Marketization: From Intellectual Agenda to Global Policy Making

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Introduction

A distinctive feature of the contemporary period of globalization is a powerful trend towards marketization in many regions of the world. The term “marketization” refers both to market ideologies and market-oriented reforms. A market ideology reflects the belief that markets are of superior efficiency for the allocation of goods and resources. In its most extreme form, this belief is associated with the commodification of nearly all spheres of human life. Market-oriented reforms are those policies fostering the emergence and development of markets and weakening, in parallel, alternative institutional arrangements. During the last decades of the twentieth century, the dominant market-oriented reform mix has included macroeconomic stabilization, privatization, deregulation, liberalization of foreign trade and liberalization of international capital flows (Simmons et al. 2003).

Since the early 1980s, market ideology and market-oriented policies have spread fast and wide around the globe. Markets, the argument goes, are better at allocating resources and producing wealth than bureaucracies, cartels or governments. Furthermore, the global diffusion of marketization has had an impact well beyond the traditional boundaries of the economy. Marketization implies a redefinition of economic rules of the game but also a transformed perspective on states, regulation and their role. Marketization is questioning all forms of protective boundaries and barriers and having an impact, as a consequence, on social but also cultural and legal policies (Collectif Dalloz 2004; Thornton 2004).

As defined here, the marketization process points to a number of issues. There is first the issue of origins. To understand the genealogy of contemporary marketization, we have to go back to the liberal inspiration.[1] We also have to consider the alternative ideological frames historically available. We do both in the first section of this chapter. A second issue is that of ideological sustainability. For a large part of the twentieth century, the liberal inspiration has been marginalized, both in intellectual and policy making terms. Beyond the "sleeping beauty", we identify in section 2 the nodes where the liberal flame was kept alive. Such intellectual "night watch" proved essential to the liberal revival that started in the 1970s. In section 3, we describe the unique intellectual and institutional conditions of that revival.

In section 4, we turn to the issue of global diffusion. Why and how have market-oriented reforms and ideas become so widespread during the last two decades of the twentieth century? There are essentially two ways to account for ideological and policy parallelism. The first is through "modernization" arguments. Markets emerge everywhere in a parallel and independent manner simply because they are most efficient (Friedman 2000; Lal 2000). A second way to explain convergence is through diffusionist arguments. Structures and practices tend to resemble each other due to the density of channels stimulating processes of transfer and diffusion (Powell and DiMaggio 1991; Strang and Meyer 1993; Djelic 1998; Scott 2003).

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[1] Throughout this chapter, "liberal" will be understood in the European sense of the term.

We set ourselves within that second perspective and hence look at the conditions, carriers and mechanisms behind the diffusion of market ideas and policies.

Finally, the impact and consequences of the progress of marketization is another important issue. Marketization is transforming economic institutions in many countries while also reflecting upon social, political and cultural arrangements. We approach this issue in the conclusion and briefly point at the same time to the limits of the marketization trend.

Intellectual Roots and Alternatives

Trying to identify the precise intellectual origins of a system of thought is a thankless task. Let us start, however, from the widely shared assumption that Adam Smith's An Inquiry into the Nature and Causes of the Wealth of Nations, originally published in 1776, was a defining work for liberalism. This book played a key role in the emergence of the modern science of economics and was of particular influence in the stream of economics that has glorified the market (Stigler 1976; Fourcade-Gourinchas 2001).[2] The work of Adam Smith set itself in the continuity of political liberalism while strongly arguing against mercantilism and its proponents (Heckscher 1962; Schumpeter 1983: I, vii).

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[2] This influence is undeniable even though the historiography points to incompatibilities between parts of Smith's work and the most extreme forms of neo-liberal argument (Viner 1960).

The Liberal Inspiration

Adam Smith was expanding upon the contributions of the great founders of political liberalism – John Locke in particular. For Locke, a state of nature predated the social contract. In that pre-social state, each individual was facing nature and interactions between individuals turned around that interface. They had to do with work, the products of work and property rights. Pre-political – 'natural' – man was therefore a *homo economicus* (Manent 1986; Locke 1997). The social and political contract emerged only in reaction to threats and to generate collective responsibility for the respect of natural law and the protection of private property. Building upon the idea of "natural man" as economic man, Adam Smith re-affirmed both the autonomy of the economic sphere and its historical and moral precedence over other spheres of human life (Smith 1999). Adam Smith also took over the idea that the economic sphere was by nature stable, structured by "natural laws" – essentially the propensity to barter and the division of labor, competition and the Invisible Hand of the market.

Economic man had, according to Adam Smith, a natural propensity to "truck, barter and exchange one thing for another" (Smith 1999: I, ii, 117). The market, from this perspective, was a natural and essential dimension of social life. Each individual could obtain what she needed on the market in exchange for the things she produced. The extent and complexity of the division of labour depended upon the scale and density of the market, itself in direct correlation with demographic and infrastructural conditions (Smith 1999: I, iii). Adam Smith argued that the progressive extension and expansion of markets meant, ultimately, not only greater individual and collective well being but also moral, social and political progress away from feudalism and tyranny and towards yeomanry and democracy (Smith 1999: I, i, 109; III).

Another "natural law", according to Adam Smith, was that markets were orderly. Order did not stem from an all-powerful regulator but from a multiplicity of transactions and their combination (Smith 1999: I, ii, 119). Through combination in the market, the greed and selfishness of individual acts turned into a morally satisfying and welfare maximizing collective order. In The Wealth of Nations, individuals were pictured as a-moral; the market, though, was inherently albeit mysteriously producing a progressive and moral order (Nelson 2001). The miracle of the Invisible Hand required, however, specific conditions and in particular that markets function freely. Smith pointed to two types of obstacles. Market players themselves could introduce disruption and "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices" (Smith 1999: I, x, 232). This part of Smith's argument has often been neglected but it shows deep consciousness that competitive markets were not automatically self-sustaining. Smith also strongly denounced tampering and intervention by political authorities (Smith 2000: IV, ii). That particular denunciation is an important part of the genetic link between Smith's liberalism and contemporary neoliberalism (Skinner 1999: 79).

Mercantilism and German Historicism as Intellectual Alternatives

The idea is naturally not to reduce the history of economic thought to an opposition between liberalism, mercantilism and German historicism. Still, identities are also constituted in part through opposition and conflict. In 1776, Smith was championing political liberalism but he was also opposing and arguing against mercantilism. And later on, at an important moment for economics, during the early years of professionalization, the debate between classical liberalism and historicism proved potent (Fourcade-Gourinchas 2001). In contrast to the communist alternatives that flourished during the 19th century, those three intellectual traditions were compatible with capitalism and private property. They revealed, however, different conceptions of the nature and role of markets.

<u>Mercantilism</u>

More than a theory, mercantilism is a label that gained visibility and coherence through the violent attacks of liberal economists – and of Adam Smith in particular (Heckster 1962; Magnusson 1994).

Mercantilists claimed that the wealth of a country was measured by its stock of precious metals. Hence a nation should control imports and exports to maximize that stock. This concretely meant an endorsement of political intervention in economic affairs. Political intervention could go in different directions. States could impose tariffs to control imports but also to protect national industries and give them time to develop. State intervention could mean aggressive political support of exports – including through military imperialism or colonialism. States could encourage the multiplication of manufactures, by providing capital or granting privileges such as exclusivity over a market or even by themselves turning entrepreneurs.

For mercantilist writers, the economy was serving a wider national project. Polity and economy were tightly intertwined and political aims had the pre-eminent role. Ultimately, foreign trade was not so different from a (peaceful) game of war and all national forces should be mobilized to wage that war. The state had a privileged understanding of national needs, national resources and their articulation. Hence, it should actively intervene, fixing priorities, combining individual efforts and controlling results. From a mercantilist perspective, reliance on private initiative was bound to favor particularistic interests to the detriment of the collective good. There was no place, in that context, for the invisible hand of a "free market". The "Hand" existed but it was the highly visible one of the Prince or the polity.

German Historicism

The historical school of economic thought was also involved in a profound and bitter, discussion with liberalism. Historicism had its roots in Germany and was highly dominant in that country during the 19th century. German Historicists rejected the idea of natural economic laws and of universal theoretical systems (Shionoya 2001). They argued, instead, that economic "laws" were contingent upon historical, social and institutional conditions. This was a common theme but there were variations, in particular between a descriptive and a normative form of historicism.

Descriptive historicism pointed to the embeddedness of economic arrangements, underscoring the need for historically and sociologically grounded empirical economics (Iggers 1968). From that perspective, market economies had no prime of place. They should be contextualized and efficiency could not be presumed. Normative historicism went further. It connected economic trajectories with national identities – states being symbolic carriers. The consequence was militant support for the *status quo* that reflected the essence of a nation. This implied also a preoccupation for nation building through state-led economic policy that was reminiscent of mercantilism. Concretely, this meant that in Germany normative historicism found legitimate, towards the end of the 19th century, a combination of organized capitalism and strong state intervention. Such a combination, emerging together with German unification, marked as it were the culmination of the German "spirit". Progress was away from chaos, towards order; away from free or wild markets and towards organization and centralization.

In retrospect, the fate of German historicism was closely linked to two developments. First, German historicism lost the *methodenstreit* – the methodological dispute that opposed it to Austrian liberals during the 1880s (Hodgson 2001). For the Austrian Carl Menger the prime task of economic analysis was theory making and theoretical knowledge could not emerge from historical economics. Since then, this position has become uncontroversial in economics and the legitimacy of historicism was weakened in the process. A second development was the association of normative historicism with Prussian and later German nationalism. This association further contributed to marginalize historicism.

Although there is no trace of historicism in mainstream economics, it has not disappeared from the ecology of ideas. Historicism has influenced economic history (Koot 1987). It was also absorbed by early American institutionalists, such as Thorstein Veblen or Richard Ely, and is having an impact through that lineage on heterodox economics (Yonay 1998). It is probably most alive, though, in economic sociology, reflecting a Weberian heritage (Guillèn 2002). Contemporary economic sociologists have revived the descriptive project of the German historical school. They put markets in perspective, showing both the embeddedness of economic arrangements and the contextual efficiency of alternatives to markets (Whitley 1999; Hall and Soskice 2001; Fligstein 2001). Through the contemporary vitality of economic sociology, historicism is still indirectly present in the debate around neoliberalism.

Economic Liberalism – The Sleeping Beauty

The first 60 to 70 years in the twentieth century were difficult for economic liberalism. The idea that economic action should take place in free markets and that state intervention should remain limited did not convince during that period. The belief in free trade as a source of prosperity did not fare better. In Europe, the United States and elsewhere, those years were characterized by the triumph of interventionism. The latter could take different forms.

Socialized property and centralized planning imposed themselves in the Soviet Union and, after 1945, in many other countries under Soviet influence. The Great Depression and its aftermaths brought Keynesianism on the policy making scene in many capitalist countries. State intervention and regulation of markets became staple fare. The trend was only reinforced with the turn to war economies. In capitalist countries where Keynesianism was not the inspiration, the influence of Nazism or authoritarian ideologies was being felt. Here again, this meant a quasi-disappearance of market mechanisms, strong state intervention and a surge in protectionism. In parallel to this triumph of state intervention, cartelization had been progressing in most economies, championed by private actors themselves. Free markets and competition were associated with chaos and disruption, while cartelized markets held the promise of orderly and rational economic development. The consequence was a triumph of organized capitalism, at least until 1945, that extended across national borders with the multiplication of international cartels (Djelic and Kleiner this volume)..

During those years, the prophets of free markets had not disappeared but they were a minority with scant influence on policy making. Liberalism went "underground" and only a few scientific centers kept the flame burning. Three of those centers emerge as particularly important. The Chicago School was making its first steps, grounding the foundations for the liberal Temple. The Austrian school was another important node. The small German ordo-liberal school finally deserves to be mentioned, if only for the “miracle” of its survival in an environment decidedly not conducive to liberalism.

Building the liberal Temple – the early years at Chicago

Created in 1892, the University of Chicago was originally financed by John D. Rockefeller, the “Titan” of the American oil industry (Chernow 1998). The first head of the Economics Department at Chicago was J. Lawrence Laughlin. Laughlin was a mixture of neo-classical theorist and aggressive big business apologist – the type that seemed to “confirm the suspicion of those who regarded the University of Chicago as a tool of business interests” (Coats 1963).

The liberalism championed by Laughlin differed in important ways from Smithian or Manchester-type liberalism. His apology of the market was reconciled with the corporate and oligopolistic revolution that transformed American capitalism (Sklar 1988; Bornemann 1940). This reconciliation between markets and “bigness” has remained to this day a trademark of the so-called Chicago School of economics (Miller 1962; Nelson 2001).

The Chicago School crystallized during the 1930s around the key figure of Franck Knight (Nelson 2001). The group that emerged then would make the Chicago School famous – Jacob Viner, Henry Simons, Aaron Director, Allen Wallis, Milton Friedman, Rose Director Friedman and George Stigler (Reder 1982). Franck Knight championed free markets on moral grounds, as the best arrangements to ensure the preservation of individual freedom. Increased efficiency and utility maximization were positive collaterals, not ends in themselves (Nelson 2001).

Keeping the flame alive – The Austrian front and German mavericks

The *methodenstreit* had revealed the existence of what German Historicists disparagingly called an "Austrian School". Inspired by libertarian philosophy, Austrian economists have been staunch proponents of free markets, free trade and *laissez faire* (Cubeddu 1993). They have focused on the dynamics of capitalism, with the entrepreneur as core figure. Austrians are "Jeffersonians", hailing a market with multiple nodes/ free individuals / entrepreneurs (Mayer 1994). The school has specificities that keep it at a distance from mainstream economics – in particular a reluctance to join the "marginal" or mathematical revolution as pioneered by Marshall, Walras and the Cambridge School (Schumpeter 1983: III, cha.v).

Carl Menger, who fought the *methodenstreit*, was an important early figure. The most famous names, though, have been Ludwig von Mises and Friedrich von Hayek. Austrian liberals were the first to argue seriously against Marxian economic thought, already in the 1880s. Von Mises' publications were a landmark in that struggle and explain in part the association of Austrian economics with staunch anti-communism (Mises 1935).

Before 1914, economists from the Austrian school enjoyed significant prestige and clout in Vienna. There were strong intellectual connections between that group and foreign colleagues, in particular Frank Knight in Chicago. However, during the interwar period, the Austrian School was increasingly marginalized. By the 1930s, with the rise of Nazism in the background, the school literally exploded. Hayeck left for the London School of Economics and in 1950 for the University of Chicago (Dostaler and Ethier 1989). Von Mises went first to Geneva and in 1940 to New York city. Most other members left Vienna to go to the United States. Migration on such a scale fostered the emergence of an "American generation of

Austrian economists" (Vaughn 1994). This generation would play a significant role in the liberal revival (Yergin and Stanislaw 1998).

In Germany, liberalism was a maverick ideology until the end of World War II at least. In hostile conditions, a few Germans championed notions of free market, putting their career at stake in the process. The Freiburg or "Ordo-liberal" school was blaming collectivism, cartelization, state intervention and protectionism for the dire straits of the economy but also for the rise of Nazism. In contrast to the *zeitgeist*, the ordo-liberal school was in favor of competition, not least as a necessary condition for political democracy (Nicholls 1984; Peacock and Willgerodt 1989).

In 1936, the ordo-liberal school published a manifesto – "Our Task". The competitive economy they envisioned had neoclassical features – with multiple units, each one more or less corresponding to a private household. However, ordo-liberals did not believe in competition as self-maintaining equilibrium – non intervention in Germany had only brought about collusion. Markets and competitive conditions should be created and protected through legal frameworks (Peacock and Willgerodt 1989: cha.2).

Throughout the Nazi period, the Freiburg school was a hub of intellectual resistance. At the end of World War II, it was neither well known nor well-connected (Nicholls 1984). Things changed with the occupation of Germany and the Freiburg school became an important actor then of the transformation of German capitalism (Nicholls 1984; Berghahn 1986; Djelic 1998).

Towards a Liberal Revival

Throughout the first part of the twentieth century, liberalism remained a “dormant beauty”, with scant influence in Europe or the United States. After World War II, there were important steps towards a liberal revival. The creation of the Mont Pélerin Society was a marker – opening the way to the proliferation of liberal think-tanks everywhere in the world. By the late 1970s, the liberal inspiration was back and strong on the intellectual scene. The 1980s created the political windows of opportunity that made it possible for liberalism to impose itself in policy making circles, initially in Chile, the United States and Great Britain.

Hayeck and the Mont Pélerin Society – Inventing the Think-Tank

In 1944, Friedrich von Hayek published *The Road to Serfdom*, where he argued that state interventionism led, inexorably, to tyranny. Nazism was being defeated; nevertheless the *zeitgeist* was still conducive to interventionism. With a view to reviving the liberal inspiration, Hayek had the idea of bringing together like-minded individuals. The meeting took place in April 1947, at Mont Pélerin, in Switzerland. The 39 participants shared a commitment to free markets and limited government albeit with varied understandings of what those meant. Milton Friedman, George Stigler, Aaron Director, Ludwig von Mises, Karl Popper or Wilhelm Röpke were all present.

At the end of the meeting, the group decided to institutionalize itself in the form of the Mont Pélerin Society (MPS). Registered as a non-profit corporation in Illinois, the Society was dedicated to reviving, sustaining and spreading liberalism. Until 1967, Hayek was its President. The Mont Pélerin Society remains a virtual organization, with no headquarters, and recruits through cooptation. The Society has no official publications and exists intellectually through the contributions of its members. Its website is not very informative – and in particular the list of current members cannot be accessed. In spite (or because) of this discrete touch, the MPS has been an important mechanism of the liberal revival (Mendes 2003). Membership has expanded, both in absolute numbers and in geographical reach. In 1947, 39 members came from 10 different countries; there are today around 500 members coming from 40 different countries. To this day, the MPS claims merely an advocacy role, proposing that "its sole objective is to facilitate an exchange of ideas between like-minded scholars in the hope of strengthening the principles and practice of a free society" (www.mps.org).

A measure of the intellectual clout achieved by the MPS is the number of Nobel prize winners amongst its members. Hayek received the Nobel Prize in 1974. He was followed by Milton Friedman (1976), George Stigler (1982), James Buchanan (1986), Maurice Allais (1988), Ronald Coase (1991), Gary Becker (1992) and Vernon Smith (2002).

The MPS was a pioneer. It had followers and liberal think-tanks have flourished since the 1970s in the United States and elsewhere in the world (Stefancic and Delgado 1998; Mendes 2003; Krastev 2000). We only give some examples here. The Heritage Foundation (1973) or the Acton Institute (1990) brought together the liberal and Christian traditions (www.heritage.org, www.acton.org). The Ludwig von Mises Institute was created in 1982 and it has become an important seat of libertarianism (www.mises.org). The general trend has been towards an increasing presence of private and corporate interests – as evidenced for example by the Bertelsmann Foundation in Germany, the Cato Institute or the American Enterprise Institute in the US (www.stiftung.bertelsmann.de, www.cato.org, www.aei.org).

Chicago – The New Generations

In parallel to the multiplication of liberal think-tanks, the Chicago School was reaching maturity. The new generation had appropriated the philosophical insights of their teachers, in particular Frank Knight. There were two features, however, that set that generation apart. First, it jumped on the bandwagon of the "marginal" or mathematical revolution in economics and contributed to its acceleration (Reder 1982). Second, with Milton Friedman as its main spokesman, this generation re-affirmed the public and polemical role of the economist, originally explored by Laughlin.

By the early 1960s, the Chicago School in economics had acquired its unique features (Bronfenbrenner 1962). First, one finds an unconditional advocacy of the market mechanism. The Chicago economist "differs in this advocacy from many economists on his dogmatism and in assuming that the actual market functions like the ideal one" (Miller 1962: 66). Second, one finds a principled rejection of regulation and state intervention that implies acceptation of the evolutionary dynamics of market competition. This has meant, in particular, that the Chicago School has accepted "bigness". The fear of concentrated wealth, present in the work of Adam Smith, has had little weight in Chicago, much less in any case than the fear of government. Gary Becker summed it well: "It may be preferable not to regulate economic monopolies and to suffer their bad effects, rather than to regulate them and suffer the effects of political imperfection" (Becker 1958: 109).

Third, one finds a Panglossian vision of the world. The market mechanism leads to greater efficiency, collective prosperity and individual freedom (Friedman and Friedman 1979, xv, 28: 129). Fourth, provided the state does not meddle, the market mechanism should be self-sustaining (Reder 1982). Fifth, the associated conception of human nature is that of neoclassical economics – human beings are out to maximize utility. The Chicago School has systematically explored that path by expanding the boundaries of economics, explaining theft, discrimination, marriage, fertility, child rearing (Becker 1971, 1991), legal issues (Posner 1972) or the functioning of religious institutions (Ekelund et al. 1996) through the prism of utility maximization.

Six, and finally, the contemporary Chicago School has reconciled science and politics. The postwar generation contributed to the scientific and mathematical turn in economics while being actively involved in policy making and political discussions. As we show below, the move to politics was initially partly accidental. Soon, though, the most vocal Chicago economists – in particular Friedman – found out that there was a "market" for their ideas and turned themselves into missionaries of market principles. Their proposals for reform

> involved either increased use of the price system, substitution of private for public production (eg. in health, education), replacement of legal compulsion by voluntary – financially induced – private cooperation or a mixture of all three (Reder 1982: 25).

Political Windows of Opportunity

During the 1970s, the liberal agenda moved progressively from marginality to centre stage. The process reflected in part chance and opportunities and in part the entrepreneurial flair of a few individuals who managed to identify those opportunities and ride on the wave.

In the 1970s, oil shocks created major disruptions that were reinterpreted as revealing structural fragilities. A striking puzzle was the combination of economic depression and significant inflation. "Stagflation", as the phenomenon was called, was in contradiction with

Keynesian economics (Friedman 1968). The Keynesian stop-and-go machine appeared to be jammed. The "sleeping beauty" was out there, ready to be awaken through the search for alternative tool-kits. Inspired by the liberal intellectual revival, economists and policy makers came to blame excessive regulation and government intervention for structural rigidities. The most astounding expression of that was proposed by the British Chancellor of the Exchequer, James Callaghan, a former trade unionist. In 1976, Callaghan pronounced Keynesianism dead and state intervention a failure.[3]

> We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all honesty that that option no longer exists and that in so far as it ever did exist it worked on each occasion since the war by injecting bigger doses of inflation into the economy, followed by a higher level of unemployment (quoted in Callaghan 1987).

Monetarism and supply-side economics were on their way, pointing to markets and the price mechanism as an alternative path to managing the economy.

The term "supply-side economics" was coined in the 1970s to refer to the liberal policy package that targeted stagflation. Supply-side economics were inspired by Austrian economics and libertarian philosophy and in close intellectual affinity with Chicago-style monetarism and liberalism (Leeson 1998). A starting proposition was that economic growth depends upon market efficiency and the smooth allocation of resources for production. The policy recommendation was to remove impediments to free markets and to reduce in

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[3] This part of Callaghan's speech was drafted by Peter Jay, his son in law, who was strongly influenced then by the work of Milton Friedman (Keegan 1984:91).

particular state involvement. This translated into privatization, deregulation, a scaling back of welfare benefits and tax cuts. Supply-side economics also recommended free trade as a means to "healthy" competition. Monetarism, closely associated from the start with supply-side economics, had the curbing of inflation as key objective. The argument was that free market economies were inherently stable in the absence of major fluctuations in money supply and hence in the absence of government meddling into monetary issues. Central banks, as a consequence, should be strong and independent (see Marcussen this volume).

The first experiment in supply-side economics took place in Chile. In 1973, a military coup backed by the CIA put an end to Salvador Allende's project of reaching socialism through reformist means. The military dictatorship turned instead to free market economics under guidance of the "Chicago Boys". Those were Chilean economists with a PhD from the University of Chicago, who had benefited in the 1950s from a US-government program designed to counter a leftist bias in Chilean economics (Valdès 1995). The "Chicago Boys" privatized public industries and reversed the expropriation of the Allende years. They reduced trade barriers and made labor legislation more favorable to business interests. Social security was privatized and monetary policies followed Friedman's orthodoxy (Foxley 1983; Fourcade-Gourinchas and Babb 2002: 13)

Great Britain and the United States were two other early pioneers, starting already in the 1970s, ironically under Labour and Democrat governments. We have described Callaghan's change of heart. In the United States, deregulation on a big scale started under President Carter, a southern Democrat. In 1979, Carter put the Federal Reserve Board in the hands of the Monetarist Paul Volcker, with the mission to tame inflation. The reorientation widened in scale and scope once Margaret Thatcher and Ronald Reagan took over. Both had strongly been influenced by liberal intellectuals and think tanks. Milton Friedman had been a close advisor to Ronald Reagan already in 1973, when Reagan was Governor of California (Leeson, 1998: 45). The British Centre for Policy Studies, set up in 1974 with Thatcher as President, was the channel through which monetarism and supply-side economics found their way to Thatcher's political platform (Keegan 1984: 46-7, 81-2). In Britain, the influence of supply-side economics translated into the "systematic implementation of an agenda of deflation, privatization, deregulation and downsizing of the public sector" and in an attempt at dismantling the welfare state (Fourcade-Gourinchas and Babb, 2002: 556). In the United States, deregulation was implemented on a large-scale and the public and welfare sectors were pulled towards market logics. Deflation and tax cuts triumphed.

Towards Global Diffusion of Marketization

The liberal revival had great consequences for the economic, social and political landscapes of pioneer countries like Chile, Great Britain or the United States. But its impact soon became felt more broadly. The Thatcher and Reagan revolutions opened the floodgates of liberalism. They represented focal points around which logics of transnational diffusion articulated.

Diffusion and its Context

The context of diffusion was characterized by five distinctive developments. First, the economic crisis of the 1970s had a nearly global impact, pointing everywhere to the limits of Keynesian recipes. Second, it increased the dependence of many countries on international financial institutions, such as the International Monetary Fund (IMF) or the World Bank

(WB). Third, the fall of the Berlin Wall seemed to imply a victory of capitalism and liberalism over communism and its interventionist legacies and translated for former communist countries into dependence on international financial institutions, the United States and rich Western countries. The terrain was conducive then to an ideological U-turn in those countries – towards the "all-market" mantra and radical forms of political and/or cultural liberalism.

Fourth, the United States was rising in parallel to hegemony power – if not "Empire". Since 1945, diffusion flows have been highly skewed. Practices, ideas and institutional rules of the game have gone predominantly from the United States towards the rest of the (Western) world (Djelic 1998; Zeitlin and Herrigel 2000). This tendency has not abated quite to the contrary.. Fifth, as an epistemic community (Haas 1992) but also as policy makers, economists have gained in presence, clout and strength worldwide. The progress of this group has combined with global homogenization of the profession (Kogut and Macpherson 2003). Since there as elsewhere American hegemony was strongly felt, the Chicago turn of American economics, once in progress, has spread fast and wide.

Carriers and Channels of Diffusion

The global diffusion of marketization has had multiple dimensions. We argue that, out of this diversity, it is possible to identify four categories of carriers or transmission channels.[4] First, we find organizational carriers broadly understood. Second, we find routines and

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[4] Our categorization is compatible with that of Scott although slightly different (2003). Scott identifies four broad classes of "carriers" or "vehicles" – symbolic systems, relational systems, routines, artifacts (Scott 2003:882).

institutionalized practices, often associated with organizational carriers. Third, we identify relational or social networks as important transmission channels. Fourth, we point to the role of normative and symbolic systems as carriers in themselves. Naturally, those are ideal types and in most empirical situations, interplay is likely.

Within the broad category of organizational carriers, we make a difference between classical organizations and network or meta- organizations (see Arhne and Brunsson this volume). The IMF, the WB or the European Bank for Reconstruction and Development (EBRD) are amongst those classical organizations that have played a significant part in the global spread of marketization. The IMF and the WB carry around the "Washington Consensus" – another label for what we call marketization (Stiglitz 2002). In parallel, private firms and service providers with a multinational reach are also important carriers. Anglo-saxon firms were pioneers; today most organizations with a global ambition share at least parts of the marketization discourse and agenda.

The spread of marketization also owes a lot to organized spaces with unclear boundaries. The World Trade Organization (WTO), the Organization for Economic Development (OECD), the European Union (EU), the North American Free Trade Agreement (NAFTA), the European Round-Table of Industrialists are all variants of network and meta-organizations. They all play a part in the global move towards market logics. Their impact plays itself out in part at the level of normative frames – and hence may be less perceptible but probably more enduring in the longer term than the coercive pressure of the IMF or of institutional investors.

Routines and practices constitute a second category of carriers. Although often associated with organized spaces, routines and practices can be influential in themselves in particular when diffusing beyond their context of origin. The setting-up of independent public agencies, for example, has ideological and structural implications that carry forward the marketization trend (Gilardi 2005). As another example, routines associated with accreditation and rankings in higher education increase competitive and market pressures in that field (see Hedmo et al. this volume).

Relational or social networks represent a third category of. carriers. There is naturally a danger to overemphasize the importance of social networks, as is often done in micro-studies of diffusion (Strang and Meyer 1993). But there is also a risk to forget the role that social and relational networks play in transnational and macro processes of diffusion (Djelic 2004). The transnational diffusion of marketization has historically been facilitated, we argue, by the articulation of different types of relational networks. In particular, transnational bridging networks – such as the Mont Pélerin Society – need to connect with institutionalized and powerful local networks (Djelic 2004). This ensures that ideas and practices get, first, transferred across borders and, second, lastingly appropriated including through translation (Czarniawska and Sevón 1996).

Normative and symbolic systems, finally, constitute a fourth category of carriers. Ideological frames or institutionalized "myths" (Meyer and Rowan 1977) are powerful because they can shape behaviors and interactions *a priori*. When those frames are inscribed in socialization systems, they can become invisible to embedded actors.. Twenty years ago, the concept "maximizing shareholder value" did not exist in most European countries. Today, it is a revealed truth, an unquestioned logic in many business and business school contexts across Europe. The spread of the concept and its associated normative scheme justifies in turn the implementation of routines and practices that stabilize it further. There is a self-reinforcing loop there. Ideas flow and as such they are carriers and not only carried. Categories and concepts such as “competition”, “maximizing shareholder value”, “transparency”, “New Public Management”, “markets”, “privatization” flow across the world – carrying with them organizational, practical and behavioral implications that reinforce the marketization trend. However, diffusion also implies reception and reception calls for local appropriation, contextual decoding and “indigenization” (Scott 2003: 884). As they flow, ideas and normative categories are also “edited” (Sahlin-Andersson 1996), translated and hybridized (Czarniawska and Sevon 1996; Djelic 1998). The local decoding process – and its organizational and relational filters– should also be scrutinized.

Epistemic communities (Haas 1992) and professions are powerful combinations of our last two categories. They are anonymous social networks bound together through shared normative and symbolic systems. Epistemic communities and professions have been instrumental for the global spread of marketization and as such deserve to be singled out here.

Mechanisms and Logics of Diffusion

Those carriers and transmission channels function according to different types of logics. We identify three categories of logics that resonate loosely with the categorization of diffusion channels. Here again, in most situations of diffusion, interplay is likely. This categorization is an alternative to the classical typology of diffusion mechanisms (coercive, mimetic, normative) proposed by DiMaggio and Powell (1983).

We point first to political logics. By that we mean logics reflecting power asymmetries and dependence. Political logics can translate into coercive pressures but also into voluntary imitation of what appears more “efficient”, more “modern”, more “rational” or more "scientific" (see Boli; Drori and Meyer this volume). The influence of financial institutions such as the IMF or the WB provides a good illustration of political logics. Those institutions work through mechanisms of "conditionality" – conditioning credit lines upon the implementation of policies and reforms. During the last two decades, dependent countries have been coerced in this manner towards the adoption of neoliberal reform packages (Stiglitz 2002). The influence of the European Union on candidate or potentially candidate countries is another good illustration. Integration is strictly conditioned upon a package of structural adjustments and reforms – many of which stimulate the progress of marketization in those countries. For potential candidates, with no definite time horizon, pressure may be more indirect and self-inflicted through voluntary imitation.

A second category of diffusion logics are those associated with processes of social interaction. By social interaction, we mean various forms of direct interface and exchanges that often take place within and across social networks. Social interaction logics played a part in the constitution and spread of neoliberal think-tanks but also in the appropriation of the neoliberal agenda by British and American governments for example. When we consider the transnational diffusion of ideas, we argue that social interactions should be at the same time wide and deep (Djelic 2004). Global epistemic communities or advocacy networks are an interesting illustration of that. They combine transnational peer interaction with national or local strategies of influence towards key institutional and organizational nodes (Marcussen; McNichol; Djelic and Kleiner this volume).

Finally, structuration and socialization processes point to a third category of diffusion logics. By structuration, we refer to a process by which the rules of the game are set and constituted to reflect a particular ideology and associated practices. Those framing schemes themselves can diffuse. They may then have an impact on practices, behaviors, interactions and shared beliefs through percolation and progressive socialization. Structuration logics can combine with political and/or social integration logics. Structuration pressures will be all the more powerful that framing schemes become deeply institutionalized and possibly invisible for socialized actors. The progressive accession of the Chicago School to dominant position in the economics profession is a good example. Early steps in that direction revealed political and social interaction logics. Today, the influence is largely explained by the structuration power that tradition has achieved. The Chicago School agenda shapes to a great extent the rules of the game in the economics profession – in training institutions, publication outlets and academic networks.

Conclusions: The Global Mantra of Marketization and its Limits

Since the early 1980s, the spread of marketization has concretely meant deep transformations with economic, social and political dimensions. Market-oriented macro-economic policies – privatization, deregulation and liberalization – have spread rapidly (Ikenberry 1990; Eising 2002; Henisz et al. 2004). Kogut and Macpherson (2003) document such rapid diffusion in the case of privatization. Pioneer experiments were those of Chile under Pinochet and Great Britain under Thatcher. The real explosion, though, happened in the late 1980s and in the 1990s – in spite of mixed evidence by then on the merits of the British program (Vickers and Yarrow 1988). Trade liberalization also progressed during that period while the global spread of monetarism meant the diffusion of the ideology of central bank independence and associated institutional transformations (see Marcussen this volume). Marketization has also translated into financial liberalization – with a global structuration of the financial field (Van

Zandt 1991; Ventresca et al. 2003) and increasing isomorphism of financial institutions, organizations, practices and discourses across the world (Simmons 2001; Kleiner 2003). The same happened with the idea of competition. The fight for competitive markets has become a nearly global one – in principles and structures if not always in practice (Djelic and Kleiner this volume).

Marketization has also implied a transformed approach to the role of states and to regulation. There are essentially four trends here. First; states increasingly delegate some of their rule-making and rule-monitoring power to independent regulatory agencies (Gilardi 2005). Second, regulatory philosophy is increasingly moving towards structured self-regulation. Regulatory areas are "privatized", turned into "markets" where many different actors interact and negotiate to reach a point of equilibrium expected to be efficient (see Hedmo et al.; Engels; McNichol this volume). In parallel, "control" is replaced by "audit" (Power 1997). The difference is subtle but significant – political fiat is displaced by "independent technical or scientific expertise" (see Drori and Meyer this volume) and monitoring authority is in part privatized. Third, states and administrations across the world are going through the "New Public Management" revolution (Hood 1995; Christensen and Laegreid 2001). This essentially amounts to a "managerialization" of state bureaucracies – with greater transparency, a preoccupation for efficiency and "customer" orientation, the generalization of competition and market mechanisms within and across administrative units. Fourth, the idea has made its way that the state could – and should – disengage from certain social and welfare activities. Private pension schemes have emerged as a consequence (Weyland 2003) and the health and education sectors are having to deal with competition and market pressures (see Ramirez this volume).

The progress of marketization can also be measured through its impact on firms and forms of governance. During the 1990s, "outsourcing" and a focus on "core competencies" have become all the rage. Both trends reflect the belief that markets allocate resources and orient strategic development more efficiently than managers or bureaucracies. Everywhere, the 1990s have been marked by the expansion of stock markets and by increasing numbers of listed firms. This has in effect put financial markets at the core of many industries – with an influence on strategic and governance choices (Tainio et al. 2003).

This progress of marketization has been associated and in close reinforcing interaction with the increasing presence, power and expansion of cultural liberalism (Meyer and Jepperson 2000). Cultural liberalism places the individual at the centre – with a surprising and worldwide expansion of standardized ideas about individual rights, powers and competences (see e.g. Drori and Meyer this volume). This progress of the "individual" goes well beyond the human person. Animals themselves are increasingly treated as "individuals". In our liberal marketized societies, corporations also are "individuals" in that sense, and by extension state agencies too.

Although the global progress of marketization is undeniable, there are limits to its reach. Limits stem from political and ideological resistance – as the strength of the anti-globalization movement illustrates. Limits stem also from local translation, editing and hybridization that mitigate the progress of marketization (Czarniawska and Sévon 1996; Sahlin-Andersson 1996; Djelic 1998). While market logics have advanced in all Western European countries, national welfare schemes have not, for example, been dismantled to the extent one would expect (Deacon 2005). Limits are also visible in processes of "decoupling" – the marketization revolution does not always go down from discourse to implementation. One naturally has to add a geographic if not cultural dimension to that mapping of limits. Certain regions, like subsaharian Africa, are on the margins of the marketization revolution. Other parts of the world, coinciding more or less with George W. Bush's definition of "rogue states", resist and reject, politically and culturally, the progress of marketization. Finally, building upon the story we have told here, one could speculate about another limit to the progress of marketization. Crisis and dissatisfaction with economic performance could combine with and stimulate the (re)emergence of "sleeping beauties" – sets of ideas and associated policies that could have been dormant for a long while without fully disappearing. History tells us that this type of ideological long waves is not impossible.

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