it is informative to ask the following counterfactual question: Would capital controls be implemented had the Chicago Boys, or their right-wing descendants, continued to hold authority in the field of economic policy? The existing evidence strongly suggests that the answer is negative. The political right in Chile—including the renovated right, which made a particular attempt to sever its connection to the Pinochet regime—was internationalist and suspicious of any limitations of Chile's integration with the global markets (Boylan 1997: 199). As a result, the economists and politicians associated with the right and radical neoliberalism opposed any type of capital controls. For example, Sebastian Piñera, an important right-wing politician and one of the most successful entrepreneurs that flourished under the Pinochet regime, characterized the *encaje* as a "backward step."[35] Hernan Büchi criticized the implemented controls on capital flows for separating Chile from international markets.[36]

Conclusion: Ideological Power and the Currency of Ideas

Ideas matter, but only some ideas shape economic policy. I address this analytical question—the efficacy of ideas—by placing emphasis upon how ideological power is structured in the field of economic policy. My goal is to show how power struggles lead to the formation of authority structures that bring decisive advantage to certain ideological carriers—and thus to their economic doctrines—in shaping economic policy. The changing structures of authority in the field of economic policy, and the consequences of these changing structures, can be readily examined in Chilean history, where the field of economic policy was shaped by two different economic doctrines—radical and pragmatic neoliberalisms.

The authority of radical neoliberalism came only after a period of political and economic indeterminacy following the military overthrow of the Allende government in 1973. The Chicago Boys held the promise of rapid recovery and a new economic future. Both of these promises were important for the military junta and Pinochet, who sought a break with the past and the institutionalization of a new economic system. The radical neoliberal economists of the Pinochet regime were not shy in implementing the policy recommendations of their economic doctrine, especially in the area of financial opening. Empowered by global

[35] Qué Pasa, July 1, 1991, p. 35.

[36] Qué Pasa, 20th year edition, 1991, p. 47.

monetarism, they were rapid in dismantling the barriers between the Chilean and global financial markets. This opening fed an economic boom, which was beneficial to the political legitimacy of the repressive military regime as well as for a small segment of capitalists. In other words, an open capital mobility regime was reinforced by a particular constellation of political, economic, and ideological power relations.

This particular constellation of power relations in the Chilean society came to an end with the financial meltdown in 1982, which left Chile with a massive debt crisis. Such adverse conditions underpinned a fundamental reordering of economic and political power in Chile, which led to a change in the orientation of Chilean policy-makers. It was necessary to have large trade surpluses, so that Chile could service its debt payments and could overcome the crisis. The Chilean state not only promoted macroeconomic policies conducive to strengthening export performance, but also subsidized the export sectors. Export sectors, already with significant potential as a result of decades-long accumulation, took advantage of Chile's comparative advantage in natural resources. The result was a remarkable recovery based on export dynamism. These economic conditions and events undermined the authority of radical neoliberals in the field of economic policy. Ironically, some of these economic and political developments resulted directly from the implementation of radical neoliberalism. Gradually, pragmatic neoliberalism began to exert influence over economic policy.

Such influence reached its peak as economists and technocrats associated with CIEPLAN—a think-tank with a pragmatic neoliberal orientation and the main source of economic criticism of the Pinochet regime—rose to power with the election of the center-left Concertación government. The CIEPLAN Monks responded to the surge of capital inflows in a different way than the Chicago Boys would have. Instead of pursing financial openness, they restricted the integration of the Chilean markets to the rest of the world through capital controls. This outcome was the result of a political alliance between the center-left coalition government and export sectors, which supported the pragmatic neoliberal proclivity to intervention in order to maintain a competitive exchange rate.

In brief, the efficacy of ideas derives from authority structures in the field of economic policy through the complex interplay of sources of social power, as the changing sways of radical and pragmatic neoliberalisms over Chilean capital mobility regimes illustrate. The perspective outlined in this paper provides a theoretical framework to analyze the multiple mechanisms through which different economic doctrines exercise influence over economic policy. It also complements the theoretical elaboration by Somers and Block (2005) on the ideational mechanisms such as epistemic privilege underlying the historical efficacy of ideas. As they argue (2005: 281), "All ideas are not created equal." In this article, I extend and modify the conclusion reached by these authors: ideas are not created equal, and they do not get to be equal. The complex web of power relations in a society creates additional sources of stratification in the sphere of ideological competition.

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