Review of International Studies (2020), **46**: 5, 594–612
doi:10.1017/S0260210520000169

RIS

RESEARCH ARTICLE

The quiet failures of early neoliberalism: From rational expectations to Keynesianism in reverse

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(Received 27 June 2019; revised 19 March 2020; accepted 1 April 2020; first published online 17 June 2020)

Abstract

While the last few decades of political economic history give the impression that the logic of neoliberalism is inexorable, this article argues that once we look further backwards and dig into recently declassified archives documenting the early days of neoliberal theory and practice, we find a messier picture. Economic policymakers in Thatcher and Reagan's administrations in the early 1980s did not set out to 'fail forwards' by generating a crisis that would enable a statist kind of neoliberalism. The key ideas that they drew on and the policies that they used to put them into practice sought to transform the economy indirectly, through a set of performative policy devices that they believed would generate a dramatic shift in people's inflationary expectations, lowering inflation without provoking a major recession. Archival records make it clear that these efforts were not only a failure, but also one that policymakers were acutely aware of at the time. By examining these quiet failures in economic policy, we can better understand how these governments simultaneously failed in their early efforts to introduce neoliberal economics and yet ultimately succeeded in transforming their economies in important respects – and in legitimising those transformations by narrating failure as a kind of inevitable success.

Keywords: Political Economy; Economic History; Economic Ideas; Neoliberalism; Failure; Rational Expectations; Performativity; Margaret Thatcher; Ronald Reagan

Introduction

The obituaries for Paul Volcker, chairman of the United States' Federal Reserve between 1979 and 1987, who died in December of last year, have been powerful and even moving – yet in one important respect they have almost all been misleading in defining his legacy. The *New York Times* obituary neatly demonstrates this contradiction: it notes correctly that Volcker's fierce advocacy for central bank independence has had a lasting impact to this day, and also points out how committed, even relentless, he was in seeking to tame inflation by applying a kind of shock therapy to the American economy that produced painful interest rates over 20 per cent in the early 1980s. Yet while the obituary notes that Volcker's initial declaration of 'war on inflation' involved shifting to monetarism, it never mentions that this strategy was a failure and was ultimately dropped in 1982, well before inflation began to shift decisively downwards. Instead, the *Times* glosses over this failure, and in doing so reinforces a widespread narrative that sees economic policy in the early 1980s under Ronald Reagan and Margaret Thatcher as a decisive and successful shift away from 'the postwar era' and towards a new, neoliberal approach to monetary and fiscal policy.[1]

[1]Binyamin Appelbaum and Robert D. Hershey Jr, 'Paul A.Volcker, Fed chairman who waged war on inflation, is dead at 92', *The New York Times* (13 December 2019), available at: {https://www.nytimes.com/2019/12/09/business/paul-a-volcker-

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https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

In this article, I join a growing chorus of scholars who have begun to question this enduring historical narrative. My attention is on the little-discussed but incontestable failure of early efforts to put three key economic theories – monetarism, supply-side economics, and rational expectations theory – into practice during the early days of the Reagan and Thatcher administrations. In examining these efforts to translate theory into practice, this article seeks to answer three key questions: what do economic ideas require in order to work? Why do they fail? And why do those failures not always matter politically? I suggest that by focusing on the role of 'quiet failures' we can develop a clearer sense of the very real and practical challenges of translating economic ideas into practice. And we can also gain a more accurate picture of just how these New Right[2] governments simultaneously failed in their early efforts to introduce neoliberal economics and yet ultimately succeeded in transforming the global political economy in important respects – and in legitimising those transformations by mythologising what were actually failed ideas.

We do not have to look back quite so far in time in order to find an example of a failure that turned out to be less politically salient than we might have expected. The 2008 global financial crisis began as a massive, highly public failure for contemporary neoliberal theory and practice. Yet, just over a decade on, what is most striking is how little the very evident failures of neoliberalism have translated into meaningful changes. This is therefore a useful moment to ask ourselves why certain failures do not 'count' as such – at least in political terms.

There are, of course, a good number of serious scholars who have recently become interested in the question of why the 2008 financial crisis did not significantly dislodge the hold of neoliberal ideas or practices in the contemporary political economy. Constructivist and poststructuralist scholars have drawn on the idea of the resilience of neoliberalism to explain its ability to keep bouncing back. Part of the very nature of neoliberalism, they suggest, is its plasticity and fungibility: its ability to function as a kind of loose assemblage of potentially contradictory ideas, to reinvent itself when things go wrong, and thus to become irrefutable even in the face of overwhelming contradictory evidence.[3] A number of Marxist scholars have pointed to the fact that failures are features, not bugs, for the capitalist state, allowing governments to justify austerity and rationalise more authoritarian measures.[4] Others have argued along similar lines that because neoliberalism has always combined the strong state and the free economy, many of its economic failures and exceptions have enabled a different kind of statist success.[5]

Although each of these interventions brings different insights to our understanding of why neoliberalism seems to have survived the recent global financial crisis largely intact, they are surprisingly consistent in their tendency to treat neoliberalism's failures as functional and its successes as more or less inevitable. However unintentionally, they run the risk of perpetuating the myth of neoliberalism's historical success that the Volcker obituaries imply.

dead.html}; see also Will Hutton, 'Paul Volcker obituary', *The Guardian* (24 December 2019), available at: {https://www.theguardian.com/business/2019/dec/24/paul-volcker-obituary}; 'Obituary: Paul Volcker died on December 8th', *The Economist* (12 December 2019), available at: {https://www.economist.com/obituary/2019/12/12/obituary-paul-volcker-died-on-december-8th}; Don Lee, 'Paul Volcker, the Fed chairman who reined in runaway inflation, dies at 92', *Los Angeles Times* (9 December 2019), available at: {https://www.latimes.com/obituaries/story/2019-12-09/paul-volcker-dead}.

[2]I have chosen to adopt the terminology of the 'New Right' that Andrew Gamble uses in his classic book on the Thatcher government, because it captures the complexity of this strand of political thinking and action in a way that the terms 'neoliberal' and 'neoconservative' do not; see Andrew Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism* (2nd edn, Houndmills, Basingstoke, Hampshire: Macmillan, 1994).

[3]Vivien A. Schmidt and Mark Thatcher (eds), *Resilient Liberalism in Europe's Political Economy* (Cambridge: Cambridge University Press, 2013); Jonathan Joseph, 'Resilience as embedded neoliberalism: A governmentality approach', *Resilience*, 1:1 (2013), pp. 38–52.

[4]Ian Bruff, 'The rise of authoritarian neoliberalism', *Rethinking Marxism*, 26:1 (2014), pp. 113–29; Burak Cemal Tansel (ed.), *States of Discipline: Authoritarian Neoliberalism and the Contested Reproduction of Capitalist Order* (London: Rowan & Littlefield International, 2017).

[5]Martijn Konings, *Capital and Time: For a New Critique of Neoliberal Reason* (Stanford: Stanford University Press, 2018); Damien Cahill and Martijn Konings, *Neoliberalism* (Cambridge: Polity, 2017).

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

The last few decades of political economic history do indeed give the impression that the logic of neoliberalism is inexorable. Yet this article argues that once we look further backwards, beyond the Great Moderation and the global financial crisis, and dig into recently declassified archives documenting the early days of neoliberal theory and practice, we find a much messier picture. Economic policymakers in Thatcher and Reagan's administrations did not set out to 'fail forwards' by generating a crisis that would enable a statist kind of neoliberalism.[6] The key ideas that they drew on and the policies that they used to put them into practice sought to transform the economy indirectly, through a set of performative policy devices that they believed would generate a dramatic shift in people's inflationary expectations, lowering inflation without provoking a major recession. Archival records make it clear that these efforts were not only a failure, but also one that policymakers were acutely aware of at the time.

I am of course not the only scholar who has returned to the early history of neoliberalism in order to deepen our understanding of its successes and failures. As I discuss further in the next section, this article also seeks to contribute to a growing literature that complicates ideational approaches to the rise of neoliberalism by pointing to the bureaucratic, electoral, and even accidental dynamics that have often determined key political economic outcomes.[7]

Yet, while this historical literature adds some much-needed nuance to existing accounts of the early days of neoliberal economic policy, it sometimes overstates its case against the power of ideas, assuming that the instrumentalisation of an idea or its failure is evidence of its lack of importance. In this article, I suggest that by focusing on the *practical life of ideas* – the messy and material process of their production and circulation – we can develop a richer conception of how ideas work – and fail – in practice. I focus here on the practical *policy devices* that politicians, policy-engaged economists, and bureaucrats use to try to translate certain economic ideas into practice. I am particularly interested in looking at a specific kind of policy device – performative devices – which are explicitly designed to set up a self-fulfilling dynamic in order to make the world work more like certain economic models.[8] These policy devices were important in the early days of neoliberalism because one of the key economic ideas that policymakers relied on was rational expectations theory – an economic theory that predicted that the right kind of policy could lead members of the public to rapidly change their inflationary expectations – and thus reduce inflation relatively painlessly.

Focusing in on these concrete devices that link ideas and outcomes also provides us with a different perspective on the nature of policy success and failure. By paying attention to the practical challenges involved in making ideas work, this approach makes it clear why so many ideas fail. Yet, at the same time, such a perspective also provides a more nuanced understanding of the implications of those failures. One could easily assume that the practical failure of an economic idea like monetarism is straightforward evidence that it didn't matter very much. Yet, a careful inspection of the internal debates in the UK and US in the early days of the Thatcher and Reagan administrations reveal that key figures were both aware of and were agonising over the problems that they were facing in putting ideas into practice. Ideas can fail and still have

[6]We hear a lot about neoliberalism's capacity to 'fail forwards', which is a term borrowed from Jamie Peck's rather more nuanced discussion of the messiness and impurity of neoliberalism's practical existence (which, in its sharpest passages, is more of a testament to its flawed and fragile 'flailing forwards' than any kind of teleological 'failing forwards'). Jamie Peck, *Constructions of Neoliberal Reason* (Oxford: Oxford University Press, 2010).

[7]David Edgerton, *The Rise and Fall of the British Nation: A Twentieth-Century History* (London: Allen Lane, 2018); Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany and the United States* (Chicago: University of Chicago Press, 2006); Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2011).

[8]Benjamin Braun, 'Governing the future: The European Central Bank's expectation management during the Great Moderation', *Economy and Society*, 44:33 (2016), pp. 367–91; J. Wullweber, 'Performative global finance: Bridging micro and macro approaches with a stratified perspective', *New Political Economy*, 21:3 (2016), pp. 305–21.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

significant, often unintended, effects on policy.[9] Moreover, the fact that there has been so much effort in last two decades to narrate some of these ideas as successes suggests that sometimes ideas can fail and yet still live on and matter in other ways. The concept of *quiet failures* allows us to unpack how this occurs.

The remainder of this article is organised into four sections. I will begin this article by situating my argument in the context of other approaches to studying the history of economic policy ideas. I will then go on to set out what I mean when I talk about the practical life of ideas, developing a set of analytic concepts for interpreting my archival findings. The core of the article is an empirical analysis of the early efforts of both the Thatcher and the Reagan governments to put neoliberal ideas into practice, focusing on three highly influential ideas – monetarism, supply-side economics, and rational expectations theory. After providing an overview of their central logic, I examine how policymakers sought to put these ideas into practice through two ambitious policies, Thatcher's Medium Term Financial Strategy and Reagan's budget projections. Both were performative devices that were supposed to help to make the economy, and the people in it, work the way that neoliberal theory hypothesised in order to reduce inflation painlessly. Both ultimately failed, and yet those failures were glossed over, denied, and ultimately reinterpreted as successes in later years.

I conclude by suggesting that in paying attention to these quiet failures, we will come to understand not only how the early neoliberal experiments failed and why the ultimate form of the New Right's economic revolution was far more violent and painful than these economic theories had promised, but also how responsibility for that violence was deflected through a re-narration of that failure as a kind of inevitable success.

Studying the history of neoliberalism's failures

In spite of the considerable body of historical and political economic scholarship that has documented the failure of key neoliberal ideas, such as supply-side economics and monetarism,[10] those failures are rarely recognised in either popular accounts of the era (such as the many eulogies for Volcker), or in core textbooks.[11] Even the classic political economic literature on the rise of neoliberalism has tended to gloss over these failures until recently, with many scholars remaining committed to a concept of paradigmatic change that assumed a relatively clear and successful transition from the Keynesian paradigm to the monetarist one.[12] This is not an unreasonable assumption, given that Thatcher and Reagan did ultimately succeed in dramatically transforming their respective economies. They may not have reduced the size of government, as they

[9]James Ferguson, *The Anti-Politics Machine: 'Development', Depoliticization, and Bureaucratic Power in Lesotho* (Minneapolis: University of Minnesota Press, 1994), p. 256; Jacqueline Best, *Governing Failure: Provisional Expertise and the Transformation of Global Development Finance* (Cambridge: Cambridge University Press, 2014), ch. 2.

[10]Duncan Needham, *UK Monetary Policy from Devaluation to Thatcher, 1967–82* (Basingstoke: Basingstoke Palgrave Macmillan, 2014); Prasad, *The Politics of Free Market*; Peter Riddell, *The Thatcher Government* (ebook, Martin Robertson & Co., 2013).

[11]As I discovered when trying to find a good but basic overview of the evolution of Western political economic institutions for my first year Introduction to Politics course, a surprising number uncritically reproduce the narrative of a shift from Keynesian to monetarist paradigms; see Stephen Orvis and Carol Ann Drogus, 'States and markets', in *Introducing Comparative Politics: Concepts and Cases in Context* (London: Sage, 2015), pp. 196–215; George A. Maclean, *Politics: An Introduction* (Oxford: Oxford University Press, 2013), ch. 4.

[12]The field-defining interpretation of paradigms is no doubt Peter Hall's, which has only recently begun to be systematically contested – by Ben Clift among others; see Peter A. Hall, 'Policy paradigms, social-learning, and the state: The case of economic policy-making in Britain', *Comparative Politics*, 25:3 (1993), pp. 275–96; Peter A. Hall, 'The movement from Keynesianism to monetarism: Institutional analysis and British economic policy in the 1970s', in *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992), pp. 90–113; Ben Clift, 'The hollowing out of monetarism: The rise of rules-based monetary policy-making in the UK and USA and problems with the paradigm change framework', *Comparative European Politics* (2019).

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

promised,[13] but they did get inflation down, and they did profoundly change the structure of their economies, reducing the relative power of labour and initiating the trend towards growing inequality that we still find ourselves confronting today. Weren't these changes the result of the successful application of neoliberal ideas like monetarism, supply-side economics, and rational expectations theory? As it turns out, they were not, since these ideas were tried and failed quite quickly to achieve their desired outcomes.

I am of course not the only scholar of political economic history who has recently become frustrated with the rather overly smooth and simplistic narratives that have dominated the field's discussion of the rise of neoliberalism.[14] In fact, many of those scholars who have tended to identify themselves with ideational or constructivist approaches to economic policymaking have also begun to complicate their conception of the role of ideas. Ben Clift and Wesley Widmaier have sought to challenge conventional scholarship on the centrality of economic paradigms, pointing to the many ways in which economic thinking and practice both before and after the supposed paradigm shift in the early 1980s mixed Keynesian 'fine tuning' and neoliberal rule-based approaches in complicated ways.[15] Scholars working on the professional ecologies of economic policymaking, like Henry Farrell, Joel Quiggan, Leonard Seabrooke, and Eleni Tsingou have also sought to challenge overly simplistic assumptions about how ideas get translated into policy – exploring the complex professional cultures that emerge when professional economists and policymakers engage with each other around difficult problems.[16]

These political economists join a growing cohort of historically minded scholars who have sought to complicate many of the ideationalist approaches to Thatcher and Reagan's early years, emphasising the pragmatic basis for many key decisions and their dependence on concrete political and institutional realities rather than abstract ideas. Greta Krippner and Wolfgang Streeck have pointed to the accidental and unintentional nature of many of the major policy decisions that were made in the 1970s and 1980s – which were often aimed at solving quite pragmatic short-term problems but which ended up financialising the economy and changing the balance of political power between capital and labour.[17] Challenging the 'ideational turn' in political economic analysis head on, Monica Prasad has pointed out that ideas are both porous and malleable; rather than key drivers of the rise of neoliberalism, she suggests that they are better understood as convenient tools used and often abused by political entrepreneurs for their own electoral ends.[18] Florence Suttcliffe-Braithwaite has also pointed to the ways in which Thatcher's moral 'crusade to save the soul of the middle class' influenced her support of particular economic policies in ways that often contradicted the recommendations of neoliberal economists like Friedman.[19] In spite of their important differences, these and many other recent re-engagements with this key

[13]Matthias Matthijs, *Ideas and Economic Crises in Britain from Attlee to Blair (1945–2005)* (London: Routledge, 2011), pp. 136–7; Edgerton, *The Rise and Fall of the British Nation*, p. 460.

[14]Cahill and Konings, *Neoliberalism*; Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, MA: Harvard University Press, 2018); Konings, *Capital and Time*; Melinda Cooper, *Family Values Between Neoliberalism and the New Social Conservatism* (Cambridge, MA: Zone Books, 2017).

[15]Clift, 'The hollowing out of monetarism'; W. Widmaier, 'The power of economic ideas – through, over and in – political time: The construction, conversion and crisis of the neoliberal order in the US and UK', *Journal of European Public Policy*, 23:3 (2016), pp. 338–56.

[16]Henry Farrell and John Quiggin, 'Consensus, dissensus, and economic ideas: Economic crisis and the rise and fall of Keynesianism', *International Studies Quarterly*, 61:2 (2017), pp. 269–83; L. Seabrooke and E. Tsingou, 'Professional emergence on transnational issues: Linked ecologies on demographic change', *Journal of Professions and Organization*, 2:1 (2015), pp. 1–18.

[17]Krippner, *Capitalizing on Crisis*; Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism* (Brooklyn, NY: Verso, 2014).

[18]Prasad, *The Politics of Free Markets*, pp. 21, 101.

[19]Florence Suttcliffe-Braithwaite, 'Neo-liberalism and morality in the making of Thatcherite social policy', *The Historical Journal*, 55:2 (2012), p. 516.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

moment in political economic history share a common commitment to bringing our analysis of early neoliberal policy back to earth.

This article seeks to build on this broader pragmatic turn in the literature on the early days of neoliberalism by introducing a practice-based, materially attuned approach to economic expertise. I argue here that it is possible to recognise the messy, contingent, and strategic nature of economic policymaking without treating that fact as evidence against the power of ideas; this is just the way the ideas work.[20]

Theorising the practical life of ideas

Rather than seeing ideas and practices as separate or in tension, we need to look at the *practical life of ideas* – recognising them as having a concrete, material existence – and therefore of facing very real forms of friction and resistance. That means paying more attention to the specific policy devices that hands-on economists, bureaucrats, and politicians developed in order to translate their economic ideas into practice, and then exploring the complex ways in which they succeeded and failed.

To flesh out the practical life of economic ideas, I will draw on the insights of some of the very early scholarship in the field of Science and Technology Studies (STS), more specifically on the early work of Bruno Latour and Steve Woolgar, when these scholars set out to understand how scientific findings are produced in the lab and then are translated into the world as facts.[21] I am also, of course, inspired by the rich literature on the performativity of economics that seeks to demonstrate how particular economic theories can actually produce the worlds that they purport to describe.[22] This study gives their insights a particular *political* economic twist – by shifting the focus from market actors to policymakers and politicians – which has the effect of highlighting the messiness and fragility of efforts to translate economic theory into practice.[23]

Making the world operate like the model

How are ideas translated into practice? How, for example, do we get from the Keynesian demand management and wage and price controls of the 1970s to Thatcher's world of monetary rules and austerity? Science and technology scholars provide clues into how ideas are translated from the rarified space of the lab (or the bureaucratic office) into the wider world. In his book, *The Pasteurisation of France*, Latour discusses the challenges that Louis Pasteur faced in transferring his findings about vaccination from the highly standardised lab to the messy world of an actual farm.[24] The key was the 'transformation of a farm in such a way that it partly obeyed the conditions of a laboratory experiment' – in other words, to make the world operate more like the lab.[25]

It is not very difficult to see how this particular set of dynamics might play out on the much more malleable terrain of economic theory and practice. In *The Birth of Biopolitics*, Michel Foucault argues that one of the defining features of neoliberalism – and what distinguishes it

[20]See also Jacqueline Best, 'Recovering the mundane practices of economic time', *Finance and Society*, 4:2 (2018), pp. 181–7; Jacqueline Best, 'The inflation game: Targets, practices and the social production of monetary credibility', *New Political Economy*, 24:5 (2019), pp. 623–40.

[21]Bruno Latour, *Science In Action* (Milton Keynes: Open University, 1987); Bruno Latour, *The Pasteurization of France*, trans. Alan Sheridan and John Law (Cambridge, MA: Harvard University Press, 1993); Bruno Latour and Steve Woolgar, *Laboratory Life: The Construction of Scientific Facts* (Beverly Hills: Sage Publications, 1979).

[22]Donald Mackenzie, Fabian Muniesa, and Lucia Siu, *Do Economists Make Markets?: On the Performativity of Economics* (Princeton, NJ: Princeton University Press, 2007); Michel Callon (ed.), *The Laws of the Markets* (Oxford: Blackwell, 1998).

[23]This study thus contributes to the growing literature on the performativity of key political economic practices, including work by Benjamin Braun and Joscha Wullweber on its role in financial governance; see Benjamin Braun, 'Governing the future: The European Central Bank's expectation management during the Great Moderation', *Economy and Society*, 44:3 (2016), pp. 367–91; Wullweber, 'Performative global finance', pp. 305–21.

[24]Latour, *The Pasteurization of France*.

[25]Ibid., pp. 86–91.

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from classical liberalism – is its desire to transform the world so that it behaves like a market.[26] How do economic ideas *work*, after all? They must, like the theories and techniques that Pasteur developed in the lab, ultimately be let loose on the world outside the universities, the conference circuits – and even the government offices. These models and theories need to work in a world filled with actual workers, employers, households, and investors. Ultimately, that means that these often-idiosyncratic people and places need to be civilised, standardised, made to look more like the models and assumptions of economic theory.

This is, of course, a massive undertaking – and one in which success is far from certain. And yet, I will argue here, it is a very useful way of understanding what certain New Right governments and economists set out to do in the 1970s and early 1980s. Their challenge was to *produce* the social, political, and material conditions in which these conservative economic theories could work – to make the world behave more like the model. For monetarism and supply-side economics to work, people would have to be hyper-rational, self-interested, form correct expectations about where inflation rates were heading, and update them instantaneously. This was not envisioned as a top-down statist project, in which neoliberal norms would be directly promoted and inculcated (that would come later, in the 1990s). Instead, rational expectations theory provided a blueprint for how this radical transformation could be achieved through the powerful but indirect role of a set of policies designed to alter expectations in order to generate a bottom-up shift in economic behaviour.

Yet, where rational expectations theory assumed that these shifts were relatively easy to achieve, since they were inherent to human rationality, the transformation that would be required was in fact a profound one.[27] People would have to become sceptical about the government's capacity to do more than announce a few monetary rules, and view unemployment as an individual rather than a collective responsibility. They would have to be sanguine, or even enthusiastic about the prospect of the government slashing top tax rates on the very rich, believing that it would massively stimulate investment (and the rich, in turn, would have to see their increased wealth as an incentive to invest in the wider economy). Since this was not how people had been acting or thinking up until this point in time, this shift also required dismantling the existing ways in which people had been behaving. It meant eroding previous forms of social solidarity, born of the Great Depression and the two world wars, which had revealed all too clearly the ways in which an individual's life chances depend on factors that are well beyond their control. Yet, whereas the construction of that postwar economic identity had been forged in part through the violent destruction of that earlier more individualistic era, this time around, the new political economic culture would have to be produced without such a decisive crisis.

Such a transformation in economic culture was an explicit undertaking of some of the key actors in the 1970s and 1980s. In the UK, The Institute of Economic Affairs and the Centre for Policy Studies, both British conservative think tanks, were quite clear about their mandate to socialise the British elite and ultimately the wider population to this kind of economic thinking and practice.[28] In the US, the same role was played by the Heritage Foundation and the Cato Institute, among others.[29]

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[26]Michel Foucault, *The Birth of Biopolitics: Lectures at the Collège de France, 1978–1979*, trans. Graham Burchell (New York: Palgrave Macmillan, 2004), p. 141. Martin Konings provides an interesting spin on this idea in his work on speculation as a performative dynamic in capitalism; see Konings, *Capital and Time.*

[27]I have discussed the profound practical changes involved in creating a new monetary culture in: Best, 'The inflation game'.

[28]The minutes of the CPS's 'First XI' meetings are particularly revealing in their discussion of the central importance of the Conservatives both speaking to and transforming the everyday life of the British people. London School of Economics Archives (LSE) CPS/11/1, 'First XI', 1980–1. Suttcliffe-Braithwaite also examines debates among Conservative thinkers and politicians on the moral logic of different strategies for transforming the economic subjectivity of Britons; see Suttcliffe-Braithwaite, 'Neo-liberalism and morality in the making of Thatcherite social policy'.

[29]Mark Blyth, *Great Transformations: The Rise and Decline of Embedded Liberalism* (Cambridge: Cambridge University Press, 2002).

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

The role of policy devices

Yet, it is one thing to give speeches and write reports on the need to radically transform the economy and the population. It is another to make this happen in practice. The various events and publications of the likes of the IEA and the Cato Institute did play a role in changing the minds of key policymakers and providing some blueprints for how to change policy.[30] But once the Conservatives and Republicans were in power, they needed to put in place the *policy devices* that would enable them to translate those plans into action. Policy devices are the means through which policymakers take certain ideas about how to achieve particular outcomes and translate them into something more concrete – such as a policy rule, a communications strategy, a new kind of metric, or a set of procedures – designed to make that outcome a reality. For example, monetarist theory suggests that the best way to control inflation is through the money supply, but there are a multitude of possible ways of putting this idea into practice, including different monetary aggregate targets, approaches to timing, and central bank implementation procedures. As we will see below, there were significant debates internally and externally in the UK and the US about which of these devices to use, as well as considerable variation in how they sought to put these ideas into practice.[31]

I will focus on two key policy devices here: the Medium Term Financial Strategy in the British context, which was one of the devices that the Thatcher government sought to use to bring inflation down by shifting public expectations, and the Reagan administration's first set of budget projections, which were designed to demonstrate the credibility of the new government's radical economic plans, again in the hope that this would lower inflationary expectations. What makes these particularly significant policy devices to study is the fact that they were both designed to be performative – or self-fulling. They were created with the explicit objective of setting in motion a shift in public perception and expectations in order to produce a set of public responses that would increase the chances of the policy's successes. They did not therefore simply set out to intervene in a static world but to actively reformat that world so that it operated more like the model.

How ideas fail (and why some of those failures are quiet)

Ironically, the very materiality of the production and circulation of ideas not only allows them to be powerful, as they act on and transform the world, but also makes them inevitably fragile and prone to failure. The work of translating economic theories like monetarism, rational expectations, and supply-side economics into the world required a complex combination of policy devices – targets, metrics, forecasts, and communication strategies – many of which were being tried for the first time in the early 1980s and most of which turned out to include various errors and problems. The next section of this article examines in considerable detail just how and why these ideas and the devices that they were embedded in, ultimately failed.

Although a close study of the internal struggles and problems in the Thatcher and Reagan economic revolutions might tell us something about why many of these ideas failed as they were translated into practice, it does not necessarily help us to understand why these failures did not have the political salience that we might expect in later years. For that, we have to extend our analytic timeframe in order to consider how these failures were perceived over time. When we do so, we find that the solution to the mystery of the quiet failure of neoliberalism is partly discursive and partly material, partly intentional, and partly accidental.

[30]Although there is no doubt that Thatcher had a pragmatic and often-instrumentalist approach to economic ideas, the IEA's archival records make it clear that she made ongoing use of their ideas and support throughout her time as prime minister. Hoover Institute Archives (HIA), Institute of Economic Affairs (96026), box 508, Thatcher.

[31]I have examined similar meso-level devices and strategies in the rather different context of international financial institutions in *Governing Failure,* where I explicitly draw on Callon's concept of 'inscriptions' to conceptualise these kinds of devices; see Callon (ed.), *The Laws of the Markets*.

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One of the key reasons why the failure of these key neoliberal ideas did not have major political consequences is that they were narrated as successes – chiefly through strategies of denial and rebranding. Yet, although the quieting of these failures has discursive and strategic aspects we again need to pay attention to the material and accidental parts of this picture in order to fully appreciate what happened and why. Drawing on Latour's work on the scientific process, I have suggested that for ideas to work, the world outside the lab – or bureaucratic office – has to be made to work more like the lab or the model. What the experience of the early days of neoliberalism tells us is that this convergence is not only extremely difficult to achieve, but can also be largely accidental, as it was in the 1980s. The Reagan and Thatcher governments did ultimately succeed in getting inflation down and shifting the public's expectations – but they did so by chance and through the messy and miserable process of a massive recession – effectively through Keynesianism in reverse – not through the operation of their favourite economic theories. That accidental success was nonetheless crucial for their retrospective narration of the neoliberal turn as something other than a failure.

A history of failures: The MTFS and the Reagan budget forecasts

In spite of the very considerable differences between the American and British early experiments with neoliberalism, there were a number of striking parallels. Both governments defined the problems that they were tackling in similar terms. First and foremost, of course, was the problem of stagflation – the seemingly intractable problem of combined high inflation and low growth that had hit both economies in the 1970s. In their initial response, previous British and American governments had relied on incomes policies, which set limits on wage and price increases in an effort to keep inflation down, and depended on ongoing negotiations with labour and business leaders. Both the Thatcher and Reagan governments were explicitly opposed to any such wage and price controls – or messy political negotiations – and therefore wanted to find a way of reducing inflation without relying on either government fine-tuning (through demand management) or negotiations with unions and business. Yet, like their less conservative predecessors, they also wanted to avoid a major recession because of its significant political repercussions. The solution that both governments landed on, in their different ways, rested on a similar strategy that combined one very large gamble, three key ideas, and a number of performative policy devices designed to translate these ideas into practice.

Both governments were gambling that a series of dramatic changes in policy would shock economic actors into recognising that the government meant business and that the economy was being revolutionised. As Nigel Lawson, Financial Secretary in the early days of Thatcher's government noted, 'Some degree of shock treatment was essential if inflationary expectations were to be wrenched down.'[32] The hope was that this would create a new lower-inflation equilibrium in the economy, without – and this is key – inducing the kind of miserable recession in the interim that most economists and policymakers warned was necessary for any sustained decrease in inflation.

This gamble rested on three key ideas and a series of policy devices that were supposed to translate them into practice. The ideas included monetarism, an approach to controlling inflation based on the Quantity Theory of Money, which Milton Friedman had revived and popularised. Monetarists argued that the best way to manage inflation was to control the quantity of money circulating in an economy – preferably through a simple rule outlining the rate at which the money supply would grow. Supply-side economics had also become increasingly popular among members of the New Right, in both the US and the UK. Supply-siders sought to shift the focus of economic policy from managing demand to stimulating the supply of investment

[32]Nigel Lawson, *The View From No. 11: Britain's Longest-Serving Cabinet Member Recalls the Triumphs and Disappointments of the Thatcher Era*, Vol. 1 (New York: Doubleday, 1993), p. 45.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

in the economy, which they argued could be best achieved through a combination of deregulation and large tax cuts for high-income earners who could then invest that extra wealth to increase productivity. To respond to those more traditional small-government conservatives concerned about the deficits that would likely result, American supply-siders drew on Arthur Laffer's infamous model, the Laffer curve, which suggested that cutting taxes could actually increase government revenues if it resulted in enough economic growth.[33]

The third major idea to underpin this gamble was rational expectations theory. First introduced by John Muth and then popularised by Robert Lucas, rational expectations theory argues that individual economic actors will adjust their expectations about the direction of the economy (including, crucially, about the likely level of inflation) rationally and rapidly.[34] Although this would seem to be a minor technical point, in fact it was to form the performative motor driving the New Right's economic gamble: if the public and the market saw these new governments' dramatic adoption of monetarism and supply-side economics as credible, then they would quickly lower their inflationary expectations, and lower their wage demands and other sources of inflationary pressure as a result. Together, these three theories thus promised to deliver a dramatic decline in inflation and a boost to the economy – all without increasing the deficit or precipitating a major recession.

I am not suggesting here that monetarism, supply-side economics, and rational expectations were either universally accepted or entirely consistent with one another. There were in fact major disagreements among the advocates for these different theories, with many monetarists sceptical of supply-side economics and vice versa. Lucas was also dismissive of both monetarist and supply-side approaches, seeing them as involving too much government intervention.[35] Policymakers and politicians who were working together on a key policy problem often brought different theoretical assumptions to the table, as we will see below. Yet, during the process of translating these ideas into practice in the early 1980s, many of the different elements of each theory became combined (however haphazardly in some cases) and their assumptions embedded in the key policy devices that sought to reshape the British and American economies – the Medium Term Financial Strategy in the British case, and the 1981 budget projections in the American case. Both of these policy devices were informed by some the key economic ideas that I discussed above; both sought to translate them into practice; and both ultimately failed.

Thatcher and the Medium Term Financial Strategy

The key policy device that Margaret Thatcher, and her Chancellor, Geoffrey Howe, ultimately ended up relying on in their efforts to lower inflation was the Medium Term Financial Strategy (MTFS). The MTFS included a set of quantitative targets for both the rate of growth in the money supply (£M3) and for the level of government borrowing (the Public Sector Borrowing Requirement, or PSBR). Both targets were announced publicly, in order to communicate the government's plans and their commitment to get inflation down.

This policy device was explicitly designed as a means of translating monetarism and rational expectations theory into practice.[36] The policy focused on the money supply as the primary means of controlling inflation and sought to establish a simple rule that set out the government's plans. This is not to suggest that the MTFS was a purist's version of monetarism; Friedman himself travelled to London to present to complain about the fact of the second, debt-focused, target,

[33]Arthur Laffer, 'The Laffer Curve: Past, Present and Future', Heritage Foundation Backgrounder, no. 1765 (1 June 2004), available at: {https://www.heritage.org/taxes/report/the-laffer-curve-past-present-and-future}.

[34]Robert E. Lucas Jr, 'Expectations and the neutrality of money', *Journal of Economic Theory*, 4 (April 1972), pp. 103–24.

[35]Aurélien Goutsmedt, Danielle Guizzo, and Francesco Sergi, 'An Agenda without a Plan: Robert E. Lucas's Trajectory through the Public Debate', CHOPE Working Paper No. 2018-14 (2018).

[36]Some of the economic thinking behind the plan can be found in various documents in the UK National Archives (TNA) T 388/184, 'Discussions with Outsiders on a Medium Term Financial Plan'.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

which he believed was counterproductive.[37] The policymakers behind the creation of the MTFS nonetheless explicitly sought to use it as a policy device aimed at translating key monetarist assumptions into practice. The Thatcher government was not only publicly explicit in declaring that 'adherence to tight monetary targets will ensure that inflation is eventually brought down', but also built those assumptions into the MTFS.[38] As an internal document prepared by Sir Douglas Wass, the Permanent Secretary in Her Majesty's Treasury, noted, the MTFS was based on the proposition that:

> £M3 is assumed to be within the power of the monetary authorities to control. By controlling the money supply the Government exerts control over other nominal magnitudes such as money incomes which cannot be directly controlled – and thus over inflation.[39]

The MTFS was also a policy device that put considerable faith in the promise of workers, consumers, and business owners having rational expectations. Not everyone in government necessarily agreed with the soundness of rational expectations assumptions. In his autobiography, Nigel Lawson – who was one of the architects of the MTFS – also disputes his critics' charge that rational expectations theory played an important role in the government's plans,[40] yet various memos and reports from that time make it clear that the government initially placed a deal of emphasis on a quick shift in inflationary expectations.[41] As Wass noted in another memo to the chancellor, the hope of those advocating for the MTFS (of which he himself was quite sceptical) was that 'expectations of a decline in the rate of inflation would be strengthened and the behaviour of economic agents more likely to follow the precepts which the Government is exhorting them to follow'.[42]

Rational expectations theory's optimistic projections made a target-based approach seem politically palatable: it promised a way out of the intractable dilemma of inflation-management – a way of reducing inflation without a massive recession. The mere fact of credible government pronouncements on their commitment to monetarism would lower inflationary expectations, leading workers and businesses to negotiate smaller wage increases, thus avoiding the mass layoffs that might otherwise result from a deflationary economy.

Prasad has suggested in her very thoughtful analysis of the early economic policies of the Thatcher government that the Conservatives had no clear blueprints from monetarist economists about how to put their ideas into practice, and actually ended up turning 'the idea of "monetarism" into the very un-monetarist idea of "balanced budgets"'.[43] In fact, paying attention to the role of expectations in the thinking of the time allows us to better understand how this seeming ideational paradox became embedded in the key policies of the era. The MTFS was a policy device that was not just chosen because of its promise of controlling the money supply (although that was key) but also because it created a means of publicly announcing the government's targets and thus showing a credible commitment to doing whatever was necessary to get inflation down. Although it clearly went against orthodox monetarist doctrine, Lawson in particular was convinced that lowering public sector borrowing, as well as controlling the money supply, was key to getting inflation down, as he outlines in two key memos in which he makes the case for including a PSBR target in the MTFS, arguing that doing so 'will add credibility to the money supply targets, and thus the plan as a whole'.[44] The MTFS was thus designed to be a hybrid policy device

[37]HIA, Milton Friedman Papers (77011), box 61, file 14.
[38]TNA T 386/525, Briefing notes, 8 October 1979.
[39]TNA T 451/80, Memo to Chancellor, 30 October 1981.
[40]Lawson, *The View From No. 11*, pp. 71–2.
[41]See, for example, TNA T 451/80; T 451/18; PREM 19/440.
[42]TNA T 388/184. Memo to Chancellor, 29 August 1979.
[43]Prasad, *The Politics of Free Markets*, p. 102.
[44]TNA T 386/525; T 386/527. Memo to Chancellor, 28 January 1980.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

– one that combined rational expectations and monetarist assumptions in particular ways – as well as a performative device that would help to generate a shift in public perception and behaviour that would create a virtuous cycle of lower inflationary expectations, lower wage demands, and lower inflation.

Yet in the end, none of these hopes were realised. This failure was due in part to the resistance of the world to overly simplistic theories. The money supply, particularly £M3, turned out to be much more difficult to control than had been anticipated – in large measure because of a range of other financial policies that were introduced at the same time.[45] In retrospect, it is hard to imagine how the Conservatives thought that a monetarist approach would survive their decision to deregulate financial markets and eliminate exchange controls. Thatcher herself raised some concerns about the impact of the removal of exchange controls, which was championed by the chancellor and the Governor of the Bank of England.[46] By eliminating exchange controls, the Bank lost its ability to place a limit on banks' interest-bearing accounts, significantly reducing its control over the money supply.[47] At the same time, the government's domestic deregulation agenda blurred the differences between different monetary aggregates, as building society deposits were treated like bank deposits, but were not included in £M3.

In spite of these contradictions, the Conservative government pursued these incompatible policies, continuing to try to control the money supply in various ways through the MTFS until 1985. Yet, they consistently failed to meet their targets for both the monetary supply and public sector borrowing.[48] The MTFS therefore failed to work as the kind of performative device that it sought to be: missing the targets meant that instead of creating a virtuous circle of credibility-enhancing policy achievements, the government instead found itself confronting a vicious cycle of incredibility, as the public, labour, and businesses lost confidence in the government's capacity to use the MTFS to get inflation down. In spite of all of the care that had been put into its design as a policy device capable of changing not just the expectations but also 'the behaviour of economic agents', as Wass noted, so that they more closely resembled the government's preferred economic models, the MTFS thus ultimately failed to do the necessary work of translating economic theory into practice.[49]

Reagan and the 1981 economic forecasts

In the US, Reagan's first economic forecasts were designed to play a crucial role in making his government's economic ideas work.[50] Once Reagan took office in January 1981, his economic advisors began a process of developing forecasts of the likely effects of Reagan's proposed economic policies, which included a formal commitment to monetarism as the guiding policy for the Federal Reserve, a plan to cut non-military government spending while boosting military spending, and significant tax cuts. The economic forecast was designed to show how Reaganomics could work – projecting a world in which inflation would quickly decline, productivity and growth would take off, and the budget would be balanced.

It is very easy to see how these policies sought to translate certain familiar neoliberal ideas into practice. The commitment to controlling inflation through the money supply was of course

[45]Numerous internal studies and memos were circulated in the early 1980s in an attempt to make sense of the difficulties that the government was having in controlling £M3. Some particularly revealing discussions can be found in PREM 19/440; T 451/80; T 459/17.

[46]TNA PREM 19/437, Summary of meeting between PM, Chancellor, and Governor, 17 October 1979.

[47]Robert Elgie and Helen Thompson, *The Politics of Central Banks* (New York and London: Routledge, 1998), pp. 62–3.

[48]Roger E. Backhouse, 'The macroeconomics of Margaret Thatcher', *Journal of the History of Economic Thought*, 24:3 (2002), pp. 313–34 (p. 321).

[49]TNA T 388/184, Memo to Chancellor, 29 August 1979.

[50]The economic forecasts were not, of course, the only economic policy device that played a key role in the early days of the Reagan administration. The Federal Reserve's monetarist policy (the 'Volcker shock') and the Kemp-Roth tax cut bill were also key policy devices. Yet, I will argue, the projections are particularly important as they allow us to see how these different policies were supposed to work together to drive the US into a new economic order.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

explicitly based on monetarism. Friedman himself was actively involved in advising the president and his team during the transition and in the early days of Reagan's administration. One of Friedman's former students (and a monetarist purist), Beryl Sprinkel, was also Reagan's first Treasury Under-Secretary for Monetary Affairs, the member of Cabinet with the most direct influence over monetary policy. Reagan's first Budget Director, David Stockman, was a new convert to supply-side economics, joining a number of other true believers in Congress and Treasury who were convinced of the economic benefits of major tax cuts.[51] Although there remained a good proportion of Congressional Republicans sceptical of 'voodoo economics' and committed to a more traditional approach to small government and balanced budgets, these cuts were ultimately delivered through the Kemp-Roth bill.

Linking monetarism and supply-side economics and making them work was an underlying faith in the power of rational expectations. As Reagan himself noted in his message to Congress outlining his Program for Economic Recovery, 'The solution to this growing economic threat calls for bold actions designed to reduce – dramatically and sharply – inflationary expectations.'[52] For both monetarism and supply-side tax cuts to be effective, they would have to be seen as credible. Only then would market actors shift their inflationary expectations downwards, all the while remaining confident in the government and optimistic about economic growth. The 1981 economic forecast was thus a crucial policy device: the projections of a credible Reaganite economic future were designed to work as a performative device, not only demonstrating how these policies could work, but in the process, working to build confidence in the government and to reinforce its credibility, thus making the job of achieving its targets easier.

A quote from David Stockman, from the early days of his time as Budget Director, beautifully captures this optimism about Reagan's economic policy:

> 'The inflation premium melts away like the morning mist', Stockman predicted. 'It could be cut in half in a very short period of time if the policy is credible. That sets off adjustments and changes in perception that cascade through the economy. You have a bull market in '81, after April, of historic proportions.'[53]

This quote is from a brilliant article, 'The Education of David Stockman', which was published in *The Atlantic* in December 1981. The author, William Greider, had met Stockman regularly over breakfast for the first eight months that he was in the job, capturing his initial enthusiasm as well as his gradual disillusionment with the Reaganite economic faith.

Grieder's article provides some initial clues as to how the original economic forecasts were put together. In early January 1981, as Stockman and his staff began on their budget plans, they ran some initial numbers through the Office of Management and Budgets (OMB) computer to estimate the effects of Reagan's economic plans. The results were 'absolutely shocking', showing that the combination of tax cuts and increased military spending would translate into massive deficits.[54] Rather than taking this result as a sign that Reaganomics was unlikely to succeed, Stockman saw this as proof that conventional economic assumptions were all wrong, and so he changed the programming of the computer to reflect supply-side and monetarist economic assumptions instead, which predicted a decline in inflation and a swift uptick in productivity and growth.[55]

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[51]William Niskanen, *Reaganomics: An Insider's Account of the Policies and the People* (Oxford: Oxford University Press, 1988), p. 5.

[52]Ronald Reagan, 'White House Report on the Program for Economic Recovery', The American Presidency Project (1981), available at: {http://www.presidency.ucsb.edu/ws/?pid=43427} accessed 18 February 2019.

[53]William Grieder, 'The education of David Stockman', *The Atlantic* (December 1981), available at: {https://www.theatlantic.com/magazine/archive/1981/12/the-education-of-david-stockman/305760/}.

[54]Ibid.

[55]Ibid.

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This new and more optimistic set of computer projections was only the first step in the effort to create the forecasts. In a fascinating memo from Sprinkel to the Treasury Secretary, Donald Regan, entitled 'Why Our Initial Forecast Went Wrong', Sprinkel outlines how the projections were developed, in an effort to defend himself and Treasury against their critics. Those responsible for designing the forecasts, he explains, who included David Stockman, Alan Greenspan, himself, and Murray Weidenbaum (the Chairman of Reagan's first Council of Economic Advisers), did not agree on how far they should go in adopting new economic assumptions, or even on which assumptions should be used. Sprinkel, who advocated more radical projections for the decline in inflation, explains why he didn't get his way:

> The reasons for the losses were clear. Greenspan, and subsequently Weidenbaum, believed the initial Administration forecast should 'appear reasonable', i.e., be near the Blue Chip consensus.[56] Those forecasts projected only a slow decline in inflation. Stockman was concerned that a slower nominal GNP path would project too large a deficit.[57]

The upshot of these differences of opinion (and of political objectives) was that they had to project growth rates that were inconsistent with their commitment to reducing the rate of growth of the money supply.[58] The financial markets were suspicious of these numbers and, as Sprinkel notes 'We lost credibility which has not yet been regained.'

If these projections were already dodgy from the outset, they only began to look worse as the US economy entered a recession that began in July 1981 and dragged on until November 1982. With the economic downturn lowering government revenue and increasing counter-cyclical spending, the revised projections looked awful: instead of a virtually balanced budget by 1986, which had been predicted in the earlier forecasts, it now looked like the deficit would remain over $100 billion a year well into the future[59] (in fact, Reagan's deficits grew to over $200 billion in several years of his presidency).[60] The rising deficit produced panic among conservative lawmakers. Republicans who had grudgingly accepted supply-side tax cuts and monetarist driven interest-rate increases when the projections suggested that everything would be rosy, balked at both the massive increase in the deficits and interest rates that continued to spiral upwards.[61] Bills to reign in the Federal Reserve and raise taxes began to circulate in Congress.[62]

The 1981 economic forecast was a performative policy device designed to demonstrate the feasibility of a Reaganite economic revolution, reinforce the credibility of the government's plans, and in the process lower inflationary expectations while boosting confidence. Instead, rather like the MTFS, because there was a large and growing gap between the forecasts and the actual performance of the economy, the projections only eroded public confidence in the government's actions. That gap, in turn, was produced in part by policymakers' failure to agree on how to translate their new economic ideas into practice. Moreover, at least in the early 1980s, the

[56]The Blue Chip consensus is a series of macroeconomic forecasts based on polling of business economists.

[57]Library of Congress Archives (hereafter LCA), Donald T. Regan papers, 1919–1993, box 56, file 4, Memo from Sprinkel. 3 November 1982.

[58]They only resolved this contradiction by projecting a significant increase in the velocity of money, when in fact this was precisely the moment at which the velocity of money began to decline.

[59]LCA, Regan papers, box 114, file 1, No title [Overview of Current Economic Projections and Deficit], n.d. [c. December 1981], p. 9.

[60]Congressional Budget Office (CBO), 'Supplemental Historical Data for Updated Budget Projections: 2019–2029' (Washington, DC: Congressional Budget Office, 2019), available at: {https://www.cbo.gov/about/products/major-recurring-reports#1}.

[61]There are many memos and briefing notes outlining Treasury staff's thinking on the recession's causes and the dilemmas that it was causing for the government in: LCA, Regan papers, box 139, file 1, Economic Briefing Book, 1981.

[62]The Reagan administration did manage to retain most of its program priorities in the end. On efforts to reign in the Fed, see US National Archives and Records Office II (NARA II) RG56-UD-11W34, Subject files – Under-Secretary for Monetary Affairs (Declassified – NND 77967), file 3: 1982 CCEA & Related.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

world outside the Treasury department's models and the OMB's computer did not work enough like the model for their ideas to work.

Monetarism failed in the US, just as it did in the UK. In October 1982, Volcker announced (very discreetly) that the Federal Reserve would no longer try to target $M1.[63] Like the British, the Americans had found it extremely difficult to control the money supply in practice – in part due to their efforts to deregulate the financial system. Supply-side economics also failed to deliver on its promises. Instead of generating a massive jump in investment and confidence and a big enough increase in growth to support stable government revenues, the tax cuts instead contributed to massive deficits. These deficits not only created some very real political difficulties for the early Reagan administration, but ultimately nearly tripled the national debt.[64] Finally, rational expectations theory turned out to be highly misleading in the American case, just as it was in the British one. For all of the optimism about how rapidly adjusting expectations could help reduce inflation and kick-start growth, in practice those expectations were a lot slower to adjust. In fact, the internal memos within Treasury in the early years of the Reagan administration make it clear that the staff were themselves very aware that expectations were shifting a lot more slowly than had been anticipated.[65] As in the British case, the failure of these key economic ideas and the policy devices designed to make them work, translated into a deep and prolonged recession.

Quiet failures and bloody successes

By paying attention to the practical difficulties of translating monetarism, supply-side economics, and rational expectations into the world outside the policymaker's office, we can start to make sense of the failure of Reagan and Thatcher's ambitious attempts to base their economic policy on these neoliberal ideas. For these ideas to work, they had to be embedded into policy devices capable of reshaping the world so that it resembled the model – something that turned out to be very difficult in practice.

There is no single reason that these policy devices ultimately failed. In both US and UK cases, the core assumptions that they embodied – such as the idea that the money supply could be controlled, and that it had a stable relationship with growth – were simply proven wrong. In both countries we also find instances in which one set of new policy practices (such as the deregulation of the financial system) actively undermined the effectiveness of another (their ability to control the money supply) by changing many of the core economic relationships that the theories had assumed to be stable.[66] In the case of the Reagan economic forecast, the fact that there was so much disagreement about what those economic assumptions were, and how radically they should change, led to a policy approach that remained too visibly inconsistent to work. In different ways, the frictions of both the processes of translating ideas into workable devices and of then implementing them in the wider world ultimately led to their failure.

Yet that still leaves one further question to answer: why were these failures *quiet*? I will propose two answers to this question – one of which looks at how these failures were narrated in ways that

[63]In fact, the announcement was so discreet and framed so cautiously that Treasury officials weren't at all sure at first what had been changed, and whether they were witnessing the end of the monetarist experiment or a temporary suspension. See NARA II, RG56-UD-11W34, Subject files – Under-Secretary for Monetary Affairs (Declassified – NND 77967), box 1, file 3. Report to the President on CCEA Meeting, 20 October 1982; LCA, Regan papers, box 157, file 5, Notes on current monetary policy, week of 12 November 1982.

[64]And as Joel Quiggin has convincingly argued, any stimulative effects from the tax cuts were largely consistent with Keynesian demand-side predictions; see also John Quiggin, *Zombie Economics: How Dead Ideas Still Walk Among Us* (Princeton: Princeton University Press, 2012), ch. 3; CBO, 'Supplemental Historical Data' (2019).

[65]NARA II, RG56-UD-11W34, Subject files – Under-Secretary for Monetary Affairs, box 1, file 3, Talking points for Sprinkel, CCEA meeting, 10 August 1982.

[66]I have focused on the ways in which this dynamic played out in the British case here, but a similar set of tensions arose in the American case, where the deregulation of domestic financial regulations dramatically altered the public's relationship with money, lowering its velocity.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

concealed their significance, and the other of which looks at how Thatcher and Reagan did, in spite of everything, succeed in important ways.

Narrating failure

At the time when these policies were first being implemented, their failure was in fact far from quiet. In the United States, as the recession deepened and inflation and interest rates initially remained high, Democratic members of Congress were quick to label the Reagan administration's policies a massive failure, while member of both parties sought to introduce legislation to gain more control of the Federal Reserve.[67] In the UK, not only were members of the Labour Party and trade union leaders quick to condemn the Conservatives' economic policies as failures, but also parliamentary committees and industry groups were also highly critical of their efforts.[68] Although certain policymakers admitted to failure internally, externally both governments responded through two main strategies that diffused the potential political fall-out from the failures – denial and rebranding.

There is ample evidence to show that key policymakers were aware of the failure of many of their pet ideas and policies. In the United Kingdom, there were ongoing discussions within Treasury and among Thatcher's economic advisers on the problems with targeting £M3, and seemingly endless debates about the advisability of various alternatives. Once the recession started and the promise of a painless adjustment to a low inflation equilibrium proved to be a fairy tale, a number of Treasury officials were also explicit about the failure of rational expectations assumptions, as I will elaborate below. In the United States, a number of the internal memos makes it clear that policymakers were aware that market expectations were not moving the way that they had hoped they would, in part because they did not conform with rational expectations assumptions.[69] As I noted above, there were also internal admissions in autumn 1982 that the initial economic forecast had been a failure.

Yet, in spite of these internal admissions of failure, the external narrative was markedly different. In the US, the dominant strategic response was one of denial combined with shifting the blame to the Federal Reserve. Sprinkel's files make it clear that he dedicated a good proportion of his public speeches in 1981 and 1982 to explaining why monetarism had not failed. As he argued in a speech at the Annual Western Economic Association conference,

> While many are proclaiming that the 'monetarist experiment' has failed, those who have long considered themselves monetarists are asking 'What monetarist experiment?' The major policy prescriptions implied by monetaist [*sic*] theories – a moderate, steady and predictable rate of monetary growth – has not been approached, let alone achieved in the U.S.[70]

This was the very same line that Friedman used both in internal advice to the president and in his comments in the media[71] – blaming Volker and the Federal Reserve for not implementing monetarism effectively.

[67]NARA II, RG56-UD-11W34, Subject files – Under-Secretary for Monetary Affairs, file 3, 1982 CCEA & Related.

[68]For example, TNA PREM 19/440, Memo from Unwin to Chancellor, 4 March 1981; T440/134. Minutes from a working dinner with the British Institution of Management, 15 July 1981.

[69]Whereas in his testimony in April 1981, Sprinkel emphasised the importance of a rapid shift in inflationary expectations to reduce the recessionary impact of a lower monetary target, by August 1982, he was noting the existence of a significant lag. LCA, Regan papers, box 157, file 4, Press release regarding Sprinkel's testimony, 8 April, 1981; NARA II, RG56-UD-11W34, Subject files – Under-Secretary for Monetary Affairs, file 3, Talking points for Sprinkel for 10 August 1982 CCEA meeting.

[70]NARA II, RG 56/A1 860, Office of the Under-Secretary for Monetary Affairs, box 1, file 9, Remarks to the Western Economic Association, 16 July 1982.

[71]HIA, Friedman Papers, box 203: 10-11, President's Economic Policy Advisory Board, 1981–1988, Memorandum, 17 May 1982 and Memorandum, 14 January 1983.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

In the UK, where the Bank of England was less independent, a strategy of outright denial and displaced blame was less plausible. Yet, there did remain another way of avoiding being labelled a failure: a rather clever effort to deflect attention from the discredited policy ideas by rebranding the Conservative's strategy. For example, as Thatcher's government found that targeting the money supply wasn't working, they reframed their strategy. As the chancellor put it when presenting the 1986 budget,

> [W]hile financial liberalisation and innovation have inevitably made the process of monetary management more complicated, there has been no change whatever in the essence of policy. The Government continue to attach the highest priority to sound money.[72]

In other words, monetarism may have failed, but the 'essence' of the policy remained intact. This vaguer commitment to 'sound money' was picked up by a number of commentators supportive of the government and given the name 'political monetarism' – which conveniently allowed the government to retain its monetarist brand without having to be particularly committed to monetarism itself.[73]

A painful success (or Keynesianism in reverse)

All of these efforts to narrate the failure of early neoliberal ideas as a success would not, however, have worked if the world outside the policymakers' bubble had not also changed in important respects. After all, looking back to the early Thatcher years from today's vantage point, it is hard to conclude that the government failed: the Conservatives did eventually get inflation down below 5 per cent (at least until Lawson pumped it up again in the late 1980s), all the while managing to transform the economy into one that much more closely resembled Conservative values – with labour unions far less powerful and the state's role more focused on law and order than economic justice.[74] How did the Conservatives get inflation down when the key ideas and devices that they sought to use did not actually work?

A passage in a memo that Wass prepared for Thatcher nicely captures exactly how her government succeeded, even as they failed. In this memo, Wass is responding to a request from the chancellor to explain why the economy is facing such a massive recession, and why businesses, in particular – a constituency Thatcher was very concerned about – were suffering. He begins, 'The strong financial pressure to which business generally is being subjected is one manifestation of the policy which is intended to slow down the rate of inflation.' In other words, the Conservatives had created this recession themselves through their anti-inflation policies. He then goes on to challenge the assumptions that much of the Conservative government's policy had been based on:

> I have never myself believed that the statement of the commitment to a deceleration in monetary growth would, through expectations, lead rapidly and as it were on its own account to a fall in wage settlements. In time expectations could well play an important part but until they do, the pressures on wage bargainers and price fixes has to be through powerful financial and economic forces.[75]

Wass is both challenging the government's hopes that expectations would shift dramatically enough to enable a relatively painless recession, and describing the process by which the economy

[72]Hansard, HC Deb, vol. 94, col. 166 (18 March 1986), available at: {https://api.parliament.uk/historic-hansard/commons/1986/mar/18/budget-statement}.

[73]This kind of rebranding can also allow failed ideas to be reborn without the past stigma of its earlier history, as when the fundamental assumptions of the Laffer Curve are embedded in the idea of 'dynamically efficient tax cuts', which again promise that tax cuts for the rich will magically avoid increasing the deficit; see Quiggin, *Zombie Economics*.

[74]'The Thatcher years in statistics', *BBC News* (2013), available at: {https://www.bbc.com/news/uk-politics-22070491}.

[75]Margaret Thatcher Foundation Archive (MTFA), Memo from Wass to Chancellor, 'Policy Option', 5 November 1980.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

did in fact ultimately reduce inflation – the old fashioned way, through a major recession and unemployment.

Faced with a growing recession, the Conservatives switched tactics with their tough 1981 budget, and used fiscal austerity to squeeze inflation out of the economy. This was not rational expectations theory or monetarism at work, but rather Keynesianism in reverse: instead of allowing some extra inflation in order to reduce unemployment, the government massively increased unemployment in order to get inflation down. Once Thatcher was re-elected in 1984, she was also ready to push much harder on the unions than she had in her first term. The 1984–5 miners' strike, in which the government ultimately crushed the union, was a signal that Conservatives had found a way of reducing the power of labour once and for all. It was therefore not through a dramatic and bloodless implementation of monetarist doctrine, but rather through a very painful and ruthless series of economic attacks that the Thatcher government ultimately succeeded in reshaping the British economy to more closely resemble a collection of atomised self-interested individuals, thus creating the world that their models had postulated as given.

Similarly, it is hard not to think of Reagan's first term in office as a political and economic success. The government did ultimately manage to get inflation levels down within a few years of entering office – as Volcker's obituaries note. Yet the economic ideas discussed in this article played little role in this success. Even William Niskanen, a conservative economist who served under Reagan, argues in his book *Reaganomics* that inflation declined as quickly as it did for entirely unanticipated reasons – and certainly not because of the decline in the money supply.[76] Moreover, as Krippner has noted, the main reason that the ballooning deficit did not damage the economy was because of the large but entirely unanticipated inflow of international capital.[77] In the end, high interest rates, rather than a carefully controlled money supply, combined with fiscal cuts produced a massive recession that increased unemployment to over 10 per cent.[78] Again, as in the British case, inflation was got under control the old fashioned way, through a painful economic contraction.

Perhaps the more important legacy of the Reagan administration, however, was the structural changes that it introduced into the American economy. Even if Reagan did not reduce the size of government, as he set out to do, he did significantly change its priorities – massively increasing military spending and cutting many of the programmes that had mitigated inequality. Like Thatcher, Reagan also moved to reduce the power of labour unions with a vehemence that is captured by his brutal response to the air traffic controllers' strike in 1981, in which he fired the striking workers and barred them from public employment for life. In the process, the Republicans profoundly altered the balance between winners and losers in the American economy, beginning the trend towards greater inequality, and helping to create the economic culture of atomised, self-interested individuals that persists today.[79]

Conclusion

Political economists are drawn to moments of crisis and failure. We look to the great failures of the gold standard, the Bretton Woods exchange rate system, or the Keynesian postwar economic order, to help us understand the major tectonic shifts in economic theory and practice. Yet what about the failures that do not have this kind of significant, transformative impact? The ones that don't take over the headlines or get written into textbooks. The failures that are hushed up, ignored, or simply forgotten? This article begins from the premise that these quiet failures play a crucial but unacknowledged role in political economic history. The findings here provide

[76]Niskanen, *Reaganomics*, pp. 223–4.

[77]Krippner, *Capitalizing on Crisis*, pp. 94–7.

[78]Federal Reserve Bank of St Louis Economic Research, Civilian Unemployment Rate, Federal Reserve Bank of St Louis Economic Research (2019), available at: {https://fred.stlouisfed.org/series/UNRATE}.

[79]Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, MA: Harvard University Press, 2014), fig. 1.1.

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press

us with important clues to three key questions: what economic ideas require in order to work; why they often fail; and why those failures do not always have the political impact that we might expect.

The early efforts to put neoliberal ideas into practice make it abundantly clear just how far policymakers have to go in order to make their models work in the wider world. With so many rich archival sources now available for scholars to investigate, it is evident how self-conscious the policymakers in the early Thatcher and Reagan administrations were in their efforts to shock market actors and the wider public into behaving the way that their models predicted, and how preoccupied they were with the mechanics of the performative devices that they would use to achieve those ends. Monetarism, supply-side economics and rational expectations failed when the various practical tools that the Reagan and Thatcher governments devised to translate these ideas into practice didn't work. As it turned out, creating an economy in which people expect low levels of inflation takes a great deal of time, produces a great deal of misery, and requires a certain amount of good luck.

Does this mean that ideas are only of marginal importance in a world in which partisan interests and bureaucratic routine rule the day? Not at all. As we see here, the work of creating and translating ideas into practice is difficult, messy, and often very approximate. Experts are often ignorant and sometimes combine ideas in contradictory ways to suit their own needs. Yet, these ideas and the difficult task of making them work greatly preoccupy policymakers, and play important roles in shaping key policies. And even when they don't work as intended, they still have concrete effects.

Why then were these failures so quiet? The answer, I have suggested, rests in part in the clever obfuscations that key politicians, policymakers, and economists deployed to avoid responsibility for their particular policy failures – their giving up on efforts to target the money supply, their creation of massive deficits, and their failure to shift expectations rapidly enough to avoid a massive increase in unemployment. Persistent denial combined with a careful effort to rebrand their approach in new terms went a long way towards reducing the political salience of their failures. Yet, these reframing strategies only worked in the longer term because the painful recessions that these governments imposed on their countries, combined with a number of happy accidents, ultimately produced the results that their pet theories had not been able to deliver – low inflation and a working population stripped of much of its power to demand a fairer balance between price stability and employment. What Volcker's obituaries reveal is just how effective this misleading rebranding of the economic failures of the early 1980s remains today – and how much work is left to do in setting the record straight.

Acknowledgements. Earlier versions of this article were presented as a Leverhulme Lecture at the University of Sheffield and at the University of Ottawa. I would like to thank André Broome, Srdjan Vucetic, Quinn Slobodian, Matthew Watson, Ben Clift, Pascale Massot, Gordon Betcherman, and Geranda Notten in particular for their very helpful comments on earlier versions. I would also like to acknowledge the excellent research assistance of Benoit Metlej and Quinn Barrie-Watts, and the invaluable help of the archivists at the British National Archives, the Library of Congress Manuscript Reading Room, the US National Archives at College Park, the London School of Economics Archives, and the Hoover Institute Archives. The research that served as the basis for this article was funded by the Social Sciences and Humanities Research Council of Canada and the Leverhulme Trust.

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Cite this article: Best, J. 2020. The quiet failures of early neoliberalism: From rational expectations to Keynesianism in reverse. *Review of International Studies* **46**, 594–612. https://doi.org/10.1017/S0260210520000169

https://doi.org/10.1017/S0260210520000169 Published online by Cambridge University Press