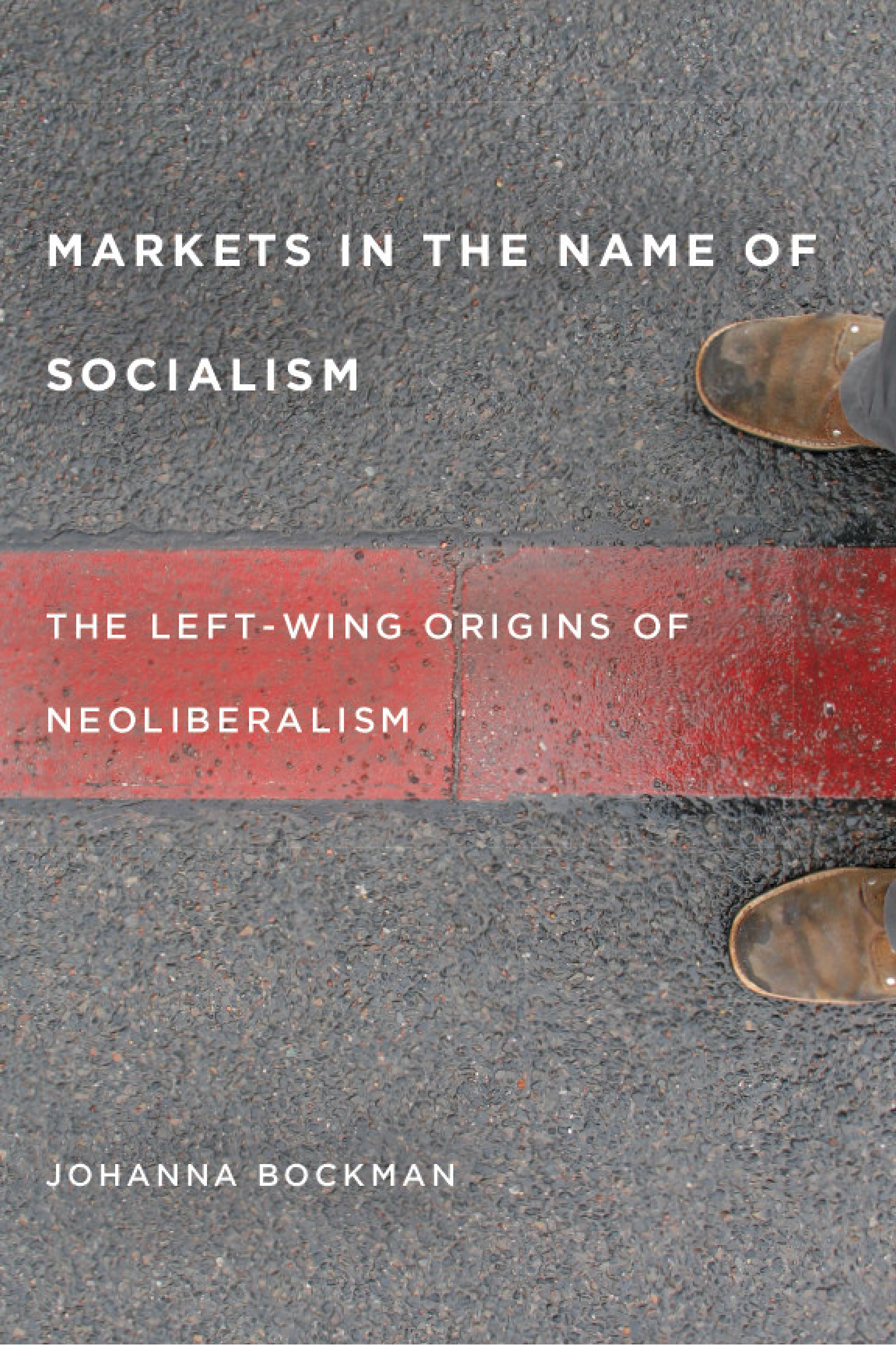
MARKETS IN THE NAME OF
SOCIALISM
THE LEFT-WING ORIGINS OF
NEOLIBERALISM
JOHANNA BOCKMAN

Markets in the Name of Socialism

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The Left-Wing Origins of Neoliberalism

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Contents

Preface

IN FALL 1988, I ARRIVED IN BUDAPEST, Hungary as an exchange student through the University of California's Education Abroad Program. I fell into a situation that I did not understand but that would send my life in a new direction. Through the year, at the Karl Marx University of Economics, we exchange students studied with Hungarian scholars, who provided us new ways to understand the world, even in such courses as American literature. We took part in large protests, visits to Roma villages, evenings in underground punk clubs, panicked discussions with our Education Abroad Program directors, and the general social life of young college students, who happened to arrive in a place of historic change.

The language of our professors, who talked positively about markets, democracy, and freedom, surprised me. The American right wing had done so much to politicize these words and done such evil in Central America and elsewhere in their name. Our professors in the Karl Marx University of Economics sounded like Reagan robots. After returning to the United States and entering graduate school, I found myself drawn to trying to understand what I had experienced. What was socialism? What was capitalism? What had happened in 1989? This book is my current answer to these questions.

During my dissertation research, I discovered that Hungarians had been calling for both markets and socialism since the 1950s. For those familiar with Hungary, such a discovery was not a surprise. Yet, in the 1990s, scholars already assumed that socialism had been, and would likely always be, the centrally planned, state socialism exemplified by the Soviet Union. In this environment, a reminder of Hungary's market socialist past was important. At the same time, I found that some Hungarian economists had studied in the United States and elsewhere, exposing themselves to mainstream neoclassical economics. In the 1990s, it was important to recognize that Hungarians were not entirely isolated from the rest of the world. In my dissertation, I had assumed that this exposure to American neoclassical economics, in particular, had made Hungarian economists capitalist.

Yet I felt that I still did not understand what happened in 1989. As a postdoctoral fellow at Harvard University's Davis Center for Russian Studies, I began interviewing American economists who had worked with Hungarians and other Eastern Europeans during the Cold War. The economists involved in these East–West discussions were not peripheral but rather central figures in the field. How did these Americans indoctrinate Eastern European economists into capitalism? To understand the indoctrination process, I had to understand professional economists' theories and models. What were they exporting abroad? Following their connections with other economists took me to Italy and the former Yugoslavia. It also introduced me to an economics dialogue that extended throughout the first, second, and third worlds. Through years of interviews, I realized that American economists did not export neoclassical economics as an American model but rather that neoclassical economics since its beginnings offered a language that economists around the world used to talk about markets and planning, economic freedom and efficiency, capitalism and socialism.

I would not have understood economists' ideas without sitting with many of them for hours over many years. These economists often found my interviews confusing and disorienting. What did I want to know? I wanted to understand their ideas, their training, their motivations, their politics, and their life in general. I found all of this essential to understanding their ideas. These economists gave me much of their time because, I believe, they wanted some answers too.

Economists' voices are not directly quoted in this manuscript for several reasons. From the start, I sensed that tape recording and signing Human Subjects Review forms raised suspicions among my interviewees worldwide. One economist told me that, if I recorded our discussion, he would not tell me anything. I quickly turned to taking notes by hand and no longer thought about Human Subjects Review. Instead, I decided to use these interviews as a springboard for research, to direct me to archives and published materials. These interviews also became more like conversations. It was extremely difficult to understand what the economists were trying to tell me, both technically and politically. I slowly began to understand them and tried out my interpretations on other economists to get their feedback. Therefore, economists became more like conversation partners than interviewees.

At the same time, it is disappointing not to have a verbatim written or audio record of my interviews with these economists. Many of them have since passed away. However, I had long ago decided to interview economists as part of a process of making sense of their worlds. I felt driven to write this book because many, though by no means all, of these economists were connected in so many ways to people who had fought to change the world in liberating ways. As I wrote about Italian economics, such a potentially bland topic, my mind was full of the connections of its practitioners with Second World War antifascist partisans, with their colleagues who had lost their lives in the Soviet Union under Stalin, with Third World allies, and with official and dissident socialists worldwide. To tap into and document part of this flow of energy and experience has been exhilarating. It has also helped me to understand 1989 and socialism for myself. I thank all the economists and other individuals who spoke with me. The interpretations advanced and any errors are my responsibility alone.

List of Interviewees

The affiliations listed are those at the time of the interviews.

Economists

Luca Anselmi, University of Pisa, 2004
Kenneth Arrow, Stanford University, 2007
Abram Bergson, Harvard University, 2000
Joseph Berliner, Harvard University, 2001
Ivo Bićanić, University of Zagreb, 2008
Ferruccio Bresolin, Ca' Foscari University, Venice, 2004
András Bródy, Institute of Economics, Budapest, 1995 and 1996
Giorgio Brosio, University of Turin, 2004
Andrzej Brzeski, University of California, Davis, 2004
Anne Carter, Brandeis University, 2000 and 2001
Božidar Cerović, University of Belgrade, 2008
Janet Chapman, formerly Harvard University, 2001
Alberto Chilosi, University of Pisa, 2004
Richard Cooper, Harvard University, 2001
Béla Csikós-Nagy, Hungarian Economic Association, 2002
Bruno Dallago, University of Trento, 2004
Robert Dorfman, Harvard University, 2000
Božo Drašković, Institute of Economic Sciences, Belgrade, 2008
Ivo Družić, University of Zagreb, 2008
Dinko Dubravčić, Institute of Economics, Zagreb, 2008
John T. Dunlop, Harvard University, 2000
Dejan Erić, Institute of Economic Sciences, Belgrade, 2008

Mario Ferrero, University of Eastern Piedmont, 2004
Murray Feshbach, Woodrow Wilson Center, 2002
Vojmir Franičević, University of Zagreb, 2008
Marshall Goldman, Harvard University, 2000
Gregory Grossman, University of California, Berkeley, 2001 and 2004
Hans Heymann, formerly Central Intelligence Agency, 2001
Branko Hvastija, Center for International Cooperation & Development, Ljubljana, 2008
Peter de Janosi, formerly Ford Foundation, 2001
Dale Jorgenson, Harvard University, 2001
Milena Jovičić, University of Belgrade, 2008
Peter T. Knight, formerly Ford Foundation and World Bank, 2007
János Kornai, Harvard University and Collegium Budapest, 2000
Oskar Kovač, Megatrend University, 2008
Roger Levien, formerly RAND, 2001
Aladár Madarász, Institute of Economics, Budapest, 1996
Ljubomir Madžar, "Braća Karić" University, Belgrade, 2008
Stephen Marglin, Harvard University, 2000
Jože Mencinger, University of Ljubljana, 2008
Mieke Meurs, American University, 2007
Branko Milanović, World Bank, 2008
Milić Milovanović, University of Belgrade, 2008
Jim Millar, George Washington University, 2002.
Peter Miovic, World Bank, 2008
J. Michael Montias, Yale University, 2000 and 2001
John H. Moore, Grove City College, 2001
András Nagy, Institute of Economics, Budapest, 1995.
D. Mario Nuti, University of Rome "La Sapienza," 2004
Časlav Ocić, formerly Institute of Economic Sciences, Belgrade, 2008
Merton J. Peck, Yale University, 2001
Pavle Petrović, University of Belgrade, 2008
Janez Prašnikar, University of Ljubljana, 2008
Howard Raiffa, Harvard University, 2000
Ivan Ribnikar, University of Ljubljana, 2008
Gianni Salvini, University of Pavia, 2004 and 2005
Thomas Schelling, University of Maryland, 2001
Gertrude Schroeder, formerly Central Intelligence Agency, 2001.
Michael Schwarz, Harvard University, 2001

Marjan Senjur, University of Ljubljana, 2008
Jan Svejnar, University of Michigan, 2008
László Szamuely, Kopint-Datorg, Institute for Economic and Market Research and Informatics, Budapest, 1998
Maks Tajnikar, University of Ljubljana, 2008
Vladimir Treml, Duke University 2001
Aleš Vahčič, University of Ljubljana, 2008
Vittorio Valli, University of Turin, 2004
Milan Vodopivec, World Bank, 2008
Gordana Vukotić-Cotič, Institute of Economic Sciences, Belgrade, 2008
Benjamin Ward, formerly University of California, Berkeley, 2007
Martin Weitzman, Harvard University, 2001

Others Interviewed

Francesco Leoncini, Ca' Foscari University, Venice, 2005
Carlo Lottieri, Bruno Leoni Institute, Turin, 2004
Bianca Mieli, Milan, 2004
Leonardo Morlino, University of Florence, 2004
Igor Pavlin, International Center for Promotion of Enterprises, Ljubljana, 2008
Yale Richmond, formerly U.S. State Department, 2001
Duško Sekulić, University of Zagreb, 2008
Priyadarshi Thakur, International Center for Promotion of Enterprises, Ljubljana, 2008
Anton Vratuša, International Center for Promotion of Enterprises, Ljubljana, 2008

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A second important debt is to the Library of Congress, especially the European Reading Room and the John F. Kluge Center. While my research took me around the world, the Library of Congress is just down the street from my house and has one of the greatest collections of books, journals, and manuscripts. The European Reading Room provides a beautiful space in which to read these wonderful works, as well as to drink tea on Friday afternoons. As a fellow at the John F. Kluge Center, I benefited immensely from the intellectual life created by Caroline Brown, Marcy Dinius, Monica Dominguez Torres, Agnes Kefeli, Kelly Pemberton, Mary Lou Reker, Zachary Schrag, and Vidhya Swaminathan. I am very lucky to live near such a national treasure.

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Many individuals read parts of this book, made important comments and criticisms, and generously shared their knowledge and views with me. I mentioned in the preface the economists who helped me to make sense of their field. I want to give special thanks to Kenneth Arrow, Branko Milanović, Gianni Salvini, and Howard Wachtel for their comments on chapters of this book or my related articles. Gil Eyal, Dietrich Rueschemeyer, and Yuval Yonay, as well as several anonymous reviewers, read the entire manuscript and have made substantial contributions to the logic and strength of the manuscript. Many thanks also to Michael Bernstein, András Bródy, Ellen Comisso, Martha Lampland, Ákos Róna-Tas, and Steven Shapin for reading earlier parts of this book. I learned much from my coauthors Michael Bernstein and Gil Eyal. Margo Beth Crouppen and Jessica Walsh at Stanford University Press, as well as my copy editor Margaret Pinette, have been a joy to work with. I also wish to thank James Cook for his kind support of my manuscript.

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Terrence Lyons, Peter Mandaville, Agnieszka Paczyńska, and Paul Smith in other departments.

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Markets in the Name of Socialism

Introduction

Economists and Socialism

ONE OF THE MOST DRAMATIC EVENTS of the past fifty years has been the worldwide embrace of neoliberalism, an economic and political ideology that glorifies the market and condemns the state, socialism, and even collective ideals, such as social justice. The Reagan and Thatcher governments epitomized these trends by attacking the welfare state, rejecting state regulation, privatizing state companies, and turning over state functions to market actors. Observers soon found that many Eastern Europeans also had a seemingly Reaganite or Thatcherite obsession with free markets. As an exchange student in Budapest, Hungary, in fall 1988 and spring 1989, I also was bewildered by the supposed socialists who taught us at the Karl Marx University of Economics and sounded more like Reagan Republicans than socialists. The fall of the Soviet Union in 1991 seemed to affirm the global victory of neoliberal capitalism, leading to the further dismantling of state socialism and the implementation of market and democratic reforms around the world. Neoliberalism fundamentally changed the world. This book suggests that, far from a hegemonic juggernaut, neoliberal capitalism was a parasitic growth on the very socialist alternatives it attacked.

An enormous literature explores the rise of neoliberalism and its profound effects on economies, polities, cultures, and societies. A new literature investigates whether neoliberalism is now on the decline.[1] In this book, I study the central role of professional economists in the development and spread of neoliberal ideas and policies. Economists create many of the images and the language that policy makers and laypeople use to discuss the economy. Through their influence on political and other elites, they also change the world to better fit their theories and abstract models.[2] Even "the economy" itself as a distinct sphere and an object of social science and government policy resulted from the professional work of economists collaborating with governments and other organizations (Mitchell 2002: ch. 3).

In general, scholars have presented three accounts of how economists developed and spread neoliberalism. Each assumes that economists have always taken a side either for the state or for the market and thus that every economist can be located on a state–market axis. The first account focuses on individual right-wing economists, most significantly Milton Friedman and Friedrich von Hayek, who developed radical free market ideas that form the core of neoliberalism. A strategic network of right-wing think tanks, associations like the Mont Pelerin Society, and foundations like that of the Scaife family packaged these neoliberal ideas and used them worldwide to attack any state role in the economy, from regulation to Keynesianism to central planning (Bourdieu and Wacquant 1999; Campbell 1998; Centeno 1998; Cockett 1995; Hartwell 1995; Harvey 2005; Kelly 1997; Klein 2007; Mirowski and Plehwe 2009; Smith 1993; Valdés 1995; Yergin and Stanislaw 1998).[3] In her *Shock Doctrine*, Naomi Klein (2007) argues that Milton Friedman and other neoclassical economists took advantage of economic crises to realize this radical free market package as shock therapy, which produced "disaster capitalism" worldwide.

A second type of account suggests that neoclassical economics, with its free market models, acts as a kind of neoliberal Trojan horse (Aligica and Evans 2009; Biglaiser 2002; Kogut and Macpherson 2007).[4] In his *A Brief History of Neoliberalism*, David Harvey (2005) brilliantly describes neoliberalism as a political project to restore the power of economic elites after the successes of the left in 1960s, but he conflates neoliberalism and neoclassical economics.[5] Ronald Reagan and Margaret Thatcher came to power with a mandate to realize this political project, bringing it together with a separate "utopian project" to realize right-wing economists' vision of free market capitalism that masked the political project. According to many authors, this neoliberal vision is based on neoclassical economics, in opposition to Marxism. Harvey writes:

> The neoliberal label signaled their [these economists'] adherence to those free market principles of neoclassical economics that had emerged in the second half of the nine-

teenth century (thanks to the work of Alfred Marshall, William Stanley Jevons, and Leon Walras) to displace the classical theories of Adam Smith, David Ricardo, and, of course, Karl Marx. (2005: 20)

Harvey finds the core of neoliberalism in neoclassical economics with its "free market principles." Sociologists Campbell and Pedersen similarly argue that "a deep, taken-for-granted belief in neoclassical economics" forms the core of neoliberalism (2001: 5). Scott Sernau represents a more generally held view:

Many nations around the world were discovering the ideas of free trade and free markets. The intellectual basis for this approach comes from neoclassical economics. This approach is sometimes termed neoliberalism . . . Thus neoliberalism is the economic philosophy of American political conservatives . . . On the international level, the IMF and the World Bank champion their own form of neoclassical economics. (2010: 39–40)

Neoclassical economics, many observers agree, has played a fundamental role in the rise of neoliberalism worldwide. The conversion of much of the world to neoclassical economic thinking, according to these accounts, led to support for neoliberalism and thus undermined socialism, which did indeed suffer a cataclysmic decline from the late 1980s.

The third type of account points to economists with American neoclassical training who gained powerful positions in international financial institutions, such as the World Bank and the IMF, which impose neoliberal ideas on countries around the globe and support the formation of neoliberal advocates worldwide (Babb 2001; Dezalay and Garth 2002; Henisz, Zelner, and Guillén 2005; Orenstein 2008).[6] Economists within these institutions and their worldwide network of advocates successfully replaced state-led development with neoliberal free market policies. These three arguments work nicely together to demonstrate how economists' ideological project worked in parallel with business elites' political project to reorganize capitalism and reestablish their own power (Blyth 2002; Harvey 2005; Klein 2007).

This manuscript builds on, but also criticizes, these three types of accounts by revealing the socialist origins of neoliberalism. The right-wing, capitalist origins of neoliberalism have been clearly demonstrated. Observers have noted that not only right-wing leaders, such as Pinochet in Chile and Fujimori in Peru, but also socialists, such as those in Western Europe and Latin America, implemented neoliberal policies (Bourdieu and