

THE POLITICAL LOGIC OF SUPPORT AND OPPOSITION TO NEOLIBERAL REFORM¹

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INTRODUCTION

Writing more than a decade ago, Díaz Alejandro (1984) warned that Latin America “was not in Kansas anymore,” echoing Dorothy’s surprise when she suddenly found herself in the *Land of Oz*. Since the early 1980s, major watershed transformations have reshaped the Latin American landscape to a degree rivaled only by the events of the 1930s. These events include the emergence, evolution, and partial resolution of the debt crisis, coupled with processes of democratization, profound realignments in global politics, and the growing influence of international financial institutions over the economic strategies adopted in peripheral countries. Consequences wrought by these political and economic transitions and concomitant social changes now permit us to explore the most probable outcomes to be expected from these ongoing transformations.

Most of the civilian regimes that emerged in the 1980s following the transition from military dictatorships have achieved a degree of institu-

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tional stability and democratic consolidation,⁴ but they still confront severe political and economic challenges. The “free market” policies championed by the so-called “Washington Consensus”⁵ have succeeded in taming hyperinflation, bringing greater discipline to bear on public sector fiscal deficits, and forcing external accounts into equilibrium. For most Latin American countries, however, the goal of sustainable growth has proven elusive. Monetary policies resulting in the overvaluation of local currencies jeopardize trade surpluses and external competitiveness. Concomitantly, since the end of the 1970s, a sharp decline in *per capita* income in most countries has exacerbated poverty and worsened already egregious patterns of inequality and concentration of income and wealth (Morley, 1994; Lustig, 1995). The region’s modest economic recovery, and events such as the two military coup attempts in Venezuela in 1992, the imposition of a Peruvian civil-military dictatorship in 1992, and continuing uncertainty in Brazil despite the initial success of the Real Plan and election of President Fernando Henrique Cardoso, raise troubling questions concerning the social and political consequences of neoliberal restructuring. Meriting particular attention in analyses of the post-transition period are the sharp erosion of the state’s capacity to manage major macroeconomic variables and the problematic tensions between marketplace logic, reinforced by the exigencies of the world economy, and pressures to institutionalize and expand popular participation and citizenship rights beyond the politico-institutional arena of electoral politics.

4 According to O’Donnell (1992, p. 48-49), one of the key requirements for democratic consolidation is that “...democratic actors no longer have as one of their central concerns the avoidance of a (sudden or slow) authoritarian regression and, consequently, do not subordinate their decisions (and omissions) to such a concern.” He also highlights the “habitual nature” of practices compatible with the reproduction of democratic institutions and the requirement that the “procedural consensus” be consistent with the “extension of similarly democratic (or at least non-despotic and non-archaic) relations into other spheres of social life.” Adam Przeworski’s discussion of consolidation is similar but also underscores that “democracy is consolidated when compliance acting within the institutional framework constitutes the equilibrium of the decentralized strategies of all the relevant political forces” and becomes “the only game in town” (1991, p. 26).

5 Elements of this “consensus” as explained in Williamson (1990a, 1990b) include extensive reforms of the state (privatization of public-sector enterprises, fiscal reforms, severe retrenchment in public spending, and elimination of subsidies to consumption and “inefficient” producer interests); “getting the prices right” with a priority given to maintenance of macroeconomic equilibrium; sweeping market-oriented reforms (deregulation and demonopolization of the private sector, flexibilization of labor markets); and competitive reinsertion in the world-economy (trade liberalization, promotion of foreign investment). For a critique, see Fanelli, Frenkel, Rozenwurcel (1994).

Some of these issues central to the politics of neoliberal restructuring are addressed in this essay. We first defend the necessity of rethinking the relationship between politics and economics, and we raise the controversial question of state power in the process of market-oriented economic reform. There follows a discussion of the political significance of economic performance for sociopolitical conflict. Dissenting from mainstream analyses, we explain the reasons why an increase in sociopolitical tensions should be expected when economic performance improves. The third section sketches several alternative politico-economic scenarios for Latin American countries: organic crisis, successful neoliberal restructuring along with a fragmented and exclusionary democracy, inclusionary democracy with strong actors and an activist state, and dual democratic regimes with mediocre economic outcomes. In the concluding section we briefly recapitulate our main arguments.

RETHINKING POLITICS AND ECONOMICS

The external shock of the debt crisis and ensuing structural reforms advocated by Washington and international financial institutions led to the implementation of policies with strong common elements. The process of structural reform was conducive to the emergence of democracies with a high concentration of power in the executive branch and exclusion of the popular sector from participation in the formulation and implementation of social and economic policies. This process also exacerbated tensions between the executive and other branches, resulting in the weakening of parliamentary and judicial institutions. The disarticulation of social actors, particularly those of the subaltern sectors, was also a consequence of this process. Given these important political and economic similarities, can we speak of a single, or common, Latin American political process? Is it legitimate to infer from the narrowing of feasible economic options a necessary tendency toward common political scenarios in which differences among countries will be merely a matter of degree? And finally, what do these similarities tell us about the future of democracy and about the welfare of the people of Latin America?

Inferring politics from economics is bad methodology. This is true especially under Latin America's current highly constrained economic conditions. In contrast to the Great Depression of the 1930s, the external debt crisis of the 1980s and the reinforced dependency of Latin American states with respect to international financial institutions resulted in the imposition of orthodox criteria, the erosion of the relative autonomy of national decision makers *vis-à-vis* global economic processes, and a narrow-

ing of the range of acceptable strategies of economic stabilization (Stallings, 1992; Kahler, 1992; Vacs, 1994). Under these circumstances, the organization and behavior of social and political actors frequently are considered, especially by economists, to be a mere epiphenomenal reflection of more "fundamental" economic variables.

But the constitution of social groups and classes and their actions are not determined uniquely by objective conditions. These collective actors' constitution and behavior are the effects of struggles, and these struggles are not determined directly by the relations of production or by market tendencies, regardless of how constraining conditions may be. Even those struggles usually considered as strictly "economic" are historically specific and are defined and shaped by political, institutional, and ideological relations.

Different state institutions, political regimes, and legal arrangements combine in specific ways so that diverse social groups and classes will face widely divergent possibilities of realizing their interests and achieving their objectives. Similarly, non-state institutions, such as political parties, business associations, and unions, that aggregate and struggle for collective interests are the organizational crystallization of each particular actor's resources and capacity for strategic action. These institutional ensembles constitute the social organization of political power (Przeworski, 1977; Wright, 1978).

An example helps clarify our argument. Imagine a historical conjuncture of crisis so catastrophic that all moderate or gradualist strategies are judged insufficient and the imposition of a recessionary shock program is presented to civil society as the "only" responsible alternative to chaos. This orthodox program, in turn, provokes a sharp fall in wages, an increase in unemployment, a reduction of the fiscal deficit by increasing taxes on consumption and cutting public spending on health, education, and other social services, all leading toward a regressive redistribution of income. Such a crisis and orthodox response are frequently cited as evidence that politics has been driven to its knees, forced to obey the dictates of an implacable economic logic. Majoritarian preferences and elections lose importance in terms of social and economic policy making. Regardless of the leader or party in power, and whatever the government's ideology or ties to different social interests might be, economic policies perforce will, sooner or later, be the same. As the gloomy story goes in many analyses, most actors in Latin American civil societies soon "learn this lesson" and recognize the relative insignificance of politics, elections, and the political system as a whole. *Vaciamiento*, or "hollowing out," of the content of democratic politics and, in extreme cases, abandonment of democratic preferences and commitments as well as the breakdown of democracy are postulated as likely outcomes.

Nevertheless, even in extreme situations in which economic policy making is reduced to only one choice, the political significance of such an event will vary radically as a function of historical contingencies, such as the nature of the political regime, its ideology, or the social or political commitments of governmental incumbents at the time of the crisis or external shock. The tensions exacerbated by the shock of the adjustment might hasten an authoritarian government's decision to liberalize the regime, perhaps eventually leading to a democratic outcome. In the case of democracies, these tensions might lead to a change of government, or even to the regime's crisis and fall. If the crisis occurs within a democratic regime, and neither its governmental nor its institutional stability are undermined, the implementation of adjustment policies by a party that came to power backed by popular sectors and unions may have one outcome. On the other hand, if the adjustment is carried out by a party representing a coalition of the middle class and the bourgeoisie, the consequences may be quite different.

These consequences might range from strengthening long-standing historical patterns of alliance and opposition to a profound historical rupture. In these alternative scenarios, the same economic policies will shape divergent political outcomes in terms of levels of sociopolitical conflict and opposition to economic reform, as well as economic performance and long-term implications for democratic consolidation. The fact that economic crises severely constrain a government's room for maneuver does not mean that the "space for politics" has been foreclosed, nor does it mean that politics have been absorbed by economics. Political choices, strategies, and contingencies remain central determinants of social and economic processes, and their meaning and consequences perhaps gain even greater relevance in a conjuncture of deep economic crises and transformations.

Democratic transitions and consolidations in the context of economic crises with regressive income distributions are not an exclusively Latin American phenomenon. This pattern characterizes almost all of the transitions and consolidations occurring since the 1970s. As Linz, Stepan (1991) demonstrate, recent European democratic consolidations (that is, those of Spain, Greece, and Portugal) took place, precisely, in contexts of stagnation. Economic growth and employment, as well as salary levels, typically fall during the consummation of democratic consolidations. In these cases, macroeconomic factors related to social welfare did not strengthen the process of democratic stabilization. To the contrary, these consolidations took place in spite of the economic reality confronted by these societies. These same observations hold in the recent "east-south" transitions of Russia and Eastern Europe toward poor capitalism with fragile democracies (Przeworski, 1991; 1995).

Similarly, affirmations that state power in Latin America is "weakening" say very little. In fact, such generalizations obscure differences

between those countries in which the state is impotent to carry out the neoliberal policies favored by state elites and other countries in which, notwithstanding its “weakening,” the state still possesses sufficient power to impose economic reform and to disarticulate troublesome social actors. Underlying the question of state and societal power, there is a striking contradiction. On the one hand, neo-utilitarian prescriptions call for rolling back the state and weakening governmental mechanisms of macroeconomic regulation; on the other hand, the state apparatus must augment its power capabilities to impose a market-driven model of accumulation.

In fact, greater economic orthodoxy may well require not less but **more** autonomy, particularly from the immediate expression of specific entrepreneurial and trade union interests. Similarly, greater orthodoxy may imply not less, but **more** effective coordination and oversight of the private sector (*e. g.*, regulation of the stock and financial markets, broadening the tax base, upgrading skills of workers, promoting technological innovations and competitiveness, and so on) and concentration of expanded administrative power in the hands of state managers and technocratic elites. In short, despite antistatist rhetoric, the state necessarily must play a strong role in this period of rapid transformations.

The current wave of state reform, therefore, does not imply merely the shrinkage and more “efficient” operation of state administrative agencies, but a fundamental redrawing of the existing boundaries between politics and economics and the public and the private. This will be a wrenching experience during which many organized societal interests are, in effect, “expelled” from the state and must fend for themselves as individuals in the market.⁶ A state more impermeable to societal demands will require a more “authoritative” administrative apparatus capable of neutralizing the reac-

6 The social and economic intervention of the “old” Keynesian welfare state resulted in blurring the “liberal” limits between politics and economics and between the public and private spheres. As Offe (1974, 1975, 1984), Przeworski (1990) point out, this intervention (fiscal and monetary policy, public investment, labor market regulation, educational and social welfare policies, public production of goods and services, and so on) removed the market as the main mechanism for the resolution of conflicts of interests, placing them under state tutelage in response to priorities determined by political and electoral objectives. Paradoxically, the same process that “strengthened” state power and autonomy since the 1930s also resulted, since the 1960s and 1970s, in its “weakening” and loss of efficiency in achieving objectives. What Offe termed the “politization of the market” prompted the mobilization and organization of societal interests to influence state policies. This accelerated the penetration of the state by multiple, contradictory interests and led to a loss of autonomy, rationality, and efficiency in the extraction of fiscal resources from society. This had two well-known consequences: fiscal crisis and the incorporation within the state apparatus of contradictions and cleavages present in civil society.

tion of adversely affected groups. The concentration of power in the executive (characterized by *decretazos* of dubious legality with clear authoritarian overtones) characteristic of current market-oriented reforms in Latin America is, therefore, less a result of the psychology of particular leaders or of alleged traits of Latin American political culture than a consequence of the political and economic logic inherent in the transition from Keynesian modes of reproduction of consent to more “liberal” models of accumulation and political domination. In short, state strengthening is unavoidable during market strengthening.

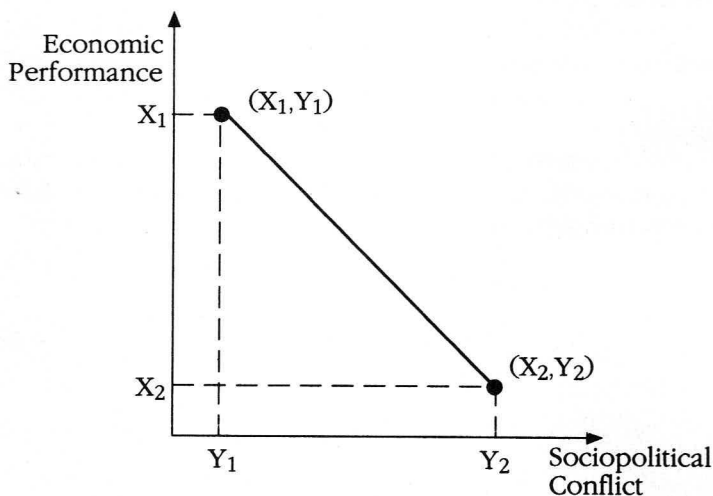
But, once the transition has been completed and a new equilibrium is reached, will the state be stronger or weaker than before the neoliberal revolution? In all likelihood, the new, future state will be **both** stronger and weaker. Depending on the specific issue area or public policy arena, for example, neoliberal restructuring may lead to a severe retrenchment of the public sphere’s traditional “entrepreneurial” functions related to direct ownership of productive enterprises, thus producing a smaller and much “weaker” state apparatus. Simultaneously, however, in other arenas such as the subordination of the military to constitutional rule and the capacity of civilian elites to exercise civilian control over the armed forces (*e. g.*, formulation of national security policies, severe cuts in military budgets, and so on) or to impose restrictions on organized labor, public authority may be strengthened significantly, surpassing even the power and autonomy achieved by state elites during earlier populist and authoritarian periods (Acuña, Smulovitz, 1996; Acuña, Smith, 1995). Even with respect to the market, it is not clear that neoliberal strategies necessarily imply a weaker state. For example, in order for markets to function properly, with the efficiency and transparency required by private investors, effective mechanisms of state regulation previously absent must be put into place.

The transformations implied by this “return to the market” are not neutral with regard to prevailing class structures. In fact, neoliberal programs that progressively subordinate public policy making to the logic of marketplace criteria, while concomitantly eroding the significance of political parties and parliamentary arenas of contestation, clearly reinforce the structural power of international capitalist interests and the leading sectors of the domestic entrepreneurial classes. Although fundamental, this observation is still too generic and abstract. The prospects of Latin American democracy cannot be inferred directly and unequivocally as a function of the strengthening of capital, the weakening of parliamentary or judicial power, or the erosion of the “representativeness” of party systems.

By the same token, however, divorcing politics from economics is also bad methodology. Analysis of consolidations under adverse socio-economic conditions must take into consideration the significance of the specific

economic success (measured by continuity of reform policies, achievement of goals such as macroeconomic stability, resumption of growth, and a general increase in income), the lower the level of sociopolitical conflict. This inverse relation informing the generalized “common sense” among policy makers is presented in Figure 1.

Figure 1
DEVELOPMENT NOTION OF THE RELATIONSHIP
BETWEEN ECONOMIC PERFORMANCE
AND SOCIOPOLITICAL CONFLICT



X_1, Y_1 = Buoyant Economy and Minimal Conflict

X_2, Y_2 = Economic Chaos (hyperinflation, fiscal crisis, etc.)
 and Sociopolitical Breakdown (riots, coup attempts, etc.)

Empirical observations seem to validate this common sense notion that governments and societies have to prosper economically to reduce sociopolitical tensions and, if they don't, they face increasing political struggles. Societies with vigorous economies, represented in Figure 1 by x_1 (indicating stability, growth, and rising income), have achieved relative political stability and minimal social tensions, represented by y_1 . These cases are exemplified by the industrial democracies prior to the mid-1970s and, to a lesser extent, Mexico, Venezuela, and Colombia until the 1980s. Societies on the opposite side of the economic performance axis, at x_2 (indicating hyperinflation, fiscal crisis, high unemployment, deep recession, breakdown of the

productive/commercial chain, and so on), experience high levels of social and political conflict (riots and political crises such as those seen in Bolivia in 1984-1985 and Argentina in 1989), as depicted by y_2 . In conventional modernization theories, it is assumed that point (x_1, y_1) is linked to point (x_2, y_2) by a toboggan effect: distributional conflicts increase if countries lose their balance and precipitously fall down the slope of the curve. Nevertheless, social relations are seldom as straightforward as Figure 1 suggests, even (or especially) assuming that all actors act rationally.

In contrast to this developmentalist common sense, analysis of microfoundations of social conflict (Acuña, 1994) demonstrates that under conditions of economic deterioration and falling income, governments can reduce the virulence of sociopolitical contestation by increasing the costs and reducing the benefits of individual participation in collective action. “Flexibilization” of the labor market and related changes in capital-labor relations are usually at the core of such attempts. Focusing on the speed with which a crisis unfolds, the current literature on the politics of adjustment also recognizes that a gradual worsening of economic circumstances does not necessarily result in increased sociopolitical tensions. As Haggard, Kaufman (1992b, p. 348) observe, long periods of slow growth allow individuals and firms to lower expectations, to implement “nonpolitical” survival strategies (e. g., sending more family members into the work force), and to reduce consumption. Thus riding the toboggan “down” the slope does not necessarily imply a crash landing (x_2, y_2) , since a politically more palatable, “softer landing” may be possible. At least two additional dimensions time and capacity for collective action must be included for a more accurate specification. Hence, the final outcome in navigating alternative slippery slopes will at the very least depend on:

- 1) a velocity of economic deterioration gradual enough to permit individuals and firms to implement micro-level strategies to adjust to new market conditions;
- 2) the capacity of the state to disorganize the collective action/contestation capability of those bearing costs of adjustment. A function establishing the relationship between performance and conflict without taking into account these additional variables is simply incorrect.

Beyond what happens when socioeconomic conditions worsen, another fallacious belief also pervades analyses of the “politics of economic improvement.” This other side of the coin holds that **improving** economic performance will result in **diminishing** political tensions and social peace. To the contrary, Tocqueville’s well-known study of the crisis of the *ancien regime* in France observes that

“steadily increasing prosperity, far from tranquilizing the population, everywhere promoted a spirit of unrest. [...] Thus, it was precisely in those parts of France where there had been most improvement that popular discontent ran highest. This may seem illogical but history is full of such paradoxes” (Tocqueville, 1955, p. 176-177).

Following this line of reasoning, we argue that most rational actors (collective or individual) in a recovering economy will, if their capacity for contestation has not been curtailed, increase their demands and the level of conflict **before** either sustainable growth or the possibility of non-inflationary redistribution is assured. This is so for either or both of two basic reasons:

- 1) because of their knowledge about the structural properties of the economy;
- 2) because of an unavoidable problem of **imperfect information** when assessing the economy and considering probable consequences of alternative actions.

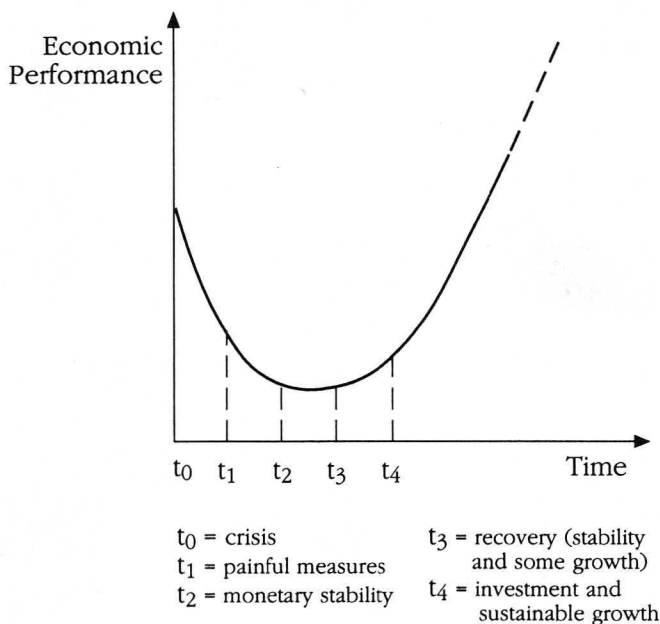
CONTESTATION AND STRUCTURAL LIMITATIONS

Let us first focus on the structural limitations on collaborative behavior with respect to government policies in the context of a successful adjustment plan. Turning from modernization theories to neoliberal prescriptions, we are instructed that correct market-oriented reforms in response to a stagflationary crisis (t_0) are supposed to initiate a sequence (portrayed in Figure 2): socially painful measures in t_1 , macroeconomic stability beginning in t_2 , reactivation of the economy (based upon idle capacity) beginning in t_3 , and investment, sustainable growth, and noninflationary redistribution beginning in t_4 . Moreover, neoliberalism promises that the medium- to long-term future beyond t_4 will be Pareto-superior to the economic performance characteristic of the “good times” under the previous model of import-substitution industrialization (ISI). But even if this fable were possible and the “correct” measures, implemented at t_1 , actually produced macroeconomic stability in t_2 and some growth in t_3 , why would social and economic actors bear the costs of the original economic crisis (as well as of the adjustment policies implemented in t_1) and wait patiently, trusting that their interests finally will be attended to at t_4 ? Why would a rational actor assume that the large set of contingent variables will remain *ceteris paribus* and that risk in the domestic market will be low enough to elicit

substantial investment?⁹ Stated differently, even if inflation and fiscal deficits are effectively controlled, given that the debt crisis, the opening of the economy, privatizations, and deregulation of markets have increased the potential domestic effects of external shocks, the probability that the behavior of contingent variables will be functional for the economic plan will be lower than in the previous semi-closed, state-centric model. In a new context of greater uncertainty for investment, a strategy of economic militancy in pursuit of short-term payoffs would still be the dominant strategy for rational actors (even though, as in a prisoner's dilemma, this strategy is also the one that leads to the worst possible collective outcome when implemented by all the actors).

Figure 2

NEOLIBERAL MODEL OF ECONOMIC REFORMS



9 The more efficient allocation of resources that is supposed to go hand-in-hand with the opening of the Latin American economies might take place at the level of international markets, something that does not imply that each and every nation will benefit from the inflow of capital and the more efficient allocation of resources that occurs at the level of the international economy. Imputing the properties of a system to its constituent elements is a fallacy. Market distortions, such as trade barriers in countries that have great influence over the global system, only further complicate the possibility for a particular country to benefit from the opening of its economy in terms of improving macroeconomic stability, investment, growth, employment, and redistribution.

A pertinent caveat is that negative outcomes need not *always* occur when neoliberal restructuring takes place. For various reasons related to markets and state capacity, economic openings in some Latin American countries might result in lower risks and higher efficiency of investment and, therefore, less risk for collaborative strategies by those actors who must wait until t_4 to receive the benefits of rising employment and higher wages. Let us first consider the market. If economic liberalization implies integration with the U.S. market (as in the Mexican case), the expectation of a steady medium- to long-term inflow of foreign investment and an increase of manufactured exports might boost domestic investment and (perhaps reinforced by a parallel democratic opening) reproduce the process depicted in Figure 2.

State strength and capacity are also central to increasing the likelihood of collaborative strategies by actors obliged to wait until t_4 to receive payoffs in exchange for their “patience.” Despite economic liberalization, political struggles may propel market-oriented reform in a direction in which state capacity to induce efficient investment and allocation of resources is enhanced. This would lower the risk of private sector investment without recreating conditions for the reemergence of the old, bankrupt state-centric model. In this case, instead of directly engaging in productive or extractive activities (steel, petrochemicals, oil) or the provision of services (telecommunications, energy), a reduction of the public sector’s share of GDP need not be incompatible with more efficient social and industrial policies aimed at increasing welfare and promoting accumulation.

Majoritarian political support, popular confidence in the state’s commitment and capacity to guarantee redistribution once sustainable growth is assured, combined with state autonomy and bureaucratic capacity to monitor and sanction free-riders, are among the key elements forcing firms to pay taxes and inducing them to invest. Given that these preconditions are the contingent result of political struggles, a society’s ability to accomplish these tasks will depend heavily on its main actors’ political, institutional, and ideological resources, as well as on what Machiavelli termed the Prince’s *buona fortuna*. Argentina could possibly follow this path, although this is not very likely.

Related to state capacity is the question of control over resources. The maintenance of state control over key activities of the economy, particularly one generating an important source of foreign exchange, illustrates how a strong state has a better chance to strengthen the market and induce capitalists to resume investment. Chile is an example of the close relationship between successful market-oriented reform (especially the achievement of fiscal equilibrium with a low level of taxation) imposed by military force and the advantages of state control over the ownership,

extraction, and export of copper. Nevertheless, in the following section we will argue, although from a different analytical standpoint, that even when structural conditions for economic growth are favorable, most rational actors will escalate their demands at the first signs of economic stability.

CONTESTATION AND IMPERFECT INFORMATION

When one leaves behind the “hard times” of uncontrolled inflation, falling wages, declining production, and increasing unemployment of t_0 and the recessive economic measures of t_1 , monetary stability is achieved upon arrival at t_2 , the productive/commercial chain is reconstituted, and credit becomes available once again. Consequently, even if low levels of investment persist, idle productive capacity (that resulted from drops in production during t_0 and t_1) means production can expand to accommodate the new, higher level of aggregate demand; sales and profits will rise, and the economy will grow at t_3 .

But, if adjustment policies so readily achieve a resumption of growth with rising income, why should the population postpone social and economic demands until a renewal of productive investment at t_4 assures stable, long-term growth? How can actors correctly evaluate when this point has been reached? Workers, the middle classes, and the domestic entrepreneurial class will tend to fall into three distinct groups: those who move resolutely toward an escalation of collective demands, those who support the “need” for social peace and refrain from pressuring the government, and those characterized by a risk-averse attitude and who thus vacillate between militancy and acquiescence. Although influenced by party identity and/or the socioeconomic status of their members, these three groups do not necessarily coincide with either traditional class boundaries or conventional three-way electoral alignments defined in terms of the supporters of opposition parties, the supporters of the governing party, and the “independents.”¹⁰ Let’s pay closer attention to the foundations of support for and contestation to market-oriented reforms.

In general terms, and particularly with the weakened party identities characteristic of contemporary Latin American democracies, neoliberal reforms are implemented in contexts marked by the presence of two relatively consistent minorities: those who support the reforms “no matter what” and those who oppose the reforms “no matter what.” The reasons for

10 For example, although most working class supporters of the *Partido dos Trabalhadores* in Brazil probably opposed the Collor Plan, no doubt many PT militants and sympathizers favored the economic measures undertaken by the Collor government and were, therefore, willing to restrain their economic demands.

one or the other stand might include information that leads actors to believe that prevailing structural limitations undermine (or favor) the probability of successful reform. In either case, actors might choose between collaboration or confrontation as a function of their strong agreement or disagreement with the potential “end state” they believe to be implicit in the reform model. The point is that the actors’ knowledge and perceptions, as well as the option to support or to oppose the reform process, are rationally rooted not only in self-interest but also in ideology and/or party identity that helps them to assess the desirability and feasibility of alternative “end states.”¹¹ The minority that opposes reform exemplifies a transition during which actors, who initially lacked the means to act effectively, subsequently gain greater access to resources, which lowers the risk of acting collectively to demand redistribution. Those actors who, for whatever reason, were unwilling from the outset (t_0) to collaborate in the reform effort will move to active opposition once they have accumulated sufficient resources to act collectively. On the other hand, those individuals who collaborate with the government independently of the conjunctural macroeconomic performance are also a minority and, therefore, do not constitute sufficient support to sustain the continuity of the reform process. The size of this minority, as well as its composition particularly the extent to which it is comprised of those most injured by economic reform are nevertheless very important. Those sectors of population most hurt by restructuring and hence, obliged to pay the costs of painful reform will be willing to endure present sacrifices in exchange for possible future benefits if they have “confidence” in the elites controlling government and macroeconomic policy. And confidence is likely to be a function of whether those in control are “one of us,” where “us” means populist, laborite, Peronist, or social democrat. Therefore, neoliberal reforms carried out by parties with a broad base among the popular classes have a higher probability of success than those carried out by parties or coalitions with limited support among the masses.

The third group is also usually a minority, although one of strategic importance in the political struggles over economic reform. Although adversely affected by reform, these actors may see no feasible alter-

11 Rationality is neither an attribute of a given behavior nor of a specific objective. Rather, rationality refers to the relationship between an actor’s resources and the ends pursued, in a context in which the actor’s knowledge defines an expected causal relationship between actions and results and is characterized by certain non-choice features (*i. e.*, perception of interests, identity, values) that influence desires and preferences. In this sense, different courses of action might be rational not only as a function of the differential resources actors possess but also as a function of the different objectives they seek, the knowledge they have, and the non-choice features that characterize them. For a more detailed discussion of this question, see Sen (1986).

native and thus will support the neoliberal measures “hoping that everything goes well.” The strategic character of this group results from the fact that its decision either to collaborate with the reforms or to shift to an active demand for redistribution is the central determinant for the constitution and character of the majority. In other words, it is this third group’s decision to join in supporting one or another of the “consistent minorities” that is crucial in assuring majoritarian support for reform or, to the contrary, in crystallizing a majoritarian demand for redistribution.

The social sectors that constitute this strategic third group are willing, up to a certain point, to pay the price entailed by the transition to a new socioeconomic model and carefully weigh the risk of jeopardizing the medium and long-term stability of current and potential increases in income. For these actors who eschewed militant economism in favor of a collaborative strategy, the empirical references that signal the arrival at the “safe side” of t_4 are greater stability and rising aggregate demand, profits, and growth.¹² The problem is that the same observable phenomena characterize the arrival at t_3 , although at this moment no significant increase in the level of investment has yet occurred. Therefore, growth will not be sustainable in the long run, and redistributive policies may lead to inflationary consequences.

But actors do not have any reliable and easily available method to assess the (non)existence of investment or readily to distinguish whether economic outcomes (stability, growth, and rising profits) are the enduring consequence of a new development trajectory or, instead, are more ephemeral phenomena associated with a short-term recovery from stagflation. Within the strategic third group, some actors will be convinced that a more buoyant economy is “evidently” a sufficient cause to expect an improvement in their living conditions (without placing reform and growth at risk), causing them to join the first group in voicing demands. The rest will search for “agents” they believe to be better equipped than themselves (because they possess more or better information) to evaluate accurately what is *really* happening in the economy. This situation of asymmetrical information will result in the search by the population for credible “voices” capable of forming opinions

12 Note that we have not included falling unemployment among the indicators of improving economic performance because growth at t_3 generally does not imply lower unemployment since firms respond to rising demand without risking the hiring of new personnel (especially in societies where the “flexibilization” of the labor market has not been completed and new personnel would entail medium-term commitments and less flexibility to reduce production costs). Similarly, knowledge about employment would not eliminate the actors’ confusion between t_3 and t_4 because for those hurt by the reforms it is not clear that successful neoliberal restructuring will lead, even in the long run, to falling unemployment.

over whether to actively demand a larger share of the new pie or, alternatively, to exercise patience.¹³

In brief, there are four important “informed agents” sought by the middle classes, workers, popular sectors, and some capitalists in their attempt to understand what is *really* happening: opposition parties, unions, the government itself, and the independent media. Opposition parties, already paying the political costs of the relative success of the government’s economic policies and awaiting the potential benefits from increased dissatisfaction if those policies fail will stress the social sacrifices entailed by austerity and, in some cases, will claim that the consolidation of the new economic model will make future redistribution impossible. In a context where the priority is to regain lost electoral support, even those opposition politicians and technocrats who agree with governmental economic policies and who accept the need to restrain demands will generally remain silent. If the population chooses to heed signals emitted by the opposition parties, then regardless of the level of investment, an active demand for immediate improvement in their income becomes the rational choice.

Organized labor may express itself in three ways. A few union leaders may be committed to market-oriented reform and voice their support, although this position risks too close an approximation to the government for the pertinent leaders to remain credible and authoritative. The majority of union leaders supporting the government will remain silent. Uncertainty concerning the fate of socioeconomic reform leads them to avoid the potential costs of supporting a plan that might fail. A second group comprising those unions hurt directly by economic reform or particularly threatened by the marketization of capital-labor relations will be militant throughout the reform process and will take a stand coinciding with the opposition parties.

13 Our principal-agent model resembles some of the features of what Eric Rasmusen calls a “moral hazard with hidden information” game (Rasmusen, 1992, chapter 7). Nevertheless, it should be noted that the situation we are analyzing differs somewhat from Rasmusen’s description. Our argument concerning t_3 does not assume that when something occurs in the “real world,” the *principal* (middle classes and workers in our case) is in the dark, while the informed *agent* takes notice (thus resulting in a situation of imperfect asymmetric information). In our argument, the asymmetric information arises when the *principal* and the *agent* both “know” that something has happened (stability, growth, rising income), but the *principal* does not know its real significance and probable consequences. The “hidden” information for the principal is the behavior of the level of investment in this case, if investment has risen enough to initiate a period of sustained growth. The difference is not trivial for political analysis. In Rasmusen’s case, inaction by the principal (middle classes and workers) should be expected at t_3 because the actor has not noticed any significant changes in the state of the economy; while in our case, the *principal* actively seeks the *agent*’s signals to decide upon a course of action.

A third group remains silent. High costs inflicted by the government in retaliation for unruly behavior (protests, strikes, and so on), as well as the low probability of success if active opposition is adopted, dictate the absence of protest. The actors in this group will refrain from confrontation, alleging that the “right time” for a more activist posture has not yet arrived. For those mindful of these union voices (and strategic silences), the fact that most union leaders willing to express a vocal opinion actively demand increases in real wages means that greater militancy will be seen as the most rational course of action, regardless of whether the level of investment is sufficient to lead to sustained economic expansion.

The government’s economic team is the main agent interested in sending a clear signal that conditions for redistribution are still not in place. However, technocrats simultaneously play three “nested games”¹⁴ one with the middle classes and workers, a second with domestic firms, and the third with international capital resulting in a contradictory and garbled message. There are two reasons for this confusion. First, those in charge of the economic policies find themselves in a double bind: they must convince domestic and international capitalists that structural problems have **already** been solved and that it makes sense for them to invest. Simultaneously, they must convince the unions and the middle class that ongoing structural reform has **not yet** been completed and demands must be restrained because it is still too early for redistributive policies. Second, government spokespersons and governing party politicians with their finger on the public pulse will be eager to capitalize electorally on declining inflation rates, rising growth, and improving income indicators. Politicians, in particular, will thus stress that, contrary to expectations, adjustment need not imply a long period of recession. In their effort to demonstrate “extraordinary” capacity to achieve stability with growth, these politicians inadvertently heighten the confusion between t_3 and t_4 . In this context, rational actors will not be capable of sorting out government messages that reflect the “real” state of the economy from messages that are politically and economically expedient although false. For most of the population, therefore, the government is not a reliable source of signals either to “move” or to “wait.”

The media could conceivably be important allies for state officials in the reform process. The (necessary) ambiguities of the govern-

14 By “nested games” we refer to situations in which an actor plays several games concurrently, each with a different set of actors, different payoff structures, and different rules of resolution. This situation implies the possibility of the simultaneous implementation of different strategies for each game. These games are “nested” not only because the same actor is a player in each but also because the outcome of each game influences the outcomes of the others. For a useful discussion, see Tsebelis (1990).

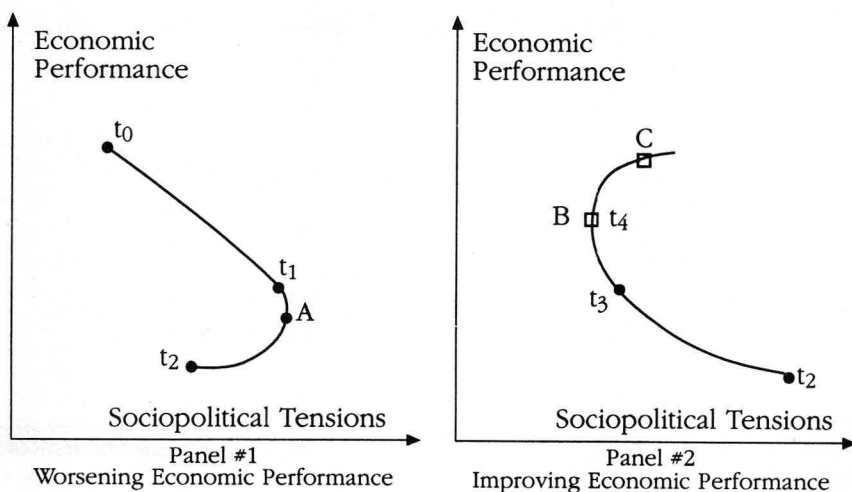
ment's discourse in the confrontation with the opposition, however, generally precludes this supportive role. Instead, the media frequently are cast in the role of "neutral" voices in debates over economic policy, thus placing them in a strategic position *vis-à-vis* the government. Tensions between the media and the government due to the latter's attempt to influence the former, with consequent accusations of governmental hegemonic aspirations and threats to the "freedom of the press" are typical of t_2 and t_3 conjunctures.

In view of the problem of asymmetric information regarding the "real" stage of the economic process (t_3 or $t_4?$), a government bent on economic restructuring is at a serious disadvantage in the competition among the alternative agents in the formation of public opinion. This disadvantage helps explain outcomes, generally counter-intuitive from the perspective of policy makers, in which the exacerbation of sociopolitical tensions frequently goes hand-in-hand with improving economic performance. Many workers, members of the middle classes, and some capitalists who originally were unsure of how to respond to improving economic conditions and, therefore, searched for an "informed agent" begin to voice redistributive demands. They do so because the signals to wait are ambiguous, while the signals to move are both more consistent and probably majoritarian among the sociopolitical leadership. The political timing of the actors' behavior consequently does not follow the timing of the economic model, an eventuality that may jeopardize the success of reform policies. Expectations, demands, and attendant political strategies are not "respectful" of the tempo of the economic sequences by which markets adjust.

Looking at Figure 3 below, let us see in a two-step analysis when and why the assumption of an inverse relationship between economic performance and sociopolitical conflict does not hold. The first step refers to the period when the economy worsens (Panel #1) and the second to the period when the economy begins to improve (Panel #2). After the outbreak of the economic and sociopolitical crisis at t_0 , and once socially painful measures begin to be implemented at t_1 , most societies show a paradoxical decline in collective action and mobilization, despite the continued erosion of economic conditions. The novelty is that the population perceives the worsening economic performance as the result of the socially painful measures the government insists are necessary to bring the economy under control. This perception leads risk-averse sectors (who see no realistic alternative to government policies) to close ranks with the "consistent minority" that supports the government "no matter what." In a tradeoff between present sacrifices and future benefits, they demobilize. Demobilization constitutes collaboration with neoliberal reform as the majoritarian strategy. However, the consistent minority that opposes reform "no matter what" has seen its capacity for collective action undercut in the context of stagflation. There-

fore, lower economic performance coincides with an easing of sociopolitical tensions, a positive relationship depicted in Panel #1 in the movement from t_1 to t_2 , when the direction of the curve changes at point A. Panel #2 represents what happens when the economy begins to turn around. After t_2 , relative monetary stability begins to improve, showing an inverse relationship between better economic performance and declining sociopolitical tensions. Some growth is achieved following t_3 , and the curve continues to reflect a reduction in conflict, although the slope shows a slowdown in the rate of decrease until arriving at point B. Beginning at point B, we again observe a positive correlation between conflict and economic performance.

Figure 3
SOCIOPOLITICAL TENSIONS
AND ECONOMIC PERFORMANCE



- | | |
|---|--|
| t_0 = initiation of the crisis | t_3 = achievement of some growth |
| t_1 = implementation of socially painful measures | t_4 = imperfect information effect (growth, stability, and increasing sociopolitical tensions) |
| t_2 = achievement of monetary stability | |

- A= tensions decline as performance worsens
- B= tensions worsen as performance improves
- C= strategic juncture forcing government response

In the previous paragraph, we explained why at certain moments in the reform process (point A) worsening economic conditions tend to go hand-in-hand with declining sociopolitical tensions. Turning to Panel

#2, which depicts what happens when economic conditions improve, we note that at point *B* the effects of imperfect information become sociopolitically conflictive. As previously noted, sectors of the risk-averse group, unable to figure out if sustainable growth has been assured or not, begin to shift toward greater militancy, thereby joining the “consistent minority” that had always opposed the government “no matter what.” In the context of economic improvement, this opposition minority has more resources for collective action and becomes more militant.¹⁵ The joining of these two groups makes possible the emergence of an opposition majority that threatens the continuation of the reform process. Once this tendency is recognized by governments, at point *C*, the survival of economic reform policies will, to a great extent, depend on the political capacity and strategies of policy makers and opposition actors. At point *C*, governments and economic teams face two basic political alternatives:

- 1) either economic policy making will incorporate political processes as **endogenous** to the model, and the government will undertake negotiations (perhaps leading to social or political pacts);
- 2) policy makers will continue to justify their models with a discourse alleging “irrational,” “shortsighted,” and “selfish”

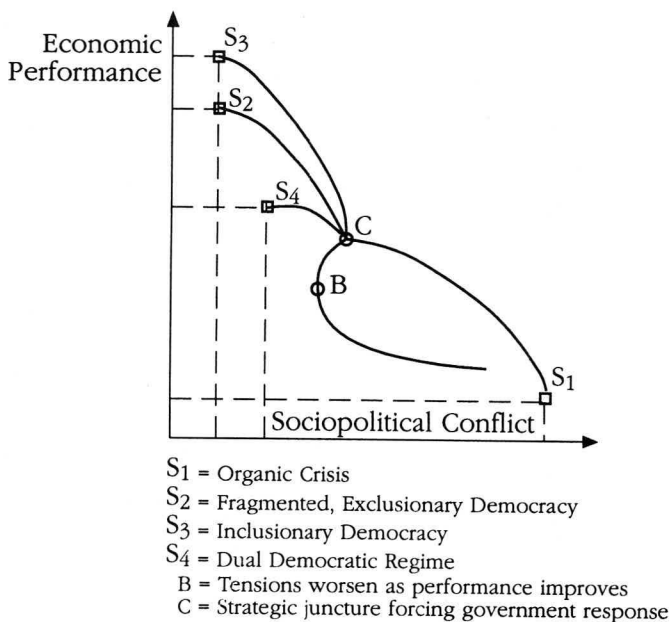
15 We have deliberately treated “economic performance” as if it were a singular phenomenon constituted by a series of variables (inflation, growth, fiscal deficit, profits, income) that tend to move in the same direction. Nevertheless, we noted that (un)employment was not included in the set of variables used to assess performance. The analysis of the actors’ decisions to exercise patience or to increase demands could be disaggregated as a function of specific phenomena such as inflation versus unemployment. This example is not arbitrary; rather we have in mind the observation made by Adam Przeworski and Susan Stokes in their analyses of Poland and Peru. They note that when inflation is very high, actors tend to be willing to accept a tradeoff between higher unemployment and potential future benefits, but when inflation declines, they are no longer willing to do so and, therefore, pursue vindicative strategies. But even if we were to disaggregate our analysis, which is something that lies beyond the scope of this essay, our central argument would still hold: actors are not myopic. Rather, their behavior is a function of rational expectations and imperfect information that characterize them for example, when suffering unemployment in the context of falling inflation. If less inflation permits some growth, what possible signal could convince these actors that it is still necessary to bear the costs of unemployment? What possible agent would be credible enough to contradict the common sense belief that the economy has been “cured”? Is their inability to differentiate whether they are at t_3 or at the “safe side” of t_4 the consequence of myopia or egoism or simply the necessary result of the actors’ imperfect information about investment trends (and hence, the prospects for sustainable growth) and the dynamic between “voices” and “silences” described above?

behavior on the part of the social actors they confront.¹⁶ This latter option implies resorting to Hobbesian solutions to the problem of reconciling growth and sociopolitical harmony.

Point *C* is, therefore, a politico-economic strategic moment because the actions undertaken at this particular location on the curve will determine differential probabilities for subsequent trajectories that, in turn, will have radically different “end states.” This logic is reflected in the following analysis of alternative scenarios (S_1 , S_2 , S_3 , or S_4), as portrayed in Figure 4.

Figure 4

LATIN AMERICAN POLITICO-ECONOMIC SCENARIOS



16 Rasmusen (1992, 133) notes that the economist’s new generic answer when facing “someone who brought up peculiar behavior that seemed to contradict basic theory” is to say that there “...must be some kind of asymmetric information.” It is often the case that most economists in the role of reformers or occupying posts as high-ranking state administrators tend to forget political theory (although it seems that many just never learned this) and resort to fairly shallow politico-economic assumptions when confronting political contestation.

ALTERNATIVE POLITICO-ECONOMIC SCENARIOS

We are interested in two types of politico-economic scenarios. The first scenario (S_1) represents one type and presents a **tendency** toward zero-sum, increasingly conflictive outcomes (where tensions increase and economic performance declines). This scenario does not constitute an equilibrium and is thus inherently unstable and transitory. The other three scenarios (S_2, S_3, S_4) represent alternative democratic “end states” of self-reproducing relative stability. The particular set of institutions and the structure of conflict in each of these alternatives combine so that none of the main politico-economic actors has sufficient incentive to deviate from the rules of the game if other actors also refrain from deviating. Each of these latter scenarios should, thus, be considered as a distinct mode of democratic consolidation.¹⁷

If a democratic government enacts an exclusionary style of policy design and implementation, it can succeed or fail in imposing its will on the sociopolitical opposition, alternatives that determine the consideration of our first two scenarios (S_1 and S_2). If a democratic government responds to increasing sociopolitical tensions at point *C* by reducing the degree of Hobbesianism and exclusion in the policy making process, the possible outcomes are described in the last two scenarios (S_3 and S_4).

First Scenario: “organic crisis” Revisited

If a government fails in its attempt to restructure the economy, performance probably will falter and sociopolitical tensions will increase, thus unleashing a tug-of-war among social and political actors. With the

17 Our use of “end state” coincides with the definition of a Nash equilibrium. More technically oriented readers should take into account that of the second, third, and fourth scenarios we discuss, only the maximalist version of the third is a Pareto-efficient Nash equilibrium. In other words, no politico-economic scenario other than **inclusionary democracy with strong actors and an activist state** increases the payoff of one actor without decreasing that of any other actor. Finally, the scenarios we discuss below are not meant to be mere “labels” ranking alternative options faced by the actors from “most” to “least” desirable. Rather, these scenarios and the genesis of different equilibria are profoundly rooted in each society’s legacies from the past as well as shaped by contemporary structural constraints that inform specific national conjunctures. Situations of equilibrium reflect the shifting contingencies of political struggles among contending actors. In this sense, equilibria are relatively stable resolutions of tensions between memories of the past and perceptions of feasible alternatives on the part of actors set in specific historical struggles.

socioeconomic reform effort half completed, S_1 becomes the most probable outcome. In this unstable and stagflationary situation, domestic social actors find themselves in a zero-sum relationship. The differential structural position of capitalists and workers empowers the former to defend their profits more effectively than wage earners can protect their income, a property of capitalism that is at the core of the inflationary spiral. The tendency is toward regressive redistribution in the context of a stagnant or even declining national income base. In this situation, only monopolies or those firms that can effectively play the financial game reap increased profits.

This first scenario usually includes an unresolved, and increasingly critical, external debt crisis (soon reproduced domestically in the form of uncontrollable fiscal deficits) that may force the economic authorities to suspend with or without an explicit unilateral moratorium interest payments owed to external creditors. This prospect places international challenges at the center of the government's problems. The typical dilemma is either to reject the demands of multilateral institutions and the foreign private banks (a defiant heterodoxy) or to yield and adjust social and economic policies accordingly to meet external conditionalities.¹⁸ In this first scenario, renewed politico-economic crisis tempts rulers to embark upon even harsher attempts to impose Hobbesian solutions. This might take the form of alternative political outcomes, ranging from a new economic policy (implemented by the same economic team in an attempt to impose new economic "packages"), a new team of economists, the government's replacement, or even a crisis of the regime, its downfall, and the threat of an authoritarian regression. Any of these events could lead to a new "starting point," although probably one with higher levels of sociopolitical tension and poorer economic performance than at t_0 , when the previous crisis prompted the first efforts at economic adjustment. Political stalemate, escalating distributional conflict, and serious difficulties in capital accumulation combine to produce an "organic crisis" of the society as a whole.

Second scenario: Fragmented and exclusionary democracy with neoliberal economics

For a democratic government to implement a full-blown variant of neoliberal restructuring, a series of preconditions must be met. The

18 The Austral Plan (Argentina 1985) exemplifies a case in which it was still possible to attempt economic heterodoxy with the agreement of the U.S. government and the international financial institutions. Once the "Washington Consensus" crystallized its stabilization/structural reform agenda (circa 1988-1989), this possibility was foreclosed. See Acuña (1994), Canitrot (1994).

maintenance of a majoritarian political coalition (both in elections and in Congress)¹⁹ in support of governmental policies is necessary but not sufficient. Neutralization of the opposition may be achieved by repression and dismantling the institutional framework that facilitated these actors' capacity for strategic behavior. This entails the progressive disarticulation of social networks and the erosion of collective identities and political solidarities.²⁰ In a nutshell, the democratic regime's capacity for political domination is based on the "silence of civil society" resulting from the fragmentation of the social actors and the exclusionary design and implementation of social and economic policies.

What we observe in these cases is the accelerated enactment of radical neoliberal reforms abolishing or rolling back laws and regulations related to neocorporatist decision-making institutions, workers' organizations, and collective bargaining. Thus, the deepening of market-oriented reforms may gradually transform traditional societal cleavages and lead to a renovated party system reflecting emergent social and economic realignments. Depoliticization of policy debates, along with competition for electoral advantage within the institutional parameters of the incipient neoliberal order, is also part of this process. Seen from this perspective, the efficient use of the government's majoritarian political support (although this support will probably decline in the interval between points *B* and *C*) is necessary to disarticulate the organization and political presence of social actors, in a successful Hobbesian strategy for achieving better economic performance while simultaneously controlling sociopolitical tensions.

19 In spite of the diminishing role of congress and the increasing weight of executive decrees in the decision-making process, the legitimacy of the *decretazos*, as well as their effectiveness, tends to rest on signals (public opinion polls, elections, statements by opinion makers and/or influential actors that, in some cases, include the U.S. ambassador) of majoritarian preferences for measures that are presented as urgent and difficult to process through negotiations, a property usually related to congressional debates and decisions. On the other hand, there are issues that in some societies cannot avoid congressional review (either due to political conditions or clear unconstitutionality), a circumstance which does not allow the executive to "forget" Congress when analyzing the political feasibility of certain measures.

20 Although new identities and solidarities might eventually emerge in a process of *embourgeoisement* (Díaz, 1996), it is also possible that the expulsion of blue- and white-collar workers from the formal labor market could lead to deepening anomie and mass withdrawal of citizen participation from the electoral arena as well as from conventional interest-group politics. See Zermeño (1991) for a provocative discussion of anomie and "disidentity" in the context of economic crisis and reform.

The consolidation of this second scenario implies that the government has managed to control the external debt by renegotiating its reduction (historical experience has placed these reductions at approximately 35 percent), that many state enterprises have become private monopolies, that the economy is opened to world trade (with average tariffs hovering at approximately 10 percent), and, above all, that the market has become the main mechanism of resource allocation. These successes reinforce stability, and fiscal reforms may oblige the bourgeoisie to pay more taxes than before the debt crisis, although the lack of state coordination and a state-induced growth strategy may well entail slow and erratic economic expansion, particularly if pragmatism is eschewed and orthodoxy is strictly observed.²¹ Also, the weakening of social actors, particularly of labor unions via the marketization of capital-labor relations, will produce a new distributional equilibrium below the pre-1980s historical average. Therefore, successful realization of this scenario implies emergence (and possible crystallization) of a new politico-economic matrix in which neoliberal economic reforms are accompanied by neoliberal political transformations, resulting in the consolidation of a fragmented and exclusionary democracy.

Third scenario: Inclusionary democracy, strong actors and an activist state

At point *C* in Figure 1, it is conceivable that the executive could choose to abandon Hobbesian strategies. To do so would imply the reformulation of the decision-making process by strengthening the fundamental social actors and incorporating them more fully into the process of policy design and implementation. This more inclusionary strategy represents an attempt to base democratic stability on sociopolitical pacts that would assure major collective actors their interests would not be seriously hurt by neoliberal reforms. It also implies some sort of redistribution of political and economic resources acceptable to all parties to the pact. If this strategy is successful, the logic underlying democratic consolidation coincides with the “social democratic” proposal made by Luiz Carlos Bresser Pereira, José María Maravall, Adam Przeworski (1994), as well with Przeworski’s analysis of democratic class compromise (Przeworski 1985a, 1985b).

21 For elaboration of these arguments, see Fanelli, Frenkel, Rozenwurcel (1994), Bresser Pereira, Maravall, Przeworski (1994). We speak in terms of probabilities because, as we stated before, such contingency variables as international commodity prices or levels of economic activity in the northern industrial economies, which may fluctuate significantly, drastically alter international capital flows, Latin American growth trajectories, and the attendant macroeconomic equilibria.

The institutional framework and political dynamics associated with this alternative closely resemble neocorporatism (Schmitter, 1974; Schmitter, Lehmbruch, 1979). This framework implies negotiations of socio-economic policies at the national level among the state and peak associations of workers and capitalists,²² as well as parliamentary oversight of neocorporatist pacts to minimize the costs transferred to those actors (consumers, students, feminists, and so on) and public interests (such as the environment) excluded from tripartite negotiations. Three preconditions for the success of this alternative are:

- 1) the organization of the membership of each class with a national leadership capable of obliging its rank-and-file to comply with the terms of negotiated agreements;
- 2) high institutionalization of capital-labor relations and sufficient state capacity to monitor and sanction breaches of agreements;
- 3) low levels of risk and uncertainty for investment required for future higher employment, higher wages, and long-term economic expansion.

Successful pact making with key collective actors would, as in S_2 , lead to a politico-economic equilibrium with lower sociopolitical tensions and better economic performance than at point C . Also as in S_2 , important economic reforms are completed (privatization, opening of the economy, control over fiscal deficits). Nevertheless, if the arguments advanced here are correct, S_3 , which envisions more active state participation in the implementation of social policies and growth inducement than does the “Washingtonian” version of economic adjustment, should produce a similar stable macroeconomic equilibrium, but at a higher growth rate (see S_3 in Figure 4).²³

Historical comparisons and the expected consequences of labor union participation in the decision-making process make distributional properties of this third scenario less regressive than in the neoliberal model S_2 . Better economic performance with more equitable distribution of income

22 For the particular properties of business peak associations, see Acuña (1992).

23 Here we are making a theoretical argument regarding the properties of a stable equilibrium at maximum efficiency. Although we believe there are strong theoretical reasons for the probable superiority of S_3 , *we wish to make clear that we do not reject the possibility that, under certain conditions, S_2 might achieve equal, or even better, economic performance, albeit at higher levels of conflict and with more regressive distributional outcomes.* For additional discussion of this possibility, see Calmfors, Driffil (1988), Freeman (1988), Franco (1993).

and wealth, plus the abandonment of Hobbesian postures, implies a relative deepening of democracy, when the other scenarios considered.

The problem is that in Latin America this maximalist version of democratic class compromise is clearly unfeasible. The fundamental preconditions for democratic class compromise are unlikely to be achieved fully by any Latin American country. Nevertheless, it is politically and theoretically important to underscore the possibility of a minimalist version of this scenario under conditions prevailing in Latin America. A more flexible, minimalist version of S_3 would require the initiation of closely interrelated, long-term transformations that would point in the direction of maximalist objectives: state reform, negotiation with and strengthening of collective actors, politico-institutional reforms reinforcing parliamentary mechanisms, and the expansion of citizenship rights.

If state reform is to lead toward more just and equitable outcomes under democracy, it is crucial that in the long run the relationship between state capacity and societal actors not be seen a zero-sum game. In this sense, there is a need for an explicit commitment by political and bureaucratic elites to strengthen and incorporate societal actors into the process of formulation and implementation of public policies. In order to generate confidence in the government's sincerity, particularly skillful and courageous "reform-mongering" (probably with unmistakable "populist" and "clientelist" overtones) must broaden the scope of negotiations beyond the narrow parameters of social pacts with organized labor and business associations or of political pacts limited to deals with party elites. The incorporation of a broader array of social actors, along with strong measures to reinforce the legal system, would be necessary to combat what Guillermo O'Donnell (1994) refers to as impoverished "brown spots" and "low-intensity citizenship". Prospects for a minimalist S_3 scenario might be enhanced by changes in constitutional frameworks, such as the introduction of parliamentarism (and certainly enhanced technical expertise and oversight capacity by elected representatives) and extensive reforms of rules governing elections and the party system, as well as a new fiscal pact among the national, state, and local governments.²⁴

Although this minimalist project is somewhat more likely than the original maximalist version of S_3 , it still confronts important domestic and international obstacles. In addition to the reconstruction of state

24 The thrust of these institutional changes would be to increase the probability that electoral coalitions become governing coalitions assuring majoritarian support for reformist initiatives (e. g., *industrial policies and, especially, ameliorative social policies*) that advance beyond neoliberal recipes. For the *parliamentarism versus presidentialism* debate, see Mainwaring (1990), Stepan, Skach (1993). Also see the suggestive discussion of party systems and governability in Haggard, Kaufman (1992).

institutions needed to guarantee the enforcement of pacts, it will not be easy to unify the “voice” of both workers and capitalists. The main obstacles to reducing sociopolitical tensions are rooted in the risks involved for all leaders (state, business, and labor) in carrying out institutional reforms while simultaneously confronting conflicts over substantive issues, such as the exchange rate or wage rates.²⁵ Finally, the international obstacles to be faced extend well beyond the obvious limitations imposed by the debt crisis and the vagaries of international capital flows to include the more subtle forms of veto power over national policies wielded by multilateral financial institutions, transnational corporations and banks, and the United States government, which still generally view reformist strategies as dangerously “populist” or “leftist” and the cause of economic inefficiency, corruption, and political instability. A governmental leadership able to win the “confidence” of the international community could expand the reform space required for the success of this minimalist scenario.

If progress is made in advancing this agenda of reforms admittedly ambitious, given conditions currently prevailing in Latin America it is possible that a trajectory of democratic deepening could be initiated. The key would be a tendency toward a rearticulation of state and societal actors such that elected officials accumulate sufficient political and administrative capacity to sanction transgressors who violate social agreements (on wages, prices, investment levels, and so on). Greater embeddedness of state institutions in civil society would also endow elected officials with the capacity to act gradually to reduce the risks of investment and to provide the incentives required to convince social actors to abandon strategies of confrontation in favor of cooperative strategies tending to institutionalize distributional conflicts within the emergent democratic order. Here a reinvigorated, moderate democratic Left must play an essential role.²⁶

A minimalist S_3 could conceivably, over a sufficiently lengthy period, undergo metamorphosis and emerge as a more genuine democratic and more socially just alternative (maximalist S_3). However, a minimalist S_3 scenario could “fall short” and constitute an equilibrium by itself, albeit

25 In the case of the state, those members of the executive promoting institutional change are frequently charged by other members of the governing coalition with squandering the government’s democratic mandate by “caving in” to pressures from corporate actors. Similarly, business actors and, especially, union leaders face “internal” pressures from rival factions and must calculate the risk of cooperation with state elites to their own positions of power. Maximalist, even unfeasible demands are very often the result of political competition within the union or the business leadership.

26 For recent analyses of transformations of the Latin American Left, see Cavarozzi (1992b), Castañeda (1993), Carr, Ellner (1983).

probably a weak equilibrium. In view of the alternatives, “medium-intensity citizenship,” modest redistribution, and reasonable economic growth are not to be disdained.

Fourth scenario: Dual democratic regimes

In the fourth scenario (S_4), state elites seek to establish an alliance with a strategic minority of the opposition for the purpose of excluding the majority of the remaining social actors by disarticulating and neutralizing their capacity for collective action. Political and economic stability in this scenario is facilitated by a dual logic of state power (respect for the organization of the allied minority and disarticulation of the rest) and unequal distribution of resources (benefits are extended only to allied sectors of business and organized labor). The particularly elitist character of this logic of governability defines the dual democratic regimes that emerge in S_4 . Of course, all regimes manifest this dual character to some extent because every strategy of inclusion necessarily implies exclusion. The high ratio of exclusion to inclusion, the dependence of the regime’s stability on this ratio, and the intention of the main political actors to maintain it are what differentiate dual democratic regimes from others.

As O’Donnell (1994) points out, widespread poverty, massive social and economic inequalities, and the weakness of the “state as law” perversely reinforce one another to (re)produce despotic and archaic social relations and what he calls “low-intensity citizenship.” O’Donnell’s depiction of “delegative democracy,” with concentration of power in the executive and inherent hostility to accountability and the institutionalization of mechanisms of representation, also resonates with the syndrome of traits exemplified in S_4 .

Economic performance under S_4 will be less dynamic than in S_2 or S_3 . Mediocre performance is a likely consequence of inefficiencies and distortions in the allocation of resources stemming from the subsidies and privileges awarded by the government to minority allies in exchange for their political support. But performance will surpass that which is possible under S_1 because the government will have achieved sufficient control over the principal macroeconomic variables to assure at least medium-term stability. On the other hand, sociopolitical tensions in S_4 , although higher than in S_2 and S_3 , will be lower than in S_1 because the dual logic of power and unequal distribution has been imposed on most of the population. Tensions will be higher than in S_2 because the minority of strategic actors incorporated into the dominant alliance means that a few important actors retain, and will use, their capacity for collective action to pressure the government. Sociopolitical

tensions will also be higher than S_3 because the objective of the dominant alliance is not only to disarticulate “the others” but also to restrict the participation of the allied minority as much as possible in the negotiation of “macro” issues, thus setting the stage for constant zig-zags and recurrent confrontations with the opposition.

Relationships Among Scenarios

State elites and societal actors generally do not embark upon the fourth scenario as a consequence of rational calculation. Rather, this scenario usually emerges as the result of the failure of more ambitious elite initiatives (to achieve objectives related to S_2 or S_3) or as the result of the conviction by elites of their own political weakness (S_4 is preferable to the disaster of organic crisis S_1). Each of the paths to the other scenarios thus contains a possible route to S_4 . We will examine each path briefly.

Given conditions of organic crisis in scenario S_1 , state elites may opt to abandon maximalist objectives with respect to market-oriented reform and economic performance. Instead of a full-fledged Hobbesian strategy to restructure society and the political economy, or a risky option of strengthening and negotiating with societal actors, governing party politicians may select a few representatives from among opposition party elites or among corporate actors (labor unions and entrepreneurial associations) as interlocutors; the precise allies selected will depend on the support required to fashion a minimum winning coalition capable of disarticulating the rest of the society. This divide-and-conquer strategy might succeed, although the cost may be high: the potential members of the privileged minority will only be willing to enter into an alliance with the government in exchange for institutional arrangements that safeguard their own vital interests and capacity for collective action in the future. The obvious risk for the potential allies is that once the government has used their support to neutralize the “others,” they themselves could then be “dealt with” by the exclusion of minority allies from the dominant alliance.

From the attempt to achieve S_2 , the road is different. At point C in Figure 1, the government may decide to radicalize and deepen its Hobbesian strategy. But the government will be obliged to accept small concessions to strategic minorities, whose support provides the critical margin for success in negotiating specific reform issues (*e. g.*, the privatization of public enterprises where unions could jeopardize the endeavor or the approval of legislation pertaining to the flexibilization of capital-labor relations). However, “partial success” only in some specific aspects of neoliberal restructuring may undermine the long-term consolidation of S_2 and, thus,

may favor the emergence of S_4 . For example, the contradictions and ambiguities required by concessions to minority allies (*e. g.*, clauses exempting them from the costs entailed in the approval of certain laws) mean that partial reforms may well fall substantially short of the more drastic liberalizing measures typical of the initial period of crisis. As a result, in comparison with S_2 , piecemeal economic reforms result in poorer economic performance and higher levels of conflict because of the greater level of organization and capacity for collective action on the part of opposition actors. This determines a different point of equilibrium than the one initially sought by neoliberal reformers.²⁷ S_4 is, thus, a probable outcome in the event of the failure of an S_2 project.

The transition from attempting S_3 and ending up in S_4 results from a failed effort to strengthen and incorporate societal actors into the decision-making process. At this point, negotiations with minority interests might be initiated with the intention of “waiting out” the crisis in the hope of retaking the original path toward S_3 at some point in the future. Nevertheless, prolongation of the “emergency” and the “circumstantial” exclusion of majoritarian actors might eventually lead to an equilibrium from which none of the organized participants want to depart and the majority would thus be excluded permanently. The government might reason that its attempt to achieve S_3 , whether in its maximalist or minimalist version, faces insuperable obstacles and thus conclude that a progressive reform strategy in these circumstances might imply a level of sociopolitical conflict incompatible with its economic objectives. Governing party politicians and government bureaucrats might also realize that the balance of power between state and societal actors required for a radical change in direction toward the full-fledged neoliberal version of S_2 is unattainable. Therefore, in this case, S_4 is preferred as the only feasible alternative.

The failure to achieve S_3 or the political dynamics to assure the implementation of a series of partial, “micro” reforms needed to attempt S_2 and the risk of remaining in S_1 or of falling into S_1 , are alternative origins for the emergence of S_4 as a stable equilibrium. **But some scenarios are simply not present as viable alternatives in many societies.** In fact, in a given society certain scenarios may not even form part of the actors’ historical consciousness or even their imaginations. Nevertheless, and beyond the fact that no modal pattern can be inferred for the region as a whole, the properties and prerequisites for each scenario, as well as the relationships among the

27 Some of the more radical free-marketeters among the supporters of the attempt at S_2 are likely to perceive this scenario mistakenly as inherently unstable because, from their perspective, it carries the reform process only “halfway” to the desired goal.

scenarios, suggest that dual democracies (S_4) are the most probable future in most cases.

CONCLUSIONS

We began by recalling Carlos Díaz Alejandro's prescient observation that Latin America was "*not in Kansas any more*". The arguments developed in this essay have advanced some ideas that help us understand the logic of neoliberal policy making and the bases of support and opposition to marketization, as well as locate Latin America more precisely in the maelstrom of political and economic transformations currently reshaping the capitalist world.

Our first step was to redefine in broad terms the relationship between economic and political processes. This is a central issue in the current Latin American context, in which pillars of democracy such as majoritarian choices and preferences are seen by many as having been reduced to empty rituals when governments are perceived as having no feasible alternatives to neoliberal structural adjustments. Are actors indeed learning that democracy is irrelevant? Can it be inferred from the narrowing of the scope of alternative strategies over the last decade and a half that neoliberal reforms will necessarily result in depolitization and the erosion of democratic loyalties and party identities, thus endangering democratic stability and consolidation?

We have argued that inferring politics from economics is bad methodology. Moreover, we have shown that even if the range of choices for socioeconomic policies has been dramatically narrowed, it does not necessarily follow that political consequences must march lock-step in a similar direction. Various alternative scenarios are possible in which the same economic policies may set in motion political outcomes that diverge significantly in terms of levels of sociopolitical conflict and opposition to economic reform, as well as produce a variety of economic consequences and long-term implications for democratic consolidation. A common, modal political pattern should not necessarily be expected from the implementation of similar economic strategies. In turn, if a dominant pattern does emerge, it will not be the result of a common economic "cause" but rather a reflection of the contingent aggregation of political and economic processes specific to each society.

By the same token, divorcing politics from economics is also bad methodology. Rethinking the relation between politics and economics should occur at the level of "middle-range" theories that allow analysis to incorporate organizational patterns of social and political actors and the contingen-

cies inherent in the political struggles of each society. Although we cannot make general inferences regarding threats to democratic stability directly from contexts of negative socioeconomic circumstances, we certainly can analyze the types of democracies most like to emerge.

It is in this sense that we argue that rethinking Latin American development, questions of democratic governability, the region's insertion into the global political economy, or the transformation of domestic social structures can proceed most fruitfully through comparative analyses that place particular emphasis on the specific characteristics of each society.

In the same vein, regarding the question of state power and the discussion concerning the recasting of the relationship between the public and the private spheres, affirmations that state power in Latin America is "weakening" may obscure differences between those countries in which the state is impotent to carry out the neoliberal policies and other countries in which, notwithstanding its "weakening," the state still possesses sufficient power to impose economic reform and to neutralize troublesome social actors. **State strengthening may be unavoidable — and highly desirable under certain circumstances — during successful reforms leading to market strengthening.**

The new, future state emerging from neoliberal reform will, therefore, probably be both stronger and weaker. Depending on the specific issue area or public policy arena, for example, market-oriented restructuring may lead to a severe retrenchment of the public sphere's traditional "entrepreneurial" functions and to a much smaller, but not necessarily "weaker," state apparatus. In other arenas, such as the capacity of civilian elites to exercise control over the military or to impose restrictions on organized labor, public authority may be strengthened significantly. Similarly, stronger and more effective mechanisms of state regulation must be put into place in order for markets to function properly, with the efficiency and transparency required by private investors.

Another issue at the core of the discussion of the political economy of structural adjustments concerns the relationship between economic performance and sociopolitical conflict. Politicians and economists, key protagonists in the processes we are analyzing, frequently persist in portraying economic performance and sociopolitical conflicts as inversely related the greater the economic success (measured by continuity of reform policies, achievement of goals such as macroeconomic stability, resumption of growth, and a general increase in income), the lower the level of sociopolitical conflict.

To the contrary, in view of an unavoidable problem of asymmetric information regarding the "real" stage of the economic reform process,

and using a framework based on strategic analysis and principal-agent models of imperfect information, we conclude that if economic reforms manage to achieve some success leading to an improvement in economic performance, sociopolitical tensions will very probably increase, rather than subside. The political timing of the actors' behavior consequently does not follow the sequencing of the neoclassical prescription for economic reform, an eventuality that may jeopardize the success of neoliberal strategies. Expectations, demands, and attendant political strategies of rational actors are not "respectful" of the economic timings by which markets adjust.

Once this tendency toward heightening tensions in the context of economic improvement is recognized by governments, the survival of reform policies will, to a great extent, depend on the strategies and political capacity of policy makers and opposition actors. The direction taken by the political process at this stage becomes central not only for the success or failure of the economic reforms but also for the type of long-term politico-economic equilibrium possible for different societies. The composition of the governmental coalition at this particular moment weighs heavily in determining future scenarios. This question underscores an old conclusion in the social sciences that acquires renewed significance in the circumstances we are studying: the likelihood that those most affected by restructuring will be willing to endure present sacrifices in exchange for possible future benefits will be greater when those controlling the government and macroeconomic policy succeed in eliciting the "confidence" of those paying the costs of painful reform. And, as we noted, confidence is likely to be a function of whether those in control are "one of us," where "us" means populist, laborite, Peronist, or social democrat. Therefore, neoliberal reforms carried out by center-left parties with a broad base among the popular classes have a higher probability of success than those carried out by right-wing parties or conservative coalitions with limited support among the masses.

Finally, in exploring future paths that may spring from present politico-economic tendencies, we have suggested that of the possible alternative future scenarios, full-blown neoliberal restructuring with the consolidation of democratic rule is not a likely future for most Latin American societies. The most probable scenario seems to be dualistic democracies. In this scenario, state elites establish an alliance with a strategic minority of the opposition for the purpose of excluding the majority of the remaining social actors by disarticulating and neutralizing their capacity for collective action. Political and economic stability in this scenario rests on a dual logic of state power (respect for the organization of the allied minority and disarticulation of the rest) and unequal distribution of rewards (favoring allied sectors of business and organized labor and penalizing the rest). The

particularly elitist character of this logic of governability defines the dual democratic regimes that emerge. At this stage, rather than firm conclusions, these arguments are interesting hypotheses that we believe merit comparative analysis of specific societies, something we do elsewhere.²⁸

The success or failure of structural adjustment programs will always be strongly shaped by the fact that the expectations, demands, and political strategies of societal actors are not “respectful” of the macro and microeconomic timings by which markets adjust. Politics and political timing must be understood as endogenous to the economic process. The problem of “time” for historical analysis and economic policy making is obviously nothing new. Lord John Maynard Keynes was right when he pointed out the political problems of markets that adjust too far into the future when he observed that “in the long run we are all dead.” And policy makers should bear in mind that the meaning of “too far” cannot be ascertained by economic modelling. It was Friedrich Hegel who stressed the importance of “political” time over “chronological” time. In his *The Philosophy of History*, he suggested that historical processes should be understood as ruled by Zeus, the political god, and not by Kronos, the god of time. In Hegel’s vision, the struggle between these two gods over the nature of historical evolution ends when Zeus kills and devours Kronos. In other words, “too far” or “close enough” are eminently political questions central to the failure or success of economic objectives. These critical thresholds will be determined by what Hegel identified as those moments when “*thinking...flows among citizens and determines their practice, [driving] them to question...*” the prevailing order (cited in Marcuse, 1968, p. 239-240).

Díaz Alejandro realized long before most observers that the debt crisis was not a mere passing event, and that Latin America in the early 1980s was entering a sort of *Land of Oz* a world of uncertainties marked by radical changes of rules, actors, and resources. Not surprisingly, in the years since Latin America “left Kansas,” economic strategy and policy making have been dominated by a long series of would-be “wizards” who acted as if they were capable of molding minds and controlling behaviors of societal and political actors virtually at will. The consequences of this autocratic political style are visible for all to judge. The political struggle over structural adjustments still awaits the emergence of new democratic leaders and coalitions who, when confronting the uncertainties of this new phase of capitalism, recognize that in the implementation of market-oriented reform governments necessarily must represent and confront rational actors defending legitimate interests.

28 For an initial effort, see Smith (1993). A more rigorous analysis can be found in Smith, Acuña (1994), accompanied in the same volume by detailed case studies of Argentina, Bolivia, Brazil, Chile, and Mexico.

Rather than indulging in political sorcery, and treating them as “selfish” and incapable of understanding what needs to be done, elected leaders and the economic teams of reform-minded governments must consider societal actors as **endogenous** to policy making in a democratic society with a plurality of frequently conflicting interests. Whether included or excluded from policy making, these actors and interests will play a fundamental role in the success or failure of the strategies and reforms undertaken. In the disposition of this inescapable fact hangs the fate of current economic restructuring, as well as the prospects for democracy and sustainable and equitable growth in Latin American and elsewhere.

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