

ABSTRACT

Title of the Dissertation: NEOLIBERALISM IN TRANSLATION.
ECONOMIC IDEAS AND REFORMS IN SPAIN AND
ROMANIA

Cornel Ban, Doctor of Philosophy, 2011

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Most political economists studying the global spread of neoliberalism have seen it as a form of policy diffusion. Recently constructivist political economists have pointed to the important role of the spread of neoliberal economic ideas in this process. However, they have not provided a theoretical framework for understanding the mechanisms through which neoliberal ideas travel across national policy spheres. To address this gap, this dissertation draws on the claim made by some sociologists that ideas do not stay the same as they travel from one social setting to another, but are “translated” by idea entrepreneurs called “translators”.

More, specifically, this dissertation aims to specify what shapes the result of translation, the pace at which it occurs, and the means through which it can shape policy. In doing this, it makes three contributions to the study of political economy. First, it argues that the content of adopted neoliberal ideas is shaped by the context-

specific choices made by translators who employ “framing”, “grafting” and “editing” as translation devices. Secondly, the pace of translation is shaped by the density of transnational ties between domestic policy stakeholders and external advocates of neoliberalism. Finally, translated neoliberal ideas are likely to serve as templates for economic policies when they are shared by an intellectually coherent policy team inside a cabinet that can effectively control economic policy decisions. To make these arguments the dissertation draws on a comparative historical analysis of the spread of neoliberalism two “crucial cases”: postauthoritarian Spain and Romania.

NEOLIBERALISM IN TRANSLATION.
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by

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To the memory of Anca Romantan (1975-2008)

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Prologue

During the onset of the economic crisis that began in 2008 I was struck by a curious intellectual drama taking place in the pages of *Financial Times*. Martin Wolf, its chief editorialist, hosted a debate in which luminaries of the financial commentariat, world leaders, and even academic economists wrote texts that a few weeks before would have been deemed at best ‘anachronistic’ even in the in this newspaper’s famously pluralist “letters to the editor” section.

The generally dispassionate tone that the newspaper customarily demanded seemed lost, and a sense of doom and desperation permeated most interventions. Such ideas as the turning of investment banks into public utilities, the nationalization of large private firms, massive reflation, capital controls, the severe policing of hedge funds, and the treatment of off-shore jurisdictions as equivalents of international terrorist cells were no longer the talk of radical political economists. Instead, these intellectual luminaries were hastily cobbling together such proposals out of the vestiges of neoclassical thinking to form confusing intellectual mosaics. Just as an eternally media-savvy French president was sighted reading *Das Kapital* and “Anglo-Saxon” capitalism went from celebrity to the butt-of-all-jokes, leading commentators resurrected ideas they had spent decades attacking. The era of small government seemed over and, in the window that the crisis opened, all that seemed solid melted into the air.

Much has changed since the fall of 2008. While the debate did not shift back into the *status quo ante*, the “sound finance” chorus is certainly back. Yet what struck

me the most in the fall of 2008 amongst the *Financial Times* commentators were the many economists and officials from the periphery of the global economy who felt just as invested in the very ideas that they had thought provided the path out of economic misery and that now lay bare upon the altar of experience.

This dissertation is about how neoliberal ideas became the “black box” of elite thinking about the economy in middle-income countries where economic liberalism had been relegated to the doghouse for much of their modern intellectual history. It concerns itself with how neoliberalism became dominant. Not only because it was advocated for by Western agents with superior material resources ‘handed down’ to local agents via some intentional top-down diffusion process. But because of less vertical, less linear, and less obviously intentional processes such as the transnationalization of economics education and the integration of local economists in Western epistemic networks.

The resulting translation was not a simple replication but a second generation copy of the original. The translators transformed the “original” neoliberal artifact, “black boxed” its problems and grafted it onto local ideas and institutions in order to make it seem simultaneously desirable, “native,” unproblematic, and familiar. Sometimes the translators were local versions of the “Chicago Boys” of legend, yet sometimes the job was done by those operating below the radar of existing scholarship on the spread of neoliberalism: amateur economists, transnational political party networks, political development NGOs, as well as think-tanks. The result of all this was a surprising variety of “neoliberalisms.” It is the process of crafting of these

different versions out of the Western “script” via local translations that this dissertation speaks to.

Chapter I- Neoliberalism in Translation: An Introduction

“Ideas are for objects what
constellations are for the stars.”

(Walter Benjamin)

Neoliberalism Is What States Make of It

This is a study of how neoliberal ideas change as they travel across nations and take national characteristics. Its origins lie in a long fascination I have had with Karl Polanyi’s metaphor of history as a pendulum that swings back and forth between strong social restrictions on the market and the market domination of society and nature, with each swing resulting from excesses of the other.

Born and raised in Romania, I had the chance to see both excesses: the shock of national-Stalinism and the shock-therapy of neoliberalism. Those governments who did the former claimed to do it for the sake of society, whereas those who did the latter invoked the liberation of suppressed market forces. Although the former governed by illegitimate force and the latter governed by the democratic vote, they both ended up traumatizing large swathes of society.

Then, travelling and living in the West, I was struck by how differently the pendulum swings within the core of liberal-democracy and capitalism. Both the unemployed in Copenhagen and the unemployed in Boston lived in the age of neoliberal capitalism, but they had very different options when it came to health care,

education, accommodation or income-replacement. “Neoliberalism”, “globalization”, “There Is No Alternative” were heard and seemed at work everywhere, but at the end of the day, their real effects on people changed across countries depending on what states made of them in local translations. This study provides political economy with an analytical framework for understanding the conditions in which these translations take place.

The Puzzle

When history changes in two years

Every so often the world can change in the space of two years. Such swift and drastic turning points occurred twice in postwar history. The first happened between 1979 and 1981 and marked the beginning of the end for the Western postwar embedded liberalism. It was neatly framed by the elections of Margaret Thatcher in 1979 and of Ronald Reagan in 1981, which signaled the downfall of welfare Keynesianism and the rise of a new economic program based on less state and more market, less on redistribution and more on investment, less on manufacturing and more on services. Only later dubbed “disembedded liberalism” or “neoliberalism,” by 1982 this new economic program seemed to define the economic policy choices of Western conservative parties. The eruption of the debt crisis in the same year saw it imbricated in the agenda of the IMF and the World Bank.

The second shift took place between 1989 and 1991 and was characterized by the victory of liberalism over Leninism. With one end sliced off, the political spectrum

narrowed and left-of-center parties the world over shifted towards some form of neoliberalism. Events ranging from the democratic revolutions in Eastern Europe in 1989 to the simultaneous adoption of neoliberal economic reforms in such far flung places as Prague and New Delhi dashed hopes that democracy could coexist with a “third way” between liberalism and socialism. The “end of history” meant that neoliberalism had defeated “embedded liberalism” as well as socialism.

These were world-historical shifts were powered by mighty economic and political transformations. Yet, some countries governments did not adapt to these shifts in the way, and with the speed, demanded by the economic and political contexts of the time. In Spain, after the fall of fascism, where one would have expected a contested shift to neoliberalism, the actual outcome was a swift adoption of this new economic program. After losing the Civil War, after decades of repression at the hands of Franco and after being reborn with the help of organized labor, Spanish Socialists embraced neoliberalism immediately after they took office for the first time.

Conversely, where political and economic trends gave reason to expect a quick embrace of “shock therapy” neoliberalism, for example in Romania after the fall of the Berlin wall, one found instead bitter contestation and a search for a non-neoliberal economic programs during the transition’s first decade. , Radical neoliberal reforms followed only a decade later. After emerging from Eastern Europe’s most Stalinist economic regime one would have expected the first democratically-elected governments to choose the neoliberal market reforms as had the Czech Republic and the Baltic states. Instead, their first six years in office were spent trying to

institutionalize heterodox economic reforms and it took them almost a ten years to “go neoliberal It is to this puzzle that I now turn.

Neoliberalism in Spain

When the Spanish Socialists entered government in December 1982, they faced an economy affected by recession, inflation and high unemployment. To deal with these challenges they adopted the same policies embraced by conservative governments in the United Kingdom and the United States. Fiscal austerity replaced efforts to reflate the economy, inflation priorities were no longer balanced with concerns with unemployment figures, loss-making state firms were privatized and a deregulatory drive was unleashed on both the labor market and financial services.

In 1982 the Spanish Socialist government was the most likely case where one would expect resistance to the emerging neoliberal fashion. The measures described above ran counter to the Socialists’ political program, to their historical status as a force of democratic socialism in Spain, and to the preferences of the main Socialist labor union on which the party had depended for grassroots mobilization. Most surprisingly, no other West European left-of-center party adopted such a comprehensive neoliberal reform package as early as 1982, with most European socialists and social-democrats opposing even modest deflationary programs until after the Spanish socialists made this shift. Neoliberalism was not the only game in town.

Over the next few years, however, the Socialists also showed that neoliberalism was not a universal script but a set of ideas and institutions that change as they become domestically embedded. Rather than eviscerate the state, they expanded its revenues. Rather than give tax cuts to corporations and the upper class, the government increased the tax burden on them just as it offered universal access to health care, pensions and university education. Instead of seeing all state ownership as problematic for a healthy economy, the Socialists kept the state involved with industrial champions. Spain had embraced neoliberalism but not its libertarian implications. It was an “embedded neoliberalism” that balanced market capitalism with more egalitarian redistribution and state-enhanced growth strategies. In short, why did Spanish neoliberalism have such ‘embedded liberal’ characteristics?

Neoliberalism in Romania

Neoliberalism in Romania occurred ten years later in another middle-income country, several thousand kilometers to the East. For six years after the bloody end of the Ceausescu regime in 1989, Romania was ruled by governments that were for the most part led by and based on an extensive network of mid-level politicians and bureaucrats of the defunct national-Stalinist regime.

Much like the Socialists in Spain, these so called “ex-communists” dominated the political scene and shaped the course of the country’s economic transformation.

Romania was perhaps the most likely case for embracing a deep and radical version of neoliberalism in 1990. The country had just emerged from Eastern Europe's most extreme form of economic interventionism. The government faced much greater economic disruptions than Spain insofar as the transition occurred in the context of a collapse of their East European markets with firms who never had to bother about what happened to their output. Moreover, by the time they took power the *Zeitgeist* had also changed dramatically: the neoliberal paradigm seemed the new *lingua franca* everywhere, especially in the former Eastern Bloc. While the Spanish government was not tied by conditionality agreements with international financial organizations and had proper access to international capital markets, the opposite was the case for the ex-communist governments. Organized capital took years to emerge and organized labor was heavily fragmented. And while the Spanish Socialists had a close relationship with the country's biggest labor union, the ex-communists had a largely adversarial one with all of them. Finally, while Spanish Socialists had a clear ideology, the Romanian ex-communists spent years searching for one.

Yet, from 1990 to 1992, the ex-communists administered a much more modest liberalization package than the Spanish Socialists. What is more, the government of 1990-1992 was replaced by one that lasted until 1996 and which embraced quite non-neoliberal 'heterodox' views. More specifically, the first postcommunist government limited its reformism to modest privatization initiatives and partial price liberalization. As these reforms triggered a massive fall in output and almost set off hyperinflation, the ex-communist government that came to power after the 1992 elections backed off

rather than push on with more radical reforms. Privatization was stalled, the socialist-era provision of public services continued relatively untouched by “marketization” and privatization, and, after a successful macrostabilization, fiscal policy became expansionary, while the reserves of the central bank were raided for the provision of industrial subsidies. Only on the margins were some market reforms carried out, such as partial price liberalization, the withdrawal of subsidies for small state owned companies, the privatization of “non-strategic” state-owned companies were adopted. The mixed market economy dominated by an activist state rather than the predominantly private market economy assisted by a minimal state seemed to dominate the ex-communists vision of the future.

This Romanian economic heterodoxy did not last into the new millennium however. While the “embedded neoliberalism” of Spanish Socialists withstood the test of time, the heterodoxy of the ex-communists withered away by the end of the 1990s. Back in office in 2000 as a programmatically rebranded local version of the Blairite “Third Way,” the ex-communists systematically adopted neoliberal institutions and policies. The macroeconomic orthodoxy, deregulation, privatization and liberalization that characterized the core of neoliberal development models became the policy of the day. The ex-communists even “outbid” the right through decreasing progressivity of taxation, allowing welfare budgets to stagnate, and the complete replacement of industrial policy with an outward oriented FDI policy.

Why then did Romanian Neoliberalism take this particular institutional and temporal form? Especially when it occurred a decade after the stars were best aligned, so to speak, for such a policy turn?

These two cases take us further than the Spanish and Romanian transitions, however, and draw our attention to an interrelated set of questions of some importance in political economy. First, if the global spread of neoliberal policies and institutions could not have taken place without the spread of neoliberal ideas, how exactly do the latter travel and shape policy across nations? Second, if indeed neoliberal ideas are transformed as they travel, what factors explain the various results of these transformations? Finally, what actors and what kinds of resources are most likely to be involved in carrying and transforming neoliberal ideas across various national contexts?

The Findings

The likelihood of adoption of neoliberal policies increased when they were shared by an intellectually-coherent policy team inside a cabinet that could effectively control economic policy decisions.

In 1982 the Spanish Socialist cabinet had full control of the economic policy process. The cabinet itself was controlled by the premier and the economic ministries, with the ministry of Finance playing the leading role. All economic ministers came from the same professional network centered around the central bank, an institution that had been known for almost a decade as a strong advocate for a neoliberal policy turn in

Spain. In turn, the premier delegated policy initiative and execution to the economic ministries and defended them against challengers inside and outside the cabinet while insulating the cabinet against the political pressures of the party by building party institutions that severely limited the power of anti-neoliberal dissenters. This high degree of power centralization and buffering was facilitated by the fact that in Spain the head of state is constitutionally weak and the premier serves as leader of the party that forms the government.

Until a similar process took place in Romania in the late 1990s, neoliberal ideas had very limited impact on policy. The first ex-communist cabinet inaugurated in 1990 had a coherent policy team committed to neoliberalism, but the cabinet did not control the policy process. Soon after its inauguration, the cabinet clashed with the powerful presidential institution and the branch of the ruling party that opposed neoliberal reforms. This led to a stop-and-go policy process culminating in the collapse of the cabinet. The next government (1992-1996) was strongly supported by the president and the ruling party and was dominated by a coherent policy team of heterodox economists who pushed through heterodox reforms even in the face of opposition from international financial organizations and a growing community of domestic economists based in Romanian academia and the central bank who advocated a local version of neoliberalism. When the latter had a chance to institutionalize their ideas with the support of the IMF, the central bank and a newly-elected center-right political coalition (1997-2000), reforms did not materialize because the economic policy team lacked intellectual coherence, had no control over

the policy process and was inconsistently supported by the ruling coalition and the president.

Finally, all the posited variables were in place during the 2000-2004 spell in power of the returning ex-communists, whose cabinet was controlled by advocates of disembedded neoliberalism. The only time when a neoliberal idea (replacing progressive taxation with a flat tax) failed to materialize under this government's leadership was when Romania's powerful presidential institution used its veto power. This evidence would seem to buttress the argument for the simultaneous occurrence of all these variables for the observed outcome to occur. Yet, crucially, while important, these political and institutional dynamics do not tell us why the cabinet policy teams had some ideas and not others.

Cross-national variation in the kind of neoliberal ideas shared by the cabinet policy team was the result of variations in domestic processes of translation

As the Spanish Socialists were preparing to run in the 1982 election, Spanish developmentalism and its indicative planning outgrowth had largely run their course. As for Keynesianism, my analysis shows that this economic program had been diluted with German neoclassical ideas from its very inception and had only a handful of marginal proponents left in academia, never mind in politics. The evidence strongly suggests that as early as the late 1970s neoliberalism had become dominant in Spanish economics, particularly among the dozen or so Spanish economists whose authority as

academics and as officials was internationally recognized. It was from this academic-bureaucratic complex centered around the central bank that the Socialist neoliberal policy teams entered the party, just at the same time as the German social-democrats helped facilitate the Socialists' swing from neo-Marxism to the German mix of social-democracy and orthodox macroeconomics.

But these epistemic elites did not simply replicate the neoclassical, monetarist, rational expectations and supply-side innovations that constitute neoliberalism. Instead, they framed it in political narratives about “Europeanization”, grafted it on select domestic structuralist ideas and “edited” it with pre-existing adaptations of German neoclassical (or “ordoliberal”) ideas such as the “social market economy” or developmentalist ones like fostering external competitiveness through public investments in industrial champions. The framing, grafting and editing that made up the translation of neoliberalism in the Spanish context were not strictly endogenous. The academic-bureaucratic elites involved had received their postgraduate training in Western universities where they had studied with prominent neoclassical economists. Moreover, during the 1970s the ensemble of Spanish economics had become a professional field remarkable for the pace with which it built transnational networks with Western academia and policy institutions.

In contrast to Spain, in Romania there was a robust non-neoliberal alternative: heterodox economics. An internally dynamic cocktail of selective neo-structuralist, neoclassical syndissertation and developmentalist ideas, heterodoxy was strongly represented in a divided academia as well as in the powerful “statist” wing of the ex-

communists. The epistemic authority of these ideas was contested by a growing network of economists who, like their Spanish peers, came from an academic-bureaucratic complex centered around the central bank, an institution that resembled its Spanish counterpart from the standpoint of its epistemic authority. The translation activities carried out here resulted in the codification of a more orthodox variety of neoliberalism in which pre-existing but reconstructed intellectual traditions that survived the collapse of national-Stalinism were alloyed with neoliberalism not to dilute it, as it happened in Spain, but rather to radicalize its market-libertarian implications.

The pace of translation increased with the degree of transnationalization of domestic policy actors

In Spain the Western transition from Keynesianism to neoliberalism found the leading economists already with doctorates from prominent British and American universities, where most studied with luminaries of the neoclassical opposition to the more interventionist forms of Keynesianism during the postwar decades. This training made possible a swift embrace of neoliberalism, a process implemented in Spain even before neoliberalism's triumph became obvious in the West. Transnationalization affected the Socialists themselves. Well before they entered office, their economic policy program had been changed by the social-democrats from Germany, a country where monetarism had been a point of partisan consensus since the early 1970s.

Transnationalization was equally important in Romania, albeit in different ways. Both the emergence of neoliberal networks as well as the gradual emasculating of heterodoxy could not have taken place without the transnationalization of the translation process. Like in Spain, international certification through Western training played a decisive role in strengthening the neoliberals, although this process took place less through postgraduate education and more through research stints in IFIs, visiting fellowships in Western academic departments, Western sponsorship of local research and the replication of a Western postgraduate program in Bucharest. As heterodox economists were enrolled in these forms of transnational socialization they gradually lost their epistemic solidarity and dropped their veto to the core of the neoliberal program, an outcome which had become obvious by the time the ex-communists were returned to office after the 2000 elections and after having mainstreamed their economic program with the assistance of their new transnational ties with, once again, the German social-democrats. Consequently, by the early 2000s heterodoxy all but disappeared from economic debates that now were defined by neoliberalism's protean conceptual boundaries.

Why This Matters and What It Tells Us More Broadly

The main theoretical contribution of this dissertation is to bring to the study of political economy a school of sociological thought previously unexploited in the field. I argue that political science scholarship on the neoliberal turn can benefit from leaving behind its roots in the "world culture" approach to the sociology of diffusion

and should adopt instead the more dynamic and reflexive sociology of translation. Based on this approach I propose that the spread of neoliberalism across borders is a more dynamic process than previously held in the sense that domestic translators are not merely passive and unreflexive receivers of Western scripts. Rather, they can be expected to frame, graft and edit ideas. This can result in ideational innovations influenced by domestic repertoires of ideas, making neoliberal ideas appear less incongruent to a domestic audience.

I further suggest that translation is not carried out by isolated individual diffusers/brokers and domestic translators. Instead, I show that it takes place predominantly through transnational networks linking domestic translators with external ones. This claim holds the potential to simplify research design by focusing our attention on networks linking external and domestic translators rather than on the traditional troika of diffusers, brokers and translators. At the same time, by endowing them with superior epistemic, status and material resources, these transnational linkages enable translators to fight jurisdictional battles against the opponents of neoliberalism. In this way one can overcome a static understanding of diffusion as hamstrung by the domestic resonance of the ideas to be diffused; a lack of interest in the interpretive agency of domestic translators of new ideas; and the compression of the transnational spectrum of diffusers to epistemic communities of economists and international organizations.

As a French sociologist of science put it bluntly, “[t]he social sciences have always been connected to a political project” (Latour 2004: 41). Economics is no

exception. The ideas with which policymakers deal with economic challenges seem to be creative interpretations developed in the encounter between core and peripheral epistemic elites. Without the ideas that constituted this “economics,” the material structures in which those transitions took place could have led Spain and Romania in other directions. The transnational politics of translation thus emerges as a consequential locus for understanding how very different economies can be re-engineered as the performative activity of ideational innovations.

Outline by Chapters

This study has eleven chapters: an introduction, a theory chapter, conclusions and four empirical chapters for each of the two countries.

Chapter two unpacks the main concepts used in the dissertation (economic ideas and neoliberalism), introduces its main theoretical assumptions and reviews the claims of existing explanations of the diffusion of neoliberalism. Next, it introduces the theoretical base that informs the research hypotheses of the study and then continues with a detailed presentation of those hypotheses. The chapter ends with a discussion of the data and methodology used in the empirical chapters.

Chapter three is the first empirical chapter and is made up of two parts. The first part examines two alternative explanations of the Spanish turn to neoliberalism: one based on rational learning and one based on social emulation. Both are found wanting and rejected. The second half of this chapter provides the background to

Spanish economic history, with an emphasis on the postwar years and the economic policies of the first democratic governments (1977-1982).

Chapter four takes a first stab at the translation of neoliberalism in Spain. In the first half I evaluate the main claims of the Western neoliberal revolution in economics by comparing them with the claims of the postwar neo-Keynesian consensus. The second half begins with an exploration of the conditions that facilitated the rise of neoliberalism in Spain by looking at the characteristics of the domestic institutional infrastructure. This part of the chapter walks the reader through the economic policy process in Spain and focuses on the central bank, the ministry of finance, the Socialist Party and the ties emerging between them and academic economists.

Chapter five addresses translation per se. It opens with the examination of the degree of resonance between neoliberalism and existing economic theories. Then, I turn to a discussion of the actual translation processes that hybridized neoliberalism with select ordoliberal and developmentalist ideas, thus enabling the emergence of “embedded neoliberalism.” The chapter ends with a discussion of the “paths not taken”, or the sets of economic ideas that failed to make an impact in Spain during the critical junctures of its economic transition.

Chapter six tackles the story of the translators of neoliberalism. Separate sections are devoted to Western-trained economists, international organizations, think-tanks and transnational political parties. Each section examines specific aspects of each translator: what kind of foreign training in economics had a real impact and

through what mechanisms did IOs, internationalized think-tanks and transnational party networks intervene in domestic economic debate.

Chapter seven begins by reviewing existing explanations of Romania's belated embrace of neoliberalism. To this end, the chapter begins with a review of accounts anchored in structuralism, interest groups and institutions. These explanations are rejected and the main argument made in the chapters on Romania is introduced. The second part of the chapter provides the historical background necessary to understand the historical narratives that mediated the translation of neoliberalism.

Chapter eight introduces the intellectual uncertainty in which Western economics found itself with regard to the east European transition and reviews the main schools of thought that helped reduce it: shock therapy and gradualism. The second part of the chapter maps out the extent to which distinct elements of these approaches were adopted in policy practice. To this end, I analyze the partial and gradualist neoliberal reforms of the first two ex-communist governments (1990-1992), the heterodox backlash of the third (1992-1996), the shock therapy neoliberalism of the center-right government (1996-2000) and, finally, the "Third Way" neoliberalism of the fourth ex-communist government (2000-2004). The last part of the chapter examines the institutional variables posited to shape the effect of neoliberal ideas on policy.

Chapter nine looks at translation per se. It begins by examining the extent to which neoliberalism could have resonated with domestic economic theories and then analyzes the competition between neoliberalism and alternative economic ideas during

the 1990s. Next, the chapter investigates the processes that led to the radicalization of Romanian neoliberalism and to the fading out of its heterodox foe.

Chapter ten is the story of the Romanian translators of neoliberalism. As in the equivalent chapter for Spain, Western-trained economists, IOs, think-tanks and transnational political party networks are analyzed in turn in separate sections.

Finally, the conclusions chapter takes each of the three hypotheses advanced by the dissertation and assesses the robustness of their causal power through a comparative analysis of the evidence presented in the empirical chapters. The chapter ends with suggestions for future empirical, theoretical and methodological pathways in the study of the translation of neoliberalism into national varieties.

Chapter 2 - Neoliberalism Across Nations: An Analytical Framework

Overview

This chapter aims to build a new analytical framework for studying the spread of neoliberal economic ideas across borders. The building of the analytical framework of this study departed from two observations. First, existing explanations of the diffusion of neoliberalism relegate neoliberal ideas to a secondary causal role at best. Second, while the constructivist tradition in IPE shows that economic ideas matter, a systematic discussion of how to study the spread of economic ideas from the perspective of this research tradition has been missing.¹

I. Premises

Objectives, Organization, Disclaimers

To build the analytical framework, I first unpacked the main concepts used in this framework: economic ideas and neoliberalism. Next, the theoretical claims of

¹ A series of constructivist comparative and international political economy studies on industrial democracies (McNamara, 1998; Marcussen, 2000; 2001, 2002; Seabrooke 2001; Schmidt 2002, 2006a) and developing countries (Bockmann and Eyal 2002; Chwieroth 2007; 2008) argued that the shift from the policies and institutions of postwar ‘embedded liberalism’ (Ruggie 1983) to macroeconomic regimes emphasizing supply-side policies was the result of the intellectual decline of Keynesianism and of the corresponding revamping of neoclassical orthodoxy with such innovations as monetarism, public choice or rational expectations. This argument was formulated mainly against approaches failed to determine their autonomous explanatory value relative to other variables (Hall 1986; Sikkink 1991; Keohane and Goldstein 1993).¹ For extensive reviews of the state of these subfields see Cohen 2008; Blyth 2009.

existing explanations of the diffusion of neoliberalism were reviewed in detail. Then, I introduced the theoretical base on which I draw in order to build the following research propositions: *The transnational spread of neoliberal ideas is shaped and made possible by domestic translation. In turn, the domestic translation of neoliberal ideas is shaped by temporal, institutional and cultural factors, while the supply of translators is shaped by the extent to which domestic economists, political party leaderships and think-tanks are embedded in transnational networks that advocate for or enable the adoption of neoliberal ideas.* The chapter ends with a presentation of those mechanisms and with a discussion of the data and methodology used in the empirical chapters.

It is very important to stress at this point that the ambit of this analytical framework is limited to the transnational spread of neoliberal economic ideas. Since the spread of neoliberal institutions is a more complex process of which the spread of neoliberal ideas is only a part, the analytical model proposed here should be construed as applicable specifically to the latter process. Therefore, the main added value of the present chapter is to contribute to already existing constructivist explanations of neoliberal transformations by explaining how the neoliberal ideas that made those transformations possible became dominant among domestic policy elites. In subsidiary, the framework covers the strong correlation between neoliberal ideas and neoliberal policies whenever neoliberal economists (professional or otherwise) controlled the most important public institutions that make economic policy.

Basic Concepts

Economic ideas

I define economic ideas to mean development programs plus historical narratives. To reach this conclusion I departed from the puzzling findings of a study on the uses of the term “neoliberalism” in contemporary social science. The study found that those who employ this popular term as an independent variable often do not define it (65% of articles) or, when they do, they associate it with different conceptual categories: political ideology, economic paradigm, development template and a technocratic list of policies² (Boas and Gans-Morse 2009). While the definition of neoliberalism as a set of policies is the most popular (72% of all articles), its definition as a set of ideas (“ideology”, “development” model”, “paradigm”) is shared by the remainingscholarship. . Using all three terms confuses more than in clarifies, especially given the fact that it is hard to define the relationship between ideology, on the one hand, and development models and academic paradigms on the other hand.

Scholars who equate “neoliberalism” or “developmentalism” with “ideology” refer to general and normative ideas about the proper role of individuals versus collectives or to the use of values such as freedom or solidarity, deployed to buttress the case for or against neoliberalism. This is too general a

² The study found three sets of policies that are considered as neoliberal: liberalization (of price controls, capital markets and trade barriers), withdrawal of the state from the economy (privatization of public firms) and macroeconomic austerity (tight control of the money supply, low deficits, low inflation, the elimination of subsidies).

definition and leaves the researcher unable to distinguish between neoliberalism and related normative ideas with different prescriptive implications.³

By contrast, defining economic ideas as *development programs* traceable to academic paradigms is more concrete. In the Boas and Gans-Morse study, the term “development model” is defined as a prescriptive “sets of economic theories linking disparate policies together into a coherent recipe for growth or modernization; prescriptions for the proper role of key actors [...]; and an explicitly political project to carry out these prescriptions and ensure the actors play by the rules of the game.” (Boas and Gans-Morse 2009: 144). Traceable in academic articles and books, policy memos, position statements, early warning reports etc., they are the kind of ideational material that is most causally proximate to policy as they chart clear and specific courses of action for policymakers.

Constituting the epistemic core of development models, *paradigms* are underlying theoretical and ontological assumptions about how relations among markets, states and societies operate. For example, the combination between neoclassical economics, monetarism, public choice theory, rational expectations and New Public Management theory is seen as marking the neoliberal economics paradigm.⁴ Traceable in seminal theoretical texts and in other abstract academic

³For example, David Caruthers’ (2001: 345) definition of neoliberalism as an “ideology that seeks to restrict the state to a minimum and to maximize the scope of individual freedom” can be applied to at least three more liberal economic traditions: classic liberalism, libertarianism, ordoliberalism. In a similar vein, Jacqueline Best argued that relative to Keynesianism, neoliberalism resembles Marxist economics in that it pushes for the idea of the universality of a technical model of the world economy in which the politics that makes national experiments possible is normatively rejected (Best, 2005:124–5, 127).

⁴ Unfortunately, in the practice of social science practice terminological confusions are rife and often reflect imperfect knowledge of economic theory. As Boas and Gans-Morse show (2009:

publications written by esteemed scholars” (Campbell 2001: 170), the diffusion of economic paradigms can be directly observed.⁵ Yet this perspective risks depoliticizing or sterilizing the concept, as it limits the debate to the discipline of economics and obscures the importance of the political contention that may accompany the adoption of ideational innovations.

Given these limitations of existing definitions, what is to be done? First, it is important to begin by defining what does *not* constitute an economic idea from a constructivist perspective. This means the rejection of the rationalist reduction of ideas to a type of *information* about potential pay-off structures.⁶ Since intersubjectivity is at the heart of the constructivist program, it makes sense to define ideas as shared normative and causal statements⁷ that describe what

144), in social science the neoliberal paradigm is conflated with neoclassical economic theory. This is highly problematic. Such confluences make it difficult to distinguish between the neoclassical-Keynesian syndissertation that rested at the basis of postwar “Keynesianism” and the syndissertation between the neoclassical tradition and such innovations as monetarism and rational expectations that undergird contemporary “neoliberalism”. It also does not reflect the reality that “neoliberalism” in 1991 meant something else than it means in 2010 and that in 1976 “Keynesianism” meant one thing in Spain and something else in Britain.

⁵ Paradigms have the most profound effects on policy, as they define the very menu of policy and tend to be path dependent (Pierson 1981: 260; Blyth 2002: 37). Paradigms effect “third level change” because what changes are not only the instrument of policy (first order change), or the instruments and the setting together (second order change) but the hierarchy of goals behind policy”) (Hall 1993: 278).

⁶ In the rationalist framework, ideas are exogenous to material interests and their function of ideas could be that of “hooks” upon which strategic politicians graft their objectives (Shepsle 1985) or as “focal points” that makes it possible for actors to reach a common goal and coordinate their actions so as a more optimal equilibrium is reached (Garret and Weingast 1993; Keohane and Goldstein 1995). What makes ideas transfer in this conceptualization is therefore their distributive consequences: new ideas reveals possible favorable courses of action that actors with given material interests did not consider previously. In turn, new ideas are transformed (translated) in accordance to fit these given material interests.

⁷ According to Mark Blyth, the scientific and the normative aspects of economic ideas are intrinsically linked since “all positive statements about the causal order of the economy necessarily imply value trade-offs and hence different patterns of distribution.” (Blyth 2002: 11). For a similar perspective see Woll (2008: 15).

constitutes the economy, how its constitutive elements should work and what factors inhibit proper functioning of the economy.⁸

I hereby suggest a solution that maintains the twin imperatives of clarity and resistance to terminological sterilization: our understanding of “economic ideas” should be narrowed down to *development programs* and *historical narratives*. As suggested above, the most important payoff of the term “development models” is that it has a clear and inclusive relationship with the useful term of “academic paradigms.”

In turn, historical narratives, understood as textual artifacts containing lessons about other policy contexts where the development model was tested can matter just as much. This is because historical narratives can be used to politically adjudicate between competing paradigms⁹ and structure perceptions of what is feasible, possible and desirable (Hay 2001: 199). Historical narratives also serve as experimental artifacts (“evidence”) for certain economic arguments, as part of the performative nature of modern economics (McKenzie et al 2007; Muniesa and Callon 2009). In sum, development models are the “theory” and historical narratives are part of the “demonstration.” What is spread across national policy jurisdictions is not the practice of a new idea as such, but “edited” accounts of this practice, informed by the historical narrative (Sahlin-Andersson 2007). In a sense, then, the developmental model can be understood as the ideational

⁸ To build this definition I drew inspiration from the work of Peter Hall (1993), Colin Hay (2001), Mark Blyth (2002) and Marion Fourcade (2009).

⁹ For example, in my research I found that the conservative narrative of the 1979 Winter of Discontent in Britain played a crucial role for advocating against the technical case for reflationary policies in early 1980s Spain.

blueprint, and the historical narrative as local insights into how that blueprint must be adapted to suit the new environment.

Neoliberalism

As noted, recent popularity of the concept of neoliberalism on the agenda of social sciences has been characterized by a surprising lack of precision in the use of the term.¹⁰ The most notable definitional problem is that it is conflated either with selected schools of thought in economics (the spectrum varies from classical liberalism to the Austrian School), or with given policy templates (the Washington Consensus, Margaret Thatcher's economic program etc.). While these do indeed represent various faces of neoliberalism, the relationships among them are not spelled out clearly and parsimoniously, with "ideas," "policies" and "institutions" mixed in an unsystematic and sometimes haphazard fashion.¹¹

This dissertation embraces a definitional perspective that aims to balance elegance and complexity. First, I associate the neoliberal development program with the spectrum of ideas that grew out of neoclassical economics in the second half of the 20th century to include such intellectual innovations as monetarist,

¹⁰ The search term "neoliberalism" rendered 65,800 hits on Google Scholar, relative to 32,300 for Keynesianism (Last search February 4, 2009).

¹¹ Thus, according to Campbell and Pedersen (2001), neoliberalism is: "[a] heterogeneous set of institutions consisting of various ideas, social and economic policies, and ways of organizing political and economic activity[...] Ideally, it includes formal institutions, such as minimalist welfare state, taxation and business regulation programs; flexible labor markets and decentralized capital-labor relations unencumbered by strong unions and collective bargaining; and the absence to international capital mobility. It includes institutionalized normative principles favoring free-market solutions to economic problems, rather than bargaining or indicative planning, and a dedication to controlling inflation even at the expense of full employment. It includes institutionalized cognitive principles, notably a deep, taken for granted belief in neoclassical economics." (Campbell and Pedersen 2001: 5).

supply-side economics, public choice theory and New Public Management.¹²

Accordingly, neoliberalism should be distinguished from other older off-shoots of neoclassicism, such as the Austrian School of economics or ordoliberalism. The concrete causal axioms and policy templates that constitute the neoliberal paradigm can be traced in policy memos, position statements, early warning reports, etc.

Thus, neoliberals posit causal links between tax cuts and capital investment (rather than consumption) or between the rigidity of employment protection legislation and unemployment figures. Also, a litany of neoliberal policy templates (often identified with Williamson's original Washington Consensus) can be derived from the neoliberal policy paradigms: reducing inflation and budget deficits (even at the cost of employment), privatization, the scrapping of industrial policy, lower marginal tax rates and reduced corporate income tax rates, deregulation of financial instruments, decentralization and flexibilization of labor protection and the use of market principles in public services (for an overview of the neoliberal program see Heilbroner and Milberg, 1995).¹³

¹² Institutional economics typically represents the chief foil of neoclassical economics in modern capitalist history (Heilbroner and Milberg 1995). Yet the neoliberal paradigm cannot be boiled down to these "technical schools."

¹³ The adoption of selected neoliberal programs could occur separately from conversion to the economic paradigm itself. The mere adoption of a privatization program by a government does not warrant the conclusion that that government was compelled by the wider neoliberal paradigm. It merely signals a crack in the old interventionist consensus. Also, economic doctrines associated with neoliberalism can be downgraded to the status of programs. For example, scholarship on the spread of neoliberalism to the UK, (Hay 2001: 209-14; Epstein and Schor 1990; Panitch and Leys 1997: 121-22) showed that between 1974 and 1979 the Labor government used monetarism as an instrument of economic management, rather than as an economic doctrine, having not abandoned during this period its commitment to full employment, the mixed economy, the comprehensive welfare state and other markers of the paradigm known as welfare Keynesianism.

The inclusion of historical narratives in the concept of neoliberalism may be controversial. Yet, it has been shown that the supporters of neoliberalism often give dramatized causal stories about the failure of developmentalism, such as the 1979 “winter of discontent” in Britain or about capital flight under globalization, as much weight as they give to, say, monetarism (Hay 1996; 1998; 1999). According to Colin Hay, this is because the ability of policy agents to assess the range of strategic options available is constrained by perceptions of what is feasible, possible and desirable and these perceptions are, in turn, likely to be shaped not only by policy paradigms and perceptions of institutional resources, but also by the historical lessons they draw from other contexts (Hay 2001: 199).¹⁴

Basic Assumptions

The theoretical framework of this study is theoretically anchored in the constructivist tradition in international political economy. As such, it departs from the assumption that agents are not socialized into an *a priori* efficient outcome (e.g. neoliberal reforms). Rather, such outcomes are contingent on how the exogenous shocks and interests materialists talk about are interpreted, sustained

¹⁴ As a recent review of constructivist political economy scholarship put it, “[a] research focus on the construction of crises would allow analysis to better recognize the importance of expressive struggles over the “lessons of history,” as intensified debate over the meaning of contemporary events often fosters reinterpretations of past wars and crises.” (Widmeier et al 2007: 755). The example given by Widmeier et al (2007: 755) are the causal stories about the Great Depression: [i]n the context of debates over the stagflation of the 1970s, the lessons of the Great Depression came under new discussion. Keynesian “market failure” constructions, which had dominated discourses from the 1930s onward with their stress on the endogenous instability of market expectations, increasingly yielded to more classical “state failure” constructions which cast macroeconomic expectations as inherently destabilizing” (Widmeier et al 2007: 755; see mainly Blyth 2002).

and transformed by agents' intersubjective understandings,¹⁵ (Blyth 2006; Widmeier et al 2007).¹⁶ Even something frequently seen as glaringly "obvious", such as capitalists' or labor's preferences cannot be simply abstracted from their positions, as these actors may quite often differ over what their interests are under certain conditions (Blyth 2002; Widmeier 2004; Woll 2008).¹⁷ If this is so, then in situations as disruptive as those of Romanian and Spanish economic transitions, the analysis of the economic ideas of policy elites becomes crucial for understanding what policy options were imaginable in the first place.

The constructivist postulate that the global economy is not solely a world of material power, but also a system of shared ideas inspired my focus on how the economic ideas that "make the world hang together" acquire universal status. But since sophisticated constructivist research has not focused on this aspect, I sought

¹⁵ Intersubjective understandings differ from merely subjective understandings because they exist at the collective, rather than at the individual level, thus having a more robust likelihood of sustainability over time (Wendt 1999: 121-134).

¹⁶ Or, as a recent review of the constructivist literature put it, "World War II did not cause the Bretton Woods Agreements. Rather, what agents thought caused World War II caused the Bretton Woods Agreements to take their particular form." (Wiedemeier et al 2007: 749).

¹⁷ In a widely-cited article almost two decades ago, Peter A. Hall (1993) remarked that "those who use the concept [of ideas n.a.] have yet to develop an overarching image of the way in which ideas fit into the policy process or a clear conception of how those ideas might change" (Hall 1993: 13, 276). Much has changed since then. A generation of constructivist IPE and CPE scholars began to give very specific accounts of how ideas affect economic policy as well as the workings of the economy itself (Helleiner 1994; Woods 1995; Hay 1997; McNamara 1997; Ziegler 1997; Marcussen 2000; Verdun 1999; Rosamond 1999; Parsons 2000; Legro 2000; Amoore et al 2000; Seabrooke 2001; Schmidt 2002, 2006a, 2006b; Blyth 2002; Culpepper 2003; Abdelal 2001, 2005; Best 2005; Sinclair 2005; Broome and Seabrooke 2006; Chwieroth 2007a, 2007b, 2008; Epstein 2008). For an *identity-oriented* strand (Barnett and Finnemore 2004; Abdelal 2001; 2007; Abdelal et al 2006), the social purpose that agents "inject" in the economy is shaped by identities constituted at different levels, whether they be entire nations (Abdelal 2001), or international organizations (Barnett and Finnemore 2004). While *cognitivist* constructivists emphasize the causal role of schemas, scripts, and analogies in a world permeated by calculable risk (Widmaier 2005; Denzau and Roy 2007), for many comparative political economists it is *uncertainty* (and not risk) that enjoys analytical primacy (Schmidt 2002; Blyth 2002, 2006; Hay 2004; Kristensen and Zeitlin 2005). Finally, *discourse* paves the path into constructivism for scholarship of postmodern vintage (deGoede 2005; MacKenzie 2006; MacKenzie, Muniesa and Siu 2007; Epstein 2008). See Blyth (2009).

inspiration in the sociology of translation, in which I found the mechanisms used to “edit” diffused ideas in the domestic context.

This study also shares the “transformationalist” assumption on the nature of authority in the international system according to which domestic processes are not isolated, but are shaped by external factors. If this assumption is sound, then the examination of the processes that constitute the diffusion of new economic ideas should take place *across*-rather than strictly *within*-the sub-disciplinary boundaries separating IPE and CPE. According to the “transformationalist” school of thought in IR, state sovereignty is porous, “unbundling” and contested, rather than discrete and taken for granted, with the state being only one type of actor among others (Zurn and Joerges 2005; Djelic and Sahlin Andersson 2006; Rosenau 1997; Ruggie 1992; Kobrin 2002).¹⁸ In addition to public actors situated at the systemic level (international organizations), state control is being transformed by various forms of private authority, ranging from business-self-regulation networks (Cutler et al. 1999; Hall and Biersteker 2002; Schmidt 2004) to transnational epistemic communities (Haas 1992; Djelic and Kleiner 2006). My analytical framework draws on this assumption to boldly expand the spectrum of potential advocates for neoliberal ideas.

¹⁸ Indeed, the high degree of interdependence and the complicated entanglement of political agency in contemporary international relations rendered “patchwork” political structures (Ruggie 1983; Kobrin 2002; Keohane 2005) that are best studied as part of transnational governance rather than as inter-national relations or as national politics. In this world, multi-layered governance networks of actors challenge and redefine state control (Lynn et al 2001; Knill and Lemkuhl 2002; O’Brien et al 2000; Majone 1996; Moran 2002).

II. Literature Review

Overview of the literature

The need for an analytical framework for studying the spread of neoliberalism across nations has two main sources.

First, economic ideas are not considered important in orthodox studies in which the dependent variable of interest is the diffusion of new policies, policy instruments (“blueprints”), or policy institutions. However, this approach precludes the possibility that the diffusion of economic policies can actually be preceded and shaped by a diffusion of economic ideas to which those policies can be traced. The many substrands of this literature are plagued by numerous internal contradictions that my review presents in detail. Most importantly, I challenge the materialist political economy strands that see economic ideas as epiphenomenal to the formation of the interests of the key actors in the policy process: state managers, capitalists, and labor. In the first part of the literature review I show that the scope of this claim is not consistent with what materialists have claimed.

Secondly, constructivists claim that policy change cannot be understood properly without demonstrating a change in the economic ideas with which policy makers make sense of the economy. Some constructivists have shown that in situations of uncertainty, the indeterminacy of interests is severe as economic structures do not determine the singular grounds on which to favor a certain choice set over another. Consequently, agents are unclear as to what their best strategy is. Such situations open the door to idea entrepreneurs who can restructure the interests of agents. Once powerful policy actors redefine their

interests and promote policies defined in the terms of the new ideas, the resulting policy regime is stabilized and develops performative effects.

The main theoretical problem addressed by this dissertation is the following: while constructivists would be best equipped to address this gap since they are the only scholars of political economy to take the causal role of ideas seriously, to date they have not developed a systematic theory of the transnational spread of economic ideas. To fill in this gap, in the second part of the study I will integrate the theoretical innovations of political economy constructivists with the insights developed in two sociological traditions: the sociology of the economic profession and the sociology of translation.

Diffusion studies in Political Economy

Since Galton posited his puzzle on the shared source of marriage laws, social scientists have shown consistent interest in diffusion. A recent survey of the literature reveals that, over the past century, political science journals published 800 articles on the spread of policies and political institutions from one government to another. Significantly, more than half of these articles have been published in the past decade (Graham et al 2008).¹⁹

In this literature, transnational diffusion is defined as the process whereby a government's decision to adopt a policy innovation is influenced by the preexisting choices of other governments. It has been at the core of political economy debates since Collier and Messick's (1975) ground-breaking but largely

¹⁹ The gamut of topics is impressive, ranging from the diffusion of water boiling in a Peruvian village (Rogers 1963) and the diffusion of lotteries from one US state to another (Berry and Berry 1990), to the transnational diffusion of political regime types (Brinks and Coppedge 2006).

ignored study of the transnational diffusion of social security.²⁰ Gourevitch's (1978) classic "second image reversed" put transnational diffusion back on the map and during the 1990s the topic experienced a boom in the form of globalization studies (Garrett 1998; Milner and Keohane 1996). More recently, the "second generation" literature on transnational diffusion in IPE kicked off by Simmons and Elkins (2004) mobilized complex quantitative models and large datasets to demonstrate that national economic policies are not simply endogenously-determined and path-dependent. Rather, they tend to be more unstable and subject to exogenous change. (Simmons and Elkins 2004; 2005; 2006; Braun and Gilardi 2006; Jordana and Levi-Faur 2006; Swank 2006; Lee and Strang 2006; Elkins, Guzman and Simmons et al 2006; Weyland 2007; 2009; Simmons, Dobbin and Garrett 2007; 2008; Mesenguer 2009; Gilardi, Fuglister and Luyet 2009; Messenguer and Gilardi 2009; Gilardi 2010).²¹

Throughout this literature, the dependent variable of interest is the diffusion of new policies, policy instruments ("blueprints"), or policy institutions.²² Many of these studies test the causal effects of elite socialization as a mechanism of diffusion, thus acknowledging the impact of constructivism in IPE, if implicitly so. Nevertheless, they do not consider the possibility that the diffusion of economic policies can be preceded by a diffusion of economic ideas to which those policies can be traced.

²⁰ Americanists have been researching policy diffusion across US states since the 1940s (McVoy 1940; Walker 1969; Gray 1973; Volden 2006).

²¹ For a review of the "foil", the historical-institutionalist perspective on stability through path-dependence in IPE, see Pierson and Skocpol 2002.

²² For example, Elkins and Simmons' (2004) high-impact study compared the explanatory potential of several successive mechanisms for the diffusing of economic liberalization. Fabrizio Gilardi's latest work provides a rich account of the adoption of conservative unemployment policies throughout the OECD (Gilardi 2010).

This position is built on three problematic assumptions: public authority is really (and uniformly) in charge of processes of diffusion; economic policies always diffuse as unprocessed “scripts”; and, at the end of the diffusion process one can only meet unreflexive domestic “receivers” with pre-aligned conceptions of self-interest.. All of these assumptions are, however, problematic.

Undermining this view, recent work in IR shows that state actors are often marginal in economic policy, with private forms of authority taking charge across policy areas (Stange 1996; Hall and Bierstecker, 2002; Cutler, Haufler, and Porter, 1999; Abdelal 2007; Seabrooke and Tsingou 2009) Moreover, this contention is buttressed by a long research tradition of research in IR showing that state actors are often marginal in economic policy, with a lot of delegation to private forms of authority taking place across policy areas (Stange 1996; Hall and Bierstecker, 2002; Cutler, Haufler, and Porter, 1999; Abdelal 2007; Seabrooke and Tsingou 2009). Similarly, other scholars have shown that the receivers of new policies are anything but passive and unreflective. Instead, they tend to actively shape the policies to be diffused after scrutinizing and filtering them through their ideational grounding (Bockman and Eyal 2002). As Kogut and MacPherson (2008: 206) recently put it,

[I]nstitutions are not poured into nations like water into a vessel [...] an adequate account of diffusion should address the microfoundations by which ideas are communicated and legitimated as economic policies

within epistemic communities. Ideas are constructed within social networks and they diffuse within given social and national structures [...].

Another problem of this literature is that it assumes the legitimacy of the diffused policies to be based on “elite proclamation” (Hobson and Seabrooke 2011). While coherent economic policy teams sequestered from broader socio-political influence may make the rules undisturbed in most contexts (Chwieroth 2007), in others legitimacy is much more problematic and calls not for assumptions, but for the kind of empirical investigation that has recently been carried out by “everyday” IPE scholarship (Hobson 2007; Hobson and Seabrooke 2007).

In sum, this recent wave of IPE literature on diffusion has advanced our understanding of how neoliberal policies spread yet this is a scholarship that is still incomplete and rests on unvalidated assumptions. Its claims are nevertheless powerful, as they rest on older research agendas. It is to the examination of these historical that I now turn.

International economic crises and domestic politics

An older materialist explanation of the global spread of neoliberalism emphasized the causal role of structural factors on economic policy (Scharpf 1991; Stallings 1992; 1995; Drazen and Grilli 1993; Williamson 1994; Rodrik 1996; Haggard and Kaufman 1995; Kornai et al 2001; Boix 1998; Solchaga 1996). The main

argument of this school of thought is that the neoliberal turn was a rational response to structural changes in the world economy.

For example, Barbara Stallings (1992) argued that an exogenous shock (i.e. the 1979 second oil shock and the attending monetary policy shift in the US) triggered a regional debt crisis throughout Latin America. This, in turn, led to deep domestic recessions, skyrocketing deficits, high inflation and dependence on IFI funding (with the attending conditionality). When combined with the liberalizing pressures of mobile domestic capitalists, these structural shifts left governments no choice but to embrace neoliberal reforms.²³ Writing on the same events, some scholars observed that the depth of the economic crises of the 1970s correlated with the swiftness and depth of the reforms of the 1980s, the reason being that intense crises incurred high economic costs for delays in adjustment and correlatively reduced the strength of domestic opposition to them (Drazen and Grili 1993; Williamson 1994).²⁴ In the case of Spain, Boix (1994: 27-29), Roca (1991: 362-368) and Bilbao (1991: 251-270) further argued that technological

²³ Some structuralist accounts of reforms (Schleifer and Treisman 2000; Aslund 1999) rely on the assumption that neoliberal policies were the optimal response to the economic crisis of interventionist systems (state socialist or otherwise). This assumption is not only untested and often normatively biased, but is ill-placed to address the observed variation in post-interventionist responses to economic crises. As one reviewer put it, the authors “see neoliberal reform as the only legitimate political agenda for Russia. Politics that favor this agenda, no matter the process, are good; politics that thwart it are bad. Those who accumulate sufficient money or power must be appeased; all others should be ignored, dispossessed, or marginalized. Russia's (admittedly flawed) democratic institutions are viewed mainly as inconvenient obstacles to the technocrats' plans. Existing organizations almost always represent retrograde stakeholders. The rest of the population appears in this account only sporadically as putative beneficiaries of anti-inflation policies and as protesters who must be appeased if they threaten disruption. The reformers know what is best for Russia: politics is bargaining among the most privileged elites; success involves finding slightly less destructive ways for them to profit. The authors are, to understate the case, uncritical about all of this”. (Cook 2001: 177).

²⁴ Similar arguments have been made by students of East European economic transitions, whose dominant working hypodissertation has been that the most radical reforms were adopted by countries in which the recession was the worst (Schleifer and Treisman 2000; Aslund 2002; 2007).

innovation led to the growth of the non-unionized sectors just when unionized economic sectors were in structural decline. This situation gave labor unions no incentives to embrace the wage restraint that makes social democracy possible. As a result, PSOE governments had no choice but resort to orthodox macroeconomic policies.

For still other structuralists (Alvarez et al 1991; Boix 1998; Kwon and Pontusson 2005; Huber and Stephens 2001; Calvo and Murillo 2004; Murillo 2002; Murillo and Schrank 2005), partisan differences mediated some of the effects of changes in economic structures. Other like-minded scholars (Haggard and Kaufman 1995; Mainwaring 1999; Packerham 1994) contended that structural pressures were mediated in the domestic arena by institutional variables such as regime type or the degree of centralization of the political party system.²⁵

Economic structuralism offers systematic and elegant accounts of how external and domestic structural incentives made some economic policies possible, while relegating other policies to the dustbin of the economic policy process. Yet, this literature leaves the story incomplete and causally overdetermined. Although international capital markets generated significant pressures on governments to drive down deficits and inflation, many transition governments could achieve these policy objectives not only through cuts in public expenditures and wages (as the Washington Consensus demands), but also by

²⁵ Thus, they argued that the more rooted in society are political parties, the more unlikely will be the popular mobilization against neoliberal policy change. These scholars also contend that the more non-polarized the party system, the more likely will be the neoliberal reforms, because a centralized party system is better prepared to moderate political conflict than a polarized one would. Finally, established democracies are seen as more likely than transition regimes to adopt drastic policy changes with high social costs, as transition regimes project weak political legitimacy, are more instability-prone, and, most importantly, are more pressured to provide support to myriad social groups in order to endure a sufficient degree of political support.

taxing the rich or institutionalizing corporatist industrial relations (Royo 2000; Mosley 2003).

Also, when faced with comparable domestic and external economic constraints, some transition governments pursued neoliberal models, others developed more statist models, and yet others reacted by crafting economic policy hybrids from the two, with no regional pattern being apparent.²⁶ Case studies also suggest that many countries resisted neoliberal reforms, despite prolonged economic crises (Bolivia in 1982-1985, Peru in 1987-1989; Romania in 1990-1993). And even during the paradigmatically neoliberal 1990s, most countries exposed to international policy conditionality successfully opposed IFI-suggested policies (Woods 2006), while others ceased to observe IFIs' advice after adopting the first round of reforms (Pop-Eleches 2009).²⁷

Even when qualified by institutional or partisanship variables, many problems still remain. Kurt Weyland (2003: 24) showed that a fairly disciplined governing party in a centripetal system with two predominant parties was

²⁶ One could speculate based on the materialist logic that it was easier for the state elites of a capitalist country like Spain to shift gears from interventionism to neoliberalism than it was for the elites of a most rigid state socialist country, such as Romania in 1990. After all, in 1982 Spain, the state was a minority owner in the economy, basic market reforms had been institutionalized after 1958 and a managerial and commercial middle class with capitalist skills was already available. By contrast, in 1990, Romania the state owned almost all the economy, Ceausescu's national Stalinism prohibited the initiation of any market reforms, while the available managerial and commercial class had been socialized in working with economic mechanisms tightly controlled by the state, with the black market being the only niche of market relations. This is another explanatory dead-end, however. In the early 1990s Poland was in the same league with Romania, economically speaking, yet its governments adopted neoliberal macroeconomic reforms that were faster and more radical than those of 1980s Spain were. When faced with the aftereffects of the 1970s crises, other capitalist European countries tried to fight economic problems with interventionist approaches. Between 1981 and 1984, socialist governments in Greece, a capitalist country that was economically similar to Spain adopted bold redistributive Keynesian, not neoliberal economic reforms.

²⁷ Pop-Eleches (2009: 24) noted that less than half of Latin American IMF programs in the 1980s were fully implemented and that IMF programs in Eastern Europe did not do much better.

associated with the enactment of neoliberal policies in some cases (Menem's Argentina), but not in "most similar" others (Venezuela under President Perez). Formal institutions also seem to matter little due to the entrenched practices of rule-bending and instability that plague institutional life in many developing countries (Ferreira, Rubio, and Goretti 1998: 41-45; Weyland 2003: 24). As to informal institutions (democratic consolidation regime versus democratic transition regime), some cases fit the profile (Argentina, Brazil, Peru, Portugal, Spain, Slovenia, Slovakia), while many others do not (Bolivia, Hungary, Czech Republic, Poland, Russia). This diversity of national responses suggests that the full range of policy options available to policymakers was broader and that the policy autonomy of state-level elites was greater than the supporters of this brand of economic structuralism envision.²⁸

With regard to the mediating role of partisanship, the relevant literature does not specify why Left party ideology blocked neoliberal policies in some cases, while it proved a surprisingly consistent and vocal advocate in others. When Charles Boix points out that PSOE's "supply-side socialism" was a different variety of neoliberalism than that of various conservative political parties in Europe, he provides an accurate description of the events. Yet Boix fails to account for why PSOE economic policy elites operated with neoliberal categories about deficits, inflation and the role of unions in the first place. Neither does he explain why PSOE's supply-side socialism was a lot more orthodox than that of

²⁸ Writing on social spending in Latin America, Evelyn Huber (1996:164) showed that while many Latin American policymakers generally accepted that the policy status quo was in need of repair, the specific social welfare model to be chosen "reflected the different governments' visions of an appropriate model of the relationship between state and market."

contemporary Portuguese *conservative* governments facing even tougher external and internal structural constraints.²⁹

International economic competition

Rather than focus on economic crises as drivers of policy change, other structuralist accounts place greater emphasis on international economic competition (Krasner 1985; Stockman and Hernandez 1988; Goodman and Pauly 1993). Its advocates contend that inter-state economic competition for capital is the basic feature of the world economic system. This feature creates incentives for state elites to strategically adopt economic policies that are at least as capital-friendly as those of their foreign economic competitors, on the assumption that the aggregate economic growth generated by capital inflows will grant them political and economic rewards. This process of adjustment to the international economic structure does not take place in a void, though. Rather, it is mediated by the institutional capacity of the state vis-à-vis its own society: the stronger the state, the more likely will the state overcome the problems of coordination and distribution that accompany policy change.³⁰

This is a robust literature, yet one wonders why some policymakers see the adoption of policies that meet the preferences of international capital as an elementary condition of aggregate economic growth (e.g. PSOE governments in the early 1980s), whereas others see it as a barrier to national economic development (e.g. Greek government in the early 1980s and Romanian

²⁹ For an edifying discussion of the Spanish-Portuguese contrast, see Fishman forthcoming.

³⁰ In Krasner's foundational work, this capacity is defined along a continuum going from strong (perfect autonomy from society) to weak (the state is constituted by societal groups).

governments in the early 1990s). One is also left wondering why economic competitors of comparable strength choose different policies: why Spain in the 1980s went in a different direction than its Southern European competitors (Greece, Portugal) or why in the early 1990s Romania was experimenting with Gorbachevite economics while its East European competitors (Hungary, Poland) chose to embrace neoliberal economic reforms.

International policy conditionality

A rich structuralist tradition has developed around the concept of international policy conditionality exercised by international institutions (IOs). The core contention of this sophisticated substrand is that the likelihood of the adoption of neoliberal policies demanded by international organizations increases if the adoption is set as a condition for rewards, with the size and speed of these rewards and if threats and promises made by international organizations are credible (Stone 2002; Schimmelfennig and Sedelmeier 2005; Pop-Eleches 2009).³¹ At the domestic level, the IOs change the balance of power among organized interests and policy elites by empowering some and disempowering others, although this selective empowerment is limited by the number of veto points in the domestic institutional system. The most updated version of this argument (Pop-Eleches 2009) enriches the original conditionality model by emphasizing the casual role of

³¹ The credibility of threats unpacked as follows: the IO is able to withhold rewards at little cost, the IO has a consistent record in the allocation of rewards and punishments to its members and associates, the IO displays no internal conflicts on conditionality, monitoring by IO of the target state is effective and, finally, the target state has negligible influence inside the IO. Should conflicts arise between the policy objectives of the IOs deploying conditionality on a given country, it will be more cost-effective for that country to bow to the IO whose rewards that country values the most.

the ideational congruence between IO preferences and the ideational commitments of domestic elites and ordinary citizens.³²

It is important to acknowledge that its parsimonious and elegantly predictive hypotheses represent powerful mechanisms to probe the realities of economic policy change. This literature also generates well-specified and intuitive propositions about interaction effects between international and national-level material structures and societal group preferences. Yet, conditionality is not deployed by IOs with an “either/or” kind of intentionality. Rather, it has been demonstrated that international organizations tend to set a spectrum of policy adjustment options between “low precision” standards and the formulation of imperative demands for ‘faithful patches’ of policy emulation (Jacoby 2004: 6-7).

Such distinctions need to be seriously addressed in empirical studies on the role of IOs in domestic economic policy making. Also, some scholars have shown that governments often want IMF loans because they want external conditions imposed on them rather than viceversa (Vreeland 2003). These critiques about the incompleteness of the conditionality literature invite a number of questions: Why do comparable “high precision” conditionality agreements in some cases (Romania’s agreement with the IMF in the early 1990s and with the

³²This opening to ideas does not mean that Pop-Eleches advocates a constructivist second image reversed. The complex processes that enable the convergence between international and domestic interpretation of crises are not theorized about. Rather, in classic materialist fashion, he infers arguments from the material properties of the international system. “[D]uring periods of worldwide economic crisis and international ideological contestation-such as the debt crisis of the 1980s in the context of the final decade of the Cold War-IMF interventions are more likely to be regarded as thinly disguised impositions of Western economic interests by significant portions of the elite and the population. In such a political context, economic crises are more likely to trigger divergent partisan policy responses from governments of different orientations. [...] During period of global economic expansion and international neoliberal ideological hegemony, the IMF is more likely to be viewed as a technocratic policy adviser. Under such circumstances-as was the case in the ex-communist countries in the 1990s-economic crises trigger non-ideological economic adjustment efforts,[...]”.(Pop-Eleches 2009: 4).

EU and the IMF in the early 2000s) extract extremely different levels of compliance? And why was there high compliance in Spain in the early 1990s, even though international policy conditionality was absent and the IMF merely used consultation procedures with Spanish governments?

“Second image reversed”

A final strand of materialist structuralist literature reviewed here is “second image reversed” institutionalism in international and comparative political economy (Gourevitch 1986; Frieden 1991; Keohane and Milner 1996; Garrett 1998). In a self-conscious attempt to bridge the systemic and the domestic levels of analysis via institutions, its proponents argue that exogenous structures (international capital mobility, international economic crises, etc.) have distributional consequences that can be shown to alter the preferences of domestic interest groups and that the final policy outcomes reflect asymmetries in political leverage between these organized interests.³³ This scholarship cautions that the interests of

³³ Political leverage is measured via preference intensity (actors’ assets or the magnitude of the stakes involved) and organizational ability (costs and benefits of collective action, size of the constituency. While cautioning in the short run that “the forms that these effects take vary cross-nationally due to different institutional as well as political-economic conditions,” some scholars working in this tradition nevertheless maintain that in the long run “institutions change under the pressure of constraints and the lure of opportunities.” (Keohane and Milner 1996: 256). Others, like Geoffrey Garrett (1998) dissent, and show that mediating effects of domestic institutions are bound to be resilient. For example, Garret’s (1998) analysis of the political economy of globalization in contemporary Europe marshals much evidence to show that economic globalization (the systemic variable) rewards not only liberal capitalist economic regimes, but also social democratic corporatism (Garrett). Both regimes manage to institutionalize counter-inflationary regimes (whether via encompassing labor market institutions or by centralizing economic policymaking in the executive), prevent social strife by appropriately compensating the losers and enhancing growth and returns on investment by increasing the skill level of the workforce. This argument resonates well with the arguments of new growth theorists on the complementarity between investment in human capital and returns to investments (Romer 1990; Ashton and Green 1996). In other words, interventionist economic policies are possible only where encompassing labor market institutions are strong, because these institutions are more likely to restrain wage-push inflation via social pacts than isolated groups of workers can. This point is

interest groups do not automatically translate into policy, however. Rather, they are mediated by institutions acting as “brokers” that aggregate conflicting interests into coalitions that then project their interests into policy outcomes.

This literature offers a richly-specified perspective on how pressures originating at the systemic level are domestically mediated. The practice of deriving actors’ interests from their structural position is highly problematic, however. As argued in greater detail below, this practice is of limited use in situations of uncertainty like economic crises, when actors simply don’t know what their structural positions tell them and, consequently, what their interests are (Blyth 2002).³⁴ Furthermore, a circular argument plagues this derivation: preferences are inferred from observed behavior and subsequent observed behavior is explained in terms of inferred preferences (Blyth 1997). Third, there is overwhelming evidence proving that societal interest groups are often uncertain as to what their interests are even when they are not faced with uncertainty caused by economic crises (Haggard and Webb 1993; Bates and Krueger 1993:456; Hall

consistent with the older literature on democratic corporatism (Cameron 1984; Calmfors and Drifill 1988; Soskice 1990).

³⁴ The assumption of structurally-derived preferences was shown to have a controversial record in crucial Latin American, South European and postcommunist transitions to neoliberalism. Thus, despite relatively strong ties to labor, Argentine *Peronistas* (Levitsky 2005), Spanish Socialists (Royo 2001) or the Polish *Solidarnosc* (Ost 2005) decided to implement neoliberal reforms that were patently costly for organized labor.

1997:197; Woll 2008).³⁵ As Cornelia Woll showed, this is also the case in highly institutionalized contexts like the ‘old’ EU member states (EU-15) and the US.³⁶

The examination of the main pillars of the materialist international and comparative political economy literature on transition to neoliberalism highlighted a number of inconsistencies, gaps, and logical problems. To what extent are approaches incorporating the explanatory power of ideas better placed to address the problem of transition to neoliberalism? This possibility is examined in the next section of this chapter.

Rationalist institutionalism

Contra traditionalist rationalist approaches that relegated ideas to epiphenomenal status in political economy processes, the work of rationalist scholar Douglas North (1990) decisively established that without understanding the role of ideological pre-commitments in reducing transaction costs, rationalists are unable to provide adequate explanations of how collective action problems are overcome. Goldstein (1993), Keohane and Goldstein’s (1993), North’s recent work (2005) or Greif’s bold interventions (2005) further softened the rationalist skepticism toward the role of ideas.

³⁵ The claims of the “second image reversed” approach hold only as long as its proponents are able to empirically demonstrate that pressure groups actually matter in the policy process. The evidence here is equivocal, with many studies showing that societal actors often play a less central role in the policymaking process than the pluralists believe (Haggard and Kaufman 1989, 1992a; Nelson 1988; Bates and Krueger 1993:455; Frieden 1991:157, 158), either because they have weak institutional power, or because they are simply uncertain about where their interests lie (Hall 1997:197).

³⁶ Cornelia Woll shows that within less than a decade, former telecom and air transport monopolies abandoned their protectionist preferences and joined competitive multinationals in the demand for global liberalization.

For example, Keohane and Goldstein volume showed how ideas foster cooperation among actors whose interests are not yet realized and help solve multiple equilibria problems by providing focal points. The volume usefully distinguished among ‘principled beliefs’ (normative statements about particular decisions), ‘causal beliefs’ (statements about means-ends relationships) and ‘worldviews’ as well as among the effects that each one of these three categories has on policy. For example, ‘causal ideas’ guide behavior ‘by stipulating causal patterns’ and ‘imply[ing] strategies for the attainment of goals’, while ‘principled ideas’ guide behavior ‘by providing compelling ethical or moral motivations for action’ (Keohane and Goldstein, 1993: 16, 10).³⁷

This rationalist scholarship simultaneously embraces the causal importance of ideas and consigns them to derivative functions. In other words, ideas act as mere explanatory “fillers” for areas where rationalism fails, thus depriving them of autonomous explanatory value (Blyth 1997: 231). Moreover, the ontological individualism of this brand of rationalism dramatically narrows down the definition of ideas to “beliefs” held by individuals, thus dismissing the causal power of the formation and reproduction of systems of ideas that existed prior to individuals’ perceptions. In some cases (Greif 2006), ideas are defined as interchangeably as beliefs and norms, a position that neglects the conceptual tensions between individual-level ideas (beliefs) and social-group level ideas

³⁷ Furthermore, in a significant concession to constructivists, Greif’s recent book goes as far as suggesting that institutions have a significant ideational side that rational choice political economists need to come to terms with, as “the motivation provided by beliefs and norms...is the linchpin of institutions” (Greif 2006: 28, 45) and institutions “provide individuals with the cognitive, coordinative, normative, and informational micro-foundations...[that]...motivate them” (Greif 2006: 14).

(norms). Finally, as Yee (1997: 1024) pointed out, this approach is not equipped to account for the selection mechanisms that marginalize some ideas and give pride of place to others, while ignoring the social context from which economic ideas emerged in the first place.

Historical institutionalism

Historical institutionalists were quicker to take ideas seriously and overcome some of the limitations of the rationalist camp in political economy (Weir and Skocpol 1985; Weir 1989; Hall 1989, 1993; Skocpol 1992; Thelen and Steinmo 1992; Weir 1992; Katzenstein 1993; Rueschmeyer and Skocpol 1996).³⁸

Anchored in a comparative historical perspective, these scholars focused on the historical processes that led to the emergence, institutionalization and decay of what Peter A. Hall called “policy paradigms,” i.e. theoretical and ontological assumptions that define the very menu of policy (Hall 1993). They were also more careful to specify the importance of cultural resonance as a filter of the causal effects of economic ideas.

Thus, Weir and Skocpol (1985) insisted that the basic condition of the causal role for ideas is that they have a good “degree of fit” with the ideas of key institutions and individual policymakers. Peter A. Hall (1986) took this insight

³⁸At least since the mid 1980s, historical institutionalists began to take ideas seriously and to give them as much attention as they gave interest-based explanations. Early historical institutionalism in sociology and comparative political economy (Katzenstein 1978; Evans, Rueschemeyer, and Skocpol 1985; Hall 1986) assumed that the material interests of economic and political actors were mediated by institutions. For example, Weir and Skocpol (1985) showed that the adoption of the Keynesian paradigm by policymakers during the Great Depression led to a turnaround in the economic policy course. At the same time, they insisted that divergent institutional opportunities available to economists in Sweden, Britain and the US led to varying forms and speeds of adoption of Keynesianism in these countries

further and argued that ideas matter if they resonate with the structure of political discourse at the national level. Hall (1993) also argued that that paradigm shifts are more likely to be result of political interventions than of the accumulation of scientific anomalies.

These are important scholarly innovations, yet they are not without their problems. By tying ideas so closely to institutions, historical institutionalists do not specify *when* ideas determine the policy outcome *by themselves*, independently of other plausible factors (Blyth 1997: 235-238; Blyth 2002: 22-23). Or, the real challenge in making the case for the causal role of ideas is to demonstrate that “[f]ar from being congruent with a nation’s political discourse, ideas appear to be powerful only to the extent that they can challenge and subvert existing discourses and thus transform institutions” (Blyth 2002:22). Historical institutionalists also neglected to examine how actors frame economic ideas to convince various policy publics of their appropriateness (Yee 1996; Campbell 2001: 162). In other words, rather than assume the “degree of fit” as a given, scholarship is called to theorize about how framing *makes* ideas fit. Finally, by emphasizing the structural characteristics of state power, historical institutionalists obscure the variation in the ability of state elites to mobilize or to be mobilized by outside technical elites endowed with superior epistemic authority (Ziegler 1997: 13).

This dissertation further submits that historical institutionalist accounts do not provide systematic accounts of how policy advocates came to have some ideas and not others. Simply describing the ideational identity of some policy groups

without theorizing the contentious politics of ideas fails to tell us very much about why alternative ideas did not take hold or at least why their advocates did not put up a stronger fight. If Peter Hall is right and the accumulation of anomalies is not wholly consequential, is this process of accumulation an objective fact, or a historical artifact involving the interpretive and performative agency of actors? And how does this agentic intervention affect the “degree of fit” in the first place? Finally, what would change in these historical-institutionalist models if they were applied not to the shift from Keynesianism to neoliberalism in democratic systems, but to the embrace of neoliberal ideas, institutions and policies in countries departing from policy paradigms of different kinds (e.g. authoritarian corporatism in the case of Spain, national Stalinism in the case of Romania)?

This literature review highlighted a considerable number of theoretical and empirical gaps in the existing structuralist-materialist and institutionalist literature on the shift to neoliberal policies. The next section turns to the review of the potential of constructivist IPE to address the diffusion of the neoliberal ideas to which neoliberal institutions can be traced.

III. Analytical Framework

The Promise of Constructivist Political Economy

Why Neoliberalism Also Matters as a Set of Ideas

Unlike historical and rationalist institutionalist accounts that view institutions as primary vehicles of uncertainty reduction in times of crisis, constructivists argue that given the indeterminacy of interests in moments of crisis, institutional supply

would be random or impossible. In Blyth's (2002) work on economic paradigm shifts in Sweden and the U.S., the policy actors' reliance on ideas is explained showing that ideas define what the appropriate" interrelations of the economy are, coordinate agents' expectations around "both a scientific and a normative critique of the existing economy and polity, and provide blueprints that specify how these elements *should* be constructed" via specific courses of action (Blyth 2002: 37).

But economic ideas define not only causal relationships in the economy and, consequently, agents' interests. They also "serve to restructure those causal relationships by altering the agents' own beliefs about the interests of others, upon which the realization of agents' own ideationally derived interests depends" (Blyth 2002: 33).³⁹ Ideas crucially contribute to the reduction of collective action problems under uncertainty "by building bridges across class and consumption categories through the redefinition of agents' interests and by defining the common ends of action" (Blyth 2002: 38). When linking the ideas that underlie existing institutions and policies to an ongoing economic crisis ('socialism', the 'welfare state'), agents delegitimize existing policies and institutions by making them part of the problem.

By making crises interpretable and actionable in the process of wielding ideas as anti-institutional weapons, actors reconstitute their very interests. Also, by redefining interests and by specifying the ends of collective action, neoliberal ideas enable the formation of political coalitions around "configurations of

³⁹ This argument is different from "uncertainty as complexity" situations discussed in the "bounded rationality" literature (Simon et al 1992), when agents know their interests but are uncertain as to *how* they can achieve them, without reducing the set of possible strategies. In such situations, uncertainty can be reduced to risk, as agents use ideas as "focal points" and "road maps," as suggested by Keohane and Goldstein (1994).

distributionary institutions” and provide blueprints for new institutions. Once established, these institutions path-dependently reproduce those ideas and coalitions. In this way, ideas are used to explain both the formation of new institutions and their reproduction over time.

These are well-specified and useful propositions, yet they invite further complementary research. First, they do not theorize the the politics of the transmission of neoliberal ideas across borders from, say, the US to Sweden. Second, unlike in “core” states, where state, labor and capital are well-constituted and therefore can be safely assumed to be the principal collective agents eligible for the formation of coalitions around new economic ideas, in the more thinly institutionalized post-authoritarian middle-income European countries they are not.⁴⁰ Consequently, there is more space for transnational actors like IOs, think-tanks or political party networks to affect the policy debate.⁴¹

Other scholars working on economic ideas paid more attention to the transnational spread of ideas and to the multiplicity of actors involved but, as the next section shows, their work remains plagued by several weaknesses that this study subsequently addresses.

⁴⁰ In Spain, for example, domestic capital had formed a single organization by the early 1980s, yet was unable to advocate a cohesive ideational campaign on labor deregulation until the early 1990s. This allowed organized multinational capital and external consultants to play an important role in diagnosing the sources of Spain’s very high unemployment. Capital was even more weakly-constituted in early 1990s Romania, when employer organizations looked more like fragmented institutional Potemkin villages, with industrial interests being informally organized around scattered networks of managers of large state-owned companies. As a result, mixed chambers of commerce or organized multinational capital acted as policy entrepreneurs separately and deployed different economic ideas from those of organized domestic capital.

⁴¹ The research tradition inaugurated in economic sociology by Peter Evans (1979) shows that characteristic of the policy sphere in middle-income countries is its high penetration by forms of organized multinational capital that tend to work through different avenues than those of domestic organized capital.

Constructivism and the Spread of Neoliberal Ideas

By contrast with the “policy transfer” literature reviewed above, in political science there was much less systematic interest in theorizing the transnational diffusion of economic ideas.⁴² Peter Hall’s (1989) volume on the spread of Keynesian ideas across seven countries was a path-breaking contribution. Hall’s argument was epistemologically eclectic: economic ideas diffuse if they are good at solving local policy problems, if they are compatible with existing administrative arrangements and if they are useful for domestic politicians at winning support and building coalitions.⁴³

Beginning with the late 1990s, the constructivist “wave” in IPE attempted to approach the issue of economic idea diffusion more systematically. For example, Kathleen McNamara’s (1998) book on the politics of the European monetary system was the first to speak to this topic directly. Her excursus looks at the diffusion of German “pragmatic” monetarism across the EEC and shows how German ideas about the virtues of low-inflation had been replicated throughout Europe before monetarist policies themselves were embraced by national policy elites. To explain why it was monetarist ideas and not others that diffused, McNamara argues that economic ideas that appear to have a superior diagnosis of the causes of a crisis (monetarism) and appear to work in a certain context (West Germany) can be expected to be embraced across different national policy spheres

⁴² This topic had once been part of economic history (Coats 1981; 1986).

⁴³ Ngaire Wood’s (1995) early work on economic ideas in international relations proposed a new research agenda that included explanations of why some ideas make an international career whereas other don’t but stopped short of theorizing on diffusion and focused instead on theorizing how ideas shape action.

(emulation) given policy failure attributable to competing ideas (the failure of Keynesian reflationary policies).

McNamara's argument is intuitive and is backed with much evidence, yet it is problematic in that it consistently plays down the contentious nature of emulation. In other words why didn't French indicative planners put up a stronger fight? Why did Dutch Keynesians defect? Why was the German model the most compelling given that Austro-Keynesianism was arguably doing just as well? Economic history is rife with policymakers persisting in reproducing harmful paradigms (think Japan during the 1990s), so policy failure is a weak causal factor. Also missing from this book is a theory of agency: Who diffused monetarist ideas and how? And why were diffusers more successful than others?

During the second half of the 2000s, constructivists began to learn from scholars in other social science fields (sociology, policy studies, legal studies, business studies) who have focused more systematically on the transnational diffusion of ideas through economics profession (Silva 1991; 2009; Valdes 1995; Montecinos 1997; Babb 2001; Dezalay and Garth 2002; Fourcade 2006; Kogut and MacPherson 2004; 2008). This literature showed that new economic ideas are not mimetically replicated, but spread through graduate education in Anglo-American economics departments. Many of these scholars have shown how the investments made by US foundations in the training of Latin economists in US graduate programs was crucial for the ascendancy of neoliberal economic ideas in the region. In turn, those ideas form the interpretive grille through which these economists came to diagnose the economic problems of their countries and to

propose new policy solutions after they returned home and enjoyed the hybrid status as politicians and technocrats (“technopols”).⁴⁴

These insights were recently taken up by some IPE constructivists. Writing on capital account liberalization, Jeffrey Chwieroth (2007) put the epistemic community dissertation to a quantitative test across tens of emerging economies and found that graduate degrees in conservative American economic departments strongly correlated with neoliberal reforms at home provided the returning graduates controlled economic policy institutions.⁴⁵ In a more recent contribution, the same author merged the epistemic communities literature with Barnett and Finnemore’s (2004) arguments about IOs as norm advocates and gave constructivist IPE a theory of how the economic ideas of international organizations like the IMF are shaped by specific intraorganizational processes and by the prevailing ideas inside the profession from which the staff is recruited (Chwieroth 2009).⁴⁶ Chwieroth’s most important theoretical contribution was to show that IMF ideas about how to proceed to a particular goal (sequenced change, “shock therapy”), are not static, but change in response to real

⁴⁴ It was argued that not only do US universities lend domestic economists prestigious credentials and access to expensive information. As studies of training in economics evidence (Colander and Klamer 1987; Colander 2005; 2009), they also restructure their professional identities through apprenticeship, a claim backed with extensive evidence drawn from social network sociology showing that one of the main effects of participation in such social networks is the increase in the likelihood of reproducing network ideas (White 1992: 67; see also DiMaggio and Powell 1991; Carley 1999; White 2002; Breiger 2000). In sum, new economic ideas travel through networks of economists tied together by shared graduate education experiences.

⁴⁵ Chwieroth advanced the epistemic communities literature by specifying the conditions that facilitate the implementation of expert interpretations into policy: the formation of an intellectually homogenous policymaking team dominated by like-minded economists in key bureaucratic positions. Intellectual homogeneity (“coherence”) is considered key because in the absence of competing ideas the chief of government and other politicians will receive consistent advice about what options are “correct” and will be better positioned to resist various political constraints (coalition government, opposing societal groups).

⁴⁶ Chwieroth lists like professionalization, administrative recruitment, adaptation, learning and entrepreneurship (2009: 11).

world events. By contrast, normative ideas about what the goals of policy (capital control, capital freedom) rarely change.

Other constructivists incidentally interested in diffusion sought to emancipate themselves from the tyranny of the “epistemic communities” framework. For example, the research of Diane Stone and colleagues on the formation of global knowledge networks among economists, IOs, think-tanks and research institutes complicated the problem of diffusion agency (Stone 1999; Stone and Denham 2004; Stone and Maxwell 2005). Also, Rawi Abdelal’s (2005; 2007) study of capital account liberalization showed that the formulation and diffusion of a global ideational consensus around this institution was not powered by the “usual suspects”: US financial firms, US Treasury, professional economists, policymakers trained in US-style economics. While it was neoliberal economists who crafted these ideas, advocacy was made possible and carried out by the intellectual creativity of a tight network of domestically-trained French Socialist civil servants who came to define capital controls as a “prison” for the working class and then went on to occupy leading positions in the IMF, the EU and OECD.

In sum, in less than a decade constructivists have come along way in defining the conduits through which economic ideas flow across borders. At the same time, this scholarship remains plagued by three problems: an excessively narrow spectrum of diffusers, an overemphasis on the replication of the ideas to be diffused, and, relatedly, a problematic assumption that domestic “receivers” are unreflexive.

The Problems of Constructivist Research on the Spread of Neoliberalism

The first critique concerns the excessively narrow spectrum of agents who “do diffusion:” the bulk of scholarship on the spread of neoliberalism looks at economists and international organizations as the main transnational carriers of neoliberal ideas. Anchored in Ernest Haas’ (1992) work on epistemic communities and in Philip Abbott’s (1988) research on professions, the literature on the transnationalization of economics attempted to illuminate the processes through which quasi-closed groups, tools and worksites associated with the economics profession tried to establish exclusive jurisdiction over debates on what economic ideas are legitimate (Markoff and Montecions 1993; Valdes 1995; Babb 2001; Biglaiser 2002; Dezelay and Garth 2005; Brozutzki 2005; Chwierothe 2007; 2009).⁴⁷

Other scholars looked at international organizations not just as wielding the “stick” of policy conditionality, but also as “teachers” of the neoliberal development program (Broome and Seabrooke 2007; Epstein 2008; Orenstein 2008).⁴⁸ Thus, Rachel Epstein’s (2008) work on central bank independence in

⁴⁷ Some argued that since modern economic policymaking is riddled with situations of uncertainty that require technical authority and/or skill, governments tend to rely on the advice of economists about what policies are possible and desirable (Hall et al 1989; MacKenzie, Muniesa and Siu 2007). Others, by contrast, have highlighted the path of calculus: policymakers appeal to economists because they calculate that, by delegating to economists, they will make their economic policy choices more credible to international official and private creditors whenever there is an international policy consensus on the matter of relevance (Markoff and Montecions 1993; Babb 2001). This study takes an agnostic position on this debate⁴⁷ and focuses on both types of situations: critical junctures when the intellectual, political and economic uncertainty was at its highest and situations when uncertainty was lower but the government badly needed the resources of some external actor.

⁴⁸ The foundational work of Finnemore and Barnett (2004) alerted scholars to an overlooked function of IOs: the deployment of cultural and technical expertise with the intent of spreading new forms of economic knowledge, creating new policy issues derived from them, providing

Poland showed how the World Bank and the European Commission were decisive in using social learning to diffuse the norms and the discourses that underlie this institutional innovation as well as in defending them against domestic challengers. Mitchell Orenstein made similar arguments, albeit embedded in a more eclectic epistemology, about the spread of pension privatization from Chile to former socialist countries (2008).

Other constructivists (Seabrooke 2007; Broome and Seabrooke 2007; Chwieroth 2009) showed that the IMF does not “broadcast” blunt and seamless interpretations of the Washington Consensus, as some had argued (Woods 2000; Feldstein 1999; Stieglitz 2002). Instead, this organization used context-specific interpretive templates for different types of economies and encouraged country missions to factor local circumstances into their analyses. Similarly, Catherine Weaver’s (2008) study on the institutional hypocrisy of the World Bank usefully distinguished between the “espoused theories” of IO and “theories in use” that drive the actual work. In these studies, the IMF and the World Bank appear as more reflexive, internally contested and context-sensitive economic idea diffusers than is commonly understood.

diagnoses and metrics for tackling existing problems in accordance with these new ideas, and assisting local agents with policy implementation.⁴⁸ To perform these functions, IOs can target the state via the training of government technocracies or the establishment of relationships of knowledge dependence with state institutions via privileged access to datasets or analysis techniques. At the same time, Finnemore and Barnett show that IOs are equally likely to target societal groups (employer organizations, the media, the non-profit sector and even unions) in their advocacy activities, while Broome and Seabrooke (2007: 583-584) focus on the practice of policy feedback loops deployed by IOs like the IMF. To sum up, both international economic organizations and transnational communities of economists shape the domestic infrastructure of ideas, but one can expect that only IOs are institutionally fit to carry out idea advocacy both inside and outside the state.

Yet in addition to these “technoscientific” prime movers of neoliberal ideas, the transnational channels for the flow of economic ideas are often populated by amateurs or second hand dealers. Linkages formed between domestic think-tanks and external advocates as well as transnational party networks can play an important role as well.

Thus, research shows that despite being often staffed by marginal and amateur economists, economic think-tanks have been extensively studied as domestic generators of new policy ideas (Cockett 1984; Weaver 1989; Desai 1990; Abelson 2000; McGann and Weaver 2000; Ullrich 2002; Struyk 1999; Kimball 2000; Krastev 2000; McGann and Weaver 2000; Sandle 2002; Widmeier 2007). Yet outside a few disparate contributions in policy studies (Struyk 2002; Kenis and Schneider 1991; Stone 2000), the role of think-tanks as bricoleurs of foreign economic ideas remains largely unexplored.⁴⁹

Similarly, no research has been done on role of transnational political party networks as facilitators of the translation of neoliberal ideas. This is surprising given research showing that transnational party networks have been responsible for considerable agenda coordination at the EU level and elite-level interaction within European party networks is extremely high (Mair 2000; Goetz 2000; Ladrech 2002; Raunio 2002; Ishiyama 2006). Unfortunately, this

⁴⁹ This gap is striking in the light of the fact that these private institutions grew in importance after the end of the Cold War, when NGO participation in domestic and international policy-making was seen as holding the promise of democratization of both domestic politics and of global governance itself (Scholte 1999; 2007).

scholarship refrained from investigating these actors' potential for economic idea diffusion.⁵⁰

The second critique of the existing constructivist approach to the spread of economic ideas concerns the relationship between ideas to be diffused and the domestic adopters themselves. This literature assumes that domestic adopters take for granted the ideas to be diffused, as if they were locked scripts. Working with this assumption, the traditional way of defining transnational idea diffusion has been the following: ideas spread as they are broadcasted from innovators to a broad spectrum of users in universally applicable formats through impersonal channels and purely relational patterns (Boli and Meyer 1987; Strang and Meyer 1993: 137; Strang and Mayer 1993; Soule 1997; 2005; Strang and Soule 1998; Drori et al 2003).

Constructivist IR scholarship on the diffusion of liberal norms (Risse-Kappen 1994; Cortell and Davies 1996; Risse, Ropp and Sikkink 1999; Checkel 1998; Legro 1997; Risse and Sikkink 1999; Barnett and Finnemore 1999; 2004) and a few constructivist contributions in IPE (Epstein 2004; 2005; 2009) largely reproduced this “thin” definition of diffusion from sociology, although some qualified it by emphasizing local mediation through attention paid to “congruence” or “goodness of fit” between emerging global norms and domestic norms (Checkel 1998).⁵¹

⁵⁰ The case of the European socialist and social-democratic parties is particularly significant, because, in relation to other transnational party networks, the Party of European Socialists (the pan-European network of left of center parties) is notorious for having the most advanced level of interaction among its members (Mair 2000).

⁵¹ The central hypodissertation of this scholarship is that norm diffusion is “more rapid when ... a systemic norm...resonates with historically constructed domestic norms” (Checkel 1998: 4).

This position is problematic because it does not capture the realistic possibility that when ideas travel from one site to another, the receiving actors can hardly be assumed to passively “sign for delivery” and then go on and use the ideas handed down to them without performing any alterations.⁵² Instead, as Gabriel Tarde said, in rather quaint language, more than a century ago: “imitations get transformed as they pass on from one race or nation to another” (Tarde 2001: 82).⁵³ More specifically, when the ideas to be diffused do not resonate with domestic ideas, it does not matter that they will not diffuse, only that they can be made to resonate by ideational entrepreneurs or not.⁵⁴ A study on the diffusion of human rights in Asia published in *International Organization* showed that domestic translators are not deterred by an inadequate ideational match between external ideational innovations and domestic ideas (Acharya 2004). Instead, they may engage in *localization*, a process that “may start with a reinterpretation and representation of the outside norm, including framing and grafting, but may extend into more complex processes of reconstitution *to make an outside norm congruent* [my emphasis] with a preexisting local normative order” (Acharya 2004: 244).

⁵² See Fourcade 2006; Bockman and Eyal 2002; Czarniawska and Joerges 1996; Sevon 1996; Sahlin-Andersson 1996; Djelic 1998; Campbell and Pedersen 2001; Campbell 2004, ch. 3, Sahlin-Andersson and Engvall 2002; Czarniawska and Sevon 2005; Djelic and Sahlin-Andersson 2006; Pedersen and Campbell 2006; Campbell 2009.

⁵³ Curiously, Tarde’s foundational insight of diffusion theory was forgotten in sociological studies on the transnational diffusion of ideas recently, when it was rediscovered first by Westney’s (1987) classic study of the diffusion of Western practices during the Meiji era.

⁵⁴ As John Campbell (2009) put it, such a narrow diffusionist approach does not tell us: “[...] what happens when an institutional principle or practice arrives at an organization’s door step and is prepared by that organization for adoption. Here the story often ends and it is assumed that the principle or practice is simply adopted uncritically. We are left, then, with a black box in which the mechanisms whereby new principles and practices are actually put into use and institutionalized on a case-by-case basis are left unspecified.”

Closer to home, Marion Fourcade (2006) showed that when they are diffused, economic ideas are disembedded from their original context, objectified or formalized in order to seem universal and thus made to travel more easily. However, Fourcade cautioned, the diffused ideas can also be expected to be tampered with by domestic “bricoleurs” as they travel through various institutional contexts, with these phases often taking place simultaneously. . In this view, domestic actors do not simply cut-and-paste new economic ideas developed in foreign “labs.” The work of bricoleurs has important practical consequences as it may result in considerable hybridization and even mistranslation.

Finally, some critics of the neo-institutionalist literature on isomorphism point out to an internal contradiction: actors are assumed as reflexive but at the same time its empirical models work with an active “Northern” core of authors and advocates and a passive “Southern” periphery of recipients. Or, as Bockman and Eyal (2002) noted, one can’t be simultaneously reflexive and passive. Their Latourian study of the spread of neoclassical economic in Eastern Europe during the cold war shows that this process looked more like a co-production across the core-periphery divide.⁵⁵

These criticisms serve as a basis for building an analytical framework that brings domestic actors back in the study of the transnational spread of neoliberal economic ideas.

⁵⁵ Moreover, it is submitted, in this co-production Western and Eastern scholars crafted, brokered, and reproduced the theoretical pillars of neoliberalism by forming transnational epistemic networks whose internal dynamics mixed vertical (hegemonic) power relations and horizontal (peer group) dynamics.

The Mechanisms of Translation

Overview

This study claims that neoliberal economic ideas do not remain unchanged through diffusion, but are actively translated in the context of other ideas, traditions and institutions. The result is not homogenization, but variation in the adoption of the economic program. To reach this conclusion I have built contextualized causal mechanisms that I believe best describe the processes by which neoliberal ideas travel across national contexts.

Contextualized causal mechanisms are concepts or patterns of action that explain why and how a hypothesized cause contributes to a particular outcome and in a particular context (Tilly 2001: 26).⁵⁶ These mechanisms do not lead to the outcome by themselves, but through interaction with each other and the temporal and non-temporal contexts within which they operate. However, the outcomes of processes cannot be determined *a priori* by knowing just the type of mechanism at work (Elster 1998; Faletti and Johnson 2009).⁵⁷ Drawing on Faletti and Johnson's (2009)'s work on causal mechanisms, my explanation of the transnational diffusion of ideas relies on two mechanisms that interact with each

⁵⁶ This perspective differs from the one employed by King, Keohane and verba (1994: 85-87) and Kitschelt (2003), for whom mechanisms are but a chain of intervening variables that connect the original posited variable with the effect. For a critique see Mahoney (2001) and Faletti and Johnson (2009).

⁵⁷ As Faletti and Johnson (2009: 1165) put it, “[c]ausal mechanisms by themselves do not cause outcomes to occur; rather, the interaction between causal mechanisms and context does. We see causal mechanisms as being ontologically different from intervening variables. Whereas variables measure attributes of specific cases, causal mechanisms uncover the underlying social processes that connect inputs and outcomes. As such, causal mechanisms are distinct from both inputs and outputs; they are portable and so may operate in different contexts. But depending on the nature and attributes of those contexts, the same causal mechanism could result in different outcomes.”

other, are portable across contexts, and produce different results depending on the context in which they “travel.” Both these mechanisms are related to the institutional conditions in which ideas shape policy.

The first mechanism is *translation* and refers to the content and form of neoliberal ideas as they are adopted domestically. I define translation as the process through which new economic ideas developed by epistemic communities and practitioners and advocated for by transnational carriers are transformed for domestic use by cultural entrepreneurs called translators. Since my approach presumes contextualized causal mechanisms, I embed the translation mechanism in several interacting layers of context.

The second mechanism is called *elite transnationalization* and refers to the process through which the domestic supply of translators is shaped by the opening of professional markets for economists and by the reconstruction of domestic epistemic fields in economics by graduate training in Western academic departments and other such forms of transnational teaching of neoliberal ideas. I further submit that in addition to the “usual suspects” (Anglo-American-trained economists and IOs), the range of translators should be expanded to think-tanks and transnational party networks.

Hypotheses

The main point made here is that what is being transferred across borders is not pure ideas, but accounts of certain ideational innovations that undergo translation as they spread, resulting in local varieties of the “original.” Drawing

on several contributions in the scholarship on transnational ideational processes in sociology⁵⁸ and international relations,⁵⁹ this study highlights the role of translation as a reflexive and critical act of cultural entrepreneurship whereby domestic translators perform “cultural matchmaking” between foreign and domestic ideas. Unlike “diffusion,” a term that suggests top-down transmission of ideas and passive local recipients, “translation” has the advantage of suggesting both the movement and the transformation of ideas (Latour 1996).

To unpack the first macro-mechanism, I propose that three devices or sub-mechanisms of translation are at work in translation: framing, grafting, and editing. All of these sub-mechanisms are directly observable in objects (such as articles, books and models authored by translators) and generate distinct research propositions. After I extract the hypotheses of this mechanism I present the second one.

H1: Neoliberal ideas change through their grafting on pre-existing economic ideas

Grafting is defined as a translation device that associates new economic ideas with preexisting ideas that are relevant for the same issue area of economic policy and make similar prohibitions or injunctions, even as local ideas are reconstructed

⁵⁸ See Latour 1986; 1987; Westney 1987; 1992; Czarniawska and Joerges 1996; Czarniawska and Sevón 1996; Sevón 1996; Sahlin-Andersson 1996; Djelic 1998; Sahlin-Andersson and Engwall 2002; Bockman and Eyal 2002; Campbell 2009.

⁵⁹ The importance of the transnational spread of ideas and norms reached the more resistant subfield of international relations, in a strand of literature that emphasizes the interaction between the systemic level and the domestic levels of analysis (Risse-Kappen 1994; Klotz 1995; Cortell and Davis 1996; Legro 1997; Checkel 1998a, 2001; Gurowitz 1999; Farrell 2000; Acharya 2004).

in accordance with neoliberal ideas. This device enables translators to recycle pre-existing economic ideas that are consistent with neoliberalism. The expected result is the presentation of neoliberal ideas as if they were part of the domestic ideational stock, thus making neoliberalism seem less problematic in the domestic context. But grafting can also change neoliberal ideas by giving birth to hybrids between the local ideational “rootstock” and the neoliberal “stem.”

H2: Neoliberal ideas change through editing

Editing brings to the fore the ability of network participants to devise dynamic interpretations of neoliberal ideas that overcome the problems raised by neoliberalism’s poor domestic resonance with pre-existing economic ideas. It is hypothesized that through *editing* neoliberal economic ideas are transformed by translators in accordance with what they perceive to be domestically dominant ideational conventions. As a translation device, editing is defined as the reformulations of the neoliberal text in terms of its focus, content and meaning. But editing can also entail that contested ideas from the outer boundaries of the neoliberal paradigm can be made to seem uncontested and central to neoliberalism. Editing may produce mistranslations, hybrids and affect pre-existing economic ideas as well. The results of this veritable intellectual *bricolage* are expected to be highly contextual.

H3: Neoliberal ideas change through their framing within domestic historical narratives

In the theory chapter framing was posited as one of the devices of translation and was defined as the process through which translators make ideational innovations like neoliberalism seem local by using language and presentation styles that “bridge” domestic historical narratives with neoliberal ones. This translation device allows for a variety of outcomes that can range from the radicalization of ideas to its very opposite.

So far, the analytical framework proposed states that neoliberal ideas are translated as they travel and that time, institutions and culture may limit the creativity of translation. Yet none of these processes take place in an agent-free world and one cannot simply assume the availability of a critical network of domestic translators able match the transnational advocates of neoliberalism and the domestic opponents of neoliberalism. Nevertheless such networks provide the likely routes for the travel of ideas and if the “transformationalist” position assumed by the dissertation is correct, then one can expect that the supply of legitimate and credible translators can itself be changed by transnational advocates of neoliberalism. It is to these aspects that I now turn.

H4: A high degree of transnationalization of the domestic policy actors increases the pace of translation

Transnationalization is defined as the device through which domestic actors who shape policy (economists, political party leaders) become part of international networks of advocates for neoliberal ideas, thus expanding such networks to new jurisdictions. External advocates facilitate this device by endowing potential local translators with superior material and professional resources and by reconstructing the boundaries of domestic epistemic authority.

This selective endowment of potential translators may increase the pace of translation by creating incentives for the emergence of a critical mass of advocates for neoliberalism and weakening the solidarity of neoliberalism's opponents. Particularly important in this regard is the international certification granted by Western training and the formation of transnational ties among political parties. Similarly, in cases where the economics profession is divided and has a small supply of neoliberal advocates, external actors may enable amateur economists to claim epistemic authority and fill this gap. In both cases the result is an acceleration of the pace of translation.

Transnational carriers of ideas may reduce their activities to reporting new ideas, but they may also become transnational translators by teaching domestic actors framing, grafting and editing strategies. Most importantly, however, they can alter the supply of domestic translators by offering them status, professional and material incentives. Building off of Fourcade's (2005) theoretical work on the transnationalization of economics, I propose that the main mechanism neoliberal network expansion at work here is what she calls "exogenous creative

destruction”⁶⁰, or a process of transnational network expansion whereby Western-trained domestic economists and/or Western economists attached to Western public and private investments enter local debates with superior material and epistemic resources and marshal them to reconstruct the local boundaries of epistemic authority by “revolutionizing the structure from within.”

The returning graduates can get top positions in the state and hire like-minded economists or they can establish think-tanks with neoliberal economic agendas. And the more fluid and contestable the boundaries of the economic profession, the more the same argument can be applied to amateur economists in think-tanks or political parties.

But while this study embraces the claim that the Western graduate education of domestic economists does the explanatory heavy-lifting in the spread of neoliberal ideas, it modifies it in two ways.

First, I argue that doctoral education obtained in a neoliberal economics department should not necessarily serve as the sole marker of socialization in Anglo-American “orthodox” neoliberalism via education. Shorter socialization experiences like repeated short-term fellowships at neoliberal economic departments provided they are followed by other study trips or inclusion in other forms of transnational epistemic dialogue (e.g. joint research projects) can perform the same functions.

Second, I submit that one does not have to map the entire field of economics to show what ideas mattered and when, as some have done (Babb 2001; Prasad 2006). Given the challenges of missing data, two “next best”

⁶⁰ Of these, only the latter should be assumed to be strictly intentional.

strategies have been proposed. First, the study of the ideas of the intellectually most prominent academic economists can provide a sensible base for assessing what constituted “mainstream economics” at a given point in time. Rough measures of prominence can be obtained via the review of available scholarship on domestic intellectual history, the archives of domestic economic associations and the editorial boards of leading economic reviews. Second, I suggest that proximity to the centers of the policy-making process could be safely assumed to be the most straightforward criterion for determining what academic economists actually mattered to those making policy decisions. Consequently, my analysis focuses on the published work of economists who used the revolving door between academia and the relevant public policy institutions (the advising team of the head of state/premier, economic ministries, central bank, political party executive bodies).

My operationalization of this hypodissertation also modifies the way in which IOs contribute to the spread of economic ideas. The bulk of the literature reviewed above focuses on the direct advocacy of neoliberal ideas by IO staff based in central headquarters or in country teams. I suggest that this work is done in more subtle ways as well. One is the continuous funding of domestic actors who use a neoliberal discourse even in the absence of their proven expertise. The other avenue is the offering of attractive appointments in Washington/Brussels for domestic economists judged to have chances to play important roles in government. Organizational theorists have shown that isolated episodes of “teaching” by authoritative figures matter much less for acquiring new ideas than

incorporation into an organizational culture through professional appointment (Schein 1992). If this is so, the socialization experience represented by a three year appointment in the World Bank or substantial experience as a domestic World Bank consultant should matter more than lecturing by a local mission of World Bank staff.

The study further proposes that think-tanks and transnational party networks can play important roles alongside foreign-trained economists and IOs. The first reason for this is that these organizations often secure consulting contracts and/or research grants from international organizations with a neoliberal agenda. More indirectly, they can spread neoliberal ideas by becoming significant points of reference for mass media.

Third, I add to the existing scholarship the argument that the term “economic think-tank” should be loosely defined to incorporate “decoy” operations whereby advocacy for economic ideas takes place within a cocoon of advocacy for less contentious causes. This can be the case of pro-democracy and/or development NGOs empowered by the spike in Western democracy assistance during the past three decades. To the extent that this assistance was based on normative claims that conflated democratization and economic liberalization, one can expect domestic “pro-democracy” NGOs to develop economic think-tank functions.

In the table below I devised markers of transnationalization for each of the four potential diffusers discussed above.

TABLE 1: Markers of transnationalization

Transnational networks of economists	International economic organizations	Transnational party networks
<p>Training in economics in foreign economics departments. Access to Western economics journals and books. Use of foreign economics textbooks in universities. Organization of international conventions of economists</p>	<p>National membership in economic IOs Jobs in the IOs for bureaucrats, experts, academics. Training activities (seminars, conferences, funded research programs) carried out by economic IOs for bureaucrats, experts, academics. Establishment of domestic institutions by economic IOs.</p>	<p>Membership in transnational party organizations. Institutional ties between party executive bodies or economic expert committees. Direct ties between top party leaders and the leaders of peer parties in the ‘North’ Bilateral “teaching” of economic policy templates for national party leaders.</p>
<p>Think-tank networks</p> <p>Participation of domestic think-tanks in transnational think-tank activities. Endowment of local think-tanks with ‘Northern’ think-tank resources (expert assistance, training, public status recognition, mediation of organizational networking with donors, funding, free exchange of information or the establishment of joint research projects)</p>		

H5: The likelihood that neoliberal ideas serve as templates for economic policies increases when the former are shared by an intellectually-coherent policy team in a cabinet that can effectively control economic policy decisions

Recent studies of translation of economic ideas have brought into relief the importance of the institutional fields in which translation takes place. First, the nature of the revolving door between academia and government has been identified by Weir and Skocpol (1995) as an important contextual variable for the translation of new economic ideas into public policy. The bureaucratic authoritarian regime of Franco fostered a higher degree of integration between academic and policy fields than Ceausescu's neo-patrimonial one. One would therefore expect that provided that those legacies had path-dependent effects, the translation of neoliberalism by prominent economists should also reach inside policy institutions faster in Romania than in Spain.

Second, building on previous work in political economy and sociology (Skocpol 1985: 9-14; Hall 1993: 290-291; Haggard and Williamson 1994: 594; Chwieroth (2001; 2009; 2010) has argued that the formation of a "coherent policymaking team" inside the cabinet also shapes the impact on translation of new ideas on policy. Coherence means that a group of like-minded actors control the economic policy decision-making in the cabinet and the cabinet itself is institutionally autonomous from the pressures of competing actors who may oppose or damage the translation process. Without coherence, the likely result

will be struggle and delayed translation of neoliberalism in the policy arena. I further add that it is reasonable to expect that coherence is unlikely to protect translation processes from challengers if the policy process is not centralized in the cabinet and if the head of the cabinet does have institutional tools to shield the policy team from the potential challenges made by ruling party/coalition.

Alternative Explanations and Null Hypotheses

To falsify the causal claims posited above, I resorted to two strategies. First, I examined plausible alternative explanations that have been offered by previous scholarship on the two cases. In the case of Spain I looked at a rationalist account based on learning or “cognitive updating” and at a culturalist one based on status imitation. In the case of Romania I reviewed an argument based on interest group preferences and one based on claims about diffusion as an effect of external and internal structural constraints. Also, each of the two main mechanisms are confronted with null hypotheses. The null hypothesis of translation is that neoliberal ideas are simply replicated domestically, while the null hypothesis of transnationalization is that neoliberal ideas are discovered endogenously.

Crucial Cases

The falsifiability of the causal claims made in this chapter is further bolstered with by employing a “crucial case” strategy.⁶¹ The Spanish Socialist cabinets in the early 1990s were a “least likely” case of adoption of neoliberal ideas about the economy because on all potential explanatory factors except the mechanisms of interest (translation of neoliberalism and elite transnationalization) the case is expected not to achieve the predicted outcome and yet does so. The opposite holds true for Romania.

Thus, in late October 1982 when the Socialists came to power, economic policy reforms inspired by neoliberal economics were the exception rather than the norm in countries where the Left was in office. Given that Spain had a bureaucratic state that survived the political transition and even developed a track record of fostering neocorporatist institutions, the kind of demand-side policies that call for effective state institutions and state-capital-labor coordination were

⁶¹ The crucial case methodology is superior to Mill’s methods in terms of its causal strength as it provides “perhaps the strongest sort of evidence possible in a non-experimenting, single-case setting.” (Gerring 2004: 155). This approach does away with a host of “apples and oranges” kin of reservations. Examples include: upper middle income (Spain early 80s) versus lower middle income (postcommunist Romania), corporatist developmentalist legacy (Spain) versus neo-Stalinist developmentalist legacy (Romania), “pacted” and relatively fast democratic transition (Spain) versus violent and relatively slow democratic transition (Romania), anti-authoritarian regime party (PSOE) versus authoritarian regime successor party (FSN), labor-socialist party alliance (Spain) versus no such alliance (Romania), highly organized and economically dominant private capital (Spain) versus weakly organized and economically unimportant private capital (Romania). Furthermore, Spain in the early 1980s and early 1990s Romania shared a number of characteristics: semi-peripheral economic position in the European economy, a politically dominant and internally centralized left party, very weak political opposition, weak Parliaments, proportional electoral system. The choice for Spain and Romania also has the advantage of holding constant a structural factor identified by some historical institutionalists (Weir 1989) as a good predictor of which idea will win in the domestic arena: *career promotion versus political appointment* in the higher echelons of the public bodies in charge with economic policy. In both countries the high positions in the policy-making scene (secretaries of state and undersecretaries of state) were political appointees rather than civil servants. This means that the opportunities for dramatic policy shifts following a change in the political orientation of the governing party/coalition is roughly the same.

feasible. PSOE had made its ideological transition from programmatic Marxism to social democracy barely three years earlier (Gillespie 1990; Linz and Stepan 1996; Boix 1998; Marvall 1993) and, in 1982, it was far from obvious that European social-democracy had opened up to neoliberalism.⁶² In fact, other “in-group” governments (Mediterranean socialist governments in the early 1980s) adopted Keynesian policies upon entering office.⁶³

Furthermore, the party had close institutional relations to the Socialist labor union UGT. Or, unlike in other middle income states, union demands for a more expansionist economic policy could not have been vetoed by international financial institutions as Spain had no conditionality agreements with the IMF and the World Bank. On the same note, while EC membership was on the agenda, PSOE embraced supply-side socialism before the generalization of supply-side preferences at the EC level (a process that unfurled after 1986). Finally, the 1979 oil crisis provided a relatively mild exogenous shock to the Spanish economy and while the macroeconomic fundamentals looked worse than before the crisis, they were nevertheless comparable with those of East European economies that had tried heterodox reforms in the early 1990s.

By contrast, Romania under the ex-communists seems like a “most likely” case of adoption of neoliberal reforms. The ex-communists came to office when neoliberalism was at its historical apex. Heterodox reforms had been tried in Latin America but they were short-lived, while most postcommunist states, including Russia, embarked on radical market reforms. In Europe, it was only in Slovenia,

⁶² See annex for a more detailed discussion.

⁶³ This was the case of Greek and French socialist governments after winning the 1981 elections.

Bulgaria and Romania, all of them ruled by ex-communists, that heterodox reforms were given a second chance. Finally, while the oil crises of the 1970s certainly weakened the Spanish economy, the collapse of Romania's Eastern European markets and the embargo on Yugoslavia had a much more devastating impact on the Romanian economy.

Also, by contrast with PSOE, the Romanian ex-communists did not have a clear ideology, had no institutionalized links with labor and their governments faced both IFI conditionality and a boycott of international capital markets. Private capital had a very small slice of the economy and its organizations were weak. By contrast with the relatively strong Spanish bureaucratic state, the Romanian state, with its Sultanist legacy of neopatrimonialism and weak administrative capacity⁶⁴ appeared to many as clearly in need of a neoliberal shock treatment.

Methodology

There is currently a gap between quantitative and qualitative methods in IPE. While other studies of macro-political processes in political science oscillate between quantitative and qualitative methods,⁶⁵ most studies on diffusion in political economy are quantitative.⁶⁶ But as a recent review of quantitative scholarship on diffusion shows, the problem is that quantitative “methodological

⁶⁴ See Linz and Stepan 1996; Tismaneanu 1990; 2004; Davies 2005.

⁶⁵ Examples include such as processes as war (Starr and Most 1976; Siverson and King 1980), human rights norms (Price 1998; Acharya 2004), environmental standards (Prakash and Potoski 2006), democratization (Brinks and Coppedge 2006; Gleditsch and Ward 2006)

⁶⁶ Few political economists have ventured to probe diffusion via case studies. Examples include Weyland (2005; 2007; 2009) and Orenstein's (2008) examinations of the cross national diffusion of pension reform in Latin America and Eastern Europe.

sophistication has probably plateaued given the available data” and “the nature of diffusion processes cannot be elucidated satisfactorily unless broad patterns can be supported by detailed information on the underlying dynamics” (Gilardi 2010).

How can this “detailed information on the underlying dynamics” be obtained vis-à-vis the diffusion of economic ideas? A rather obvious point is that case studies lend themselves to identifying how diffusing ideas are domestically translated into local practice much better than quantitative approaches. Also, as Meyer and colleagues admitted (Meyer et al 1997: 645), quantitative studies may determine the degree to which diffusion occurs among states but not of the causal sequences through which diffusion occurs.

Comparative historical analysis

Within each case, I analyze sequences of events and the intervening mechanisms that link the Western roots of neoliberal economics in Western epistemic centers and their translation in specific domestic policy settings. This analysis involves three steps. First, I describe the association between external advocacy for neoliberal ideas and the swift and broad embrace of those ideas by the domestic policy elites. But only by doing this one cannot know for certain whether the observed association is causal or simply the spurious product of an unknown antecedent variable.⁶⁷

Therefore, in step two I next set out to define the specific mechanisms through which these economic ideas thus “broadcasted” alter the domestic ideational landscape to the point of causing a shift with path-dependent effects. At

⁶⁷ See Liebersohn 1985.

this point I will map out the form in which the new ideas are “indigenized” and examine translation as the main mechanism through which transnational changed the parameters of domestic debate on what economic ideas best diagnose the causes of the perceived economic crisis and provide policy templates for an “exit.”

While I do not purport to provide a systematic framework for the institutionalization of ideas across all relevant categories of interests, in the third step I nevertheless show that the main stakeholders in the economic policy process embraced neoliberal ideas and reproduced them even as evidence was mounting against them.

Levels of analysis

The empirical base of this study is relatively narrow and focused: the individual and the institutional channels through which the ideas put forward by the largely Anglo-American neoliberal economics gathered recognition among domestic policy actors. Following Lawrence Stone’s (1971), Bruno Latour’s (1988) and Dezalay and Garth’s (2005) methodological justification of “revealing social biographies”, my excursus focuses on the social trajectories of economists who shaped economic policy debates from such vantage points as government, academia or the third sector. Then, I “plug” these individual social biographies into networks spun by domestic organizations (central banks, government ministries, political party executives, NGOs) or by transnational governors of

neoliberal economic flows (international organizations, foreign state agencies, Western academic communities and think-tanks, foreign political parties).

Working with four types of actors across three cases may raise questions about the elegance of the dissertation. This is an important point, yet one that should not be dramatized. For if one takes seriously the proposition that economic policy decisions implicate both domestic and transnational actors and if empirical investigation reveals several layers of agency involved in decision-making, then there are good reasons to accept that accurate research and fear of too many moving parts should not live side by side.⁶⁸ At the same time, while I am in agreement with those constructivists who take seriously the interaction effects between policy elites and mass publics (Seabrooke 2006; 2007; Widemeier 2007: 749; Blyth forthcoming), I nevertheless refrained from engaging with the role of mass publics due to lack of systematic and reliable data.

Data

The evidence collected for this dissertation comes from secondary literature, archival research and interviews. The data was obtained during successive waves

⁶⁸ I reached this conclusion by satisfying the orthodox methodological call for moving between theory and data in building hypotheses. First, when I researched the story of Romanian tax and labor reforms in the early 2000s I found that a classic political economy position on why matters the most (state, labor, capital) led me nowhere. By contrast, when IOs, transnational business networks, transnational epistemic communities and think tanks were brought into the equation I could see better who made the rules, how and at what critical juncture. Second, the existence of exemplary scholarship that navigated several levels of analysis and types of agency on tightly-defined policy areas (Dezelay and Garth 2005; Orenstein 2008; Woods 2009) helped me overcome the fear that the dissertation would implode under its own weight. Therefore, I integrated a high number of types of potential agents while tightly limiting the number of policy issue areas to three (macroeconomic, labor, tax).

of fieldwork between 2008 and 2009.⁶⁹ For data on economics scholarship in the two countries I relied on leading professional journals.⁷⁰ In addition to traditional archival research, I carried out in-depth research on the web archives of the central banks of the two countries, of PSOE and PSD, as well as of the non-state actors and international organizations analyzed in the dissertation.

To determine the impact of ideas, I used secondary literature from the field of international economic history to establish the crucial junctures marking the intellectual marginalization in Western economics of economic paradigms mandating state intervention (Keynesianism, structuralism) and the dominance of schools of thought associated with neoliberalism (the new neoclassical syndissertation, monetarism, public choice).⁷¹

At the same time, this data did not lend itself to the accurate documentation of whether paradigmatic shifts in Western economics were actually translated into the Spanish economics profession and its Romanian counterpart a decade later. To fill in this gap, I used a three-pronged strategy. First, I made a list of the economic policymakers in the state institutions of interest: (1) ministries of finance, economic reform and labor, (2) advising boards

⁶⁹ In July and August 2009 I conducted archival research on partially declassified documents at the *Fundacion Pablo Iglesias in Madrid* (Alcala de Henares), where the archives of PSOE are stored. The archives of the PSD remain classified, and consequently I relied on the party's public records, which are available at *Institutul de Studii Social-Democrate* in Bucharest. Both these institutions have been very helpful in providing me with interview contacts.

⁷⁰ My historical analysis would not have been possible without access to the print and electronic archives of two popular dailies for each country (*Adevarul* and *Romania libera* in Romania, *El Pais* and *ABC* in Spain).

⁷¹ This entailed using secondary literature on what constituted the dominant school of economic thought in prestigious American and West European economics professional associations as well as in the most prestigious economic departments of North America and Western Europe. To the extent that domestic Spanish and Romanian academic economists and economic policymakers were members of or were educated in these venues, this descriptive exercise was able to document what the dominant ideas in economics were at historical junctures of interest in the first place.

for the prime-minister's and president's office, (3) central bank governors and chief economists during the historical periods of interest for this dissertation. Then, using biographical data (CVs, published (auto)biographies, interview data), I determined which of these policymakers had educational or professional experience with international teachers of economic ideas.⁷²

Key informant interviewing (Whittier 1995; Johnston and Klandermans 1995) emerged as the natural variety of semi-structured interview.⁷³ Given the relatively high number of relevant informants, I self-consciously selected the ones who, in the view of local experts, were reputed to have rich knowledge (institutional memory, access to wider social network etc) of the processes under analysis.⁷⁴ In my semi-structured interviews I also strove to follow the principle of similarity and dissimilarity (Rubin and Rubin 1995) in that I chose key informants that were similarly situated vis-à-vis the process under analysis so that I could have access to potentially alternative explanatory pathways. Perhaps the most important benefit of this approach was that it allowed me to take seriously

⁷² More specifically, I looked into whether these actors had (1) undergraduate, graduate or postgraduate education in economics in Western European or US universities and/or (2) had worked for an IFI or international think tanks and/or (3) was an active member in transnational professional networks of economists. This result was the building of a small self-generated longitudinal dataset linking these actors' international ideational experiences and their policy positions in their home countries.

⁷³ This is because the topic required that the main criterion used in selecting the population of interviewees should be the importance of their role in processes of idea diffusion, translation, policy adoption etc.

⁷⁴ While some interviewees were recruited by phone or email, most ended up on my interview list via my snowball and stratification strategies. Before each interview, I emailed each interviewee a message on what the research project was about, why the interview was important, what kind of questions I would ask and what were the ground rules of the interview. Upon receiving consent, I sent out a second letter/email to thank for the opportunity and to establish a date for the interview. At the end of each interview I asked the informants about whether there were any further relevant areas to be touched and which I had not yet mentioned. Each interview was prepared in advance with a list of questions as well as question-specific objectives edited in small print on the actual interview guide to be used during the interview. The questions and the objectives were continually reformulated as the interview work progressed.

Michael Burawoy's (1991) call to see the informants' answers not merely as "data", but as opportunities to revise and extend the proposed approach. My interviews used a narrative mode based on mutual trust and mutuality. In two cases, I chose the conflict methodology used by critical studies because the lack of mutual trust was apparent from the beginning of the interview.⁷⁵

⁷⁵ I recorded in digital form 19 of the 28 interviews (see annex for a complete list of used interviews). The reasons why I preferred notes to recording included noise (the interviews were taken in cafes or noisy offices), explicit rejection of the recording procedure by the interviewee, or apparent reserve towards the interviewer. I also took notes of "off the record" comments. In processing the interview answers I devised the following methodological algorithm: (1). Listing of the sources of contamination (e.g. motives, incentives for censored responses, interviewer effects) for each interviewee. (2) Triangulation of interview information with external sources (e.g. press accounts, policy reports, opposition scenarios).

Conclusions

This dissertation departed from my dissatisfaction with existing scholarship on economic policy shifts in middle-income states. The study found that rationalist and materialist approaches in political economy are good at explaining how exogenous shocks and their domestic institutional mediation destabilize the existing institutional status quo, Yet I embraced the constructivist critique that the settlement of a crisis of the institutional status quo is not a mere function of structural conditions and that the terms of the settlement cannot be understood without looking at how non-material factors (economic ideas) are deployed to make sense of the crisis in the first place.

To understand how economic ideas shape the ensuing institutional outcomes, I built a new analytical framework for studying the transnational diffusion, domestic translation and subsequent institutionalization of economic ideas in the policy sphere of middle-income European countries. This objective was reached by formulating six research propositions and their attached observable implications for the context of Spanish and Romanian economic transitions. These hypotheses refine the constructivist state-of-the art by theorizing the mechanisms through which transnational governance networks remake domestic ideational orders, so that ideational congruence emerges between the systemic and the domestic levels of analysis.

Chapter III - The Puzzle and the Background of Spanish Neoliberalism

I. Spanish Neoliberalism and Its Causes

Overview

The success of liberalizing economic reforms in Spain is one of the most important transformations of European political economy given this country's somewhat extreme history of interventionism throughout the 20th century. Both authoritarian and democratic regimes made the liberalizing reforms possible, yet it is now clear that it was the Socialist governments that definitively institutionalized a liberal economic project that turned Spain into the ninth largest economy in the world on the cusp of the 20th century.

This was a project that corresponded neither to the then emerging Washington Consensus, nor to the party's initial *dirijiste* and democratic socialist agenda. By intervening both on the supply-side and the demand side of the economy, while adhering to *neoliberalism's* strictest macroeconomic theses, the Socialists showed that the global economic orthodoxy of the last three decades is not inconsistent with forms of state intervention that are reminiscent of pre-neoliberal days.

This is more than an Iberian story. The strategy to embed neoliberal reform in state interventions, to keep inflation, deficit and tariffs down, while promoting production growth through active supply-side interventions, to give up on the egalitarian ambitions of Scandinavian social-democracy while still

expanding the welfare state and increasing public sector employment characterize the more recent developments in the global South (Snyder 1999; Macario et al 2000; Rodrik 2004; Schrank and Kurtz 1995; Katz and Brooks 2008). Similarly, privatization had a distinct statist flavor, with the state maintaining its role in firms it considered as having the potential to be globally competitive (Etchemendy 2005). The march of neoliberalism, it seems, has not been uniform across policy sectors.

Yet the building of Spain's "embedded neoliberalism" in Spain was unique in two ways. First, Spanish governments created a welfare state that is much closer to Northern European standards than the welfare states of emergent economies. Second, in Spain the embedding of neoliberalism began not after the trial of "disembedded" Washington Consensus policies, as it happened throughout Latin America and Asia, but after "embedded liberalism" began to take root on a wave of popular mobilization. To shift away from an economic paradigm that promised employment and onerous social compensations towards one that made no such promises required an institutional matrix that centralized economic policy in the hands of a cohesive policy team and effectively suppressed the opposition of labor unions and of PSOE's own leftist voices.

The Orthodox Explanation

This study challenges the popular argument that PSOE's route to embedded neoliberalism was inevitable in the structural and ideological context of the early 1980s. For many years, PSOE leaders and observers suggested that PSOE's

orthodox macroeconomic policy had been the result of the pragmatic conversion of PSOE's top leadership in 1982 from Keynesianism to qualified neoliberalism via a process of rational learning from the experience of others. This entails a purposive search for a solution to economic problems, the choice of a solution based on observed experience and a better understanding of which policies may lead to particular outcomes (Mesenguer 2005: 73).⁷⁶ In the Spanish case one can expect to see Spanish policy elites as changing their beliefs as to what was economically desirable after factoring in three new information items: the French experience, the swing to neoliberalism of European social-democrats and deteriorating structural problems of the Spanish economy in the second half of 1982.

Learning from Mitterand's Debacle?

The argument about the "crucial case study" represented by the French reflationary "experiment" was succinctly formulated by Miguel Boyer, PSOE's finance minister between 1982 and 1985 in two much quoted interventions in two Spanish economic reviews (1983; 1984).⁷⁷ Boyer argued that the attack on the peseta in the fall of 1982 and the faltering French Keynesian reforms made the expansionary measures promised in the 1982 election manifesto eminently self-

⁷⁶ Such processes have recently been regarded as key mechanisms of transnational diffusion of neoliberalism (Levi-Faur 2005; Messenguer 2005; 2008).

⁷⁷ Charles Boix cites Boyer (1983; 1984) (Boix 1998: 108).

defeating. The same view was shared by industry minister Carlos Solchaga (1997) and by labor minister Joaquin Almunia (2001).⁷⁸

Jose Maria Maravall, a political scientist and minister of education in the González government, used his insider perspective to endorse the conversion dissertation in his scholarship when he claimed that:

"[i]n spite of the economic crisis, in the summer of 1982 and before the general elections in October González still believed that the future government would have a considerable margin of maneuver for expansion, for increases in public expenditure, and for substantial job creation" but "by September the future minister of the economy, Miguel Boyer, gradually came to know the real depth of the crisis" (Maravall, 1993: 95).

Charles Boix' classic study of PSOE's economic policies reinforced the conversion/"cognitive updating" dissertation:

[t]he fiasco of the French reflationary attempt just a year before convinced the government that expansionary policies could be attempted by one country alone only at the risk of incurring a high economic and electoral cost (Boix 1998: 108).

Similarly, Sophia Perez argued that

⁷⁸ In his memoirs, Joaquin Almunia unequivocally acknowledges that as a minister of labor he agreed with the substance of the economic policy designed by Miguel Boyer (Almunia 2001: 170).

The back-stepping of the French Socialist policy in late 1982 seemed to illustrate the impossibility of national Keynesianism in a context in which governments in the other major world economies were imposing monetary and fiscal austerity; a perception that was bolstered by an increase in speculative pressure against the peseta and a fall in foreign reserves in the weeks after the PSOE electoral victory.(Perez 1998: 139).

The “cognitive updating” dissertation tells an incomplete story and is marked by several internal tensions. Miguel Boyer recently admitted that the decision to enact an orthodox program had been taken before the French Socialists launched their expansionist economic package in earnest. In recent confessions, the leading economic policy leaders in the PSOE (finance minister Miguel Boyer and Economy minister Carlos Solchaga) admitted that they did not have any intention to allow for repeat of the French experiment even before the experiment was even tried. Writing on the events of 1981 in France, Boyer made it clear that the people who really mattered in making economic policy decisions in the PSOE government had not even been involved in writing the expansionary 1982 economic program and did not need the failure of Mitterand’s expansionary policy package, whom they saw as a doomed “textbook case” of inappropriate economic ideas:

I myself warned Felipe Gonzales in 1981 that he should moderate all enthusiasm with regard to French Socialists [...] and to distance himself from their recipes [...] Therefore, at least a group of those of us who would later hold economic policy responsibilities knew what orientations to avoid. Nevertheless, the French experiment-useless as it was for opening some people's eyes, as I said-ended up being very useful as a dialectical effect and as an argument for convincing [party] militants without economic training as well as some economists with a vulgar Keynesian orientation what was the road to be taken after 1983. (Boyer 2005: 87).

The same point was unequivocally made by Boyer's successor and MEH "superminister" Carlos Solchaga, who had been an advocate of ending subsidies for industry since 1977 (Alcaide 1997: 195) and who in 1982 thought that:

The problem of macroeconomic policy, and particularly of monetary policy, was not unemployment, since this did not depend on the direction and content of economic policy, but inflation. Once this had been corrected, all the advantages which come from economic stability, including perhaps an increase in employment and reduction in unemployment, could be obtained (1997:197).

Indeed, as early as 1981, Carlos Solchaga had a detailed orthodox policy template carefully laid out. The young MP from Navarra reacted to the drafting of an expansionary economic program by a PSOE team coordinated by Javier Solana by writing a 90 page “parallel report” in which one can find the basic elements of the austerity package adopted in 1982 by the Gonzales government. The report received the endorsement of Andalucian and Basque party chapters and was skillfully and aggressively sold to the media by Solchaga, then a relatively unknown PSOE MP, who also used this opportunity to raise his national profile.

At PSOE’s 29th Congress, Solana and his team tried to persuade Solchaga to integrate his parallel report within the boundaries set by their own draft, but he dramatically threw the official program away with the words “Esto es *rubbish*.” When Luis Carlos Croissier, one of the drafters of the Solana program equated the Solana report with a Bank of Spain policy paper, Solchaga left the convention. The PSOE convention adopted the Solana program for the 1982 but, as chapter two showed, the program that won after PSOE assumed power was Solchaga’s (Tomas and Alonso 1993: 62-64).

As for the much debated French case, it is evident that Mitterand’s economic policy could not be construed as evidence of a turn to the right in Europe until well after the Socialists decided to embrace embedded neoliberalism. In 1981, as Spanish Socialists were debating the party program, the new French Socialists government reversed the deflationary policies of the “proto-neoliberal” D’Estaig governments adopted beginning with 1976 and launched a bold Keynesian stimulus doubled by dirigiste nationalizations, social democratic-style

welfare expansion and employment-generating policies (Prasad 2005; McNamara 1998). As the American reflation faultily predicted by OECD did not materialize and as the West was not pulling out of recession, the external environment severely constrained this policy experiment, leading to its reversal. Yet it was not until March 1983, well after PSOE decided on its neoliberal path, that the internal debate inside party elite ended and the *politique the rigueur* invoked by PSOE elites and scholarship was actually adopted (Schmidt 1997: 110-113; see also Prasad 2006; Hall 1989; Cole 1999; Loriaux).

The cognitive updating dissertation has important analytical problems in the form it is used by PSOE scholarship as well. Charles Boix argued that “the calamitous Labor administration in Britain in the late 1970s also served as a strong warning against expansionary strategies” (Boix 1998: 109). But if PSOE knew about British Labor’s woes in the late 1970s, then its leadership did not need for the French experiment to end in failure in order to turn rightward. Second, as argued at length in the last section of this chapter, the French government’s “Great U-turn” to the *politique de rigueur* did not happen until March 1983 (Schmidt 1996; Hall 1989), that is months after PSOE implemented its neoliberal macroeconomic package. Finally, it is not entirely clear why PSOE reformers read in the problems of British Labor a warning against expansionary policies. While popular, this eminently “Thatcherite” reading is controversial. As Colin Hay has recently shown, a Keynesian solution to the 1973 crisis was never really attempted in Britain and, after 1976, the IMF-imposed economic policy package was anything but Keynesian. As such, the “calamitous Labor

administration” and the Winter of Discontent on which it ended was a crisis of “experimental” neoliberalism successfully redefined by Tories as a crisis of Keynesianism (Hay 2010).⁷⁹

But why did this British Tory story resonate with the PSOE economic team in the first place? Citing central bank reports, Luis Angel Rojo (1981) and Fuentes Quintana (1979) as evidence, Boix suggests that such readings of the British and French experiences “[w]ere reinforced by an emerging consensus among Spanish economists that the country’s persistently poor economic performance derived from structural factors that could not be solved by merely propelling up internal demand”(Boix 1998: 109).

Yet this crucial point is nowhere systematically explored in Boix’s work or, for that matter, anywhere else in the rich literature on the Spanish economic transition. It is to the puzzling interplay between ideational and structural changes in Spain’s external environment between the crisis of embedded liberalism and the advent of neoliberalism that the next chapters turn.

Social Emulation: European Social-Democracy in the Early 1980s

Some scholars of diffusion think that governments simply emulate the policies of some peer group of governments (Braun and Gilardi 2006; Simmons, Dobbin and Garrett 2006). This literature would intimate that by adopting neoliberal policies PSOE did what peer European social-democrats were doing at the time.

⁷⁹ Hay concludes that “the Winter of Discontent did mark the passing of Keynesianism, corporatism and the post-war consensus. But it did so not because the events of the winter of 1978–1979 were precipitated by union power nor by the inherent contradictions of the Keynesianism economic paradigm, but because the crisis that it was seen to symbolise was constructed in precisely such terms”(Hay 2010:1).

This section confirms that during the 1980s neoliberal ideas began to enter the economic policy conventions of social-democratic parties. But the review of secondary literature done in this section also evidences that with the exception of German, Italian and Swedish social-democrats they turned to neoliberalism much later in the decade than PSOE did.

The case of the “pragmatic” neoliberalism pursued by German social-democrats is well-known⁸⁰ and the same rightward turn was observed in Swedish social-democracy, albeit much later than in Germany.⁸¹ And in Italy, the Socialists coming to power in 1983 via a complex coalition advocated a policy package that outdid that of their conservative government partners in terms of macroeconomic austerity, privatization and financial deregulation, while relegating welfare and redistribution to residual importance (Discala 1988; 1996; Abse 1994; Anderson and Camiller 1994). However, social-democrats waited until the late 1980s to acquiesce to supply-side ideas about the desirability of cuts of corporate tax rates and top personal tax rates.

⁸⁰ As suggested earlier in the chapter, after 1974, German social-democrats pioneered inflation targeting and convinced other European governments to do the same. But by 1980, the second oil shock and strict monetary policy contributed to a rise in unemployment. To ameliorate worsening job market figures, the SPD pushed for increased government supply-side spending on infrastructure projects. To finance them, the SPD proposed a “third way” policy mix: tax increases and cuts in welfare benefits. This policy position that led to the collapse of SPD’s alliance with the liberals and the conservative victory of 1982 (Scharpf 1987, 192; Borchert 1995). After the party entered opposition, its programmatic renewal efforts took it into an increasingly market-conforming direction, with anti-inflationary policies, skepticism towards reflation and welfare state cuts to boot (Padgett 1987).

⁸¹ Here, the party’s right wing made the rest of the party accept the argument that cutting inflation was a primary policy objective. SAP’s “third way” entailed increasing profit levels to increase investment at the cost of wage stagnation. As a result, budget cuts, deficit cuts, investment incentives and a weakening of social democratic-union ties became mainstream SAP policies. Erstwhile advocates of “overcoming” capitalism began to reproduce classical liberal theses such as the “crowding out” effect of public investment or the reduction of demand side policies to cost competition measures that would increase the consumption of Swedish goods. By the mid 1980s, SAP went as far as carrying out financial deregulation and advocated tax cuts on top marginal rates (Blyth 2002: 223-228; Steinmo 1993; Fraser 1987; Englund 1990; Englund and Vihriala 2009; Jounq et al 2009; Sjogren and Kishida 2009).

In other parts of Western Europe center-left parties defied “third way” trends and kept pushing Keynesian counter-cyclical programs even after the Mitterand fiasco. Until they lost office in 1982, Danish and Dutch social-democrats overcame their doubts about the primacy of full employment and refrained from embracing a Third Way course in real politics until the 1990s (Esping-Andersen 1985; Wolinetz, 1993; Dalgaard 1995; Green-Pedersen 2000; Petersen 2001; Lindvall 2009). British Labor had pioneered orthodox monetary policies in the late 1970s, the move was contested as imposed by duress from the outside and, once in opposition, the party’s programs (1979; 1983; 1987) swung back to a radical left agenda: state-sponsored expansion of nationalised firms, indicative planning, industrial protectionism. Until they left office in 1982, Danish social-democrats maintained wage and social security indexation despite inflation levels rising above 10 percent (Green-Pedersen 2003).⁸²

Resistance to neoliberalism was also evident in Belgium and Austria. In Belgium, two Socialist-Christian Democratic coalitions fell apart between 1980 and 1981 because the Socialists, unwavering in their commitment to full employment, wanted a Keynesian reflation and the conservatives wanted a Thatcherite turn. And while in opposition, Belgian Socialists bitterly opposed the macroeconomic austerity and supply-side policies of the center-right coalition that ruled between 1981 and 1985 (Pijnenburg 1989; Hemerijk and Visser 2000).⁸³

⁸² Moreover, the data shows that such tax cuts were made on the OECD average only after 1985 (Sorensen 1998). Even so, tax systems remained steeply progressive and in Scandinavia the top personal tax rates hovered over 50 percent (Ganghof 2007). Similarly, when some Scandinavian social-democrats adopted “sound finance” objectives, they continued to emphasize fiscal, as opposed to monetary policy as an instrument of macroeconomic management (Lindvall 2009).

⁸³ The liberal-conservative Belgian coalition ruled for five years (1981-1985) and by decree and according to premier Martens’ slogan 'less democracy for a better economy.' This government

The fact that Belgian Socialists did not fret over 12 percent budget deficit, while their Spanish counterparts saw 5 percent as catastrophic is particularly suggestive in this regard.

The same situation could be observed on the Austrian left. Here, until 1986 the social-democrats⁸⁴ stuck firmly to “Austro-Keynesian” policies that combined a hard currency policy vis-à-vis the DM with counter-cyclical deficit spending, employment in nationalized industries to hoard labor during employment crisis to achieve their commitment to full employment. Austrian social-democrats also resisted financial deregulation, tax cuts, labor market deregulation and maintained OECD’s highest nationalized industrial sector until the late 1980s (Talos 1987; Muller 1988; Bischof and Pelinka 1994; Guger 2001; Luther 1999; Unger 2001; Unger and Heitzmann 2003). At a time when Spanish Socialists saw in 5 percent budget deficit a sign of impending doom, their Austrian counterparts kept pushing policies based in the Keynesian idea that the state should accept a higher deficit for the sake of lower unemployment (Feigl-Heihs 2001). When one considers the fact that social-democrats maintained these policies while running a government coalition with the liberals, the contrast with Spain becomes even bolder. As former federal leader of the party’s wing Alfred Gusenbauer remembers:

froze wage indexation, thus transferring productivity gains to firms, cut taxes, instituted job sharing agreements to cut unemployment, consolidated the country’s fiscal position and lowered select categories of unemployment benefits (Hemerijk and Visser 2000).

⁸⁴ Since the Second World War SPO SPÖ (*Sozialdemokratische Partei Österreichs*) had been one of the strongest left-wing parties in Europe, rivaled in strength only by the social-democratic parties of the Nordic countries (Garrett 1998:12).

During the early 1980s, monetarism, supply-side economics and neoliberal economic ideas in general was considered to be too conservative for our party. That is, we thought they were inappropriate in Austria under a social-democratic government. It was not until the late 1980s that we started to take more seriously economic options that you would today associate with the “Third Way” or with Tony Blair.⁸⁵

The cases of Greek center-left parties were also far from pointing towards neoliberalism in 1982. Greek Socialists (PASOK) taking office in 1981 launched a Keynesian demand stimulus program doubled by planning arrangements for the private sector, welfare state, generous wage policy for low income earners and employment protection schemes. Even as the plan sputtered in the face of a global recession and governmental inability to improve tax collection, PASOK did not signal a decisive turn towards lowering inflation via wage freezes until the spring of 1983.⁸⁶

The diversity of the ways in which the European center-left was adjusting to the new order during the early 1980s was more likely to increase the

⁸⁵ Interview with former Austrian Chancellor Alfred Gusenbauer (November 3, 2009).

⁸⁶ Even so, the much vaunted “austerity” of the PASOK government meant cutting inflation from 18.5 to 16.5 percent in three years, the first serious attempt at macroeconomic stabilization involving devaluation, systemic wage control and attempts to control the budget deficit were not advocated until after 1985, with little success, (Tsakatos 1998; 185) , government gross investment increased dramatically until 1986 (Kouras 2001: 175) and general government deficit nearly doubled between 1982 and 1985 (from 6.5 to 11.5 percent)(Kouras 2001: 175). Practically, a coherent and comprehensive turn to orthodox economic policies under PASOK rule could not be noticed until after 1993 (Psalidopoulos 1996; Brissimis and Gibson 1997; Diamandouros et al 1997; Skouras 2001).

uncertainty faced by a Spanish Socialist government that entered office at a time of considerable social and economic turmoil.

To conclude, the cognitive updating dissertation can't explain why Germany served as a model and France as a foil, when updating occurs or exactly what the lesson of updating is. Given the external mosaic of models about how social-democrats should deal with a crisis, in the winter of 1982 the PSOE government could have just as well carried out its expansionary program and then back off, as did their French peers, embrace austerity yet without labor market deregulation, as their German and Swedish peers, or continue to govern with an "updated" Keynesian program, as the Austrians did. But, as the next chapters show, by 1982 the Spanish bureaucratic-academic complex that came to control economic policy under the Socialists had already embraced the kind of embedded neoliberalism described earlier in this study.

The second half of this chapter provides the background to Spanish economic history, with an emphasis on the postwar years and the emergent embedded liberalism of the UCD years (1977-1982). Then, in chapter three I show how by 1982 neoliberal ideas had already become dominant in the nervous centers of Spanish economic policy institutions. Finally, chapter four investigates the process through which these ideas raised to prominence and morphed into the "embedded neoliberalism" that characterizes contemporary Spain.

II. Historical Background

State and Capitalist Development in Early Modern Spain (1833-1939)

Economic modernization in a neo-mercantilist fold

Spain's economic decline began in the early 19th century and coincided with the destruction of Spain's budding industries by invading French armies (1808-1814).

The decline was compounded by the cutting of cheap gold inflows from Latin America as a result of successful independence movements there (1810-1826). In addition to these geopolitical shocks, Spain's economy continued to be weighed down by an ineffective banking sector and an administration unable to push the tax reforms that had enabled many European states to launch industrial development in the second half of the 19th century. Large expanses of land were inefficiently exploited in the mortmain regime, and the guild system paralyzed industrial initiatives. The negative role of these structural economic factors was further magnified by the endurance of an ossified semi-feudal social structure well into the late 19th century. As a result of these factors, Spain went from being a middle economic power to an underdeveloped state in less than a century.

The death of the conservative king Ferdinand VII in 1833 ushered in liberal socio-economic reforms. Powered by the ideas of French, British and German liberalism, the state elites of mid-19th century Spain abolished the guilds, liberalized the legal regime of agricultural land, and introduced civil and commercial legislation. These measures laid the foundations for Spain's gradual transformation from a semi-feudal agricultural economy with weakly integrated local markets, into a capitalist one with a national market. Yet this budding capitalist economy was deprived of domestic private or public capital and had a

weak internal demand. To address these constraints, Spanish policy elites turned to foreign capital to finance capitalist development (Vives et al 1969; Harrison 1978; Nadal 1975).

The sluggish growth of local industries opened up fierce debates about the role of the state in the economy. As a result, Spanish economic policy oscillated between mercantilist (1833-1849) and laissez-faire (1841-1869) periods. During the 1870s, the mercantilists began to definitively unseat classic liberals by institutionalizing their ideas in a broad protectionist coalition that encompassed conservative capital and socialist industrial labor.⁸⁷

By the late 1880s, the ideas of mercantilism definitively triumphed and shaped Spain's road to capitalist development (Galvez Munoz 2001; Fuentes Quintana 2001; Jarregui and Ruiz-Jimenez 2005). Consequently, Spain went off the gold standard and, during the first quarter of the 20th century, it became the most closed and interventionist economy of the capitalist world (Fuentes Quintana 1986). "Infant" industries were protected via import quotas and high tariff walls (the stiff Tariff Act of 1906 was in force until 1960!). Spain's industrial distressed goods were guaranteed to be purchased by government agencies. After 1917, the state set up special banks to provide industrial expansion with generous loans. This neo-mercantilist paradigm survived several political regime types: constitutional monarchy (1874-1923), dictatorship (1923-1930) and liberal republic (1930-1939) (Harrison 1978; Nadal 1975; Balaguer and Cantavella-Jorda 2004; de la Escosura 2005; Junquito 2006). Yet neo-mercantilism did not breed

⁸⁷ The protectionist capital included the mill-owners of Barcelona, steel-owners in Bilbao and mine-owners in Asturias.

autarchy, because Spanish governments' economic modernization plans depended heavily on foreign industrial investment (Tortilla 2000).⁸⁸

Unfortunately for the government, neo-mercantile development failed in Spain. Modest growth and deep recessions in 1908 and 1911 increased the gap between Spain and Northern Europe. Rather than grow under Spain's expensive protectionist walls, industrialization slowed down there, just as it was booming in other parts of Europe. Foreign investors responded to Spain's low levels of private internal demand by concentrating their capital in export mining and subsidized public services (railways, utilities), often by importing equipment and manpower from abroad.

To a considerable extent, the failure of industrialization in Spain was due to the fact that industrialists faced difficult structural constraints: a neo-mercantile state unable to expand the fiscal base to provide cheap credit for industrial development, and a deflationary monetary policy that kept interest rates above international levels to attract scarce foreign capital.⁸⁹ Moreover, the government targeted its scarce resources away from industrial credit and towards land disentailment programs (Tortella 1969; 2000).

From military developmentalism to Franco

⁸⁸ For overviews of the modern economic history of Spain see Harrison (1978: 54-58), Nadal (1975), Sánchez-Albornoz (1987) and Carr (1982).

⁸⁹ Spain proved that monetary stability could be maintained without the gold standard. During the heyday of the Gold Standard, Spain preserved the stability of its finances with inconvertible paper money by running low budget deficits, keeping interest rates above international levels and managing high trade surpluses. The only exception was the Spanish-American War of 1898 (Iglesias-Soto 1999; Martin-Acena 1990).

Instead of recognizing the failure of interventionism in this situation, Spanish state elites chose an even more interventionist approach once Spain's wobbly parliamentary regime was terminated by a *coup d'etat* in 1923. Until the Second Republic was proclaimed in 1930, Spain experienced its first attempt at import substitution industrialization under the dictatorship of general Miguel Primo de Rivera. Inspired by fascist Italy's "production-oriented corporatism", this weak military regime (*dictablanda*) adopted an expansionary monetary policy, launched a debt-financed unprecedented expansion of public works, and generously funded "industrial champions." The results were spectacular. Industrial growth averaged 5.5 percent a year, industrial production boomed and Spain developed modern highway, irrigations and electric grid systems. Industry become more diversified during this period as well, with automobiles and aircraft construction cutting new economic niches for Spanish industry (Velarde 1973; Carreras 1984; Maluquer 1987; Harrison 1985).

By staying off the gold standard, Spain avoided the worst excesses of the Great Depression. After 1932, its exports did face collapsing external demand, but Spain had been less export-dependent than other semi-peripheral European states so it suffered less. Owing to an increase in public expenditure, consumption was stabilized after 1933. What is more, very few Spanish banks failed, and the run on the peseta that took place in the middle of the Credit Anstalt crisis was weak and short-lived (Bernake 1995; Martin-Acena 1992; Temin 1993; Tortella and Palafox 1984). Spain's avoided financial crisis, because the military regime did deficit spending development by borrowing from local banks. Thus the central bank

could act effectively as a lavish lender of last resort by turning the debt into cash.⁹⁰

However, Spain's political crisis was greater than its economic challenges. By adopting an ambitious political, social and cultural agenda, the left-leaning governments of the Second Republic (1931-1935), and particularly the reforms that targeted the church and the military, ended up stoking systemic conflict. The Spanish civil war broke out in 1936⁹¹ throwing into the violence a mosaic of social forces⁹² and wrecking havoc with the Spanish economy at a time when other capitalist states were experiencing economic recovery from the Great Depression.⁹³ The Nationalists won the conflict in 1939 and instituted an authoritarian political regime headed by the military leader of the military *putsch* of 1936, General Francisco Franco Bahamonde. The new regime put an end to Spain's experience with competitive democratic institutions, multiple parties and

⁹⁰ Essentially, like in Denmark and Sweden, the central bank in Spain expanded discounts in order to increase liquidity and ease the pressure on the money market (Tortella and Palafox 1984).

⁹¹ The conflict began in July 1936, following the attack on the mainland by the joint forces of the Navarre army corps and of the colonial army of Spanish Morocco.

⁹² The conflict dramatically reconfigured the politics and the economy of Spain, pitting the "two Spains" – created by more than a century of liberal reforms, labor conflicts and neo-feudal reaction – against each other. On the Republican side was a motley assortment of proletarians (industrial and agricultural workers), secular bourgeoisie (entrepreneurs, professionals, intelligentsia), and regionalists (natives of the Basque country and Catalonia of all socio-economic stripes). Against this coalition fought a variegated assortment of actors ('the nationalists') who mobilized against the Republic along such fault lines as class (large bank, manufacturing and agricultural interests, high-ranking civil servants, rentiers), ideology (the social-revolutionary fascists of the Falange, conservative intellectuals, monarchists) and religion (the Church, practicing Catholics of all classes) (Beevor 1982; 2006; Graham 2002; Preston 1978; 1996; Gunther 1980; Payne 1970; 2004).

⁹³ During the war, the economy dropped by 6 percent a year on average (Carreras 1984). By its end in 1939 Spain's GDP was at half its 1929 level. Entire industries had been reduced to rubble, the Spanish gold reserves ended up in the Soviet Union, and the country's infrastructure of communications and transport was severely disrupted (Beevor 2005). Agricultural production reached its 1929 levels only in 1950 (Carreras 1984). Since most of the tens of thousands of Spain's Republican emigrés were young, active and skilled, the country saw a dramatic shortage in talent. To make matters worse, the outbreak of World War II disrupted Spain's traditional trade relations, while Nazi Germany showed little interest in propping up the economy of its ideological ally (Harrison 1995).

interest groups for the next four decades. At the same time, as the regime launched ambitious state-led industrialization plans, its openness to the liberal economic ideas espoused by some of its most conservative Catholic supporters (the Opus Dei lay organization) cemented the way for the neoliberal revolution that swept Spanish economic policy after the mid 1970s.

The Franquist political system

This institutional matrix was as much a legacy of Franquism as it was a reaction to it. The extreme level of power concentration at the cabinet level in the ministry of finance and the flows of academic economists in economic policy bureaucracies were both features of the Franco years that survived transition to democracy. To a considerable extent this was due to Spain's murky break with the Franquist past and to PSOE's shortage of prominent economists with professional dossiers untainted by the institutions of Franquism. By contrast, centralism and intramural authoritarianism were powered as much by electoral strategy as by the perception of factionalism as a cause of the Republican quagmire and of the subsequent fascist victory in the civil war. By 1982, these institutional factors converged to weaken the case for a non-neoliberal alternative after 1982.

Until the German military disaster became apparent in 1944, the political order instituted by the nationalist victory in the civil war was a single-party state with powerful totalitarian tendencies of fascist inspiration (Ramírez 1978:23–5; Linz 1964; 1978; 2000; Linz and Jerez Mir 2003; Payne 1987; Tusell 1988; Mir

2009).⁹⁴ But after this date, Franquism was an authoritarian state⁹⁵ with a nominal legislative power⁹⁶ and a powerful and centralized executive,⁹⁷ yet one marked by “limited pluralism,” the absence of ideocratic tendencies,⁹⁸ a general disinclination to public political mobilization, and a leadership marked by predictable limitations (Linz 1964; 1978; 2001). Other scholars also remarked on its classism and the fact that its political representation outside the Franquist coalition was mostly pro-forma (Gunther 1980).

⁹⁴ The single-party in question was *Falange Española Tradicionalista y de las Juntas de Ofensiva Nacional-Sindicalista* (FET-JONS).

2. At the top of the system was Franco himself (Chief of State or *Caudillo*) and his close circle of trusted friends and relatives. The rest of the system was highly centralized and completely dominated by the executive power. The *Caudillo* and his inner circle held the right to appoint the members of the Council of Ministers, the Spanish executive branch. The custom was to appoint ministers known for their moderate views inside each faction of the governing social coalition, with no single faction being allowed to amass a disproportionate amount of power. The Chief of State also appointed the head of the Parliament (*Cortes*), whose legislative powers were strictly symbolic. Franco’s closest advisors were Nicolas Franco, his brother, and Ramon Serrano Suner, his brother-in-law.

⁹⁶ The *Cortes* was not a real legislature. Its members were not elected directly by the citizens. Instead, its membership was constituted by appointees of the corporatist “syndicates,” local government bodies, universities, the Supreme Court and various cultural institutions. After 1967, in a minor concession, the law allowed for the direct election of a number of “Family” representatives by the vote of 16 million Spaniards who were either “heads of households” or married women. Even so, the Council of Ministers answered only to the Chief of State, and not to the *Cortes*. The *Cortes* had no decision-making authority of its own, and its approval of laws could only be exercised “without prejudicing the powers of the Chief of State”. The evisceration of the legislative capability of the *Cortes* was ensured by two constitutional norms: the prohibition of factions inside the *Cortes* (which eliminated the possibility of coalitional politics necessary for a minimal debate) and the right of the Chief of State and the Council of Ministers to control the daily agenda of the *Cortes* (Gunther 1980).

⁹⁷ In practice, as long as it had Franco’s backing, the Council of Ministers would adopt decisions without consulting the *Cortes*, which was expected to rubber-stamp the results.

⁹⁸ Although the new regime did not have a homogenous ideology, Franco and his clique had a set of strong beliefs. They all rejected class conflict and income redistribution, and emphasized national unity guaranteed by an authoritarian state. This led them to reject competitive politics embodied in political parties and independent interest groups as a form of undermining national unity. (Anderson 1970). Since universal suffrage was regarded as threatening to national unity and to conservative Catholic doctrine, the legitimacy of this system rested on its claims to be a guarantor of Spain’s Catholic civilization, on the historical position of Franco as savior of Spain’s unity (“original acquisition” of authority) and the citizens’ representation in a system of “organic democracy” composed of the Family, the Municipality and the Syndicate (Gunther 1980: 36).

Unlike in the case of Eastern European authoritarianism, Franquism had a weak single party (the *Falange*),⁹⁹ yet the ideas of this organization shaped some of the institutional matrix of Franquism and especially the exclusion of labor from political and economic decisions.¹⁰⁰

In theory, the system denied class conflict, organizing labor and capital interests in vertical rather than horizontal “syndicates” that were grouped by sector (rather than by class interests).¹⁰¹ It was only through these vertical forms of organizations that private claims could be legally expressed. After 1958, labor and capital won greater autonomy within the syndicates and were able to do collective bargaining between “social sections” (labor) and “economic sections” (capital), thus ending a period when the Ministry of Labor would set the wages for the whole economy (Anderson 1970: 68).¹⁰² However, the sections remained

⁹⁹ Franquism had a small fascist party, the *Falange Espanola* (or *Movimiento*), a political actor that was responsible for some of the mobilization on the right, making the regime look less personalistic. Throughout much of its existence, the Falange remained consistent in its endorsement of a social-fascist ideology that combined totalitarianism and authoritarian corporatism with calls for the nationalization of banking and rail, redistributive land reform, and socio-economic rights. Yet the revolutionary and totalitarian aspirations of the Falange and its supporters in the Franco inner circle (his brother in law Serrano Suner) never managed to transform Spain into a single-party state (Payne 1961; Linz 1970; 1976; 2008). The influence of the Falange peaked between 1939 and 1945, and during the 50s and 60s it had very limited influence on government policy. Basically by 1958, outside the management of the corporatist “syndicates,” the *Falange* party was a shade of its former self. (Payne 1961; Linz 1970). Franco expediently got rid of the radicals of the *Falange* by encouraging them to volunteer in the Blue Division, the Spanish contingent on Nazi Germany’s Eastern front.

¹⁰⁰ This happened because authoritarian corporatism addressed the sources of social conflict abhorred by Franco and his supporters (especially the Church), traumatized as they had been by the class conflict that ripped through society during the years of Republican government.

¹⁰¹ All laborers, management and capital owners in a specific sector or profession were compulsorily grouped in a single “syndicate” supervised by the state as the guarantor of national interests (Gunther 1980). The result was the formation of 26 vertical syndicates for separate economic branches (Anderson 1970: 67). Beginning with 1951, shop stewards were elected directly by workers and were protected by threats of arrest with workers’ strikes. This allowed the election of myriad leftists in this position during beginning with the late 1960s as well as the establishment of informal (and illegal) communist and socialist horizontal labor organizations.

¹⁰² The Falange held a great deal of influence in the syndicates, and between 1940 and 1958, it controlled the Ministry of Labor, the institution that dictated the wages and working conditions for the entire country.

controlled by central syndical headquarters (whose members were appointed by Franco himself), while the lower levels were controlled by Falange militants.

In this institutional environment, there were no autonomous labor and business organizations, strikes were illegal, and independent unions were banned.¹⁰³ In compensation, workers received job security, unemployment compensation, pensions, sickness benefits, paid vacations and training. By contrast, business got a much better deal in exchange for losing the right to independent organization. Large corporations, especially banks, could access the higher echelons of decision-making directly, via appointments to economic policy positions, and indirectly, through audiences to the Council of Ministers and Franco's inner circle itself (Payne 1987; Gunther 1980; Holman 1993).

From Autarky to Constrained Liberalization: Capitalist Development in Franco's Spain

Import Substitution Industrialization (1939-1959)

During early Franquism (1939-1959) Spain pursued an import substitution industrialization strategy led by the state, reliant on the forced suppression of labor cost increases and self-limited by a weak fiscal base (Anderson 1970; Donges 1971; de Escosura 1994; Fuentes-Quintana 2001).¹⁰⁴

¹⁰³ As late as 1974, the attempt to set up independent labor unions was punishable by prison terms of up to 20 years (Perez Diaz 1979).

¹⁰⁴ As Charles Anderson (1970) showed, import substitution industrialization was hardly a completely new policy paradigm in Spain. Some policies had precedents in the previous dictatorship (1923-1930), when Primo de Rivera's military regime sought to achieve economic self-sufficiency in a more forceful state-led industrialization (e.g. the establishment of "strategic industries") and corporatization of the business sector. The *dirigiste* bent of these measures had deeper roots than the military tradition, however. During the 19th century Spain had emulated the

Unlike the relatively modest government interventions of the neo-mercantile era, this time the Spanish government committed much greater resources to direct public investment. Generous fiscal incentives, low interest rates, protection against foreign competition, and expropriations required for plant expansion ensured a business climate favorable to domestic firms. Inward-looking, the new paradigm demanded that the exchange rate regime foster domestic production, rather than exports. As a result, the Spanish government set seven groups of exchange rates for imports and five rates for exports until 1957. To the same end, the regime kept marginal income taxes low, and as a result of state-controlled corporatism and labor repression, industrialists were constantly reassured that wages would remain low¹⁰⁵ (Toretella 1994: 363; Poveda 1975).

The central tool of the new industrialization policy was the establishment of a public holding company in 1941 (the Institute of National Industry/*Instituto Nacional de Industria* or INI). The basic function of INI was to launch new industrial branches where private firms were loath to act, and to challenge private monopolies with the establishment of new firms.¹⁰⁶ Until 1957, the INI was

French administrative and bureaucratic system while developing a higher education for state managers molded on the French *grandes écoles* that produced an interventionist bureaucratic ethos with regard to economic policy (Anderson 1970: 56).

¹⁰⁵ In effect, strikes were illegal and, until 1958, wages were set by government decree, although fringe benefits were extensive. This was not a Spanish idiosyncrasy either. The Dutch used this policy until the 1960s and the same mechanism was in place in France until the 1950s. Yet while in the Netherlands and France wage controls were regarded as temporary measures to ensure full economic recovery from wartime devastation, in Spain they were regarded as permanent. Moreover, like in the case of East Asian authoritarian developmentalism, Spanish labor repression and the syndical industrial organization guaranteed low labor costs (Anderson 1970).

¹⁰⁶ The importance of INI in the economy or direct price supports for agriculture should not be overstated as a sign of “autarchy”, however. Outside of Germany, Belgium and Scandinavia state-led industrialization was common in the postwar years. Moreover, in relative terms, at the height of the industrialization drive in 1960, public industrial investment in Spain, a country with a declared import substitution development paradigm, was, at 15 percent of total industrial

financed directly with grants from the national government¹⁰⁷ and targeted its industrialization efforts at a long list of industrial branches deemed strategic by the state.¹⁰⁸ While managed industrial credit kept the costs of capital low for targeted industries, the state boosted domestic demand through massive railway infrastructure and the irrigation systems (Anderson 1970).

Monetary policy during this period was expansive. The government increased the budget deficit to pay for its industrialization, money supply was steadily increased, and the inflation rate averaged 13.7 percent between 1939 and 1959 (Lakauskas 1978). Yet expansionary monetary policy was not carried out, as in Western Europe, through the corresponding increase of state revenue. While Italy's state budget was 21 percent of GDP and Britain's was 33 percent, the figure in Spain was frozen at 14 percent as a result of a self-imposed cap on the expansion of state budgets relative to GDP (Comin 1996). This created major problems, as the costs of the expected expansion were concentrated in high budget deficits and foreign currency loans, transforming this developmental model into a ticking time bomb. Most importantly, since industrialization depended on expensive technology imports, any major drop in Spain's agricultural exports raised the specter of bankruptcy against the background of a generally underperforming economy.¹⁰⁹ This happened in 1956, when Spain's

development, much smaller than in countries with a liberal model like Austria (47%), the UK (32%) or France (31%) (Anderson 1970: 40).

¹⁰⁷ Between 1941 and 1954, INI owned 12 firms, held a dominant share in 27 and a minority share in 12 (Anderson 1970: 39).

¹⁰⁸ The list included steel, aluminum, hydropower, shipbuilding, fertilizers, air transport, telephone communications and autos.

¹⁰⁹ Basically, the industrial expansion expected by the regime did not happen. Between 1946 and 1950, industrial production grew by 10 percent, relative to increases of 70 to 100 percent in other Mediterranean countries (Italy, Greece, Yugoslavia) (Carreras 1984). And even as production

citrus crop of 1956 dropped to half of its 1955 level, leading to a catastrophic balance of payment problem. With a total of 40 million dollars left in the state's foreign currency accounts, this underfunded ISI model came to the brink of bankruptcy (Lieberman 1995: 47). The situation was complicated further by student riots, miners' strikes, and an emerging clerical opposition. This led to a cabinet reshuffle in 1957 that put an end to ISI and inaugurated a period of economic liberalization

Limited Liberalization (1959-1964)

In 1957 the Spanish cabinet saw a shift in the center of power from ISI towards economic liberalism. The key new figures were conservative *Opus Dei* technocrats known for professionalism and commitment to the regime. The new holder of the Commerce portfolio was Alberto Ullastres, a young economist known for his joint research projects with German liberal economist Friedrich von Stackelberg. The head of the influential Office for Economic Coordination and Programming was Laureano Lopez Rodo, a conservative Catholic administrative law professor, who adapted some of Keynes' ideas to the Spanish context, and who was the protégé of Admiral Luis Carrero Blanco, Franco's right hand man.

The new government devalued the peseta and began to run the printing press to pay for ongoing expenses. A dramatic decrease in purchase power led to

grew after 1950, productivity figures remained very low, and Spanish exports began to decrease just as the economy began to grow after 1950 (Gonzales 1979: 47-48; Velarde Fuertes 1973: 484). As a result of weak industrial competitiveness, Spain's exports remained dominated by citrus, wine and olive oil, which brought only modest export revenues. The small domestic market and the limited access to foreign markets meant that the industry had narrow limits of expansion and was starved of new technological innovations. Chronic shortages in fuel, energy and raw materials weighed down productivity and consumption (Carr and Fusi 1979: 52).

more social unrest in Asturian mines and Basque foundries, “forcing” the regime to kidnap and court-martial the strike organizers. In 1958, minister Rodo used growing social unrest to convince the *Caudillo* that more economic liberalization would stabilize public finances and reduce the incidence of social unrest, by both making the average Spanish wealthier and avoiding the tax hikes that Franco’s backers disliked (Fuentes Quintana 1991; Gutierrez 1992). The drafting of the reform policy package known as the Stabilization Plan involved Spain’s young generation of neo-Keynesian and ordoliberal academic economists and technocrats, as well as the direct advice of an IMF delegation stationed in Madrid for a few months.

After seven months of preparation and drafting, Spain unveiled its Stabilization Plan on June 30, 1959. The plan's objectives were threefold: to take the necessary fiscal and monetary measures required to restrict demand, and to contain inflation. The deflationary measures quickly arrested the growth in inflation and balancing the budget deficit. The plan enabled Spain to avert a possible suspension of payments to foreign creditors holding Spanish currency. Gold and foreign exchange reserves went from almost zero to over 1 billion. In a year, Spain’s balance payments ran a surplus of half a million dollars. The devaluation of the peseta led to a significant increase in Spanish exports and quadrupled tourism receipts, with the number of tourists nearly doubling from 3 million in 1958, to almost 6 million in 1961.¹¹⁰ Other aspects of the reform were more interventionist. The “mixed banking” of the ISI era was terminated,

¹¹⁰ Spanish exports grew from 498 million in 1958 to 759 million in 1961. For more detailed data see Report on Spain of the Board of Governors of the US Federal Reserve, November 29, 1962 (on file with the author).

commercial and investment banking were separated, and the central bank was nationalized.

Another pillar of reform concerned trade and foreign capital flows. For the first time since 1920, Spain allowed for some liberalization of trade. The entry costs of foreign investment were reduced, as the licensing of foreign capital participation in the capitalization of Spanish firms was lifted, on the condition that such participation did not exceed half of the total capital. The government lifted restrictions on the repatriation of earnings from foreign investment and the principal involved. The elimination of many restrictions on exports led to imbalances in Spain's external position, and by 1961 Spain had the same current account deficit as in 1957. Yet with the receipts from tourism added to exports, Spain ran a surplus in 1961.

Although it was dramatic by Spanish standards, trade liberalization remained modest. A 1962 federal US Federal Reserve reports maintained that Spain still had the most protectionist trade regime in OECD in 1961.¹¹¹ Thus, the government maintained barriers to entry on "strategic" industrial sectors and limited trade liberalization with those countries that allowed the convertibility of Spain's net earnings, which had originated in commercial exchange with them (Lieberman : 52). Also, imports were liberalized only for goods judged not to harm domestic development.¹¹² To shield Spain's banks from international

¹¹¹ Report on Spain of the Board of Governors of the US Federal Reserve, November 29, 1962.

¹¹² The decree-law no. 10 of 1959 maintained the requirement of individual import licenses on non-liberalized imports and capped their aggregate value (Lieberman: 52).

competition, foreign banks were not allowed to enter the country. This ban remained in force until 1978.¹¹³

In late 1959 and throughout the 1960s, domestic demand and output fell in tandem. The resultant economic slump and reduced wages led approximately 500,000 Spanish workers to emigrate in search of better job opportunities in other West European countries. As the export sector failed to act as an engine of growth, the government loosened credit conditions and allowed for salary increases to restart aggregate internal demand. Fortunately for the government, the ensuing contraction of internal demand was compensated by a doubling of migrant remittances (over 100 million in 1961), U.S. economic aid (100 million annually between 1959 and 1961),¹¹⁴ and the growth of U.S. expenditures on military installations in Spain.

After a year-long stagnation in 1960, the economy began to expand. The liberalization of imports and FDI facilitated the modernization of Spain's outdated industrial base by increasing imports of capital goods and technology transfers. The effects of the liberalization measures were compounded by more effective protocol for the creation of new industries. During the 1960s, these developments enabled Spain's transformation into an industrial country and led to its first boom in industrial exports.

¹¹³ The Spanish financial system was essentially non-competitive internationally and poorly diversified. Spanish banks were small, highly regulated and had extremely weak deposit bases, loan portfolios and economies of scope (Acena 2009: 43-46).

¹¹⁴ Foreign aid took the form of US\$75 million in drawing rights from the IMF, US\$100 million in OEEC credits, US\$70 million in commercial credits from the Chase Manhattan Bank and the First National City Bank, US\$30 million from the Export-Import Bank of the United States, and funds from United States aid programs. Total foreign backing amounted to US\$420 million (Gonzales 1978; Fuentes Quintana 1990).

Luckily for the government, the external environment was favorable. The European Community absorbed Spain's exports and excess labor. Spanish net migration to Europe and the total dollar value of remittances quadrupled between 1960 and 1961. The state's involvement in tourism promotion and a booming and more socially egalitarian Europe combined to nearly quadruple earnings from tourism between 1961 and 1964 (Gonzales 1979: 286). Boosting domestic demand, the money spent in Spain by the average tourist more than doubled between 1958 and 1964, and the total number of foreign visitors grew from 3.2 million in 1957 to 14 million in 1964 (Gonzales 1979: 286). The boom in migrant remittances and earnings from compensated for expanding commodity trade deficits.

Indicative planning (1964-1975)

Triggered by a 1962 IBRD report revised by Opus Dei minister Lopez Rodo and inspired by French indicative planning (Schwartz and Gonzales 1978: 73), Spain adopted several development plans between 1963 and 1973. Although the 1962 IBRD report urged the government to make the Spanish economy more market friendly by deregulating the economy, it nevertheless did not suggest a "neoliberal" course. Rather, IBRD asked the government to increase the size of the public budget relative to GDP and to "make markets" by taking a more coordinated approach to industrial development (IBRD 1963). This did not mean a return to ISI industrial policy either. While basically all industrial firms had been considered of national interest after 1939, now only select sectors and

subsectors judged by technocrats to have a pull effect on the rest of the economy were to receive government support (Lieberman 1995).

The plans were managed by a new “superministry” called the Planning Commission (*Comisaria del Plan*), and their main objective was to “raise rapidly the productivity of Spanish firms in order to obtain an outward displacement of the economy’s production possibility frontier” (Lieberman 1995:73). To achieve this, the plans established partnerships (*accion concertada*) between government planners and the CEOs of selected industrial sectors. Like French “quasi contracts”, *accion concertada* tended to replace free-market economic competition with a combination of discretion and political competition (Gonzales 1979: 321). Essentially, the CEOs pledged to attain certain production and productivity levels within periods that ranged from 4 to 8 years, in exchange for direct monetary subsidies, low-interest government credits, import duty exemptions, and tax cuts. Industrial coordination was accompanied by state guarantees for the stabilization of the domestic financial sector that financed this development. When in trouble, the Bank of Spain orchestrated discreet bailouts, takeovers and mergers (Pons 2002). Market-making interventionism consolidated Spanish banks; their deposits, loans and profit, measured by the coefficient of variation, were higher in 1962-74 than in 1940-62 (Acena et al 2009: 45).

During the indicative planning years, Spain had the highest economic growth in OECD. Industrial output grew in double digits per annum, and industrial employment saw unprecedented increases, turning Spain into an urban

industrial country. By 1973, Spain was Europe's fifth industrial economy.¹¹⁵ Most Spaniards saw significant increases in purchase power and standards of living. Yet the political and economic costs of the three Spanish development plans were high. Economically, it drained the budgets of a country whose leadership vetoed tax increases. During the first year of the first indicative plan alone, budget expenditures increased by 20 percent (Lieberman 1995: 81). Macroeconomic imbalances posed another challenge. Industrial modernization was powered by a growth in technology imports, which was greater than the country's capacity to export. Thus, after 1965, Spain began to run external deficits on current account and inflation levels rose by almost 2 percentage points above the OECD average.¹¹⁶ Even before the oil shock hit in the fall of 1973, Spain was already running double digit inflation (14%).

Unfortunately for the government, the external environment deteriorated as well. Falling demand in E.C. after the 1973 oil shock led to falling exports, tax receipts from tourism and migrant remittances, a shift from surplus to deficit in the current account, worsening inflation, and balance of payment problems. A weak reflationary effort (0.3% of GDP) was followed by a worsening fall in domestic demand and output. Puzzlingly, during the next year, the government shifted to a more explicit deflationary policy, with a balanced budget and interest rate increases topping the list. By the end of the year, inflation was cut from 21% in 1974 to 12%, just two points above the OECD average. But the stabilization of prices further depressed production levels, which led to deteriorating public

¹¹⁵ See Harrison (1993) and Wringt (1993).

¹¹⁶ OECD calculated that to cover its 1966 current account deficit, Spain needed to increase exports three times faster than imports (OECD 1969: 6).

finances, and especially to serious balance of payment problems. Most importantly, however, it took an authoritarian system to keep labor down. The combination between the economic effects of the 1973 oil shock, the death of Franco in 1975, and the ensuing collapse of authoritarianism made this development model entirely unsustainable.

Also, the death of Franco in 1975 unleashed both political liberalization and mass political mobilization at a time when the Spanish government was one of the few European governments that reacted to the October 1973 oil shock by refraining from adopting expansionary policies. This happened despite the fact that Spain had the highest savings and credit ratings in the Mediterranean (Tovias 1984: 162-154). Yet the costs of the attempts made by the central bank and by the ministry of finance to pass the costs of adjustment to the population could not survive the meltdown of authoritarianism that took place two years after the shockwaves of the OPEC price hike hit Spain, OECD's worst oil-guzzler (IEA 1981).¹¹⁷

The End of Franquist Developmentalism

The terminal crisis of the Bretton Woods order had immediate repercussions in Spain. As markets bet aggressively against an overvalued dollar in 1969, they saw incentives in investing in the undervalued currencies of countries with strong growth and low debt like Spain. As a result, Spain saw a boost in credit, inflationary pressures and a deteriorating balance-of-payments sheet. Between

¹¹⁷ In 1973, Spanish imports of oil accounted for almost 70 percent of energy consumption. As late as 1978, the import of oil represented 28 percent of total Spanish imports.

1971 and 1973, Spain's hard currency reserves grew by 500 percent, encouraging more speculation on the peseta (Andreu et al 2006: 282). Declaring that the economy was "overheated," the ministry of finance intervened to "cool" the upward cycle by increasing the discount rate to the high levels used by France during the late 60s and early 70s.

But while Spain's balance of payment markers (with the exception of the current account) saw important surpluses, the high interest rates attracted foreign portfolio investments, which facilitated a spectacular inflation growth from 1.6 in 1970 to 8.3 in 1971. Before the first oil shock hit, Spain's inflation was at 14 percent, almost double the average of the previous fifteen years (7.8 percent).¹¹⁸ But, like in postwar France, Spain's high inflation was accompanied by high growth rates (almost 8 percent in 1973), full employment and high savings simultaneously.¹¹⁹

Adding fuel to the fire, the oil shock of October 1973 cost Spain 3 percent of GDP,¹²⁰ put its external deficit in the red for the years to come and increased inflationary pressures even further. But while other countries tried to cope with the resulting fall in demand by using countercyclical policies at the cost of a further deterioration in inflation and deficit figures, the Spanish government allowed the central bank to resort to inflation targeting in late 1973, more than a year before this policy was tried by West Germany and Switzerland. In effect, the

¹¹⁸ Although the decision of the US to go off gold and devalue the dollar created incentives for even tougher market speculation on the peseta, the authorities decided to defend the currency by maintaining the peseta-dollar peg, thus resisting the worldwide trend towards the managed float regime.

¹¹⁹ In 1973 Spain had a real growth rate of 8 percent, unemployment at 2 percent and a record 6 billion dollars in its hard currency reserves.

¹²⁰ At 67 percent of the total energy consumption, Spain's oil dependence was higher than the OECD average.

central bank adopted official targets for growth in the principal money stock aggregate (M3) by targeting the evolution of bank reserves through its low interest loans to the banking sector, but unlike in Germany inflation targets were set much higher. Additionally, the finance ministry adopted a budget that, on a first reading, reflected the neo-Keynesian trade-off between monetary inflation and demand stimulation through increases in countercyclical public investments and social transfers.

Yet the actual operationalization of this “Keynesian” response to the crisis remained highly suggestive of how faint the response was. While the US counter-cyclical package in 1975 mobilized 11% of budget expenditures in 1975, in Spain this figure for 1974 was 0.2 %. Even more suggestively, in 1975, a particularly tough year for levels of demand, the public budget was executed with a surplus of 3.4 percent (Gunther 1980). Also, as demand in Western Europe decreased and given the lack of a counter-cyclical macroeconomic policy in Madrid, Spanish industry saw a spectacular collapse in orders. In turn, this caused a further slowdown of growth, from 6 percent in the early 1970s to 1.1 percent in 1975 in an external environment marked by a collapse of Spain’s external economic emergency engines: immigrant remittances and tourism (Martinez Mendez 1982).

The death of Franco in 1975 and the surge in Spain’s economic difficulties put his political and economic order under the hammer. His successors embraced democracy, dismantled developmentalist institutions and during the 1980s let their Socialist adversaries rule over one of Europe’s first neoliberal experiments. But the intellectual and institutional legacy of Franco’s Spain did wither away

completely. The high degree of centralization of economic policy institutions was reproduced by the Socialist government and contributed to the smooth diffusion of the ideas of the central bank throughout the government. The developmentalist idea that the government was responsible for increasing the country's external competitiveness by investing in industrial champions lived on as well. Rather than represent a complete break with the past, the Spanish transition looked more and more like a historical palimpsest.

Transition Begins

The Political Transition as a Domestic Generator of Uncertainty

Political liberalization and mass mobilization processes intersected to generate a “renovating legitimization scenario.” Pivotal elites associated with the old regime (King Juan Carlos and post-Franquist premier Adolfo Suarez) acted out of “fear of a vacuum of authority, of a sudden transfer to the then quite radical opposition forces.” (Linz and Stepan 1996: 92). These elites assumed that democratization would not lead to the political victory of radical forces (Bermeo 1997:317-318),¹²¹ and that centrist parties would control the Spanish political system.¹²² Based on these perceptions, they undertook radical alterations of the political system. In the

¹²¹ These expectations were based at first on polls showing that the Spanish population was ideologically moderate and committed to democratization, and that Spanish Eurocommunism was electorally unattractive (Share 1986; Maravall 1981). Then, the 1977 elections convinced these pivotal elites that radical parties could not muster much support and that democracy was popular. In 1978, polls showed that 77 percent of the population deemed democracy to be the best political system for Spain. For an extensive account, see Linz and Stepan 1996: 108.

¹²² Even so, before the moderate Suarez came to power in 1976, the communists, the socialists and their affiliated trade unions decided to abstain from their initial strategy to overthrow the government and adopted a strategy of “negotiated rupture” (*ruptura pactada*), whereby a multiparty liberal democracy would be established through elite pacts.

autumn of 1976, the Franquist *Cortes* voted out to phase itself by passing a package of political reforms that legalized political parties and trade unions and scheduled the country's first democratic elections for the following year. As predicted, the Center-Right party (UCD) won and began liquidating the institutions of authoritarianism. After the elections, in what became a foundational moment for the consolidation of Spanish democracy, an intra-party agreement called Moncloa Pacts was brokered by Suárez, committing all parties to the creation of a new political regime (Linz and Stepan 1995).

But Spain's political transition did not occur as a "velvet revolution" in which the outcomes of political liberalization were shaped by elites alone. Granted, Spain did not see the radical socialist mobilization of Portuguese industrial workers and peasants, whose intensity had not been matched in Europe since Russia's October Revolution.¹²³ However, between 1976 and 1977, Spanish political life was anything but peaceful or elite-dominated. As a matter of fact, Spain's elite-engineered *reforma pactada* took place against the background of nationalist and worker mobilization. The widespread violence triggered by the armed wing of the Basque separatist movement ETA (*Euskadi Ta Askatasuna*) and by government reprisals that led to a state of emergency in the Basque country in 1976. Wave after wave of assassinations, kidnappings and police shootings ripped through the fabric of Spanish political life between the adoption

¹²³ In 1975 in less than a year, Portuguese workers seized more than 23 percent of Portugal's farmland, 940 industrial enterprises, and ten thousand houses. The new regime purged the state of both hardliners and centrists, and the constitution of Portugal promised a "classless society" and the "transformation of capitalist relations." The Communists had a strong presence in governments, and Portugal came close to pulling out of NATO. Faced with this situation, the US considered covert military action against the new regime (Bermeo 1997: 308-309).

of political reform laws that gave Spain a multi-party system, and the organization of the first free and fair elections in 1977, with political killings rising steadily until 1980.

The dismantlement of planning institutions as a result of the assassination of Carrero Blanco, the planners' patron, the approaching death of Franco, growing social unrest and the subsequent political instability increased economic uncertainty for investors used to a stable authoritarian regime in Spain. With prime ministers and finance ministers changing every year between 1973 and 1977, nobody knew what kind of political regime would emerge, leading policymakers to postpone any potentially disruptive economic reforms, especially with regard to measures that risked increases in unemployment or wage cuts. In this way economic uncertainty was compounded by political uncertainty.

Unlike in 1959, when labor repression and a buoyant West European labor market forced excess labor to leave the country, neither of these two conditions applied by 1976. Jobs were being destroyed throughout Europe at a record pace, forcing governments to restrict migration flows. And, back in Spain, a labor union movement liberated by the worst excesses of the Franquist regime and supported by an emerging political opposition, mobilized and demanded state protection against the vagaries of the market.

After almost half a century, Polanyi's pendulum seemed to swing back to (re)embedding the market through more redistribution and "voice". For a while, it seemed that labor would be able to force open the historical window to "embedded liberalism" (Ruggie 1982). As the number of working hours lost

through strikes grew four times between 1975 and 1976 and as the number of strikers grew from 1 million to 3.6 million (Ludevid 1982) in a year when Portugal saw mass expropriations and a collapse of the ancien regime, the post-Franquist ruling elites had every reason to be cautious.

The death of Franco also unleashed a wave of strikes throughout Spain. Labor unions had a strong dossier in this regard. During the 1960s, Spanish workers, and especially the communist-controlled *Comisiones Obreras* (CCOO), defied repression and organized strikes at a rate that fell within the Western European spectrum of the time (Fishman 1981: 283). Jose Maria Maravall's classic study of the Spanish transition found that, by the early 1970s, this pressure developed in a crucial direction by weakening the authoritarian regime's desperate move to open the door to limited liberalization and evolve into a *dictablanda*:

[popular pressure from below; [...] especially that coming from the workers' movement [...] was causal factor in the Francoist crisis, in the non-viability of any mere "liberalization" policy, in the willingness on the part of the "democratic right" to negotiate the transition and carry through reform up to the point of breaking with Francoism, and in the initiative displayed by the left up to the 1977 elections. (Maravall 1982:14).¹²⁴

¹²⁴ For a similar dissertation that puts Spain in comparative perspective see Collier and Mahoney (1997).

While the high costs of labor mobilization under Franquism had prevented coordinated actions, coordinated industrial conflict could occur virtually unimpeded after 1975. Although the Spanish workers' protest repertoire did not include Portuguese-style occupations of agricultural and industrial property, they outdid their Portuguese counterparts in terms of strike mobilization. Studies of labor activism recorded an "explosion" in industrial conflict between 1976 and 1979 (Perez-Diaz 1993: 238-239; see also Collier and Mahoney 1997), with over 3.6 million strikers registered in 1976 alone (Bermeo 1997: 309-310). But the rise in striking activity did not mean that moderation was off the menu of union choices. On the contrary, Robert Fishman's classic study of plant-level Spanish labor suggests that workers were not ready to go beyond strikes and generally supported elite pacts as the main avenue of democratization. Both CCOO and UGT had good reasons not to fear that their interests would be left unrepresented in the party elite negotiations of the late 1970s, as the links between these unions and "their" parties (PCE and PSOE) were especially strong during that period.

The result of the fear of social unrest that could derail the transition was the adoption of expansionary policies in 1976, largely in the form of credit issued by public banks and targeted to high-employment housing and capital goods sectors. This new policy posture earned elites enough social peace to weather the challenges of the political transition, led to an extra percentage of growth in GDP, yet played havoc with the inflation targeting ambitions of the central bank. In July 1977 the inflation rate shot up to 25% and it was expected to hit 30% by the

year's end. To compound the difficulties experienced by the government, between 1974 and 1977 Spain's "baby boomers" entered the labor market in record numbers, just as 700,000 farm laborers moved from the countryside to urban labor markets and 230,000 Spanish migrants returned home, fleeing West European markets ravaged by the crisis. As a result, by 1977, the Spanish unemployment rate began to grow far above the OECD average.

The short life of Spanish embedded liberalism

Once it became clear that democratization was "the only game in town" and the post-Franquists won the founding elections of 1977, the liberal reforms launched in the early 1970s were resumed, this time by a government staffed by the most liberal elements of the Franco regime. The new "superminister" of the economy, Enrique Fuentes Quintana, understood that since the government could no longer resort to violence to quell demands for wage indexation, the only available solution was a negotiated stabilization package (Fuentes Quintana 1982). The resulting policy package contained in the Moncloa Pacts mixed liberal measures, such as trade liberalization, financial liberalization, an orthodox stabilization plan (currency devaluation, tight monetary policy, wage increases well below inflation rates), with more redistributionist measures, such as tax increases and increased welfare expenditures. This mix was less orthodox than the liberal post-Franquists had wanted, but, as premier Suarez had stressed:

[I]n other times the economic measures agreed upon by the cabinet would have been enough to drastically change the course of the economy. But now they have not been as efficient as one might have expected and this owes to the impact of politics on our economy. So long as a country is haunted by unknown quantities of politics, the economy cannot be reactivated or stabilized.¹²⁵

Labor pressures also led to a dramatic modernization of the Spanish welfare state. Social spending as percentage of GDP grew by 50 percent between 1975 and 1982 (Guillen 1982; Guillen and Matsaganis 2000:128). While spending on public goods and economic services in Spain remained stable or even fell as a proportion of GDP after the mid 1970s, both expenditure groups showed a marked increase between 1975 and 1982, with spending on general public services growing the fastest. Within this category, welfare spending and subsidies to high-employment private and public companies grew the most. Real compensation for unemployment benefits grew (Fina 1986). To pay for some of the growth of these expenses, the government “Europeanized” the tax system by making it more progressive. They also increased the tax burden by 1 percentage point of GDP per annum between 1977 and 1982, with most of the growth being concentrated on high income earners. The new tax legislation imposed extraordinary surcharges on company profits, luxury goods and very high personal incomes, introduced an “extraordinary net wealth tax,” abolished confidentiality in bank operations, and criminalized tax evasion. As a result of

¹²⁵ ABC, September 11, 1976.

these measures, the GDP share on taxes and income rose by 7.6 percent in 1978, almost double the 1975 figure (Gonzales-Paramo and Hernandez de Cos 2007).

Finally, if collective bargaining took place de facto at the factory level only during the Franco years, national level bargains became the rule during the late 1970s and early 1980s (the 1979 *Acuerdo Marco Interconfederal*). UCD governments also constrained the hire-and-fire freedom of employers by passing a new labor code (*Estatuto del Trabajador*). For the first time since the Civil War, it seemed that a Spanish government reacted to social unrest by incorporating labor into economic decision-making. Yet unlike the Republican governments of the thirties, this time labor entered the policy process not strictly through confrontation, but through a combination of contentious registers (strikes, direct action) and an emerging democratic corporatist institutional infrastructure.

Business divided

Beginning with 1978, the stabilization package from the 1977 Moncloa Pacts brought inflation down considerably,¹²⁶ the money growth targets were met and wage growth was kept below inflation through a series of social pacts in which the labor unions played a constructive role. Unfortunately for the government, the stabilization package backfired on several fronts. First, although it made taxation more progressive and raised state revenues by six percentage points, the ambitious fiscal reform demanded by the increasing social bill of “concerted”

¹²⁶ The annual inflation rate went from 26.4 percent in 1977 to 14.4 percent in 1982 (Delgado and Segura 1977).

democratization lost much of its edge due to the opposition of business and increased uncertainty for investment.

Like in the US, where the Nixon administration adopted a string of anti-business decisions that prolonged the slump in private investment, Spanish industrial business felt at a loss as to who represented its interests in the political system as long as the post-Franquist UCD, a right-wing party, concentrated the costs of economic adjustment on it through tax hikes, expensive credit, a crunch on central bank lending to commercial banks.

At the same time, the conflict between the squeezed industrial capital and the privileged large banks became more dramatic after the Moncloa Pacts. In the middle of a tough downturn, big banks were making higher net profits and wider profit margins as a result of the removal of deposit rate ceilings. This policy triggered a race for deposits that bid up the costs of bank liabilities, leading to higher loan rates (Tafunell 1998).¹²⁷ As small and medium banks were almost completely eliminated by the banking crisis that broke out in 1977, the degree of oligopolization and oligopolistic coordination in the banking sector grew, concentrating activity in a handful of large banks (Fanjul and Maravall 1985; Cuervo 1988).

The oil shocks increased the costs of Spain's maintenance of an industrial finance model that blended German characteristics (universal banks and large

¹²⁷ Between 1946 and 1991, the average profit rates in Spanish banking were constantly on top of industrial profit, yet after the banking liberalization reforms of 1970 the gap increased considerably (Tafunell 1998; Pons 2001).

industrial firms had interlocking directorates)¹²⁸ with local traits (a historical preference for short term and discriminatory loans) (Munoz 1968; Pons 2001; Pueyo Sanchez 2006). Moreover, throughout the 1960s, the inter-bank competition manifested itself more in terms of opening new offices than in investment per se (Fanjul and Maravall 1985; Cuervo 1988). As government policies signaled withdrawal of support for developmentalist finance but not of state guarantees for large banks, once industrial firms started to bleed after 1973, universal banks shed their participation in industry, passing the adjustment costs on the government budget and on labor (Pons 2001).

By contrast, industrial and service firms fares less well. They faced not only a fall in aggregate demand and the highest interest rates in OECD, but also the highest levels of industrial action and unemployment since the civil war. Unlike banking, industry did not have the luxury of ignoring the social costs of transition and could not push as hard for cuts in the public budget for fear that this would cut the welfare spending that prevented Spain from going the more anti-capitalist way of Portugal. The consequences for growth of uncertainty in the ranks of industrial capital were dramatic: capital investment and industrial production fell precipitously and, as a result, the annual real GDP growth went down from 3 percent in 1977 to 1 and respectively near-zero rates throughout the 1978-1982 period. Although labor extracted more wage concessions as well as a more favorable legislation, the government's anti-inflationary policies tripled the

¹²⁸ In 1967, Spain's top six banks (Espanol de Credito, Hispano Americano, Cantral, Bilbao, Vizcaya, Urquijo) had representatives on the company boards of 955 firms representing 70 percent of the total stock of Spanish firms (Munoz 1969 235; 290-292).

rate of unemployment, from 4.9 in early 1977 to 16.5 at the end of 1982, the highest increase in OECD.

The weakness of business was compounded by its paradoxical political isolation by UCD. Organized capital was not even invited to join the negotiations for the 1977 Moncloa Pacts. With an eye to the situation in Portugal, prime-minister Suarez knew that labor could ruin the chances of a comprehensive political pact, so he cultivated labor assiduously, while shunning capital. His memoirs show that organized business found out about the results of the Moncloa negotiations only hours before they were released to the Parliament. Consequently, business declared Moncloa Pacts as “unreal and unjust,” as “evidence that the government was executing a socialist program,” and consequently pulled their political support from UCD.

The second oil shock and the crisis of the Moncloa Pacts

The second OPEC oil shock and the restrictive shift in US monetary policy, both taking place between 1979 and 1980, further magnified the economic difficulties of the Spanish economy. Because the oil shock further reduced global aggregate demand, and since Spain had to pay its higher oil bill in appreciated US dollars, industry saw falling orders and tighter credit. Between 1979 and 1982, this led to a spike in bankruptcies, falling profits and the sharpest rise in unemployment since the civil war at a time when 300,000 youth entered the labor market every year.¹²⁹ To increase uncertainty even further, a failed military coup in 1981 sent

¹²⁹ Between 1979 and 1982, the number of unemployed doubled, reaching 2 million. During this period, one out of eight jobs disappeared from the Spanish labor market.

shockwaves through the political system, just as the UCD government was being experiencing suicidal internal strife (Gunther and Hopkin 2002).

The second oil shock of 1979 dealt a heavy blow to the policies of the Moncloa Pacts. The oil-guzzling Spanish industry registered heavy losses, leading to the first near-zero growth of Spain's non-agricultural sector between the 1979 and 1981 (Tovias 1984: 164). Since the UCD government refused to make labor pay for the adjustment, the public deficit exploded. Rather than choose the austerity of Spain's neighbors after the second oil shock, the Spanish government transferred the costs of increased social spending into the budget deficit, which consequently grew from 1.7 percent in 1979 to 5.5 percent in 1982 (Segura 1989). Given the interest rate hikes on international capital markets during this period, two thirds of the deficit was financed by the central bank and domestic financial institutions, on which the government slammed compulsory ratios and other non-market instruments (Lakauskas 1995; Gonzales-Paramo and Hernandez de Cos 2007: 100).

Instead of revising the financial and monetary policies that were blamed for worsening the situation in a real economy made fragile by two exogenous price shocks, the government stuck to its orthodox monetary policy line. At the same time, the UCD policy team did not withdraw into a radical non-interventionist posture and decided to compensate the losers by blanket nationalizations of thirty troubled industrial firms sectors hit hardest by higher oil prices (steel and shipbuilding), by expanding welfare through higher taxes and budget deficits and by adopting employment protection legislation that

strengthened unions and the bargaining position of workers on the shop floor. Three years after the second oil shock, Spanish political elites presided over an economy with low growth and high unemployment but in which the macroeconomic fundamentals were far from disastrous for the standards of the time (14 percent inflation, 5 percent budget deficit, 2 percent current account deficit).

PSOE's economic program saw high unemployment rather than high inflation as the main problem of the Spanish economy and endorsed an expansionary macroeconomic package as the way out. The main promise of the program was the creation of 800,000 jobs during PSOE's first term. But, as suggested above, the economic policy team that came to shape the actual economic agenda of the Gonzales government after the October 1982 elections took some of its core ideas from an insurgent policy paradigm that was in the process of turning Keynesianism and embedded liberal institutions in historical artifacts. It is to the rising influence of this new ideational order and to its effects on Spanish economists that I turn in the following chapters.

Conclusions

This chapter started by challenging the popular argument that PSOE's route to embedded neoliberalism was inevitable in the structural and ideological context of the early 1980s. Using primary sources, I show that PSOE's story is not one of "pragmatic" conversion of its top leadership in 1982 from Keynesianism to qualified neoliberalism through some "cognitive updating" process triggered by

Mitterand's reforms. Instead, I submitted, the Socialist's decision to enact an orthodox program had been taken by the party's leading players in the economic area before the French Socialists launched their expansionist economic package in earnest. Indeed, as early as 1981, they had a detailed orthodox policy template carefully laid out.

The rest of the chapter provided the historical background to these developments. I show how after the partial liberalizations of the Franco era, the transition to democracy created the prerequisites for a Spanish "embedded liberal" model, in which the post-Franquist state took advantage of capital's weakness to forge a class compromise able to guarantee basic economic rights irrespective of variations in the macroeconomic sphere. Ironically, it took 14 years of rule by a socialist party to destroy this project and adopt an alternative, less labor-friendly one.

This chapter tells us a lot but not why Spain chose embedded neoliberalism. By themselves, the crises of the 1970s and the political turmoil that followed the death of Franco did not contain a solution to Spain's economic woes. Given the systemic uncertainty they generated, policymakers had no recourse to calculable risk technologies. Instead, it was only through a coherent set of ideas that could provide a certain diagnosis of the economy and not others that a specific course of action could be elaborated. In the case of Spain under Socialist rule these ideas drew heavily on the innovations of the neoliberal insurgency in economics. These ideas were constructed within transnational social networks and diffused within given national policy institutions.

Chapter IV - Policies and Institutions in the Neoliberal Moment

Overview

This study advanced the hypothesis that new economic ideas do not travel across borders as “scripts,” but as contestable ideas likely to suffer “editing” at the hands of domestic translators. It was also advanced that this transnational voyage of ideas would be mediated by three variables: the autonomy of the executive from political pressure, the stability of the governing coalition and the extent to which neoliberal economists control the economic policy process via appointments in key positions.

This chapter explores the empirical evidence for these claims in the case of Spain. First, I evaluate the main claims of the Western neoliberal revolution in economics by comparing them with the claims of the postwar neo-Keynesian consensus. This descriptive exercise is important in order to estimate the extent to which the policies of PSOE governments institutionalized the “original” in their economic policies, an aspect discussed in the second part of the chapter. The last part of begins the exploration of the conditions that facilitated the rise of neoliberalism in Spain by looking at the characteristics of the domestic institutional infrastructure that facilitated the rise of neoliberal ideas in the policy sphere.

I. The Rise of Neoliberalism in the Capitalist Core

Keynesianism and Its Crisis

The Keynesian policy paradigm adopted by postwar governments departed from the assumption that the private sector was fundamentally unstable to emphasize the role of the government in influencing growth rates, employment and production through a combination of fiscal and monetary policies. This policy paradigm was based in an intellectual consensus shared by mainstream economists throughout Western Europe and North America, with the notable exception of Germany, where ordoliberal views constrained the effects of the brief 1966-1973 Keynesian interlude (Hall 1989; Backhaus 1985).¹³⁰

The angular stone of the paradigm was Keynes' *General Theory* (1936), an initially obscure book proposing a theory where involuntary unemployment¹³¹ was attributed to a deficiency in aggregate demand.¹³² After the Second World War, what was understood as "Keynesianism" was in fact a syndissertation between neoclassical economics and the "orthodox" Keynes of the *General Theory* (Hall 1989; Backhouse 1998).

¹³⁰ Juergen Backhaus' survey of the adoption of Keynesian ideas in Germany concluded that in this country Keynesians "emphasized productivity, capital formation, fiscal conservatism and an entrepreneurial approach to the attainment of public purposes. It was not designed for intervention, but participation in the market." (Beckhaus 1985: 243). On the 1966-1972 "Keynesian" interlude, one observer noted that "[t]he entry of the SPD into the government finally allowed Keynesians some access to the policy arena, and, as Economics Minister, Schiller was finally able to secure passage of a Stability and Growth Law in 1967, which officially recognized the government's responsibility for employment and mandated macroeconomic measures to secure the goals of the "magic polygon", consisting of price stability, economic growth, full employment, and balanced trade. However, the first and fourth goals outlined in this polygon received much more stress than did the second and third." (Allen 1989: 16-19). During this time, the central bank placed strict monetary limits on deficit spending and continued its epistemic hegemony by employing over 1,000 economists, in sharp contrast with the 200 economists on the payroll of the German finance ministry.

¹³¹ Keynes defined involuntary unemployment as a situation when some people are willing to participate in the labor market at the given wage or even at a lower wage yet are unable to act on this choice. For a discussion of the Keynesian definition see Hahn (1986).

¹³² Keynes' qualitative insights were formalized a year later by three economists (Meade 1937; Harrod 1937; Hicks 1937) who saw in the *General Theory* the opportunity to reconcile neoclassical orthodoxy with Keynes' arguments.

By contrast with “fundamentalist Keynesianism” (Coddington 1978: 1259), in the neo-Keynesian model the neoclassical model of Smith and Marshall was assumed to hold in the long-run while the Keynesian one was applicable in the short run and for situations when the economic situation was marked by sticky wages, liquidity traps and interest-insensitive investment.¹³³ Neoclassical synthesizers like Paul Samuelson, Robert Solow, James Tobin, James Meade, J.R. Hicks and Franco Modigliani strived to fit Keynes’ insights into the neoclassical fold as well as to formalize them through econometrics.¹³⁴

Far from being a homogenous paradigm, neo-Keynesianism was a spectrum of ideas. The “right” of the spectrum stretched as far as the neo-Keynesians who embraced the so-called “Pigou effect”, which stated that Keynes’ *General Theory* failed to specify a link from "real balances" to current consumption, and that the inclusion of such a "wealth effect" would make the economy more “self-correcting” to the drops in aggregate demand (and therefore in employment) than Keynes predicted.¹³⁵ This entailed a decreased emphasis on using demand-side policies to achieve the Keynesian objective of full employment.

¹³³ The basic infrastructure of ideas used by Spanish neoclassical synthesizers was the Samuelson-Kaldor-Hicks formalization of Keynes’ thought. The intellectual manifesto of Keynesians as a group took place in a 1953 special issue of the economics review *De Economica* on Keynesianism’s applicability to the Spanish context.

¹³⁴ The basic formalization of the *General Theory* was achieved by John Hicks and Franco Modigliani in the infamous IS-LM model, a system of simultaneous equations meant to address short-run imperfections to achieve the long-run equilibria in all the markets of the economy expected by neoclassicals. IS/LM stands for Investment Saving / Liquidity preference Money supply. The IS-LM model allowed for the syndissertation of the classical regime, where wages were assumed to be flexible and the Keynesian regime, where nominal wages were assumed to be relatively rigid (“sticky”).

¹³⁵ For a classical Keynesian critique of the Pigou effect see Kalecki (1944). Kalecki argued that the adjustment required by the Pigou effect would increase catastrophically the real value of debts which, in turn, would cause wholesale bankruptcy and a "confidence crisis."

On the “left” of the Keynesian spectrum were those who concluded that the “Pigou effect” had to work on a narrow band of assets and that even if this effect existed, its power could be empirically ignored. Another mark of left-leaning Keynesianism was Abba Lerner’s (1949, 1951, 1952) “functional finance” argument that balancing the budget is not important in itself, and should be managed accordingly. Governments could act to end high inflation without risking a major depression only by balancing monetary and fiscal intervention through incomes policy and a “functional finance” policy that ensures the adequate demand levels that guarantee full employment (Colander 1982:552).¹³⁶ Similarly, the *income redistribution effect* of Michal Kalecki (1939: Ch. 3; 1942) held that far from being stabilizing, the reduction in money wages in a situation of unemployment can lead to *reductions* in aggregate demand and thus *more* unemployment.¹³⁷ “Functional finance” ideas became textbook Keynesianism and the basis for policy during the Western postwar expansion.

Pushing Keynesianism even further to the left were French economists like Pierre Masse who read in Keynes’ work an endorsement of the imperative of indicative planning (Estrin and Holmes 1985; Eichengreen 1984; Coddington

¹³⁶ “What eventually became known as textbook Keynesian policies were in many ways Lerner’s interpretations of Keynes’s policies, especially those expounded in *The Economics of Control* (1944) and later in *The Economics of Employment* (1951). . . . Textbook expositions of Keynesian policy naturally gravitated to the black and white ‘Lernerian’ policy of Functional Finance rather than the grayer Keynesian policies. Thus, the vision that monetary and fiscal policy should be used as a balance wheel, which forms a key element in the textbook policy revolution, deserves to be called Lernerian rather than Keynesian.” (Colander 1984, p. 1573)

¹³⁷ The logic behind this was that if wages decline, then the mark-up between prices and wages would increase. This would result in a redistribution of income from wage-earner to profit-earners. But if profit-earners have a lower propensity to consume than wage-earners, then the average marginal propensity to consume in the economy declines and thus aggregate demand declines. This argument was further elaborated upon by Nicholas Kaldor (1956) and Joan Robinson (1962), Sidney Weintraub (1958, 1965), Kenneth Boulding (1950) and Frank Hahn (1950, 1951).

1984; Meade 1970),¹³⁸ Austro-Keynesians (Gerlich et al 1985; Tichy 1984; 2007) and the more rebellious, yet less policy relevant post-Keynesians (King 2003).¹³⁹ Indicative planners argued that one of the functions of government should be the early identification of oversupply, bottlenecks and shortages so that state investment could be used on time and in concert with investors to preempt the occurrence of market disequilibria. By contrast with “standard” Keynesianism, Austro-Keynesians complemented counter-cyclical demand management with strong neocorporatist incomes and exchange rate policies.¹⁴⁰

Beginning with the late 1970s, it became apparent that the post-Keynesian revolution of Joan Robinson was losing steam in the economics profession just as macroeconomics began to “de-Keynesianize” and cede more and more points to neoclassical orthodoxy (King 2003). Some leading Keynesian economists put up a fight.¹⁴¹ Speaking from his position as president of the American Economic Association in 1977, Franco Modigliani attacked the monetarist insurgency and defended countercyclical monetary and fiscal management policies as the

¹³⁸ Estrin and Holmes (1985) saw indicative planning as an appropriate response to uncertainty based

on Keynes’ 1926 *The End of Laissez-Faire* (1973, Vol. IX). This view was disputed by Coddington (1984). But even though that Keynes was less favorable toward planning of all sorts in the *General Theory*, it certainly is the case that French indicative planners such as Masse cited Keynes as the father of indicative planning. This may have been an act of “radicalization” of Keynes’ work, but what it matters is that French planners reproduced Masse’s reading of Keynes and so did their Spanish counterparts. John Meade (1970) provides a more general discussion of indicative planning within a broader Keynesian context. See Meade’s *Theory of Indicative Planning*. Manchester, UK: University of Manchester Press, 1970.

¹³⁹ Inspired by Joan Robinson’s “Ely Lecture” at the AEA in 1971, Alfred Eichner, Jan Kregel and others organized what developed into the grouping known as Post Keynesian economics.

¹⁴⁰ According to Austro-Keynesians, “economic policy tried to stabilize the data most important for entrepreneurial decisions, especially wage increase, exchange rates and investment promotion. This lightened the burden of the traditional instruments of stabilization policy. In addition these instruments were assigned differently: Exchange rate policy was primarily used to stabilize prices in the short run, incomes policy to equilibrate the current account in the medium and longer run, fiscal policy to stabilize employment” (Tichy 2007).

¹⁴¹ For an overview of the Keynesian resistance see King (2003).

adequate response to stagflation by arguing that the inflation of the 1970s was mostly the result of the oil shock of 1973, rather than the result of flawed government policies (Modigliani 1977). He argued that expansionary fiscal policies could either complement or offset monetary policy in the pursuit of either unemployment or anti-inflationary objectives. A few Keynesian macroeconomists set out to demonstrate that the embarrassing difficulty to predict stagflation could be overcome by incorporating exogenous supply shocks in the standard structural models based on the Phillips curve.

Other prominent neo-Keynesians, however, began to make major concessions or simply defected. In 1980, prominent Keynesian James Tobin, a scholar who defended a reflationary response to the crisis, ended up agreeing that “the price- and wage-setting institutions of the economy have an inflationary bias. Consequently, demand management cannot stabilize the price trend without chronic sacrifice of output and employment unless assisted, occasionally” (Tobin 1980: 64). Around the same time, Assar Lindbeck, the dominant figure of Scandinavian Keynesianism began to accept the basic assumptions of monetarism and rational expectations, leading to a paradigmatic shift to the right in the economics of the flagship of social-democracy (Blyth 2001: 16). In less than a decade, Keynesianism went from epistemic hegemony to defensive.

The Neoliberal Insurgency in Economics

At the heart of embedded liberalism was the idea that monetary policy alone could control inflation. Inflation was commonly believed to be driven primarily

by factors other than monetary policy: fiscal deficits, commodity price shocks, inflation psychology, aggressive labor unions, or monopolistically competitive firms.¹⁴² Beginning with the early 1960s, monetarists attacked this consensus by making the twin contentions that an excessive supply in the quantity of money by the central bank is the most important cause of inflation, and that the vagaries of monetary policy are responsible for the cyclical fluctuations of the economy.¹⁴³ This controversial argument that did away with neo-Keynesians' complex accounts of the causes of inflation was built on the classical assumption that governments may not know in advance what the real effects of monetary policy will be in the long term.¹⁴⁴

According to Milton Friedman (1956; 1960; 1963; 1969), to forestall either deflation or inflation, the most important goal of the monetary policy should be a public commitment by the government to lock in low fixed rates of growth in the money supply (between 3 and 5 percent) plus all commercial bank deposits.¹⁴⁵ Once accepted, this dissertation eviscerated Keynesian counter-cyclical policies based on forecasting the rise in demand. It promoted the institutionalization of monetary targets via open market operations, changes in interest rates, budgetary spending cuts or quantitative controls of the increase in

¹⁴² Even the head of the Federal Reserve from 1970 to 1978, Arthur Burns, shared this view (Burns, 1979; Hetzel, 1998).

¹⁴³ The tenets of classic monetarism were laid out in a string of Milton Friedman classics: *Essays in Positive Economics* (1953), *Studies in the Quantity Theory of Money* (1956), *A Program for Monetary Stability* (1960) and "The Role of Monetary Policy" (1968).

¹⁴⁴ Monetarism rose as an anti-Keynesian restatement of the 18th century classical quantity of money theory. This emphasized the stability of the private sector and the insufficiency of monetary policy in controlling inflation, and it was built on the classic liberal faith that, in the long run, markets are more efficient and productive than government intervention. For the pre-history of modern monetarism in the 18th and 19th centuries see Leidler (2008).

¹⁴⁵ This policy was adopted by the US Fed on October 6, 1979 by lowering and steadying the growth in the money supply. This was achieved by varying the reserves available to the banking system through open-market operations.

bank credit, all with a view to reduce the effective demand for goods and services (Mayer 1978; Leidler 1981; 2008; Hoover 1984; Kindleberger 2006).¹⁴⁶

But the monetarists' offensive did not end with monetary policy. They attacked government employment regulations by cutting the links between monetary policy and the dynamics of unemployment. Friedman postulated that there is a natural rate of unemployment whose levels can only be kept low artificially, through labor market rigidities (labor unions, minimum wage legislation, hire and fire costs). According to his theory, the natural rate of unemployment is unknowable. Therefore, the government's attempts to lower it are doomed to generate either inflationary spirals if unemployment is set below the natural rate, or deflation if it is set above this rate. The most important implication of this argument is that there is no permanent trade-off between inflation and unemployment; there is only a temporary trade-off.

During the 1970s, the monetarist onslaught against Keynesianism was complemented by two new schools of thought: supply-side and new classical economics. Supply-side economics was the product of interactions between conservative media and a small group of maverick economists. It resuscitated the

¹⁴⁶ The key policy implication of the monetarist dissertation was that government should keep the money supply steady and expand it slightly each year in accordance with the natural rate of economic growth. In practice, this meant that central banks should establish binding inflation targets. If they did this, monetarists claimed, the normal market process would keep inflation and unemployment low, while avoiding the risk of recession (Kindleberger 2006). While Keynesians endorsed a complex mix of monetary and financial policies to forestall the formation of bubbles, modern monetarists prescribed the same simple money supply growth rule enforced by a strong central bank (Leidler 2008:66). These ideas gained more respectability once Edmund Phelps (1967) and colleagues (Phelps et al. 1970) showed how Friedman's findings could be derived using better specified models, in which information was imperfect and agents made mistakes.

classical liberal dissertation that supply creates its own demand (Say's law),¹⁴⁷ leading supply-siders to reject the possibility that economic recessions may be caused by a fall in demand (Wanniski, 1978; Canto et al 1982).

But, as Mark Blyth (2002) showed, supply-siders went beyond this classical dissertation in two respects. First, they argued that pumping up demand would simply lead to higher inflation, if it were not done in conjunction with the improvement of markets through deregulation, liberalization, privatization or free trade. Given the assumption that unemployment is voluntary, the second monetarist intellectual contribution was that government policy may increase the labor supply (and thus both productivity and investment) by allowing participants in the labor market to keep more of their money (through tax cuts), and to more freely enter and exit the labor market (by scrapping minimum wage legislation and the deregulation of labor legislation).¹⁴⁸

Second, in addition to tax cuts and labor deregulation, supply-side ideas also entailed reductions in welfare benefits. This was not based on the monetarist idea that welfare spending can be inflationary, but on the supply-side discovery that the labor supply decreases when the unemployed are offered benefits that

¹⁴⁷ The best-known supply-side economists were Arthur Laffer, Jude Wanniski, Paul Craig Roberts, Alan Reynolds, Karl Brunner and Robert Bartley. Some have degrees in economics but none have a strong record on scholarly work.

¹⁴⁸ The concern with the efficiency losses generated by taxation was first articulated in the postwar years by Arnold Harberger's *Taxation and Welfare*, Boston: Little Brown and Co (1974). Working with the classical assumption that the added value created by growth trickled down in the form of employment-generating investment, the supply-siders emphasized that the tax cuts should be directed principally at high marginal income tax rates, a move to be conducted in conjunction with broadening the tax base (coded language for increasing taxation on a wider range of goods and services).

give them incentives not to work.¹⁴⁹ Supply-siders cited no evidence for such theses. The fact that welfare state scholarship did not engage with large-N research on the “big welfare-reduced growth” dissertation until the mid 1980s kept the supply-side argument sheltered from robust attacks precisely at a time when social-democrats began to doubt their commitment to the welfare state.¹⁵⁰

Finally, by importing microeconomic ideas into macroeconomics, monetarists also argued that regulation created perverse incentives and distorted resource allocation as much as it cured other problems. Because supply-siders assumed that efficiency was possible only in conditions of private ownership of assets and competitive markets, deregulation and privatization emerged as key policy recommendations.

According to the more academically-anchored new classical (or rational expectations) approach, real-world business fluctuations could not be explained away as market failures (the Keynesian approach), or strictly as the result of monetary disturbances (the monetarist foil). Instead, Robert Lucas, Thomas Sargent, Neil Wallace and other prominenti of this new tradition also stressed the causal role of supply-side shocks, such as technological revolutions, raw materials

¹⁴⁹ In their strong forms, supply-side ideas argued that tax cuts would generate such revenue growth that the resulting deficit would be completely financed by the cuts themselves (the Laffer curve) and would raise living standards to such a degree that welfare spending would be unnecessary.

¹⁵⁰ Significantly, welfare state scholars found the supply-side argument devoid of empirical value. Both Korpi (1985) and Friedland & Sanders (1985) found that welfare states have a positive effect on growth rates. After disaggregating expenditure categories, Saunders (1985 1986) found that social transfers have a positive effect on growth, just as the Keynesian paradigm maintained.

price spikes and radical changes in the organization of production. Employment, like output, would rise with favorable shocks and fall with unfavorable shocks.¹⁵¹

The new classicals argued that these disturbances could not be remedied by the government. On the contrary, echoing the earlier critiques of government intervention made by the Austrian School, they argued that interference could only worsen them. Where Friedman had argued that policy was destabilizing, Lucas and his colleagues used complex mathematical models to demonstrate that, if private agents were completely rational and if markets were competitive (two assumptions shared by the neo-Keynesian mainstream) it would be *impossible* for the government to stabilize the economy, simply because agents would adjust their inflationary expectations and “outsmart” the government.¹⁵² Consequently, the government’s only policy option was to credibly commit itself to anti-inflationary policies, whose costs in terms of higher unemployment could be addressed by boosting the supply-side of the economy through tax cuts and labor market deregulation.

¹⁵¹ For two key general accounts of new classical economics see Hoover (1988) and Sheffrin and Steven (1996) , For more detailed descriptions and evaluations see Hartley et al (1998) and Lucas and Sargent (1981).

¹⁵² To make this argument, new classicals adopted John Muth’s rational expectations hypothesis: if the predictions of an economic model were correct and the agents’ expectations of the future were wrong, then the agents could use the model to remedy their expectations and avoid future errors. They applied this argument to a critique of the Keynesian assertion that there was a trade-off between unemployment and inflation, and they maintained that an expansion of the aggregate demand could lower unemployment only because the acceleration in prices was not anticipated. The companies that mistook higher market prices for higher real returns would be willing to increase output, while workers who mistook higher market wages for higher purchasing power would be willing to terminate their unemployment sooner. Yet these outcomes would not last, because neither the returns to firms nor the purchasing power of workers were really higher when adjusted to inflation. As soon as they realized that expansionary policy is not a stimulus to the economy, but is actually an early warning inflation, firms and workers would reduce production and increase the unemployment rate. What is more, having made the mistake once, they would not be easily fooled again by the same policy, thus depriving state intervention of the capacity to reach its goals in the long run.

The radical attack against government intervention, which was instigated by rational expectations, was further strengthened during the 1970s by the indigenization of public choice theory in macroeconomics.¹⁵³ William Nordhaus' (1975) work on the political business cycle, for example, legitimated the assumption that bureaucrats and politicians were not seeking to optimize a national welfare function, as Keynesians had assumed, but rather were motivated by their own strategic interests. Public policy, therefore, was riddled with inefficient rent seeking. The most important policy implication was that governments should delegate monetary policy to an independent central bank, whose vested interest (ensuring price stability) was by hypodissertation a virtuous one. Other public choice economists (Choi 1983) went further in attacking a basic social-democratic dissertation by trying to demonstrate that welfare states harm growth in the long term due to rent-seeking. However, as some reviewers noted, they "employed proxy variables for sclerosis (age of a nation or years of democracy) that assumed a fair amount of faith" (Esping-Andersen and van Kersbergen 1992: 199).

The Neoliberal Revolution in Practice

Insurgent Ideas for International Organizations

Beginning with the mid 1970s, the neoliberal insurgency began to percolate in international organizations as well as in the political system of the advanced capitalist core. The embrace of these ideas by actors with influence in the world

¹⁵³ Public choice theory dates back to the work of James Buchanan, Gordon Tullock, Mancur Olsen, and Anthony Downs around 1960. For a systematic overview see Amadae (2003).

economy gave these ideas a greater weight relative to available alternatives such as, say, post-Keynesian or Austrian economics, because they provided policy makers puzzled by enduring stagflation with concrete and successful examples.

As neoliberal ideas were adopted by the European Commission, OECD, the IMF and by great economic powers, the pressures to adjust to the new reality increased on nation state elites elsewhere. Yet, as the following sections show, the endorsement of the neoliberal agenda did not reach a critical mass of center-left West European parties until the second half of the 1980s, well after PSOE decided its government program in 1982.

At the systemic level of analysis, the IMF's tolerance of Keynesian demand management began to weaken just as the Bretton Woods system showed its first signs of crisis. As a recent study of IMF policy papers shows, during the late 1960s "a form of 'monetarism' was emerging in the counsels of the IMF, which involved not only a focus on monetary aggregates, but, perhaps even more importantly, a skepticism about governmental discretion in the conduct of economic policy and an enthusiasm for fixed, quantitative targets" (Clift and Tomlinson 2008: 565). But it was not until the mid 1970s that the neoliberal turn became evident. Scholars attribute this turn to the fact that key policymakers in United States¹⁵⁴ began to push the IMF to embrace select neoliberal ideas such as conditional financing and financial deregulation (Vreeland 2003; Harmon 1997).

¹⁵⁴ According to Eric Helleiner, Treasury Department Secretary Simon and Federal Reserve Chairman Burns and secretary of state William P. Rogers used their institutions' influence in the IMF to force Britain in a macroeconomic stabilization package that contained crucial financial deregulation reforms (Helleiner 1994: 124-130). The matter appears to have been highly "securitized", as National Security Adviser Brent Scowcroft is quotes saying "I spent more time on this matter [Britain's financial crisis] during those weeks as anything else. It was considered by us to be the single greatest threat to the Western world" (Helleiner 1994: 128-129).

Simultaneously, monetarist arguments began to gain traction in the British and American financial press and central banks at a time when financial markets became increasingly hostile to the Labor government's adoption of a neo-Keynesian crisis package in 1974 (Blyth 2002; Helleiner 1994; Wass 2008; Hay 2010). And since Britain was more vulnerable to financial interests than any other European country, she became the trial run of neoliberalism in 1976, when an IMF macroeconomic austerity package with financial deregulation clauses was forced on a British government trying to fight the collapse of the sterling. Historical contingency entered the scene in dramatic fashion, as the left faction of the Labor party was one vote away from rejecting the IMF package (Hickson 2005; Wass 2008). Neoliberal ideas thus scored their first victory at a critical juncture of European economic history.¹⁵⁵

Following the British crisis, the IMF further enlarged the list of policy areas subject to its newly-acquired neoliberal sensibility. Broome and Seabrooke's (2007) systematic analysis of IMF policy documents concerning Western capitalist states evidenced that while the Fund expanded its advisory jurisdiction over the tax regime, labor regulations, welfare state and industrial policy issues during the late 1970s and early 1980s.¹⁵⁶ After 1981, a similarly

¹⁵⁵ Testifying to the importance of this moment, US state Secretary William P. Rogers suggestively framed this moment as "a choice between Britain remaining in the liberal financial system of the West as opposed to a radical change of course, because we were concerned about Tony Benn precipitating a policy decision by Britain to turn its back on the IMF. I think if that had happened, the whole system would have come apart...So we tended to see it in cosmic terms."(Helleiner 1994: 128).

¹⁵⁶ For example, in 1977, the Fund advised Denmark not only to cut its growing current account, which was part of its old neoclassical orthodoxy, but also to adopt neoliberal supply-side measures such as the raising of indirect taxation and the lowering of income taxes. Also, in 1981 the Fund basically told Sweden to shrink the welfare state, cut industrial subsidies, cut income taxes and control wage increases (Broome and Seabrooke 2007:592- 593).

expanded package was served to developing countries (Polak 1984; Bierstecker 1990).¹⁵⁷ The OECD followed a similar line in near-synchrony with the IMF. After 1977, OECD reports written for the EEC advocated a standard monetarist line plus an emphasis on fixed exchange rates. The most important of these was the McCracken report (1977), whose call for austerity policies to address the stagflation crisis was couched not only in the new set of neoliberal ideas discussed above but also in new political, sociological and psychological narratives about the “wealth paradox” that bolstered those ideas (Keohane 1978; McNamara 1998).¹⁵⁸

In Western Europe, the neoliberal revolution arrived first in the European Commission and in Germany. In 1973, even before the first oil shock hit, EEC’s Council of Ministers passed a resolution that in effect represented the first official endorsement of monetarist theses. The resolution called on member states to “progressively reduce the growth rate of the money supply until it equals that of the real GNP” (cited in Bernanke et al 44-45). Subsequently, the Commission’s finance “ministry” (the Directorate General for Economic and Financial Affairs)

¹⁵⁷ After the Latin American debt crisis in 1981, IMF policy advice went beyond deflationary, fiscal adjustment, wage restraint and revenue-increasing policy suggestions and began to advocate for more structural measures, such as privatization (public enterprise sales, sub-contracting or eliminating public sector services), labor market deregulation, tax incentives for private sector development, market restoring mechanisms (ending subsidies, interest rate increases and wage indexation, trade and payment liberalization) (Polak 1984; Bierstecker 1990).

¹⁵⁸ These narratives used unexamined conservative values and assumptions to intimate that implied social-democracy and welfare systems were dead-enders, that government interventions are doomed by intrinsic inefficiencies and that high levels of long term unemployment were acceptable in the name of cementing incentives to invest. In the analytical framework of this influential report, the state-as-investor disappears, yet the “new” state is now the “minimal” state of the orthodox neoliberal line. In addition to the neoliberal disciplinarian function (through credible commitments to price stability), the state was expected to continue to facilitate social consensus through engineering wage and price level agreements with labor and capital, rather than act as the public arm of private capital (Keohane 1978: 119-125). OECD reports also began to attack generous welfare benefits and labor market regulations, rather than insufficient demand, as the cause of persisting high unemployment (OECD 1989; 1994).

issued a report in 1975 that recommended monetary supply targets to lower inflationary expectations and create the foundations for a new fixed exchange rate regime. Known as the OPTICA reports (OPTimum Currency Area), these policy papers took issue with the then still reigning neo-Keynesian orthodoxy and turned low inflation and fixed exchange rates into top priorities of economic policy at the supranational level in Europe (Thygesen 1978).¹⁵⁹ During the second half of the 1970s, German-style inflation targeting also became the new orthodoxy in the EEC's Committee of Central Bank Governors, a platform for policy coordination for central bankers (McNamara 1998: 157-158; Thygsen 1979).

Neoliberalism and European Political Economy

What gave the EEC policy recommendations greater weight in an otherwise underinstitutionalized Community was the fact that the monetarist regime had had a trial run in Germany beginning with 1974 (Scharpf 1984; McNamara 1998). While monetarist policies had been tried during the postwar years by the Netherlands and Belgium (Kurtzer 1993: 163; 228), the fact that Keynesian policies were associated with higher growth rates in France, Austria, Scandinavia or Italy weakened the case for its diffusion outside Germany and the small group of states that “shadowed” its macroeconomic policy.

This time it was different, however. Germany's generous welfare state, employment figures and wage levels appeared to weather stagflation better than countries that pushed ambitious demand side policies during the second half of

¹⁵⁹ Like American monetarists and rational expectations economists, the OPTICA experts also saw much futility in government interventions in wage and price formation and urged member states to adopt the inflation targeting monetary regime pioneered by Germany in December 1974.

the 1970s. West Germany's constitutionally-guaranteed commitment to price stability ensured through an independent central bank had been a mainstay of this country's monetary policy during the postwar years (Kaltenthaler 2008; Holtfrerich 2008; Prasad 2006). Yet it was only in December 1974 that the central bank resorted to monetarist inflation targeting, or the use of pre-announced low growth targets (around 2 percent a year) for the money stock (M3) with the intent of lowering the public's inflation expectations.

This policy move was enabled by the fact that the collapse of Bretton Woods relieved the Bundesbank of its most important external obligation (i.e. to intervene in the foreign exchange markets), yet the choice for a more rightward option was based in explicit monetarist arguments (Issing 1992; 1996).¹⁶⁰

Yet Germany-style monetarism was soon to be emulated across Western Europe was of a hybrid or "pragmatic" rather than of an ironclad or doctrinaire kind. In Germany not even the conservative *Bundesbank* economists wished to conceive of inflation targeting the first step in taking Germany's embedded liberalism apart. Theirs was a "pragmatic monetarism" that acknowledged the limits of price stability for employment and economic growth outcomes while allowing for moderate and temporary accelerations of money growth to stimulate

¹⁶⁰ Although the targets were not met until 1979 (Issing 1995), Germany reduced inflation from 6 percent in 1975 to 2.7 percent in 1978, while not experiencing the stagflation drama of other advanced capitalist economies (Bernanke et al 20005: 43-54). As a former Bundesbank official argued, "[t]he choice of a monetary target in 1974 undoubtedly signaled a fundamental regime shift. Not only was it a clear break with the past but also a decision to discard alternative approaches to monetary policy.³ There were two main arguments in favor of providing a quantified guidepost for the future rate of monetary expansion. First, and foremost, was the intention of controlling inflation through the control of monetary expansion. Second, the Bundesbank tried to provide a guidance of agents' (especially wage bargainers') expectations through the announcement of a quantified objective for monetary growth. Therefore, with its new strategy, the Bundesbank clearly signaled its responsibility for the control of inflation."(Issing 2005: 330).

real growth (Bernanke 1999 et al 51; Issing 1997: 72; McNamara 2006; Kotz 2007; Neumann 2007). The central bank liked not only *Modell Deutschland* ‘ liberalized cross-border capital movements and deregulated domestic bank interest rates, but also Germany’s conservative universal banks, its privilege to coin Europe’s anchor currency and institutionalized skepticism towards financial innovations and (Issing 1994; 1995; Streeck and Yamamura 2001; 2003).

Friedman’s idea that monetary policy should be consigned to fighting inflation found little support in the Deutschebank and its admirers throughout Europe (McNamara 1998; Bernanke and Mishkin 1997: 105). Moreover, inflation targeting as actually practiced by West European central bankers contained a considerable degree of policy discretion to allow responses to unemployment conditions, exchange rates and other short-term conditions (Bernanke and Mishkin 1997: 106).

The German policy success in weathering the stagflation crisis inspired other West European governments to do the same (McNamara 1997: 129-140). This was not only the case of Britain, where the right wing of the Labor party narrowly passed a neoliberal policy package in 1976 (Ludlam 2010; Hay 2010; Wass 2008; Rogers 2009; Hickson 2005; Harmon 1997; Hall 1993; Burk and Cairncross 1992).

As early as 1976, conservative governments in France and Italy also shifted from expansionary measures to reform plans centered around restrictive monetary policy through the adoption of inflation targets, currency stabilization, wage restraint and rejection of the notion of full employment. In so doing, they

expressly modeled their restrictive policy packages on Modell Deutschland (McNamara 1998). The center-left governments of Benelux had “shadowed” Germany’s anti-inflation posture throughout the late 70s by pegging their currencies to the deutsche mark while defending deficit-financed countercyclical spending, corporatism and the welfare state.

Yet when Belgian and Dutch conservatives won the elections in 1982 and 1983 respectively, they not only maintained the D-mark peg, but also embarked on deflationary policies that suspended wage indexation, froze benefits, institutionalized work share agreements and deregulated part-time work (Smits 1983; Kurtzer 1998; Hemerijck and Visser 1997; 2000; Bastian 1994).

As PSOE was drafting its economic program in 1981-1982, neoliberal ideas were being embraced by most West European conservative parties, who thus were renegeing on their participation in the grand postwar socio-economic compromise. But as far as the center-left was concerned, even “pragmatic” neoliberalism was far from cannibalizing the economic policy identity of a critical mass of European social-democratic parties then in government or opposition. Rather than a generalized neoliberal swing, in the late 1970s and early 1980s the West European center-left offered instead a mosaic of reactions: outright resistance to neoliberalism (British Labor Party, Belgian Socialists, Dutch, Austrian and Danish social-democrats), resistance followed by accommodation (French Socialists) and early accommodation (Italian socialists, Swedish and German social-democrats). It is to the analysis of the expected effects of this mosaic for PSOE that I now turn.

II. Economic Policy Under the Socialists

The Rise of Spanish Socialists

It is one of history's great ironies that the neoliberal movement away from the Spanish "embedded liberalism" of the late 70s was grounded in the political success of the Spanish Socialist Workers' Party. Between 1982 and 1983, the PSOE ruled alone, with a strong parliamentary majority, while between 1993 and 1996 the party formed a minority government with the parliamentary support of the center-right Catalan party *Convergencia I Unio*.

The PSOE's 14 years of interrupted electoral victories could hardly have been anticipated in 1975, when it emerged from almost complete obscurity at the end of the Franco dictatorship. Although the first free and fair elections organized in 1977 were won by the center-right Democratic Centre Union (*Unión de Centro Democrático* or UCD) with 34.54 percent of the votes, the Spanish Socialist Workers' Party (*Partido Socialista Obrero Español* or PSOE) scored an impressive 29.39 percent. The Socialists were then running on a neo-Marxist ticket whose radicalism was on a par with that of the Spanish Communist Party: nationalization of industry and banking, institutionalization of a classless society, and economic democracy through self-management (Gillespie 1989; Maravall 1981).

In the general elections of 1979, the UCD-PSOE electoral gap remained largely the same. Following dramatic internal developments in 1979, the PSOE decided to scrap references to Marxism in its political program and to profess allegiance to “social-democracy” (PSOE, 1979a: 4; Gillespie, 1989: 300, 345; Gunther, Sani y Shabad, 1988: 407-9; Share 1989; Carr et al 1991). With the 1979 congress, PSOE put an end to its “revolutionary reformism” period (1974-1979) and embarked on “parliamentary reformism” (García Santesmases, 1985:75). This turn was electorally profitable and culminated in the winning of three consecutive elections in 1982 (48.4%), 1986 (44.3%) and 1992 (39.5%). The outcome of the 1982 elections was particularly spectacular, as it left PSOE in a position of absolute political primacy that lasted until 1992. The political opposition was in shambles: UCD disintegrated,¹⁶¹ the communists were in disarray, and the rightwing Popular Alliance (*Alianza Popular* or AP) was still weighed down by its connection to Franquism (Gunther et al 2002; Gunther, Sani and Shabad, 1986: 91-92; Lopez Pintor 1985; Lopez Nieto 1985; Montero 1986; 1987).¹⁶² In effect, the weakness of the communists removed any challenge on the left, while the disintegration of the right eliminated the possibility of conservative adversaries too. The result of this political dominance was the transformation of the Spanish political system into one dominated by a single party.

¹⁶¹ For a complete story of UCD’s collapse see Gunther and Hopkin (2002).

¹⁶² Alianza Popular was established in 1976 by seven top ministers of the Franco era. Until the 1990s AP failed to get rid of the association with Franquism and to shift from paleoconservatism to neoconservatism (Gunther, Sani and Shabad, 1986: 91-92).

From Social Democracy to Neoliberalism

“We want the possession of political power for the working class [and] the transformation of individual or corporate ownership of the instruments of labor into collective, social or common property.”

(PSOE party manifesto, December 1976).¹⁶³

In economic policy terms, PSOE’s turn away from Marxism led first to a programmatic focus on the adoption of Scandinavian and German social-democratic models of democratic corporatism. The 1979 party program turned the party away from neo-Marxism to Keynesianism, with the fight against unemployment trumping concerns about low inflation and deficits. In 1979 the PSOE secretary-general Felipe Gonzales put this preference in unequivocal terms:

[S]uccess in addressing the problems of the Spanish economy...cannot be measured simply by the reduction of inflation or the national debt, but rather by the extent to which these measures are able to avoid creating massive unemployment and weakening the productive structures upon which the economy will be built.¹⁶⁴

The 1982 program also advocated an economic policy based on public investment as “the motor of the economy” and called for left-leaning labor market

¹⁶³ Translation by Nancy Bermeo, (1986; 1997: 310).

¹⁶⁴ Translation by Donald Share.

reforms, such as labor sharing policies, a reduced workweek, the maintenance of workers' purchase power relative to inflation, more spending on unemployment, pension benefits, and a more progressive tax system (PSOE 1982). Even more impressively, the 1982 program promised the creation of 800,000 new jobs based on the following social-democratic logic:

The policy of previous governments, based on rising prices, systematic reduction of labor costs, reduction of real salaries or work force numbers, and the transfer of the cost of inefficient productive apparatus toward the poor, has not achieved a stimulation of investment, has depressed demand, and has increased the unemployment... It is absurd to think that this country will tolerate policies whose only results are the maintenance of the old power structure-economic, political and social-at the cost of unemployment, reduction of salaries and a regressive budget.¹⁶⁵

Following the 1982 elections, however, the Socialists swung further to the right, in the direction of “embedded neoliberalism” or of what Charles Boix aptly called “supply-side socialism:”

[O]n the one hand, the cabinet emphasized the need to maintain a stable macroeconomic framework as the best means to attract investment and maximize long-term growth. On the other hand, loyal to its social-

¹⁶⁵ PSOE 1982, translation by Donald Share.

democratic aspirations, it planned to transform the supply side of the economy through the direct intervention of the public sector in order to ease the set of structural problems--long-term unemployment and substantial underdevelopment in vast areas of the country—that beset the Spanish economy. Accordingly, tax revenues were to be gradually raised, public savings were to be rebuilt and public spending on fixed and human capital were to be massively increased (Boix 1994, part. 2, 1).

Once in power, PSOE announced policies that reflected their diagnosis of the crisis of the Spanish economy using monetarist and supply-side economic ideas. Based on this diagnosis, the Socialist government began to focus on targeting inflation and the budget deficit. The result was the adoption of a string of measures meant to reduce internal demand: cuts in public spending, the devaluation of the peseta, increases in interest rates, and the squeezing of credit to the private sector. To further reduce internal demand, real interest rates increased from 2.4 percent in 1982 to a punitive 8.2 percent in 1982, only to level off around between 4 and 5 percent after 1985.

As early as December 1982, the government devalued the peseta-dollar ratio by 7.6 percent with the stated intent of shifting the weight of growth from domestic demand to external demand (which would also reduce the balance of payments) and to reduce the incentive to speculate on the peseta. Following this liberalizing move, the government let the value of the peseta float. Public aid to

loss-making public enterprises was cut, which led to a string of bankruptcies in high-employment sectors like steel, shipping, mining and textiles.¹⁶⁶

The measures adopted by the Socialist government resulted in a rapid macroeconomic stabilization during the first three years of its rule: the inflation rate dropped by 6.2% points between 1982 and 1985, the budget deficit was halved, and the current account went from a deficit of 2.5 percent in 1982 to a surplus of 1.4 percent in 1984 (Maravall, 1997: 156). By the end of its tenure in 1996, the Socialists cut inflation levels to 4.9%. Unfortunately for the government, despite the adoption of increasingly tough monetary policies, disinflation was an unstable and inefficient outcome. According to OECD estimates on Spain, “the rise in unemployment or loss of output necessary to bring inflation down by one percentage point” in the late 1980s was “twice as large in Spain as in other EMS countries” (OECD, 1992b, pp. 63-65). By 1993, just when the party’s electoral program embraced enough economic liberalism to make the party vulnerable to accusations that it stole ideas from its conservative rivals,¹⁶⁷ high unemployment struck back by reaching 24% of the active labor force.

Yet the exorbitant benefits of the macroeconomic reforms and the politically costly deregulation of labor contracts did not trickle down into greater

¹⁶⁶ This industrial “reconversion” was institutionalized by royal decrees no 8/1983 and 27/1984. At the end of the process, 83,000 workers were left unemployed. The ensuing social drama affected Socialist heartlands like Asturias and the Basque regions and was cushioned by the payment of 80 percent of their last salaries to the laid off workers for a period of three years. In a dramatic attempt to foil government plans, the workers of loss-making Altos Hornos del Mediterraneo, a flagship of the Spanish steel industry, stopped the foundries only after the government credibly threatened to cut the fuel supply (Boyer 2001: 259-260). For the most detailed presentation of the dismantlement of the integrated Spanish steel sector see Moran et al (2008).

¹⁶⁷ The accusations of programmatic plagiarizing were made by PP and CDS in the May 2nd, 1993 edition of *El Periodico* and, respectively, of the May 5th, 1993 edition of *El Mundo*.

labor demand, as supply-side theory predicted. On the contrary, the level of unemployment, the principal cost of the reforms, went from 17% in 1982 to 21.6% in 1985, the highest level in OECD. This rise was only temporarily and slightly reversed during the 5-year boom experienced by Spain from 1986 through 1990—when the GDP grew at an annual average of roughly 5%.

Faced with this situation, the government dramatically liberalized the labor market in 1984 and 1993 with legislation that allowed employers to hire and fire new workers at virtually no cost (see Dolado & Jimeno, 1997, p. 1290; Jimeno & Toharia, 1994). As a result, Spain became the European country with the highest proportion of temporary employment (around a third of the total labor force). This policy was based on the supply-side argument that high unemployment was causally linked to the high level of dismissal costs imposed on employers by a rigid legal framework (Malo de Molina 1985; Blanchard et al., 1995; OECD, 1992).

Unfortunately for the proponents of this argument, unemployment continued to grow, and the high job turnover encouraged by labor deregulation almost bankrupted the public unemployment insurance institution, *Instituto Nacional del Empleo*. This led the government to cut both the replacement rate and the share of the unemployed population eligible for benefits by almost 50 percent (Gutierrez and Guillen 1998).¹⁶⁸

PSOE's neoliberal drive affected the welfare state as well. Social expenditure cuts and the tightened conditions of eligibility for pension benefits

¹⁶⁸ For basic studies on unemployment benefits see Gutierrez and Guillen (1998), Toharia (1997), Tejeiro (1997), Ferrera (1996).

were immediately integrated in the reform package of the government in 1982.¹⁶⁹ Social spending grew under electoral and union pressure during the early 1990s, only to be reduced again during the last year of office (see table). The most controversial cost-cutting measure of the 1985 pension reform law was the increase of the minimum working years required to earn a public pension from two to eight (Guillén 1999, 9). A new pension reform adopted in 1987 encouraged wage earners to subscribe to private pension plans (Chuliá 2007, 530).¹⁷⁰ Pension indexation failed to occur until 1995, and it was only under extreme electoral duress that PSOE decided to expand the coverage of the pension system by introducing non-contributory pensions in 1990 (Panizo Robles 2006; Lagárez Pérez 2001).¹⁷¹ The Ministry of Finance imposed caps on payments for the injured and the sick, while leaving 18 percent of the unemployed uncovered. Finally, the PSOE governments resisted the demands of regional governments to offer minimum income schemes for people of working age (Lapara and Aguilar 1997).

Crafting Embedded Neoliberalism

The Spanish economic transition under the PSOE rule challenges the existing literature on neoliberal reforms, which tends to pit “neoliberal orthodoxy” against “statism” (e.g. Harvey 2005). The case of Spain shows that these categories are

¹⁶⁹ As a consequence of the expansive measures adopted by UCD governments in the late 1970s and early 1980s, the coverage of the pension system increased significantly, as did expenditures: from 5% of GDP in 1980 to 8.3% in 1982.

¹⁷⁰ For an overview of these reforms see San Miguel (1998).

¹⁷¹ For the role of labor mobilization on pension issues see Guillén (1999).

far from dichotomous in conditions of increased global economic interdependence.

The Socialist governments who governed Spain between 1982 and 1996 were instrumental in definitively institutionalizing the “hard” core of the neoliberal policy program: macroeconomic stabilization, privatization, the deregulation of temporary employment (Boix 1998; Royo 2002; 2008; Maravall 1997; Perez 1997; Holman 1993). On the other hand, the Socialists further expanded Spain’s welfare state and maintained state intervention in the economy by adopting industrial policies that dissented from the hands-off, sector-neutral neoliberal policy posture through strategically delayed privatizations, temporary tariff protections and continued state ownership of “national champions” (Perez 1998; Etchemendy 2004; Royo 2008).

In other words the Socialists adopted what some called “embedded neoliberalism,” an economic paradigm whereby the state intervenes on the supply-side of the economy (Kurtz and Brooks 2008) and/or institutionalized welfare states that compensate citizens affected by market dislocations (van Appeldoorn 2008; Greskovitz and Bohle 2007). These forms of state intervention included “open economy” industrial policy targeted at “national champions”, continuing state ownership of competitive sectors (banking, energy, utilities), public employment, and physical infrastructure expansion. These are supply-side

policies; they alter the prices of investment and wages, while encouraging certain economic trends over others (Dani Rodrik 2004: 2).¹⁷²

As in most continental European democracies, Spanish neoliberal reforms transformed and even expanded the welfare state, rather than eliminating it. Also, the state did not shrink government intervention to the levels demanded by the Washington Consensus. Instead, the role of the state in the economy remained strong enough that “varieties of capitalism” scholarship considers Spain a “state-enhanced” type of capitalism, alongside other European Mediterranean countries like France, Portugal and Italy (Schmidt 2002; 2006; Royo 2008). In state-enhanced capitalism (SEC), “adjustment is firm-led in those domains where business now exercises autonomy—in business strategy, investment, production, and wage-bargaining—but adjustment is still state-driven in those domains where neither business nor labor can exercise leadership—in labor rules, pension systems, and the like—or where the state sees a need to reshape the general economic environment to promote competitiveness. In either case, the logic of interaction is one of hierarchical authority rather than joint-decision or unilateral action” (Schmidt 2002, p. 144).

Spain fits many of the characteristics of the SEC model. After the Socialists, the state ceased to act as a “co-equal” coordinator of labor and capital and instead privileged its role as enabler of business and opportunistic ally/foe of organized labor. After showing some initial support for corporatism (1982-1985), the state’s subsequent reactions to corporatist institutions ranged from neglect to

¹⁷² Rodrik argued that “the nature of industrial policies is that they complement (opponents would say “distort”) market forces: they reinforce or counteract the allocative effects that the existing markets would otherwise produce. See Rodrik (2004: 2).

hostility. It was only after PSOE lost office in 1996 that Spanish corporatism returned, although its institutions apply mostly to the small unionized sector (Perez 2001). As a result, for the large mass of workers with temporary contracts—the highest in OECD—labor-capital relations in Spain tend to be regulated at the firm level and are governed by a high level of flexibility for the employer.

While withdrawing the state from the labor market, PSOE crafted a “smart developmentalist” course on trade and industrial policy. Its protection of domestic banks gave Spain a financial system dominated by domestic players with a global reach and a network-type corporate governance (Sebastian 2000; Etchemendy 2004; Salas and Saurina 2003; Crespi et al 2004; Cardone-Riportella et al 2001). Similarly, PSOE’s industrial policy allowed the state to play a more active role in sectors deemed economically competitive, such as energy and telecommunications, turning many of the firms active in these sectors into global players (Etchemendy 2004; Toral 2001; Guillen 2001; Martin and Toral 2005; Seiglie 2005; Medrano 2006; Olivares 2007; de las Casas 2005; del Real 2009).

At the same time, the wholesale transfer of marginally competitive state-owned industries to multinational corporations during the 1980s and 1990s made Spain more similar to the “dependent market economies” of Central Europe (Nolke and Vliegenthart 2009).¹⁷³ Like Poland or the Czech Republic in the 2000s, Spain’s global industrial competitiveness during the 1980s and mid-1990s relied heavily on low labor costs, medium level technological skills and

¹⁷³ For recent scholarly work on East European varieties of capitalism see: McMenamin 2004, 269; Lane 2005, 245; Cernat 2006; Bohle and Greskovits 2007a, 2007b; Hancké, Rhodes, and Thatcher 2007b; King 2007; Drahokoupil 2009; Iankova 2002; King and Sznajder 2006.

hierarchical control of Spain's most active exporting industries by TNC headquarters (Bajo-Rubio et al 1994; Molero et al 1996; Jarillo and Martinez 1990; Ferner et al 2001; Barrios et al 2004). The same cross-regional similarity can be observed on the role of innovation transfers. Rather than developing a strong domestic R&D base, Spain remained an assembly platform for semi-standardized goods dependent on TNC innovation transfers (Molero et al 1996; Biggart 1999; Guillen 1999; Molero et al 2005). Finally, because strong patterns of national coordination between labor, state and capital were absent, Spain did not develop the strong vocational training institutions of coordinated market economies. This failure caused productivity to stagnate against the background of increasing wage costs (Meijer 1991; Addison and Siebert 1994; Leclerq 1994; Casado 2000; Aguilera 2005; Nestler and Kailis 2009).

The Socialists' apparently conservative commitment to neoliberal ideas about monetary and labor policy did not translate into sustained PSOE offensives to thoroughly institutionalize a conservative welfare state or to lower taxes on the wealthy.¹⁷⁴ On the contrary, on most welfare issues PSOE embarked on adopting policies that were consistent with ideas rooted in social-democratic reformism (Guillen 2000).¹⁷⁵ More specifically, the Socialists increased social spending after 1990, albeit without securing convergence with the EC average. As a result, access to social services became a citizenship right during the late 1980s, although income thresholds were set up for different services (Barea Tejeiro 1997). New

¹⁷⁴ For useful overviews of Spanish social policies see Guillén (1992; 1996).

¹⁷⁵ The adoption of the socialist policies on income redistribution was not revolutionary. The post-Franco conservative governments reacted to labor union activism by adopting wage and redistribution policies that reduced the Gini coefficient from 0.45 percent in 1974 to 0.36 percent in 1980 (Boyer 2001: 255).

welfare services were also created. For example, paid maternity leave covered 100 percent of the last wage stub. However, unlike the clientelism observable in other Mediterranean welfare states, such practices remained very limited in Spain as a result of adequate funding and professionalization (Guillen and Matsaganis 2000: 128).

The resilience of social-democratic ideas under the Socialists was evidenced by the adoption of universal health coverage and access to free education at all levels based on citizenship (Freire Campo, 1993; 1998) The health reform gave universal access to public healthcare to 6 million Spaniards not only in form, but in practice as well, even though this entailed a tripling of public health spending between 1982 and 1991. The highest share of the health budget was financed from taxation in Southern Europe (68 percent).¹⁷⁶ The expansion of coverage continued throughout the 1990s. The same universalization affected the pension and education system. After 1990, 2 million more citizens were included in the public pension system, and the average purchase power of pensioners had been increased by 20 percent during the 1990-1996 period.¹⁷⁷ In a

¹⁷⁶ Until the 1984 health care reform, only 82% of Spaniards had medical coverage. In addition to universal coverage, the government boosted spending on medical equipment and primary care (Dorado 1993: 67). In 1984, a government decree turned old infirmaries (ambulatorios) into health care centres staffed by multidisciplinary teams and laid emphasis on preventive care. In 1986, the General Health Law (GHL) united all public health service networks into a single national system. Full universalization was not achieved, however, until 1989. It is important to point out that, although, 99.8 percent of the population is entitled to public health care, such a right has not become based on citizenship, as in the social-democratic model (Freire Campo, 1998). This has been because, by law, public servants and self-insuring enterprises may choose between public and private insurance (Guillen and Matsaganis 2000: 130).

¹⁷⁷ In effect, while in 1992 the lowest public pension was at the same level with the minimum wage, in 1982 most pensioners had pensions set at half the level of the minimum wage (Dorado 1993: 68).

country with a notoriously inferior education record,¹⁷⁸ and in which broken public schools had led to the exodus of middle-class students towards private schools, public spending on education increased by 500 percent between 1982 and 1992 and made tuition-free college education a citizenship right. This enabled the public provision of education for all children aged over 3 years (Valiente 1995).

The PSOE's social-democratic credentials were salvaged by select tax policy choices as well. Unlike in the paradigmatic Anglo-American setting, where the adoption of supply-side ideas led to a wave of tax cuts on capital and on the personal incomes of the wealthy during the 1980s, Spanish Socialists considered more progressive taxation to be both a prerequisite for growth and an instrument of social fairness (PSOE 1982; 1986; 1990).

Beginning in 1983, the government launched a crackdown on tax evasion. Soon after that, income-tax filings saw dramatic increases. Taxes on income and profits increased from 7.6 percent of GDP in 1985 to 10.1 in 1994, with most of the increase weighing on upper income brackets (Gonzalo-Paramo and Hernandez de Cos 2007: 117; Gunther et al 2004: 357). Although Spanish taxation levels remained below OECD levels in 1996, the Socialists had managed to narrow the gap considerably by increasing tax revenue as percentage of GDP from 30.1 percent in 1985 to 34.6 percent in 1985 (Gonzalo-Paramo and Hernandez de Cos 2007: 117). To this end, the Socialists argued that Spain's economy could not develop without increasing fixed public capital formation (basic infrastructures and transportation), labor productivity and the competitiveness of public firms.

¹⁷⁸ In 1982 Spain had the highest rates of illiteracy and lowest rates of school attendance in Western Europe (UNDP 1983).

This argument was also framed to serve a redistributionist discourse by emphasizing the job creation brought by public works and the acceleration of the rate of growth in underdeveloped regions (Zabalza 1991; Solchaga 1987; 1988; 2003; Zaragoza 1989).

The Socialists avoided market fundamentalism in other realms as well. On industrial policy, policy elites endorsed the view that Spain's underdevelopment could not be addressed by liberating market forces alone, and that the state had to invest in national infrastructure and in those private and public Spanish firms that had a potential to be internationally competitive (Perez 1998; Boix 1998).

Significantly, PSOE's doubling of state capital investments during the 1980s (to 24 percent of GDP) was framed using ordo-liberal arguments about state-spurred competitiveness, rather than the social-democratic emphasis on employment protection. To this end, in less than a decade, Spain had one of Europe's most modern expressway systems and laid high speed rail at record pace. Also, at great cost to employment,¹⁷⁹ the PSOE government accepted the strategy of economy minister Carlos Solchaga to terminate loss-making INI firms, restructuring some and privatizing others.¹⁸⁰

The underlying strategy of these measures was to concentrate business operations in profitable sectors around a few national champions (Etchemendy

¹⁷⁹ Total employment in INI fell from 216,700 in 1983 to 154,500 in 1989 (Acena and Comin 1991: 542).

¹⁸⁰ As a result of privatizations, foreign capital became dominant in the production of cars, chemicals and electronics. In the consumer electronics industry, for example, the leading five firms in 1996 were Sony, BYSE, Electrolux, Fagor and Samsung. In the electronic equipment sector, Alcatel and Ericsson dominated the market. In the pharmaceuticals sector, the leaders were Bayer and Glaxo Wellcome. In the IT sector, the market was dominated by IBM and Hewlett Packard. In electric materials, Bosch, Siemens and Brown Boveri were the three leaders. In the car sector, the leaders were Renault, Opel, VW, Ford and Citroen (McVeigh 1999).

2004). Thus, all state energy companies were merged with the large power generator Endesa; the iron and steel, aluminium and electronic sectors were merged with CSI-Aceralia, Inespal and Inisel respectively; and oil and gas companies were consolidated into a single company, Repsol. These consolidation measures were completed by the merger of all state banks in Argentaria, Spain's third largest banking group. Almost all these new major players received state protection against foreign competition well after Spain's EU integration.

At the same time, unlike their more neoliberal successors,¹⁸¹ the Socialists kept the most competitive INI firms in state hands. Subsidies to sectors like steel or mining, which had high-employment but lacked efficiency, were declared wasteful and then withdrawn against violent protests.¹⁸² Meanwhile, subsidies, special credit lines and even temporary protectionist measures were presented as necessary features of a modern "competition state" for sectors and firms deemed competitive (auto, telecom, energy, electronics, banking) (Etchemendy 2004). While this policy stance did not break Spain loose of its traditional dependence on foreign firms for technology updates in the industry, it was successful in other sectors Buesa and Molero (1998: 271-295). Finally, rather than leaving the laid-off workers at the vagaries of the market, the government subsidized pre-retirement, paid generous severance benefits, and offered incentives to firms to relocate in rapidly deindustrializing zones. Terminated by EU pressures in 1986,

¹⁸¹ Privatization was especially comprehensive during the first term of PP government (1996-2000), when Spain's largest utilities and industrial groups passed in private hands. As a result, the participation of the public enterprise sector in the GDP has been reduced from 3% in 1995 to 1% in 2002 (Arocena 2004).

¹⁸² The closing of the huge INI steelworks Altos Hornos del Mediterraneo near Valencia triggered factory occupations and other forms of worker combativeness. The face-off between government and steel workers led to near state-of-siege conditions in the Valencia area. Also, workers in the mining sector were laid off at an accelerating rate following the cutting of subsidies.

these measures made possible the rehiring of a fourth of the laid-off workers (Buesa and Molero 1998; Montero 2002: 38). The tuning of Spain's industrial engines, it seems, was too complex to be left to market forces alone.

But how was it possible for the Socialist governments to adopt so many policies that were patently against the interests of its electoral base? In the second half of the chapter I show how quasi-closed groups associated with the economics profession established exclusive jurisdiction over debates on which economic ideas were considered legitimate in early 1980s Spain.

III. The Institutions of Translation

Overview

In this section I will first introduce the characteristics of the institutional infrastructure, which facilitated the policy influence of a few academic economists and which was centralized in the premier's office, the ministry of finance and the central bank. This enabled the formation of a very small and cohesive policy team whose insulation from societal pressure was compounded by the highly centralized structure of the ruling party. The premier's office, the ministry of finance, and the central bank were connected by revolving doors, which enabled prominent academic economists to have unmediated access to decision-making. This institutional infrastructure was not instantaneously established, however. Instead, it grew over several decades out of historical contingency, institutional entrepreneurship and the internal characteristics of the political regime.

The Primacy of the Finance Ministry

One of the institutional legacies of Franco was a policy process in Spain under Franco took place in a bureaucratic-authoritarian state that was highly centralized in the executive branch, but which allowed academic economists a wealth of opportunities to advocate new economic ideas. From Franco, democratic Spain inherited a prominent role for the ministry of finance within the executive and a revolving door between executive offices and the faculty in economics departments. Both of these institutional features were further consolidated under democracy.

Under Franquism, the head of state had veto power over the entire process, but he rarely exercised this right.¹⁸³ Since the single party and the legislative branch were weak, the Council of Ministers (the cabinet) was the epicenter of the economic policy process. And inside the hierarchical infrastructure of the cabinet, the Ministry of Finance (Hacienda) lorded over all other ministries through its discretionary power over budget policy, the personal preferences of the minister¹⁸⁴ and the superior economic training of its staff.¹⁸⁵ This institutional

¹⁸³ Charles Anderson and Richard Gunther's authoritative studies of policy-making in Franco's Spain agree that despite the high degree of centralization of power in the person of the *Caudillo*, Franco chose not to intervene unless the basic norms of the compact that had the pro-regime coalition together were tampered with. As one of his biographers showed, this owed a great deal to the fact that Franco had few political ideas beyond "order", anticommunism, traditionalist Catholicism and obsession with a looming "liberal-Masonic conspiracy" (Preston 1987).

¹⁸⁴ Decision-making authority in both the *Hacienda* and the Planning Commissariat was concentrated in the person of the minister, who, in turn, was personally accountable to Franco. The power in each ministry was concentrated in the hands of a single individual: the minister (Gunther 1980: 127-143). As a result, the personal preferences of the ministers were so important that the sources of policy change could be safely read in the changing preferences of these policymakers and their advisory teams. Only if the Chief of State took an active interest in specific issues on their agenda would their preference be vulnerable to institutional veto.

primacy was only temporarily challenged between 1963 and 1973, when Hacienda had to negotiate budget policy with the central institution of indicative planning: the French-inspired Plan Commissariat (*Comisaria del Plan*) (Gunther 1980: 71-78; 216-221).

After Franco's death, the Spanish political system evolved into a textbook example of a consolidated parliamentary democracy (Linz and Stepan 1996). Yet the political system and the policy process did not revolutionize the centralism of the Franco era. This was due in part to the fact that the 1978 Constitution adopted the German institution of the Chancellorship, with the dual aims of ensuring executive dominance over the parliament and the prime minister's dominance within the executive (Heywood 1995; Biezen and Hopkin 2005).

In this system, the cabinet has the dominant role in tabling new legislation and faces low thresholds for issuing decree-laws, which Socialist governments used extensively. The collegiality of the executive is severely constrained by the fact that, in case of disputes inside the cabinet, the premier has the authority to override all ministers and make the final decision (Calvo 1996). The parliament can censure the actions of the premier only by proposing an alternative candidate with a majority vote (Heywood 1999). The cabinet itself is heavily "presidentialized" around the institution of the prime minister. The premier is the only member of the government designated with the vote of the parliament, the

¹⁸⁵ Once political events terminated the political support enjoyed by the Commissariat in 1973, Spanish planners lost all institutional support and Hacienda ruled supreme again. The first post-Franquist government set this reality in stone in 1976 by transferring all planning functions to a secretariat of Hacienda, where planning was definitively buried. The Plan Commissariat was able to challenge Hacienda due to patronage: the new head of the Commissariat was Lopez Rodo, a protégé of Luis Carrero Blanco, Franco's closest advisor. After Carrero Blanco was assassinated by an ETA hit squad, Lopez Rodo lost his ministerial portfolio and the Planning Commissariat was abolished (Gunther 1980: 216-219).

authority to dissolve parliament, and the authority to appoint and sack ministers. And since Spain's electoral institutions favor majoritarian outcomes, Spanish premiers had strong majorities in the parliament. This was especially the case with PSOE premier Felipe Gonzales, whose party had 57.7 percent of the seats in the 1982-1986 legislature, 52.6 percent between 1986 and 1989, 50 percent between 1989 and 1993.¹⁸⁶

Hacienda also maintained its institutional protagonism in the policy process inside the Council of Ministers. Moreover, its powers increased during the Socialists' first term through its merger with the Ministry of the Economy (Ministerio de Economía y Hacienda, MEH). The formation of MEH in 1985 was tantamount to the formation of a large bureaucratic structure whose policy authority concerned all matters of relevance for state-market relations. Hacienda did not only control the other ministries through its hegemony over budget policy. Like in the times of Franco, MEH's epistemic authority was also hard for other members of the cabinet, including the premier, to challenge, due to the fact that it employed the highest number of highly-educated elite administrators (*tecnicos de estado*). Additionally, because MEH appointees were all closely connected intellectually with the Research Service of the central bank, the Franco-era

¹⁸⁶ Some scholars attributed the presidentialization of Spain's parliamentary system to a democratization process that avoided a clear break with the *ancien regime*. The decision not to purge the Spanish state of Franquist elements ensured continuity in the governing culture (Bar 1997: 116-117; Fishman 2009). Other scholars emphasized the legacy of the "pacted" transition, in which the difficulty of negotiating elite consensus and appease groups with clashing preferences (the army, unions, the Church) concentrated power in behind the scenes negotiations among a handful of elites and weakened the functions of the parliament and of political party activists (Herrero de Minon 1993; Biezen and Hopkin 2005). Finally, some argue that the institutional centralization of the policy process reflected the fear of Spanish constitution makers of the risk of civil war generated by unstable coalitions and fractionalism that marked the constitution of the Second Republic (1931-1936).

conflicts between the central bank and Hacienda ended under the Socialists (Perez 1998).

Although *de jure* the premier had absolute power over Hacienda through making appointments, the economic policy process was *de facto* run as a “diarchy” in which power was split with the premier (Heywood 1998).¹⁸⁷ Moreover, in the new constitutional settlement, MEH was insulated against parliamentary pressures. During the PSOE years, the premier was also the head of the ruling party, and as long as the premier backed the MEH and managed to impose internal party discipline, the ruling party group in the parliament could not stage a rebellion against the policies of the MEH. The ability to protect the core executive against the party was facilitated in Spain by the system of closed and blocked lists, which made MPs more dependent on the decisions of the party executive than on the electorate. Or, as shown below, the party executive between 1979 and 1996 was ruthlessly efficient at using this institutional prerogative to keep regular MPs out of the business of the executive.

In sum, the Socialists inherited an executive that was highly centralized and revolved around the prime-minister and the ministry of Finance. This increased the likelihood of the adoption of neoliberal reforms if the minister of Finance was a neoliberal and was strongly supported by a premier insulated from

¹⁸⁷ This was because the process of deciding the key axes of the government’s budget policy was controlled by MEH, through its privileged position in the Functional Spending Committee (*Comisiones Funcionales de Gasto*), an institution that excludes the premier and whose agenda is shaped by the budgetary office of each ministry. But the MEH controls these budgetary offices through the practice of limiting appointments for their director position to the ranks of the MEH. Moreover, the budget itself is drafted by the General Directory of the Budget (*Dirección General de Presupuestos*, DGP), an institution that until 1996 was entirely controlled by MEH. In this process, the premier’s main function is to mediate and, if needed, unilaterally set disputes. Beyond this function, Spanish premiers delegated authority extensively to MEH.

the political pressures of the ruling party/coalition. As the next sections show, this is exactly what happened in Spain under the Socialists.

The Academic-Bureaucratic Complex Under Authoritarianism

Economists and the State in Spain

Another legacy of Franco's years was the remarkable influence of economists in the state, a reality shaped by a complex institutional history. Yet the roots of this legacy cut deeper in history.

The Spanish economics profession had asserted itself politically during the 19th century,¹⁸⁸ yet it was not until the early 20th century that it began to exert a significant degree of influence over state institutions via the institutionalization of a “revolving door” between the elite sectors of academia and economic policy state bureaucracies. This practice meant that prominent economists held joint appointments in academia and the state.¹⁸⁹

The central pillar of the revolving door was a set of elitist (“mandarinal”) and outward-looking professional norms that privileged a few foreign-trained top economists. To use Marion Fourcade's categorization (2009), state-economists

¹⁸⁸ The Spanish economics profession emerged during Spain's Enlightenment in the late 18th century, when the first chairs of political economy were established during the reign of the celebrated monarch Carlos III (Perdices de Blas 1993:354). A century later, the profession became more institutionalized and political economy became a required item in university curricula. And as soon as Spain built a parliamentary regime in the late 19th century, economics professors became increasingly active in politics and in state institutions (Fuentes Quintana 2001; Velarde 2001). Out of seventy professors of political economy and public finance, twenty had some parliamentary mandate between 1844 and 1923. (Acena 2006: 82).

¹⁸⁹ The case of Flores de Lemus, Spain's most prominent early 20th century academic economist and, for more than three decades (1905-1936), an influential policy-maker in the ministry finance, was but one of the more remarkable examples (Martin Rodriguez 2001: 155-165; Fuentes Quintana 2001: 180-236). Flores de Lemus' official position was that of director of the Statistics Division of the ministry. De facto, however, he was almost like a deputy minister of finance (Fuentes Quintana: 2001: 179-185).

relations during this period resembled more the French and the German models than either the American or the British models. Unlike in the US system, for example, where early economics was market-dependent and had to defend itself against accusations of “charlatanism” through an early embrace of scientism, in Spain economists had stable career paths insulated from market pressures. Like in France and Germany, the economics profession was dominated by an elite cadre (“mandarins”) endowed with prestigious degrees who were tied closely to the state. Based in universities or state research institutes, these economists regularly worked as advisors or, more directly, as part time high-level public servants in economic policy institutions. But unlike in the Franco-German academic “core”, in Spain the certification barriers required by mandarin status required a doctorate in economics obtained in successful capitalist states.

The emphasis on international licensing of mandarin status was the result of a pre-civil war cultural legacy: the popularity among Spanish political and intellectual elites of a set of ideas dominated by the opposition between Spain’s intellectual decay and Western Europe’s progress. Triggered by a self-critical reading of the Spanish military disaster in Cuba (1898), the ideas of the “ninety-eighters” saw Spain’s capacity to “regenerate” in increased educational opportunities abroad for the country’s state cadres and intellectuals (Carr 1980; 2000).¹⁹⁰ To this end, during the first four decades of 20th century, the Spanish state sponsored an agency for “advanced education” (*Junta para la Ampliacion de*

¹⁹⁰ The most prominent members of this generation of social critics were Miguel de Unamuno, Ramiro de Maeztu, Pío Baroja and Francisco Giner de los Ríos.

Estudios, JAE), an organization that managed fellowships for undergraduate and doctoral studies in Western Europe (Sanchez 1988).¹⁹¹

The results of this educational project were spectacular. According to Salvador Almenar's calculations, as a result of the establishment of the Junta and of a clear bias towards the professional employment of returning foreign PhDs, over 80 percent of economics professors and members of Spain's three top research institutes in 1936 had economics degrees from foreign universities thanks to public grants distributed through the Junta (Almenar 1999: 185, ft. 2). Once integrated in academia or state institutions, the returning economics graduates would expect their closest collaborators to also get a West European (preferably German or English) PhD. Flores de Lemus, for example, basically demanded aspiring disciples a PhD in Germany as a basic condition for joining his "school" and for securing the kind of high-level jobs in state institutions that he could facilitate from his mandarinal position (Almenar 2005: 81; Velarde 2001: 271).

Franco's victory in the civil war initially disrupted the functioning of the revolving door.¹⁹² Soon, however, Franco's institutional reorganization of the economics profession coincided with its reopening. Prominent economists like

¹⁹¹ This agency was established in 1907 by the Spanish government as an heir to the private liberal foundation *Institución Libre de Enseñanza* (Sanchez 1988).

¹⁹² The Junta was dismantled, the economists who "collaborated" with the Republic fled the country or retired, professional reviews and research centers were shut down. Engineers and even doctors were asked to do economic research in the new economic think-tanks ("institutes") of the state, something that would have been unthinkable before the civil war. In stark contrast with pre-civil war governments, under Franco doctoral studies abroad were stopped basically until the 1960s (Almenar 1999: 187). Economists were free to study abroad, however, but the costs were affordable to few and only for short periods. For example, Jose Vergara Doncel, an influential liberal economist during both the 1930s and the early postwar decades, took a few courses at the University of Chicago at his own expense and used his class notes to teach economic theory back in Spain, yet barely spent a year (1948-1949) in this bastion of economic liberalism (Zamorano et al 1982).

Jose Maria Zumalacarregui, Lucas Beltran or Manuel Torres taught at FPSE while holding administrative positions in high advisory bodies of the state. Moreover, the economics profession was institutionally consolidated with the 1943 establishment of the first economics department in Spain (The Faculty of Political and Economic Sciences at the University of Madrid, FPSE-UM).¹⁹³ Also, the regime established the Superior Council for Scientific Research (*Consejo Superior de Investigaciones Científicas* or CSIC).

This new academic infrastructure was then consolidated with two new public think-tanks: the Economic Institute Sancho de Moncada and the Economic Section of the Political Studies Institute, each of them having their own economics reviews.¹⁹⁴ The heads of the institutes served as economic advisors to Franco, and some of the most prominent names of the post-1959 governments (e.g. Alberto Ullastres) were selected from the ranks of the researchers based in these institutes. FPSE faculty routinely taught advanced classes or supervised projects in these institutes.

The Revolving Door under Bureaucratic Authoritarianism

As the Francoist state morphed into a bureaucratic authoritarian one during the 1960s and early 1970s, the revolving door between academia and the economic bureaucracy began to see increased movement between the two worlds. Holding joint appointments in academia and an economic ministry or in the central bank became a mark of professional prominence. The economics reviews of the

¹⁹³ Until then economics was trained in law schools.

¹⁹⁴ The economists in the Sancho de Moncada Institute published *Anales de Economía*, while those in the Political Studies Institute published *Revista de Estudios Políticos*.

Ministry of Commerce (*Informacion Comercial Espanola*) and of Hacienda (*Hacienda Publica Espanola*) published the articles of the *tecnicos* alongside those of prominent academic economists.

Also, academic celebrities divided their time between Complutense and research for economic ministries or for the central bank. Enrique Fuentes Quintana, one of the “classical” figures of Spanish neoclassical economics and mastermind of the Moncloa Pacts, became the new Flores de Lemus: between 1958 and 1978 he was a prolific and renowned finance professor at Complutense, editor of prestigious economics journals, and director of the research service of the ministries of finance and commerce. Joan Sarda i Dexeus, another prominent Spanish neoclassical economist and mastermind of the 1959 Stabilization Plan, was both the director of the Research Service of the central bank and a professor of finance at Complutense (Velarde Fuertes 2001; Martinez Vela 2000). After 1956, younger professors and civil servants like E.F. Quintana, L.A. Rojo and Sanchez Pedreno collaborated with technocrats in the finance and trade ministries who had a very direct impact on ministers themselves (Gonzales 1979: 29). By the early 1970s, Quintana headed the research service of Hacienda, while Rojo did the same for the central banks.

The field of Spanish economics also began to supply an increasing number of top-level office holders in the 1960s. While a degree in economics later became a necessary condition for access to ministerial and mid-level cabinet positions under the Socialists, the rise of economics in Franco’s cabinets had already been under way in the 1960s. After the patent failure of ISI in 1957, technocrats began

to outnumber politicians and right-wing officers in ministerial positions, with lawyers and economists being the most numerous. By 1969, 10 out of 16 members of the Council of Ministers were technocrats who enjoyed an average of seven years in office (Lewis 1970: 95).¹⁹⁵ By the mid 1960s, the institutional offensive of these “young Turks” also affected the central bank (Acena 2000; Rivases 1991).

Finally, despite its authoritarianism and centralism, the Franco regime was not particularly strict about suppressing economic policy debates. Although Franco was adamant about forbidding the existence of formal factions inside the Falange and the Cortes, groups organized to pursue “nonpolitical” objectives were allowed to exist autonomously from state control (Gunther 1980). Most importantly, academics, and even the national media, were allowed to engage in debates that dissented from the regime’s economic orthodoxy.¹⁹⁶ This “nonpolitical” pluralism enabled the formation of a diverse spectrum of ideas in which economic liberalism would grow in importance over time (Linz 1970; 1976; Gunther 1980; Fuentes-Quintana 2001). A broad range of schools of

¹⁹⁵ Of the 28 technocrats who served on the as ministers, nine were members of the Catholic lay organization Opus Dei, had university posts and combined teaching with government service at the subcabinet level. Protected by top level officials who enjoyed Franco’s complete confidence, such as Admiral Carrero Blanco, the Opus Dei ministers provided the government with a new generation of young experts (Lewis 1970: 100-101).

¹⁹⁶ Perhaps the most robust piece of evidence that the regime was indirectly supportive of intellectual experimentation in the ranks of its ‘semi-loyal opposition’ of liberally-minded economists was that the economic mouthpiece of Franco’s ‘vertical unions’ (the *De Economía* review) hosted key debates on the uses of Keynes’ *General Theory*, with the disciples of Manuel de Torres (Enrique Fuentes Quintana , Juan Velarde, Emiliano de Figueoa) assuming a prominent role.

thought spanning the Austrian School and dependency theory¹⁹⁷ were allowed to compete as long as they did not challenge the regime on a political basis.¹⁹⁸

By the mid 1960s, the regime authorized the free publication of almost the entire work of Marx and Engels (Almunia 2001: 35). In this climate of intellectual pluralism, corporatist autarchists, ordoliberalists, classic liberals and neohistoricist institutionalists were all free to publish, teach, travel abroad and offer their advice to the regime. Unlike in Stalinist systems, where pre-war education in Western universities was likely to lead to exclusion from the profession, in Spain Western-trained pre-civil war economists who had not been active on the side of the Republic maintained and even enhanced their professional status. Thus, Manuel de Torres, the “father” of Spanish Keynesianism, who had written his PhD dissertation in the 30s at University of Bologna with Italy’s arch-liberal economist Luigi Einaudi became dean of the FPSE and one of Franco’s economic policy advisors (Zabalza 2001). Lucas Beltran, a Catalan economist who studied with Hayek at LSE continued to edit the flagship *Moneda y credito*, a guaranteed outlet for economic liberalism and was instrumental in advising the central bank.

When the Franco regime ended in 1975, the economics profession was at the height of its political and cultural influence and benefited from considerable freedom of expression. Academic economists and especially the mandarinal class

¹⁹⁷ The policing of economic ideas was so soft in Spain that the endorsement of ideas as antithetical to *franquismo* as Hayek’s famous “road to serfdom” bore modest consequences. When future celebrity economic theorist Valentin Andres Alvarez was reviewed for his tenure at the economics department of the University of Madrid in 1945 after having published a selective endorsement of this Hayekian argument in an economics review, the challenge to his candidacy by a Falange hardliner had no consequences (Sanchez 2001: 170; ft. 13).

¹⁹⁸ Such challenges had to be open and explicit. Examples included involvement in anti-regime student movements or political organizations. For example, in August 1965 several professors lost tenure for siding with protesting students. “Five professors dismissed”, *Minerva*, 4 (1) 1965: 135-145. See also Galvan (1966).

came to exert remarkable influence in the state. As the next section shows, this legacy was respected by the Socialist government, a decision that had very concrete consequences for the range of economic policy options that could imagine. But in no other branches of the state did economists exert as much influence in the long-term as in the central bank, an institution whose profile began to rise in the early 1970s.

The Rise of the Central Bank

The Central Bank under Franco

During the early 1970s, the institutional hegemony of the ministry of finance was attacked by the central bank (*Banco de Espana*), an institution that gave academic economists a generous conduit through which to influence policy decisions. This came after a long period of policy irrelevance in this institution, which was qualified only by the attempt of the Research Service director Juan Sarda to raise its profile as a knowledge institution. Since Sarda was close friend of Minister of Commerce Alberto Ullastres Calvo, he was able to open access between the Research Service and the research bodies of economic ministries: E.F. Quintana's *Informacion Comercial Espanola*, Secretaría General Técnica del Ministerio de Hacienda and Secretaria General Técnica del Ministerio de Comercio. Of particular importance in this regard was the work in expert commissions on

specific policy issues (exchange rates, trade barriers etc) made possible by the Sarda-Ullastres cooperation (Estape 2001).¹⁹⁹

But the 1959 liberalization exposed the need for a modern public central bank with the ability to undertake monetary policy and supervisory banking functions.²⁰⁰ This led to institutional reforms in 1962 that strengthened the central bank's role in policy. The most important aspects of the reform were the nationalization of *Banco de Espana* and a limited expansion of its power in 1962. The establishment within the central bank of a Risk Information Center enabled the central bank to receive and centralize all data concerning risk concentration in the banking system in one department, which enabled the bank's Research Service to gradually assert a monopoly over high-quality macroeconomic data. This gave the central bank a privileged position on risk monitoring and data generation relative to Hacienda.

Yet nationalization did not bring autonomy. Instead, *Banco de Espana* was put under the authority of *Hacienda*. Consigned to an advisory and execution role on monetary, credit and banking policy, the central bank remained marginal in a policy process placed under the hegemony of the ministry of finance.²⁰¹ This

¹⁹⁹ During the 1940s and 1950s, the central bank had been little more than a coordinating mechanism for private banks. Monetary policy was strictly the province of *Hacienda* and the exchange policy was handled by a special agency of the Ministry of Industry and Commerce, the Exchange Control Institute (Acena 2001).

²⁰⁰ The authorities understood that in the absence of a central bank able to supervise the reserves of private banks and engage in open market operations, the cabinet had to work with rudimentary monetary control mechanisms such as decreed ceiling on the amount of credit to be made available by the banks (Gunther 1980: 144).

²⁰¹ During this period, *Hacienda* interpreted the central bank's advisory role so strictly that *Hacienda* officials would merely inform their colleagues in the central bank of their policy decisions on monetary and fiscal policy and simply expect the central bankers to execute them. Moreover, by contrast with the talent-absorbing *Hacienda*, throughout much of the 1960s, *Banco de Espana* saw scarce inflows of young and skilled personnel (Acena 2000).

situation began to change during the early 70s, as the political regime of Franco was melting down.

Crisis, Democratization and the Rise of the Central Bank

The first source of change was the adoption by the Cortes of a series of statutes that lent the central bank more autonomy vis-à-vis other state institutions. More importantly, however, the institutional leverage of the central bank relative to the cabinet also grew as a result of the crisis of the Spanish banking sector that began in 1977.²⁰²

The ensuing financial quagmire alerted lawmakers to the potential remedy represented by a stronger central bank and the central bank's successful management of the banking crisis (1977-1983) expanded the institutional powers and the resources of the central bank.²⁰³ As a result, in 1980, MEH lost many of its bank supervision, discipline and sanction roles to the central bank, while the latter was further strengthened²⁰⁴ with a powerful public-private institutional

²⁰² The stagflation of the 1970s, the deregulation of the banking sector and growing competitive pressures after foreign banks were allowed to set up shop in Spain wreaked havoc with domestic banks. A particularly risky move had been the unleashing of deregulation in the absence of the establishment of an efficient mechanism of banking supervision in the central bank. As a result, when almost 30 banks reached the brink of insolvency between 1977 and 1979, public authorities had initially no tool to intervene. Not only was the inspection service of the central bank understaffed, but banks were not constrained by disclosure requirements on their holdings (Acena et al 2009). The episode made it clear that with respect to the activities of the deregulated bank sector, the bulky bureaucracy of the Franco era was basically "blind."

²⁰³ The fact that the interventions of the bank resulted in a single liquidation and 29 saved banks in the first two years of the crisis (Acena 2009: 49) boosted its prestige.

²⁰⁴ Beginning with 1977, the central bank controlled the newly-founded Deposit Insurance Fund. Next year, it established the even better endowed Banking Corporation (Corporación Bancaria), a Banking company that received contributions from the central bank itself and from 95 banks, with a view to intervene in troubled banks, temporarily nationalize and reorganize them, and then privatize them.

network of intervention in situations of banking crisis.²⁰⁵ Even so, the bank remained one of the most dependent on the executive power in Europe based on key proxies of legal independence (Cukierman 1992; Henry 1998; Haan 1997; Bernhard 1998).²⁰⁶

Modest as they were, the above reforms gave the bank institutional guarantees to exercise freedom in monetary policy and advocacy within the state. The most important change was that the central bank was granted the power to define the instruments of monetary policy, an issue where, as we saw in the previous chapter, the Research Service played a key role. No longer were this institution's views relegated to advisory roles. Now, the Bank of Spain could issue monetary policy reports of its own initiative, an opening that the "young Turks" in the bank took full advantage of. As Jose Perez, head of operations and bank inspector, said in an interview,

We had an obsession to make available institutions that were solid, supported by markets and able to ensure their development. We thought it was the obligation of the Bank of Spain to create them. Ortega carried this obsession to the Treasury and Martinez Mendez to the National Commission of Stocks and Bonds. The result was that the border between

²⁰⁵ This happened through the adoption by the Cortes of Ley de Organos Rectores del Banco de España (1980).

²⁰⁶ Such proxies include the appointment, dismissal and terms of office of the chief executive officer of the bank, the resolution of conflicts between the executive branch and the central bank, the final objectives of the central bank as stated in its charter; and the legal restrictions on the ability of the public sector to borrow from the central bank.

the Research Service and the rest of the Bank of Spain became increasingly blurred.²⁰⁷

As producer of Spain's most reliable economic datasets, the Research Service was in the privileged position to shape the yearly reports of the central bank, and the parameters of debate of Spanish economics in general, by presenting its favored economic theories as uncontested arguments in the same statistical bulletins (*Boletín Estadístico*) in which it published 400 tables of data on the Spanish economy. In this regard, the "Rojo network" generated by the Service made claims to unchallengeable technical expertise guaranteed by very competitive entrance exams and elitist training once inside the service, as well as to the status of public intellectuals who could shape the debate about which economic ideas should be regarded as appropriate in society.²⁰⁸

The fulcrum of this ideational offensive was to "sell macroeconomic stability as a 'public good,' as something valuable in itself and as the most important objective of a central bank" (Acena 2001: 542). This led to an almost single-minded focus on inflation as the root of Spain's economic woes, a preoccupation that the Service conveyed not only to the executive council of the Bank of Spain, but also to economic ministries and to the Treasury (Acena 2001: 549). Finally, since the Service was staffed by a high number of foreign trained economists, it was best placed to closely observe the crisis of Keynesianism both

²⁰⁷ Interviewed in Acena (2001: 545).

²⁰⁸ "Rojo claims intellectual role for economists/Rojo reivindica el papel intelectual del economista", *El País*, November 11, 1996.

as an academic school of thought and as a policy paradigm implemented by real world institutions.

Under the Socialists, the central bank magnified not only its epistemic authority, but also its institutional autonomy. During the 1980s, the central bank was institutionally subordinated to the cabinet, which maintained the authority to appoint the governor, the vice-governor and six members of the bank's fifteen-member general council. Also, the law required the central bank to finance government debt with interest-free credits corresponding to 12 percent of its expenditures on administration and public firms before seeking permission from the Cortes.

Yet by the early 1990s, both PSOE and the PP endorsed the central bank's independent status, despite the fact that the measure would have cemented deflationary policies in the middle of a recession. Historical contingency got in the way, however. A corruption scandal involving the governor of the bank,²⁰⁹ combined with the increasing cost of the government's austerity measures, delayed independent status until 1994, a year after the 1993 elections. Spain's controversial decision to join the European Monetary System in the first wave made the measure compulsory, and consequently the measure was sold as part of the politically popular EU integration (Donnelly 2005: 138). The governor of the newly independent central bank was Luis Angel Rojo himself.

The leading role of Hacienda, the rise of the economists and the epistemic primacy of the central bank could arguably have been nullified by factional struggles in the government party. After all, as it rose to prominence in national

²⁰⁹ In 1992 the central bank governor Mariano Rubio was investigated for insider trading.

politics, PSOE had a strong left wing, which as late as 1979 gave the party political programs that promised the nationalization of the banking sector, workers' self management and massive income redistribution. And, although the radical leftist agenda had been marginalized by 1982 (Gillespie 1990), throughout the party's first term in office the "vulgar" Keynesian factions from Valencia and the UGT constantly challenged the embedded neoliberal agenda of the Gonzales governments.

The Revolving Door Under Socialist Rule

Reproduction, not Revolution

Rather than reforming it, the Socialists simply reproduced and refreshed the academic-bureaucratic complex. These years further consolidated the rise of economists in policy. Compared to the Franco rule and the UCD years, the Socialist era technocracy was more thoroughly dominated by economists. For the first time, administrative and fiscal law professors were definitively excluded from the economic posts of the executive branch and the top echelons of the economic departments of the civil service.²¹⁰

Most importantly, the small network of economists with foreign postgraduate or professional experience who were trained and/or based in the Research Service, and who had been active in academia, came to control the levers of economic ministries and the central bank at the same time (Gutierrez

²¹⁰ Administrative law professor Laureano Lopez Rodo was arguably the top economic policy decision-maker between 1960 and 1974. Under UCD, finance law professor Jaime Garcia Anoveros was a finance minister under UCD during the Suarez years.

1992). Thus, the governor of the central bank (Mariano Rubio), and its vice-governor (Luis Angel Rojo) as well as the heads of Hacienda and Economy (Miguel Boyer and Carlos Solchaga) were all trained by the Research Service and shared the same views on macroeconomic policy. For the first time in the modern history of the Spanish government, Hacienda and the central bank were no longer at odds with each other. The influence of the central bank reached such heights during the Socialist years that Spanish economic decision makers “believed that the central bank’s view reflected virtually unquestionable expertise” (Perez 1998: 139).

This team ensured consistent advice to Felipe Gonzales, delegitimated alternative policy views proposed by epistemically weaker actors in the PSOE (its union-connected MPs, the Keynesians centered around the Valencia faction) and authoritatively defined what economic choices were possible during the 1980s and 1990s. Moreover, some argue that Felipe Gonzales’ informal access to Spain’s captains of industry before 1982 would not have been possible without the contacts of Mariano Rubio and Miguel Boyer, both of whom belonged to the liberal upper class of Madrid. And given Gonzales’ poor training in economics, Boyer, Rubio and Rojo had ample opportunities to push their views. As Mariano Rubio’s biographer argues, when Rubio and the premier would meet:

Felipe Gonzales listened to the ‘scolding’ given by the governor with a mixture of interest and resignation. Mariano Rubio did not have great difficulties in convincing Felipe Gonzales who, weighed down by a much

more superficial level of economic training, would find himself unable to respond to the torrent of detailed arguments put forth by the governor (Rivases, 1991: 499).

The Socialists ensured continuity in personnel through their decisions about appointments. Jose Ramon Alvarez Rendueles, the incumbent governor was reappointed in 1992. Mariano Rubio, the former head of the Research Service during late Franquism and a man who boasted a short period of political exile in 1958 for his involvement with Socialist networks was appointed governor in 1984. The former Franquist undersecretary of Hacienda and collaborator of the Rojo network, Fernandez Ordonez, was appointed as minister of foreign affairs. Luis Anjel Rojo himself was confirmed in his post at the Research Service and subsequently was promoted as vice-governor (1988) and governor of the bank (1992). During his time, he also held positions in the UN and the European Monetary Institute, and received the highest state honors for his academic career.²¹¹

Throughout the PSOE years, Luis Angel Rojo exercised maximum authority and expanded his role by linking the old policy establishment with Felipe Gonzales' office. A former UCD finance minister described the center of economic policy authority during the Socialist years thus:

²¹¹ Rojo became vice-president of the European Monetary Institute in 1994, served on the board of the UN Planning and Development Committee between 1983 and 1987 and received the King's Prize for Economics in 1986.

[t]he entire group of the Franco years was there. Fuentes Quintana, who was once an advisor to the General and who was one of the masters of the group, was there. Others occupied strategic positions in the state administration (...). The entire team formed in the Bank of Spain, and whom Mariano Rubio was a perfect epitome of, was an incombustible team tied by great friendships among its members. All are sentimentally social-democrats and ex officio monetarists. (...) Boyer did not matter until he was appointed as PSOE minister. It was upon his appointment that the traditional institutional tension between the Ministry of Finance and the Bank of Spain disappeared [...] The man who knows economic theory” for real” is Luis Angel Rojo; he does not like public exposure, but all run for advice to him, including the prime minister, for whom [Rojo] got to write speeches after his election into office.²¹²

The Rojo Network inside the PSOE

Most importantly, however, PSOE did not only appoint former Research Service “stars” like Boyer and Solchaga in top economic positions; this party’s electoral victory showed that economists who were still active in the Service in 1982 and were considered as trusted experts by Boyer and Solchaga were PSOE’s only real reserve of economists with practical experience. Thus, PSOE activist Luis Garcia del Blas became general secretary of Social Security, a ministry he had been assigned to study at the Research Service for many years. Guillermo de la Dehesa, a liberal economist who would soon move to Britain to head a liberal think-

²¹² Jaime Garcia Anoveros, former UCD minister, cited in Gutierrez (1991: 192-193).

tank²¹³ and work as international advisor to Goldman Sachs, occupied top positions, first in Commerce and then in the Economy during the first PSOE government.

Finally, Luis Alcaide, a personal friend of both Rubio and Solchaga, became head of External Transactions in the first Gonzales government.²¹⁴ After some of these players of the Rojo network left PSOE government in the second half of the mid 1980s, they maintained their contacts with those members of the network who remained and supported the former's advocacy of liberal economic reforms in various ways. Thus, while he had been generally cautious to express his ideas publicly during his tenure, Boyer followed his 1986 resignation from government by laying bare his view of Spain's economic policy priorities. He did this in a summer class, which he co-taught at Menendez y Pelayo International University with Jose Maria Vinals, central bank vice-governor, and Guillermo de la Dehesa, now chairman of the liberal British think-tank Center for Economic Policy Research.²¹⁵

During the Socialist years, the revolving door between academia and MEH opened for the first time towards Spain's financial sector. To a large degree, this was the result of the crisis suffered by the financial sector during the 1980s, when the central bank and MEH rescued virtually all industrial banks in Spain. Once the crisis ended, MEH experienced a sudden drain of top bureaucrats who

²¹³ Since 1986 de la Dehesa has been a prominent member of the *Center for Economic Policy Research*.

²¹⁴ "The flights from the Bank of Spain/Las fugas del Banco de Espana", *El Pais*, October 30, 1988, p. 52.

²¹⁵ According to Boyer, Spain needed near-zero public deficits, more wage moderation, radical labor market deregulation, stimulation of private education and a workfare regime in social security. The class was entitled "Economia internacional: opciones de politica economica y su coordinacion", August, 1986, Cursos de verano, UIMP Library.

had been involved in the resolution of the crisis. MEH minister Miguel Boyer went to become CEO of Banco Exterior and was the first president of that institution to participate in the Big Seven's monthly luncheons (Perez 1998: 151). Other departures from the financial industry included the first two heads of the treasury, two director generals of financial policy and the Secretary of State for the Economy (Perez 1998: 151, fn. 36).

So far the chapter brought into relief the importance for the diffusion of new economic ideas of an institutional context with an executive controlled by the premier and the minister of Finance, who in turn depended on advice from the central bank's research service. It was a world in which a few men could make dramatic decisions without much challenge. But since Spain became a democracy, at least in theory this policy elite could have been challenged by the ruling party, an aspect to which I turn next.

Centralizing Economic Policy in the Ruling Party

From loose network to democratic centralism

The tenure of the Gonzales governments coincided with a high degree of internal centralization, authoritarianism, personalism and neo-patrimonialism in PSOE. This outcome facilitated the adoption of neoliberal socio-economic policies that clashed with the party's own ideological claims. One of the reasons for this was that entrenched fear of democratic breakdown during the Spanish political transition institutionalized elite-controlled parties, playing down internal democracy and mass membership (Pridham 1990: 115-116).

Historically, PSOE resembled a loose political network rather than a party and some scholars argued that internal dissension in PSOE was one of the contributing factors of the fall of the Spanish Republic (Linz 1978: 145-202). Haunted by the memory of internal factionalism during the Republic, and mindful of the high political cost paid for internal bickering by UCD and the communists (Field 2010; Share 1998: 98),²¹⁶ In a short period of time, PSOE leaders built a highly centralized and authoritarian party structure, making the party unaccountable to its base while suppressing ideological dissent. These features made PSOE a highly disciplined political machine during the 1980s and 1990s (Lopez Guerra 1984; Gillespie 1990; Share 1998).

The high levels of centralization in PSOE were achieved during the two PSOE congresses in 1979 that represented a genuine Bad Godesberg critical juncture for PSOE. Although the agenda included a discussion about whether the party should retain its programmatic allegiance to (neo)Marxism, the deeper meaning of the debate was whether PSOE should evolve from a mass party into a “catch-all” party with a moderate ideology, a weak left wing and loose links of accountability with the base (Share 1998; Gillespie 1990), a feat achieved through a complicated political drama. At first, the party’s left wing (the so-called *sector critico*) won. Defeated, Gonzales successfully played brinkmanship by deciding not to run for reelection as party leader based on information that the *sector critico* did not have a matching charismatic leader. The political drama continued when a special congress was called later in the year to settle the dispute.

²¹⁶ PSOE leaders interpreted the abortive 1981 military coup as a result of factionalism inside the UCD government (Share 1998: 104).

Gonzales' proposition to "de-Marximize" the party finally won, Felipe Gonzales returned to his post as secretary general and party governance rules were rewritten (Gillespie 1989).

The resulting party statute put an end to party democracy and emasculated the party's left. The party executive was entrusted to a lopsided duumvirate in which president Felipe Gonzales and vice-president Guerra allegedly shared power, although Gonzales always had the last word. Furthermore, the local PSOE's grassroots units (*agrupaciones*) lost their avenues to influence the party executive.

The emasculation of the base occurred through the adoption of a winner-takes-it-all electoral system for party posts and delegates to party congresses and the use of bloc voting in party congresses (Share 1989). In theory, the grassroots could have controlled the party executive through elections to the Federal Committee. Yet between 1979 and 1996 these elections were carried out through secret ballot only once (at the 1988 party congress). The high rate of success of the party's left wing delegates at the 1988 congress inspired the diumvirate to maneuver against further experiments with internal party democracy.

Centralization and advocacy for neoliberal ideas

The protagonism of Felipe Gonzales remained unchallenged until the 1996 electoral defeat.²¹⁷ In making economic policy decisions, Gonzales' relied on the

²¹⁷ Gonzales' authority derived not only from his being both premier and PSOE president, or from his extraordinary ability to build coalitions around himself, but also from a great deal of popular legitimacy. Ten years into office, Gonzales was still Spain's most popular politician. Indeed, to most voters Gonzales *was* PSOE. Even when Guerra challenged the party chairman in 1991,

advice of a tight network of young “pragmatic” social-democrats from the Madrid party federation (José Maria Maravall, Javier Solana, Joaquín Almunia) and the members of the neoliberal “Rojo network” (e.g. Miguel Boyer, Carlos Solchaga). Of these, Miguel Boyer enjoyed a privileged position, as his influence over Gonzales had been characterized as “immense” (Gonzales 1991: 70; Almunia 2001; Maravall 2005).

Although PSOE vice-president and vice-prime minister Adolfo Guerra held considerable power and was often hostile to liberalizing measures, he was relegated to enforcer status by Gonzales. Guerra had no veto power over economic decisions, where, as both primary and secondary sources confirm, the “Rojo” network ruled supreme (Gillespie 1990; Perez 1998; Almunia 2001; Maravall 2005; Solchaga 2005).²¹⁸ This situation was compounded by the fact that the Guerristas’ critique of technocratic “neoliberalism” had little credibility.²¹⁹

Gonzales was such a “sanctified” figure for the party that Guerra focused his critique on the “neoliberal” faction led by Carlos Solchaga, whom he accused of having “kidnapped” Gonzales with the aid of bankers and employer organizations (Gillespie 1990).

²¹⁸As vice-premier, he could filter the issues to be considered by the premier on a daily basis (Gillespie 1993: 84). Based in the government palace, he controlled a vast intelligence network that reporting regularly to his office on the political dynamics within the party’s central and regional structures. Gillespie showed that “ [at] the peak of his success, Guerra’s empire was depicted as including the party executive and apparatus, the Socialist Parliamentary Group, some key positions in the Moncloa (government headquarters), seven ministries, three regional governments, two universities and growing influence in the judiciary; while in its principal regional fief of Andalucia, the empire extended to the regional government, seven of the eight provincial councils (*diputaciones*), 80 per cent of the municipal councils, the regional television channel, cultural and sporting associations, and several savings banks.”(Gillspie 1994: 5). Since the regional PSOE “barons” often acted in concert to challenge the PSOE headquarters in Madrid, the “pacification” of insurgencies had been a key condition for pushing the politically costly economic reforms of Gonzales’ governments.

²¹⁹ According to Richard Gillspie, the guerristas initially supported the neoliberal agenda but then reneged on their commitments due to a power struggle between Guerra and Boyer, missed patronage opportunities²¹⁹ and the fact that “[s]ince they controlled the party, masterminded its electoral strategy and actually organized and ran its election campaigns, the guerristas were much

The Psoe Left that Never Was

Inside the party, but away from executive power and Gonzales' inner circle was the party's left wing (dubbed the Socialist Left/*Izquierda Socialista*). Formed by Madrid, Catalan and Valencian leftist intellectuals and supported by the pro-PSOE union UGT, the Socialist Left demanded more expansionary macroeconomic policies and articulated an ideological critique of neoliberalism that was more credible than that of the *guerrista* sector.

But the effects of that vocal critique were muffled by the centralization of party institutions and the Socialist Left's own internal problems. After 1979, its weight inside the party was artificially reduced by the diumvirate and especially by Guerra's political machine. Even at the peak of their power and in the only party congress when the vote was carried out on the basis of secreted ballot, *Izquierda Socialista* did not get more than 22.5 percent of the delegates' votes for the federal committee that de jure controlled the party executive (Gillespie 1994: 6).

In addition to constitutional centralization, the party leadership consistently suppressed dissent by cooption, the removal of dissidents from party lists or simply by demotion (Gillespie 1989: 336-337). González's predecessor, Pablo Castellano and Francisco Bustelo, the "Keynesian" voices inside the party, were forced out into political wilderness early on. Another "Keynesian", UGT leader Nicolás Redondo, threatened with no avail with resigning his seat in

more concerned than the liberal ministers with the effects of government policies on public opinion." (Gillespie 1994: 20).

Parliament, an action he was compelled to take anyway in 1987. While some left wing activists left the party following the resignation of prominent Keynesians, this did not weigh heavily on the top leadership, as PSOE managed to actually boost its membership and activist base to almost a quarter million people by the late 1980s (Share 1999: 98).

By the late 1980s, the purges left PSOE without an effective left wing (von Biezen 2002). Also, instead of giving policy satisfaction to the base, the executive showered activists with jobs in the civil service. In less than three years of office, the party de-fanged grassroots critique by offering activists the chance to take up no less than 25,000 political appointments in the public administration (Gillespie 1990: 131-132). As a result, 70 percent of PSOE's 1988 Congress delegates were on government payroll (Share 1999: 98). As one student of PSOE put it, the result was that PSOE "became little more than a vehicle for careerism and personal advancement" (Share 1998: 100) in which "socialist designs seemed to some to have been replaced by designer socialism" (Gillespie, 1989: 67).

But apart from its organizational marginalization, the PSOE left wing had internal weaknesses as well. Its epistemic weakness on economic issues meant that its defense of an expansionary policy alternative was no match for the rebuttals issued by neoliberals, especially after the premature death in 1981 of Manuel Sanchez Ayuso, the only prominent academic Keynesian in the group. Faced with this situation, the *sector critico* focused instead on the cultural and security agenda (abortion, education, NATO membership), rather than on "old" left issues like income redistribution or the role of the state in the economy. Also,

the intellectual distance between the Socialist Left academics and UGT unionists as well as the skepticism towards *Izquierda Socialista* of PSOE's regional bosses combined to wreck PSOE's last internal rebellion in 1991 against the policies of the neoliberal ministers.²²⁰

To conclude, after 1989 the PSOE diumvirate closed the institutional windows of dissent in the party, shutting down potential opportunities for challengers to trouble the relatively frictionless world in which a Finance minister trusted by the premier and linked to an activist central bank made economic decisions. Democracy, it seems, triumphed across Spain's political institutions but stopped at the doors of the Socialist Party.

Conclusions

The main argument advanced in this chapter is twofold. First, Spain's policy elites filtered the effects of the Western neoliberal revolution by crafting a redistributive and state-enhanced "embedded neoliberalism" that both reproduced and challenged neoliberal tenets. Second, these interpretations of neoliberalism took place in a highly centralized institutional environment that facilitated the institutionalization of embedded neoliberal ideas. The existence of a revolving door between academic economics and the state was compounded by a high degree of centralization in economic policy, both in the executive and the ruling

²²⁰ The left alternative asserted itself one more time in 1991, when Socialist Left activists, UGT leaders and a variegated assortment of PSOE activists with a communist past organized a broad-based conference that attracted an impressive number of participants.

party. This increased the likelihood that economists' ideas, emerging out of privileged networks, could actually shape policy.

Yet, the mere existence of this institutional complex does not, by itself, tell us where the ideas of these economists came from or how the PSOE executive elite reconciled its left identity with embedded neoliberalism in the first place. To address this question, we must examine the transnational interventions that carried new ideas into Spanish economics.

Chapter V - Ideas in the Neoliberal Moment

Overview

In the analytical framework of this dissertation it was hypothesized that when ideas travel from one site to another, the extent to which they resonate with pre-existing economic ideas matters a great deal. It was also hypothesized that the receiving actors can hardly be assumed to passively “sign for delivery” and then go on and use the ideas handed down to them without performing any alterations. Granted, ideas are disembedded from their original context, objectified or formalized by exogenous actors in order to seem universal and thus travel more easily. But ideas are also “edited” by domestic translators as they travel through various intellectual contexts. In other words, domestic actors do not simply “cut-and-paste” new economic ideas developed in foreign “labs”. Instead, they can be expected to act reflexively and interpret those ideas before adoption.

To test these claims, I first searched the history of Spanish economics for the marginalist and neoclassical economic traditions that would have resonated with the claims of the neoliberal revolution in Western economics. This analysis reveals a significant Spanish neoclassical tradition colored by German ordoliberal influences and a neoclassical syndissertation that had moved away from the Keynes of the *General Theory* from the very first moments of its inauguration in Spain. Finally, I turn to a discussion of the actual translation processes that

hybridized neoliberalism with select ordoliberal and developmentalist ideas, thus enabling the emergence of an “embedded neoliberalism” that defined the boundaries of the Spanish economic consensus during the 1980s and 1990s. The chapter ends with a discussion of the “paths not taken”, or the sets of economic ideas that failed to make an impact in Spain during the critical junctures of the transition.

I. The Domestic Resonance of Neoliberalism

The Spanish Neoclassical Tradition

Late 20th century Spanish neoliberals make much of the fact that contrary to the popular stereotypes of Spain as a historically interventionist country, Spain’s liberal economic tradition predates the Scottish Enlightenment, with the Jesuit scholars of the Salamanca School articulating many of the theses of classical economic liberalism as early as the 16th and 17th centuries. In their pro-market radicalism, the ideas of the Salamanca School are in many ways so similar to that of the Austrian School that libertarian economist Murray Rothbard referred to their proponents as *proto-Austrians* (Rothbard 1976).

The rediscovery of the Salamanca School by 20th century liberals and libertarians in the English-speaking world (Grice-Hutchinson 1952; 1982; Schumpeter 1954; Rothbard 1976; Beck 1988; 1995) played an important role in the efforts of postwar Spanish economists who attempted to package liberalism

and especially the “quantitativist” and free trade theories, as constitutive of a “native” tradition linked to Spain’s own brand of Catholicism (Ullastres 1941; Perena 1954; Parraguire 1960; Vilar 1978; Marrugan and Schwartz 1978; Gomez Camacho 1985; de Soto 1996; de Blas 2000). In drawing upon this historical resource, these economists attempted to make some of the basic tenets of neoliberalism look homegrown.

Yet with the memory of the Salamanca School lost, during the 19th and 20th centuries modern Spanish economic liberalism grew as an off-shoot of the English tradition inaugurated by the Scottish Enlightenment and “translated” by early 19th century French liberals.²²¹ Steamrolled by the academic and policy influence of the interventionist neohistorical school during the late 19th and early 20th century, the liberal economic strain reemerged during the interwar years.

Beginning with the 1930s, Spanish classic liberal economists trained in British and German universities (Roman Perpina i Grau, Luis Olariaga, German Bernacer, Jose Maria Zumalacarregui) began to attack the neohistoricist ideational consensus and its reflections in economic policy.²²² This new generation of liberals proposed a new narrative about the economic development of Spain that would become influential beginning with the 1950s. Its basic dissertation was that

²²¹ During the late 18th century, the *Wealth of Nation* circulated in translated and original form, while other local Enlightenment authors (Alcala Galiano, Martin Fernandez de Navarrete; Alvaro Florez de Estrada) integrated Smith’s ideas into their own work on public finance (Perdices de Blas 1993). Fr. Juan Geddes translated a few chapters from Smith’s classic in 1777 (Perdices de Blas 1993:348). Translations “adapted” the text to avoid the censorship of the Inquisition. The most complete translation was published in 1794 (Perdices de Blas 1993” 352). Yet it was French liberalism (Mirabeau, Say, Bastiat) more than Smith who influenced the rebirth of a Spanish liberal strand during the Spanish Enlightenment and throughout the 19th century, when local liberal politicians and businessmen employed the classics to defend free-trade and anti-interventionist arguments (Velarde 1993; Schwartz 1990; Beltran 1976).

²²² The attack was largely the outcome of the indigenization in Spain of the “palace war” taking place inside 1920s German academia between Austrian School liberals and ordoliberalists on the one hand, and neohistoricist on the other hand.

whatever Spain had achieved in economic terms was not due to government intervention and protectionism, but despite these, with FDI and export-led growth playing a pivotal part (Velarde 1994; Love, 2004). As Joseph Love synthesized Grau's main argument, "the growth of the national economy had been achieved through a gradual process of export substitution and export expansion. But the level of industrial output was largely a function of the absorptive capacity of the relatively wealthy Periphery, which could earn foreign exchange. Ultimately growth depended on imported industrial inputs and capital goods. Therefore, foreign exchange had played a crucial role in long-term growth, even though export earnings were a small element in the national product. Since export sales depended on foreign demand, trade with the principal industrialized powers, he held, was decisive for the Spanish economy" (Love 2004: 118-122).

The Ordoliberal Moment

The rebirth of the Spanish liberal tradition under Franco did not lead in a libertarian direction, however. As Spanish liberal economists were nationalists, they sought economic ideas that imbricated economic liberalism in a framework that still allowed for the economic agency of an enlightened state acting on behalf of national interests and as guarantor of conservative social values. This led them to embrace the German version of liberalism advocated by the Ordoliberalism, a school of thought in economics that emphasized a positive role for the state as builder and guarantor of the institutions that ensure that the free market produces results close to its theoretical potential. Ordoliberalism resonated well with the

conservative Catholic professionals who staffed key positions of the Franquist state as it advocated compensating the losers of the free play of the market through the adoption of a more generous welfare state and of employment protection legislation (the “social market economy”).

Spanish ordoliberal microeconomists became the most influential liberal faction in Spanish microeconomics during the 1950s and 60s (Almenar 2001: 502) and their ideas also pushed Spanish neo-Keynesians in a more conservative direction. Spanish liberals of the postwar era (Andres Alvarez, Jose Castaneda) followed the lead of Ordoliberal celebrity Friedrich von Stackelberg, who was instrumental in indigenizing a syndissertation of classical liberalism and German ordoliberalism in Spain (Velarde 1990: 45), while contributing decisively to the consolidation of a local hostility to Keynesianism (Velarde 2001; Schwartz 2001: 523-524).

After his arrival in Madrid in 1943, the German professor demolished the Keynes of the *General Theory*, emphasized the impossibility of planning using Hayekian arguments about the low levels of calculus capacity in human minds and turned inflation into the source of all evils in the economy.²²³ As the following episode narrated by eclectic economist and economic historian Juan Velarde Fuertes plainly illustrates, von Stackelberg’s presence in Madrid was instrumental in clarifying a viral anti-Keynesian reaction among economists there:

²²³ One of von Stackelberg’s enduring contributions were that the analytic instruments of his *Principios de teoria economica* (1946) served as a basis for the postwar critique of the economic interventionism of the Spanish state. Von Stackelberg attacked Keynes capital and interest theories with the ammunition of the Austrian school by calling it unscientific, based in an oversimplification of markets, devoid of microeconomic bases.

I was working as a teaching assistant for Luis Olariaga. At some point [...] he asked me about my bibliography on Keynes. In the bibliographical list I included Stackelberg's article "Interest and money: A discussion of some modern theories". Olariaga endorsed that reference and subsequently returned to the point by saying "Focus on this! Focus on what von Stackelberg is saying! We, the Spaniards owe him a great deal, but this article alone would justify the necessity of our gratitude." Certainly, this article had strengthened Olariaga's own views on the matter." (Velarde 2001: 363).

And such views were filtered through Stackelberg's attack on the *General Theory* as unscientific:

"The majority of people expect miracles from science. They want to see the scientist as a magician. Physics and chemistry satisfy these desires via their technical effects. But political economy is unable to do so. But when a book that seems to promise miracles is published, it becomes rapidly popular as well. The great success enjoyed by the *General Theory of Employment, Interest and Money* owes its success in part to these circumstances. (Stackelberg cited in Velarde 2001: 360).

As the next sections show, when backed up with von Stackelberg's prestige and scholarship, such views provided Spanish economics with an important resource for an extensive critique of government intervention during ISI and indicative planning. Also, the Spanish indigenization of the Ordoliberal school definitively shaped the teaching of economics by institutionalizing a primary commitment to "good economics," where good economics meant, as in the Chicago School, the rigorous application of standard microeconomic theory to macroeconomics, a factor that facilitated the rise of neoliberalism in the 1970s.

At the same time, von Stackelberg and his followers did not deify the market and did not evacuate the role of government from the equation.²²⁴ Instead, they legitimated the idea that without the state's regulatory intervention, the free market has a tendency to produce phenomena detrimental to competition (monopolies, oligopolies) and to good government (economic monopoly/oligopoly power can be converted into political power).²²⁵ Unlike in the Anglo-American neoclassical tradition, for ordoliberals, a strong state was essential to cultivate a "liberal interventionism" and a "social market economy" meant to liberate the markets and socially embed them. To this end, Spanish ordoliberals saw the state not merely as a neutral aggregator of individual interests, but also, in an explicit nationalist vein, as an enlightened autonomous agent entrusted to advance the economic welfare of the nation by increasing the competitiveness of the economy through the state-led coordination of economic

²²⁴ Unlike laissez-faire economists, von Stackelberg and his Spanish followers were skeptical of Hayekian radicalism by pointing not only to the risks of the emergence of oligopolies and monopolies in completely deregulated markets. As a result, the state was called to action.

²²⁵ For a more systematic view on ordoliberalism see Koslowski (2000). Also see Rieter (1993).

agents. Finally, rather than concentrate all power in the executive, they argued that fiscal policy should be the domain of the executive branch, whilst macroeconomic policy should be left to employers and trade unions (Koslowski 2000).

As in West Germany, in Spain the institutional entrenchment of the ideas of the von Stackelberg network made difficult the adoption of interventionist readings of Keynesianism by the economics mainstream.²²⁶ Yet German ordoliberalism did not diffuse wholesale. First, its adoption was facilitated by a considerable degree of cultural entrepreneurship aimed at “localizing” it. For example, as representative of this “translated” ordoliberalism Andres Alvarez, set out to make this school of thought seem local by connecting it to the Spanish liberal tradition represented by the work of Ortega y Gasset, a thinker considered by Andres Alvarez a precursor of Ropke (Sanchez Alvarez 2001: 173). Second, the translation strategy of Spanish ordoliberals also generated views that would have been regarded as heterodox by German ordoliberals. For the same leading Spanish microeconomist, ordoliberalism was consistent with the case for public enterprises and with neo-Romantic nationalist arguments about the responsibility of the state for general economic welfare (Sanchez Hormigo 2001: 170-178; 195).²²⁷ Such opening to the role of the state reduced the intellectual distance between Alvarez and neoclassical synthesizers, thus enabling his participation in

²²⁶ In West Germany the furthest advance of Keynesianism was in Karl Schiller’s syndissertation of ordoliberalism and neo-keynesianism in his “magic polygon” (price stability, economic growth, full employment and external equilibrium).

²²⁷ One of the most bizarre aspects of Alvarez’ work was the cultivation of a mixture between ordoliberalism and the reactionary economic romanticism of early 19th century German political economist (Adam Muller) whose writings were used by early 20th century corporatists like Othmar Spann (*Der wahre Staat. Vorlesungen über Abbruch und Neubau der Gesellschaft*, Vienna, 1921).

the drafting of Spain's first input-output tables, a crucial policy tool of Keynesian macroeconomics (Alvarez Coruguedo 2001: 238-240).²²⁸

In sum, Spanish ordoliberalism moderated both the strong Keynesian program as long as the neoclassical one. In this way, while the ordoliberal legacy "tamed" an aggressive Keynesian project in Spain, it also contributed in the long run to a de-radicalization of the neoliberal program.

What Spanish Keynesianism?

Neoliberal ideas did not meet with a great deal of resistance in Spain during the 1970s, in part because the local version of Keynesianism had already been moving in a more conservative direction than in most of the advanced capitalist core. Beginning with the 1950s, many Spanish economists adopted the "neoclassical (-Keynesian) syndissertation" or "neo-Keynesianism" as the dominant local translation of Keynesianism and became the "ruling elite" in the top economic departments in Madrid, Bilbao and Barcelona.

By the end of the 1950s, they also secured top positions in the state as advisers, government ministers and central bankers (Gonzales 1978; Quintana 2001; Acena 2001). These men dramatically affected state policy between 1956 and 1959 by providing the institutional blueprints for the package of liberalizing measures that terminated Spain's autarkic-corporatist development model (Sarda 1970; Gonzales 1979; Fuentes Quintana 1984; Muns 1986). During the early

²²⁸ It can be argued that von Stackelberg's silence on political Keynesianism facilitated the process whereby some of his followers in the Instituto de Estudios Políticos did not see a problem in reconciling Keynes and the ordoliberals (Almenar Palau 463)

1960s, the policy impact of neo-Keynesian ideas temporarily faded out in competition with a more interventionist interpretation of Keynes: the developmentalist ideas of French indicative planning (Gonzales 1977). Of particular importance for the subsequent embrace of neoliberal ideas by the Spanish economics mainstream was the fact that, during their loss of policy influence between 1962 and 1975, neo-Keynesians swung even further to the right, stretching the neoclassical syndissertation beyond its limits.

Spanish economic historians are in agreement that, between the mid-1950s and the mid-1970s, interpretations of Keynesianism that were loath to embrace bold demand management or planning intellectually dominated economics departments and, at critical junctures, key institutions of the state as well (Lluch 1966; Gonzales 1978; Quintana 2001; Almenar 2001; Velarde 2001). Spanish Keynesians used the *General Theory* to attack the extremely high levels of protectionism and interventionism of the ISI model. They noticed that Spain's ambitious industrialization effort could only be undertaken by increasing exports and that, after fifteen years of ISI, Spain's exports were decreasing (Buesa Blanco 1983: 482-284). Most importantly, from the early 1950s on, its proponents unequivocally broke with a key policy implication of the *General Theory*: the use of demand-side policies to stabilize economic cycles and foster employment. The result was that, for the next two decades, mainstream Spanish neo-Keynesians would use Keynes to demand a "smaller state." As Spanish economic historian Salvador Almenar Palau put it,

[w]ith regard to what was customary in other European countries, the main difference was that Keynesian macroeconomics [in Spain] was used to cool the economy and abandon inflationary fiscal activism (Almenar 2001: 495).

Instead of counter-cyclical intervention backed by an expanded fiscal power of the state, a consistent concern with inflation and the “cooling” of cycles became the foci of the Spanish Keynesian mainstream. As early as the 1950s, influenced by ordoliberalism, they turned inflation into the fulcrum of macroeconomics and conditioned demand-side policies on structural reforms of industry and finance, whose high political cost basically rendered demand-side policies inapplicable in the Spanish context. In making these arguments, Spanish Keynesians stepped outside the boundaries of the neoclassical syndissertation and openly appropriated some of the critiques leveled against Keynesianism by ordoliberal and Austrian School economics.

This early rightward turn in Spanish Keynesianism is apparent in the foundational contributions of Spain’s most prominent postwar Keynesians. The views of these three prominent Spanish technopols defined the boundaries of Spanish neo-Keyensian orthodoxy until the late 1960s and were “codified” in a 1954 volume on the main directions of Spanish economic policy (Velarde 1954).²²⁹

²²⁹ The volume contained the fulcrum of the economic diagnostic and strategies that inspired some elements of the IMF-approved macroeconomic stabilization policy package adopted by Spain in 1959 (Almenar 2001: 494). The contributors also addressed Spain’s developmental problems using a mix of Keynesian ideas (coordination of private investment, increases in public

The inflationary risks associated with demand-side interventionism became paramount in the writings of mandarin economist Torres Martinez, a figure who was instrumental in popularizing Keynesian thinking in Spain.²³⁰ In his own research and teaching, however, Torres remained apprehensive towards the demand policies suggested by the *General Theory* and went as far as critiquing it for its poor microfoundations (Torres 1941; 1943; 1949; 1955; 1958).²³¹

Other Spanish Keynesians who held great influence in policy followed in the footsteps of Torres' half-hearted embrace of the *General Theory*. The scholarly and policy work of prominent Spanish neo-Keynesian and Bank of Spain research director Juan Sarda attempted to synthesize Keynesianism with ordoliberalism and even with some of the insights of the Austrian School (Sarda 1943; 1948; 1960).²³² The same attempts to “tame” Keynesianism can be seen in

investment, progressive tax reform) and ordoliberal ones (dismantlement of monopolies and oligopolies, deregulation of the economy as a means to increase private investment).

²³⁰ Torres was the dean of the newly founded economics department of the elite Complutense University in Madrid. Torres also formed a generation of neo-Keynesian economists who came to dominate Spanish economics for the next four decades: Enrique Fuentes Quintana, Juan Velarde, Manuel Varela. A well-heeled government economic advisor and economics professor at the University of Madrid, Torres popularized the *General Theory* and introduced the textbook of Danish Keynesian Jorgen Pedersen as required reading in his economic theory classes (Velarde 1974: 250). Torres was also instrumental in ensuring that the contributions of the neoclassical syndissertation were quickly translated into Spanish (Acena 2001).

²³¹ Torres' take on Keynes therefore reflected more the Keynes of the *Treatise of Money* than the Keynes of the *General Theory*. In one of the earliest Keynesian scholarly contributions authored in Spain, Torres critiqued Keynes' theory of the causes of unemployment for lacking a microeconomic basis. His subsequent work from the late 40s and mid 1950s is marked by the fear that expansionary macroeconomic policies would fuel inflation and benefit employers more than labor (Almenar 2001: 467-472). Similarly, beginning with Torres, Spanish Keynesians rejected the value of any protectionist implications of Keynesian thinking and saw exports as a motor of growth (Love 2005).

²³² While accepting the basic tenets of the *General Theory* as well as the extension of its implications by Abba Lerner, Sarda insisted that the contributions of Keynes and Lerner should be balanced with the ordoliberal theory instituted by West European governments in the early postwar years—namely that repressed inflation was a direct cause of the price controls. While controversially declaring that “Keynesian thinking was not absolutely incompatible with the

the work of Enrique Fuentes Quintana (1951; Anderson 1970: 99-107; Gunther 1980: 91-95), an economist whose name is generally equated with three decades of Spanish neo-Keynesian scholarship and a most prominent policy career.²³³ In a touchstone article he published in 1951, Fuentes Quintana introduced the richest and most up-to-date presentation of the neoclassical syndissertation to Spanish economics (Quintana 1951; 1952).²³⁴ Like Torres and Sarda, he accepted the postulate that Keynesianism was consistent with neoclassical economics and remained wedded to the point made in his 1951 doctoral dissertation that modern Keynesianism was basically built on the mold of the Hicks-Modigliani model. At the same time, Fuentes Quintana continued the work of “cooling” Keynesianism begun by his mentor Manuel Torres Martinez. He was adamant in arguing for the integration of Pigou’s real balance effect, a dissertation that further diluted Keynes’ diagnosis of the causes of collapse in demand. He challenged Keynesianism’s prioritization of full employment over growth by using the charges made against Keynes by von Stackelberg. Moreover, Joan Sarda had been

general ideas that dominated the *Ordo* group” (Sarda 1949, in Almenar 2001: 476), Sarda vehemently rejected the compatibility between Keynesianism and planning posited by orthodox Keynesians. Significantly, in 1960 Sarda went so far as to adopt the then maverick monetarist dissertation that the increase of the monetary supply had to be strictly correlated with real growth rate (Sarda 1960: 35 in Almenar 2001: 494).

²³³ Fuentes-Quintana also had an academic and policy career that spanned half a century. Most significantly, he was a key player in the two most important anti-inflation reform packages of postwar Spain: he served as a research economist for the 1959 Stabilization Plan²³³ and as the minister of finance during the 1977 Moncloa Pacts. Fuentes taught finance economics at Complutense University in Madrid for two decades (1958-1978) and edited the elite economics reviews *Información Comercial Española* between 1958 and 1970 and *Hacienda Pública Española* between 1970 and 1978. He also sat on the board of *Papeles de Economía Española*, a most prestigious Spanish economic review during the 1980s. In policy, he served as a technocrat beginning with 1951 and was appointed minister of finance in 1977. During his terms, he was the architect of the Moncloa Pacts of 1977 that aimed at stabilizing the Spanish economy and of the most dramatic tax reforms of 20th century Spain in 1978.

²³⁴ The article was entitled “Wages and employment. Keynesian analysis as cycles theory/La teoría keynesiana como análisis cíclico” and was published in *De Economía*, an economics review of Franco’s vertical unions. (Almenar 2001: 479).

instrumental in popularizing the research materials of the ORDO group shortly after their publication in Germany.²³⁵

Like Torres and Sarda, Quintana was skeptical that Keynesian counter-cyclical stimulus packages could work in Spain. He argued that such macroeconomic policies could only generate inflation due to the high degree of monopolization and the underdevelopment problems of the Spanish economy. Indeed, Quintana saw Keynesian demand-side policy as applicable at the macrolevel only in developed industrial countries. He essentially argued that, until Spain reduced monopolies and exported enough of its excess labor force, the applicability of demand-side was limited to specific industries working below their potential. Finally, he drew on the Spanish structuralist-liberal syndissertation developed by Jose Maria Zumalcarregui, to argue that cheap credit policies could lead to increased demand only if credit were targeted at Spain's internationally competitive sectors, and if barriers to entry were erected to keep foreign banks out of Spain (Almenar 2001: 479-482).

During the second half of the 1960s, the monumental work of Luis Angel Rojo took this Spanish translation of the neoclassical syndissertation to a new level. In 1965 and 1966, Rojo published the first systematic accounts in Spanish of neo-Keynesian, post-Keynesian and neoclassical literature (Rojo 1965; 1966). These volumes were followed by the detailed introduction of the standardized neoclassical macroeconomic model for an open economy (IS-LM) (Rojo 1969-1970). Using his joint appointments as head of the influential Research Service of

²³⁵ Sarda extensively and relatively positively reviewed the classical ORDO volumes of 1948 and 1949 in a 1949 issue of *Anales de Economia* (Lissen, unpublished manuscript: 15).

the Bank of Spain and as professor of finance at the nation's leading university (Universidad Complutense), Rojo also used the neoclassical syndissertation as a platform for building a comprehensive macroeconomic model of the Spanish economy. After introducing the emerging debate between monetarists (Friedman, Brunner) and Keynesians (Tobin, Kaldor) (Rojo 1971) to the Spanish economic mainstream, Rojo diluted his endorsement of neo-Keynesianism by attempting to forge a monetarist-Keynesian syndissertation in 1974 (Rojo 1974), in a book that was aptly dubbed a "marker of the external limits of Keynesian economics in Spain" (Almenar 2001: 498).

But Spanish neoliberals did not go all the way down. Rather than replicate the emerging neoliberal paradigm, they hybridized it with select elements of previously translated epistemic traditions. The increasing influence of neoliberal economic ideas in Spanish academia and policy circles after the 1970s did not lead to a replication of "textbook" monetarist, supply-side or rational expectations theses. Instead, some of these theses were altered or screened out, while select elements of Keynesian macroeconomics, namely developmentalist industrial policy and "social market economy" survived.

By contrast with the prowess of the orthodox academic-bureaucratic complex, the interventionist economic agenda inside PSOE during the early 1980s was extremely weak. The small Keynesian faction led by Manuel Sánchez Ayuso, a prominent Valencian economist was definitively weakened after he died in late

1982.²³⁶ Also, Sevilla Segura, one of the few voices within PSOE's economic team who advocated a more interventionist policy that would use tax policies to force private savings in order to invest in high employment was dismissed in January 1984 (Boix 1995: 9). Ironically, Spain's most prestigious Keynesian, Luis Gamir, was a minister in the last UCD government and stayed away from the Socialist circles.

After this point, the economic team within the government was completely under the authority of men trained by the Research Service who favored an orthodox approach to macroeconomic management.²³⁷ The Keynesian agenda was also assumed by the Socialist union UGT. But UGT's Keynesianism was "thin", as the union did not have a robust team of economists able to systematically challenge the arguments of economic ministers (Royo 2001). Moreover, the union's institutional position was weakened by a minister of labor who shared the views of the economically orthodox Miguel Boyer (Almunia 2001).

To conclude, in Spain Keynesianism was diluted by the ordoliberal critique and by the early 1980s it was more or less a dying tradition that had very insignificant representation inside as well as outside the organizational ecology of the Spanish Socialist Workers' Party.

²³⁶ For Sanchez Ayuso's "fundamentalist" Keynesianism see his *Introducción a la política monetaria de España*, Madrid, Tucar, 1976; *Crisis económica: hechos, políticas y ideas*, Madrid: Piramide, 1981.

²³⁷ For Sevilla Segura's views see his 1985 book *Economía política de la crisis española*. Madrid: Crítica.

The Spanish Interventionist Tradition

Developmentalism: From the Historical School to ISI

In contrast to Keynesianism, developmentalism had a much less undiluted substance in Spain. In many respects, interventionism had dominated Spain's modern economic history. As suggested in the previous chapter, state interventionism in the framework of a neo-mercantilist trade regime dominated ideational debates and economic policy in pre-Civil War Spain. This largely meant the adoption of some of Wilhelmine Germany's socio-economic policies: protectionism, industrial policy, basic social protection for waged employees, state-managed cartelization, etc (Velarde 2001: 350). To a considerable extent, the indigenization of these principles was due to the preponderantly German education of Spain's top economists,²³⁸ which made German neohistoricism a hegemonic intellectual paradigm in academia and the state (Almenar 2005: 80-82).²³⁹

The policy influence of this school of thought came to an end, not through intellectual competition with the liberal schools, but through political violence, once the Franquists won the civil war.²⁴⁰ But the end of the neo-historical school

²³⁸The leader of the neohistoricist group was professor Antonio Flores de Lemus of Madrid University, a mandarin who had studied economics in Germany with the very *prominenti* of German neohistoricism: G. Schmoller, A.H.G. Wagner y L. Bortkiewicz. Flores de Lemus is still seen as the most important economist of the first half of the 20th century (Schwartz 2001: 495).

²³⁹ Launched in the 1840s, the historicist school came to dominate German economics for almost a century. As Marion Fourcade (2001) aptly put it, "its core methodological credo defended the unity of the human sciences (*Geisteswissenschaften*) against the natural ones. Considering that "the abstract and classificatory methods of the natural sciences were inadequate models for the study of the human world, it proclaimed the primacy of historical monographs and empirical work over positivist methods and insisted that all human phenomena ought to be studied in their broad, and time bound, societal context." (406). This foil of German historicism was the (neo)classical school of economics.

²⁴⁰ To escape violence for involvement with the Second Republic, the more left-leaning neohistoricist economists exiled themselves. Although they avoided repression, those on the

made room for an even more interventionist paradigm. During the 1940s and 1950s, the state's role as investor came in the "hard" form represented by Spanish-style import substitution industrialization (ISI). Popularly associated with "autarky,"²⁴¹ the ideas that stood behind this model came to underlie the economic institutions of the Franco regime until the foreign currency crisis of the late 1950s. The central pillars of this paradigm were the primacy of the public sector in the drive for industrialization, continued protectionism, and deficit spending as a means to finance industrialization (Love 2004; Perez 1998; Velarde 2001: 353-354; Gonzales 1977). Following the ideas of Romanian corporatist economist Mihail Manoilescu, the new regime endorsed the "industrialization for its own sake" paradigm as the only means to overcome the "agrarian fatalism" that had slowed the Spanish economy down (Love 2000). In the Spanish context this was translated to include select ideas of Nazi macroeconomic theory.²⁴² Thus, Franquist economists like Higinio Paris grafted these Nazi macroeconomic ideas

political right of the group who had passably conservative credentials became gradually institutionalized in the economics departments and research institutes of the new regime and had to work in research positions subordinate to the control of economists representing the two factions of the new regime's economists: developmentalists and liberals. The unreformed proponents of neohistoricism survived only on the margins of academic and policy circles during Franco's Spain, often benefitting from the patronage of self-interested Catalan protectionist business. The academic tip of residual neohistoricist ideas was Pedro Gual Villabi, a professor of economic policy at the School of High Mercantile Studies in Barcelona and an influential name in postwar Spanish political life (Velarde 2001: 354).

²⁴¹ "Autarky" basically ceased to exist after 1945, when "industrialization" became the new developmental mode (Love 2000: 104). The policy was adopted at the end of the civil war and was anchored in the *Falange* and in certain sectors of the authoritarian Catholic group CEDA (*Confederacion Espanola de Derechas Autonomas*) (Payne 1988).

²⁴² This tradition was upheld by a broad spectrum of pre-Civil War advocates, who spanned the neohistoricist academic consensus codified by Flores de Lemus and the military developmentalism of interwar dictator Primo de Rivera (Almenar Palau 2001: 432; Velarde 2001: 353). When filtered through the disciplinary lenses of the engineers' profession, then the most influential professional group in economic policy (Velarde 1973; Love 2000: 104), this meant the pursuance of an engineering optimum, rather than an economic optimum and a dismissal of opportunity costs. Since the rejection of class struggle was a constitutive norm of the Franquist coalition (Gunther 1980), Spanish "hydraulic" Keynesianism was also hybridized with a preference for the conservative tax policy ideas, legitimizing a regressive tax system and a weak fiscal base.

about investment and wages onto both Italian centralized industrial development and Spanish “military developmentalism” of the de Rivera dictatorship. The resulting hybrid would be large public works financed by deficit, in coordination between the state and private corporations, with the exclusion of organized independent labor.

While this “hard” version of ISI lost traction after the 1956 crisis, the dissertation of the strategic role of the state as an industrial investor was recycled by the indicative planners who came to play a leading role in policy during the “developmentalist decade” of the 1960s. At this point, ideas about state-led industrialization took a more liberal turn as a result of the ascendancy of Keynesianism in Spanish academic departments.

Indicative Planning, Spanish-Style

Spanish indicative planning emerged from the work of a group of scholars close to Franco’s inner circle.²⁴³ The most prominent Spanish indicative planner was Laureano Lopez Rodo, an *Opus Dei* technocrat, professor of administrative law and protégé of admiral Carrero Blanco, Franco’s right-hand man (Anderson 1970: 103-118; Gunther 1980). Between 1962 and 1973, as head of the Spanish Planning Commission (*Comisaria del Plan de Desarrollo*), Rodo and his team of technocrats crafted and managed Spain’s French-inspired “development plans.”

²⁴³ Rodo’s main works on economic policy included *Administración Pública y las transformaciones socio-económicas*, Madrid, 1963 and *Política y Desarrollo*, Madrid, Aguilar, 1970. See also his *Memorias. El principio del fin*, Plaza & Janés/Cambio 16, Barcelona, 1992. Among the advocates of this approach in academic economics were Fabian Estape, Agostin Cotorruelo and Javier Irastorza (Fernandez Diaz 1983: 818).

In the more interventionist spin put on the Keynesian intellectual legacy by French planners,²⁴⁴ they saw a way to salvage the state-led development project from the attacks of Spanish liberals and neoclassical synthesizers.²⁴⁵ Instead, the then dominant conservative reading of neo-Keynesianism was frontally attacked by a team of economists and administrative law professors who, though marginalized by the Spanish economics elite, had a great deal of political backing.

This team translated French ideas about indicative planning for Spanish consumption and gave Spain a replica of French development plans for about a decade (Perez 1997: 73; Tamames 1989).²⁴⁶ The main problems of indicative planning as a heterodox reading of Keynesianism were that it had a faint footprint from Spain's leading economic departments and research institutes and its support in the state depended on patronage. Once its patron, admiral Carrero Blanco, was assassinated in 1974 by ETA hit men, indicative planning disappeared almost instantly as a coherent school of thought. Yet, some of the planners' ideas survived the demise of Keynesianism and were subsequently used to establish the neoliberal project itself.²⁴⁷

²⁴⁴ On French indicative planning see Loriaux and Cerny 1989; Loriaux 1991; Hall 1986,²⁴⁴

²⁴⁵ In most of the developing world, similar attempts to challenge the neoclassical syndissertation with a heavier dose of Keynesianism led to development economics (Hirschman 1984: 17-24). Yet despite some initial overtures in this direction in mainstream economics reviews like *Revista de Economia Politica* and *De Economia*, this did not lead to a robust Spanish tradition of development economics (Almenar 2001: 496).

²⁴⁶ While this contestation of the neoclassical syndissertation facilitated a shift in policy after 1962 towards planned development and industrial policy, the intellectual supremacy of conservative neo-Keynesians in academia remained intact, because the more interventionist policy implications of Keynesian ideas were made largely by civil servants in the economic policy bureaucracy and by a handful of administrative law professors.

²⁴⁷ The policy influence of the planners was greater than that of any other school of thought during the 1960s, and their grip on policy institutions between 1964 and 1974 coincided with a growth rate of around 6% a year. Neoclassical synthesizers like E.F. Quintana pointed out that the development plans slowed down growth by showing that the growth rate between 1959 and 1964 was greater than during the period of development plans (1964-1975) (Quintana 1993: 28-29).

The Spanish indicative plan was market-friendly, promoting increased competition among firms and raised external competitiveness of Spain's industry, a feat to be achieved by providing the coordinated information necessary to better guide the choices of firms in a mixed economy. This technocratic ideology was subordinated to a wider economic nationalist one, in which the stigma of economic backwardness legitimized an enduring emphasis on economic modernization through the state's rationalization of market relations. Also, like the neoclassical synthesizers, Spanish planners were "pro-business" and saw the state as facilitator of a more competitive private sector. Moreover, both saw industrialization as the only means to break Spain's underdevelopment. Yet the ideas with which the indicative planning school diagnosed the economic crisis of Spanish ISI drew precisely on those insights of Keynes' *General Theory* that had been challenged by the advocates of the Spanish neoclassical syndissertation. The planners had little consideration for monetary policy,²⁴⁸ or for the endorsed discretionary state-directed credit allocation as the prerequisite for a "take-off" in

²⁴⁸ At the Barcelona International Economic Week, Rodo rejected the argument that indicative planning generates inflation. *A.B.C.*, September 14, 1971. As argued by Sophia Perez (1998), the planners adopted the strong orthodox Keynesian dissertation that monetary policy may not affect the endurance of liquidity traps (i.e. the internal demand for money is horizontal, so that further injections of money into the economy will not lower interest rates) (Spitzer 1976; Krugman et al 1998; Krugman 2000). This ran counter to the Spanish neoclassical synthesizers' qualification of Keynesian economics with the so-called Pigou effect dissertation which claimed positive effects for monetary policy in an economy caught in the liquidity trap. To this end, the planners attacked the ideas of neoclassical synthesizers by showing that their orthodox 1959 Stabilization Plan led the economy into a liquidity trap responsible for severe disinvestment in the private sector (Anderson 1970: 103-117; Perez 1997: 68-73). Consequently, the planners advocated bold state stimulation of internal demand and showed only moderate concern for the inflationary costs of this strategy, a position Rodo defended even as the development plans were losing steam in France in the early 1970s.

comprehensive industrialization (Anderson 1970: 164-167; Gonzales 1980; Fernandez Diaz 1981; Perez 1997: 70-75).²⁴⁹

One of the ideas of Spanish indicative planning that survived the neoliberal revolution was that of “industrial champions.” Like their French counterparts, Spanish indicative planners struggled to embed liberalized trade principles in nationalist interventionist ideas, without lapsing either into the socializing and autarkic economic agenda of radical left projects, or into the low-inflation export-led growth strategy embraced by postwar Germany. The state was expected to facilitate export competitiveness by increasing the level of industrial specialization in the private sector and by focusing public assistance on a few firms of “international dimensions” (Perez 1997: 70-72; Cohen 1977; Hall 1986; Loriaux 1991).²⁵⁰ As the previous section shows, this was one of the ideas that, slimmed down and repackaged, tamed the anti-state implications of neoliberalism’s maxim that “the best industrial policy is no industrial policy.”

²⁴⁹ Easy industrial credit entailed more state intervention than the neoclassical syndissertation allowed for and came at the cost of inflation rates that hovered around twice the OECD average during the 1960s (Alesina 1987). But, the need for monetary stabilization was mitigated by the adoption of another French planning idea: selective credit would maximize productivity growth. As Sophia Perez pointed out, “the idea that monetary expansion could be used as a forcing mechanism on the rate of growth required that such monetary expansion be channeled into those types of productive investments that would maximize productivity growth over the medium term and minimize the damage of domestic inflation to the economy’s competitiveness” (Perez 1997: 72). In practice, the state would manage these credit flows by using a set of consistent numerical projections of the economic future without specific incentives for their fulfillment (as was the case in Soviet-style central planning). This idea was buttressed by the phenomenal growth rates of France after 1945 despite high inflation rates.

²⁵⁰ The emphasis on state assistance to large firms was based on the French planning idea that the absorption of technological and managerial progress linked to higher productivity could not be done in small and medium enterprises. This view ran counter to of American neo-classical theorists’ tendency to assert the superiority of small firms due to their supposed greater flexibility. In this causal narrative, the state was to serve as “crutch and prod in the transformation of industry away from an insular world in which small-scale production and intercompany connections slowed change toward an international market place in which a more modern industry composed of hierarchically-managed giant corporations could compete with its counterparts” (Zysman 1983: 168-69).

The Weak Case for Heterodoxy

Other left-leaning schools of thought had an even more limited impact in crafting a new mainstream in Spanish economics at the time of Keynesianism's demise. Latin American dependency theory began to influence a younger sector of "generation 1968" Spanish economists during the early 1970s (Love 2004: 125-130). In 1970, key structuralist materials had been published in *Informacion Comercial Espanola* (ICE), but the review editors did not find their insights applicable to the Spanish context. The editors also felt obliged to demolish the structuralist classic text on inflation²⁵¹ by "twinning" it with a monetarist one. Returning from Chile, one of the ICE contributors (Gabriel Guzman) formed a structuralist group influenced by the ideas of CEPAL. The group grew in the late 1970s following Raul Prebisch's visit in Madrid in 1975. Supported by veteran structuralist Juan Velarde Fuertes, Javier Brafia, Mikel Buesa, and Jose Molero were particularly active in travelling to dependency theory workshops in Britain and Latin America or in organizing workshops with Latin American *dependentistas* in Spain in 1978 and 1979. CEPAL also helped fund the proceeds of the 1979 workshop as well as an economics journal (*Pensamiento Iberoamericano*) that lasted until 1998. In several journal articles, book chapters and a monograph, the Spanish dependency group applied dependency theory ideas to the Spanish situation.

Yet, during the early 1980s these economists had just finished their PhDs, had few publications and therefore had little epistemic authority to deploy.

²⁵¹ Osvaldo Sunkel's classic article "La inflacion chilena."

Moreover, like their neo-Keynesian counterparts, Spanish *dependentistas* did not explore the more radical policy implications of Latin American structuralism and instead focused on its more technical aspects, such as technological dependence. And even so, the policy implications of their well-researched empirical work did not systematically challenge the emerging neoliberal consensus that the state had no major role to play in R&D (e.g. Donoso et al 1980; Molero 1982; 1983). By 1990, Latin American references disappear completely from their work on this topic and are replaced with neoclassical references (Buesa and Molero 1989; 1992). In this new epistemic mindset, during the 1990s, Molero and Buesa developed Spain's most internationally visible research on technology innovation in Spanish and multinational firms (Molero et al 1995; Molero and Buesa 1996; Molero 1998; Alvarez and Molero 2005). Therefore, the ascension of Molero and Buesa in solid posts at Complutense happened just as they were shedding their structuralism and embracing the neoclassical mainstream.

In sum, the epistemic and the political weakness of non-neoliberal ideas was manifest at the beginning of the 1980s. This left the economic policy field open to the translation of neoliberalism, an aspect I turn to next.

II. Translating Neoliberalism in Madrid

The Institutional Infrastructure of the Neoliberal Insurrection: the Rojo Network

“To understand the Spanish economy is to understand the Research Service of the Bank of Spain.”²⁵²

Almost a decade before the Spanish Socialists were devising their 1982 electoral program, monetarist ideas began to transform the field of elite economics in Spain. The main translators of the new paradigm were a group of technopols who were then straddling the worlds of academia and of the central bank. Although they were Spain’s most active participants in the Western economics profession, these men and women were not the “Chicago Boys” from the popular academic narrative on Latin America’s transition to neoliberalism. Instead, they came from the ranks of the former proponents of Spain’s own version of the neoclassical-Keynesian syndissertation. Based in the research division of the central bank and in Spain’s most prominent economics department (Complutense University), they used their academic and policy pulpits to adapt the new economic orthodoxy to the Spanish context.

During the late 1970s, the low level of institutional autonomy of the central bank was more than offset by the extraordinary epistemic authority the bank began to develop once its Research Service transformed itself into a

²⁵² Ernest Luch, “Banco de Espana”, *Cinco Dias*, November 7, 1990, p. 3.

revolving door between elite economic departments and the central bank. Indeed, during this period the Service became the site of encounter between the most cosmopolitan elements of Spanish academic and technocratic elite (Acena 2001).²⁵³ In less than a decade, this epistemic offensive made the central bank the ultimate professional authority on macroeconomic policy and the center of a network of technocrats and academic economists who would play a decisive role in the policy process during the PSOE years. As the central bank's historian put it, "no other European central bank had an institution that was simultaneously an academic powerhouse and a policy maker and in which researchers' findings would impact decision-making so directly" (Acena 2000; 2001).

The architects of this transition began in 1965 were Mariano Rubio, the vice-governor of the bank during the late 1960s and Luis Angel Rojo, the head of the Service, an LSE trained economist who had been involved in the drafting of the 1959 Stabilization Plan. Mariano Rubio astutely strategized that since the pay offered to central bank employees was much higher than in the university system and since the central bank only required a morning schedule from its economists, the Research Service was in the position to attract young economists with academic ambitions. In turn, after his appointment at the helm of the Service in 1971, Rojo devised a complementary strategy for the "padding" of the Service with foreign-trained economists. The strategies paid off and in a few years the Research Service became the country's most prominent applied research

²⁵³ The Service was then the source of the few Spanish international publications in economics. E.g. Antoni Espasa, J. D. Sargan, "The spectral estimation of simultaneous equation systems with lagged endogenous variables," *International Economic Review*, October 1977; A. Maravall, "On modeling unobserved components with time series," Washington D. C., Special Studies Paper, *Federal Reserve Board*, 92, 1977.

institution in economics whose role in drafting the central bank's yearly reports was fundamental and whose published output often rivaled that of the most prominent economics departments (Acena 2001).

During the Socialist governments, the men trained and connected to the Research Service and elite economics departments occupied the top economic policy posts in the state. Thus, after 1982 the appointments for the Hacienda and the Ministry of the Economy were made from the ranks of liberal economists trained by the Research Service and Rojo personally and who had spent their professional lives using the academia-Research Service revolving door. Rojo's men restructured the second-tier positions inside these ministries by appointing economists with similar curricula (Perez 1998:138). As a result, the identification between the new MEH cadre and the central bank "was so strong, that one can speak of a veritable colonization by that institution of the upper ranks of the economic policy bureaucracy" (Perez 1998: 138).

What the Socialists did, in effect, was to use appointments as a platform for locking the MEH and the central bank in the same "ecology" of technocratic elites. Both Miguel Boyer, the minister of finance and economy between 1982 and 1985, and his successor Carlos Solchaga (1985-1993), had graduated from the same economics department at Complutense University, studied with Rojo and had remained wedded to Rojo's economic views. Between 1969 and 1971 they both spent their formative postgraduate training in the Research Service then headed by Rojo. Solchaga in particular had been considered a Rojo protégé and wunderkind (Perez 1998: 138) and both Boyer and Solchaga had become close

friends with Mariano Rubio during the 1970s (Gutierrez 1992). In 1972-1974 Rojo appointed Solchaga as a representative of the central bank in the G20 (Muns 1986: 267). Between 1971 and 1974 Boyer and Solchaga received top positions in the research service of INI, which, despite being part of a public holding, was then trying to replicate the success of the central bank's research service at becoming the nation's first think tank. This meant a lot of collaboration between the two services.²⁵⁴ Research Service economists occupied other top positions in the government. For example, Luis Garcia de Blas took the Social Security portfolio despite not being a PSOE member (Almunia 2001: 150).

Boyer and Solchaga had also been heavily involved in the broader academic complex the Research Service had been an integral part of by taking up teaching positions at Complutense University, as protégées of Pedro Schwartz, Spain's most prestigious libertarian economist. Since their youth activism in a left-leaning student group (Asociacion Socialista Universitaria), Boyer and central bank chief Mariano Rubio had been close friends (Gutierrez 1998) and soon they also welcomed Carlos Solchaga as a friend.

During the 1970s, both Boyer and Solchaga had been regular contributors to *Espana Economica*, an elite economic review established and run mostly by Research Service economists who would come to play decisive policy roles under UCD and the Socialists and who "saw all things in the same way" (Schwartz

²⁵⁴ This happened because INI was then under the directorship of Claudio Boada, central bank advisor and a former CEO of one of Spain's largest banks (Banco Hispano-Americana). Boada attempted to make INI more risk-taking and competitive than private enterprises themselves (Schwartz and Gonzales 1978: 176-178). To this end, he established the INI's Research Service, an institution that under Boyer's directorship became so influential and reputed for the competence of its staff that it began to compete with the Research Service of the central bank (Gutierrez 1991: 197).

1998). In addition to the contributions of Schwartz, Boyer and Solchaga, *Espana Economica* benefited from the work of a veritable who's who of Spanish economic thinking, including central bank prominenti (Luis Angel Rojo, Mariano Rubio), "old guard" technocrat-professors (Enrique Fuentes Quintana, Jose Luis Sampedro), Spanish international civil servants (executive IMF director Carlos Bustelo), and future PSOE ministers (Ernest Lluch). Boyer's and Solchaga's tenure in the private sector in the late 1970s and early 80s did not alienate them from the "Rojo network." Solchaga became the top economist of the research service of Banco Urquijo, an institution known for its decade-long investment in the use of expert knowledge as a means to influence public policy and for its close contacts with Rojo's Research Service.

The Ideas of the Rojo Network

As the first part of the chapter suggested, when the Socialists won the 1982 elections, the institutionalization of selected monetarist, supply-side and rational expectations ideas in the policy orthodoxy of the central bank defined the spectrum of what was considered normatively appropriate in both academia and the state. At the same time, the influence of neoliberal economic ideas in the central bank and academia was not accepted wholesale by Spanish economists. Various ordoliberal and even neo-mercantilist ideas embedded neoliberalism into

mainstream Spanish economics by blunting some of the revolutionary implications it had elsewhere.²⁵⁵

It is perhaps slightly ironic that Luis Angel Rojo, Spain's most prominent representative of the neoclassical-Keynesian syndissertation during the 1960s, became the advocate of the neoliberal insurgency a decade later. Beginning in the late 1960s, Rojo and his collaborators at Complutense and the Research Service of the Bank of Spain (Jose Perez, Raimundo Ortega, Raimundo Poveda, Ana Sanchez) began to pay increasing attention to the then controversial monetarist arguments of Milton Friedman. Monetarism found a voice in Spain via Rojo's 1971 book *The New Monetarism*, a relatively sympathetic review of the work of Milton Friedman, Anna Schwartz, Karl Brunner, and Allan Meltzer. As early as 1973, acting on their acceptance of the monetarist dissertation that the money supply had a fundamental role in the economy, Rojo and his collaborators began to advocate aggregate monetary indicators as instrumental variables in a fiscal policy focused on a continuous control of liquidity. By contrast with most other capitalist countries, the Research Service of the Bank of Spain persuaded the central bank to respond to the first oil shock with a string of decisions meant to squeeze the money supply, in order to keep inflation under control and to further liberalize the financial system. As Rojo himself put it,

[t]he policies adopted by the central bank in the second half of the 1970s were unequivocally based in these ideas. The central bank defined price

²⁵⁵ For a detailed exposition of the revolutionary implications of monetarism in economics, the classic is Nicholas Kaldor's book *The Scourge of Monetarism* (1982).

and GDP growth targets that were to be achieved via the control of aggregate liquidity. The same institution determined the level of the variation in the monetary aggregate through an instrumental variable directly related to that aggregate. The adoption of the monetarist dissertation led to the rejection of alternative monetary policies such as interest rate management (Rojo 2001: 351).

If Rojo's *New Monetarism* did not go beyond selective appreciations of monetarist insights, with *Income, Prices and Balance of Payments* (1974), he begins to deploy monetarist arguments to attack the same Keynesian macroeconomics that he had been advocating throughout the 1960s (Acena 1999: 195). As the stagflation of the 1970s wore on, Rojo applied the final blows to the neo-Keynesian consensus in two studies published in 1976 and 1977 respectively (Rojo 1976; Rojo and Perez 1976).²⁵⁶ In these volumes, Rojo and his Research Service collaborator Jose Perez undertook a very critical review of three decades of neo-Keynesian ideas and economic policies, which he and his collaborators in the Research Service and the finance department at Complutense had defended since the mid 1960s. Although Rojo and his "network" resisted being labeled as "monetarists", the central dissertation defended in their contributions from the late 1970s was an unequivocal reproduction of the classical "quantity of money"

²⁵⁶ Economic historians see these two studies as turning points towards neoliberal ideas in Spain. The first study was a book published by elite press Alianza Editorial (*Inflacion y crisis en la economia mundial*, Alianza Editorial, 1976). The second study was an article published by the central bank and co-authored with Research Service chief economist Jose Perez ("La politica monetaria en Espana: Objetivos y instrumentos", *Estudios economicos*, Banco de Espana, 1977).

dissertation, which finds a monetary perturbation behind each bout of inflation (Acena 2001: 536; Schwartz 2001: 509):

[...] the authors of this study use ample empirical evidence (including Spanish data) to argue that a rapid pace of growth of the money is a necessary and sufficient condition for generating rapid inflationary processes in the long term; we also argue that a strong acceleration of the growth of the money supply has an expansionary effect in the short term and that [...] although this expansion will have a real effect on production and employment, this effect will be smaller [than expected-a.n.] and will tend to fade out in inflation as rapidly as the growth of the use of productive resources and of the inflationary expectations in the initial conditions of the economy. We also submit that in a country seeing high inflation levels, the reduction of the pace of growth of the money supply is a necessary, although not a sufficient condition for the moderating the inflationary process over time. (Rojo and Perez 1977, cited in Acena 2001: 536; my translation).

Such ideas were repeated in a 1978 article co-authored with another Research Service young economist (Gonzalo Gil) (Rojo and Gil 1979) and, increasingly during the early 1980s, in a series of articles published mostly in the flagship *Papeles de Economía Española* (Rojo 1980; 1981; 1982a, 1982b, 1983; 1984a; 1984b; 1985).

Overall, the academic scholarship and policy ideas put forth by Rojo and his collaborators in the central bank called for the depoliticization of economic policy. They assumed that government activism, particularly the use of demand-side macroeconomic policies, is bound to generate perverse effects. Intolerance for budget deficits in the short term became another mantra of Spanish economics during the 1980s. As opposed to the Keynesian argument that budget deficits have a cyclical component and were just a symptom of insufficient investment and an after-effect of recessions,²⁵⁷ deficit-slashing was framed with the monetarist argument that high fiscal deficits generate inflation and balance of payment problems. Like Friedman, Sargeant and Lucas, Rojo and his colleagues insisted that neither economic growth nor the reduction of unemployment could be addressed by monetary or fiscal policies targeted at aggregate demand. Rehashing the arguments of the same scholars, Rojo argued that labor regulations introduced prejudicial supply rigidities had to be removed. He also embraced the validity of the rational expectations hypodissertation advanced by new classical economics, correlatively rejecting Keynesian arguments about inertia in the formation of expectations of the future (Rojo 1994; 2001: 567).²⁵⁸

An analysis of the economic ideas underlying the policy position of the Spanish central bank demonstrates that Rojo's theories did not merely have an

²⁵⁷ However, Keynes emphasized the importance of balanced budgets in the long term (Brown-Collier and Collier 1995).

²⁵⁸ In 1984, in what was a succinct translation of the "policy irrelevance proposition" advanced by the same American neoliberal economists, Luis Angel Rojo argued the following: "[a] drive to advocate continuing public regulations and interventions with a view to correcting market failure and stabilize the economy underestimates the costs of those interventions as well as the limits and risks of stabilizing measures. This, in turn, tends to slow down economic development with strong sources of instability and multiple interventions that escape the criteria of efficiency and fairness as well as with growing degrees of actual insensitivity to discretionary stabilizing policies" (Rojo 1984).

academic impact (Irastorza 1986). The analysis shows that much of the credo of monetarism was accepted by Rojo: the understanding of inflation as a monetary phenomenon, the necessity to control a monetary aggregate rather than a rate of interest as an intermediate objective, the necessity of the practice to fix, announce and meet monetary targets periodically, and the centrality of a stable monetary supply and demand.

In the years to come, the bank would use these reports not only to challenge the Finance Ministry by *de facto* designing macroeconomic policy, but also to change the perception of what was economically appropriate. The fulcrum of this ideational offensive was to sell macroeconomic stability as a “public good, as something valuable in itself, and as the most important objective of a central bank” (Acena 2001: 542). This led to an almost single-minded focus on inflation as the root of Spain’s economic woes, a preoccupation that the Service conveyed not only to the executive council of the Bank of Spain, but also to economic ministries and to the Treasury (Acena 2001: 549; Solchaga 1996).

The neoliberal revolution initiated by the Rojo group was strengthened during the 1980s by a new wave of Western-trained graduates, who were swiftly incorporated into Spanish academia and economic policy institutions upon their return. Exemplary in this regard is the case of two students of Rojo: the Oxford-educated Juan J. Delgado, who became Rojo’s successor at the helm of Research Service, and LSE-trained Rafel Repullo, who was the head of CEMFI, the think tank of the Research Service.²⁵⁹ Moreover, as the next chapter shows, the two

²⁵⁹ Juan J. Delgado (1984) “Neutralidad Monetaria y Expectativas Racionales: Alguna evidencia para el caso espanol, *Revista Espanola de Economia*, 1, pp. 77-98; “Do We Reject Rational

most important economists of the PSOE governments (Miguel Boyer and Carlos Solchaga) also acted as loyal members of the Rojo network.

Neoliberal ideas began to make headway outside macroeconomics as well. In the field of labor economics, for example, the ministry of finance as well as the ministry of labor funded studies that expressed a solid endorsement of supply-side theses of the causes of unemployment. Beginning in the early 1980s, prominent Spanish labor economists like Luis Teoharia and Lluís Fina began to diagnose the growth of unemployment in Spain by deploying what would subsequently become the standard neoliberal diagnostic narrative: employment protection legislation (hire-and-fire rules, unionization, central bargaining), the crowding-out effects of public spending, demographic factors and changes of relative prices generated by new processes of staff management (Teoharia 1983; Teoharia and Fina 1987; 1991).²⁶⁰

The research of these economists directly affected government policy; some economists worked for the government (Lluís Fina was a key expert of the Ministry of Labor between 1983 and 1985) and some of this research was commissioned by the ministry of finance.²⁶¹ During the 1980s, a new generation of economists trained in British universities added epistemic weight to these arguments by formalizing them.²⁶² The Ministry of Labor endorsed studies

Expectations Models Too Often? Interpreting Evidence Using Nagar Expansions" *Economics Letters* (1987) vol. 24, pp 27-32 (with A. Banerjee).

²⁶⁰ For an exemplary overview of the Spanish scholarship on the causes of unemployment and on employment protection legislation see Jimeno and Toharia (1994).

²⁶¹ Examples include Teoharia et al (1988), a volume published in 1988 by the MEH (Ministerio de Economía y Hacienda).

²⁶² See Delgado (1986), Delgado et al (1986); Banco de España (1986).

making these arguments²⁶³ and, suggestively, the ideology of labor market deregulation became so mainstream in the PSOE that an edited volume containing these ideas and based on a seminary organized by PSOE's Pablo Iglesias Foundation was published in 1988 with the party's endorsement (Garrido 1988). In the same year, a committee of experts chaired by Constantino Lluch, a prominent PSOE intellectual and labor economics expert,²⁶⁴ largely replicated the same ideas in a report commissioned by one of the chambers of the Spanish Parliament (Lluch 1988).²⁶⁵ These arguments were formalized during the 1990s by a new generation of neoliberal economists and technocrats.²⁶⁶

The Interventionist Editing of the Neoliberal Revolution

In macroeconomic policy, the applicability of monetarism was restricted. Spanish neoliberals did not restate some of its key theses, such as the stability of the money demand, the exogenous character of the money supply, the intrinsic stability of the private sector and the intrinsic instability of the public one (Acena 2001: 537). Well into the 1990s, Luis Angel Rojo, the intellectual leader of the nascent Spanish neoliberal school in macroeconomics, remained openly skeptical of the new classical argument that firms are not limited by aggregate demand and

²⁶³ In 1986 the Ministry of Labor published the landmark study of Spanish labor economist Jose Toharia (1986). See also Toharia (1988; 1989).

²⁶⁴ Constantino Lluch was a PSOE MP and Spain's leading economic historian. A professor at Essex and Louvain, Lluch had also worked as the chief of the World Bank's Labor Market Research Department.

²⁶⁵ It is important to point out that the committee of experts was composed of economists teaching at Spanish, American and British Universities and that the Research Service of the central bank was unusually underrepresented through an economists who was only secretary of the committee.

²⁶⁶ See Bentolila and Dolado(1994), Dolado and Lopez-Salido (1996) and Dolado and Jimeno(1997).

that workers are always willing to work at the going wage or at an inferior one (Rojo 1994: 2001: 568).

Moreover, Rojo and his teams of researchers and policymakers tried to demonstrate the possibility of a syndissertation between the ideas of the neoclassical-Keynesian syndissertation, Friedman's monetarism and rational expectations (Rojo 1982: 56-69). The same positions were articulated not only by the prominent research economists from the Research Service (Raimundo Poveda, Raimundo Ortega, Jose Maria Bolilla, Gonzalo Gil, Rafael Alvarez, Jose Perez, Malo de Molina)(Martin Acena 2001), but also by top PSOE policymakers, like Carlos Solchaga, the minister of finance (1985-1993) (Solchaga 1997).

Similarly, supply-side ideas did not unseat Keynesian tax economics. Beginning with the early 1970s, the group of economists working with "sound finance" guru Enrique Fuentes Quintana at Complutense and the Ministry of Finance, began to advocate fiscal policy ideas that were based in the ideational consensus of the "embedded liberalism" of the time (Sanchez Lissen 1997; Lagares Calvo 2001). The result of this extensive research endeavor was the publication of a detailed reform proposal by the finance ministry in 1973, which subsequently became the blueprint for the progressive tax reforms adopted by UCD and PSOE governments.

The Quintana report diagnosed the fiscal crisis of the Spanish state in its low and regressive taxes and suggested the adoption of taxation principles then mainstream in European democracies (Velarde Fuertes 1994; Fuentes Quintana 1990; Instituto 1973). Thus, the expansion of the fiscal base, the principle of

income redistribution through taxation, and the enlistment of tax incentives for industrial policy became touchstones of the fiscal philosophy of this group of scholars and technocrats.

The causal argument of the draft was explicitly interventionist and even slightly “structuralist” in nature: without an increase in fiscal revenues that could be used to finance growth in competitive economic sectors, the Spanish economy was bound to languish in its semi-peripheral status. In what sounded like an East Asian version of export-led industrialization, the authors of the report argued that, since market mechanisms alone were unable to deliver a robust catch-up economic performance, the state had to step in to invest in public infrastructures and services and to subsidize competitive firms that would take Spain into the First World. For this to happen, Spain needed more, rather than less, governmental control in its fiscal policy.²⁶⁷

Ordoliberal ideas about the imperative of building a social market economy to generate social peace and support for capitalism, were also an important veto point to the wholesale diffusion of supply-side welfare retrenchment narratives. Using these ideas, the Quintana report criticized the regressive nature of the extant tax system, claiming it punished the poor and undermined the provision of basic welfare. To address these challenges, the writers of the report endorsed a steep progressive income tax, taxes on luxury, tax

²⁶⁷ These fiscal policy ideas resonated well with the “pragmatic monetarism” of the neoliberals in the central bank, for whom the control of the deficit was as important as the control of inflation (Rojo 2001: 352). Progressive taxation provided monetarists with an exit from the constraints of political democratization. As Rojo himself acknowledged three decades later, the control of inflation and of the deficit pioneered by the central bank in the aftermath of the 1973 oil shock, could not have been continued after the death of Franco given the political weight of popular pressure for higher salaries and a more inclusive social citizenship (Rojo 2001: 351-352).

breaks for employment creation, the stripping of banking privacy, the criminalization of tax evasion and the strengthening of tax-collection.

Subsequently, methodological advances such as the Gini coefficient were pioneered in Spain by some of the authors of the report, in order to uphold the case of labor reform.²⁶⁸ The report was subsequently used as a template for the fiscal policy reforms of the Moncloa Pacts of 1977 (Lagares 2001: 596-597). The same economists who played a major role in the writing of the 1973 Quintana report formed the teams of experts hired by the Spanish government during the 1980s and 1990s to operate generally progressive modifications to the 1978 tax statutes. The ideas of the report can be traced down not only in PSOE political programs during the 1980s, but also in the writings of the neoliberal ministers of the Gonzales governments. In the 1990s, after having served for almost a decade as the effigy of neoliberalism, PSOE finance minister Carlos Solchaga systematically criticized supply-side ideas about reducing the “tax burden” (Solchaga 1997).

In labor policy, in contrast with the hardline supply-side position, the Lluch report also called for the strengthening of the vocational and continuing education system (Lluch 1988: 5). Other central players in policy like Luis Angel Rojo (2001) and Miguel Boyer (2001) acknowledged that other structural factors like the oil shocks, the slowdown of migratory outflows and the incorporation of women into the labor force mattered, yet they emphasized that these factors merely amplified the central cause of unemployment: the increasing cost of labor

²⁶⁸ The Gini coefficient was first used in Spain by Manuel Lagares, the main collaborator of Fuentes Quintana. Lagares was a professor of economics and a general secretary of the research service of the ministry of finance (Instituto de Estudios Fiscales) (Lagares 2001: 580-581).

via wage increases and employment protection legislation at a time when higher energy costs demanded wage control.

Finally, the enduring prestige of ordoliberalism among Spanish economists and the surprising survival of select ideas associated with indicative planning were significant for the ways in which PSOE governments puzzled over trade policy. The embrace of neoliberalism in Spanish trade relations by the PSOE governments had been part of PSOE's "return to Europe" narrative and was therefore extremely powerful for a party that saw the climax of Spain's democratic and economic development in European integration (Maravall 1991; Maravall et al 1999; Holman 1996). At the same time, it did not lead to an ideological offensive against all forms of interventions in trade (Jordan and Fuertes 2007). On the contrary, the reproduction of the narrative of "neo-liberal globalism," in which the global market is considered the ultimate unit of reference for economic activity and the main objective of economic policies (Chorev 2005), led Spanish neoliberals to the conclusion that fostering national competitiveness in the global marketplace necessitates the liquidation of weak state enterprises and the transformation of strong ones into industrial champions.

To achieve this objective, they used ideas that blended the old ordoliberal argument for market-making government policy with the indicative planning argument for market-making state-capital coordination mechanisms. In the Spanish context this meant state support for high achievers (Etchemendy 2004), incentives for industrial diversification and brakes on mergers and acquisitions in order to prevent the emergence of industrial oligopolies (Arocena and Huertas

2002; Valdivielso del Real 2009). Also, rather than shield domestic firms against foreign competitors for the sake of protecting their domestic market niche, Spanish policymakers saw industrial policy ideas as a means to external expansion (Toral 2008; Molina and Rhodes 2007). In this way, Spanish “neoliberals” quietly negotiated the terms of the global transition in a more interventionist direction, from “trade liberalization”, in which governments intervened to compensate those who lost out as a result of free trade, to “trade-neoliberalization,” in which such compensation was theoretically deemed a deleterious market distortion (Chorev 2005: 320).

In conclusion, the Spanish translators of neoliberalism acted as *bricoleurs* who did not merely imitate new economic ideas, but also altered them in surprising ways. To do this, they drew on preexisting intellectual legacies that pointed in a more interventionist direction.

Conclusions

This chapter makes several claims about how neoliberal ideas were adopted in Spain and about how they shaped the course of economic transformations in Spain during the 1970s and early 1990s. Thus, it turned out that resonance mattered a great deal in facilitating the shift from developmentalism and neo-Keynesianism to neoliberalism. Since the 1930s, a network of Spanish economists with political standing developed a robust neoclassical tradition that paradoxically received a boost from Franco’s takeover of power. Moreover, the subsequent institutionalization of Franquism further consolidated the influence of this group

of economists in Spain's academic-bureaucratic complex. Most importantly, the German-Spanish cooperation during Nazism brought to Spain an international celebrity of the neoclassical school (the ordoliberal von Stackelberg) and enabled him to exert an inordinate degree of influence over the future course of postwar Spanish economics as taught in academia and as put in practice by state institutions.

As a result of these developments, Spain and West Germany were the only two states in Western Europe where the ordoliberal take on neoclassical economics had a strong base. The ordoliberal reading of the neoclassical framework had two long-term effects: the neoclassical tradition was saved from a libertarian reading and it took Spanish neo-Keynesianism so far to the right that the transition to neoliberalism during the 1970s and the early 1980s took place without the considerable contention seen in the West. As a result of these developments that took place decades before the Socialists came to power, it was not surprising that the economists who ruled inside this center-left party found the West German model the most compelling.

But as expected, by itself resonance could not explain why mainstream Spanish neoliberalism looked the way it did. The chapter therefore investigated how domestic processes of translation caused inherited economic ideas to constrain the possibilities for innovation. At first glance, Spanish economists embraced neoliberalism and their grip on the government led to the adoption of core monetarist, supply-side and rational expectations theses on macroeconomic and labor policy. With their help neoliberal ideas were disembedded from their

original Anglo-American context and formalized in order to seem universal and thus travel more easily. But upon closer inspection, it became apparent that this was neither “textbook” neoclassical economics, nor Chicago School market fundamentalism.

As predicted, the translators did not simply “cut-and-paste” new economic ideas developed in foreign “labs.” Instead, the result was a domestic variety of embedded neoliberalism that recycled some of the ideas of ordoliberalism but also of developmentalism. In this way the Spanish translators of neoliberalism acted as *bricoleurs* who did not merely imitate new economic ideas, but also altered them in surprising ways. First, Spanish neoliberals did not see the state just as a guarantor of competition. They also saw it as an investor with the long-haul perspective that private companies did not have. As a result, Spain’s neoliberal adjustment under the Socialists had very distinctive statist and economic nationalist flavor. Second, Keynesian tax policy survived and did not give way to world supply-side offensive. As a result, the expansion of state revenues, the principle of income redistribution through taxation, and the enlistment of tax incentives for industrial policy became touchstones of the fiscal philosophy of this group of scholars and technocrats. Third, the same people who supported a rigidly orthodox macroeconomic and supply-side labor policy argued that since market mechanisms alone were unable to deliver a robust catch-up economic performance, the state had to step in to invest in public infrastructures and services and to subsidize competitive firms that would take Spain into the First World. In this way, the reproduction of the narrative of “neo-liberal globalism,” in

which the global market is considered the ultimate unit of reference for economic activity and the main objective of economic policies went hand in hand with a “below the radar” industrial policy seen as a means for expansion on foreign markets in Latin America and beyond. Finally, “social-democratic”-sounding ordoliberal ideas about the imperative of building a social market economy to generate social peace and support for capitalism were marshaled against supply-side welfare retrenchment ideas.

Since constructivism rests on the assumption that things could have been different, I also sought to explain why alternative economic ideas were marginalized in the Spanish economic debate. The heterodox structuralist challenge influenced by Latin American dependency theory had little impact because its proponents were not yet professionally consolidated at the moment when Franco’s developmentalism was dying. Moreover, their research spoke to very narrowly-defined topics and at no point did these economists manage to penetrate the academic-bureaucratic complex. By contrast, the proponents of Spanish indicative planning were more successful and managed to build their own bureaucratic structure inside the Francoist state. Yet their academic footprint was shallow and they depended entirely on political patronage. When their patron was assassinated, indicative planning vanished from the economic field, although its idea that industrial champions “fed” by the state increase the country’s external economic competitiveness was subsequently appropriated by the neoliberals.

In the theory chapter I expected that these battles to redraw the boundaries of what was “economically appropriate” for Spain at a critical juncture of the

paradigm shift towards neoliberalism were not strictly endogenous to the Spanish domestic context. The translation of new economic ideas in semi-peripheral states entails a considerable degree of external intervention. In other words, translation is embedded in processes of transnational governance whose workings may decide the outcome of domestic economic debates in favor of certain economic ideas. It is to these transformative transnational processes I turn in the next chapter.

Chapter VI - Ideas, Agents, and Conduits: Translation and Diffusion of Neoliberal Ideas in the Spanish Context

Overview

Through what conduits were Western economic ideas translated in Spain? In order to answer this question, my analysis will examine the evidence for the hypothesis that in addition to IOs and Anglo-American-trained economists, the transmission of neoliberalism would be facilitated by transnational party networks but less so by think-tanks. The chapter also explores the ways in which each of these actors participated in translation. More specifically, I examine what kind of foreign training in economics had a real impact, through what mechanisms did IOs, internationalized think-tanks and transnational party networks intervene in domestic economic debate. The chapter's sections are organized around each one of these conduits.

Western Graduate Education

“Spain is the problem, Europe is the solution.” (y Gasset 1963: 521)

The intellectual roots of Spanish embedded neoliberalism are deeply anchored in liberal strands of German and British economic thought imported by academic economists. In pointing this out this section adds a geographical nuance to the findings of previous studies on the diffusion of neoliberal ideas, which emphasize foreign graduate education in economics as the strongest socialization mechanism in the acquisition of neoliberal ideas but usually focus on Anglo-American training (Silva 1991; 2009; Valdes 1995; Montecinos 1997; Babb 2001; Dezalay and Garth 2002; Fourcade 2006; Kogut and MacPherson 2004; 2008). Those ideas constituted the interpretive lens through which influential Spanish economists diagnosed the economic problems of their home countries, proposing new policy solutions after they returned home.²⁶⁹

But since not all foreign-trained economists affect the policy process, I build on Jeffrey Chwioroth’s (2007) parsimonious argument that economists are most influential when they are part of a coherent policy team, especially if they control the central bank and the ministry of finance. Based on this observation, I

²⁶⁹ It was argued that not only do US universities lend domestic economists prestigious credentials and access to expensive information. As studies of training in economics evidence (Colander and Klamer 1987; Colander 2005; 2009), they also restructure their professional identities through apprenticeship, a claim backed with extensive evidence drawn from social network sociology showing that one of the main effects of participation in such social networks is the increase in the likelihood of reproducing network ideas (White 1992: 67; see also DiMaggio and Powell 1991; Carley 1999; White 2002; Breiger 2000). In sum, new economic ideas travel through networks of economists tied together by shared graduate education experiences.

assume that proximity to the nervous centers of policymaking is a good measure of an economist's importance. But, finding that Spain had a bureaucratic-academic revolving door, I hypothesized that academic economists who also served as technocrats would be the most significant players, given their capacity to mobilize greater support for new policy ideas through the exercise of expertise relative to their non-academic peers.

The examination of the evidence available in the case of Spain suggests that the strong and relatively precocious case for neoliberalism in Spanish economics during the early 1980s had deep historical roots. First, Spain had a rich neoclassical tradition produced by a pre-civil war generation with foreign graduate degrees as well as by a strong microeconomics foundation consolidated by a generation of economists mentored during the 1940s by German ordoliberal Friedrich von Stackelberg. Second, the hypothesized importance of the "American epistemic center" became important only after the 1970s, with British universities, particularly the group of neoclassical economists at LSE, exerting the greatest influence over the formation of elite Spanish economists until then. Also, beginning with the same decade, Spanish economists benefited from the organization in Spain of important economics conventions and from the direct intervention of world economics celebrities in the domestic debate of ideas.

The Temporary Marginality of the Neoclassicals

As suggested in the previous chapter, 1980s Spanish neoliberalism was not imported in whole as a completely new American artifact. Instead, its neoclassical

basis in both micro- and macroeconomics had deep historical roots that made local translation of neoliberalism easier; an insight impossible to unearth through an ahistorical approach. These historical roots were not predictable, either, as economic liberalism had been an orphan of Spanish economics during the *belle époque* of the gold standard (1874-1914). Spanish economic historian Salvador Almenar found nothing less than “the virtual absence of any influence of marginalist (or neoclassical) economics” during this period (Almenar and Lembert: 2001, 121; Almenar 2000).

However, beginning with the 1930s things began to change, and the Spanish neoclassical tradition was revived as the result of state-sponsored economics degrees from Western Europe. As a result of this transnationalization, Spanish economists, who had a lasting influence on their profession during the postwar decades, had either studied abroad or engaged in various forms of regular professional contact with foreign peers.

This situation was facilitated by their institutional prominence in a profession purged by their neo-historical adversaries during Franco’s early years. Also, as celebrity economics professors and journal editors, these foreign-trained economists shaped the intellectual identity of the generation of Spanish economists who pursued their advanced degrees in economics in the 1950s and 60s and who came to play leading roles during the Socialist years (Almenar 2001; Quintana 2001).

The Franco regime offered pre-civil war economic liberals generous career opportunities in academia and the state.²⁷⁰ This enabled them to wage a “double front” war against Keynesian and heterodox ideas in academia and against the ISI paradigm initially upheld by the Franquist state (Quintana 2001). Lucas Beltran, the towering figure of postwar Spanish economic liberalism, studied with Hayek at LSE in the 1930s and then returned to Spain to teach economics, popularize the latest neoclassical fashion and edit the flagship review *Moneda y credito*.²⁷¹

Another British-educated economist, Luis Olariaga, edited *Economia Espanola*, a review dedicated to debunking Keynes, the New Deal and other interventionist ideas, while advocating the cause of the limited liberal state (Zabalza 2010). Jose Maria Zumalacaregui, the founder of Spain’s first economics department in 1943 and a strong advocate of marginalism, had studied with Pareto at Lausanne during the 1920s. During the 1940s, he developed a friendship with German liberal economist Friedrich von Stackelberg. Finally, Joan Sarda, the chief architect of the 1959 Stabilization Plan and the head of the Research Service of the central bank for most of the 1960s, had studied economics before the civil war at LSE, where he was drawn to T.E. Gregory’s militant anti-Keynesianism. During his studies in Munich, he became receptive to the influence of Carl

²⁷⁰ FPSE was from the very beginning put under the control of foreign-trained liberal economists (Manuel de Torres, Jose Maria Zomalacaregui) who faced no competition from the erstwhile hegemonic neohistorical school, now decimated by “collaboration” with the Republic.

²⁷¹ For decades, this review was a safe outlet for advocates of liberal economics and one of the earliest Spanish sites of monetarism and rational expectations (Almenar 1983: 103-109). Beltran was also instrumental in writing the first massive introductions to Ropke (1949) and Hayek (1951).

Manger, the founder of the Austrian School, and his disciple, Böhm Bawerk.²⁷²

Sarda's international career during the 40s and 50s further consolidated his professional cosmopolitanism and offered his Spanish colleagues access to the latest debates in the field at a time of international isolation for Spain (Estate 2001).²⁷³

Although the first two decades of Franquism reduced funded opportunities for study abroad (largely as a result of financial constraints), the regime imposed no limits on freedom of movement. Spanish scholars could thus study abroad with their own funds. Jose Vergara Doncel, for example, a prominent professor at Complutense, studied at the University of Chicago in 1946 and became instrumental in popularizing Chicago School economics in his teaching and advising at Alianza Editorial, a large publishing house.²⁷⁴

²⁷² In the words of Fabian Estape, in this academic-technocratic network (Estate unpublished), Sarda had "the maximum scientific authorship" over the design of the 1959 Stabilization Plan.

²⁷³ In 1948 and 1949, Spain's World Economy Institute organized research trips to Kiel, Geneva and Brussels to study the policy implications of European economic liberalization, an endeavour that resulted in a nine volume report published between 1951 and 1961 (Lissen, unpublished manuscript: 16). Joan Sarda had been on these delegations and returned home with an ordoliberal-keynesian syndissertation that he put together in a classic 1950 economics textbook in which the Keynesian objective of full employment in a mixed economy is simultaneously strengthened with ordoliberal arguments about the state's role in the *social* aspects of the market economy as well as limited by the ordoliberal principle that full employment and socio-economic rights should not be pursued at the cost of monetary inflation (Sarda 1950: 223; 231-232; in Lissen 18; Martinez Vela 2000). As an economist working for the Venezuelan central bank (1949-1956), he developed close contacts with Latin American economists working for the IMF and the World Bank. This enabled him to supply his collaborators in Spain with up to date Western economic literature and IMF and World Bank research (Estate 2001).

²⁷⁴ Doncel convinced Alianza Editorial publish Spanish translations of the classic contributions in liberal economics during the 1960s and 1970s.

The von Stackleberg Moment

As access to great Western economics professors became generally difficult for Spanish economists during the 1940s and 1950s, one Western economist with a Nazi past and a world reputation as a path-breaking microeconomist²⁷⁵, Friedrich von Stackelberg, came to Madrid in 1943 and gave neoclassical tradition a distinct *Ordo* flavor (Velardes 2001: 357-358). Stackelberg had been a Nazi party member since 1931 and an active combat SS officer since 1933. After 1942, he became disillusioned with Nazism and Spain offered him an unexpected opportunity to leave Germany.

This came about following the institutional reorganization of the economics profession in 1943, the economics section of the recently-established Institute of Political Studies (IPS) sought to boost its reputation by hiring a prestigious international scholar. The search ended following the decisive intervention of Miguel Paredes Marcos, a *Falange*-affiliated finance professor who had studied economics in Berlin and Bonn. Paredes made the case that the IPS could benefit from the work of his former professor, Nazi apostate and world-renowned member of the German Freiburg School. The Spaniards liked his admiration for Mediterranean fascism and were very impressed by his professional pedigree, for von Stackelberg was not a minor figure in Western economics. During the 1930s and 40s he became internationally known for his

²⁷⁵ Leontieff lavishly praised his work on monopoly competition (Leontieff 1936) and following the publication of his last book in 1948, an *American Economic Review* reviewer called it “the most comprehensive German presentation of microeconomic theory [...] at a time when many American economists have ceased to believe in the practical relevance of microeconomics” (for favorable American reviews see also Machlup 1949; Schweitzer 1949; Morgensten 1949). Von Stackelberg’s *Theory of the Market Economy* was published in German in 1948 (*Grundlagen der theoretischen Volkswirtschafts Lehre*). The English translation appeared in 1952 at Oxford University Press.

contributions to the theory of monopolistic competition. Economic historians agree that few German economists contributed as much to the rapprochement between German economics and neoclassical economics as he did (Njehans 1992; also see Scherer 2000).

In the short term, von Stackelberg played a decisive role in strengthening the network of Spanish neoclassical economists in two ways. First, his world reputation commanded an unprecedented level of authority in a profession whose internal status structures gave precedence to foreign academic training. He began to teach immediately at the newly-founded Institute for Political Studies and the department of economics at the University of Madrid (Complutense). Von Stackelberg boosted the reputation of the teams of microeconomists working in these institutions by publishing his last contributions to world economics as a “naturalized” Spanish economist.²⁷⁶ At the same time, he provided economists in this politically isolated country with direct, albeit limited, foreign contact. In addition to providing them with bibliographic material, he used his old contacts in Germany in 1946 to bring prominent ordoliberal economist Eucken to lecture in Madrid (Velarde 2001: 363-364; Lissen, unpublished manuscript: 16). Eucken’s Santander lectures were then edited and published in the same year (Lissen, unpublished manuscript: 16).

Von Stackelberg’s four years in Spain shaped long-term developments as well. First, the German professor’s friendship with the older generation of neoclassical economists (Perpina i Grau, Zumalacarregui, Olariaga) contributed to

²⁷⁶ Julio Segura (2001: 390-392) and Juan Velarde (1989: 105-106) identified six major publications during Stackelberg’s three year stay in Madrid.

the strengthening of this economic school of thought in Spain at a time when government policy was dominated by ISI (Velarde 2001: 361-362). Second, he lent his professional blessing to a group of six young researchers (Valentin Andres Alvarez, Jose Castaneda, Miguel Paredes, Jose Antonio Piera, Alberto Ullastres and Jose Vergara Doncel) who subsequently became crucial actors in consolidating a liberal economic agenda in Spanish universities and economic policy institutions. Appointed minister of commerce in 1956, Alberto Ullastres became one of the architects of the 1959 stabilization reforms and Spain's top economic minister for the relations with EEC.²⁷⁷ During the 1950s and 1960s, Valentin Andres Alvarez and Jose Castaneda went on to become the dominant figures of Spanish economic theory and microeconomics respectively. They were both deans of the economics department of Complutense, became members of the Royal Academy and internationally visible in their subfields.²⁷⁸ Castaneda also sat on the board of the influential state agency ([Consejo Superior de Investigaciones Científicas](#)) that regulated and funded scientific research (Villar Saraiet 2001: 257).

In addition to these avenues for shaping the intellectual dynamics in the field of Spanish economics, the “von Stackelberg network” economists directly impacted the professional training of important policymakers during the Socialist years. Alvarez, Castaneda and Vergara Doncel mentored both Luis Anjel Rojo

²⁷⁷ Ullastres was a minister of commerce between 1957 and 1965. Between 1965 and 1976 he was the head of the Spanish mission in CE.

²⁷⁸ The two economists were also among the few Spanish economists of the 1950s who participated in international professional debates. Alvarez was the only midcentury Spanish economist to have been published in English, which brought him much fame and influence at home (Alvarez Coruguedo 2001: 236-237). Similarly, Castaneda's reputation among French liberal econometricians enabled him to travel abroad extensively (Villar Saraiet 2001: 256).

and Enrique Fuentes Quintana, who were also involved in Ullastres' 1959 Stabilization Plan. As head of the Spanish permanent delegation to EEC, Ullastres left a lasting impression on Joaquin Almunia, the future Socialist labor minister of the first Gonzales government who was stationed as an economist at the delegation between 1972 and 1974 (Almunia 2001: 40).

Realpolitik and the Anglo-Saxon Pedigree

By the second half of the 1960s, English and American economics departments reemerged as the main external anchors of the Spanish economics profession. This was largely a result of mixed factors: the pre-civil war tradition of studying economics in Britain, the institutional entrepreneurialism of the Research Service, and the funding opportunities awarded by American overtures towards Franco after the change in American European security strategy following the Korean War.

Thus, beginning with 1951, Spain enjoyed a period of international opening, first towards the United States, with the signing of the Treaty of Madrid (1953), and then towards Western Europe. This was triggered by a geopolitical shift in Asia (the rise of Maoist China and the outbreak of the Korean War) and by a toughening of the anti-communist campaigns in US domestic politics (Lopez 2000; Calvo-Gonzales 2007).

In exchange for setting up American military bases in Spain, the US granted the regime substantial economic aid and began to liberalize student exchange programs with Spain, while stopping short of putting too much pressure

on Franco to embrace American ‘embedded liberal’ economic ideas. When Senator J. William Fulbright, Chair of the Senate Foreign Relations Committee, traveled to the American bases in Spain he was appalled to discover that the scenario for the annual joint American-Spanish military maneuvers was “a domestic insurrection in which the American military intervened to save the Spanish government.” (Calvo-Gonzales 2007: 745).

During the early 1960s, American grants enabled future central bank economists like L.A. Rojo and Pedro Schwartz to pursue graduate studies in economics at LSE, where they were mentored by Karl Popper and Lionel Robbins respectively, thus renewing the LSE connection of the pre-civil war Spanish neoclassical network discussed above. Soon after their return to Spain’s academic and bureaucratic meritocracy, Rojo and Schwartz occupied top positions in the economics department of Complutense (FPSE) and in the central bank, where they remained for decades. During the 1970s and 1980s, they were both regarded as the country’s most respected names in macroeconomics and economic theory respectively, while remaining internationally connected (Almenar 2001). Thus, Rojo was Spain’s representative in the UNDP, the financial committees of G-20 and the EEC’s monetary union expert committees. In turn, Schwartz became an associate fellow at the University College of London and an active member in the Mont Pelerin society. While Rojo and Schwartz studied in Britain at the height of Keynesianism at LSE, the fact that they had liberal mentors enabled them to transition rather smoothly during the 1970s from a “right” leaning neoclassical-Keynesian syndissertation to various degrees of monetarism after the mid 1970s.

In the late 60s and early 1970s, the Spaniards' LSE connection to the neoclassical economists continued to function. For example, Tomas Esteve, the importer of public choice to Spain had taken classes at LSE with neoclassical mandarin Harry Johnson.²⁷⁹ At the same time, the United States emerged as the competing destination for a new generation of Spanish economics graduates. Grants offered by the Research Service enabled young economists to study in American graduate programs, an opportunity that gave future Socialist Hacienda minister Carlos Solchaga one year at MIT. In 1969, Jose Toribio finished his Ph.D. at Chicago with Milton Friedman and returned to Spain as a "hard" monetarist.²⁸⁰ He was immediately hired for Rojo's Research Service and then for Hacienda, before he moved to the research service of Banco Urquijo in the late 1970s, as a colleague of the same Socialist MEH "superminister" Carlos Solchaga. Toribio was credited with the conversion to Chicago School economics of Pedro Schwartz and Jose Argandona (Argandona 1972; 1976; 1977; 1985), whom reviewers of Spanish economics considered as representatives of the right-wing of Spanish neoliberalism in the 70s and 80s (Diaz 1983; Argandona 1990).

Two younger economists, Francisco Cabillo and Fredric Segura did their graduate studies at the University of Southern California, and after their return to Spain they divided their time between Complutense, the Research Services of the central bank and Banco Urquijo, and Pedro Schwartz's libertarian think-tank Instituto de Economia de Mercado.

²⁷⁹ For Johnson's influence in Esteve's work on monetary policy see Esteve Serrano (1968; 1980).

²⁸⁰ For Toribio's monetarism see Toribio (1975). Toribio was research director at several banks including Banco Urquijo (1979-1982) and Banco Hispano Americano (1982-1986). For his bio see http://web.iese.edu/toribio/Imagenes/CVProf_Juan%20Jose_%20Toribio.pdf

The same period of time is associated with a new phenomenon: the growing international prestige of Spanish economists who were now recruited by top American and British economics departments but remained relatively involved with debates in Spanish economics. Thus, by the late 1970s Andreu Mas-Collell, Rojo's teaching assistant at Complutense, was a full professor of microeconomics at Berkley and then at Harvard, where he authored the most successful microeconomics textbook in American economics departments during the 1980s. But during the early 1980s, rather than stay completely immersed in American economics, Mas-Collell intervened in Spanish economics reviews (Mas Colell 1983; 1985) and had a joint appointment in Barcelona's Pompeu Fabra University. In 1986 LSE gave Oxford-trained Rafael Repullo a tenured position, but after spending one year (1985-1986) teaching at LSE and working as a Research Service economist, Rojo's former protégé chose the Service.

During the late 1970s and throughout the 1980s and 1990s, the internationalization of the Spanish economic profession deepened, with a number of Spanish economics graduates going to graduate school in elite British and American economics departments. Many remained abroad and became global academic celebrities, like the Harvard-educated conservative Xavier Salla-i-Martin. Others returned and took the Rojo network to new heights of professionalism. After his graduate studies in economics at Essex and a visiting professorship at the University of California - Berkley, Carlos Sebastian, another neoclassical-monetarist synthesizer, joined Hacienda as an economist for the first Gonzales government.

Two of Rojo's students, who clothed their master's ideas in the latest econometric models, returned to Spain with British Ph.D.s to further consolidate the epistemic authority of the Research Service. Juan J. Dolado went back and forth between graduate studies at LSE, visiting positions at France's *ecoles* and the Bank of England, and his job as senior economist at the Service until he became Rojo's successor at the helm of that institution in 1992. The Oxford-trained Rafel Repullo was offered tenure at Oxford but eventually was lured back to Spain in 1987 by Rojo to establish and head CEMFI, an institute of the Research Service specializing in monetary and fiscal policy (Repullo: 133-135).²⁸¹ At CEMFI,²⁸² Repullo was joined by fellow Oxford Ph.D. and (subsequently) Nuffield College and LSE research fellow Manuel Arellano.

Domestic Debates and International Classics

But Western graduate education was not the sole engine of transnationalization. The 1970s also marked the beginning of the direct involvement of neoliberalism's leading Western advocates into Spanish debates as well as the integration of Spanish economists into prestigious international conference and publishing networks.

Thus, Milton Friedman gave talks in Madrid in 1972 and debated monetary policy with Richard Musgrave, a Harvard-based Keynesian, in an international seminar organized by a local newspaper and attended by top level

²⁸¹ Rafael Repullo's work from the 1980s takes the classic neoclassical-monetarist syndissertation espoused by Rojo in Reullo (1986; 1987a; 1987b; 1988; 1989).

²⁸² CEMFI stands for *Centro de Estudios Monetarios y Financieros*.

bureaucrats of the Franco regime (Friedman and Musgrave 1972).²⁸³ Even before the oil crisis wreaked havoc with Western economies, Friedman warned Spanish authorities against using increases in the quantity of money for economic development purposes and advocated for central bank independence and a robust deregulatory reforms of the financial sector. He also lambasted Spain's system of wage and price controls, suggested that that inflation targeting by the central bank was the only guarantee of stable economic growth and made the case for a floating regime for the peseta.

Spanish market fundamentalists also received direct support from Friedrich von Hayek, a leading member of the Austrian School of economics. Hayek travelled to Spain a few times during the seventies and attended the seminar organized by a local libertarian think-tank (Villalonga Foundation), while keeping a regular correspondence with its members throughout the 1970s (Huerta de Soto 2008: 264; 266). According to Huerta de Soto, Spain's best known libertarian economist and a member of the seminar, Hayek played a decisive influence in shaping the framing tactics of the Spanish libertarian movement by insisting that the Villalonga group use Schumpeter's dissertation that the roots of economic liberalism rested in the work of 16th and 17th century Spanish Jesuit scholastics.²⁸⁴ Hayek also intervened in local debates by criticizing the programs of the UCD governments for their interventionism (Gamir 1980).

²⁸³ The transcripts of the seminar were published in Friedman, M. y Musgrave, R.: *Problemas económicos actuales. Política monetaria versus política fiscal. Cuestiones españolas*. II Semana económica internacional organizada por el semanario *Mundo*. Dopesa, Barcelona, pp. 141-159.

²⁸⁴ This dissertation was first proposed by Schumpeter in his 1954 in his *History of Economic Analysis*.

During the late 1970s, Western-funded seminars further strengthened the positions of Spanish neoclassical economists. The German embassy, in collaboration with Germany's Ebert and Adenauer *Stiftungen*, put together several seminars on the implementation of "social market economy" in Spain, which brought German and Spanish academic economists together.

For example, a 1979 conference brought to Spain German economists from the Universities of Nurnberg, Marburg, Wurtzburg and representatives of the federal government. In these seminars, the SME was defined in the Muller-Armack tradition as "free markets with social compensation" opposed to laissez-faire economics, to monetarism-prohibition of cartels, the monitoring of companies with large economic power, anti-competition practices, eliminating barriers to entry, monetary stability and central bank independence. Franco-Spanish economics conventions sent similar messages. Conservative French readings of the 1977 OECD supply-side diagnosis of high unemployment, which argued that unemployment was rooted primarily in labor legislation and the political veto power of the unions, loomed large in a 1978 Franco-Spanish convention of labor economists and sociologists. Soon afterwards, the interventions of the French academics endorsing this argument were picked up in Spanish economics studies (Garcia de Blas 1989: 7-14).

The transnationalization of the profession was consolidated in other ways as well. In 1981 Spain hosted a convention of Spanish-speaking economists, while in 1983 it hosted the seventh world convention of the International Economics Association. Among the 2,000 participants were prominent names

from the widest possible spectrum of economists, from monetarists (Milton Friedman) to Soviet economics (Bogolomov).²⁸⁵ Such opportunities provided Spanish economists with ample opportunities to clarify their intellectual identity, which in the climate of the early 1980s generally meant consolidating neoliberal positions and attacking heterodoxies (whether libertarian or structuralist) and old neoclassical-Keynesian orthodoxy.

Yet this was not the case of the research trips to British universities organized by Quintana's Institute of Fiscal Studies. These trips arguably contributed to the strengthening of a Keynesian approach to taxation identified in the previous chapter. The Institute's advocacy of a neoliberal cause (financial liberalization) in tandem with a Keynesian one (the expansion of the tax capacity of the state to meet the needs of public investment and redistribution) began in 1970, with the appointment of Enrique Fuentes Quintana as director of the institute.

Like Rubio and Rojo, from the beginning of his tenure at the institute he prioritized the consolidation of its epistemic base through the hiring of a large number of young economists and the development of communication campaigns meant to widely publicize the research of the institute. Through its flagship journal (*Hacienda Publica Espanola*), the institute embarked on popularizing the taxation ideas at the basis of continental and British taxation systems. This was achieved through special issues of the journal on various aspects of taxation in which cross-country comparisons abounded, often via country monographs or collections of tax policy documents from Western Europe and North America.

²⁸⁵ *El Pais*, September 2, 1983.

The institute also published national monographs on various tax systems in the form of portable-size books and sponsored translations of several West European taxation textbooks.

Beginning in the 1970s at the initiative of “revolving door” economists Rojo and Fuentes Quintana, the Research Service of the central bank and Hacienda’s own Institute of Fiscal Studies funded regular forms of consultation with British, American and Italian economics departments and fellow technocrats (Calvo Lagares 2001).²⁸⁶ The intellectual references of neoliberalism became available to Spanish economists through a systematic effort to translate the classics. For example, during the 1960s and 1970s, Friedman’s work was almost completely translated²⁸⁷ and extensively reviewed. The essential readings of classical liberalism and of the Austrian School (Smith, Ricardo, Hayek, Marshall, Mises) were translated into Spanish as well, with an important contribution from

²⁸⁶ In 1971, several senior researchers of the Institute for Fiscal Studies travelled to Britain to seek advice on reforming the Spanish tax system via special seminars and interviews with British economists active in policy. A similar research visit was organized in Italy in following year, although this time the focus was seeking the counsel of Italian tax experts in the ministry of finance. Finally, the institute invited a number of Italian and British tax economists to lecture or to accept visiting fellowships at the institute. The ideas generated by the transnationalized research activities of the Institute during the early 1970s provided the ideas that informed Spanish tax reforms for the next three decades.

²⁸⁷ Milton Friedman “La metodología de la economía positiva”, *Revista de economía política*, mayo-diciembre, 1958, pp. 355-397. Friedman’s key work on monetarism is translated by the same *ICE*: Milton Friedman, “Oferta de dinero y variaciones de los precios y la producción”, agosto-septiembre, 1966, pp.119-126; “Discusión de la brecha inflacionista”, agosto-septiembre, 1966, pp. 139-141. A few years later *ICE* published other articles written by Friedman on monetary policy: “El papel de la política monetaria”, enero, 1969, pp. 99-109; “Impuestos, dinero y estabilización”, enero, 1969, pp. 111-114. Spanish translations of Friedman’s books appeared throughout this period: 1962. *Teoría de los precios*, Alianza editorial, Madrid. *Un programa de estabilidad monetaria y reforma bancaria*, Deusto, Bilbao. Otra edición de 1970; 1966. *Capitalismo y libertad*, Rialp, Madrid; 1967. *Ensayos sobre economía positiva*, Gredos, Madrid; 1970. *El balance de pagos: tipos de cambio libres y tipos fijos*, Ateneo, Buenos Aires; 1971. *Dólares y déficit*, Emecé, Buenos Aires 1971. *La teoría cuantitativa del dinero: una nueva exposición*. Centro de Estudios Monetarios Latinoamericanos, Washington, FMI, BIRD, México; 1971. *El sistema monetario internacional y los derechos especiales de giro (DEG)*, Bolsa de Comercio de Caracas, Caracas; 1973. *Una teoría de la función de consumo*, Alianza, Madrid; 1976. *Moneda y desarrollo económico*, Ateneo, Buenos Aires.

the libertarian Villanonga Foundation but also from state publishing houses (Almenar 467-468). Friedman's monetarist ideas were also covered during the early 1970s in Spanish translations of American macroeconomics textbooks required in Spanish economics departments (e.g. Mueller 1974, chapter 11). Finally, during the 1970s and 80s, American economists based in conservative think-tanks visited Spain and began to publish their conference papers in flagship Spanish journals.²⁸⁸

In short, the transnationalization of the profession through graduate education benefited Spain's turn toward neoliberalism. By contrast, the intellectual adversaries of the neoliberals had a much thinner dossier in this regard. The structuralists had no foreign graduate degrees with the exception of the academically inactive and politically isolated Oxford-trained Luis Gamir.²⁸⁹ By the early 1980s, the largely French-speaking "diehard" Keynesian camp (A. Fernandez Diaz, Emilio de Figueroa, Sanchez Ayuso) could not marshal any foreign-trained Ph.D.s in their struggle against the neoliberals. Also, with the exception of Sanchez Ayuso's continuous correspondence with Nicholas Kaldor, the Keynesians' alternative forms of professional transnationalization were reduced to sporadic academic cooperation with a small group of interdisciplinary

²⁸⁸ For example, an article in a special issue of *Moneda y Credito* (no 163/1982) on the economic crisis of the early 1980s is authored by Walter E. Hoadley, senior research fellow at The Hoover Institution. The article is based on a conference paper given by Hoadley in 1982 at the auditorium of Banco Hispano Americano.

²⁸⁹ Luis Gamir, the minister of commerce between 1980 and 1981 was an Oxford PhD in economics who studied with T. Balogh, W.M. Corden and other British Keynesians (Diaz 1983: 826). Gamir was still a Keynesian in the early 1980s, as evidenced by one of his few academic writings published in a small academic review (Gamir 1981). Gamir's recent official position in the UCD and loyalty to the center-right barred him from influencing the Socialists, while his sparse publication record did not recommend him for real influence in academic economics as well.

French Keynesians (Diaz 1983: 826-827).²⁹⁰ In 1982, with the premature passing of the consistent Keynesian Sanchez Ayuso²⁹¹ and with Gamir's entry in the neo-conservative *Alianza Popular* (the ancestor of today's *Partido Popular*), Keynesianism disappeared from Spanish academic economics and was upheld only by the amateur economists of the labor union movement.

The transnationalization of the economics profession cannot be assumed to be the sole conduit for diffusing neoliberalism in Spain. As the theoretical chapter shows, some scholars interested in the diffusion of neoliberalism sought to emancipate themselves from the tyranny of the “epistemic communities” framework and emphasized the role of IOs and conservative think-tanks as conduits with different diffusion functions. In my theoretical, I also suggest that transgovernmental networks and transnational party networks could serve as diffusers of neoliberalism. We must now investigate the nature of these diffusers in greater depth.

The Dogs That Did Not Bark: IOs and Think Tanks

With the support of Washington, Spain joined the IMF, the World Bank and the OECD in the late 1950s. As a result, the ascendancy of conservative neoclassical syndissertation as the dominant form of ‘Keynesianism’ in late 1950s Spain was no longer a strictly domestic affair. This is shown by the prominent role of these

²⁹⁰ This was the case of Emiliano de Figueoas' constant presence in Francois Perroux' heterodox seminar at the College de France during the late 1970s and A. Fernandez Diaz' cooperation with the French development economists at Mondes en development (Diaz 1983: 825).

²⁹¹ As the party was debating its electoral program for the 1982 elections, Ayuso wrote in *El Pais* an endorsement of the swing to the left of the British Labor Party. Manuel Sanchez Ayuso, “La estrategia económica, alternativa de los laboristas británicos”, *El Pais*, August 7, 1981. For a more systematic perspective on his political views, see Ayuso (1981a; 1981b).

organizations - especially of the IMF - in the design of the 1959 Stabilization Plan and the consolidation of the position of local economists who upheld that conservative interpretation.²⁹² Finally, without the 1962 World Bank report on Spain, the modernization of the developmentalist turn in the 1960s cannot be properly understood (Schwartz and Gonzales 1978: 73; Lieberman 1995).²⁹³

Yet after the end of these well-covered international intervention episodes, IOs began to shape the boundaries of economic debate in ways that were less strong than expected as long-term appointments in the OECD, IMF and World Bank mattered less and less. However, the privileged contact with the central bank over other institutions and the issuing of regular consultation reports following fieldwork missions in Madrid enjoyed more receptivity among Spanish economic policy makers.

Thus, beginning in the late 1950s, Spain began to exert its membership rights in these three organizations by stationing representatives in their headquarters and some of these representatives would return to occupy prominent

²⁹²The currency crisis of 1957 weakened the ISI economists and already in the same year much of the elite of the group of neoclassical synthesizers (Ullastres, Rubio, Sarda, Varela, Quintana, Sanpedro) joined the government as ministers or as economists of economic ministries and the central bank. Yet there is overwhelming evidence that without the explicit blessing of this group by the IMF and the OECD this group would have had the same authority to marginalize the influence of ISI economists and shape policy in such direct a manner. For the perspectives of the protagonists of the stabilization see Fuentes-Quintana (1984: 25-40), Madronero (1959: 81-85), Navarro-Rubio (1976: 173-202), Ullastres (1975: 63-92).

²⁹³ Triggered by a 1962 IBRD report revised by Opus Dei minister Lopez Rodo and inspired by French indicative planning (Schwartz and Gonzales 1978: 73), Spain adopted several development plans between 1963 and 1973. Although the 1962 IBRD report urged the government to make the Spanish economy more market friendly by deregulating the economy, it nevertheless did not suggest a “neoliberal” course. Rather, IBRD asked the government to increase the size of the public budget relative to GDP and to “make markets” by taking a more coordinated approach to industrial development (IBRD 1963). This did not mean a return to ISI industrial policy either. While basically all industrial firms had been considered of national interest after 1939, now only select sectors and subsectors judged by technocrats to have a pull effect on the rest of the economy were to receive government support (Lieberman 1995).

positions in Spain's economic policy institutions. In total, 31 Spanish civil servants were posted with the OECD between 1960 and 1982 and most of them returned home to join economic policy institutions. The number was around 20 with the IMF during the same period (Muns 1986: 224-226; 261-266; 433-436).

However, in quantitative terms, the role of the OECD and the Fund as graduate school surrogates for Spanish economists was rather more modest than one would expect. First, with the exception of Socialist-era central bank governor Mariano Rubio, who spent time in the OECD before he embarked on a spectacular career in key policy institutions at home,²⁹⁴ no other important Spanish policymaker spent any considerable amount of time in IOs. Moreover, with the exception of LSE-trained Joaquin Muns, who used his IMF experience to help push the economic debate to the right, no other Spanish economist managed to hold simultaneous positions in IFIs and use their epistemic authority to intervene in Spanish economic debates during the 1980s.²⁹⁵

Finally, between 1964 and 1982, no Spanish economist participated in the seminars of the IMF's Institute, only 3 Spaniards were part of its training programs, and barely 28 Spaniards took the Institute's classes, a level that a historian of IMF-Spanish relations regarded as rather low (Muns 1986: 225).

²⁹⁴ Mariano Rubio worked as an economist for OECD's Southern Europe Division between 1959 and 1962 at the suggestion of Research Service director Juan Sarda. In Paris, Rubio advanced his economics education and upon his return he was hired in an important position for Hacienda (general director for financial policy) and then moved quickly through the ranks of the central bank going from deputy general director to governor in a few years (Rivases 1991).

²⁹⁵ Joaquin Muns, an LSE-trained economist and professor at Facultat Universitat Autònoma de Barcelona, served for the IMF as an economist at the heights of the (neo)Keynesian era (1965-1968) and then as an executive director during the IMF's turn to orthodoxy (1978-1981). Between 1980 and 1982 Muns had a stint as an executive director in the World Bank. During the early 1980s Muns wrote frequently in the influential economic review *Papeles de la Economía Española*, where he advocated for price stability over full employment both as an academic as well as an advisor to the government (Muns 1981: 8).

Similarly, although it doubled between 1970 and 1972 (from 6 to 12), the IMF staff of Spanish origin in 1982 (14 people) was well below Spain's IMF quota, and only half of them worked as economists, a situation that IMF staff of Spanish origin attributed to the scarcity of US-trained Spanish economists and to the Spanish government's low level of interest in promoting Spain's representatives (Muns 1986: 262-263; 265 ft.50). Finally, only 2 economists were selected to participate in the IMF's 2 year training for young economists, a program that was regarded as an antechamber for full employment with the IMF.

In other respects, the OECD and the IMF fared better in influencing Spanish debates. Most importantly, beginning in the 1970s, staff from the OECD and the IMF's Europe and Research Divisions chose the Research Service of the Bank of Spain as the main platform for "technical cooperation" with the Spanish authorities. Experts based in the research department of the IMF gave talks in the central bank, while other Fund experts organized their seminars in the same institution (Acena 2001). OECD reports also routinely cited the central bank and remained silent on other sources. These forms of external validation proved important for consolidating the prestige of the Service as the country's most authoritative guardian of economic orthodoxy (Muns 1986).

In addition to organizational empowerment, international organizations used their regular reports to give Spanish governments a clear idea of the "international climate of opinion." Without the option of using policy conditionality, the IMF began to involve Spanish liberal-minded technocrats in the drafting of its Article Fourteen consultation procedures during the first half of

the 1970s. At first, given that Spanish technocrats had a more conservative definition of the neo-Keynesian mainstream than the IMF did at the time, the result was that the IMF reports between 1971 and 1976 advocated for a strong reflationary effort.²⁹⁶ Reacting against the Spaniard's constant concern with inflation, the 1971 report went as far as arguing that reflationary measures could not be expected to generate inflation; on the contrary, the IMF experts reasoned that Spanish inflation had structural causes rather than being caused by high levels of public spending and that the structural problems of the Spanish economy could be fixed only in a high growth environment that necessitated demand side policies. And even after the Spanish economy swung back into high growth mode in 1973 (almost 7 percent), the IMF suggested that a slightly expansive monetary policy was acceptable, while advising the adoption of tax increases to levels required by "the predictable growth of the needs of the public sector." In the two years following the oil shock of October 1973, the IMF persisted in this attitude and considered that expansive monetary and fiscal policy was a must and even suggested a more expansive fiscal policy should the pre-crisis levels of demand not be reestablished.

However, after the global shift in IMF's position in 1976,²⁹⁷ its reports evince a marked preference for austerity in the face of disappointing growth. To

²⁹⁶ Interestingly, even before the oil crisis of 1973, the Fund considered that since monetary policy is useless to reactivate the economy, Spain's lower growth and increasing levels of unemployment had to be dealt with primarily via demand-side fiscal policies.

²⁹⁷ As a recent study of IMF policy papers shows, during the late 1960s "a form of 'monetarism' was emerging in the counsels of the IMF, which involved not only a focus on monetary aggregates, but, perhaps even more importantly, a skepticism about governmental discretion in the conduct of economic policy and an enthusiasm for fixed, quantitative targets" (Clift and Tomlinson 2008: 565). But it was not until the mid 1970s that the neoliberal turn became evident. Scholars attribute this turn to the fact that key policymakers in United States began to push the

this end, the Fund began to emphasize that Spain should reorient its policy priorities from stimulating domestic demand to stimulating private investments and exports. Puzzlingly, while the IMF was loath to suggest austerity during comparably less dramatic contractions of the Spanish economy in 1970-1971 and even suggested a slightly expansive macroeconomic policy in 1973-1974, when Spain had one of the highest growth rates in OECD.

This is puzzling since after 1976 the Fund saw the contraction of domestic demand as the appropriate tool for dealing with only 1 percent growth in 1975. . Moreover, after 1976, and especially after the second oil shock in 1979, the Fund made inflation, public spending and the deficit the fulcra of its reports and began to highlight labor market rigidities as an issue to be addressed by supply-side measures. The structural causes of inflation mentioned in the 1971-1975 reports disappeared from the IMF diagnosis and were replaced with arguments that traced inflation to the high levels of public spending on welfare and public services. Finally, beginning with the 1981 report, the Fund began to make use of the “crowding out” dissertation vis-à-vis public investments and to consider that one of the best supply-side measures that the government could adopt would be further increases in the interest rates in order to reduce the supply of capital available for investment.

Overall, the importance of the OECD and the IMF in shaping neoliberal developments in Spain was limited to giving external anchors to the institutional entrepreneurs from the central bank’s Research Service and, after 1976, to

IMF to embrace select neoliberal ideas such as conditional financing and financial deregulation (Vreeland 2003; Harmon 1997).

strengthening local opposition to demand-side policies through regular reports on Spain. These were not insignificant forms of influence, yet the findings strongly suggest that elite socialization through professional appointments in IOs was far from being a strong mechanism of diffusion in the case of Spain.

The Quiet Dogs: Think-Tanks

Think-tanks played an important role in crafting and spreading neoliberal ideas from the U.S. to Sweden (Blyth 2002; Hay 1996), but my findings suggest that they had a minor impact in the case of Spain's turn to neoliberalism. This section argues that this owed to the weak linkages between Spain's leading neoliberal think-tank to form linkages with the business community.

The pioneer of Spanish neoliberal civil society was the Valencia-based Ignacio de Villalonga Foundation, an organization endowed by a banking family in 1957 with the purpose of fighting interventionist economic ideas and the advocacy of free-market ideas.²⁹⁸ Throughout the 1960s and early 1970s, to pursue these objectives, this foundation embarked on a systematic work of translating the essential contributions of the Austrian School and of German Ordoliberalism.

Moreover, starting in the 1970s, its representatives organized what would later become a standard mechanism for spreading libertarian ideas in Eastern Europe: informal, yet regular libertarian seminars for influential academic elites

²⁹⁸ In its founders' words, the foundation was to promote "economic doctrines that depart from the principles of the free enterprise, private initiative and free market and to fight the theses advanced by proponents of socialist and planning ideas that harm all members of the community" (Huerta de Soto 2005: 390-391).

and young economists. The seminar was attended every Thursday by thirty to forty people, some of them very prominent,²⁹⁹ and even enjoyed the presence of von Hayek a few times during the late 1970s (Pascual y Vicente, 1980). At the same time, the participants in these seminars self-consciously defined themselves against the macroeconomic ideas of the Rojo network and advocated the more radical versions of neoliberalism instead: rational choice expectations, supply-side and Austrian School economics, “unedited” monetarism and so on.

By the early 1980s the Villalonga seminar was no longer a prime site of encounter for the elite of Spanish neoliberalism’s libertarian end. It had been eclipsed by the Institute for the Market Economy (IEM), an organization established in 1978 by Pedro Schwartz, one of Villalonga’s leading seminararians.

³⁰⁰ Schwartz wanted to take “pure” neoliberalism beyond the “talking shop” stage and give it a stronger policy orientation. To this end, he invited prominent liberal economists into his circle and attracted a number of young economists to co-author policy reports and academic materials for IEM.

Throughout the 1980s, IEM was hardly a site of marginals. Schwartz had been a celebrity professor of economic theory at Complutense since 1969 and was a sought-after consultant for the research services of the central bank and of INI. The IEM’s executive committee was chaired by Juan Sarda himself and, in addition to Schwartz, it included prominent British liberal economist Lord Robbins and two Spanish economists who were members of the Royal Academy.

²⁹⁹ Examples include Lucas Beltran, Antonio Argandoña, Pedro Schwartz; Luis Oller.

³⁰⁰ During the 1970s the libertarian economic agenda was buttressed by smaller think-tank operations such as Asociación para la Economía de las Instituciones and Liga para la Defensa del Individuo.

Then, in 1998, he integrated the think-tank into the University of Madrid. IEM provided a public policy critique platform for young American and British-trained conservative academic economists, who began attacking government policies from a monetarist perspective, in a string of systematic studies generated by IEM-affiliated researchers (Schwartz 1978; Cabrillio and Segura 1979; Segura 1979).

The most prominent of IEM's studies was "Money and Economic Freedom", a book-length monetarist critique of the financial policy of the central bank authored by Francisco Cabrillo and Fredric Segura. The book argued for a complete liberalization of exchange rates and for freedom of international capital movements by deploying the theses of Chicago monetarists like Karl Brunner, William Meckling and Milton Friedman.

Yet during the 1980s IEM failed to be a serious challenger to the epistemic authority of the Research Service, largely because neither organized Spanish capital, nor external actors saw think-tanks as a platform for advancing their policy agenda. Instead, as Socialist ministers Carlos Solchaga and Joaquin Almunia testified in their memoirs (Almunia 2001; Solchaga 1997), business often opposed neoliberal macroeconomic measures and saw that its most important demands (labor market deregulation and wage compression) were already suitably, consistently and freely advocated for from within MEH and the central bank. And by the time business finally realized after 1994 that the political deadlock between labor and the government was slowing the adoption of their agenda priorities, rather than the government's economic ideas, IEM was already a public institution. It became clear to them that labor market deregulation was

suitably, consistently and freely advocated for by the *Partido Popular* and its public policy advocacy foundations.

While think-tanks played a smaller role in diffusion than expected, the understudied transnational party networks proved to have a crucial influence in facilitating Spain's turn to embedded neoliberalism.

Transnational Party Networks

The inclusion of PSOE into bilateral partnerships with German social-democrats in the mid-1970s made an important contribution to clarifying the economic policy identity of the PSOE elite. Through frequent bilateral visits, participation in each other's party congresses, logistical or expert support and even friendships among top party leaders, PSOE soon became the Iberian "pupil" of the SPD. This had two main consequences: the definitive elimination of a potent source of leftist radicalization, in the form of a French-style socialist-communist alliance; and the emergence of West German social market economy, rather than of French socialism, as an inspiring model of state-market-society relations. Most importantly, because during the late 1970s the SPD had already adopted monetarism, albeit not the other markers of neoliberalism, the PSOE elite began to define "modern social-democracy" as the German blend of balanced budgets, strong central bank and a welfare state. As a result, France's reflation from 1981 was never expected to succeed among the economic policy team of the Socialists.

There were both contingent and structural reasons for the formation of the SPD-PSOE partnership. Geopolitical factors specific to the dynamics of the Cold

War and the internal politics of the Socialist International played a considerable role in giving the ideologically moderate German social-democrats greater influence than the radical French Socialists (Pilar-Atunyo 2005). Following the October 1973 oil shock, the US and West Germany became acutely concerned that the succession problem of the ailing Franco regime, the threats to political stability posed by Basque terrorism and the social unrest caused by unemployment and decreasing consumptions could strengthen the hand of the Spanish Communist Party (PCE) relative to other leftist Socialist organizations.³⁰¹ Given the high political investment of continental and Nordic social-democratic parties and labor unions in the anti-communist agenda of the Cold War, parties like the SPD had strong incentives to preempt a strong communist-dominated left in Southern Europe.

This dynamic was strengthened by the internal politics of the Socialist International, where the French-backed idea that center-left parties should establish alliances with communist parties was being taken seriously by many socialist parties in Europe at the time (Atunyo 2005). This internal rift in the International was magnified by the strength of communist parties in Iberia and Greece, whose ailing authoritarian regimes were most actively combated by communists, and where weak socialist or social-democratic organizations were expected to be tempted to form alliances with the communists. Moreover, since the end of the civil war, France rather than central or Northern Europe had been PSOE's main base of external operations, French was the preferred foreign

³⁰¹ The possibility that PCE could emerge as the strongest challenger to the establishment was real, as suggested by PCE's control over the labor union *Comisiones Obreras*, the most active force of resistance against the Franco regime (Tovias 1984: 160; Diamandouros 1986: 552-553).

language of Socialist elites, and Gonzales himself had been elected as party president at a PSOE congress organized in the French town of Suresnes with the help of the French Socialist Party.

Yet in the end it was German social-democrats rather than the French Socialists who came to exert the most influence over PSOE. There were several reasons for this outcome. First, the SPD was better endowed to affect the orientation of PSOE, because it was the richest party in the SI. Its party foundation (Ebert Stiftung) had decades of experience with transnational party assistance, and while the French Socialists came to power only in 1981, the SPD had been in Government until 1981, which gave the SPD the benefit of using the West German embassy contacts and other government privileges to intervene inside Spain. The SPD was the only member of the Socialist International that channeled resources towards PSOE before the end of Franquism and that had real expertise on the situation of the opposition inside Spain.

Following the softening of SPD towards the Franco regime after its 1959 Bad Godesberg convention (Sanz Diaz 2005), Ebert began to make contact in Madrid with PSI, a socialist party led by the German-educated anti-Franco socialist academic Tierno Galvan and his underground socialist party (PSI). In 1965, the SPD vice-chairman visited Madrid seeking to show support to the more moderate young socialist leaders (Sanchez 2007: 260), a move that was motivated by reserve towards the ideological radicalism of the PSOE leadership and which generated much furore in European socialist circles who interpreted this move as

a transnational SPD strategy to extend its ideological orthodoxy to the struggling Spanish center-left (Sanchez 2005: 209).

The 1965 operation was carried out covertly through the Ebert Foundation, an instrument of the foreign policy of West Germany in the Third World during the Cold War, which was deployed by the SPD whenever traditional diplomatic channels of influence would not be available. Ebert worked closely with the local German embassy and had specialized staff and sufficient funds for working with the opposition in authoritarian countries. Between 1966 and 1975, Ebert used SPD funds for the socio-political formation of a Spanish socialist cadre and to promote a German version of social-democracy to Galvan's party. To this end, Ebert overcame its skepticism of PSI and organized several conferences bringing together SPD and Spanish socialist activists, and enlisted the services of the PSI for selecting 159 Spanish students to study in West Germany on Ebert fellowships.

At first, the SPD investment in the moderate figures of PSI against the PSOE's ideologically radical leadership did not pay off, largely due to the fact that the fieldwork of Ebert specialists in Madrid revealed that Galvan-led "young Turks" lacked adequate organizational skills and had poor knowledge of the constraints on the possibilities for political opposition in Spain. When PSOE's chairman Rodolfo Lopus rejected the entreaties of Ebert to use SPD funds for cadre training with the argument that Ebert was funded by the CIA, the SPD decided to endorse Galvan again.

SPD's unique experience in forming transnational party contacts with the Spanish center-left enabled it to play a decisive role in averting a socialist-communist front in Spain and, in the long run, it laid the basis for normalizing PSOE's economic agenda. SPD overcame its skepticism that the ideologically more radical yet only superficially Marxist PSOE³⁰² had the potential to replicate German social-democracy following the perceived danger of a Eurocommunist Portugal in 1975 and the PSI's decision to openly cooperate with the Spanish Communist Party at the same time. This convinced the SPD that PSOE's Felipe Gonzales team was a preferable alternative because, by this time, Gonzales was adamantly opposed to a political front with the communists, a choice he framed rather strategically and dramatically as conducive to a repeat of the Spanish Civil War (Ortuno-Anaya 2005: 204-205).³⁰³

In its endorsement of the *sevillanos*, the SPD turned a blind eye to their recent past. According to Pablo Castellano, former member of the PSOE executive in the mid 1970s, the Gonzales-Guerra team was initially gripped by "messianic radicalism" (Maranon 1996: 233) and searched a relationship with the Socialist International and the SPD not because they were more ideologically centrist than the sector historic, but out of calculus:

[Gonzales and Guerra] regarded Redondo, Mugica and me as social-democrats willing to surrender the party to the influence of Willy Brandt.

³⁰² According to PSOE historian Juan Marichal, PSOE never had a Marxist ideology per se. Interview with Marichal in Maranon (1996: 30-42).

³⁰³ Gonzales' argument was that the post-Franquist government would feel threatened by a unified opposition and organize a backlash against democratization, an outcome Gonzales associated with the risk of civil war (Sanchez 2005: 276).

They scorned membership in the Socialist International [...] But it was then (in 1974) that they realized that the Socialist International was a fundamental piece of the political transition. They began to value the Socialist International in a purely instrumental way, as an umbrella. They spoke with sheer scorn about both Francois Mitterrand and Willy Brandt. They saw them as moderates and pro-American. (Maranon 1996: 233).

What mattered for the SPD, it seems, was the organizational strength of the PSOE outside of Madrid. Ebert fieldwork conducted in 1975 had revealed that, by contrast with the largely Madrid-based PSI, PSOE had a real (albeit sparse) organizational basis throughout Spain and had the potential to get more than 25 percent of the vote. As a result, the SPD decided to throw its full weight behind PSOE. To this end, it opened an official Ebert office in Madrid led by its experienced Mexico director Dieter Koniecki and pushed the Socialist International (then chaired by Willy Brandt) to regard the executive team of Felipe Gonzales as the legitimate representatives of socialism in Spain.

At the cost of 15 million DM over the 1975-1980 period, the SPD then tasked Ebert with the direct financing and training of PSOE cadre (Konicki 1986). SPD chairman Willy Brandt became Gonzales' mentor and invited the young Spanish party leader to the Mannheim convention of the SPD in late 1975, a moment that was tantamount to launching Gonzales internationally and to a mentor-pupil relationship between Brandt and Gonzales (Ortuno Anaya 2005: 204). With SPD as facilitator and sponsor, Gonzales was received by the leaders

of the European Commission in Brussels, welcomed into the European Parliament and asked to give interviews to European newspapers. Also, like Ebert Stiftung, the SPD-affiliated union IG Metall became intensely involved with the PSOE affiliated labor union UGT. Its funds and technical assistance helped the UGT resist the entreaties of much stronger *Comisiones* to form a labor union alliance.

The most important result of this personalized new partnership was that the “French” scenario of a communist-socialist front in Spain was preempted as long as the Gonzales team besieged by the Madrid PSOE faction—then open to a socialist-communist alliance—was able to control the party. To this end, the SPD was ready to tolerate the fact that, in the 1977 elections, with an economic program that was in many regards to the left of the communists.

Indeed, the Germans’ antipathy towards the communists was so deep that, when Brandt visited Madrid in December 1976 to attend the PSOE convention, he advised PSOE leaders to take part in the first elections regardless of whether PCE would be legalized or not (Whitehead 1992: 304).³⁰⁴ This intervention had enduring effects, because PSOE maintained its distance from the communists even after the Cold War ended.³⁰⁵ Following German advice, they also went as far as abandoning their formerly fierce opposition to Spain’s NATO membership, then a litmus test of broader ideological positioning (Rodrigo and Torreblanca 2001; Kneuer 2007).

³⁰⁴ Although PSOE joined *Coordinacion Democratica* in 1976, it did so after they were strong enough electorally and organizationally to not be subordinated to PCE, whose leadership of the opposition had been undermined by its lower than expected results in the 1977 elections.

³⁰⁵ When the Socialists lost its parliamentary majority in 1993, it sought the support of center-right Catalan party *Convergencia i Unio*, rather than of the now more ideologically mainstreamed former communist party rebaptized as the United Left (*Izquierda Unida*).

But the SPD-PSOE partnership also gave PSOE a concrete template of social-democracy with *Modelldeutschland* characteristics. Besides the fact that Germany emerged as an inspiring model during the late 1970s for many other European countries, in addition to Spain, owing to its success in avoiding stagflation (McNamara 1998), Spain's Ebert Foundation worked hard to give the German model a more concrete face.

In what amounted to a classic case of transnational advocacy, Ebert helped the establishment of a PSOE political foundation (*Fundacion Pablo Iglesias*) to serve as a platform for its organization of more than 2000 seminars and symposia³⁰⁶ and published various studies meant to demonstrate the virtues of combining fiscal rectitude, central bank independence, corporatist industrial relations, progressive labor regulations and a robust welfare state.³⁰⁷

To this end, Ebert organized 12 international conventions of constitutional law professors that advised the Spanish Constitutional convention in 1977, thus enabling the adoption of German constitutional institutions in Spain.³⁰⁸ Ebert also paid for the conferences of economics professors from various German universities as well as of middle and high-level German government bureaucrats. In 1978 it went so far as to bring unions and employer organizations together from both countries (Documentos Ebert 1978; Koniacki 2007). In its advocacy for

³⁰⁶ "Fundacion Ebert: 30 anos an Espana," (2006), on file with the author. These aspects are addressed at large by Dieter Koniacki himself in "Ein Erfolgreicher Politischer Demokratisierungprozess", paper presented at the joint conference on democratization in Southern Europe by Ebert and Korea Democracy Foundation, Seoul, June 18, 2007.

³⁰⁷ "Nueve años como 'hombre de la Ebert' en España", *El Pais*, 17 January 1985.

³⁰⁸ "Fundacion Ebert: 30 anos an Espana."

German-style social market economy, Ebert was aided by the German Embassy and joined by its rival, CDU's Konrad Adenauer Stiftung (Echevarria 1980).

Conclusions

So far this study showed that by themselves, the crises of the 1970s, the political turmoil that followed the death of Franco and external reactions to the stagflation crisis of the 1970s did not contain a clear prognosis as to what was to be done. Given the systemic uncertainty generated by these events, policymakers had no recourse to calculable risk technologies. Instead, it was only through a coherent set of ideas that they could provide a certain diagnosis of the economy and reject alternative courses of action. The ideas espoused in Spain under Socialist rule drew heavily on the innovations of the neoliberal (counter)revolution in economics. These ideas were constructed within transnational social networks and diffused within specific social and national structures.

This chapter fills in a gap on the Spanish transition to neoliberalism by showing that its neglect of the external dimension of this transition provides us with an incomplete story. Specifically, this literature does not tell us where neoliberal ideas came from in the first place and how these ideas in particular came to dominate the debate in the centers of the economic policy process. Where existing scholarship merely tells us that there was a "Rojo network" that came to control economic policy, I provide an analysis of how the network was formed, why it was significant given a certain domestic and external institutional context, why it had superior epistemic credentials relative to other epistemic groups, and

how the influence of this elite group was magnified by both contingent developments and structural factors.

I also show how both the institutional legacy of the Franco regime and the selective empowerment strategies of international organizations strengthened the advocates of embedded neoliberalism in significant ways. In sum, while domestic institutions played a part, we cannot get an adequate picture of the emergence of Spanish neoliberalism without looking at the intersection between domestic and external agents of diffusion and the resulting translation of neoliberal ideas.

The findings presented in this chapter have a broader value than telling the untold stories of the Spanish economic transition. They speak to existing theories on translation of neoliberalism. First, the chapter provides existing literature with a specification of the conditions under which foreign-trained economists can actually influence policy: a government centralized around a coherent policy team acting in synergy with the central bank, a highly centralized ruling party with a solid majority and a dynamic revolving door between academic departments and economic policy institutions.

Second, the evidence confirms that that the formation of an intellectually homogenous policymaking team dominated by like-minded economists occupying key bureaucratic positions is important because, in the absence of competing ideas invested with epistemic legitimacy, the chief of government could have received consistent advice about which options were “correct” and thus he was better positioned to resist various political constraints (labor union power, internal factions etc).

Third, this study challenges the focus of the current scholarship on economists and international organizations. Because the SPD-PSOE relationship proved to be crucial for facilitating PSOE's move towards its own brand of embedded neoliberalism inspired by Germany's "social market" model, I hereby plead for the inclusion of such networks in future studies on the translation of neoliberalism.

Fourth, in the light of the expectations formulated in the theory chapter about "who diffuses", it was surprising to find weak evidence for a significant role of think-tanks, transbureaucratic networks, and other suspected forms of diffusion agency.

Fifth, as expected, the role of IOs as "surrogate graduate schools" for national policy elites was found to be weak, although their selective empowerment of neoliberal arguments and institutions was important.

Finally, the evidence shows that one can find the main external anchor for the Spanish academic profession at the time of the transition to neoliberalism in Britain rather than in the United States. This is a finding that should challenge scholars to nuance their focus on the United States as the center of the economics profession's internationalization.

Chapter VII - The Romanian Economy before the Neoliberal Moment

I. The Puzzle of Romanian Neoliberalism

The embrace of neoliberal reforms by the successors of the Romanian Communist Party is one of the most intriguing transformations of European political economy given Romania's extreme history of neo-Stalinist development, even by Eastern Bloc standards. Like Spain, pre-communist Romania had a long history of neo-mercantile economic development marked by high levels of state intervention. And like in Spain, in Romania in-depth neoliberal reforms were carried out by left-leaning governments with a nominal social-democratic ideology. Unlike in Spain, however, the transition to neoliberalism was more contested, took much longer and eventually institutionalized a neoliberal development model that is one of Eastern Europe's least socially egalitarian.

The endpoint: Romania's "disembedded neoliberalism"

In addition to acquiring the generic markers of neoliberalism (low inflation, low budget deficits, FDI promotion, etc),³⁰⁹ Romania mostly radicalized the neoliberal agenda to the right on tax, welfare and investment incentives and challenged it

³⁰⁹ During the early 2000s Romanian public deficits were below the levels of reform trailblazers such as the Czech Republic, Hungary and Poland (Eurostat 2009).

from the left only on labor market regulation. A recent comparative study of former communist states argued that far from being the “neo-communist” country of the 1990s, by the mid 2000s Romania “out-liberalized” the EU core in many regards and joined the Baltic countries in the category of “radical” reformers, while the Czech Republic, Poland and Hungary “stagnated” as moderate reformers (O’Dwyer and Kovalcik 2007). The Western part of the Eastern bloc seems now split between countries where the neoliberal project has been radicalized, or “pulled out” from society via a right-libertarian economic agenda, and a zone where a more socially-embedded neoliberal economic regime reigns.

Thus, by the mid 2005s Romania became a supply-side tax territory.

When the Social-Democratic Party (PSD) left office in 2005, Romanian neoliberalism was heading towards “market fundamentalism.” First, tax institutions were highly regressive and pro-cyclical: a flat and high VAT, Europe’s lowest dividend tax (5%) and capital gains tax (1%), negligible levels of taxation for the self-employed and small firms (3%), years of tax breaks for large foreign investments, regressive property taxes and non-taxation of profits made from real estate transactions. The PSD’s tax cuts operated between 2000 and 2004 were the boldest for the entire 1990-2010 period³¹⁰ and it was the PSD reformists rather than the center-right political parties that first advocated for a “flat tax” in the first place.³¹¹ By the end of the 2000s, it became clear that these policies

³¹⁰ The Romanian Institute of Statistics showed that labor taxes (wage tax plus social security contributions) decreased the most during the PSD years, from 45.2 percent to 42.9 percent (INS 2010). Also available at <http://www.riscograma.ro/2856/cota-unica-a-esuat-impozitele-sunt-la-fel-de-mari-ca-in-2003/>

³¹¹ The flat tax regime was implemented by the center-right government in 2005, giving Romania the second most competitive tax heaven after Serbia in terms of corporate and income tax (Larive 2005).

worked not only against building a more just economic system, but also against the neoliberal commitment to balance budgets³¹² and keep FDI inflows coming (Socol et al 2007; 2009).³¹³

By contrast with the generosity of the tax system towards the economically better-off, Romanian neoliberalism was not compensated by a strengthening welfare state (Deacon 2000; Sotiropoulos et al 2003; Fenger 2007; ICCV 2010).³¹⁴ Throughout the 1990s and into the mid 2000s, levels of spending on health, education and welfare remained the lowest not just in the EU, but also relative to the ex-communist states that joined the EU between 2004 and 2007. Romania resembles the Baltic countries in that total social spending was at half the EU-27 average and the same held for social welfare spending (Eurostat 2009). With the exception of pension budgets and going against the egalitarian social values of the electorate,³¹⁵ between 1991 and 2009 all ex-communist governments either froze or cut spending on health, education and unemployment benefits (ICCV 2010). Such policies made possible the increase of the social inequality

³¹² It is suggestive that the IMF had been against the flat tax as early as 2003, as it found no evidence that it led to a substantial improvement of income tax revenues or an expansion of economic activity (Stepanyan 2003).

³¹³ Since the public sector invested too little in infrastructure, by the end of the 2000s large foreign investors became skeptical about Romania due to the high costs of transportation on Romania's outdated roads. For example, in 2008 Mercedes chose high-tax Hungary for a large investment despite the entreaties of the Romanian government. The maintenance of the Romanian railway infrastructure, one of Europe's most extensive, was practically abandoned so that by the end of the noughties the speed of freight trains was at half of its 1990 levels, when the GDP was half of its 2009 value. *Adevarul*, September 16, 2010.

³¹⁴ Fenger (2007: 25) classified Romania alongside with Georgia and Moldova in the category of "developing" welfare states, a term reserved for extremely liberal welfare systems.

³¹⁵ Although the Romanian public was as supportive of welfare values as West European publics (Rose and Makkai 1995), it seems that such preferences did not really translate into policy.

(Gini) coefficient to Europe's highest level in less than a decade (Zamfir 2001; Tesliuc et al 2003; ICCV 2010).³¹⁶

Finally, FDI incentives in Romania are among the most generous in Europe and FDI promotion became a substitute for industrial policy. Based on the idea that state management or domestic private capital was unable to build globally competitive and high-employment firms,³¹⁷ the PSD government set the privatization rules such that foreign investors would be privileged.³¹⁸ Legislation adopted by the PSD government gave foreign investors such privileges as the right to carrying forward their losses for 5 years from the taxable profit exemption from payment of custom duties for equipment and prodded municipal authorities to exonerate them from the payment of local property taxes.³¹⁹ A special government agency gave large foreign investors both free consulting and direct access to the cabinet.³²⁰ According to his adviser, the premier intervened personally whenever the executives of multinationals voiced complaints.³²¹ In the context of Romania's imminent EU membership, this strategy worked. Between 2001 and 2005 Romania attracted more FDI than Poland and the Czech Republic, three times more FDI than Greece and was overtaken in the region only by

³¹⁶ At 56.3 percent, Romania had the second highest Gini in the EU in 2004 (Latvia topped the ranking). By contrast, Hungary and the Czech Republic secured better social inequality rankings (ICCV 2010: 34).

³¹⁷ The job creation record of the FDI remained low, however. In 2005 all new foreign investment created only 12,400 new jobs (Larive 2006).

http://rbd.doingbusiness.ro/articole/2006_9/larive_sept2006.pdf

³¹⁸ Some argued that this was in fact the "bribe" paid for the NATO and EU integration (Gallagher 2005).

³¹⁹ The most relevant statutes for FDI promotion were Law no 332 of 2001 and the Fiscal Code of 2004.

³²⁰ The Romanian Agency for Foreign Investment (ARIS) was established to increase significantly the FDI volume in Romania and to offer foreign investors professional services.

³²¹ Author interview with Emil Hurezeanu, former advisor to premier Nastase, November 19, 2009.

Turkey, with the sharpest spike being recorded between 2002 and 2004.³²² In 2005 the world automotive industry invested more in Romania than in Germany and Spain (Larive 2006).

The PSD appeared to endorse more interventionist institutions only in one respect: hire-and fire regulations. Thus, according to the World Bank's Doing Business Report (2005), in Romania hire-and-fire regulations and union rights were among the most pro-worker in the world (far ahead of Sweden, Germany and France) (see also Trif 2004; 2008; Ghebrea 2005; Kotzeva and Pauna 2006). Yet this "workerist" victory was hardly the result of social-democratic activism in the government and the ruling party. The code was written by labor union experts, employers had no expertise to counter the "European standards" used to sell it and the minister of labor happened to be the only labor union activist to have a post in the executive. Neither the PSD nor the rest of the executive were particularly interested in this code.³²³ Indeed, following the furore over the labor code stirred by the more technically sophisticated foreign investors (then barred from tripartite negotiations), the government backtracked and was open to almost all modifications demanded by them.

This is more than a Romanian story. The Romanian translation of neoliberalism shares the same right-libertarian tendencies as the Baltic countries, Bulgaria and Serbia with regard to taxation welfare, and investment incentives

³²² This assessment is based on central bank data centralized by IntelliNews. More specifically, "in 2005, out of the total EUR 10.4 billion in FDI attracted by countries in the region, Romania received half of these inflows. The positive trend continues in 2006, where, in the first four months of the year, FDI increased 130% over the similar period of the previous year, up to EUR 2.3 billion. Comparatively, Poland reported EUR 2.7 billion as direct foreign investment over the same period, Bulgaria EUR 765 million and the Czech Republic, EUR 564 million." (Larive 2006).

³²³ Author interview with Ion Iliescu, President of Romania (2000-2004), July 4, 2006..

(Eurostat 2010; Larive 2005). Romania, Bulgaria and the Baltic countries spent much less on social services than other postcommunist states like Hungary, the Czech Republic or Slovenia, where a more righted marketisation-plus-social protection (Polanyian) balance made social budgets come closer to and even outstripped those of wealthier countries like Spain. As a result of cushioning neoliberal policies with more redistributive institutions, Slovenia and Slovakia have lower poverty rates than Sweden, and the Czech Republic and Hungary have lower poverty rates than such symbols of social-democracy as Norway or Finland (Eurostat 2010; Greskovits and Bohle 2007).³²⁴ At the same time, labor regulations bring Romania closer to the neo-corporatist Slovenia (Buchen and Wiesbaden 2005; Ciuca et al 2008; 2009; Gebel 2008).

The Weaknesses of Orthodox Accounts

How did this more socially disembedded variety of neoliberalism come to Romania? Why did left (ex-communist) governments³²⁵ in this country take almost a decade to adopt its institutions? Why were alternative economic policy paths not taken? What explains the ex-communists' half-hearted embrace of neoliberalism between 1990 and 1992, their resistance to it between 1992 and 1996 and of their full-fledged, albeit somewhat "edited" transposition of

³²⁴ Significant differences remain within the more socially egalitarian group, where only Slovenia's neocorporatist market regime successfully balanced marketisation and social protection, with Central Europeans subordinating social protection to neoliberal competitiveness (Greskovits and Bohle 2007: 445; Van Appeldoorn 2002: 181).

³²⁵ Although the ex-communists had a distinct "rightist" identity on ethnic relations, social issues (sexuality, church-state relations) and national sovereignty during the early 1990s (Tismaneanu 1998), their programmatic identity was clearly on the left of the political center with regard to economic issues. I therefore follow Pop-Eleches's lead in labeling the ex-communists as "leftist" (Pop-Eleches 2009: 220; 222).

neoliberal orthodoxy between 2000 and 2004. Political scientists who discussed these three political episodes have provided several incidental explanatory frameworks based around two core factors: institutions and economic structures.

Institutionalism

For some scholars the observed variation in the economic reform profiles of the ex-communists should be sought in the institutional cohesion of reform governments. Thus, Grigore Pop-Eleches attributes the failure of the neoliberal macrostabilization of the Roman government to the clashes occurring within the ex-communist party between the “reformist” camp around Roman himself and the “leftist” group loyal to president Iliescu (Pop-Eleches 2009: 219-220).³²⁶ Once the ex-communist party split and the leftists won the 1992 elections, the eclectic policies of the Vacaroiu government (1992-1996) are then explained by virtue of them being a minority government whose reformist agenda was “edited” by the populist demands made by its left-leaning parliamentary allies (Greater Romania Party or PRM, Romanian Workers’ Party or PSM and the Party of Romanian National Unity or PUNR) and by the electorate (Pop-Eleches 1999; 2009: 221; 225-226).

This is a powerful account that survives a crucial case: the failure of a Romanian center-right government to carry out its “shock-therapy” agenda between 1996 and 2000. In the next chapter this study uses Pop-Eleches’ insights to propose several observable implications of the hypodissertation that the

³²⁶ Pop-Eleches’ book focuses on the Convention’s governments (1996-2000), yet his argument about the importance of the institutional cohesion of the government is extrapolated to the 1990-1996 period.

institutions of the policy process matter. Yet I go beyond Pop-Eleches' work by providing an account of why the neoliberal agenda failed even when the ruling coalition was not fragmented, as it was the case of the 1992-1996 government. Secondly, Pop-Eleches does not tell us why Romanian governments had heterodox and neoliberal policy agendas in the first place. Finally, his argument that the coalition partners of the 1992-1996 government were leftist and exacted an interventionist price for their parliamentary support for the government is overstated. Although these parties shared an economically statist ideology (Tismaneanu 2003: 271-273), the agenda of the politically stronger PRM and PUNR was dominated by ethnic nationalist causes rather than by economic ones (Shafir 2000; 2001).³²⁷

Class-Based Materialism

For the materialist tradition in political science the turn to neoliberalism is the result of shifts in the interests of domestic capitalists (Chibber 2003; 2003). Taken to the postcommunist context this explanation is particularly difficult to translate because here, where there were no capitalists to speak of, the impetus for neoliberal reforms came from within the state. As Eyal and Szelenyi reminded us, during the 1990s Eastern Europe experienced "making capitalism without capitalists" (Eyal and Szelenyi 1998). Even more bluntly, Gil Eyal noted that

³²⁷ The only exceptions were the critiques of the politically weaker PDAR and PSM. See for example the critique of Vacaroiu's macrostabilization package at the national convention of the Socialist Worker's Party of July 1993. *Romania libera*, July 18, 1993.

[h]ad private proprietors played a major role in the transition to capitalism, this sense of moral duty would have been immediately intelligible in terms of their material interests, and easily dismissed as ideology. In the absence of a capitalist class, however, it is not self-evident why the bearers of such ideology have appointed themselves as the "footmen," holding the door open for a class that is yet to arrive; and in particular, why such advocacy has taken the form of a calling (Eyal 2000: 49).

Yet once most of the socialist economy was privatized, it became possible to consider the role of domestic capitalists in advancing a neoliberal agenda, a task of particular relevance in countries like Romania, where the neoliberal agenda had not been so vigorously pursued.

Catalin Augustin Stoica's work on the postcommunist business elite and Tom Gallagher's historical excursus on the years in office during the early 2000s provide such materialist explanations (Stoica 2004; Gallagher 2005). For these scholars, the agenda of business elites with socio-economic anchors in the Stalinist past can be deduced from their structural positions in the postcommunist economy. Catalin Augustin Stoica (2004) suggests that former RCP cadres who were widely represented in the communist successor parties needed to buy time to convert their political capital, organizational experience and managerial skills into economic capital, and, therefore, had no interest in an early and radical break with the past. Once a critical mass of such capital was amassed, one can expect them to uphold more neoliberal policy positions.

But if Stoica does not draw an explicit causal link between the economic interests of the ex-communist elite and economic policy, Tom Gallagher does. According to the latter, the adoption of neoliberal reforms during the early 2000s was the result of an alignment of the interests of domestic capitalists and state managers. Since the ex-communists (PSD) were overall a cohesive political party between 2000 and 2004, this domestic oligarchy had its way and Romania saw neoliberal reforms precisely under the political party that had been historically most opposed to market capitalism and had made political fortunes from a left-populist agenda.

More specifically, the PSD state managers entered office as political representatives of a cohesive and tight-knit class of large business owners with cadre pasts and whose wealth was made possible by the rigged transfer of public assets into private hands using the state's own information and financial resources. This class calculated that the rent-seeking benefits awarded to them by Romania's EU integration were greater than the costs that EU-mandated neoliberal reforms imposed on their strategic class interests: corporate power unchecked by EU environmental and labor standards. What about their growth under state patronage? There was no loss here, Gallagher argues. PSD patrons were very good at hiding those EU-banned linkages with captured state institutions from naïve eurocrats.

Why did business think that EU membership rewards were worth the bet? Gallagher argues that the domestic oligarchy wanted to entrench its networks of wealth and political power into the West European capitalist core, in the hope of

accessing even higher rent opportunities while ensuring that its non-competitive relationships with the state would remain. To trick the EU into accepting Romania as a member state, the PSD-oligarchy coalition gave lucrative infrastructure projects and sold premium state factories and banks to West European corporations who happened to be major political donors in key EU member states. Since this powerful oligarchy controlled the political game and the PSD maintained a monopolistic approach to political and administrative power, the result was a form of crony “political capitalism.”

Tom Gallagher provides an instructive and rich account of how close the PSD leadership was to business elites yet his account has several weaknesses. First, it is not clear that the preferences of this interest group were consistent with the Brussels Consensus. Immediately after the PSD lost the 2004 elections, leading business executives in the politically powerful textile and food industries, known for their proximity to the PSD, lambasted the potentially devastating effects that EU environmental regulations were bound to have on their chances of survival. As leading PSD sponsor Dinu Patriciu, a billionaire and owner of an international player in oil processing (Rompetro) company flatly declared that

EU integration costs money, it does not bring money. It’s not
Santa. We [Romanians] should adopt the American model to
be competitive in Europe rather than ape [European] legislation
for the sake of an [EU] checklist.³²⁸

³²⁸ “Local businessmen became Euroskeptics/Oamenii de afaceri locali au ajuns eurosceptici”, *Capital*, August 24, 2005.

Second, if interest group preferences are mediated by institutions acting as “brokers” that aggregate conflicting interests into coalitions that then project their interests into policy outcomes, as some materialists suggest (Gourevitch 1985; Goldstein and Keohane 1995), one wonders what, say, the central bank or the Finance Ministry had to say about the agenda of the businessmen who “captured” the ruling party. Unfortunately, such aspects are not systematically addressed in Gallagher’s account.

Finally, it is not entirely clear how this explanation would travel back in time to the early 1990s, when no previous episodes of transition from socialism to capitalism were available to enable interest groups to “read” what their structural positions told them and, consequently, what their interests were. This was a period when some state managers seemed comfortable staying state managers, rather than going private, while others acted as predatory capitalists bent on looting the best resources of the state firms they once managed. Predatory businessmen with resources drawn from the complicated networks of the socialist economy played neo-patrimonial games with the state not only during the 2000s, but also during the mid 1990s. If all these facts are accurate, then what was new about the predatory capitalist class of the 2000s that made it so homogenous and so clear-minded about its preferences? Could a standard interest-group explanation focusing on formal organizations (capital, labor) do a better job?

The limitations of this approach have been critically assessed in the theory chapter of this study, and even if such explanations were taken at face value, they

would provide an inconclusive account at best. Thus, Romania had a much more robust labor union mobilization during the early 1990s relative to other states in the region could suggest that even if the 1992-1996 government was committed to a neoliberal reform package, union pressure would have killed it. Yet labor unions were not a homogenous interest group opposed to market reforms. This was a period when some labor unions bitterly opposed privatization and FDI while others strongly supported the economic agenda of center-right parties. One of them (Cartel Alfa) was actually a proponent of “trickled down” economics and an ardent supporter of privatization with foreign investors.³²⁹

Moreover, labor mobilization was not strong enough to deter the government from carrying out painful price liberalizations, firm liquidations, and disinvestment in social welfare. And when pro-worker hire-and-fire regulations were adopted in 2003, it was not as a result of labor struggle but of the superior expertise of labor union experts. As a World Bank resident economist familiar with the negotiations for the 2003 labor code put it:

We watched with disbelief how the union experts in labor legislation basically dictated the code to the Ministry of Labor as employer organizations sat idly by. In Romania it's the opposite of Western [policy] contexts. Here labor expertise is superior to employers'. It's incredible! [...] I guess it's because labor unions benefited from years of training at the expense of their Western colleagues, whereas business was too fragmented

³²⁹ Author interview with M.T., Cartel Alfa legal expert, January 12, 2009.

and really not taking the technicalities of labor market regulation seriously. Cosmopolitan labor, parochial business...

Imagine that!³³⁰

If domestic business was so weak on expertise when it faced such direct and immediate threats, then how can one expect it to perform as a more competent and united interest with regard to more complex and causally distant policy issues? Indeed, when a US think tank (Center for International Private Enterprise) performed a diagnostic evaluation of over 20 business associations in 2000 it found that the overwhelming majority had limited involvement in public policy and the rest focused only on sector-specific issues (CIPE 2007).³³¹ This situation changed towards the end of the PSD term yet, as the last chapter shows, this was not a transformation endogenous to Romanian capital, but was the result of a transnational political process whereby business associations were basically represented by INGOs and IFIs in their struggle against the “unions” labor code.”

Structuralist Explanations

For scholars who privilege the explanatory role of material structures, the policy zig-zags of the ex-communists are the inevitable outcome of external and domestic economic pressures. Yet structuralist accounts point in two different

³³⁰ Author interview with Catalin Pauna, World Bank resident economist in Bucharest, January 10, 2009.

³³¹ Center for International Private Enterprise. 2003. Romanian Business Association Development Project Final Report, 2000–2003. Center for International Private Enterprise. 2005. Rebuilding Romania Through Private Sector Development. CIPE Case Study No. 0501, available at <http://www.cipe.org/publications/papers/pdf/IP0501.pdf>.

directions. For structuralists who give primacy to domestic economic pressures, the ex-communists resistance to neoliberal reforms between 1992 and 1996 was the inevitable result of the structure of the Romanian economy in the aftermath of meltdown of national-Stalinism. Thus, in the only existing book on the Romanian postcommunist political economy, Liliana Pop (2002; 2006) argued that the structural imbalances of the Romanian economy at the end of 1989 made the kind of neoliberal reforms experiences by Central European and Baltic states impossible in Romania.³³²

Romania is a crucial case study for the structuralist hypodissertation because its fall in output in the 1990-1993 period was the most dramatic in the region and its access to international capital markets was practically blocked. Additionally, the costs incurred on this country by the embargoes on Iraq and Yugoslavia (running at 8 times the total IMF and World Bank funding for the 1991-1996 period) were particularly taxing on its economy. These were external shocks of inordinate magnitude that according to the structuralist approach demanded a severe domestic adjustment along neoliberal lines and deprived the government of the funds necessary to do counter-cyclical spending if it so desired.

A different structuralist answer can be given to the Romanian puzzle by looking at scholarship that saw the neoliberal turn in developing countries as the result of the interplay between drastic changes in domestic and international economic structures and the increasing leverage of international financial

³³² The structuralist argument was made in economics by Estrin et al (1998) with regard to enterprise reform. The authors concluded that “when one looks at differences in terms of progress of restructuring it seems likely that these can be best explained by preconditions rather than by current progress in reforms” (p. 250).

organizations over domestic policy choice (Poznanski 2000: 232; see also Schleifer and Treisman 2000; Aslund 1999; Drazen and Grili 1993; Williamson 1994; Schimmelfennig and Sedelmeier 2004). According to these accounts, the occurrence of intense crises incurred high economic costs for delays in macroeconomic and structural adjustment, a process associated with the reduction of the strength of domestic opposition to them. Therefore one could hypothesize that by contrast with the domestic structures literature, a deep recession and structural imbalances combined with tight international conditionality should be correlated with a high probability of neoliberal reforms.

However, as the next chapter shows, the adoption of heterodoxy by the Vacaroiu government (1992-1996) at a moment when the recession was at its worst and the economy in its most unbalanced undermines the structuralist argument. Additionally, from a comparative perspective, much less dramatic external constraints led to a much more neoliberal course in Poland, Czechoslovakia or the Baltics, and this course was largely maintained even when the ex-communists returned to power.

As for international conditionality, it is puzzling that none of the ex-communist governments fully complied with IFI demands to undertake market reforms despite the fact that until 1995 they had no access to international private capital markets and no domestic savings to draw on. This also happened despite the fulfillment of IMF and World Bank agreements with the Romanian government (Schimmelfennig and Sedelmeier 2004): clear and formal demands set as conditions for high-value rewards (financial disbursements transferred

swiftly at a time of systemic crisis), credible threats to withhold rewards (the failure of the 1990-1992 government to comply led to suspension of disbursements) and the policy process had few veto players (the Vacaroiu policy team was cohesive and strongly backed by the President).

The structuralist account for the early 2000s better fits the evidence. The near-default reached by Romania in 1998 as a result of the East Asian and Russian financial crises combined with the beginning of EU membership negotiations in 1999 steeply increased the costs of the heterodox and left-populist posture of the ex-communists. To obtain labor peace, the government appeased labor unions with an interventionist labor code but had no alternative when it came to monetary, fiscal policy, welfare policies, industrial subsidies and privatization. This account is particularly compelling. Shunning the EU's orthodox monetary and fiscal targets would have led to Romania's exclusion from EU membership, which would have led to the political extinction of the ruling party (Phinnemore 2000; Light and Phinnemore 2001). Similarly, the demonstration effects of a near-default situation in 1998 could have reasonably be assumed to spur PSD leaders to adopt tighter monetary and fiscal policy with greater commitment. Indeed, as one PSD historian put it,

In 1998 many in the party's left reasoned that a replay of the 1992-1996 statism was impossible. The IMF had tightened its conditionalities and the European Commission was just as ruthless in its demands that we comply with IMF prescriptions

on monetary policy, fiscal policy and so on. It was a double conditionality that the party never faced in the past. Of course, there was considerable leeway in other policy areas, like labor or taxation policy, but on the big items, like deficit or inflation the choice was clear: compliance or no chance that the PSD could take Romania into the EU.

Yet the pressures of international capital markets or of EU integration did not come with specific instructions about the need to have a flat tax, the exact specifications of employment protection regulations and puts no ban on industrial policy. Indeed, such pressures never do. As Wade Jacoby cautioned,

Central European states know that the EU has relatively few tools to constrain the corporate tax policies and are often allied with well-informed and powerful Western firms poised to defend their policy discretion (Jacoby 2010: 421).

Other scholars have shown that transition governments could achieve the policy objectives favored by financial markets not only through cuts in public expenditures, but also by increasing the taxation burden on the successful individuals and companies (Royo 2000; Mosley 2003).³³³ In other words, the leverage of international organizations was not deterministic and left some room

³³³ The same objection could be made to the dot in the case of EU pressures, especially given the fact that political leaders in key EU member states were extremely concerned with the race to the bottom started by East Europeans on taxation.

for maneuver that the Nastase/PSD government (2000-2004) used largely to further a left-populist agenda.

Finally, the most systematic scrutiny of the EU enlargement effects on Romania to date (Phinnemore 2010) established that EU conditionality was much more flexible and less meritocratic than many thought at the time (Vachudova 2005). This was made possible by a sense of inevitability about EU enlargement among EU elites, their fear of “Kosovoization,” the European Commission’s strong reputational incentives to “finish” the enlargement and the strong pro-Romania lobby.³³⁴ Indeed, the case of EU-Romania relations strongly suggests that “[l]ack of compliance with EU conditionality need not be sufficient cause for a state to be denied progress in its integration with the EU. Early and unmerited upgrades in a non-member state’s relations are possible [...] [T]here are multiple reasons reflecting *inter alia* geopolitical and strategic concerns, whether shared by the EU as a whole or by influential groups of member states, the actions of the Commission and the agenda-setting and constraining effects of rhetorical commitments, timetables and the dynamics” (Phinnemore 2010: 305-306).

The Argument

³³⁴ According to Phinnemore, “[p]rominent among them was France. Others, primarily for geo-strategic reasons, included Italy, Greece and the UK. Indeed UK support intensified following the 2003 war in Iraq and reflected, in part, gratitude for Romanian support for the US and its allies. Its position was shared by Italy and Spain. Romania also benefited from the suppressed or embryonic nature of most opposition to its accession. The fact that the Netherlands was holding the Council Presidency during the second half of 2004 clearly helped. As one participant observed, the Netherlands behaved ‘impeccably’. Various member state politicians and electorates had their reservations about Romania’s accession too; these though were not being as forcibly expressed as they would be two years later on the eve of accession.” (Phinnemore 2010:

In the next four chapters I argue that in conditions of uncertainty generated by the transitions from “socialism” to “capitalisms”, neither initial opposition to neoliberalism, nor its subsequent “translation” for the Romanian context are telegraphed from material constraints nor from the formal/informal institutions of the economic policy process.

Instead, I argue that, as in the case of Spain, these outcomes can be properly understood by examining when neoliberal economic ideas became dominant in the revolving door between epistemic elites and state institutions. Once again, it was only when alternative ideas became marginalized to an institutionally coherent policy team that consistent neoliberal reforms became possible in the first place. While in Spain neoclassical economics had become dominant during late Franquism, in Romania the epistemic terrain was more contested and it took several years *after* the political transition for such ideas to constitute the agenda of key stakeholders in the policy process.

But how did neoliberal ideas become dominant and how did alternative economic models end up being removed from the menu? Like in Spain this happened as a result of the intersection of external and domestic political processes. More specifically, the ideational entrepreneurialism of external social forces (IOs, state aid agencies, INGOs, think tanks, transnational party networks) played a necessary role both in building new epistemic elites “from scratch” and also in coopting local epistemic elites who had been exposed to Western economics during the authoritarian era. But the resulting coalition of advocates for neoliberal ideas managed to turn their ideas into institutions only once they

entered coherent policy teams and provided politicians with strategies of economic action.

Again, as in the case of Spain, foreign training in economics and the revolving door between epistemic networks in the central bank and academia were the prime movers behind the translation of neoliberalism. Also, the expansion of the European social-democratic network towards the communist successor party was essential for its rightward shift on economic policy. Yet the Romanian case was marked by a two peculiarities. First, IOs mattered much more in the socialization of policy elites than they did in Spain. Second, new actors were prominent in the case of Romania: Western development agencies, think-tanks, organized foreign capital and private international consultants.

What about alternative ideas? During the early 1990s strong policy constituencies (ruling party experts, the Presidency until 1992, prominent economists in the “institutes” inherited from socialism) advanced a socialist market economy alternative that was more similar to Vietnamese and Chinese models than to the East European ones. Another strong policy constituency (ruling party experts, the Presidency after 1992) advanced various adaptations of the more left-leaning or “embedded” neoliberalism of the kind seen in Spain, broadly consistent with the social compensations and neo-corporatist institutions of continental varieties of capitalism.

The birth of Romanian economic(neo)liberalism came after more than a century when state-led development models dominated Romanian economic policy. These models left traces. Some of these traces were material structures,

some were institutions, but some were economic ideas. When neoliberalism arrived in the last decade of the 20th century, such material, institutional and ideational legacies acted as filters for the new economic paradigm. The second half of this chapter is therefore more than a historical background. Since the historical narratives that mediated the reception of neoliberalism included stylized stories of Romanian “capitalist” and “socialist” experiences, the evaluation of such experiences is essential for understanding how historical legacies mattered in the diffusion of neoliberalism.

II. Background

Romania's capitalist development in the late 19th and early 20th centuries embraced a neo-mercantile model of development shaped by a translation of German and French ideas about "late development." During the second half of the 20th century, the national-Stalinist development model eliminated private markets entirely and radicalized the state-led development model by "indigenizing" a Stalinist development model. When national-Stalinism ended in 1989, neoliberalism encountered a strong initial resistance, with reform socialism and then heterodoxy dominating the policy process. It was only after almost a decade of convulsions that the neoliberal project was embraced by pivotal policy elites.

State and Capitalist Development in Modern Romania

After 1989 Romanian liberals resuscitated the liberal project and, for lack of a better local experience, they drew on this country's short liberal century (1848-1938) for legitimizing narratives. That Romanian economic liberalism had been marked by elements of neo-mercantilism and that its performance had been relatively poor, were the kind of facts that were conveniently obfuscated in postcommunist liberal discourses. By contrast, for communist successor elites this period was a source of legitimizing narratives for opposing neoliberal reforms and

for advocating heterodox and left-populist economic ideas. Meanwhile, since the official history of the communist regime had been far from nuanced in its critique of the Romanian liberal experience, it took almost two decades until respected scholarship faced the unflattering parts of this experience more systematically (Murgescu 2010).

The breakdown of feudalism and the advent of liberalism

At the beginning of the 19th century, the Romanian Principalities (Wallachia and Moldavia) had feudal economies subject to the patrimonial governance characteristic of their Ottoman masters. The patrimonial status quo was based on a compact between large landowners, lesser nobles and the slim layer of urban bourgeoisie whereby the landlords would distribute rents and security in exchange for political primacy over the overwhelming majority of the population, the peasant class. Yet during the third decade of the century, the status quo began to crumble under the pressure of liberal ideas and social forces.

The liberalization of trade for the Ottoman Empire's Romanian Principalities in 1829 improved access to capital accumulation for local landowning and land-leasing elites. The increasing sophistication of Western capitalism led to the adoption of new consumer tastes that flooded the middle and upper classes alike with new marks of status (Western fashions, architectural styles, university education etc.), while lowering marginal rates of saving and private investment. Simultaneously, the lesser nobility's reliance on military tradition to preserve its privileges was dramatically undermined by the twin forces

of increasingly mechanized warfare and external economic liberalization. While large landowners could comfortably withstand the pressures on savings and investment by increasing the country's primary export (Romanian wheat exports experienced a brief "golden age" between 1829 and 1838), the lesser nobles and the urban craftsmen saw dramatic downward social mobility (Georgescu 1972; Janos 2000: 65-103).³³⁵

By the 1840s the social forces that were losing out in the new economic order (the small gentry, the peasants, the urban bourgeoisie) found an unexpected ally: the offspring of the great landlords, who were returning home from France and Germany with university degrees and a determination to put the feudal status quo under the hammer.³³⁶ Following the example of the Ottoman-educated Greek princes who ruled the Romanian lands in the eve of the 19th century, the propertied classes began to adopt French education as a new mark of respectability. However, the members of this Western-educated elite had few prospects to put their Western university degrees to use in the fossilized state and economy of the Romanian Principalities, and few of them desired the life of a landlord. Thus they sought to change the government system itself by seeking independence from the Ottoman Empire and modernizing the state using institutional templates from Louis Philippe's France.³³⁷ To this end, they mobilized the resentment of those who did not benefit by the status quo, by

³³⁵ It is important to note that many landlords saw beyond the interests of their own class and became champions of Enlightenment ideas during the 18th century and then of French liberalism during the early 19th century (Georgescu 1972).

³³⁶ See Janos (1978: 66).

³³⁷ For an extended discussion of the influence of French political ideas in 19th century Romania see Eliade (2000) and Boia (2001: 160-164).

providing a political diagnosis of their woes, which resulted in a state-building project inspired by nationalism and economic liberalism.³³⁸

Facilitated by the administrative, educational and constitutional reforms introduced in the 1830s during one of the several periods of Russian occupation,³³⁹ the coalition between the French-educated intelligentsia, “enlightened” landlords, urban middle classes and peasants staged a liberal political and social revolution in 1848. Its prompt repression by a joint Ottoman and Russian military operation sent the *crème de la crème* of the liberal elite back to France. After they secured French support, the liberals returned to the Principalities in the 1850s. This time, however, they had moderated their agenda in order to make it resonate with the conservatism of their protector, French Emperor Napoleon the 3rd, and to strike a pact with the status quo elites. Reassured, the conservative landlords willingly joined the new liberal project, which led to the internationally-recognized union of the Principalities in 1859, a German monarch in 1866, and independence from the Ottomans in 1877. The resulting liberal project was further boosted by the union with the Russian province of Moldavia as well as with the relatively wealthier Habsburg provinces of Transylvania and Bukovina in 1918.

³³⁸ In the long term, this strategy paid dividends. In the independent Romania of the 1860s and 1870s, state bureaucracy came to be heavily staffed by intelligentsia and the petty boyar class. By the end of World War One, political power rested mainly in the hands of a coalition linking the urban middle classes with a squirearchy that saw several waves of embourgeoisement and a highly politicized intelligentsia. Janos, 1978, pp. 89-90.

³³⁹ Although it facilitated the reproduction of the feudal order, the Russian Governor-General Kisseleff reestablished Romanian monarchs to Wallachia and Moldavia, gave the Principalities and pseudo-constitutional government and established the beginnings of a secular educational system (Boia 2001: 158-159).

The 48-ers and their political heirs reveled in rhetoric that blended Romantic nationalism and political liberalism. “Reason”, a faith in progress, citizenship, the progressiveness of a bureaucratic state, liberal rights, separation of powers, and the market economy loomed large in their discourse. But they were also practical men who institutionalized constitutional government, civil and political rights, modern courts and state administration, commercial codes and procedures and a three-tier public education system, all drawing heavily on the model provided by the France of the Third Empire.

Conservative critique notwithstanding, the liberal state began to deliver many of its promises. With some exceptions, the Parliament was open to the public scrutiny, freedom of expression and assembly was generally observed, and, brutal *jaquerie* repression aside, the police were generally more restrained and procedural than in other parts of the global periphery. Most importantly, the judicial system was effectively autonomous, as evidenced by judges’ defiance of the executive power on a systematic basis. Universal male franchise was adopted in 1923, putting an end to notables’ democracy, and the system allowed for regular change in government between Liberals and Conservatives until 1923, and between Liberals and Agrarians during the interwar period.³⁴⁰

However, at no point did this system come very close to its idealized West European models. Until 1923 it excluded the Jewish population from citizenship,³⁴¹ and it proved remarkably efficient at integrating parties and the civil service

³⁴⁰ As a result, it took the edifying visit of Romanian premier Ionel Bratianu to revolutionary Petrograd in 1917 for Romanian liberals to resurrect their radical origins and push for the adoption of universal franchise in 1919 (Barbu and Preda. 2006: 382).

³⁴¹ The Jewish population was denied any form of citizenship until 1921.

into a neo-patromonial oligarchic parliamentary system (Rotschild 1972; Barbu and Preda 2006).³⁴²

From economic liberalism to neo-mercantilism

The political economy of the Romanian liberal century (1848-1938) was a classic case of neo-mercantile development.³⁴³ Until 1880, mercantilists and free-traders vied for supremacy and for a while, under Prince Cuza (1859-1866) it seemed as if free trade liberals had won the debate. In an attempt to insert Romania into the world capitalist system as an exporter of agricultural commodities, during the 1860s and early 1870s, these new leaders attempted to emulate the reigning orthodoxy of classic economic liberalism and the limited liberal state: free trade, competitive advantage, with public investment in the legal and physical infrastructures needed by the state. Echoing Adam Smith, Prince Alexandru Ioan Cuza announced to the Great Powers soon after his inauguration in 1859 that

[w]e can be thankful that no artificial industry exists on our soil that owes its existence and power to any special law” (cited in Montias 1979: 56).³⁴⁴

³⁴² During elections, the bureaucracy of the *judete* (boroughs) would put pressure on the electorate to vote “the correct way,” or would routinely falsify the results. This corruption, not surprisingly, made the government party the winner. Political change would occur when a party managed to obtain a monarch’s confidence (the monarch could call for elections) and the state bureaucracy (the guarantor of the “right” vote) was won over by the king and his favored party (Janos 1978: 86-89 Rotschild 1972).

³⁴³ Key texts on Romania’s economic development strategies before 1944 include Mitrany (1930), Madgearu (1940), Jowitt (1972), Turnrock (1986) and Murgescu (2010).

³⁴⁴ Montias notes that “Cuza’s position was in part only theoretical because Romania at that time was not entirely free to determine its tariff policy but was restrained by the Paris Convention of 1858 whereby the principalities recognized their dependence on Turkey with regard to commercial treaties (Montias 1979: 56). Romania’s commercial freedom became however real in the mid 1870s.

To institutionalize a modern capitalist internal market system, the new state set in place a modern system of property rights based on an unmediated translation of the Napoleonic *Code Civil*, while land and labor became commodified. The system of commercial law and courts was adopted to secure modern internal and external trade flows. It was a genuine Polanyian “Great Transformation” engineered with French institutional models in mind.

Soon, however, the preference for a neo-mercantilism colored with ethnocentric undertones became dominant. Between 1877 and 1878, just as the country was winning its independence from the Ottomans and a strong domestic bourgeoisie was emerging, the aging “48ers,” now safely ensconced in political and economic supremacy, experienced a fall in the prices of Romania’s main export (agricultural commodities), radically challenging arguments for free trade. This challenge further reverberated in debates on state-nation relations, leading to an increasingly popular interpretation of *laissez-faire* through ethnocentric frames: in the absence of state intervention, ethnic minorities were expected to continue to dominate the ranks of the urban bourgeoisie, the class upon which liberals relied upon for their nationalist economic modernization plans.³⁴⁵

Following this exogenous price shock and such interpretations of its causes and effects, the liberal modernization project swung dramatically in a neo-mercantilist direction. Industrial growth replaced international competitiveness as a top policy priority and new schemes were put forth to turn the state into a

³⁴⁵ Even pragmatic liberal politicians like Ion.C. Bratianu passionately used references to an essentialized ancient history to forge a local liberal myth. Thus, Bratianu saw liberalism in the very origins of Romanian nation, a member of what he called the “Graeco-Latin race. On the genetic concept of Romanian identity in Bratianu’s thought see Mishkova (2006).

“midwife” of “infant industries.” Like in the Iberian Peninsula and other parts of the European periphery, the turn to neo-mercantilism occurred via the emulation of Western “late developer” strategies based on the protectionist teachings of the German historical school in economics.

Following the intellectual lead of A.D. Xenopol, the Romanian state devised mercantilist strategies that were supposed to provide the resources needed to enable domestic industries to “leapfrog” the technological barrier between them and the countries of the developed capitalist core: cheap industrial credit, higher import duties on industrial imports, preferential freight rates, taxes that encouraged the accumulation of capital in large firms (Montias, 1979; Janos 1979: 94-100; Lampe et al 1982). This approach culminated with the adoption of legislation in 1924 that discouraged foreign investment and introduced new protectionist measures. While the Romanian government fostered the labor demand of the urban economy with an effective educational system (at least in the cities), until World War I it actively worked to depress the wage level through labor codes that outlawed agricultural strikes and made rural-urban labor migration difficult (Turnock, 2007: 1-31).

This neo-mercantile capitalist system made considerable progress towards socio-economic modernization. Some of the juridical bases of capitalist modernization (a sophisticated legislation and court system) were in place. After advancing at a snail’s pace, urbanization grew at a somewhat faster pace between 1930 and 1941 while educational progress gathered momentum.³⁴⁶ After 1918, an

³⁴⁶ School enrollment increased by 300 percent between 1895 and 1905 and the increase in total number of university graduates between 1914 and 1938 was the highest in Europe (from 5,455 in

expanding and relatively competitive industrial base “inherited” from Austria-Hungary in southeastern Transylvania and the Banat could arguably have constituted a launching pad for large-scale industrialization in the future. Most significantly, industrial production increased by 80 percent between 1925 and 1938 (Turnock, 1970: 547). The oil industry in Southern Romania and the gas industry in Transylvania expanded at an impressive pace, with both Romanian and foreign engineering competing for new projects. The increased output of these industries in turn fostered the quick development of the chemical industry.

By the end of the 1930s, high tariffs, bold state investment and planning schemes laid the basis for a modern steel industry. The development of high value added sectors such as aircraft and electrical equipment in these regions and in Bucharest itself was particularly encouraging and proved to be the basis for the subsequent communist industrial take-off (Turnock, 2007: 17-31).

Yet when the first “globalization” came to an end on the eve of World War One, Romania was still heavily agricultural, industrialization was slow by regional standards,³⁴⁷ and the country lagged further and further behind in the race to catch up with the economies of the capitalist core. The situation did not change dramatically during the twenty years of peace that came after November 11, 1918. Despite its abundant natural resources, a large internal market, relative proximity

1914 to 30,424 in 1934), giving Romanian citizens one of the few universal opportunities for upward social mobility. During the 1920s, the hegemony of the literary, juridical and philosophical establishment in universities was gradually challenged by the emergence of the disciplines demanded by industrial modernization: engineering, architecture, economics, and social sciences. The development of sociology in particular merits a special note, given the remarkably high profile of Romanian contributions and the consolidation of schools of thought around prominent scholars like Gusti or Sperantia.

³⁴⁷ Despite hundreds of bills meant to encourage industrial development, the Romanian economy did not manage to reach the “take-off” stage experienced by Russia and Austria-Hungary, its regional competitors (Mitrany 1938).

to Western markets and a bureaucracy committed to state-led development, the performance of the Romanian economy between 1860 and 1938 was poor. During this period, a gap grew not only between Romania and France, but between Romania and other European countries that had a similar GDP in 1860 (Sweden, Hungary) (Bairoch 1976, 289; Murgescu 2010).

As a result of this slow industrialization, less than 3 percent of the labor force was made up of industrial workers in 1913. Also, despite massive employment in the bureaucracy, only 25 percent of the labor force was employed outside agriculture in 1938. Although industrial growth was average by regional standards, capital consolidation was very low: after decades of mercantilist policies, the capital stock of industrial firms with more than 25 workers totaled barely 1.5 percent of the total capital stock (Roberts). The domestic share of total capital holdings in industry increased from nearly rock bottom in the 1879s to about 60 percent in 1938. However, even though the transmission belt between Romanian industrialists, bankers and the state functioned flawlessly throughout the liberal era, and despite the state's increasing assertiveness to limit the participation of foreign capital, Romania remained dependent upon West European investments to sustain its economy (Hitchins 1992: 1071).

The performance of the liberal project looks mediocre in other respects as well. For a state with one of the highest percentages of bureaucrats per employed population in Europe, tax receipts were negligible and the state's financing of expenditures with foreign debt made debt servicing one of the biggest budget items until 1938. Caught in this debt trap, the state had meager investment

resources left and gave its public servants wages whose low levels generated incentives for extra-legal collection of revenues, most frequently from Jewish entrepreneurs.

Although the Romanian land reform of 1921 was the biggest land redistribution in Europe (outside the Soviet Union),³⁴⁸ it reduced already low productivity in agriculture and it did not ameliorate the social underdevelopment problems of the Romanian village.³⁴⁹ While a public pension system for waged employees was in place,³⁵⁰ the picture looked dire with regard to the social development indicators of the peasantry and urban poor.³⁵¹ Finally, it is far from clear that despite some progress, the educational system was structured to address an industrial take-off.³⁵² The result was that, by the 1940s, Romania's living standard, literacy and access to medical services were on a level with other peripheral European countries (Yusoglavina, Turkey, Portugal) and behind both its immediate Western neighbors (Hungary, Poland) and non-European peripheral

³⁴⁸ Rotschild, 1972, p. 291.

³⁴⁹ After the 1921 reform the average yield of cereals per hectare fell by 24 percent. Janos (1978: 103).

³⁵⁰ A public pension system was created very early based on the Bismarck template with two statutes: *Legea Missir* (1902) and *Legea Nenițescu* (1912), unified in 1933. Following the activism of sociologists, after 1929 a network of community welfare initiatives sprung up (Zamfir 1999).

³⁵¹ Despite significant investments in education (16 percent of public revenue between 1918 and 1938), almost half of the population was illiterate in 1938 and only Albania and Serbia hosted fewer doctors per capita (1.1 doctors per 10,000, which was less than in India at that time). See Janos, 99. Between 1871 and 1935 the infant mortality rate remained the highest in Europe: 19.2 deaths per hundred (or 120,000 per year during the interwar years), largely the result of poor nutrition and farm work during pregnancy. The death rate in the population as a whole was also the highest in Europe (a disturbing 21/1000 as late as 1935). Well into the boom years of the 1930s, the rural population remained dramatically disease-ridden, deprived of basic healthcare and constrained to live in precarious hygiene conditions (Hitchins: 337).

³⁵² If indeed interwar Romania, with its backward agricultural economy, had more university graduates (2 per 1000) than the heavily industrialized Germany (1.7 per 1000), the overwhelming majority of students were trained in law (in the early 20th century there were more lawyers in the Bucharest bar than in the Paris bar) (Rotschild, 1972, 320). Most graduates graduated in humanities and classics, while engineering and economics graduation numbers lagging further behind. Also, the vocational school's theoretical school enrollment ratio was at 1:3.

countries (Chile, Mexico) (Jackson and Lampe 1982; Ben-Ner and Montias 1991).

The Great Depression and the end of the liberal project

The economic turmoil triggered by the financial crisis of 1929 dealt a heavy blow to the modernization project of liberal elites. Faced with the first spasms of the crisis in 1929, the new Agrarian Party government applied a macrostabilization package demanded by the foreign banks that financed the bulk of the government deficit, with the French central bank playing the leading role.

Thus, faced with the massive transfers of hard currency made by the local chapters of foreign banks, the central bank decided to stick with France's "Gold Bloc" and refused to introduce convertibility controls until 1932, which led to an unprecedented hemorrhaging from the hard currency stock. Second, fiscal policy was contractionary. Budget deficits and state spending were cut, leading to cuts in wages for the state's numerous employees or for their non-payment for several months. Third, the protectionist laws of 1924 were scrapped. Foreign capital was welcomed, with some of the foreign loans being paid by granting lucrative monopolies (telephones, road building and matches) to the foreign lenders.³⁵³

The macrostabilization package ended up aggravating the state of the economy and leading to debt rescheduling negotiations in 1933. The terms were humiliating: foreign banks demanded, and ultimately attained, a decision to put the country's finances under the control of a joint committee of the League of

³⁵³ For example, the 30 million dollars loan made by the Swedish Krueger House was paid with granting this company the domestic monopoly over the production of matches (Josan 17).

Nations and representatives of foreign banks (Axenciuc 1997: 361). As foreign banks began to reduce their exposure in Romania, as the world demand for Romanian grain and oil fell, and as domestic demand remained constantly low, the economy entered into a tailspin. The fall in demand led to a deflation rate of 30 percent and to a collapse in the real value of wages of 27 percent. Between 1929 and 1933 gross output and industrial production were halved and almost 500 factories entered bankruptcy. As a result, almost a third of the industrial labor force became unemployed and state receipts fell by almost 40 percent.

The social costs of the macrostabilization were considerable. There were 370 industrial strikes, some of them concluding with the shooting of large numbers of strikers by gendarme and army regiments sent to quell the protests. Yet the social downfall of the crisis did not lead towards a more socially embedded liberalism, as it did in other agricultural European states at that time (e.g. Denmark). On the contrary, the failure of the Agrarians to stick to a more socially progressive agenda strengthened the hand of authoritarian social forces.³⁵⁴ The weakness of the Marxist left exacerbated the situation: the social-democratic vote was largely insignificant, and the communists' subservience to Moscow as well as their questioning of Romania's borders with the USSR made them largely insignificant even when they were allowed to compete in elections.³⁵⁵ Against this background, the far-right became increasingly successful at attracting the votes of peasants and urban lower middle classes.³⁵⁶

³⁵⁴ For an in-depth account of Romania during the Great Depression see Axenciuc (1997) and Muresan (1998).

³⁵⁵ The leadership of the Romanian communist party spent most of the interwar period in prison. The electoral performance (0.6 percent) was extremely low by regional standards. The

As world demand for grains and oil picked up in 1934 and as the state boldly increased domestic demand through a spike in military orders, the output grew again after 1934. Yet the liberal project had been politically damaged, because the authoritarian forces grouped around the monarch, who was inspired by fascist corporatism and far-right parties, took control of popular discontent. As a result, the liberal project came to an end in 1938 when King Carol the Second dissolved the Parliament, instituted single-party rule and terminated the long-standing constitutional regime.

Inspired by the ideas of Mihail Manoilescu, a precursor of dependency theory who was appointed as a government minister (Love 2001), the new regime launched a “mainline” developmentalist strategy: forced industrialization, public investment in high technology and large agribusinesses and proto-indicative planning. Abruptly terminated in the summer of 1940 by the dismemberment of Romanian territory at the hands of the temporary German-Soviet alliance, this state-led developmentalist project was at least a qualified success in the view of historians (Janos 1979: 105-106).

Romania’s involvement in World War II on the side of Nazi Germany until 1944, and later on the side of the Allies, led to massive destruction and plundering of the economy and to almost a million dead. The Romanian constitutional regime briefly reemerged between 1944 and 1947, only to be

communists scored 13 percent in the former Czechoslovakia, 7.9 percent in Poland, and 20 percent in Bulgaria.

³⁵⁶ The foremost representative of the far-right was the LANC (the National Christian Defense League).

suppressed yet again and for a much longer period of time by an entirely different kind of state-led developmentalism and authoritarianism.

National-Stalinist Development

National-Stalinism as a political paradigm

The advent in Romania of a political regime anchored in the tenets of Leninism and Stalinism was made possible only by external intervention. Due to severe state repression and its own disputes over Romania's borders with the Soviet Union, the Romanian Communist Party (RCP) was an inconsequential political force before 1945.³⁵⁷ Without Soviet occupation, the Romanian Communist Party would not have posed any serious challenge to the liberal *ancien regime*.

Inaugurated in 1948, the regime was at first dominated by RCP chairman Gheorghe Gheorghiu Dej and, after 1965, by Nicolae Ceausescu.³⁵⁸ RCP representatives used the Marxist idiom and called themselves "socialist" in order to legitimize and rationalize their claim to power. But as Katherine Verdery put it,

[i]n Ceausism as much as in perestroika, the meanings of terms and concepts differ substantially from those of Marx's theoretical analyses." (Verdery 1991:139).³⁵⁹

³⁵⁷ The communist vote in interwar Romania (0.6 percent) was extremely low by regional standards, as the communists scored 13 percent in the former Czechoslovakia, 7.9 percent in Poland, and 20 percent in Bulgaria.

³⁵⁸ For extensive analyses of the political system under Romania's "dynastic communism" see Raport Prezidential (2006), Tismaneanu (1989; 1991; 2003), Chirot (1979), Fischer (1989); Jowitt (1971); Shafir (1985); Verdery (1991).

³⁵⁹ Verdery showed that in the Romanian context, the "indigenization" of Marxism in its Marxist-Leninist variant resulted in a subversion of Marxism-Leninism's central theses via the

In reality the political regime that ruled in Romania between 1948 and 1989 is better characterized as “national-Stalinist” (Tismaneanu 2003). The presence of a few key markers made the Romanian regime deserve the “Stalinist” label: the use of Stalin’s doctrine on the “aggravation of the class struggle along with the development of socialism“ (i.e. systemic and violent repression of dissent plus hypercentralization of political power), the personality cult (especially during Ceausescu’s sultanist phase), the emphasis on “socialism in one country,” and the forced collectivization of land.³⁶⁰ During the Ceausescu years the centralization of political power took Romanian authoritarianism into a “sultanistic” phase (Linz and Stepan 1996). After destalinization had already been used as a mechanism for removing opponents inside the party since Gheorghiu Dej, Ceausescu managed to reduce the collective party leadership to an empty shell. As a result, by the 1970s, the regime was already controlled by Ceausescu, his family and a small retinue of uncritical Politburo members (Tismaneanu 2003).

According to Vladimir Tismaneanu, the nationalist-Stalinist ideological artifact embraced during this period opposed the innovations of reform-minded

subordination of Marxism-Leninism to the discourse of the Nation (Verdery, 1991: 139). Of course, there was some variation within this ideological paradigm. While the period between 1948 and 1957 was more internationalist and less nationalist, the revisionist Stalinism begun 1957 and ended in 1971 rediscovered the Nation as a central ideological category. After 1971, the nationalist component remained, yet it was merged with the cult of the leader and his family (“sultanism” Linz and Stepan 1996).

³⁶⁰ Arguably, while some of the political innovations associated with Leninism were also constitutive of these “varieties of Stalinism” (the leading role of the party, the institutionalization of autocracy *within* the party, near-complete nationalization of the means of production, the use of the secret police beyond the conditions of war communism, militaristic labor disciplines), they remained nevertheless subordinated to the more encompassing architecture of Stalinism.

national-communism,³⁶¹ merged state, party and (sultan) family power and then turned its formerly strategic³⁶² and initially “liberalizing” embrace of nationalism³⁶³ into an exercise in laundering right-wing nationalist practices: ethnocentrism, militarism, the cultivation of the exclusivist subjectivities (Tismaneanu 2003: 32-34; Petrescu 2009).³⁶⁴

But Romanian national-Stalinism went beyond putting neo-Stalinism in the company of anti-internationalist and ethnocratic ideology. By the 1980s it began to integrate distinct elements of fascist origin: the cult of the ancestors, organic or Herderian definitions of the nation, the encouragement of xenophobic attitudes vis-à-vis the Hungarian and the Roma and, after institutionalizing amnesia with regard to Romania’s active role in the Holocaust, the regime tolerated and even encouraged anti-Semitic sentiment.

As an authoritarian regime, Romanian national-Stalinism legitimized the suspension of civil and political rights. Being Stalinist, it had no qualms about employing the police state against perceived political opponents. This resulted in

³⁶¹ National-communism was a critical reaction to the Soviet interpretation of Lenin’s legacy and manifested an opening to debate that was radical enough to lead to the Yugoslav experiment or to political experiments in Hungary in 1956 or in Czechoslovakia in 1968. These experiments were rooted in ideas more akin to those of Italian or Spanish communist parties than to the Soviet line: the questioning of the Leninist dogma of the dictatorship of the proletariat, the intellectual divorce with the dissertation of the leading role of the party, the commitment to a multiparty system, the radical critique of Stalinism.

³⁶² In a recent article Dragos Petrescu showed that the consolidation of the strategy to use nationalism as a form of power consolidation by Gheorghiu-Dej and Ceausescu took about eight years (1956-1964) (Petrescu 2009).

³⁶³ In a classic study in the cultural anthropology of Romanian intellectual life, Katherine Verdery demonstrated that the “indigenist” discourse dramatized by Ceausescu after 1971 came to undermine the official ideology of Marxism-Leninism. Yet, as this author insists, “to a considerable extent. . .the Party was *forced* on the terrain of national values (not unwillingly) under pressure from others, especially intellectuals, whom it could fully engage in no other manner.” (Verdery 1991: 122, emphasis in original).

³⁶⁴ Tismaneanu (2003: 32-34).

bureaucratically organized maltreatment, incarceration and extermination of large numbers of people and particularly of the administrative and political apparatus of pre-communist regimes.³⁶⁵ As a result, the emergence of the kind of anti-regime civic networks that made Polish, Czechoslovak or Hungarian reforms possible was much more constrained in Romania.³⁶⁶

The regime's record with regard to its purported social base was highly problematic as well. Its claims to be a "workers' and peasants' state were consistently undermined by its suppression of autonomous labor unions, the de facto transformation of collective farm workers into a lumpenproletariat and the imposition of low living standards whenever its accumulation strategy so required. Thus, attempts to organize independent workers' unions, such as the 2,400-strong Workers' Free Unions (SLOMR) during the late 1970s,³⁶⁷ were quickly stifled. Following the 1977 coal miners' strike, hundreds of strikers were deported and imprisoned.³⁶⁸ Similarly, workers' strikes in the industrial city of Brasov in 1987 led to a wave of arrests, prosecutions and long prison terms for the workers involved.³⁶⁹

³⁶⁵ A 2007 Romanian Presidential commission chaired by professor Vladimir Tismaneanu estimated the number of political prisoners at about 2 million, yet refrained from giving a specific figure on fatalities caused by political repression. The most egregious forms of political repression took place between 1948 and 1964.

http://www.ziaruldeiasi.ro/files/fstore/z_is/staticpages/Raport.pdf. Jowitt persuasively argued that "the high incidence of uncritical emulation by the Romanian elite is to be explained not simply in terms of Soviet demands for detailed emulation, but also in terms of the elite's uncertainty as to how to achieve and ideologically and politically correct breakthrough." Jowitt 1973, 198-232.

³⁶⁶ Despite this, public and radical forms of regime contestation were orchestrated with great risks both by the intelligentsia and the industrial working class. For a comprehensive overview see Comisia Prezidentiala (2006) http://www.ziaruldeiasi.ro/files/fstore/z_is/staticpages/Raport.pdf.

³⁶⁷ See O. Ionel and D. Marcu (Eds.), *Lupta mea pentru syndicate libere in Romania*, Iasi: Polirom.

³⁶⁸ For the militant history of the Jiu Valley coal miners see Vasi (2003). For an overview of the institutions of workers' subordination under national-Stalinism in the 1970s see Nelson (1981).

³⁶⁹ For the history of the 1987 workers' protests see Deletant (1998), Raport Prezidential (2006); Ciobanu (2009).

In another ironic historical parallel with the most unsavory aspects of social repression during Romania's neo-mercantile capitalism, the costs of capital accumulation were transferred by the state on to the peasants. These were forced to accept subsistence pay, meager social benefits, forced "relocations" and long working hours (which led, in turn, to high levels internal migration, subversion of work, anomie and alcoholism). As for the remaining private peasantry, despite being heavily taxed, they were excluded from many social programs (Iordachi and Dobrinu 2009).

Finally, during the 1980s drastic cuts in consumption and social services ended up undermining the very claims of socio-economic progress that much the regime's claim to legitimacy hinged on. Draconian spending cuts and the banning of medical imports during the 1980s led to severe shortages in medical supplies. In the late 1980s even basic items like insulin or single use syringes were hard to come by and some of the weakest members of society (childless retirees, orphans and abandoned children) were interned in abysmal conditions.

National-Stalinism as a socio-economic paradigm

After an initial uncritical embrace of orthodox Stalinism during the 1950s, the regime rebelled against Soviet plans to integrate Romania into a common market and impose upon it an economic profile that entailed decelerating industrialization and prioritizing agriculture.

In 1963, as a result of this opposition, Romanian Stalinists posited a seamless equivalence between economic self-sufficiency and national

independence. This meant commitment to a state-led effort to turn Romania from an agriculture-dependent developing country into an industrial middle-power. It also meant a coordinated policy to urbanize the majority of its population, ensure full employment and universal access to social services, build a scientific superstructure and collectivize all high-yield farming land.

The “thaw” of the mid 1960s also entailed a slight liberalization of the private agricultural market,³⁷⁰ the substantial increase in industrial investment to nearly 35 percent of GDP and the correlative disinvestment in agriculture.³⁷¹ To fund this systemic transformation, the state applied a forced savings strategy and began to borrow from abroad.

This entire economic system rested on central planning³⁷² and the domestic sources of the public budget were SOE profits, the tax on SOE profits and wage taxes.³⁷³ Yet SOE executives spent much time on negotiations with the state bureaucracy for the granting of case-by-case exemptions. Social spending and subsidies consumed between 20 and 30 percent of the public budget (Croitoru 1993: 92). Exports to CMEA were subsidized by CMEA members, as the prices were determined by the average of the last five years.

³⁷⁰ As a result of liberalizing farmers’ markets in cities, although private farmers owned less than 10 percent of arable land, they supplied around 20 percent of domestic demand (Ionete 1993: 38).

³⁷¹ In 1980 investment in agriculture was 4 times smaller than in industry (Ionete 1993: 42).

³⁷² This meant that the state planned output, wages, sales, losses, investments, and import and export prices. Rather than represent a function of supply and demand, prices were a planned indicator serviced by the public budget, with the latter functioning as a money pot that covered both investments and losses. Prices were also divorced from the exchange and interest rates. This meant that hard currency shortages became product shortages whenever imports of raw materials and technological inputs were required.

³⁷³ The RCP and the intelligence service (*Securitate*) ran enterprises of their own (*Gospodaria de Partid*) that were heavily subsidized, tax exempt and had off-the-book operations. Their activities ranged from agriculture to foreign trade. Ceausescu’s gigantic People’s House (the world’s second largest building) was financed through the RCP Household.

What distinguished this development model from other forms of state socialism, especially after the 1970s, was the absence of any form of private property in industry and services, the near complete state control of agriculture, the subordination of household consumption of both private *and* public goods to industrial development, and resistance to any market devices in inter-firm and employment relations. Other conservative East European regimes (post-1968 Czechoslovakia or East Germany) attempted to balance full employment, individual consumption and industrialization priorities. Yet at the center of the Romanian model was a consistent commitment to industrialization at the expense of other priorities, even after Romania became more industrialized than its Central European peers.

As far as industrialization was concerned, the result was qualified success. The levels of the industrial investment sustained by the Ceausescu era were very high by regional standards.³⁷⁴ Despite considerable appropriation of Romanian factory equipment and raw materials by the USSR,³⁷⁵ between 1953 and 1968, Romanian industrial production grew proportionately faster than that of any other European country.³⁷⁶ This made Romania almost as industrialized as Hungary

³⁷⁴ Net investment obtained through a combination of forced savings and foreign borrowing grew from 18 percent during 1951-1955, to 34 percent through foreign loans in 1971-1975. Even with the difficulties of the 1980s, net investment was still 27 percent between 1981 and 1985 (Montias 1981).

³⁷⁵ Daniel Turnock claimed that the joint Romanian-Soviet companies set up after 1945 “had drained the country of raw materials to the extent of several times the amount of reparations actually agreed, all in return for Russian manufactures at inflated prices. It has been calculated that the various forms of exploitation accounted for eighty-six percent of the total national income between 1944 and 1948 (Turnock 1970: 546).

³⁷⁶ Citing data from B.R. Mitchell’s *European Social Statistics 1750-1970* (Columbia University Press, 1976), Daniel Chirot shows that between 1950 and 1968 Romania’s industrial production index grew by over 545 points, compared to 378 in Spain and 362 in Greece (Chirot 1978: 457-499).

and Poland and nudged it closer to the industrialization levels of East Germany and former Czechoslovakia (Turnrock 1974).

By the 1970s, this industrial “take-off” gave the Romanian economy a more modern outlook as well as consistently high output growth rates (68 percent per decade between 1950 and 1974). By 1989, Romania was the most industrialized European country, with 53 percent of the GDP being generated by industry (Ionete 1993: 73).³⁷⁷ The share of manufacturing in exports grew from 7 percent in 1950 to 60 percent in 1989 and given that in 1980 already 60 percent of exports went to the capitalist core the progress can hardly be ignored (Cojanu 1997: 88-89). The range of industries represented was not just heavy industry, where output rates were higher than in developed states.³⁷⁸ There was a growing element of sophistication in chemicals and engineering. According to the data collected by Swiss development economist Paul Bairoch (1976), between 1950 and 1973 Romania managed to arrest the growth of the gap that separated her from Western Europe.³⁷⁹

The new regime also proved resourceful at increasing the pace of social modernization. Weakly urbanized in 1950 (even by the low standards of Iberia, Greece and Eastern Europe), Romania had narrowed the gap considerably by the 1970s.³⁸⁰ Unlike in many other developing countries and in contrast with interwar Romania, the proletarianization of the peasant populations was achieved without

³⁷⁷ In 1989 the highest rate of participation of industry to GDP among OECD countries was 38 percent (World Bank 1990).

³⁷⁸ In 1988 Romania produced more steel per capita (605 kilograms) than the US (363 kilograms), Sweden (577 kilograms) and France (319 kilograms) (Ionete 1993: 74).

³⁷⁹ It needs to be remarked, however, that on this measure Romania was not nearly as fast as Bulgaria or Poland. For a more extended discussion on this issue see Berend (1996).

³⁸⁰ However, by the end of Romanian Stalinism the three Mediterranean countries were much more urbanized than Romania. See Davis (1972).

the attending emergence of giant slums and mass unemployment. Large numbers of urbanizing peasants experienced a remarkably short journey from rural misery to indoor plumbing, central heating, mass tourism, affordable fashions, entertainment and modern mass transit based around an extensive rail network.³⁸¹ Mass culture was simultaneously controlled, manipulated and made accessible to the widest number of citizens, while the strictures of the traditional extended family were loosened by the wide availability of industrial jobs, subsidized housing and the social safety net. Between the mid 1960s and the late 1970s, even a small mass consumption culture began to spread in cities. For the first time in the country's history, society achieved full social mobility.³⁸²

National-Stalinist Romania also followed other state socialist states in the world race over literacy rates, size of industrial labor force, the slashing of mortality rates, universal access to social services (health, childcare, paid vacations) and the advancement of the sciences. Old age pensions became *de facto* a citizenship right and minimal wages were set well above subsistence levels.³⁸³ General mortality was also dramatically reduced as a result of better nutrition, better hygiene and free access to modest, yet relatively modern healthcare. The number of doctors per 10,000 people increased from 1.1 in 1938 to 20 in the mid 1980s, while the number of hospital beds per capita was close to

³⁸¹ In 1989 the rail network density was the fourth largest in Europe (47.8 kilometers per 1000 square meters), with electrified links accounting for 32 percent of the total network.

³⁸² The most comprehensive study of Romanian urbanization until the 1980s is still Ronnas (1984).

³⁸³ Education and health were key concerns, if only because Stalinist regimes' claim to legitimacy rested more on performance in meeting basic needs than on procedural justice. From this point of view, the contrast with the procommunist years is stark. Infant mortality rates in Romania plummeted from being the highest in interwar Europe (139/1000 live births) to significantly lower levels (35/1000 in 1974). Chirot, 1979; Hitchins, p. 337; Romania. Demographic History. http://www.photius.com/countries/romania/society/romania_society_demographic_history.html

West German levels.³⁸⁴ Illiteracy, which stood at around half the population in the late 1930s, was virtually eliminated. In some respects, such as female participation in the labor force, a core factor in breaking traditional societal norms on marriage, the Romanian communist regimes scored higher than even some developed industrialized states.³⁸⁵ Free kindergartens, affordable lending libraries, bookstores, cinemas, theatres, etc. were also made widely available, at least until the late 1970s. Employee and welfare benefits gained during the social-democratic experience in the West became taken for granted and were topped by local innovations: subsidized basic goods and services and guaranteed full employment.³⁸⁶

One of the contradictions of this economic model was that the ambition to industrialize meant at least an instrumental opening to Western finance and industry, a course that the regime pursued vigorously for fifteen years (1966-1981). In bold contrast with its brutal response to those who advanced reform socialism and an expansion of household consumption, the accumulation strategy pursued by the regime made its external economic relations unique for the CEMEA zone: export-led growth targeted at both Western and Eastern markets, joint ventures with Western (especially West German and French) companies and

³⁸⁴ See Berend (1999: 167).

³⁸⁵ Catalin Zamfir, "Poverty in Romania",

http://www.warwick.ac.uk/fac/soc/complabstuds/russia/Poverty_in_Romania.doc.

³⁸⁶ In terms of welfare, the contributory welfare system was nationalized in 1949 (Mărginean în Zamfir, 1998) and universal social citizenship was instituted, with the state and its enterprises sharing the costs of an expanded array of social security services (Zamfir, 1999). While the system was generous and professionally delivered, it nevertheless did not cover unemployment (whose existence was denied).

entry into the Bretton Woods institutions.³⁸⁷ The country's anti-Soviet foreign policy, its recognition of the statehood of West Germany and its rapprochement with the United States during the Nixon presidency enabled Western technology transfers that ranged from car and truck plants to military helicopters.³⁸⁸

Yet when the regime's core norm (the conflation of economic and political independence) was challenged by the debt crisis of the early 1980s and the IMF's threat to impose policy conditionality on Romania as the country was on the brink of default, Ceausescu decided to guard the orthodox industrialization program, not only at the cost of completely disconnecting the country's economy from global financial and industrial capital, but also of compressing basic necessities (food, energy and health) to wartime constraints.

The Meltdown of National-Stalinism

Shock Therapy, Stalinist-Style

The economic failure of the national-Stalinist development model had both structural and contingent causes. Despite its remarkable growth rates, the model was ridden with systemic imbalances. First, the continuing expansion of steel, petrochemicals and machinery industries meant high levels of energy consumption and potential vulnerability to exogenous supply shocks.³⁸⁹ Second, the ambition to give Romania a comprehensive industrial structure able to

³⁸⁷ Romania was the only CMEA country with a generalized trade agreement with the EEC and, until 1982, with the IMF. Hungary also joined the IMF in 1982.

³⁸⁸ From automotive to military helicopters, Romanian-West German and Romanian-French joint ventures accounted for most of the major technology transfers of the 60s and 70s, a pattern curbed only by the turn towards a crude form of import substitution during the second half of the 1980s.

³⁸⁹ In 1989 the consumption of primary energy per GDP unit was 4.5 times greater than the average EEC level making Romania Europe's least efficient energy user (Ionete 1993: 28).

manufacture almost everything locally, “from needles to jets, “ made it necessary for the bulk of investments to be directed toward new industries, while equipment producing traditional lines remained antiquated (Montias 1991). Third, some economists argued that the attempt to decentralize decision-making at the firm level during the late 1970s paradoxically ended up increasing shortages and putting the public budget under increasing strain (Croitoru 1993: 92-94).³⁹⁰

Yet even with these imbalances, the economy continued to perform well as long as external financing were available at low and predictable interest rates and its high levels of energy efficiency were not subject to exogenous supply shocks. The first oil shock did not affect communist Romania as much as it affected other developing countries, because the country was able to supply 86 percent of its energy needs from domestic sources and to extract preferential trade deals with oil-rich Arab states.³⁹¹ While decreasing demand in the European Community reduced the share of exports to developed states, growing demand in LDSs, with which the Ceausescu regime developed strong relations, grew considerably. IMF and World Bank loans, access to Western sovereign finance facilitated by détente, and Romania’s ambivalence towards USSR all contributed to reducing the likelihood of a potentially deteriorating external position.

³⁹⁰ According to Croitoru, by allowing state firms more control over profits initially reduced the investment burden assumed by the public budget. At the same time, the government thought that the more autonomous SOEs would be able to deal with world prices for their inputs. As the assumption proved mistaken, in the end the government had to step in and cover the deficits thus incurred by SOEs or to allow them to increase the prices demanded for their output which, in turn, forced the government to spend more on price subsidies. The combined effect of these measures was the emergence of systemic shortages (Croitoru 1993: 92-93).

³⁹¹ The average CMEA country was able to have a little more than half of these resources covered locally. See Linden (1986).

The situation changed dramatically after 1979. First, the second oil crisis affected the Romanian economy more than the first because of the unprecedented industrial expansion of the 1970s increased demand for oil.³⁹² More specifically, although Romania had maintained a low level of the debt-service ratio by the standards of both newly industrializing and East European countries, in 1978 it began to increase its level of foreign debt to pay for the imports demanded by growing excess demand.³⁹³ Second, this exogenous supply shock also coincided with a peak in Romania's oil production and increasing dependence on Soviet oil, a turn that questioned one of Ceausescu's core foreign policy priorities: autonomy from the Soviet Union.³⁹⁴ Finally, the energy crisis was compounded by a capital shock: in 1979 private international capital became considerably more costly following the United States government's move to suddenly increase interest rates in 1979. For Eastern Europe the consequences were even more dramatic as a result of the "second cold war" that characterized the early Reagan presidency. As a result, by 1982 Western credit to Eastern Europe had nearly dried up. Romania and Poland were thus forced into debt rescheduling, with Hungary narrowly escaping the situation.

³⁹² For example, the 1975 World Bank loans were invested mostly in energy-intensive industries whose increasing operating costs caused by the 1979 oil shock put the public budget under unprecedented pressure.

³⁹³ Debt-service ratios are measured as convertible currency expressed as a share of convertible currency merchandise and nonfactor service exports in a country. If in Romania the debt-service ratio was 35 percent in 1982, the corresponding figure was 47 for Mexico, 57 for Brazil, 102 for Poland and 45 for Hungary. See Bela Balassa, "Adjusting to External Shocks: The Newly Industrializing Economies in 1974-1976 and 1978-1981," World Bank Working Paper, DRD89, 1984.

³⁹⁴ Between 1948 and 1963 the regime's foreign policy had been thoroughly subservient to Moscow. The autonomous turn in foreign policy had been inaugurated in the late rule of Gheorghiu-Dej and had been a mainstay of Ceausescu's rule. See Farlow (1964: 14-24). While this foreign policy objective was genuine and served well the legitimacy of the regime, some historians argue that Ceausescu's foreign policy did not represent a strong challenge to the unity of the Eastern Bloc. See Cioroianu (2005).

After two years of struggling to meet its international financial obligations, in 1982 the Romanian government sent a letter to its main creditors and informed them that it could no longer afford to carry on servicing the principal of its external debt to commercial banks. Faced with this situation, the international banking community formed a Steering Committee which began rescheduling negotiations.

It was not until August 1982 that the country reached a debt-rescheduling agreement with its major fifteen Western creditor governments, with the agreement becoming effective on December 30, 1982.³⁹⁵ The situation was so dramatic that the expenses of the Romanian national airline and of the state's embassies were paid in cash via embassy mail. With energy dependence on Soviet oil increasing³⁹⁶ and with a "Polish" scenario whereby the IMF and international financial capital disbursing further loans based on policy conditionalities, Ceausescu watched as both pillars of his policy (industrial development and sovereignty) were in peril of crumbling.

Faced with this situation, Ceausescu shifted course dramatically in the 1981-1986 five year plan: all foreign debt was to be paid by the end of the decade and no new debt was to be contracted. As a result, between 1980 and 1983 non-

³⁹⁵ *New York Times*, August 4, 1982; *Financial Times*, December 8, 1982. For a comparative overview see Keith Clark, Martin Hughes and Andrew Yianni, *Int'l Fin. L. Review*, 31, 1992: 31-32.

³⁹⁶ Romania was the only Eastern bloc country that did not receive direct credit lines from the USSR (242).

socialist convertible currency imports fell by 43 percent, whereas they decreased only by 5 percent in GDR.³⁹⁷

The depth of austerity and the pace of the improvement in its trade deficit was far in excess of what markets expected and constituted a “sui generis shock therapy” (Daianu 1999:9). The early payment of foreign debt also came at the cost of increased export quotas for both industry and agriculture, all while aiming for a 40 percent cut in energy costs. Imports of Western technology were drastically cut and Ceausescu ordered its substitution with local manufactured products and fuels. As a result, total imports in 1983 were only at 77 percent of their 1980 levels. As research institutes could neither replicate nor reinvent imported technologies overnight, late orders and low quality of output had serial correlation effects throughout the economy. The result was that between 1980 and 1989 the losses of state firms increased by 450 percent and profits fell by over 150 percent (Ionete 1993: 104-105; 199).

The distribution of the costs of adjustment was clear: the investment rate was reduced from its high 1970s levels, although it was to remain Eastern Europe’s highest.³⁹⁸ Since Ceausescu perceived the debt crisis as an onslaught on his regime’s development strategy, industry remained the main beneficiary of

³⁹⁷ For more comparative data on currency imports in Eastern Europe during the early 1980s see *UN Economic Commission for Europe, Economic Survey for Europe* in 1984-1985, NY: UN, 1985.

³⁹⁸ In 1989 Romania had 348 research institutes, of which 16 had more than 2000 employees and Public spending on research and development increased by nearly 16 percent between 1985 and 1989. New institutes were established during the 1980s leading to an increase in the rate of industrial creativity. Despite the increase, the average spending per capita was nevertheless remained at 24 percent of the West European average. Spending in research and development in Bulgaria, a country situated at the same level of development, was two times bigger. (Ionete 1993: 69-72).

dwindling budget resources. As a consequence, its share of the national economy increased from 70 percent in 1981-1985 to 80 percent in 1987 (Cojanu 1997: 89).

By contrast, households and public services were to bear most of the burden. Spending on health, the hallmark of the regime's social progress, was dramatically reduced. Suggestively, the building of a new coal power plant (*Centrala Termoelectrica Anina*) cost nearly three times more than the annual budget for health and social assistance (Ionete 1993: 43). Investment in consumer goods industries decreased while a wage freeze and dramatic cuts in both personal consumption and the budgets of public services compounded the difficulties. Locally produced consumer goods and foodstuffs were earmarked for export,³⁹⁹ with eerily empty shelves, unheated living quarters and hour long lines becoming the new reality of consumer life in urban areas.⁴⁰⁰ Sectors that were key for late industrial development (telecom, higher education) saw important funding cuts, while others (industrial research) were increased.⁴⁰¹ At the same time, work intensity increased, with higher quotas with no extra pay and working Sundays becoming the rule for factories ordered to meet increasingly ambitious export schedules. While other socialist states saw only modest and temporary declines in household consumption, Romania decisively entered a neo-Stalinist version of

³⁹⁹ During the 1980s calorie consumption per inhabitant fell by a third below minimum levels (Ionete 1993: 29).

⁴⁰⁰ Michael Montias tersely inventoried the drop in consumption during these years: "In 1989, sales of slaughtered meat were only 49 percent of what they had been in 1980; cheese, 60 percent; refrigerators, 44 percent; television sets, 64 percent; cars, 79 percent; and bicycles, 61 percent (Montias, 1991). "

⁴⁰¹

“structural adjustment” in 1982: rationed food and fuel, power and heating shortages, and reduced supplies for public hospitals and schools.⁴⁰²

By April 1989 the regime could report the full repayment of its foreign debt.⁴⁰³ The decision to pay the foreign debt ahead of time deprived the economy of between 2 and 3 billion dollars a year between 1981 and 1988, with deleterious effects for technology imports and, as a result, for the quality of exports and the pace of annual industrial growth, which decreased from 3.3 percent during the 1970s to 2.6 during the 1980s. But despite the unprecedented levels of the forced consumption squeeze, the state was unable to keep investment rates steady. Moreover, in 1986 the economy began to stagnate and in 1989 it saw its first postwar recession.⁴⁰⁴

Revolutionary Politics at the End of History

Unlike the negotiated transitions in Spain and elsewhere in Central Europe, the Romanian authoritarian regime died in a violent fight following the convergence between an unsuccessfully repressed revolutionary movement and a regime breakdown.⁴⁰⁵ Contrary to skeptics’ assumptions, it quickly became clear that the high levels of police repression, constant surveillance and the absence of a robust

⁴⁰² For complete data on health and education budgets during the 1980s see Ionete (1993: 109-114).

⁴⁰³ *Washington Post*, April 14, 1989.

⁴⁰⁴ While in the 1971-1980 period the annual growth rate averaged 11.2 percent, during the 1980s it went down to 2.6 percent. But the crisis of national-Stalinism became apparent in 1989 when official statistics acknowledged a GDP contraction by 5.8 percent as a result of falling industrial and construction activity (Ionete 1993).

⁴⁰⁵ Given the incentives for obscuring evidence, research on the Romanian revolution demands an unusual mix of investigative journalism and social science and therefore the building of a well-evidenced narrative about it is notoriously difficult (Mungiu 2006: 109 – 112). The description of the December 1989 events made in this research includes only elements that are not subject to controversy. For the most extensive academic account in English of the Romanian sources see Siani-Davies (2006).

network of anti-government activists did not prove to be insurmountable obstacles against Europe's last popular revolutionary movement that ended a particularly repressive regime.⁴⁰⁶

Started in Timisoara, a former multiethnic Habsburg city in the southwest, the movement spread throughout most large cities, with the spontaneous alliance of the industrial proletariat and the intelligentsia playing the leading role. The regime's attempts to put down the movement failed despite the deployment of the entire repressive toolbox of the police state, from the "milder" arrests, city blockades and curfews to fire-at-will orders given to armored army regiments deployed on city boulevards.⁴⁰⁷ On December 22, 1989, Ceausescu's flight by helicopter, the abandonment of his power circle by the repressive apparatus and his execution a few days afterwards ended Romanian national-Stalinism, but not before hundreds more had died in various forms of urban warfare whose exact contours remain to this day an object of great controversy.⁴⁰⁸

⁴⁰⁶Verdery and Kligman (1992) found that the interpretation of the revolution as a coup d'état became paradoxically widespread in the Romanian political discourse after 1990. According to a recent account, "[t]he mass mobilization, widespread violence, spontaneous creation of local revolutionary councils, breakdown of the revolutionary coalition and the subsequent fierce struggle between the revolutionary contenders on Romania's cities all would seem to belong to the repertoire of revolution rather than a coup d'état. Moreover, even if Ceausescu had fallen in a coup, this need not have prevented the events in Romania bearing the name Revolution" (2005: 268; 277). As the same author suggests the problem is rooted in the export of a local terminological idiosyncrasy: "The politically inspired reductionism which resulted the rejection of the Leninist model of revolution in favor of an idealized reading of the liberal variant imposed an impossibly narrow definition of revolution onto the political debate in Romania. Not only did the revolution have to be an entirely spontaneous mass uprising untainted by previous plotting or the meddling of foreign powers, but also the new leadership had to derive from the crowd and be totally unconnected with the previous ruling group" (Siani-Davies 2005: 277).

⁴⁰⁷ The loss of life and limb was gruesome for a few days of protest but the figures were severely inflated by international press agencies who reported thousands of dead in Timisoara. In fact, the shooting left 70 dead in Timisoara prior to December 22, 1989. In the whole country 689 died and 1,200 were wounded, most of them after Ceausescu's overthrow.

⁴⁰⁸ Hard evidence about shootings after December 22 is still impossible to get largely because the prosecutors' office banned ballistic tests on victims' bodies. The military prosecutor who passed the ruling saw a spectacular jump from the rank of major to major general in less than a year.

After the overthrow of Ceausescu, popular mobilization prevented former prime-ministers from forming provisional governments, and a group of officials within the RCP who had been marginalized by Ceausescu and a few protest leaders with or without dissident pasts formed the National Salvation Front (*Frontul Salvării Naționale* or FSN), an organization that proclaimed itself on television as the new authority in the land. The leader of the group was Ion Iliescu, one of the reformist RCP high-ranking officials demoted by Ceausescu during the seventies and a man who had been expected by Western and some Romanian elite circles to be a Romanian Gorbachev.

The FSN Council announced the end of the leading role of the single party, a “democratic and pluralist system of government”, free elections, separation of powers, the “deideologization” of education, human rights and other liberal reforms. On the economic front, the announced policy priorities suggested a few vaguely formulated measures that could be associated with gorbachevite reform socialism: the restructuring of the economy in accordance with the criteria of profitability and efficiency, the end of “administrative-bureaucratic methods of centralized economic management” and the fostering of “free initiative and competence” in the management of all economic sectors.

However, the new power structures approximated a Thermidorian reaction, with elements of the ancient regime co-existing alongside transformational social forces. Thus, six of the nine founders of the FSN belonged to the nomenklatura, with one of them (general Stefan Guse) being involved in the

repression of the protests in Timisoara.⁴⁰⁹ The real power inside the system rested in the Council's Executive Bureau, which was headed by Iliescu, who was also appointed as head of state. Likewise, the regional and municipal FSN administrators basically recycled the "second echelon" of the RCP.

At the same time, the FSN formed a provisional government headed by Petre Roman, a 43 year-old French-educated engineering professor who was the son of another dissident RCP figure but was among those who stormed the RCP headquarters. The reformist technocratic elite of Ceausescu's vast industrialization complex was also better represented in the executive than aging perestroika figures.⁴¹⁰ Finally, eight dissident intellectuals were also part of the national council of the Front, yet they were completely outvoted by the other 128 members and most left the Front once the council decided to turn it into a political party on January 23, 1990.

This power structure was soon challenged from below by grassroots labor mobilization. Soon after their formation in many medium and large state enterprises during or in the immediate aftermath of the revolution, workers councils occupied factories and began to act as the soviets promised in the propaganda, with the removal of old management and workers' rule over the board. By late January, however, the central FSN headquarters managed to

⁴⁰⁹ List of founding members of the CFSN, *Romania libera*, December 27th, 1989

⁴¹⁰ Although 20 out of the 31 Ministers were a part of the former communist elite, the most numerous were two categories that suggested a more reformist profile: second generation technocrats with no RCP positions (Nicolae Ceausescu, Nicolae Stefan, Adrian Georgescu, Gheorghe Caranfil, Ioan Chesa, Victor Murea, Nicolae M. Nicolae, Corneliu Burada, Dan Enachescu, Sergiu Celac) and technocrats who also followed a career in the party and kept their positions within the state apparatus until 1989 form a second category (Teofil Pop and Nicolae Dicu, Stelian Pintelie, Ioan Folea). The first Roman government had only three high-ranking RCP officials marginalized by Nicolae Ceausescu in the '80s (Nicolae Militaru, Constantin Popescu, Mircea Angelescu).

control workers' councils through a series of legislative acts that basically converted them into unions and "NSF councils" respectively, before they began to fade away quickly from the scene.⁴¹¹

Transition Begins

Editing Perestroika

In the months leading up to the May elections it became clear that the Revolution did not usher in a clean-cut transition to capitalism and liberal-democracy. Just as the termination of the sultanist order had made Romania the exception in the Eastern Bloc, the new political and economic order brought by the revolution was marked by slow democratization and timid economic reforms.

Rather than proceed with Polish-style "shock therapy" or even with the more "gradualist" Hungarian or Czechoslovak reforms, the provisional government adopted instead a limited liberalization program: the dismantlement of central planning, partial land restitution, the selective liberalization of trade, and the legalization of private enterprises. Other measures suggested mere concern with winning the founding elections. Thus, despite near-zero unemployment and falling productivity, the workweek was cut down to five days,

⁴¹¹ The role of the Romanian workers' councils as a form of democratized corporate governance remains understudied and their disappearance is one of the most intriguing processes of the Revolution, especially as some of the councils proved useful for the January counterdemonstrations against the opposition. One interesting hypodissertation is that their increasing autonomy and radical ideas about economic democratization and participatory democracy were not consistent with the Front's bureaucratic and technocratic way of doing things. Siani-Davies (2005: 224) also suspected that "the continued existence of the NSF councils was incompatible with Western norms and their eclipse was probably sped by pressure from both the opposition and the outside world."

wages were increased across the board and the state's meager hard currency reserves were spent on long-denied imports of consumer goods.

During the first few months of 1990 the Front did not assert a clear ideological stance on the economy. In January 1990 Silviu Brucan, the FSN's *eminence grise*, labeled the Front "a political organization without a defined ideology" but then added that "the only ideological label that can be considered for the Front is that it situates itself on the left, in the very wide sense given to this word."⁴¹²

Brucan was right. The basic elements of a local translation of reform socialism can be detected in the public statements made by Iliescu and the economic ministers of the provisional government. For example, Iliescu's New Year's speech and the first public statement of the ministers of the Economy and Industry did not mention market reforms and were limited to the main pillars of the perestroika laws adopted by the USSR in 1987 and 1988: decentralization of economic decision-making, restructuring as an alternative to liquidation, the end of "megalomaniac investments," the elimination of price controls in farmers' markets.⁴¹³ Private ownership in services, small manufacturing and foreign trade sectors also became acceptable.

The search for "a third way between plan and market" and a vocal critique of Polish "shock therapy" characterized the press interviews of economic ministers.⁴¹⁴ Iliescu's initially radical resistance to market reforms was also

⁴¹² Interview with Silviu Brucan in *Adevarul*, January 10, 1990.

⁴¹³ Iliescu and Economy minister statements are in *Adevarul*, January 4, 1990. The minister of the Industry statement can be found in *Adevarul*, January 10, 1990.

⁴¹⁴ Interview with Mircea Cosea, *Adevarul*, January 16, 1990.

strongly suggested by the fact that while the RCP was banned on January 11, 1990,⁴¹⁵ it was claimed that in December 1989 Iliescu's first option for prime minister was Ilie Verdet, one of Ceausescu's premiers during the 1970s. It was only following pressures from Silviu Brucan that Iliescu ended up appointing Petre Roman, a young academic invested with much symbolic capital from entering the Party headquarters and proclaiming the end of dictatorship from the balcony. Basically it was only in the spring of 1990 Iliescu and provisional government ministers began to refer more frequently to the transition from the command economy to the "social market economy."

Yet the economic reforms of the provisional government further magnified uncertainty in the economy. Most importantly, the dismantlement of central planning institutions and the reticence to build planning institutions adjusted to the market economy created new bottlenecks and injected a systemic dose of disorder in the system.

The Woes of Democratization

Political liberalization also proved problematic. After the pre-communist (or "historical") political forces (the Agrarians, the Liberals, the Social-Democrats) reemerged, the FSN announced its intention to form a political party on January 23, 1990. Its claims to revolutionary legitimacy combined with its control over the single TV station, high circulation newspapers and extensive parts of regional and industrial power structures gave the Front a crushing electoral advantage in the founding elections. Unsurprisingly, historical parties as well as student and liberal

⁴¹⁵ *Adevarul*, January 12, 1990.

intelligentsia organizations that emerged from the revolt with a radicalized anti-communist identity vigorously contested the decision.

Pending the organization of the founding elections in May 1990, the FSN conservatives abandoned their initial opposition to a multi-party system and acquiesced to the establishment of a provisional parliament in which the Front and other political parties had an equal number of representatives. Yet the fragmentation of the opposition (36 parties) gave the front a dominant position inside the provisional parliament. Faced with this situation, the historical parties and its supporters in the civil society radicalized its contestation of the Front through the occupation of Bucharest's main square for weeks in a row in what was Eastern Europe's longest street demonstration for liberal-democracy.

The protest began on April 22, 1990 and ended on June 13th, 1990. It involved thousands of participants on a daily basis and its basic aim was to delegitimize FSN as a political force closely connected with the national-Stalinist past. Their protest was drawn mostly from the ideological radicalization of a substantial sector of the popular insurrection, with the initial anti-Ceausescu platform being replaced by an unequivocal anti-communist one. For this anti-FSN coalition, the domination of the FSN by reform communists was evidence that the anti-communist core of the revolution had been betrayed and therefore that the political marginalization of the front was the basic condition of democratization (Pavel and Huiu 2001). The protest soon evolved into a social movement whose political deliberation consolidated the sharpened liberal-democratic ideas outside

the FSN-controlled political sphere.⁴¹⁶ However, despite the robust mobilization of the opposition, the Front's victory in the May 1990 elections was crushing: Ion Iliescu was voted president with 85 percent of the votes and the FSN became the strongest political party with 66 percent of the votes.

What became apparent by the spring of 1990 was that the Front was a divided organization. On the Front's reform wing were the younger technocratic elite who came of age during the best years of the thaw during the late 60s and early 70s and who had become completely disillusioned with the possibilities of reform socialism. Grouped around the figure of the provisional premier Petre Roman, they sought to use the Revolution as a platform for ushering in genuine liberal-democratic pluralism.

By contrast, the party's status quo elites had grown up politically before the thaw, had become marginalized as Romanian national-Stalinism was acquiring sultanist characteristics and in 1989 still hoped that reform socialism was the most desirable and realistic solution. Skeptical of genuine political pluralism, these "gorbachevites" had more authoritarian impulses and flirted for a while with the idea of editing the definition of democracy in a less liberal direction. Apart from their ideology, the left did not hesitate to mobilize industrial workers, especially the miners, in violent confrontations with FSN's challengers: the "historical" parties and the liberal civil society.

⁴¹⁶ For an extensive analysis of the University Square movement see Beck (1991). 'Toward a civil society: the struggle over University Square in Bucharest, Romania, June, 1990', *Socialism and Democracy* 13: 135-54. For a summary in Romanian see Ruxandra Cesereanu, *Revista* 22, 16, 2003.

The ex-communists did not emphasize a strong programmatic identity until 1991. At first, the label of “social-democracy” was used to defend reform socialism but gradually it began to incorporate some of the Third Way” critique of “classical” social-democracy. By 1993, the argument that the withering of the Scandinavian model was inevitable in a globalized economy was popularized by the party executive in parallel with the conflation between “modern” social-democracy and the more economically liberal “social market economy.” This rhetorical rightward shift was used to temper the party’s initial commitments to social welfare, but it was limited by advocacy of forms of state intervention that were inconsistent with the Rhine model suggested by the term “social market economy.”⁴¹⁷

Through the Ashes/Riches of National-Stalinism

On the economic front Romanian policy elites faced formidable challenges and the most dramatic of these were external. First, the hard currency reserve was depleted to a little over 100 million dollars⁴¹⁸ and access to IFI and international private capital was basically blocked. Contrary to the optimistic assessments of the World Bank, financial markets did not feel obliged to see too many advantages in the fact that the Romania had no foreign debt. Instead, potential creditors saw the country’s self-exclusion from international finance a source of

⁴¹⁷ Thus, in order to prevent the transformation of Romania into an “economic colony,” the state was under the obligation to subsidize both exports and internal demand for Romanian products. Letter of the FDSN executive to its county chapters, *Adevarul*, June 18, 1993.

⁴¹⁸ Interview with ex-premier Petre Roman (Stefoi 2003).

risk that far outweighed the benefits of lending to a zero debt country.⁴¹⁹

According to reform minister Adrian Severin, Phare, IMF and World Bank loans were blocked throughout 1990 because of the same problem.⁴²⁰ Consequently, private international finance did not become available to Romania until 1993, making Romania a “most likely” case for giving in to the demands of IFIs.

The drama was further compounded by geopolitical events. In 1991 about 3 billion dollars were lost as a result of the Gulf War and Iraq’s decision to renege on his financial and trade obligations with Romania.⁴²¹ The embargo decided against Yugoslavia was estimated by reform minister Mircea Cosea in 1993 to have led to similar losses as the war in Iraq (Cosea 1995: 123). These amounts were considerable given the fact that Romania needed 1.5 billion dollars to completely right its balance of trade in 1993. Foreign markets in the Eastern bloc collapsed. At various stages during 1990 and early 1991 exports to CEMEA based on contracts made during the Ceausescu years ended and were not renewed, which generated a dramatic fall in exports and the reduction of hard currency reserves in the spring of 1991.⁴²²

Domestic challenges abounded as well. Massive investment in new industries during the 1970s and 1980s left old heavy industries with antiquated equipment (Bel-Nir and Montias 1991). The Ceausescu regime left behind ongoing housing and infrastructure projects that hired half a million people and

⁴¹⁹ Interview with BNR director Mugur Isarescu, *Adevarul*, October 21, 1990.

⁴²⁰ *Adevarul*, September 21, 1990.

⁴²¹ Comisia Nationala de Prognoza, 1990.

⁴²² Interview with BNR governor Mugur Isarescu, *Adevarul*, May 1, 1991. The CEMEA market was much less demanding than the world markets in terms of the technical quality of machinery, which represented over half of the total of Romanian exports to the CMEA zone (Ionete 1993: 95-100).

that could have constituted the basis of a “shovel-ready” public works strategy only if so many of them had not been so prohibitively expensive or of dubious public use (Ionete 1993).⁴²³ After years of suppression of technology imports that led to decreasing quality in industrial output, state firms spent scarce foreign currency resources in procuring these technologies again in 1990, putting pressure of the rate of exchange.

High-employment firms dominated the labor market: 1000 firms with more than 1000 employees provided jobs 85 percent of industrial workers and supplied 85 percent of all industrial output. By contrast, forms with less than 500 workers accounted for 4 percent of total output and 6 percent of total industrial output (Daianu 1999: 8-9). As a result, a frontal assault on the privatization front was costly. Once planning was dismantled by the provisional government, information and transaction costs for firms skyrocketed (Daianu 1994).

Finally, freed from decades of repression and reveling in the new freedoms of association, labor mobilization was at its highest. Soon after their formation in many medium and large state enterprises during or in the immediate aftermath of the revolution, workers councils occupied factories and began to act as the soviets promised in the old propaganda, with the removal of old management and workers’ rule over the board. Nevertheless, even after their suppression, labor pressure led the provisional government to fund large wage rises paid from the state’s investment funds,⁴²⁴ introduce the five-day workweek and maintain price controls and an overvalued exchange rate.

⁴²³ More specifically, in 1990 there were 21,473 such projects (Ionete 1993: 128).

⁴²⁴ Wages increased by 11 percent in 1990 despite falling output.

Yet the national-Stalinist experience left some usable legacies for capitalist development. In theory, not only that there was no foreign debt, but several developing countries owed Romania 2.9 billion dollars. The country had a large labor force whose skill-pay ratio was later discovered by foreign investors to be one of the most attractive in the world. Thus, wages were at 7 percent the German level, the education system required at least 10 years of schooling and an extensive network of vocational schools supplied a large army of semi-skilled industrial workers. Hundreds of industrial research institutes provided a large pool of highly-skilled technical personnel and the university system churned out one of the highest number of engineers per capita in Europe.

Faced with these challenges and opportunities, the first democratically elected government attempted to emulate the neoclassical gradualist transition program adopted by several states in the region in 1990. Yet the fragmentation of the policy team owing to very different diagnoses of the ills of the Romanian economy severely constrained the government's freedom of action. By 1992 Romanian market reforms received a more heterodox flavor and strayed away from the neoliberal repertoire. A century and a half of state-led development under both "capitalism" and "socialism" could not be wiped out overnight in a country that was traumatized by Stalinism but in contrast to Central Europe had neither the disappointments of reform socialism, nor an elite of neoclassical economists with strong political backing.

Chapter VIII - Policies and Institutions in the Neoliberal Moment

Overview

This chapter compares the stages of economic reform in Romania after 1989. The first part of the chapter examines the extent to which Western neoliberal ideas were put in practice in Romania between 1990, the first year of transition and 2004, the year when Romania completed negotiations for EU membership.

The second part examines the extent to which I show that unlike in Central Europe, neoliberalism had a more tortuous route in Romania. The first postcommunist government (1990-1992) was only partly committed to adopting the main policy recommendations of the Washington Consensus. As its reforms led the country into a recession whose deleterious effects were unique in peacetime, a heterodox backlash under the second freely elected postcommunist government (1992-1996) sought a third way between neoliberal orthodoxy and reform socialism. After the ex-communists lost the 1996 elections, a center-right coalition announced that the economic growth achieved by the heterodox was unsustainable and initiated a “shock therapy” neoliberal reform in which both domestic and external audiences invested exaggerated expectations. The socio-economic results of this reform, worsened by the East Asian crisis and the Kosovo wars, were much worse than the reformists expected and consequently the coalition was swept out of office in the 2000 elections. Back in office and pressed by EU integration, the ex-communists embarked on the most systematic and successful economic reforms seen since 1990. In four years, they adopted most of

the standard market institutions of the West European “Third Way” and even outbid their Western peers by tackling highly regressive right-libertarian tax reforms that both the EU and the IMF criticized.

The last part of the chapter analyzes the dynamics of domestic economic policy institutions in order to find answers to the puzzle of why ex-communist elites with neoliberal agenda failed in the early 1990s but were successful in the early 2000s.

More specifically, it examines the role of institutional coherence, or the fact that a group of like-minded actors control the economic policy decision making in the cabinet and the cabinet itself is institutionally autonomous from the pressures of competing actors who may oppose or damage the translation process. In the theory chapter I hypothesized that without institutional coherence the likely result will be struggle and delayed translation of neoliberalism in the policy arena. I further added that it is reasonable to expect that coherence is unlikely to protect translation processes from challengers if the policy process is not centralized in the cabinet and if the head of the cabinet does not have institutional tools to shield the policy team from the potential challenges made by ruling party/coalition. Each of these claims about the institutional filters for the political power of economic ideas will be analyzed in separate sections. Were these shifts determined by the politics of the institutions involved in the policy process? My analysis confirms the argument made in the case of Spain: the likelihood of putting neoliberal ideas into policy practice increases with the degree of centralization of economic decision-making. More specifically, it seems that whenever costly neoliberal

reforms are tried, the control of the ruling party by the executive power and the autonomy of the prime-minister relative to the head of state proved to be decisive in the success of reforms.

I. Postcommunist Neoliberalism in Practice

Neoliberal Ideas and the Postcommunist Transition

Intellectual Uncertainty and Transition Economics

In the wake of 1989, Eastern European publics were unambiguous that the “return to Europe” was one of the most important outcomes of their revolutions (Berendt 2009; Ost 2005). In terms of how the economies of socialism were to be transformed, it soon became clear that Europeanization was defined by Western elites not merely in terms of generic economic liberalism, but rather in terms of its socially-disembedded variant: neoliberalism. In this way the principles of the market economy were conflated with a school of thought that had been marginal less than two decades ago (Kolodko 2002; Roland 2004: XXVI).⁴²⁵ It is against this external ideational pressure that the Romanian economic transition took place, initially by defying regional trends and then by adjusting to them.

It is uncontroversial that the economic practices that shaped the expectations of the “West” about the reforms in the “East” were a projection of the neoliberal policy framework that already held sway throughout the developed capitalist core and parts of the semi-periphery hit by the debt crisis of the 1980s

⁴²⁵ The intellectual anchor of neoliberalism in conservative political philosophy (Sommers and Bock 2005) was often openly acknowledged by its proponents (Murrell 1992).

(Fine, Lapavitsas and Pincus 2001: x). Yet the transition to capitalism in Eastern Europe had two idiosyncratic characteristics. First, it took place at the peak of the neoliberal (counter) revolution in economics, a time when non-neoliberal alternatives were at their historical nadir.⁴²⁶ Second, the transition occurred at a point of maximum intellectual uncertainty: the Washington Consensus framework of the 1980s had not been developed with socialist economies in mind.⁴²⁷ While Western neoclassical economists had a long experience with macroeconomic stabilizations in their own countries, they did not know how stabilization works when basic market conditions could no longer be assumed. They also had no experience with privatizing or even restructuring a state sector that produced almost all of GDP in a business environment where the state was the only investor.⁴²⁸ Like political science, before 1989 economics was taken by surprise by the collapse of the Eastern Bloc and had no entrenched templates with which to operate.

The result of this uncertainty was reliance on causal narratives rather than any pretense of doing science (Roland 2004). These narratives were loosely modeled on the Western reaction to the stagflation crisis of the 70s and the debt crisis of the 80s and constituted a development program of neoclassical origin known as “transition economics.” Over time, leading Western scholars and

⁴²⁶ Basically by 1990 the debates within Western economics were largely limited to debates within the neoclassical paradigm (Lawson 1994; Arestis 1996; Helleiner 1996; Jayasurya and Rosser 2001).

⁴²⁷ Indeed, while the transition from embedded liberalism or developmentalism to neoliberalism within the context of capitalist systems had been covered extensively in the literature, the *cross-systemic* transition from socialism to capitalism was not (Murell 1993;1995; Kolodko 2000; 2002; Roland 2000; 2004; Popov 2000; 2007).

⁴²⁸ For example, the first evidence that state companies were able to restructure without massive asset dissipation was not produced until 1993, in a paper published by Brookings and authored by Marek Belka, Stefan Krajewski and Pinto.

various old and new economic institutes⁴²⁹ refined the components of this program and popularized its ideas while enlisting the research innovations of Eastern economists (Eyal and Bockman 2002).

Two hastily assembled off-shoots of neoclassical economics vied for supremacy in the battle of ideas over East European reforms: shock therapy and gradualism. Despite their differences, both proposed institutional resolutions to the East European economic transition that facilitated the adoption of neoliberal rather than of welfare capitalism or some kind of “third way” between them.

Neoliberalism Through Shock Therapy

“Only the rent-seekers benefit from slow reform” (Aslund 1997: 186).

“[T]he market revolution has gone hand in hand with a democratic revolution” (Sachs 1995: 50).

Shock therapy was the mainstream version of transition economics embraced by powerful external agents such as IFIs, Western state aid programs, EU

⁴²⁹ Roland (2004: xvii) brought out into relief the William Davidson Institute at the University of Michigan, the Stockholm Institute for Transition Economics (SITE) at the Stockholm School of Economics, LICOS at Katholieke Universiteit Leuven, the Center for Economic Research and Transition (CERT) at Heriot-Watt University in Edinburgh, the Center for Economic Research and Graduate Education–Economics Institute (CERGE-EI) in Prague.

institutions⁴³⁰ and loan rescheduling creditors' organizations like the London Group and the Paris Group (Kiss 1993; Steward 1997; Vreeland 2003; Berendt 2009; Pop-Eleches 2009). It was also the path taken in the early 1990s by the poster cases of success: Poland, the Czech Republic and the Baltic states. This approach urged the immediate adoption of orthodox macrostabilization programs, price liberalization, export-led growth, privatization of state enterprises and opening to FDI (Sachs 1989; Lipton and Sachs 1990; Berg and Sachs 1992; Fisher and Gelb 1991; Aslund 1991; 1995; Murphy, Schleifer and Vishny 1992; Frydman and Rapaczynski 1994).⁴³¹

Yet shock therapy went further than advocacy for the basics of the market economy and demanded the institutionalization of neoliberal capitalism. In the long term, the challenge was to take Eastern Europe into the economic agenda pursued by neoliberals in the West: permanently balanced budgets, price stability, privatization of parts of the welfare state, deregulation of product, credit and labor markets, trade liberalization, market-determined real exchange rates, neutral industrial policy, shifting the tax burden from companies to labor, lower marginal income tax rates and so on.

The causal story about the past and the future proposed by “shock therapy” neoliberals was parsimonious and appeared to address the dissatisfaction of East European revolutionaries with the socialist economic model, reformed or otherwise. Since 1989 was cast in a “state versus society” mold by the

⁴³⁰ The fact that West European leaders and institutions with social-democratic credentials advocated a version of neoliberalism that they were hesitant to embrace in their own countries remains an insufficiently elucidated aspect of early post cold war history.

⁴³¹ On the punctures in the intellectual homogeneity of the neoliberal approach see Murrell (1995).

revolutionary discourse of the day, the neoliberals argued that the state had to be consequently shrunk and put in the service of a market society system that would demand less and less of it.⁴³² In this way, the evisceration of the state was dubiously framed as a reaction to democratic demand from the grassroots.⁴³³ As a result, more gradualist strategies beckoned the specter of reform stalemate at best and democratic collapse at worst.⁴³⁴ In this political narrative inspired by libertarian political theory (Walters 1992: 101; Woo 1994: 288), the only legitimate opponents to market reforms were the already privileged and hated members of the *nomenklatura*, while civil society (including labor) was assumed to have an interest in a neoliberal transformation (Aslund 1994: 63; 1997: 14; Sachs 1995: 50). The basic idea was not just “capitalism” but the de-politicization of economic debates. As a Western advisor to the Russian government put it,

[T]he transition process is dependent on how well developed civil society is, because the better developed it is, the sooner other, more representative forces will defeat the state managers (Aslund 1992: 63); [e]conomics must gain superiority over politics (Aslund 1996: 227).

⁴³² Havel’s “citizens against the state” metaphor (Havel and Keane 1990) was instrumentally mobilized—often by Havel’s opponents—in a libertarian key and was reduced to mean citizen revolt against “big government” (Eyal 2000). Even before any relevant statistical correlations could be put forth, the virtuous circle of transition tied political liberalism and shock therapy into a frictionless relationship (Ost 2005; Eyal 2000; Berendt 2009).

⁴³³ By contrast with this elite narrative, public opinion surveys found that the citizens of the region valued economic rights as much as they valued liberal-democracy, the advocates of neoliberal reforms treated social-democratic demands for economic rights as a psychological pathology of communism that had to be cleansed through austerity (Berend 2009).

⁴³⁴ Recent research has established that the increase in liberalization achieved in Eastern Europe in 1995-2005 had a positive and significant effect on economic growth, but that the level of liberalization by the mid 1990 was either insignificant or affected growth negatively (Popov 2007: 17).

This radical political theory discourse enabled a radical economic theory one. The neoliberals argued that after a “big bang” dismantlement of the old economic order, macrostabilization reforms would lead to the automatic adjustment of firm incentives by imposing hard budget constraints on state firms and expose them to the disciplines of competition and the price mechanism. The process would weed out the inefficient firms that taxed the public budget and reward those that created wealth. Crafting a kind of “reversed Marxism,” the regime shock therapists argued that in order for this transformation to be successful, the property regime had to be changed as fast as possible. Rather than keep the state involved in efficient state firms, they had to be sold to private investors⁴³⁵ and the privatization proceeds were to be used to make up for the state revenue naturally lost in the “transformative recession” (Kornai 1991) triggered by macrostabilization and the collapse of inefficient state firms.

The core of the IMF programs for the region was not industrial competitiveness but macrostabilization. In turn the macrostabilization strategy was shaped along monetarist lines: it saw excess demand produced by excessive money creation as the main source of external imbalances, which, in turn, affected countries’ capacity to borrow money from international markets. The basic remedy was monetarist as well: the money growth rate should be aligned with the desired rate of inflation. This meant the adoption of quantitative ceilings on

⁴³⁵ Mutations suffered by Western microeconomics during the 1980s enabled these economists to couch their arguments in universal reasons why state enterprises had to be privatized immediately. As Roland (2004:XVIII) showed, until 1986 in general equilibrium theory there was no difference between private and state-owned firms as long as they acted in a competitive environment where they maximized profits. Yet the introduction of incomplete contract theory (Grossman and Hart 1986; Hart and Moore 1990) showed that if contracts are incomplete (the case of state ownership) then the efficiency costs are higher.

domestic credit and a floor on international reserve. None of these was assumed to have dramatic consequences for output save for an initial correction. In addition to stabilization, getting prices right in a one-off policy move was seen as the best way to replace the planning mechanism as the best way of allocating resources. “Soft” credits to state underperforming state forms were to be cut and a quick and massive privatization program was seen as an efficient means to address the structural problems in the “real economy” (Wolf 1990. IMF et al 1991; Gemekas and Khan 1991).

Another central vector of shock therapy was the neoclassical dissertation of the spontaneous formation of market institutions. It was suggested that as a result of simultaneous macrostabilization, deregulation and privatization, the emergence of such institutions should be expected to occur immediately and simultaneously.⁴³⁶ In other words, where the state withdrew, markets would automatically grow. This haste to recode East European economies so quickly was anchored in the political argument that the longer the institutions of state interventionism were maintained, the more the anti-market social forces will mobilize to increase the social costs of both economic and political transition through rent seeking, spoilage and the potential for regression to statist authoritarianism.⁴³⁷

⁴³⁶ The overnight introduction of legal codes would ensure property rights and commercial procedures while the state’s suspected drive to carry out “predatory taxation” of private economic agents (as it had supposedly happened in Gorbachev’s late term) was to be kept in check by international donors.

⁴³⁷ The neoliberals made an exception when it came to the role of the state in stimulating human capital formation and diffusion of technology, as developed by Lucas (1988).

Powerful as it was, the neoliberal shock therapy model did not capture the entire spectrum of transition economics. Not all neoclassical economists were shock therapists and, at the boundaries of the discipline, a number of institutionalists and social scientists proposed their own templates. Had these alternative models prevailed, the East European transition would perhaps have looked more like Slovenia's or, less likely, an approximation of the "Beijing Consensus" plus liberal-democracy. It is to the examination of these alternatives that I now turn.

Challenging TINA

The most publicized foil to the shock therapy was the gradualist approach (Svejnar 1989; Roland 1991; Claue and Raussner 1992; Murrell 1990; 1992; Wei 1993; Kolodko 1994).⁴³⁸ Its main claim was that institutions that make capitalism possible do not emerge by themselves and require forms of state intervention that build off existing institutional legacies. Or, since these institutional legacies of state socialism were diverse, they required that policies should be context-sensitive in terms of content and pace. By contrast with make-it-or-break-it shock therapy, gradualism allowed reformers to experiment, do *bricolage*, learn and mobilize usable elements of the institutional legacy of socialism in what some aptly called "trajectory adjustment" (Eyal, Szelenyi and Townsley 1998:8).

⁴³⁸ The subsequent literature confirmed these initial insights (Stark and Bruszt 1998; McDermott and Kogut 2000; McDermott 1992; Verdery 2003).⁴³⁸ The shock therapy reform program was attacked by a number of sociologists, anthropologists, political scientists (Szelenyi 1991; Comisso 1991; 1995; Bruszt 1992; Stark 1992; Campbell and Pedersen 1996; Verdery 1996).

Rather than talk about transition, as neoliberals did, these scholars emphasized instead the term “transformation” in order to emphasize that reforms should be open-ended rather than tied to neoliberal capitalism as the final outcome. They suggested that market reforms should strengthen rather than weaken public institutions (administrative capacity, rule of law).⁴³⁹ Rather than focus on equilibrium and allocative efficiency as objectives of reform, as the neoliberals did, the gradualists were more interested in the mechanisms that produce growth (Murrell 1992: 4).⁴⁴⁰

Less convinced that privatization per se was superior to state ownership, they advised for a more cautious course on the issue of property and some went as far as dramatizing the connection between hasty privatization and the fall in output.⁴⁴¹ Opposed to shock therapists, who treated unemployment as a marginal concern, they feared that its sudden growth could imperil output.⁴⁴²

Gradualism was not embraced by any major international player involved in the economic transformation of Eastern Europe and its proponents were less central in the Western economics profession. What is more, it took almost two decades before Western economists attacked the fulcrum of shock therapy:

⁴³⁹ The large-N analysis of Popov (2007) for all communist countries shows that the institutional capacity of the state had a dramatic effect on performance, leaving illiberal democracies in the worst of all worlds. He also found that while both authoritarian and democratic regimes can have strong rule of law and can build efficient institutions, authoritarian regimes do a better job in maintaining efficient institutions than democracies under weak rule of law.

⁴⁴⁰ This was because the rampant uncertainty generated by the waning of quality information after the termination of planning institutions or by the weakening of control over both management and labor could not be eliminated overnight through market incentives.

⁴⁴¹ Murphy et al (1992) claimed that if the state failed to enforce production quotas for state firms under the system of dual pricing, the transfer of resources to the private sector with market prices was bound to create bottlenecks and shortages in the state sector, leading to a large fall in output.

⁴⁴² Some gradualists argued that the sudden increase in unemployment to 10 percent of the labor force accepted by the neoliberals as natural, would lead to tax increases in the middle of a recession, with deleterious consequences for output (Atkeson and Kehoe 1996).

comprehensive price liberalization (Popov 2007). This challenge had been proposed by Chinese economists in the early 1990s (Li 1996; Lau et al 1996),⁴⁴³ yet given China's reputation in Eastern Europe after the Tienanmen moment this alternative template did not reach the region (Rutland 2010).⁴⁴⁴

Neoliberalism with Brussels' Face

As the nineties wore on, the shocktherapy-gradualist debate died down. After years of falling output and job destruction rates the like of which had hardly been seen in peacetime, most ex-communist economies stabilized and “graduated” from IMF structural adjustment programs. By the late 1990s, as Eastern Europe had developed market institutions, transition economics was gradually replaced by what came to be dubbed the Brussels Consensus. This new economic program emerged as West European policy elites were crafting the EMU and consisted of several ideas that built off the Washington Consensus.⁴⁴⁵

⁴⁴³ The Chinese argued that the transformation of socialist economies into market economies resist the immediate adoption of price liberalization, deregulation and privatization and should focus instead on de-monopolization and dual-track pricing.⁴⁴³ In addition, the sudden termination of central planning would lead to increases in the costs of finding suppliers and markets for state firms used to receive this information from the planning bureaucracy, leading to disorganization. The combination between dual prices, export-led industrial strategies based on an undervalued currency, gradual liberalization and strategic liberalization were superior in this conceptualization to neoclassically-inspired models of economic transition.

⁴⁴⁴ Recent longitudinal data for all former communist states confirmed the wisdom of the Chinese approach (Popov 2007). While China, the only country that carried out price deregulation gradually, via the dual-track system while developing coherent export-led industrial policies experienced no recession during their market reforms, recession lasted two years in Poland, 3-4 years in other Central European states and 5 years in the Baltics. Romania returned to growth in 1994 but a new shock therapy whose effects were worsened by the East Asian crisis sent it back into recession until 2000.

⁴⁴⁵ The name “Brussels Consensus” was given by the same John Williamson, the father of the “Washington Consensus.” In addition to such Washington Consensus imperatives as monetary and fiscal discipline, trade liberalization and privatization-plus-deregulation, the Brussels Consensus also “locked” countries in the more carefully specified and “policed” institutional constraints of the monetarist Stability and Growth Pact.

The emphasis was on price stability, strong preference for automatic stabilizers⁴⁴⁶ and deficit ceilings versus discretionary fiscal policies, central bank independence, privatization of public services and financial deregulation (Artis and Winkler 1999; de Grauwe 2000; Dixit and Lambertini 2001; Buti et al 2001; Winkler 2003). Its basic thrust was that neither fiscal, nor monetary interventions on aggregate demand could alter the level of potential output or the rate of unemployment. Instead, it was posited that their only effect would be increases above the level of “core inflation,” a highly undesirable outcome. To make such commitments credible, a new mechanism was added: should the European Central Bank (ECB) disapprove of national fiscal and monetary policy, the EU apparatus has had the power (and the proclivity) to intervene.⁴⁴⁷

This, however, was hardly a paradigmatic shift. With the exception of a few qualifications such as environment policy, gender equality stipulations and safety regulations in the workplace, the neoliberal model of the early 1990s was largely reproduced by the demands made by the EU integration process that began

⁴⁴⁶ The counter to “symmetric shocks” (same shock in all countries) was ECB-coordinated monetary policy and “asymmetric shocks” (one shock in one country) was to be managed adequately by letting automatic stabilizers (welfare institutions) work rather than through “discretionary” fiscal policy. As the financial crisis that began in 2008 showed, a shock with correlated effects among countries overcame the capacity of automatic stabilizers and ECB’s interest rate policy to adequately stabilize demand.

⁴⁴⁷ As one observer put it, “[w]hy does the EMU apparatus inhibit and constrain discretionary national fiscal policies if these are the sole consistent solution to optimal stabilization? The strong preference for automatic stabilizers versus discretionary fiscal policies, and the imposition of deficit ceilings, only rely on the presumption that governments typically have objective functions inconsistent with monetary stability and fiscal discipline. The model has shown that it is necessary to consider what this alleged inconsistency is all about. If national governments attach, say, more weight to output variability than does the ECB, but if they all still share with the ECB the same targets of core inflation and potential output, no distortion arises in the determination of the long-run levels of inflation and output in the EMU as a whole. Eventually, there only remains the case that governments are indeed not well-behaved in that they endemically aim at output target(s) inconsistent with the ECB core-inflation target in the long run. In other words, the EMU system has not been designed to host well-behaved national governments, and the sole serious argument for preserving it in its present form is that the architecture of the system provides the best shield against bad fiscal behavior” (Tamborini 2003).

in earnest in 1997. The “social acquis” or the EU legislation on welfare and labor issues remained minimal (Cerami 2005; Bohle and Greskovits 2005).⁴⁴⁸ Similarly, the Brussels Consensus hardly contributed to the reception of core values of the redistributive institutions of the member states (Juhász 2006).⁴⁴⁹ Unsurprisingly, then, from the standpoint of the EU, “enlargement was more about economic than about social integration and convergence” (Keune 2006: 112).

So far, this chapter has shown that in the aftermath of 1989 shock therapy and, to a lesser extent, neoclassical gradualism dominated the West-East flows of economic ideas as well as the output of internationally prominent East European economists like Janos Kornai. Both were consistent with the neoliberal program. To what degree and at what pace did they become practice in Romania?

The First Neoliberal Experiment

“American prosperity and social justice grew out of the struggle of uneducated cow-boys apparently in search of their selfish interests with the pistol in the right hand

⁴⁴⁸ In addition to these market-conforming mechanisms the Brussels Consensus also talks about the objective of a “social-market economy” (article 3 of the EU “Constitution”), an objective that has remained in tension with the objective of tight fiscal and monetary policy. A vast literature explores the constraints imposed on European welfare states, employment performance and neo-corporatism by EMU and the Stability and Growth Pact (Pochet 1999; Martin 2004; Martin and Ross 2004; Zeitlin et al 2005; Navarro and Schmitt 2008).

⁴⁴⁹ Moreover, as the first wave of ex-communist states was joining the EU in 2004, the European Central Bank’s fall bulletin indicated that health services, the backbone of the European social model, could no longer be sustained as universal (Navarro and Schmitt 2005: 621). Navarro and Schmitt also showed that some EU political leaders, “even some within the social democratic tradition, of reducing social benefits, with a guarantee, however, of a minimum benefit for everyone. That minimum would be complemented with privately funded provisions of services and benefits. There is active pressure to privatize social transfers” (Schmitt 2005: 621).

and the whisky bottle in the left hand [...] Of course, during the stage of the primitive accumulation of capital humanist values are bound to suffer, but when resources are missing one has to prefer development over social welfare, because without the former you can't accumulate anything." Adrian Severin, Economic Reform Minister, 1990-1991 (Severin1995: 50).

Embedded neoliberalism

Between 1990 and 1992 Romania's neighbors adopted "big-bang" strategies of transition to free-market capitalism.⁴⁵⁰ Hungary, Poland, and the Czech Republic liberalized all prices, adopted orthodox macrostabilization packages, began a massive restructuring of state firms and embarked on privatization via a giveaway of assets.⁴⁵¹ A comparable strategy was tried by the first democratically-elected Romanian government led by prime-minister Roman. Yet deprived of the political cohesion enjoyed by the first center-right governments in Central Europe and challenged by Eastern Europe's most contentious labor organizations, the first Romanian neoliberal experiment ended up being much more constrained than in Central Europe.

What made these reforms neoliberal in the aggregate was the orthodox spirit of the "commanding heights" of economic policy. First, fiscal policy emphasized austerity at all costs and against the party's left wing Roman

⁴⁵⁰ For the IMF description of the Roman reforms see Demehas and Khan (1991).

⁴⁵¹ The Czech Republic followed suit, yet here restructuring was begun until mass privatization.

unsuccessfully pushed for the liberalization of exchange and interest rates. This was despite the fact that country was in the middle of a catastrophic recession that destroyed almost a third of the total output. Second, price liberalization was informed by neoclassical shock therapy assumptions about the self-regulating nature of demand and supply. Third, the tax policies of the Roman cabinet strongly suggested that inward foreign direct investment took precedence over fostering national industrial champions. Finally, multilateral and regional trade liberalization replaced selective neo-mercantilism, opening the economy to greater import competition.

Other market reforms were not neoliberal per se. Instead, they were meant to meet the basic requirements of a market economy and would have been compatible with neo-Keynesian “embedded liberalism.” Putting small and medium enterprises in private hands, breaking up monopolies, making most prices sensitive to demand or corporatizing state-owned industrial firms were measures that would have been consistent with non-neoliberal mixed economy models of a neo-Keynesian or developmentalist mold. Additionally, many of the elements of Williamson’s original Washington Consensus (legal security for property rights, competitive exchange rates, moderate marginal tax rates)(Williamson 1989) did not top the agenda of the cabinet.

Moreover, as the premier admitted, the cabinet’s ambition to drastically cut industrial subsidies was severely constrained by high working class mobilization and the mass character of the revolutionary process that made transition possible in the first place. Like the Gonzales governments in Spain,

Roman's team did not show a strong appetite for conservative welfare and tax policies. Instead, between 1990 and 1991 the executive adopted a tax system that was steeply progressive and increased social public expenditures on education, health and pensions even more than the Spanish government did (UNDP 2000: 129). Nor was there any enthusiasm for privatizing basic services, which were safely ensconced in non-privatizable French-style *regies autonomes*.

This “editing” of neoliberalism in the Romanian context suggests that the Roman cabinet was hardly an epitome of the radical East European reformism. While it is true that the postcommunist elites that formed Petre Roman's political circle had been the most ardent free marketeers during the second half of the 1990s (Severin 1995; Ionita 1998), in 1990 and 1991 they were merely at a point when they struggle to strike a middle point between neoliberal and social-democratic priorities. Unlike his Czech, Hungarian or Polish counterparts, Roman himself saw Gonzales' Spain rather than Chile as the right model for finding a balance between market reform and social solidarity.⁴⁵²

Roman's reforms

The Roman cabinet began his term facing international hostility. Following a dramatic episode of violence against the opposition in June 1990 that was abetted by president Iliescu, Western governments and the EU put Romania in a political doghouse (Vasi 2004; Gledhill 2005).⁴⁵³ Yet this government soon signaled that it

⁴⁵² Interview with prime-minister Petre Roman, *Adevarul*, August 7, 1991.

⁴⁵³ On June 16 a few thousand miners came to Bucharest to help “clean up” the University Square of anti-government demonstrators. The violence left 6 dead and 560 wounded. For an in-depth account see Vasi (2004) and Gledhill (2005).

was far from representing a neo-Leninist political force and embarked on a string of market reforms meant to force the economy on a market-regulated mold.⁴⁵⁴

Upon his inauguration in June 1990, the Roman government faced the daunting task of liberalizing an economic system that was burdened by a string of problems that were much more dramatic than those of other postcommunist states.⁴⁵⁵ The economy was completely subordinated to state control and, as a result, managerial elites had no experience with even the most modest kinds of market reform. Money and prices fulfilled mostly an accounting function. Deprived of technology imports, heavy industry failed to improve its energy consumption record. Romania was also exceptional because the Ceausescu regime had compressed household consumption nearly to wartime levels for almost a decade. As a result, the government faced much more severe challenges to compress consumption even further with a “big bang” or “shock therapy” macroeconomic adjustment strategy. Finally, the mobilization of labor during the revolution resulted in the removal of technocratic and party cadre from management, leading to the breakdown of labor discipline, productivity losses and the disruption of inter-enterprise management linkages.

The complexity of the situation was compounded by external factors. The gradual breakdown of the former communist common market (CMEA) and the constraints put on deficit financing by a very low hard currency reserve (120

⁴⁵⁴ The firm commitment of his government to economic liberalization was acknowledged by the center-right opposition, by scholars known for their mordant critique of the FSN (Ben-Ner and Montias 1991; 1994; Gallagher 2005: 98) as well as by the European Commission (Commission 1997).

⁴⁵⁵ An extensive description of the policies of the Roman and Stolojan governments from official sources can be found in Teodoriu (1992).

million) weighed heavily on economic decisions. The country's unique foreign debt profile was an ambiguous advantage, as reentry on international capital markets proved impossible until 1994. Even sovereign lending was not possible until 1991.

The Roman government responded to the mounting internal and external economic challenges by declaring macroeconomic stabilization, privatization, price and wage liberalization and the withdrawal of subsidies as the most important objectives of its term. This strategy was predicated on a diagnosis of the country's economic woes that minimized demand-side issues, blamed industrial labor for running factories into the ground and failed to explain why the state destroyed its control mechanisms over *its* own firms in the first place, as if the state's 'withering away' was a natural phenomenon of transition. Faced with such confusion and citing largely anecdotal evidence, leading representatives of the Roman executive diagnosed the beginning of the fall in industrial output and productivity in industrial action, labor absenteeism and mysterious disruptions in the delivery of raw materials.⁴⁵⁶ According to Finance minister Theodor Stolojan,

Under the pressure of workers and trade unions, the new administrative management teams from most enterprises (elected by popular vote) rejected the old norms for output, labor input and other costs but did not replace them with a new economic system based on profitability. These actions and the state's failure to assert itself as an owner chaotically ended the

⁴⁵⁶ Interview with premier Petre Roman, *Adevarul*, November 22, 1990.

old equilibrium criteria and mechanisms and opened the gates for the massive de-capitalization of state-owned enterprises (Stolojan 2000: 7).

Stolojan was only partly right. An IMF overview of the Roman reforms showed that a large decline in industrial output in early 1990 was indeed caused by “civil disturbances” following the fall of Ceausescu, yet the decline “ was partially reversed in midyear, so that by June 1990 industrial output was about 90 percent of its average 1989 level”(Borebsztein et al 1993:13). This was hardly the sign of an impending economic catastrophe. Granted, worker-controlled management did not make the jump from central planning to a form of market system. But could inexperienced state firm managers be realistically expected to navigate a market system whose contours were not clear to Stolojan himself? Indeed, the situation was worsened by the increasing opportunities for arbitrage: factories producing transportable merchandised that was competitively priced on the international market sold their output directly to the workers, who began week-end tourism to neighboring states with duffel bags of roll bearings and other such products, leading to disruptions in the supply chain.⁴⁵⁷

Yet at no point did the Roman government produce more than anecdotal estimates of the weight of such arbitrage activities relative to the government’s decision to control state firms. Stolojan was also right that the “state’s failure to assert itself” made economic life even more uncertain, yet was unable to say what the causes of this failure were the first place. Stories of predatory labor,

⁴⁵⁷ Interview with Eugen Dijmatescu, *Adevarul*, November 24, 1990.

managerial incompetence and the premier's conviction that most of the Romanian industry had scrap iron value appeared to make sense, the lack of systematic evidence for their verisimilitude notwithstanding.

This reading of the situation led to a strategy meant to discipline labor and state ownership by marketizing supply and demand dynamics along neoclassical lines. Unlike in the case of market socialism, any form of planning and price massaging was rejected and the main pillar of the Roman government's reforms was price liberalization, a process that unfurled in three stages over a period of eight months between November 1990 and July 1991.⁴⁵⁸ The main objective of the reform was to use the price mechanism to marketize the economy and to alignment domestic prices and international prices. Additionally, according to the prime-minister, price liberalization was expected to "get the prices right" before privatization, eliminate supply gluts and reduce the incentives for corruption and "internal sales" to workers.⁴⁵⁹ To this end, the Roman government used the failures of reform socialism in Yugoslavia, Hungary and Poland as demonstration effects for comprehensive price liberalization.⁴⁶⁰

In addition to price liberalization, the government pushed for tight monetary and fiscal policies. An IMF-supported stabilization program adopted in

⁴⁵⁸ In April 1991, the list of foodstuffs exempted from the November price liberalization was drastically cut, leading to price increases of 250 percent. Fuel, gas and electricity prices produced by state monopolies were initially exempted but by mid 1991 they were left to increase. Only basic foodstuffs (bread, butter, vegetable oil, milk, butter) and services (state rents, public transportation) were exempted. Some liberal ministers (Reform's Adrian Severin and Commerce's Constantin Fota) wanted to simultaneously liberalize all prices in a one-off move and to devalue the Leu with more than 100 percent so as to bring it closer to its real value and generate market confidence. While they expected a high initial inflation, they expected this scenario to control inflation much better than then the gradualist scenario did (Severin 1995).

⁴⁵⁹ Interview with premier Roman, *Adevarul*, November 23, 1990.

⁴⁶⁰ Eugen Dijmarescu, minister for economic strategy, *Adevarul*, October 24, 1990

1991 tightened fiscal and monetary policy. As a result, Romania ran low budget deficits and the money supply was kept below inflation levels just as the national currency was devalued multiple times. Real interest rates remained negative, however, and a two-tiered exchange rate system was allowed. Despite the dramatic fall in output, the main objective of fiscal policy was explicitly to reduce aggregate demand based on the argument that demand was already too high and the biggest problems were in the territory of supply (Croitoru 1993: 94).⁴⁶¹

At a time when unemployment saw its greatest growth, the Roman government left the unemployment budget on a surplus. The same austerity drive continued under the provisional government led by Theodor Stolojan, the former finance minister of the Roman government who was known for being an advocate for near-zero deficits (Severin 1995: 96).⁴⁶² In the spring of 1992 Stolojan raised interest rates above inflation, devalued the Leu significantly and exerted and violated the budgetary autonomy of state firms by appropriating their hard currency earned from exports.⁴⁶³ Nevertheless, output fell by 14 percent in 1991 and 10 percent in 1992, the unemployment rate tripled and the inflation rate grew further. Ironically, the inflation rate (December to December) went from 37

⁴⁶¹ To make its fiscal targets credible, a few months into its mandate, the Roman government announced hard constraints on fiscal policy in the form of budget deficit targets: 2.4 percent for 1991 and 1.9 percent in 1992. The evidence that this was more than rhetorical performance was the fact that in 1991 the budget deficit was at 1.9 percent, that is below the budgeted level. From a budget deficit of 5.5 percent in 1989, Romania went to budget deficits below 2 percent in 1990-1991, with the resulting surplus being used to cover the losses of SOEs. It is also suggestive that for most of 1991 the budget was on surplus. For an in-depth description see Croitoru (1993).

⁴⁶² Stolojan's stabilization program began by using the exchange rate as a nominal anchor via a managed float and the launching of a few strong devaluations. Unfortunately for the government this strategy led to increases in the exchange rate, a crisis in the balance of payments, significant cuts in the real wage and the deepening of recession. The argument for low budget deficits resonated well with the technocrats as the under national-Stalinism near zero deficits under all circumstances were taken for granted (Dijmarescu 1993: 10).

⁴⁶³ The last measure was reversed in 1992, when the government allowed full retention rights for exporters.

percent before the IMF stabilization package to 200 percent after the package was implemented, while wage earners lost more than 30 percent of the value of their earnings. The industrial base of national-Stalinism was withering away rapidly.⁴⁶⁴

In the winter of 1991 the Roman government also announced the ending of the dual exchange rate regime and the convertibility of the national currency (the Leu) using the argument that it was a key measure for attracting FDI. Yet their enthusiasm for unconditional convertibility was tempered by central bank and Finance economists who argued that since the country was basically out of foreign reserves, the measure could only be passed if the hard currency gains of exporters were expropriated, an option endorsed by IFIs and adopted by the subsequent government in late 1991 (Severin 1995: 66-69; 70-71).⁴⁶⁵

As the government feared that the state monopolies' strategies were leading the economy into hyperinflation, in early 1991 the cabinet successfully pushed for massive privatization and highly competitive fiscal incentives to attract foreign direct investors. The government also corporatized SOEs⁴⁶⁶ and cut them loose from the obligation to transfer their profits to the state budget. Behind this policy was the idea that once emancipated from the "tyranny" of government,

⁴⁶⁴ The decline was concentrated in industry: 18 percent in 1990, 22 percent in 1991 and 20 percent in the first half of 1992.

⁴⁶⁵ This created incentives for firms to transfer hard currency deposits abroad. Faced with the situation, the Stolojan government withdrew the measure, declaring that the expropriation was a one-off event. With BNR support, the liberal ministers BNR also pushed for the liberalization of interest rates with the argument that the resources for industrial investment are best left to the commercial banks (Severin 1995: 71; 74-77).

⁴⁶⁶ The reform divided SOEs into two groups: *regies autonomes* and open joint-stock commercial companies. The former group, designated as "strategic" for the national economy included 400 firms that accounted for 47 percent of total SOE assets.

SOEs would have the much stronger market incentives to invest and generate wealth.⁴⁶⁷

But neither the Roman, nor the caretaker government that succeeded it in late 1991 advocated for a radical neoliberal strategy in socially sensitive areas such as taxation or the labor market. Even the government's "ultraliberal" reform minister Adrian Severin rejected the assumption that markets are self-regulating devices (Severin 1995: 64), while for Finance minister Eugen Dijmarescu,

The squeezing of demand through diminishing credit cannot be accepted as a price of reducing inflation at a historical juncture when output is at half the level of the potential of the economic structure. (Dijmarescu 1993: 8).

Additionally, labor unrest was systemic and much of the premier's schedule was dedicated to negotiating with strikers. Spectacular episodes of industrial action increased the costs of government plans to shut down inefficient firms with the result that in Romania state firms were relatively slower in shedding excess labor compared to neighboring countries.⁴⁶⁸ Consequently, on more employment-sensitive economic fronts, the Roman government either temporized (privatization of large state enterprises) or did nothing (the elimination of exchange rate controls, the appropriation of funds from profitable enterprises to pay for the losses of other state firms). Support for large SOEs that ensured

⁴⁶⁷ In 1991 only 4.5 percent of total investments was financed by the public budget.

⁴⁶⁸ Between 1990 and 1992 employment decreased by 13 percent while output fell by 23 percent.

employment for 30 percent of the labor force was seen as essential for a country with mobilized labor and almost a decade of very harsh deprivations, although the Finance and Labor ministers seemed ready to accept very high levels of structural unemployment as the natural feature of Romania's new economy.⁴⁶⁹ Also, although it refrained from investing in shovel-ready public works already launched by the *ancien regime*, the Roman government spent public money on the technical updating of SOEs considered to have a competitive potential in the future.⁴⁷⁰

Finally, neither was tax policy a local version of popular Reagan-era supply-side ideas. Personal income tax was steeply progressive, with tax brackets ranging between 6 and 45 percent. Socially vulnerable categories (students, pensioners) were tax-exempt and enjoyed price subsidies for transportation. Against the opposition of some ministers,⁴⁷¹ the tax reforms of 1990 made corporate tax reforms were progressive as well, with income tax rates ranging between 5 percent for the smallest firms to 77 percent on the bigger ones.⁴⁷²

The failure of embedded neoliberalism

⁴⁶⁹ Eugen Dijmarescu, minister for economic strategy, *Adevarul*, October 24, 1990; interview with labor minister Catalin Zamfir, *Adevarul*, April 10, 1991. See also Eugen Dijmarescu ("Limite si alternative ale tranzitiei," *Oeconomica* 1993).

⁴⁷⁰ This, however, met the weak capacity of factory-level management used to receiving orders from central planners. The result was a considerable level of non-use of public investment funds.

⁴⁷¹ Some economic ministers were in favor of lowering corporate taxes at the risk of running a higher budget deficit (Severin 1995: 94-96; Dijmarescu 1994).

⁴⁷² Since large SOEs failed to break themselves down into smaller firms and since large multinationals were deterred by the high marginal tax rate, in November 1991 the Stolojan government reduced the 66 corporate income tax rates to two: 30 and 45 percent respectively. The new tax policy punished small capital and encouraged large foreign investment, with three to five year tax breaks being offered to all new investments outside of services and with an additional 50 percent tax cut to higher value added foreign investments.

For the first time since the 1970s, stores were filling up as a result of price liberalization. In order to make up for the remaining shortages and with a view to encouraging a “primitive accumulation” of private capital, the informal cross-border barter networks that emerged in early 1990 were allowed to set up tax-exempt “flea markets” and “peasant markets” that provided cheap apparel, electronics and other consumer goods manufactured in Yugoslavia and Turkey.

Yet inflation rose to 89 percent by the end of the year and, despite the sharp fall of productivity levels, labor mobilization in an environment without corporatist institutions led to a rise in wages above inflation. Inflation wiped off private savings as well as the propensity to save, which further reduced the state’s capacity to borrow money for investment. Moreover, the data showed clearly that both the supply of goods and their quality began to decrease significantly only *after* prices were liberalized (Pillat 1991). By early 1991 it became clear that price liberalization carried out in an economy dominated by large state-owned monopolistic firms and executed *before* wage negotiations looked more like a form of rent extraction, as supply monopolies unilaterally jacked up prices. This led to decreasing consumption and failed payments and as myriad firms found themselves unable to pay the new prices to monopolistic suppliers. In turn, this generated a dramatic collapse in output and in tax receipts.

Price liberalization in the conditions of the Romanian economy (a high degree of monopolization and government administrative oversight withdrawn overnight) also worsened the country’s external economic competitiveness. The combined effects of price increases through price liberalizations and currency

devaluations led to increases in the price of Romanian exports and thus to a deterioration of the balance of trade. As foreign debt went from negative to almost a billion dollars by the end of 1991, foreign investors failed to see the virtues of macrostabilization and spectacular tax breaks and invested merely 36 million dollars in the economy (Croitoru 1993).⁴⁷³

Unfortunately for the government, the corporatization of state firms and the dismantlements of all forms of state planning and control ended up decapitalizing firms and putting the public budget under stress. The profits of most SOEs decreased significantly and the state deprived itself of the revenue that profitable SOEs could have transferred to its accounts. At the same time, large loss-making SOE ended up demanding subsidies and failing to pay taxes, with the result that state revenues collapsed from 52 percent of GDP in 1989 to 34 percent two years later, with asset stripping taking place on a large scale (Croitoru 1993:98).

Privatization was a failure as well despite the adoption of relatively bold legislation in mid 1991. At the end of the day, local capital was too sparse and, despite offering foreign investors institutional support, the lowest wage levels in the region, a highly-skilled labor force and years of tax breaks and other facilities,⁴⁷⁴ Romania attracted only a fraction of the value of the foreign capital invested in

⁴⁷³ The central bank estimated that 78 percent of foreign debt was owed to the IMF (Croitoru 1993: 74).

⁴⁷⁴ A UNDP report in November 1991 showed that Romania was second to Hungary in terms of the tax incentives for FDI, but low investment in advocating for Romania as a destination for investors. Interview with Misu Negritoiu, ARD director, *Adevarul*, January 11, 1992. The Romanian Development Agency was set up in 1990 to draft legislation for encouraging foreign investment and for easing the access of foreign investors to the domestic market. The agency was established with the help of the British government's Know How Fund and the Irish Development

neighboring Hungary.⁴⁷⁵ Furthermore, the cabinet's enthusiasm for FDI was curbed by key actors of the policy team (e.g. president Iliescu) who thought that FDI was best for the service sector rather than in industry.⁴⁷⁶

Overall, the results of the "embedded neoliberalism" of the Roman and Stolojan governments were catastrophic. While WW 2 and the attending German and Soviet looting destroyed 34 percent of Romania's GDP, in only two years after 1989 the figure went up to 30 percent, with the greatest destruction taking place between 1990 and 1992. Per capita FDI was the lowest in the region in real terms and the average foreign company had less than 50,000 dollars in capital.⁴⁷⁷ By the end of 1992, the unemployment rate climbed to 9.2 percent (almost a million people), with the heaviest burden pressing on those younger than 30, whose unemployment rate was at 62 percent. Purchase power was halved relative to 1990 and exports were done by almost fifty percent as the economy continued to hemorrhage billions of dollars as a result of the embargo on Yugoslavia.⁴⁷⁸

The first Romanian neoliberal experiment ended up in political drama. At the end of September 1991 the Jiu Valley coal miners went on strike, boarded the trains to Bucharest and after putting riot police on a desperate flight they forced

Agency headed by a US-trained economist (Misu Negritoiu) and became known for an aggressive lobby inside the government and the Parliament for opened towards FDI.

⁴⁷⁵ Foreign investors cited political uncertainty, restrictive land owning rights, distance from West European markets and a reputation for contentious labor as the top deterrents. Statement by J.P. Seroussi, chairman of the Foreign Investors' Association, *Adevarul*, November 30, 1993. The government also government blamed the low level of professionalism of SOE managers in advertising their forms for sale. Interview with Eugen Dijmarescu, *Adevarul*, September 28, 1990.

⁴⁷⁶ Interview with president Ion Iliescu, *Adevarul*, December 12, 1990.

⁴⁷⁷ *Adevarul*, January 16, 1993. Also, in January 1992 only 20 foreign companies had capital ranging between 1 and 45 million dollars. *Adevarul*, February 13, 1993.

⁴⁷⁸ Yugoslavia had been a main supplier of cheap metals for Romania. *Adevarul*, August 23, 1993.

the government out of the building and, hours later, out of power.⁴⁷⁹ The FSN's left wing and, surprisingly, some in the center-right opposition stood by as the first elected government fell to a combination of labor direct action and obscure political machinations inside the ruling party.⁴⁸⁰ The damage done to the already problematic unity of the FSN could not be repaired. Half a year later, the party split, with Roman taking over the party and with Iliescu's followers forming a new party, the FSN. A caretaker government led by former Finance minister Theodor Stolojan ruled until the elections brought to power the left wing of the FSN, which had formed its own party (FDSN) in the spring of the same year.

The Heterodox Moment

The State Returns

Unsurprisingly, the next ex-communist government changed the tone and blamed the economic fiasco of the Roman and Stolojan governments on their skepticism about the viability of public enterprises and about the role of the state more generally. In his inauguration speech, president Iliescu committed himself to subordinating all market reforms to “social justice for the many”, while framing “the ideology of non-interventionism and the self-regulating market” as “incompatible with the demands of modern economy.”⁴⁸¹

In late 1992, the program of the new cabinet headed by Nicolae Vacaroiu, a former planner, dramatically announced that “the state was back.” Its main

⁴⁷⁹ Roman and his ministers resigned so as to facilitate a political solution to the crisis.

⁴⁸⁰ The delegation of the miners who besieged the government palace negotiated directly with president Iliescu, the de facto leader of the FSN.

⁴⁸¹ *Adevarul*, October 31, 1992.

argument was that the structural bottlenecks inherited from the socialist economy and the recession could not be solved by liberal economic reforms that generated stagflation and that the government had to take a more active and ideationally heterodox role.⁴⁸² The fulcrum of the Vacaroiu strategy was clear: the achievement of a balance between macroeconomic stabilization, trade liberalization and employment maintenance, with a clear preference for reducing unemployment rather than inflation constituting the central norm of the government program.⁴⁸³ These objectives were achieved through five policy offensives and restarted growth.⁴⁸⁴

Playing with the Fundamentals

The fiscal and monetary policies of the heterodox Vacaroiu cabinet combined sound finance and demand-side elements. Yet unlike Latin American heterodox programs (Mann and Pastor 1989; Paus 1992), the Romanian macroeconomic heterodoxy did not include reflation, price freezes or foreign debt time-outs. On the contrary, fiscal policy was tightened (the budget deficit was kept around 2 percent) until macrostabilization was definitively achieved in 1995 and a functioning foreign exchange market was implemented. If until 1993 interest rates hardly mattered for the decisions of economic management, in 1993 the government began to adopt real positive interest rates. Aided by positive interest

⁴⁸² The government program of the Vacaroiu cabinet can be found in *Adevarul*, February 22, 1993.

⁴⁸³ The preference for full employment over low inflation is clearly stated by Iliescu in an interview to *Adevarul* on September 16, 1992.

⁴⁸⁴ Industrial output reached levels as high as 9.4 and 6.3 percent in 1995 and 1996 respectively. While this growth was correlated with a high volume of unsold industrial products, that volume was gradually reduced and correlated with substantial increases in exports, investments and household consumption. The value of exports was highest in textiles (28 percent of the total), steel (15 percent) and machinery (14 percent).

rates, tight monetary policy reduced inflation from over 200 percent in 1992 to 50 percent in 1994. Macroeconomic stabilization facilitated favorable credit ratings from major international agencies⁴⁸⁵ and Romania's reentry into international private financial markets in 1995 through a series of syndicated loans. Trade and current account balances improved dramatically. Most importantly, the economy began to grow (to 7 percent in 1995) and to create jobs.

At the same time, the Vacaroiu government stepped outside orthodoxy when it diagnosed the postcommunist recession in demand-side factors and structural bottlenecks that would be eliminated not through market reforms, but through economic growth. As a result, the state's investment as a percentage of GDP nearly doubled relative to 1992 and once macrostabilization was achieved in 1995, the budget deficit was left to rise and was financed in an inflationary way through the injection of base money needed to cover the losses of agriculture and *regies autonomes*.

Another unorthodox measure was the use of a multi-faceted price system rather than across-the-board liberalization that factored in industrial policy concerns as well as awareness that the vertically-integrated monopolistic structures inherited from national-Stalinism could not take the shock of market-clearing prices on energy and raw materials. Also, rather than combat inflation through a reduction in the money supply, monetary policy focused on breaking inertial inflation through a temporary freeze on wages. Most importantly, however, after macrostabilization showed its first successes in 1994, the government decided to

⁴⁸⁵ In 1995 Romania was rated BB+ by JCRA and BB- by the big Western credit rating agencies. According to Daianu, these inflows fended off a major balance of payment crisis in 1996 (Daianu 199: 14 ft 41).

kick-start demand through public purchases of domestically produced industrial goods and an automatic indexation of the minimum wage.⁴⁸⁶ To the chagrin of the EU and IMF, the foreign exchange policy was tied to industrial policy⁴⁸⁷ and government purchases took place through close auctions that favored domestic manufacturers.

Reinventing industrial policy and state ownership

The heterodox were not opposed to privatization per se, yet they rejected the view that private ownership for all state firms was an appropriate strategy in the long term.⁴⁸⁸ During the heterodox period, the contribution of private capital to GDP doubled, so that in 1996 private firms accounted for the majority of GDP.⁴⁸⁹ Yet their ambitions to privatize were modest as they wanted an economy with state-owned industrial champions ensuring full employment and in competition with new companies set up by foreign investors. The premier insisted that his reform

⁴⁸⁶ This to the resignation of the more liberal elements of the government. For example, Misu Negritoiu, state minister for economic strategy, resigned in 1993 citing “deep disagreements as to the ideas that should inform the reform process,” the coordinated weakening of his institution by forces inside the government, and abandonment of liberal economic measures promised in the government program, with specific regard to the inflationary indexation of wages. Statement by Misu Negritoiu in *Adevarul*, August 23, 1993.

⁴⁸⁷ Two years after establishing a foreign exchange interbank market, the government introduced substantial controls (licensing, exchange curbs) that led to the appearance of a wide gulf between an overvalued official parity and private exchange bureau rates. This policy shift was part of the government’s industrial policy in that it was meant to reduce the costs of energy imports for the high-employment firms in engineering and steel that the government hoped to turn into industrial champions. These measures made the EU and the IMF suspend their financial assistance in early 1996.

⁴⁸⁸ Interview with Misu Negritoiu, Presidential economic advisor, *Adevarul*, January 19, 1993.

⁴⁸⁹ However, slow privatization gave the private sector only 27 percent of the labor force and 7.5 percent of the value of state capital.

scenario meant ten to fifteen more years of dominance of state ownership of the economy and mixed economy.⁴⁹⁰

Rather than embrace the neoclassical dissertation that privatization in postcommunist countries should be applied to all state firms as soon as possible and at any sale price, prime-minister Vacaroiu argued that such a strategy may hold for firms with few employees, but the right way to privatize high employment sectors was in the sequence adopted by capitalist countries during the 1980s: restructure SOEs and then sell them at a profit. In this argument he rejected the mainstream “transition economics” model for whom private ownership was desirable even at an initial loss to the state budget, and in which restructuring was best left to the new owners.⁴⁹¹

More specifically, the heterodox reasoned that since 15 percent of the GDP and over a million jobs were concentrated in subsidized state enterprises, a neoliberal transition strategy entailed not only prohibitive social costs but also a major self-defeating cut in aggregate demand and the weakening of the country’s export capacity.⁴⁹² Moreover, many of them could be saved with improved management and cheap credit.⁴⁹³ As for the rest of the industry, they saw the state both as owner of strategic industries and as investor in industrial champions, with 1960s Japan and France being offered as inspiration. The result was that by 1997

⁴⁹⁰ Inauguration speech by premier Nicolae Vacaroiu, *Adevarul*, November 11, 1992,

⁴⁹¹ In the fall of 1993 mid-level bureaucrats in the Privatization ministry complained to the press that at the current pace privatization would end in 50 years. *Adevarul*, November 11, 1993

⁴⁹² The government program of the Vacaroiu cabinet, *Adevarul*, November 14, 1992.

⁴⁹³ In 1993 industrial subsidies were consuming 12 percent of the public budget (World Bank 1993).

state firms accounted for more than 84 percent of total employment.⁴⁹⁴ The share of the private sector in industrial production was only 24 percent and remained concentrated in the small and medium firms of light industry (food processing, textiles and furniture).⁴⁹⁵

By contrast, non-strategic state firms were privatized as they did not problematize the government's full employment-efficiency trade-off.⁴⁹⁶ But even here the state did not let the market rip. First, it kept ownership over 51 percent of the shares in large SOEs, with the rest of the shares being dispersed as private and/or unsellable property.⁴⁹⁷ For all other forms the preferred method of privatization was to sell SOE assets to employees at giveaway prices (the MEBO method) and to ban employee's associations from selling their stock for five years.⁴⁹⁸ This privatization method limited the likelihood of takeovers for the sake of improved governance and reduced the possibility for changes in the firm's employment. By contrast with MEBO privatizations in central Europe and Russia, this method was carried out in Romania such that it resulted in overwhelming

⁴⁹⁴ By 1994 almost all retail trade was private (INS 1997), yet the rest of the economy was still socialist, as the state owned 90 percent of economic assets. In 1996 Romania had a state-dominated market economy, rather than a capitalist one: the state owned the banks and the industry.

⁴⁹⁵ During the 1980s less than 1,000 SOEs were privatized worldwide. In 1993 Romania had 6,000 SOEs. Author interview with Nicolae Vacaroiu, January 12, 2009.

⁴⁹⁶ Subsequent studies established that all forms of privatization used in Romania (MEBO, voucher and direct sale) had a positive impact on firm performance (Earle and Telegdy 2001). For other overviews see Negrescu (2000).

⁴⁹⁷ Case-by-case sales of large blocks of shares were the least used means of privatization, with foreign investors buying only .8 percent of state shares by 1997.

⁴⁹⁸ Neoliberal economists argued that voucher privatization could speed up privatization and encourage the formation of domestic capital markets through a massive release of shares. To overcome the problem of highly dispersed ownership structures, the neoliberals suggested the creation of intermediaries. See Frydman et al (1994) and Munteanu (1997). For a critique of voucher privatization see Stiglitz (1999).

employee ownership.⁴⁹⁹ More than a third of industrial firms in the state's portfolio underwent this kind of transactions by the end of 1997.

A Developmentalist FDI and Trade Policy

Foreign direct investment was subordinated to a state-led development strategy rather than treated as a policy objective in its own right.⁵⁰⁰ Like other governments in the region Vacaroiu's struggled to offer FDI incentives. Tax and profit repatriation guarantees were one of its first measures and the generous tax incentives of the previous governments were maintained.⁵⁰¹

However, the same government did not have a neutral position regarding the type of investment it wished to attract; rather, they offered incentives to foreign investments that would update the technological outlook of Romanian industry and made the purchase of shares in SOEs contingent upon maintaining current levels of employment. Unlike other postcommunist governments, the Vacaroiu government did not try hard to act against labor union resistance to privatization,⁵⁰² nor did it intervene to remove the obstacles faced by foreign investors in their dealings with local municipalities.⁵⁰³ Most intriguingly, the

⁴⁹⁹ This method ensured maximal dispersion of ownership by prohibiting the trading of vouchers and the formation of intermediaries. This choice was based on the government's view that the new shareholders needed protection against "financial marauders" who would strip them of their shares at giveaway prices. Author interview with prime-minister Vacaroiu, January 12, 2009.

⁵⁰⁰ Subsequent studies demonstrated that foreign ownership has had the largest positive impact on privatized state firms in Romania. See Earle and Telegdy (2001).

⁵⁰¹ Limited companies with at least 20 percent foreign capital were exempt of profit tax and the repatriation of profits was completely deregulated. *Adevarul*, December 21, 1992,

⁵⁰² The industrial action of the labor union blocked the sale of farm equipment plant Semanatoarea to Italian giant New Holland.

⁵⁰³ For example, IKEA waited in vain to hear back from the Bucharest town hall about availability of land for its first store and it took Coca Cola one year to be able to buy land for its factory. Statement by J.R. Seroussi, chairman of the association of foreign investors, August 19, 1993.

government was bitterly opposed to the access of foreign investors to economic activities it deemed “strategic” and did not allow foreign investors to own land.

The commercial policy of the Vacaroiu government was strictly tied to industrial policy: while imports of raw materials went untaxed, high tariffs within the permitted limits of the Europe Agreements were applied to industrial products who posed a competition to “viable industrial sectors.”⁵⁰⁴ Given the strictness of EU constraints on free trade, industrial copyright, and the perceived technological lags forced upon the industry by Ceausescu’s 1980’s autarky, the heterodox were not hostile to trade liberalization as long as it facilitated innovations in equipment. To this end, foreign firms who made such imports paid no customs tax, and lower duties or outright duty exemptions for pre-determined goods benefited many local firms.⁵⁰⁵ The trade policy of the Vacaroiu government served industrial policy through export prohibitions and export quotas applied to cheaply-produced raw and semi-processed materials, keeping higher value added exports competitive.

Full Employment or Social Policy?

The previous sections showed that the salvaging of the industrial legacy of socialism informed many of the economic policies of the Vacaroiu government. Social policy was no exception. Against neoliberal prescriptions, the governments defended the subsidization of basic needs (heating, electricity, drugs), the “social clauses” in the adoption of the VAT⁵⁰⁶ and the universal character of health,

⁵⁰⁴ Speech by Ion Iliescu, *Adevarul*, October 31, 1992.

⁵⁰⁵ Governmental report, *Adevarul*, October 6, 1992.

⁵⁰⁶ When the Vacaroiu government adopted the VAT in 1993, it took Sweden as an example in instituting very low tax levels on food,

education and pensions.⁵⁰⁷ Similarly, tax policy remained steeply progressive and balanced social fairness with fiscal consolidation.⁵⁰⁸ At the same time, the government solved the full employment-welfare state trade-off in favor of the former, by cutting the already low levels of spending on health, education and pensions inherited from the Roman government. Indeed, one could argue that full industrial employment after two years of deindustrialization had been the most important social policy of this government. Finally, rhetorical commitment to the “Scandinavian model” notwithstanding,⁵⁰⁹ the heterodox political leaders never outlined their vision about how the neo-corporatist institutions of this model could be fostered in Romania.⁵¹⁰ Also, after an initial radical critique of social inequalities, the heterodox revealed that social equality took a backseat to building a domestic capitalist class.⁵¹¹

The mainstream view in the media and especially in the first new TV station with national coverage (Pro TV) was that heterodoxy was unsustainable anyway as it was based on external borrowing and inflationary risks that threatened to lead Romania towards the economic disaster of heterodox Bulgaria

⁵⁰⁷ The new health minister in the Vacaroiu government lambasted the US healthcare model and praised the British and Swedish ones. *Adevarul*, December 9, 1992.

⁵⁰⁸ A VAT was adopted in 1993, but the 1995 reform maintained taxes on labor relatively steady, while corporate profits were increased. If in 1994 corporate income tax was at 4.1 percent of GDP, in 1995 it grew to 6.1 percent. By contrast, the share of personal income tax increased only by a fraction (from 6.3 to 5.6 percent of GDP), while the VAT remained the same (5.6 percent of GDP). *Ordonanta nr 70/1995*.

⁵⁰⁹ Ion Iliescu’s invocations of the Swedish model were frequent throughout the 1990s. See Ion Iliescu, *Revolutie si reforma*, Enciclopedica, 1994

⁵¹⁰ In a press conference from the fall of 1992 soon after his inauguration, Iliescu fought off accusations that he is a neo-communist by speaking about the “social market economy” as the heart of the very definition of “Europe.” *Adevarul*, November 27, 1992.

⁵¹¹ Rather than generate a local reading of Scandinavian egalitarianism, the government program of the Vacaroiu cabinet emphasized that its policies were meant to transform the social structure into one “dominated by small owners of land and capital” and to “stimulate and facilitate processes of social stratification and differentiation [...] through wage and tax policy.”

and away from the gleaming success of neoliberal Central Europe. Granted, the macrostabilization program was losing steam and inflation in 1996-an electoral year, it should be added-was at 57 percent. But the growth rates were as high as in Central Europe and job destruction was less dramatic. Given the structural challenges of the Romanian economy, these were not minor accomplishments, especially in the light of the economic disaster that hit Romania in 1997 and 1998.

But what ultimately undermined the legitimacy of their project was the predatory means through which a domestic class was allowed to emerge and the fact that the loss of purchase power incurred during the 1990-1992 period was not significantly reduced. The most important of these was that the government simply let many in the management of state companies to set up private parasitic companies that made profits from the arbitrage opportunities awarded by their privileged access to valuable information. And the closer one was to the *nomenklatura* networks that constituted the government's power base, the higher the chances of getting rich in this way were. As one of the scholars who studied this practice closely put it, they went "from good communists to even better capitalists" (Stoica 2004; 2005). Extensive media exposure of these cases eventually delegitimated the claims of the heterodox that they were delivering a less unfair kind of capitalism than their center-right opponents. In a country where between 1990 and 1996 prices grew 120 times and wages only 70 times, this did not go down well.

The years to come showed that things could be much worse for those who eked out a living from what remained of the country's industrial base. At the end

of 1996, however, they thought things could be much better with the political alternative, threw the heterodox out of power and ushered in political forces that gave neoliberalism a real chance.

Neoliberalism through Shock Therapy

Waiting for Balcerowitz

The FSN lost the 1996 elections with 21.5 percent of the vote but remained the largest party in the Parliament. The winner of the elections was the Democratic Convention, an ideologically mixed coalition made out of two nominally social-democratic parties (Roman's Democrats and the heir of the interwar Social Democratic Party) and the three center-right parties (Agrarians, Liberals and ethnic Hungarians' party).⁵¹²

Although the Convention and the new president Emil Constantinescu ran on a center-left platform, they authorized the government led by prime-minister Victor Ciorbea to draft an economic reform package that went beyond the paradigmatic "shock therapy" neoliberal reforms of the Balcerowitz government in Poland (Pop-Eleches 2009: 228).⁵¹³ Indeed, according to the EIU country report for the 1st quarter of 1997, this was the most radical shock therapy package tried anywhere in the region (EIU 1997). Restrictive monetary and fiscal policy was declared a strategic objective and so was the battle against inflation. The cut in the money supply was carried out simultaneously with the scrapping of the dual

⁵¹² Since this was the first election in which the incumbents were defeated, the Convention victory made Romania travel from "transition democracy" to "consolidated democracy" (Pop-Eleches 2001; Pridham 2002; Diamond 2002).

⁵¹³ Programul de baza de macrostabilizare si de dezvoltare a Romaniei pana in anul 2000, December 1996.

exchange rate and its replacement with a floating exchange rate regime, a measure that created an exit window for potential investors in the equity market.

Government spending on public services was halved and the foreign exchange market was substantially liberalized.⁵¹⁴ The export bans and quotas established by the Vacaroiu government were terminated. The tariffs on imports of agricultural products were significantly reduced and those on industrial products were reduced below the levels required by the still phantom-like EU integration process.

The recipe for economic growth shifted from heterodoxy to supply-side economics: tax cuts for firms, cuts in the tax applied to high wage earners, the reduction of income brackets. The complete liberalization of products and services was under consideration as well.⁵¹⁵ The government embarked on a massive withdrawal from the ownership of industrial assets, and the public ownership funds that managed SOEs were converted into investment funds (Negrescu 2000). Industrial policy was almost completely eliminated in the name of the neutrality of the government vis-à-vis business competition. Public service outsourcing, multiannual planning, and New Public Management procedures were put on the agenda.

The failure of the neoliberal experiment

“Ironically, a program that was meant to advance reforms negatively affected the emerging

⁵¹⁴ This measure led to the convergence of official and unofficial rates and to a substantial increase of transaction volumes on the interbank market.

⁵¹⁵ Basically, trade was liberalized below the levels expected by the EU integration process.

entrepreneurial class, and encouraged the expansion of the underground economy because of the degree of austerity involved. The expansion of the underground economy was a response to a powerful shock. As thermodynamics tells us, “nothing gets lost in the universe” (Daniel Daianu, central bank chief economist, 1999: 16).

By the end of 1997, it became clear that this shock therapy was the death toll of the years of growth as well as of macroeconomic stability. Inflation shot up from 57 to 154 percent in one year⁵¹⁶ and in just a few months in 1997 the GDP fell by 7 percent, inaugurating a three year recession.⁵¹⁷ The contraction of domestic demand substantially reduced the current account deficit, but unemployment levels increased sharply, and almost a quarter million private small and medium enterprises went bankrupt as a result of a large contraction of real credit.⁵¹⁸

Labor protest stopped the privatization of several large enterprises and as poverty rates doubled among wage earners and quadrupled among business owners (Tesliuc, Pop, Tesliuc 2001: 50) social tensions grew. In the absence of

⁵¹⁶ Only the deregulation of energy prices led to price increases of 200 percent.

⁵¹⁷ This description of the Romanian neoliberal experiment uses public data made available by the IMF, the Romanian National Institute of Statistics, APAPS and the Romanian ministries of development and finance

⁵¹⁸ According to the chief economist of the central bank total “real credit (in domestic and foreign currency) declined by 52.5 per cent, and its non-government component by as much as 61.3 per cent. This should be set against the growth of real credit in previous years, when the non-government component increased by 19.7 per cent, 35.6 per cent, and 4.1 per cent in 1994, 1995, and 1996 respectively” (Daianu 1999: 16).

viable welfare or employment options, over 60 percent of the unemployed became subsistence farmers living in rural pockets of poverty that were increasingly deprived of medical services in what was the first urban-rural migration in the country's history (Zamfir 1999; 2001).⁵¹⁹ The disaster was compounded by the fact that the halving of public services budgets tripled the debt of public institutions and especially of public hospitals. In an eerie throwback to the late Ceausescu years, emergency services functioned with makeshift solutions, and hospital staff began to expect patients to pay for surgery supplies out of pocket.

As state subsidies to agriculture were ended without warning and simultaneously with a sudden reduction of import duties on food, many large state farms, some of them the pride of socialism, filed for bankruptcy. As privately-owned subsistence farms failed to spontaneously increase their productivity and foreign capital did not rush in to establish large agribusiness, the result was an immediate collapse of agricultural output and a permanent balance of trade deficit for agriculture. For the first time in its history, Romania became a net food importer.

The crisis in agriculture soon led to a banking crisis, as the bankruptcy of large state firms led to the non-payment of loans to two large state banks (Banca Agricola and Bancorex). Fearing a collapse of the entire banking sector, the state bought the bad assets of these two banks at a cost of deteriorating deficit figures. And since external debt became unavailable and it was decided that the central

⁵¹⁹ These “new farmers” were reduced to working land surfaces smaller than 2 hectares with hand tools, fertilizers or irrigation (Zamfir 2001).

bank's independence should be strengthened, the government issued a vast number of T-bills that left firms with even more difficult access to credit.

To make matters worse, instead of delivering results in its anti-corruption campaigns, the Convention delivered an endless flurry of corruption cases of its own, while the quality of expertise and interdepartmental coordination was merely a shade of the FSN's past (Pop-Eleches 2009: 231-232). Also, the support of the IMF withered away quickly and in the winter of 1997 the Ciorbea government faced an end to IMF financing and net capital flows. Faced with this situation, the Convention slipped into coalitional warfare and citing the premier's incompetence, Roman's Democrats left the government in December 1997. A new government led by Radu Vasile, an academic economist, was formed in 1998 to deal with a worsening political and economic crisis that had been compounded by two external shocks: the Russian financial crisis and the Kosovo war.

Romania experienced the worst of all worlds. As labor union mobilization slowed down the pace of industrial restructuring and privatization, the fragile Convention governments lost IMF and World Bank financing while pushing on with austere and pro-cyclical fiscal and monetary policies. This further depressed domestic demand at a time when foreign investment was leaving the country and new international investments were hard to come by given the uncertainty triggered by the East Asian and Russian financial crises. Consequently, the GDP fell by 5.4 percent in 1998 and 3.2 percent in 1999.

Desperate, the Vasile government encouraged unprocessed timber exports⁵²⁰ and used the last options on the neoliberal menu: a firesale of industrial assets with the aid of foreign consultants; and tax increases on wages and consumption (VAT) to pay for the tax cuts on capital. The number of privatized large SOEs almost quadrupled, so that the share of labor working in the private sector doubled.⁵²¹ The sale of these big ticket items, all of whom were very profitable, was far below the prices demanded by the 1993-1996 governments. In effect, the government sold almost 40 percent of its enterprises for a total amount of 2.1 billion dollars through an opaque process whereby the state's inspectors were forbidden to investigate the sales. Even so, FDI increased sluggishly and its total value was only slightly above the 1996 levels.

After four years of reforms, government statistics acknowledged that wage levels were at almost half their level of 1989 and that even though a slight growth rate of 1.6 rate was real, the cost was further decreased in domestic household demand and in the gross value of wages. The proportion of people living in poverty doubled.⁵²² Public and private investment fell almost by half and according to the OECD the fall in GNP adjusted by purchase power parity further increased the wealth gap between Romanian citizens and their peers in Western Europe by an additional 5 percent. During this time Romania saw a second wave of deindustrialization, with industrial output in 2000 being 20 percent lower than

⁵²⁰ The growth in unprocessed timber was made possible by the privatization of forests and the pricing of timber well below the world average. The growth of these exports stopped the decline in employment for some labor sectors, yet it came at the cost of keeping wages at less than 75 dollars a month.

⁵²¹ This figure went from 27 percent in 1996 to 56 percent, and the share of privatized state capital went from 7.5 percent in 1996 to 37 percent in 2000.

⁵²² Poverty increased from 20 percent in 1996 to 40 percent in 2000.

in 1996.⁵²³ The country's trade profile changed, with an increasing shift towards lower value added exports.⁵²⁴

The electoral cost was immense: the approval ratings of the CDR, still high after a punishing first year, began to fall precipitously after 1998, reaching 4 percent during the 2000 elections. To the shock of his supporters, president Constantinescu announced his withdrawal from the presidential race and the Liberals abandoned the sinking CDR ship, perhaps saving themselves from the disaster of not being elected to Parliament. At the polls, the Agrarians (National Peasant Christian Party), until then the gravity center of the coalition, did not even reach the electoral threshold necessary to enter the Parliament, whereas the other former Convention members were reduced to a third of their 1997 votes. Pushed to run as a presidential candidate, Isarescu got only fifteen percent of the votes, and far right politician Corneliu Vadim Tudor, the scourge of liberal-democracy, emerged as the main candidate against Ion Iliescu.

The Third Way, Romanian-Style

The ex-communists return

The 2000 election was a historical example of “politics of dejection” (Pop-Eleches 2001). As one observer put it at that time, “[w]orse than a defeat for the coalition, this spelled a defeat for politics and political parties and a return to the

⁵²³ This eliminated the benefits of the 1992-1996 growth period, so that by 2000 industrial production was by 3.3 percent smaller than in 1992. Negative rates of at least 20 percent were also recorded for constructions and transportation industries.

⁵²⁴ Less highly-processed chemical products, with low-yield timber, *lohn* textiles, rolled steel, scrap iron. The only positive piece of news was that machinery now became the second largest source of exports. More timber and less furniture, more scrap iron and less processed steel, more *lohn* textiles and footwear and less domestically-integrated.

populist environment of 1990, with its hatred for politicians and parties and a preference for strong leadership” (Mungiu-Pippidi 2001: 231). The Agrarians were wiped out and the Liberals and the Democrats saw their lowest electoral scores. Iliescu defeated the red-brown Vadim Tudor in the second round of the presidential elections, and although Iliescu’s party had the highest number of seats in the fourth Parliament, Vadim Tudor’s party came in second.⁵²⁵

Despite their strong showing, the ex-communists did not have enough mandates to form a solid majority. But rather than ally with the “red-brown” Greater Romania Party, their former ally in the 1992-1996 government, they sought the support of three smaller parties situated in the political center or on the center-right: the Liberals, the Hungarians and the small center-left Humanists. The ex-communists, it seemed, were no longer the party that once espoused statist reservations towards economic reforms and conveniently flirted with illiberal ethnic politics.

Further evidence for this ideological mainstreaming was provided by the new political party program of the PSD, which was a sample of “Third Way” centrism: macroeconomic orthodoxy, privatization, deregulation, free trade, tax cuts for business, and industrial policy centered on attracting FDI. The program also called for increased social welfare spending, but this time FSN’s erstwhile staunch collectivism was replaced with references to individual responsibility, active labor market policies, and benefits that were to be conditional, means-tested and targeted (Programul 2000; Abraham 2006). Also, before the elections, Iliescu’s communist successor party merged with the liliputan Social-Democratic

⁵²⁵ In 1997 Iliescu becomes the party president and Nastase was reelected as the vice-president.

Party of Romania (PSDR), the historical heir of interwar Romanian social-democrats. The oldest Romanian member of the Socialist International, PSDR was the gateway to the international respectability that Iliescu's party now saw as vital.

Disembedded Neoliberalism and the Romanian Third Way

In 2001, led by Adrian Nastase, the party's "young Turk" party chairman, the cabinet announced it would cut inflation to 25 percent,⁵²⁶ introduce a mandatory private pension "pillar,"⁵²⁷ and keep the deficit below the Euroland criteria. Its rush to cut corporate taxes and employers' social security contributions was watered down only by the IMF's worries that tax reforms could negatively affect the deficit.⁵²⁸ The budget deficit was reduced from 4 percent in 2000 to 1.6 percent in 2004, a feat attributed to better management and tax collection.⁵²⁹ Indebtedness was at half the eurozone minimum⁵³⁰ and Romanian bonds sold at record-low spreads.⁵³¹ For the first time, all IMF and World Bank agreements were completed by a willing and coherent cabinet led by a man for whom

⁵²⁶ *Evenimentul zilei*, June 8, 2001.

⁵²⁷ *Evenimentul zilei*, February 25, 2002.

⁵²⁸ *Evenimentul zilei*, April 9, 2001. However, in October the executive cut the taxes of small businesses who created jobs or reinvested their profits. *Evenimentul zilei*, October 12, 2001.

⁵²⁹ The improvements seen by tax collection capacity owed in part to the centralization of tax services in a national agency (*Agentia Nationala de Administrare Fiscala*). For the first time, large state companies were forced to pay their taxes and private firms saw the adoption of credible criminal procedures of tax enforcement.

⁵³⁰ Foreign debt fell from 22 percent of GDP in 2000 to 18.6 in 2004. At 30 percent, the level of public debt relative to GDP was at half the level demanded by accession to the eurozone. Statement by Isarescu, *Evenimentul zilei*, November 20, 2002.

⁵³¹ The spread on Romanian bonds was halved, from 11.5 in 2000 to 5.75 in 2004, with 10 year payment deadlines becoming finally accessible.

orthodox macroeconomic policies were defined as constitutive of the very definition of modern social democracy (Nastase 2004b).⁵³²

The disinflation strategy also went better than many expected; inflation dropped to 17.8 percent in 2002 contrasted with the estimated 22 percent. In the course of the same year, Finance and BNR announced a strategy of cutting inflation below 10 percent by 2004.⁵³³ As output increased, the BNR reduced interest rates and suggested a relaxation of monetary policy. The 2003 budget aimed for a budget deficit of 2.65 percent, which was very low by regional standards,⁵³⁴ a measure justified by the Ministry of Finance by the need to cut the inflation rate and address the problem accumulating inter-firm debts (arrears). Tax collection improved, although it was affected by the objective of privatizing enough large SOEs so that the government's external audience (IMF, EU) could be convinced of the government's free market credentials.⁵³⁵

At the same time, further decreases in the budget deficit through budget cuts were considered harmful. The objective of cutting inflation below 10 percent was to be made in the "real" economy through such means as wage controls, the partial privatization of pensions and the privatization or liquidation of the remaining state-owned enterprises. But rather than radicalize the liberal agenda,

⁵³² The 2001 IMF agreement was a membership condition by the EU and NATO. The agreement demanded a budget deficit below 3 percent, wage increases below the inflation rate, the liberalization of energy prices, the elimination of VAT exemptions for high-growth sectors (tourism, constructions), the severance of tax privileges for exporters. Corporate income tax for exporters was set to increase from 6 percent in 2001, to 12.5 percent in 2002 and 25 percent in 2003.

⁵³³ Statements by Isarescu and Tanasescu, *Evenimentul zilei*, November 20, 2002.

⁵³⁴ By comparison, the Czech Republic aimed for 6 percent and Hungary for 4.5.

⁵³⁵ To make a few giant state firms more attractive, the government "forgave" almost a 100 million dollars in back taxes owed. Among these companies were RAFO Onesti Refinery, the National Tobacco Company, the SIDEX Galati Steel Mills. *Evenimentul zilei*, April 25, 2002.

ministry of Finance advisors suggested an increase in spending on health and education, which were at the lowest level in the accession states.

Once a part of the ideological repertoire of the political right, corporate income tax cuts and a reduction in the tax wedge on high income individuals became statements of the social-democratic “reformism” espoused by the PSD. In 2002, the minister of Finance Mihai Tanasescu declared that the high taxes and social security contributions had to be reduced, because they stifled growth and increased the social security deficit.⁵³⁶ The move was successful, and beginning with the 2003 budget the government asked that social security contributions of employers be reduced.

In the summer of the same year, Finance and the central bank pushed for an even more radical overhaul of the tax legislation. First the BNR governor announced that taxes in Romania were “suffocating” capital. Tanasescu agreed and suggested that the solution was tax cuts and the expansion of the tax base.⁵³⁷ Corporate income tax was subsequently cut from 25 percent to 19 percent, and earners of medium wages got a substantial tax cut. By contrast, while small pensions were tax-exempt, the average value of tax cuts for small wage earners making as little as 65 euro a month was set at the value of 2.30 euro, the equivalent of a kilogram of meat.⁵³⁸ Few expected that Finance could persuade the premier and the party executive by September that progressive income tax should be replaced with a flat tax of 23 percent, while corporate taxes were

⁵³⁶ *Evenimentul zilei*, February 25, 2002. The ministry of finance calculated that a 10 percent cut in the pension contributions could lead to an increase in the tax collection rate from 59 percent to 72 percent. *Evenimentul zilei*, March 27, 2002.

⁵³⁷ Statements by Isarescu and tanasescu. *Evenimentul zilei*, June 27, 2003.

⁵³⁸ *Evenimentul zilei*, June 16, 2004.

decreased and real estate transactions or dividends would basically stay untaxed.

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In addition to tax cuts and streamlined tax legislation, private business was regaled with a single-stop incorporation office, a West European accounting system, regular consultations with the premier and Finance on the drafting of new bills and government passivity at collecting all due corporate taxes.⁵⁴⁰

Additionally, given the ministry's official position that corporate taxes were too high, the execution of almost a billion in back taxes due by small firms was left to painstakingly slow procedures.⁵⁴¹ Finally, even though an estimated two million Romanians worked in the informal sector, thus depriving the budget of 1 billion euro, the cabinet denied labor unions' demand to crack down on informal labor as a strategy to ease the tax burden on employers.

Privatization progressed at the fastest pace after 1989. The Nastase government opposed no resistance to IMF and World Bank demands to privatize a set list of 20 large SOEs and lay off specific numbers of personnel from government ministries and state firms.⁵⁴² In Spain the government used capacity cuts to sell heavy industry and engineering firms to transnational corporations, but state industrial interventionism increased in firms deemed by state managers to

⁵³⁹ The tax system in force at the time had five tax brackets: 18%, 23%, 28%, 34% and 40%. Out of five million wage earners, 1.8 million did not pay tax because they were on minimum wage, while 43 percent paid the smallest tax of 18 percent.

⁵⁴⁰ As state firms' tax arrears to the public budget and to utilities decreased, those of large private firms increased. Although the Finance minister lamented this, few measures were taken to curb the phenomenon. Mihai Tanasescu blamed the increasing levels of unpaid tax and utility debt in private companies on "a series of unprincipled relations between government officials and firms." *Evenimentul zilei*, November 27, 2002.

⁵⁴¹ Statement by Mihai Tanasescu, *Evenimentul zilei*, July 21, 2003.

⁵⁴² Slight delays and the problematic privatization of giant aluminum smelter ALRO Slatina attracted the delay of World Bank's PSAL II tranche in the spring of 2002. *Evenimentul zilei*, May 10, 2002.

have a serious potential to be global players. Unlike Spanish Socialists, the PSD privileged multinational capital over domestic capital or state ownership as Romania's manufacturing and financial sectors were being integrated into regional and global markets.

With the help of private consultants paid from World Bank loans, strategic elements of the energy sector were privatized, and the sector itself was marketed as the establishment of the Electric Energy Stock of Exchange. The Nastase government privatized the formerly "strategic" heavy industry, petrochemicals and the largest state banks. The "pearl of the crown" was the highly profitable oil company Petrom, which was sold to Austrian state-owned oil company OMV after the government invested heavily in Petrom's pipelines and vast oil station network. Another Western state company, Italy giant ENEL, became the electric monopoly provider for almost half of the country, while French and German companies bought butane gas monopolies. The armaments industry was restructured and partly privatized. Ninety mines and quarries were shut down, with paltry World Bank microcredit (1.7 million dollars) being used to deal with the frustration of the unemployed. Privatization also touched public utilities companies for the first time. The result was the sacking of 33,000 workers, with EU funding barely paying for a small portion of the severance wage.⁵⁴³

For the first time an ex-communist government liberalized energy prices, thus relinquishing one of the last instruments of export subsidies and social protection, with the average cost of utilities overtaking the level of the average wage in 2002. The promised agricultural subsidies were cancelled, and in 2002

⁵⁴³ Interview with Ovidiu Musetescu, APAPS chairman, *Ziarul Financiar*, September, 2001.

workers saw a wage freeze, leading to the denunciation of the social pact by two of the largest union confederations. Telecom and financial markets were fully deregulated, and the externalization of the yet unprivatized public services began in full swing.

By contrast, the government's record on redistribution was much weaker. New programs (feeding and busing schoolchildren, generous maternity leave, home assistance for the elderly) were introduced and public access to utilities in urban areas was improved. The unemployed also benefited from better public job search programs. Yet welfare spending stagnated and began to look more and more like workfare. The resulting conservative welfare state reduced unemployment by facilitating the draining of the labor market of almost a third of the active population via migration and informal employment.⁵⁴⁴ These forced employment strategies worsened the problems of the welfare state by "extracting" the activities of millions of people from the tax base. Finally, the failure to fund and organize an effective and responsive labor training system reduced the likelihood that Romania could become a high-skill export economy.

The unemployed who did not emigrate got the roughest deal of all as the level of the benefits ensured that unemployment meant a rapid descent into the underclass. The deliberate policy to shrink benefits and to grant them for barely half a year had been grounded in the neoliberal idea that living on unemployment

⁵⁴⁴ The available evidence suggests that almost three million people either emigrated to (largely) Southern Europe, or entered the domestic informal labor market (Ban 2009). The latter poses high risks of poverty and is estimated to trap over half a million "working poor" families, with the typical victim being young, poorly educated, Roma, and employed in agriculture. The boom of the construction sector and the inflow of FDI in manufacturing could have absorbed much of the unemployed, but it did not. The labor supply in these sectors was so high between 2006 and 2008 that employers scrambled to bring workers from China and to tempt skilled and semi-skilled Romanian migrants with unheard-of wages.

benefits should be as unattractive as possible. And unattractive it has been. By law, unemployment benefits exceed the poverty threshold only for workers with twenty years of seniority. By contrast, the youngest unemployed Romanians were eligible for unemployment benefits set at 82% of the official poverty threshold.⁵⁴⁵ The prospect of being on the dole was so discouraging that only a third of the Romanians who were registered as unemployed received any benefits at all. Moreover, a tenth of the poorest Romanians, most of them Roma, had been left to fend for themselves.

The problem was compounded, perhaps ironically, by the fact that the new generations of vocational school graduates and retraining programs, the backbone of any manufacturing-based economy, had inferior skills to the workers who were trained during state socialism and its immediate aftermath. This obsolescence and decay of the vocational system worsened as the government bought into the popular neoliberal narrative that vocational education was a thing of the past and unduly infringed on the choices of students at an early stage.

Labor paid more in tax than capital did and the government came close to adopting an extremely regressive flat tax of 23 percent in 2003. The reform of the health sector was emblematic for this Romanian “Third Way” in that it struck a middle course between universal access and marketisation. Thus, the debts accumulated by public hospitals were paid off from the public budget, over 90 percent of the prices of drugs bought by poor retirees were covered by the state, the facilities for the chronically ill were considerably expanded and each county

⁵⁴⁵ Yet informal workers and the unemployed were late to take on such offers. This was either because they had become too discouraged or deskilled, or because they did not have the skills required.

hospital was granted decent emergency and surgery rooms. This period also saw an unprecedented increase in the budgets for the purchase of high tech medical technology and ambulances for major hospitals. At the same time, the government encouraged the emergence of a two-tier medical system. Payments to private health insurers became entirely tax-deductible and as the more profitable hospital services were externalized and privatized, private insurers were allowed to compete with public providers.⁵⁴⁶ With the assistance of World Bank experts, underperforming hospitals were closed, and New Public Management principles were introduced in the ones left to survive.⁵⁴⁷

The Legacy of the Romanian Third Way

Overall, the Nastase cabinet was relatively successful. The economy grew steadily at the average rate of 5.5 percent and the growth of industrial output and productivity suggested an improvement in the structure of industry and its competitiveness. In four years, the dollar value of Romanian exports doubled, with machinery and chemicals dominating the country's export profile. Industrial employment increased, with 40 percent of the labor force working in manufacturing. Romania was finally on the map of large direct investment flows and by the end of Nastase's term Romania's EU integration dossier was closed.

To anyone familiar with the country prior to this economic fiesta, the changes of the last decade are too dramatic to ignore. A real estate boom radically

⁵⁴⁶ *Evenimentul zilei*, June 10, 2003.

⁵⁴⁷ According to the premier's own evaluation, this led to the elimination of 22,210 hospital beds, which meant a decrease of the average hospital beds per 1,000 population from 6.7 in 2000 to 5.7 in 2004. <http://www.adriannastase.ro/index.php?sectiune=sanatate>

revised the sweep of sleepy villages and urban neighborhoods. A diverse restaurant, café, and art scene appeared almost overnight in large cities. Implausibly luxurious shopping malls began to dot cityscapes, catering to the increasingly sophisticated tastes of the growing middle class. The simultaneously loved and hated Dacia 1300 automobile, the symbol of the socialist proto-consumer's society of the 1970s, almost became a museum exhibit. For the first time in the country's modern history, large numbers of Romanians traveled abroad for pleasure, reveled in conspicuous consumption and financed new apartments with mortgages.

These were not just cosmetic changes. The boom altered the social fabric of Romanian society. Billions of euros were made from largely untaxed real estate speculation. The local elite of bankers, industrialists, and legal professionals grew, made ever more conspicuous claims to upper class status, and generated new tastes for yachts, customized luxury cars, Western university education, and villas in a new residential genre: the gated community. At the same time, the ranks of the Romanian middle-class were joined in fewer numbers by the usual suspects of post-communism (corrupt government employees, racketeers, small entrepreneurs, NGO types), and more by university-trained professionals. These began to be competitively employed by multinationals, dynamic local firms, and academic niches tied to the industry and EU research funding.

Fueled by cheap credit and labor shortages that fed wage increases, the new wealth of the educated middle class changed the culture of social interaction. The old middle class “badges of distinction” (polished language, high culture

consumption) were gradually junked in favor of sophisticated consumerism and investments of disposable income into the vortex of real estate speculation. Some of these transformations were financed with cheap credit disbursed by newly-privatized banks. Yet the biggest engines of these systemic changes had been regressive tax policies, foreign investment, and migrant remittances. As the economy boomed, the tax system was completely rebuilt to downgrade the redistributive effort, and to privilege the twin political objectives of fostering a robust Romanian middle class, and increasing Romania's attractiveness to global capital.

With a penchant for exercising discreet constraints on the freedom of the media, the PSD rule was nevertheless marked by considerable restraint on the authoritarian practices originating in its Leninist legacy (Tismaneanu 2003).⁵⁴⁸ Even its critics acknowledged that its constitutional reforms strengthened the institutions of liberal democracy (Gross and Tismaneanu 2005). Similarly, its nearly flawless cooperation with the ethnic Hungarian party UDMR, now its most loyal political partner, eliminated Romania's potential for ethnic warfare and made the country a textbook model for students of ethnic reconciliation (Pop-Eleches 2008:470).

Yet despite its socio-economic successes, despite its manipulation of the media during the elections,⁵⁴⁹ and despite the party executive's control over

⁵⁴⁸ For a critical assessment of government-media relations under Nastase see Blatman and Julliard (2004).

⁵⁴⁹ See Raport de monitorizare (Election monitors' report); Antena 1, B1TV, Prima TV, ProTV, Realitatea TV, TVR1; 1–20 September 2004; and Raport de monitorizare; Mix FM, Radio Romania Actualitati, Europa FM, Radio Total, BBC; 1–20 September 2004.

regional political elites, the PSD narrowly lost the 2004 parliamentary and presidential elections to a center-right alliance formed by the Liberals and the Democrats unified under the figure of Traian Basescu. As 2004 drew to a close, it became clear that with the crucial help of a programmatically reformed ex-communist party, the transition to liberal-democracy and to neoliberalism had gone beyond the tipping point.⁵⁵⁰

As the next chapter shows, much of this variation in policy was anchored in distinct sets of policy ideas that translated various economic paradigms in the Romanian context. Yet before those ideas are discussed in greater detail it is important to probe the conditions under which they mattered. If indeed ideas do not float freely, then what modulated the causal impact of ideas on policy? So far the study established that systemic political and economic uncertainty opened up political spaces for advocates of various economic ideas. Yet the second half of the chapter shows that institutions mattered as well. This argument is explored by testing one of the hypotheses formulated in the theory chapter: [n]ew economic ideas shape policy the most when the policy process is highly centralized and the

⁵⁵⁰ Pro-business policies, clear prospects of EU membership, and a cheap and relatively skilled labor force led to a spike in foreign direct investment. In less than five years, nearly all state-owned banks, utilities, and oil companies were purchased by West European corporations. The manufacturing sector underwent a similar buyout, and, as a result, gleaming Western-financed factories began to churn out French cars, Finnish mobile phones and Italian designer fashions. Foreign investments changed the export structure as well. By 2007, automobiles, industrial equipment, and other machinery accounted for the largest share of Romanian-made goods injected in global trade flows, thus ending the postcommunist dependence on exports of textiles and raw materials. Moreover, because of a dependable network of public engineering programs, urban Romania attracted the first substantial investments in high-end industrial niches like software and industrial design. While most of this new investment created low-end industrial and service jobs, it was a boom for many university-trained professionals who demanded (and got) salaries several times greater than those of semi-skilled workers or government employees with the same education. When Renault announced that it would open a large research and development facility and began a hiring spree in the engineering departments of Romanian campuses, many felt that the developmental shift from assembling Western products to designing and manufacturing them locally was within reach.

advocates for the new ideas form coherent policy teams in the state. It is to the exploration of this institutionalist argument that I now turn.

II. The Institutional Context of Economic Policy

National-Stalinism bequeathed an institutional order that was highly centralized. But when the “sultan” that kept this order together was killed in 1989, fragmentation and institutional conflict became the most important challenge to reformers. As a result, the capacity of the postcommunist institutions that mattered in economic policy (the ruling party, the president, the cabinet, the central bank) to effectively assert effective control over policy was an important variable in ensuring that policy was guided by some economic ideas rather than others.

Ceausescu’s Institutional Legacy

Sultanism and the Power of Planners

After 1989 the Romanian economic policy process inherited the deadweight of highly centralized governance structures. A variety of Leninist authoritarianism, the constitutional order of Romanian national-Stalinism was based on single party rule. Formally, the Grand National Assembly was the legislative power and the supreme form of authority in the state, yet de facto it functioned like a classic rubber stamp parliament (Tismaneanu 2003).⁵⁵¹ Although some separation of

⁵⁵¹ The Grand National Assembly had the right to appoint and revoke any state institution, including the Presidency. See Article 43 of the Constitution of the Socialist Republic of Romania.

powers was institutionalized in the Constitution (e.g. the prime-minister was appointed by the Grand National Assembly), Ceausescu personally controlled all appointments made in the upper echelons of the executive, legislative and judicial power. A single politically controlled “vertical” labor confederation (UGSR) smothered worker dissent and acted as enforcer of RCP and factory management authority (Kideckel 2001).

With regard to the economic policy process, outside of Ceausescu’s cabinet the most powerful institution was the State Planning Committee (CSP). Expanded by Ceausescu in 1975, this institution was staffed by elite economics departments. Basically, the young economists who were hired here had to be in the top one percent of their class and foreign training in mathematical economics generally led to quick promotion in its structures.⁵⁵² The Planning Committee was much stronger than the Finance ministry and the monobank, both of which had been relegated to policy execution functions.

But while in the case of Spanish authoritarianism the leading economic policy institutions (Planning and Finance) benefited from Franco’s non-interference in economic affairs, for Ceausescu economic policy was one of his most important preoccupations and he therefore dominated the drafting of economic policy strategies and punished the bureaucrats who showed the slightest resistance. When leading chief planner Emilian Dobrescu voiced dissent in 1982, he was promptly sacked and transferred in research in a different institution. According to the vice-chairman of this institution, during the late 1980s the

⁵⁵² Author interview with Nicolae Vacaroiu, State Planning Commission economist. After 1989 Vacaroiu became Prime minister (1992-1996), January 14, 2009.

objections of the planners to Ceausescu's self-defeating move to sell 80 tons of gold to pay foreign debt from the monobank reserves were promptly brushed aside.⁵⁵³ Also, when Florea Dumitrescu, the BNR governor and loyal servant of Ceausescu's inner circle suggested that the payment of the foreign debt ahead of time irritated foreign creditors he was marginalized and eventually sacked.⁵⁵⁴

The centralization of economic policy was not a constant, however. During the late 1960s as well as during the late 1970s the regime attempted a decentralizing reform by setting up the *centrale* ('centrals'), an intermediary between the central planning institutions and state-owned enterprises. While some scholars saw these reforms as leading to a kind of "socialist corporatism" with real decentralizing effects (Chirot 1980), for others it was just an exercise in "simulated change" (Shafir 1985; Tismaneanu 1999).⁵⁵⁵ At any rate, what remains is that during the 1980s Ceausescu defied revisionist experiments in economic governance taking place in neighboring countries and reasserted control over economic decision-making and continued to defend Stalinist practices (Ionete 1993).

Centralization also marked the governance of the ruling party. Recently, research showed that this gave the elites of communist successor parties in

⁵⁵³ Statement by Ghoerghe Stroe, vice-chairman of the State Planning Committee, *Jurnalul national*, March 24, 2009.

⁵⁵⁴ Interview with Florea Dumitrescu in *Jurnalul national*, March 31, 2009. For Dumitrescu's firing see Hotărârea Comitetului Politic Executiv al CC al PCR de la 17 martie 1989, published in *Scînteia*, march 18, 1989.

⁵⁵⁵ As Tismaneanu put it, "[f]ar from emulating the Soviets in their limited relaxation, the Romanian communists leaders further tightened their grip over society. The only occasions when the Romanian communists were one hundred per cent on the Soviet side were when Moscow was restoring Stalinist practices. For instance, not only did Dej and his Politburo warmly endorse and offer logistical support for the Soviet crushing of the Budapest uprising in 1956, but they used the specter of the "revisionist" danger in order to wage an appalling witch hunt within their own party in 1957–58 and initiate new purges of the intelligentsia." (Tismaneanu 1999: 162).

Romania a very high degree of autonomy and turned the party rank and file into a-ideological opportunists used to unaccountable and ideologically fickle leaderships (Pop-Eleches 2008: 476-477). Between 1948 and 1967 the regime had an oligarchic internal structure but after a brief opening during the late 60s and early 70s, the rank-and-file input into the party's decision-making process was basically nil. Nicolae Ceausescu's appointment as both the head of the RCP and the chief of state, with unfree and unfair elections guaranteeing de facto his life tenure, gave party life a distinctly personalistic flavor. Moreover, during the 1980s Ceausescu's attempts at establishing a dynasty became more apparent, as his son Nicu was increasingly regarded as successor and his wife Elena became increasingly involved in the making of important appointments.⁵⁵⁶ Around the Ceausescu family, a dozen high-ranking conservative upper bureaucrats and RCP leaders formed an opaque and uncritical "inner circle." Outside the family and the inner circle, bureaucrats and Party leaders with potential influence frequently saw transfers to other duties, away from the centers of decision (Tismaneanu 2003).

This high degree of power centralization in the leader's family and their "retinue" made some political scientists label Ceausescu's late rule as "dynastic socialism" (Georgescu 1988) or "sultanism" (Linz and Stepan 1996).⁵⁵⁷ Basically, opposition to Ceausescu from within the party-state apparatus could only be clandestine and conspiratorial. This made dissidence ideologically stunted. Thus,

⁵⁵⁶ According to Tismaneanu (1999: 158), Ceausescu's foreign minister Stefan Andrei confessed that in 1989 the best hope for the higher echelon nomenklatura was to promote Nicu as a way of preventing Elena Ceausescu from succeeding her husband at the top of the party and state structures.

⁵⁵⁷ For an in-depth analysis of the institutional structure of Romanian national-stalinism see Tanase (1998).

when formerly high-ranking members of the regime protested in 1988 by writing a letter read on Radio Free Europe (the so-called “Letter of the Six”), they blamed the socio-economic morass on Ceausescu and his “clique” and called for minimal reforms rather than for reform socialism or perestroika (Tismaneanu 1999; Brucan 1998; Tanase 1998).⁵⁵⁸

Yet this institutional legacy did not telegraph automatically into the postcommunist political order and had to be reengineered after the successor elites settled their ideational struggles. Indeed, after the “sultan” was slain, the RCP was formally disbanded and the State Planning Committee morphed into a weak ministry.⁵⁵⁹ After the revolutionary fervor ended, the postcommunist elite did not manage to reestablish policy centralization until the battle of ideas within the communist successor party between “reformists” and “conservatives” was definitively adjudicated in favor of the latter, with the splitting of the FSN into two different parties in 1992. In the meantime, institutional strife reigned.

The Policy Process Under Democracy

Institutional conflict (1990-1992)

Between 1990 and 1996 Romanian politics was dominated by communist successor parties. Despite the fact that the RCP had been banned, most analysis of

⁵⁵⁸ For an assessment of the Letter of the Six, see Tismaneanu (1989). For an in-depth story of one of the writers, see Brucan (1998). In essence, “[b]itter critics of the personal dictatorship, they never questioned the legitimacy of the party’s monopoly on power [...] There was no liberal faction within the RCP, no group of individuals whose belief-system and mindset would have been informed by the logic of Marxist revisionism. At best, there were private conversations in which individuals were deploring certain “exaggerations” and “distortions” (Tismaneanu 1999).

⁵⁵⁹ The reorganization of the once might State Planning Committee into a weaker Ministry of the National Economy led by an army general with no economic training was one of the first measures of the FSN council (Decretul CFSN no. 8/1989).

post-communist parties classified FSN as a communist successor party (Tismaneanu 1999; Ishiyama 1995; 1997; Pop-Eleches 1999; 2008). After FSN's splinter in 1992, this label was generally applied to the more economically leftist PDSR (relabeled PSD in 2000), while Roman's Democratic Party (PD) was considered a successor party only by some (Tismaneanu 1994; Pop-Eleches 2008).⁵⁶⁰ This institutional continuity at the political level was not a Romanian idiosyncrasy, as "[e]ven the more hard-line faction of the FSN, which aligned itself with Mr. Iliescu against Roman's reformers, actually had lower levels of personnel continuity with second and third-echelon Communist Party officials than their Hungarian counterpart" (Pop-Eleches 2008: 469).

Yet communist successor party rule had a number of characteristics that prevented the adoption of the neoliberal package desired by the reformists of the Roman team. First, the hierarchical structures of the central government malfunctioned. The FSN's decision in early to choose institutional continuity rather than rupture with the *ancien regime* enabled dissenters in the state administration to subvert the reformists appointees in the cabinet, with the repertoire of resistance ranging from foot-dragging to sabotage.⁵⁶¹ Ministerial

⁵⁶⁰ Pop-Eleches (2008: 468) argued that "[f]rom the point of view of institutional continuity, the FSN, despite its later name change to Democratic Party (PD) and recently to Democratic Liberal Party (PD-L) arguably qualifies as a successor party, given that it initially kept the party name and still uses its electoral symbol (the Rose). This argument is further reinforced by the fact that the FSN MPs from the 1990e1992 legislature, who were elected to Parliament in 2004, were almost evenly split between the PSD and the PD, and actually represented a higher proportion of PD MPs (15 percent) than for the PSD (9 percent)." For a dissenting view see Ishiyama (1995).

⁵⁶¹ As in post-Franco Spain, the administrative elite was left intact largely because from the very beginning the government made it clear that the communist era hire-and-fire procedures should be preserved. On the one hand, this reflected the concerns of the ministers that once unleashed, the machine of politically-based purges could touch themselves. On the other hand, it was a form of demobilizing the workers' attempts to institutionalize a radical form of self management, a movement that was spreading from enterprises to the bureaucracy: "We told ourselves that we did not have to be abusive, like the communists when they assumed power [...] We wanted to avoid

orders were not conveyed or were conveyed erroneously. Bureaucracies with decades of experience in central planning became suspiciously unable to come up with a list of potentially competitive state firms that deserved subsidized state credit (Severin 1995: 81).⁵⁶² Further down the line, the boards of state enterprises pressed by mobilized labor would often defy government orders to use state subsidies for investments in technology and use them to pay wage increases instead. As the first year of reforms wore on, the central administration watched passively as state firms emancipated themselves almost completely from state control.

Second, institutional strife plagued the life of the inter-ministerial relations. The most consequential front line was between the amateur economists at Reform and Commerce (Adrian Severin, Anton Vatasescu), who espoused an unadulterated shock therapy, and the professional economists at Finance, Industry and Economic Strategy (Eugen Dijmarescu, Mircea Cosea). The conflicts between the two factions erupted with regard to major policy issues. When the

the purges of the administrative apparatus in general and especially those lay-offs based on personal or political record. And since we did not have clear criteria for deciding on the criteria for government service examinations, we at least wanted to end the unfortunate experiment from the early 1990s when the management of firms and state institutions was made based on the vote of the employees from the FSN councils, who thus acted like workers' soviets" (Severin 1995: 22).⁵⁶² The removal of the culprits was impossible as well. According to Reform minister Adrian Severin, "[i]n the very Secretariat of the government it we were unable to fire a deputy state secretary even after issuing three ministerial orders to this effect because his bosses would move him to a new job while keeping him in the same office to do the same kind of work every day [...] When we found out that Marin Stelian, one of the state secretaries in the ministry of finance and Gheorghe Stroe, the vice-governor of BNR were undermining the negotiations with the IMF, the World Bank and the G 24 with their Ceausescu-era argument that we don't need credits and foreign assistance, we asked that they be laid off immediately. We made a similar request in the case of state secretary Nicolae Vacaroiu, who practically tried to jam the process of price liberalization due to his inability to understand the mechanisms of the market economy. But the finance minister Theodor Stolojan, who had a polite inhibition when it came to his former bosses, admitted that while our request was legitimate, he nevertheless merely demoted these people or transferred them to other government institutions [...] where they continued the resistance and one can't even compute the damage they've done in this way" (Severin 1995: 23).

neoliberals pushed for a big bang reform that would liberalize prices, the rates of interests and the exchange rate in a one-off move to put the economy in a real equilibrium, they were opposed by the social-liberals who argued that the social costs and the effects on industrial output engendered by the “big bang” would be prohibitive. Finance vetoed the adoption of a “flat” tax on corporate income and successfully pushed for the adoption of a progressive one. Finance also opposed, albeit unsuccessfully, the granting of autonomy to the central bank and, contrary to the stated positions of the neoliberals informed the IMF and the World Bank that positive real interest rates were not on the agenda (Severin 1995: 71, 74-78; 92-93). In all these confrontations the prime-minister did not show evidence of enough authority to settle the disputes. In fact, Roman worked with a kitchen cabinet from which the members of the Iliescu group (Nastase, Dan Mircea Popescu) felt excluded (Nastase 2004: 50). The eventual outcome was a weakly cohesive cabinet whose internal tensions climaxed in the resignations of some of the key economic ministers in the spring of 1991.⁵⁶³

The institutional weakness of the FSN rule between 1990 and 1992 was further complicated by tense cabinet-ruling party relations. The root of the problems was the ideological polarization of the FSN over economic reforms and Roman’s misguided decision to staff his cabinet with politically-weak ministers. On the liberal “right” of the FSN political establishment was Roman’s faction: a group of younger academics, technocrats and government ministers who went to university in the 60s and 70s and who joined the system against the background of

⁵⁶³ On March 20, 1991 Finance minister Theodor Stolojan and Industry minister Mihai Zisu submitted their resignations. *Adevarul*, March 21, 1991.

the liberalizing moves made by Ceausescu after 1968. None had studied in Moscow, some studied in the West and almost all had had academic, research or government positions that enabled them to have contacts with the West. Their liberal positions on the economy were further confirmed by their cooperation with center-right politicians.⁵⁶⁴

On the left there was a heterogeneous coalition of reform socialists and “red-brown” nationalists opposed to the reforms of the Roman government. Although it enjoyed dubious support in the party as a whole, this faction controlled strategic positions in the Parliament. Alexandru Barladeanu, the de facto leader of the reform socialists was the speaker of the Senate. Dan Martian, his closest collaborator, was the speaker of the Chamber of Deputies. A heterodox economist (Alexandru Albu) was the head of the Economic Commission in the Chamber of Deputies.⁵⁶⁵ These men were the last specimens of Romanian reform socialism (Hanson 1991). They had been at the helm while national-Stalinism was achieving breakneck growth and who had diagnosed its economic failure in the late 1980s in Ceausescu’s mismanagement and rigidity (Davies 2005: 196-197). As a result, for them the endpoint of transition was not neoliberal capitalism but a local version of market socialism.

⁵⁶⁴ Roman obtained the parliamentary support of a liberal party (*Partidul National Liberal-Aripa Tanara*) known for its radical economic liberalism. Roman also claimed that he invited Ion Ratiu, a prominent leader of the conservative Agrarian Party to be a minister for foreign investment and that Ratiu confessed he would have accepted if it were not for his party’s opposition. Interview with Petre Roman (Stefoi 2002: 173).

⁵⁶⁵ Barladeanu had been trade minister (1948-1953), vice-president of the Planning Commission (1953-1955), deputy premier (1955-1968). Barladeanu, a former member of the RCP’s executive, the mastermind of the economic reforms of the 60s and 70s and, after his conflict with Ceausescu, one of the signatories of the “Letter of the Six”. For Barladeanu’s politics and economic ideas see Betea (1996).

Roman's institutional challenges were compounded by his insistence to form a cabinet cut off from the party structures backfired and soon after its inauguration the executive lost the full support of the ruling party and allowed the Presidency to undermine its reformist drive. None of the economic ministers of the Roman cabinet came from the FSN socialist and the nationalist circles that identified themselves with Ion Iliescu.⁵⁶⁶ Consequently, far from neo-Leninist institutional unity, FSN rule between 1990 and 1992 looked more like political battleground.⁵⁶⁷

From the fall of 1990 Barladeanu mobilized FSN parliamentarians against the cabinet's version of price liberalization and privatization reforms. Ion Iliescu first tried to mediate the conflict, yet by the winter of 1990-1991 he sided with the Barladeanu's obstructionism.⁵⁶⁸ By January 1991 the cabinet's reformists and the socialist-nationalist FSN elite were engaged in an all-out war. The leftist coalition managed to score important victories. Thus, the BNR was forced to intervene to keep real interest rates negative, so as to ensure cheap industrial credit. As a result, the government's decision to liberalize interest rates was de facto defeated (Severin 1995: 71; 74). Also, the leftists successfully demanded caps on the

⁵⁶⁶ The only minister who had a prominent position in the FSN (Bogdan Niculescu-Duvaz) managed a weak ministry (Tourism and Sports) (Abraham 2006: 236).

⁵⁶⁷ The neo-Leninist unity seemed more real only very early on in 1990, when the FSN began to establish a strong organizational structure that connected the party executive with former party bosses at the village level where the revolution had minimum effects on old power structures. To this end, the party relied on the support of former communist technocrats and administrators who had not only "usable skills" in short supply but were also frightened by the decommunization campaigns promised by the opposition. These obvious links between the FSN elites and the ex-communist personnel in the field gave credence to the charge that FSN was a successor party of the RCP. This did not mean that the resulting political formation was communist. As Verdery and Kligman (1992: 122-130) put it, "If certain communist structures survived was not because the leaders desired Marxism-Leninism, but because these structures were perfectly suited for concentrating power and reproducing it."

⁵⁶⁸ Interview with Ion Iliescu, *Adevarul*, March 6, 1991.

profits of “unproductive capitalists” (small retailers), took food off the list of items whose prices were to be immediately liberalized and vetoed the government’s proposition to eliminate seniority benefits from the labor legislation. The same coalition also vetoed the imposition of across-the-board “hard” budget constraints for industrial debtors and actively sabotaged the government’s collective bargaining negotiations (Betea 1998).⁵⁶⁹

Faced with this resistance, Roman pushed for a political resolution of the conflict inside party structures. Surprisingly, the party’s extraordinary convention of March 1991 endorsed the premier’s reformist program. Yet this political victory was short-lived. The FSN left led by Barladeanu continued to hamper the adoption of liberalizing reforms and especially the cabinet’s privatization legislation, a strategy that could not have been possible without the ideologically-inconsistent support of center-right MPs. By the fall of 1991, FSN’s internecine warfare reached its climax. After the forced resignation of the Roman government, the FSN executive stripped Ion Iliescu of the support of the FSN. At its March 1992 party convention the party split: Roman’s team maintained control over FSN and the party’s left wing formed a new party, the FDSN (The Democratic Front of National Salvation).

Outside the field of the political system, the executive was bitterly opposed by one of Eastern Europe’s strongest labor movements.⁵⁷⁰ Labor

⁵⁶⁹ According to Adrian Severin (1995), in December 1990 the President demanded the revision of the results of the first peak-level collective bargaining deal and invited unions for a separate meeting at the presidential palace where he let them know they got a rough deal and that price liberalization should be more gradual.

⁵⁷⁰ At roughly 70 percent, Romania had one of the highest unionization rates in Europe (Ghimpu 1993).

militancy was the unexpected result of labor legislation that created no incentives for labor union cooperation⁵⁷¹ and maximum incentives for competition. The FSN hoped that such legislation would make new labor unions fight among themselves while the FSN would control labor through the successor of the communist-era “transmission belt” union (The National Confederation of Free Romanian Trade Unions or CNSLR)(Kideckel 2001).⁵⁷²

Unfortunately for the FSN, labor’s militancy during the revolution proved stronger than did incentives for internecine struggle. Over two thousand labor unions emerged in early 1990 and CNSLR failed to establish itself as a hegemonic union, as two equally large confederations (Blocul National Sindical and Cartel Alfa) successfully disputed its authority beginning with the summer of 1990.⁵⁷³ Instead of diluting incentives for industrial action, labor union competition among the 13 major confederations generated incentives for radicalizing industrial action as much as it did for cutting separate deals with the government.⁵⁷⁴ Rather than consensus, labor-management relations were marked by spectacular forms of contention: the blocking of main national roads, factory occupations and violent expulsion of management from factory grounds.

⁵⁷¹ As a result, in 1992 there were 13,500 labor unions 30 sectoral federations and 11 major confederations (Ticlea 1993, 355).

⁵⁷² The FSN coopted CNSLR by allowing it to adjudicate the vast assets of the “transmission belt” union UGSR.

⁵⁷³ . Labor unions had earned freedoms of labor organization that were on a par with those of continental European peers. The freedom of worker association was constitutionally guaranteed (art 37 of the Constitution) and Law no. 51/1991 guaranteed rights for labor union organizers that were superior to those from France and Italy. Law 54/1991 criminalized the limitation of union rights

⁵⁷⁴ The three most powerful confederations were The National Confederation of Free Labor (Federatia Sindicatelor Libere), Cartel Alfa and Blocul National Sindical. See Ticlea (1993: 355-60).

At crucial moments, labor organizations overcame their differences and negotiated as a relatively united front with the government. This was the case of the first bipartite pact of December 1990. This episode was particularly suggestive of labor power: the cabinet was forced to accept the demands of labor leaders that the negotiations be broadcast live in prime time on public television (Severin 1995: 58). Similarly, a new labor protest repertoire became widespread in 1990, encouraged by the FSN's claim to embody revolutionary power: most dramatic firm-level episodes of industrial action would end only with the direct mediation of the prime minister, typically on the very site of the strike.

Institutional cohesion (1992-1996; 2000-2004)

The ideological clarification brought by the 1992 split of the FSN ensured party unity during the term of Nicolae Vacaroiu, an uncharismatic premier who governed over a "presidentialized" cabinet.⁵⁷⁵ Coming from the elite ranks of the central planning technocracy,⁵⁷⁶ endorsed for the job by Iliescu's economic counsel Tudorel Postolache and devoid of political ambitions,⁵⁷⁷ Vacaroiu was the projection of the president's power in the cabinet. Indeed, during this period the Presidency was the dominant power institution in the state (Abraham 2006: 122). The result was relatively frictionless institutional cohesion. In bold contrast with

⁵⁷⁵ Only a small number of liberals (Theodor Melescanu, Mircea Cosea, Iosif Boda, Marian Enache) made their voices heard and only after FDSN lost power in 1996. The defectors had been members of the Iliescu electoral campaign in 1996 and had been known for their antipathy towards reformers grouped around future premier Adrian Nastase rather than for their ideological incompatibility with the party. In 1997 this splinter group formed the Alliance for Romania (*Alianta pentru Romania*), a social-liberal party that ended up absorbed by the Liberals in 2002.

⁵⁷⁶ Vacaroiu had worked for the State Planning Committee and after 1989 he served as state secretary in the ministry of Finance.

⁵⁷⁷ See Nicolae Vacaroiu, Romania, *Jocuri de interese*. Bucuresti: Editura Intact.

Roman's days in office, the president, the premier and the chairmen of the two chambers of the Parliament met on a weekly basis and consensually solved policy priorities.⁵⁷⁸

Iliescu's trust in Vacaroiu was so strong that the premier was allowed to appoint his own ministers, although only one (the minister of Tourism) was a FDSN member.⁵⁷⁹ Even though some of Iliescu's team members asked that Vacaroiu be sacked because of his dull and awkward public presence,⁵⁸⁰ the president supported him all along. Moreover, when Misu Negritou, the president's only liberal economic policy advisor⁵⁸¹ stepped up his criticism of Vacaroiu's intentions to relax fiscal policy in 1994, the president reacted by letting him resign. At the same time, the PDSR became a presidential party and was so tightly controlled by Ion Iliescu that party insiders went as far as labeling this period as a "presidential regime." (Abraham 2006: 98). As a result, one cannot find evidence for any institutional clashes between the president, the cabinet and the ruling party during the entire term of the Vacaroiu government.

Similarly, the Vacaroiu government was the most stable in Romania's post-Stalinist history, as evidenced by its few and superficial reshuffles, none of which affected the economic ministries (Flonta 2003).⁵⁸² The unity of the FDSN rule between 1992 and 1996 allowed the government to weather new spike of

⁵⁷⁸ This is according to the memoirs of Iosif Boda, one of Iliescu's advisers (Boda 1999: 57).

⁵⁷⁹ Interview with Nicolae Vacaroiu, *Academia Catavencu*, October 27, 2009.

⁵⁸⁰ Presidential advisors Iosif Boda and Paul Dobrescu tried to convince the president that Vacaroiu's poor communication skills harmed the party's electoral fortunes. See Boda (1999: 105-129) and Dobrescu (1997: 46-55).

⁵⁸¹ Negritoiu was perceived by the neoliberals as one of theirs (Serbanescu 1993: 49).

⁵⁸² Every year during his term, Vacaroiu changed between 2 and 4 ministers and the majority of reshuffles did not concern the economic ministries. For an extended discussion see Flonta (2003: 102-103).

labor union protests between 1993 and 1994 and to make the top labor confederations sign the first tripartite social pact in 1995. In exchange for wage increases, the government obtained social peace, although not electoral support.⁵⁸³

Institutional cohesion and stability also marked the third spell in office of the ex-communists, this time relabeled as the Social democratic Party (*PSD*). The Nastase government was as quietly disciplined as the Vacaroiu government and its economic ministries were not affected by reshuffles. By contrast the “presidentialized” cabinet of the 1992-1996 period, however, Nastase’s term marked by a weak Presidency and a strong cabinet, a shift that was formally ratified in the new Constitution passed in 2003. This situation was facilitated by three main factors.

First, Nastase’s successful centralization of power in the party executive⁵⁸⁴ and the “pacification” of regional bosses through a complex system of favors and rents that ensured the autonomy of the executive. Despite the adoption of primaries in the fall of 2004, the party executive remained untouched.⁵⁸⁵ The exposure by the media of these rents and of the ostentatious consumption, abuses and patronage networks of the regional party bosses (dubbed “barons” by the media) ended up ruining the party’s electoral fortunes in the 2004 elections⁵⁸⁶

⁵⁸³ OMRI *Daily Digest* 7.25/1995.

⁵⁸⁴ The centralization of the party in the executive did not change even after the party adopted primary elections in 2004.

⁵⁸⁵ The same primaries send 21 prefects on eligible seats, a testimony to the continued integration of party and administration.

⁵⁸⁶ For an extended discussion on this topic see Gallagher (2005). The corruption of the “barons” was recognized in 2005 by Nastase himself who deplored that the party executive “did not have a coherent reaction” to the emergence of “abusive behavior or the existence of consolidated economic networks”. He argued that “if we took such measures earlier the PSD’s electoral performance would have been different.” Cited in *Adevarul*, April 21, 2005.

despite the fact that it was under the Nastase government that PSD's MPs were forced to choose between business and politics.⁵⁸⁷

Second, for the first time in the party's history, the cabinet developed mechanisms to completely control the rank-and-file and to buffer the pressures of president Iliescu. Thus, Nastase was both head of the cabinet and of the party, key ministers occupied strong party positions (two vice-presidents and the party's chief strategist) and some of the new technocratic recruits who were not even party members in 2000 (Finance minister Mihai Tanasescu and foreign affairs minister Mircea Geoana) ascended to vice-presidential positions.⁵⁸⁸ Buffeted, Iliescu and his more left-leaning economic advisors (Gheorghe Zaman and Florin Georgescu) generally supported the economic policy course of the cabinet and opposed the cabinet only on the issue of the flat tax in 2003.⁵⁸⁹

With the party under his control, Nastase appointed a US-trained technocrat at Finance and replaced the Convention's state secretaries in all economic ministries with technocrats still in their late twenties and early thirties (Nastase 2004). The same reshuffle happened in the special economic agencies (privatization, foreign investment, capital markets). This was a different breed of technocrats: most had studied economics abroad and many had worked for private

⁵⁸⁷ Thus, in the spring of 2003, under EU pressure the PSD-led Parliament tightened campaign and election finance legislation while demanding officials to make annual disclosures of their assets and refrain from serving on corporate boards. Also, as early as 2002 the government established an Anticorruption Prosecutor's Office and the Parliament passed a drastic anti-corruption bill (Gross and Tismaneanu 2005: 152). The bill was attacked by PSD MPs among others, with one of the PSD senators openly arguing that pushing PSD MP's off the boards of large companies undermined the parties' political power. *Evenimentul zilei*, March 12, 2003.

⁵⁸⁸ The Industry minister Dan Ioan Popescu and Public Works and Transportation minister Miron Mitrea were both vice-presidents. The Public Administration minister was Octav Cozmanca, PSD's most experienced strategist.

⁵⁸⁹ Author interview with Florin Georgescu, January 17, 2009.

consultancies. In the hiring process the premier privileged Western education and theoretical over practical training, as he saw socialization in the traditions of the Romanian public service to be a major disadvantage (Nastase 2004: 89).⁵⁹⁰

Preliminary conclusions

In sum, the institutional cohesion of the policy team seems to have been a necessary condition for the capacity of the government to adopt neoliberal reforms. Although the Roman cabinet showed remarkable determination in advancing a local version of embedded neoliberalism, its reforms were eventually derailed by the obstructions of the ruling party's left wing, of the president and even of parts of the state bureaucracy. Outside the boundaries of the political system, labor mobilization added to the pressure and in September 1991 the most militant wing of the labor movement took down the Roman government.

Institutional problems grounded the more radical neoliberal program of the Convention government (1996-2000). In this case, coalitional warfare and the same president-cabinet scuffles taking place against the background of renewed labor mobilization prevented the cabinet from carrying out its shock therapy program.

By contrast with these two episodes of institutional lack of cohesion, the heterodox program of the Vacaroiu government (1992-1996) and the "Third Way" reading of neoliberalism during the Nastase cabinet (2000-2004) were

⁵⁹⁰ According to Adrian Nastase, "[t]hese young men and women ended up in many awkward moments and committed many errors, but what was more important was that they brought a fresh, Western breath in administration and government as well as a great deal of commitment (Nastase 2004: 89).

carried out without much friction. In both cases party centralization, a strong premier and a supportive/weak president enabled the fulfillment of the cabinet's agenda and the "taming" of labor pressure.

Yet the Spanish case also suggested that neoliberal ideas were more likely to become policy if the central bank's institutional position vis-à-vis the cabinet was strong. This meant that this institution developed de facto autonomy from Finance or that networks of economists based/educated by the central bank occupied important positions in the cabinet.

The Sluggish Rise of the Romanian Central Bank

As the next chapter shows, the advocacy of neoliberal ideas in Romania had a strong base in networks of economists connected with the central bank. Yet *Banca Nationala a Romaniei* (BNR) was much slower than its Spanish counterpart in asserting its institutional prowess. In the immediate aftermath of 1989, BNR was a weak actor subject to the pressures of the executive, despite the external support it enjoyed from IFIs. It was only in the late 1990s, when IFI made central bank autonomy an object of conditionality, that BNR was able to effectively support the neoliberal agenda in front of the executive.

But, as in the case of Banco de Espana, epistemic prowess proved to be more important than institutional consolidation, as soon after 1990 BNR quickly occupied the higher ground in economic expertise, aided by IFI resources directed at improving the technical training of its staff. This enabled the BNR to function as a loudspeaker for macroeconomic orthodoxy and, later in the decade, for a

neoliberal agenda in other economic policy areas as well. The EU integration process and the ideological shift in government during the second half of the 1990s consolidated the soft power of the BNR with hard power: de facto independence.

From monobank to central bank

Before 1989 the BNR was little more than a socialist commercial bank (monobank). Most of its activities consisted of managing state subsidies to the industry and all foreign operations were carried out through a separate state bank (*Banca Romana de Comert Exterior*). The BNR had lost its statute as a central bank in 1952, following a dramatic political purge during which the regime arrested its leadership on sabotage charges, fired its Western-trained economists and hired a new generation of economists with fresh Soviet degrees.⁵⁹¹ In theory, the BNR was completely subordinated to the State Planning Committee and the Ministry of Finance.⁵⁹² Yet de facto during the 1980s the BNR governing board remained completely subordinated to the whims of Ceausescu personally.

This situation changed radically after the end of the Ceausescu regime. With IMF and World Bank expertise,⁵⁹³ in September 1990 the BNR received a new statute (Legea no. 34/1991) which stipulated that financial flows between the government and state firms be henceforth carried out by commercial banks and

⁵⁹¹ This episode is described in detail by Kiritescu (1995).

⁵⁹² Interview with BN governor Mugur Isarescu, *Adevarul*, September 8, 1990.

⁵⁹³ *Adevarul*, September 7, 1990.

that the main function of the BNR would be price stability,⁵⁹⁴ with the former objective playing a central role in the first press interview of the new governor.⁵⁹⁵ The new statute gave the bank a considerable degree of autonomy relative to the executive and, most importantly, almost complete control over its budget.

In practice both of these prerogatives were violated by the cabinet during the first half of the 1990s. For example, in 1991, BNR was forced by the cabinet to run real interest rates below inflation in order to feed cheap credit to unprofitable state companies.⁵⁹⁶ The IMF defended the BNR in 1993 against government pressures to subsidize loss making state firms, forcing them to borrow money at market interest rates. But eventually the government managed to force the central bank to demand the lowest interest rates on the market for strategic sectors (as opposed to firms) such as agriculture, energy, exports.⁵⁹⁷ All in all, the heterodox treated the central bank like a development bank and plundered its resources at will. In spite of heavy borrowing (over 1.5 billion dollars), by the end of 1996 the hard currency reserves of the central bank stood at merely 700 million dollars (Daianu 1999: 14).⁵⁹⁸

On the road to central bank independence

⁵⁹⁴ Article 1 of Legea no. 34/1991 read as follows: “BNR establishes and manages monetary and credit policy within the framework of the state’s economic and financial policy, with the purpose of maintaining the stability of the national currency.”

⁵⁹⁵ Interview with BN governor Mugur Isarescu, *Adevarul*, September 8, 1990.

⁵⁹⁶ Interview with BNR governor Mugur Isarescu, *Adevarul*, July 11, 1991.

⁵⁹⁷ Interview with Ioan Dragulin, deputy director of BNR’s Monetary Policy Division, *Adevarul*, April 7, 1995.

⁵⁹⁸ According to a central bank economist, “[t]he National Bank of Romania had to inject to this end at the beginning of 1992 new money which equaled almost 11% of the broad money as of December 1991” (Croitoru and Earle 2000: 19, ft. 3).

As its epistemic superiority consolidated, the institutional vulnerability of the central bank was drastically reduced in 1998, with the adoption of a new statute (*Legea no. 10/1998*) that restricted government borrowing from the BNR by setting a market interest rate on central bank advances to the public budget and by capping the maximum amount of government deficit to be covered with central bank credit. The test of the political prowess of the BNR was that between 1998 and 2004 the cabinet never dared to demand central bank credit.⁵⁹⁹ The influence of central bank economists in the executive grew. The BNR chief economists Daniel Daianu became minister of finance in 1998 and governor Isarescu became premier in 1999 and presidential candidate for the hapless Convention in 2000. The reforms also turned institution in one of the few clear winners of the 1997 “transformational recession,” with BNR reserves soaring from 600 million in 1996 to 2.6 billion in 1997 (Daianu 1999: 15). BNR’s increasing resources enabled it to attract the best graduates of DOFIN, Romania’s only graduate economics school with some international reputation, while the Finance ministry was left with the second tier.⁶⁰⁰

The 2003 reforms made under the EU integration calendar gave the central bank freedom from instruction from the cabinet, sole competence on determining the exchange rate regime, prohibited all direct credit to the public budget and gave the BNR complete control over its expenses and revenues.⁶⁰¹ In ECB fashion, the

⁵⁹⁹ *South East Europe Newswire*, June 9, 2004.

⁶⁰⁰ Interview with Moisa Adler, DOFIN director, HotNews, http://economie.hotnews.ro/stiri-finante_banci-7041130-interviu-jumatate-din-cercetatorii-din-bnr-majoritatea-economistilor-sefi-din-banci-avut-acelasi-dascal-moisa-altar-romanul-care-intalneste-discuta-laureatii-nobel-economie-egal.htm

⁶⁰¹ The new statute was in compliance with ECB requirements. This was certified by the European Commission’s Progress Report on Romania of 2004. According to this document, the only

BNR board was freed from the obligation to publish the minutes of its meetings. The BNR's only political obligation was to submit an annual report to the Parliament.

BNR as epistemic power

Yet, like in Spanish counterpart, the BNR shaped economic policy in more subtle ways. Immediately after 1989, its greater control over its earnings enabled an entrepreneurial new governor (Mugur Isarescu) to endow the bank with a team of young macroeconomists selected from the elite niche of the department of mathematical economics. When drastic budget cuts and bad management deprived economics departments of economic journals and books, the BNR made access to the latest literature one of its priorities. By 1991 BNR sponsored scholarships abroad for its staff and funded the institutes who could assess the costs of industrial reconversion.⁶⁰²

Like in Spain, the top economists in BNR and the governor himself were also star professors at ASE, the leading economics department. This was the result of the fact that the BNR's generous budget allowed for the payment of competitive salaries for the elite of ASE economists. Moreover, by the late 1990s the BNR informally patronized its own private think-tank (CEROPE) staffed by economists that either worked for the BNR or had co-authored research projects with BNR economists in the past. CEROPE soon emerged as the leading and

amendment was that the governor could be dismissed not by the Romanian Parliament rather than by the European Court of Justice (Commission 2004: 87).

⁶⁰² Interview with BNR governor Mugur Isarescu, *Adevarul*, May 1, 1991.

highly elitist voice of orthodoxy and served as a laboratory for preparing the macroeconomic dossier of Romania's EU integration during the early 2000s.⁶⁰³

While the Research Service of the BNR did not raise to the prominence of its Spanish counterpart, nevertheless some of the biggest names in the governors' circle of advisors (e.g. Cristian Popa) came from the same professional ecology: the elite postgraduate program run within ASE by Moisa Adler. As the next chapters show, Adler was the septuagenarian *eminence grise* of Romanian mathematical economics and one of the few Romanian economists who had become conversant in Western neoclassical finance economics during national-Stalinism. Adler had been deeply involved with the BNR establishment: his sister ran the BNR's research service and he was an informal advisor to the central bank governing board. These relationships and Adler's own professionalism gave the BNR economists who constituted the central bank's epistemic core a degree of intellectual coherence that survived two decades of political and economic turmoil.

Conclusions

This chapter makes two claims. First, neoliberalism was not the only choice on the menu of postcommunist rulers. Few ex-communists morphed into committed neoliberals overnight and alternative paradigms were available and were effectively carried out. An ex-communist government wedded to a heterodox economic agenda ruled between 1992 and 1996, leaving behind a stabilized

⁶⁰³ Interview with V.C., ASE economist, January 16, 2009.

economy that was marked by high levels of state intervention. It was only in 1997 that a neoliberal “shock therapy” package was tried with generally poor results. The only successful neoliberal reform program was carried out by the ex-communists between 2000 and 2004. Qualified by Third Way characteristics, this program definitively altered the deep structures of Romania’s political economy on the cusp of its complete integration in the European Union.

The second claim is that neoliberal ideas neither floated freely, nor became powerful independently of the characteristics of the economic policy process. Rather, they were more likely to shape economic institutions when the policy process was effectively centralized in coherent policy teams. Although the neoliberal reform agenda was strong in the first postcommunist cabinet, the conflicts between the president and the cabinet, as well as among the cabinet members and within the ruling party led to stop-go reforms rather than to the bolder reforms adopted by Central European and Baltic governments. By contrast, a relatively coherent heterodox agenda was quietly implemented between 1992 and 1996 despite much greater economic and international political challenges. Coalitional warfare crashed the radical shock therapy program of the center-right between 1996 and 2000, while the Third Way reading of neoliberalism under a new ex-communist government after 2000 was again carried out relatively smoothly by a highly cohesive policy team aided by an extraordinarily assertive central bank.

Chapter IX - Ideas in the Neoliberal Moment

Overview

This chapter analyzes the translation of neoliberal ideas in Romania after 1989. It begins by examining the extent to which neoliberalism could have resonated with domestic economic theories and finds that Romanian economics had not been historically friendly towards the neoclassical tradition. Also, the country's development model after 1948 had seen no experimentation with the "soft" forms of market socialism adopted by Hungary and Poland. Yet beginning with the 1960s marginalism was semi-clandestinely discovered by Romanian academic economists working in the cracks of the academic-bureaucratic complex and engaging in transnational dialogues with Western peers via the common language of linear programming.

Yet this opening did not lead to a systematic engagement with the neoclassical tradition, as the tightening of the authoritarian policing of economics during the 1980s limited the space for such an outcome. As a result, when the regime fell in 1989 the field of economics was dominated by reform socialists and heterodox economists. This path-dependence negatively affected the chances of neoliberal ideas to dominate the debate until the second half of the 1990s.

The last part of the chapter traces neoliberalism's rise during the early 1990s and its dominance beginning with the late 1990s. Yet I show that domestic economists did not just write reports on the "facts" produced by the neoliberal

paradigm. Instead, I show how domestic economists worked to replicate but also to recast the neoliberal theoretical models via editing, bricolage or, in short, translation. The result was a variety of neoliberalism that had radicalized the libertarian tendencies of the “original.”

A Clogged Sieve: Interventionist Legacies for Neoliberal Flows

Interventionism Before National-Stalinism

Beginning with the second half of the 19th century Romanian economics was dominated by interventionist and eclectic thinking. Basically all the leading economists of the pre-Stalinist era advocated development strategies based on protectionism, state intervention and the mixed economy (Murgescu 1990). The dominant figures of Romanian economics came from a generation of economists who had been thoroughly influenced by the ideas of French neo-mercantilism and of the German Historical School. This was particularly the case of the interwar period, regarded as the golden age of the discipline, the key representatives of which are still revered in Romanian economics departments (Aligica and Evans 2009). From the national-liberalism of Vintila Bratianu⁶⁰⁴ to the “agrarian

⁶⁰⁴ For example, Vintila Bratianu, a leading economist and Liberal Party politician whose thinking dominated policy-making in the interwar years, was as enthusiastic in supporting “sound finance” as in his advocacy of industrial protectionism, the nationalization of oil and gas industries and the subordination of FDI to national priorities. As a finance minister between 1922 and 1928 and, in the words of one historian, “the de facto architect of Romania’s economic policy, a field in which he enjoyed unlimited power” (Murgescu 1990: 392), Bratianu also managed to put his ideas in practice. For an evaluation of the results of this developmental course see Ioan Saizu, “Consideratii asupra politicii “Prin noi insine” in perioada 1922-1928”, *Revista de istorie*, 2, 1973.

economics” of Virgil Madgearu and Ion Raducanu, interwar Romanian economics saw in interventionism the way out of peripheral underdevelopment.⁶⁰⁵

The most dramatic manifestation of the Romanian interventionist tradition was the corporatist import substitution industrialization theory of Mihail Manoilescu, the only Romanian economist whose work enjoyed world popularity and some policy impact outside Romania.⁶⁰⁶ According to Manoilescu, industrialization was the only way out of backwardness for countries like Romania, an objective to be pursued by transferring surplus labor from agriculture to industrial activities. A *dependentista* before dependency theory became fashionable in political economy, Manoilescu made an even more forceful case for autarkic industrial development as the only way to counter structural constraints on Romanian attempts to break out of the periphery.⁶⁰⁷ Interestingly, the central actor in this paradigm was no longer the industrial bourgeoisie, but a

⁶⁰⁵ Both Madgearu and Raducanu were German-style mandarin professors and also served as government ministers during the 1930s. They unabashedly endorsed democratically-sanctioned state intervention in the economy as the best ways to save capitalism from the threats of classic liberalism and communism. Madgearu, for instance, famously proclaimed the intellectual bankruptcy of neoclassical economics as a policy paradigm by pointing towards its failure to address the problem of monopolies and the enthronement of financial oligarchy in the state. Rejecting the disciplinary autism of neoclassical economics, Madgearu encouraged his disciples to work across social science disciplines and especially to read and do fieldwork with economic sociologists. Their critique of economic liberalism led them to a brand of development economics dominated by the ideas of mixed economy, with an emphasis on the state’s responsibility to foster the cooperative movement. Similar ideas were espoused by the other mandarins of interwar economics (Ion N. Angelescu, Mitiță Constantinescu, Constantin Băicoianu and Victor Slăvescu). (Madgearu 1990: 252-253).

⁶⁰⁶ Some of Manoilescu’s ideas shaped dependency theory and were adopted by developmentalist governments in Brazil and Chile (Love 2004: 114-140).

⁶⁰⁷ Mihail Manoilescu, *The Theory of Protection and International Trade*, London: 1931. For an astute description and critique of Manoilescu’s work see Philippe Schmitter, “Reflections on Mihail Manoilescu and the National Consequences of Delayed Dependent Development on the Periphery of Western Europe,” in: Kenneth Jowitt, ed., *Social Change in Romania, 1860-1940: A Debate on Development in a European Nation* (Berkeley: Institute of International Studies, 1978), 117–173.

state bureaucracy placed in lockstep with an authoritarian regime.⁶⁰⁸ With Manoilescu the interventionism of Romanian economics reached its apex and transitioned into a form of heterodoxy shaped by a state-dominated authoritarian corporatism.

By contrast with the popularity of interventionist economic ideas among the economists (and politicians) of the Romanian liberal era, economic historians have not detected any strong push for the classical liberal economic program. The great Romanian economists of the first half of the 20th century were very familiar with marginalism, yet they never developed systematic research agendas in this tradition (Love 1996: 14). It was only in the late 1930s that a few young economists with Western PhDs returned home espousing German Ordoliberalism or the neoclassical-Keynesian syndissertation that previous chapters of this study found in the case of Spain (Kiritescu 1992).

While the mastery of marginalist economics and particularly of its neoclassical variant was being rewarded in some quarters in postwar Western Europe and North America, in Romania these tradition were soon to be “blacklisted” by the advent of Stalinism in 1948.⁶⁰⁹ Yet after a decade of enforced intellectual homogeneity, dissidence became possible in the guise of mathematical

⁶⁰⁸ For the system to work, he proposed that smaller ‘corporations’ (organized interests) be granted autonomy and encouraged to offer policy feedback, yet they would remain subordinated to state interests. The reader of Manoilescu’s work can notice an eerie resemblance between his arguments about the incompatibility between democracy and economic development in peripheral countries and Barrington Moore’s similar comments on India in his *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*, Boston, 1966. Similar echoes can be found in the work of Gunnar Myrdal.

⁶⁰⁹ For Kiritescu’s intellectual identity see his memoirs (“Calator prin secolul XX. Memoriile unui bancher fara bani, Bucuresti: Enciclopedica, 1991). For the way in which his ideas were perceived by his disciples see Virgil Stoenescu, “Virgil Stoenescu-un neoclasic bine temperat”, *Oeconomica*, 3-4, 1998.

economics. As a result, select elements of the neoclassical tradition were marshaled by domestic economists in critical discussions about socialist economics. Ironically, the neoclassical tradition known but dismissed by Romanian economists in the regime of untrammelled intellectual freedom of the liberal era was rediscovered by a small group of socialist economists working in the cracks of the repressive intellectual fields of Romania's brutal national-Stalinism.

Soviet Interventionism and Dissent

Romanian Stalinists reorganized the economics profession almost from scratch. The transformation was not without violence.⁶¹⁰ The epicenter was still the Bucharest-based Academy of Economic Sciences (ASE), but, as in Franco's Spain, the regime set up a number of large economics "institutes" inside the Romanian Academy, a research body inherited from the liberal era. The institutes served as government think-tanks and were expected to do the most advanced research. Elite economists routinely taught at ASE, did research for the Academy's institutes and, in some cases, served for the Planning Commission as well (Balas 2000). During the same decades, some institute researchers also worked part-time for the Finance ministry (Kiritescu, 1992: 339). Like Franco's

⁶¹⁰ The elite of the Bucharest Academy of Economic Sciences (*Academia de Studii Economice* or ASE) was decimated by waves of demotion, marginalization and even imprisonment. In 1952 the elite of the central bank, including its prestigious Research Service, until then a refuge for Western-trained economists, is prosecuted for "right wing deviationism," its members are either imprisoned or demoted to clerical jobs. The mandarin professors of the liberal era were sacked and in some cases imprisoned. Author interview with Valentin Cojanu, January 16, 2009. See also Kirtescu (1992).

Spain, national-Stalinist Romania had its own version of the academic-bureaucratic complex.

After the brutal repression and politically imposed hegemony of Soviet economics of the 1950s,⁶¹¹ the next two decades brought some pluralism at the margins of the discipline. This was a part of a broader reconsideration of the role of technical expertise. The regime seemed to understand that the increasing technoscientific complexity of its ambitious economic modernization plans could not be successfully pursued while a sizeable part of the technoscientific elite was either in prison or demoted to menial jobs.⁶¹² As a result, by the early 1960s younger technocrats drawn from enterprise management, planning boards, technical expertocracy and academic personnel began to achieve greater political prominence.⁶¹³ Although their agenda was not exactly market socialism, it nevertheless included more decentralization in planning and policymaking, more scientifically-based management, more economic liberalization more feedback from lower-ranked corporate bodies (especially from intelligentsia organizations), etc.⁶¹⁴ The ideas these reformist technocrats operated with drew on conceptual innovations that were closer to the ideologically neutral paeans of technocracy to

⁶¹¹ As Balas remembers, economic textbooks were translations of Soviet originals. These were “[d]ogmatic rather than analytical, proclaiming such “economic laws” as the continuous improvement of living standards and the balanced development of the different branches of the economy [...] everything pertaining to the economics of socialism was considered ideological and as a result was treated with the same rigidity as the tenets of a religion.” (Balas 2000: 327)

⁶¹² As a result, after the mid 1950s “more university professors, architects, and engineers were given managerial and state executive positions. More artists and writers who had shared in the privileges granted intellectuals under the Carol II and Ion Antonescu dictatorships went back to the posts they had previously occupied and were more feted than ever before.” Ghita Ionescu, “Social Structure: Rumania under Communism,” *Annals of the American Academy of Political and Social Science*, Vol. 317, The Satellites in Eastern Europe (May, 1958), pp. 53-62

⁶¹³ See Ionescu 1964, Jowitt 1971, Vladimir Tismaneanu, *Stalinism for All Seasons: A Political History of Romanian Communism*, Berkley: University of California Press, 2003.

⁶¹⁴ Brucan’s *World Socialism at the Crossroads: An Insider’s View*. Siani-Davies, pp. 2-4.

be found in both East and West during those times than to revisionist state socialism per se.⁶¹⁵ And it was in these spaces of technical neutrality that the seeds of dissent grew.

During the “thaw” of the sixties and seventies economics continued to be dominated by Soviet orthodoxy, yet its translation gradually gave birth to a hybrid: the nationalist-Soviet syndissertation.⁶¹⁶ The increasingly assertive nationalism of the Ceausescu regime spilled into the field of economics and inspired some mainstream economists to anchor Soviet economics in pre-communist interventionist local traditions such as the industrial structuralism of Manoilescu.⁶¹⁷ Beginning with the 1970s, the strategy of the Ceausescu regime to turn Romania into a leader of the Non-Aligned Movement facilitated the emergence of a local syndissertation of Latin American structuralism and the reigning Marxist-Leninist orthodoxy. A group of economists experimented with

⁶¹⁵ Throughout the 1960s they waged an effective “war of position”, aided by their role in the unprecedented industrialization and urbanization drive of that decade. A high-circulation classic was the work of Prague Spring philosopher Radovan Richta, whose 1966 *Civilizace na rozcestí* (“Civilization at the Crossroads”) was a classic among East European reformist elites and which, according to Peter Siani-Davies, served as a model.

⁶¹⁶ According to some scholars, economics allowed little dissent from the priorities of the national-Stalinist state: the delegitimation of “bourgeois economic thinking”, the critique of market economies and of international trade relations. A main preoccupation was buttressing the argument that since under socialism the economy was governed by a different set of law than under capitalism, Western economists could not claim real expertise over the functioning of socialist economies (Constantinescu 1973; Suta-Selejan 1986; Mehedintiu 1986). For a more in-depth review see Aligica (2002) and Aligica and Evans (2009: 37-41).

⁶¹⁷ For example, Virgil Madgearu’s work on protectionist industrialization, cooperatives, and the role of small enterprises in the village economy was echoed in the research of such pillars of orthodoxy as Ilie Badescu, Nita Dobrota, Iulian Vacarel and so on. Murgescu (1990: 247) found that Madgearu’s thought had incorporated ideas from Marx, Kautsky and Otto Bauer. Beginning with the late 1960s, Madgearu was revered in mainstream reviews, with his former students leading the rehabilitation effort: M.A. Lupu, “Virgil Madgeau, profesorul”, *Studii si cercetari economice*, 1, 1966; G. Zane “La personalite scientifique de Virgil Madgearu”, *Revue Roumaine de sciences sociales*, 1, 1966. A few economists revived Mihail Manoilescu’s role as a proto-structuralist and the contributions of ECLA structuralism were used alongside to critique power asymmetries in trade and investment relations between center and periphery (Dijmarescu et al 1977; Nicolae Valeanu 1986)

“long cycle” structuralist economics, with select contributions from Kondratieff, Wallerstein and Braudel playing prominent roles (Postolache 1988).

This ideational bricolage did not affect the core of Romania’s adoption of Soviet economics. Yet the nationalist-Soviet and structuralist-Soviet hybrids saw a number of challenges beginning with the 1960s. First, some leading economists imported Western methodologies (e.g. input-output analysis) used in the neoclassical paradigm. Perhaps puzzlingly, far from triggering the regime’s ire, such innovations were welcomed and even integrated in the planning technology structure as tools for dealing with the challenges of planning an increasingly complex industrial and agricultural modernization program. The US study trips of three mathematical economists (Emilian Dobrescu, Aurel Iancu and Gheorghe Zaman) enabled them to publish a slew of studies on economic growth modeling based on the input-output models used by Kondratieff at Harvard. The result was the development of an input-output model for Romania’s communist economy, an enterprise that demanded considerable local innovation in the translation process.⁶¹⁸ Like in Daniel Bell’s visions of the future, input-output analysis was being used as intensively in Bucharest as it was used in the capitals of Western capitalism.

Yet methodology was not the only terrain of encounter with the tools of mainstream Western economics. An even bolder challenge came from economists who practiced mathematical economics by drawing on the substance of

⁶¹⁸ For example Iancu qualified the IO model he studied at MIT and Harvard by discussing the role of such factors as the price mechanism in a command economy, sustainable development and intangible models. Particularly interesting was a methodological innovation that made input-output modeling “travel” in a non-market economy where prices did not reflect supply and demand factors: the amount of all forms of energy used per product.

marginalism. Brilliant young economists like Tiberiu Schatteles, Ihor Lemnij and Egon Balas became familiar with Hungarian, Polish and Yugoslav syntheses of marginalism and socialism (“market socialism”) and worked with the latest Western production in operations research, a field technical enough to escape the rigors of censorship.⁶¹⁹

Thus, as early as 1957 Egon Balas published a book with a house close to the single party (*Editura Politica*) in which he proposed a syndissertation of Keynesian and Marxist-Leninist economics via the incorporation of such Keynesian concepts as “underemployment equilibrium” into the Marxist critique of capitalism. In 1972 Tiberiu Schatteles used the Austrian School critique of socialism-without citing any sources- to expose the problems central planning.⁶²⁰ At the time he left Romania Scatteles’ monetary theory had already reached the point where it was solidly anchored in the quantity theory of money.⁶²¹ In 1976,

⁶¹⁹ The rise of these economists was facilitated by a perceptible relaxation of ideocratic repression. According to Egon Balas, a leading mathematical economist, during the 1950s “the use of mathematical techniques was disparaged as a sophisticated way of obfuscating the simple facts of exploitation” (Balas 2000: 349). Yet by the 1960s mathematical economics was cautiously accepted as a tool of improving planning and made its way into the calculation devices of the State Planning Committee. This allowed mathematical economists to engage systematically with Western economics and to confuse ideological censors.

⁶²⁰ Schatteles knew the Austrian School well and had been a self-styled follower of Morgenstern. What made economists like Morgenstern particularly legit in a 1960s Romanian economics institute was that mathematics and such Western authors’ “anti-politics” provided emancipation from ideology and censorship. For it was back in the 1930s he had become known for challenging the aprioristic bases of Hayekian and von Mises’ liberalism with the argument that, like socialists, they proposed ideological rather than value-free templates and that their propositions could be determined on praxeological rather than empirical and mathematical bases. Moreover, mathematics gave social prestige.

⁶²¹ Yet’s Schatteles’ approach was opposed to the monetarist tradition inaugurated by Irving Fisher. His critique was based on the argument that it is plagued by a certain “econometric impressionism which often omits the fact that those statistical correlations that are sold as predictions neglect the mechanism that produces statistical signals [...] the model that is produced by the structure of statistical signals is not necessarily identical with the model of the real objet that emits the signals recorded by the statistician.” As a result, he hybridized the quantity of money equation with von Neumann’s growth model. Interview with Schatteles in Aligica and Terpe (2007: 13).

Ihor Lemnij published a book whose main argument was that the socialist system could not generate technical progress unless it was drastically reformed along more market-friendly lines (Lemnij 1976).⁶²² During the same decade, Aurel Iancu (1972; 1974) and Constantin Kiritescu (1979) published books on economic growth and respectively international finance that were marked by ideologically-detached reviews of the latest innovations in the Western economic discipline. Under the cover of arcane mathematical languages, it seemed that engagement with Western economics went far beyond the basics.⁶²³

Yet unlike in Spain, the repressive apparatus often intervened to crush dissent. Public critique of the country's development strategy could lead to demotion or marginalization even if the critique was formulated using Marxist positions (Daianu 1999; Aligica and Evans 2009: 40). After Egon Balas published an article in a popular magazine of the Hungarian minority (*Korunk*) in which he advances some of the ideas of Yugoslav market socialism, the editorial board had to apologize publicly for "ideological blindness" (Balas 2000: 347). When the same author published a book that undertook a Marxist critique of Keynesianism, he lost his academic job, the book was withdrawn from circulation and the author was thrown out of the party (Balas 2000: 348-353). Some prominent economists were banned or fired if they voiced opinions or tried to criticize even minimally the regime's views or policies (Igor Lemnij, Alex Olteanu, Sorin Covrig). In other cases critical economists got away with reprimands (Dăianu, 1999; Aligica 2002).

⁶²² Author interview with Moisa Alter, January 10, 2009.

⁶²³ As Schatteles put it, "[e]conomists did not enjoy much consideration in Romanian culture. Fortunately, mathematicians were respected by almost everyone, including by those who did not feel too comfortable in this science [...] The study of economics had always been too politicized in Romania" (Aligica and Terpe (2007: 20).

Following such episodes, many of the leading critical economists left the country.⁶²⁴

The tightening of the authoritarian regime during the 1980s further constrained the space for dissent. But although the policing of the field of economics was harsher, it was not airtight. One department chair remembers that

[w]ithin the frame of the scholarly inner-circle debate, the spreading of “un-official” ideas, the sharing of Western printed books, the almost “samizdat”-like fashion of distributing not-available-on-the-shelf printed matter, was common in the chairs of political economy of the major universities throughout the country (Maniu, unpublished manuscript).

And while the incentives for conformity increased, not all economists conformed. In October 1982 Emilian Dobrescu, the most capable linear planner in the state bureaucracy was fired over his opposition to Ceausescu’s early debt repayment and austerity program. Five years later, three leading economists (Constantin Ionete, Tudor Bugnariu and Mircea Stoica) wrote a samizdat critical study of the economy and circulated a copy among some economists (Ionete 1993: 193 ft. X; 203). Ironically, the document modestly suggested Hungarian-

⁶²⁴ By 1980, Gheorghe Preda, Tiberiu Scatelles, Igor Lemnij had left the country. Author interview with Moisa Alter, January 10, 2009.

style reform socialism at a point when their Hungarian peers were losing faith in it.⁶²⁵

What proved to be of decisive importance after the revolution was that the spaces for staying up-to-date with developments in the Western economics profession did not fully disappear during the 1980s. Some of those who stayed continued to read whatever Western economics literature was available at the American Library or in the library reserves of their own departments and institutes. As Daianu remembers:

I learned the “technical” language [for my critique] as a student, when I found in the American Library my own alma mater; here I found P. Samuelson, M. Friedman, Hayek, W. Baumol, R. Okun and others.⁶²⁶

Critically, many found a protected professional ecology in the Cybernetics Institute established in 1972 by Manea Manescu, Ceausescu’s premier⁶²⁷ and a second-rate economist infatuated with cybernetics, a field he understood very little

⁶²⁵ The authors demanded better wage incentives, a 10 year moratorium on unproductive investment, encouragement of small firms, emphasis on heavy industry, more investment in state agriculture, complete liberalization of private agricultural trade.

⁶²⁶ Daniel Daianu, “Sa scrii (critici) inainte de 1989”, in *Jurnalul National*, October 9, 2007.

⁶²⁷ Manescu had been a premier between 1974 and 1979 and a member of the Politburo almost continually between 1969 and 1989. Ironically, as mathematical economists used his Institute to talk Western economics, Manescu acted as enforcer of the Ceausescus in firing prominent central planners who opposed the forced savings strategy of the 1989s. Interview with dissident mathematician Mihai Botez carried out by Vladimir Tismaneanu. Source: www.tismaneanu.wordpress.com. Manescu had established the Cybernetics Institute as the advanced arm of the Institute of Economic Sciences, the elite economics university. A statistician and planner, Manescu was in awe with the possibilities that linear programming and obtained the resources for establishing Cybernetics and protecting it against the close monitoring routinely done by the Securitate in ASE.

of.⁶²⁸ Here, many mathematical economists a patron and an environment where they could keep up-to-date with Western literature and maintain correspondence with leading US economists.⁶²⁹ Here, under the thin cover of “know your enemy” pretenses and arcane technical languages, professors Gheorghe Preda and Moisa Alter quietly organized seminars that discussed the latest debates in Western economics and especially the rise of monetarism and new neoclassical economics.⁶³⁰

The young generation of economists who grew to occupy key positions of power in the revolving door between academia and public policy after 1989 (Daniel Daianu, Theodor Stolojan, Mugur Isarescu, Lucian Croitoru, Cornel Tarheaca, Valentin Lazea) grew professionally in these seminars. Some had been mentored by the generation of dissident economics of the 60s and 70s. All had advanced mathematical skills, fluency in several Western languages and research agendas that were both sheltered from ideological debates and dependent on Western methodological innovations.

Perhaps ironically, the other important site of engagement with Western economics was equally close to the nervous centers of the regime: the university of the Romanian Communist Party (Academia Stefan Gheorghiu, known as the “Party school”). In this institution the multilingual faculty in the international political economy and the international law departments had premium access to recent Western academic publications and media. The faculty had no professional incentives to study this literature other than for superficial propaganda jobs. Yet

⁶²⁸ Author interview with Moisa Adler, January 12, 2009.

⁶²⁹ Author interview with Moisa Alter, January 10, 2009.

⁶³⁰ Author interview with Moisa Alter, January 10, 2009.

since the assistant professors hired were the crème de la crème of the university system they created a subculture whereby evidence of familiarity with the latest developments in the capitalist core was highly rewarded (Severin 2001). The level of debate was less technical and more interested in intellectual frameworks and politics than in mathematical modeling. This opened the field of debate to non-economists who acquired their knowledge on the historical dramas that marked the rise of neoliberalism from pop-academic books and newspapers rather than from the *American Economic Review*.

As the next sections show, when the authoritarian regime collapsed, the mathematical economists had both the skills and the intellectual availability to become translators of neoliberal transition economics during the early 1990s and of the Brussels Consensus later on. They looked down on the Stefan Gheorghiu faculty and labeled them “storytellers.”⁶³¹ Yet through their access to office, it mostly the “storytellers” rather than the “technicians” who had a chance to put together a partial reform program between 1990 and 1992. Before the ideas of the “technicians” captured public policy, for years they faced a professional terrain bitterly contested by anti-neoliberal intellectual frameworks. It is to this contestation that I now turn.

Resisting Neoliberalism in the Neoliberal Moment

The Paths Not Taken: Reform Socialism and Keynesianism

⁶³¹ Author interview with Daniel Daianu, June 11, 2006.

During the early 1990s the most radical contestation of neoliberal economics was put together by local advocates of market socialism, a set of ideas that had been declared dead by their erstwhile proponents in Central Europe (Kornai 1993; 2008). The socialists had made their careers when Romania's economy grew at breakneck rates and became Europe's most industrialized. Unlike their peers in Central Europe, they had not felt the disappointments of reform socialism and understood little of Western economics (Aligica and Evans 2009). Consequently, they critiqued Ceausescu's economic ideas and agreed that more market-based competition was needed, yet were keen to salvage the basics of the socialist economy: planning, state control over most of industry and agriculture, administered prices, etc (N.N. Constantinescu 1990; 1991; Vacarel 1990; 1993).

The overwhelming majority of market socialists were academic economists and economic experts affiliated with the bureaucracy. All belonged to a newly-established association (The General Association of Romanian Economists or AGER)⁶³² whose public mission was to search for a "third way" between capitalism and state socialism (AGER 1990). Headed by one of the orthodox economists of the regime (N.N. Constantinescu), AGER had chapters throughout the country, established its own publishing house and claimed to represent the voice of 50,000 economists. The socialists published their views on economic policy in a small circulation newspaper (*Economistul*) and in the supplement of the most popular national daily (*Adevarul*) known for its criticism of the socio-economic reforms adopted by the Romangovernment. The AGER elite had a reliable political voice in Alexandru Barladeanu, one of the architects

⁶³² The Romanian original was *Asociatia Generala a Economistilor din Romania*.

of Romanian economic reforms during the 1960s and, until his marginalization by Ceausescu, the country's most respectable socialist economist.⁶³³ Now a believer in modest *gorbachevite* reforms and a staunch opponent of the market reforms adopted in Central Europe, he used his power position as the president of the Senate, advisor to president Iliescu and informal leader of the left wing of the FSN to foist the reform plans of the Roman government (Severin 2005; Beta 2005; Abraham 2006).

In the aftermath of 1989 the socialists diagnosed the economic failures of Ceausescu's economic model in his abandonment of the technoscientific core of socialism.⁶³⁴ For them what failed in 1989 was not socialism but the pathological outgrowths of "Ceauschism." Socialism had been bled dry by the fact that the austerity of the 1980s had cut off crucial imports of technology, thus decreasing the competitiveness of Romanian exports. The combination between increasing centralization in decision making and the unscientific investment of forced savings in energy-intensive projects had smothered the managerial capacity of firms to adjust and of the state to fund competitive sectors.

Given this diagnosis, the reform socialists thought that the only desirable alternative was the socialist market economy.⁶³⁵ Rather than scrap planning altogether, they endorsed a variant of planning that factored in market signals and

⁶³³ NN Constantinescu himself was close to the Martian-Barladeanu group and, as such, he was invited by them to address the Parliament when the government sent liberal bills. NN Constantinescu addressed the Parliament during debates on the company law (Severin 1995: 186). A Moscow-trained economist and former head of the Central Planning Commission, Barladeanu had been marginalized because he opposed the increasing of the rate of forced savings from 20 to 30 percent of GDP during the 1970s.

⁶³⁴ The socialists were keen to critique the replacement of linear planning with the Stakhanovite *elan* that ended up destabilizing "production factors."

⁶³⁵ Interview with Alexandru Barladeanu, *Adevarul*, January 7, 1990.

talked about breaking giant down state-owned firms into smaller, worker-controlled units, like in the Yugoslav model.⁶³⁶ Rather than embrace macroeconomic austerity and accept concomitant rises in unemployment, they wanted to relaunch investment, keep full employment and maintain state ownership over most of the industry for the foreseeable future. Some of them had built political capital out of opposing Ceausescu's unrealistic forced savings and his early debt repayment and saw in Romania's lack of foreign debt leeway to obtain the external financing needed to restart of the investments that socialist market economy called for. The socialist economists also pleaded for the institutionalization of equal relations between private, public and cooperative forms of property as the best guarantee of "economic pluralism," a concept they saw as tied to political pluralism and presented as a guarantee against a return to the oligarchic capitalism of Romania's pre-Stalinist past.⁶³⁷

Another path not taken was that of Keynesianism. Its domestic advocates (Vasile Pillat, Eufrosina Ionescu) played down the crisis potential of the structure of the socialist economy or of the transition to the market economy itself. Pillat even saw a significant comparative advantage in the country's exceptionally strong external position (Pillat 1991). Instead, they blamed price liberalization in a market with large monopolies and oligopolies as the prime cause of the serial breakdown of a large slice of the state-owned industrial sector after 1989. Rather than hope that market institutions would appear spontaneously, they argued that

⁶³⁶ In the spring of 1990 the Yugoslav model of socialist market economy was presented as desirable by figures as high as Iliescu's economic mentor (Alexandru Barladeanu) as well as by minister of the Economy and the military architect of the deposition of the Ceausescu clan (general Victor Stanculescu).

⁶³⁷ Interview with Alexandru Barladeanu, *Adevarul*, January 7, 1990.

former socialist economies were best served by a gradualist approach executed within a neo-corporatist institutional structure and with the mixed economy as the final destination.

Ionescu used the contributions of the neo-Keynesian Joan Robinson to warn against the likelihood that such economic reforms in Romania could only lead to yet another form of the Western oligopolistic market.⁶³⁸ She warned that macroeconomic stabilization and price liberalization could trigger a catastrophic recession rather than transformational one through forcibly compressing internal demand and lowering the expectations of investors. Similarly, while attacking the idea that neoliberal capitalism should be the end of the transition and framing the neoclassical tradition as an “abstract, asocial and irrelevant to address our quest for what kind of market economy we can and wish to build,” and indeed no more than an instrument of the economically powerful,⁶³⁹ Pillat pleaded for a syndissertation of Keynesianism and the Romanian structuralist tradition of Manoilescu (he called it “national economy theory”).⁶⁴⁰

⁶³⁸ Early postwar Europe and especially the France of *les trentes glorieuses*, with their extensive state intervention in the “mixed” economy, rather than contemporary Europe or “shock therapy” East European models were presented as more adequate sources of policy inspiration (Popescu 1991: 23-29).

⁶³⁹ Pillat critiqued the “shock therapy” solution of forcing competition on the socialist economy through trade liberalization by giving the example of GDR, where not even West German aid could prevent the collapse of East German economy. He labeled monetarism and rational expectations as “extremist” and deplored the institutionalization of these ideas in IFIs. He systematically critiqued the assumptions of neoclassical economics from the positions of Joan Robinson, Gunnar Myrdal and E. Chamberlin and Pillat also used the work of institutionalist Romanian-American economist Nicholas Georgescu-Roegen to critique of the universalist pretensions of neoclassical economics (Pillat 1991: 9-15). Vasile Pillat used his contributions in *Oeconomica* to critique the assumptions of “naked” neoclassical economics, an interpretation he saw as a “the economic variant of Darwinism (Pillat 1997: 19). He attributed the endurance of neoclassical economics to political factors. “Why is it that the dominant Western economic thought keeps avoiding the object of study of economics and prefers instead to remain stuck in theoretical assumptions and propositions that are wholly irrelevant to contemporary economies despite the endogenous and exogenous challenges it was exposed to? It is clear that since

This position entailed a gradualist approach to transition based on large state investments financed by foreign debt and deployed to absorb excess labor, create market institutions and the pillars of a neo-corporatist wage bargaining.⁶⁴¹ Moreover, rather than treat labor as a mere production factor, Pillat argued for its incorporation in the national economic policy process. The structuralist-Keynesian syndissertation he advocated also suggested that given the basic structural flaws of the Romanian economy (large monopolies and oligopolies), price liberalization was bound to trigger inflation because in such conditions the basic function of prices as rational mechanisms of allocation was inoperable and served instead a monopoly/oligopoly rent mechanism. Given the same structure, it was argued that the abandonment of any form planning was the prime generator of the disorder and uncertainty that led to inflation and loss of output. Therefore indicative planning and a tight state control over its firms were needed at least until market institutions matured.⁶⁴²

In sum, the Romanian economic profession had enough socialist and neo-Keynesian opposition to prevent a quick neoliberal turn. Moreover, it was not surprising that the external environment notwithstanding, the reform socialists thought they had a real chance to shape the economic transition. The country's electoral mood was on their side: the ex-communist FSN had won the May elections with a landslide, Iliescu's *gorbachevite* ideas were then delivering

economic relations are basically reflective of economic interests, dominant interests shaped dominant economic ideas at a national and international scale" (Pillat 1991: 12).

⁶⁴¹ Pillat critiqued the decision of the government in early 1990 to cut the workweek to five days, reduce production quotas and increase wages as output and productivity was falling. Like Keynesians, he thought that wages and productivity should be correlated (Pillat 1991: 9-10).

⁶⁴² Pillat (1991: 11-13).

political capital. Yet these economic ideas failed to shape the policy debate despite the impressive number of economists that upheld them. The fact that all leading socialists had a hectic relationship with the FSN, failed to present detailed templates of what the Romanian version of the socialist market economy would look like and were challenged on their own turf by heterodox economists contributed to the quick marginalization of their ideas. Moreover, unlike their heterodox or neoliberal foes, they were slow to come up with research couched in econometric models at a time when quantitative research was becoming a language of power under pressure from the IFIs. As a result, by the mid 1990s market socialist economics had written itself into irrelevance.

As for Keynesians, neither Popescu nor Pillat managed to make followers. Moreover, Popescu stopped publishing and Pillat reduced his ambitions to building a methodology for multiannual industrial policy (Pillat 1995). It was only in the late 2000s that a small and equally peripheral generation of young scholars began to publish studies inspired by Keynesian ideas (Caraianni 2007; 2008; Ciurila and Murarasu 2008). As a result, Keynesianism was never a real competitor and remained alive in economic debate only in the diluted forms encountered from the Western macroeconomics textbooks translated into Romanian after 1990. Like the socialists, the neo-Keynesians enjoyed no external support at a time when neoliberalism was at its apex in the Western economic profession. Therefore, unlike their neoliberal competitors, neither the socialists nor the neo-Keynesians could offer potential followers status incentives, subsidized access to organizational resources or previously unavailable databases,

methodological metrics or output produced by recent Nobel prize winners and prestigious academic or financial organizations.

The Temporary Veto of Heterodoxy

Unlike socialism and neo-Keynesianism, the third non-neoliberal economic model (heterodoxy) “stuck.” A basic intellectual template for the policies of the Vacaroiu government (1992-1996), the heterodox agenda was tantamount to the institutionalization of a statist variety of capitalism through gradual reforms. Built off ideas derived from continental and Nordic neo-corporatism, French *dirigisme* and early postwar East Asian developmentalism (Dobrescu and Postolache 1990: 110-112; Zaman 1990; Cosea 1995), heterodoxy emerged as a robust alternative to the neoliberal template of transition to the market economy.

Unlike the socialists and the Keynesians, the heterodox carried domestic political clout. During the first half of 1990 ex-planners based in the National Institute of Economic Research (IER) formed a special commission tasked by the provisional government to outline a long-term economic strategy. Published in May 1990,⁶⁴³ the document informed the economic strategies of the Vacaroiu government.⁶⁴⁴ The premier had been a protégé of one of the luminaries of heterodoxy (Tudorel Postolache) and one heterodox mandarin (Gheorghe Zaman) went on to serve as economic advisor to president Iliescu between 1992 and 1996 while two of the younger members of the group (Mircea Cosea, Florin

⁶⁴³ *Schita priving strategia infaptuirii economiei de piata in Romania*, May 1990

⁶⁴⁴ The heterodox ideas were largely replicated by the government program of the Vacaroiu cabinet. See *Strategia de reforma economic-sociala a programului de guvernare*, February 1992, published integrally in *Adevarul*

Georgescu) became the ministers of Economic Reform and of Finance respectively.⁶⁴⁵ The heterodox message was also bolstered by the most internationally famous living Romanian economist, Nicholas Georgescu-Roegen.

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Heterodox ideas constituted the only intellectual program that addressed the dilemma of the “conservative” wing of the communist successor party: while reform socialism risked further international isolation, the neoliberal transition strategy risked the destruction of the socialist industry, an asset the ex-communists valued as a symbol of national sovereignty.⁶⁴⁷ Basically the political power of heterodox economic ideas could not be understood without examining their resonance with the premium that the conservative sector of the ex-communist elite put on industrialization and domestic control over the economy as quintessential markers of national sovereignty.

As a result of their nationalist understanding of the economy, for Iliescu and the left of the FSN the radical market reforms adopted by Romania’s Western neighbors were a form of external economic aggression that bred not only suspicion of Western advice, but also triggered bold foreign policy moves such as a new partnership with the Soviet Union in 1991. In a recently released transcript

⁶⁴⁵ Interview with Ion Iliescu; This information is confirmed by Adrian Severin (1995: 211). See also Academia Romana, “Aurel Iancu, la 80 de ani” <http://www.ince.ro/iancu-eng-2.pdf>

⁶⁴⁶ Already an emeritus professor, Georgescu-Roegen wrote to the prime-minister to argue that his economic policies should be skeptical towards capitalism, that large state enterprises should not be privatized and instead pleaded for greenfield FDI and the privatization of small and medium state firms instead. Letter to Petre Roman, April 1990 (cited in Stefoi 2002: 215).

⁶⁴⁷ As chapter seven suggests, this understanding of sovereignty as linked to the economic primacy of the state had deep roots in the syndissertation of nationalism and (neo-)Stalinism that characterized Romanian economic policy after 1964. After 1989 this economic nationalist message was articulated by the FSN in conjunction with a political discourse that was close to the populist conservative right: order, nation and social harmony.

of a conversation that President Iliescu had with Gorbachev at the moment when the treaty was signed, the Romanian leader made it clear to his Soviet counterpart that he saw resistance to radical market reforms as a security issue:

Iliescu: We are the object of both external and external pressures. Neither the IMF nor the World Bank want to give us loans. Why? The US gets involved [...]

Gorbachev: Don't you think the West wants to run us into the ground and then buy us for a penny?

Iliescu: Undoubtedly: They are taking advantage of our difficult situation (...) External and domestic foes go hand in hand. Given this, the treaty we conclude today is of great importance. (Oprea 2006: 230).

This security-minded economic policy became institutionalized in the nebulous of intelligence apparatus of the state. In 1993, soon after the inauguration of the Vacaroiu government, a report of the Romanian Intelligence Service (*SRI*) alerted the Parliament to

[t]he intentions of some foreign partners to control key positions in various economic sectors” and “the economic offensive orchestrated by foreign forces to force the shutdown of Romanian firms producing unique

products and, as result, the blocking of the basic sectors of the national economy.⁶⁴⁸

In addition to speaking to the political identity of the conservative sectors of the communist successor elite that took power in 1992, by wanting a statist variety of capitalism rather than a reformed socialism, the heterodox also looked less outré in the geopolitical landscape of the early 1990s. This was a period when ex-communist political forces in Eastern Europe were treated with hostility in Washington. As Thomas Carothers report on Romania amply showed, American organizations held a dim view of the ex-communists and openly spent resources on backing the opposition (Carothers 1996). Reform socialism was also deemed unthinkable by IFIs and the European Commission (Berendt 2009). As Romania needed the funds and/or the markets controlled by these actors, heterodoxy gradually emerged as the only internationally presentable left alternative in early 1990s Romania. As former Romanian president Ion Iliescu put it:

In the summer of 1990 it was obvious that even with a program as right wing as Roman's we could not get the foreign funding needed to restart the economy. The situation remained virtually unchanged after the painful price liberalization measures. The West was thinking in cold war terms and because the left won the elections in they treated us as a kind of communist regime [...]. Given these external obstacles there was no way that Yugoslav socialist market economics could have helped, although

⁶⁴⁸ SRI report, *Adevarul*, June 30, 1993.

many of us had preferred that model, at least in the immediate aftermath of the Revolution. In the end we thought that with a better government than Roman's we could convince the Westerners to support a reform program that was simultaneously inspired by the experience of developed market economies and was not the same with the calamity called shock therapy.

The heterodox response to the economic crisis of socialism was the introduction of industrial policy as well as of indicative planning as permanent mechanisms of compromise "between plan and market" deliverable with the technical assistance supplied by the many research institutes inherited from national-Stalinism. Rather than hope that price liberalization would generate competition, they argued that the high degree of monopolization of supply would deny prices their basic function as mechanisms for the rational allocation of resources and would turn "markets" into mere excuses for rent-seeking. Consequently, they wanted gradual price liberalization, although they never considered the dual pricing strategy of the Chinese reformers.⁶⁴⁹ On industrial restructuring, the heterodox wanted to restart public investment by further price liberalizations and an end to the global subsidization of industry. This led them to demand the adoption of a three-pronged strategy: public investments in SOEs assessed to have chances to stay afloat, transparent public subsidies for firms with no such prospects but which were judged essential for the economy (about half of the industry!) and liquidation for the rest.

⁶⁴⁹ No heterodox economists developed a coherent dual price mechanism theory and even Iliescu seemed to have conceded that price liberalization would stabilize the market in a phone conversation with Gorbachev from 1991. See Oprea 2006, p. 230.

The heterodox position on the pace of transition was ambiguous, as it rejected both existing paradigms (shock therapy and gradualism) and proposed a pace commensurate with the specific conditions of the Romanian economy (Dobrota and Postolache 1990). Yet the analysis of their specific economic ideas strongly suggests that shock therapy was not on the agenda and that they preferred a very slow gradualism.⁶⁵⁰ In practice this meant a strong preference for the mixed economy, with a strong investor state targeting easy credit at industrial champions and state agribusiness while coordinating the expectations of individual firms and of entire economic sectors via French-style indicative planning (Dobrota and Postolache 1990; Zaman 1990).⁶⁵¹ Based on this normative position, they argued that the state was responsible for targeting industrial credit for investments in technology to prevent Romania from slipping back into a trap of labor-intensive specialization.

Macroeconomic policy was eclectic as well. The objectives of monetary and fiscal policy were to balance monetary and price stability, on one hand, and full employment on the other. Through Alexandru Albu, an academic economist who was the head of the Economic Commission in the Chamber of Deputies, the heterodox opposed quick convertibility with the argument that one first needed a considerable increase in exports, so that the Leu would not collapse (Severin 1995: 66). The Outline also called for progressive taxation of both personal and

⁶⁵⁰ Thus, while rejecting the solution of the return to “hypercentralized planning” and the state’s monopoly over industry as a reactionary and utopian solution, the heterodox nevertheless emphasized that the concrete aspects of the transition to the market economy should be “adjusted to the needs, possibilities, traditions and interests of the Romanian people, with the integration of those economic institutions of advanced economies that are organically appropriate to our economic conditions” (Dobrota and Postolache 1990: 39).

⁶⁵¹ Dobrescu and Postolache 1990 plus Gheorghe Zaman, “Planificarea indicativa si rigorile pietei”, *Tribuna Economica*, 14, 1990.

corporate income, the nationalization of health, education and social welfare, increased spending on all these sectors and the institutionalization of a welfare system inspired by the Swedish corporatist model. Most importantly, perhaps, the heterodox advanced cost-push rather than monetarist explanations of inflation: the production structure of the Romanian economy pushed exchange rate movements into prices.⁶⁵²

The heterodox also resisted the idea of central bank independence and thought the BNR should be used as a development bank, if needed. State banks were to stay public and some of them turned into development banks. Within this framework, the heterodox rejected the undiluted comparative advantage dissertation and the strong liberal belief in the efficiency of the market:

Left on their own, market devices generate the risk of excessively postponing the modernization of the national economy as well as the emergence of economic and social problems with unpredictable

⁶⁵² This interpretation was recently validated by Gabor (2008). Gabor argued that “[t]he existence and large magnitude of the pass-through from exchange rates to prices is explained by Romanian production patterns, inherited from central planning, which create persistent, structural current account disequilibria and push exchange rate depreciations into increased costs of production and thus overall inflationary pressures. Of note in this context is that no depreciation, policy or market induced, has ever restored the current account surpluses registered during the planned period [...] After initially collapsing to less than half of the 1989 value due the disappearance of the socialist markets, exports earnings recovered extremely slowly, reaching the 1989 level only in 2000. Secondly, the intensive industrialisation process characteristic to planned systems left the industrial sector highly dependent on imports of intermediary goods, which constitute the largest share of the total imports. Thus, the specific import structure made all imports necessary, any reduction in volume strongly affecting industrial output. A devaluation-induced increase in the price of imports would have little success in shifting demand to lower priced, competitive products manufactured domestically, as the philosophy of central planning allowed only for supplementary and not competitive imports. This explains the pass-through effect and its larger impact on producer prices: with a production structure rigidly dependent on imports, any exchange rate devaluation reflects in the domestic price of intermediary inputs, quickly increasing costs of production and prices” (Gabor 2008: 521).

consequences. We therefore need to capitalize on the experience of advanced countries whose governments undertook active and flexible forms of intervention [...] targeted at the technological updating and development of the national economy. (Dobrota and Postolache 1990: 43).

Foreign direct investment was encouraged, but so was the use of international credits for industrial policy. Industrial policy was developmentalist: managed demand for domestic goods, and aggressive export subsidy regime based on manipulated currency and investment in the industrial base inherited from socialism. The success stories of postwar France, South Korea, Japan and China were used to bolster this argument. Attracting FDI with free economic zones and deregulation of repatriations of capital was understood as part of this strategy, based on the same examples (Cosea 1995: 143-145).

Unlike liberals, the heterodox did not regard privatization as valuable in itself, as a form of credible commitment to the market economy. Neither did they see it as an act of economic democracy, as some saw it at the time.⁶⁵³ Instead, they regarded it as a complex developmental tool. Thus, the state property deemed to serve strategic objectives (national defense, food security, the mobility of people, merchandise and information, social peace) were considered unprivatizable. The minimalistic list of unprivatizables included all state firms in gas, oil, electricity, some mining, forestry, large farms, the basic transportation

⁶⁵³ The heterodox rejected as flawed a popular proposal advanced by Constantin Cojocaru, an exiled Romanian economist, who suggested Milton Friedman's recipe for Eastern Europe: privatization of the entire economy through the gratuitous transfer of state assets to all citizens, as an act of economic democracy (Ionete 1993: 135). Cojocaru's proposal was widely debated in the parliament and the media.

and telecom infrastructure, defense manufacturing, social housing. Firms from all other sectors could be privatized, yet the heterodox insisted that large state firms could be sold only after giving workers the first option or, in subsidiary, after ensuring the availability of a foreign strategic investor.

Yet the heterodox model was more nationalist and developmentalist than it was egalitarian. The idea was that full employment was the best social policy. Consequently, proponents of heterodoxy proposed cuts in current spending in order to have funds for public investment in “strategic industries” and in firms experiencing temporary difficulties. To save employment, the privatization of small and medium state enterprises was to be pursued immediately, while large SOEs who served as large employers were to be maintained as public enterprises and benefit from targeted subsidies. Unprofitable firms were to be liquidated not through market mechanisms, but following state efforts to reorganize them in order to save those parts that could actually generate profit. Therefore, the heterodox saw the quick privatization suggested by foreign consultants as potentially catastrophic (Ionete 1993: 135). At a time when the Roman government decided to follow Janos Kornai and transfer half of the state’s assets to the population, the heterodox reduced that figure to 30 percent and successfully pushed for barring public utilities from privatization (Dijmarescu 1994: 79).⁶⁵⁴

Overall, the heterodox paradigm was a powerful and coherent contender for the neoliberal reform paradigm. Yet this framework had a few intellectual

⁶⁵⁴ The same interventionist penchant ruled agricultural policy. Trade policy was to balance liberalization and the interests of local producers. Since the problems of agriculture were diagnosed in the tariff liberalization unleashed by the Roman government, the government set out to build a system of price subsidies and cheap credit lines for local producers, with the central bank serving as a facilitator for the refinancing of state-owned agribusiness.

gaps that made it vulnerable to neoliberal attacks. First, it had nothing to say about the costs incurred by the state's withdrawal of its supervision of the companies it owned. Concerned to show that they were serious about their turn away from the past, the heterodox insisted that the management of state owned companies had decisional autonomy. This however prevented the government from tapping the profits of its own firms to fund much needed public investment or boost the shrinking health, education and welfare budgets. Second, the complacency of the heterodox about the banking sector (they thought that banking crises were not likely to plague a predominantly public banking industry) led them to ignore the importance of regulating the financial sector as whole. This allowed fraud and embezzlement that bankrupted two large private banks⁶⁵⁵ and the poor supervision of non-performing loans in state banks.

Crafting Romanian Neoliberalism

Overview of a quiet revolution

It is now commonly said that the European economic transformations were “the most dramatic episode of liberalization in economic history” (Murrell 1996: 31). How did the ideas that made this change possible enter the Romanian academic-bureaucratic complex?

Like in Spain, in Romania neoliberal ideas were adopted by a group of Romanian economists who used the revolving door between the central bank, academia and political parties. The group was not homogenous, however. Some

⁶⁵⁵ Dacia Felix and Credit Bank went bankrupt in 1996.

espoused hybridized arguments and concepts drawn from institutionalist economics or the domestic structuralist tradition with neoclassical orthodoxy. Economists like Misu Negritoiu and Aurel Iancu were closer to the ordoliberal ideal of the “negotiated economy” and saw state intervention and neo-corporatist institutions as basic conditions of a competitive and stable economy.⁶⁵⁶ Others, by contrast, did very little conceptual editing and adopted monetarism, supply-side economics and rational expectations almost wholesale (e.g. Costea Munteanu, Lucian Croitoru, Cristian Popa). By the 2000s, many Romanian neoliberals radicalized their positions and started to integrate select elements of a more market fundamentalist streak.

Unlike in Spain, the political left grouped around Iliescu was at first hostile to the neoliberals and its economic policies were shaped by the ideas of the heterodox. The ousting of the Roman government in 1991 and of the Negritoiu group of experts in 1993 were suggestive episodes of the intellectual antipathy the “conservative” sectors of the ex-communists felt for pro-market forces. Yet around the turn of the century the heterodox quietly moved towards the Brussels Consensus. Around the same time, neoliberal economists from outside the party became prominent in the party executive and in the government, where they enjoyed the protection of party leader and premier Adrian Nastase. And after they embraced a Third Way ideological identity in 2000, the ex-communists quietly headed in the liberalizing direction its leaders had been fighting against during the early 1990s. The result was that they followed in the footsteps of their Spanish

⁶⁵⁶ Often, these economists referred to neoliberalism in its early postwar sense: ordoliberalism (Iancu 1994: 91-92).

counterparts after two decades. However, the Romanians did so without the commitment to income redistribution and industrial policy that their Spanish colleagues had made.

The Altar network and the roots of Romanian neoliberalism

Historically, Romanian neoliberals came from a network of outward-looking economists influenced by the dissenting mathematical economists who had kindled the marginalist fire during the 60s and 70s. All these men had graduated in the top of their class and worked in sheltered ecologies in academia, institutes or the technocratic vehicles of the central government, where access to Western economic literature was not very limited. As much of the elite of marginalist mathematical economics had left the country to continue their work in the U.S. and elsewhere, their younger followers developed the skills of “internal exile”: reading Western economics classics in the American library and in the library reserves of the institutes, staying away from the open critique of economic policy and forming discussion groups on the latest developments in the Western economics profession.

During the 1980s such activities enabled these budding economic liberals to develop a “counter-elite” identity in the elitist seminar informally organized at the Cybernetics Institute by Moisa Altar, a brilliant and entrepreneurial mathematical economist known for his passion for high academic standards and proximity to the exiled mathematical economists. None of these men had made the shift to neoclassical economics before 1989 but through their informal self-

training the acquisition of the basic elements of this economic tradition came to be the very condition for joining this prestige group. After they were accepted, Altar made the reading of Western economic journals and books the *de facto* condition for acceptance in his discussion group. The capacity to debate complex economic arguments published in English by Western journals became a status marker. While they had to partake in some public form of choreographed acceptance of the regime's economic orthodoxy, often by publishing drivel, in private they defined themselves against those academic economists who kept their jobs by replacing economics with the regurgitation of propaganda speak. As Altar remembers,

Only those who knew economics for real felt at ease in the group. And in order to know economics you had to be up to date, read American journals with a pencil in hand and get hold of Russian translations of the latest names in the US economics departments. These books cost around ten Lei. It was nothing. A couple of coffees... For most of my colleagues, this toil was not worth it. It just made no sense from the point of view of one's career. One could advance in the ranks simply by aping Ceausescu's babble.⁶⁵⁷

Yet some economists of the Adler group were confident enough that their dissimulation techniques would get their criticism past censorship. Between 1984 and 1987 Vasile Pillat and Daniel Daianu published a string of articles in a

⁶⁵⁷ Author interview with Moisa Altar, January, 2009.

Romanian scientific review meant for English and French speakers that made subtle critiques of the traditional socialist development model. These articles were still far from any kind of neoclassical radicalism. They were but bland attempts to reconcile neoclassical, structuralist and neo-Marxist economics (Daianu 1984; Pillat and Daianu 1984; 1985; Daianu 1987).⁶⁵⁸ Basically the boldest attack on the mainstream was the veiled use of the neoclassical critique of socialism as unable to stay innovative in the long term.⁶⁵⁹

The boldest move of the Altar group was made in 1987 by the Daniel Daianu, one the youngest and most immersed in Western literature. In an article published in English he advanced a critique of the economic status quo using the more radical marginalist positions of Janos Kornai, a Hungarian economist known in the West for his argument that socialism was salvageable only through market reforms.⁶⁶⁰ Kornai had been critiquing Soviet orthodoxy since 1953, but in his 1980 book that Daianu found inspiration in, the Hungarian economist argued that chronic shortages were not the result of planners' mistakes but rather systemic problems inherent to socialist economies (Kornai 1980). The article suggested that by practicing effective dissimulation, the Altar group had gotten far and became prepared for radical openings in their thinking. As Daianu put it,

⁶⁵⁸ For example, in 1985 Vasile Pillat and Daniel Daianu published an article in English in which they did a veiled critique of the socialist economy using an odd mix of structuralist arguments about the core's control over technological innovations and the Western orthodox argument that the statist models embraced by developing countries had a low innovative capacity (Pillat and Daianu 1985). The build this argument the article made the controversial claim that neoclassical thinkers like Schumpeter and neo-Marxists like Mandel were fundamentally compatible in their analysis of innovation in depression cycles of the economy.

⁶⁵⁹ The authors took a pretty direct stab at socialist development when they wrote that "a society characterized by a low real innovational process, despite the eventual mobilization of great material and financial efforts, will stagnate and even move downward" (Pillat and Daianu 1985: 47).

⁶⁶⁰ Daianu's study was entitled "Echilibrul și Performanța Sistemelor Economice" and was published in the sixth issue of *Viitorul social*.

My analysis relied on quantitative models but I used a couple of euphemisms and terminological decoys to camouflage the message [...] I sought to argue that socialist economies faced “structural supply restrictions,” that the deficit of raw resources is permanent and that reforms were needed. In Hungary Janos Kornai used the term “shortage” [for this] and built an entire theory around it. I shied away from using [Kornai’s] term and I used the aforementioned term [“structural supply restrictions”].⁶⁶¹

After 1989 the Altar group was the source of a veritable who’s who of postcommunist economics. Theodor Stolojan became finance minister and premier between 1990 and 1992. Daniel Daianu took up a position as chief economist of the central bank for most of the 1990s and that of minister of finance between 1998 and 1999. Ilie Serbanescu was minister of finance in 1998 and, with his astonishing capacity to tell simple and generally apocalyptic homilies about Romania’s economies woes, he remained the most popular economic commentator in print media and television. After the revolution almost all of them taught economics at ASE in between their research stints in the IMF or in Anglo-American economics departments.⁶⁶² Politically, the Adler group was close to the center-right opposition, as evidenced by their ministerial appointments when the Convention took power. Only two (Stolojan and Negritoiu) were in the political

⁶⁶¹ Daniel Daianu, “Sa scrii (critici) inainte de 1989”, *Jurnalul national*, February 10, 2007.

⁶⁶² See next chapter.

field of the liberal wing of the ex-communists but they promptly defected once liberalization was clad in the heterodox clothes of the Vacaroiu government.⁶⁶³ U.S. economic historians who had worked on Romania during the cold war (e.g. the Yale-based John Michael Montias) came on visits and took sides against the heterodox and the socialists⁶⁶⁴ while endorsing the ideas of the Alter and the policy stance of the central bank.⁶⁶⁵

Like their Spanish counterparts, Romanian neoliberals inhabited a bureaucratic-academic complex. Some split their day jobs between the central bank and academia (Daniel Daianu, Mugur Isarescu) while others did research during their day jobs as consultants for investment groups and IFIs (Lucian Croitoru). A few became public intellectual economists by entering the booming fields the economic commentariat in print media and/or television (Ilie Serbanescu). Few stuck to strictly academic jobs (Liviu Albu, Moisa Altar), yet from these positions they enjoyed considerable informal influence in the central bank through personal networks (all chief economists of the central bank except Daianu were mentored by Altar).

Finally, to organize their professional ecology, the liberals established a professional association (SOREC) as a challenger to the *gorbachevite* AGER. In 1991 they also established a small think-tank (IRLI), where the *crème de la crème*

⁶⁶³ Minister of finance and then prime-minister between 1990 and 1992, Stolojan took up a job with the World Bank in 1993 and refrained from a systemic interaction with political debates in Romania. Misu Negritoiu was the liberal voice of the FSN until his resignation in 1994, following Vacaroiu's move to reflate the economy and slow down privatization.

⁶⁶⁴ *Adevarul*, April 24, 1990.

⁶⁶⁵ Letter to *Oeconomica*, *Oeconomica*, 4, 1993, pp. 7-8.

of liberal economists would congregate regularly.⁶⁶⁶ In 1991 they obtained Open Society Foundation funding for launching a new economic review (*Oeconomica*) and a publishing house. In a few years both became the most respected professional outlets for publishing research or professional opinions on current economic events. During the second half of the 1990s the revolving door between the central bank and the neoliberal academics in ASE and the institutes took the form of a think-tank close to the central bank (CEROPE) that was to become the country's most prestigious research center for applied economics.⁶⁶⁷

Replicating the Neoliberal Revolution

It took the members of the Altar network less than one year to go from market socialism to neoliberalism. When the first issues of *Oeconomica* came out in 1991, it was clear that only Vasile Pillat had not “jumped the fence” and that Daniel Daianu was the leader of the group.

Like in Spain, the Romanian neoliberalism was to a considerable extent a reproduction of its Western and Central European variants. There was as much of Janos Kornai's and Olivier Blanchard's neoinstitutionalist-neoclassical syndissertation as there was of Sargeant's uncompromising rational expectations. In a rush to distance themselves from all things interventionist, some went as far as taking the Laffer curve seriously. There was little dissent from the ten commandments of the Washington Consensus and historical narratives about the

⁶⁶⁶ SOREC was the acronym for the Romanian Economics Society (*Societatea Romana de Economie*), while IRLI was the acronym for the Romanian Institute for Free Enterprise (*Institutul Roman pentru Libera Intreprindere*).

⁶⁶⁷ CEROPE stands for the Romanian Center for Economic Policies/*Centrul Roman de Politici Economice*.

self-defeating character of Keynesian, developmentalist and market socialist economics were as numerous as the actual applications of the neoliberal “technical” model to the Romanian context.

Soon the Romanian neoliberals were engaged in a war against all reform options save for the neoliberal shock therapy. During the early 1990s their main targets was heterodoxy (primarily) and the neoclassical stop-and-go reforms of the Roman and Stolojan governments (in subsidiary).

The main foil was the heterodox argument that the negotiation of a trade-off between high inflation and full industrial employment achieved through public credit was necessary (and possible) in order to prevent further falls in aggregate demand. Faced with this claim, the neoliberals reacted with a barrage of books and articles where this argument was attacked with the mainstream neoliberal claim that a focus on full employment was bound to generate productivity losses even in developed capitalist states (Croitoru 1994; Isarescu 1991; Daianu 1991; 1994).

Like their Western peers, they declared that in the long term the self-regulating market mechanisms bring unemployment down to its natural rate so demand management makes no sense. (Croitoru 1993; 1996; Daianu 1991; 1992; 1993; 1994; Albu et al 1992; 1993a; 1993b; 1994a; 1994b; 1996; Lazea 1992; 1993a; 1993b; Radulescu and Dragulin 1995). The right solution, they argued, was shock therapy and permanent fiscal austerity. In line with the monetarist view that high inflation rates were due to excessive liquidity in the system, they endorsed targeting the broad money stock (M2), and then the nominal exchange

rate, two positions immediately embraced by the central bank (IMF 1991; 1994; Gabor 2008).

Using the neoliberal historical narrative about the “failure of Keynesianism” during the 1970s, in a prize-winning book Lucian Croitoru argued that the use of reflation in a recession was self-defeating even in the conditions of a capitalist economy.⁶⁶⁸ He submitted that in the particular conditions of Romania (no mature capitalist economy, poor access to foreign credit) this option was even more risky, as it was bound to send the country into bankruptcy. In addition to an austere fiscal policy, the government had to make the reduction of inflation through controlling the money supply the focal points of its economic program.⁶⁶⁹ This argument was predicated on adopting wholesale the rational expectations dissertation that since public announcements of devaluations made workers expect even worse devaluations, such announcements would only make wage demands incommensurate with macrostabilization.⁶⁷⁰

The ideas used by Western neoliberals as weapons against Keynesians during the 1970s in the context of the Western stagflation crisis were recycled by Romanian neoliberals as refurbished weapons against the heterodox despite the fact that they were dealing with a state-owned economy that faced very different challenges. Arguments about the inflationary effects of gradual price liberalization were made by recycling the classic monetarist and rational

⁶⁶⁸ Croitoru’s book won the P.S. Aurelian award, the highest distinction of the Romanian Academy.

⁶⁶⁹ In accordance with transition economics, an appropriate spectrum of inflation ranged between 20 and 30 percent (Croitoru 1993: 161).

⁶⁷⁰ To make this argument Lucian Croitoru used World Bank research padded with rational expectations logic and stylized stories of failed heterodox policies in Latin America and Israel to reject the heterodox stabilization policies based on direct price, wage and exchange rate controls as inefficient and “populist.”

expectations argument of the 1970s that any form of government manipulation of the money supply had in-built inflationary risks. The most important of this was that rational workers would demand even higher wages/subsidies to compensate the expected loss of purchase power as a result of the price liberalizations announced by the government. Given this argument, the only option was sudden and comprehensive price liberalization (Croitoru 1993: 34; Isarescu 1991; 1995; Negritoiu 1995: 48-49; 207).⁶⁷¹ Similar arguments were made by Isarescu (1991; 1995), Daianu (1991; 1992), Negritoiu (1995: 48-49; 207).

The suggestion that some transitional form of planning could temper the inflationary incentives of state firms with monopolistic positions was rejected as well. While they did not go as far as Jeffrey Sachs in assuming that “markets spring up as soon as central planning bureaucrats vacate the field” (Sachs 1994: xii), they nevertheless treated planning as a natural event that followed logically from the popular rebellion against national-Stalinism (Daianu 1991; 1992; Croitoru 1993; Albu 1992). And they were not alone in thinking this: in his report on the state of the economy from February 1991, prime-minister Roman himself declared that in his view central planning had become a “chimera” during the last years of national-Stalinism and that the economy had been governed by “a kind of *laissez faire*.”⁶⁷²

⁶⁷¹ To this end Croitoru cites Phillip Cagan, “The Monetary Dynamics of Hyperinflation”, in Milton Friedman, ed. *Studies in the Quantity of Money*, Chicago: University of Chicago Press, 1956.

⁶⁷² Cited in Pillat (1991: 8).

But the neoliberals did not aim just for dismantling planning and macrostabilization.⁶⁷³ They were aware that they were also undertaking transition towards disembodied liberalism in which the measures adopted during stabilization would be made permanent and enhanced with structural reforms. The fundamental directions of the post-stabilization program included squeezing demand and stimulating supply, across-the-board marketization and free trade, the reduction of employment in the public sector, the liquidation of unprofitable SOEs and the privatization of the profitable ones.⁶⁷⁴ They also demanded deregulation, the stimulation of internal and external competition, privatization, concession contracts, supply-side economics tax reforms (lower marginal taxes, non-taxation of dividends), massive cuts in subsidies and the sale of public service companies active in energy and public transport (Albu 1994; Negritoiu 1995: 204; 207-208). Citing conservative readings of postwar history, some went as far as arguing that capital accumulation, economic growth and redistribution could not be pursued simultaneously and that the historical record suggested that the first should take priority to begin with (Dijmarescu 1994: 80).

Rather than use rational expectations, others made the case for shock therapy by hybridizing neoclassical and institutionalist arguments, following the footpath of Olivier Blanchard's transition economics. A postdoctoral student of

⁶⁷³ When some neoliberals got creative and pleaded for a mix of very restrictive monetary policy and expansionary fiscal policy financed through quantitative easing (Lazea 1993), the group leader Daniel Daianu quickly put it down with the classical crowding-out dissertation and with rational expectations argument of Seargeant and Wallace (1981) about the risk of monetizing debt and increasing inflation via a rapid rise of public debt (Daianu 1994).

⁶⁷⁴ With the envied Czech Republic running budget surpluses in the middle of the country's worst recession, Romanian neoliberals saw disaster even in a budget deficit of 2 percent (Croitoru 1993: 161).

Blanchard's, Daniel Daianu attacked both the market fundamentalists who thought market institutions would be self-generating as well as heterodoxy, which he thought responsible for perpetuating the institutional disorganization of the economy. Drawing on Blanchard's neoinstitutionalist-neoliberal syndissertation (Blanchard 1991), Daianu argued that coordination failures among economic agents were inevitable in a system in which planning collapsed.⁶⁷⁵ These resulted in an environment marked not only by costly information but by sheer lack of knowledge of economic agents.

Yet this neoliberal-institutionalist syndissertation was used to bolster rather than to weaken the case for shock therapy: when combined with the fact that the economy had a very large number of structurally-inefficient firms and an underdeveloped financial market, the institutional inertia of state firms and investors was bound to lead to a situation whereby the economy would be systemically gripped by inter-enterprise debt. The solution that followed was that all reforms had to be launched quickly and simultaneously rather than gradually and sequentially. To attack this problem, he suggested that loss-making enterprises judged to have no future were to be cut off public subsidies. But given that some of these hired tens of thousands Daianu used a false (what does false mean here?) gradualist argument to make the case for radical reforms on privatization and FDI:

⁶⁷⁵ Interestingly, the "collapse" of planning is perceived as a natural event of the transition rather than as a political decision.

Loss-making enterprises should be gradually shut down so as to reduce unemployment and distribute its costs over time. In this way the government could find resources for social security and active labor market policies. The time horizon for terminating loss makers depends on the pace of privatization and adequate capital flows: the faster will be the privatization process and the higher will be capital flows [...] the easier will be the termination of loss makers (Daianu 1993: 20).

Radical neoliberal arguments on income redistribution were adopted in whole cloth as well. All neoliberals paid lip service to the need to have some kind of social compensation for those affected by unemployment. In a country that already had the lowest social welfare budgets in Europe and a population that already had suffered extreme deprivations during the 1980s this was hardly surprising. Yet Romanian neoliberal discourse did not have the robust commitment to progressive tax and higher social spending that leading Spanish neoliberals maintained. Even on the “left” of the neoliberal spectrum welfare retrenchment, a shift from universalism and equality of outcome to means-tested benefits and equality of opportunity were considered an important aspect of welfare policy (Croitoru 1993: 169-170; Dijmarescu 1994: 83-85). Such arguments were based on the classic conservative dissertation-nowhere to be found in Spanish neoliberal discourse- that the combination between the trickle-down effects of economic growth and private welfare investments (private

pensions, savings accounts, investments) were superior to public redistributive schemes (Negritoiu 1995: 207; 210-211; Turlea 1999: 147).

(That neoliberal capitalism rather than simply liberal capitalism was the imagined end point of these economists became even more obvious when they approached labor market and tax issues. Rather than examine the relative effects on unemployment of a politically engineered collapse in public demand, Romanian neoliberals simply embraced the standard OECD diagnosis of unemployment in developed capitalist countries: rigid hire-and-fire rules and insider-outsider labor markets (Croitoru 1993; Turlea 1999). In what was the first adaptation of the rational expectations models of Sargent, Hall and Begg in Romania, Geomina Turlea detected disincentives for employment even in the minimum wage (the level of which ranged below 50 dollars a month in early 1990s Romania) (Turlea 1999: 146; 149-151).

The supply-side demand for a decreased progressivity of the tax system as a solution to flagging investment was embraced as well, paving the way for the general acceptance of the radical “flat tax” solution by the entire community of neoliberal economists after 2003. This argument was advanced as early as 1993 despite the non-existence of a robust local capitalist class whose presumed tax rebates could be used for investment.⁶⁷⁶ Four years before Sorensen (1997) controversially demonstrated that the progressivity of taxation had effects on

⁶⁷⁶ Croitoru suggested that the calming of inflation should be followed tax cuts for higher income brackets, a general reduction of the progressive nature of the tax system, the termination of taxes meant to stimulate certain kinds of behaviors deemed good for the economy, greater reliance on consumption taxes, the expansion of the tax base. The high progressivity of personal income tax was blamed as one of the causes of weak job creation (Croitoru 1993: 105-106; 161). That such arguments were being marshaled at a time when Romania’s domestic investor class was hardly noticeable and when the average foreign company invested 50,000 a year in Romania was evidence that mindless reproduction was as strong a mechanism of diffusion as translation was.

unemployment, Lucian Croitoru made precisely this point using the “evidence” presented by the Reagan tax cuts (Croitoru 1993).

Editing Neoliberalism

Neoliberal transition economics was, however, not a simple top-down ideational flow whereby a neoliberal script was replicated by willing domestic advocates. Instead, in the translational dialogue that accompanied the transmission of such ideas, Romanian economists were active participants in making this translation possible. They often changed the “original” neoliberal text by grafting on it their own innovations, mixed it with alternative economic frameworks (institutionalism, structuralism), and worked to “black-box” the differences between neoliberal prescriptions for developed capitalist states and neoliberal transition economics. They also drew on domestic historical narratives and political frames to make neoliberal arguments resonate in a country that had not known economic liberalism. The result of this bricolage was a reading of neoliberalism that was in between the crude market fundamentalism espoused in the region by Estonian president Mart Laar, and the “Third Way” neoliberalism pioneered by Spanish Socialists.

First, there was little enthusiasm for crude versions of market fundamentalism. In interviews, Romanian neoliberals were quick to distance themselves from the “talibans” (the libertarian economists analyzed in the next section) and many liked being considered eclectic economists.⁶⁷⁷ Some spent time

⁶⁷⁷ Author interviews with Daniel Daianu, Valentin Lazea, Moisa Altar, January, 2009.

attacking select assumptions of neoclassical economics and couched their neoliberal policy prescriptions in an intellectual eclecticism that drew on various traditions in economics (Iancu 1994; Daianu 1996). Others saw in democratic corporatist institutions like peak level collective bargaining and a tripartite collective bargaining institution important conditions for an efficient income policy (Croitoru 1993: 62-63; Negritoiu 1995: 196; Iancu 1994). The fundamentalist assumption that “[people will] change their patterns of behavior and adjust their activities rationally and voluntarily if the market provides the right incentives” (Vaclav Klaus quoted in Blejer and Coricelli 1995: 100) was hardly a common occurrence.

Also, while shock therapists thought that industrial policy “flies in the face of everything we know about the behavior of states around the world” (Frydman, Rapaczynski and Turkewitz 1997: 85), few Romanian neoliberals thought that the state should suddenly embrace a neutral position vis-à-vis potential winners and losers. Granted, they subordinated enterprise reform to macrostabilization and therefore rejected industrial policy options used by the heterodox (subsidized industrial credit, tax exemptions and targeted tariffs) as leading to inflation, arrears and rent-seeking opportunities for insiders (Negritoiu 1995: 156-157; Popa 1994; Munteanu 1994).

In the spirit of the neoclassical microfoundations critique, such policy interventions were also declared incompatible with the microeconomic bases of macroeconomic policy because they ignored the rational expectations of agents

(Popa 1994: 134).⁶⁷⁸ It was therefore suggested that subsidies be made explicit and that they should be targeted as firms deemed to have a potential, yet it was insisted that the focus of industrial policy should be less about picking winners and more about picking losers to be shut down.

Others, however, pleaded for the kind of “smart” mix of interventionist and neutral industrial policy embraced by Spanish socialists: phasing-out chronically inefficient companies and investing state resources in strategic firms and industrial champions with potential for expansion in foreign markets (Daianu 1992: 181-206; 1993: 19-20; Negritoiu 1995: 213-215).⁶⁷⁹ Yet unlike in the case of their Spanish counterparts, these economists relegated this industrial policy template to the periphery of their agenda until the issue was resuscitated by EU integration (Daianu et al 2003).

Supply-side mimetism on taxation was often moderated by pleas for differentiated sale tax regimes for food, medicine, books, constructions and fertilizers (Croitoru 1993: 167). Also, not all accepted the radical neoliberal dissertation of there was a “natural” rate of unemployment determined strictly by the laws of supply and demand. Instead, they demanded active labor market policies and the establishment of effective social bargaining institutions (Croitoru 1991: 48-54). Finally, although they agreed with it in principle, in the late 1990s

⁶⁷⁸ Some neoliberals went as far as considering that public ownership was by itself a disincentive for state owned firms to abide by the contracts they signed (Dijmarescu 1994: 79).

⁶⁷⁹ On this terrain these neoliberals cooperated with heterodox like Emilian Dobrescu and neo-Keynesians like Vasile Pillat. In 1993 Pillat and Negritoiu drafted a bill on a multiannual industrial policy template and then spurred efforts for a methodology of picking winners. This methodology was piloted in 1994 on 1,700 state firms (Pillat 1995: 43) but the initiative was terminated under the Convention government.

leading neoliberals rejected the radical monetarist solution of the currency board adopted by the Baltics and Bulgaria (Croitoru and Daianu 1999).

Nevertheless, Romanian neoliberals grafted their own innovations on neoliberal imports, usually with the effect of consolidating or radicalizing neoliberal policy prescriptions. For example, Daniel Daianu argued that the emergence of late payments between firms (arrears) was a form of money and to the extent that it affected state firms it had to be factored in the calculation of inflation and deficit figures. Similarly, Daianu's concept of "structural strain" applied to the postcommunist economies suggested that only fast and systemic structural reform could unlock the institutional gridlock that kept the economy from functioning efficiently (Daianu 1995). Others "recoded" the neo-Leynesian IS-LM model by assuming that the aggregate supply function is of rational expectations type (Lucas) and the monetary rule is of monetarist (Friedman) type (Altar 2008).

Some of these innovations ended up strengthening the conceptual repertoire of the neoliberal message broadcast by international organizations through an interesting co-participation effect linking these institutions with the economists working outside the Western epistemic core. Thus the understanding of arrears as money made an international career after it had been popularized in the IMF Working Papers (Daianu 1994). Similarly, the OECD used the Romanian economist's "structural strain" in its comparative studies on structural adjustments of postcommunist labor markets (OECD 1998: 169-172).

Third, other Romanian economists transformed the very content of neoliberal transition economics. Thus, during the early 1990s the IMF and the World Bank softened their calls for austerity and the expansion of the tax base with demands that the tax system be made more progressive.⁶⁸⁰ Yet the idea of a progressive taxation system was attacked by Romanian neoliberals with the supply-side argument that a high degree of progressivity dramatically reduced incentives to invest and to save (Croitoru 1993).

Another example concerns domestic justifications for macrostabilization. One of the central bank's most respected economists (Cristian Popa) dramatized the urgency of orthodox macrostabilization by adding a layer of rational expectations theory that did not figure in the standard neoclassical shock therapy argument.⁶⁸¹ Citing no empirical evidence but drawing on rational expectations logic, he proposed a microeconomic theory of the rise of inter-firm debt, a factor that prevented successful macrostabilization through the buildup of arrears:

[c]reditors themselves fail to sue their debtors [...] due to their correct expectations that such an action increased the risk of bankruptcy for the creditor itself; more importantly, the benefits of suing one's debtor were smaller than the costs of losing an outlet for the creditor's own merchandise. Such behavior was diffused through imitation and ended up

⁶⁸⁰ For example, in 1991 the IMF's technical assistance in Romania demanded (and obtained) the adoption of a steeply progressive income and corporate taxation system (Rodlauer 1995).

⁶⁸¹ Moreover, Popa used the postulates of rational expectations as grounds for exhorting the authorities to create perfect markets with perfect information. In making this argument Popa modified rational expectations by working with the assumption that such institutions were achievable realities through public policy and by suggesting that these institutions exist in the form theorized by rational expectations scholars (Popa 1994: 132-133).

transforming structural inefficiency into the aggregate inefficiency of the entire national economy [...] (Croitoru 1994: 131).

The main policy implication of this innovation was that any alternative to neoclassical macrostabilization became *ipso facto* irrational from a microeconomic standpoint. Popa further argued that such suboptimal behavior was bound to continue as long as the economy remained state-owned because from within this theory's assumptions profit-making could only be conceived of as of peripheral concern to public firms. The reason was that in practice workers controlled the factories and their utility maximizing behavior could be no other than preserving employment and wages despite a fall in output, two highly suboptimal outcomes. In order to be efficient and rational in the sense of rational expectations theory, the microeconomic world of postcommunism had to perform the assumptions of that theory. Anything short of that was a form of deviance:

[a]ny important progress towards market-conforming rationality will not occur until considerable segments of economic agents will behave in an economically optimal manner rather than in a rent-seeking one (Popa 1994: 134).

But the translation of neoliberalism did not take place only in the rarefied air of economic theory and "technical" languages. A host of local framing strategies were deployed as well. Through them, the profoundly rhetorical nature

of Romanian neoliberal economics came to the fore, unfiltered by the “soft” stylistic norms of the local economics profession.

In this tradition, obscuring the controversial or marginal nature of an argument played a crucial role in radicalizing the neoliberal message. The research on controversial effects of the Reagan tax cuts on supply are not even mentioned in Lucian Albu’s historical excursus into the genesis of the latest innovations in tax policy. For the same author the Laffer curve and the supply-side argument that tax cuts for corporations pay for themselves were treated as scientific facts (Albu 1994: 37; 41-43)⁶⁸² despite the fact that they were never taken seriously among professional Western economists (Blyth 2002).

Also, controversial policy makers like Leszek Balcerowitz were cited as if they were dispassionate scientists (Negritoiu 1995)⁶⁸³ and, drawing on the popular bashing of the industrial workers by the intelligentsia (Miroiu 1999; Antohi 2001; Preoteasa 2002), some went as far as turning the “worsening morals and discipline” of the industrial working class into an important cause of unemployment (Croitoru 1991; Dijmarescu 1993).

Finally, radicalization was also enabled by the setting of false dichotomies between “Western” and “communist” arguments. Aurel Iancu made the case for central bank independence as if there were only two acceptable positions: the

⁶⁸² While supply-side economics was just one of the contestants in the field of Western orthodox economics during the 1990s, in Bucharest Albu declared it as “the core of modern tax policy” (Albu 1994: 41).

⁶⁸³ “Empirical analysis (Balcerowitz and Gelb 1994) shows that in the specific conditions of East-Central Europe at the time of the fall of communism, steady and radical reforms were more successful [than gradual reforms] in reducing inflation and at achieving structural adjustment, economic growth and capitalist institutions [...] Gradual reforms [...] cause more social injustice because they favor those who put more pressure on governments and the system insiders who come from the old regime, know each other better and have superior organization.” (Negritoiu 1995: 48). See also Serbanescu (1994; 1995; 1996).

Western democratic position demanding complete independence and the national-Stalinist one demanding complete subordination of the central bank to the executive, with the latter being “endorsed by Ceausescu’s former financiers and USSR-trained academics” (Iancu 1996: 44). Even a neoliberal as moderate and as given to eclecticism as Aurel Iancu talked about Europe’s “glorious thirties” through the lens of Milton Friedman’s interpretation of it (Iancu 1994: 83; 90).⁶⁸⁴ Unsurprisingly, then, economic liberalization and social fairness were deemed incompatible for Romania’s stage of development⁶⁸⁵ and the progressive taxation applied to business activity was a form of “neo-communist” redistribution, while social democracy was an economic regime in which social protection is achieved through the dividends made possible by citizens’ ownership (Dijmarescu 1994: 79).

Neoliberalism après Neoliberalism

For some neoliberals the failure of shock therapy and the crisis of capitalism after the East Asian financial crisis led to some soul-searching and moderation. Yet for most these events were just bits of evidence that neoliberal ideas had not been fully implemented. Neoliberal ideas had become convention and no amount of countervailing evidence could unseat them.

Faced with the failure of shock therapy package of 1997, the neoliberals created a new causal narrative that tried to obfuscate the demand-side causes of

⁶⁸⁴ To this end Iancu put as a period marked by the loss of freedom at the hands of bureaucrats and by the proliferation of the scourge of egalitarianism

⁶⁸⁵ Interview with Isarescu, *Adevarul*, July 11, 1991; interview with Isarescu, *Adevarul*, January 30, 1992.

the crisis and the relative success of the previous heterodox government Croitoru 1999; Isarescu et al 2003; Croitoru 2003a; 2003b; Altar 2003).⁶⁸⁶ As summarized by the chief economist of the central bank, the neoliberal response was that the shock therapy did not work because the liberalization of the remaining administered prices fueled the spike in inflation, the leu was overshot, the workers of the firms pushed into bankruptcy were given redundancy payments, the economy was too burdened by monopolies and monetary policy was relaxed too early for shock therapy to work. Rather than blame austerity for the public bailout of two large state banks in 1997,⁶⁸⁷ the neoliberals blamed it instead on the slow pace of privatization and restructuring (Daianu 1999: 16-18).⁶⁸⁸

As austerity sent the economy into negative growth rates, bankruptcies and unemployment at record lows, the neoliberals demanded more of it. The familiar rhetorical strategy of Western neoliberals (Aslund, Boone and Johnson 1996; de Melo, Denizer and Gelb 1996, Fisher, Sahay and Vegh 1996; Sachs 1997) to blame the failure of shock therapy on the insufficient intensity of the shock rather than on its negative effects on demand were prominent (Croitoru and Tarhoaca 1999; Albu and Pelinescu 2000; Radulescu 2000; Croitoru and Schaffer 2000). The same narrative of austerity demanded the further “soaking” of the smattering of institutions of redistribution. Even as Romania had the lowest levels of spending on healthcare, education and welfare in the region, leading

⁶⁸⁶ One exception is Daianu’s acknowledgement that and the fact the multiple exchange rate system and subsidized energy prices kept exporting sectors humming and prevented an inflationary overshooting of the leu (Daianu 1999).

⁶⁸⁷ The Convention government abruptly withdrew the subsidies expected by the large state farms and factories that constituted their key customers),

⁶⁸⁸ The bailout of the two state banks (Banca Agricola and Bancorex) cost the taxpayer 1 billion dollars.

neoliberals demanded more spending cuts as “budget transfers sustain unviable social insurance systems and ineffective social insurance schemes” (Croitoru and Tarhoaca 1999: 13).

After the failure of shock therapy, tax cuts were advanced as the solution to a whole slew of issues, from the weak capacity of the state to collect taxes to the weak flows of FDI. Indeed, tax reforms replaced fiscal stimulus as the main answer to sluggish demand. The force of supply-side tax ideas was particularly striking as the “transformational recession” engineered by the 1997 shock therapy forced both public and private firms into tax delinquency.⁶⁸⁹ According to a study commissioned to CEROPE, a think-tank close to the central bank, the measure of the firms’ tendency to transfer the costs they incurred as a result of shock therapy into budgetary austerity was captured by the main finding of the study: “[a]lmost all firms are increasing their tax debts to the government by more than their tax payments” (Croitoru and Schaffer 2000: 19).

To address this situation, the neoliberals demanded not only improvement in the tax collection capacity of the state, but also less progressivity in the system (Croitoru and Schaffer 2000; Lazea 2001).⁶⁹⁰ A supply-side tax revolution meant to make taxation less regressive was clamored as a solution to unemployment and

⁶⁸⁹ Whereas in 1995 the real increase in unpaid taxes of loss-making firms amounted to 1 to 2 percent of total revenues, in 1998 it was 11.6 percent for chronic loss-makers and 6.3 percent for other large loss-makers, with inflation eroding the value of tax debt faster than the accrued interest (Croitoru and Schaffer 2000:18). According to the same study, “in 1998 the net inflation subsidy (accrued penalties on overdue tax debt less the erosion of the tax debt due to inflation) amounted to the equivalent of 3.4% of revenue for chronic loss-makers. At the end of 1998, Romanian firms owed 60 trillion lei, or about 16% of GDP, in taxes of all sorts. Close to half was owed by state-owned or formerly state-owned firms that were actually profitable in 1998, or by non-state (mostly new private)” (Croitoru and Schaffer 2000: 18).

⁶⁹⁰ For example Croitoru and Schaffer (2000: 20) suggested the introduction of receivership mechanisms alongside liquidation of some big loss-makers.

informal labor as well. The neoliberal economists pleaded for reduced marginal income tax rates and social security contributions and the corresponding increase in the minimum income tax rates and in the VAT (Albu et al 2001).⁶⁹¹

By 2003 this position was radicalized⁶⁹² and none of the neoliberals came out strongly against the idea of adopting the radical idea of a low “flat tax” on income and capital.⁶⁹³ Even the self-doubting Daianu publicly endorsed the logic underlying it by showing that, based on the Russian success at implementing it, a flat tax could increase public revenues by bringing to light previously undeclared earnings.⁶⁹⁴ Moreover, some joined the effort of “flat taxers” to attack the country’s World Bank-designed tax system which despite several waves of reforms that dramatically reduced its progressivity was still deemed “socialist.” Leading neoliberal economist and commentator Ilie Serbanescu justified his opposition to a government initiative to crack down on informal labor by arguing that unless labor taxes and welfare contributions would be cut by half,

[t]hose who now hire informal workers would try to avoid paying taxes for activities because they would simply go bankrupt given the current levels

⁶⁹¹ The only dissenting voice on record was Valentin Lazea, who timidly poured cold water on the popular neoliberal claim that the fiscal burden of the Romanian state was heavier relative to the country’s neighbors and then went on to demand that the reform should include an increase in Romania’s dividend tax, then at 5 percent (Lazea 2001: 41).

⁶⁹² Few paused to reconsider the rush to radicalization. One of them was Daniel Daianu, the leader of the Altar network, a man whose growing disgruntlement with neoliberalism coincided with his departure from his position of chief economist of the central bank. While remaining an orthodox economist, Daianu drew increasingly on Western heterodox traditions with regard to select issues such as the undifferentiated deregulation of international capital movements. Even so, Daianu did not attack the principle, but only pleaded that liberalization should proceed in parallel with “progress on macroeconomic stability, building market competition and the creation of a sound, internal financial system” (Daianu 2003).

⁶⁹³ The only economist who took a public position against the adoption of the flat tax was the young heterodox Liviu Voinea.

⁶⁹⁴

of labor taxation [...] Only a small percentage of firms can afford doing business by paying these prohibitive taxes and social contributions and these are the businesses that cater to the needs of the well-off and of the wealthy [...] So, should the government launch a massive campaign against informal labor, a massive chunk of economic activity would grind to a halt, leaving behind an economic and social disaster. And the state would lose more in revenue than it does now as a result of lost VAT and corporate income tax. And there would be great social tensions as well. All those who would be deprived of informal jobs would protest in the street demanding the government jobs and public alms.⁶⁹⁵

Along with the principle of progressive taxation, industrial policy and neo-corporatism also disappeared from the agenda of mainstream neoliberalism. New issues appeared, most of them culled from the EU Lisbon agenda: inflation targeting, the partial privatization of the pension system, flexible hire-and-fire rules, the deregulation of temporary employment (Daianu et al 2004). External events like the crisis in Argentina in 2002 served only to reinforce calls for more fiscal austerity.⁶⁹⁶ The World Bank and EBRD position that failures were not the result of bad policies but of pervasive institutional “cronyism” (EBRD 1999; World Bank 1999) entered the debate in full force, while ideas of the central bank economists became lingua franca even in the PSD, where US-trained Finance

⁶⁹⁵ Ilie Serbanescu, “Blocarea muncii la negru ar fi un dezastru economic si social”, *Revista22*, September 15, 2003.

⁶⁹⁶ See Daniel Daianu, “Argentina: o lectie pentru Romania”, *Revista 22*, January 21, 2002.

minister and party secretary Mihai Tanasescu shaped economic policy (Abraham 2004).

A new graduate program (DOFIN) established by the same Moisa Altar churned out graduates whose dissertations evinced a systematic knowledge of the latest in Western neoliberal economics.⁶⁹⁷ From Friedman's strategies for controlling inflation, to Robert Lucas' positions on fiscal policy or the human capital factor, Merton Miller's and Ross Levine's arguments about the role of deregulated finance for growth, the repertoire of Western orthodoxy finally became part of postgraduate training of Romania's elite of economists. Similarly, orthodox ideas about the extent of central bank independence, social security financing, the most "pro-growth" levels of taxation or the low likelihood of economic growth even at very low levels of inflation became familiar and are "indigenized" with local data.

New concepts (shareholder value) and methodologies (value-at-risk) were introduced. Such concepts and models were then applied and respectively calibrated in the graduates' dissertations on the specific situation of the Romanian economy. As to development economics themes, the only references one can find in such theses are from scholars who put schooling and life expectancy on a par with lower government consumption and lower inflation as endowment factors

⁶⁹⁷ I reached these conclusions after reading the DOFIN dissertations written between 1995 and 2003. Suggestive examples include Anca, Dimitriu, "Value at Risk Models-An Approach to Measuring Bank Foreign Exchange Exposure", Cozmanca, Bogdan, "The Transmission Mechanisms of Monetary Policy"; Potoceanu, Marius, "Monetary policy analysis using Taylor rules"; Lapusneanu, Corina, "Testing and Comparing VaR Models: an Approach to Measuring Foreign Exchange Exposure"; Tarau, Mihai, "Financial Development and Economic Growth in Romania"; Serban, Marius, Budget "Deficit and Inflation"; Paunescu, Andreea, "Determinants of Demand for Money in Romania"; Moinescu, Bogdan, "Determinants of the velocity of money, the case of Romanian economy"; Zara, Radu, "Inflation and Economic Growth".

for sustainable development (e.g. Doppelhofer, Sala-i-Martin). Finally, complex models and longitudinal data series for EU countries is marshaled to advocate the tenets of supply-side taxation policy: Europe's high tax rates have a negative effect on economic growth, the relationship between government expenditures and economic growth is negative, there is a consistent negative relation between budget deficits and growth, and government consumption has a much greater negative effect on output growth than total government expenditure.

By 2005 Romania had a flat tax regime, inflation targeting, financialization and a highly internationalized manufacturing base. Even as the crisis struck in 2008, the central bank governor hubristically declared that Romania's careful monetary management and credibility conferred by its inflation targeting regime strengthened the country against the crisis (Isarescu 2008). Months later the country saw Eastern Europe's biggest international bailout and its most severe economic crisis since 1992.

The Withering of the Heterodox Threat and the Rise of Libertarianism

Heterodoxy proved to be a qualified economic success compared to the crater left behind by the shock therapists of the Convention yet its record was almost never used by the PSD and Iliescu in their electoral campaign in 2000. When Iliescu and the PSD returned to office in 2000, his top economic counselors (Gheorghe Zaman and Florin Georgescu) had changed dramatically from their heterodox years. Their publications now reflected ideas that were in lockstep with the accepted wisdom of the "Brussels Consensus" (Zaman 2001; 2005; Georgescu

1999; 2004). In his contributions to a popular economics textbook (Vacarel et al 1999), Georgescu acquiesced to select conservative arguments about the perversity of anti-poverty programs and the decrepitude of the Swedish model.⁶⁹⁸

Zaman's views in the early 2000s were not particularly left-leaning either, especially on such key policy areas as pensions. His research on the woes of the Romanian pension system endorsed the World Bank's semi-privatization scheme developed for Romania in 1995 (World Bank 1995) and put pension privatization in the program of the Nastase cabinet (Vasile and Zaman 2001).⁶⁹⁹ Zaman's research on pensions shows a significant integration of the neoliberal pension reform agenda in other respects as well: stimulating participation in private schemes via higher fiscal deductibility of private pension payments, the multiplication of private-public schemes, reliance on municipalities and charities for increasing the income of the oldest pensioners living below the poverty level. At the same time, Zaman also advanced structural remedies such as a more active pro-birth policy, better tax enforcement and improved preventive care (Vasile and Zaman 2001; 2005).

Yet theirs was generally a more redistributive or "embedded" kind of neoliberalism. For example, Georgescu's academic work on taxation during the late 1990s was based largely in 1960s Keynesian contributions such as Musgrave's, rather than on the supply-side fashions worn by some of the

⁶⁹⁸ The Vacarel et al (1999: 243-244) public finance textbook simply replicates the "perversity dissertation" proposed by a Nicholas Barr's book on labor markets in Eastern Europe.

⁶⁹⁹ Faced with the revolutionary changes demanded by the World Bank, Zaman acted to "naturalize" the sense of impending doom of public pensions when he notes that the three pillar structure "[B]ecame indispensable as the public pensions based on the PAYG method was not satisfactory and, in conditions of distortion of the pensioners to employer's ratio, they had no adequate financial support [...] The demographic evolution in Romania can no longer support a social protection system exclusively based on social solidarity" (Vasile and Zaman 2001: 32).

economists in the Finance ministry (Vacarel et al., 1999).⁷⁰⁰ Of the available varieties of income tax, he drew on a 1970 French taxation textbook to choose the most progressive one and does not even mention the flat tax.⁷⁰¹ In the same contribution he exposed the supply-side argument for tax cuts and particularly the Laffer curve to a systemic critique peppered with anecdotes about the failure of the Reagan administration to maintain an adequate level of the tax receipts (Vacarel et al 1999: 400-405).

Similarly, Gheorghe Zaman lambasted neoliberal distrust in interventionism and pleaded for industrial policy and state-owned industrial champions well into the mid 2000s. He critiqued the executive's strategy to privatize all profitable state firms using the argument that its tax collection capacity was too low to afford selling profitable state firms to West European state firms. Well before the 2009 crisis hit Romania's economy, Zaman was among the few who critiqued the euphoria of the BNR and of the executive about the boom of remittances and FDI as substitutes for domestic investment (Zaman 2005).

Also, like Georgescu, Zaman found the flat tax an unfair upward redistribution of incomes and a few years later he used IO methodology and particularly Leontieff's work on tax multipliers to advocate lower taxes for economic sectors that serve other sectors of the national economy (energy, education, public services) with the argument that the former have a higher tax

⁷⁰⁰ Musgrave's *Fiscal Systems* was the workhorse for Vacarel et al (1999).

⁷⁰¹ The textbook in question was Pierre Lalumiere, *Les finances publiques*, Paris: Librairie Armand Colin, 1970.

propagation effect based around the principle of state's right to influence the decisions of individuals and firms to foster growth (Zaman et al 2010).

As heterodoxy reached its terminal crisis in a form of embedded neoliberalism, Romanian libertarian economics began to challenge the neoliberal mainstream from the right. The local translation of the Austrian School of economics had begun in the early 1990s among a few marginal philosophers and maverick young economists. Its first advocate was Mihai Radu Solcan, an assistant professor at a Bucharest engineering university (*Politehnica*) who discovered libertarian philosophy and economics during the 1980s.⁷⁰² After 1990, he used his position as a philosophy professor to popularize the classics of libertarianism. As the editor of the country's most respected private publishing house (*Humanitas*) he also facilitated the publication of the Romanian language editions of the work of the luminaries of the libertarian movement.⁷⁰³ Similarly, as dean of the philosophy department of University of Bucharest, Adrian Miroiu mentored a group of young libertarian students who in the late 1990s and early 2000s staffed the research teams of pro-market think-tanks like the Romanian Academic Society or the Center for Institutional Analysis and Development (CADI).⁷⁰⁴

⁷⁰² Solcanu ran into libertarian readings in a Bucharest bookstore and soon used Popper's *Poverty of Historicism* –without citing Popper–to argue that planning was not only an inefficient allocation mechanism but was also logically impossible (Solcanu 1983).

⁷⁰³ Solcanu's academic publications during the early 1990s applied to Romanian socio-economic realities the ideas of public choice theory (Radu-Solcanu 1994) or the political philosophy of liberal-conservative intellectuals like Michael Oakeshott (Radu Solcan 1995) Isaiah Berlin (Radu Solcan 1996), von Hayek (Radu-Solcan 1997; 1999; 2001) and David Friedman (Radu-Solcan 1998).

⁷⁰⁴ Author interviews with Cristian Ghinea (SAR researcher and founder of the pro-market think-tank Romanian Center for European Policies), January 7, 2009 and Vlad Topan (CADI founding member).

Thanks to these two intellectuals, libertarian political philosophy laid the ground for the advocacy of libertarian economics. As early as 1992, a small group of young economists established a small anarcho-capitalist reading group, with the charismatic young economist Cristian Comanescu acting as a dedicated mentor. In the same year Comanescu established the Ludwig von Mises Institute, a network of libertarian economists named after its US namesake based in Auburn, Alabama. Unlike the well-heeled US think tanks espousing such ideas, this institute focused on scholarship and the popularization of libertarian ideas, rather than on dealing with contemporary policy issues (Evans 2009).

Discreet and scholarly, by the late 1990s the libertarians nevertheless began to shape economic policy debates in more aggressive ways. Comanescu's "Mises seminar" became an incubator for the economic commentariat by attracting a steady flow of young journalists from leading national dailies. According to an insider, these people "basically got all they know about economics from Cristi Comanescu's seminar."⁷⁰⁵ Most importantly, libertarian disciples began an aggressive apostolate in economics and social science departments.

Around the time when the Nastase government was about to take office, the economics departments in Bucharest and Cluj hired a dozen of well-read libertarian professors teaching core courses like economic theory or comparative economic systems.⁷⁰⁶ The same happened in political science, after Adrian Miroiu

⁷⁰⁵ Author interview with Horia Terpe, January 15, 2009.

⁷⁰⁶ Author interview with Vlad Topan, professor at ASE, January 7th, 2009. Examples include Marius Spiridon and Vlad Topan (ASE), Bogdan Glavan (Universitatea Romano-Americana), Diana Costea (Universitatea Bucuresti).

became a power broker at the elite National School of Political and Administrative Sciences.⁷⁰⁷

As some libertarians joined the influential pro-market Romanian Academic Society (Sorin Ionita, Cristian Ghinea), others (Horia Terpe) established a policy-oriented think-tank (CADI), an organization put under the patronage of the Liberal Party's crème de la crème (Mona Musca, Varujan Vosganian, Valeriu Stoica, Dinu Patriciu).⁷⁰⁸ Others still created the most vibrant online academic discussion groups in the country (*Asociatia Liberalism.ro*).⁷⁰⁹ The rise of the libertarians during the 2000s inspired the radical tax policies of the center-right government that came to power in 2005. While it is unclear how the libertarian challenge directly contributed to the radicalization of mainstream neoliberals, it is suggestive that during the economic crisis that began in 2008 the IMF's cautiously redefined neoliberal orthodoxy demanding austerity softened by taxes hikes on the rich clashed with a Romanian neoliberal heterodoxy that demanded austerity through pay cuts, lay-offs and the gutting of Romania's fledgling social services. The IMF was thus being outbid from the right. In one of history's comical twists, the IMF chief stood accused of playing "socialist" politics⁷¹⁰ in one of the few postcommunist countries where neoliberalism had been adopted only after a long fight.

⁷⁰⁷ Adrian Miroiu and Horea Terpe at SNSPA.

⁷⁰⁸ During the early 2000s Horia Terpe of CADI was liberal party leader Mona Musca's advisor. http://www.realitatearomaneasca.ro/content.php?c=articole&id_categorie=2&articol_id=10078&p=40

⁷⁰⁹ During the early 2000s Horia Terpe of CADI was liberal party leader Mona Musca's advisor. http://www.realitatearomaneasca.ro/content.php?c=articole&id_categorie=2&articol_id=10078&p=40

⁷¹⁰ See Ban (2010).

Conclusions

The main argument of this chapter is that neoliberalism was not a seamless scientific artifact developed in a foreign “lab” and unreflexively adopted in Romania. In other words its adoption was not the result of simple imitation and imposition processes stressing its reproduction in a new context. Rather, like in Spain, this protean intellectual framework was as much a replica of the Western “original” as it was a hybrid infused with local flavors.

The chapter opens with the following challenge: if Romanian economics was historically so hostile to the neoclassical tradition from which neoliberalism grew, how could the neoliberal seeds germinate in such infertile soil? I address this question by examining the transnational dialogue between Romanian economists and their Western counterparts. Then, I turn to how the legacy of this dialogue to the post-communist reality was a robust network of economists who quickly took much of the neoliberal model as “fact” while reflexively and knowledgeably scrutinizing some of its implications and weaving together a network of discursive relations between neoliberalism and other scientific artifacts (institutionalism, structuralism, corporatism). The bulk of the chapter focuses on how this conceptual network was constructed and its internal workings “black-boxed” in the process of translation.

The result was a variant of neoliberalism that was less statist and less redistributive than Spain’s. Its advocates radicalized some of the “classic” neoliberal positions on taxation, income redistribution and industrial policy while staying open to neo-corporatist institutions. Like in Spain, the same structuralist

tradition that had once been used to critique core-periphery trade relations and the bottlenecks of the interventionist development model was now used to bolster calls for a local version of neoliberal shock therapy that left very little space for protecting the economically disenfranchised. But unlike in Spain, where economists remained skepticism towards the Laffer curve and other artifacts upheld by marginal US supply-side economics, in Romania such ideas were incorporated into mainstream Romanian economics as uncontested scientific instruments and inspired the adoption of a regressive tax regime. Similarly, while in Spain the advocates of neoliberal macroeconomic or labor policy saw state ownership of industrial champions as a means to increase the external competitiveness of the economy, their Romanian counterparts saw such interventions as doing the opposite.

The chapter also shows that it could have been otherwise. Neoliberalism did not diffuse unproblematically as an uncontested “world culture.” Instead, during the first half of the 1990s its ideas were heavily contested by domestic advocates of reform socialism and heterodoxy. It was only as these non-neoliberal traditions gradually withered out during the late 1990s that and neoliberal dominance in academia and the central bank could dramatically shape the economic agenda of the ex-communist party. As the next chapter shows, this was not a “natural” process of paradigm obsolescence structurally demanded by the end of real-existing socialism. Rather, it was a heavily political process whereby external agents empowered the translators of neoliberalism and marginalized and/or coopted its erstwhile foes.

Chapter X - The Translators of Romanian Neoliberalism

Overview

Through what conduits were Western economic ideas translated in Romania? The chapter explores the ways in which transnational and domestic actors participated in the translation work outlined in the previous chapter. The main hypothesis tested here is that the supply of domestic translators for neoliberalism is shaped by elite transnationalization processes. To this end, I examine which kinds of foreign training in economics had a real impact and how IOs, transnationalized think-tanks and transnational party networks shaped Romanian economic debates towards neoliberal reforms.

The chapter's sections are organized around each one of these conduits. First, I examine the ebbs and flows of the transnationalization of Romanian economics before and after 1989. My analysis will dwell on the making and subsequent unbundling of transnational ties between Romanian mathematical economists and their Western peers during national-Stalinism and locate in these ties the first conduits for the diffusion of Western economic ideas in what was then one of the Eastern Bloc's most heavily policed economic professions. Second, I turn to the dynamics of transnationalization after 1989 and focus on the extent and shape of the opportunities for a more systematic re-opening of Romanian economics to Western educational opportunities and academic markets. The last part of the paper looks at transnational party networks, political development NGOs with economic think-tank functions and "classic" think-tanks as translators of neoliberal ideas.

Ebbs and Flows: The Transnationalization of Romanian Economics

From semi-periphery to the periphery of the periphery

Before the advent of national-Stalinism, Romanian economics had been as highly transnationalized as Spanish economics. The discipline was taught in a separate department whose structure and curriculum closely followed that of the French *grandes ecoles*.⁷¹¹ Beginning with the late 19th century, a solid publication record in respectable foreign journals and presses plus a Western PhD became basic conditions for acquiring and maintaining university employment.⁷¹² Economics departments were well-stocked with the latest French and German books and journals and the flagship Romanian economics review (*Revue roumaine des etudes sociales*) was published directly in French and enjoyed a respectable international ranking (Kiritescu 1995). Training was rigorous, many members of this exceptionally polyglot faculty made international careers and some (Mihail Manoilescu, Georgescu-Roegen) reached world notoriety. Like in Spain, much of this performance was the result of a consistent state strategy to invest in the Western training of a world-class academic elite that could be enlisted in its economic development plans.⁷¹³ As a result, in less than thirty years, Romanian

⁷¹¹ Suggestively, the very name of the department was a direct translation from French (*Academia de Inalte Studii Comerciale si Industriale*).

⁷¹² See Love (1996). For example, all the theorists of Romanian cooperatist economists (Virgil Madgearu, Ion Raducanu, Gr. Mladenatz) who taught economics had German Phds (Murgescu 1990).

⁷¹³ Like in Spain, beginning with the late 19th century, the ministry of education fully funded economics graduates to complete their doctoral studies at leading French and German universities. Upon their return, these graduates were guaranteed employment and upper-middle class wages. Leading economics professors were routinely invited to hold ministerial positions and advising positions to the highest offices of the state.

economics went from amateurism and international irrelevance to a high degree of professionalization and the beginning of an international profile.

The first fifteen years of national-Stalinism abruptly ended this “golden age” of Romanian economics. Most forms of direct contact with Western economics were terminated. Outside of mathematical economics, the quality of training decreased and, consequently, the profession ceased to have any kind of international impact outside of a few isolated publications in mathematical economics (Balas 2000: 329).⁷¹⁴ Access to Western publications was limited, yet not dramatically so if one was doing intensive research for a living. The Institute of Economic Research (IER) of the Academy, Cybernetics, the American Library, the RCP Academy but also non-academic institutions such as the Chamber of Commerce⁷¹⁵ had basic collections of Western literature (Balas 2000: 329; Severin 2002; Daianu 2005).⁷¹⁶

As a result of these political interventions, in just a few years, Romanian economics went from its prewar epistemic semi-periphery status to the periphery of the periphery. Yet beginning with the early 1960s the *détente*, the partial

⁷¹⁴ In 1957 Egon Balas published an article in the French journal *Etudes Economiques* (Balas 2000: 329).

⁷¹⁵ During the 1960s and 1970s the Foreign Trade Institute of the Foreign Chamber of Commerce, an institution that drafted reports on the dynamics of international markets needed by the regime. This entailed access to foreign economics reviews but since publication using international sources was not encouraged, only those driven by sheer intellectual curiosity did actually read them. During the 1960s this institution hired prominent economist Tiberiu Schatteles who recently testified that researchers at this institutes had the latest editions of *American Economic Review* and *Econometrica*. (Aligica and Terpe 2007: 11-13).

⁷¹⁶ Author interview with Moisa Adler. Also according to Blas’ memoir, in the library of IER one could read the classic of linear programming (Dorfman, Samuelson and Solow 1958) one year after it was published in the US (Balas 2000: 373). Since the late 1950s until the 1980s the relevant American publications in linear programming were available (Balas 2000: 377) and interested scholars took up the opportunity, often by appealing to both Western and Soviet sources.

“thaw” of Stalinism and the entrepreneurialism of a generation of young economists dampened the effects of isolation.

Détente, nationalism and the re-transnationalization of Romanian economics

While the Romanian “thaw” of the 1960s was largely a form of “simulated change” that ended up foiling reform scenarios on the Polish, Hungarian or Czechoslovak mold (Schafir 1985; Tismaneanu 1989; 2003), this political process nevertheless terminated the more extreme forms of parochialization of the economics profession enforced during the 1950s.⁷¹⁷ This shift was possible due to the simultaneous occurrence of détente, the anti-Soviet turn in Romanian foreign policy and the intellectual entrepreneurialism of local economists.

The East-West ouvertures initiated by the Kennedy and Johnson administrations opened up spaces for the renewal of transnational ties between Romanian and Western economists.⁷¹⁸ In 1962 the embrace of West German ideas about détente by the Kennedy administration led to the initiation of academic exchanges between the Warsaw pact and the “West” that would have been unthinkable during the 1950s (Hofmann 2006; Richmond 2004). The effects of the détente were magnified in the Romanian case by the regime’s pursuance

⁷¹⁷ Author interview with Moisa Altar, January 10, 2009.

⁷¹⁸ This shift followed the country’s unilateral breach of solidarity with the Warsaw Pact during the Cuban missile crisis (Deletant 2007: 499). According to Deletant, “[t]he Romanian foreign minister Corneliu Manescu told Dean Rusk during a meeting on 4 October 1963 that Romania had not been consulted over the Soviet decision to place nuclear missiles in Cuba, and was not therefore a party to the dispute. The Romanian government wanted the United States to understand that Romania would remain neutral in any conflict generated by such actions as the Soviet deployment of nuclear missiles in Cuba, and sought assurances that in the event of hostilities arising from such a situation, the United States would not strike Romania on the mistaken assumption that it would be allied with the Soviet Union” (Deletant 2007: 497).

during the early 1960s of an increasingly nationalist and anti-Soviet course in foreign policy that made the regime a darling of the West.⁷¹⁹

This foreign policy course culminated with such episodes as the regime's protest against the invasion of Czechoslovakia (1968),⁷²⁰ the first recognition of West Germany in the Eastern bloc (1967), siding with the Chinese in the Sino-Soviet split, or the refusal to break diplomatic relations with Israel after the Six Day War⁷²¹ (Braun 1978; Alexiev 1981; Ionescu et al 2004; Ioanid 2005; Mastny and Byrne 2005; Deletant 2007). Most importantly, by the late 1960s Romanian-American relations were unusually close by Eastern Bloc standards: several presidential visits of Nixon and Ford to Bucharest, Romanian-American joint ventures and special trade relations, American support for Romania's entry into the Bretton Woods institutions and even emergent forms of military cooperation.⁷²²

Détente and the special US-Romanian relationship engendered by the regime's anti-Soviet turn made possible the renewal of academic exchanges between Romanian economists and Western economists after almost three decades

⁷¹⁹ In 1964 the Romanian regime asserted its political autonomy against Moscow through a series of dramatic gestures: the expelling KGB operatives, closing the Russian Institute in Bucharest, eliminating Russian as a compulsory language from the education system (Deletant 2007: 499). Also, Romania sided with China in the Sino-Soviet split. See "Ceausescu Indicated Romania Would Not Give Soviet Union Military Support Against Red China", *New York Times*, April 20, 1970.

⁷²⁰ Recent archival evidence shows that in 1968 the Soviets did not even ask Ceausescu to participate in the invasion (Deletant 2007).

⁷²¹ Romania's proximity to Israel also entailed the regime's extortion of "ransom" for the migration to Israel of Romanian Jews (Ioanid 2005).

⁷²² "Nixon Mobbed by Friendly Crowds: Tells Ceausescu Romania is His Most Memorable Trip" *New York Times*, August 4, 1969; "Ceausescu Visits Nixon at the White House for Talks on World Issues", *New York Times*, October 27, 1970; "Romanian favors Joint Ventures: Ceausescu on Eve of Visit to US", *New York Times*, December 3, 1973; "Ceausescu Urges U.S. Business to Invest in Romania", *New York Times*, December 8, 1973; "Ceausescu Makes Trade Bid to Ford", *New York Times*, June 12, 1975.

of isolation. The Americans made the first move by establishing a public-private partnership between the US government and private foundations that would fund and offer institutional support to Romanian economists willing and allowed by the regime to study or do research in Western universities.

Détente, inter-bloc networks and the rediscovery of Western economics

As early as 1962, the Ford Foundation began to fund American study trips for Romanian economists. As a result, by 1979 several English-speaking Romanian economists were enrolled in the US National Academy of Sciences exchange programs while mathematical economists began to attend Kondratieff's Russia Center at Harvard.⁷²³ In 1971, a year after Ceausescu's presidential visit to the U.S., this cooperation was so extensive that the Ford Foundation and IREX were funding an entire academic exchange program in management studies in Bucharest (Byrnes 1976; Bockman and Eyal 2002: 325).

Such opportunities gave a young generation of Romanian economists who were more likely to speak English than Russian the funds to conduct research in top-ranked American universities for up to ten months and develop relations with their Western peers.⁷²⁴ Here, they acquired data, skills in input-output modeling and access to the basic books and journal subscriptions of Western economics. Most importantly, they learned the basic rules for getting more stints in US-

⁷²³ Author's private correspondence with Johanna Bockman (September 2010).

⁷²⁴ Nevertheless, a "political dossier" could block such international scholarly opportunities even if one had publications in Western journals, a rare performance in those years (Balas 2000: 415; 436). After a prison term, harassment and a ban on international conference travel Balas eventually secured a trip to Israel and definitively left the country in 1966 to take up teaching positions in operations research at Toronto, Stanford and Carnegie Mellon.

sponsored institutions and thus an entry point to learn directly from the source what the state of the art in Western economics was. Finally, during the late 1960s, when the Romanian communist regime was at the peak of its popularity among US and West European policymakers, Western economists interested in the strengths and limits of socialist economics lectured in Bucharest.⁷²⁵

The economists who benefited the most from these exchanges during the late 60s and early 70s were a group of linear programmers who had access to the revolving door between the planning bureaucracy at the State Planning Committee and the elite research institutes newly established by the regime within the confines of the Romanian Academy. Between 1970 and 1971 Aurel Iancu, then a senior researcher at the IER and one of the earliest advocates of mathematical economics, used an IREX fellowship to do research at Harvard, MIT and Berkeley and participate in the seminars of such luminaries as Leontief, Samuelson, Solow and Debreu.⁷²⁶ While in the US he also visited and struck a long-term relationship with Nicholas Georgescu-Roegen, the most famous Romanian economist in exile, who had become a radical critic of the neoclassical syndissertation after decades of having been part of its elite.⁷²⁷ During the 1970s he also had the opportunity to frequently present his work at professional conferences in Italy and France. Iancu's prolific work published after his return

⁷²⁵ This was the case of Wassily Leontief, the neoclassical input-output modeler from Harvard, who gave a lecture at the Romanian Academy of Sciences in June 1968 and attracted much attention in a profession that would soon translate IO for the use of socialist planning.

⁷²⁶ Academia Romana, "Aurel Iancu, la 80 de ani", <http://www.ince.ro/iancu-eng-2.pdf>

⁷²⁷ The encounter seems to have left a long-term imprint on Iancu's formation. As late as 2007, Iancu was unrepentant in extolling the radical anti-neoclassical positions of Georgescu-Roegen's maverick economics, an intellectual universe in which mathematics, physics and epistemology were marshaled to declare the entropic nature of economic phenomena and to undermine the very scientific pretensions of neoclassical economics. Aurel Iancu, "Nicholas Georgescu-Roegen, intemeietor de scoala economica", Academia Romana, 2007,

from the US showed a significant degree of integration of relatively up-to-date American economics literature.

Other scholars (Emilian Dobrescu, Gheorghe Zaman) interacted with Western economics in Britain, France, Austria and Italy. In 1969 Gheorghe Zaman, then a young researcher at the Economic Research Institute, spent a few months at Cambridge. During his stay, he trained in the mathematical modeling of consumption and took classes with leading Keynesians of the day (Richard Stone, Nicholas Kaldor, Joan Robinson). A year later he was a guest scholar of the American Studies Seminar in Salzburg (Austria), one of the US-sponsored venues of the détente.⁷²⁸ Back in Romania, Zaman used his newly acquired skills to contribute to the (input-output based) mathematical modeling of connections between the economic sectors of the Romanian economy. In 1970 Zaman was appointed by IER as scientific secretary and co-organizer of Franco-Romanian colloquia on economic efficiency, then organized in Paris where he presented his work.⁷²⁹ Also, as a researcher for the CMEA headquarters in Moscow between 1973 and 1979, he had access to developments in Western literature through the well-stocked libraries of the Soviet Academy.

⁷²⁸ At this seminar the leading representatives of America's postwar "embedded liberalism" (Daniel Bell, Margaret Mead, Talcott Parsons) presented their ideas to East European scholars.

⁷²⁹ See Zaman's (1970), *L'utilisation du modèle input-output dans le calcul de l'efficience du commerce extérieur*, Colloque Franco-Roumain sur le thème: Problèmes de l'efficience économique, France, Institut de Recherches Economiques, Institut de Science Economique Appliquée. Zaman cooperated on IO with another beneficiary of Western study travels: Emilian Dobrescu. For the debates on Romanian input-output models at the time see *Probleme Economice*, no. 2-6 and 10, 1972; *Contribuții la dezbaterile problemelor teoretice ale economiei socialiste*, Editura Politică, 1974, pp.139-201. Welcoming Dobrescu's work, Theodor Schatteles noted that "It is for the first time that someone attempts a numerical simulation of the growth process of our economy, and in an exemplary manner. The various known models in the literature to which we resort so often do not always possess the ability of materializing themselves numerically with the help of the existing statistics. The model(s) in the discussed paper is (are) a beautiful technical solution in this respect" (*Probleme Economice*, No. 6, p.115)."

Another conduit for the diffusion of Western economic ideas was CESES, a platform for academic exchanges and where Romanian economists were often invited to join.⁷³⁰ Rather than defend the Soviet economics line, the Romanian economists present here were reported to have tried to convince the audience that a “third way” between neoclassical and Marxist economics was possible (Bockman 2007).

Knowledge of Western economics penetrated through Eastern bloc conduits as well. Romanian-Hungarian linkages formed by Hungarian speaking economists from Transylvania enabled a limited diffusion of Oskar Lange’s and Yugoslav economists’ market socialist ideas during the late 1950s. This was the case of Egon Balas, who learnt about such unorthodox debates through his visits in Budapest. In 1957, a year after the Budapest Uprising, he went as far as publishing an article for a popular Transylvanian magazine (*Korunk*) where he advanced the revisionist idea of the importance of having market prices as a means to strengthen socialism (Balas 2000: 347). Balas also seems to have got many of his revisionist ideas from Hungarian economists who, upon the instigation of Austrian School marginalism who survived the communist takeover (Matyas 1994: 16-17), saw in neoclassical economics one of the tools for improving socialist economics.⁷³¹

It was also during the 1960s that transnationalization efforts began on the Romanian end, when local economists quickly began to break the scholarly

⁷³⁰ I thank Johanna Bockman for providing me with this information in private correspondence.

⁷³¹ Banned in Romania, Balas’ book on a potential Marxist-Keynesian syndissertation was translated into Hungarian and had an important echo among Hungarian economists (Balas 2000: 352).

isolation of Romanian economics. Egon Balas began publishing in leading Western journals (Balas 1962, 1965; 1966) and opened up spaces of cooperation with Western scholars.⁷³² In 1964 Balas publishes one of the most widely-cited articles in *Operations Research*, the American flagship journal of that subfield and made possible Balas' correspondence and joint research with the "father" of linear planning, US economist George Dantzig after Balas' departure from Romania in 1966. Balas's success demonstrated not only that even under national-Stalinism one could stay internationally competitive but that the lack of access to Western literature had been not been as acute as some have suggested (see for example Aligica and Evans 2009).

All this changed during the 1980s. The regime tightened both authoritarian practices and, after the 1982 debt crisis it turned inward. The transnational flows that had emerged during the previous decades formed a small network of critical economists but after the debt crisis they were curtailed. As a result, as the previous chapter showed, engagement with Western economics became a matter of semi-clandestine academic entrepreneurialism.

Moreover, the severing of direct transnational ties between Romanian and foreign economists came right at a time when Hungarian, Czech and Polish economists were growing gradually skeptical that market socialism could solve

⁷³² Balas' 1962 English language study on parametric linear programs published in a Belgian operations research review put his team of researchers on the radar of American economists: "[w]e started getting reactions, both through the mail and in the pages of the Belgian journal, from American researchers" (Balas 2000). In the same year Balas and Petre Ivanescu, another Bucharest-based economist, entered the American academic debate with a widely-cited article in *Management Science* (Balas and Ivanescu 1962). According to ISI, Balas' 1965 article was the most frequently cited article of *Operations Research* between 1954 and 1982 (Balas 2000: 395). It is also important to point out that Iosif Batty, a research economist in the State Planning Committee published a book chapter in a US edited volume on labor productivity (Dunlop and Diatchenko 1964).

the economic crisis of the Eastern Bloc. This meant that the chances of the Romanian economics profession experiencing domestic growth of a robust non-Soviet economics strand were limited. As I evidenced in chapter nine, Romanian economists were able to read Kornai and other disenchanted Central European economists but those who did so were few and, once national-Stalinism collapsed, they faced the powerful camp of central planners and official economists turned heterodox. The result was an economic profession that suffered from the stigma of parochialism:

In 90-91 many of us could hardly hold our own in an international seminar. And this was despite the fact that the Western economists who engaged their Romanian peers were hardly stars of Western economics. It was that dire! We used “diplomatic” language to cover ignorance of the substance of the debate and, in their odes to market reforms and trashing of Marxism some ended up entertaining the audience by slipping in Marxist or structuralist language that felt antediluvian to their Western colleagues [...] I mean some of these people never read the Samuelson textbook. Our Hungarian and Polish colleagues were light years ahead of us in dropping the latest names and titles. It was really embarrassing.⁷³³

So far, the chapter showed that during the late sixties and early seventies Romanian economics was far from being completely cut off from the lived reality of Western economics. The détente and the special US-Romanian relationship

⁷³³ Author interview with Valentin Cojanu, January 14, 2009.

developed during those years fostered a surprising level of transnational socialization that ended up created alternative professional spaces in academia and even in the higher echelons of the state technocracy. The acquisition of non-Soviet economic ideas through horizontal Eastern Bloc linkages was interesting as well.

But these sections also showed the capacity of very authoritarian regimes to terminate such possibilities for transnational dialogue, with very observable long-term consequences for policy. The advent of democracy after 1989 changed reopened the windows but not in the ways one would have expected from reading the literature on the translation of neoliberal ideas on the Chicago Boys of legend.

Neoliberalism Without Chicago Boys

Unlike in parts of Western Europe (including Spain), Latin America, Africa or Asia, Anglo-American doctorates did not serve as conduits for neoliberal ideas. The evidence from the case of Romania shows that it does not take a US PhD in economics at Chicago to do the job. Visiting fellowships at Western universities, masters' degrees, participation in research and teaching projects with Western scholars seem to have created enough transnational dialogue for neoliberal ideas to be embraced by a critical mass of Romanian economists.

The re-transnationalization of the profession began early in 1990. The Ceausescu-era academic elite, including the most ideologically subservient professors, preserved its positions, but a French translation of the Samuelson classic began to form the backbone of basic economics education at ASE

immediately after 1990 (Aligica 2002).⁷³⁴ Moreover, Western aid programs like Phare and Tempus and private initiatives like the Soros Foundation funded specializations taught entirely in English, translations of Western classics and seminars conducted by Western visiting professors.⁷³⁵

Travel restrictions no longer prevented faculty and students from seeking research and educational opportunities abroad. External funding compensated for weak government sponsorship for such opportunities.⁷³⁶ This was especially the case the EU's TEMPUS educational program began to make its first disbursements for short term study trips.⁷³⁷ After 1997, increased EU funding through specialized transnational education programs (LEONARDO, ERASMUS and SOCRATES) and the emergence of a genuine emigration subculture in universities further increased the academic mobility of the best graduates.⁷³⁸ As dozens of US economists visited or were stationed in Bucharest during the early 1990s as consultants or visiting professors, many young Romanian economists also discovered directly from the source the relatively low financial costs of getting into a fully-funded US PhD.⁷³⁹ By contrast, Romanian émigré economists

⁷³⁴ The first direct translations of Western textbooks (e.g. Samuelson, Dornbusch and Fisher) were delayed until 1997. See Rudiger Dornbusch and Stanley Fisher, *Macroeconomica*, Timisoara, Sedona, 1997.

⁷³⁵ Author interview with Valentin Cojanu, January 14, 2009.

⁷³⁶ Even after a special government agency was created as late as in 1998, public funding and assistance was limited to short term study trips. The National Office for Student Grants Abroad was created in January 1998.

⁷³⁷ EU programs like PHARE and SOCRATES had the highest impact. Author interview with MP, international programs staff at ASE, January 6, 2009.

⁷³⁸ Even during the economic boom of the 2000s polls showed a strong propensity among undergraduates too see graduate school abroad as an avenue of legal migration. "Brain Drain and the Academic and the Intellectual Labour Market in South East-Europe- International Roundtable," www.adastra.ro/library/papers/Aferro_Brain_Drain.pdf

⁷³⁹ Author interview with N.C, ASE graduate, January 13, 2009.

were not particularly keen on getting involved, a situation that did not begin to change until the late 2000s.⁷⁴⁰

A few ASE graduates traveled abroad for their PhD training but unlike in the case of their Spanish peers, Romanian economists with Western doctoral degrees had no significant impact on economic policy or on academia. This is because they either found employment abroad, thus contributing to brain drain or, if they did return, they were not tempted by government or academic jobs that failed to offer wages commensurate with even the most modest expectations of a US graduate student.⁷⁴¹ Basically it was only the central bank that could pay the salaries expected by returning graduates, a factor that facilitated its growing epistemic authority. Even so, those who returned and worked for the central bank held at most a master degree.⁷⁴²

Things did not change dramatically in the late 90s and early 2000s either. A decade after 1989, economics departments had only intermittent access to the leading Western economics journals in print or electronic form and it was only in 2007 that public universities got access to online journals (Cojanu and Nicolae,

⁷⁴⁰ Liberal economists like Theodor Schatelles or Nicholas Spulber remained aloof. Yet during the second half of the noughties the generation that finished their degrees in the 1990s and finished their Western PhDs in the 2000s was particularly successful. Thus, after a PhD in Financial Economics and one in Mathematics at MIT, Ioanid Rosu became one of the rising stars at University of Chicago. All these economists remained active on the Bucharest conference scene, maintained ties with the Romanian epistemic community and have been diligent at blessing Moise Adlar's directorship at DOFIN by serving as dissertation advisors for DOFIN graduates. Ioanid Rosu presented papers at ASE in 2005 and 2007. At the height of the Romanian economic crisis in 2010 Florin Bibiliia gave a long interview to Romanian media whereby he presented in detail his diagnosis of the crisis.

⁷⁴¹ Until the mid 2000s, economics departments paid less than 400 dollars a month to assistant professors, the recognition of foreign degrees was tortuous and salaries in the highest echelons of the bureaucracy did not exceed 1000 dollars a month after tax.

⁷⁴² Author interview with Horia Braun, economist of the Research Service of the central bank, January 7, 2009.

2009: 165).⁷⁴³ And even as wages increased during the early 2000s, economics departments remained plagued by poor international reputation and ethical problems that made the perspective of academic employment in Romania highly unattractive for the academically-minded. Additionally, the “White Book” of higher education in Romania published by Ad Astra, a researchers’ NGO, found that economics departments remained laggards in promoting research, were ranked very low relative to other departments and that the faculty at ASE had a dismal international publication record (2-3 articles a year per department).⁷⁴⁴

From Chicago to Bucharest on the Cheap

As it became clear that Western graduate training was more likely to lead to brain drain than be a resource for restaffing economics departments and government economic policy positions, in 1994 Moisa Altar entered the scene yet again with a new elite formation project: The Doctorate School of Finance and Banking

⁷⁴³ Author’s interviews with Romanian economics PhDs in United States as well as research carried out by Romanian NGOs revealed that even by the end of the 2000s academia remained unattractive for economist with Western graduate degrees even if pay and research resources were more internationally competitive due the low research productivity⁷⁴³ and ethical concerns. The “White Book” of higher education in Romania published by Ad Astra, a researchers’ NGO found that economics departments remain laggards in promoting research, were ranked very low relative to other departments and faculty at ASE had a dismal international publication record (2-3 articles a year per department).

⁷⁴⁴ The research was carried out in 2008 and 2009 by a coalition for the reform of academia and was composed of several student and researcher’s NGOs, the educators’ union and so on. The report revealed that PhD advisors had on average two ISI publications, job searches were weakly competitive and potentially corrupt while student absenteeism and plagiarism were high. The publication of the report (“Topul integritatii universitatilor din Romania alcatuit de Coalitia pentru Universitati Curate”) was broadly covered in the media. The list included Alianța Națională a Organizațiilor Studențești din România, Asociația Ad Astra, Colegiul Noua Europă, Federația Națională Sindicală Alma Mater, Grupul pentru Dialog Social, Grupul pentru Reformă Universitară, Societatea Academică din România, Societatea Română de Științe Politice and Solidaritatea Universitară.

(DOFIN). The project departed from his frustration with the state of Romanian economics after the revolution. As one of his former advisees remembers,

All I want to say is that in “Western” universities, be they “mediocre” or not, some elements of an economist’s basic training that were and are maybe still contentious in Romania, are taken for granted. What I am talking about are two interrelated things: the use of mathematical models in economic theory and of econometrics in all sub-disciplines, from finance to economic geography. The few who had the courage to uphold this way of seeing economics – and here I would highlight the role of professor Alter - did so with the risk of marginalizing themselves in the profession.⁷⁴⁵

Established in the former Cybernetics, where Adler maintained his position, DOFIN was established following a competition for accreditation by the European Council and became one of the four E.U. Centers of Excellence. Beginning with 1998, DOFIN received financing from the World Bank for paying expenses associated with doctoral conferences and lectures delivered by Western academic economists as well as for fellowships at partner universities for DOFIN’s PhD. and MSc students.

Endowed with this international licensing and generous funding, DOFIN adopted a constitutional rule that dissertation committees had to be chaired by

⁷⁴⁵ Interview with Florin Bilbiie, Hotnews.ro, March 29, 2010, http://economie.hotnews.ro/stiri-finante_banci-7077191-florin-bilbiie-profesor-economie-sorbona-cine-convins-intelega-cauzele-recentei-crise-intelega-foarte-putin.htm

economists from leading West European and American economics departments. Basically, The 6 to 8 member examination committees for DOFIN theses only had Alter himself and one more ASE faculty member. The rest were international scholars.⁷⁴⁶ Moreover, the program began to offer course modules taught by faculty from Sorbonne (Paris), EUI (Italy), Universidad Autonoma de Barcelona (Spain), Erasmus University (Holland), Reading (UK), Chicago and Rutgers (US). The modules covered the whole spectrum of advanced finance degrees, from theory, international financial economics and monetary policy institutions to derivatives, value-at-risk models and capital asset pricing.

While staying on the radar of media attention, DOFIN emerged as the most internationally-prestigious Romanian graduate school in economics and continued to attract Western faculty on dissertation committees as well as in the classroom. Its standing partnership with seven leading West European graduate schools specializing in finance ensured the continued provision of internationally competitive education. The level of the students was unusually high, even by international standards. Carol Alexander, a professor of risk management at one of DOFIN's partner universities (University of Reading) declared that

The DOFIN MSc students rank amongst the best in the world. In my opinion the general level of DOFIN students is actually better than most of the large and famous American and European business

⁷⁴⁶ Interview with Moisa Alter, Hotnews, March 17, 2010, http://economie.hotnews.ro/stiri-finante_banci-7041130-interviu-jumatate-din-cercetatorii-din-bnr-majoritatea-economistilor-sefi-din-banci-avut-ancelasi-dascal-moisa-altar-romanul-care-intalneste-discuta-laureatii-nobel-economie-egal.htm

schools. Two of my most talented PhD students came from DOFIN and I am hoping to take more in the future.⁷⁴⁷

DOFIN's recognition among international finance practitioners came in 2004 when DOFIN was listed by the Professional Risk Managers' International Association (PRIMIA) as one of Europe's elite graduate programs in risk management.⁷⁴⁸ Moreover, Altar tapped into his expatriated student networks. As a professor of finance, he had trained a group of young economists who made spectacular careers in Western universities and finance firms.⁷⁴⁹ Their international prestige and continuing support for DOFIN further magnified Altar's domestic reputation as a mandarin academic and some former students even came to teach there for short periods.⁷⁵⁰ For the second time in fifty years, Altar's intellectual and organizational entrepreneurship was *de facto* bringing Western graduate education home to Romania.

Most importantly, through DOFIN he created an elite corpus of economists with internationally-fungible skills who during the 2000s assumed leading positions in the central bank and an increasingly internationalized financial sector. While most DOFIN graduates chose careers in private finance,

⁷⁴⁷ Statement by Carol Alexander on DOFIN website. <http://dofin.ase.ro/different.php>

⁷⁴⁸ PRIMIA, Graduate programs in Finance, http://www.primia.org/pdf/Graduate_Schools_Finance_Risk.PDF

⁷⁴⁹ Many DOFIN graduates had trailblazing careers in leading investment banks and were based in the City of London (Anca Dimitriu, Goldman Sachs London, Valentin Ciubotaru, ICAP Europe, London) or Switzerland (Sebastian Matei, vicepresident of Bank Vontobel, Zurich).

⁷⁵⁰ Florin Bibiliie, Altar's favorite student, after finishing his PhD at the European University Institute, Bibiliie won a prize research fellowship at Oxford and then a professorship at the Sorbonne and Paris School of Economics, a joint institute of France's *écoles* (Université Paris 1 Panthéon-Sorbonne, Ecole Normale Supérieure, EHESS, Politechnique). At 34, Bibiliie is regarded as one of the most promising names in macroeconomics.

almost 20 percent went to work for the central bank and 15 percent in academia.⁷⁵¹ Also, during the 2000s DOFIN graduates had access to the ASE-banking sector revolving door, as professors/consultants specialized in the financial market.⁷⁵² Alter was also the mentor of central bank chief economist Cristian Popa (a DOFIN graduate) and, most importantly he has been known as the main informal advisor of the central bank governor Mugur Isarescu.

Another conduit for spreading neoliberal orthodoxy was the surrogate postgraduate education offered by the IFIs. Central Bank chief economist Daniel Daianu spent time as a researcher at the IMF in 1993. Both Lucian Croitoru, one of the central bank's star economists, and Mihai Tanasescu, the PSD's Finance minister between 2000 and 2004, studied at the an Joint Vienna Institute, an IMF training center in macroeconomic policy for East European officials and academics. Both prime-minister Theodor Stolojan (1991-1992) and the same Mihai Tanasescu had long stints at the World Bank.

Visiting fellowships and professorships also contributed to the strengthening of the neoliberal network in Romania as well. While the heterodox lingered in local universities, Daniel Daianu and his successor at the central bank's chief economist office had one year Fulbright fellowships at Harvard in 1990-1991 and 1994-1995 respectively. Also, both had been visiting scholars at the University of Michigan and occasionally gave lectures on transition economics at LSE and US Ivies. Between 1990 and 2004 their research

⁷⁵¹ 2010 DOFIN survey, <http://www.dofin.ase.ro/>

⁷⁵² This was the case of Mihai Ion (professor of finance at ASE and CEO of Reiffessen Asset Management) and Ionut Dumitru (professor of Finance at ASE and Research Service director at Reiffeisen).

collaborator Lucian Albu averaged four training/research experiences a year in Western Europe and was a fellow researcher at the Sorbonne's mathematical economics department and a PHARE program visiting professor at University of Leicester.

In sum, the Romanian case shows that the spread of neoliberalism through academic experiences could be done not just through doctorates, as in Latin America and elsewhere, but on the cheap, with local replicas of Western postgraduate programs, short-term fellowships, grants and visiting positions.

NGOs: From Civil Society to Economic Advocacy

The initial marginality of neoliberalism in the civil society

There is no doubt that NGOs have been a crucial site for the political democratization of Romania after 1989. From election monitoring to human rights advocacy, the NGOs stood up against the authoritarian tendencies of some political actors. Yet after the second half of the 1990s the elite organizations of the NGO sector began to enter the field of economic policy advocacy as well and, by the early 2000s, they branched out into economic think-tank functions. In contrast to what happened in Spain, by the end of the decade Romanian NGOs joined forces with neoliberal economists and entered public advocacy for radical tax, labor and pension reforms.

Yet the beginnings of the transition did not point to an obvious neoliberal identity of the liberal civil society. Immediately after the fall of the Ceausescu regime, liberal intellectuals united by their rejection of the modest reforms

proposed by FSN formed the Group for Social Dialogue (*Grupul pentru Dialog Social* or GDS), an elite “forum for critical reflection” meant to function as an epistemic center for a broad spectrum of professions.⁷⁵³ Since the list of founding members was a who’s who of the country’s cultural elite and since the organization soon received generous Western founding, GDS soon emerged as the leading voice of the anti-FSN liberal civil society.⁷⁵⁴

Economic reforms were not a real priority for GDS and other pro-democracy NGOs. In the 1990, FSN’s timid economic reforms became occasional targets,⁷⁵⁵ and civic leaders made rhetorical pleas for “Westernization,” “return to Europe” and the “market economy”, but it was not yet entirely clear that the proposed alternative was *laissez faire* radicalism. Instead, the alternatives imagined by these civic leaders pointed toward a “third way” between West European varieties of capitalism and reform socialism. In 1990 and 1991 the programmatic documents of Romanian liberals did not suggest allegiance to neoliberalism either and the term “capitalism” was still shunned.⁷⁵⁶

⁷⁵³ GDS wanted to become a “laboratory where economists, sociologists, political scientists, historians, urban planners, writers, technologists etc who could jointly identify the strategies and the solutions needed by Romanian society in the near future.” This excerpt from the founding document of GDS can be found in the first issue of its review (*Revista 22*, December 31, 1989).

⁷⁵⁴ Societatea Timisoara, the Independent Group for Democracy, the December 21st Association and the Students’ League playing similar roles (Tismaneanu 1991). By the spring, GDS was at the core of Central Europe’s longest street demonstration for liberal-democracy: the University Square movement.

⁷⁵⁵ Stelian Tanase, “Nu perestroika!” *Revista 22*, February 2, 1990; “Ceasuri linistite”, *Revista 22*, February 16, 1990.

⁷⁵⁶ Vladimir Tismaneanu regarded the proclamation as “the cornerstone of the reawakening of Romanian civil society”. <http://tismaneanu.wordpress.com/2010/03/10/proclamatia-de-la-timisoara-si-ruptura-cu-trecutul-comunist/moment-crucial-al-desteptarii-societatii-civile-romanesti>. Also, GDS analyst Ruxandra Cesereanu described the proclamation as “the most important political and civic text from 1990” *Proclamatia de la Timisoara si legea lustratiei*, *Revista 22*, May 5, 2005.

Thus, the signatories of the *Timisoara Proclamation*, perhaps the most important normative statement of opposition parties and anti-FSN civil society organizations, demanded investments in public goods neglected by Ceausescu (health and sanitation) instead of systemic privatization, liberalization and deregulation.⁷⁵⁷ They encouraged foreign investments in a developmentalist rather than neoliberal mode.⁷⁵⁸ While they endorsed the “return to Europe” and “private initiative,” the signatories nevertheless cautioned that “[we] do not wish to copy Western capitalist societies, which have their own deficiencies and injustices” and demanded the sale of SOEs primarily to their workers, with the state maintaining the controlling package so that “all workers would thus have equal chances to prosper.”⁷⁵⁹

In sum, the intellectual dynamic of the liberal Romanian civil society at the critical juncture of transition was not the market fundamentalism that scholars encountered elsewhere in Eastern Europe (Eyal and Szelenyi 1997; 1998; Eyal 2000; 2003; Shields 2003; Ost 2005). Until the mid 1990s, outside the marginal libertarian circles discussed in the previous chapter, it was mainly the neoliberal economists based around the central bank that built the coherent, yet relatively open neoliberal agenda.

⁷⁵⁷ Vladimir Tismaneanu regarded the proclamation as “the cornerstone of the reawakening of Romanian civil society”. <http://tismaneanu.wordpress.com/2010/03/10/proclamatia-de-la-timisoara-si-ruptura-cu-trecutul-comunist/moment-crucial-al-deşteptării-societăţii-civile-româneşti>. Also, GDS analyst Ruxandra Cesereanu described the proclamation as “the most important political and civic text from 1990” *Proclamatia de la Timisoara si legea lustratiei*, Revista 22, May 5, 2005.

⁷⁵⁸ FDI was encouraged but mostly in the form of technology transfers and imports, special raw materials and joint ventures, rather than in the unqualified form of the Washington Consensus.

⁷⁵⁹ Points 9-11 of the Timisoara Declaration. The text is available at <http://www.revolutie.ro/proclamatie.html>.

This situation started to change in the mid 1990s, when a few clusters of liberal intellectuals began to propose an articulate neoliberal economic policy platform and systematically popularize the ideas that underpinned it. It was not until then that liberal civil society began to embrace the idea that shock therapy was the only legitimate kind of economic reform and that gradualism was a mark of “neo-communism.” And it was not until then that the deepening of democratization and the “return to Europe” were equated with the initiation of a bold transition to disembedded neoliberal capitalism.

Merging democratization and neoliberalism

Several factors facilitated the neoliberal turn in the NGO sector. First, the effects of heterodox reforms enraged many intellectuals. State enterprise executives got rich by siphoning off the assets of the firms they managed via their own private firms. And since this executive class was assumed to be the economic base of a detested “neo-communist” regime, the idea proposed by some civil society leaders that shock therapy was the most effective way to break its strength appeared to make sense (Cornea 1995; Mungiu 1995; Tanase 1996).⁷⁶⁰ Second, some of the emblematic names of the leading liberal intellectuals used the opportunity awarded by visiting fellowships in U.S. French and German universities to clarify their identity on transition economics.⁷⁶¹ The result was in

⁷⁶⁰ See Andrei Cornea, “Comunistii- constructori ai capitalismului?” “ in *Revista "22"* , nr.7, February 16, 1994; *Directocratia si sfarsitul tranzitiei in Romania*. Bucharest: CSPAC, 1995; Alina Mungiu, *Romania dupa '89*, Bucharest: Humanitas, 1995; Stelian Tanase, *Revolutia ca esec: elite si societate*. Iasi: Polirom, 1996.

⁷⁶¹ For example, in 1991 Andrei Cornea, a GDS founder, had a Fulbright at Claremont College (US). In the fall of 1992 Horia Roman Patapievici had a CE fellowship (Tempus) at Ecole

most cases the embrace of a syndissertation of cultural conservatism and economic liberalism that was hostile not only to embedded liberalism, but also of the embedded neoliberalism that was being practiced in continental Europe during the 1990s (Miroiu 1999; Barbu 1999; Preoteasa 2002). The Western experience seemed to have relegated liberal thinking to a very narrow “liberal-conservative” spectrum.⁷⁶²

Yet most intellectuals stuck to political theory and, while they publicly endorsed neoliberal policies proposed by others, they showed little appetite for getting specific about the policy implications of their ideas in the Romanian context. This gap was plugged beginning with the late 1990s by a new type of actor then entering the stage of Romanian postcommunism: the economic intellectual. Their profile was a unique hybrid, as most led “seven lives” as academics, editorialists, activists, consultants for international organizations, political advisors to center-right parties and even civil servants during the Convention’s spell in government. Most were social scientists and had studied in Western graduate programs,⁷⁶³ where they acquired more systematic knowledge

Pratique des Hautes Etudes (Paris) and between December 1994 and June 1995 he has a fellowship in Germany with the Goethe Institut.

⁷⁶² As a discourse analysis of the work of leading GDS intellectual Horia Roman Patapievicu put it, “from a conservative perspective, the left is rejected on account of its egalitarianism, progressivism and radicalism, as the embodiment of a pathological obsession with revolutionary change” (Preoteasa 2002: 274). She found evidence of a struggle “against feminism, ‘political correctness’, multiculturalist and affirmative policies as manifestations of ‘American communism’, or of a new type of ‘Leninist–Nazi racism’ (Patapievicu, 1996: 125–132; 1997: 338–342) [...] an allegiance to economic neoliberalism with a conservative defense of tradition, particularly Christianity and the tradition of western ‘high’, canonical culture, as well as with a political conservatism – understood for instance as anti-radicalism: ‘what we can do is not to attempt to recreate the new world anew (left-wing radicalism) but to try to relive its most fertile traditions (right-wing conservatism)(Patapievicu, 1994: 303)” (Preoteasa 2002: 275).

⁷⁶³ According to a survey of Romanian political science from 1999, “around one

about what was viewed in the West as the “best practice” of economic and political liberalization. Seeing themselves as the carriers of a renewed Romanian liberal project meant to bring the country back in Europe, they bitterly resented the perceived stagnation of Romania in the nationalist-heterodox project of the ex-communists that risked taking the country closer to Belarus or Serbia than to Western Europe. As one of its most dynamic representatives put it, they felt that they had a civilizing mission

[t]he first impulse of intellectuals was to educate the electorate. We were all gripped by the idea that regular people had been perverted by communism but that somehow intellectuals had escaped unscathed. Therefore it was the intellectuals’ duty to turn *homo sovieticus* into a regular democratic citizen (Mungiu 2006: 2).

Endowed with such values, skills and professional dossiers, upon their return to Romania they began to teach in newly established political science and public policy programs while setting up and running NGOs. They became very successful at securing funding from Western public and private donors.⁷⁶⁴ Against the backdrop of the Yugoslavian civil war, the NGOs set up by these activist

dozen graduate students and alumni of North American universities have obtained limited-term teaching contracts with the help of the Central European Project” (Stan 1999: 519).

⁷⁶⁴ According to an assessment study of US aid “almost all of the major human rights organizations in Romania, including the Romanian Helsinki Committee, the Romanian Society for Human Rights, the League for the Defense of Human Rights, Liga Pro-Europa and the Association of Lawyers for the Defense of Human Rights have received US support from various USAID and NED-funded intermediary organizations, particularly the Institute for Democracy in Eastern Europe as well as from the German Marshall Fund and the Soros foundations” (Carothers 1996: 67).

academics received Western European and particularly American funding for such liberal political causes as ethnic minority rights, human rights, judicial reform and civic education. Western disaster scenarios fueled the rise of these increasingly professionalized organizations, as this was a time when many in the Western security establishment feared a Yugoslav scenario in Romania.⁷⁶⁵ In this way, these organizations became obligatory passage points between Western interests and the domestic political scene.

But once the Yugoslav wars died down in 1995 and once the 1996 elections were won by a liberal coalition that also contained the party of the Hungarian minority, Romania became a less problematic case.⁷⁶⁶ This also meant that Western funding was going elsewhere: public policy advocacy. Dispatched to Romania by the Carnegie Endowment in 1996 to assess US democracy assistance, the democratization scholar Thomas Carothers noted that American assistance

[h]as been concentrated on what I will all civic society organizations-small nonprofit NGOs seeking to affect governmental policy. Up to 1995, US civil society assistance concentrated on the more political types of such NGOs [...]. With the recent establishment of the Democracy Newtork program, *socio-economic NGOs* now also fall within the US civil society assistance effort, provided they are policy-oriented NGOs [...] Three local

⁷⁶⁵ John Mearsheimer wrote in *Athlantic Monthly* in 1990 that “[a]bsent the Soviet occupation of Eastern Europe, Romania and Hungary might have gone to war over this issue by now, and it might bring them to war in the future” (Mearsheimer 1990). See also Linden (2000).

⁷⁶⁶ Immediately after 1996 was considered a consolidated democracy and was praised as a model of progress on the front of ethnic relations (Linden 2000; Burg 2007; Kelley 2006; Chen 2007). Suggestively, at a NATO summit in 1997 President Clinton singled out Romania as a model of ethnic cooperation.

NGOs no longer have only politics-related themes such as human rights and civic education as their main area of work; they now sometimes focus on more economic-related concerns [...] In short, assistance programs involving NGOs increasingly relate explicitly to both democracy promotion and economic reform” (Carothers 1996: 65; 107) (my emphasis).

By the late 1990s, these trends led to the emergence of a new translator of neoliberal ideas: the academic think-tank, a public policy organization staffed by academics. Certified and funded by Western actors, these organizations played a crucial role in popularizing and adapting policy-ready neoliberal ideas in the Romanian context.

The rise of the think-tank

The first democratization NGOs that used such external opportunities for branching out into economic policy advocacy was the Romanian Academic Society (*Societatea Academica Romana* or SAR). Established in 1995 as a small operation, SAR was one of the PHARE and Soros Foundation-financed political development NGOs. Although the majority of its founding members were GDS prominent⁷⁶⁷

SAR’s founder was Alina Mungiu-Pippidi, a young psychiatrist with a dissident past, a Fulbright scholar in political science at Harvard between 1994

⁷⁶⁷ The shared list included Andrei Cornea, Horia Roman Patapievici, Stelian Tanase, Mihai Sora.

and 1995⁷⁶⁸ and with a reputation for an extraordinarily effective combination between NGO activism and analytic skill. Mungiu returned from Harvard with the strong conviction that the opposition's model of public activism reliant on the figure of the public intellectual, a model that Romanian intellectual subcultures imported from France for over a century, was leading nowhere.⁷⁶⁹ A genuine secularist, she also bitterly resented the fact that the culture of the opposition was weighed down by dependence on the writings of charismatic intellectual monastics educated in the interwar years whose concrete socio-economic prescriptions were generally sparse and, at any rate, ambiguous towards economic liberalism and liberalism more generally (Mungiu 1998).⁷⁷⁰ At the same time, Mungiu was open about her right-liberal political philosophy and was generally, albeit not noisily, hostile to social-democratic or left-liberal positions on the economy.⁷⁷¹

SAR's initial activities consisted of democratic education, grant-writing training for NGOs and political training for MPs. Following its success at influencing the government program of the Democratic Convention and judicial reforms⁷⁷² SAR decided to mix a liberal-democratic political agenda (the improvement of the quality of central and municipal government, better citizen access to government etc) with an economic agenda. The shift had been inspired

⁷⁶⁸ Mungiu was a Fulbright scholar at Harvard's Government Department between 1994 and 1995 and a Shorenstein fellow at the Kenendy School of the same university between 1998 and 1999.

⁷⁶⁹ Author interview with Cristian Ghinea, former SAR expert, January 14, 2009.

⁷⁷⁰ The cultural imaginary of anti-communism before 1989 was dominated by charismatic mentors like Noica, Staniloae, Steinhart, Tutea

⁷⁷¹ Art 3 of the Constitution declaring Romania a "social" state among others is seen as evidence of collectivism and associated with the FSN (Mungiu 2002: 42).

⁷⁷² SAR's competence on judicial reform was acknowledged by the state when the Ministry of Justice chose SAR as its main civil society advisor in the ministry's efforts to reorganize the judicial system.

by Mungiu's deep involvement in transnational dialogues with other East European activists⁷⁷³ and was motivated by her realization that politicians were incapable to understand what was needed in the first place for a capitalist and "European" transformation:

After the enthusiastic start in 1997, it had become clear for local and foreign experts that Romanian governments lacked both the staff and the experience to deal with the complex problems of the Romanian economy. Furthermore, it lacked a general philosophy of transformation of the command economy, centralized state and their long enduring institutions into a real market and competitive society able to apply successfully for the European Union. For this huge task the Romanian political class [...] had obviously no models and no methods: it needed think-tanks to clear the way.⁷⁷⁴

In 1998 SAR creates its own mini economic think-tank (Center for Public Policies or CPP) which shortly begins to churn out radical policy proposals. The research director was a former journalist and the recent graduate of an MA in comparative politics at Central European University (Sorin Ionita) whose only research experience was in anthropology,⁷⁷⁵ but whose academic publications

⁷⁷³ Mungiu wrote that the decision was inspired by a meeting with The Constitutional & Legal Policy Institute (COLPI), a non-profit organization affiliated with two of Mungiu's institutional partners: the Open Society Institute and the Central European University.

⁷⁷⁴ Excerpt from the CPP mission statement available at www.ong.ro/ong/sar/center.htm

⁷⁷⁵ Between 1995 and 1997 Ionita was a research assistant at the Anthropology Center of the Romanian Academy.

surprised with their uncompromising positions on the “illusions of gradualism” or the self-defeating nature of welfare institutions and steeply progressive taxation.⁷⁷⁶ SAR’s expert on social policies was another political scientist with an M.A. from Central European University (Bogdan Chiritoiu), but who had professional experience in the public affairs department of a US pharma giant (Merck). All three of them became lecturers in political science at the elite National School of Political and Administrative Sciences and began to serve as policy experts for UNDP, the World Bank and Freedom House. In addition to these social scientists, SAR also boasted three Western-trained economists known for their neoliberal orthodoxy (Daniel Daianu, Lucian Albu and Dragos Paul Aligica).⁷⁷⁷

In 1998 SAR begins to carry out its own empirical research and publish the results in formats that had been previously unknown in Romania: the working paper, the crisis report and the early warning report. Their research generates unknown facts about social reality that served the neoliberal agenda: Romanians did not appear aware of the prohibitive tax costs they paid for the welfare state, the gratuitous access to university education created perverse incentives and the introduction of fees was necessary, the government showed a clear propensity to expand and fail unless it was checked by New Public Management practices.⁷⁷⁸

⁷⁷⁶ Examples include “Capitalismul Românesc: O dezbateră fără sfârșit”. *Revista de Cercetări Sociale*, Vol. 3, No.1, 1996; “Iluziile Reformei Graduale în Estul Europei”, *Sfera Politicii*, Vol.5, No.48, 1997; “Guvernul Trebuie Apărat de Efectele Contractului cu România: Aspecte Fiscale”, *Sfera Politicii*, Vol.5, No.51, August, 1997.

⁷⁷⁷ Albu was an associate member of the London-based Adam Smith Institute.

⁷⁷⁸ Examples include Ionita’s Tax Awareness in Romania and the Costs of the Welfare State. Working papers, no. 11, SAR, Bucharest, March 1999; Impotriva curentului: argumente pentru introducerea taxelor de studii în învățământul superior de stat. Working papers, no. 6, SAR, 1998; The Ever-Expanding Government: The Structural Instability of the Romanian Cabinets and the

By the early 2000s the SAR research team gets to the point of editing book-length arguments on such “second wave” neoliberal reforms as the partial privatization of pensions or the marketization of the public healthcare sector.⁷⁷⁹ Unlike the neoliberal economists, the think-tankers at SAR had years of experience in the media and used it efficiently to put into popular policy discourse select elements of the neoliberal ideational toolbox: the perversity of the welfare system, the “fiscal illusions” of progressive taxation, the Laffer curve, the superiority of private firms relative to state management in the area of health care, the false equality of opportunity provided by public access to university education.

Another academic think-tank was the Romanian Center for Economic Policies (CEROPE), an organization with which SAR shared two experts (Daniel Daianu and Lucian Albu). Established in 1998, CEROPE was a think-tank of professional economists whose epistemic and institutional prowess came from serving as an interface between the central bank and several epistemic centers like ASE and the Economic Prognosis Institute. The central bank team was represented at the highest level (Mugur Isarescu, Lucian Croitoru, Daniel Daianu), as was ASE (Cornel Tarhoaca) and the Economic Prognosis Institute of the Academy (Lucian Albu). During governor Isarescu’s premiership (1999-2000) many CEROPE members served in the government in different capacities.

Failing Institutional Reform, Crisis Alert Papers Series, no. 1, SAR, 2001. See also Chiritoiu’s “Cadrel legislativ și investițiile străine directe” (Academy of the Parliamentarians, Romanian Academic Society (SAR), 1997); “Prețurile de Referință în Experiența Internațională. Implicații pentru Europa Centrală și de Est. Un studiu de caz asupra Poloniei și României” (Centre for Institutional Reform, Romanian Academic Society (SAR), București, 1998) Broken Mirror: The Evaluation Function in Romanian Social Ministries (SAR working paper, SAR: Bucharest, 2001);

⁷⁷⁹ Alina Mungiu-Pippidi, Sorin Ioniță (ed.) *Politici Publice*. Ed. Polirom, Iași, 2002.

Rather than engage in media-savvy advocacy, this think-tank focused instead on the production of descriptive and analytical research materials in English that presented domestic and Western policymakers with highly-technical expertise framed in an accessible language. The CEROPE reports also offered IFIs domestic confirmations of their diagnoses of the Romanian economy. Its working papers, academic articles and books in English consolidated its international status and facilitated its inclusion in the World Bank's Global Development Network and its earning of "policy reviewer" status from OECD.

In addition to such academic think-tanks, by the 2000s the more standard US-style business think-tank genre appeared as well. These new players had no explicit commitment to the agenda of political parties. Staffed by non-profit professionals, lawyers and economic consultants with international careers, such organizations as Romania Think-Tank, Academia de Advocacy, and CHF International Romania had no qualms to engage with the cabinet and even with the PSD leadership itself. Closely connected with the increasingly visible transnational capital and the development aid structures of large donors, these organizations translated the agenda, the advocacy language and the advocacy repertoire of US pro-business think-tanks. At the same time, they "edited" the US think-tank model by putting strong emphasis on the further development of liberal-democratic institutions. In this way, they replicated SAR's prided Janus-

faced identity: promoter of political virtue and partial advocate of a neoliberal economic agenda.⁷⁸⁰

The case of *Academia de Advocacy* (AA) is illustrative in this regard as a case where the supply of translators was changed as a direct result of external intervention. Established in 2002 by a provincial Romanian businessman from one of the country's first export processing zones and bankrolled by five domestic employer organizations,⁷⁸¹ *Academia de Advocacy* (AA) was the first professional pro-business think-tank. Taking the American conservative think-tank as a model, its founders partnered with the Bucharest chapters of USAID and of one of the institutes of the US-based national Endowment for Democracy (The Center for International Private Enterprise or CIPE) to benefit from the Americans' organizational and advocacy expertise.⁷⁸²

With the aid of a CIPE-provided American advocacy consultant, AA began training a new profession (advocacy consultants) and, most importantly, it began a systematic effort to catalogue the "best practices" on taxation and the labor market advocated at home by US business organizations. Brought together in booklets and guidelines, these "best practices" were then systematically disseminated to government ministries and media outlets. To ensure that the

⁷⁸⁰ In addition to its business advocacy, AA became an active partner for various NGO coalitions demanding citizens access to government data and proceedings. AA also joined SAR-initiated anti-graft campaigns.

⁷⁸¹ The founder was Radu Nicosevici, chairman of the Timis Private Entrepreneurs Organization, one of the first employer's organizations in Romania. The institutional founding members were Confederatia Intreprinzatorilor Particulari din Judetul Timis, Uniunea Generala a Industriasilor din Romania UGIR 1903, Asociatia Femeilor Manager din Timis, Camera de Comert, Industrie si Agricultura a Judetului Timis si Uniunea Nationala a Agentilor Imobiliari din Romania, the Timis chapter.

⁷⁸² In the run-up to its establishment, AA benefited from the funding and advice of the US-based Center for International Private Enterprise and of the Cooperative Housing Foundation Romania.

government would not ignore them, AA organized public hearings and carried out a systematic monitoring of parliamentary debates on its issues of interest. All along, AA received CIPE “coaching.” The passing of the strict 2003 labor code and the debates on the flat tax during the same year made AA competent and media-savvy player whose experts brought together employers and pro-business tax and labor experts in a dozen workshops that AA managed to publicize received extensive media coverage. During its seminars, AA it disseminated among journalists, academics and business leader supply-side arguments against labor unions and pro-worker hire-and-fire regulations. Until AA became involved, employment protection legislation had been largely a non-issue and the employer organizations that advocated for deregulation had had no cross-national data and economic conceptual repertoire with which to press for reforms.

So far, this chapter looked at the reconstruction of the Romanian economics profession through transnational exchanges and found that the different forms of systematic engagement with Western economics after 1989 benefited a small group of economists using the revolving door connecting academia, the central bank and the ministry of Finance. The chapter also showed that hybrid organizations that were half think-tanks, half pro-democracy NGOs advocated for radical neoliberal ideas while serving as civic engines for the deepening of liberal democracy in the country. These sections tell us a lot about the making of Romanian neoliberalism in economics and the “third sector” sphere but they do not tell us why the ex-communists became Third Way neoliberals in the early 2000s. It is to this issue that I now turn.

Enlarging the Third Way: Transnational Party Networks

“Social-democrats have not been the real antagonists of neoliberalism, but its protagonists. Gerhard Schroeder was far more radical in deregulatory reforms than Helmut Kohl. The Third Way distracted social-democrats from their successful postwar story. The Third Way was not a syndissertation between the welfare state and American liberalism, it was mostly American liberalism.” (Alfred Gusenbauer, former president of the Socialist International, 2009).⁷⁸³

The Doghouse Years (1990-2000)

It was perhaps symbolic that the first foreign statements of support for the FSN authorities came from Eurocommunist and Third World communist parties.⁷⁸⁴ As suggested in chapter seven, during the first half of 1990 the economic identity of the FSN stood under the auspices of heterodoxy and this identity was recognized as such on the international scene. Yet beginning with the summer of 1990, FSN leaders began to signal their preference for indigenizing elements of the economic agenda of West European social-democracy (Nastase 2000; 2007; Teodorescu 2004).

⁷⁸³ Interview with the author, October 23, 2009.

⁷⁸⁴ The first statements of support came as early as December 23rd, 1989 from Italian, Greek, Austrian, Soviet and Vietnamese communist parties. See *Scanteia Poporului*, December 24th, 1989.

In theory, the attempt of a political party controlled by communist elites to become part of European social-democratic networks was not necessarily doomed to fail. French, Italian and Spanish Socialists in particular seemed poised to invest in the mainstreaming of the FSN, just like the SPD had done for the Spanish Socialists more than a decade earlier. In 1990 one of the FSN leaders who was then a minister of foreign affairs claimed that the Italian socialists promised to serve as brokers for FSN's rehabilitation after the disaster represented by its association with the coal miners' atrocities in June 1990 (Teodorescu 2004).

Prime-minister Petre Roman made even greater advances. Educated in France and raised in a family of former leftist fighters in the Spanish civil war, Petre Roman became a friend of Felipe Gonzales and Francois Mitterrand and declared Socialist Spain and Gonzales as inspiring vectors for his political decisions.⁷⁸⁵ Also, against the protests of the Gaullist parliamentary majority, in 1991 Mitterrand was the first Western head of state to visit Romania in what was perceived as the French left's blessing of the Roman government. And once Roman's reformists took control of the party, the FSN was immediately accepted in the Socialist International, leaving the conservatives to form a different party (PDSR) led by Ion Iliescu.

Western skepticism that the "conservative" PDSR could join the social-democratic "club" lasted throughout the 1990s. At first, this was due to this party's own ideological confusion: it was not until mid 1993 that its leaders

⁷⁸⁵ Interview with Petre Roman (Stefoi 2002: 171-172).

formally applied for membership in the Socialist International.⁷⁸⁶ The application was rejected because the party was perceived as too wedded to a statist economic agenda and was too contaminated by conservative cultural discourses and authoritarian practices.⁷⁸⁷ And PDSR's political behavior reinforced such impressions through a political alliance with ultranationalist parties between 1993 and 1995.⁷⁸⁸ Also, Ion Iliescu was perceived as being on a par with East European "red-brown" leaders like Slobodan Milosvic of Serbia and Vladimir Meciar of Slovakia. As late as 1996, Ion Iliescu campaigned in ultranationalist mode by hustling the specter of a Yugoslav-style ethnic conflict in Transylvania, a rhetoric embraced by Adrian Nastase himself after the CDR victory in the 1996 elections.⁷⁸⁹ Even more worries emerged when a reformist faction attempted to give the party's political program a more economically liberal flavor at the 1997 party convention, the faction was forced out of the party entirely.

Joining the Third Way (2000-)

Things began to change dramatically in 1999. The Kosovo war convinced West European elites that the Yugoslav nightmare could travel to Bulgaria and Romania.

⁷⁸⁶ Letter of the FDSN executive to its county chapters, *Adevarul*, June 18, 1993. Yet this is not to say that the entire Iliescu wing was confused. While he was a foreign minister in 1990-1991, Adrian Nastase sought to establish a cooperation with Italian Socialists (PSI) as an entry point in the Socialist International (Nastase 2004: 63).

⁷⁸⁷ Author interview with Adrian Severin, June 12, 2006.

⁷⁸⁸ These parties "blended nostalgia for fascism's national triumphalism with nostalgia for communism's economic security and closed polity" (Vachudova and Hooghe 2007: 17).

⁷⁸⁹ For an extensive coverage in English of the continued nationalist drift of the PDSR leadership see Michael Shafir, "Romania's Road to 'Normalcy'," in *Journal of Democracy*, Vol. 8, No. 2 (1997) 144-158.

Against a public opinion that generally identified with the Serbs, the Romanian government supported the NATO operation while showcasing the fact that in Romania the biggest and the most politicized ethnic minority was in government. It was against this background that in the fall of 1999 the EU made the political decision to put Romania on the map of EU integration, with British premier Tony Blair serving as a strong advocate (Phinnemore 2008; Papadimitriou and Phinnemore 2008).

Once it became clear that the PDSR would form the new government and Romania was seriously considered for membership in the European Union, Western social-democrats began to open up to the ex-communists now rebaptized as the Social Democratic Party (PSD). Like in the case of PSOE almost three decades earlier, the PDSR international recognition and embrace of economic liberalization came as a result of the intervention of German social-democrats, with the Ebert Foundation serving as the organizational platform for this process.

Ebert had had a Bucharest office since 1994, yet its relations with the PDSR had been cold.⁷⁹⁰ In 1999 Ebert approached the PDSR and offered its assistance for the rewriting of its party program with a view to the 2000 elections, with SPD experts Elke Zaviel and Susanne Kastner playing the main roles. According to a former adviser to Adrian Nastase, the new party president:

Basically the Germans helped rewrite the PSD's political program by deleting language that sounded too suggestive of intervention in the economy. And they inserted some of the latest Third Way ideas about equality of chances, a

⁷⁹⁰ Interview with Adrian Severin, June 12, 2006.

more pragmatic take on the market and so on... They taught seminars on what was legitimate economic policy in Western Europe, told party bosses that the independence of the central bank and its monetary policy should not be negotiable. It was really systematic advice. The Germans clearly meant business and Nastase and his collaborators acted as if the Germans were preaching to the converted. They openly critiqued the policies of the Vacaroiu government and orchestrated an entire political ballet meant to distance themselves from Iliescu yet without provoking Iliescu's ire.⁷⁹¹

Following its programmatic turn, which included changing its name into the Social-Democratic Party (PSD),⁷⁹² the party received even more explicit assistance from the SPD and from other European center-left parties. The excellent relationship with the Germans culminated in Nastase's personal friendship with Gerhard Schroeder and the SPD leader Christoph Zopel.⁷⁹³ An advocate of the Third Way and an unqualified supporter of Anthony Giddens' view of modern social-democracy, Zopel made much of his ideological proximity with Nastase and his role in facilitating PSD's entry in the Socialist International (Zopel 2007).

To inspire confidence that the economic policy of the PSD was no longer to be the province of heterodox economics, the new party executive invited Adrian Severin, the most economically liberal minister in the 1990-1991 Roman

⁷⁹¹ Author interview with Emil Hurezeanu, November 9, 2009.

⁷⁹² The Romanian translation is *Partidul Social-Democrat*.

⁷⁹³ Christoph Zopel authored the preface to Adrian Nastase's 300 page description of his view of political and economic reforms in Romania. See Adrian Nastase, *Romania europeana*, Ovidiu Sincai, 2007.

government and the scourge of the heterodox to join the program rewriting effort. After a successful career at the Council of Europe and OSCE, Severin had close connections with prominent European social-democrats. In 2000 he was given the top job at the PSD's new institute (Ovidiu Sincai), which he soon turned into a "party school" and platform for the assistance given to the PSD by West European social-democratic party leaders and experts.

As a result of these transformations, in 2003 PSD joined the Socialist International at its convention in Sao Paulo (Brazil), with the only 'con' vote coming from Roman's PD. To prove the added value of its membership, PSD demonstrated it had the right connections to improve the communication between the Socialist International and the Chinese Communist Party.⁷⁹⁴

During the early 1990s Nastase also became a regular at the *Progressive Governance* conferences of social-democratic party leaders. Established at the initiative of Bill Clinton in 1999, these transnational party conferences were basically a platform for Third-Way party leaders like Tony Blair, Peter Mendelson, Dominique Strauss-Kahn and Gerhart Schroeder who struggled to bring European social-democracy closer to the ideologically more centrist "progressive Left" standards of US Democrats.⁷⁹⁵ The era of the class politics of "old" social democracy was definitively buried in the diagnosis proposed by the intellectual entrepreneurs of this transnational party network.

⁷⁹⁴ Author interview with Florin Abraham, July 6, 2007.

⁷⁹⁵ "Adrian Nastase meets Tony Blair in Budapest before Progressive Governance Summit," Romanian Ministry of Foreign Affairs Newsletter, October 15, 2004; "Proiectul programului participării primului ministru Adrian Năstase, la conferința și summitul 'Progressive governance' (Londra, 12-14 iulie 2003); http://2003.informatia.ro/Proiectul_programului_lui_Adrian_Nastase_la_Londra-23970;" Progressive Governance 2004, Budapest, October 13, 2004. http://www.policy-network.net/events_detail.aspx?ID=510

As chapter eight showed, the Nastase government was particularly effective at carrying out the market reforms demanded by EU integration-Romania's membership negotiations ended during his term-and went showed and the premier showed an equally remarkable record at emulating Third Way rhetoric. Yet, like the government's policies, Nastase's ideas about the economy also showed a propensity to be more neoliberal than that of the Third Wayers themselves. Thus, he viewed tax policy as predominantly an instrument for building a middle class. He argued that since the task of the government was to foster a Romanian middle-class, progressive income tax could not have been maintained because it hurt this class disproportionately (Nastase 2007: 339-340). Although after the flat tax was adopted by the center right in 2004 Nastase became a critic of this institution, his support for the reinstatement of the progressive tax system was suggestively conditioned on the adoption of near-zero taxes on accrued interest of tax deduction for spending on private health insurance and private pension funds (Nastase 2007: 361-363).

The editing of the Third Way discourse is even clearer in the case of FDI policy. Attracting multinationals became the reversed mirror image of the heterodox obsession with saving the industrial giants of the national-Stalinist era:

I am convinced that the developed capitalist economy we wish to develop is based on the big capital accumulated in large corporations. Small firms are useful, necessary and indispensable but the real carriers of development are corporations. They transfer expertise, technological

innovations, increased productivity, investment organizational solutions and the development of domestic and international markets. And of these corporations we need particularly the multinational ones. We need the big foreign capital. In fact, the current globalization is almost tantamount with the expansion of the capital of the developed world in the less developed one to which Romania belongs. And the right strategy to bring a country in the position of benefiting from the advantages and innovations of globalization is to bring multinational capital to her side and to offer this capital space for development inside the national economy (Nastase 2007:370)

But while privatization is regarded strictly as an efficiency question in Third Way thinking (Schroder 2003; Blair 2003; Giddens 1999; 2000), the sale of profitable state firms to foreign multinationals was framed by Nastase as a form of cultural Europeanization. In his view multinationals deserved to be appreciated less for their capital investments and more for the cultural changes they were expected to generate (Nastase 2007: 130-131).

To make this argument he subscribed to two “self-orientalizing” narratives popular in Romania. The first was an internalized version of Balkanism (Todorova 1997; Bojikova 2006; Hammons 2006), an essentializing discourse transferred in the field of business ideas according to which domestic private capital was bound to be inefficient and feed off the state because of several characteristics associated with a supposedly homogenous Romanian “Balkan”

cultural legacy: corruption, disorganization, authoritarianism and laziness. The second can be traced down to cold war era depictions of work ethic in the communist camp as an obstacle to economic modernization (Govorukhin 1989; Shiller et al 1992; Buchowski 2006; Swader 2010). According to this discourse, Romania's economic woes were due in part to a poor workforce. Building off this assumption, Nastase argued that this ethic could be remedied forcibly via migration or massive foreign investments in manufacturing that would bring the Protestant work ethic of Western Europe and North America (Nastase 2007: 130-131).

In sum, both PSOE and PSD swung to neoliberalism following the mobilization of transnational party networks based around German social-democrats. Although such exogenous interventions did not determine the radicalization of the Third Way agenda during Nastase's term, it is important to note that West European social-democrats never expressed shock at Nastase's advocacy of the flat tax in 2003. Nor did they signal displeasure at the fact that the social spending levels of Europe's most miserly welfare state stagnated in the middle of a boom or at the weakening of social solidarity through the government's tolerance of the early retirement on dubious medical grounds of a large portion of the labor force. Taken to places like Romania the Third Way morphed into a quite disembedded form of neoliberalism and this seemed generally accepted among West European social-democrats.

Conclusions

In Romania economics emerged from authoritarianism with a weakly transnationalized economics profession as a consequence of almost a decade of forced isolation from Western economics. As a result, the rise of a generation of Western-trained economists took several years. Unlike in Spain transnationalization came not through Western doctoral education but through training with international financial organizations, transnational research programs, and, most innovatively, access to Western-licensed yet domestically-organized graduate programs. As heterodox economists were enrolled in these forms of transnational socialization they gradually lost their epistemic solidarity and dropped their veto to the core of the neoliberal program.

The chapter also finds that when the supply of neoliberal economists proved too low, Western funding enabled amateur economists (political scientists, sociologists, philosophers) to enter the jurisdictional space of the economics profession via “dual use” think-tanks: half pro-democracy NGO and half economic think-tanks. By contrast with Spain, where think-tanks bent on radicalizing neoliberalism were left out, the entry of these think-tanks on the scene added to the radicalization of the Romanian neoliberal project.

Transnational party networks played an important role as well. The evidence shows that both Spanish Socialists and Romanian social-democrats underwent programmatic changes on economic policy after the intervention of their peers from Germany, a country where monetarism had been a point of partisan consensus since the early 1970s.

Chapter XI - Conclusions

Overview

This study sought to examine the secular shift towards neoliberalism in Spain and Romania. The main argument is that the shift cannot be understood just by looking at structural factors. Instead, the study argues that the economic theories and historical narratives embraced by critical actors in the government better explain both why non-neoliberal paths were rejected and why some varieties of neoliberalism and not others became institutionalized in policy practice.

The study shows how the activities of reflexive and active advocates of neoliberalism gave its theories and historical narratives a local face that differed from the “original” versions advocated by Western economists or international financial organizations.

This dissertation departed from the claim made by sociologists of translation that ideas do not stay the same as they travel from one social setting to another but are “translated” in the process by idea entrepreneurs called “translators”. The ambition of the dissertation is to clarify what shapes the result of translation, the pace with which it occurs and the means through which it can shape policy. It is first submitted that the content of adopted neoliberal ideas is shaped by the context-specific choices made by translators. In turn, the pace of translation is shaped by the density of transnational ties between domestic participants in the economic policy process and external advocates of neoliberalism. Finally, the translated neoliberal ideas are likely to serve as templates for economic policies when they are shared by an intellectually-

coherent policy team inside a cabinet that can effectively control economic policy decisions.

More specifically, the study submits that two mechanisms are at work in the travel of neoliberal ideas across nations, with each mechanism having three causal devices. The first mechanism was called “translation” and was defined as the process through which new economic ideas developed by foreign epistemic communities and practitioners are transformed for domestic use by idea entrepreneurs called translators. I further argued that the mechanism of translation can be unpacked into three devices: framing, grafting and editing. The second mechanism was called “transnationalization” and was defined as the process through which the domestic supply of translators is affected by the integration of domestic economic policy elites in transnational networks through such sub-mechanisms as Western training or through membership in transnational political party networks.

In the first part of the chapter I present the evidence for these mechanisms and for their causal devices, while in the second half I will turn to suggestions for empirical, theoretical and methodological improvements to the study of the transnational spread of neoliberal ideas.

Hypotheses and Findings

H1: Neoliberal ideas change through their grafting on pre-existing economic ideas

Grafting was defined as a translation device that associates new economic ideas with preexisting ideas that are relevant for the same issue area of economic policy and make similar prohibitions or injunctions, even as local ideas are reconstructed in accordance with neoliberal ideas. This device enables translators to recycle preexisting economic ideas that are consistent with neoliberalism. The expected result was the presentation of neoliberal ideas as if they were part of the domestic ideational stock, thus making neoliberalism seem less problematic in the domestic context. But grafting can also change neoliberal ideas by giving birth to hybrids between the local ideational “rootstock” and the neoliberal “stem.”

The evidence supports this argument. In the case of Spain, the robust grip of German ordoliberal ideas on Spanish economics before neoliberalism enabled domestic neoliberal entrepreneurs to dismiss expansionary monetary and fiscal policies with old and ingrained ordoliberal arguments against Keynesianism. The grafting of neoliberalism on ordoliberalism bred hybrids as well. Ordoliberal ideas about the imperative of building a social market economy as a means to generate social peace and support for capitalism, constituted an important veto point to the wholesale diffusion of supply-side welfare retrenchment narratives.

Similarly, ingrained Romanian structuralist arguments about systemic bottlenecks and monopolistic production were used to argue against gradualism. More specifically, structuralism turned on its head was used to make the neoliberal argument that a gradualist transition strategy could only reproduce communist pathologies. The logical implication was that radical or “shock”

reforms were needed instead to resuscitate the dormant mechanisms of market efficiency. In this way, both countries witnessed advocacy for neoliberal economic ideas that had made use of hybridization with older economic theories.

H2: Neoliberal ideas change through editing

Editing brings to the fore the ability of network participants to devise dynamic interpretations of neoliberal ideas that overcome the problems raised by neoliberalism's poor domestic resonance with pre-existing economic ideas. It was hypothesized that through *editing* neoliberal economic ideas are transformed by translators in accordance with what they perceive to be domestically dominant ideational conventions. As a translation device, editing was defined as the reformulations of the neoliberal text in terms of its focus, content and meaning. But editing can also entail that contested ideas from the outer boundaries of the neoliberal paradigm can be made to seem uncontested and central to neoliberalism. Editing may produce mistranslations, hybrids and affect pre-existing economic ideas as well. The results of this veritable intellectual *bricolage* were expected to be highly contextual.

The evidence strongly supports these claims. When neoliberal ideas about the role of the state in fostering export-driven growth entered Spain, they were grafted on deep-rooted developmentalist ideas about state ownership in industrial champions as a means to boost the country's export competitiveness. This editing made it possible that the same government that was obsessed with the war on

inflation threw subsidies at high achievers, bankrolled incentives for industrial diversification and put brakes on private mergers and acquisitions that threatened its stakes in industrial champions. Key neoliberal advocates tried to demonstrate the possibility of a syndissertation between the ideas of the neoclassical-Keynesian syndissertation, monetarism and rational expectations, a position that enabled the survival of progressive taxation and the resistance to supply-side tax policy in Spanish neoliberalism.

Local translators did similar things in Romania, but the result was a variant of neoliberalism that was less statist and less redistributive than Spain's. Unlike in Spain, where economists remained skeptical towards the Laffer curve and other artifacts upheld by marginal US supply-side economics, in Romania such ideas were incorporated into mainstream economics as uncontested scientific instruments and inspired the adoption of a very regressive tax regime. Ironically, this led to a situation in which the IMF emerged as a defender of progressive taxation and critic of radical supply-side models. Similarly, while in Spain the advocates of neoliberal macroeconomic or labor policy saw state ownership of industrial champions as a means to increase the external competitiveness of the economy, their Romanian counterparts saw such interventions as likely to do harm. Finally, some local neoliberals dramatized the urgency of orthodox macrostabilization by adding a layer of rational expectations theory that did not figure in the standard shock therapy arguments for the East European transition. The main policy implication of this ideational *bricolage* was that the alternatives

to shock therapy macrostabilization and a fire sale of the economy were *ipso facto* irrational.

But translation does not take place only in the rarefied air of economic theory and “technical” languages. As Deidre McCloskey reminded us, economics is just another form of rhetoric, a matter I turn to next.

H3: Neoliberal ideas change through their framing within domestic historical narratives

In the theory chapter framing was posited as one of the devices of translation and was defined as the process through which translators make ideational innovations like neoliberalism seem local by using language and presentation styles that “bridge” domestic historical narratives with neoliberal ones. This translation device allows for a variety of outcomes that can range from the radicalization of ideas to its very opposite.

Examination of the evidence revealed that in both countries neoliberalism was sold as a form of “modernization” and “Europeanization”, both of which were completely uncontested after the fall of the nationalist authoritarian regimes in these countries. In Spain, neoliberalism was presented by leading economists and politicians as the natural sequel to the modernization of the national economy, a process that was associated with two macrostabilization reforms adopted in 1959 and 1977, respectively. In Romania, the adoption of neoliberalism was presented as a renewal of the liberal modernization project that preceded the

traumatic national-Stalinist experience and as a guidepost for popular narratives about the “return to Europe.”

But the framing of neoliberalism was more creative in Romania, where political debate was more polarized and the local style *of* writing economic arguments demanded less neutrality, allowing for more radicalization. Thus, some translators bridged neoliberal skepticism about state ownership and intervention in the economy with postcommunist elite discourses *that* presumed communist cultural pathologies of Romanian workers. Such pathologies, the argument went, could only be remedied by harsh market discipline and foreign ownership of the industry. Such frames would have been less likely among Spanish elites, given the classist ideology of the *ancien regime*.

A comparison between the two cases thus provides a good example of the range of possibilities allowed by framing; with one framing strategy yielding a relatively moderate outcome and the other a more radical one.

H4: A high degree of transnationalization of the domestic policy actors increases the pace of translation

Transnationalization was defined as the device through which domestic actors who shape policy (economists, political party leaders) become part of international networks of advocates for neoliberal ideas, thus expanding such networks to new jurisdictions. External advocates facilitate this device by endowing potential local translators with superior material and professional

resources and by reconstructing the boundaries of domestic epistemic authority. This selective endowment of potential translators may increase the pace of translation by creating incentives for the emergence of a critical mass of advocates for neoliberalism and weakening the solidarity of neoliberalism's opponents. Particularly important in this regard is the international certification granted by Western training and the formation of transnational ties among political parties. Similarly, in cases where the economics profession is divided and has a small supply of neoliberal advocates, external actors may enable amateur economists to claim epistemic authority and fill this gap. In both cases the result is an acceleration of the pace of translation.

The data supports the case for the transnationalization device across the examined cases. In both countries Western education functioned as an international licensing device for domestic economic policy elites, which also boosted their authority at home. The leading advocates of neoliberalism in Spain and Romania had some kind of Western graduate education before or after the end of the authoritarian regime. However while the Western-trained economists were already in place when the Spanish economic transition began, in Romania it took several years to build this elite.

In Spain the transition from Keynesianism to neoliberalism found the leading economists already with doctorates from prominent British and American universities, where most studied with luminaries of the neoclassical opposition to the more interventionist forms of Keynesianism during the postwar decades. This training made possible a swift embrace of neoliberalism, a process implemented

in Spain even before neoliberalism's triumph became obvious in the West. Paradoxically, this critical mass of Western training also facilitated a moderate Spanish translation of neoliberalism, as the more radical amateur actors, such as think tanks, were not a prominent part of the process. Basically, the existence of a robust network of neoliberals obviated the need for an external reconstruction of epistemic boundaries by forcing economic think-tanks in.

By contrast, in Romania economics emerged from authoritarianism with a weakly transnationalized economics profession as a consequence of almost a decade of forced isolation from Western economics. As a result, the rise of a generation of Western-trained economists took several years. Unlike in Spain transnationalization came not through Western doctoral education but through training with international financial organizations, transnational research programs, and, most innovatively, access to Western-licensed yet domestically-organized graduate programs. As heterodox economists were enrolled in these forms of transnational socialization they gradually lost their epistemic solidarity and dropped their veto to the core of the neoliberal program. Until then, when the supply of neoliberal economists proved too low, Western funding enabled amateur economists (political scientists, sociologists, philosophers) to enter the jurisdictional space of the economics profession via "dual use" think-tanks: half pro-democracy NGO and half economic think-tanks. By contrast with Spain, where think-tanks bent on radicalizing neoliberalism were left out, the entry of these think-tanks on the scene added to the radicalization of the Romanian neoliberal project.

Transnational party networks played an important role as well. The evidence shows that both Spanish Socialists and Romanian social-democrats underwent programmatic changes on economic policy after the intervention of their peers from Germany, a country where monetarism had been a point of partisan consensus since the early 1970s.

H5: The likelihood that neoliberal ideas serve as templates for economic policies increases when the former are shared by an intellectually-coherent policy team in a cabinet that can effectively control economic policy decisions.

It was submitted that the translation of neoliberalism will have consequences for policy when like-minded actors control the economic policy decision making in the cabinet and the cabinet itself is institutionally autonomous from the pressures of competing actors who may oppose or damage the translation process. Without coherence, the likely result will be struggle and delayed translation of neoliberalism in the policy arena. It was also expected that coherence would be unlikely to protect translation processes from challengers if the policy process is not centralized in the cabinet and if the head of the cabinet does not have institutional tools to shield the policy team from the potential challenges made by ruling party/coalition.

The evidence gives empirical weight to this hypothesis. In 1982, when Spain turned to neoliberalism, the Socialist cabinet had full control over the economic policy process and all economic ministers came from the same

neoliberal professional network based around the central bank. Moreover, members of the policy team were insulated from pressure from anti-neoliberal dissenters both within and outside the party. Until a similar alignment occurred in Romania in the late 1990s, neoliberal ideas made few inroads. The first ex-communist cabinet inaugurated in 1990 had a coherent policy team committed to neoliberalism, but did not control the policy process. This led to a stop-and-go policy process culminating in the collapse of the cabinet. The next government (1992-1996), however, fit the bill. It had control over policy because it was strongly supported both by the president and the ruling party and a coherent policy team of heterodox economists which dominated the party. This policy team pushed through heterodox reforms even in the face of international and domestic opposition.

Conversely, a center-of-right cabinet, which took power in 1997, lacked both an intellectually coherent policy team and was inconsistently supported by the ruling coalition and the president.

Accordingly, it failed to push through reforms. All the posited variables were, however, in place from 2000 to 2004, when the ex-communists returned to power with a neoliberal agenda. This cabinet consistently got neoliberal reforms passed. These examples seem to buttress the argument that all these variables need to be in place for the observed outcome to occur. However, while important, these dynamics do not explain why the cabinet policy teams espouse some ideas rather than others, an issue addressed in the previous four hypotheses.

Suggestions for Future Research

Future empirical questions

This study raises and provides the opportunity to answer at least two more big questions. First, if systemic breakdowns of the world economy generate radical uncertainty, do economic ideas matter differently under authoritarianism and democracy? To address this question, one could compare the reactions of authoritarian regimes in Spain and Romania to the oil crises of the 1970s and the policy responses of democratic Spanish and Romanian governments to the world financial crisis of 2009-2010.

Another project could aim to problematize the epistemic communities hypodissertation that Anglo-American graduate training in economics is a robust mechanism of global diffusion of neoliberal ideas because such certification ensures appointments in top economic policy posts for returning students. This hypodissertation rests on the untested assumption that graduate education in a discipline as intellectually homogenous as economics is a socialization experience that guarantees long-term commitment to the neoclassical paradigm on which contemporary US economics rests. Moreover, I suggest that this assumption overstates the intellectual homogeneity of US economics departments. This assumption invites specification of the conditions under which the neoclassical tenets are reproduced over time and become institutionalized via government action. To probe these points, this research project could trace the educational and professional track of US or UK-trained economists occupying top economic policy posts during the 1990s and 2000s in various countries

Potential Theoretical Ramifications

Future research could import the core of the agenda of the sociology of science tradition inaugurated by Bruno Latour. Well before the “thick” definition of diffusion emerged, a group of sociologists of science based around Bruno Latour and known as proponents of actor-network theory (ANT) proposed discarding the concept of diffusion altogether and replacing it with the concept of *translation* (Woolgar and Latour 1986; Law 1986; Latour 1987; Callon 1986; 1998; 2002; 2003; 2007; Law 1999; Callon and Cohendet 1999; Muniesa and Callon 2007; 2009).

The idea of bringing French sociology of science can draw on the experience of US empirical sociologists who have used Latour for over a decade and provided their field with a fresh look at the transnational diffusion of neoliberal economic ideas (Bockman and Eyal 2002). ANT has also been mainstreamed by Scandinavian organizational sociologists doing empirical research on translation practices in state and municipal institutions (Czarniawska and Sevón 2005; Botzem and Quack 2006).

As Bruno Latour’s *Science in Action* showed, as bearers of technoscientific knowledge economists are powerful rhetorical actors who work to enlist others in their networks in order to serve as resources in their professional struggles with other economists. The basic aim of this competitive enlistment is to blackbox certain ideas,⁷⁹⁶ objects and facts so that these ideas can

⁷⁹⁶ The basic idea behind this competitive enlistment is not only to attack and defeat opposing ideas, as suggested above, but also to create webs of relationships so strong that ideas and facts

become unproblematic and therefore no longer provide opportunities for struggle. Metaphorically speaking, competitive enlistment makes it difficult to muster enough forces to open up the box of science-once-made and expose its problematic assumptions and facts. This allows the entrepreneurs of new ideas to make more black boxes, accumulate more capital, downplay the critique of others and thereby increase the appearance of strength and coherence of their projects as is required for network expansion. As Latour puts it, in this strategic process of expansion “the rules are simple enough: weaken your enemies, paralyze those you cannot weaken, help your allies if attacked, ensure safe communication with those who supply you with indisputable instruments, oblige your enemies to fight one another” (Latour, 1987: 37). But what are the valuable results of applying the ANT perspective to constructivist IPE?

First, as two early proponents of ANT in political economy have argued, this means a different objective for explanation, which should ideally “focus on the actual work of constructing a network and of establishing ties between statements, instrumentation, effects demonstrated in the lab, financial resources, the opinion and support of colleagues, and other such components. If a certain institutional form is reproduced and disseminated, this is in direct proportion to the amount of resources mobilized through network ties, to the strength of the ties forged, and to the capacity of interested actors to close them in a “black box”; that is, to hide the work needed to connect together the different elements of the actor-network” (Eyal and Bockman 2001: 314). In their empirical study of

that are inconvenient become blackboxed and become invisible in the terrain of struggle by morphing into conventions.

the spread of neoliberal ideas to Eastern Europe Eyal and Bockman show that the research of linear programming economists working inside the Eastern European laboratory of state socialism was mobilized by neoliberal economists in the West to attack the ideas of their Keynesian colleagues through a translation that black-boxed the differences between capitalist and state socialist economies.

In the translational dialogue that accompanies such developments, the East European economists were not passive “receivers” of otherwise heavily contested “Western” wisdom. Instead, they were active participants in making this translation possible. Simultaneously they used their external linkages to fight jurisdictional battles against economic policy bureaucrats in their home countries by opening the black boxes with artifacts about the economy constructed by these opponents and by generating new artifacts that presented the socialist economies as beyond repair and in need of neoliberal intervention.

Second, ANT would suggest that there is no boundary between external diffusers and domestic translators and that all actors involved in spreading new economic ideas are in fact undertaking translation activities understood *lato sensu* as co-participation in innovation and adaptation of the content of the innovation to context-sensitive use. This claim simplifies research design by focusing our attention on networks linking external and domestic translators rather than on the traditional troika of diffusers, brokers and translators. In addition to enlisting more human allies, network builders get the right to define reality by crafting new linkages among non-human entities (equations, databases, articles, experiments) and deploying these linkages as weapons to make opponents “feel lonely,”

weakening their epistemic solidarity or recruiting them directly through skilled framing or other means. What follows from this is that the elementary task of the social scientists analyzing this process of network expansion would be to measure the strength, the patterns and the outcomes of the actor-network as it “does battle” over time.

Third, domestic translators should not be expected to limit their role to facilitating the domestic congruence of new economic ideas. Instead, what gets translated is not just new foreign economic ideas, but the very interests of the domestic policymakers.⁷⁹⁷ Thus, through various strategic devices, translators redefine the interests of the main actors involved in the economic policy process so that these interests could not be pursued in the absence of the advice given by translators (*interessement*). For example, a local economist acting as translator for neoliberal ideas would advise a social-democratic party executive that the party’s long term electoral interest lies in knowing the answer to the question, “how does current account liberalization benefit the working class more than capital controls?”

Fourth, in what can be regarded as a “thinning” of constructivist epistemology, an ANT-inspired student of the translational spread of economic ideas would further argue that the strategic devices used by translators to lure decision-makers may include not just “culturalist” ones like teaching and socialization, but also more “rationalist” devices. Examples of the latter may

⁷⁹⁷ “To translate is to displace...But to translate is also to express in one’s own language what others say and want, why they act in the way they do and how they associate with each other: it is to establish oneself as a spokesman. At the end of the process, if it is successful, only voices speaking in unison will be heard” (Callon, 1986: 18-19).

include cognitive manipulation, status incentives, subsidized access to organizational resources or methodological metrics that imply affordable professional commitments, threats of burial under a mountain of previously unavailable databases or output produced by Nobel prize winners and prestigious organizations, etc.

To use an example from Abdelal (2007), translators could resort to manipulation through the presentation to left politicians of sophisticated (and presumably hoarded) econometric models and dramatic policy stories that “indisputably” show the prohibitive social costs of capital controls and the “spectacular” effects of capital account liberalization on the fortunes of the working class. The acceptance of the translators’ ideas would facilitate the expansion of their alliances (*enrolment*)⁷⁹⁸ by compelling the left party elite to recognize that its entry into policy coalitions with organized financial capital and the corresponding weakening of its ties with organized labor would benefit the electoral fortunes of the party because unions’ interests, as narrated by the neoliberal paradigm, actually harm the interests of the traditional constituency of left parties. Another stratagem could be positing analytical equivalence between two problems, thus requiring those who want to solve one to acquiesce to the proposed solution for the other.

Finally, an ANT perspective would mean an equal emphasis on reproduction as on change. This is because translation does not always end with

⁷⁹⁸ Callon (1984) defines enrolment as the formation of multilateral negotiations and ‘trials of strength’ to establish the roles assigned to each actor, which cements the structure created by the researchers. In order to achieve enrolment, a series of *interessments* also needs to occur in reaction to challenges at hand; rather than being an end result, it is a process that gets negotiated throughout.

the actors remaining in a constraining network. Dissidence can come from the defection of members of the translation networks but also from its non-human elements (concepts, data, models). Like Callon's scallops failing to anchor to supply evidence to the researchers' hypodissertation, the artifacts black-boxed by technoscientific elites might be exposed by dramatic events like systemic economic crises.

The ANT approach was limited by its framers to scientists and engineers, but its mantle is arguably generous enough to include other technoscientific elites that are relevant for the study of transnational translation. Also, its "grafting" onto the IPE agenda can benefit from the suggestion made by some constructivists that the job of coordinating and communicating economic ideas can, under certain conditions, be influenced by the permeability of knowledge production networks to the everyday politics of non-elite publics (Seabrooke and Tsingou 2009).

Further methodological questions

Constructivists interested in the diffusion of economic ideas have much to learn from other social scientists and even from economists about how to increase the resolution of their interpretations and, at the same time, to make those interpretations more rigorous. I submit that one can map out the transnational spread of economic ideas more rigorously if case studies and process tracing are complemented with bibliometric and content analysis, while the undertaking of discourse analysis on pivotal economic texts should lend the study of this phenomenon more interpreting finesse.

One of the observable implications of the transnational diffusion of new economic ideas is that titles and authors associated with new ideas developed abroad become part of the domestic scholarly and policy fields. Bibliometric analysis is an ideal instrument for measuring this aspect of transnational diffusion. It has specific guidelines for producing statistics which describe the variable density of adoption of foreign ideational innovations. This methodological instrument can be applied to the syllabi of required economics courses or to the output of academic economists produced over time. Since not all domestic importers of new ideas matter, I argue that it is reasonable to use this tool on the output of those who matter *de facto* in the domestic economic policy process. To this end, one can develop indicators of influence such as “technopol” status or appointment to top advisory positions in the economic policy sphere.

Depending on the context, local scholarly and policy output can be overwhelmingly large. This problem can be addressed by using specialized bibliometrics software packages. These programs, such as *HistCite*, are able to convert bibliographies into a *historiograph*, a time-based network of bibliographic materials and their citation relationships. The symbols are arranged according to the publication dates for the papers and connected by lines that represent the citation relationships (see appendix). The program can also establish how much literature has been published on the economic issues of interest by what authors, and which local economics articles were the most influential at a given point in time. The resulting historiograph forms a snapshot of a specific period or an in-depth look at the total history of an economic issue up to a given time. Once a

historiograph is created for a bibliography, it is also easier to understand the subject's key publication events, chronology and relative influence more objectively.

To analyze the message characteristics of domestic economic ideas systematically, some sociologists conducting empirical research on economists have “mainstreamed” the use of content analysis in studying the diffusion of economic ideas. To assess the degree to which US-style neoliberal economic ideas influenced the Mexican academy, Sarah Babb (2001) conducted a content analysis of 287 undergraduate economics theses. Monica Prasad then replicated this methodological approach in her research on economic reforms in Western Europe and the U.S. (Prasad 2006: 196; 197; 261; 263).

These studies are useful points of departure that can be further developed in several important ways. First, qualitative content analysis can be combined with an ethnographic approach, a methodological consideration acknowledged by media studies (Altheide 2005; Jernigan and Dorfman 1998). Second, constructivists may be interested in the fact that communication scholars (Krippendorf 2004; Neumann 2002) and scholars from business studies (Barringer et al. 2005) have developed sophisticated tools for combining qualitative content analysis with quantitative versions of the same methodology. Most importantly, however, coding economics theses from core undergraduate courses may be suggestive of what ideas are considered orthodox in academic departments and in the economic profession at a certain point in time.

Yet, such theses tell us very little about the ideas of prominent economists and, crucially, about economists who actually influence the policy process. I therefore suggest that this methodology should be applied first and foremost to the books and articles by elites, technopols, top government advisors and academic economists. Their joint appointments enable them to spread their ideas through the revolving door between knowledge institutions and the state. Also, given the increasing sophistication of think-tanks and research arms of central policy institutions (central banks, ministries of finance), the coding of their research output should become the object of content analysis as well. Finally, constructivists can learn from research done by economists who study the transnationalization of their own profession (Lora and Nopo 2009) by coding economics textbooks.

Content analysis provides opportunities for a systematic analysis of the spread of economic ideas in a way that is complementary to the traditional intellectual history approach. Yet, the interpretive edge of this text analysis tool remains relatively blunt when it comes to providing a clear picture of how new economic ideas are grafted onto similar domestic ideas. For this task, the kind of discourse analysis used by innovative strands of economics and intellectual history may be more appropriate.

During the last few decades, neoclassical economics has had a noticeable impact on the rationalist political science mainstream (Green and Shapiro 1994). Keynes' insights on uncertainty, market stability and the importance of conventions as coordinating devices in institutions inspired the work of some

constructivist IPE scholars (2002: 42-43; 260; Widmeier 2003). The field has a long (and increasingly unpopular) tradition in intellectual history (Blaug 2002). What is more, during the past two decades, this discipline seconded economic history in developing its own “discursive turn.” The opening salvo was Donald McCloskey’s *Rhetoric of Economics* (1983), a text that challenged modernist methods in economic theory by calling attention to how economists construct their arguments. While in the U.S., the application of discourse analysis to economic texts is relegated to the discipline of applied linguistics (Bazerman), in Europe it has been taken up by economists as well (Brown 1994, Backhouse, Gerard; Maki, Henderson et al 1993). Although marginal in economics, the lessons of this movement provide IPE constructivists with a major opportunity for honing their methodological tools when working with economics texts.

Following Latour’s understanding of scientists as rhetorical actors (Latour 1986) I argue that longitudinal discourse analysis applied to crucial texts, produced by key diffusers and translators over time, can give the ideational research program a subtler understanding of the discursive practices through which economic ideas are “indigenized.” Relative to mere idea description, discourse analysis provides a finer understanding of why and how some economic ideas are replicated, while others are altered or simply rejected. It can also explore cultural politics, revealing what discursive strategies are employed by idea translators to soften the incongruity between neoliberal and domestic ideas. The discursive turn in economic theory starts from the Hirschmanian assumption that the economic text is deeply political. Therefore, there is no good reason to

analyze the economic text differently from the political text, especially when it is addressed to audiences situated outside the economics profession.

Since discourse analysis is an intensive methodology, its proponents suggest working with a few carefully selected high-impact economic texts. For example, Hirsch and Marchi (1990) perform discourse analysis on Friedman's classic article "The methodology of positive economics" (1953). Similarly, Patinkin (1990) use literary theory to establish how Keynes understood his own *General Theory*, while Rosetti (1990) deconstructs the work of Robert Lucas. One can also find fine methodological guidelines in Vivienne Brown's appropriation of Mikhail Bakhtin's literary theory, treating economic discourse as a form of dialogue or intertextuality (borrowing and transformation of a prior text). This would be extremely useful for a close study of translation (Brown 1991; 1994; 1994; 2006; 2007).⁷⁹⁹

Finally, to obtain descriptive statistics of the degree to which new economic ideas "trickle down" to the profession at a given point in time, one useful tool is to mix surveys of economics students, interviews and curriculum analysis. Pioneered by economist David Colander, this approach generates useful quantitative and qualitative data on the economic profession in the US (Klamer and Colander 1991; 2005) and Western Europe (Colander 2009).⁸⁰⁰ A 2009

⁷⁹⁹ Also interesting is Brown's work on "canonization," or the process through which "some past authors are allowed to participate in modern conversations, thus making possible the "telescoping" of the historical distance between classics and contemporary economists" (Brown 1993).

⁸⁰⁰ Inaugurated by Klamer and Colander (1991), the mix of surveys and interviews method became so mainstream that AEA established a commission that reached similar conclusions (Krueger et al 1991). Colander's survey questions at a minimum include the following topics: current versus earlier perspectives on the scientific nature of neoclassical economics, the importance of neoclassical assumptions (rational behavior versus economic behavior according to conventions, the rational expectations hypothesis, imperfect competition, price rigidities),

Interamerican Development Bank study replicated the Colander method by surveying around 600 graduates in Argentina, Colombia, Chile and Bolivia.⁸⁰¹

The Colander method is useful for diffusion studies but it should be improved. The most important reason for this is that Colander's coverage of economic ideas is "thin." The survey and the interviews do not go beyond mapping how the assumptions of neoclassical economics are replicated. This leaves much room for clarifying views of specific economic ideas *within* the neoclassical spectrum, a task of crucial importance if we are to distinguish between, say, "varieties of neoliberalism."

As for economic history, there is much more to it than the narrative method: discourse analysis templates applicable to "constitutional" economic texts. There is also much to be learned from largely forgotten work done in this subfield on such key elements of the spread of economic ideas as the formation of linkages between economic theorists and non-professional opinion (Goodwin 1972; Solow 1993), or the popularization of economic paradigms through textbooks (Goldstrom 1968), popular media (Hutchinson 1968; 1977; Silk et al 1972; Warsh 1993) and university presses (Day 1993).

the stated interests of students by area (micro, econometrics, macro, finance, theory, economic history, comparative economic systems).

⁸⁰¹ Colander replicated his study fifteen years later (2005) and extended it to European economics departments using the same survey questions as for the US (2010). ENTER (European Network for Training in Economic Research) and EDP (European Doctoral program) can administer online surveys to current students. For the replication of his work on Latin American economics see Ahumada y Butler (2009), Espinoza et al. (2009), Rozenwurcel et al (2009). y Sarmiento y Silva (2008).

Appendix: *List of interviewees*

1. Ion Ilescu
2. Adrian Severin
3. Florin Abraham
4. Constantin Gheorghe
5. Daniel Daianu
6. Liviu Voinea
7. Valentin Cojanu
8. Sorin Ionita
9. Cristian Ghinea
10. Moisa Altar
11. Horia Braun
12. Valentin Lazea
13. Florin Georgescu
14. Horia Terpe
15. Valeriu Stoica
16. Petre Dandea
17. Florin Pogonaru

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