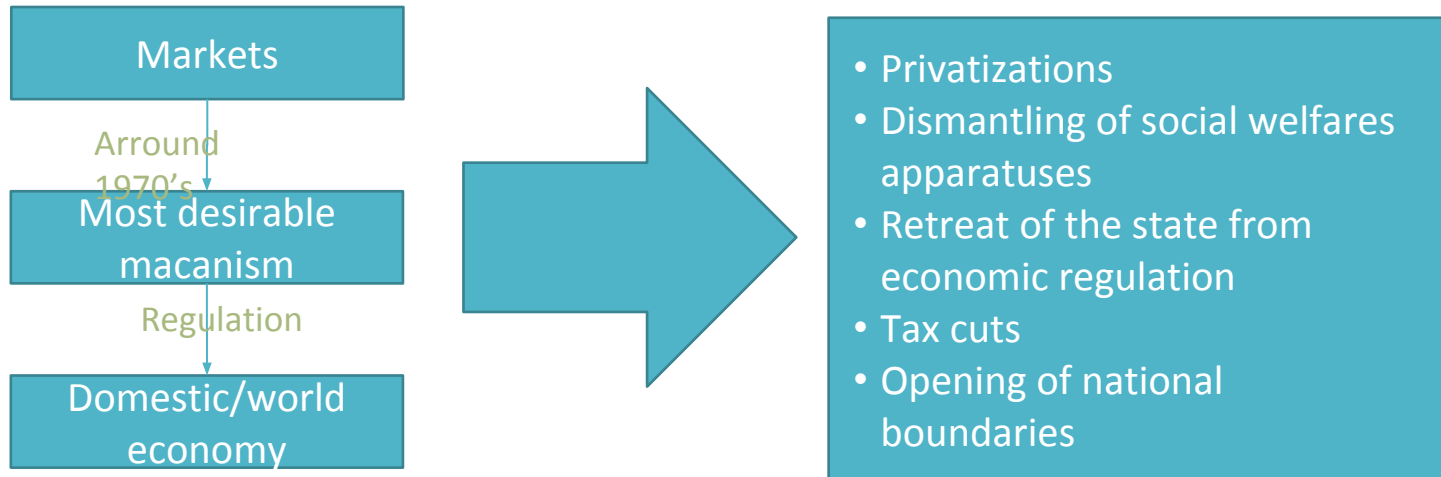


The Rebirth of the Liberal Creed : Paths to Neoliberalism in Four Countries

Marion Fourcade-Gourinchas and Sarah L. Babb (2003)

Atos Roseno
Guilherme Melo
Hamilton Gomes
Walter Santana

Overview

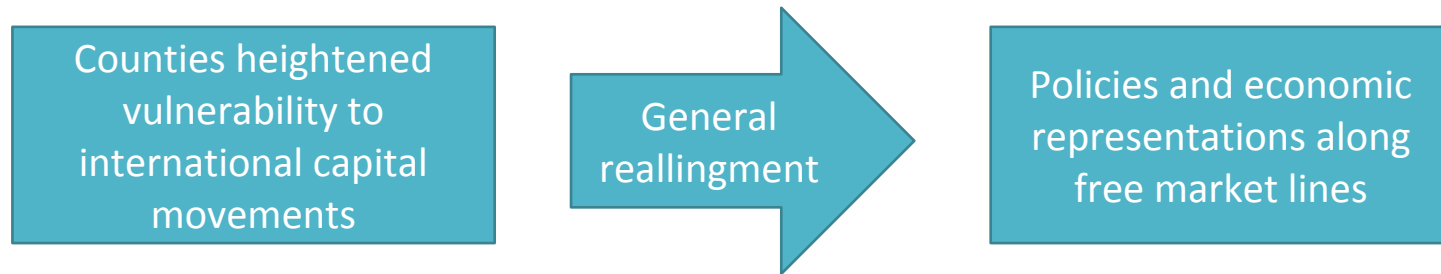


Objective & Methodology

- It seeks to understand “Why the markets has become such a taken-for-granted way to represent, and act upon, the economic world?”

- Analysis of the historical trajectory of four national economies: Chile, Mexico, UK and France

Hypothesis 1



Hypothesis 2



Explaining the rebirth of liberal creed

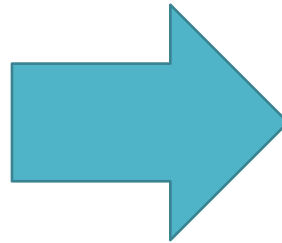
- View 1 (critics): A manifestation of the increasing control of capital over labor & Imposition to serve the interest of USA.

- View 2 (proponents): Liberal ideas work better than statist ones

- View 3 (Author): Importance of international (financial, institutional) environment + Differences from country to country (national institutions, culture)

The Changing International Economic Order and the Rise of the Market Paradigm

Postwar economic regime:
unique compromise between
national economic objectives
and an international system of
cooperative and liberal
multilateralism



Liberal financial order: low
inflation, balanced budgets,
strict monetary policy
managed by an independent
central bank

Why did this happen?

Bretton Woods System:

- Made possible by a strong system of monetary regulations, bound together by the political hegemony of the United States
- Capital control prevented global capital movements from upsetting the system of pegged exchange rates, allowing governments to pursue domestic objectives other than currency stability

Post Bretton Woods:

- Expansionary policies were exhausting their potential and becoming inflationary
- Financial innovation, multinationalization of firms: movement in favor of the liberalization of capital movements
- Crisis of the balance of payments

Chile

Before Liberalization:

Government intervention to promote industrialization and development generated:

- Unsuccessful at producing economic growth
- Due to the small market, it was unsuccessful at production import substitution industrialization
- High inflation
- Payment Balance Deficit



Escalating political polarization until reach the military coup

New government measures:

- Chicago boys
- Radical neoliberal set of policies

Liberalization

Summary:

- Pioneer to implement post war radical free-market reforms
- Neoliberal experiment as the outcome of unresolved domestic social conflict
- Neoliberal revolutions started as a social movement outside of the state, rather than an internal project of state elites

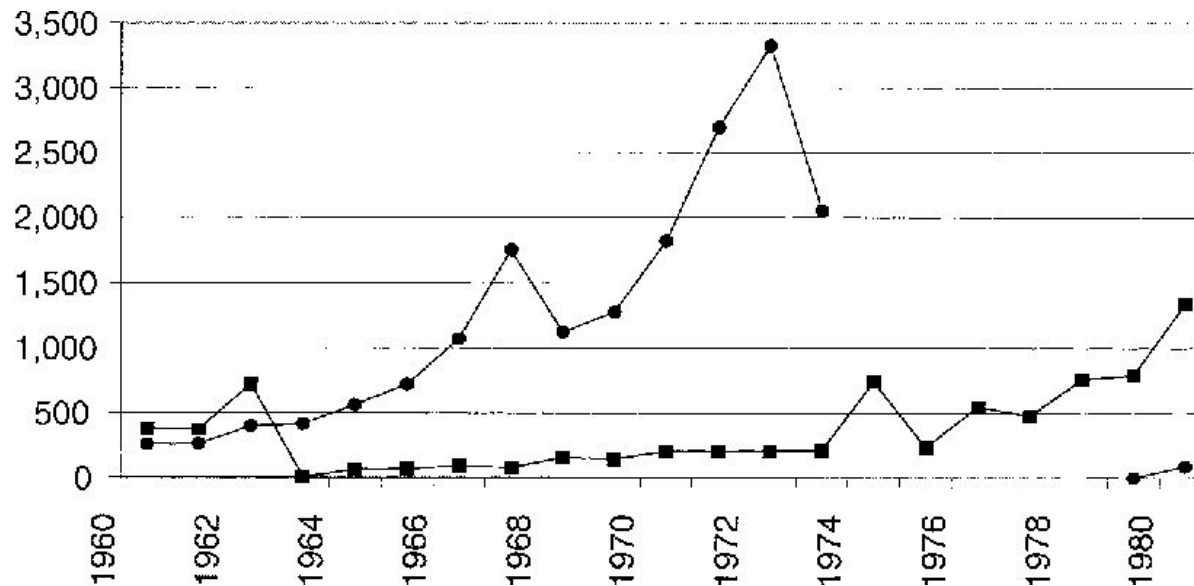
Britain

- 1940s-1970s: full employment, “stop-go” cycles – monetary policy played only supportive role
- Historical commitment to a strong pound - currency defense had an almost “moral” character
- Oil shock: budget deficits, union issues, inflation, unemployment
- 1972: Breakdown of international financial system – speculation against the pound
- Rise of conservative think tanks, followed by economic writers and columnists
- Financial Institutions of London
- External influence (IMF, US, Bundesbank)
- Shift towards monetarist ideas

Mexico

- **Economy and Society in Mexico**

- 1940 – 1968:
- *Industrial Development with Strong State*
- *Protectionism*
- *Effective System for Controlling Social and Political Conflict*
- *Single Party*
- *Social and Labor Unrest in Mexico was remarkably low throughout the period following WWII*



Mexico

- **Economy and Society in Mexico**

- 1968 – 1982:

- *Ruling Party Losing of Legitimacy*

- *Increase of Government Spending from International Financing (Echverría and Portillo)*

- After 1982:

- *Third World Debit Crisis*

- *Complete Reversal of interventionist policymaking*

- *Bureaucratic NeoLiberalism*

Mexico

- **Mexican NeoLiberalism**

- First Stage (1982):

- *Structural Adjustment Measures*
- *Fiscal and Monetary Austerity*
- *Beggining of a Gradual and Selective opening to Free Trade*

- Second Stage (1985):

- *Structural Reforms (Neoliberalism policies)*
- *Radical Opening to Free Trade*
- *NAFTA 1994*

Mexico

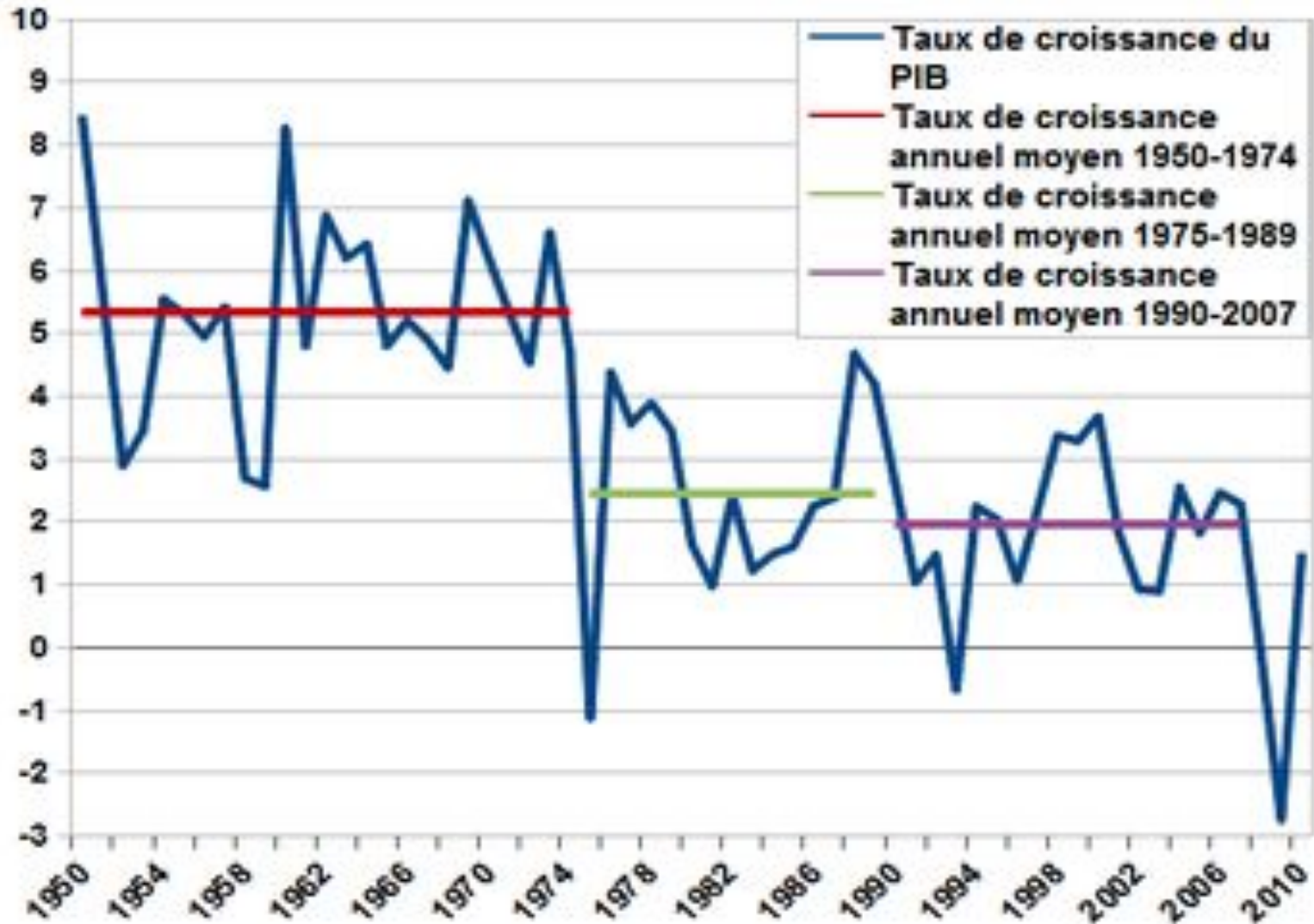
- How Mexico undergo this radical Turnaround from Populism to Free Market Capitalism?



“Mexico went much further in reducing its trade barriers than the [World Bank] required. . . . The two sides agree on almost everything. . . . World Bank economists and Mexican officials often spend weekends together brainstorming on policy issues. Many are graduates of the same U.S. universities, and friends” (Fraser 1992, p. 7).

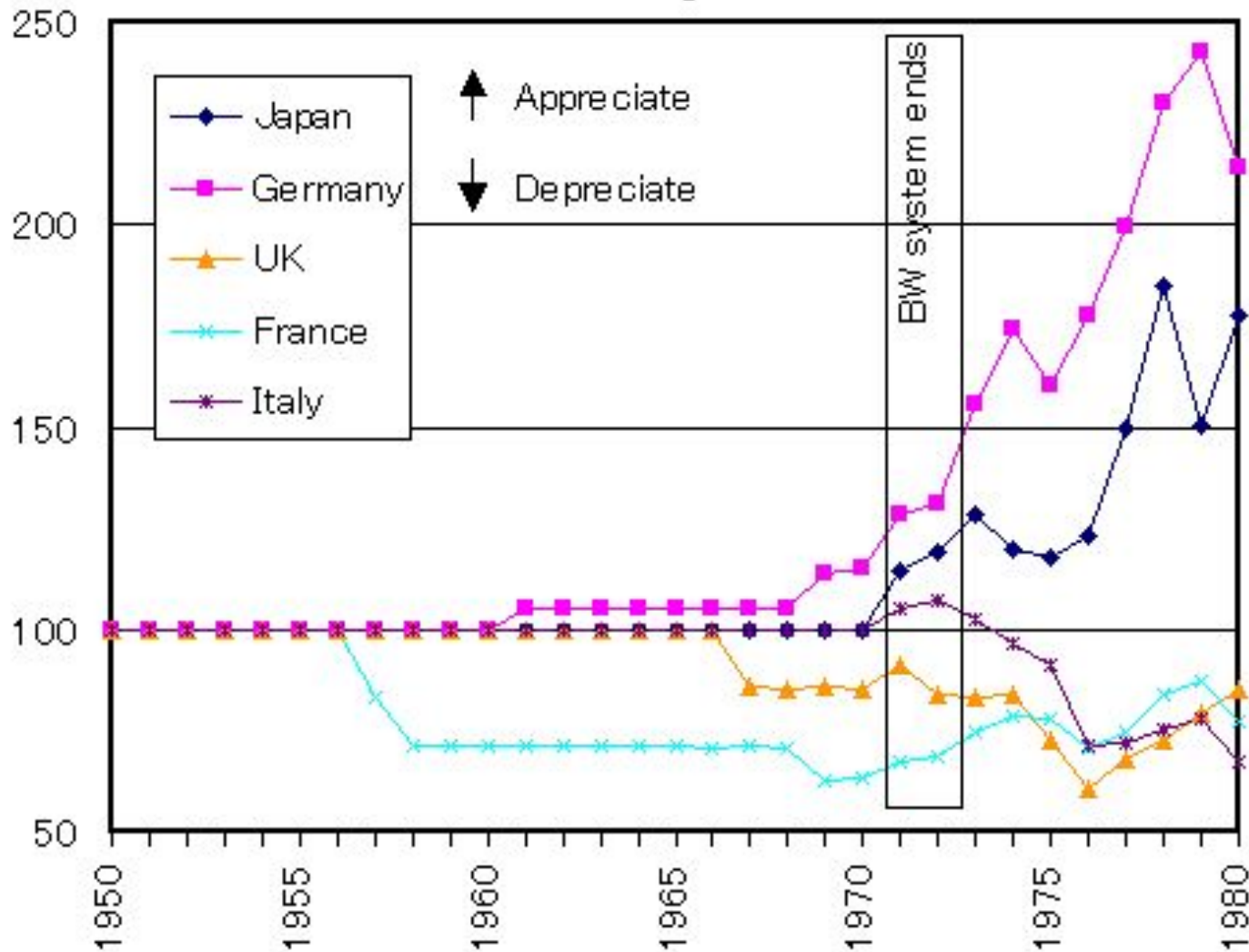


France in the post-war era



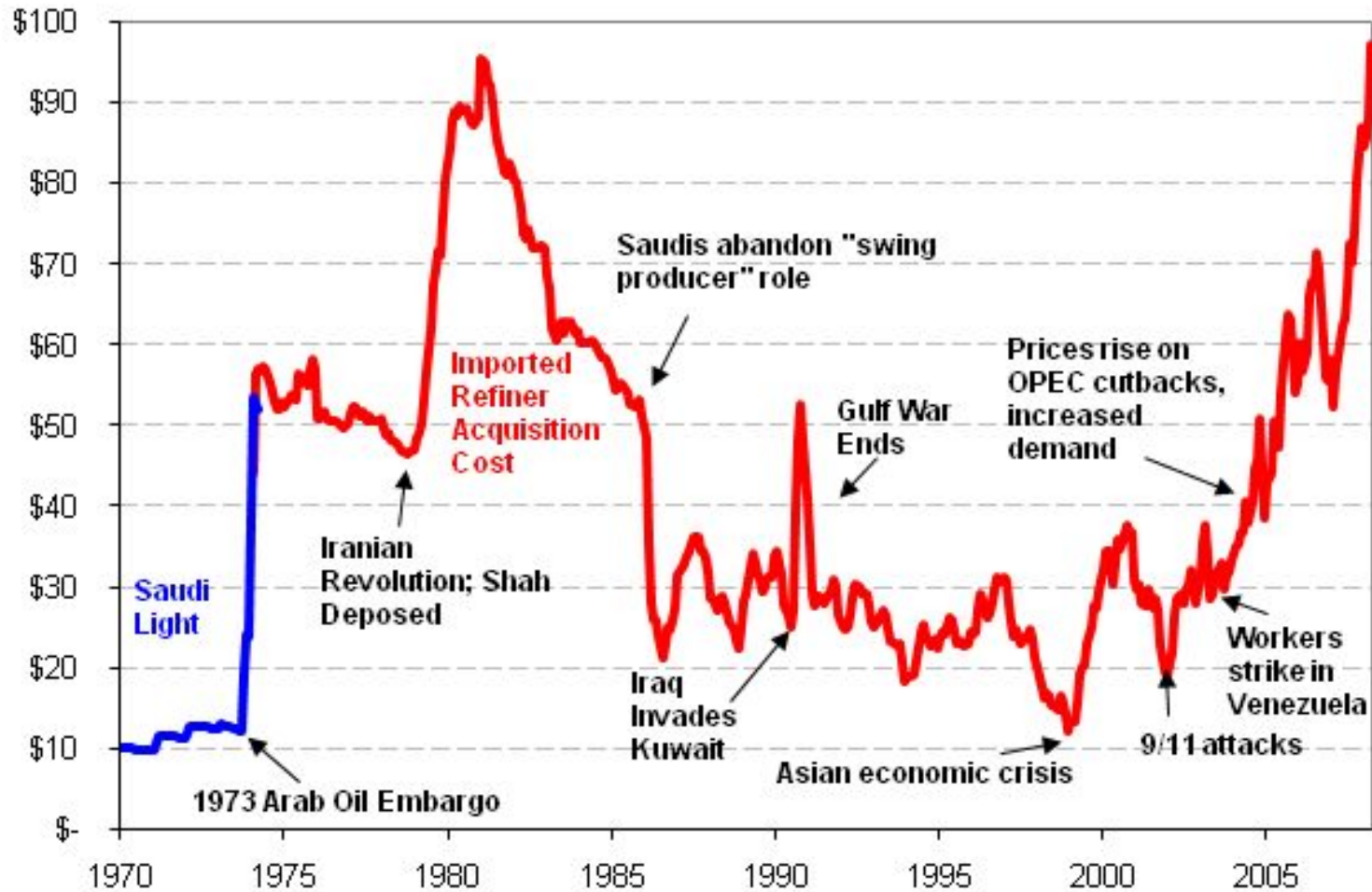
The problematic 70's - Part I

Currencies against USD



The problematic 70's - Part II

Major Events And Real World Oil Prices, 1970-2008Q1
(Inflation-adjusted 2008 dollars per barrel)



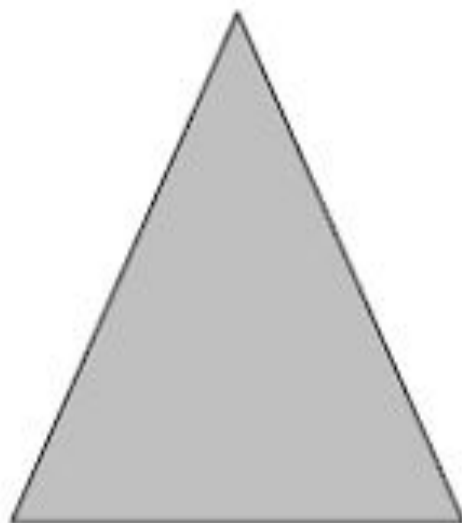
Austerity in French: “La rigueur”

- Privatization of state owned companies
- Commitment to control inflation and maintain a stable currency
- Commitment to keep the government’s deficit below 3% of GDP
- Commitment to the European integration process (Germany as a role model)

A new macroeconomic environment

Impossible Trinity

Fixed Exchange Rate



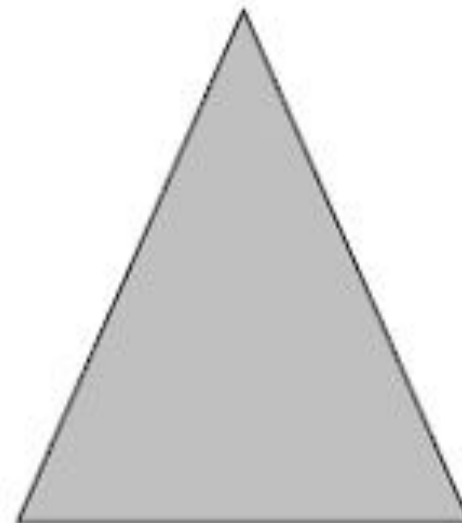
Independent
Monetary Policy

Free Capital
Flows



Holy Trinity

Price Stability



Financial
Stability

Sovereign Debt
Sustainability

Figure - 2

A summary: Different patterns but
common achievements

	Chile	Britain	Mexico	France
Balance-of-pay- ment crisis	Yes	Yes	Yes	Yes
Inflation	Hyperinflation	High rela- tive to neighbors	Low	Medium relative to neighbors
Social conflict (strikes)	Very high	High	Low	Medium
Business support for neoliberal ideas	High	High	Mixed	Low
Origin of neo- liberal ideas ...	Political	Political	Technocratic	Technocratic
International opening	Very rapid af- ter transition	Already very open	Progressive before and after neoli- beral transition	Progressive before and after neo- liberal transition (common market)
Outcome	Ideological transition, 1973-79	Ideological transi- tion, (1976) 1979-83	Pragmatic transition, 1985-	Pragmatic transition, 1978 and 1983-

Thank you!