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THE PROBLEMS OF SIMULTANEOUS TRANSITIONS

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Almost everywhere, command economies and overtly authoritarian politics are in retreat. Constitutional democracy and market capitalism now hold sway, at least as ideals, even in places where these concepts were anathema less than a decade ago. This is as true for Central and Eastern Europe as it is for Latin America, sub-Saharan Africa, and much of East Asia. Although the reform process has taken different paths in different countries—some countries have initiated economic reform prior to democratization while others have begun with political reform—a growing number of countries have introduced and are currently sustaining both democratization and market-oriented economic reform.

These twin tendencies are widely assumed by policy makers in Washington and other capitals to be not only positive, but also linked. Indeed, the primary debate now taking place within governments and many international organizations centers not around whether democratization and market-oriented reforms are desirable, nor around whether they are mutually reinforcing, but rather around how they can be supported most effectively by external actors, and how best to secure and target the necessary resources.

Although some scholars—market libertarians and modernization theorists—have also argued that democratization and economic liberalization are complementary, most academic analysts have been inclined to believe the contrary, holding the two to be incompatible, at least under the conditions facing developing nations. Even those scholars who believe that the two processes are ultimately compatible tend to doubt that they can be carried out simultaneously. There are two versions of this "transitional incompatibility" thesis, one focusing on democratization's potential to undermine economic reform, and the other contending that the heavy cost of economic reform can turn crucial social actors against democratization.

Transitional Incompatibility

Democratization means giving a political voice to groups and individuals that previously had not been able to make their demands heard. Some such demands, whether symbolic (e.g., dignified treatment or a role in public definitions of the polity) or economic (e.g., legal protection of a certain ethnic group against discrimination), will require no additional expenditure by the state. Most demands relevant to public policy from newly enfranchised actors, however, will require additional expenditures, as in the case of the extension of any kind of government benefit or service (from public schools to sewage systems) to additional persons or communities. In the face of such demands, the incumbent government (which may be either a new democratic government or a reformed authoritarian regime) has three options: it can increase overall spending; it can reallocate current spending to meet new democratic demands; or it can ignore the demands that would require additional expenditures.

The first option is generally the most attractive to incumbent political leaders, as it does not entail taking benefits away from anyone. Choosing the second option would offend previously enfranchised (and economically favored) groups, while selecting the third would strain the loyalty of the newly included. Thus governments that recently have become more politically inclusive, including new democratic governments, often turn to economic populism—that is, politically motivated economic policies that expand total government expenditure for current consumption and investment.

If these governments simultaneously experienced an increase in available resources (e.g., an inflow of foreign investment), this strategy would not necessarily be problematic. Most of the new democracies established in the 1980s and 1990s, however, have encountered a much less congenial international economic environment than that prevailing in the 1970s, making large new capital inflows unlikely. Moreover, new democracies are highly vulnerable to capital flight, especially if existing investors expect political liberalization to lead to political instability.

New democracies (and protodemocracies) that embark upon economic reform face additional resource constraints from the process of regulatory change. In virtually all cases, market-oriented reform generates a short-term to medium-term drop in overall national income. "Structural adjustment" to a persistent trade deficit, for example, entails a shift from domestic absorption of external resources to a net absorption of significantly fewer resources than are generated locally. The availability of fewer resources to consume and invest entails a reduction in income. Trade reform is designed to cut inflation by slashing the local prices of all tradeable goods and services. In the process, however, many local businesses will fail, and many employees will lose their jobs. Reform brings temporary income losses to society overall, and steeper losses to groups engaged in types of production that are no longer profitable after reform. In short, economic restructuring is inevitably painful.

The democratizing politician may find the implications of economic liberalization particularly distressing owing to three structural characteristics of economic reforms. First, although adjustment's costs pinch immediately, its benefits lag. People discount future benefits relative to present ones; the only empirical unknown is how much a given person or group will discount the future. For groups with a "high discount rate"—whether due to acute consumption needs in the present or merely to skepticism about whether future benefits will actually be forthcoming—reform's proposed trade-off of lower incomes today for higher incomes tomorrow is distinctly unappealing. If such groups are enfranchised, they can express this view at the ballot box.

Second, the costs of adjustment tend to be unevenly distributed. The income losses suffered by groups involved in production that reform renders unprofitable will be severe unless society provides some form of compensation. In most countries, the previously distorted regulatory regime will have created numerous pockets of economic privilege whose occupants may oppose reform no matter what its benefits for society as a whole.

Third, even those who are potential or even probable beneficiaries of reform are unlikely to realize it. Freer trade, for example, typically results in lower returns to the nationally scarce factor of production, which then will be relatively more abundant, and higher returns to the nationally abundant factor, which may be relatively more scarce in international markets. The most abundant factor in developing countries is likely to be labor, especially rural labor—typically the least well informed and least powerful social group. This third problem at least has a silver lining. If probable beneficiaries are informed of the benefits that they can expect from reform, it may be possible to mobilize them to support it.

Despite these problems, some democratic leaders bite the bullet and persist in painful economic reforms, either because of ideological conviction and the belief that history will vindicate them or because of strong external pressures from foreign donors, investors, and lenders. In the presence of such abundant "political will," the strains of the simultaneous transitions are likely to be transferred from the process of economic liberalization back to that of democratization.

Just as democratization can undermine economic reform, the process of economic reform can turn crucial social actors against democratization: the unavoidable costs of economic reform are likely to lead to increasing political opposition from those who feel them most. The upper or capitalist class (including agrarian capitalists), the middle or white-collar class, and the lower or working class will each be affected differently by the adjustment process. Owing to its superior economic resources and information as well as greater political clout (even though democratization dilutes its influence somewhat), the upper class is best able to protect itself from losses. Conversely, the lower classes—particularly the urban working class—are likely to feel the economic costs of structural adjustment and other reforms first, principally through higher unemployment (as uncompetitive sectors shrink) and higher prices for basic wage goods (as government subsidies for food and fuel are cut).

If the government sticks with its program despite its painful consequences, rising popular frustration may derail democratization in at least three different ways. First, the mass public could become seriously disillusioned with democracy, thus becoming available for recruitment into leftist or rightist antisystem movements. Alternatively, propertied or middle-income groups could become so frightened by lower-class protest that they use their influence either to increase state repression or to change the rules of the political game in ways that render them less democratic. Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens have argued that stable democracy can be established only where socioeconomic factors (e.g., the size and cohesiveness of the working class) and political institutions (particularly political parties) combine in such a way that the fundamental economic and social privileges of elites remain undisturbed.[1]

Finally—and most ominously—failed economic reforms can undermine the credibility of new democratic governments, which can be blamed *both* for the costs of whatever partial reforms were imposed *and* for the quite different costs of a return to an excessively interventionist regulatory regime. The greatest danger is that citizens will not conclude simply that particular incumbents are misguided or ineffective, but will turn against political openness itself. In the face of escalating inflation or widespread shortages of goods and services, for example, the public may become vulnerable to the blandishments of those who urge renewed authoritarian rule as a superior alternative to continued economic decay under democracy. In some cases, political leaders who would reestablish authoritarian rule may garner significant public support.[2]

Despite these difficulties, the case for dual transition remains strong. Democracy, with its guarantees of civil liberties, due process of law, and participation in the selection of policy makers, has tremendous normative appeal. Similarly, although markets may be the target of many accusations—that they generate inequitable outcomes, that they produce an "undesirable" mix of goods, that they are subvertible under conditions of oligopoly and oligopsony, that they occasionally get stuck for long periods at low levels of output, employment, and income—it is by now widely accepted that decentralized, competitive free markets are more efficient than central authority at allocating scarce resources.

Contemporary developing countries pursuing both democratization and market-oriented economic reform have at least four different options for resolving the transitional incompatibility problem: 1) avoiding simultaneity, 2) applying shock treatment, 3) awaiting an economic trough, and 4) looking to technical fixes.

Avoiding Simultaneity

The simplest way to overcome transitional incompatibility is to avoid simultaneous reforms, either by consolidating economic reform before embarking upon democratization or by consolidating democracy before initiating economic reform.

The "economic reform first" option draws its inspiration from Chile, which turned to harsh authoritarian rule in 1973 despite a long democratic tradition and did not redemocratize until after economic restructuring was largely complete nearly 20 years later; and from China, whose leaders have resolutely resisted any impulse to accompany their version of *perestroika* with anything like *glasnost'*. The recommendation that economic reform precede democratization is heard with increasing frequency in corridors of power, but it begs an important normative question: Who has the right to delay democracy?

Those who would give primacy to economic reform contend that given the level of economic disarray that prevails in many countries—especially those with large external disequilibria and stagnant, distorted domestic economies—a tough job needs to be done and a strong leader is needed to do it.[3] Democratic leaders, constrained by the local version of the "political-business cycle," find it difficult if not impossible to stand firm. As long as their weak leadership remains the norm, the argument goes, economic conditions will continue to deteriorate, eventually (if not immediately) undermining democratic rule itself. Academic antecedents of this line of policy advice go back at least to the 1960s, when Samuel P. Huntington suggested that political power must be consolidated before it can usefully be distributed.[4] Some contemporary policy elites in countries as diverse as Malaysia, Pakistan, and Argentina clearly also have been convinced.

Giving primacy to economic reform has been criticized on the grounds that authoritarian regimes in developing countries cannot be said to have been, in general, better at economic management than democratic governments, particularly given the experiences of the Philippines under Ferdinand Marcos and Zaire under Mobutu. Adherents of the "economic reform first" position are not, however, suggesting that authoritarian rule is a sufficient condition for economic reform, but only that in some cases it might be a necessary condition. No one claims that every authoritarian regime has been better than every democratic regime at economic management; still, it remains the case that most of the regimes in middle-income countries that have done well at economic management have tended to be authoritarian at the time of initiation and implementation of sweeping reforms.

In their examination of 17 middle-income countries, Stephan Haggard and Robert R. Kaufman concluded that regime type alone is not a determinant of economic success; rather, states are likely to be successful at maintaining low inflation and stabilizing their economies when political incumbents do not face high levels of political uncertainty, owing either to secure backing by the military or to the existence of strong political-party organizations.[5] If persistent high inflation has been caused by the deficit spending of a weak democratic government caught between the insistent demands of opposing distributive coalitions (as was the case in Argentina, Brazil, Chile, and Uruguay at various times between 1960 and the mid-1980s), then successful stabilization may require an authoritarian government willing to disenfranchise urban labor. For some countries that have weak democratic regimes, a shift to authoritarian rule can lead to improved economic policy making. As Thomas Callaghy has noted, "Many authoritarian regimes are very poor [economic] reformers, but the following has even more basis in fact: any justification of democratic regimes that relies on their developmental capabilities is, at best, weak. It is possible that political and economic liberalization can positively coexist in some transitional democracies, at least for a while, but it requires a difficult, rare, and fragile conjuncture of factors."[6]

In sum, although scholars living in liberal democracies are understandably uncomfortable with the notion that authoritarian regimes might have some advantages over new democracies when it comes to implementing difficult economic reforms, this proposition has not been definitively refuted. Meanwhile, many policy makers, whether they admit it openly or not, believe that delaying democracy is a sound economic proposition.

A second strategy for avoiding simultaneous reform is to begin with democracy and accept slower progress in building a growing, internationally competitive economy. The "democracy first" option, curiously, is rarely discussed openly in international development policy circles. One reason may be that most policy consultants conceive of their primary task as furthering economic reform, rather than facilitating the broader project of dual transition. Yet elites in India, Costa Rica, Venezuela, and Zimbabwe all seem to have chosen the "democracy first" path. If leaders such as Nelson Mandela and F.W. de Klerk maintain control over South African politics through the 1990s, they almost certainly will choose to shore up democracy rather than make rapid progress on economic reform whenever these two goals appear to conflict. As long as the public sector continues to employ the majority of middle-class Afrikaaners, it seems unlikely that the immediate postapartheid government will shrink either civil-service or state-enterprise employment.

India is the paradigmatic case of democratization before economic liberalization. The consolidation of democracy was the first priority of the Indian National Congress after 1947, while its economic policies in the 1950s and early 1960s were anything but market-oriented, with Prime Minister Jawaharlal Nehru pursuing state-led heavy industrialization on the Soviet model. The imperatives of maintaining democracy always guided the country's economic strategy: political leaders from the 1950s through the 1970s consciously chose slower economic growth rather than permit certain economic actors—namely, domestic and foreign capitalists—to amass so much economic power that they would have disproportionate influence over political decision making. By the late 1970s, however, a minority of influential economists had become convinced that economic liberalization was essential if the Indian economy was to grow sufficiently. Serious change in national economic rhetoric began under Prime Minister Rajiv Gandhi in the mid-1980s, but major shifts in policy began only with Prime Minister P.V. Narasimha Rao in the early 1990s. Although economic liberalization through mid-1994 has been substantial by Indian standards, political leaders continue to subordinate the pace of market reform to their sense of the "political logic" of the situation.

The analytical argument for the "democracy first" option hinges on the belief that the general population, as well as politically powerful groups and interests, can have both instrumental and intrinsic attachments to democracy. Adam Przeworski has argued cogently that the transition to democracy is problematic precisely because a country's relevant political actors make pragmatic calculations about the likely payoffs of accepting the uncertainties inherent in the democratic process: "Compliance [with democratic rules] depends on the probability of winning within democratic institutions."[7] The most enduring democratic constitutions are those that emerge from a situation in which the future balance of power among alternative contenders for political power is not known, and each relevant political actor therefore has a strong incentive to agree to relatively "fair" rules of the game.[8]

Established democratic regimes develop intrinsic, symbolic, and emotive significance for their populations. Democratic procedures are valued not primarily (and certainly not exclusively) for the benefits they can bring their citizens, but for their own sake. Once democracy becomes the only legitimate political system, the tolerance on the part of both the general public and powerful interest groups for the costs associated with economic reforms rises significantly—as long as the decision to reform is perceived as having been made via democratic procedures. This, presumably, explains in part Haggard and Kaufman's finding that new democracies have particular difficulties with stabilization while established democracies in middle-income developing countries are, in general, no worse at economic management than authoritarian regimes.

Democratization before economic liberalization as a reform strategy is normatively attractive, but it has two major drawbacks. First, many countries simply cannot afford to delay economic reform. Second, although seemingly stable democracies may be better able to sustain economic reform than new democracies, they are hardly immune from its disruptions. Costa Rica, Colombia, and Venezuela are the only Latin American countries to have maintained constitutional civilian governments from the late 1950s into the early 1990s, but they have had mixed results with economic reform. Costa Rica has implemented substantial economic liberalization and has suffered recession but not political unrest. In Venezuela, on the other hand, veteran politician Carlos Andrés Pérez, returning to the presidency in 1989 after a hiatus of 11 years, faced food riots and two serious military coup attempts when he instituted tough and recessionary economic stabilization measures. The fact that a democratic regime did in the end survive, however, suggests the advantages of prior political liberalization.

Applying Shock Treatment

A second strategy for resolving the problem of transitional incompatibility is for a newly democratic or democratizing government to implement economic reforms via "shock treatment." Popular among economists frustrated with the apparent lack of "political will" among feckless politicians, this argument comes in two varieties, which are potentially complementary but analytically distinct: shock treatment as "sneak attack" and shock treatment as "bridge burning."

The logical core of the argument for "sneak attack" is the claim that democratic publics will not freely vote to initiate economic reforms, and will not willingly carry them to their necessary conclusion—even though the total adjustment costs to society would be lower if reforms began sooner rather than later. The reason, again, is that individuals discount future benefits relative to present benefits. If current costs are certain and future benefits are uncertain, individuals will discount the future even more. If reform occurs suddenly, then, the worst pain may be over before political opposition has an opportunity to coalesce.

Even if democratic politicians find it possible to slow reforms once they have begun to draw fire, a radical package of reforms will be reduced to a gradual and incremental package, rather than abandoned altogether. Clearly, if economic growth can be brought about only by economic reform, gradual reform is better for society as a whole than no reform at all. Przeworski writes: "These findings add up to a startling result. The strategy most likely to succeed is not the one that minimizes social costs. Radical programs are more likely to advance reforms farther under democratic conditions even if voters would have preferred to start with a more gradual strategy."[9]

A different type of distributional problem arises from the fact that the costs of reforms are not shared equally by different social groups. Groups who have received economic rents from excessive state interventionism above the levels they would have attained from competitive markets will lose out, not only during the transition, but permanently. For example, in sectors that have been highly protected in the past, both capital and labor will lose. Moreover, the relative and absolute costs of reform to each individual who is a member of such historically privileged groups may well exceed the average individual benefits distributed throughout society as a whole. As students of the politics of tariff reform have observed, the distribution of costs and benefits is likely to produce intense mobilization against reforms by those who stand to lose access to economic rents, while the intended beneficiaries of reform, whose individual expectations of gain are not large, remain relatively passive. Consequently, a lesser degree of reform will be enacted than would be optimal for society as a whole.

Committed technocrats employing shock treatment can sometimes take such interested parties by surprise, however. Even manufacturers of uncompetitive goods may require some time to comprehend a new reform and to organize against it. If the rules of the game have been decisively changed, especially if even a few beneficiaries of the new regulatory regime have begun to recognize their good fortune, the reforms may survive despite vociferous opposition. The radical reformer thus hopes to have passed the point of no return before the political opposition coalesces. Put in the bluntest terms, in shock treatment as "sneak attack," the reformers (usually technocrats with political backing from the chief executive) trick the population into accepting reforms by dissembling about their expected costs.[10]

The case for shock treatment as "bridge burning" rests on the argument that incremental reform lacks credibility. According to this argument, because key economic actors know that gradual reforms can be halted in midstream and recognize that even incremental reforms will impose costs and thus generate opposition, they will conclude that reforms will be halted—or even reversed. Such actors will therefore hesitate to respond to any positive incentives created by early reforms. The business community, in particular, will fear to invest, knowing that investment will be profitable if and only if the reform process succeeds. If no one invests, however, even the best-designed and best-implemented reform cannot succeed. Economic agents will believe that the reforms are "real" only if the bridge back to the status quo has been destroyed.

The shock treatment strategy for "solving" the transitional incompatibility problem is not without drawbacks. First, the decision to employ it requires a high degree of confidence in the economic design of the proposed reforms. If full economic liberalization, whatever the speed at which it is implemented, can be relied upon to deliver stable, noninflationary growth, the costs of shock treatment may be bearable. There are many reasons to believe, however, that in many developing countries full economic liberalization will not generate growth. If the technical design of the proposed reforms is anything less than perfect, a gradual strategy would allow for crucial modifications at a lower economic cost. Moreover, if the wrong bridge is burned, the cost to rebuild it—in terms of both time and resources, not to mention government credibility—may be extremely high.

Another problem with shock treatment is that economists are not in agreement about the economic costs of radical reform. Cesar Martinelli and Mariano Tommasi have asserted that radical reform is always economically superior to gradual reform—except "in the presence of preexisting distortions in one or several markets that cannot be removed at the time the reform plan is announced."[11] This exception covers a large number of possibilities, however. In addition, the distributional implications of gradual and radical reform may not be equivalent, even if the aggregate costs of transition are.

Although the radical approach to market-oriented reform clearly carries considerable economic costs, the more lasting and significant costs may be political. Carrying out economic reforms by means of stealth and deception—or by presidents' running roughshod over elected and legally coresponsible legislatures—can undermine democracy, even in cases where the population ultimately validates the policies in elections (as occurred in Argentina in 1992 and Bolivia in 1993).

Awaiting an Economic Trough

If simultaneity cannot be avoided and shock treatment is considered politically impossible or economically undesirable, the transitional incompatibility problem may be resolved by waiting until the economic costs of maintaining an excessively interventionist and inefficient regulatory regime become so enormous that they equal or exceed the anticipated economic costs of reform. Once inflation, capital flight, and unemployment reach critical thresholds, the population will be more willing to bear the costs of economic restructuring and to accept temporary recession and permanent shifts out of certain sectors. Argentina in the early 1990s constitutes a classic case of crisis-induced economic reform. In 1989 the country reached an annual inflation rate of nearly 5000 percent, and urban dwellers rioted for food. In 1990, newly inaugurated President Carlos Saúl Menem introduced a radical restructuring program, tying the currency to the U.S. dollar and privatizing virtually all of the important state-owned enterprises.

Different observers give different descriptions of the exact process through which economic crisis generates a willingness to experiment with economic reform. In Argentina, hyperinflation convinced both political elites and interest-group leaders (including capitalists and labor) that the existing economic model was no longer viable. Menem's implementation of neoliberal economic policies was possible because industrial labor, one of the political mainstays of populist regimes pursuing import-substituting industrialization policies, had been substantially weakened by the economic policies of the military regime of the late 1970s.

Most commentators agree that the lower classes bear higher costs during market-oriented economic restructuring than the middle and especially the upper classes, but lower-income groups also may suffer the most under a deteriorating status quo, especially when inflation accelerates. Reform thus can be initiated when the suffering of the working class exceeds a certain level. The case of Ghana in 1983 exemplifies yet another path through which deep economic crisis can eventually generate economic reform: when a regime that has maintained itself by distributing "rents" to supporters encounters a severe fiscal crisis, the political costs of implementing stabilization become less than those associated with maintaining the status quo.

Most observers concur that waiting for an economic crisis is the surest path to economic reform, not to mention the "easiest" for incumbents. At the same time, however, waiting until a crisis becomes catastrophic is economically irrational: the total economic costs to society during the periods of deterioration and restructuring will in most cases be higher than they would have been had reforms been initiated earlier. Thus this strategy carries a significant risk of bad timing, with the attendant risks of high costs and even further breakdown, both of which are politically dangerous for reformist policy makers.

Looking to Technical Fixes

External consultants tend to favor incremental solutions to the transitional incompatibility problem and often recommend making technical improvements in policies and their implementation. Four different types of improvements are commonly suggested: 1) "fine-tuning" the economic design of reforms; 2) strengthening "state capacity"; 3) perfecting democratic political institutions; and 4) spurring economic policy makers or bureaucrats to become "policy entrepreneurs."

Beyond their frequent mutterings about the lack of "political will" to pursue economic reforms exhibited in many developing countries, most economists contend that the technical design of the economic reforms ought to be—and can be—improved. If only the sequencing of specific economic reforms could be "got right," the argument goes, the macroeconomic costs of economic restructuring could be brought down, ameliorating the problems facing politicians who are attempting to carry out painful reforms while simultaneously preparing for the next election.

Although such economic adjustments may have some positive effect, there is little reason to believe that, over the medium term, economic restructuring will not continue to be painful, posing ongoing challenges for democratic leaders who attempt it. Perhaps the best that can be hoped from this "solution" to transitional incompatibility is that it will encourage countries to develop national capacity to modify the uniform policy proposals suggested by international organizations such as the World Bank and the International Monetary Fund.

A second technical approach to the transitional incompatibility problem consists of improving the central government's administrative capacity, thereby strengthening the state. Clearly, a competent central bureaucracy is needed to manage the economic reform process effectively and ensure its integrity. Miles Kahler has called this challenge the "orthodox paradox," referring to the need to increase state capacity in order ultimately to shrink the scope of the state's economic intervention.[12] For example, financial deregulation without a commensurate increase in the managerial capacity of the bodies regulating banks and the stock market can lead to nationwide banking disasters, as happened in Chile and Argentina in the late 1970s and early 1980s. Privatization is another component of economic liberalization that requires competent administration. The transfer of productive assets from the government to private owners can create opportunities for huge speculative profits for those with superior information, thus demoralizing the citizenry at large and undermining the legitimacy of the entire economic reform process.

Drawing on the vast literature attempting to explain the successes of the East Asian "developmental states," many scholars have suggested insulating the state from domestic interests.[13] If democratic policy making can be partially buffered from the particularistic demands of citizens, the central government can credibly stand above all competing interests and thereby design and implement better economic policies. Instituting merit-based hiring and promotion for the civil service and making the central bank legally independent of the political executive are two ways to insulate the state from the pressures of narrow, self-interested constituencies.

Redesigning the institutions of political representation is a third technical fix for the transitional incompatibility problem. Juan Linz and Arturo Valenzuela have championed the virtues of parliamentary rather than presidential forms of democracy.[14] Presidentialism, they argue, all too often witnesses stalemate between the executive branch and a legislature dominated by the opposition party or parties. Parliamentarism offers a cure for such immobilism, which if untreated can become severe enough to undermine both economic reform and democracy.

A fourth technical solution for transitional incompatibility involves improving the links between the state and society for the purpose of moving from competent economic policy design to efficient economic policy implementation. The focus of this approach is bringing relevant political actors "on board" the reform project. The recent work of Peter Evans on the "developmental state," for example, places less emphasis on the insulation of economic bureaucracies in Japan and South Korea than on building and maintaining an extensive network of ties between economic technocrats and the business community, ties that promote the free flow of information in both directions.[15] Some developing countries have tried to construct West European-style social pacts among business, labor, and the state,[16] while others have used compensatory "side payments" either to neutralize opposition to reform or to recruit political support from its anticipated beneficiaries.

All four approaches—properly sequencing economic reforms, strengthening state capacity, redesigning institutions of political representation, and developing the links between the state and various interest groups—are attempts to identify, and then replicate elsewhere, characteristics of particular dual transitions that appear to have "worked." None is intended, even by its most ardent proponents, as more than extra ballast for the rough ride of simultaneous political and economic reform.

Theory and Practice

It is clear that there is no simple set of guidelines for countries embarking on the difficult course of dual transition. Although exhortations to avoid simultaneity may make good sense in the abstract, policy makers rarely find themselves in a position where they can make a "choice" to delay either political or economic reform. Democratization is a powerful force with its own dynamic; once it has been unleashed, it cannot easily be contained. By the same token, a country facing a deep fiscal crisis cannot readily postpone economic adjustment until after democracy has been fully consolidated.

The various methods of overcoming transitional incompatibility catalogued above have been gleaned from different national experiences with simultaneous economic and political reform. Yet these approaches are not necessarily directly transferable to the situations of other countries. The historical constraints, trajectories, and possibilities of different regions of the world vary substantially: Eastern Europe faces wholesale restructuring of state socialist regimes and centrally planned economies, Latin America needs to reconstruct democracy after decades of authoritarian rule over capitalist political economies, and East Asia is struggling to transform authoritarian capitalist states. Any attempt to formulate general policy recommendations must take into account these individual differences. The skill of individual decision makers as well as blind luck may also play a decisive role in the ultimate outcome in a given case.

One of the great surprises of the last few years has been the coexistence, the apparent compatibility, and even the complementarity of democratization and market-oriented economic reform. In spite of dire predictions about the future of efforts at dual transition, most states have continued to pursue both processes. Yet it is increasingly evident that current theoretical explanations are inadequate. The recent reemergence of modernization arguments is unsatisfying, as these arguments are no more specific and are even less well documented than they were in the 1950s and 1960s.

Three specific areas merit much more extensive research. First, we need to know more about the distributional implications of economic reform. Strongly held views are expressed on both sides of this issue, but it is striking how little evidence is available to back them up. Second, it is important to investigate how traditional interests have organized (or been reorganized) in the wake of economic reform. Has labor fragmented or emerged in opposition? How has business adapted to change, and at what point does it begin to invest again in employment-generating activities? Finally, we need to trace the sources of demands for democracy from within developing countries. Do they stem principally from pressures brought to bear by organized labor, from a more prosperous middle class, or from yet other sources?

Democratization and market-oriented economic reform clearly coexist in practice in a number of countries today. We need to know more about how they coexist in theory. Until the mechanisms by which political and economic reform may reinforce each other are better understood, we cannot expect to see policies tailored effectively to support either or both.

NOTES

1. Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, *Capitalist Development and Democracy* (Chicago: University of Chicago Press, 1992).

2. This phenomenon was widespread in the former communist countries in the early 1990s. See especially Adam Przeworski, *Democracy and the Market* (Cambridge: Cambridge University Press, 1991); and Rueschemeyer et al., *Capitalist Development and Democracy*.

3. James E. Alt and K. Alec Chrystal, *Political Economics* (Berkeley: University of California Press, 1983), 103-25; and Barry Ames, *Political Survival: Politicians and Public Policy in Latin America* (Berkeley: University of California Press, 1987).

4. Samuel P. Huntington, "Political Development and Political Decay," *World Politics* 17 (April 1965): 387-430.

5. Stephan Haggard and Robert R. Kaufman, "The Political Economy of Inflation and Stabilization in Middle-Income Countries," in Haggard and Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992), 270-315.

6. Thomas M. Callaghy, "Vision and Politics in the Transformation of the Global Political Economy: Lessons from the Second and Third Worlds," in Robert O. Slater, Barry M. Schutz, and Steven R. Dorr, eds., *Global Transformation and the Third World* (Boulder, Colo.: Lynne Rienner Publishers, 1993), 242.

7. Przeworski, *Democracy and the Market*, 30.

8. Ibid., 87-88.

9. Ibid., 174. See also 162-74.

10. Note that the "sneak attack" approach may be employed by committed policy entrepreneurs even if their desired outcome is something less than wholesale, economy-wide restructuring. In general, this tactic appeals to would-be reformers who recognize that a certain politically powerful group stands to lose much from the proposed reform and is therefore a potentially dangerous foe. See Barbara Grosh, "Through the Structural Adjustment Minefield: Politics in an Era of Economic Liberalization," in Jennifer Widner, ed., *Economic Change and Political Liberalization in Sub-Saharan Africa* (Baltimore: Johns Hopkins University Press, 1994).

11. Cesar Martinelli and Mariano Tommasi, "The Optimal Sequencing of Economic Reforms in the Presence of Political Constraints" (unpublished manuscript, University of California at Los Angeles, April 1993), 4.

12. Miles Kahler, "Orthodoxy and Its Alternatives: Explaining Approaches to Stabilization and Adjustment," in Joan Nelson, ed., *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (Princeton: Princeton University Press, 1990), 33-61.

13. See especially Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," in Frederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987), 136-64.

14. See Juan J. Linz and Arturo Valenzuela, eds., *The Failure of Presidential Democracy* (Baltimore: Johns Hopkins University Press, 1994).

15. Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Haggard and Kaufman, eds., *The Politics of Economic Adjustment*, 139-81.

16. Brazilian presidents José Sarney (1985-90) and Fernando Collor de Mello (1990-92) tried but failed to find corporatist-bargaining solutions to the problem of inflation.