

FROM DEMOCRACY TO DEVELOPMENT:
The Political Economy of Post-Neoliberal Reform
in Latin America

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SECOND-GENERATION REFORMS IN INFRASTRUCTURE SERVICES. Edited by Federico Basañes and Robert Willig. (Washington, D.C.: IDB/Johns Hopkins University Press, 2002. Pp. 368. \$24.95 paper.)

THE POLITICAL ECONOMY OF INTERNATIONAL FINANCIAL CRISIS: INTEREST GROUPS, IDEOLOGIES, AND INSTITUTIONS. Edited by Shale Horowitz and Uk Heo. (New York: Rowman and Littlefield, 2001. Pp. vii+298. \$82.00 cloth, \$28.95 paper.)

DEFUSING DEFAULT: INCENTIVES AND INSTITUTIONS. Edited by Marco Pagano. (Washington, DC: IDB/Johns Hopkins University Press, 2001. Pp. 366. \$24.95 paper.)

GLOBALISATION AND SUSTAINABLE DEVELOPMENT IN LATIN AMERICA: PERSPECTIVES ON THE NEW ECONOMIC ORDER. Edited by Suranjit Kumar Saha and David Parker. (Northampton, MA: Edward Elgar, 2002. Pp. v+293. \$100.00 cloth.)

RE-FORMING THE STATE: THE POLITICS OF PRIVATIZATION IN LATIN AMERICA AND EUROPE. By Hector E. Schamis. (Ann Arbor: The University of Michigan Press, 2002. Pp. 204. \$60.00 cloth, \$19.95 paper.)

CRAFTING LABOR POLICY: TECHNIQUES AND LESSONS FROM LATIN AMERICA. Edited by Indermit S. Gill, Claudio E. Montenegro, and Dömeland. (Washington, D.C./New York: The World Bank/Oxford University Press, 2002. Pp. v+279. \$45.00 cloth, \$35.00 paper.)

As Latin America begins its third decade of market-oriented reforms, it can look back on a most inauspicious record. If the 1980s was the "lost decade," then the legacy of the 1990s will most certainly be the "difficult decade." While the last ten years of neoliberal reforms did not generate the same degree of collapse and crisis rendered by the exhaustion of import-substitution industrialization and the debt crisis or the failed experience with heterodox shocks during the previous decade, it also did not produce an assuring record of economic and

social development. None of the most important problems of Latin American development—persistent and deepening levels of inequality, a growing percentage of society living below the poverty line, decaying infrastructure, poor access to even low-quality primary education, rising criminality, inefficient production, inability to train and integrate semi- and skilled workers into the formal labor force—to mention but a few, were addressed consistently or ameliorated to a significant degree. To be sure, some of the chief concerns of economic reformers in the 1980s are less important than they once were: hyperinflation seems more and more to be only a bad memory now in countries such as Brazil. Yet urban formal unemployment, precarious employment, and the eroding competitiveness of Latin American economies have replaced price instability as the core causes of social disparity in the world's most unequal region. As globalization challenges Latin American countries to make rapid adjustments to changes in external demand, capital flows, and international institutions, the exigencies of democratic consolidation and deepening neoliberal reforms into a "second generation" phase of structural adjustment create another layer of contradictions in the development model. Efforts to improve market and production efficiency have done little to reverse the region's inequalities or the widespread sentiment that the democratic political class is responsible for these problems and that the institutions that maintain their rule (parties, parliaments, and elections) are therefore useless at best and illegitimate at worst.

A growing body of scholarship on neoliberal reform in Latin America has focused attention on the poor performance of the post-neoliberal period. These works almost invariably find that, contrary to the once-euphoric policy expectations that the neoliberal revolution was to bring the region's growth and employment performance, new market-friendly institutions have selectively improved the lives of the already rich and skilled while making the lives of the growing ranks of the region's impoverished ever more parlous (Sheahan 1997; Portes and Hoffman 2003). Most telling, the multilateral institutions and the supranational development agencies have joined academics and the policy-oriented non-governmental community in a widening "new convergence" of ideas that criticizes the original "Washington Consensus" of the 1980s and early 1990s and calls for the development of a "high road" to development that links growth with greater equity and democracy (Korzeniewicz and Smith 2000).

Understanding the political causes of the persisting problems in the neoliberal development model is a key to a sustainable model for linking growth, equity, and democracy. The politics of implementing and consolidating these reforms, especially when analyzed as a distributive game among distinct political interests, shaped the neoliberal agenda in ways that reinforced many of the older patterns of unequal

development by favoring the most influential stakeholders in the reform process. The conversion and integration of capitalists into the neoliberal agenda committed politicians and reformers to a political method that guaranteed at best partial reforms. While varying in style and substance across different countries and different underlying economic conditions, the political necessity of forming a coalition of the dominant classes was accompanied by the need to legitimate the project in a newly democratic context. The door was opened, then, to a mixture of populist appeals to the poor with promises of renewed growth as a result of the new economic policy (Weyland 2003). The politics of post-neoliberal reform then reversed the potential efficiency- and welfare-enhancing elements of these policies as businesses, unions, and politicians developed new ways to protect the anticompetitive and antidistributive practices they maintained during the period of reform implementation (Snyder 2001). The result has been a “difficult decade” in which the links between the promises made by the return of democracy to the region during the 1980s and early 1990s and the goals of deeper and more equal forms of economic development were short-circuited (Oxhorn and Ducatenzeiler 1999). The connections between democracy and development were lost in *political* translation.

The works under review attempt to explain both the conflictual process of neoliberal reform implementation and its results. For some of these authors the damage has been done. The selective manner in which privatization, financial, trade, and labor market policies were shaped to favor the interests of established capitalist interests institutionalized uncompetitive, inefficient, and unequal practices. For other authors, much of the work in the reform agenda has yet to be done, and in the spirit of hopefulness, some of the shortcomings of partial reform can be undone. This “second generation” of reforms in financial, infrastructure, labor market, and industrial policy may hold the keys to reversing the perverse effects of partial reform. Much will depend on how political elites strategically engage the market, both in terms of shaping domestic institutions and regional trade institutions. But there is also some hope that civil society will reengage the state as part of an extended process of “re-forming the state” (to follow the theme of one of the authors). If economic policy making increasingly integrates the voice and vote of the majority who are denizens of the informal economy, then the second generation of reforms will be implemented under more democratic and accountable terms and produce more equitable results.

NEOLIBERAL REFORM AND ITS POLITICAL TRANSLATION

The enduring puzzle for the politics of neoliberal reform implementation in Latin America is that those who have the most to gain from

reform are members of a diffuse, differentiated mass in society that face high costs to collective action and must wait for the benefits of reform to develop over long periods. Conversely, those who have the most to lose from changes to the development model—the so-called “rent-seekers” who wish to protect the reserves they developed during the closed-market period—are relatively few in number and face relatively low costs to collective action. So why did so many Latin American countries embrace market-oriented reforms during the 1990s? Hector Schamis’s answer to this puzzle in *Re-Forming the State* is that the rent-seekers of old find (and are handed by political elites) new market reserves to call their own as part of the process of implementing and consolidating neoliberal reform. Using the stylized case of Chile and comparisons to other Latin American, Western, and Central European experiences, Schamis demonstrates in the case of the privatization of public properties that the very modalities of the sales involved mechanisms of subsidized credit and loans guaranteed with the market values of the privatized firms themselves. The beneficiaries were invariably large corporate and financial interests whose support reformers needed to reshape the state and the market. For Schamis, reform implementation was a core part of a larger process of “re-forming” the state, a process that was decidedly capital intensive more than it was coercive. The political formula was one of focusing benefits (and support) and dispersing costs. The benefits channeled to the conglomerates and externally-oriented industries and financial interests that formed the core constituency for General Augusto Pinochet’s neoliberal reforms gave the regime a stable base of support, although the membership of the business coalition changed after the failure of the first neoliberal program at the beginning of the 1980s (Silva 1996). This pattern of empowering rent-seekers as a means for implementing neoliberal policies emerges as the dominant political logic in other places. Thus Margaret Thatcher’s appeal to a “nation of shareholders” in Britain was made possible by the Tories’ extensive privatization of council houses and the protection of residential property owners. Similar close state-business/shareholder alliances produce reformer-stakeholder coalitions in Mexico, Argentina, and Hungary.

Schamis is also concerned with explaining the effects of similar economic reforms on patterns of state formation. In Mexico, reformer-stakeholder coalitions restructured decades of state-corporatist linkages between the dominant Institutional Revolutionary Party (PRI) and the industrial-financial elite along more sustainable market-oriented lines. In Argentina, Carlos Menem’s version of “popular liberalism” aided the president in disarticulating opposition in his own party and in its affiliated unions and in cementing close (and some corrupt) relations with the country’s captains of industry and finance. Yet Menem’s main

contribution to state building was the concentration of executive authority in the presidency and not the full range of constitutional provisions embracing the market-oriented development model seen in Mexico or Chile.

Most of the essays in the Horowitz and Heo volume, *The Political Economy of International Financial Crisis*, underscore the distributive politics that shape reform options. However, their focus is on “dispersed groups” rather than Schamis’s concentrated rent-seekers. The book emphasizes the growing power of actors in the non-tradeables sector. Following the examples of several Asian, Latin America, and East European countries, the authors hinge the political viability of neoliberal reform on how variables such as memories of the costs of putting off reform in the face of hyperinflation, ideological appeals, and political institutional variables such as party system strength and executive-legislative relations affect popular support of foreign economic policy choices. Whereas Schamis points to the conversion of concentrated interests from rent-seeking in a closed economy model to rent-seeking in an open economy context, the essays in Horowitz and Heo tend to ignore this possibility and look for the source of reform support in other sectors of the economy and society. The empirical chapters only partially support these ambitious hypotheses as they demonstrate almost as much key support for reform among concentrated actors in countries such as Mexico and Argentina, and they ignore other policy areas in which concentrated actors either impeded or extracted undue rents from reform (see the essays by Quiroga and Molano).

To be sure, each case must be evaluated in the broader context of economic reform to ascertain when concentrated or dispersed interests were politically influential. For example, one may agree with Jeffrey Cason’s finding of little concentrated actor involvement in the composition of the Real Plan in Brazil, but still recognize that these actors had all of the characteristics of Schamis’s rent-seeking stakeholders in the privatization process. Business conglomerates participated and benefited extensively from the sell-off of public steel, fertilizer, and mining firms at subsidized prices and following expensive public reconversion of these firms to make them more viable in global markets (Montero 1998). It is not surprising then that the fiscal benefits of privatization failed to accrue in this case (Pinheiro and Schneider 1995).

Despite these inconsistencies, the authors in the Horowitz and Heo volume as well as Schamis share a common perspective that depends upon the clear delineation of the forces and processes that give certain economic and political actors influence over the composition and implementation of neoliberal reform. The central value of *Re-forming the State* is its intelligent use of the comparative method to demonstrate that regime, regional, and economic differences say less about the political

translation of neoliberal reform into practice than the overriding logic of cultivating reform supporters out of those well-organized and capitalized groups that might otherwise be potent reform (and regime) opponents. The authors in the Horowitz and Heo volume offer a less coherent set of explanatory options, but they operate generally under the framework that the origins and content of economic policy rely on consistent state-society linkages.

In that regard, these works are not always balanced in their demonstration of the linkages or the depth of political ties in reformer-stakeholder “coalitions.” For example, Schamis is explicit in mapping out mutually supportive alliances between reformers and rent-seekers. And while one of the dimensions of these ties is evident in the author’s extensive descriptions of how rents were formed and distributed, the other necessary dimension—the “political support” rent-seekers give to reformers is somewhat under-analyzed. In the democratic cases (UK, Argentina), reform supporters, concentrated and diffuse, mobilized their support in elections. In the authoritarian cases (Chile, Mexico) “support” manifested itself in the provision of resources such as the technical knowledge and cabinet ministers supplied to these governments by business. These differences matter for determining the costs of creating reformer-stakeholder linkages. Rent-seekers in the democracies paid higher costs to “support” reformers than was true in the authoritarian cases precisely because the political lives of reformist incumbents had to be secured at the ballot box *before* rents could be distributed. These costs stood *in addition* to those of supplying government with technical and policy expertise *after* the electoral victory of reformers.

This difference is especially relevant for understanding the institutional setting in which the distribution of rents can *sustain* neoliberal reform. In democratic cases, the reformer-stakeholder alliance must be maintained as a *political coalition* through ongoing support mechanisms imbedded in networks of allied politicians, parties, interest groups, and segments of the electorate (Haggard and Kaufman 1995). In authoritarian cases, constitutional and other institutional designs prior to democratic transitions can shape legislative procedures governing economic policymaking in more predictable ways (Boylan 1998; Baldez and Carey 1999). In both cases reformers’ commitments to rent-seekers must involve a significant measure of *sustained credibility*. Coalitions must be *institutionalized* lest they fall apart as merely ephemeral exchange relationships. Yet the record of reform implementation in Latin America does not reflect a high level of such sustained credibility, especially when one considers swings between risky “populist” reforms in Fujimori’s Peru, Collor’s Brazil, and Menem’s Argentina, and more “steady” approaches as in Pinochet—and Concertación-led Chile—or nonpopulist and halting, but still progressive, reforms in Cardoso’s and Lula’s Brazil. Attention to political-

institutional variables would go a long way towards explaining why reformers can count on more sustained degrees of popular and interest-based support in Chile than in Brazil and why the costs of creating and maintaining that support differ across countries. These differences matter for reform content and their political translation, and these differences matter for determining the motivations of reformist incumbents to make alliances with rent-seekers in the first place (Weyland 2003). Such differences require that scholars look deeper into the general patterns of reformer-stakeholder relations and how these ties are institutionalized across regime types and country contexts.

One additional implication of the problem of sustained credibility is that distinct types of reform may generate different and perhaps contradictory alliance logics over time. While ingenious modalities of privatization may be devised to benefit particular stakeholders, efforts to improve the “rule of law” to protect contracts in borrower-creditor relationships or enhance oversight of corporate governance cannot be manipulated as easily. Making credible commitments to improve the rule of law or enhance competition through anti-trust efforts may threaten commitments made to rent-seekers who prefer ambiguity to transparency and who wish to defend their oligopolistic positions in the market. Thus the movement into the “second generation” of neoliberal reforms will inevitably produce a deeper set of contradictions as attention shifts to corporate accountability, competition-enhancing reforms, regional development, and social distribution. These areas will bring other sectors of Latin American societies—non-governmental organizations, the informal sector, consumer and environmental groups—into the arena of the stakeholders. These changes will invariably alter the capacity of reformist incumbents to construct a well-organized core support group along rent-seeking lines. More potential rent-seekers means higher costs of collective action, more costly rents, and perhaps the inclusion of actors who will not be satisfied with receiving side-payments alone.

FROM PARTIAL REFORM TO THE “SECOND GENERATION” AGENDA

All studies of Latin America’s “second generation” of structural reforms take into account the main distinctions with the previous period of reform. The first generation of reforms during the 1980s and early 1990s focused on the main macroeconomic policies proposed by the original “Washington Consensus.” These were implemented incompletely in the context of severe economic crisis, including hyperinflation, and by governments whose democratic legitimacy was new and therefore fragile. By contrast, the second generation of reforms is to be implemented in the context of consolidating, or at least more mature,

democracies and amidst not hyperinflation and financial crisis (in most states) but in the context of economic stagnation and ever-expanding socioeconomic inequalities.

Some of the works under review recognize that the debates in the Latin American states and the international financial institutions have changed since the days of the original "Washington Consensus." Others, in an attempt to broaden the range of the debate to include ideals such as "sustainable development" and a greatly enhanced role for Latin America in defining the institutions governing global markets, argue that a second generation of reforms that focuses primarily on improving the efficiency of markets misses the core problem of power. These scholars point to the declining power of Latin American states to shape development patterns for themselves and the eroding capacity of the region to exert leverage over the United States and Europe in defense of the region's interests as evidence that the "second generation" is a case of *plus ça change*.

The contributors to Saha and Parker's *Globalisation and Sustainable Development in Latin America* assume this latter perspective. The authors are introduced as representative "voices" from Latin America itself and they each embrace some variant in distinct policy areas and different countries (although Brazil predominates) of a prescriptive attempt to identify ways in which the reform agenda can be reshaped strategically to expand the Latin American states' autonomy in the face of globalization. One prominent example of this perspective is the advocacy by several authors of "open regionalism," a somewhat vague model for uniting large economies such as Brazil and Argentina around a common agenda to do away with the first-world protectionism that has been used selectively in recent years against key Latin American exports (see especially the essays by Lima and Bernal-Meza). Deepening extant patterns of "asymmetric interdependence" through competition for foreign direct investment guarantees that Latin America will remain diplomatically divided and economically subservient. However, strategic, coordinated, and multilateral arrangements in the southern part of the region might allow it to exert growing influence at the international level. The emphasis on strategy also applies simultaneously to domestic policy, as the problems of regional inequality, sustainable development, and rural underdevelopment each require similarly coordinated interventions by the state, business, and civil society around a new development policy that utilizes indicative planning, selective protection, and social distribution. Bernal-Meza sums up the links between the prescribed union of new international and domestic action in global markets as an "entry strategy and development policy rolled into one" (158).

Putting aside the lofty prescriptions of some of the authors, the empirical materials in most of the chapters point to both the improbability

of these changes and the incompleteness of the authors' own recommendations. Francisco Domínguez's chapter on the consequences of reform in Chile is instructive on both counts. The Chilean "jaguar" economy outperformed its neighbors during the 1990s not only in terms of growth but also in terms of social distribution. Yet macroeconomic stability, greater relative levels of equality, and a maturing democracy failed to give the Chilean state either more control over its development model or greater say in its negotiations with the NAFTA or Mercosur countries. Chile remains a commodity-export economy that is more dependent on global markets than ever and is less capable of reshaping its development pathway along more strategic lines. In addition, despite better relative income distribution, wealthy stakeholders have done much better during the neoliberal period than has the rest of Chilean society.

What is missing from these authors' analysis is precisely the role of agency—the elite motivations and alliance structures that figure so prominently in the works of Schamis and the contributors to the volume edited by Horowitz and Heo. Political institutions and government types determine the *scope* as well as the content of neoliberal reform. Brazil and other Latin American countries have already demonstrated their interests in challenging Washington's positions (and hypocrisy) on the Free Trade Area of the Americas, but they will not likely do so in the highly coordinated and strategic fashion hoped for in this volume without the creation of sustainable state-private stakeholder alliances that extend to the multilateral level in the region. The Latin American states are still too much like Chile: interested in competing with their neighbors for access to global markets and capital. If there is a "high road" to pursue through "open regionalism," then the passage is impeded by diplomatic divisions and by roadblocks set up by the logic of the Latin American countries' own competitive insertion into global markets.

The other less ambitious, but still prescriptive, scholarly and policy works under review attempt to take the need for a "second generation" of reforms more seriously by focusing on what needs to be done to correct some of the most perverse aspects of a partially implemented neoliberal agenda. *Defusing Default*, stands as a welcome and impressively informative collection of essays on Latin American credit markets. Its authors, who are mostly economists and policy practitioners, focus on several of the key independent variables that explain the size and growth patterns of bank lending in the region. Given that capital is the life blood of both capitalist development and social distribution, these chapters focus on banks, which have the single most powerful mechanism for linking growth and development. For example, efforts to expand the availability of bank credit to the informal sector must be

a core part of any effort to reverse the unequal distribution of wealth in Latin America (see especially the chapter by Trivelli, Alvarado, and Galarza). The contributors to *Diffusing Default* provide strong evidence that attention to reducing information asymmetries and enhancing judicial enforcement as elements of “the rule of law (for the market)” are essential antecedent conditions for not only diffusing default risk but expanding the financial sector’s confidence in small-scale investors and informal market entrepreneurs who banks have heretofore ignored. This finding stands as a sharp rebuke of the neo-Darwinian policies that were actually implemented in countries such as Mexico. During the “difficult decade” thousands of Mexican small firms in the formal sector were forced into the informal sector as the result of policies designed to favor the most competitive industries in the tradeables sector while largely ignoring the credit needs of most other enterprises that were left to fend for themselves (Pastor and Wise 1998). To the extent that market-oriented reforms include institutions meant to reduce the risks of lending to the sectors most able and willing to employ the bulk of the population, such policies hold out one of the best hopes for reducing inequality. Moreover, the timing of this crucial element of the second generation of neoliberal reforms could not be better since it recognizes that in the wake of macroeconomic instability and liquidity crises, the expansion of the credit market and access to it are essential for both growth and distribution.

Like *Defusing Default, Second-Generation Reforms in Infrastructure Services* is another Inter-American Development Bank project that outlines clear prescriptions for improving one of the key interstices between growth and social development in Latin America. The concern in this volume is with providing infrastructural public and private goods. As in *Defusing Default*, the key impediment to good market and regulatory performance is the inadequate design of institutions—contracts, regulatory agencies, and dispute-resolution frameworks—to provide particular business interests with the capacity to renegotiate and exert political pressure on government. The result of this dynamic is that the interests of regulated firms are favored while consumers end up paying more for the low-quality services they receive. Using several informative case studies, including highway-franchising and power and telecommunications regulation in several Latin American countries, this volume sheds light on how weak institutions can allow post-privatization disputes to preserve the anticompetitive behavior of firms at the cost of their clients. Concessionaires, for example, in Colombian telecommunications seized maximum profits from the privatized cellular sector by successfully exerting tremendous pressure on politicians who needed the continued support of these industrial groups (see the essay by Benavides and Fainboim). Regulating access in network

industries is another area in which faulty institutions and strategic choice created market reserves for monopoly providers and privileged competitors. This resulted in access rates and service pricing that created disincentives for reinvestment in infrastructure and that penalized users who were forced to carry the cost of providers' rents. Federico Basañes (8) sums up the overriding lesson from these cases by claiming that the inadequacy of institutions governing the market produces anticompetition dynamics that short-circuit the benefits of reform before they reach consumers.

If faulty institutional design in finance and infrastructure may constrain credit markets and privilege oligopolistic producers respectively, similarly perverse outcomes are likely from ill-conceived labor market policies. The World Bank's *Crafting Labor Policy* report brings together economists and policy analysts to detail the many ways in which the failure of labor market reform has deepened patterns of inequality and poverty in Latin America. Once again, the focus is on faulty institutional design. Institutions governing labor markets in Latin America tend to hamper job security and unemployment support, and they consistently fail to prevent the bleeding of the formal labor market into the unprotected informal market. Laws governing temporary contracts and the tendency of labor to ignore large firms' subcontracting small firms for labor-intensive production and services that help avoid labor laws altogether, present significant challenges to labor market reform. Not surprisingly, the World Bank detects an erosion of labor market protection and regulation across the region, much of which is due to efforts to inject greater flexibility into contracting, severance payment rules, and unemployment compensation funds, which have made many forms of formal employment more precarious.

A large part of the problem facing reformers wishing to improve job security and formal labor-market growth is the expansion and nature of the informal market. Few Latin American governments, for example, have been able to rationalize the unemployment support system precisely because ex-formal sector workers become active in the informal sector and gain access to unemployment compensation simultaneously. This situation actually creates an incentive to remain "unemployed," thereby defeating the purpose of unemployment support and creating an additional fiscal burden on the state. As in *Defusing Default*, the central problem is one of asymmetries of information and the weakness of enforcement mechanisms. Whereas banks in Latin America have become more adept at working with non-governmental organizations and solidarity credit circles to tap human resources and infuse these borrowers with private credit, governments have not been so adept at integrating informal-sector workers into the formal sector through labor market reforms. This point underscores the importance of creating

wide-ranging development coalitions that include a variety of different civil societal and state actors. Only through these cross-cutting networks can the costs of informational asymmetries be minimized.

The three works under review that focus on the second generation agenda argue forcefully that linking growth and social development require institutions that “get the market right”; that is, institutions that set up the proper incentives so that banks lend and firms compete and hire in ways that avoid the accumulation of inefficient rents and undue transaction costs. These points recall the well-known comparisons of Latin America to East and Southeast Asia, and the arguments of some scholars that these institutions are necessary to “lead the market” (e.g., Wade 1990). Such erstwhile cross-regional comparisons underscore the importance of institutional factors such as the definition of transparent property rights, rule of law (for the market), investments in physical infrastructure and human resources, and the redistribution of factors of production as part of a strategic insertion of the domestic economy into the increasingly globalized marketplace.

Yet it has always been apparent that what divided the Asian and Latin American countries in their development experiences was not their distinct positions in global markets but the timing and politics of their development strategies. Second generation reforms in Latin America share many of the policy attributes of the successful strategies pursued by the Asian countries but none of the timing or sequencing. The Asian “tigers” or “dragons” reshaped their market institutions in preparation for global competition without the continuing burdens of the import-substitution model crisis and particularly without a persisting debt/fiscal crisis. In Latin America, second generation reforms are to be implemented *after* these comparatively more intense crises and *after* extensive liberalization, privatization, and deregulation of markets have redistributed new market reserves to many of the same interests that benefited from ISI. These reforms also occur in the context of *continuing* economic stagnation and *growing* social inequality. The erosion of the formal labor market into informality also presents challenges that the East Asian states did not face. These conditions do not bode well for engineering an East Asian-style political “follow through” of strategic state intervention in the market to upgrade labor and expand research and development for industries as part of a “high road” up the product cycle curve. Indeed, none of the conditions that helped the Asian states “re-form” strategically to situate themselves as competitive producers in global markets exists in Latin America. The capacity of the Latin American states to “re-form” market-governing institutions is more sensitive to reshaping the political institutions of the region than was the case in Asia.

In Latin America, political institutions and the dynamics of reformer-stakeholder alliances set up multiple veto points against a full

consolidation of the second generation of reform. The policy works under review do not analyze how the “re-forming” of the state that these authors consider crucial is shaped *ex ante* by these political interests. For example, it is the evolution of regulatory and judicial enforcement that is the key to the credibility of commitments between borrowers and lenders in *Diffusing Default* and the ability of state agencies to define and enforce property rights in *Second-Generation Reforms in Infrastructure Services*. These public goods, however, are unlikely to emerge based on the creation of the technocratic “consensus” that the IDB and World Bank works call for. They will emerge (and they are emerging) as the result of the distribution of rents, the creation of new market reserves for particular interests, indeed, the very same dynamic that shaped the “first generation” reform process. Partial reform is the cause and consequence of the predominance of particularistic interests. The policy works under review fail to understand why these veto groups persist because their analytical points of departure are the weak legal and institutional frameworks that these authors believe are the proximate causes of inefficiency. Yet a political economic approach would regard these institutions as “intervening variables,” the results of a pattern of alliance politics that changes according to the interests and motivations of politicians, business and financial actors, and a growing range of other groups encompassing non-governmental organizations, labor unions, and consumer and environmental movements. Some of the authors in *Second-Generation* agree that political institutions matter, but they do not go far enough back on the causal chains they analyze to make a new contribution to understanding how political institutions can be reshaped to make regulatory institutions stronger.

HALF-BAKED DEMOCRACY

The interest-based works that focus on the reform process and the policy works that address the second generation of reform can both be improved by considering the political causes of elite accountability problems. Reformer-stakeholder alliances can be powerful forces for change if they take on a configuration that allows for relatively transparent decision making and empowers civil society to participate in the reform-making process. These core prescriptions can be found in both the scholarly and policy-oriented literature on economic and social reform in Latin America (e.g., Korzeniewicz and Smith 2000). Indeed, the works under review imply that the key problem afflicting the link between reform and development is the absence of sufficient consideration for a third item: democracy. These analyses demonstrate that the record of partial reforms produced half-baked development *because* they relied on

half-baked democracy. The persistence of rent-seeking pressures on political decision making, which is seen as both a basis for the politics of reform making (e.g., Schamis) and the cause of perverse institutional performance (e.g., the IDB and World Bank works), is the chief force undercutting efforts to make democratic elites more accountable to their constituencies and to each other. Without greater accountability of the members of reformer-stakeholder alliances, reform institutions are likely to produce the anticompetitive and antidistributive effects most of these scholars see as perverse. If one wants better reform, the answer is more and better democracy not just more technically "correct" market-oriented policies or more muscular forms of strategic intervention in the market under the mantra of "open regionalism."

If the evolution of political institutions and alliances is at the core of determining the future of neoliberal reform and its potential for distributive justice, then one must not expect much from the current flurry of reform activity. One might hope that the broad, cross-cutting alliances of NGOs, state agencies, businesses, and formal and informal workers may soon emerge to reshape the development model of Latin America, but that hope must be based on a realistic assessment of how these groups will be organized. The political institutionalization of such broadened reformer-stakeholder coalitions will be challenged by the erosion of class-based forms of aggregating interests through the structures and competition of political parties (Roberts 2002). While the decline of parties and their linkages to the popular sectors is an element in the weakening of class-based politics in Latin America, it is also a trend that underscores the importance for organized stakeholders of varying their allies in the state by shifting their alliances to suit their particular needs. And so it was both foreseeable and methodologically consistent for Brazilian big business to form opportunistic alliances with the Brazilian presidency of Lula da Silva or for Chilean conglomerates to form close ties to both the conservative parties and Concertación. It is in this way that Claus Offe's (1985) famous "two logics of collective action" have shaped the emerging politics of the post-neoliberal era in Latin America. This is a period in which organized stakeholders know their interests and are capable of acting to defend even anticompetitive and antidistributive practices while the mass of politically unaffiliated and disempowered members of the formal and informal working class do not know their interests, cannot organize, and can be manipulated by populist appeals (e.g., "neoliberal populism") or anti-political sentiments (e.g., Venezuela's Hugo Chavez).

As the costs of collective action for the poor multitude grow ever higher and the costs of collective action for the interested few fall, the post-neoliberal reform era will continue to deepen structural inequalities and short-circuit democratic institutions. The most likely result is a continuation of partial, halting reform and half-baked democracy.

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