THE POLITICS OF ECONOMIC LIBERALIZATION

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POLITICAL AND ECONOMIC INTERACTIONS IN ECONOMIC POLICY REFORM: EVIDENCE FROM EIGHT COUNTRIES. Edited by Robert H. Bates and Anne O. Krueger. (Cambridge, Mass.: Basil Blackwell, 1993. Pp. 481. $59.95 cloth.)

ECONOMIC REFORMS IN NEW DEMOCRACIES: A SOCIAL-DEMOCRATIC APPROACH. By Luiz Carlos Bresser Pereira, José María Maravall, and Adam Przeworski. (Cambridge: Cambridge University Press, 1993. Pp. 227. $49.95 cloth, $14.95 paper.)

DEBT, DEVELOPMENT, AND DEMOCRACY: MODERN POLITICAL ECONOMY AND LATIN AMERICA, 1965–1985. By Jeffry A. Frieden. (Princeton, N.J.: Princeton University Press, 1991. Pp. 280. $29.95 cloth, $16.95 paper.)

THE STATE AND POLICY OUTCOMES IN LATIN AMERICA. By Lawrence Graham. (New York: Praeger and the Hoover Institution Press, 1990. Pp. 206. $39.95 cloth.)

PATHWAYS FROM THE PERIPHERY: THE POLITICS OF GROWTH IN THE NEWLY INDUSTRIALIZING COUNTRIES. By Stephan Haggard. (Ithaca, N.Y.: Cornell University Press, 1990. Pp. 276. $37.50 cloth, $12.95 paper.)

THE POLITICS OF ECONOMIC ADJUSTMENT. Edited by Stephan Haggard and Robert R. Kaufman. (Princeton, N.J.: Princeton University Press, 1992. Pp. 356. $49.50 cloth, $16.95 paper.)

PAYING THE COSTS OF AUSTERITY IN LATIN AMERICA. Edited by Howard Handelman and Werner Baer. (Boulder, Colo.: Westview, 1989. Pp. 266. $44.50 cloth.)

Serious efforts to increase the market orientation of economies in Latin America and elsewhere have been going on for about twenty years, if the initiation of radical liberalization in Chile is taken as the start of the trend. Scholars began analyzing these efforts even earlier, when they were still more rhetoric than reality. The books reviewed here are some of the more recent ones in the huge outpouring of scholarship on this topic. Enough time has now passed to assess what we have learned about the politics of economic liberalization and more generally about the relationships among politics, economic policy, and economic performance.

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The most normatively important conclusion to emerge from this literature is that, contrary to earlier suggestions, authoritarian governments have no advantage over democracies when it comes to economic performance. Numerous analysts using several different methodologies now agree on this point, which only a few years ago violated conventional wisdom. It is supported by a series of quantitative studies done by Karen Remmer,[1] by a model that takes into account the effects of selection bias on the relationship between regime type and economic performance developed by Fernando Limongi and Adam Przeworski,[2] and by the volumes under review here edited by Handelman and Baer, Haggard and Kaufman, and Bates and Krueger.

A second conclusion to emerge from this literature is that the quality of the state bureaucracy affects economic policy making and performance, even when policies are intended to reduce state intervention in the economy. Little agreement exists about exactly which administrative capacities matter and how they relate to the larger political system and even less about why some bureaucracies have developed into more effective policy makers than others. But many of the authors of these studies note the importance of what John Waterbury calls "expert change teams," Peter Evans identifies "bureaucratic coherence," and Stephan Haggard and Robert Kaufman label "insulation" as causes of effective state economic decision making and implementation.

More controversy can be found over the effect of interest groups on economic policy. Everyone agrees that governments need support and that mobilizing opposition to economic policies can be hazardous to incumbents, but the case studies do not support the stylized view that state policies reflect straightforwardly the desires of interest groups. In the studies under review, one encounters little "on-the-ground" evidence that groups that have benefited from liberalization or other major changes in economic strategy lobbied for them. Conversely, groups that have borne the costs, especially organized urban labor, have shown less capacity to exert political influence than observers expected.

These three empirical findings—that authoritarian governments have no particular affinity for market-oriented economic reforms, that bureaucratic capacity matters, and that the discernible effects of economic interests on policy are surprisingly small—emerge from the studies under review here as unrelated phenomena. In this essay, I want to suggest a view of the political world, one not yet fully articulated in the

1. See Karen Remmer, "The Politics of Economic Stabilization: IMF Standby Programs in Latin America, 1954–1984," *Comparative Politics* 19, no. 1 (1986):1–24; and "Democracy and Economic Crisis: The Latin American Experience," *World Politics* 42 (1990):315–35.

2. Adam Przeworski and Fernando Limongi, "Political Regimes and Economic Growth," *Journal of Economic Perspectives* 7 (1993):51–71; and Przeworski and Limongi, "Democracy and Development in South America, 1946–1988," manuscript.

literature on economic liberalization, within which these findings can be subsumed. The review essay will first highlight the evidence available in the studies under review, noting its poor fit with the conventional paradigm that implicitly informs much scholarly thinking about the political world, and will then call attention to the kinds of theories needed to explain what has been observed. Such theories would need to take explicit account of the interests of politicians, bureaucrats, and party activists, groups surprisingly often shortchanged in theories of politics.

The conventional wisdom of an "elective affinity" existing between authoritarianism and market-oriented economic policies rests on an implicit or explicit theory of politics as the struggle for advantage among competing interest groups in society. Within this basic paradigm, analysts posit notions of bureaucratic insulation or state autonomy to account for state actions that fail to reflect societal interests. Analysts also expect authoritarian governments to have the greatest ability to ignore the societal interests hurt by the kinds of policies usually followed during efforts to stabilize or adjust economies. The interests of actors located within the state apparatus and their close allies in ruling parties and personal followings are discussed in terms of contingent political factors but are not incorporated into systematic arguments.

What the case studies in the volumes under review and elsewhere show, however, is that the costs of economic liberalization and effective opposition to liberalizing policies are often concentrated within incumbent governments and among their close supporters. Because incumbents have gained control over many of the rents created by state intervention in the economy, which in turn play a central role in attracting political support, the biggest and certainly the most articulate and politically influential losers from structural adjustment in many countries are government officials, cadres of the ruling party, and their closest allies. Consequently, regime or government change can increase the likelihood of economic liberalization because it breaks the link between incumbents and the main beneficiaries of statist policies by installing a new set of incumbents.

Since 1982, when the debt crisis undermined the sustainability of inward-oriented and state-interventionist economic strategies in most of the developing world, transitions from authoritarianism to democracy have occurred far more often than the reverse. As a result, many of the new governments experimenting with economic reforms during this period are democratic, whereas in the 1960s and 1970s, the new governments initiating changes in economic strategy tended to be authoritarian. The apparent correlation between authoritarianism and more market-oriented economic policies noted by many observers during the 1960s and 1970s may actually be spurious, an artifact of the high proportion of dictatorships among new regimes at that time. Radical changes in economic strategy thus may depend not on regime type but rather on the forces, arising from whatever source, that bring new regimes to power and in the process fracture old state-society alliances and create new interests and opportunities for key state officials.

Failure to pay attention to the interests of government officials and members of ruling parties has distorted ideas about the costs of economic liberalization and consequently led to inaccurate predictions about when it would be accomplished. Early analyses failed either to account for the inability of many authoritarian governments to implement market-oriented policies or to predict the success of a number of democratic governments in doing so because these analyses did not consider the interests of groups inside or closely allied with the state.

To understand the politics of economic liberalization better, analysts need to start by thinking in a more careful and concrete way about the state and the interests of the officials who constitute it. Stephan Haggard's *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* takes some major steps in this direction but more remain to be taken. Economic liberalization involves creation of a new regulatory regime by a set of state officials. To understand why governments sometimes undertake radical and risky reforms, scholars need to think about who the people are who make policies, what their interests are, and what shapes their interests. Explicit inclusion of intra-government interests motivated by the desire to remain in office in theories about how the political world operates can yield a coherent explanation of two of the inductive conclusions just noted: the weak relationship between societal interests and government policies; and the absence of relationship between regime type and market-oriented economic policies. Examining intra-government interests also provides some leverage for explaining the relationship between politicians and bureaucrats in different settings and how politicians affect the motivations of bureaucrats involved in economic policy making, a subject left unexplored by most studies that emphasize their insulation or autonomy from interest groups.

INTEREST GROUPS AND REGIME TYPE

The expectation that authoritarian governments would enjoy greater success in carrying out market-oriented economic policies derived from two sources, one deductive and the other inductive. On the deductive side, the early literature on economic liberalization vividly illustrates Albert Hirschman's remark about paradigms as a hindrance to understanding. In this instance, three paradigms converged to hinder understanding: pluralism, which no one admits to but nevertheless underlies many arguments; traditional Marxism; and what might be called the economist's stylized view of politics. These paradigms share, in practice if not necessarily in theory, a focus on interest groups or classes without considering the ways that political arrangements (except for authoritarianism) affect whether interests have political influence or not, concentration of attention on material interests to the exclusion of other kinds of interests, and emphasis on interests outside government rather than on interests inside it.

The specific assumption that led analysts to expect authoritarian regimes to be more capable of carrying out stabilization and structural adjustment policies was that the main impediment to reform was expected to be political activation of societal interests hurt at least in the short run by the policies. Authoritarian governments are better able to ignore societal interests because they do not depend on competitive elections for their survival and can repress other manifestations of discontent.

Expectations ex ante went something like this: economic liberalization will be costly in the short run to the urban popular sector, especially organized labor. Labor will respond with strikes, demonstrations, and votes against the politicians who initiated adjustment policies. Consequently, elected politicians will not want to take the risk of initiating unpopular policies because if they do, they will lose the next election and policies will be reversed. Hence democracies will not adjust. The unspoken model underlying such expectations is essentially pluralist: politicians' careers depend on pleasing constituents; if large groups of well-organized constituents are hurt by policies, they will be able to press their demands effectively on the government.

On the inductive side, these expectations seemed to be confirmed by studies of some of the earliest liberalizers, notably Chile and Mexico. In these cases, costs borne by the popular sector were exceptionally high and, it was argued, could not have been imposed by more open governments. Analysts failed, however, to give equal attention to the many authoritarian governments that resisted carrying out similar policies. Even among the four bureaucratic-authoritarian regimes ostensibly committed to economic liberalization, only Chile actually initiated and sustained the policies necessary to make significant changes in its economy. Analysts also failed to take into account such early successful democratic liberalizers as Spain and Turkey.[3]

More recently, democratic governments in Argentina and Bolivia

3. One indication of the strength of the conventional wisdom linking authoritarianism and economic liberalization is that Turkey is mentioned in a number of early studies as an instance of adjustment under authoritarian auspices even though liberalization was begun in early 1980 under a freely elected government, was continued under the same economic team by the military after it seized power later in the same year, and was sustained and deepened throughout the 1980s by the democratic government that came to power in 1983. Liberalization efforts slackened in response to electoral pressures in 1989, although fundamental changes remained in place. Most recently, an elected government announced a dramatic new round of liberalization in early 1994.

have initiated liberalization efforts as dramatic as those in Chile and Mexico, and virtually all democratic countries in Latin America have taken steps toward liberalization that once would have been thought politically infeasible.

Interests and Policy Initiation

One possible explanation for the absence of correlation between authoritarianism and the initiation of painful market-oriented policies is that interest groups have not behaved exactly as expected, as shown in these studies and elsewhere. In the studies reviewed here, one finds almost no evidence of powerful or well-organized groups making demands on governments for particular policies and getting what they want. This issue is addressed carefully in Haggard's *Pathways from the Periphery* and in several of the studies in Robert Bates and Anne Krueger's *Political and Economic Interactions in Economic Policy Reform*, including those by Francisco Thoumi and Merilee Grindle on Ecuador, by Anne Krueger and Ilter Turan on Turkey, and by Paul Collier and Robert Bates on Zambia. Some evidence, however, supports a kind of "retrospective voting" model of interest-group influence: groups have little input into policy choice but through votes, demonstrations, strikes, and capital flight can force the abandonment of policies. But even this kind of reactive influence is not as strong as might have been expected.

In explaining the initiation of market-oriented or market-conforming policies, several analysts discuss the general support of business interests for decreased state intervention in the economy, reduced inflation, and efforts to loosen balance of payments constraints, notably Barbara Stallings and Philip Brock on Chile, David Schodt and Grindle and Thoumi on Ecuador, Krueger and Turan on Turkey, Bates and Collier on Zambia, and Frieden on Chile, Mexico, and Argentina. Yet as Bates and Krueger note, "one of the most surprising findings of our case studies is the degree to which interest groups fail to account for the initiation . . . of policy reform" (p. 455). In some instances, the demands by business interests for policy change were largely ignored (as in Brazil in the late 1970s and early 1980s and in Zambia). In other places, business groups supported the initial thrust of reform only to find, as time went on and policy consequences became clear, that tariff reductions, market interest rates, and other elements of reform packages threatened their own survival and that government policymakers ignored their protests and specific policy demands (as in Chile, Ecuador, and Argentina). But in general, withdrawal of business support did not lead to abandonment of policies.

The sole dissent from this picture of policies initiated with fragile and fragmented interest-group support appears in Jeffry Frieden's *Debt, Development, and Democracy: Modern Political Economy and Latin America,* *1965–1985.* Frieden argues that where class conflict is low, the business interests that are most vulnerable to government policy changes (because they face high costs for shifting resources to other uses) and best able to organize (that is, overcome collective action problems) will lobby most effectively for the policies they want. According to Frieden, in the good times made possible by the inflow of foreign debt, these sectors should benefit most from government policy. In the context of Latin American politics, this is a novel and sophisticated view of business interests. It provides a systematic and plausible basis for understanding why some business interests get more of what they want than others, thus explaining why governments pursued policies supported by segments of the business class but opposed by the majority. In the Frieden world, business interests face two major constraints on their ability to pursue beneficial sector-specific policies: intense class conflict, which leads them to favor or at least go along with market-oriented policies; and dramatic changes in the international economy, such as the debt crisis, which wipe out the resources governments need to respond to business demands. Thus analysts should not be surprised to find (as a number of the case studies do) that business interests failed to get what they wanted in the late 1980s and early 1990s.

In essence, Frieden has kicked the state back out. He envisions the state as an empty barrel, filled or drained of resources by the international economy, a barrel that can be tapped by the best-organized business interests when full but useless when empty. This drastic simplification (although at odds with my own predilections) makes possible the elegant argument Frieden proposes. As he notes, the argument is difficult to test empirically, and the evidence he presents is insufficient to be entirely persuasive. Yet the advantage of a clearly stated deductive argument is that others attracted by the idea's parsimony and innate plausibility may be motivated to devise systematic empirical tests. When one has spent the last few years slogging through an inductive swamp, as have most scholars interested in the politics of economic policy making, the sight of a simple deductive structure backlit against the sky is incredibly attractive, even if one suspects that inconvenient facts will eventually nibble away its foundations.

In addition to its clearly stated and aesthetically appealing central argument, Frieden's *Debt, Development, and Democracy* also contains the best treatment I have seen of the effects of the inflow of debt on the domestic economies of developing countries and the relationship between the availability of loans and the maintenance of inward-oriented economic policies. This study is concise, coherent, and readable, and for these qualities alone, it will be assigned in graduate classes.

Retrospective Interest-Group Pressures

Although the studies under review show little evidence that economic reforms are initiated in response to interest-group pressures, they contain numerous instances of reforms stalled or abandoned as a result of popular opposition. Groups, it appears, rarely propose but sometimes dispose. David Schodt in Howard Handelman and Werner Baer's *Paying the Costs of Austerity in Latin America* as well as Grindle and Thoumi in Bates and Krueger's *Political and Economic Interactions in Economic Policy Reform* describe a process of liberalization in Ecuador of two steps forward and one step back, as three successive democratic governments initiated policies more radical than they could sustain in the face of widespread opposition. These policies nevertheless moved incrementally in the direction of liberalization. The first major Zambian reform efforts in the late 1980s, discussed in the case study by Bates and Collier, ended after widespread rioting. Brazil's history of failed stabilization efforts, retold here by Werner Baer, Dan Biller, and Curtis McDonald in *Paying the Costs of Austerity* and by Deepak Lal and Sylvia Maxfield in *Political and Economic Interactions,* is a story of policies abandoned in the face of protest. And many other examples can be cited. Gradual efforts were made by three elected Venezuelan governments over some thirteen years, first to stabilize (analyzed by Jennifer McCoy in the Handelman and Baer volume) and then to carry out a more radical structural adjustment. These efforts were halted at least temporarily in 1993 after a series of coup attempts and impeachment of the president blamed for recent policies. In Peru popular dissatisfaction with market-oriented economic policies is the standard explanation for the electoral decimation of Acción Popular in the 1985 elections.

Yet despite many examples of policies stalled in response to popular opposition, such opposition has not proved to be the insurmountable obstacle expected. Joan Nelson, in Haggard and Kaufman's *The Politics of Economic Adjustment,* finds that among sixteen "intensive adjusters" during the 1980s, the initiating governments or their designated successors were reelected about half the time. She argues that reelection depended more on the overall success of adjustment efforts than on costs to the popular sector. Her conclusion remains somewhat tentative, however, because within her data set, the overall success of adjustment policies is correlated with rising real wages. This data set includes a number of countries in which real wages rose during the years immediately prior to the first elections after the initiation of reforms, either because the adjustment itself was relatively easy or because the costs had been paid earlier (as in Korea in 1987, Mauritius in 1987, Chile in 1989, and Costa Rica in 1985). This atypical pattern among later adjusters might cast doubt on the generalizability of Nelson's findings. I have replicated her findings, how-

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ever, in a set of eleven countries with the time frame extended into the 1990s. In all but one, real wages fell, often dramatically, but fewer than half of the initiating governments were defeated in the first election after the beginning of reforms.[4] Moreover, the defeat of a government that has undertaken market-oriented policies does not routinely lead to abandonment of the policies by its successor, as shown by the studies of Ecuador and Venezuela already noted and that of Poland by Adam Przeworski in *Economic Reforms in New Democracies,* which he co-edited with Luiz Carlos Bresser Pereira and José María Maravall. In fact, in some cases, market orientation has intensified after such a defeat.

How can analysts account for the failure of the popular sector to block these policies more often in competitive democratic settings? Two general categories of explanation have been suggested. The first is that the costs of liberalization are either lower or distributed more complexly than was initially assumed. The second is that the main loser from the policies, organized urban formal-sector labor, has proved to be less politically effective than expected. Both explanations seem to apply in some countries.

The most persuasive case for lower costs is made by Clark Leith and Michael Lofchie in their analysis of Ghana in Bates and Krueger's *Political and Economic Interactions in Economic Policy Reform.* They argue that the Ghanaian economy had deteriorated so far prior to economic liberalization that the costs of adjustment had already been paid. Market prices were already in effect on the black market, and goods were largely unavailable elsewhere. By the time the government headed by Jerry Rawlings initiated reform, the only beneficiaries of the old state-interventionist system were members and cronies of the deposed and discredited old regime. Thus ordinary Ghanaians had little reason to oppose the policies. It is possible that the Bolivian liberalization initiated by an elected government in 1985 (discussed by Kenneth Jameson in the Handelman and Baer volume) was also facilitated by the severe deterioration of the economy that preceded it. Real wages fell 56 percent between 1979 and 1984, while open unemployment rose from 5.6 percent in 1979 to 18 percent in 1985 (*Paying the Costs of Austerity,* p. 86). Even in Argentina, where the economy had not fallen to such dismal levels, the control of hyperinflation made possible by liberalization under Carlos Menem has generated benefits for large parts of the population, offsetting the costs for some while isolating politically those parts of the organized working class that have borne heavier costs. In cases like these, as in those discussed by Nelson in which real wages and gross domestic product rose in the wake

4. Barbara Geddes, "How Politicians Decide Who Bears the Cost of Economic Liberalization," in *Transition to a Market Economy at the End of the Twentieth Century,* edited by Ivan Berend (Munich: Sudosteuropa-Gesellschaft, 1994); see also Karen Remmer, "The Political Economy of Elections in Latin American, 1980–1991," *American Political Science Review* 87 (1993):393–407.

of adjustment, democratic governments should have no difficulty initiating market-oriented policies. Such cases deviate from the norm, however. Few countries so far have reached the abyss of economic misery achieved by Ghana and Bolivia prior to the initiation of economic reform. And few have faced adjustment costs as slight as those in Korea in the early 1980s.

Nelson also notes that the costs and benefits of adjustment are not distributed equally within classes. Workers in the formerly protected and public sectors of the economy tend to lose, but workers who have jobs connected to the export sector or can get them often benefit. By the same token, numerous studies show that some business interests benefit even though the survival of others is threatened and that where large conglomerates or *grupos* have diversified interests (and they often do), they can make the transition fairly easily. Such diversity also increases the difficulty of organizing against reform.

Having said all this, in most of the cases discussed in the works under review and elsewhere, considerable hardship accompanies episodes of economic liberalization. In Przeworski's words, "Economic reforms are inevitably painful. They are unlikely to be free of mistakes. And they must take time; in spite of all the urging, they can never be quick enough to prevent the emergence of divergent opinions, organized opposition, and political conflict" (*Economic Reforms in New Democracies,* p. 133). Nonetheless, popular-sector and union opposition has been less severe and less effective than expected. Nelson concludes: "[T]here are very few instances where union pressure alone derailed adjustment efforts, although labor combined with other elements of the urban popular sectors has done so in a few instances. . . . [O]rganized labor has usually not been powerful enough to prevent falling wages and growing unemployment, nor to forestall a shrinking factor share of national income. . . . (*Politics of Economic Adjustment,* pp. 245, 247). The most likely general cause of labor's weakness during these hard times is high unemployment, which tends to discourage strikes and union militancy.[5]

In a few instances, elected governments have made substantial efforts to ease the burden of adjustment for workers in previously protected industries. In *Economic Reforms in New Democracies,* José María Maravall makes a persuasive case that the increase in social welfare, especially generous unemployment benefits, made possible the relatively nonconflictual liberalization in Spain. It is hard to imagine how the Spanish Socialist Party, initiator of the reform, could have won election after

5. See Edward Epstein, "Austerity and Trade Unions in Latin America," in *Lost Promises: Debt, Austerity, and Development in Latin America,* edited by William Canak (Boulder, Colo.: Westview, 1989).

election despite an official unemployment rate hovering around 20 percent for many years, in the absence of unemployment insurance.[6]

In most countries undergoing adjustment, however, government efforts to soften the costs have been less effective. Surprisingly, the fragmentary evidence in these studies suggests that democratic governments have done no better than authoritarians at shielding members of the popular sector from the costs of adjustment. Between 1981 and 1984, four Latin American countries experienced declines in real wages exceeding 30 percent, about the same magnitude as that experienced by Chilean workers during the early stages of economic liberalization under the Augusto Pinochet regime: Mexico, when beginning adjustment under one-party rule; Ecuador and Peru, when beginning adjustment under new democratic governments; and Bolivia, when avoiding adjustment under a new democratic government (see McCoy's contribution to *Paying the Costs of Austerity in Latin America*, p. 206). Among the cases examined by Nelson, the largest declines in real wages occurred in Turkey, when beginning adjustment under military rule; in Turkey, when continuing adjustment under a new democratic government; and in Bolivia, when beginning adjustment under a new democratic government (*Politics of Economic Adjustment*, t. A5.4). These scraps of evidence are not a sufficient basis for strong conclusions, but they fail to confirm the idea that democratic governments cannot survive the imposition of heavy costs on their populations.

Among the democracies that experienced extreme wage declines, incumbents were defeated in the next election in Ecuador, Peru, and Bolivia in 1985, but not in Bolivia in 1989 (where wages had begun to rise again by 1987)[7] or in Turkey in 1987 (where real wages fell for three years in a row prior to the election). Thus even where costs were extremely high, incumbents were not always rejected at the polls.

The point of this long discussion of the heavy costs and light political consequences of economic reform has been to demonstrate that an anomaly exists in the conventional paradigm. The reason economic reform has posed less of a threat to democratic governments than expected is not that costs are unexpectedly light but that interests are unexpectedly weak. Societal interests hurt by liberalization, even when numerically large and well-organized (as labor is when compared with other groups), have often failed to force policy change. As students of corporatism have long known, labor is not the autonomous and inexor-

6. Official Spanish unemployment figures are usually thought to be overstated by about a quarter. Thus the real Spanish unemployment rate is probably about 15 percent, still very high.

7. Gonzalo Sánchez de Lozado, highly identified with the Paz Estenssoro government and architect of the liberalization plan, won the popular vote by a bare plurality but was denied the presidency by the Bolivian Congress, which decides the outcome of presidential contests in the absence of a majority vote.

able force sometimes portrayed in the literature. Rather, its political influence depends on whether political institutions and circumstances create incentives for politicians to heed the voice of labor and lead its mobilization.

It seems, then, that the absence of a relationship between authoritarianism and successful economic liberalization derives from two sources. The first is that democratic governments can impose heavy costs on their populations, at least in the current international economic context. Contrary to many warnings voiced in the early 1980s, hard times have not led to democratic breakdown (except in Peru, which faced a devastating economic crisis combined with a long and violent insurrectionary war). More surprising, the imposition of heavy costs on the popular sector has not routinely sounded the death knell for incumbent politicians. Voter response to the pain of adjustment by withdrawing support from the policies and the incumbents associated with them is shown most vividly in the public-opinion data analyzed by Przeworski in *Economic Reforms in New Democracies.* But opposition does not necessarily cause governments to fall or, even if they do, cause policies to change.

The second explanation for the lack of relationship between economic liberalization and authoritarianism lies in the resistance of many authoritarian governments to undertaking economic reform. Authoritarian governments avoid market-oriented reforms if their costs fall on members of the government and their close supporters, as costs often do. Whether authoritarians will adjust depends on the interests of officials and those with close political ties to them. Military officials usually oppose liberalization, especially if they have been heavily involved in the old economic system.

INTERESTS OF OFFICIALS

In bureaucratic-authoritarian regimes, the differing interests of officials and military officers in various countries afford a fairly persuasive explanation for differences in economic policy. In Brazil and Argentina, officers ran many state enterprises and had been heavily involved in state intervention in the economy for a long time. In other words, although military officers were new to presidential power, they were among the longtime beneficiaries of state-interventionist policies. In Uruguay, officers took over state enterprises after the coup. In these three countries, forms of military rule that institutionalized consultation within the officer corps gave policy influence to officers who benefited from state intervention. In Chile, in contrast, the military had not historically played a large role in the economy. Although officers took charge of some state enterprises after the coup, they did not occupy important positions in the economic policy-making bureaucracy after 1975. Furthermore, Pinochet's consolidation of one-man rule politically marginalized the officer corps, reducing their potential influence on economic policy.[8] Chile is the only country in which large-scale privatization took place under bureaucratic-authoritarian rule. Elsewhere, the military did not want to give up its resource base in the economy, and privatization was minimal. Chile is also the only one of these countries in which the largest exporter was the state itself, thus a major beneficiary of adjustment.

In other words, where members of the ruling group (the military itself in bureaucratic-authoritarian regimes) would have been hurt by elements of the liberalization package, these elements were not carried out. In Argentina, Uruguay, and Brazil, this sensitivity to military interests led to continued subsidization of inefficient state-owned enterprises, which contributed to continuing budget deficits, inflation, and ultimately the failure or abandonment of economic liberalization in those countries.

Regimes dominated by single parties also tend to oppose economic liberalization. Typically, the single party has a long history of using control over economic policy and state enterprises to provide benefits to supporters. Most single-party regimes have been very reluctant to give up these political resources and profit opportunities. The biggest losers from structural adjustment attempts in countries like Zambia (before the 1991 election) and Senegal have been dominant-party cadres. Single-party regimes forced or persuaded into adjustment attempts by international conditions or agencies have faced a dramatic loss of support because they have had to cut subsidies and other material benefits on which the loyalty of supporters depended.

Groups within the government or ruling party that opposed economic reforms in order to defend their own interests are described in various studies, notably in the analysis of Egypt by Robert Holt and Terry Roe and that of Zambia by Bates and Collier (both in *Political and Economic Interactions in Economic Policy Reform*). But these observations seldom seem to crystallize into general statements about the role of political interests in policy choice. Such is the power of the conventional paradigm's grip on our imaginations.

From the evidence contained in these studies, however, a general picture of the role of interests derived from the government itself can be extracted. State ownership and other forms of state intervention in the economy are, as John Waterbury shows in his insightful essay in *The Politics of Economic Adjustment*, key sources for the money and other benefits that political leaders need to reward their supporters, whether in democratic or authoritarian governments. Jobs in state enterprises can be given to supporters. Contracts for public works, import licenses, and access to foreign exchange can be awarded to campaign contributors (whether legally or in the form of kickbacks or bribes). Prices can be

8. Glen Biglaiser, "Policy Choices under Military Rule," paper presented to the Latin American Studies Association, 9–13 Mar. 1994, Atlanta, Georgia.

manipulated to benefit politically crucial groups. Thus much of the reluctance to initiate market-oriented reforms stems from politicians' recognition of the political benefits made possible by state intervention.

These political benefits are not distributed equally, however. They tend to be concentrated among those parties and informal followings that held power when the state's role in the economy was expanding. Consequently, political outsiders can in some circumstances enhance their own competitive standing through economic liberalization, which deprives established opponents of political resources without affecting outsiders' supporters, who had never enjoyed the fruits of state intervention in the first place. In "normal times," little incentive would exist to initiate these kinds of changes, even for outsiders. They would simply want to make arrangements to get their cut and create new agencies to employ their supporters. The current international economic situation, however, has reduced the feasibility of this politically sensible and risk-averse strategy. Heads of state now face intense pressures to reduce budget deficits and cannot hire a lot of new employees. But they can, through liberalization, sack their opponents' supporters and thus disorganize their political machines while generating new revenues to help balance the budget, reduce the debt, and create new distributive networks tied to themselves.

To summarize, heads of state have faced powerful pressures during the 1980s and 1990s emanating from the international economy to initiate market-oriented reforms. At the same time, they must also deal with powerful internal pressures to resist reform. The costs of reform tend to be lower for executives who come from parties, party factions, or other groupings that have not previously benefited from state intervention.

Outsiders can come to power as a result of accident (as did Osvaldo Hurtado in Ecuador, when President Jaime Roldós Aguilera's plane crashed) or regime change (as did Jerry Rawlings in Ghana), although neither means guarantees a break in the continuity of political personnel. Highly fragmented and fluid party systems like those in Brazil and Peru as well as some of the new systems in Eastern Europe have very low barriers to the entry of outsiders, even at the presidential level, a situation that increases the likelihood of electing outsiders such as Fernando Collor in Brazil and Alberto Fujimori in Peru. Partial outsiders can also come to power in highly institutionalized party systems as a consequence of democratized procedures for nominating presidential candidates. Such democratization affected presidential outcomes in several Latin American countries during the 1980s: Presidents César Gaviria of Colombia, Carlos Andrés Pérez of Venezuela,[9] and Carlos Menem of Argentina were

9. Pérez is not an outsider in the sense of being new to the party but in the sense that because his candidacy was opposed by virtually all established party leaders except labor, he owed no loyalty or debts to the party establishment.

all nominated despite opposition from most of the established leaders of their parties. All have advocated more extensive liberalization than has been supported by the established leadership or rank-and-file of their parties, who have historically been among the main beneficiaries of state intervention.

Yet outsiders sometimes fail to achieve what they hope to precisely because they are outsiders. Those coming from small, newly created parties (as did Collor and Fujimori) or who lack the support of established leaders in their parties (like Pérez, who failed to establish control of the party apparatus after his election) may find their liberalization efforts blocked by other factions of the political elite in the legislature, judiciary, and bureaucracy. Politicians and officials in these branches perceive their own political fortunes as linked to continued state intervention, even though the president's may not be. Outside Eastern Europe, the maintenance of market-oriented policies in a fully democratic context seems to have required a head of state committed to the policies and supported by a disciplined party and a working majority in the legislature. Party discipline is necessary because legislative members of established parties may have much to lose from liberalization and often oppose it, as did many Peronistas in Argentina and members of Acción Democrática in Venezuela. Where the president has to hold together a multiparty coalition lacking party discipline (the usual situation recently in Brazil and Ecuador), reform efforts are difficult to sustain.

THE RELATIONSHIP BETWEEN POLITICIANS AND BUREAUCRATS

In contrast to the political factors discussed up to this point, most of the studies actually made on the role of government in economic policy making stress the role and capacities of policy-making bureaucracies. Within the current debate, in my view, this emphasis is misplaced. Institutions, including competent bureaucracies, are created by political leaders for their own purposes. Once created, such institutions can acquire some independent political weight and thus influence future policy choices, but their absence is not an insurmountable obstacle to implementing certain policies. It does indicate a lack of commitment to the policies by political leaders, however. Moreover, although professionalized and more or less politically independent economic policy-making agencies, once created, tend to survive and become lobbies inside government for market-oriented policies, they can be destroyed by determined politicians. Peru, after all, once had the most independent central bank in Latin America. To cite another example, much of the Brazilian policy-making bureaucracy is now less insulated from partisan pressures and less competent than it was ten years ago.

Two contributions and one book under review here go well beyond

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many earlier treatments of bureaucratic policymakers to shed light on the all-important relationship between technocrats and politicians. In his contribution to *The Politics of Economic Adjustment,* Peter Evans details the political and sociological conditions that eased creation of highly coherent economic policy-making bureaucracies in Japan, Korea, and Taiwan. To emphasize their links to business interests, Evans has saddled these effective bureaucracies with the unfortunate and misleading label of "embedded autonomy." The real novelty in his analysis lies in his discussion of the creation of a bureaucratic subculture in which norms for upward mobility and the distribution of rewards and respect within the group create a unity of purpose that cannot easily be subverted by other interests, even though bureaucrats rely on them for information, interact with them frequently, and take their views into account. Evans perceives successful economic policy making as dependent on a combination of professional expertise, high-quality information that can be acquired only from those affected (investors, bankers, and producers), and a government solution to the collective-action problem facing capitalists: the tendency of firms and sectors to demand policies to benefit themselves that, if acceded to, would undermine overall economic performance. A well-trained, coherent bureaucracy supplies the needed expertise but can sometimes also make use of contacts with the private sector while avoiding capture and thus solve the collective action problem. Evans notes the sociological characteristics of the political elites in these countries that enabled them to foster this bureaucratic subculture, but he devotes less attention to their political motivations.

While Evans emphasizes the internal dynamics of bureaucratic performance, Waterbury's essay in *The Politics of Economic Adjustment* highlights bureaucrats' dependence on external political forces. His comparison of Egypt, Turkey, India, and Mexico demonstrates the importance of the political resources generated by the state-enterprise sector as an impediment to full executive support for technocratic "change teams." The significance of executive commitment to support and protect technocrats in charge of policy reforms noted by Waterbury is nicely illustrated by the history of the failed reform effort in Zambia. In response to opposition, President Kenneth Kaunda replaced his first economic team, composed of technocrats with links to the donor community, with a team closely tied to the bureaucracy of the United National Independence Party. The head of the Bank of Zambia resigned in protest over the resulting policy changes and was replaced by a Moscow-trained economist. The point is that in most countries, political leaders can find economic experts who will advocate a wide range of policy prescriptions.[10] If one

10. This was apparently not true in Poland when the plan proposed by Leszek Balcerowicz was adopted, due no doubt to the dearth of conventionally trained economists in

set of policies leads to opposition, the economists who proposed it can be replaced by others who will advocate more politically palatable ones.

Lawrence Graham's *The State and Policy Outcomes in Latin America* sheds further light on the delicate tension between internal and external determinants of bureaucratic performance, although his insights may go unnoticed because of the loose organization and diffuse quality of many of his arguments. Graham explores the effect of federalism on the incentives facing politicians in various political settings, and in the process, he provides some clues for explaining the unexpectedly early economic liberalization in Mexico. It is not surprising that the single-party dominant regime in Mexico, having decided to liberalize, could stick it out despite heavy costs to the population. What is surprising is that political leaders in a single-party regime that had customarily relied heavily on the exchange of benefits derived from state intervention in the economy for support would choose to liberalize in the first place.

Graham notes two characteristics that distinguish Mexico from other single-party regimes, factors that he believes increased the probability of liberalization. The first is federalism, which Graham thinks has led to a differentiation in the operating procedures and interests of state-level party organizations within the Partido Revolucionario Institucional (PRI). In the more economically developed Mexican states, the PRI has become a more modern party, responding to demands for participation and policies made by relatively educated, well-off citizens. In the less-developed states, however, the traditional politics of clientelism, fraud, and coercion continue unabated. Thus the PRI itself has become polarized between a more modern wing that has little to lose from liberalization and a traditional wing that continues to rely on exchange-based politics. In consequence, although President Carlos Salinas de Gortari had to contend with considerable opposition within the PRI, this opposition has not been as universal as in most other dominant-party regimes.

The second characteristic identified by Graham is that, unlike most other single-party systems, Mexico has an institutionalized, albeit secret, process for selecting successors. Most rulers of single-party regimes have built the party around themselves and rely on its members for support. They are thus beholden to party activists and ignore at their peril these activists' vested interest in continued state intervention. But the passage of time and the completely undemocratic procedure for nominating future presidents in Mexico has had the unforeseen consequence of weakening the link between the president and the traditional PRI electoral machine. Recent presidents have all risen from within party and govern-

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Poland at the time. The only coherent plans put forward for consideration were that of Balcerowicz and another equally orthodox plan (Leszek Balcerowicz, verbal communication, May 1994).

ment bureaucracies, not through electoral politics. No Mexican president since 1970 had previously been elected to any office. Meanwhile, party and government administration in Mexico have become increasingly professionalized since the 1960s, thus increasing the likelihood that a person who rose to prominence within this milieu would combine a technocratic outlook with the more usual political gifts. Professionalization of government administration per se is not unusual. In fact, it is occurring in segments of the bureaucracy in virtually all developing countries. But the selection of presidents from among this group is uncommon.

Graham's discussion of Brazil also emphasizes the importance of federalism. He focuses on the history of struggle between the central government and the states over resources that led politicians representing state and local interests to create institutions that have prevented effective response to the international economic crisis. His analysis blames provisions in the Constitution of 1988 that distribute large amounts of revenues to localities for Brazil's current economic troubles, a cause that is widely recognized. The more thought-provoking part of the analysis deals with the political motivations of the members of the Constituent Assembly that caused them to include these economically unworkable provisions in the constitution. Although the specifics of the Brazilian situation in 1987 and 1988 are unique and cannot be generalized, a lesson can be drawn from the Brazilian experience: institutions are created by politicians intent on serving their own political interests, and sometimes they are not even aware of the economic implications of what they do.

Bates and Krueger's conclusion to *Political and Economic Interaction in Economic Policy Reform* addresses the question of how to explain the creation of institutions that facilitate initiation and maintenance of market-oriented economic policies. The authors note two general approaches to the subject available in the literature. The first envisions politicians as facing a collective-action problem in that each politician can further his or her own career most effectively by distributing individual benefits and pork to supporters, but the result of everyone pursuing this strategy is deficits, economic crisis, and eventual political defeat. This collective-action problem can be solved by delegating responsibilities within certain policy domains to agencies insulated from political pressures. In choosing this approach, rational politicians who understand the consequences of pursuing unlimited distribution agree to create institutions that will prevent all of them from pursuing policies that competition would force on them in the absence of delegation.[11] The second approach, with a long history in economics, views new institutions as responses to the demands of powerful interests that are not well served by old institutions. As Bates

11. For a fuller elaboration of these ideas, see Bates and Krueger and the literature they cite.

and Krueger note, "The empowerment of the economic bureaucracy represents, then, an attempt to stabilize the fortunes and protect the political triumph of particular interests" (*Political and Economic Interactions*, p. 465).

One can certainly think of instances in which one or the other of these approaches captures the essential features of a decision to create a new institution. But the Brazilian Constitution of 1988 should remind analysts that a third possibility exists: institutions that further politicians' interests may neither delegate responsibility nor serve constituents' interests.

Politicians routinely attempt to change institutions in ways that they expect will advance their own political ambitions. As Bates and Krueger observe, sometimes politicians can best pursue their own interests by creating institutions that serve the interests of groups that support them, but not always; sometimes by delegation, but again, not always. In fact, the studies under review reveal little evidence of either of these processes at work in the creation of new institutions. As Bates and Krueger note, interest groups made few demands for market-oriented policies, much less institutions to support these policies. Delegation was also rare. Most of the time, one of two processes emerges: institutions are created as a by-product of the struggle for power among politicians (for example, delegation of responsibility from one entity to a second by a third, not to improve the collective outcome for the first but to reduce its power); or institutions are created by the executive branch to pursue specific policies with which its interests are linked. Although such institutions may turn out to "stabilize the fortunes" of groups that benefit from the policies, they are not created for that purpose.

CONCLUSION

Theories of politics rooted in the conventional paradigm, based as it is on the centrality of economic interests, cannot readily account for the most important empirical regularities emerging from these and other studies of the politics of economic liberalization. Such theories cannot explain the lack of relationship between regime type and economic strategy, why some governments have greater bureaucratic capacity than others, or why interests (business and labor) exhibit more weakness than strength in dealing with matters of vital importance to them. Frieden makes a valiant effort to account for the last of these findings within the standard worldview, but the evidence is currently insufficient to confirm his argument. Most of the case studies and several of the comparative analyses, especially Haggard's *Pathways from the Periphery* and Nelson's contribution to *The Politics of Economic Adjustment*, report what Thomas Kuhn called "anomalies" and Max Weber termed "inconvenient facts." Some of the most original of the comparative studies—such as Graham's *The State and Policy Outcomes in Latin America* and the contributions by Evans, Waterbury, and Haggard and Kaufman to *The Politics of Economic Adjustment*—pretty much ignore the conventional paradigm and simply get on with the task of analyzing the aspect of the politics of economic policy reform they want to explain. Yet the conventional paradigm, decrepit and battered, lives on. Even those who explicitly reject it, such as Haggard in *Pathways from the Periphery,* cannot entirely escape its clutches. The conventional paradigm still determines which potential causes we investigate and what findings are considered surprising. And it still constrains our imaginations when it comes to creating new concepts and theories to account for surprising findings.

The inconvenient facts unearthed in these and other studies of economic liberalization should alert scholars to the need to build new theories in which these observations will no longer appear anomalous. Such theories should include those elements in the economic reform process that have been shortchanged by most of the systematic literature (although not by the descriptive): politicians, their interests, and the political circumstances that shape the ways in which they pursue their interests. This is the research frontier. It is from these theories that a new paradigm will emerge, and only a new paradigm can defeat an old one.