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When do local economists have an effect on institutional change?

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Abstract

When faced with crisis some societies cling to blatantly damaging institutions. Durable institutions are self-enforcing in Greif's sense that no one with the power to change them has an incentive to do so. Even actors who are not benefiting from the status quo often hold beliefs and norms resistant to radical institutional change. Radical institutional change means not merely changing the rules of the game, but what Shepsle described as replacing one game form with another, transforming the current institutional regime into something substantially different. North argues that ideas and learning are powerful forces in overcoming the beliefs and norms that inhibit radical reforms of institutional frameworks. Under what circumstances can local economists provide these ideas and promote this learning? In this paper I develop hypotheses about what determines the influence of local economists on radical change in institutional regimes. I then analyze how well these hypotheses explain the influence of local economists on institutional change in eight case study countries (Argentina, Chile, China, India, Indonesia, Korea, Peru, and Taiwan).

Changes in institutions ultimately depend on the decisions of a country's citizens and the individuals who govern them. Under most circumstances neither the general public nor their leaders favor radical change in their society's institutional framework. By institutional framework we mean fundamental rules, such as constitutions, and widely held norms, such as trust, that provide the basic constructs for human interaction within a society (North 2005). Radical change in an institutional framework means not merely changing the rules of the game, but what Shepsle has described as replacing one game form with another, transforming the current institutional regime into something substantially different (Shepsle 2001). A society's institutional framework is the product of its history: ruling groups structure rules and promote and enforce norms that perpetuate their interests. A society's institutional framework is also congruent with that society's shared beliefs about how the world operates. It is not surprising that those who stand to lose if the institutional framework is altered are especially resistant to change, and they are usually powerful enough to prevent it. It is more surprising that many actors who are not benefiting from the status quo also resist change. Since an institutional framework reflects a society's dominant belief system, radical change would require people to change their beliefs and overturn their prior thinking about the world, which is a wrenching process. Durable institutional frameworks are self-enforcing: no one with the power to change them has an incentive to do so (Greif 2006). This explains why societies sometimes cling to blatantly damaging institutions.

Despite the persistent, self-enforcing nature of institutional frameworks, under the right circumstances changes occur that over time transform societies. History shows that when circumstances are ripe, as they were in Europe during the Enlightenment, ideas and learning are powerful forces for overcoming the beliefs and norms that inhibit radical change in institutional frameworks (North 2005). This paper analyzes the circumstances in which local scholars stimulated new views and new beliefs, fostered changes in economic policies, and helped encourage and sustain an incremental process that eventually produced radical changes in institutions. Scholars are not a sufficient condition; they may be a necessary condition, although there is not enough hard evidence to determine if this is true. Even if not necessary, scholarship is one development tool that has proven to be effective in many countries that have recently developed.

The next section of this paper proposes hypotheses about how scholars influence policies, beliefs, and institutions. It then tests these hypotheses in six country case studies. The final section addresses the question: where do we go from here?

When do scholars influence change in policies, paradigms, and institutions? Some hypotheses.

Institutional change is not a matter of simply declaring new rules and establishing new organization forms, but of changing norms and beliefs inherited from the past (Greif 2006, pp.210-11). We argue that change in deeply rooted institutions and beliefs begins with series of policy reforms that are explained and supported by a new set of assumptions about the way the economy and the world function – a new economic paradigm. Campbell speaks of "… cognitive paradigms, taken-for-granted descriptions, and theoretical analyses that specify cause and effect relationships, that reside in the background of policy debates and limit the range of alternatives policy makers are likely to perceive as useful." (Campbell 2002, p.22)

The change process begins with a felt need for reform among those powerful enough to enact new policies and change institutions. The desire for change is often trigged by an external threat, such as foreign competition for trade or military dominance, or by economic upheavals, such as hyperinflation or abrupt economic decline, which cannot be remedied by status quo policies and institutions. An external threat or economic crisis creates the potential for radical change in economic paradigms even though elite actors may only be seeking to change policies in the first instance.

A threat or crisis does not mean that interest group politics can be ignored. Not all powerful elites will be ready to change their assumptions in response to threats or crises. Some will oppose any change in policy programs or economic paradigm, no matter how dysfunctional, if such a change would threaten their power base. Meaningful change in institutional frameworks is only feasible when those with the power to alter policies and paradigms are in a position to ignore, overpower, or buy out those who oppose change. This opportunity could arise when the usual power relationships have been undermined by crisis, or weakened or overturned through a political change, such as a revolution, coup, or election.

The external threat or economic shock creates an opening for change, but change is not inevitable even if opposition can be overcome, since the elite must first accept the new policy program and its rationale, its paradigm. Hall (1993) argues that new ideas influence policy when they are persuasive enough to offer an alternative to the worldview or paradigm of those in a position to provoke change. At a minimum a new paradigm must be seen as relevant to the perceived problem, different from previous failed models, and internally coherent. Significant changes are more likely when there is a role model to emulate that provides evidence that the new paradigm will work. A role model is not sufficient, however. There are many failed attempts to emulate a role model's policies and laws without the necessary supportive framework. For example, Keefer and Stasavage (2003) find that efforts to create monetary stability by mandating the independence of the central bank largely fail without effective institutions to check the discretion of political actors.

A new paradigm is more likely to be accepted when it is advocated by individuals perceived to be credible experts. Haas (1992) suggests that experts gain credibility when their ideas are shared by a community of recognized fellow experts who are seen as professionals with similar normative and causal beliefs and similar criteria for evaluating the validity of knowledge in their area of expertise. Lupia and McCubbins (1998) have shown through experiments that those receiving new information will trust the information when the proponent is viewed as knowledgeable, and seen as either having the best interests of the audience at heart or as operating in an institutional context that creates incentives to be truthful. People see advocates as motivated to be truthful when lying would be costly to the proponent because truth can be verified and lies can be punished, or when the proponent is observed to exert costly effort by, for example, spending money and time to show that her ideas will work (Ibid).

Proponents of new ideas will be more effective at changing paradigms if they understand the constraints and opportunities created by previous shared assumptions and by the inherited institutional framework. Shared beliefs and institutional frameworks are vastly different in different societies, giving experts with local knowledge a strong advantage in promoting sustainable change in paradigms. Local experts must have also channels -- books, TV, conferences, conversations -- to communicate their shared vision to decision-makers and the public. Outside experts, such as aid agency staff, foreign consultants, and other foreign advisors often have the channels without the local knowledge, while local scholars often have the knowledge without the access.

In our conceptual framework we are focusing on one kind of expert, scholars, particularly economists. Although scholars share beliefs and mental models with the rest of the population, scientific training usually conditions them to be more open to learning and better equipped to notice empirical evidence that contradicts their prior beliefs. They also have more exposure to new ideas, especially if they are educated overseas, attend conferences outside their country, or collaborate with foreign researchers. Economics training prepares scholars to develop coherent models to explain their observations of regularities and anomalies, to use accepted methodologies to test theory against evidence, and to follow coherent assumptions in imagining change and predicting its effects. As Khun suggests, advocates for change are more likely to be younger scholars (Kuhn 1962). Younger scholars typically have fewer stakes in status quo institutions and are in the process of forming peer groups with like-minded colleagues.

So far we have focused on what it takes for experts to convince the elite to accept a new economic vision and overcome elite opposition to change, but North (2005) argues that for sustained institutional change, new ideas must eventually gain the confidence of a broader public, to the point of changing their beliefs about the world. Repressive dictatorships may be able to alter the official ideology and require conformity, but if public sentiments do not change, then reforms will not endure over the long run even in dictatorships. The sociological literature suggests that the diffusion of new ideas or approaches is more likely when the political leaders advocating change are prestigious, the proposed changes are their consensus view, and the leaders command high levels of media attention (see Strang and Soule 1998, p. for a review). Empirical evidence on diffusion is thin and many important questions have yet to be answered, including how the process of diffusion occurs, how to measure changes in beliefs as opposed to current opinions, and what proportion of the public needs to accept the new paradigm and policies for change to be sustained.

Change begins when, in response to a threat or economic shock, the ruling elites introduce a new policy program proposed by a group of expert scholars and justify reform in the language of the new paradigm. If the ruling group views the outcomes from these early changes as largely positive, they may enact additional, more fundamental reforms, including changing rules and permitting new forms of organizations to enter. This is where the process often stalls, however. The crisis that created the impetus for change has been resolved by the new policies. Inflation has been curbed and growth has resumed, why go further? The new economic paradigm promises continued stability and even higher rates of growth, but the risks for the ruling groups of fully implementing the new paradigm are becoming increasingly evident. (Indonesia is an example this; see the next section.)

In rare cases elites continue to enact changes even after the crisis abates, including changes in fundamental institutions. New policies and institutions create opportunities for new organizations to form. Beneficiaries of the new policies have a stake in promoting further institutional changes and preventing back-sliding, and begin to demand not just economic power but political power. We describe this effect in detail for six case study countries in the next section.

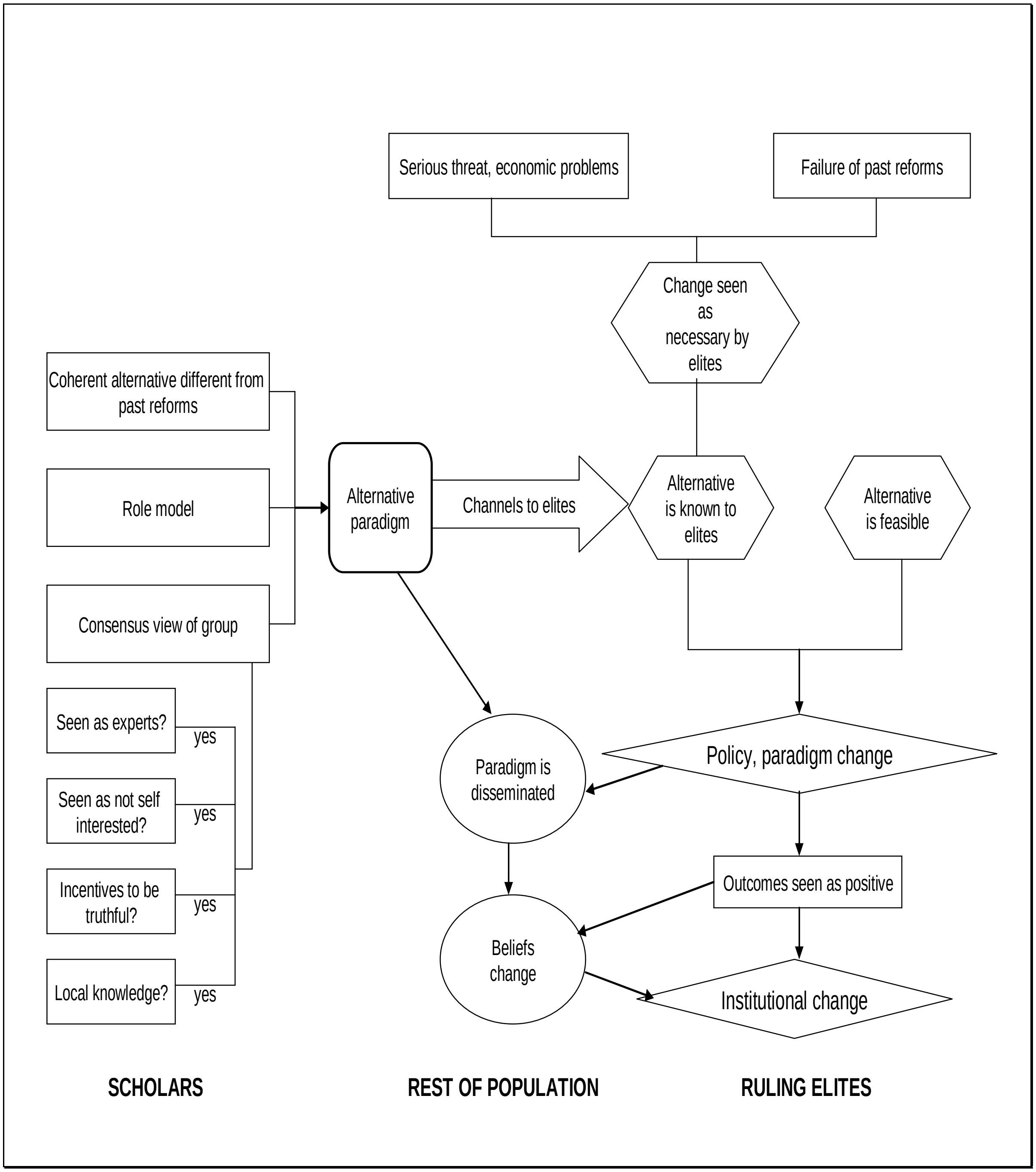
We summarize our hypotheses about the conditions that make it more likely that scholars promoting new ideas will provoke policy and paradigm shifts that lead to radical change in a society's institutional framework as follows:

1. *Change is seen as necessary*: those who have the power to make radical changes a) face serious threats or economic problems, and b) perceive that previous reforms failed to solve these problems; and,
2. *There is a viable alternative*: an alternative economic vision exists that is internally coherent and different from previous failures; and,
3. *There is a role model*: the alternative vision is supported by a role model, i.e. some applicable experience elsewhere; and,
4. *The alternative is the consensus of a group of experts*: the alternative vision is the consensus proposal of a group perceived as experts by those who have the power to make radical changes and who are seen as trustworthy because they are believed to be:
    a. disinterested,
    b. motivated to be truthful, and
    c. knowledgeable about the constraints and opportunities provided by local history and local institutions; and,
5. *The alternative is known by the elite*: the expert group has channels to make their alternative vision known to those with the power to change institutions; and,

6. *The alternative is feasible*: those in a position to effect change have the ability to co-opt, compensate, or coerce interest groups who might oppose radical changes; and,
7. *The alternative is diffused*: expert proponents and institutional entrepreneurs have the prestige, persuasive power, and media access to diffuse the new vision to those interest groups whose beliefs need to change for the new institutions to become self-enforcing; and,
8. *Early outcomes are successful and create beneficiaries who support further change*: Early attempts to enact the new policies and institutions proposed by the experts are successful in eliminating or reducing the economic problem and create beneficiaries who organize to prevent retreat.

We hypothesize that these circumstances make it more likely that the process of change in policies and paradigms to cause changes in institutional frameworks. This process is presented graphically in Figure 1. In the next section we compare these hypotheses with the experience of selected developing countries.

Figure 1. Policies, Paradigms, and Institutional Change



When do scholars influence change in policies, paradigms, and institutions? Case Studies.

This section compares the roles scholars played in six developing countries according to the hypotheses summarized above; the discussion is summarized in the appendix table. Our sample is not random. Rather we chose cases of development success (Taiwan, Korea), rapid economic growth and political transition (Chile, China), and counterfactual cases where scholars had influence but reforms were not sustained (Argentina) or where scholars' influence was circumscribed. Taiwan and to a lesser extent Korea are politically and economically open access in the North et al. terms (North, et al. forthcoming). In Chile, scholarly advice led to institutional changes and since reform Chile has become increasingly open access politically in line with its open access economy. The fourth case, China, is out of equilibrium with an increasingly open access economy and a closed access political system. Argentina is an example of how a nominally open access society has not been able to sustain reform despite highly influential scholars. It is a counterfactual case that seems to have all the requirements for development yet fails to sustain reforms. Indonesia is a second counterfactual case. Despite scholarly influence and two decades of growth, the economy imploded and the economy and polity remained closed.

We have focused on countries which pursued market-oriented paradigms, although with many local adaptations. Scholars have sometimes influenced countries to pursue a different route, of course. In India, for example, India's dominant intellectual elites largely rejected free markets and global liberalization (Cameron and Ndhlovu 2001, Mukherji 2002, Tendulkar and Bhavani 2005). A long and influential tradition of Indian scholarship stresses economic interdependence, social values, the beneficial role of government, and the importance of uniquely "Indian solutions" to economic problems. The experience of China and other rapidly growing East Asian economies has been characterized by such scholars as not especially relevant to India. Although some prominent Indian economists do favor deregulating markets and liberalizing trade (for example, Jagdish Bhagwati, Deepak Lal, TN Srinivasan), many of them are outside of India and until recently their views have not represented mainstream thinking in the Indian academy. Some attribute the slow pace of Indian economic liberalization to this deep seated intellectual opposition (see for example, Mukherji 2002). In the mid-1980's an increasing number of scholars began to favor reforms that had been proposed by Bhagwati and others in the mid-1960's (Khatkhate 1994). The gradual deregulation and increasing openness introduced after Prime Minister P.V. Narashimha Rao come to power in 1991 was partly a response to the increasing intellectual arguments for deregulation, but also a response to public sentiment that increasingly favored reform and India's marginalization in world economic affairs (Bhagwati 1993).

We did not include cases from Central Europe, despite recent development successes there, notably in the Czech Republic, Estonia, Hungary, Slovenia, and Slovakia. We were concerned that confounding factors make these countries sui generis. In particular, the dominant paradigm, communism, was not part of shared beliefs in most of these societies. Arguably, the planned economy was viewed by the public and many elites as a foreign ideology imposed and sustained by outside force and outside financial incentives. Scholars in Central Europe labored to keep the memory of their past economic system alive and teach it to subsequent generations. For example, in a conversation in May, 1990, the Vice Dean of the Prague Higher School of Economics, Helena Kotrbova, described to Mary Shirley how the economics faculty had secretly circulated photocopies of Western economics texts, such as Samuelson's *Economics*, for that very reason.[i] If this explanation is correct, Central European scholars proposing a return to a market economy were able to use powerful nationalistic and historic arguments that would be irrelevant in the rest of the world.

We chose to study periods when there was a bright-line turning point in the official policy program. We were interested in knowing why some policy changes culminated in sustained changes in institutions, while others did not, and what role scholars played a role in winning acceptance of a new conceptual paradigm. Although much further research and additional cases are needed to refine and test our premises, several regularities are evident in the cases that support our hypotheses about the circumstances that allow scholars to influence economic institutions.

Change is seen as necessary

Economic problems or external threats, often combined with political changes, created the opening for new a new policy program in all of the case study countries. Previous efforts to solve economic problems had failed in our cases and the ruling elite were searching for new ideas. Four of the countries, Argentina, Chile, Indonesia (Phase I), and Korea faced a crisis. In Chile, Indonesia I, and Korea a military dictatorship had taken power in a coup and proved unable to curb inflation or maintain growth. In Chile, the military deposed President Salvador Allende in a bloody coup in 1973. The Allende government had pursued a socialist program of nationalization and agrarian reform, imposed wage increases and price controls, and froze prices on public services. By 1973 inflation had soared to an annual rate of 500 percent, the fiscal deficit had climbed to 25 percent of GDP, and Chile had depleted its international reserves (Bosworth, et al. 1994, pp.4-5). The military installed a junta headed by General Augusto Pinochet to run the country. Initially the economic team was composed of military officials and technocrats associated with the Christian Democratic and National Parties, and pursued a moderate program of reforms. When oil prices rose sharply and Chile's export earnings fell in 1975, the military government began looking for new solutions. In Indonesia, when Suharto took over from the previous dictator Sukarno in a military coup in 1966 the economy was in a "shambles" (Kuncoro and Resosudarmo 2005, p.1). Inflation had accelerated to an annual rate of 600 percent, production and trade were stagnant. Suharto wanted to win public support by restoring growth and curbing inflation. Reforms abated when crisis abated, which is why there was a second phase of reforms when oil revenues fell in 1980 and Shuarto was again amenable to follow scholars' advice. Although Korea's economic situation in 1980 was far less severe than in Chile or Indonesia, it was a shock compared to Korea's past economic performance. Korea's economic stagnation was combined with a new and unpopular dictator. General Chun Doo Hwan took power in 1980 after the assassination of the previous autocrat, President Park Chung Hee, in 1979. Park's government had promoted large investments in heavy and chemical industries financed by directed credit from state owned banks; it also gave monopoly privileges and subsidies to large conglomerates known as *chaebol*. These economic policies contributed to rising shortages of skilled labor, an increase in inflation to an annual rate of 26 percent (considered high in compared to past inflation in Korea), and a fall in the rate of growth from 10 percent a year to 2 percent (Haggard and Moon 1990, pp.217-18). Chun was unpopular after his brutal suppression of a civil uprising in Kwangju in May of 1980 (Kim 1994). Chun wanted to restore growth and stability to increase his government's legitimacy and quiet the democratization movement.

The fourth crisis case was a democracy, Argentina. When Carlos Menem was elected president in 1989, inflation was at the astronomical annual rate of 3000 percent and the economy was in recession. Even before Menem took office he had become convinced of the need for change and once elected he adopted a program of reform very different from his populist campaign (Stokes 2001). Domingo Cavallo, the leader of a team of like-minded, market-oriented scholars, was a close personal friend of Menem and after Menem was elected on a vaguely populist platform he "…unabashedly revealed his market-oriented economic program – in many ways, a carbon copy of Cavallo's ideas." (Corrales 1997b, p.58) Menem devalued, privatized key enterprises, and introduced an austerity program, yet inflation persisted and began to accelerate in 1989.

There was not a crisis in China but economic problems were accumulating. The post Mao leaders of the Communist Party were convinced that accelerated economic development was essential to maintaining the CPP's power (Qian and Wu 2003). Party leaders had engineered a number of economic successes, but by 1993 tensions between the degree of central planning and the decentralized economy were increasingly evident, while the debts of state enterprises continued to spiral upward. China's township and village enterprises or TVEs had been highly successful engines of growth, but were beginning to have problems competing in China's increasingly competitive product and factor markets. Rampant corruption among government officials, the collapse of the

Soviet Union, and the rapid development of Japan and the East Asian tigers further spurred China's leaders to reconsider the centrally planned economy.[ii]

Taiwan faced moderate economic problems, plus external threats. The ruling elite in Taiwan in the 1950's and 1960's were members of the Kuomintang or KMT who followed Chiang Kai-shek from mainland China to the island after their defeat by the Communists. Initially Taiwan grew rapidly following a process of heavy state investment and ownership financed in large part by US foreign aid. By the mid-1950's, growth was slowing, inflation was rising, and the US was pressuring the country to reduce its dependence on foreign aid. President Chiang Kai-shek also wanted to free Taiwan from its dependency on US aid and reduce the influence of US advisors (Haggard and Pang 1994, Wu 2005). In the 1980's a second phase of reforms was triggered by external threats and challenges, including the rapid growth and widening recognition of China, Taiwan's growing isolation, continued military threats from China, pressures from the US to reduce its trade deficit with Taiwan, and Taiwan's desire to join the WTU. Internally, the expanding private business sector and native Taiwanese were demanding more freedom, both economic freedom, demanded by businesses wanted to invest in China, for example, and political freedom, demanded by the democratization movement.

There is a viable alternative and role model

In all of the cases a group of local, Western-educated scholars advocated a policy program based on an economic paradigm that differed from failed past economic models. The economic policies promoted by these scholars generally called for deregulation, lower barriers to trade, less government intervention, fiscal discipline and tax reform, and privatization of state-owned business. The underlying conceptual paradigm that justified these policies assumed that market economies with credible protection of private property rights and free trade -- or at least with an orientation towards export promotion rather than import substitution – would generate faster growth, more employment, and greater efficiency.

There is less support for our hypothesis that reform is more likely when there is a role model. Chile did not have an obvious contemporaneous role model that had implemented similar reforms, although clearly the US had a significant impact on the thinking of Chile's US educated scholars. Chile did became something of a model for Argentina. Korea and Taiwan were influenced by the US, although it is not clear that they saw the US as a role model. Although too small to be models, the '"our little tigers" were influential in China's views about the desirability of markets. Indonesia did not have a clear role model, although the US was an important influence on its scholars many of whom were living there.

The alternative is the consensus of perceived experts

In most of our cases the scholars advocating change formed an identifiable team. In Chile the "Chicago Boys" had PhD's in economics from the University of Chicago and other US universities, and advocated the free market views of Milton Friedman as early as 1970. They proposed to liberalize markets, free trade, encourage private initiative, sell public enterprises, shrink the government bureaucracy, and reduce political discretion over economic decisions (Silva 1992). One source identifies 26 economists who supported the Chicago approach and served in important government positions during the military government (Dèlano and Traslaviña 1989, pp.32-6 cited in Ibid, p. 3).[iii] When a member of the team asked one of the generals why they had taken the advice of the free-market economists the general replied, “Because you agreed with each other and gave us simple answers to our questions.” (Pinera 1994, p.225)

The “Cavallo Boys” in Argentina were part of Domingo Cavallo’s think tank: “young, highly trained and internationally trained. Loyalty to anti-statist ideas was a requirement for recruitment…” (Corrales 1997b, p.56) . Cavallo had written a widely-read book, *Volver a Crecer* (Return to Growth), laying out his economic ideas in 1984, and had personally delivered a copy to Menem’s predecessor, President Raul Alfonsin (Ibid). He was a personal friend of Menem’s and Menem was familiar with his ideas before he was elected.

The “Berkeley Mafia” in Indonesia were largely students at the Faculty of Economics at the University of Indonesia who went on to get PhD’s from the University of California at Berkeley and other US universities. The Berkeley Mafia, particularly Widjojo Nitisasro, impressed Suharto at a seminar in August 1966, which led to their appointment as a “Team of Experts” in economics and finance (Ford Foundation 2003). They promoted free trade, limited state intervention in the economy, and conservative fiscal and monetary policies. This group had considerable longevity and some were key advisors (Widjojo Nitisasro and Ali Wardhana) in both phases I and II of reform.

In Korea, Kim Jae Ik, who had a PhD from Stanford, became the chief economic advisor to President Chun, and he and other US educated economists prepared a set of reforms in macroeconomic policy (Lee 2005). Their agenda called for a reduction in government deficits, tight monetary policy, trade liberalization, reduced control over foreign direct investment, privatization of commercial banks, and a phase out of subsidies to heavy and chemical industries.

The most influential scholars in Taiwan were originally from mainland China and were living in the US and teaching in US universities. In the late-1950's S.C. Tsiang (Rochester and Cornell) and T.C. Liu (Cornell) shaped a vision of a market economy and became influential government advisors. They proposed a shift from import substitution to export promotion and argued that a market oriented approach would be more effective than the command economic as a way to achieve rapid industrialization. In the mid-1980's they were joined by scholars from Yale (John Fei), Michigan State (Anthony Koo), and Princeton (Gregory Chow), as well as Chinese University Hong Kong (Hsing Mo-huan).

In China there was no single group of scholars, but a large cadre of young Chinese scholars who had been educated in universities abroad and returned to China to staff the universities and the bureaucracy. Sending scholars to study aboard and bring back "fresh knowledge" was a practice used by the Qing Dynasty in the 19th century (Antal and Wang 2003). Deng Xiaoping adopted a "strategy of strengthening China through human capital" in 1978 and by the end of 2003 a total of 700,200 Chinese nationals had studied abroad and some 172,800 of them had returned (Li 2004, p.2). Since 1988 China has also had a policy of establishing world-class universities. This was combined with intentional policies to increase turnover in mid-level and top positions in the provincial governments, including age limits on some positions (Li 2002). What the Chinese term "western economics" replaced Soviet style economics in education and research over the course of the 1980's (Qian and Wu 2003). The intellectual roots of the decision to build market socialism in 1993 dates back to debates in the 1980's over the virtues of an integrated approach to establishing a market system by the "integrated reform" school (Wu, et al. 1988, cited in Qian and Wu 2003) which was rejected in the 1980's but had an impact in 1993 (Qian and Wu 2003).

Experts are seen as trustworthy with local knowledge

The influence of scholars in the case study countries was partly based on their credibility as highly trained, technical experts with no ties to business and no corrupt motivation for their economic views. Most were considered apolitical; even Cavallo, who was elected to Congress, was never seen as wedded to any one political party. The status of the scholars in these cases was high; they were prominent persons with reputations to protect, and as such, motivated to take positions based on their research or their convictions rather than their personal self-interest.[iv] The scholars were also local, living and working in their own countries, except in Taiwan. Although the scholars who were especially significant in Taiwan's reforms lived and worked in the US, they had close ties with top leaders and held prominent advisory positions in Taiwan; they were also affiliated with local universities and scholarly institutes.

Local connections with top policy makers in government were crucial to the influence of these scholars, but in two cases the scholars were isolated and had few other constituencies. One was Taiwan, where the scholars were Chinese from Mainland China and were isolated from Taiwanese society. The other was the Berkeley Mafia in Indonesia, which did not have a large domestic constituency outside the university and state offices they controlled and joined Suharto's power circle as a way of gaining political influence (Kuncoro and Resosudarmo 2005, p.10).

The scholars had knowledge of local conditions and constraints as we can see in Appendix Table. This local knowledge came both from living, studying, and teaching in their countries as well as from prior efforts to try to persuade government. Scholars did not always value or employ this knowledge. The most prominent example of this is the Chicago Boys in Chile, who followed a free market model without regard for local norms and institutions that might cause unintended consequences.[v] When they privatized the banks and industries nationalized under Allende, they were unconcerned about the resulting concentration of financial and economic power in the hands of a few large groups with interlocking boards of directors. The team refused to consider the risk that these powerful groups would direct their banks to make unprofitable loans to bail out the groups' money losing industries.[vi] The Chicago Boys were convinced that the conglomerates would be disciplined by the free market, which would force them out of business if they tried to keep unprofitable subsidiaries afloat. This attitude ignored the real constraints on Chile's market and the traditional behavior of groups with monopoly power in Chile. A flood of cheap international and domestic credit led to a banking crisis in 1983, and the government had to place many of the conglomerates' banks in receivership or liquidate them.

The support of international aid agencies, particularly the World Bank and the International Monetary Fund, has been cited as a reason for the influence of scholars advocating liberalization, but this is questionable. Since aid agencies continue to provide funds regardless of whether beneficiaries seriously adopt liberalization policies or merely “aspire” to liberalize, their imprimatur has limited effect on decision makers. The one case where support of international and US aid agencies was important to policy choices seems to have been Indonesia. Suharto put scholars on his economic team and followed their macroeconomic policies in part to win the support of the donor community (Kuncoro and Resosudarmo 2005). Indonesia became a large recipient of foreign aid, and its pursuit of macroeconomic orthodoxy led aid givers to overlook the systemic corruption, as well as growing problems in the financial sector which was largely a conduit for channeling funds to connected industries (World Bank 1999).

The alternative is known by the elite

It’s not enough for scholars to have a coherent new vision, they must also have channels to reach the ruling actors and persuade them of the merits of their point of view. The scholars in our case studies used think tanks, academic societies, and university affiliations as a way to disseminate their ideas to other young scholars, build a peer group, and influence policy. To reach a wider audience, they published books and monographs, such as Cavallo’s book. Personal ties to powerful leader were important in Argentina and Taiwan. As we have seen, conferences between scholars and powerful autocrats were important in Chile and Indonesia. Chile’s Chicago Boys also held a conference with their former professors, Milton Friedman and Arnold Harberger, among others that attracted wide publicity for their ideas (Silva 1992). Academic exchange with the West and Eastern European countries had an enormous impact on Chinese economists, whose research and debates in the 1980’s had an important intellectual impact in turn on the leadership’s 1993 decision to build market supportive institutions

(Qian and Wu 2003). Western educated Korean scholars became important in the Korean Development Institute, a semi-autonomous government think tank under the Economic Planning Bureau.

Once the alternative is known, key decision makers have to be persuaded that it is in their interest to adopt the new policy program. It is impossible to know whether and to what extent policy makers personally believed in the reform paradigms (see Campbell 2002, on the problems of ascertaining beliefs of political actors). It seems clear that they saw the policy program as a way to restore stability and growth, gain legitimacy with the public, and serve the interests of their main supporters. Much of the literature portrays Pinochet in Chile, Suharto in Indonesia, and Chun in Korea as largely uninterested in the economic paradigm, focused rather on how well the new policy program could help them retain power (see country cites in the Appendix Table). In Argentina and Taiwan I the new policy programs were seen as the only alternative, although Menem and key technocrats in Taiwan's economic bureaucracy also seem to have been convinced of the merits of the paradigm as well (Stokes 2001, Wu 2005). In China and Taiwan II the intellectual debate seems to have been much more important in the reform decision, arguably because in both cases there had been experimentation with market reforms for some time.

In all the cases scholars ended up as top advisors or controlling key cabinet positions. In Argentina, Cavallo dominated economic policy once he became Minister of Finance in 1991 (Corrales 1997b). In the 1980's almost the entire economic team of Chile was made up of fellow PhDs from the University of Chicago, including Minister of Economy, President of the Central Bank, Budget Director (Silva 1992). Returning scholars are professors at Chinese universities and have filled such positions as Vice Minister of Commerce, Chairman of the China Banking Regulatory Commission, Vice President of the Supreme Court, and Mayor of Shenzhen (Li 2004). In Indonesia the Berkeley Mafia dominated the Ministry of Planning and National Development and Widjojo Nitisasro was appointed to head the Ministry of Planning and National Development in 1967 (Shiraishi 2006). In Korea, "…the Economic Planning Board forged a policy consensus within the bureaucracy by drawing on the work of a group of young, foreign-trained economists" as early as 1978 (Haggard and Moon 1990, p.219). In Taiwan, the scholars did not take on policy positions but became key advisors and teachers of the influential bureaucrats who shaped Taiwan's economic policy. For example, in the 1950's S.C. Tsiang (Tsiang Sho-chieh), T.C. Liu (Ta-Chung Liu), and Hsing Mo-huan persuaded Yin Zhongron and other powerful bureaucrats to introduce market reforms (Kuo and Myers no date, Wu 2005), and in the 1960's John C.H. Fei influenced many key reformers, including Li Kuo-Ting, a reform-minded Minister of Finance sometimes termed the "architect" of Taiwan's miracle (Yu 2006).

The alternative is feasible.

Once the ruling groups know about the scholars' new vision and are persuaded that it is in their interest to implement change, they need to overcome opposition. Most of these regimes were autocratic at the time of interest; the exception was Argentina. Even in autocracies the rulers have to retain the backing of their main supporters, usually in the military and large businesses, and reduce the threat of unrest or revolt from disaffected groups in the population. The new policies promised to restore and accelerate growth, and growth was seen by autocrats as a way to reduce unrest and demands for democracy among labor and business groups. The dictatorships in our sample were able to win backing for reform by keeping up military spending and allowing military and business supporters to share disproportionately in the benefits of faster growth.

In democratic Argentina, President Menem, rewarded groups who supported his policies and punished those who opposed him, as we describe in more detail below (Acuña, et al. 2004). In the initial years after the coup in Chile the military junta was divided over the extent to which they should privatize and reduce the size and role of the state and varied over who should bear the social costs of adjustment (Valdivia Ortiz de Zarate 2001). The "Chicago Boys" bombarded the leadership with arguments that free markets would be more efficient, and that the resurging inflation could be controlled through their "shock" therapy (Ibid). General Pinochet was their strongest supporter because "he was well aware of the fact that for the definitive consolidation of this personal rule he needed the continuous achievement of success on the 'economic' front" (Silva 1992, p.395).[vii] In China the party leaders were fearful that if they could not keep growth rates high they could face a revolt as part of a backlash against the Cultural Revolution (Guo, et al. 2005, Shirk 1993). Local elites play an important role in policy implementation in China, and one way in which the central leaders won their support was to allow them to benefit from the growing market economy by giving them control over local resources and revenues generated from business activities such as the township and village enterprises (Chhibber and Eldersveld 2000, p.361).

In Indonesia, Shuarto solved the problem of keeping his support by implementing enough change to restore growth, spur exports, and generate a stream of rents to enrich his allies, while not implementing any market reforms that might threaten his cronies (Kuncoro and Resosudarmo 2005, Temple 2003). Suharto's government gave protection, monopolies, credit, and government contracts to key industries owned by his cronies and family such as steel, oil refineries, and petrochemicals (Kuncoro and Resosudarmo 2005). In Korea the new president, Chun Doo Hwan instituted reforms that did not threaten the rent seeking activities of the military. He also failed to curb the economic power and political influence of the large conglomerates (Kim 1994, p.56).

Taiwanese politics were dominated from the 1950's until the late 1970's by the KMT, and the KMT's main constituents were the employees of the large government and state owned sector and the military; opposition from all other interest groups was repressed (Haggard and Nobel 2001, Haggard and Pang 1994). Throughout this period the government kept military spending high. The shift in strategy in Taiwan II in 1986 was made possible by changes in the KMT's constituency from the late 1970's to mid 1980's when private business and the middle class became increasingly powerful as the country continued to grow. International trade and the influx of large numbers of students returning from abroad, introduced new value systems, new ways of thinking and behavior that created a more pluralistic society ill suited to the KMT's "monolithic authoritarianism." (Hsu 1993, p.15)

Early outcomes are successful and the paradigm is diffused

The early success of their initial policy prescriptions helped solidify the scholars' reputations and the acceptance of the paradigm as we can see in the Appendix Table.[viii] In Chile, China, Korea, and Taiwan the adoption of the new vision by leaders of a then autocratic state spread the ideas widely as part of the official ideology. Indonesia differed from the rest of the sample because Suharto never adopted the entire vision; he never implemented the scholars' advice to promote deconcentration and greater domestic competition. Diffusion was spurred in the one democracy in our sample, Argentina, by wide press coverage and a vigorous public debate between proponents and opponents of the new vision. In Argentina, Cavallo and Menem made numerous speeches in support of the reform program and public support for privatization, for example, grew from 57 percent in 1985 to over 75 percent in 1990 (Manzetti 1993, pp.152, cited in Acuña, et al., 2004, p. 18)

Long run effects of reform

The implementation of the new vision had unintended repercussions in many of the countries. In Argentina the Menem government instituted sweeping policy and institutional changes that shrank the size of government and greatly opened the economy. But Menem's administration did not alter the fundamental institutions that put political power in the hands of provincial party bosses or compromised the independence of the judicial system. Instead, Menem engineered the reform program to assure his own and his party's electoral success. Acuña et al. (2004, p.12) argue that Menen's policies put most of the cost of adjustment on the large urban provinces of Santa Fe, Cordoba, and Mendoza, which house 70 percent of the population and 80 percent of economic activity, sparing some politically important, small provinces from shouldering their share of the cost. Menem used privatization to reward his political allies in large business conglomerates (Ibid, p. 15), giving some of them monopolistic or oligopolistic positions (Bambaci, et al. 2002). Cavallo resigned as Minister of Finance in 1996 after accusing members of the cabinet and other government officials of serious corruption and abuse of power.[ix] Menem's second administration (1995-1999) enacted far fewer serious reforms. Deficit spending continued and ultimately undermined the one-to-one parity of the peso to the dollar (Acuña, et al. 2004). The way in which change was implemented in Argentina heightened poverty and economic inequality, reduced confidence in the reforms, and helped propel the economy towards crisis. Parity with the dollar collapsed in 2002 and some of the previous reforms were reversed, such as the Buenos Aires water privatization. Some reforms have been sustained, including improved infrastructure and a more globally competitive business sector (Acuña, et al. 2004). However, many core institutions remained unchanged, notably Argentina's malleable constitution and laws, its subservient judiciary, its independent and still menacing military, its dysfunctional federalism, and its electoral and political party rules that foster polarized, parochial, and patronage-driven incentives in both the legislature and the executive.

The policy reforms in Chile had a sustained effect on the country's economic paradigm and transformed its institutions, leaving Chile with a smaller government and a vibrant economy more open to global competition. Constitutional changes under Pinochet encouraged compromise among political parties and protection of property rights. Interestingly, some of the most prominent opponents of the Pinochet government's policies ended up in charge of the government after democracy was restored. The success of earlier economic reforms convinced the new elite of the merits of continuing the economic paradigm. The new democratic leaders implemented and consolidated much of the original vision, while improving social welfare and lowering Chile's historically high levels of inequality and poverty. Since the early 1990's Chile has seen a 16 percentage point reduction proportion of the population living below the poverty line (Ibid., p. 47). The new market paradigm we described in this paper contributed to Chile's economic success and political stability, but it is obviously not the only factor in a complex set of relevant variables. Among other influences, Chile has programmatic political parties rather than parties based principally on clientalism and patronage and Chile has a tradition of bureaucratic competency (de Ferranti, et al. 2004, p.15). In the Pinochet era, when the parties were deprived of power and patronage, they overcame their past polarization and developed a more pragmatic approach with strong ties to social organizations (Ibid. p. 136). Nonetheless, public opinion polls suggest that progress is still uneven; a surprisingly large proportion of the population believe that the country is run for the benefit of a few large groups, that competition is harmful, that democracy is not the best system of government, and that government ownership should be increased (World Values Survey various).

China's adoption of a socialist market economy in 1993 supported continued rapid economic growth and expansion of the private sector. Although official data make it hard to measure the size of the non-state sector, Dougherty and Herd (2005) conclude that the private sector share of industrial output increased from about one quarter in 1998 to more than half by 2003 (Dougherty and Herd 2005). The tensions between China's increasingly open access economy and its closed access political system have propelled a process of continued institutional reforms. For example, the Communist Party "…encouraged the formation of a wide array of new business and professional societies with strong ties to the state. It also transformed the membership of the CCP, bringing into its fold the technocratic leaders of business, social, and intellectual life" (Fogel 2006, p.16). These groups are still controlled by the state and there is some debate over how much they can act independently. According to one source, "If one looks beyond the national level, beyond the lack of popular national elections and the regime's treatment of dissidents, to the grass roots, to China's villages and cities, one sees modes of interest articulation and pursuit of interests that suggest significant political change has occurred in China. Citizens cannot elect their national leaders, but a new range of *other* activities and channels have become open to citizens to articulate and pursue their interests that were never before possible in China." (Oi 2000, p.4). Another source argues, however, that there is no evidence that the reforms have produced independent interest groups acting as significant political actors, which gives local party cadres an important role in determining policy implementation (Chhibber and Eldersveld 2000, p.356). An example of this tension between local interests and the local political elite is the 2007 law on private property. The dynamism of the economy combined with the lack of enforceable property rights or a functioning legal system had made it possible for locally powerful party cadres to earn huge rents by taking land from villagers or otherwise extorting less powerful citizens. This led to a surge of protests, including 26,000 "mass incidents" in 2005 (*The Economist* 2007, p.24). In response the party leaders added a clause to the constitution that private property was "not to be encroached upon" in 2004 and drafted a law to that effect, which was passed in 2007 (*The Economist* 2007, p.23). In an unusual move, a 2005 draft of this law had been unveiled to the public and an open debate had been allowed. The new law was greeted by rare public opposition from the left wing of the CCP to the point where the law had to be withdrawn and reissued in 2007 with little fanfare and no debate permitted. Although debate was suppressed and enforcement of the law will likely be weak, the fact that opposition has begun to emerge from both sides of the political spectrum in China shows how far the reform process has affected politics there. As one analyst describes it, the Chinese leadership is trying to bend the political system without breaking it (Oi 2000).

In Indonesia the policy reforms did not instigate a sustained process of institutional change. Western-educated scholars were able to gain influence in during the economic crisis in 1966 and revenue shortfall in 1980, and their macroeconomic policy program -- balanced budget, limits on the public debt, trade liberalization, and devaluation – was implemented (Azis 1994, Cho 1994, Kuncoro and Resosudarmo 2005). But their advice on increasing domestic competition and reducing monopoly power was not adopted, and their influence waned whenever crises eased. Policies or ideas that might threaten the power or wealth of Suharto's family and cronies or his support from the military were ignored (Kuncoro and Resosudarmo 2005). Instead the scholars were manipulated to enhance Suharto's image as a liberalizing technocrat with aid donors and foreign investors. The market oriented policies contributed to rapid growth, averaging 7 percent a year from 1979 to 1996, and a dramatic reduction in poverty (World Bank 1999, p.1).[x] This performance had a "halo effect" with aid donors and led them to downplay the corruption in Suharto's regime and the inconsistencies in Indonesia's performance.[xi] Eventually, this corrupt system became unsustainable. The president's family and cronies used the state banks to obtain large amounts of foreign funds, funds that were assumed to have some measure of sovereign guarantee. When devaluation became unavoidable and foreign funds dried up, the economy collapsed (Shiraishi 2006, p.23). Donors were “taken by surprise” by the severity and depth of the crisis (World Bank 1999, p.1).

Korea’s dictator in the early 1980’s, General Chun Doo Hwan saw economic reform as a way to promote growth in order to ameliorate unrest and demands for more democratization, and give legitimacy to his government. As the scholars advised, the state reduced its direct interventions to promote development and ended its massive program of investment in heavy and chemical industries. Growth accelerated, but the already strong democracy movement was not appeased. Student groups, labor, environmental organizations, and intellectuals continued to challenge the legitimacy of Chun’s government and to pressure for full election of the president, which was finally enacted in 1987. Arguably, the economic reforms fed the democracy movement by creating more wealth, which labor groups argued was unfairly distributed, and more middle class students prepared to demonstrate for democracy. The reforms also strengthened the *chaebol*. The retreat of the state from direct control over credit allocation and the increasing independence of the *chaebol* gave big business increased political leverage (Lee 2005). “In fact, the 1980s saw an increasing politicization of the government-business risk partnership as political connections rather than economic fundamentals appeared to play a more important role in the survival of firms. These tendencies were reinforced after Korea’s democratization in 1987 as competitive elections were held without adequate checks on campaign financing and spending” (Kim and Lee 2004, p.30). *Chaebol’s* weight in the economy made it too costly for the government to allow them to go bankrupt even as they built up unsustainable levels of debt thanks to their control over banks and their subsidiaries (Lee 2005). The over indebtedness of the *chaebol* culminated in a financial crisis, which spurred the government to enact long overdue reforms in financial regulation, corporate restructuring, competition policy, and labor market regulations (Ibid.). Since the 1997 crisis political access has opened further. Civic organizations and interest groups surged to 6,000 in 2000 and have become "formidable players in the policy process…" (Shin and Park 2003, p.8). By 2003, 82 percent of Koreans viewed the current regime as democratic, rated a big change from the previous regime which 72 percent rated as undemocratic (2003, p.17). As Lee describes it, "reforming institutions in Korea has been a long drawn-out process involving, first a change in the political-economic paradigm and then an ever-present struggle among competing interest groups. The post-crisis reforms are the culmination of this reform process that started in the early1980s when a shift in paradigm took place." (Lee 2005, p.272).

Taiwan is a good example of how initial policy reforms can gradually induce increasingly open access to economic and political power(North, et al. forthcoming). Although the initial reforms were modest they fostered continued rapid growth of the private sector. Since the business sector was predominately native Taiwanese and the KMT was suspicious of private enterprise in any case, businesses were discouraged from concentrating, their organizations were tightly controlled, and they had few formal channels for representation since opposition parties were outlawed (Haggard and Nobel 2001). Nonetheless by the 1980's the growing middle and entrepreneurial class became too important to ignore. Businessmen began to support non-mainstream politicians within the KMT and to enter politics themselves. Factions formed within the KMT that developed into political parties when opposition was legalized in 1986 (Cheng and

Haggard 2001). Pressure from increasingly numerous business interests for more commercial freedom was combined with US pressure to reduce its trade deficit with Taiwan and the rising political and economic threat cum opportunity posed by mainland China (Chen 2001, Cheng and Chang 2003, Cheng and Haggard 2001, Haggard and Pang 1994, Hsiao and Hsiao 2001) . Scholars were again influential in arguing for a more dramatic shift toward market-oriented policies in the mid-1980's (Hsueh, et al. 2001).[xii] An increasingly open access economy was combined with more open access to political activity as the KMT leader allowed gradual democratization. As Cheng and Chang describe it, "democratization unfolded in tandem with economic liberalization in Taiwan providing the private sector with incentives to participate in the economic policy making process, lest its interests slip rather than advance." (Cheng and Chang 2003, p.12)

Where do we go from here?

We have argued that a significant factor in sustained economic progress is a new policy program based on a coherent economic paradigm, articulated and coordinated by a cohesive group of local scholars. We hypothesized that the policies that created open and competitive markets in the case study countries also launched a process of reform that in some cases incrementally transformed political as well as economic institutions. A scholarly group and a coherent program and paradigm are not sufficient conditions for sustained progress, as we saw in the cases of Indonesia. And even when a new vision is implemented, it may still be undermined if long-lived institutional failures are not addressed, as in Argentina. It is also possible that scholars promote a paradigm that does not spur growth, as in India.

Are local scholars a necessary condition for development? We do not have enough evidence to be sure, but it is hard to envision a change in deeply held ideas and attitudes about economic policy and institutions without a group of local scholars able to articulate the logic of reform, adapt foreign ideas and programs to local conditions and devise local solutions to local problems, and persuade policy makers and the public of the merits of a new paradigm. Could outside advisors perform the same function as local scholars? Without doubt there have been foreign experts who learned the language, built the contacts, and understood the culture, beliefs, and history of the society well enough to play the role that local scholars played in our cases – the foreign economist as Lawrence of Arabia. However, even foreign advisors who are well integrated and influential rely on local collaborators to help them to understand subtle norms and complexities and to persuade leaders and the public. In a broader sense it does not matter if scholars are a necessary condition or not. Under the right circumstances for reform, the presence of scholars promoting market-oriented paradigms was manifestly beneficial.

We have argued that scholars were an important factor in the adoption of market supportive reform; we do not suggest that they were the only significant factor. Interest group politics, external threats and opportunities, even good or bad luck played a part. Inherited rules, norms, and beliefs were significant influences on the course of reforms. Some will dispute our focus on the role of scholars and ideas, arguing that policy reform is largely or entirely a matter of interest group politics. In this view, new economic paradigms are merely window dressing used by cynical political actors to convince their allies and the public of the merits of change. Leaders' sole motivation for reform is to retain their power and reward themselves and their supporters (see for example, Silva

(1993) on Pinochet's reforms in Chile). Although we find this point of view too simplistic, it does not overturn our argument for the importance of scholars and ideas. We have argued that even if decision makers do not personally believe in the vision they are selling, the policies they enact, the assumptions they overturn, and the institutional changes they put in place start a process of incremental change that can go beyond their expectations or initial desires.

Intellectual capital of the kind we described in these case studies has not been a central focus of foreign aid. Aid givers have emphasized primary education and have trained policy makers and bureaucrats, but intellectual leaders have received less attention, except as potential staff or consultants. Increasing the skills of bureaucrats and policy makers through aid sponsored training can be beneficial, but only if the current systems of incentives reward them for innovation and reform. It is precisely the lack of such incentives that keep most countries poor and make reforms so hard to sustain. The individuals who will challenge a society's damaging institutions and beliefs are more likely to come from outside the bureaucratic or political system.

There have been some large-scale donor efforts to build intellectual capacity through support to universities or research institutes, such as the Global Development Network or the support from private foundations such as the Ford Foundation or the MacArthur Foundation. But support to universities and research institutes can be undermined by the same institutional flaws that defeat other forms of development assistance. In damaging institutional settings, universities and research institutes often divert research funds into overhead or inappropriate uses. Pay and perks are often monopolized by the heads of departments and research institutes, while research is done by poorly paid and motivated junior scholars. Researchers are not rewarded on the basis of merit alone, or even primarily. Aid recipients follow the wishes of donors by selecting politically correct or fashionable topics. A great deal of funding goes into bureaucratic oversight structures designed to assure a balance of nationalities, gender, and intellectual pursuits. Most donors are not equipped to select and support individuals doing self-motivated research; the scale at which they operate makes efforts targeted at individuals prohibitively expensive. To the contrary, by offering large amounts of funds for topics favored by donors, aid sponsored research may undermine the sort of intellectual curiosity that leads researchers to put time and effort into investigating important problems despite little immediate personal rewards.

In our case studies well-trained and highly motivated local scholars became the advisors, bureaucrats, teachers, and opinion leaders with the local knowledge to design and implement sustainable reforms. They bridged the gap between outside advice about global best practice and the demands of local circumstances and interest groups. Scholars such as these need funding, but it takes more than money to give young scholars the wherewithal to remain in their country and have an impact. They need mentors, collaborators, outlets to publish and disseminate their work, and certification of the quality of their research against world standards by objective outsiders. This requires scholar-by-scholar support and hands-on training and mentoring linked to first-world researchers, such as the support provided by the Ronald Coase Institute.[xiii] Intellectual capacity alone is not enough to forge meaningful reforms; a political opening for change will also be needed. But without intellectual capacity there will be little chance of sustained improvement.

Appendix Table
Summary of Case Studies of Scholarly Influence on Change

	ARGENTINA	**CHILE**	**CHINA**	**INDONESIA**	**KOREA**	**TAIWAN**
Start period	1989 election Menem; 1991 appt. Cavallo Minister Economy	1975 appointment Chicago Boys to cabinet posts	1993 decision to adopt "Socialist Market Economy"	I. post 1966 reforms II. Post 1983 reforms	1980 stabilization & other reforms	I. 1958-1961 shift from ISI to exports II. 1986 liberalization
Change seen as necessary (a) serious economic problems or external challenges	Hyperinflation & economic crisis. Newly elected, Menem introduces stabilization & fiscal austerity program similar to Cavallo's program.	Economic & political crises, hyperinflation under socialist president. Military coup in 1973 brings Gen. Pinochet to power. Economic crisis due to increase price oil, drop export commodity prices.	Increasing decentralization incompatible with degree of central planning, increasing problems state enterprises, rampant corruption. Collapse of USSR.	I. Suharto led military coup in 1966. Economic crisis; inflation rose to 600%. II. Fall in oil prices 1980 led to revenue short fall	Military coup in 1980, 3.7% drop in GDP, rising inflation, falling growth in exports. Pressures for democracy led autocrats to emphasize growth. Pressure from US to reduce trade surplus. Purge of 8000 civil servants created vacuum.	I. mid-1950s slowing growth, rising inflation, inc. corruption & shortages forex. Pressure US & desire to be less dependent US aid. II. Pressure US to reduce trade surplus. Pressure businesses, native Taiwanese for more freedom. Challenge of China. Desire to join WTU
(b) failure past reforms	Menem rejects his own populist campaign program as unable to curb inflation or restore growth.	Protection & nationalistic program under military failed to restore growth & control inflation 1973-1975.	TVEs, prior engine of growth, facing problems competing. Fear of unrest from backlash to Cultural revolution and Tiananmen square if growth slows.	I. Previous government intervention had left economy & trade stagnant by 1965. II. 1980's govt. industries unable to generate sufficient revenues	Strong government intervention had contributing to inflation, slower growth, & inequality	I. Partial reforms of command economy failed to reduce dependence on US or improve balance of pay. II. Partial reforms fail to satisfy US or reduce threat from China's growth

	ARGENTINA	**CHILE**	**CHINA**	**INDONESIA**	**KOREA**	**TAIWAN**
Viable, coherent alternative different from past reforms	Coherent plan for liberal market economy, including privatization, smaller government, free trade, fixed exchange rate. Proposed to previous president & rejected	"Chicago Model" coherent plan for liberal market economy, small government, free trade, based on teaching Milton Friedman.	Coordinated move to market system, liberalization prices, monetary & financial reforms, market-oriented tax & fiscal system, property rights.	I. 1960's ad hoc approach focused mainly on macro stabilization combined with trade liberalization, smaller role for government, balanced budget. II. 1980's partial reforms again focused mainly on macro policy with some efforts to liberalize banking	Coherent neo liberal model, supporting reduction state intervention, privatization, deregulation, financial liberalization, and trade liberalization. Some also challenged authoritarian regime (Kang Kyong Shik e.g.)	I. Coordinated incremental approach to export led, market oriented growth. II. Five Economists' Paper calling for sustained growth through economic liberalization
Different from past reforms	Differed from both Peronist populism and previous short lived, ad hoc austerity programs.	Radical change from military's moderate reforms & its protection of "strategic" industries	Radical change from previous reforms in role allowed private investment & market forces.	Not radically different	Major shift from from economic nationalism and focus on heavy industry.	I. Gradual shift from import substitution & emphasis on economic planning & state control of industry II. Faster, deeper shift to markets
Role model	Chile under Chicago Boys	US influence	Asian tigers, Japan examples of market led growth	US influence	US influence	US influence
Alternative is consensus view of experts	Domingo Cavallo wrote *Volver a Crecer* laying out coherent program. "Cavallo boys," technocrats who shared his belief in market economy.	Most of so-called "Chicago Boys" got PhDs from University of Chicago & other US universities in same period. Team had shared belief in market economy. Put together program to present to politicians.	Growing number of returnees from studies abroad shared belief in market economy. "Integrated reform" school promoting market system.	"Berkeley Mafia" group of graduates of faculty of economics at University of Indonesia (FEUI) who got PhDs from Berkeley. Led by Widjojo Nitisastro. Shared belief in market reforms.	US educated economists most in monetary economics; appointment Kim Jae Ik (Stanford PhD) as senior advisor. Dominated Economic Planning Board (EPB)	I. US educated S.C.Tsiang & T. C. Liu in US universities shared belief in market economy II. Above plus additional US educated economists working overseas. Authored joint papers supporting liberalization.

	ARGENTINA	**CHILE**	**CHINA**	**INDONESIA**	**KOREA**	**TAIWAN**
Experts are not self-interested	No ties to business; highly trained; Cavallo had been Congressman but not seen as tied to any party.	No ties to business, highly trained, considered apolitical.	No ties to business Highly trained, most with PhDs from US universities. Long tradition of sending scholars abroad to bring back ideas for local adaptation.	Seen as objective with no ties to business. No domestic constituency outside Shuarto government. Most influential during crises. Used to win approval of foreign aid donors.	No ties to business, highly trained, considered apolitical.	Apolitical without business ties. Influence through economic bureaucrats with no political ambitions, free of military & party control. Prestigious economists. Professors at major foreign universities.
Incentives to be truthful	Cavallo's strong local & international reputation; negotiator of Argentina's debt.	Links to prominent professors at University of Chicago & strong local & international reputation International interest in "Chilean" model.	Returnees seen as new elite, haiguipai. Links to prominent universities in US.	Strong reputation with foreign aid agencies. Strong local & international reputation. Links to prominent universities in US.	Strong local & international reputation. Links to prominent universities in US.	Employed by foreign universities. Strong local & international reputation.
Local knowledge	All Argentines. Experience trying to persuade prior president.	All Chileans. Experience selling program to prior presidential candidate.	All Chinese. Tradition of sending students abroad to gain fresh knowledge dating back to 1847 reintroduced by Deng Xiaoping in 1978.	All Indonesian with local ties and long experience as government advisors.	All Korean with considerable experience trying to influence government.	Chinese scholars isolated from Taiwanese society & living overseas, but working closely with local technocrats in bureaucracy & local universities.

	ARGENTINA	**CHILE**	**CHINA**	**INDONESIA**	**KOREA**	**TAIWAN**
Alternative is known	Cavallo's book, personal contacts with Menem. Think tank (IEERAL). High level seminar with prominent academics and Chilean "Chicago Boys" widely covered by press.	Think tank (CESEC). Access media (El Mercurio), first conference with prominent academics (Milton Friedman, Arnold Harberger) widely covered by press.	Chinese Economists Society (CES) & later another 24 research institutes. Dominate higher education. Top advisors, hold key government positions.	I. Lecturers at Army Staff & Command College. Seminar with Suharto in August 1966 led to appointment "Team of Experts" II. Controlled Ministry Finance & Planning (BAPPENAS)	Influence thr EPB, became close advisors to president. Government funded, autonomous think tank (KDI).	I. Educated local technocrats & became trusted advisors. Also US aid mission pushed. II. Joined govt think tank Academia Simica & formed private think tanks (e.g. TIER in 1976). Position paper widely debated.
Change is feasible	Menem given broad powers by legislature. Extensive use of decress. Menem able to neutralize opponents in military (weakened by Falklands war) & unions (lost power in crisis, no alternative to Menem).	Opposition repressed. Pinochet govt. popular with rural Chileans & wealthy. Military & supporters shared sense of need to reduce size and scope of government.	Party leaders successfully ousted "Gang of Four" because of backlash to Cultural Revolution. Shared sense that growth required if Communist Party to stay in power. Gave party cadres & military share in benefits.	Shuarto manipulated technocrats to boost his international image; only ideas that did not threaten Suharto cronies were adopted. Military & economic nationalists also influential.	Authoritarian government able to impose policies on labor, farmers, & bureaucracy, but not on powerful conglomerates (chaebol) or military.	I.Chiang Kai-shek held autocratic control. Military did not oppose reforms that did not threaten military spending. II. Increasing power & political role of Taiwanese businessmen.
Alternative is diffused	Cavallo's think tank, newsletter, book. Vigorous public debate with opponent think tanks, politicians. Early success in reducing inflation, spurring growth.	Vigorous public debate with opposition think tanks, esp. CIEPLAN. Extensive coverage TV, newspapers, books. Strong growth performance of "Chilean model" after mid-1980's recession	Socialist Market Economic Structure adopted by Communist Party Congress, became part of party dogma. Strong new business entry in some cities helped build support.	Not widely diffused. Opposition from economic nationalists in Ministry Industry & trade who promoted state investment heavy industry & infrastructure.	Early success in establishing stability, restoring growth, exports gave new model credibility. Support from think tanks, US agencies. Economic policy centered in EPB.	I. Early success in controlling inflation & inc. exports. Won support Chiang Kai-shek, US advisors. II. Success inc. growth rate. Economic liberalization combined with democratization & rising power Taiwanese natives.

	ARGENTINA	**CHILE**	**CHINA**	**INDONESIA**	**KOREA**	**TAIWAN**
Institutional changes	Shrank size government, extensive deregulation, reduction trade barriers. Electoral structure & constitution gave provincial leaders power to undermine fiscal policy. Dependent judiciary, malleable constitution. Polarized, parochial, patronage driven incentives in executive & legislature. Corruption & abuse of power, benefits unevenly distributed. Crisis 2002.	Decentralized government, reduced size of government & privatized SOEs, liberalized trade, deregulated, changed electoral laws to encourage coalition politics, provided constitutional protection private property rights. Most new economic & political institutions sustained through transition to democracy. Reduced poverty & inequality, but still high.	Private ownership & rule of law incorporated into constitution in 1999. Tax reform fixed roles local & national government. New budget law & independent auditing. Failed to privatize or improve large SOEs, establish rule of law, develop independent banking system. Problems of corruption, abuse of power by local officials, uneven distribution of benefits of growth.	Scholars' macroeconomic policies adopted (balanced budget, limits on public debt, trade reform and devaluation), but no real structural changes. Suharto gave government protection, monopolies, credit, & govt. contracts to cronies. Steel, oil, aircraft, & other strategic industries under govt. control. Systemic corruption. Crisis in 1998.	Privatization banks, liberalization trade, removal some restrictions on FDI, less state intervention & greater room for market forces. However, proposals to liberalize financial system and reduce concentration not implemented. Power of chaebols increased & continued to receive directed credit until financial crisis in 1997. Increasingly open access economy & politics.	Modest shift from import substitution in 1960's allowed small, local businesses to expand into important interest group. Growing wealth led to rise of middle class. Their demands for more freedom & political power led to increasingly open access political sector. Past history of government repression of business left no concentrated economic groups, assured open access economic sector.

Sources: Argentina: (Acuña, et al. 2004, Balze 1995, Bambaci, et al. 2002, Cavallo 1997, Corrales 1997a, 1997b, 1998, O'Neil Trowbridge 2001, Public Broadcasting Television (PBS) 2002, Stokes 2001).
Chile: (Biglaiser 1999, Bosworth, et al. 1994, Chumacero, et al. 2005, Fontaine 1993, Pinera 1994, Silva 1992, Velasco 1994)
China: (Antal and Wang 2003, Guo, et al. 2005, Hope, et al. 2003, Li 2002, 2004, Qian and Wu 2003)
Indonesia: (Azis 1994, Kuncoro and Resosudarmo 2005, Shiraishi 2006, Temple 2003)
Korea: (Cho 1994, Haggard and Moon 1990, Kim and Lee 2004, Kim 1994, Kim 1999, Lee, et al. 2005, Noland 2005, Wonhyuk Lim 2003)
Taiwan: (Chen 2001, Cheng and Chang 2003, Cheng and Haggard 2001, Haggard and Nobel 2001, Haggard and Pang 1994, Hsiao and Hsiao 2001, Hsueh, et al. 2001, Tsai 2001, Wu 2005)

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[i] In a conversation with Mary Shirley on May 16, 1990 in Prague, Czechoslovakia during a World Bank mission to Czechoslovakia.

[ii] The "four little tigers" in East Asia were Hong Kong, Taiwan, Singapore, and South Korea (Qian and Wu 2003).

[iii] Three of them were not graduates of the University of Chicago but shared in the belief in the model. A number of them became Minister of Finance, including Sergio de Castro, Sergio de la Cuadra, Rolf Lűders, Carlos Cáceres, Jorge Cauas, and Hernán Bűchi.

[iv] Silva presents an opposing point of view for Chile. He argues that many of the Chicago Boys had close ties to some of the large groups that dominated the Chilean economy in the early 1980's and this influenced

their policy recommendations, contributing to the economic crisis in 1983 (Silva 1993). After 1983 a more pragmatic approach was followed by a different group of intellectuals (Ibid).

[v] This description of Chile is based on the author's observations and conversations with the economic team in Santiago in the early 1980's when Mary Shirley was economist for Chile in the World Bank. Note that Silva (Silva 1993, p.547) gives a different reason for the Chicago Boys' policies at this time. He argues that they were influenced by their business ties and friendship with heads of large Chilean conglomerates that stood to benefit from radical policies freeing trade and from privatization (Ibid).

[vi] Based on Mary Shirley's conversations with Chilean officials and others during this period; at the time she was World Bank Economist for Chile.

[vii] Others have argued that Pinochet believed that businessmen favoring radical liberalization of markets were also less opposed to continued military dictatorship than those favoring gradual reforms (Silva 1993)

[viii] Measuring the extent to which beliefs changed in response to the new vision will require more in-depth study than is possible here.

[ix]Cavallo claimed in a later book that he had spent much of his time as Finance Minister fighting corruption (Cavallo 1997). A number of high officials were convicted of corruption by the courts.

[x] The dramatic reduction in poverty seems to have been real, even though the Indonesian government's official statistics overstate the extent of poverty (World Bank 1999, p.49).

[xi] Prior to the financial crisis World Bank staff working on Indonesia argued in conversations that corruption under Suharto was not as damaging in Indonesia as in other countries because it was predictable and reliable, bribes were akin to campaign contributions in their view. (Conversations between Mary Shirley and Indonesia country and mission staff in the World Bank, various years.)

[xii] In 1974 six prestigious economists submitted a paper to the government that dealt with macroeconomic policy changes that had an influence on government thinking about the appropriate role of the government in the economy. Although the six were at US universities they were also members of Academia Sinica. (Hsueh, et al. 2001)

[xiii] See www.coase.org.