1

CAROL WISE

Introduction:
Latin American Politics
in the Era of Market Reform

SINCE THE WIDESPREAD transition to civilian rule in Latin America over the past two decades and the simultaneous shift from a state-led development strategy to a market-oriented one, a rich literature has emerged examining the variables that converged to provoke this sea change.1 Standing explanations for the demise of authoritarian rule in Latin America center on some combination of: political and economic crises that triggered negotiations among elites for the military’s withdrawal, the revival of political parties and the full range of representative institutions, and the reinstatement of fair elections and democratic norms. Within this transitions literature the adoption of market reforms has been portrayed less as a matter of strategic choice on the part of democratizing elites than as a reflection of the narrow economic policy options that faced the region in the wake of the 1982 debt shocks.2 There has been a presumption, at least implicitly, of tension between political liberalization and market reforms,3 although the literature is also laced with points of compatibility amid the tensions. Surely the combination of civilian regimes and market-based economic policies since the 1980s has survived beyond anyone’s expectations, although the track record confirms the numerous challenges that remain. On the political front, the lingering vestiges of authoritarianism, sporadic coup attempts, and blatant gaps in representation have prompted
Guillermo O’Donnell and others to question the extent to which these evolving arrangements should be referred to as “democratic.” On the economic front, even after more than a decade of deep market reforms in many Latin American countries, average annual growth rates have yet to surpass the minimum 7 percent threshold that economic theory holds as essential for sustaining employment expansion and dynamic income gains. And despite the expectation that income distribution would improve under a market model, little real progress has been made in this realm. Chile, the one case that has crossed this development threshold, aptly illustrates that the success of the market lies in the formulation of complementary public policies that explicitly harness the reform effort to the productive goals for which it was originally designed.

Recent political crises in Latin America, including the premature resignation of popularly elected executives in Argentina, Ecuador, and Peru since 2000 as well as Venezuela’s brief coup of April 2002 and subsequent civic turmoil, have reinforced the image of liberal democracy as a greatly watered-down construct in the region. Moreover, whether it be the coup-provoking battle over managerial appointments in Venezuela’s state-run oil company or Argentina’s December 2001 default on some $144 billion in publicly held debt, one does not have to look far for the economic variables that have exacerbated these political crises. Yet while the gray areas on the continuum between authoritarian and democratic regimes may appear to be expanding, and while economic volatility has surely been a contributing factor, it helps to remember that as recently as September 2001 the Organization of American States approved a new charter that declared every Latin American country but Cuba as democratic—at least in the formal sense. In contrast, in 1978 just Colombia, Costa Rica, and Venezuela were officially categorized as such.

Given the multiplicity of arguments and analyses that have been put forth about the quality and depth of democracy in the region and the persistence of doubts over the efficacy of market reforms and the compatibility of political and economic liberalization, we have chosen in this collection of essays to focus on just one strand of these ongoing debates: the effect of market reforms on domestic politics in Latin America. In studying this link we take civilian rule, flaws and all, as a constant, and in doing so we explore the variation in domestic political responses across six countries—Argentina, Brazil, Chile, Mexico, Peru, and Venezuela—that embraced similar packages of market reform from the 1980s on.
More specifically, our time frame is the period following the implementation of “first phase” reform measures (stabilization, liberalization, privatization, deregulation), when both domestic political responses and the preliminary outcomes of the reforms themselves varied considerably despite strong similarities in the policies adopted. From the six country case studies presented here we identify three main patterns of political economic adjustment: the cases of Argentina and Chile, where market reforms and increasingly competitive politics have gone hand in hand; the cases of Brazil and Mexico, where market reforms have helped to catalyze long and protracted transitions from authoritarian rule; and the cases of Peru and Venezuela, where traditional political systems have literally collapsed but civilian rule continues to survive, albeit under heavy duress.

Some have found it tempting to attribute democracy’s shortfalls to the added pressures from market restructuring, and this collection’s comparative analysis acknowledges these tensions, offering two main insights. First, and in a more immediate sense, the tension has been most acute for those reforming countries that have failed to design an adequate and proper public policy framework to bolster the market: for example, Argentina, Peru, and Mexico until the late 1990s. This said, our second insight is that in the longer run, the liberalization of politics and economics in post–debt crisis Latin America has, on balance, been a mutually reinforcing trend. As Karen Remmer notes in the opening chapter, “the comparative evidence . . . suggests that the most significant reversals in the process of political liberalization in the region have followed in the wake of weak, inconsistent, and ineffectual market reform efforts rather than vigorous economic liberalization.” Venezuela, our outlier case, offers ample support for this claim, further confirming that political and economic reform failures can be self-reinforcing in ways that seriously detract from a nation’s present and future welfare gains.

First Phase Reforms: The Struggle to Adjust

The wide variation on our dependent variable (three main patterns of political economic adjustment, which are depicted in table 1-1) raises key questions concerning what factors have worked to shape such differential outcomes. In our search for answers we explore how market reforms have interacted with patterns of executive leadership, political party structures,
<table>
<thead>
<tr>
<th>Domestic variable</th>
<th>Political competition</th>
<th>Political transition</th>
<th>Political collapse</th>
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<tr>
<td></td>
<td>Argentina (1991–99)</td>
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<td>Political party structure</td>
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<td>Ruling party/coalition</td>
<td>Internal renewal</td>
<td>Internal renewal</td>
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<tr>
<td>Opposition</td>
<td>Center-left; formidable</td>
<td>Rightist; formidable</td>
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and the widely varying abilities of economic reformers to forge political coalitions that could credibly advance their new liberal initiatives. The lack of consensus on the importance that should be assigned to these leadership, political party, and coalitional variables stands out in the literature that we have cited here. Thus we emphasize that the purpose of this collection of essays is to advance these debates (summarized in table 1-1) by shedding additional light on them; we make no pretense to resolve them.

Briefly, for Argentina and Chile market reforms interacted with patterns of strong executive leadership, internal party renewal, and cohesive coalition building such that domestic politics became increasingly competitive through the 1990s. In contrast, the Peruvian and Venezuelan political systems buckled under the pressures from market restructuring. In both countries, strong and autonomous executive leadership failed to counter numerous other political asymmetries, including the internal unraveling of each country’s traditional political party system, a rising military presence, and the lack of any semblance of a reform coalition. For Venezuela the collapse was such that market reforms were abandoned altogether, whereas in Peru political conflict worked to slow the reform process but not to thwart it entirely. In Brazil and Mexico market reforms have whittled away at deeply entrenched authoritarian legacies. In both cases internal weaknesses in the party system and congressional intransigence have competed fiercely with highly professional executive-level coalitions in the fight to deepen the reform agenda. While intermittently at odds, political and economic liberalization continue to march forward in tandem.

The individual country chapters in parts two, three, and four also suggest that in all but Venezuela the shadow of the past and the electorate’s fears of a return to high inflation and political repression have served as reliability checks against jettisoning altogether market reforms and their civilian sponsors. The embrace of market reforms by democratizing regimes marked a somewhat novel trend in late-twentieth-century Latin America, as statist strategies had consistently triumphed under civilian and military governments alike since the days of the Great Depression. The strong association of market reform programs with authoritarian military “experiments” during the 1970s (for example, in Argentina, Chile, and Uruguay) and the failure of these efforts left an understandably bad taste for their revival on the part of democratizing elites. What, then, prompted civilian leaders beginning in the 1980s to pursue a policy course that had been steadfastly rejected by their predecessors since the 1930s and heretofore associated with authoritarians? Were market
reforms, as their critics have argued, mainly policies of last resort? Hindsight suggests that, in fact, they were, given the hyperinflationary outcomes and outright depression provoked by soft-landing, gradualist, or “heterodox” (price and capital controls, fixed exchange rates, and so on) approaches to restructuring in the wake of the debt shocks of the early 1980s. As these external pressures bore down on the region, a first generation of post–debt crisis civilian leaders succeeded in advancing the trend toward political liberalization—for example Argentina’s Raúl Alfonsín, Brazil’s José Sarney, and Peru’s Alan García—but they were not able to advance economic liberalization or dismantle the prevailing state-sponsored development strategy.

Why not? In chapter 2 Karen Remmer emphasizes that “the switch from statist to market-oriented policies in Latin America was initiated less in response to domestic political changes than to external pressures and resulting constraints on policy choice.” In the aftermath of the severe price, commodity, and capital shocks that hit Latin America in the early 1980s, the economic solutions proved to be much more than the usual matters of stabilizing inflation and correcting the balance of payments. Public and private lending to the region had turned to a net negative outflow, and official aid flows were negligible. Suddenly, the main sources of foreign exchange were export earnings, foreign direct investment (FDI), and portfolio investment (primarily stocks and bonds), all of which required a more stable and convincing set of market signals. The persistence of deep recession and high inflation through the entire decade and the virtual collapse of state finances confirmed that political leaders and policymakers indeed had little choice but to abandon the long-standing policies of protectionism and inward-looking development.

In light of these more limited and competitive options for obtaining the foreign exchange necessary to spur economic growth, a newly elected group of political leaders in the late 1980s (for example, Carlos Andrés Pérez in Venezuela, Carlos Menem in Argentina, and Alberto Fujimori in Peru) realistically assessed that they had few other choices but to pursue the kinds of market-oriented structural reforms that would appeal to private investors. While the Washington policy community would subsequently anoint this shift the “Washington Consensus,” in retrospect there was anything but agreement within these civil societies over the implementation of the sweeping set of market reforms that had been recommended by Washington and the multilateral institutions since the 1950s. This lack of domestic political consensus and the highly autonomous decisionmaking
practices employed by these “first phase” market reformers would later come back to haunt them, as their constituents and even their own immediate party cohorts eventually demanded that politics be brought back into the policymaking process.\textsuperscript{16} However, the initial successes with regard to stabilization, the return of private investment, and the restoration of growth worked to dissipate opposition in the short run—as the preliminary gains from inflation stabilization were widely dispersed and the pain of adjustment was at least perceived as having been spread across the entire population.

Thanks to the tenacity of these reform-minded executives and their tightly knit policy coalitions, this first phase of crisis-driven market restructuring based on liberalization, privatization, and deregulation had more or less been completed by the mid-1990s. In all but Venezuela, where reform opponents succeeded in sabotaging the restructuring efforts of the Carlos Andrés Pérez administration, the initial goals of macroeconomic stabilization and balance of payments adjustment had finally been accomplished; incentives and relative prices, furthermore, had been redesigned according to more competitive criteria. In 1997 average regional growth rates surpassed 5 percent of GDP for the first time in twenty-five years, and the average inflation rate had been reduced to single digits. While portfolio flows remained volatile, net annual flows of FDI in the 1990s were running eight times higher than in the 1980s.\textsuperscript{17} The extent to which these Latin American economies had been reoriented toward the external sector was reflected in the trade figures, which showed that commercial exchange between the region and the rest of the world had doubled since 1990.\textsuperscript{18}

Nevertheless, the ensuing relentless stream of external and regional economic shocks (Asia, 1997; Russia, 1998; Brazil, 1999; and Argentina, 2001) quickly rendered 1997’s peak performance unsustainable. In the meantime there had been wide variation in the general trend toward economic recovery, and the exigencies of inflation control and fiscal austerity in the 1990s meant that the distributional hit from each successive shock further worsened preexisting patterns of inequality. As can be seen in table 1-2, only Argentina and Chile registered substantial growth and per capita income gains between the pre-reform (1970–81) and postreform periods (1991–2000); in terms of global growth rates, Peru and Venezuela basically broke even in the pre- and postreform periods, although Peru’s per capita growth gains from 1991 to 2000 were much higher than those of the 1970–81 period; Brazil and Mexico both lost considerable ground between the pre- and postreform periods, as neither has caught up to
Table 1-2. *Macroeconomic and External Indicators for Selected Latin American Countries, 1970–2000*

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<td>1.1</td>
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<td>3.3</td>
<td>2.0</td>
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<td>1.3</td>
<td>0.9</td>
<td>0.9</td>
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<td>3.7</td>
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<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
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<tr>
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<td>-1.3</td>
<td>-1.3</td>
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<td>4.8</td>
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<td>-6,045.7</td>
<td>167,070.2</td>
<td>6,519.7</td>
<td>-6,045.7</td>
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(continued)
Table 1-2. Macroeconomic and External Indicators for Selected Latin American Countries, 1970–2000
(Continued)


n.a. Not available.
a. Investment and GNP per capita data are through 1998. Indicator variables are defined as follows:

GDPGRO: Growth of real GDP.
GNPPCGRO: Growth of real per capita GNP.
INF: December-to-December inflation.
PRIVGDP: Private investment as a percentage of GDP.
PUBIGDP: Public investment as a percentage of GDP.
INVEST: Total domestic investment as a percentage of GDP.
RER: Real exchange rate (1990 = 100), calculated using period average exchange rate, U.S. Wholesale Price Index, and domestic Consumer Price Index.
TRADEBAL: Trade balance (millions of dollars); this indicates merchandise exports and imports.
CURACCT: Current account (millions of dollars).
FDI: Foreign direct investment (millions of dollars).
PORT: Foreign portfolio investment (millions of dollars).
DEBT: Total external debt (millions of dollars).
where it was prior to the debt crisis in terms of growth rates and per capita income gains.

It was these disappointments, plus the tenacious gap between macroeconomic dynamism and continued stagnation at the microeconomic level (see table 1-3), that triggered debates about the need to launch a “second phase” of market reforms to help correct for these shortcomings. While perhaps simple at first glance, prescriptions for a second follow-up phase of market reform in the mid-1990s obviously caught each country at a different point on the reform trajectory. Argentina, for example, still faced the related challenges of antiquated labor market rules and the lack of trade competitiveness, while Mexico had yet to tackle the difficult tasks of financial market restructuring and comprehensive fiscal reform. Peru had relied almost solely on autonomous agencies and semiauthoritarian decision modes at the expense of broader reforms that were still desperately needed within the line ministries and throughout the public administration. Amid these challenges electoral cycles were also weighing in on the reform process and further complicating the tasks of economic policymaking. However, as Karen Remmer argues in chapter 2, “electoral competition has exercised a disciplining impact on economic policy, generating political incentives for government leaders to introduce and sustain reforms in order to maintain macroeconomic stability and restore growth.” The shadow of past failures, it seems, was still more daunting than the future uncertainties of market reform.

**Second Phase Reforms: Bringing Politics and Public Policy Back In**

In a distinct departure from the pre-reform era, voters in all but Venezuela continued to side with candidates who resisted the old populist remedies and instead articulated policy platforms that sought to more aggressively harness market reforms to the growth and distributional tasks for which they had been originally designed. At the same time public opinion polls across the region showed that voters’ goodwill toward civilian reformers was increasingly contingent on the coupling of market restructuring with a much stronger commitment to political reform. Such were the civic expectations that underpinned the 1994 election of Ernesto Zedillo in Mexico, the 1995 reelection victories of Carlos Menem in Argentina and
Alberto Fujimori in Peru, and the reelection of Brazil’s Fernando Henrique Cardoso in 1998.

In all but Venezuela these political, economic, and social pressures generally translated into a second phase reform agenda that encompassed three main areas: (1) market-completing measures designed to bring those initiatives launched during the first phase of market reforms to fuller fruition (for example, exchange rate adjustments, fiscal overhaul, modernization of budgets and accounting systems); (2) equity-oriented programs that more carefully targeted human capital investment and directly addressed the distributional failures that appear in table 1-3; and (3) institution-building efforts aimed at bolstering the norms of democratic governance and instilling greater transparency, accountability, and citizen input into the policymaking process (for example, reform of central government ministries, greater antitrust oversight, and measures to secure fair and clean elections).22

While challenging, the tasks involved in the first point, completing or fine-tuning earlier reforms, were fairly straightforward. For example, with the problems identified, market-completing reforms have advanced across the board—including Brazil’s heightened efforts at fiscal modernization and prudence, Mexico’s overhaul of the domestic banking sector, and Argentina’s painful but necessary abandonment of peso-dollar parity under a currency board. And on the second point of the second phase agenda, all five of the reformers at hand (absent Venezuela) have moved away from the kinds of short-term safety-net social programs that prevailed early on and are pursuing more targeted distributional strategies that seek to tackle poverty and inequality at their roots by investing productively in education, health, and housing.

Progress in the third area, which recognizes that the ultimate viability of market reforms lies in the construction of more credible structures of democratic governance, has proved to be far more difficult. Having launched the bulk of their bold reform packages through executive decrees that circumvented congressional oversight and domestic policy debate, patently successful incumbent first phase reformers like Argentina’s Carlos Menem, Peru’s Alberto Fujimori, and Mexico’s long-standing ruling party (PRI) proved incapable of implementing the second phase agenda upon which their reelection victories had been based. The heavy reliance of these reformers on autocratic management styles had enabled them to push through dramatic changes before opposing interests could regroup; however, in this process each of these reform teams had lost touch with its own
constituent support base. At the same time the very success of macroeconomic stabilization in all but Venezuela induced citizens to focus on other issues, and this rendered the institutional gap all the more evident. As domestic politics inevitably caught up with these initial reform coalitions, their very nature worked against the more participatory and representative political modes now being demanded at the level of civic discourse and voting behavior in these countries.

The tasks at hand on the second phase reform agenda also called up collective action dilemmas that could no longer be swept aside by political leaders and their technocratic “change teams.” Whereas the pain and gain from first phase reforms (stabilization, liberalization, privatization, deregulation) were perceived as having been widely shared, follow-up policies—meant to promote efficiency, competition, and transparency and thus lay the way for the successful sustainability of a market-based development model—were more liable to generate distributional conflict. The winners and losers in the reform process became more discernible, as the costs (downsizing, bankruptcy, antitrust oversight) became more concentrated and the benefits (productivity gains, greater public accountability, increased efficiency in the delivery of key services) far less tangible.

<table>
<thead>
<tr>
<th>Country</th>
<th>Populationa (millions)</th>
<th>GDPb (billions of dollars)</th>
<th>(000/cap)</th>
<th>Gini coefficientb</th>
<th>Pre-reform</th>
<th>Postreform</th>
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</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>168.1</td>
<td>542.0</td>
<td>3.1</td>
<td>.590 (1985)</td>
<td>.590 (1997)</td>
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<td>n.a.</td>
<td>.553 (1996)</td>
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<td>97.4</td>
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<td>2.1</td>
<td>.519 (1985)</td>
<td>.435 (1996)</td>
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<td>n.a.</td>
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n.a. Not available.
a. Figures are for 1999.
b. A measure of income inequality that gauges the difference between full equality (0) and full inequality (1); the higher the Gini coefficient, the more extensive is income inequality.
Not surprisingly, it would require another wave of elected politicians—Fernando de la Rúa in Argentina, Alejandro Toledo in Peru, and Vicente Fox in Mexico—with much broader coalitional backing to advance the difficult agenda just described. However, the political honeymoon enjoyed by earlier reformers was truncated this time around by external shocks and acute microeconomic stress in the late 1990s. Electoral coalitions of the kind mobilized by this latest generation of leaders had proved quite effective at widening the parameters of the debate over how to broaden the winners’ circle in political and economic terms, but much less so when it came to actually governing and delivering on these initiatives. Witness the postvictory collapse of Argentina’s Democratic Alliance and the December 2001 resignation of its winning candidate, President De la Rúa, just two years into his term. Along similar but less drastic lines, executive leaders in Peru and Mexico have seen their popularity ratings plummet, and after more than two years in office neither Toledo nor Fox has succeeded in forging the more broad-based congressional and party coalitions that will be essential for realizing their stated second phase goals.

It is this current juncture in the region that provides the main departure point for this collection of essays. In varying degrees the majority of the countries reviewed here continue to grapple with the political repercussions of market reform. But with the exception of Venezuela, none have forsaken the second phase challenges of more fully completing earlier market initiatives, attacking inequality at its core, and deepening institutional reforms and democratic norms to promote civic participation and more viable venues for interest representation. While differences in political leadership, party structure, and coalition-building capacities help explain the varying outcomes that appear in table 1-2, we find that in all but Venezuela the political hurdles are still being tackled under the banner of sustaining market reforms through an expansion of public policies that specifically target the numerous shortcomings that still remain. Venezuela provides the exception to this scenario. There, the costs of delaying reform have again exploded into crisis proportions, confirming that a reform laggard can perhaps run from the tasks of economic stabilization, but in the end it cannot hide from the highly damaging repercussions.

For the majority group of second phase reformers analyzed in this volume, the impact of economic liberalization is such that an ever higher premium has been placed on statecraft, policy precision, and follow-through. In this sense the country case studies presented here also identify an incipient second phase of politics, one that is necessarily more unruly, given the
increased demands for political accountability and the uprooting nature of the reforms themselves, but also potentially more enduring as this latest round of civilian reformers continues to struggle with the longer-run challenges of economic restructuring.

Part One: Postreform Politics

The three chapters in part one of this volume explore the impact of market reforms in Latin America by examining voting responses, social mobility, and the extent to which the simultaneous liberalization of markets and politics has fostered a renewed sense of citizenship in the region. Together, these essays take on the questions of the microfoundations of political development in the era of market reform. Although electoral responses to economic crisis and market reforms have been written about extensively in the comparative political economy literature, our purpose in beginning this collection with Karen Remmer’s chapter on elections and market reforms in Latin America is to offer a long view on this relationship—one that spans voting responses over the two decades since the onset of market reforms in the early 1980s.

As mentioned earlier, Remmer argues that the relationship between political and economic liberalization in post–debt crisis Latin America has been a mutually reinforcing one. Moreover, an increasingly unforgiving international context for development has helped to hold this relationship in place, as unprecedented levels of capital mobility have greatly upped the penalties (capital flight, investment strikes) for reckless policy errors on the domestic front. However, in contrast to earlier inflationary political-business electoral cycles in the region, by the 1990s electoral competition had also come to serve as a second round of checks against the kinds of rash policy mixes and dismal outcomes that are reflected in table 1-2 (especially for the so-called heterodox reformers of the mid-1980s—Argentina, Brazil, and Peru).

For example, Remmer’s evidence shows that three main variables—incumbent candidates, inflation, and GDP growth—account for 50 percent of the variation in electoral outcomes in the post-stabilization period. Tellingly, “no government won reelection in the 1990s with the inflation rate above 15 percent. . . . With the disappearance of inflation . . . other unresolved economic problems, especially unemployment, emerged in its place.” Remmer’s findings confirm voters’ continued sensitivity to sound
economic performance in the post-stabilization period as well as their determination that the tasks of economic management remain subject to periodic evaluation at the polls; her data further suggest that this economic sensitivity has held steady despite successful macroeconomic stabilization and the restoration of moderate levels of growth in the 1990s.

To what extent could microeconomic trends be shaping these continued economic sensitivities and concerns of electorates across the region? Little has been written on the microlevel impacts of market restructuring in Latin America, mainly because these phenomena constitute longer-term effects that are still subject to data limitations and measurement difficulties. In chapter 3 Carol Graham and Stefano Pettinato take one of the first comprehensive steps toward assessing the impact of market reforms from this standpoint. They argue that political feedback effects at the microlevel—that is, how market reforms have directly influenced one’s own station in life and hence one’s political behavior—have been paramount. Paradoxically—based on their preliminary findings from a survey of public support for market reforms, democratic institutions, and respondents’ expectations for future progress in seventeen Latin American countries during 1997 and 1998—they report that those respondents who have been most adversely affected are also those who have expressed the greatest optimism about their future under market reforms.

Expectedly, some of Graham and Pettinato’s findings strongly complement those reported by Remmer. They found, for example, that support for efficiency and productivity-enhancing measures was higher in countries that were in the early stages of stabilization and market reform and, not coincidentally, these were the same countries where economic crisis and high inflation were still strongly imprinted on the polity’s collective memory. Respondents’ tolerance for increased inequality was also higher early on in the reform process, as the advancement of some segments of the work force demonstrated the possibilities for future upward mobility across a broader segment of the population. Needless to say, those who supported market reforms tended to be positive about their own prospects for upward mobility. Also in line with Remmer’s findings, Graham and Pettinato’s region-wide survey results confirm the durability of societal support for market reforms over time. In refining this insight, they note how further support has been conditioned by demands for redistribution and more socially oriented measures once the earlier reforms are firmly in place, especially in those countries where the social safety net was quite thin to begin with.
Graham and Pettinato break new ground with their analysis of objective and perceived trends in social mobility under market restructuring and their recognition of the dynamic interplay between mobility, opportunity, and political behavior. While earlier conventional wisdom, particularly within the multilateral institutions, held that absolute income gains (growth) were more important than relative gains (distributional trends) in the quest to sustain market reforms, the survey findings presented by these authors readily show that relative income trends matter every bit as much from the respondents’ standpoint. Yet the ways in which these absolute versus relative gains matter has everything to do with where one stands on the mobility continuum. Understandably, those in the top income deciles have few quarrels with economic stabilization and market reform; they are the very definition of upward mobility and by virtue of their wealth are insulated from the burden of ongoing adjustment. But Graham and Pettinato’s regionwide survey also shows that the poorest sectors—even some within those same cross-sections that suffered downward mobility during market reforms—remained loyal to a stabilizing market strategy through the late 1990s. Middle-class respondents were the most disgruntled in the postreform era and the most likely to express distributional concerns, as economic liberalization has ratcheted up the skill premium and introduced higher levels of competition and uncertainty into traditionally uncontested middle-class labor markets in the region. Also, this group’s self-reporting on past, present, and future prospects for mobility was more pessimistic even in the face of positive gains, given its propensity to look upward to the wealthier income deciles as a main reference point.

While Graham and Pettinato are the first to admit the pilot nature of this study, their preliminary findings offer some compelling insights into the political impact of stabilization and market reform at this microlevel. They note, for example, that those who live in countries where income distribution is most unequal tend to assess their future prospects for upward mobility more positively than those in more equal societies. And it is these perceptions of one’s mobility—who is moving up the income pyramid, who is moving down, and the prospects for improvement—that emerge as significant variables for explaining why voters in many Latin American countries have repeatedly opted for a continuation of the stabilization and adjustment strategies under way. In Graham and Pettinato’s words, “Current acceptance of market reforms could be attributable to the belief on the part of those who have consistently been excluded from new
opportunities that they have an increased chance for economic participation and political voice.”

A main puzzle that emerges at this micropolitical level of analysis is the tendency for public opinion surveys to contradict voting behavior. For instance, Graham and Pettinato report that Venezuelan respondents ranked highly on the pro-market score, a finding that squares with their argument about support for stabilization and liberalization being stronger in countries that are still fraught with economic turmoil, in the early phases of reform, or both. Yet in chapter 10 Kenneth Roberts notes that voting trends in Venezuela have reflected just the opposite: since the ascendance of Hugo Chávez to the presidency in 1998, there has been little societal demand for reform and, if anything, an antireform bias has surfaced at the ballot box. In chapter 4 Consuelo Cruz attributes these mixed signals to the failure of third wave democracies, or at least their Latin American rendition, to foster civic identities such that public opinion is more in tune with voting behavior.

“The people,” Cruz notes, “fragmented in sentiment, forge alliances with competing elites; and competition overall provokes disruptions in the very system of dependencies that make up the informal polity.” For Cruz, the failure of Latin political elites to develop a shared discourse regarding citizenship is one of the weakest links in the liberalization chain. Indeed, the post-stabilization trends toward electoral volatility,25 the widespread rejection of traditional kinds of political party affiliation, and the rise in the number of null and blank votes cast across the region all confirm that something is seriously awry within the contemporary political culture. While thus far not fatal, Cruz cautions that the difficulty that citizens have had in defining themselves as such—rights, responsibilities, and all—has also deterred them from constructively joining forces with government officials in the quest to render reforms more amenable to their wants and needs.

When these microlevel political insights into voting trends, mobility, and civic identities are combined, the following scenario emerges: more often then not, the shadow of the past, external constraints, and the perceptions and prospects for upward social mobility have fueled voting patterns that support economic stabilization and the deepening of market reforms. This is so even when the actual data on household income point to a trend of relative decline. However, as the reform process has proceeded, societal demands have shifted in favor of more distributional policies. This picture is clouded by weaknesses in citizenship and civic identi-
ties in Latin America, whereby public survey respondents and voters alike have yet to hit all four cylinders when it comes to expressing and asserting their rights before the state. Politicians, executives, and policymakers have similarly failed to meet citizens halfway. What can be said with some certainty, and as the country cases in this volume show, is that politicians who continue to turn a tin ear to these microlevel distributional demands increasingly do so at everyone’s peril, not just their own. The long-running Venezuelan saga is a strong case in point.

Part Two: Competitive Elections and Postreform Coalition Building

In line with unresolved debates concerning the proper sequencing of political and economic liberalization, the cases of Argentina and Chile readily show that there is simply no set formula. Although the transition to democracy in Argentina came first, in 1983, there was little to indicate that policies of economic stabilization and deep market restructuring would be firmly in place a decade later. In light of the frequent bouts of military rule and zero-sum political stalemate that plagued the country throughout most of the post–World War II era, there was even less reason to assume that civilians would, indeed, still be in office. Chapter 5, by Juan Corradi, charts the complicated interplay between politics and economics, as well as the role of external pressures, in sustaining democracy and market reforms in Argentina.

Despite Argentina’s current reform-related turmoil, tables 1-2 and 1-3 remind us that the absolute (growth) gains from market restructuring over the past decade have been sound, even if relative (distributional) gains have been disappointing (as in the rest of the region). Thus to a certain extent there has been a structural logic to the chosen reform path. But as Corradi reminds us and the country’s present crisis confirms, these relative losses cannot be smoothed over indefinitely. He details the ways in which executive leadership, the renewal and internal overhaul of the political party system, and coalition building around the reform effort all worked to reinforce competitive politics in the context of market restructuring. However, this chapter also charts the ways in which nagging reform gaps, a public policy vacuum, and half-hearted reform implementation can eventually spring back and threaten political stability—precisely the situation Argentina found itself in when President De la Rúa resigned in December 2001.
In Chile, where market reforms preceded democratization by a good fifteen years, it was equally unimaginable that a harsh military regime would survive for seventeen years (1973–90) in a country that had heretofore been one of Latin America’s staunchest defenders of democracy. In contrast to Argentina, market reforms were deeply rooted in the Chilean political economy by the time the military junta finally began to unravel in the late 1980s. As table 1-2 shows, performance at the macroeconomic level was sound enough in the 1980s that the incoming democratic opposition was compelled to commit to the continuation of the market strategy when it finally took the reins of government in 1990. Yet as Delia Boylan points out in chapter 6, the distributional shortcomings of the military regime also fueled civic demand for a more aggressive post-transition approach to the promotion of equity, employment, and income gains. For example, although Chile’s per capita income grew more briskly during the 1980s than any of the other countries considered here, table 1-3 also shows that absolute levels of per capita income still trailed behind those of Argentina and Mexico, while relative trends were slightly worse.

As in Argentina, the process of political and economic liberalization in Chile was catalyzed by the gradual reconstruction and modernization of long-standing political parties and by professional executive leadership and coalitional brokering that staked out a middle political ground after the extremities of prolonged military rule. For both Argentina and Chile, and in contrast to the other countries analyzed here, the durability and healthy revival of their political party systems in the transition period gave politicians and policymakers a definite advantage in their ability to advance and sustain stabilization and market reforms under conditions of greater political competition. Nevertheless, and in spite of Chile’s highly touted status as the earliest of the market reformers, Boylan’s analysis of the near loss of the ruling Concertación de Partidos por la Democracia in the 1999 presidential elections underlines the extent to which the art of sustaining political support in the era of market reforms is still an incipient one.

After a full decade of widespread civic approval expressed both at the ballot box and in public opinion polls, Concertación’s leaders had failed to adequately respond to the same kinds of second phase reform demands and distributional worries that have surfaced in Argentina, Brazil, Mexico, and Peru. In contrast to Argentina’s Alianza Democrática coalition, which governed from 1999 to 2001, Concertación was able to quickly regroup and credibly address citizens’ heightened concerns over improved service delivery and more vigorous distributional policies. Competitive politics
and market reforms remain on a mutually reinforcing path, but the Concertación’s close electoral call of 1999 offers up two main insights: that the Chilean electorate is increasingly less wed to party affiliation than to concrete public policy responses that directly improve economic performance and that the party of the “Right” has similarly shifted toward more pragmatic and issue-oriented platforms and candidates.

Part Three: Politics in Transition

Mexico and Brazil took similarly diverse paths toward liberalization. In Mexico, as in Chile, deep market reforms preceded the transition from semiauthoritarian rule by a good fifteen years. And like Chile’s democratic opening, those PRI operatives who had engineered market reforms did so hoping not to cede too much power to the opposition. If there is any one lesson to be gleaned from these two earliest reformers it is the extent to which economic stabilization and market restructuring virtually pulled the rug out from under old-style authoritarian politics. In Mexico the contrived nature of rotating elections, heightened external pressures related to the country’s vigorous integration into the North American bloc, and the growing gap between socioeconomic expectations and daily reality finally prompted the electorate in 2000 to reject the PRI’s thirteenth consecutive bid to control the presidency.

As well as analyzing how the ongoing effects of market reform spurred an almost inadvertent transition to democratic rule in Mexico, chapter 7 explores the ways in which this transition represents the decline of a long-standing political pact among ruling party elites in Mexico and between the PRI and the country’s mass base of constituents. This scenario is distinct from the other transitional cases in this volume in that Mexico’s democratization represents the deterioration of old pacts but not necessarily the construction of new, or to date viable, ones. Moreover, the internal weaknesses of a party system long controlled by the PRI and the lack of any earlier phases of democratic rule from which to draw strength have challenged executive leadership every step of the way. These handicaps help explain the protracted nature of Mexico’s transition as well as the remaining difficulties. Witness, for instance, the almost immediate gridlock that set in within the Congress—the country’s most democratically elected legislature yet; political moderation and coalition building toward a vitally needed second phase reform agenda has thus far eluded this body.
As in Chile, the Mexican electorate’s growing disillusionment with the failure of democratizing reformers to deliver on promises to deepen (judicial reform, improved public security, indigenous rights) and fine-tune (a more progressive tax reform, banking oversight) the market measures in place has led to increased pressure on politicians and policymakers to act. Thus despite the decidedly mediocre post-stabilization performance of the Mexican economy in both absolute and relative growth trends (see tables 1-2 and 1-3), the prospective gains from market restructuring within the context of North American integration (investment, jobs, and low inflation) still outweigh the losses in terms of voters’ continued support for political and economic liberalization. The poor showing of populist candidates and platforms in the 2000 presidential election further suggests that, like their Chilean counterparts, Mexican voters will continue to reward those candidates offering efficiency and equity-oriented solutions regardless of their particular party affiliation.

In chapter 8 Riordan Roett highlights the ways in which political and economic liberalization can still be at loggerheads even long after the transition to democracy, the stabilization of the economy, and the adoption of market reforms. Like Argentina, Brazil’s liberalization path was one in which sound economic reforms trailed behind the political opening by nearly a decade. Yet the political and institutional backdrop for democratization was more akin to Mexico’s: the bankruptcy of elite pact making and executive leadership and the vagaries of political exchange and coalition building within the Brazilian Congress. Brazil’s contingencies were rendered even less favorable by the fragmentation and transience of political parties. It was not until Fernando Henrique Cardoso, becoming president in 1994, crafted the country’s first modern reform coalition in the post–debt crisis era that the joint processes of economic stabilization and political liberalization began to move forward.

The early returns from stabilization and restored growth won Cardoso a second term in 1998, ostensibly granted for the purposes of deepening the reform agenda and addressing Brazil’s huge backlog of distributional ills; however, with dire external shocks hitting the country almost yearly since the launching of market reforms and the continued strife in Congress, even a highly capable executive reform team has not been able to accomplish these goals. Add to this the continued intransigence of party politics and the assorted corruption scandals that have plagued the Cardoso administration, and the results have been the electorate’s waning enthusiasm for the deepening of market reforms. Perhaps more so than citizens in
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Mexico, where the prospects for future prosperity under the North American Free Trade Agreement still burn bright, Brazilians have been more apt to look back at the undeniably better growth and per capita income gains of the pre-reform period—no matter that such returns stemmed from a debt-backed statist model that has long been obsolete.

While the electorate’s nostalgia for past prosperity and disaffection for current hardships have yet to translate into a full-scale rejection of market reforms, they have fostered demands for more gradualist approaches to economic restructuring. Hence the victory of former three-time presidential candidate and Workers Party (PT) leader, Luiz Inacio da Silva (“Lula”) in the October 2002 presidential election. Having moderated his position on economic policy to a more market-friendly stance in comparison with past campaigns and presenting himself as the quintessential “man of the people,” Lula captures the post-stabilization mood of the electorate: a deep commitment to participatory democracy and a preference for economic stabilization underpinned by a much more ambiguous attitude toward the extension of market reforms—especially in the absence of public policies that more aggressively tackle the lackluster income and growth trends that appear in table 1-2.

Already the Lula administration has acknowledged its commitment to address the country’s three most pressing problems. First is the need to reduce and rationalize Brazil’s mountainous public debt; second, to devise a pro-growth strategy to pull the country out of a prolonged slump; and third, to deliver on campaign promises to reduce poverty and improve the country’s bleak social conditions. Like Toledo’s and Fox’s, Lula’s presidential victory did not translate into the election of a PT majority in Congress, and for the most part the new president faces a majority of powerful and patently unfriendly opposition governors at the state level. Nevertheless, and as the Venezuelan case vividly portrays, the risks of reform failure at this late stage in the liberalization game can be far more costly than the present alternative: for all involved parties to rally the political courage to forge those reform coalitions and explicit follow-up strategies that will be necessary to bring market reforms to fuller fruition. As a “reformed populist” with enormous public appeal and an advocate of a steady but more gradual and socially conscious approach to market restructuring, it is not out of the question for Lula to stake out a constructive middle ground between state and market. While it would be premature to speak of Brazil as on the path to Tony Blair’s Third Way, the Lula phenomenon does offer welcome relief from the highly stylized and now sterile Washington Consensus discourse, which in
countries like Argentina, Mexico, and Peru became an excuse for dropping the ball on public policy.

Part Four: Party Collapse amid Market Restructuring

Peru and Venezuela, each in its own way, challenge a fair amount of the common wisdom that has prevailed in the literature on the political economy of democratic transition and market reforms. In both countries radical market shock programs were sprung on the populace by newly elected executives who had made no mention of such policies during their presidential campaigns. Of the two, Venezuela, with its highly institutionalized two-party political system and its numerous venues for constructive intermediation between the state and key representatives of civil society, would be most expected to withstand this disruptive “policy switch.” Peru, on the other hand, with its devastating decade-long guerrilla insurgency and virtual collapse of state institutions and effective modes of societal representation in the late 1980s, would be assigned a very low chance of successfully accommodating market reforms under a dark horse president like Alberto Fujimori, who came to office without any established political party backing.

The outcome, of course, has been just the opposite. Both countries saw the startling collapse of the political party system in the 1990s, and both have set the regional pace for the periodic disruption of civilian rule. Peru, however, has stayed the course with its efforts at market restructuring, and the post-Fujimori democratic transition is firmly on track. In contrast, Venezuela has abandoned economic stabilization and market reforms altogether, and the April 2002 coup attempt and continued plotting against President Hugo Chávez reflects the tentativeness of the country’s commitment to democratic norms. In Martín Tanaka’s chapter 9 on Peru and Kenneth Roberts’s chapter 10 on Venezuela, the authors explore the political and economic forces that have propelled these countries onto much messier reform paths. Suffice it to say that the kinds of professional executive leadership, political party renewal, and cohesive reform coalitions that roughly characterized the Argentine and Chilean cases have been sorely lacking in Peru and Venezuela.

These adverse circumstances raise two important questions that these chapters seek to address. First, how is it that Peru has performed relatively well over the past decade, especially in light of the standing notion that a
stable political party system is a necessary condition for doing so? As can be seen in table 1-2, Peru ranked just behind Chile and Argentina in terms of growth rates and per capita gains over the past decade; moreover, at the very point in the mid-1990s when first phase market reforms had been implemented, the country’s distributional gains were the strongest of all (see table 1-3).

Tanaka’s chapter shows how the Fujimori administration’s discomfort with the give-and-take of congressional politics and its rising propensity toward authoritarianism greatly deterred the deepening of market reforms during the president’s second term. By relying mainly on personalism and by forging vertical ties with the country’s mass of indigenous poor, Fujimori prolonged his stay in office but squandered the chance to further advance the reform process along the lines promised in his reelection campaign. At the same time the electorate’s tolerance for authoritarianism diminished in the face of mounting frustration over unmet reform demands, and revelations of deep-seated corruption finally brought Fujimori down in late 2000. Although the Toledo administration continues to struggle against the adverse political and institutional contingencies that it inherited, voting behavior still reflects a basic commitment to sustaining reforms while rebuilding the country’s battered democratic institutions. Public opinion, on the other hand, has been less kind to Toledo and not particularly patient with the halting start of the new administration in launching a cohesive post-stabilization strategy that tackles the remaining reform gaps from the Fujimori era.34

These chapters also raise a second pressing question: how is it that a country like Venezuela, which appeared to have it all in the 1980s, could lose its political footing to the extent that the traditional party system is now a mere shadow of itself and a former coup-monger occupies the executive office? Equally important is the question of where to begin picking up the institutional pieces once the domestic political system implodes, a challenge that both Venezuela and Peru still face. In Peru, for example, there has been a concerted effort to form new parties and to bolster other venues for societal representation. But, as Tanaka argues, most of these mobilizing efforts still amount to social movements that coalesce around election time and then scatter. In Venezuela, as the recent coup attempt suggests, the political system is still reeling from the self-inflicted blows it suffered with the election of Chávez in 1998.

As Roberts points out in his chapter, political collapse in Venezuela stems from the growing institutional rigidities within the party system,
including the failure of political elites to update the core programmatic stance of the two main parties or to compromise over economic reform initiatives. Whereas severe external pressures bore down on politicians and policymakers in the other five countries (see table 1-2) and compelled them to take reform risks that they surely would have avoided otherwise, for Venezuela this external variable was mitigated by the country’s ready access to oil revenues. Not only has foreign exchange from the country’s vast petroleum reserves allowed for rampant fiscal profligacy and slack macroeconomic management, the country’s petro-wealth has apparently distracted the electorate from feeling the distributional pain that table 1-2 suggests they should, indeed, be feeling.

When Venezuelans do feel their economic pain, as when the Pérez administration sprang market reforms on the country in 1989, the reaction has been traumatic. Remarkably, although the trends in table 1-2 clearly reflect the equivalent of three lost decades, there is still no discernible demand for economic reform in Venezuela. In concluding, Roberts argues that the “Venezuelan anomaly indicates that institutional effects are heavily conditioned by the structural and social contexts in which institutions operate, and it calls for a more integrative approach to the study of the politics of market reform.” This statement also sums up the approach taken in the following chapters, which explore political responses to market reform from the vantage point of political institutions and the structural relationships in which they are anchored.

Notes


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7. All dollar amounts are in U.S. dollars unless otherwise noted.


10. Oshorn and Starr, Markets and Democracy.


17. These data are cited from ECLAC, “Preliminary Overview of Latin America and the Caribbean” (Santiago, 1997).

18. These trade figures are cited from the database of the Inter-American Development Bank’s Statistics and Quantitative Analysis Unit, Washington.
23. An excellent summary of this literature can be found in Stokes, *Mandates and Democracy*, chapter 2.
30. Fernando Masi and Carol Wise, “Negotiating the FTAA between the Main Players: The U.S. and Mercosur,” University of Southern California, Los Angeles, School of International Relations, March 2003.
33. See Stokes, *Mandates and Democracy*, pp. 3–4. Argentina, for example, withstood this same phenomenon under the first Menem term, and given the country’s very recent transition from military rule, it did so under even less favorable political and institutional circumstances than those that prevailed in Venezuela at the outset of the reform effort.