

Role of US-Trained Economists in Economic Liberalization: The Cases of Chile and Indonesia

YASUI Shin*

Abstract

This article examines how the market economy was introduced, implemented and, eventually, consolidated in Chile and Indonesia. It focuses on the role of the university agreements promoted as part of the post-war U.S. aid policy, which were the origin of the economic technocrats. Then, the process through which these U.S.-trained economists reached the crucial positions in the economic policymaking in each country is explored. Finally, it examines a series of political factors that conditioned the course of economic liberalization taken in each country and identifies some reasons which explain the difference between the two countries.

Key Words: Chicago Boys, Berkeley Mafia, foreign aid, economic technocrats, economic liberalization

I. Introduction

In the last two decades liberal, market-oriented economic reforms became a generalized tendency not only in the western capitalist nations but also in the developing areas. Virtually all countries of Asia, Latin America and East Europe left behind state-led and inward development strategy and set up reforms toward more open market economies. One of the remarkable features in this process has been the growing role played by economic technocrats, many of whom studied economics at renowned universities abroad.

Among others, Chile has been considered the emblematic case of technocrat-led successful economic reforms. After the economic collapse under the leftist government, the Chilean military government abandoned the decades-long dirigisme and took a decisive step in a sweeping economic liberalization in the mid-1970s. Despite a short return to interventionism in the mid-1980s, economic reforms were retaken and consolidated afterward, resulting in sustained growth combined with decrescent rate of inflation. The architects of the reform were frequently called the "Chicago Boys," since most of them had done their graduate studies at the University of Chicago through an academic program begun in 1956.

Analogous to the Chilean technocrats are those of Indonesia, commonly called the

* Lecturer, Keio University Faculty of Business & Commerce.

“Berkeley Mafia” by their critics. They were also a group of economists who did their graduate studies at American universities through the same kind of academic agreement as the Chileans. They ascended to important governmental positions in the late 1960s with the advent of Soeharto’s New Order government after the breakdown of Soekarno regime in the middle of economic turmoil. They quickly enacted a set of stabilization measures while subsequently implementing a series of liberalizing policies. As a result, by the early 1970s, they succeeded in restoring macroeconomic stability with a satisfactorily high growth rate.

In both cases, these economists remained in crucial posts in economic policymaking for a considerably long time, only to be succeeded by younger generation of economic technocrats. However, the long-term evolution of economic liberalization has been fairly different in the two countries. While Chile continued and consolidated market-oriented reforms by the end of the 1980s, the liberalizing process in Indonesia has been rather intermittent and often combined with interventionist measures.

The aim of this paper is to examine how the market economy was introduced, implemented and, eventually, consolidated in these two countries. Firstly, it focuses on the role of the university agreements promoted as part of the post-war US aid policy, which were the origin of the economic technocrats. Secondly, the process through which these US-trained economists reached the crucial positions in the economic policymaking in each country is explored. Lastly, it examines a series of political factors that conditioned the course of economic liberalization taken in each country and identifies some reasons which explain the difference between the two cases.

It has been often claimed that market reform has prevailed among developing nations just because it provides a correct set of measures. According to this view, these countries finally encountered the “good economics” after repeating erroneous policies based on unfounded economic thought¹⁾. Opposite to this view was that of dependentistas, who qualified the Chilean and Indonesian technocrats as a symbol of dependence, accomplices of human abuses and even as authors of an “economic genocide.” They emphasized the role of the United States in the establishment of authoritarian rule as well as in the shift in economic policy orientation in those countries²⁾. These two positions might each contain some truth. However, they tend to fall into a simplistic view and overlook the peculiarity of each case.

Later on, as the trend toward market-oriented reforms prevailed in developing areas, it has been claimed that comprehensive studies on the role of economic technocrats who are in charge of these reforms are vital. Those studies embarked on comparative studies of interrelationship between the reform implementation and the ascent of technocrats, especially in Latin American countries. They also shared an interest in institutional and politi-

1) For example, see Harberger (1997).

2) For example, see Frank (1976); O’Brien (1981); Ransom (1975).

cal conditions that allowed these technocrats to rise and exert continuous influence on economic policymaking³). This paper intends to contribute to these studies by comparing two paradigmatic cases of Asia and Latin America.

It also emphasizes the role of ideas in political changes, particularly that of imported ideas in the shift in economic policy orientation in developing countries⁴). On the one hand, university agreements are analyzed as a concrete case of ideational transfer from the center to the periphery. On the other hand, it argues that the way ideas are internalized varies from one political setting to another.

II. Training economists through university agreements: the birth of "Chicago Boys"⁵ and "Berkeley Mafia"⁶

a. U. S. Foreign Aid Policy in the 1950s and the role of university agreements

The postwar American aid policy to developing areas was launched with President Truman's introduction of the Fourth Point of his inaugural address of January 1949⁷). Immediately after the end of the World War II, the priority of the U. S. foreign policy was placed on the reconstruction of European nations while concern for developing nations was relatively low. However the outbreak of the Korean War in 1950 changed the perception of American policymakers, convincing them of the necessity to engage actively in developing areas to counteract communist expansion.

American aid policy toward developing areas was based both on cold-war ideology and on its peculiar liberal tradition⁸). During the 1950s a substantial part of American aid to developing countries was targeted military assistance programs and only minor part was oriented toward programs with no military purposes. The economic aid and the technical assis-

3) See Markoff & Montecinos (1994); Centero and Silva (1998). About the Chilean technocrats see Silva Patricio (1991); Huneus (2000). For studies on the technocrats in Southeast Asia, see Milne (1982) and the special issue of *Asian Survey* on the topic. *Asian Survey*, Vol. XVI, No. 12, December 1976.

4) Cf. Hall (1989); Sikkink (1991); Goldstein and Keohane (1993).

5) Some of the representative figures of the so-called "Chicago Boys" are **Sergio de Castro** (M. A. and Ph. D. in Economics, University of Chicago; Minister of Economy, 1975-76; Minister of Finance, 1976-82), **Pablo Baraona** (M. A. in Economics, University of Chicago; President of the Central Bank, 1975-76; Minister of Economy, 1976-78), **Sergio de la Cuadra** (M. A. in Economics, University of Chicago; President of the Advisory Committee on Tariff Policy, 1975; President of the Central Bank, 1982; Minister of Finance, 1982), **Alvaro Bardón** (M. A. in Economics, University of Chicago; President of the Central Bank, 1976-81), **Rolf Lüders** (M. A. and Ph. D. in Economics, University of Chicago, Bi-minister of Finance and Economy, 1982-83) and **Miguel Kast** (M. A. in Economics, University of Chicago; Minister Director of the National Planning Agency (ODEPLAN), 1978-80; Minister of Labor, 1980-82; President of the Central Bank, 1982).

tance programs were considered as the complement to the military assistance programs. U. S. policymakers feared that growing dissatisfaction of the people of Asia, Africa and Latin America, owing to insufficient economic development, could make them vulnerable to communist temptation. To improve their socioeconomic conditions, it was considered necessary to disseminate American modernity with its advanced knowledge and technology as well as its liberal ideals to those areas, thus diminishing the communist threat.

University agreements were considered as an appropriate tool for these purposes. From 1950s on, the U.S. official aid agency, with the cooperation of private foundations (such as the Ford, the Rockefeller and the Carnegie)⁹⁾, promoted fellowship programs between selected American universities and the core universities in developing countries to train the leadership cadre who would carry out the modernization project of their home countries in an ordered manner. From 1953 on, many university agreements were made as a consequence of the triangular cooperation between the aid agency, private foundations and representative American universities. Behind these agreements was the conviction of both the officials of the aid agency and the staff of the foundations that progress in developing nations should be achieved in an ordered process. Thus it was preferable that change should be headed by a group of elites with technical capability and not by revolutionaries supported by mass movement.

The basic model of these university-to-university agreements had the following two dimensions. On the one hand, each year a group of students from the recipient university

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- 6) The main figures of the so-called "Berkeley Mafia," who were invited as economic advisors of Soeharto in 1966, are **Widjojo Nitisastro** (Ph. D. in Economics, University of California, Berkeley, 1961; Chairman of the National Planning Board (BAPPENAS), 1967-71; Minister of State for National Development Planning, 1971-73; Coordinating Minister for Economics and Industry and Chairman of BAPPENAS, 1973-83), **Ali Wardhana** (Ph. D. in Economics, University of California, Berkeley, 1962; Minister of Finance, 1968-83; Coordinating Minister for Economics, Industry and Supervision of Development, 1983-88), **Mohammad Sadli** (M. E. at MIT, 1956; study at the University of California, Berkeley, 1956-57; Ph. D. in Economics, University of Indonesia, 1957; Minister of Manpower, 1971-73; Minister of Mining, 1973-78), **Emil Salim** (Ph. D. in Economics, University of California, Berkeley, 1964; Vice Chairman of BAPPENAS, 1969-73; Minister of State for the Improvement of the State Apparatus, 1971-73; Minister of Communication, 1973-78; Minister of state for Development Supervision and the Environment, 1978-83; Minister of State for Population and the Environment, 1983-93) and **Subroto** (M. A. in Economics, McGill University, Montreal, 1956; Director General of Marketing, Department of Trade, 1968-71; Minister of Transmigration and Cooperatives, 1971-73; Minister of Manpower, Transmigration and Cooperatives, 1973-78; Minister of Mining and Energy, 1978-88).
- 7) "Fourth. We must embark on a bold new program for making the benefits of our scientific advantages and industrial progress available for the improvement and growth of underdeveloped areas." "Inaugural Address of Harry S. Truman, January, 1949".
- 8) About the American "liberal tradition," see Packenham (1973), pp. 18-22.
- 9) About the relationship between the U.S. foreign policy and these American private foundations see Berman (1983).

of the developing country was granted fellowships to study at American universities. On the other hand, a contingent of American professors were sent to the recipient university to bring about institutional reforms, which could include the revision of curriculum and the creation of research centers. The objective was to implant American-type educational programs in order to assure the reproduction of American-style experts after the conclusion of the agreement. The returnees were often employed in their home institution for that purpose. The two cases treated below were the typical cases of these university-to-university agreements described above¹⁰.

b. Agreement between the University of Chicago and the Catholic University of Chile (1956)¹¹

In the 1950s the prevalent economic thought in Chile was the so-called structuralism that was advocated then by the U. N. Economic Commission for Latin America (ECLA), with its headquarters in Santiago. The world economic slump of 1930s hit the Chilean economy hard, as it was based fundamentally on mining exportation, forcing the country to change its economic strategy. Toward the end of that decade the Chilean government took a firm step to propel the ongoing process of import substitution industrialization (ISI), increasing progressively the role of the state in economic spheres. The new economic strategy was accordant with the structuralist economic thought, originated with Prebisch and his colleagues in the ECLA, which insisted on the necessity of industrialization to overcome underdevelopment and attributed a substantial role to the State. From the 1950s on, this school prevailed among Chilean academic circles as well as among the emerging political forces.

The purpose of the agreement between the University of Chicago and the Catholic University of Chile was to introduce advanced knowledge of mainstream economics to Chile, countervailing, in the long run, this predominance of structuralist economic thought. The agreement was promoted by the ICA officers, with the cooperation of the personnel of the U. S. Embassy in Santiago, who were concerned about the negative effect of the dirigiste tendency in Chile on the American interests. The Catholic University of Chile showed great interest in the program, so as to reinforce its economic school which was in a feeble situation¹². The program was also welcomed by the Department of Economics of the University of Chicago, as a means to disseminate its liberal economic principles to the

10) However, apparently the training of economists was not a priority in the ICA University Contracts programs at least during the 1950s. For example, in December 1959 there were 96 programs of such kind in operation, within which Chicago-Chile project was the only economics program. Humphrey, ed. (1960).

11) The most thorough and penetrating study about this agreement can be found in Valdés (1995). About the "Chicago Boys," also see Figueroa (1984); Fontaine (1988); Cavallo et al. (1997).

underdeveloped world as well as to recruit promising graduate students¹³⁾.

The agreement was signed in March 1956 between the two parties as an ICA's Point-Four program with the financial support of the Rockefeller and Ford foundations. Originally it had a duration of three years, from 1956 to 1959, but it was extended twice, to end ultimately in June 1964. The academic contract consisted of two elements. First, the Department of Economics of the University of Chicago received several Chilean graduate students every year. Second, the Department sent teaching and administrative staff to effectuate the reorganization of the Economic school of the Catholic University as well as to conduct classes. With their effort, the curriculum was changed into a more American-style one and a new center for economic research was created.

Through the agreement a group of Chilean graduate students studied economics at Chicago and many others have also done so after the termination of the agreement. When they returned to Chile many of these Chicago-trained economists were hired in the Faculty of Economic and Social Science of the Catholic University as full-time professors¹⁴⁾.

The shared experiences of challenging graduate studies in Chicago as well as those of working in the economic school in the Catholic University¹⁵⁾ cultivated the esprit de corps among the economists, which helped them to overcome their adversaries and to accomplish their program as a coherent team under the military rule. Among them, the leadership of De Castro has been considered an important factor of their future success¹⁶⁾.

12) At first, the ICA proposed this agreement to the University of Chile, which was the leading national university of the country. But its Faculty of Economics, controlled by both structuralist and leftist economists, rejected the idea. Then they turned to the Catholic University, the largest private university, where the idea was welcomed. Before the signing of the agreement with the University of Chicago, the Catholic University of Chile "had only a School of Commerce, imparting the principles of accounting, administration, and mathematics, but not economics." Valdés (1995) pp. 114-117; Fontaine (1988), pp. 23-24.

13) Valdés (1995), pp. 93-99.

14) By 1959, a total of twenty-one young Chilean economists had been sent to the University of Chicago and eleven had returned to Chile. Of that number four have been given full-time positions in the Catholic University. ICA. *Review of Mutual Cooperation in Public Administration for 1959*. These returnees accomplished their mission to consolidate the reorganization of the School of Economics and gained the control of the entire faculty in the mid-1960s, when Sergio de Castro was designated the Dean of the faculty, while Pablo Baraona and Rolf Lüders were assigned the Directors of the economic school and the center for economic research of the faculty, respectively.

15) In the 1960s Chile saw a boost of student movement like that in other parts of the world. Catholic University was not an exception. In August 1967 the university's student organization (FEUC) controlled by Christian democrats occupied all the buildings of the faculty except for the Economic School, which was controlled by the Chicago-trained professors. Years later the right wing student organization, called *gremialistas*, seized control of the FEUC, with whom some of the "Chicago Boys" maintained a comradeship. The close relationship between the "Chicago Boys" and the *gremialistas* continued under the military regime with the former as economic advisers and the latter as political advisers.

c. Agreement between the University of California-Berkeley and the University of Indonesia¹⁷⁾

In the 1950s Indonesia lacked professional economists in the strict sense of the word. Although separate faculty of economics was established at the University of Indonesia in 1950, it suffered from a permanent shortage of specialized professors in economics¹⁸⁾. This is why Sumitro Djojohadikusumo, the dean of the faculty between 1951 and 1957, was looking for an opportunity to form some kind of academic agreement with foreign universities to transform the faculty in an advanced center for economic education. Sumitro got acquainted with Michael Harris, representative of the Ford Foundation in Jakarta, who eventually arranged the agreement between the University of California and the University of Indonesia.

The other factor that promoted the signing of the agreement was the U.S. officials' concern about the economic nationalism embraced by the Indonesian political leaders. Indonesia had just achieved its independence from Holland officially in 1949 and as in other newly independent countries Indonesian political and military leaders in the 1950s had a strong nationalist bias. In the economic field, the nationalist sentiment was reflected in the prostate, anti-foreign, and anti-capitalist tendencies of the Indonesian statesmen, which would exacerbate under the "guided democracy" of Sukarno in the late 1950s and the first half of the 1960s.

The contents of the agreement are identical with that between the University of Chicago and the Catholic University of Chile signed in the same year¹⁹⁾. The duration of the contracts was two years from July 1956 to June 1958, which was extended until 1960. Through the agreement dozens of young Indonesian economists went to Berkeley to dedicate themselves to the graduate study of economics. At the same time, a group of American professors was sent to the University of Indonesia to be engaged in the modernization of the Faculty of Economics (FEUI).

Some of the young economists who studied in the USA returned to the University of Indonesia, where they devoted themselves to consolidating the FEUI as an advanced center for

16) Harberger (1993), p. 345.

17) Ransom (1975) describes this agreement and the "Berkeley Mafia" in a critical perspective from a leftist view, while Makita (1999) examines the agreement in detail using the Ford Foundation documents. Glassburner (1978, 1991); Sadli (1993); Salim (1997) and Subroto (1998) offer views from the actors who participated directly in the process. For an overview of this process, see Bresnan (1993), pp. 51-85.

18) See, Koentjaraningrat, ed., (1979); Higgins (1990), p. 44; Wie (2001).

19) However, there were some differences. On the one hand, in Indonesian case, the program was financed fully by the Ford Foundation and the ICA ultimately didn't participate in it. On the other hand, the Indonesian government also participated as one of the signers.

economic studies. Like their Chilean counterparts, they had to fight against the leftist campaign for the control of the faculty. Through the shared experience in Berkeley and the FEUI as well as in the New Order governments as members of the economic advisor team, they transformed themselves into an extraordinary cohesive group. The leadership of Widjojo Nitisastro played an important role in this process²⁰.

d. Comparing the "Chicago Boys" with the "Berkeley Mafia"

As we saw above, both the Chilean technocrats and the Indonesian technocrats studied mainstream economics through the same type of university agreements promoted by the U. S. aid agency and the private foundations. Through the years of study in the United States, they came to share the basic tenets of the neoclassical economics, such as the supremacy of market mechanisms in resource allocation and the preference of outward economy. Their ascent to crucial posts in economic policymaking gave them a unique opportunity for putting what they had learned into practice. However, despite these similarities there were some important differences between the two groups with respect to the way they applied theory into practice. While the Chilean technocrats followed monetarist theories in a fairly strict manner, their Indonesian counterparts were characterized by a more pragmatist approach²¹. Some factors seem to explain this difference.

First, the different characteristics of the economic schools where they realized their graduate studies could be one of the reasons. While the Chicago Economic School had the reputation as the stronghold of monetarist theories and as an advocate of the free-enterprise economy and limited government²², the Berkeley Economic Department was known rather by the tradition of "real-world economics" and "a certain tendency to question official wisdom²³".

20) In Berkeley Widjojo organized discussion group among the Indonesian economics student on Saturday, which was the origin of the 'Berkeley Mafia.' Salim (1997), p. 54. Salim also emphasizes the leading role of Widjojo within the team of economists when they were in government posts. On the other hand, Mohammad Sadli points out the existence of "a bond of mutual loyalty" among the group, which, according to him, "was never duplicated in the other Southeast Asian countries-not in Philippines and not in Thailand." Sadli (1993), pp. 48-49.

21) Prawiro (1998), p. 335.

22) On the Chicago Economic School, see for example Miller (1962); Reder (1982).

23) "Intellectual Journey: Challenging the Conventional Wisdom: Conversation with John Kenneth Galbraith," March 27, 1986

(<http://globetrotter.berkeley.edu/conversations/Galbraith/galbraith1.html>). Also see Glassburner (1978), pp. 28-32. Besides Glassburner, their professors at Berkeley included Gregory Grossman (economic systems), Harvey Leibenstein (development economics), Henry Rosovsky (economic history), and Andreas Papandreou and Tibor Scitovsky (economic theory). What was common among them was their rejection of the idea that the market is important but not omnipotent. Salim (1997), pp. 53-55.

Second, the experiences of the economists before going to the United States may also explain such differences. The first generation of the Chicago Boys was much younger than their Indonesian counterparts. Most of the Chilean students went to Chicago in their early-twenties soon after finishing their undergraduate studies. So it was natural that the young and relatively inexperienced Chilean students were quite susceptible to the theories they learned. Conversely, the bulk of Indonesian technocrats went to study in the United States in their thirties or late-twenties. They already had some work experience, through which they observed closely the real conditions in their nation. Furthermore, many of them had participated in the independent struggle against Dutch in their youth, which left them with a strong sense of nationalism.

Third, Indonesian technocrats attributed a relatively important role to the state as a necessary complement of market mechanisms, giving priorities to certain sectors to the detriment of others. Whereas, Chilean technocrats advocated universal application of economic measures, eliminating sector-biased policies as long as possible. The Indonesian economic technocrats in the National Planning Board (BAPPENAS) were also conscious of the usefulness of planification and developed a series of quinquennial economic plans. Similarly, Chilean technocrats controlled the National Planning Agency (ODEPLAN), but they were skeptical about the idea of planification. In addition, it is possible that the years of relative isolation inside their faculty helped Chilean economists to maintain their original beliefs and resulted in a rather strict application of the monetarist theories.

These differences between two technocrats groups partly explain why the Chilean economic liberalization in the 1970s was much more radical and orthodox in nature than the Indonesian reform in the 1960s and 70s. However, in the real process of Indonesian economic policymaking, the position of these technocrats represented the liberalist pole vis-à-vis economic nationalist.

III. The rise of technocrats and the process of economic liberalization

a. Chile

When the group of Chicago-trained economists was called on to serve as the economic advisors to the military junta in 1973, seventeen years had passed since the signing of the academic agreement between the University of Chicago and the Catholic University of Chile. During this period they gained control of the Faculty of Economics of the Catholic University and subsequently built relations with conservative political groups, some sectors of entrepreneurs and some naval officers.

At first, their social influence was minimal due to the predominance of structuralist economic thinking in the academic institutions as well as in the governmental sphere. Parallel

to structuralism, theories of dependence, which were a derivation of the structuralist doctrine, prevailed among the left-wing social scientists. There was little room for the Chicagoan monetarist thought in Chile during the 1960s.

As for the business sector, the bulk of Chilean entrepreneurs still accepted the necessity of state-led industrialization in the mid-1960s. Even the entrepreneurs who supported the political right accepted a kind of mixed economy. Only the most internationalized segment of entrepreneurs who had strong ties with financial sectors advocated market economy. It was the latter group who gave support to the Chicago-trained economists in the Catholic University. Especially the *Banco Edwards* Group, one of Chile's oldest conglomerates, played an active role to connect the economists with the outer world and to disseminate their writings through the influential newspaper *El Mercurio*²⁴).

After the victory of Allende in 1970, some of the Chicago-trained economists joined a working group, dedicating themselves in the elaboration of an alternative economic program for an eventual new government. The group was financed by the Society for Industrial Development (SFF) and possibly by the CIA. Through the working group, these economists established their first contact with some naval personnel. The final version of their "Program for Economic Development" was handed over to the navy just after the military coup²⁵). Soon after the coup they were called to the military government as economic advisors.

Process of economic liberalization (1973-1990)

The economic liberalization process in Chile under the military regime can be divided into four periods: (i) gradual liberalization (1973-1974); (ii) radical liberalization (1974-1982); (iii) economic crisis and suspension of liberalization (1982-85); and (iv) consolidation of market reform (1985-89).

24) The *Banco Edwards* Group controlled a large number of important corporations such as the *Empresa "El Mercurio"* and the *Compañía Cervecerías Unidas* besides the bank. *El Mercurio* is the most traditional and influential newspaper in the country. It is well-known that the CIA financed the newspaper for anti-Allende propaganda before and after his electoral victory. In 1963, the *Banco Edwards* Group created the Center for Social and Economic Studies (CESEC) with the participation of Chicago-trained economists. Its main objective was to overcome "the lack of economic ideas in the rightwing sectors" and to enlighten Chilean entrepreneurs about the merits of market economy. The economists of the CESEC were invited to participate in the elaboration of the economic program of rightist candidate Jorge Alessandri for the 1970 presidential campaign. The draft they prepared proposed "swiftly opening up the country to foreign trade, the immediate and total elimination of price controls, and establishing market mechanisms for all sectors." However their proposal failed to convince pro-Alessandri entrepreneurs who still believed in the validity of mixed economy. Valdés (1995), pp. 239-240.

25) About the details on the first contacts between the economists and the military, see Fontaine (1988), pp. 11-20. This "program for development" was later published with its nickname, "El Ladrillo" Centro de Estudios Públicos (1992).

The first one and a half years after the military coup was characterized by a certain indecision within the regime concerning the intensity of the processes of stabilization and liberalization. The Chicago-trained economists had not yet gained hegemony in economic policymaking and a gradual approach was taken as a consequence. Partly because of the unfavorable external conditions, the result was the persistence and deepening of economic imbalances, which paved the way to the application of a more radical reform.

In the second period the "Chicago Boys" acquired almost total control of economic policymaking. After the announcement of shock policies in April 1975²⁶⁾, an avalanche of new measures came into being to accelerate the liberalization process. In the external sector, the multiple exchange rates were unified into a single rate, while the complex tariff system with an average of almost 100% before 1973 was fixed into a uniform tariff of 10% by the end of the 1970s, with the exception of automobiles. Also quotas and other non-tariff barriers were abolished. At the same time, restrictions on foreign investment were lifted and discrimination from domestic investment was eliminated.

In the domestic spheres, interest rates were liberalized and restrictions on private loans were eliminated, while the state-owned banks were privatized. In addition to the liberalization of the capital market, prices were also liberalized except for salaries. As for fiscal policy, wealth and profit taxes were removed and a value-added tax of 20% was introduced, while public personnel were drastically reduced to curtail fiscal expenditure. In the social sector, a new labor plan was introduced in 1979 and private pension funds (AFPs) were created to administer pension funds on individual contribution basis. As for the privatization, the bulk of firms nationalized during the government of Allende were re-privatized in the first years after the coup and subsequently stocks of more than a hundred companies were sold through auction in accordance with the financial and trade liberalization.

As a consequence, Chile achieved an annual average growth rate of around 8% between 1976 and 1981, while the rate of inflation lowered from more than 600% in 1973 to less than 10% in 1981. Fiscal balance was reestablished and reserve of foreign currency increased from US \$ 167 million in 1973 to US \$ 4, 074 million in 1980²⁷⁾.

But the "Chilean Miracle" didn't last for long. In the biennium 1982-1983 the Chilean economy experienced its worst crisis since the economic slump of the 1930s. In the 1982 the GNP fell by 14. 4% and it was still negative in 1983. External debt reached approximately 113% of GNP and the unemployment rate soared²⁸⁾. The economic authorities were forced to take over important banks and financial institutions to secure the entire financial sys-

26) In April 24, 1975 the Finance Minister Jorge Cauas announced the Economic Recuperation Plan, whose main points were: (i) curtailment of annual expenditure in every governmental branch; (ii) temporal increase of 10% in income taxes; (iii) acceleration of privatization; and (iv) strict monetary policy. Edwards & Edwards (1992), pp. 46-47.

27) Meller (1996), p. 195.

28) *Ibid.* pp. 198-99.

tem. The Chilean peso, which had been fixed at 39 per dollar since 1979, was revalued by 18 % in July 1982. The uniform tariff was raised to 35% in 1984.

From the 1985 onward the liberalization process was resumed by the so-called "second generation of Chicago Boys," who consolidated and deepened the economic reform initiated by their predecessors. While the latter were famous for their orthodox rigidity, the former were considered to be more "pragmatic" in their economic management. They established a series of measures to promote exportation, especially that of "non-traditional goods," and further advanced privatization. The banks and firms taken over during the economic crisis were re-privatized, while advance was made in the privatization of large core state firms, such as telephones and electricity.

The economic team after 1985 not only succeeded in overcoming the economic crisis but also laid the foundation for sustained economic growth. The GDP growth averaged 6.2% a year in the 1983-92 period²⁹⁾, while the rate of inflation was gradually decreased. Their success contributed to the continuation of the basic orientation in economic policies by the democratic government led by a center-left coalition in the 1990s.

b. Indonesia

Like their Chilean counterparts, the Indonesian economists built their social links based on the Faculty of Economics of the University of Indonesia (FEUI)³⁰⁾. In the university, besides teaching in the FEUI they worked in the National Institute of Economic and Social Research (Lecnas), where they often "discussed the burning issues of the day."³¹⁾ However the most remarkable episode was the fact that some of the FEUI economists were teaching at the Staff and Command School of the Army (Seskoad) in Bandung, where they cultivated close relationships with some military officers including Soeharto himself³²⁾. Thanks to this experience they were invited to be Presidential economic advisors soon after the establishment of the New Order regime.

Other important events in which the FEUI economists played an outstanding role were

29) Bosworth, Dornbusch and Labán, eds. (1994), p. 9.

30) Indonesia in the late 1950s and early 1960s was not quite receptive to the US-trained economists, since the discipline of economics was not much appreciated by political leaders. Particularly, Sukarno himself publicly announced that he didn't believe in economists. Glassburner (1991), p. 51; Subroto (1998), p. 73.

31) Salim (1997), p. 55.

32) "At first the relationship between the military and the academics was exploratory, but over time the bond became institutional because of the regularity of the courses, which were later given at Seskoau and Seskoal (the air force and navy academies) as well. ... The institutional links between the military and the academics which developed as a result of these courses at Seskoad, Seskoau and Seskoal became an important part of the military-civilian alliance which in 1966 overthrew the Old Order (Orla) government and established the New Order (Orba)." Sadli (1993), p. 39.

three nation-wide seminars conducted in 1966, i. e., during the transition period from the Sukarno's Old Order to Soeharto's New Order. In these seminars, the FEUI economists criticized the erroneous economic policies under the Sukarno government and proposed their own plans to deal with the economic difficulties the country was facing. Their clear-cut explanation won the attention of their audience, particularly that of Soeharto³³).

As a result, the FEUI economists were invited to be the economic advisors of the new government and the economic program they elaborated was incorporated into the Decree of the Provisional People's Consultative Assembly No. 23 of July 1966. After reaching an agreement with Western creditors on new concessionary loans in September, the government announced a series of new policies for economic stabilization and rehabilitation prepared by those economists on October 3 of the same year. In March 1968, Soeharto formally assumed the presidency and assigned the FEUI economic advisors to key positions of the economic authorities in the subsequent years. Several of these economists, now called technocrats, remained in the government until the early-1990s and saved the country from severe economic difficulties on several occasions.

Process of economic liberalization (1966-1993)

During the period concerned here³⁴), Indonesia experienced two phases of comprehensive economic liberalization combined with stabilization measures targeted at redressing a series of macroeconomic imbalances. The first phase (1966-74) came as a reaction to the economic crisis characterized by the hyperinflation in 1965 and 1966 left by the previous regime. The second (1983-89) took place to deal with the decline of prices of primary export products particularly that of the oil.

Beginning with the policy package of October 1966 aimed at economic stabilization and rehabilitation, a series of measures oriented to an open market economy were announced in the first years of the New Order government. In the area of external trade, the entire system of quantitative restrictions, including the import licensing system, was eliminated. An export bonus mechanism was introduced, while the tariff system was simplified, although the trend toward lower tariffs suffered a setback soon after the initiation of the reform³⁵). As for the exchange rate system, the complex multiple rates were dismantled and unified into a single rate by 1970. In the financial sector, monetary policy was tightened and interest rates were raised. Meanwhile the restriction on Central Bank credit to state

33) "The Second Army Seminar in Bandung ... presented to the Army leadership a 'cookbook' of 'recipes' for dealing with Indonesia's serious economic problems. General Soeharto as the top Army commander not only accepted the cookbook, but also wanted the authors of the 'recipes' as his economic advisors." Sadli (1993), pp. 40-41.

34) It comprises the period between the ascent of the FEUI economists as the economic advisors of the New Order government in 1966 and the replacement of the original technocrats from the cabinet in 1993.

enterprise was reinforced to enforce the fiscal discipline. Restrictions on international capital flows were loosened by the Foreign Investment Law passed in January 1967³⁶⁾, while a domestic investment law was promulgated in the following year.

The result of these policies was successful in general. The rate of inflation fell from more than 600 percent in 1966 to 4.4 percent in 1971, while the fiscal deficit stabilized to a low level during this period. Despite the application of rigid stabilization policies, the GDP grew by almost 8 percent annually from 1968 to 1974. In addition, export earnings increased by about 10 percent annually in the quinquennium 1966-70³⁷⁾, while the percentage of exports in GDP increased from 4.2% in 1965 to 29.0%³⁸⁾.

However, the pace of reform began to slow down in the early 1970s, as the call for economic nationalism arose. After the 1974 Malari riots, the pendulum swung back to more nationalistic and inward orientation³⁹⁾. The technocrats stayed in the cabinet but the economic nationalists, who controlled the ministries in charge of sectoral policies and state-owned enterprises, held primary influence in economic policymaking for almost a decade. The economic bonanza caused by the first oil shock provided Indonesia with unsurpassable conditions for this change in policy orientation toward an import-substituting industrialization (ISI) strategy with large-scale investments.

The second phase of comprehensive economic liberalization appeared as a reaction to the recurrent economic difficulties during the 1980s caused by a series of adverse external conditions, particularly the low price of petroleum. Policy packages of structural adjustments were launched several times, which included financial reforms, tax reforms, measures for promoting non-oil export and further liberalization for external investment. The deregulation process was especially accelerated after the downturn of oil prices in 1986. Although these reforms were not so far-reaching as the Chilean structural adjustment dur-

35) "Protectionist pressures culminated in the tariff revisions of April 1968. The tariff was increased for 1,292 items and marginally lowered for 43 'essential' items. The unweighted average tariff rate rose from 58 to 65 percent. The 'good news', was that the government did not impose any new quantitative restrictions." Woo, Glassburner & Nasution (1994), p. 49.

36) The law specified that the government would not nationalize without due compensation and gave immediate benefits in the form of tax holidays to private firms.

37) *Ibid.*, p. 49.

38) *Ibid.* Table A. 3., p. 168. It has to be added that the economic success of this period owed not only to the set of policies implemented by the technocratic teams but was also supported by a large flow of foreign aid and external credit. As for the foreign aid, it "accounted for over 30 percent of government expenditure in 1967, 19 percent in 1968, 27 percent in 1969, and 24 percent in 1970." *Ibid.* p. 47.

39) "Foreign investment regulations were once again tightened. Trade and industry policy was redirected as the country set off on a state-led drive for import substituting industrialization. Armed with the revenue from oil taxes, the government began investing heavily in state enterprises and basic infrastructure in a bid to develop an integrated industrial base." Hill ed. (1994), p. 37.

ing the 1970s and 1980s, they transformed the Indonesian economy from a state-led and inward economy to a more market-oriented and outward one. Market reforms continued intermittently during the 1990s but more hesitantly than during the 1986-89 period.

IV. US-Trained Economists and Authoritarian Rulers: Politics of Economic Liberalization under Pinochet's Chile and Soeharto's Indonesia

a. The relative autonomy of the authoritarian ruler and the relative insulation of the economic team

What were the political conditions which enabled market reforms in developing countries in the 1980s and 1990s? Although there isn't a sole answer concerning this question, some tentative hypotheses have been raised. In a comparative study on economic reforms in thirteen countries, Williamson and Haggard concluded that the following three conditions are more commonly observable among successful reforms: the need for a strong political base, for visionary leadership, and for a coherent economic team⁴⁰). It implies that the execution of such reforms presupposes the presence of both a coherent group of economists and strong political leaders who can give enduring support to them. Furthermore, since the shift to market-oriented reform entails a drastic change in the distribution of resources among social sectors it often requires a certain degree of coercion, which presupposes considerable "autonomy" of the state and its political leaders as well as the insulation of the economic authorities from immediate social demands.

Authoritarian Chile and Indonesia fairly satisfied these conditions. Unlike democratic regimes in which political decisions are made as a result of compromises among distinct political and social sectors, in authoritarian regimes the political leader doesn't act necessarily in accordance with such compromises but often enjoys considerable freedom to choose policies they prefer, with relatively little regard to social pressures. In the first years of their regimes both Pinochet and Soeharto succeeded in concentrating power in their own hands, purging their adversaries within the regime, and heavily oppressing the opposition to the regime, which gave them considerable autonomy in making important political decisions in a relatively longer perspective. Since both Pinochet and Soeharto came to power in the middle of profound economic crisis, one of their immediate goals was to overcome it as soon as possible. Also they needed to achieve sustainable economic growth to legitimate their long stay in power. It was in that moment that the teams of economists with specialized knowledge appeared as the only possible choice to achieve these objectives⁴¹).

40) Williamson and Haggard (1994), p. 589. Also the existence of political and/or economic crisis, particularly a hyperinflation, has been an important condition for such reforms, as in the cases of Chile and Indonesia.

It was the support of these authoritarian rulers that permitted the technocratic teams to carry out economic reforms at their discretion without caring so much about the reaction of social sectors affected by those reforms. In some sense, the relative autonomy of the former functioned as a guarantee for the political insulation of the latter. The technocrats, by themselves, lacked the political power to impose the costs of reforms to social sectors. Therefore, they greatly needed "the visible and consistent support of the head of state" to carry the reform forward⁴²⁾. In the cases of Chile and Indonesia, the consistency of the technocrats' projects in the absence of other projects, together with the initial success of the policies they implemented, were crucial for their persuasiveness in the authoritarian rulers. Both Pinochet and Soeharto had enduring confidence to their technocratic advisors and often protected them from external interventions.

However, there were some important differences in the political and institutional conditions of the two countries, which resulted in divergent paths in their economic liberalization process. In the following, we will examine some of these political factors.

b. Chile

The Chilean military regime was established as a result of a coup d'état supported mainly by the rather traditional entrepreneurial sector and by the bulk of middle class. So it was expected that the new government would adopt a moderate economic liberalization under a kind of corporatist political system. However, to the surprise of many the regime opted for an economic model that required significant cost to the social sectors which supported the regime.

"How could a business-friendly government afford to follow such policies?" According to Velasco there are two reasons. First, "the breakdown of traditional politics and the fragmentation of civil society in the aftermath of the upheaval of the late 1960s and early 1970s afforded the military and their advisors unusual autonomy in designing and implementing policy." Neither the business sector nor the traditional political Right could offer viable alternative projects, while the opposition such as the trade unions and leftist groups were completely demobilized during the 1970s. Second, "the shock of the Allende experience made large portions of the country's establishment particularly receptive to policies intended to institute drastic changes in the rules of the resource-allocation game."⁴³⁾ In addition, it was the business sectors and the traditional right who had begged and persuaded the military to intervene in the political arena and not vice versa. Therefore

41) It goes without saying that the appointment of these economists to the head of the economic authorities was also a gesture to the international financial community to obtain necessary funding as well as to carry the negotiation on the rescheduling of external debt on favorable terms.

42) Waterbury (1992), p. 191. Cf. Glassburner (1978), pp. 32-33.

43) Velasco (1994), pp. 381-383. Also see Martínez & Díaz (1996), pp. 2-3.

the military felt that they owed little to its supporters, while for these giving support to the military regime was the only guarantee not to return to the insecurity under the previous governments.

Within the military regime, Pinochet gained an increasing hegemony in the first years after the coup. He made the most of his legal and de facto position as the president of the military junta to consolidate and institutionalized his one-man rule⁴⁴). The ascent of the Chicago-trained economists went side by side with the monopolization of power by Pinochet.

There was an internal conflict in the first years of the military regime between those who insisted on the acceleration of liberalization and the application of drastic stabilization measures, represented by the Chicago-trained economists, and those who advocated a gradual and flexible application of the liberalization measures. But as the crisis deepened, the position of the Chicago Boys turned out to be the most consistent and coherent. After the announcement of the shock treatment in May 1975, they began to monopolize the main posts of the economic authorities.

A reciprocal relation arose between Pinochet and the economists. Pinochet, as well as his military collaborators, had little knowledge about economy. So once he was convinced of the ability of the Chicago-trained economists, he gave them a free hand to manage the economic policies while inhibiting interference of other sectors. A kind of symbiosis or division of labor was established. Pinochet, with his military and civil collaborators, dedicated in maintaining the political stability, precondition for economic development, while technocrats were in charge of economic affairs. That is why the Chilean technocrats could pursue long-run objectives without thinking of immediate effects of their measures. Although the team of Chicago-trained economists was removed from the economic authorities momentarily in the mid-1980s, "second generation" of economic technocrats, led by Hernan Buchi, were designated to occupy those posts in 1985⁴⁵).

One of the most remarkable features of the Chilean reform process was the transformation of entrepreneurial sectors. The traumatic experiences of radical land reform and nationalization under the previous governments and the subsequent adoption of the radical economic liberalization under military regime accelerated the restructuring of the sector and resulted in the emergence of a new and competitive group of entrepreneurs. Together with the large conglomerates, they supported the regime and its economic policy even in the difficult moment following the economic collapse in 1982-83 and contributed to the consolidation of market reform.

44) About the process of concentration of power in the hands of Pinochet, see Moulián and Vergara (1980); Remmer (1989 a); Cónstable and Valenzuela (1991); pp. 40-89; Cavallo, et al. (1997).

45) Hernán Büchi graduated from the University of Chile and then got his master's degree in economics from the University of Columbia. But he is considered as one of the "Chicago Boys" since he had closely collaborated with the team of De Castro in early years of the military regime.

Part I: Globalization and the Transformation of Governance

With the economic recuperation of the latter half of the 1980s, market economy gradually acquired an acceptance of a broad range of the Chilean middle sector. By the end of that decade, centrist political parties and an important part of the left came to recognize the validity of market economy, which facilitated the democratic transition to civilian regime. Achievement of satisfying macroeconomic performance under a democratic regime has contributed to the consolidation of market reform and also to the institutionalization of macroeconomic management by well-trained economists.

c. Indonesia

As for the Indonesian case, Soeharto supplanted Sukarno and gained power taking full advantage of the political vacuum caused by an attempted coup in October 1965, in which many of his superiors were victims. A multitude of communists were massacred after the coup and the military acquired an unchallengeable political influence⁴⁶⁾. Soeharto seized power with the backing of the military. As a politician he was distinguished by his sense of balance in making political decisions. In other words, under the Soeharto's New Order regime "many actions of the state are determined through presidential brokering of compromises among the principal social groups."⁴⁷⁾

Soeharto's political style of brokering or balancing had been manifest also in the sphere of economic policy making. Various authors have explained economic policymaking in New Order Indonesia as opposing or "see-sawing"⁴⁸⁾ process between two groups, i.e., the technocrats, on the one hand, and the economic nationalists, on the other hand⁴⁹⁾. The principal figures of the former were the economists of the University of Indonesia, who occupied important posts of economic authorities like the Ministry of Finance, Trade, the National Planning Board (BAPPENAS), and the Central Bank. They favored deregulation measures as well as outward-oriented development policies. Meanwhile the latter included military and non-military bureaucrats, who often headed the state-owned enterprises and ministries of productive sectors, such as industry⁵⁰⁾. They advocated state-led industrial-

46) The last years under Soekarno's Old Regime was characterized by contention between the Indonesian Communist Party (PKI) with more than two million militants, on the one hand, and the military, on the other hand, a situation which was barely contained by the charismatic leadership of Soekarno.

47) Woo, Glassburner & Nasution (1994), p. 36.

48) Hira (1994), p. 36.

49) See Robison (1988), pp. 68-69; Liddle (1991), pp. 406, 416-418; Hill (1994), pp. 35-36; Woo, Glassburner & Nasution (1994), pp. 40-41; Bowie and Unger (1997), p. 47; Chalmers (1997), pp. 27-29. While the technocrats were supported by international financial organizations such as the IMF and the World Bank and by Western multinational enterprises, the economic nationalists (or politico-bureaucrats) dominated the domestic political sphere. They also had important connections with Japanese capital who was seeking stable energy supply.

zation with large-scale capital and opposed market-oriented reforms.

In the kind of dualistic decision-making structure of economic policies described above, Soeharto played the part of arbitrator between the two contending groups. In general, in periods of economic crisis he relied on the technocrats giving them complete authority to effectuate severe stabilization programs, as well as a series of deregulating and liberalizing measures⁵¹). However, once the critical situation was overcome and abundant capital returned, Soeharto allowed the economic nationalists to pursue their goals. State-owned companies often escaped from the control of the economic authorities managed by the technocrats and engaged in a series of big projects of dubious feasibility. Once the oil boom provided Indonesia an unprecedented flow of foreign currency in the 1970s⁵²), economic liberalization retrograded and inward state-led industrialization with large-scale investment was pursued in Indonesia.

Although Soeharto had the highest confidence in the technocrats' capacity in macroeconomic administration as well as in crisis management, to distribute required political patronage he also supported the group of economic nationalists, with whom he had a patrimonial relationship⁵³). Thus, in periods of prosperity he let the latter take the initiative, whereas when facing economic difficulties he turned to the former, letting them lead

50) According to Liddle, "The so-called economic nationalists, like the economists a group of high-level officials, have favored rapid state-led development, usually involving very large capital investments without much prospect of short—or even medium—term return. Most of them have had little formal training in economics. Their projects have been opposed by the economists, who prefer to limit the direct involvement of the state in production and in general to guide economic activity through manipulation of the price mechanism." Liddle (1991), pp. 416-417. Some of the principal figures of this group were Ibnu Sutowo, the former head of Pertamina (National Oil Company) and Habibie, the former Minister for Research and Technology. Economic nationalists are also called engineers or technicians. Woo, Glassburner & Nasution (1994), pp. 40-41; Bowie and Unger (1997), p. 47.

51) This happened several times during his rule. The most remarkable cases were: (i) after the crisis left by the Sukarno regime in the mid-1960s; (ii) after the near default of the state oil company, Pertamina, in 1975; (iii) during the fall in the price of oil in 1983; and (iv) during another fall in the price of oil and other primary goods in 1986.

52) "In 1970, Indonesia's oil traded at \$1.67 per barrel. The country produced some 0.89 million barrels per day, which constituted 29 per cent of the central government's revenues. Just over a decade later, in 1981, Indonesia produced about 1.6 million barrels per day, each of which fetched about \$35 per barrel. This constituted about 70 per cent of the government's revenues." Prawiro (1998), p. 101.

53) Various authors mention the patrimonial character of the Indonesian political structure. Under the Soeharto regime, networks of patronage were created through "politically conferred licenses, concessions, trade monopolies, bank credit, state contracts and joint ventures rather than by sets of regulations based in law that provide common rules for business operation." Robison (1997), p. 30. Such networks go all the way from top bureaucrats to villagers, forming an informal but important aspect of Indonesian society. Far from abolishing these practices, Soeharto reinforced these informal mechanism of patronage to consolidate his rule.

the economic policymaking⁵⁴). It partly explains why the country's periods of liberalization and deregulation have lasted a relatively short time and interventionist periods have resurged repeatedly despite the technocrats' presence in the economic agencies. The existence of abundant reserve of petroleum, which gave Indonesia considerable margin of choice in her economic policymaking, was another potential factor.

Furthermore, although market reform was supported by external actors such as the IMF, World Bank, and the United States and other creditor nations, it lacked a domestic political base at least until the late-1980s. Not only the politico-bureaucrats who controlled the big state enterprises opposed the technocrats, but also domestic entrepreneurs called for protection as well as state subsidies for their industries⁵⁵). On the other hand, although the urban middle class and the masses were largely depoliticized, their eventual mobilization ran counter to economic liberalization⁵⁶).

Thus, the presence of the western-trained technocrats in top governmental positions did not necessarily guarantee the realization of consistent economic liberalization. However, they had contributed to maintain fairly stable macroeconomic fundamentals during three decades of the New Order government, especially, in keeping the competitive exchange rate as well as the balanced budget.

V. Conclusion

As we have seen in the previous sections, the university-to-university agreement signed between the Chicago University and the Catholic University of Chile, as well as that between the University of California and the University of Indonesia, had the aim of implanting liberal economic thinking into those countries in order to reverse prevailing nationalist and protectionist tendencies in the long run. These agreements provided a contingent of specialized economists to countries in which the presence of the mainstream economics was feeble. They shared beliefs in the superiority of the market mechanism in

54) Mohammad Sadli, one of the first economic advisors of Soeharto, described it as "good times make bad policy." That is, "if the economy was bad, ..., Suharto sought the help of the technocrats; and the Javanese autocrat was willing to back up their programs to a great extent as long as they delivered renewed growth. But once the economic condition rebounded and the burden lifted, Suharto would reduce the role of the technocrats again and do some other things they might not agree with. It had happened in the 1970s and 1980s." Mallarangeng (2000), pp. 238-241.

55) Domestic private capital was still weak when the New Order government was established. During the oil boom of the 1970s some of the domestic corporations, most of which were owned by Chinese, grew remarkably through joint ventures with foreign corporations as well as with state enterprises, gaining major political influence.

56) In 1974, the riots in Bandung and Jakarta led by students and Muslims resulted in the reorientation of the economic policy toward increased protectionism.

resource allocation, the preference of outward orientation and the subsidiary role of the state, among others. The appointment of these economists to crucial positions of economic policymaking under the authoritarian regimes marked the beginning of market reforms in each country. Their tenure in governmental posts contributed to the implementation and consolidation of market reform as well as to the institutionalization of economic policymaking by well-trained professional economists. In short, these U.S.-trained economists played a double role as transmitters of mainstream economics with its liberal market-oriented creed and as the executors of market reforms incorporating their expertise.

However, the pace and the contents of the reform have varied significantly between the two countries. While Chile has experimented with one of the most radical and enduring market reforms, economic liberalization in Indonesia has been rather hesitant and intermittent.

In the case of Chile, the ascent of the Chicago Boys went side by side with the monopolization of political power in the hands of Pinochet. Economic reforms were pursued in the middle of a total dismantlement of the previous political system, which enabled the realization of extensive market reforms. A kind of symbiosis with clear division of labor between the military and their civil advisors was forged. Conversely, Soeharto decided not to abolish the political order entirely but to maintain and even reinforce the patrimonial networks to consolidate his rule. In consequence, a kind of dualistic decision-making structure in economic policymaking was established. It prevented the application of consistent and enduring market reform in Indonesia despite the presence of the U.S. trained technocrats in the high ranks of the central government. The economic bonanza of the 1970s, as a consequence of the sharp rise of oil price, also favored the resurgence of statism tendency. Finally, the different attitude toward the theories vis-à-vis policymaking between the Chilean and the Indonesian technocrats partly explain the different policy output.

Finally, it might be true that, in a longer perspective, liberal market economics has prevailed among developing nations because it provides a correct set of measures. However its dissemination process is not necessarily spontaneous. Efforts to disseminate liberal market economic thinking had been made at various fronts, from various perspectives, and with different motives. In that sense, ideas rarely float freely, but rather deliberately. On the contrary, an overemphasis on the conspiratorial nature of the dissemination process could result in overlooking the peculiarities of each case. Once a new economic thinking is introduced successfully, the way it is internalized and institutionalized differs from one political setting to another. Frequently, market reform has been consolidated only after repeated trial and error. Even the Chilean case, which has been considered as one of the most successful cases of market reform, experienced a serious setback in the mid-1980s.

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