Neoliberal Economists and Capital Account Liberalization in Emerging Markets

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Abstract One of the most important developments in the world economy during the past three decades has been the willingness of governments in emerging markets to liberalize controls over international capital movements—a process known as capital account liberalization. What accounts for this trend? While existing research highlights a number of important factors, it neglects the role played by the rise and spread of neoliberal ideas that prioritized liberalization as a policy choice. Extending the literature on epistemic communities, I argue one critical mechanism shaping policy decisions is the formation of a coherent team of neoliberal economists. Using a new data set that codes the professional training of more than 1500 policymakers in emerging markets, I assess the relative importance of this argument quantitatively on a sample of twenty-nine emerging markets from 1977 to 1999. In order to assess the independent effect of neoliberal economists, I also take into account the endogeneity of the appointment process, assessing whether appointments are driven by credibility concerns, political interests, or economic conditions. I also stress that a fuller understanding of the appointment process necessitates a focus on the social environment in which appointments are situated.

One of the most important developments in the world economy during the past three decades has been the willingness of governments in emerging markets to open up their economies to global markets. A significant element of this opening has been the liberalization of capital controls—a process known as capital account

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liberalization. What accounts for this trend? One view claims that capital controls no longer "work" in the context of capital mobility, thus obliging states to liberalize.[1] Another view points to the role of interest groups.[2] Although they make important contributions, these arguments cannot fully account for this trend.

Despite rising capital mobility, there has been considerable policy variation across emerging markets. While some states, such as Argentina in the 1990s or Indonesia in the 1970s, liberalized, other states, such as Argentina in the 1980s or Chile and Malaysia in the 1990s, relied on capital controls. Evidence from the Chilean and Malaysian cases also indicates that these controls were in some respects quite effective.[3] Rather than serving as an inescapable constraint, capital mobility alone appears indeterminate in shaping policy decisions. What this view overlooks is that capital mobility—as with all material trends—must be socially mediated and interpreted by policymakers.[4]

Interest group pressures are also not always decisive. Considerable uncertainty and imperfect information surround the decision to liberalize the capital account, particularly in emerging markets. For instance, domestic financial intermediaries in emerging markets are often uncertain as to whether they stand to benefit from the increased opportunities for intermediation that can accompany liberalization or whether they stand to be harmed from the possibility that liberalization will precipitate a banking crisis due to the legacies of financial repression and poor prudential supervision that typically characterize emerging markets.

This uncertainty often leads interest groups to fall silent when one might expect them to be critical players. This silence is born out in several cross-national comparative studies of policy reform.[5] In their study of policy reform in eight emerging markets, Bates and Krueger find that "in such situations, advocates of particular economic theories or ideological conceptions of how economies work can acquire influence [and shape policy]."[6]

A key task then is to understand which "particular economic theories or ideological conceptions" were critical for capital account liberalization and how their advocates acquired influence. Existing explanations, however, offer little insight and generally neglect the role of these ideas and their advocates.[7] Drawing on the literature on epistemic communities,[8] I focus on the influence of economists promoting neoliberal ideas prescribing liberalization. A variety of factors, such as uncertainty, credibility concerns, or political interests, often lead politicians to appoint economists as policymakers. Prior and after their appointment, these economists

1. Andrews 1994.
2. Frieden 1991.
3. See the summary provided in IMF 2005, 18, 46, 75–76.
4. See Blyth 2002; and Widmaier 2003.
5. See Bates and Krueger 1993, 454–56; and Haggard and Kaufman 1992, 36.
6. Bates and Krueger 1993, 456.
7. Eichengreen 2001, 351.
8. Haas 1992.

advocate via negotiation and persuasion a set of causal and normative beliefs about how the economy operates and how it should be organized. These causal and normative beliefs are in turn shaped via a process of socialization that often occurs in the context of professional training in economics.

To implement their preference into policy, these economists must persuade and negotiate with other policymakers and politicians. Even if an economist becomes chief of government he or she still must often confront various political constraints, such as a coalition government, legislative pressures, or opposing interest groups. Yet the epistemic community literature leaves unclear the conditions that facilitate the implementation of ideas into policy. Here I build on this line of research by focusing on how the formation of a coherent policymaking team matters. By producing nearly consistent advice from policymakers and enhancing their autonomy from interest groups, coherence increases the likelihood that neoliberal economists can implement their shared ideas into policy. When these economists form a coherent policymaking team, capital account policy is more likely to be liberalized.

This article also advances ideational research methodology. There is now a large number of studies on ideas, economists, and their role in shaping economic policy. Yet despite the considerable number of case studies, there have been few efforts to assess the relative importance of ideas and economists on policymaking. More significantly, these studies generally fail to address seriously the issue that appointment strategies of politicians are endogenous, let alone attempt to test it. These studies are therefore unable to fully assess the independent effect of ideas and economists. Thus, not only are rigorous tests of ideas and economists generally lacking, but there is also inadequate attention to the problem of endogeneity.

By contrast, this article examines these issues in a systematic and rigorous manner. Employing a new data set that codes the professional training of more than 1500 policymakers in emerging markets, I employ a two-stage modeling approach to assess the relative and independent impact of neoliberal economists on capital account policy. The first-stage model explores the factors driving appointments. Here I find that both credibility concerns and political interests matter. Yet I also stress that a fuller understanding of the appointment process necessitates a focus on the social environment in which appointments are situated. Official and market sentiment is likely to have conditioned how some politicians interpreted their policy options; and economists, who helped to create this sentiment, in turn exploited it to secure appointments and promote their views.

Instruments to control for the nonrandom selection of economists are then developed and incorporated in the second-stage model exploring policy decisions. The findings indicate that formation of a coherent policymaking team of neoliberal economists significantly influenced the decision to liberalize. The findings suggest existing explanations are incomplete, as they neglect one of their crucial complements: the role of neoliberal ideas. By examining and demonstrating the role of economists in promoting these ideas, this analysis helps one better understand the process of liberalization in emerging markets. The results also contribute to one's understanding of policy diffusion, suggesting that economists are an important, though often overlooked, conduit through which ideas and policy practices spread.

Epistemic Communities and Policy Reform

The recent literature on policy reforms in emerging markets often features members of an epistemic community of neoliberal economists as key players.[9] These accounts suggest that professional training of economists serves as a form of socialization that shapes their subsequent policy preferences and drives the diffusion of policy practices. Professional training in economics shapes an individual's preferences by promoting, both implicitly and explicitly, a particular set of causal and normative beliefs.[10] The technical knowledge and normative beliefs imparted through professional training subsequently becomes an interpretative lens through which economists diagnose problems and identify solutions.

Material trends, such as capital mobility, do not come with an "instruction sheet." Rather, they need to be interpreted and policy responses debated and negotiated. Economists thus become critical policymaking actors and help to diffuse policy practices when they insert their interpretations into the decision-making process through persuasion and negotiation. These interpretations in turn give meaning to material trends and legitimate specific policy options. By defining what policy choices are possible, these interpretations can shape the interests and behavior of politicians.

Some suggest the appointment process is driven by uncertainty.[11] In situations of uncertainty, politicians are unable to deduce their preferences and understandings of options from contemporary circumstances and thus turn to the interpretations economists provide. The process driving the turn to expertise may be "rationalist" or "constructivist" in that politicians may delegate authority to economists due to their informational advantage or because economists' credentials constitute them as authoritative sources of information.[12]

Others propose alternative models of the appointment process, focusing on the incentives driving the turn to expertise. One such model—which I label the credibility model—claims that politicians appoint neoliberal economists as a signal to official and private creditors of a government's creditworthiness as well as the credibility of its commitment to a particular policy orientation.[13] Due to their similar professional training, neoliberal economists and external financial representatives often share common policy orientations and speak the same language (both

9. See Babb 2001; and Dominguez 1997.
10. See, for instance, Klamer and Colander 1990.
11. Haas 1992.
12. See Krehbiel 1991; and Barnett and Finnemore 2004.
13. Maxfield 1997.

professionally and linguistically), thus politicians may appoint economists to enhance their credibility and serve as their interlocutors with creditors.[14] Alternatively, the political interests of politicians might also drive appointment decisions.[15] In this political model of the appointment process, politicians appoint economists whose interpretations resonate with their own beliefs and/or are likely to further their political careers.

Yet the epistemic community literature fails to specify the conditions that facilitate the implementation of expert interpretations into policy. Here the formation of a coherent policymaking team, characterized by a preponderance of like-minded experts in key bureaucratic positions, is likely to prove critical. To implement their ideas into policy after their appointment, economists must persuade and negotiate with other policymakers, and at the same time resist opposing societal demands. A coherent policymaking team is likely to be in a stronger position to accomplish these goals than a heterogeneous team.

In the absence of competing ideas to guide policy, coherence ensures consistent advice and increases the likelihood that the chief of government and other politicians will view the interpretations these economists offer as "correct."[16] In contrast to coherent policymaking teams, heterogeneous policymaking teams afford chiefs of government the opportunity to rely on those ideas that are already compatible with their own and can be used to legitimate their preexisting policy preferences or enhance their domestic power base. Coherence also increases the insulation of policymakers from societal demands by shielding the decision-making process from alternative views.[17]

Neoliberal Economists and Capital Account Liberalization

These arguments can be extended to offer a new theory of capital account liberalization. Considerable uncertainty surrounds the decision to liberalize the capital account. Numerous econometric studies have generally concluded that liberalization fails to offer unambiguous benefits and is often associated with financial crisis.[18] In addition to this policy-specific uncertainty, many politicians in emerging markets are often faced with context-specific uncertainty induced by economic crisis. Faced with these forms of uncertainty, politicians turn to economists to provide interpretations to diagnose the situation and to specify what policy choice is appropriate. I thus assume politicians are faced with uncertainty and focus on the processes through which this uncertainty is translated into policy outcomes.

14. See Markoff and Montecinos 1993; and Babb 2001.
15. Geddes 1994.
16. Checkel 2001.
17. Hall 1989.
18. For a review of the literature, see Eichengreen 2001.

As noted, the interpretations economists provide tend to be linked to the substance of their professional training. This suggests that professional training in academic departments associated with favorable interpretations of free capital movements—a set of beliefs commonly referred to as neoliberalism—probably instilled in some economists a belief that liberalization is beneficial and desirable. After forming a coherent policy team, these economists should serve as a critical conduit for the diffusion of neoliberal ideas and policy practices and thus increase the likelihood of liberalization.

In the early 1960s most economists in the profession abandoned the Keynesian claim—which had dominated thinking since World War II—that the volatility of financial markets necessitated and legitimated the permanent use of capital controls.[19] Replacing the Keynesian consensus was a new set of what might be called neoclassical understandings that came to dominate the profession and formed the basis for neoliberalism.[20] In contrast to Keynesians, neoclassical economists shared the view that unfettered capital mobility would be beneficial and desirable, at least in the long run. Although some neoclassical economists recognized the dangers of rapid liberalization and the importance of sequencing and that international capital markets could err in the short run, as Tirole observes, "A wide consensus had emerged among economists, [that] capital account liberalization—allowing capital to move freely in and out of countries without restrictions—was unambiguously good."[21]

The differences that remained among neoclassical economists were one of degree rather than kind. Debates persisted within the profession about the importance of the pace and sequencing of liberalization, but not of its long-run desirability. This consensus was in sharp contrast to Keynesian understandings that denied the desirability of liberalization even in the long run. Remarkably, this neoliberal consensus developed in the absence of unambiguous evidence confirming the benefits of liberalization and persisted until the Asian financial crisis. One key attribute that constitutes being a neoliberal then is shared knowledge about the long-run beneficial impact and desirability of liberalizing capital controls. Using Munck and Verkuilen's terminology, this attribute is one of the "leaves" of the concept tree of neoliberalism, and it is only the impact of this specific conceptual leaf that I seek to address.[22]

It is also important to recognize how this consensus facilitated liberalization not only directly (by shaping the views of economists) but also indirectly by shaping the social environment in which appointments were situated. The logic of the credibility model depends on the beliefs or sentiment shared by members of the

19. Best 2005, chap. 5. Chwieroth 2007b provides a fuller treatment of the evolution of the economic profession's ideas about capital controls.

20. For a summary of these understandings, see Obstfeld 1998.

21. Tirole 2002, ix. Even Williamson—who routinely stressed the dangers of liberalization—subtitled one of his warnings "Liberalize the Capital Account Last," not "Liberalize the Capital Account Never" as Keynes suggested; see Williamson 1997.

22. Munck and Verkuilen 2002, 13.

official and private financial community, such as the U.S. Treasury, the International Monetary Fund (IMF), commercial banks, private investors, and credit rating agencies. Credibility model arguments are premised on the assumption that a neoliberal consensus characterizes the beliefs and types of policies these actors deem possible and legitimate. This consensus privileges the appointment of neoliberal economists and their preferred policies as the sole credible policy alternative. "In the absence of [this] ideational consensus," as Simmons and Elkins observe, "heterodox policies are difficult to distinguish and readily tolerated."[23] Delegation to neoliberal economists is thus a rational strategy but only within a particular social environment that rewards such appointments.

Although based on the data employed in the analysis I cannot directly assess the influence of this social environment, there is compelling evidence to suspect it was influential in precluding alternative strategies.[24] For instance, some economists proposed the use of capital controls and other regulatory solutions as an alternative strategy to deal with the 1980s debt crisis.[25] Yet little came of these proposals. U.S. policymakers, the IMF, and the private financial community argued that the better solution was not regulatory but, rather, one involving the implementation of anti-inflationary and liberalizing policies.[26]

This neoliberal sentiment acted as a severe constraint on the types of policy options that emerging market politicians perceived to be sustainable. As Haggard and Kaufman note, this sentiment "conditioned the way elites interpreted the economic crises of the 1980s and the kinds of policy options [and thus appointments] necessary to remedy them."[27] Given this sentiment, the appointment of structuralist economists and the use of capital controls were no longer perceived as viable strategies. Yet before the rise of this sentiment, such strategies did not signal heresy or necessarily either result in significant reputational costs or undermine credibility. On the contrary, such actions were part of economic orthodoxy and hence tolerated and widely employed.[28]

The appointment process therefore does not take place in a social vacuum. Before making an appointment, politicians often engage a variety of experts to solicit their views about the appropriate policy course. Yet neoliberal economists are not passive actors in the appointment process. Rather, they have proven to be quite adept at exploiting official and market sentiment to secure government appointments and to promote their views, earning the label "technopols" to indicate their hybrid status as technocrats and politicians.

23. Simmons and Elkins 2004, 173.

24. To conduct such an analysis would require a time-series that extends to appointments prior to the ascendance of neoliberal official and market sentiment, which is currently unavailable.

25. See, for instance, Diaz-Alejandro 1984.

26. Helleiner 1994, 181–82. See also Widmaier 2003.

27. Haggard and Kaufman 1992, 22–23; see also 36–37.

28. Helleiner 1994.

These technopols recognize prevailing official and market sentiment as well as the corresponding incentives politicians face and often deliberately frame their policy recommendations so that they resonate with these incentives.[29] As former IMF First Deputy Managing Director Stanley Fischer notes, neoliberal economists in emerging markets often use official sentiment to secure and to promote their position, using negotiations and discussions with the IMF to strengthen their views against their domestic opponents.[30] Despite the ambiguous empirical basis for capital account liberalization in emerging markets, neoliberal economists also often present their recommendations as the only "credible" policy available to appease market sentiment. With the ascendance of neoliberal ideas in official and market sentiment, it is then not surprising that more interventionist approaches were perceived as lacking credibility.

Capital account liberalization in emerging markets is thus likely to be linked to the diffusion of ideas via neoliberal economists. These lines of argument lead to the empirical expectation that liberalization is likely to be associated with the presence of a neoliberal economist as chief of government as well as the formation of a coherent policymaking team of neoliberal economists.

Testing the Hypotheses

Data

The sample is composed of annual data from twenty-nine emerging market economies from 1977 to 1999.[31] The specific countries and time frame for study were determined by data availability. Summary statistics and data sources are provided in the Appendix. All economic variables are specified as five-year moving averages to offer a more robust set of prior economic conditions.[32]

Dependent variable. The dependent variable is an index of capital account openness, developed by Chinn and Ito, which indicates the intensity of capital controls across countries.[33] Higher values of the index represent greater openness.

Independent variable: An indicator of a neoliberal economist. To create an indicator of a neoliberal economist, I focus on the importance of professional training and rely on an approach I develop elsewhere.[34] This approach shows that an

29. See Dominguez 1997; and Babb 2001.
30. Fischer 1997, 26.
31. Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Egypt, El Salvador, Ghana, Guatemala, Honduras, India, Indonesia, Jordan, Malaysia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Sri Lanka, Thailand, Tunisia, Turkey, Uruguay, and Venezuela.
32. The use of various lag structures or levels does not significantly alter the results.
33. Chinn and Ito 2002.
34. Chwieroth 2007a.

individual's professional training background can serve as a useful proxy for the ideas that individual shares. As noted, in the economics profession the leading proponents of liberalization are associated with neoclassical economics. On the basis of earlier qualitative studies of academic departments and publication frequency in the *American Economic Review*, a list of neoclassical economics departments that were likely promoters of neoliberal ideas was identified.[35] These departments are used as a proxy for the neoliberal ideas that individuals share as a result of their similar training. The assumptions that training at one of these departments probably leads individuals trained there to be socialized to adopt neoliberal ideas.[36]

The earlier theoretical discussion suggests that the key individuals in question are the chief of government and the staff of the national financial and monetary bureaucratic agencies. Ideally, one would examine the entire decision-making tree of these agencies in each country and code the professional training of these individuals. This approach is not feasible, however, as the type of information needed is not available. Alternatively, one can focus on the high-ranking financial and monetary policymakers in each state—the finance minister and the head of the central bank—and code their training. Since these data are available from 1977 to 1999, that is the approach I adopt. The data on educational background were found in Proquest's *Digital Dissertations* database. Approximately 15 percent of the sample (233 out of 1,549 individuals) was scored as trained in economics at a "neoclassical academic department."

Aggregating the scores for the finance minister and head of the central bank (where 1 = trained at "neoclassical academic department," 0 = otherwise) produces the variable labeled neoliberal team. This variable ranges from 0 to 2, with higher values indicating more neoliberals and greater coherence. Consistent with the earlier theoretical discussion, I expect this variable to be positively associated with liberalization. To account for the beliefs of the chief of government, I also construct a similar measure for that position. I also expect this variable to be positively associated with liberalization.

Control variables. A standard set of control variables from the literature is included in the analysis. I rely on annual global foreign BORROWING measured in $US billion as a proxy for the constraints from capital mobility. I also examine the possibility that capital account policy decisions are employed as signals to enhance the credibility of a government in the eyes of international financial

35. University of California at Berkeley, Brown, Carnegie Mellon, Chicago, Harvard, Hebrew University (Israel), Johns Hopkins, New York University, Northwestern, Pennsylvania, Princeton, Stanford, Wisconsin, and Yale.

36. It is also possible that individuals trained in other leading U.S. economic departments during this time found themselves exposed to ideas about liberalization. However, the conviction these other departments held toward neoclassical understandings was not likely to be as strong as in the departments identified. Moreover, in statistical analyses in which "U.S.-educated" or "Anglo-American educated" is employed the effect is found to be insignificant. This suggests the importance of professional training in specific academic departments.

markets.[37] Governments in need of international creditworthiness may liberalize to (re)gain the confidence of international financial markets. Following Maxfield, I employ three indicators to capture a government's need for international creditworthiness: average annual interest rate on private credit minus the Eurodollar or London interbank offer rate (LIBOR), DEBT SERVICE as a proportion of EXPORTS, and international RESERVES as a proportion of IMPORTS.[38] Comparatively higher interest rates and debt service ratios and lower levels of reserves are likely to indicate increased need for creditworthiness and enhance the likelihood that governments will liberalize capital controls as a signal.

To proxy the influence of interest groups presumably favoring liberalization, I rely on TRADE integration as a proportion of gross domestic product (GDP) and domestic money bank assets as a proportion of GDP. Variables indicating the presence of a leftist and rightist government (where 1 = presence, 0 = otherwise) are also included in the model. A measure of central bank independence (CBI)—which is traditionally measured in developing countries based on the average turnover of central bank governors—is also included. I also include a variable indicating the level of democracy.

To provide a proxy for the influence of policy diffusion, I use the MEAN CAPITAL ACCOUNT policy of all emerging markets with the logic being that policymakers are sensitive to policies similar states adopt.[39] Policies might also diffuse through active pressures emanating from external actors. I therefore include in the analysis a number of variables associated with American influence in emerging markets: trade with the United States as a proportion of GDP, and two separate dichotomous variables indicating whether a given country entered into a BILATERAL INVESTMENT TREATY (BIT) with the United States or an IMF PROGRAM (where 1 = presence, 0 = otherwise).

I also control for economic variables that are commonly featured in the literature: the presence of a FIXED EXCHANGE RATE, GDP PER CAPITA, and GROSS DOMESTIC SAVINGS as proportion of GDP.[40] Finally, I also include variables measuring the influence of economic shocks on policy. Currency crises may be a reason for a government to impose restrictions or an impetus for reform. A measure indicating the presence of a CURRENCY CRISIS (where 1 = presence, 0 = otherwise) is thus included in the analysis. Another type of shock is variation in world interest rates, which could cause capital outflows, balance of payments problems, and exchange rate pressure, with accompanying pressures on policymakers. U.S. INTEREST RATES are used as a proxy for world interest rates to control for this possibility.

37. Bartolini and Drazen 1997.
38. Maxfield 1997.
39. See Simmons and Elkins 2004.
40. For a review of the literature, see Eichengreen 2001. I also analyzed variables associated with the transitional costs of liberalization—such as the strength of a country's financial sector and its compensation capacity—but these specifications returned statistically insignificant results and they were dropped from the model. All model specification tests used the Bayesian information criterion. For a discussion of model selection criteria, see Beck and Katz 2004.

Methods

This article relies on time-series cross-sectional (TSCS) data. With these data one must be concerned with issues of heteroskedasticity, contemporaneous correlation, temporal dependence, and unmeasured heterogeneity. Several diagnostic measures are used to mitigate these problems and the results are subjected to sensitivity analysis.

The analysis proceeds in two stages. In the first stage, I specify separate selection equations for the finance minister and central banker to assess whether the appointment of a neoliberal economist is not random. In the second stage, I then employ the procedures Heckman advocates to calculate the inverse Mills ratio from each selection equation to serve as instruments controlling for nonrandom selection in the outcome equation.

The credibility model suggests that politicians are more likely to appoint a neoliberal economist when they face a need for international creditworthiness. As proxies for this need I again use average annual interest rate on private credit minus the Eurodollar or LIBOR, debt service as a proportion of exports, and international reserves as a proportion of imports. I also include the presence of an IMF PROGRAM to test the extent to which politicians feel obliged to appoint neoliberals to serve as their interlocutors with official creditors. To test for processes associated with the political model, I include measures of government partisanship and the presence of a NEOLIBERAL CHIEF OF GOVERNMENT. I also assess the effect of CBI, as an independent central bank may reflect domestic norms favoring free markets and thus low average turnover might increase the likelihood of a neoliberal appointment. Alternatively, international financial markets may interpret a legacy of high average turnover as indicating a lack of policy credibility, thus leading to the appointment of a neoliberal economist to enhance credibility. Political constraints may also shape appointment decisions, as veto players opposed to the government may be able to influence the composition of the policymaking team. In this view, greater opposition might decrease the likelihood a neoliberal is appointed. A measure of the number of veto players and their degree of opposition to the government (CHECKS) is therefore included in the analysis.[41]

Finally, I also include two economic variables: INFLATION as measured by the natural log of the GDP deflator and the presence of CURRENCY CRISIS. Each of these variables might enhance the "economic viability" of neoliberalism.[42] Neoliberalism—which prioritizes price stability—addresses the problem of inflation.[43] Crises are also likely to shape appointment strategies, as they not only

41. Keefer and Stasavage 2003.
42. On an idea's economic viability, see Hall 1989.
43. I also experimented with models that controlled for each of the political and economic control variables identified earlier. Using decade dummies to account for important differences in the world economy over the course of time, I also estimated models taking into account time effects. None of these specifications returned statistically significant results, and they were dropped from the model.

heighten concerns about creditworthiness and credibility, but also induce uncertainty and provide an opportunity for neoliberals operating outside the policymaking process an opportunity to promote their ideas and secure appointments.

Since the focus of the first stage of the analysis is on the occurrence (or appointment) of a neoliberal economist—an event that may occur more than once—an event history model that addresses the issue of repeated events is appropriate.[44] The dominant approach to repeated-event data is to use a variance-correction model. Within this class of models, the most suitable method for these data is the conditional elapsed time variant, as it is capable of addressing the issue that appointments develop sequentially as well as the possibility that the timing of an appointment is different across occurrences, thus allowing for country experiences with neoliberal economists at time t-1, such as strong or poor economic performance, to shape the likelihood of an appointment at time t.

To deal with the issue of possible unmeasured heterogeneity, I include fixed effects. I also include a lagged dependent variable (LDV) to account for temporal dependence. However, a complication arises in that inclusion of a LDV and fixed effects in the same model can produce biased and inconsistent estimates. Given that such a specification is biased, many alternatives have been proposed. Yet these alternatives tend to be more suitable for panel as opposed to TSCS data. Moreover, the bias is often negligible in TSCS data when a long time series can mitigate against it. Indeed, recent evidence from Monte Carlo simulations suggests that such a specification outperforms alternatives.[45] I thus proceed with the analysis using this specification and subject it to sensitivity analysis using two different types of standard errors recommended in the literature: panel-corrected standard errors and robust standards. The results from these specifications are presented in the first and second column of Table 2.

Empirical Results and Discussion

Table 1 reports the Cox proportional hazard ratios from the selection equation.[46] While the results suggest that appointments for both positions tend to be driven by factors associated with the political model, the credibility model only receives support for finance minister appointments. One explanation for this finding may be that politicians perceive the rules and norms governing central bank operations to matter more to official and market sentiment than do appointment decisions in terms of enhancing credibility.

44. Box-Steffensmeier and Jones 2004, 157–66.

45. See Beck and Katz 2004; and Kristensen and Wawro 2006.

46. Hazard ratios can be understood as the change in the odds of an event associated with a one-unit change in the explanatory variable. Therefore, hazard ratios greater than 1 represent an increased probability of an event; of 0 to 1, a decreased probability of an event; and of 1, zero effect.

TABLE 1. *Covariates of neoliberal appointments, 1977–99*

	Eurodollar/ Finance minister	*Central banker*
AVERAGE PRIVATE INTEREST RATE (EURODOLLAR/LIBOR)	.930	.938
	(.054)	(.117)
DEBT SERVICE/EXPORTS	.996	1.01
	(.006)	(.009)
RESERVES/IMPORTS	.998	1.01
	(.026)	(.049)
IMF PROGRAM	1.07	1.04
	(.123)	(.138)
LEFTIST GOVERNMENT	1.32	1.42
	(.292)	(.647)
RIGHTIST GOVERNMENT	.864	1.27
	(.125)	(.218)
NEOLIBERAL CHIEF OF GOVERNMENT	1.40	1.75*
	(.452)	(.472)
CBI	2.68**	1.32
	(.997)	(.682)
CHECKS	.847**	.939
	(.052)	(.034)
LN INFLATION	1.02	.799
	(.079)	(.098)
CURRENCY CRISIS	.535	.901
	(.178)	(.192)
Time at risk	636	636
Number of subjects	636	636
Number of failures	95	105
Log likelihood	−97.05	−135.94

Notes: Robust standard errors are in parentheses: * significant at 5%; ** significant at 1%.

Support for the credibility model is found in column 1. The results indicate that a one-unit increase in the average central bank turnover renders a politician 2.68 times more likely to appoint a neoliberal economist as finance minister. This finding suggests that politicians faced with neoliberal official and market sentiment may view the appointment of a neoliberal finance minister as offering a substitute for the credibility-enhancing effects that an independent central bank can offer. A legacy of high average central bank turnover may lead politicians to perceive the appointment of a neoliberal finance minister as an easier route to gaining credibility than seeking to push through reforms to strengthen central bank independence. Moreover, a legacy of high average turnover rates can also account for the insignificant coefficient for CBI in column 2. This legacy may lead politicians to have little confidence that the central bank governor—neoliberal or otherwise—will be able to stay the course of politically unpopular policies.

There is also some support for the political model. Domestic opposition in the form of veto players lessens the likelihood of appointing a neoliberal finance minister.[47] Additional support for the political model is provided by the finding that a neoliberal chief of government 1.75 times more likely to appoint a neoliberal central banker, suggesting that similar professional training facilitates a high degree of resonance.

Table 2 contains the estimates from the models explaining policy decisions. Noteworthy first are the statistically insignificant selection instruments, indicating that nonrandom selection does not introduce bias.[48] Across both model specifications neoliberal economists are found to have a pronounced effect on capital account policy. Even when the possibility of nonrandom selection is taken into account, the coefficient measuring the influence of a neoliberal policymaking team is signed as expected and significant. This finding strongly suggests that neoliberal economists matter for policy choices independent of the processes leading to their appointment.

Coherence also appears important. Independent of the processes leading to their appointment, the coefficients from both models indicate that one additional neoliberal economist in the policymaking team increases capital account openness on the index by .129. To put it differently, one additional neoliberal economist, and hence greater coherence, can be said to decrease the intensity of capital controls by anywhere from 4 to 5 percent. A government with a neoliberal economist serving as finance minister and head of the central bank is thus likely to be approximately 10 percent more liberal in terms of capital account openness when compared to a government without any neoliberal economists.

Interestingly, the coefficient for neoliberal chief of government is insignificant, suggesting that not everyone's ideas matter equally. Domestic political constraints may help account for this finding. As stated, even if a neoliberal economist becomes chief of government he or she still must often confront various political constraints, such as a coalition government, legislative pressures, or opposing societal groups. Whereas a coherent policymaking team helps militate against these constraints, the evidence suggests a neoliberal chief of government cannot overcome these constraints alone and probably often has his or her policy preferences blocked.

Turning to the control variables, increased levels of global foreign borrowing and comparatively higher levels of interest rates are found to significantly increase the likelihood of liberalization. These findings suggest that capital mobility and credibility concerns were probably influential. Yet, it is important to recall that these material trends are socially mediated. Earlier I suggested how the neoliberal consensus may have shaped politicians' perceptions of what constituted a "credible" course of action in the face of declining creditworthiness. In addition, this result could also reflect efforts of neoliberal economists to frame their proposals as the only "credible" policy option given these material conditions. In Argentina

47. Additional analysis revealed that this result was not contingent on partisanship or the presence of a neoliberal chief of government. Results are available from the author on request.

48. Even though specifications without the selection instruments reveal little change in the magnitude or significance of the coefficients, diagnostic tests indicate that the selection instruments should remain in the model.

TABLE 2. *Covariates of capital account policy, 1977–99*

	(1)	*(2)*
NEOLIBERAL TEAM	.129*	.129*
	(.059)	(.063)
NEOLIBERAL CHIEF OF GOVERNMENT	.129	.129
	(.228)	(.193)
INTERNATIONAL BORROWING	.0008*	.0008
	(.0004)	(.0005)
AVERAGE PRIVATE INTEREST RATE (LIBOR)	.066*	.066*
	(.029)	(.033)
DEBT SERVICE/EXPORTS	−.005	−.005
	(.007)	(.005)
RESERVES/IMPORTS	.027	.027
	(.014)	(.023)
TRADE/GDP	.0009	.0009
	(.004)	(.004)
DOMESTIC MONEY BANK ASSETS/GDP	−.008*	−.008*
	(.004)	(.003)
LEFTIST GOVERNMENT	−.222	−.222
	(.153)	(.176)
RIGHTIST GOVERNMENT	.057	.057
	(.112)	(.123)
CENTRAL BANK INDEPENDENCE (CBI)	−.268	−.268
	(.207)	(.219)
DEMOCRACY	.009	.009
	(.009)	(.009)
MEAN CAPITAL ACCOUNT POLICY	−.197	−.197
	(.247)	(.303)
U.S. TRADE/GDP	−1.39	−1.39
	(.899)	(1.08)
U.S. BILATERAL INVESTMENT TREATY (BIT)	−.209	−.209
	(.117)	(.194)
IMF PROGRAM	.142*	.142*
	(.065)	(.065)
FIXED EXCHANGE RATE	.057	.057
	(.079)	(.096)
GDP PER CAPITA	−.011	−.011
	(.012)	(.013)
GROSS DOMESTIC SAVINGS/GDP	−.014	−.014
	(.007)	(.009)
CURRENCY CRISIS	−.068	−.068
	(.102)	(.100)
U.S. INTEREST RATES	.021	.021
	(.021)	(.022)
FINANCE MINSTER SELECTION INSTRUMENT	−.144	−.144
	(.236)	(.217)
CENTRAL BANKER SELECTION INSTRUMENT	.242	.242
	(.383)	(.352)
Constant	.661	.661
	(1.19)	(.62)
N	448	448
R-squared	.871	.809

Notes: Panel-corrected standard errors are in parentheses. Robust standard errors are in parentheses: * significant at 5%; ** significant at 1%.

in the 1990s, for instance, perceptions and framing were likely to have been at work in President Carlos Menem's decision to support Harvard-educated Domingo Cavallo's recommendations for liberalization.[49]

The neoliberal consensus may also have shaped politicians' perceptions about the effectiveness of capital controls. A familiar refrain of the neoliberal consensus was that capital controls did not "work" in the context of capital mobility. Yet before the Asian crisis researchers paid little attention to exploring precisely how they did not work. Initial analyses found that controls were ineffective in reducing the volume of capital flows or in helping to manage exchange rate pressures. But few examined their effectiveness beyond these objectives. Some politicians faced with rising capital mobility thus might have liberalized, perceiving the alternatives as unsustainable. Indeed, even those who emphasize the role of capital mobility recognize how "widely shared ideological commitments" and "mind sets" mediated this material trend in such a manner that it facilitated liberalization.[50] It was only after the Asian crisis shattered the neoliberal consensus that researchers began to focus on how controls might help achieve other objectives, such as lengthening the maturity structure of inflows or offering a temporary "breathing space" to implement reforms in the face of outflows.[51] Now the consensus has shifted and many policymakers and academics recognize that controls can play a useful purpose.

The IMF program variable is also found to significantly increase the likelihood of liberalization. Though the IMF never included liberalization as a condition for access to its resources and did not promote such a policy choice indiscriminately, there is evidence the IMF staff did encourage it in some countries and the presence of an IMF program would offer a channel through which these views could be made known.[52] Negotiations over IMF programs also offered an avenue through which U.S. policymakers could promote their views on liberalization.[53]

Contradicting the expectations of interest group approaches, the coefficient measuring the strength of domestic financial intermediaries is negative and significant. As suggested, this finding is likely because of the uncertainty this group faces about the material benefits and risks that liberalization can bring. Revealingly, partly because of concerns about this uncertainty from financial intermediaries in emerging markets, the Institute of International Finance—the organization located in Washington, D.C., that represents the interests of the private financial community—came down cautiously rather than enthusiastically in its support for capital account liberalization.[54] This suggests an additional reason why the examination of how

49. See Stokes 2001; and Corrales 1997.
50. Andrews 1994, 200–201.
51. See the summary provided in IMF 2005, 18, 46, 75–76.
52. IMF 2005.
53. Kirshner 2003.
54. Interview by the author with Charles H. Dallara, managing director of the Institute of International Finance (1993–present), 24 May 2005, Washington, D.C.; and IIF 1997, 2–4, 11, 13.

politicians and policymakers understand their interests, independent of interest groups, proves useful.

Conclusions

Detailed case evidence has supported the claim that the role of neoliberal economists is crucial to understanding policy reform. Yet this research has generally failed to assess the relative and independent effect of these economists. Controlling for conventional explanations and accounting for nonrandom selection, I have demonstrated in this study the relative and independent impact of neoliberal economists on capital account policy in emerging markets. I have also shown that the appointment process of these economists is likely to be driven by credibility concerns and political interests, which in turn are conditioned by the social environment in which appointments are situated.

This study, however, is not without limitations. While the methods employed are ideally suited for examining the independent effect of neoliberal economists, they are less amenable to answering questions as to how they mattered. Such an examination, however, is beyond the scope of this article. Here, the rich evidence case studies can provide in tracing these processes should prove quite useful in sorting out the relative importance of persuasion, negotiation, political and economic incentives, and the role of official and market sentiment.

Despite these limitations, the findings are robust and hold two important implications. First, the results suggest that existing explanations of capital account liberalization are incomplete. Even taken together current explanations cannot fully account for the wave of liberalization, as they neglect the complementary role of ideas. The results are highly suggestive that neoliberal economists—who have yet to receive systematic attention in the literature—were critical in shaping capital account policy decisions in emerging markets. By addressing and demonstrating the role of these economists, this article offers a fuller understanding of liberalization in emerging markets.

Second, the results suggest the conclusion that economists are an important conduit through which ideas diffuse and are implemented into policy. Much previous research has employed case studies and anecdotal evidence to conclude that neoclassically trained economists are an important mechanism for policy diffusion. Yet these conclusions have not been systematically tested and have been for the most part neglected by the recent wave of diffusion research.[55] By contrast, this article provides evidence suggesting that neoliberal economists are probably an important route through which ideas and policies are diffused, indicating that this diffusion mechanism should be a high priority for future research.

55. See, for instance, Simmons, Garrett, and Dobbin 2006.

Appendix

TABLE A1. *Summary statistics*

Variable	*N*	*Mean*	*Standard deviation*	*Minimum*	*Maximum*
CAPITAL ACCOUNT OPENNESS	775	−.2892	1.361	−1.7926	2.6566
NEOLIBERAL TEAM	782	.2966	.5957	0	2
NEOLIBERAL CHIEF OF GOVERNMENT	782	.0230	.1500	0	1
INTERNATIONAL BORROWING	714	402.92	308.97	68.95	1224.75
AVERAGE PRIVATE INTEREST RATE (LIBOR)	644	.3494	2.528	−10	9.8
DEBT SERVICE/EXPORTS	688	24.67	14.30	1.038	117.81
RESERVES/IMPORTS	774	3.971	2.507	.2261	15.02
TRADE/GDP	759	55.45	29.22	6.32	217.6
DOMESTIC MONEY BANK ASSETS/GDP	743	33.91	24.59	2.54	125.7
LEFTIST GOVERNMENT	779	.1720	.3776	0	1
RIGHTIST GOVERNMENT	779	.3517	.4778	0	1
CBI	782	.3481	.2523	0	1.3
DEMOCRACY	782	2.354	6.429	−10	10
MEAN CAPITAL ACCOUNT POLICY	782	−.2671	.3773	−.6547	.5516
U.S. TRADE/GDP	782	14.18	13.14	.6531	94.72
U.S. BIT	782	.0511	.2204	0	1
IMF PROGRAM	782	.4706	.4994	0	1
FIXED EXCHANGE RATE	759	.3847	.4868	0	1
GDP PER CAPITA	782	30.14	37.69	2.164	262.94
GROSS DOMESTIC SAVINGS/GDP	782	18.99	10.18	−20.49	53.35
CURRENCY CRISIS	782	.1931	.3949	0	1
U.S. INTEREST RATES	782	6.761	2.737	3	13
LN INFLATION	750	2.724	1.305	−3.091	9.420

TABLE A2. *Data sources*

Variable	*Source*
FOREIGN BORROWING	OECD various years.
AVERAGE PRIVATE INTEREST RATE (EURODOLLAR/LIBOR)	World Bank 2006a; British Bankers' Association 2006; and Maxfield 1997.
DEBT SERVICE/EXPORTS, RESERVES/IMPORTS, TRADE/GDP, GDP PER CAPITA, GROSS DOMESTIC SAVINGS/GDP, INFLATION	World Bank 2006b.
DOMESTIC MONEY BANK ASSETS/GDP	Beck, Demirguc-Kunt, and Levine 2000.
LEFTIST & RIGHTIST GOVERNMENT, CHECKS	Beck et al. 2001.
CBI	Cukierman 1992; and de Haan and Kooi 2000.
DEMOCRACY	Marshall, Jaggers, and Gurr 2004.
U.S. TRADE/GDP	IMF 2006a.
U.S. BIT	U.S. Department of State 2006.
IMF PROGRAM	Vreeland 2003.
FIXED EXCHANGE RATE	IMF various years.
CURRENCY CRISIS	Leblang 2004.
U.S. INTEREST RATES	IMF 2006b

Note: Excludes those sources discussed in text.

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