"We Have A Consensus": Explaining Political Support for Market Reforms in Latin America

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ABSTRACT

By the 1990s, to the astonishment of many observers, most Latin American countries had reformed their systems of national economic governance along market lines. Many analysts of this shift have assumed that it circumvented normal political processes, presuming that such reforms could not be popular. Explanations emphasizing economic crisis, external assistance, and politically insulated executives illustrate this approach. Through a qualitative investigation of the reform process in the region's four most industrialized countries, Argentina, Brazil, Chile, and Mexico, this study argues, to the contrary, that reforming governments found or created both elite and mass political support for their policies.

What accounts for the widespread adoption and maintenance of market-oriented reforms in Latin America in recent years? This essay examines the course of market reforms—more polemically known as neoliberalism—in the four most industrialized countries in the region during the final decades of the twentieth century. It finds that economic crisis has been important in initiating reform, but that proreform shifts in both elite and mass preferences account for much of the demonstrable staying power of market-oriented reforms in all the country cases. Moreover, and contrary to much academic and policy opinion, political insulation of the executive is not an essential prerequisite of successful economic reform.

The Berlin Wall of Development Studies

The reorganization of the national model of economic governance in Latin America in the final two decades of the twentieth century was profound. Yet there were convincing reasons why most development analysts, not excluding the authors of this essay, even as late as the very early 1990s, predicted that such sweeping changes would not easily occur (Armijo et al. 1994).

The prereform model of national economic governance was known as import-substituting industrialization (ISI) and was strongly associated

with a type of political system termed urban populism.[1] ISI involved a process of state-led resource allocation, using high tariff walls, to stimulate local manufacturing. Policymakers combined industrial promotion with programs of limited redistribution, creating a market accessible to urban workers and to a burgeoning middle class, a large proportion of which worked for the state. Local private firms benefited from cheap inputs, such as energy, steel, transportation, and communication services, provided at below-cost prices by subsidized, overstaffed state-owned enterprises. Few among business, organized labor, or the political elite had any interest in changing this arrangement.[2]

Profound distortions in resource allocations, inefficiencies, and lost opportunities notwithstanding, ISI caused a radical transformation of the economic structure that amounted, in many countries, to a political and social revolution (Thorp 1998, 197). Traditional landowning oligarchs and primary goods exporters lost influence relative to urban-based entrepreneurs and a new class of technically skilled bureaucrats and managers of public enterprises, often called the "state-bourgeoisie."[3] This state-led industrialization process lasted just under 40 years in most countries.

Market-oriented reforms represented a shift in policies at the core of the national political process. This shift involved all major actors—the state and its bureaucracy, the political elite, business and other economic interest groups, the international financial community—and most political, economic, and social institutions. Market-oriented reforms bundle together a large number of policies, which accomplish, among other things, the following:

- Reduce state economic intervention.
- Increase competition, and thus the probability that efficiency will be rewarded and inefficiency punished.
- Create incentives for economic agents to comply with market forces, rather than, for example, seeking political protections from them.
- Integrate domestic and international markets.
- Shift responsibility over investment and growth to the private sector.
- Create pressures for public agencies better to enforce rules and regulations without discrimination (Lindblom 1977; Przeworski 1991).

Among the most significant specific measures applied in Latin America were stabilization and fiscal reform, trade liberalization and adoption of an export-oriented bias in commercial strategy, reduction of subsidized pricing of strategic and basic goods, privatization of state-owned enterprises, social security reform (often implying full or partial privatization), financial market liberalization, and withdrawal of restrictions on foreign investment. These policies represented a dramatic shift away from the status quo.

Two lines of argument purported to explain why market reform in Latin America would not work. First, it would be opposed by all those who had benefited from the previous model of national economic governance. Economic elites, business, and organized labor—including both blue-collar industrial labor in private industries and, crucially, the mostly white-collar unions of public sector firms—could be expected to denounce and oppose market-oriented reforms because such reforms were likely to mean job losses or benefit reduction. Even if neoliberal economists could convince policymakers that aggregate national income would increase as a consequence of market opening, incumbent leaders could be expected to find a shift to the proposed new economic model politically unviable, as politicians found their support bases in the groups that had benefited from ISI. The impeccable logic of collective action thus predicted considerably less reform than would be optimal, from the viewpoint of society as a whole. Organizations would demand "protection" while politicians, by exchanging policies for political support, would supply "rents" to their constituencies (see, for example, Schamis 1999, 239). The conclusion was that serious economic restructuring would be opposed at every turn, leading rational political incumbents to desist.

Many analysts, however, also consider progressive political change in the region inimical to market reform. Earlier in the twentieth century, the transition from a landlord-dominated, primary product export model of development to ISI had benefited urban industrial labor and the urban middle class, which consisted of middle-income groups rather than economic elites.[4] Somewhat unwittingly, perhaps, many Latin American intellectuals and scholars consequently assumed that ISI policies of state-led development had a permanently redistributive and politically progressive bias. Many worried that economic liberalization carried an inevitably conservative bias that favored capital at the expense of industrial labor, multinational business at the expense of local firms, and stability instead of growth (Foxley 1983; Pastor 1992). By this logic, the redemocratization that occurred throughout the region in the 1980s should have given political voice to those deemed most likely to oppose market-oriented reforms: the poor majority of the population. What, then, accounts for the dramatic promarket reorganizations of Latin America's patterns of national economic governance?

Research Design

This study aimed to investigate the surprising depth and staying power of market-oriented reforms in Latin America. As cases, we chose Brazil, Mexico, and Argentina, the three largest countries in population and gross national product (GDP), plus Chile, a midsized country most often

cited as the archetype of ISI through the early 1970s and the leading edge of market reform thereafter. These also are the four most industrialized countries in the region, their trajectories traced in most attempts to comprehend "Latin American" patterns of national economic governance (see Sheahan 1987; Haggard 1990; Skidmore and Smith 1992). We initially assumed that our task would be to explain variation in economic reform across the cases: Chile is almost universally typed as a rapid, wholesale reformer (Piñera 2000), while Brazil has a long reputation as a laggard. Our first surprise, consequently, was the empirical discovery that all four countries, by the late 1990s, had to be understood as substantial and successful market reformers.

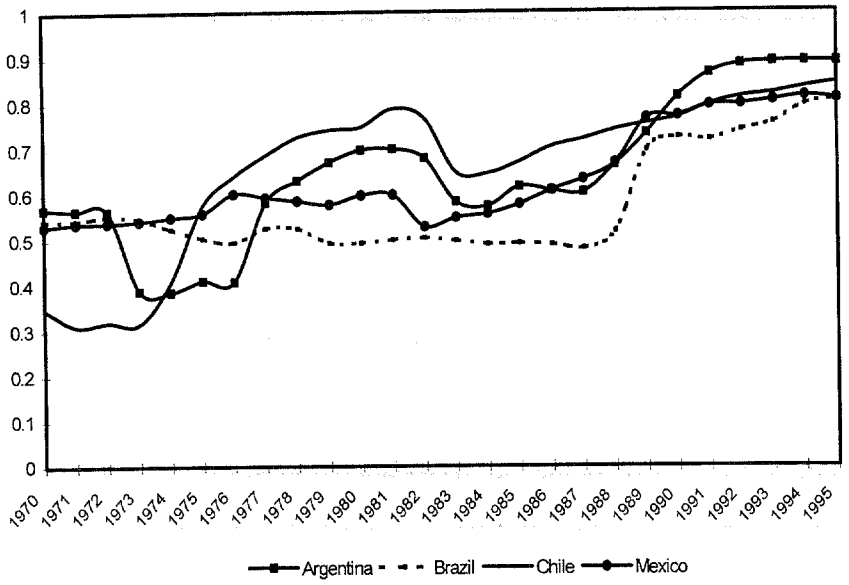
We constructed the inquiry so that we could investigate, in four moderately detailed and intrinsically pivotal case studies, some of the main findings of the current literature on the political economy of reform in Latin America. In particular, and for the sake of cumulative social science, we intended the independent variables in our five hypotheses to be somewhat parallel to those used by Karen Remmer (1998) in her recent quantitative study of the correlates of economic stabilization. Remmer hypothesizes that frequent economic crises, high levels of foreign aid, a strong electoral mandate, and a large or increasing share of exports in the economy would predict reform, while a high vote share for candidates representing historically leftist political parties would bring less neoliberal reform. She finds support for all her hypotheses except the one linking a stronger electoral mandate to more reform.

Our loosely parallel hypotheses suggest that market reforms are more likely to be initiated and sustained in countries with a recent experience of economic crisis, external material support for economic reform, political insulation of executive branch policymakers, promarket shifts in elite preferences, and promarket shifts in mass preferences. We find that economic crisis probably is necessary but not sufficient for the initiation of reform. Both external support and political insulation are sometimes helpful, but were neither necessary nor sufficient for reform initiation or consolidation in our four pivotal cases. Also, consolidation of the new, market-oriented pattern of national economic governance requires both a proreform shift in elite preferences and mass popular support.

The Dependent Variable: Progress in Market-oriented Reform

A brief analysis of the objective economic reform experiences of Chile, Mexico, Argentina, and Brazil leads us to conclude, unlike much other scholarship on contemporary Latin America, that the reform performance of these four countries was much more similar than it was different.

Figure 1. General Reform Index



Note: Vertical axis is amount reformed. 0 = least, 1 = most market-oriented country in the period and sample as a whole.
Source: Constructed from data available in Morley et al. 1999.

Although we intend our independent variables to be somewhat similiar to Remmer's, there is a larger gap between her specified dependent variable and our own. Remmer measures the initiation of reform by the adoption of a stabilization program involving an agreement with the International Monetary Fund, and considers a given reform effort to have been maintained if annual inflation is either below 35 percent or less than that of the previous year. Given the comparative case study methodology of our investigation, we can employ a more complex understanding. We consider market-oriented reform to be an ongoing process that cumulatively results in a dramatic reorientation of the regulatory and institutional framework in which economic activity occurs. In evaluating the "reform effort" of our four country cases, we combine a quantitative and a qualitative assessment.

Measuring the Reform Effort: The Morley Index

Morley et al. (1999) designed an index to make comparisons of the degree of reform across countries over time (see figure 1). This index combines measures of five structural reforms: trade reform, domestic

financial reform, international financial liberalization, tax reform, and privatization. Each individual reform index includes components that reflect the degree of government intervention (or nonneutrality, in the cases of tariffs and taxes). The index measures relative change in that it assesses each country's performance relative to that of the most liberalized country in the region during the entire time period of the study (Morley et al. 1999, 7). Morley and his colleagues conclude that by 1995 there was widespread agreement and policy convergence among countries on most areas of reform.

At the beginning of the survey period, the early 1970s, Morley and his colleagues assigned values to the four countries in our sample for their overall levels of economic liberalization. These scores differed among themselves by about 20 percent, with Chile being the least open economy in that period. Twenty-five years later—and this in our view is the most remarkable conclusion of the Morley study—that difference was reduced to only 8 percent using the same index. This means that although the timing of the introduction of reforms differed significantly among countries, the difference in degrees of liberalization had practically disappeared by 1995. Each country index, moreover, "climbed" by at least 30 percent, which more than compensates for the remaining differences among countries.[5]

Differences in the timing and pace of reform can justify the distinctions analysts often make among "vigorous" and "cautious" reformers (see Stallings and Peres 2000). Yet the comparative outcome, as the index reveals, also allows us to stress the commonalities among our four countries. Another counterintuitive result is that Chile, considered a model early reformer, ranks only seventh by 1995 in a comparison of 17 Latin American countries, having been passed by Argentina (in second rank), among others. Morley and his colleagues rank the reform effort in Mexico and Brazil as slightly below the Latin American average, but by less than 2 percent.

A Qualitative Assessment of Four Crucial Reforms

We have independently constructed a mostly qualitative description of progress in each country in four substantive policy arenas: inflation stabilization, trade liberalization, privatization of state-owned enterprises (SOEs), and reform of social security. Each of these policy arenas is one in which we could have expected that entrenched interests receiving "rents" from the existing ISI pattern of national economic governance would have resisted market reforms.

Inflation stabilization implies breaking the characteristic ISI cycle of economic actors with market power, each trying to enlist the government's help to increase its relative returns, often cast as a classic

problem of collective action (Hirschman 1968). Trade liberalization means ending the protections for domestic industry and lowering prices of tradables for domestic consumers, but at the possible cost of domestic bankruptcies, job losses, and deindustrialization. Privatization of SOEs not only involves increasing the efficiency of service provision for public utilities and intermediate industrial goods such as steel, but also implies job losses for the middle class and a labor elite of formal sector workers, as well as fewer subsidized inputs for local industry. Social security reform means reducing the generous retirement entitlements of the privileged middle sector of formal sector workers, especially those in public employment, and returning funds to government, ostensibly to free up monies for new social spending targeted more redistributively. Most Latin American governments attempted versions of these four broad types of reforms during the final quarter of the twentieth century.

Chile began market-oriented reforms in the mid-1970s, well before its neighbors. By the early 1980s, the Pinochet government had stabilized inflation, although at the cost of high unemployment (Foxley 1983). In trade, the average tariff fell from 94 percent in 1977 to only 11 percent in 1999 (Edwards and Lederman 1998). Most state-owned enterprises were sold, with the very significant exception of the system's crown jewels: public firms in petroleum and copper production and in marketing. In 1974, employers' contributions to social security payments represented 49 percent of their total wage bills, while social security spending, at 17 percent of GDP, was the highest in the region (Mesa-Lago 1994; Arenas de Mesa and Bertranou 1997). By 1981, however, Chile had leveled benefits—eliminating, in particular, the privileged treatment granted to civil servants—and had replaced its defined-benefit, pay-as-you-go (PAYG) social security system with a defined-contribution system, in which workers fund their own retirements through contributions to individual accounts (Borzutzky 1991; Albuquerque 1997; Ruiz-Tagle 1997).

Mexico's policy stance since the mid-1980s has been remarkably orthodox and promarket (Lustig 1992). Stabilization became a high priority following the 1982 debt crisis, although the government did not finally control inflation until the 1990s. Mexico's comparatively early and unilateral shift to free trade was extremely rapid—it was initiated and completed between 1985 and 1988—and overall quite uniform across sectors (Ros 1993).[6] Mexico formally entered into the North American Free Trade Agreement (NAFTA) only in January 1994, but it made the decision to do so in 1989. Average tariffs were 100 percent in 1983 but only 12.5 percent in 1994 (GATT 1993b).

Privatization was slow to begin but ultimately very extensive. Only firms in petroleum, petrochemicals, and electricity remained under state control by the end of 1999. In 1978, SOE investment accounted for 26

percent of gross domestic investment; but by 1996, this share had dropped to only 10 percent (World Bank 2000). Mexico's social security reform in the 1990s initially created private pension funds that complemented the public system. Then it shifted from a public PAYG system to a fully privatized one, with pension contributions channeled to individually owned accounts that private administrators invest in financial markets (OECD 1999).

After numerous failed attempts at inflation stabilization, and facing genuine hyperinflation, Argentina in 1991 imposed on itself a currency board, effectively tying its currency to the U.S. dollar to stabilize its value (Starr 1997). In 1985, Argentina began bilateral market integration with Brazil, a process that culminated in Mercosul (Southern Cone Common Market). Between 1987 and the early 1990s, average tariffs fell from 43 percent to only 7 percent, although temporary tariffs and quantitative restrictions, particularly in relation to Brazilian products, have been introduced on various occasions (Véganzones and Winograd 1997). Privatization in the early 1990s was swift, comprehensive, and controversial, in that most large firms were sold to foreigners. The result of extensive negotiations over social security reform in the 1990s was a mixed system, with the preexisting public sector pension system still in place, though with contributions now equalized among different categories of workers, along with a new private system in which workers invest their own funds. In January 2002, as this article went to press, Argentina's rigidly fixed exchange rate system, increasingly overvalued for some years, exploded in a financial and political crisis. We cannot predict the future, yet we expect that the core of the promarket restructuring of the 1990s will endure.

Brazil experienced serious economic difficulties in the decade following the late-1982 onset of Latin America's debt crisis. Brazil managed nevertheless—through export revenues, through external capital flows attracted by high interest rates and debt refinancing, and at the cost of a long period of low growth with high inflation—to weather the 1980s with neither adjustment nor economic collapse. After multiple attempts, the nation finally achieved stabilization with the introduction of the Real Plan in mid-1994.

Cautious trade opening began only in 1988. Brazil reduced the number of goods subject to the "similarity test"—by which any company could block potential imports by showing that it produced similar goods domestically—in the early 1990s (GATT 1993a). By forming Mercosul along with Argentina, Paraguay, and Uruguay, Brazil chose to abolish trade barriers with its neighbors to the south. Brazil remains both less dependent on trade and less open to it than the other countries in this study, which are comparatively smaller. Yet its increases in trade openness have been nonetheless substantial.

Table 1. Market Reforms, 1970–1999

	Inflation Stabilization	Trade Liberalization	Privatization	Social Security Reform	Country Total
Chile	2	2	1	2	7/8 = 0.875
Mexico	2	2	1	2	7/8 = 0.875
Argentina	2	2	2	1	7/8 = 0.875
Brazil	2	2	2	0	6/8 = 0.750

Note: Authors' subjective, but not uninformed, assessment. Each country has been given a score of 0 (little or no reform), 1 (some reform), or 2 (intended reforms largely complete) for progress through 1999 in each of the four policy arenas, for a total possible score of 8.

Brazilian privatization has been deliberate, even slow in its pace. Unlike those of Argentina, Brazil's privatization rules through the 1990s discriminated against foreign buyers. The extent of privatization, however, is large. For example, SOE investment hit a high of 53 percent of gross domestic investment (GDI) in 1979, but fell to only 6 percent in 1995 (World Bank 2000). Social security reform, in contrast, was on the national agenda throughout the 1990s, but relatively little had changed as of late 1999.

Allowing the various governments in each country to define the exact extent of their own reform goals in each of these arenas (unlike Morley et al., who evaluated country convergence with an externally derived and comparatively objective standard), we evaluate the reform effort in each country in each arena, cumulatively over the entire period 1970–99, as being "unsuccessful to date," "moderately successful," or "largely complete" for scores of 0, 1, and 2, respectively (see table 1). (For reasons of space, we simply summarize our results.) Each of the countries began the period with a score of 0 across the board.[7] Possible cumulative scores range from 0 (0/8) to 1 (8/8). Our evaluation suggests that Brazil is a relative laggard in the group, but also that even in Brazil, the shape of national economic governance had been dramatically reoriented by the late 1990s.

Our assessment leads us to three main conclusions. First and most important, all four of these countries have implemented significant market-oriented economic reforms. The distance between any of the cases in the 1970s and any of the cases in the late 1990s is much greater than the distance among the four in either period, using either of two independently developed methods of assessment. Second, there is some chronological difference in the onset of reform among the cases, which can be ordered as Chile, Mexico, Argentina, and finally Brazil. Third, there is some (though a relatively small) difference in the degree to which the

four countries had embraced the full panoply of market-oriented reforms as of late 1999. Here the ordering, from fullest to shallowest reform, is probably Argentina, Chile, then Mexico, and finally Brazil.[8]

Hypotheses Assuming that Market Reforms Cannot Be Popular

A common theme in each of our first three hypotheses is the assumption that market-oriented economic reforms are intrinsically and inevitably unpopular. Successful reform efforts therefore are those in which the citizenry is either prevented from complaining or induced by special circumstances not to complain. Citizen intolerance of the transitional pain of neoliberal economic reform, except under limited and very unusual circumstances, is assumed as an underlying truth. This is, of course, the dominant theme of much of the literature on the political economy of economic reform (Przeworski 1991; Haggard and Kaufman 1992b; Bates and Krueger 1993; Pinheiro and Schneider 1993; Armijo et al. 1994).

Hypothesis 1. Economic Crisis Helps to Introduce and Sustain Economic Reform

The logic of this argument is that economic crisis stimulates reform efforts by political leaders, who recognize that something must be done to end the crisis. The experience of economic crisis, moreover, makes ordinary citizens more willing to endure the transitional pain of neoliberal economic reforms. Paradoxically, therefore, deep, frequent, or sustained crises improve the chances for subsequent reform by galvanizing leaders and inducing ordinary citizens to put up with macroeconomic outcomes that they ordinarily would not willingly accept. This hypothesis comes with a believable story: when conditions grew bad enough, both leaders and followers are willing to risk change (Weyland 1996).

One problem arises in the choice of how to operationalize "economic crisis." We have chosen to follow precedent here: like Remmer (1998), we consider a contemporary Latin American economy to be "in crisis" whenever inflation is equal to or greater than 35 percent in a year, or wherever official nongold reserves drop below a level that would pay for seven months of imports.

These are both dichotomous measures; the country is either in crisis in a given year or it is not. Defined this way, all four countries were quite crisis-prone during the 1970s and 1980s, as table 2 shows. They all did better during the reform years of the 1990s, especially Chile and Argentina. Chile looks slightly less crisis-prone overall than the remaining three, in that slightly less than half of all the years in the study were

Table 2. Prevalence of Economic Crisis, 1970–1999
(number of years)

	Crisis Indicator	1970–79	1980–89	1990–96[a] 1990–99[b]	Total (%)
Chile	Inflation	7	1	0	31
	Forex reserves	10	4	0	48
Mexico	Inflation	0	7	0	27
	Forex reserves	NA	10	9	at least 65
Argentina	Inflation	8	10	2	77
	Forex reserves	7	6	0	45
Brazil	Inflation	5	10	5	77
	Forex reserves	7	8	2	59

[a]Inflation.
[b]Foreign exchange.
Note: *Crisis* is defined as inflation greater than or equal to 35 percent or official foreign exchange reserves equivalent to less than seven months' import cover.
Sources: Inflation: CPI from World Bank 1998, except Brazil in 1970s: GDP deflator, from Fundação Getúlio Vargas (FGV). Foreign exchange reserves and imports: IMF 2000.

in crisis by either measure. This comparatively good outcome, however, results from Chile's status as an early reformer, because outcomes improved following market-oriented reforms. We may conclude that economic crisis was endemic to the ISI economic model by the 1970s, and that policymakers and publics in all four countries had good reasons to seek reforms.

The advent of economic crisis, however, does not appear to have a close relationship to the timing of market-oriented reforms within our set of four countries. If we assume that Mexico had close to ten years of low foreign exchange reserves in the 1970s (a period during which the government refused to release this data), then it is not at all obvious that early reformer Chile was significantly worse off during the 1970s than any of the other three countries.

We surmise that the saving grace from the 1950s through the 1970s, in the minds of both Latin American governments and those portions of the population that enjoyed political rights, was probably high growth. When growth crashed in all four countries in the 1980s, then these long-standing flaws of the ISI economic model appeared as genuine crises, needing serious solutions. Overall, the presence of "economic crisis" thus looks like a helpful, possibly even a necessary, condition for the initiation of far-reaching structural economic reform. It is not, however, on its own a sufficient condition for either the early initiation or the continuation of serious reform (see also Armijo 1999).

Hypothesis 2. The Greater the Level of External Assistance, the Greater the Probability of Sustained Reform

Like the first hypothesis, this one begins with the premise that market-oriented structural reform typically is painful and therefore unpopular with citizens. The basic idea is that governments that receive large amounts of external assistance from international financial institutions and other official agencies can use these funds to help ease the pain of the transition period, providing resources that eventually can be used to compensate losers.

Remmer (1998, 16) finds a fairly consequent relationship between international aid (excluding use of IMF credit) and the initiation of neoliberal reform programs approved by the IMF. Stephan Haggard and Steven B. Webb, however, summarizing the experience of eight countries with inflation stabilization and trade liberalization, are more skeptical, concluding, "There is no evidence from the country studies that external actors tipped the political scales in favor of reform when the domestic institutional and coalitional environment was unfavorable; there is evidence that lending in such settings postponed adjustment" (1994, 5).

Because we have measured our dependent variable by achievement during the period as a whole and by progress in a number of reform arenas, we do not have the data set to look for a direct link between the initiation of economic reform in a specific year and levels of external assistance in or near that year, as Remmer does. We do note that each of the four countries has received well below the mean level of aid when compared with either Latin America and the Caribbean as a whole or with all developing countries. The common observation that small countries tend to receive more aid than large countries, whether measured on a per capita basis or as a share of GDP, holds true in our case; Chile has received relatively more than the other three countries. On the straightforward quantitative measure, foreign assistance does not seem to have been crucial to the reform efforts of these four relatively large Latin American countries.

Defined more broadly, direct assistance by foreign governments and the main international financial institutions has been important as an emergency backstop for countries threatened with an acute external crisis, as in the "Latin American" debt crisis of 1982–83, the Mexican peso and regional "tequila" crises of 1994–95, or the "Asian" financial crisis of 1997–99. Quite possibly, assistance at these critical times prevented total economic collapse, thus allowing economic reform to begin (as in Chile in the mid-1970s or Mexico in the early 1980s) or to continue (as in Mexico, Argentina, and Brazil in the 1990s). Still, we do not

see evidence that foreign governments have successfully imposed "conditionality," or specific reforms as a quid pro quo for aid (Stallings 1992; Kahler 1992). Our subjective judgment is that relatively large and regionally significant developing countries (all of the four, but especially Brazil) or countries with special bargaining levers in regard to major advanced industrial countries (especially Mexico, because of the long border with the United States) are relatively immune from foreign pressure to reform—unless and until domestic political leaders and other relevant political actors decide that serious economic restructuring is in their own best interests.

Our qualitative assessment of these countries thus confirms Remmer's fascinating quantitative finding (1998, 22–23) that the more successful market-oriented reforms were those that were designed and initiated locally and that had somewhat looser formal ties to the IMF and other outside agencies and experts. With respect to our cases, then, we can drop this hypothesis without much loss.

Hypothesis 3. Political Insulation of the President and Senior Technocrats, Regardless of Their Ideology, Helps to Introduce and Maintain Market-oriented Reforms

The third hypothesis builds on Remmer's (1998) hypothesized link between a president with a strong mandate and successful neoliberal reform, irrespective of the president's presumed political ideology or party base. Although Remmer's results disconfirm the hypothesis, we think it is worth further investigation. Her example of a president with a strong electoral mandate, moreover, is but one special case of a much larger class of arguments united by the theme that reformist policymaking will be enhanced if the political executive is insulated from the day-to-day demands of other political actors, including legislators of the same political party or coalition, opposition politicians, special interest groups, and even ordinary voters.

The logic of this hypothesis is that market-oriented economic reforms, even if they promise to improve aggregate economic outcomes, hurt politically influential special interests that previously had benefited from ISI policies. Structural reforms, moreover, inflict transitional pain on ordinary citizens. This problem of collective action can be solved or eased if circumstances allow the chief executive and his team of technocrats to innovate aggressively while being somewhat insulated from the constant importuning of other politically relevant actors. This hypothesis has a great deal of support in the literature (Bates and Krueger 1993, 462; Evans 1992; Haggard and Kaufman 1992,

23–25; Callaghy 1993, 239–44, 1997, 49–87; Gasiorowski 2000, 345–46; Geddes 1994).

The literature suggests three main ways political executives can be insulated, either temporarily or permanently: authoritarianism, a strong electoral mandate, and national political institutions that provide comparatively centralized decisionmaking authority. The notion of insulation by authoritarian political rules comes from the old—and partly but never fully discredited—hypothesis that benevolent dictators enable superior economic progress in developing countries. It was a particularly potent viewpoint in the 1970s and early 1980s, when developing nations in East Asia under more or less authoritarian regimes, including South Korea, Taiwan, Singapore, and Thailand, were lauded as "tigers" or "dragons." Throughout the 1970s and 1980s, moreover, most conservative and many mainstream economists perceived authoritarian Chile as clearly the star performer in Latin America.

Alternatively, a strong and decisive electoral victory can provide a democratic leader a honeymoon during which normally fractious politicians and special interests are willing to follow his or her lead (Remmer 1998, 11–12). The "strong executive" hypothesis does not imply that all incumbents able to pursue a reform will do so, but only that "the higher the anticipated capacity to pursue a reformist program, the more the political calculus will be tipped in the direction of reform" (Remmer 1998, 12).

In yet a third version of this hypothesis, a political leader can achieve de facto insulation by inheriting a particular set of political institutions, including electoral rules, parliamentary as compared to presidential systems, procedures for passing constitutional amendments and ordinary legislation, or rules delimiting the authority of various branches and levels of government. If one begins with the assumption that most of a society's influential special interests, as well as the majority of the general public, will oppose market-oriented restructuring, then it seems reasonable to value political institutions that centralize policymaking and policy implementation, minimize disruptive "checks and balances," and allow technocratic and expert leadership to emanate from the political executive.

Our sense, however, is that none of these forms of the political insulation hypothesis helps very much in understanding the core of the economic reform process in Chile, Mexico, Argentina, or Brazil. The first version suggests that authoritarian leaders, as long as they are "developmentalist" rather than merely rapacious and corrupt, have an advantage in implementing tough reforms. Just as Singapore under Lee Kwan Yew is the usual East Asian exemplar, Chile under Augusto Pinochet (1973–89) is the Latin American case most often cited in support of this proposition. All four of our country cases, however, had authoritarian

rulers in the 1970s, all of whom arguably were "developmentalist," or motivated more by an ideological commitment to national grandeur and economic growth than a desire for personal profit. Explaining Chile's early and sustained reform as a direct consequence of its chief executive's iron hand therefore seems quite problematic (compare Remmer 1986; Maravall 1995). The logic here is same input (that is, developmentalist authoritarianism in the 1970s), different reform outcomes; so perhaps the input is not so crucial.

Perhaps the second version of the hypothesis works better. After all, the tragedy of Chile's first democratically elected president from the left, Salvador Allende (1970–73), is often said to have unfolded precisely because Chile's electoral rules permitted Allende to win with only a plurality, saddling him with a weak mandate (Skidmore and Smith 1992, 133–40). It is interesting that Remmer (1998) finds the opposite relationship: electorally strong presidents, whether measured in terms of their own vote share or the percentage of seats controlled by their party or coalition, were less vigorous reformers than their supposedly weaker counterparts.

We also did a quick test, examining the vote share for each of the (more or less) democratically elected chief executives in our sample, coding those who won with 48 percent or less of the total popular vote as having a weak mandate, those with 49 to 51 percent as having a moderate mandate, and those with 52 percent or more as entering office with a strong mandate. We found a wide variation in our sample, as shown in table 3.

Although we did not evaluate the dependent variable, progress in market-oriented reform, on the basis of presidential administrations, there is a consensus among most observers that the most active reforms took place under Presidents Pinochet in Chile (who was never elected, so does not appear in our table), Menem in Argentina, Salinas in Mexico, and both Collor and Cardoso in Brazil (see Armijo 1999).[9] Yet according to the strength of their electoral mandate, among these presidents only Cardoso, in both 1994 and 1998, came into office in a strong position. Salinas in 1998 had a moderate mandate by the numbers. Many Mexicans believed, however, that the PRI stole the election, which profoundly undermined Salinas's perceived mandate. Menem in both 1989 and 1995 and Collor in 1989 had relatively weak electoral mandates. This measure, taken in isolation, clearly does not predict reform success among our cases.

The most sophisticated incarnation of the political insulation hypothesis recommends political institutions that tend to protect the chief executive from having to make excessive compromises with other political power centers. Useful language comes from George Tsebelis's 1995 work on "veto points." Tsebelis focuses on the number of political actors with formal authority to withhold consent for the passage of new

Table 3. Presidents' Electoral Mandates, 1985–2000
(by percent of vote)

	Strong Mandate	Moderate Mandate	Weak Mandate
Chile	1989 Aylwin (55%) 1993 Frei (58%)		1999 Lagos, first round (48%)
Mexico		1988 Salinas (51%) 1994 Zedillo (50%)	2000 Fox (43%)
Argentina	1983 Alfonsín (52%)	1995 Menem (49%) 1999 De la Rua (50%)	1989 Menem (48%)
Brazil	1985 Neves/Sarney (70% of electoral college) 1994 Cardoso (54%) 1998 Cardoso (53%)		1989 Collor, first round (29%)

policies and legislation: the greater the number of veto points, all other things being equal, the more difficult it will be for a society to enact new policies.[10] Many institutional analyses of Latin American politics can be understood as arguments of the general form that greater political insulation—that is, political systems with fewer veto points—will increase political "capacity" and thereby allow faster and deeper economic reforms (compare Geddes 1994). It should be emphasized that centralized or insulated policymaking is not necessarily undemocratic, although it can be.

Table 4 evaluates the four countries in terms of some of the major recent institutional arguments about Latin America. Linz and Valenzuela (1994), among others, have argued that policy reform will be easier in parliamentary systems, because the chief executive is a prime minister who usually can count on the support of a party or coalition in the legislature (see row 1). All four countries here, however, are presidential systems.

If the country is a unitary rather than a federal polity, then more decisions will be made by the central government, which is less likely to be opposed by regional politicians with independent power bases (row 2). Chile is a unitary state. Mexico is a formally federal polity in which state

Table 4. Index of Insulated Policymaking

Factor[a]	Chile	Mexico	Argentina	Brazil
Parliamentary, not presidential system	No	No	No	No
Unitary, not federal, polity	Yes	No, though docile states	No	No
Independent monetary authority	No through 1989; Yes from 1990	No	No through 1990; Yes from 1991	No
Coherent, disciplined political parties	Yes	Yes	Yes	No
Monopolistic corporatist bargaining institutions	Yes	Yes	No	No
Economic legislation fairly easy to amend	Yes	Yes	No	No
High concentration in private business	Yes	Yes	Yes	Yes (but less than others)
Total positive score (%)	5, then 6 (71%, then 75%)	4 (57%)	2, then 3 (29%, then 43%)	1 (14%)

[a]These factors increase political centralization and executive authority.

governors and regional leaders have been, until recently, de facto chosen by and beholden to the central government. Argentina and Brazil have long histories of provincial independence (Skidmore and Smith 1992).

An independent central bank, not responsible to the legislature and only intermittently beholden to the political executive, can depoliticize monetary policymaking, insulating the executive from demands for deficit spending (row 3). Chile's central bank became independent in 1989, and Argentina's through the radical step of creating its currency board in 1991 (Boylan 1998; Starr 1997). The Brazilian and Mexican central banks yield to the political authorities (Maxfield 1997).

Coherent, disciplined political parties aggregate interests and give the political executive societal counterparts with whom to negotiate policy reform. Coherent parties thus protect the political executive from having to respond to multiple and conflicting citizen demands, and reduce the need for wasteful resource expenditure via patronage (row 4). Although their party systems and degrees of democratic representativeness have been very different, Mexico, Chile, and Argentina all have had historically strong parties, capable of negotiating and voting as a bloc in the legislature (Skidmore and Smith 1992; Manzetti 1994). Brazil's parties have been notoriously weak; the weakness may result from another set of inherited perverse institutions: Brazil's specific electoral rules (Ames 1995; Mainwaring 1999).

Corporatist peak associations representing business and labor can aggregate interests, give the executive someone with whom to negotiate, and reduce the need for multiple, expensive, and conflicting side payments (row 5). Mexico and Chile have had strong and monopolistic peak associations. In Argentina they have been active but frequently mutually competitive. By all accounts, Brazilian corporatist institutions are unremittingly weak (Hagopian 1998; Murillo 2000; Schneider 2000).

The number of checks and balances (loosely, veto points) built into the process for amending legislation also should affect the ease of policy reform (row 6). Chilean and Mexican presidents have had a relatively straightforward route to amending economic legislation, partly because of strong parties whose leaders could speak on behalf of the membership, but also because the legislative amendment rules are comparatively straightforward. Given the onerous procedural requirements of their legislatures, Argentine and especially Brazilian presidents have had a comparatively harder time getting bills passed. For example, detailed laws on such topics as the minimum wage and retirement benefits for various categories of civil servants were written into the 1988 Brazilian Constitution. Changing these highly specific directives, many of which run directly counter to the program of market-oriented reform, requires not just the simple majority vote of ordinary legislation but a "supermajority" of three-fifths.

Finally, a private business sector highly concentrated by ownership insulates policymakers from having to respond to a myriad of demands (row 7). In this case, even without strong corporatist institutions, a few individuals can informally negotiate with the government on behalf of the most important private investors (Schneider 2000). All four of these countries have had highly concentrated business sectors, although Brazil, mainly because of its larger economy, is somewhat less oligopolized than the other three.

We have thus constructed a "quick and dirty" but perhaps not unreasonable measure for estimating the degree of "political insulation of the executive" provided by a country's institutional framework (row 8). Our scale runs from a minimum of 0 to a maximum of 7. The rankings from most to least politically insulated are therefore Chile (5 to 1989, and 6 thereafter), Mexico (4), Argentina (2 before 1991, 3 thereafter), and Brazil (1), which accords nicely with most of the monographic literature on these countries. Once again, we find a large variation in the independent variable, which has not translated into a large variation in economic reform. Nevertheless, the various institutional arguments do help explain why Brazil has been a relative laggard among this group of four countries that have implemented market reforms—which no doubt accounts for the particular popularity of such arguments among Brazil specialists (Geddes 1994; Ames 1995; Mainwaring 1999).

With respect to the implementation of market-oriented reforms in these four important Latin American countries, therefore, we conclude that the occurrence of economic crisis probably was a necessary, but in itself insufficient, stimulus to serious economic reform and that foreign aid played a marginal role. Our most startling conclusion in this regard is that rather large differences among the countries in the amount of political insulation enjoyed by presidents resulted in fairly small differences in economic reform outcomes, at least over the medium-term time frame adopted in this study.

Hypotheses Assuming that Successful Market Reforms Have Political Support

Each of the first three hypotheses implicitly assumes that market-oriented economic reform cannot be popular, either with established economic interests or with the masses. Reform thus will occur only when something—economic crisis, money from foreign governments, or insulating political institutions—allows leaders to leap over popular resistance to changes in the pattern of national economic governance. An alternative way of thinking about the question is to posit that the president's political leadership is necessary but that reforming presidents,

particularly in full or partial democracies, are unlikely to ignore constituent preferences. Our final two hypotheses suggest that the adoption of market-oriented reforms moves in tandem with the evolution of both elite and mass preferences.

Hypothesis 4. A Proreform Shift in Elites' Net Preferences Is Necessary to Maintain Market-oriented Economic Reform

Our fourth hypothesis states that insulated political leaders, even under conditions of economic crisis and with ample foreign assistance, cannot sustain market opening unless key interest groups come to support it. This hypothesis is grounded in the proposition that rational political incumbents, in all types of political systems, depend for their survival in office on support from a set of relevant political actors, the identity of which will vary among different types of political regimes (Przeworski 1991).

This hypothesis therefore posits that sustained market reform implies some mechanism or process through which the previous regime support coalition (the phrase comes from Cardoso 1979) for ISI policies becomes a support coalition for market-oriented policies. This may happen via a shift in elites, as new groups with promarket preferences displace the older, pro-ISI groups. Remmer (1998), for example, finds that successful economic stabilization (which she evaluates annually) correlates with a larger share of exports to GDP, the logic being that exporters will be more proliberalization than industrialists oriented toward domestic sales.

In our cases, structural economic change plausibly contributed to a shift in elites. From 1970 to 1996, Chile's trade integration (the absolute value of imports plus the absolute value of exports, divided by the GDP) doubled from an already high 29 to more than 58 percent; Mexico's quadrupled, from about 15 to 62 percent. Argentina and Brazil each became somewhat more integrated, moving from the low to the high teens during the period. Financial integration with the international economy also increased markedly in all four countries between 1970 and the late 1990s, suggesting greater political influence for foreign investors and domestic financial capital, presumably at the expense of traditional industrialists. Moreover, the recessions associated with the debt crisis of the 1980s weakened organized labor. Businesses tied to international integration become more economically and thus more politically important, and interests associated with production for the domestic market less so.

A consensus for reform also could come about through a shift in preferences among existing elites, including individuals, business associations, political parties, and trade unions. There are several mecha-

nisms through which ISI elites might come to support market reforms. They may become convinced that their losses from remaining in the old framework exceed their transitional losses in switching to the new, market-oriented framework. The pain of economic crisis may inspire defection—but so also may negotiation, perhaps sweetened by side payments, with a reforming government (Hagopian 1998; Kingstone 1999; Murillo 2000; Schneider 2000; Thacker 2000).

Established elites may also realize that the regulatory reforms are going ahead whether they approve or not; at some point, the sole rational response is to climb on the bandwagon. Of course, excessive inducements may eviscerate the reforms, becoming Faustian bargains for chief executives. In this view, reformist presidents (often technopols themselves), in an effort to conjure up political support from key societal interests, sell their souls and undermine democracy, equity, and future fiscal responsibility (see Schamis 1999; Hagopian 1998; Weyland 1996; on technopols, see Williamson 1994; Domínguez 1997).

There is also a more optimistic version of the coalition-building change mechanism. Although new interests and political coalitions have fairly quickly formed to take advantage of the new regulatory framework, optimists like Jorge Domínguez (1998) predict that dysfunctional "rent seeking" will be significantly less likely in the future than under the previous ISI framework. The regulatory state, simply because it is smaller and it distributes fewer discretionary resources, is less apt to be "colonized" by special interests than the more interventionist ISI state (Bates 1988). Open, competitive mass democracy, moreover, makes public criticism of crony capitalism and other abuses much more likely than it was under past authoritarianism.

The bargaining process between elites and reformers within the government can be illustrated with examples from the components of our qualitative reform index: stabilization, trade opening, privatization, and social security reform. In Chile, elite preferences were somewhat unusual to start with: the generic story of business elites who had prospered under ISI regimes resisting market liberalization does not completely apply. In the early 1970s, the business community, which had seen its assets socialized by Allende, openly supported a return to market principles. It did not need neoliberal economists and generals to tell it where its interests lay (Kurtz 1999, 408). Jeffry Frieden (1991) has argued persuasively that the high degree of class conflict in Chile in the early 1970s encouraged even entrepreneurs who ultimately lost from neoliberal reforms to stick with Pinochet, including industrialists ruined by import competition in the late 1970s and early 1980s. Gradualism was nonetheless a part of the strategy adopted by the ruling Chilean armed forces (Silva 1996; Kurtz 1999).

Inflation stabilization implied very tight monetary policy, yet business was to some degree compensated by active state involvement in

promoting new investment. The Chilean state used CORFO (the Chilean Development Corporation) to provide financial incentives to nontraditional exporters (Schurman 1996). During trade liberalization between 1975 and 1980, business owners received a number of rebates on taxes and import duties, as well as some export subsidies. The specific design of privatization also stimulated private sector support: during the 1980s, CORFO provided subsidized credit for small investors and individuals who bought shares on the open market, in an explicit effort to use "popular capitalism" to rally political allies (Piñera 1991).

The case of Chilean social security reform is particularly interesting. Typically, social security reform provides a classic problem of collective action, in which the losers (those receiving outsized benefits under the previous system) are few but concentrated, while the postreform winners (that is, taxpayers and the general public) gain more, in the aggregate, but are dispersed and thus disinclined to dedicate time and resources to promote reform (Olson 1971). In Chile, however, social security reform was responsible for a transfer of assets equivalent to 25 percent of GDP to privately managed funds, which helped the government to gain support from financial conglomerates, commonly known as *grupos* (Kurtz 1999, 418). Businesses, moreover, reduced their contributions to their workers' pension funds just as tariffs were coming down. Finally, military officers' pensions were exempted from a reform that ultimately reduced the benefits of other civil servants.

What can we conclude about the market reform process in Chile? On the one hand, it frequently was not fair or just. Among prereform economic interests, business clearly gained, though not equally across sectors, while organized labor lost (Winn n.d.). Some analysts have hinted that the side payments made by the state to further the privatization process seriously have undermined the economic as well as the political integrity of the entire process of neoliberal reform (Schamis 1999).

Our own best judgment, however, is that it was precisely the authoritarian auspices under which radical economic reforms were implemented that made Chile vulnerable to charges of having created new groups of "neoliberal rent seekers" by 1990. Authoritarianism, and the political insulation that it provided to the state, stimulated the main part of the problem, not the necessity of coalition building, political horse trading, and side payments per se. Once Chilean politics was redemocratized in 1989, the economic reforms were widely seen as having been so successful that the majority of politicians and other leaders, of all ideologies, had become converts.

In Mexico, the government tried political coalition building. In December 1987, the central government explicitly linked the acceleration of trade opening to price stabilization through the introduction of the Pacto de Solidaridad Económico (PSE). The PSE reduced the salience of

distributional cleavages over trade reform by portraying liberalization as part of a strategy aimed at increasing aggregate gains in the form of reduced inflation. This and subsequent government-business-labor pacts also proved pivotal in mobilizing support for market liberalization in general among large business groups, sometimes by the hypocritical expedient of exempting the most powerful business groups from trade opening in particular sectors (Heredia 1996, 273). As in Chile, the strongest support came from exporters and from private financial actors, particularly brokerage houses, that stood to benefit from privatization.

Still, it is hard to deny the relatively large role of insulated policy-making and the imposition of reforms from above in the specifics of the Mexican reform story. For the most part, Mexican government authorities prohibited labor and business leaders from negotiating specific aspects of economic reform (Hagopian 1998; Teichman 1995, 2000), except, significantly, during the negotiation of NAFTA, when Salinas administration officials actively solicited specific business input at the sectoral level (Thacker 2000). Thus the pact of 1987, and subsequent direct consultation with key industrial and commercial firms, proved sufficient for the Salinas administration to bypass encompassing business organizations dominated by import substituters. The unchallenged political hegemony of the PRI was such that legislative support for reform was never an issue.

In mid-2000 Mexico remained, despite the election of the PAN's Vicente Fox to the presidency, the most authoritarian of the four country cases. The legislature has been tame in its criticism of government economic policies, even though the 1997 congressional elections brought a majority of opposition deputies to the lower house for the first time in modern Mexican history. Technocratic reformers in the executive branch extended assorted side payments and favors to selected elements of the business community and the PRI apparatus in order to build a viable coalition for economic policy reform (Teichman 1995, 2000). In contrast to the other three cases during the 1990s, Mexico missed much of the countervailing pressure of political openness, which would have allowed the losers in neoliberal reform to denounce corruption in the press, for example.

The important conclusion we draw from these specifics, however, is that political insulation and technocratic imposition from above were not necessary to Mexico's reasonably successful market reform process, merely convenient and expedient. As the political system becomes more open in the future, any market reforms around which political support has not grown up become vulnerable to reversal.

Argentina's market reform process was remarkable for its speed (Acuña 1994).[11] At first glance, the process also appears quite insulated and centralized, or perhaps even authoritarian. In 1988 Carlos Menem

ran a traditional Peronist campaign, promising increased salaries to workers and a moratorium on the foreign debt. After his inauguration, he became a radical neoliberal reformer. The emergency associated with the economic crisis allowed the newly elected president to negotiate with the Radical Party, the major opposition party, and to obtain congressional support for significant reforms in 1989. The State Reform Law provided the legal framework that gave the government wide leeway to privatize through presidential decree. The Economic Emergency Law gave the government full power to modify legislation without the intervention of Congress, and provided for the suspension of subsidies, preference for local capital in privatization, and obligatory government procurement of domestically manufactured goods (Teichman 1997, 45–46; Manzetti 1999). These circumstances sound suspiciously like insulated policymaking, and some observers have interpreted them as such.

Yet the specifics of Argentina's privatization and social security reform reveal considerable evidence of executive bargaining with economic elites. Despite the immediate costs to their members in terms of job security, powerful unions found privatization worth supporting, in the hope that their long-term affiliation with the incumbent party would facilitate future collaboration with the government (Murillo 2000). Because the *grupos* did not have the financial capacity or managerial know-how to take over local industry, majority control of most previously public firms would have to be sold to foreign investors. The Menem team, however, added sweeteners for local business elites.

For example, many members of the lobbying group known as the *patria contratista* (formed from a dozen of the largest holding groups that had made their fortunes through public works contracts), which was notoriously opposed to privatization, joined the proprivatization coalition after Menem's administration reordered property rights to allow local capital to participate on advantageous terms. As a result, the group's cohesion collapsed as members "that were left without a deal, did everything possible to try to secure one" (Corrales 1998, 39). The speed of Argentina's privatization process was subsequently criticized for leading to undeserved windfalls for several local business groups (Hagopian 1998). It may be, however, that these side payments were politically necessary.

Similar bargaining led to the passage of social security reform in 1994. The process began around 1991, when the Menem administration began to court the support of private bankers by dangling future lucrative contracts to administer privatized pension funds. Unions relatively disadvantaged under the former piecemeal system of coverage were lured on board by promises of greater equity among contributor-beneficiaries. Once again, after the government had gained a critical mass of supporters, the holdouts felt compelled to go along, so as not to be

politically marginalized in the future. The process was messy, inequitable in its details, but—and this is the point—not especially politically insulated, either from private economic interests or from the Argentine Congress; its members often served as political intermediaries between the political executive and societal interest groups, just as in every other contemporary industrial democracy.

The clearest evidence that political bargaining is a viable market reform strategy, however, comes from Brazil, the country in our sample whose chief executives have enjoyed the least insulation from societal and political pressures. The process of ending triple- and then quadruple-digit inflation took multiple, continuous tries from the early 1980s through the mid-1990s. The plan that ultimately worked, the Real Plan, did not rely on a clever "shock treatment" design like so many of its predecessors, but was instead a very straightforward project (Amann and Baer 2000). Its main innovation was that all its specifics were known, and publicly negotiated, well in advance of its implementation in mid-1994. Trade liberalization was also a distinctly political process. Sector-specific rounds of tariff reductions allowed the larger domestic firms, foreign investors, and exporters to use their market power (as the mostly foreign-owned car industry in 1995 had done) to obtain partial exemptions and delays on tariff reductions, along with substantial tax rebates. The quid pro quo was a formal agreement by automobile multinationals to make further investments (Shapiro 1993, 1996).

Brazil's privatization process reveals much about the character of its reforms. The nation's state-owned enterprises were sold at a relatively slow pace. New "privatization monies," moreover, were created from devalued domestic government securities. These processes were important in creating successive pools of domestic buyers, which generated the necessary political support for privatization (Montero 1998; Turcotte and Faucher 2000). The order in which firms were offered partly depended on the expected political opposition. No specific individual buyer was preselected, unlike what happened occasionally in Mexico; and sales were formally performed through auctions. Nevertheless, the conditions for acquiring state-owned enterprises effectively limited bidders to a handful of large domestic firms, in partnership with banks and foreign multinationals (Montero 1998; Manzetti 1999). The National Bank for Social and Economic Development (BNDES) also made subsidized credit available for local purchasers.

Like Argentina's Menem, Brazilian presidents have used decrees to launch economic reforms. It would be wrong, however, to view provisional decrees simply as a means to impose the executive agenda against the will of Congress. Congress later rejected less than 3 percent of provisional decrees (Figueiredo and Limongi 2000, 155). It has even been suggested that many legislators endorse the president's use of

decrees as a way to deflect the anger of rent-seeking special interests hurt by specific changes, and that executive decrees may be a low-cost means of evaluating the initial impact of reforms and then adjusting the details as necessary (Amorim Neto and Tafner 1999). At crucial points in the process, moreover, the Cardoso administration successfully cobbled together the three-fifths congressional majority needed to amend the 1988 Constitution to allow privatization in certain "strategic" sectors.

Thus our fourth hypothesis, that reforming governments need the support of societal elites, is supported by diverse quantitative and qualitative evidence. Granted, this is a hard proposition to falsify; short of an all-out capital strike or mobilization of other elite-controlled resources, such as campaign contributions or the media, it is hard to distinguish among different degrees of support or resistance from key interest groups. Still, two summary propositions may be valid.

First, changes in the sectoral composition of the economy and in the organizational strength of unions occurred in all four countries and helped increase the political weight of presumably proliberalization interests. Yet the considerable divergence among the four countries in the extent of their international integration in the 1990s suggests that those were not the sole factors influencing changes in elite preferences.

Second, in all four countries, an apparently durable elite consensus now exists in support of market reforms. In our understanding, consensus does not mean unanimity; instead, it is the result of a bargaining process, after concessions have been made to accommodate conflicting interests. All influential parties eventually sign on, though perhaps with the assistance of some horse-trading or arm-twisting, both widespread democratic political phenomena.

In Chile and Mexico, where the major reforms occurred under authoritarian governments, political insulation of the reformist executive and imposition played an important, perhaps crucial, role in initiating reforms. Yet even in these countries, reforms were consolidated by political negotiations with economic interests, including organized workers (Murillo 2000), and political opening has not seen them repudiated. In Argentina and Brazil, where reforms occurred under democratic rules and executive branch policymakers were much less insulated, the bargaining was more overt and more likely to involve elected legislators (as well as governors and other elected officials, although space precludes their consideration here) and representatives of economic interests. Whether these bargains struck by political incumbents with already relatively privileged groups ultimately undermine democracy itself is a matter of opinion. We tend to think they do not.

Hypothesis 5. When the Political Regime Is Mass Democracy, a Proreform Shift in Ordinary Voters' Net Preferences Is Necessary to Maintain Market-oriented Economic Reform

Our fifth hypothesis asserts that public policy choice, at least in countries that minimally qualify as procedural democracies, is a fundamentally democratic process—not in its details, and not without significant distortion, but in its broad lines. That is, public policies that work against the core interests of the majority of citizens will not endure, because sooner or later the public will recognize that it is being cheated and will vote to "throw the bums out." Of course, these links are imperfect; public opinion can be manipulated, citizens en masse are poorly informed, politicians always have incentives to pander to elites whose support is crucial for funding campaigns, oddities in national electoral rules may distort representation, and so on. Yet a major reorganization of the national economic regulatory framework will not escape the notice of ordinary citizens (see Baker 2000, 5–6).

Remmer (1998) found that a significant vote for leftist and anticapitalist candidates and parties boded ill for both the initiation and sustainability of orthodox economic reforms. We turned Remmer's test around and inquired into the popularity of candidates clearly associated with the neoliberal agenda of market opening, fiscal belt tightening, and structural adjustment.[12] We divide the 14 recent elections into 3 categories: elections won by candidates who explicitly promised either to initiate or to continue market-oriented reforms; elections won by candidates who explicitly opposed the initiation or continuation of market-oriented reforms; and elections in which the main contentious issues were noneconomic and in which the winning candidate expressed no clear opinion about market-oriented reforms before the voting (table 5).

We find ten elections, or an overwhelming 71 percent, in which the winning candidate took an explicit position in favor of the initiation or continuation of neoliberal reforms. Our coding of these elections, as far as we know, is not controversial.[13] In only one election (7 percent of our sample) did the winning candidate take a clear preelection stand against policies closely identified with neoliberal economic reform: candidate Carlos Menem in 1989 railed against privatization and "unfair" treatment of loyal state workers and promised generous increases in traditional Peronist party patronage–oriented spending. Whatever the reasons for his postelection conversion (see Acuña 1994; Armijo 1999), in office Menem soon promoted wide-reaching market-oriented reforms. Reforms turned out to be popular, and Menem was able to get the Constitution amended to allow his reelection in 1995.

The final category is elections in which economic issues were not supremely important and in which the winning candidate did not

Table 5. Electoral Popularity of Proreform Candidates, 1983–2000

	Elections Won by Clearly Proreform Candidates	Elections Won by Clearly Antireform Candidates	Elections in which Market Reforms Not a Major Issue
Chile	1989 Aylwin 1993 Frei 1999 Lagos		
Argentina	1995 Menem 1999 De la Rua	1989 Menem	1983 Alfonsín
Mexico	1994 Zedillo 2000 Fox		1988 Salinas
Brazil	1989 Collor 1994 Cardoso 1998 Cardoso		1985 Neves/Sarney
Total	10	1	3
Percent	71%	7%	21%

express clear opinions about market reforms in advance. We place three elections (21 percent) in this category: those of Argentina's Raúl Alfonsín in 1983, Brazil's Tancredo Neves in 1985 (who died before assuming office and was succeeded by his running mate, José Sarney), and Mexico's Carlos Salinas de Gortari in 1988. In all three cases, the major issues were related to the democratic transition. In Chile's similar "foundational" democratic election in 1989, the prodemocracy consensus candidate, Patricio Aylwin, explicitly promised to continue the market reforms implemented under his authoritarian predecessor. Indisputably, market reformers have been overwhelmingly electorally successful in these four large Latin American countries.[14]

The question of *why* the citizenry as a whole in the four most industrialized Latin American countries apparently supports the broad agenda of market-oriented reforms is more of a puzzle. Many political scientists are distressed by the popularity of market-oriented reform, decrying conservative "neopopulist" leaders, such as Brazil's Collor, Argentina's Menem, and Peru's Alberto Fujimori, who undermine established channels of interest aggregation and political intermediation (such as political parties and national legislatures) to pass legislation without the approval of Congress, employing a program of populist speeches and patronage gestures to gain wide support among unsophisticated voters (see especially Weyland 1996). In this view, the undoubted electoral support for neoliberal chief executives appears manipulated and funda-

mentally illegitimate. Because neoliberal policies are increasing inequality and poverty, the argument continues, the masses are being misled (see Ducatenzeiler and Oxhorn 1999).

Once again, our view is more optimistic.[15] First, there are good reasons to believe that lower-income groups have a greater political voice today in these countries than they did before the late 1980s. Political voice has multiple dimensions. A more democratic set of national political rules allows for freer, fairer, and more competitive elections, as well as greater respect for civil rights and liberties. Expansion of suffrage is also very important in Latin America. The region's characteristic extreme inequalities of income and wealth have been perpetuated, even in previous periods of relatively competitive politics, by de facto and de jure exclusion of large percentages of the population from voting.

In all four of our sample countries, suffrage has expanded greatly since the mid-1940s. In Chile and Brazil, moreover, the percentage of the adult population that votes has increased dramatically even recently, rising in Chile from 46 percent in the 1960s to 82 percent during the most recent election for which turnout figures are available (1997), and in Brazil from 35 percent in the 1960s to 77 percent in 1994 (IDEA 2000). It seems reasonable to assume that the newly included voters come overwhelmingly from lower-income groups. For instance, only in 1986 did Brazil's newly elected democratic Congress remove the "exemption" for illiterates from compulsory voting, a loophole that had operated quite effectively as a bar to lower-class political participation (except when landowners trucked peasants to the polls).

That relatively low-income persons are today participating in national politics in greater numbers than before, and that many of the most politically visible policy reforms differentially benefit those citizens, may help explain the political popularity of market-oriented reforms in Latin America. The poor have reasons to "vote for reform," as Haggard and Webb (1994) put it, beyond the perception that there is no alternative.

The most obvious specific reform that aids the humble is inflation stabilization. The authors of a recent 80-country study have labeled this policy change "super pro-poor," particularly when inflation is high, because of stabilization's highly positive implications for income redistribution (Dollar and Kraay 2000, 5, 26–27, 43; see also Easterly and Fischer 1999). We suspect that the single biggest reason for popular support of reformist politicians in our four countries is that market reforms have ended inflation. Inflation remained above our earlier cutoff of 35 percent a year for many years, or even decades, ending only in 1980 in Chile, 1989 in Mexico, 1992 in Argentina, and 1995 in Brazil.

The experience of high and hyperinflation was sufficiently painful and sufficiently recent, even in Chile, for voters to recall it, fear it, and support those whom they trust to protect them from it (Gervasoni 1999).

Ordinary voters quite correctly associated the ISI policy framework with recurring and persistent inflation. Some upper-income groups even managed to extract net profits from the highly inflationary environment (Armijo 1996). In sharp contrast, the poor gain from what is usually one of the earliest and most durable results of neoliberal economic reforms: the ending of inflation.

Dollar and Kraay (2000, 5, 43) also note that cutting overall government spending in developing countries often has positive implications for income distribution, simply because so many developing countries spend more on middle- and even upper-class citizens than on the poor. Government spending that is, in the aggregate, regressive in its implications for income distribution long has characterized Latin America. Since market-oriented reforms began, not only has overall government spending been cut, but purely social spending has risen as a share of both total government spending and of GDP (Stallings and Peres 2000, 16).

In Argentina, Brazil, and Chile, the three countries in our sample that clearly were democratic throughout the 1990s, the overall effect of all government social spending in that decade was to redistribute income toward the poorest 40 percent of the population (Stallings and Peres 2000, 36). Many of the reforms that political analysts most expected rent-seeking special interests to resist, including privatization, social security reform, and salary and benefit reductions for civil servants, are precisely those the "silent majority" rationally should support.

Ultimately, our expectation is that, as long as democracy endures—and we have every reason to believe it will endure in each of these countries—the days of wild swings in macroeconomic outcomes are probably over, or at least curtailed. Mass publics will demand (and get) reasonably stable macroeconomic outcomes. Publics in contemporary mass liberal democracies in the advanced industrial countries have proved unwilling to tolerate either hyperinflation or long periods of negative growth. Why should mass publics in democratic Latin America be any different? We therefore expect that market-oriented reforms will, on the whole, continue to be implemented, because their broad and obvious consequences so far have often made life better for the majority.

At the same time, the need for democratic legitimacy imposes national variations on the precise reform packages implemented in each country. For example, certain policies often identified as essential reforms, particularly external financial liberalization, increase a country's vulnerability to imported macroeconomic instability, which is particularly onerous for the poor. A country with a democratic as opposed to an authoritarian government, however, is in a better position to bargain with external actors, such as the IMF, on controversial matters, such as

capital controls or higher social spending. (In game theory terms, an elected and generally proreform government can "credibly threaten" to lose the subsequent election to economic populists of the old ISI type, whom the international financial institutions and foreign investors will like much less.)

We anticipate that the coming of mass procedural political democracy to Argentina, Brazil, Chile, and now Mexico should itself provide the best possible reason (that is, winning votes) for incumbent political leaders to keep inflation low—and also to do whatever else it takes to restart growth and decrease Latin America's scandalous and globally unmatched levels of inequality.

CONCLUSIONS

The persistence of market discipline as the main orientation of the economic policies applied in most of Latin America for the past 25 years is a puzzle, given that these reforms significantly changed the regulatory environment of the previous 40 years. The earlier system benefited local business, the urban middle class, and organized workers, a coalition of interests difficult to defeat in any society. The implementation of market-oriented reforms, furthermore, coincided with democratization, which, many analysts claimed, would liberate massive expressions of opposition from "losers" in all social sectors and would put an end to neoliberalism.

Instead, a remarkable policy convergence around market liberalization has occurred throughout the region. The remaining differences in degrees of economic openness among the four countries in our sample are negligible by comparison. This finding, which contradicts a significant number of works that discriminate between "vigorous" and "cautious" reformers, has been somewhat overlooked.

We propose that market reforms could not be consolidated until a substantial shift occurred in both elite preferences and the opinions of ordinary voters. Evidence of both types of political support for economic reform suggests that the process has not simply been imposed from above. The significant growth of foreign trade in these economies has increased the likelihood that business preferences in support of commercial opening and exchange rate stability will be voiced with renewed emphasis. The sharp increase in foreign investment integration in all four countries is both an expression of confidence from foreign investors and a reminder to political leaders that a change of course could prove costly.

This lock-in dimension of market deregulation probably accounts for a part of the observed empirical shift in elite preferences. When opposition has failed, and when the course of market liberalization is set and unlikely to be altered, then those businesses that stand to lose from the change have little choice but to adapt to the new environment,

reinforcing by their own actions the trend they initially opposed. Frances Hagopian (1998) has astutely observed that once reformers achieved some preliminary victories, presumably in stabilization and commercial opening, negotiations among interested parties increased. It is important to recognize the extent to which old economic elites, unions, prereform parties, and other interest groups have accommodated themselves to the new realities. In a region where military dictators have regularly changed clothes to return to power as elected presidents, perhaps this should come as no surprise.

This argument departs from the many analyses that seriously overestimated the capacity of the so-called ISI coalition of interests to oppose market deregulation. Reformist political leaders undoubtedly recognized the potential opposition they were facing and developed reform strategies accordingly. This is where negotiation intervened, as proreform political executives and their teams both actively promoted supporting coalitions and created programs to compensate losers or neutralize their opposition through exemption. These complex and, at times, contradictory measures may have slowed or postponed the introduction of reform; but liberalization, once well launched, has not been derailed.

This notable shift in elite preferences also confirms that, as Bresser Pereira (1977) correctly announced, the postwar class alliance in Latin America has collapsed. What, then, is the nature of the new political arrangement? There is always the possibility that a new set of clientelistic politicians will operate to serve the old elites, now reinvented as market entrepreneurs seeking to appropriate the side payments that governments make in order to achieve lasting results in market liberalization. Many of our colleagues clearly fear that something like this is happening. As evidence, they point to irregularities in the privatization process in Argentina, sharply increased foreign penetration in Chile and Mexico, and the extraordinary staying power of the most traditional and clientelistic politicians in Brazil.

Our argument about shifts in mass preferences, however, points in another direction, allowing for cautious optimism. Political exclusion is not a necessary condition for the regulatory changes required by market liberalization. Democracy does not run contrary to market reforms, as the evidence of recent electoral contests has shown. Chile, and more recently Mexico, have demonstrated that a transition to democracy is likely to be associated with the persistence of prior economic liberalization or even, as is probable in the case of Mexico, its further deepening.

One can always question the quality of democratic expressions of mass preferences, claiming that masses are bedazzled by charismatic neoliberal leaders who have created neopopulist coalitions. The pessimists legitimately note that in the last years of the twentieth century, growth was slow in the region, with inequality and poverty on the

increase. In our four sample countries, the overall effects of all policies plus all exogenous shocks was that the income share of the poorest 40 percent improved (albeit from very unequal levels) between the mid-1980s and 2000 in two countries, Brazil and Chile, but worsened in the other two, Argentina and Mexico (Mostajo 2000, 21–24).

We believe that recent expansions in the franchise and in other forms of meaningful political participation are not illusory. Just as the weight of mass public opinion has helped comparatively uninsulated reformist leaders, such as Argentina's Menem and Brazil's Cardoso, overcome elite resistance to the changes necessary to achieve genuine control over inflation, so the public's demands for growth and jobs can help national leaders take some policy stands that are at odds with the demands of international investors and neoliberal orthodoxy itself. This has perhaps been demonstrated by Chile's courageous insistence in the 1990s on broad market openness iconoclastically combined with the maintenance of some capital controls and state ownership of the copper mines.

As this article went to press, Argentina was in crisis. We predict that its leaders will maintain a broadly promarket regulatory framework while nonetheless accepting the democratic political imperative that the pain of economic adjustment should be shared among various stakeholders, including both citizens and foreign direct investors. Our point is that mass preferences can act as a strong and useful reality check for political incumbents, as ordinary voters, particularly after the experience of high inflation, recognize that their interests are best served not by extraordinary subsidies, but instead by stable, noninflationary growth.

Notes

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1. We refer to populism in its political sense, defined by Kurt Weyland (2001, 5) as "a political strategy through which a personalistic leader seeks or exercises government power based on direct, unmediated, uninstitutionalized support from a large number of followers." See also Castro Rea et al. 1992; Kessler 1998.

2. In countries such as Brazil and Argentina, the military regimes that overthrew populist politicians nonetheless continued most of the ISI economic institutions and regulatory framework.

3. The term was introduced by Latin American scholars, such as Cardoso and Faletto (1979) and Bresser Pereira (1984, 1977, 1978). Peter Evans (1979) popularized the label among North American scholars.

4. Several of the region's smaller and less-industrialized countries, including Honduras, Guatemala, and Ecuador, displayed the classic patterns of the earlier oligarchic, agroexport model throughout the twentieth century.

5. Admittedly, the absolute level of the reform effort is not well measured by the Morley scale, which takes as its upper limit the most economically liberal regulatory framework actually achieved by any country in the study. We subjectively assert that the overall extent of the changes was "large."

6. The most important exception was the auto industry; see Shapiro 1993.

7. In Mexico, unlike the other three countries, inflation per se was not a large problem in the 1970s. It quickly became one, however, when other economic problems arose after 1982, which suggests that the basic institutional framework in Mexico also needed revising.

8. Thus, Stallings and Peres (2000), who rely on the Morley et al. (1999) data, label Argentina and Chile "vigorous" reformers and Mexico and Brazil "cautious" ones.

9. In these fine distinctions of which presidential administration should be credited with the greatest reforms, we rely more heavily on our qualitative analysis than on Morley et al., which we find not credible in certain cases, particularly with respect to the Sarney (1985–89) administration in Brazil.

10. It is interesting that Tsebelis himself is explicitly neutral as to whether ease of policy innovation (facilitated by fewer veto points) is or is not a desirable attribute of a political system.

11. Argentina's military leaders in the late 1970s instituted some market-oriented reforms that were overturned well before the military relinquished power to civilians in 1983. These reforms never achieved the minimum elite political support (even among senior officers themselves) and institutional infrastructure necessary for them to endure (Lewis 1990; Manzetti 1994).

12. Our choice of electoral, rather than polling, evidence of popular support for market reforms was guided by both pragmatism (comparative polls begin in the mid-1990s, while our study reaches back to the 1970s) and our sense that votes were ultimately a superior indicator. Polls give voters more options but do not exact any costs. In contrast, the choice of a candidate in an election is a complex calculation that requires voters to balance a number of factors—and then make only one selection.

13. One reviewer questioned our identification of Collor as proreform. Even in the first round, candidate Collor clearly advocated trade liberalization, privatization, and firing overpaid and underworked government bureaucrats, whom he derided as "maharajahs."

14. In a careful quantitative evaluation of 15 Latin American countries from 1982 to 1995, Carlos Gervasoni (1999) also found no support for the proposition that voters punished market reformers.

15. In an excellent review article, Korzeniewicz and Smith (2000) observe that the overwhelming consensus of economists is that market reforms are, on balance, absolutely necessary for Latin America to return to a path of sustainable growth, clearly a requisite for poverty reduction. They find that the results for income distribution from 1980 to the late 1990s are ambiguous to bad, however, an outcome partially but perhaps not wholly attributable to the series of external shocks and consequent low growth that hit the region in the 1990s.

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