

POLITICAL INSTITUTIONAL CHANGE IN LATIN AMERICA

Fabio Fossati

19

The Pendulum Practice until '89

In the past century, no political stability existed in Latin America, which has experienced an "obsessive" pendulum between democracy and authoritarianism. At the beginning of the century there were still "oligarchic democracies", then universal suffrage was applied also in Latin America. After the '29 crisis, rural exporters -damaged by ISI- tried to strengthen an alliance with the armed forces, but that project failed and there was a democratization process after second world war. Since '45, all military regimes (except Chile) have applied protectionist economic institutions. However, pendulum materialized through patterned waves of alternate transitions: from democracy to authoritarianism and viceversa. After the second world war, there was a wave of democratization.

These two regimes were also characterized by two different decision-making processes, which can be summarized in two models: populist and bureaucratic. Most democracies had populist governments, which were not "liberal" regimes. In fact, the intermediate (between the masses and the leader) actors' role was not relevant. There were workers unions and business associations, but these groups were "created" by the leader (like Peron in Argentina); parties in parliament had only a ratifying role. There has always been a linkage between political and economic populism¹; in fact, leaders applied expansive economic policies, especially during the first phase of ISI of the 50s.

Most of the authoritarian governments were "bureaucratic". The armed forces governed together with the *técnicos*, otherwise they probably would not have been able to accomplish that task in economy.

However, these governments were constrained in their decisions by the frontiers of the nationalistic ISI project². A sub-category of the bureaucratic government was the penetrated executive, in which decisions were made in collaboration with the international financial organizations (the IMF, the World Bank...). After the failure of populism, "*dictablandas*" emerged at the beginning of the 60s, with the project of deepening ISI into its second phase, through the encouragement of foreign investments (even if only towards protectionism-oriented business)³.

There was another wave of democratic populism (with Allende, Peron...) in mid 60s, then another of new dictatorships of mid 70s, that were much more repressive than the previous ones. Decision-making mostly followed the bureaucratic model, for example in Argentina and Uruguay; even if in Chile, there was more participation by the business groups during the 80s. The latter was some sort of experiment of a Latin American version of "neo-corporatism", that is to say with a very limited participation to decision of unions.

The last wave of democratization occurred in the 80s, after the big economic failure (except Pinochet in Chile) of military regimes. The 80s, after the debt crisis, were still characterized by uncertainty and seemed to mark just another episode (in favor of democracy) of the "pendulum practice". There were still both populist (Peru, Venezuela, Brazil) and bureaucratic (Mexico) governments. In Argentina, there was a conflict between a populist president and his *técnicos*. Chile's transition to democracy occurred at the end of the decade.

1. This diagnosis is not shared by the so-called neo-thirdworldist scholars, but their attempt to couple political populism with laissez faire economic policies seems to fall into the trap of conceptual stretching. In fact, in those cases, populism seems a secondary feature of decisions, which are taken through neo-oligarchic processes: see the following paragraphs. K. M. Roberts *Neo-Liberalism and the Transformation of Populism in Latin America*, World Politics, 1995, vol.48/1 (1995): 82-116.

2. G.O'Donnell *Modernization and Bureaucratic Authoritarianism*, "Politics of Modernization Series", n.9, Institute of International Studies, University of California, Berkeley, 1973.

3. The democratic exceptions to populism were governments of the more institutionalized *desarrollistas* parties, that tried to implement the second ISI phase through parliaments' decisions, but those attempts failed at the end of the 50s. K. Sikkink, *Ideas and Institutions: Developmentalism in Brazil and Argentina*, Ithaca, Cornell University Press, 1991.

In synthesis, during the “pendulum phase”, both populist and bureaucratic decision making processes were highly illiberal, and below the minimum conditions of democracy. In fact, controls (by parties or groups) on the governments’ decisions were very limited.

Looking for a Theory on Relation between Market and Democracy

The experience of Western states shows a strong correlation between political and economic freedoms. Anglo-Saxon countries (the UK and the USA) applied at the same time democracy and the market, and the first wave of democratizing countries imitated them. Instead, after the first world war, several countries (Russia, Italy, Germany...) shifted towards both (communist or nazi-fascist) authoritarianism and protectionism within state-centered economic institutions. After the second world war, there was the second wave of democratization, that concerned many countries that were defeated in that armed conflict. Scholars have advanced some explanations of this parallel process. The most convincing one is that of Gerschenkron⁴, that hypothesized that politics depended on economy. In fact, the so-called 2nd comers in the process of modernization (like Germany and Italy) formed their states in the late decades of the XIXth century; thus, there was a deep structural pressure to imitate the 1st comers (UK, France, USA...). The outcome was authoritarianism, because 2nd comers could not control all the social imbalances stemming from modernization; instead, the 1st comers had had much more time to concede civil, political, social and economic rights to their citizens. Hirschman⁵ applied that theory the “3rd comers” of Latin America, even if in that case the outcome of the modernization

process was not a long lasting authoritarianism, but the above-mentioned pendulum. Thus, this could be called the sociological theory on the relation between democracy and the market.

There is an alternative theory, trying to explain the market-democracy link. Marxist scholars share a manichean vision of the effects of the market, that would have had very negative effects for Latin American countries. The theory has been elaborated in the post-colonial period, characterized by both economic and political oligarchies. Thus, Marxists have hypothesized that laissez faire economic institutions produced not democratic regimes⁶. Instead, the empirical evidence show that protectionist institutions were not coupled with democracy, but with the above-mentioned pendulum. Thus, Marxist made the methodological mistake of the “fallacy of interferences”, linking two variables, that had in fact different causal mechanisms. In fact, at the beginning of the XXth century most countries of the world had competitive oligarchies, and universal suffrage was introduced in the following decades. Economic oligarchies were the outcome of cultural factors; Latin American countries imitated Spanish and Portuguese social institutions, that were highly hierarchical, and thus very inequitable in economic distribution of welfare⁷. The Marxist linkage could have materialized only if in the ‘20/45 phase the armed forced had accepted rural oligarchs’ proposals of resisting Isi through authoritarianism. After ‘45 all military regimes applied protectionist institutions, and the only exception (Chile) cannot become the rule, for an ideological misperception of the few scholars (ex, neo or post Marxist) who were making research (and especially publishing) on Latin America⁸.

21

4. A.Gerschenkron *Economic backwardness in historical perspective*, Cambridge, Harvard University Press 1962.
5. A.O.Hirschman *The political economy of import-substituting industrialization in Latin America*, "Quarterly Journal of Economics", 1968, vol.82, n.1, pp.1-32.
6. A.Przeworski *Democracy and the market*, Cambridge, CUP 1991.
7. J.Wiarda *Politics and social change in Latin America*, Amherst, University of Massachussetts Press 1974.
8. F.Fossati *La rivisitazione di 'Mercato e democrazia in America latina'. Una replica alle tesi di Przeworski e O'Donnell*, aprile 2002a, paper on line in: www.salvador.edu.ar/ui2-35-1.htm.

However, the two theories will be compared also in the post/'89 phase, in order to test them once more with the empirical evidence.

The Beginning of Democratic Consolidation in the 90s

The basic empirical evidence of the 90s is that the practice of pendulum between authoritarianism and poliarchy was stopped, because it was precisely in that period that a new wave of military regimes should have taken place. Thus, the real change did not occur in the 80s, in which there was only the last wave of democratic transitions, but expectations of another authoritarian cycle were strong, especially after the debt crisis of '82. In synthesis, Latin American democracies "started" their consolidation process for the first time in the history.

In fact, it is important to emphasize that it is just the starting phase, while in the literature many scholars (for example O'Donnell⁹) have objected that Latin American democratic regimes are not consolidated. Before trying to give an answer to this question, it is important to define this concept. The definition of democratic consolidation is the object of an interesting debate and the main positions are two. Some scholars (Morlino¹⁰) see consolidation as a process of institutionalization, or something similar, of the norms (the electoral system) and the roles (the authority structures like the government/parliament relationship), coupled with the legitimation process by the citizens. In consolidation, the parallel process of institutionalization is legitimacy, given by most of the citizens who participate in politics. The others (Di Palma¹¹)

identify consolidation as a "point" event, that is to say the specific agreement that leads the main actors to accept the democratic rules of the game. I prefer the former definition; consolidation is a phase that follows a democratic transition. My argument is that the turning point in the passage from transition to consolidation is what Di Palma means by democratic consolidation¹².

What is occurring in most of the current Latin American regimes? On one hand, the institutionalization process is advanced, while the legitimacy given by the citizens often remains low, because of the bad performance of the regime in the economic distribution issue. Thus, democratic consolidation still remains weak, but this does not mean that it has not started at all. In fact Schmitter¹³ has emphasized as consolidation has not to be conceived as "a zero-sum" concept, that is to say there is 100% or 0% consolidation. In synthesis, after '89 consolidation has started for all countries of Latin America, and some of them may be more (Chile, Brazil...) or less (Peru) advanced; in some cases (like Venezuela with Chavez), there has been a regime crisis and that country remains in some sort of limbo in between the two categories: that of the so-called hybrid regimes. There are many similar cases to Venezuela in Africa and Asia; this is the reason why Carothers¹⁴ has criticized the "transition paradigm", asserting that it remains correct for the 1st and 2nd wave of democratization, where consolidation follows political transitions. Instead, the usual outcome of current transitions is a limited ("illiberal" democracy) -where for example only political and not civil right are guaranteed- or an hybrid regime -where elections

9. G.O'Donnell *Counterpoints. Selected essays on authoritarianism and democratization*, Notre Dame, UNDP 1999.

10. L.Morlino *Costruire la democrazia. Gruppi e partiti in Italia*, Bologna: Mulino, 1991.

11. G.Di Palma *Parliaments, Consolidation, Institutionalization: a Minimalist View*, pp. 31-51, in U.Liebert, M.Cotta (eds) *Parliaments and Democratic Consolidation in Southern Europe*, London, Pinter Publishers, 1990.

12. *First there is settlement, then convergence. According to Higley and Gunther they are alternative outcomes*. J.Higley, R.Gunther (eds) *Elites and Democratic Consolidation in Latin America and Southern Europe*, Cambridge, CUP, 1992.

13. P.Schmitter *From transition to consolidation*, pp.131-46, in M.Dobry (a cura di) *Democracy and capitalism. Transitions in Eastern Europe*, Dordrecht, Kluwer-Academic Publishers 2000.

14. T.Carothers *The end of the transition paradigm*, "Journal of Democracy", 2002, vol.13, n.1, pp.5-21.

are not fair or some parties are objected from participating to elections¹⁵. However, Carothers' objection seems reasonable for the 4th wave (that is to say post-89) of African and Asian democratizing countries and not for the Latin American 3rd wave of the 80s (with the exception of Venezuela).

In synthesis, '89 represents the critical juncture between the long period of "pendulum" transitions and democratic consolidation. Thus, it may be equalized to Di Palma's conception of a relevant point event that characterizes political change.

Looking for a Theory on Political Transitions in Latin America

During the "pendulum phase", different hypotheses on democratic transitions have emerged, but not a single "general" theory¹⁶. There is a first hypothesis that did not resist empirical test: the supposed linkage between 70s political crisis and institutional constraints, namely presidentialism¹⁷. In fact, there was no democratic transition to parliamentarism either in the late 80s, or at the beginning of the 90s. Modernization's hypotheses are also to be criticized, because that theory was used to support both 50s democratic (by Johnson) and 60s authoritarian (by O'Donnell) transitions. Those "multi-dimensional" authors like Baloyra¹⁸, who had identified too many causal factors, were also criticized. At the same time, the change of the 90s led to a negative test of two other theories on Latin American political instability. The first hypothesis had established a cultural

incompatibility between hierarchical (Catholic) religion values and political freedom in Latin America. Then, naturally, cyclical theories on political transitions did not resist empirical test anymore¹⁹.

Thus, what happened in the 90s in order to favor the stop to the pendulum practice? This important change cannot be explained by descriptive analyses such as those about the last transitions' wave²⁰, which linked democratic consolidation to "case by case" compromise pacts. Political change seems to have a regional character, which was conditioned by structural factors, more than by political processes. The structural variables that changed in between the 80s and 90s are two. The first is international: the end of the Cold War. The second relevant factor has to do with the economic institutional change (since '89), that is to say the liberalization process. In fact, until '89 all the Latin American governments (except Chile) applied the ISI protectionist economic institutions. In fact, from a methodological point of view, the only conclusion is that the influence of both variables resisted empirical test during the 90s, while all the others must be excluded.

Thus, the first structural change was the end of the Cold War. One could argue that the beginning of democratic consolidation may arise only with the emergence of one world order, based on the existence of one single value in the political sphere: democracy. During the Cold War, there were two "block" orders and political values were two: Western democracy and

15. L.Diamond *Elections without democracy: thinking about hybrid regimes*, "Journal of Democracy", 2002, vol.13, n.2, pp.21-35. F.Zakaria *The rise of illiberal democracies*, "Foreign Affairs", 1997, vol.76, n.6, pp.22-43.

16. This evaluation was advanced by Remmer. K.Remmer *New Wine or Old Bottlenecks? The Study of Latin American Democracy*, "Comparative Politics", 1991, vol.23, n.4, pp.479-95.

17. J.J.Linz, A.Valenzuela (eds) *The Failure of Presidential Democracy: the Case of Latin America*, Baltimore, JHU Press, 1994.

18. E.Baloyra (ed) *Comparing new democracies: transition and consolidation in Mediterranean Europe and the Southern Cone*, Boulder, Westview Press, 1987.

19. J. M.Malloy, M. A.Seligson (eds), *Authoritarians and Democrats: Regime Transitions in Latin America*, Pittsburgh, UPP, 1987.

20. G.O'Donnell, P.Schmitter, L.Whitehead (eds), *Transitions from Authoritarian Rule*, Baltimore, JHU Press, 1986.

Communist authoritarianism. Thus, political instability in the Third World could have been the side effect of the Cold War and the destabilizing influence of the Communist bloc, led by the USSR, and of the Marxist ideology. Latin American, and many other "third" world countries, were imitating "second" and not "first" world countries; consequently, they were closer to authoritarianism than to democracy. Moreover, after '89 there was the important supervising activity of the USA in the cases of limitations to democracy (Panama, Haiti, Peru...).

24

The second relevant causal factor of the beginning of democratic consolidation is the economic liberalization process, which has started only after the end of the Cold War. In fact, before '89 no Latin American country (except Chile) has applied coherent *laissez faire* reforms. This linkage between the two liberalization processes is the outcome of the above-mentioned sociological theory on political processes. When (like after '89) modernization process is advanced, the pressures for authoritarian *golpe* would be lower. This hypothesis is also compatible with Lipset's famous theory on the correlation between economic growth - channeled through market institutions- and democratization²¹. The "analytic" linkage between economic liberalization and political change has been emphasized by Morlino²². One of the prerequisites of democratic consolidation is a balanced relationship between state and market forces. In fact, governments should guarantee the interests of both public and private actors, while during the ISI phase, that relationship was unbalanced. Only protectionist business was recognized as a legitimate actor by governments, while export-oriented groups were

penalized with too many economic mechanisms²³. Structural adjustment at the end of the 80s set the stage for that re-equilibrium and for the beginning of democratic consolidation. The economic pre-condition of giving "citizenship" to export-oriented business was not respected either in the 80s, when Isi policies kept being applied.

The hypothesis on the positive relation between economic liberalization and democratic consolidation will be tested in the empirical analysis of the decision-making process of the six more relevant Latin American countries: Mexico, Venezuela, Brazil, Peru, Chile and Argentina. The challenging hypothesis is the "post-Marxist" one, based on Przeworski's rational choice theory, which (in '91) had put in contrast *laissez faire* reforms and democratic consolidation²⁴.

The second instrument that permits to control the above-mentioned linkage between market reforms and political change has to be filtered (again) through the theoretical contribution of Morlino. He identified four models of consolidation: by parties, by groups, by charismatic leaders, by international actors. Thus, the above-mentioned hypothesis will be confirmed if most of the countries will experience the model of (the starting of) consolidation by business groups.

The Testing of the Two Hypotheses on the Link between Democracy and the Market

This table summarizes the main trends in the linkage between political consolidation and economic

21. Other two well-known hypotheses on political stability are those of Rokkan, based on social cleavages, and Almond, focused on civic culture. L.Morlino *Come cambiano i regimi politici*, Milano, Franco Angeli, 1980.

22. L.Morlino *Consolidamento democratico: definizioni e modelli*, "Rivista Italiana di Scienza Politica", 1986, Vol.16, n.2, pp.197-238.

23. F.Fossati *Il debito estero in America latina. Attori, conflitti, coalizioni*, "Rivista Italiana di Scienza Politica", 1993b, vol.23, n.2, pp.283-313.

24. In fact, Przeworski's forecasting about the future of neo-liberalism, formulated before history could give an answer, invokes Marx's formula on the future of capitalism. A.Przeworski, *Democracy and the Market*, Cambridge, CUP, 1991.

liberalization for the six major Latin American countries, since the end of the cold war:

stemmed from the experience of Western countries: free market and democracy are parallel phenomena.

Obstacles to DEMOCRATIC CONSOLIDATION	ECONOMIC LIBERALIZATION	
	low	strong
low	Brazil, Chile, Mexico	Argentina (De la Rua)
strong	Peru (Fujimori)	Venezuela

The events of the second half of the 90s and the beginning of 2000 show a very important event, linked to Venezuelan unstable political situation. In that case, there was not only a step back to populist decision-making, but Chavez's regime materialized an illiberal democracy, with two main institutional features: too many presidential powers and too low control on the armed forces. There were strong popular protests and also an attempt of "democratic *golpe*" in 2002, aimed at convoking new elections in the short term. However, that unstable situation did not lead to an overthrow of Chavez, who is still maintaining power, even if the USA does not legitimize that "hybrid regime"²⁵. Peru lived a similar situation with Fujimori and his frequent abuses of power, but at the end the corrupted president was forced to resign and now Peru is living a stable political situation²⁶. The other four countries analyzed in this research did not live huge political crises: not only Argentina, Brazil and Chile, but also Mexico. In fact, for the first time there was a change of the party in power; at the last Mexican elections, the leftist PRI was defeated by the right.

In synthesis, the cases with positive correlation (both yes-yes and no-no) between the two forms of liberalization support the empirical evidence that

The case of Peru with Fujimori is the only positive testing of the neo-Marxist diagnosis (Przeworski 1991), that is to say *laissez faire* reforms obstructing democratic consolidation. Argentina with De la Rua supports Remmer's (1995) hypothesis on democracies "of lowered expectations", consequent to an incoherent application of the structural adjustment²⁷. At the moment, Peruvian political crisis has been overcome by Toledo and Garcia, while the future of market reforms is still uncertain in Argentina, but Peronists in power seem to offer more political stability to the country. Venezuela's future seems dark as far as Chavez remains in power, but the no-no correlation confirms even more the "liberal" hypothesis.

The Decision-Making Processes Immediately after the '89 Critical Juncture

The following typology identifies four decision-making processes of democratic²⁸ governments, through the selection of two dimensions: a) the main actors involved in the decisions: either the groups (business and unions) or the parties; b) personalized (by informal contacts) or institutionalized (through public sets of roles and norms) negotiations. In all four cases, there are the minimum conditions of citizens' participation to decisions, that instead are not satisfied by bureaucratic

25. M.A.Cameron, F.Major Venezuela's Hugo Chavez: savior or threat to democracy?, "Latin American Research Review", 2001, vol.36, n.3, pp.255-65. For the theoretical debate, see also: F.Zakaria The rise of illiberal democracies, "Foreign Affairs", 1997, vol.76, n.6, pp.22-43.

26. G.D.Schmidt Delegative democracy in Peru? Fujimori's landslide and the prospects for 2000, "Journal of Interamerican Studies and World Affairs", 2000, vol.42, n.1, pp.99-132.

27. K.Remmer New theoretical perspectives on democratization, "Comparative Politics", 1995, vol.28, n.1, pp.103-22.

28. Collier has elaborated a review of definitions of democracy: the minimum by Schumpeter, the liberal involving civil rights and limits to armed forces, the social/democrat emphasizing popular participation, the neo-Marxist concerning economic rights. D.Collier Democracy with Adjectives, paper presented to a seminar of the EUI, Fiesole, 29/5/1995.

and populist governance processes. Naturally, the decisions involving parties have an higher "quality" of democracy, because groups represent their members and not all the citizens²⁹.

coalition or opposition parties: here are the two sub/categories.

Instead, party governments are the outcome of the

DECISION MAKING	Groups/Government		Parties/Government	
	Neo-oligarchic		<i>Partitocrazia</i>	
Personalized				
Institutionalized	Neo-corporatist		Party government	

In neo-oligarchic decision-making processes, power is concentrated in the head of government, together with the leaders of the main business groups (not the associations) and some union "bosses" (not the formal secretary). Thus, the main decisions are the outcome of informal (and not institutionalized) meetings among these actors. There are two sub/categories: with or without colonization of the government. In the former case, for example, the economy minister of a developing country is a member of one of the main business groups' families.

In neo-corporatism, decisions are institutionalized in trilateral bodies, whose participants are ministers, then business associations and unions' representatives. Thus, key decisions are made outside the parliamentary arena, which has only the power of ratification. It is useful to distinguish between symmetrical and asymmetrical (union or business/centered) neo/corporatism.

In *partitocrazia*, the main actors are government and those party representatives who act from their "hidden ranks". Governments are usually vetoed and their few decisions are the outcome of a dialectics with non-institutionalized parties' intervention. This concept is borrowed from the Italian policies, where party secretaries' agreements were more important than cabinet decisions. Vetoes may come from either

majority-opposition relationship passing through parliamentary debates. The example is the United Kingdom, where the leader of the winning party becomes Prime Minister. First Republic Italy was a *partitocrazia*, because party secretaries never became government presidents. Also in this latter case, the possibilities are two and reflect the existence of either strong parliaments or strong governments.

The empirical analysis of the first half of the 90s shows that many Latin American governments - especially those applying *laissez faire* reforms- followed the neo/oligarchic decision-making processes, and that was precisely one of the models of democratic consolidation (by groups), which Morlino had identified. That occurred in *Argentina* with Menem/Cavallo, in *Peru* with Fujimori after his auto/golpe, in *Mexico* at the beginning with Salinas and after the *Tequila* crisis, and in *Venezuela* -but only in the first phase of the "IESA boys". In all those countries, the scenario of the so-called "technopols", that is to say of the "change teams" often coming from the same research institute (like CIEPLAN in Chile, *Instituto Mediterraneo* in Argentina, *Instituto Libertad y Desarrollo* in Peru, IESA in Venezuela, IEPES in Mexico), materialized³⁰. Governments negotiated with leaders of the big business groups, more than with those of the official industrial or rural associations. Labor leaders, instead, were mostly excluded.

29. This typology concerns democracies where governments' decisions are taken in collaboration with either (business-labor) groups or parties. Thus, presidential or referenda democracies, like (respectively) the USA and Switzerland, are not taken into consideration. However, these exceptions do not concern Latin America.

30. P.Evans *The state as problem and solution: predation, embedded autonomy and structural change*, pp.139-81, in S.Haggard, R.Kaufman *The politics of economic adjustment*, Princeton, PUP 1992. J.Dominguez *Technopols: freeing politics and markets in Latin America in the 1990s*, University Park, Pennsylvania State University Press 1997.

Parties were far from playing the function of "gate-keepers" that has favored consolidation in Europe. In fact, the Latin American *partitocrazie* were all against market reforms. That was the scenario of Brazil (in the second phase of Collor and with Franco), Venezuela (after '92), Mexico (in the last phase of Salinas and with Zedillo) and Peru (before Fujimori's *auto-golpe*).

In the first half of the 90s, the only case of advanced institutionalization was neo-corporatist Chile, with Aylwin and Foxley—in which business leaders played a more relevant role than labor. More institutionalized party governments were still absent³¹.

Thus, the prevailing influence of groups-dominated decision-making process (neo-oligarchic in Argentina, Mexico and Peru; neo-corporatist in Chile) immediately after '89 has confirmed the thesis on the linkage between economic reforms and political change. This is even more evident in the case of Chile: the last country to face the transition at the end of the 80s, but the most advanced in the regime institutionalization (thanks to the implementation of market reforms in the 70s).

Brazil was probably the case where parties were more powerful; in fact, at its outset *laissez faire* implementation was quite incoherent. However, the Asian crisis of late 90s pushed the Brazilian parliament to approve more advanced market reforms, in order to avoid deeper stock exchange and currency crises. These events strengthened political stability; Cardoso's Brazil was advancing towards the party government model, trying to overcome the *partitocrazia*. In late 90s, Argentina of the center-left government of De La Rúa has followed the *partitocrazia* path too, with obstacles to economic reforms coming also from the same parties of coalition.

However, most of these cases were transitory decision-making processes, except Venezuela, where the follower of Caldera, Chavez, was even more populist. Thus, the linkage between market reforms and the beginning of democratic consolidation was confirmed also by this "negative correlation" case. At the end, *Venezuela* was the only case located outside the typology. The fact that this country is applying a marginally coherent package of market reforms has favored a "step back" to populism (with Caldera) and the election of the military officer (Chavez), who was responsible of the anti-market attempted coup of '92. In synthesis, when the economic institutional change has difficulties, old and lowly participatory (and populist) decision-making patterns emerge.

Conclusions

After '89, Latin American countries are experiencing the beginning of democratic consolidation, because the above-mentioned institutionalization process is advanced, but its legitimacy remains still low. Low respect of rule of law, frequent patron-client relations and high levels of corruption undermine the quality of Latin American democracies.

The empirical evidence stemming from the six main medium-large Latin American countries shows that the main trend is the liberal one, based on a positive correlation between political and economic liberalization. Only Peru, but only in the final phase of Fujimori (and not now), confirmed the neo-Marxist hypothesis based on the negative correlation between market and democracy. The economic crisis of De La Rúa's Argentina put this country in an uncertain combination of politics and economy, that could be overcome in the near future.

Then, the modalities of (beginning of the) democratic consolidation (mainly by groups, not by parties) also

31. Some governments missed the minimum conditions of democracy, following other decision-making processes: Menem-Rapanelli (neo-oligarchic, but with colonization of the big business groups), the first Fujimori and Menem/Gonzales (penetrated), Collor (bureaucratic) and Caldera (populist). The Argentine exception (with Bunge y Born's colonization of the executive) seems to have been linked to the more crystallized conflict between the two coalitions of business groups: the export-oriented and the industrial ones.

strengthened the hypothesis on the linkage between *laissez faire* and the beginning of consolidation. Przeworski's forecasting of the incompatibility between market reforms and political stabilization has not been confirmed by the empirical analysis of the 90s. The continuation of the consolidation process will depend on other factors, different from structural adjustment. However, as these sociological variables have not changed in the 90s, the only competing (even if complementary) explanation of the end of the "pendulum" remains the international one linked to the end of the Cold War. The 90s empirical evidence disproved neo-Marxist forecasting, but it has to be admitted that the economic change has suffered some difficulties in its implementation. However, the effect was not the endangerment of political consolidation, but rather the lower coherence of structural adjustment: in Argentina and especially in Venezuela.

A final remark will concern the wide use of decrees by Latin American governments since '89. O'Donnell³² has emphasized that this occurred because of the necessity of implementing *laissez faire* economic reforms. Thus, parliaments' (and parties') power was very limited in the so-called "delegated" democracies³³. This linkage between market reforms and increased governments powers has been confirmed, because parties -and parliaments, even if not in an institutionalized way- were the main objectors to *laissez faire* measures. However, the use of decrees has increased also because of the main institutional problem in Latin America: the "perverse" combination of American presidentialism and European proportional representation. The chief of the executive often has

no parliamentary majority; decrees permit him to overcome those institutional constraints. In other situations, the use of decree is the outcome of a tacit agreement between government and parliament, in order to simplify the decision-making process³⁴. However, the empirical evidence showed that anti-market policies have led to "less than minimum" democracy performances, like in Venezuelan Caldera's populism and especially with Chavez's illiberal regime. In any case, parties' power does not seem to be as minimal as the rigid model of "delegative democracy" implied³⁵.

APPENDIX - The Empirical Analysis of the Six Cases

The empirical analysis concerns the six main medium/sized Latin American countries: Chile (Aylwin/Foxley), Argentina (Menem/Rapanelli, Gonzales, Cavallo), Peru (Fujimori/Boloña, Camet), Mexico (Salinas), Venezuela (Perez/IESA boys, Caldera) and Brazil (Collor). The historic period is the one following '89, until the end of the second *tranche* of democratic presidents: more or less until mid 90s. Government experiences that had started only at the end of that phase (like Franco/Cardoso in Brazil or Zedillo in Mexico) have been summarized, without emphasizing rigid diagnoses on them. The summaries, because of the limited scope of an essay, will be quite short.

Chile

The post/transition Chilean Aylwin/Foxley government was characterized by asymmetrical (business centered) neo-corporatism. The shift from

32. G.O'Donnell *Delegative Democracy*, "Kellogg Institute Working Papers", n.172, University of Notre Dame, Notre Dame 1992. O'Donnell criticizes the majoritary conception of democracy of the USA and the UK, and supports that participatory conception of democracy, based on proportionalism, applied by continental European states.

33. Sartori argued that all modern democracies are delegative; direct democracy existed only in the ancient Greece. G.Sartori *The Theory of Democracy Revisited*, Chatam, Chatam House Publishers, 1987.

34. M.S.Shugart, J.M.Carey *Presidents and Assemblies*, New York, Cambridge University Press, 1992. M.S.Shugart, J.M.Carey *Executive decree authority*, Cambridge, CUP, 1998.

35. Increased governments' power permitted two basic improvements of democratic performances: the implementation of tax collection policies and the higher autonomy of central banks. During the "pendulum phase", central banks had always been dependent on the populist governments.

the Chicago boys' colonized neo-oligarchic decision-making process occurred with Buchi in the authoritarian period at mid 80s. The Escobar/Collados government did not fit in any model and represented an hybrid, because on one hand there was still colonization, on the other hand the decision making processes were more institutionalized by the business associations' (and not the conglomerates') participation. Since the fall of the Chicago boys, the neo-corporatist pattern of decision-making has been stronger and concerned the main features of political economy: interest rate level, the destination of credits...

With Foxley, those policies were more inertial and the higher institutionalization concerned the exchange, negotiated especially with business associations, between tax increases and the amelioration of social policies. This package was decided by the center/left³⁶ parties' coalition, but neo-corporatism remained the main negotiation channel. Even if Foxley gave more voice to unions, reforming the labor legislation, business were determinant in putting some sort of veto to higher tax increases and also to many workers' demands.

Argentina

The first Menem governments were not able to resolve the economic crisis inherited by Alfonsín. The first economy minister (Rapanelli) was a member of the main export/oriented business group (Bunge y Born); this was an example of neo-oligarchic decision-making process with colonization. While Rapanelli tried to fight both foreign creditors and the ISI-oriented groups (with cuts to public contracts), he failed too. The following Gonzales government applied similar (or perhaps stronger) domestic measures, which were strongly conditioned by foreign creditor banks; in fact, debt service started again after the '88 moratorium.

Thus, it was a case of penetrated government; however, that second Menem's economy minister failed as well, especially because of the opposition coming from the above-mentioned domestic business groups.

After two mismanaged attempts at economic reform, Cavallo's strategies were aimed at not damaging any one of the main actors³⁷. He resolved the conflict between the ISI/oriented groups and foreign creditors: with a broad privatization program -as compensation for the end of public contracts-, some "debt for public companies" swaps, the foreign debt "Brady Plan" agreement. Export-oriented (especially rural producers) groups had finally their tax reduced, even if they suffered exchange rate overvaluation. Cavallo continued to negotiate with the main business groups of both rural and industrial sectors. Thus, this represented a neo-oligarchic decision-making process; as the economy minister was not dependent on business groups, colonization was avoided.

Peru

Fujimori's first phase was characterized by strong linkages with international organizations (World Bank, IMF, IDB). At the beginning, all the business sectors were allied with Vargas Llosa. Fujimori was politically unprepared; he had to decide upon his first economic plan in coordination with the foreign bureaucracy. Thus, it was a case of penetrated government; the economy minister Boloña (since February '91) was entitled to manage relations with the WB and the IMF.

"Conservative" parties, like APRA, were blocking liberalization reforms, because the government had no parliamentary majority. Since mid '91, when Garcia began to be persecuted for corruption, opposition became stronger. Thus, Peru experienced a second

36. It was probably more the right in the military period (after the financial crisis) that adopted traditional leftist programs, even if in a non-protectionist context, than the modern left (during the Aylwin administration) that accepted rightist military regime policies. The following Frei president continued to follow more or less the same "corrected" *laissez faire*, showing that the center/left had abandoned the nostalgia of Allende's macro/economic populism.

37. Cavallo made some basic decisions: first he gave autonomy to the central bank; second, he exercised some controls on interest rates, aiming at not discouraging productive investments; third, he fought fiscal evasion; fourth, he discontinued some wages' indexation clauses.

phase with an opposition-centered *partitocracia*, because vetoes did not emerge in institutionalized debates in the parliament. At the beginning of '92, the parliament approved a law limiting president's powers of decree; the conflict was becoming zero/sum. That situation pushed Fujimori to dissolve parliament and change the constitution (with the famous *auto/golpe* in April '92) in order to be able to introduce those *laissez faire* reforms that were vetoed by "conservative" parties.

Nonetheless, the international organizations (the IDB and the WB) suspended their programs after the *auto/golpe* and the USA as well postponed the OECD governments' credits until new elections were organized³⁸. Fujimori opted to look for the support of business groups: a third phase started. The leader of the umbrella business association, Camet, linked with the main export-oriented groups, became the economy minister in January '93. But there was no colonized neo-oligarchic decision-making process, because Fujimori and his collaborators in the executive maintained their autonomy towards the economy ministry, whose bureaucracy in fact "represented" the interests of private sectors. Thus, the main decisions were the outcome of the collaboration with the business groups, but relations were dynamic and sometimes even conflictive.

Mexico and Venezuela

These two countries began with the neo-oligarchic decision-making processes. In Mexico, Salinas broke with ISI policies, using the strong concentration of power that presidents usually enjoy. "Neo" thirdworldists argued that Salinas government represented a *grupo compacto* with the financial *élites*.

Less biased analyses show that in reality, within the Salinas government, there were different *camarillas* (networks): some of them autonomous, others linked to the business groups. But the final outcome was positive for the government autonomy.

In Venezuela, the "IESA boys" too were in strict contact with the main export-oriented and financial groups. Even if a totally autonomous government cannot exist, the IESA boys were probably too independent and this allowed the groups to accuse the government members of pursuing the interests of some conglomerates. Groups wanted export promotion, like in Chile, but the fiscal crisis did not permit that. The IESA/boys had too little political experience in order to resolve the conflicts opposing those business groups who wanted to get profits from the reforms.

In a second phase, Mexico and Venezuela became *partitocracia*. Vetoes to economic reforms came from the "hidden" ranks of the ruling parties (PRI and AD).

In Mexico some "PRI-nosauros", who could not oppose Salinas's reforms in parliament, made an alliance with narco-traffickers resulting in the killing of some PRI progressive political leaders (Colosio and Massieu). These destabilizing events, more than Chiapas rebellion, led to a currency crisis at the end of '94³⁹. The demonstration effect of the last wave of democratic transitions in the region (see the previous sections) pushed Salinas to introduce some political reforms (in '90 and '93) in order to improve democracy in Mexico. It seems that conservative PRI leaders wanted to oppose especially these reforms -Colosio was

38. The corruption episode of late 90s, with Fujimori's attempt at forcing a revision of the constitution in order to be elected for the third time, was discovered (again) also thanks to the international monitoring (especially the USA) on Peruvian political performances. Both episodes confirmed that in the 90s Peru and the other Latin American states had already started its democratic consolidation, otherwise those crises would have led to a (more than likely) regime crisis.

39. The crisis was worsened by the fact that Salinas postponed the devaluation of peso (with currency speculations after the political leaders' killings) also for personal reasons; he wanted to become the WTO director. Thus, many reserves were wasted. Moreover, fiscal expenditures were increased before presidential elections. There is another hypothesis that links the crisis to the fact that adjustment was not oriented towards production; interest rates were kept too high in order to attract foreign capital. In fact, short-term capital was the first one to flow out of the country at the first political instability indicators. Capital movements were easier because of NAFTA; also the USA interest rates had increased.

committed to introducing them-, even if the curtailment of state intervention also ended many of their economic privileges.

In Venezuela, the IESA/boys' structural adjustment was successful in its initial phases, with the highest growth rates in the region (in '90). However, at the end of '91, Perez lost the majority in his party and his leadership was weakened. Many important reforms were blocked in the parliament (like the introduction of the VAT tax). Fiscal deficit had increased since the fall of oil revenues following the Gulf War. This degenerated situation led to the first *golpe* attempt by the populist sector of the armed forces in February '92. The surprise was that the congress did not defend the democratically elected president. AD and COPEI members attacked him and asked for the "heads" of the reform *técnicos*. Most of state bureaucracy, in the public administration and the judiciary, was against the reforms. Central bank president Tinoco and economy minister Rodriguez were fired; this led to the end of *laissez faire* reforms and to an economic crisis⁴⁰. Perez had lost any power; the second *golpe* attempt in November '92 was the anticipation of the impeachment that he would be subject to in '93. In fact, Perez showed scarce leadership capabilities. His main mistakes were ignoring conflicts within AD and underestimating populist factions within the armed forces.

His successor was a former COPEI (then independent)

leader, the former president Caldera, who won the elections of December '93 with an anti-reform program. In fact, a gradualist approach, within an unreformed context, has always led to economic crises. Caldera, not enjoying the majority in parliament, made a populist appeal to govern with the support of the "people", not of the parties. In February '94 he declared an economic emergency, governing by decree, but he followed populist policies, like price and exchange rate freezes. In Mexico, on the other hand, the new PRI's president Zedillo continued to follow the economic liberalization started by Salinas some years before.

Brazil

Brazil's situation seems an intermediate case. Peru and Argentina had hyper/inflation crises; Mexico and Venezuela lived oil *bonanzas*. In Brazil, the 60s economic miracle never consolidated; there were high rates of inflation, but not at the hyper level, which was fueled especially by wage-indexation clauses like in the *Plan Cruzado*. Since '86 real wages have continuously been increasing, as opposed to the situation of Peru and Argentina, where wages fell strongly because of hyper/inflation crises⁴¹. However, business groups never crystallized conflict, declaring a prices war to the Brazilian governments, as they did for example in Argentina. The real reason of this behavior is that the more powerful conglomerates continued to support ISI policies; for example, the San Paulo industrialists, organized in the FIESP, have always opposed *laissez faire* reforms⁴².

31

40. The financial crisis of January 1994, with the failure of Banco Latino, was the outcome of the aborted economic change. Technical issues aggravated that event; the Venezuelan financial system was not regulated and banks gave too many credits, especially to their business group partners. Moreover, populist (AD and COPEI) party members opposed financial reform in the congress, because they did not want foreign banks to penetrate the domestic financial system. This was the root cause of the banks' collapse; also the previous years' foreign investments had been interrupted.

41. CEPAL statistics show how Brazilian prices continued to increase, but at a lower level; the zenith was not more of 2,500% in a year, compared to 7,500% of Peru and 5,000% in Argentina. But the main difference was precisely that in Brazil also real wages were increasing; thus, the perception of the population, with respect to inflation, was different.

42. In Brazil there were the strongest policies in support of (especially export) industry of the region, but precisely because these subsidies were based on the distortion of market principles, they did not improve the competitiveness of those sectors. The business panorama in Brazil is somewhat different from that of the other countries of the region. In fact, the highly differentiated economic groups are less important because of two reasons: the long geographical distances and the absence of a wide modern (capitalist) rural reform. Latifundistas still exist in Brazil; thus, there is not a compact "class" of rural producers. There are business associations favoring *laissez faire* reforms, but these are politically weaker than the FIESP. In '86 a fourth grade association was formed (the Union Brasileira de Empresarios), but its only issue of mobilization was the limitation of workers' rights. However, within the FIESP, there are some more modern and export-oriented groups, but their vision of the economic institutional change remained gradual.

In '90 Collor tried to apply structural adjustment, but his economic program was quite incoherent in the *ajuste* measures (fiscal, monetary, price/wage policies...), more than in the structural reforms (privatizations, trade opening...). The economy minister, Zelia Cardoso –whose economic team was unprepared–, opted for a heterodox measure: the freezing of the banks' private accounts. Collor chose a total isolation from those industrial business groups –this is the reason why it is the only example of bureaucratic government– which were against his *laissez faire* reforms.

However, he suffered the "structural" –that is not dependent on parliamentary debates– opposition parties' vetoes to his reforms (privatizations). FIESP's interests were often "defended" by the PMDB. Like another "video/president", Fujimori, he did not have the majority in parliament. Being dependent on congress members, he started to use (selective) *patronage* towards them in order to have his laws approved, but he lost his autonomy. Collor had also broken all the institutionalized negotiation channels with business. For this reason, his collaborators became easy victims of bribes, coming from sectors that wanted to be favored by the reforms. Thus, a *partitocracia* slowly materialized. After May '91, the new

economy minister Moreira chose a less conflictive relationship with business, but it was too late. At the end of '92, Collor was impeached on charges of corruption. In that case, even members of the government parties voted against Collor because they feared being involved in corruption charges. Franco at the beginning followed a populist decision-making process, but after some months of transition, he chose a new finance minister: the old *dependentista* (that is, neo-Marxist) scholar Cardoso, who was the leader of a modern social/democratic party committed to *laissez faire* reforms. He launched a new currency (*Real*) and cut fiscal expenditures. Cardoso was a good negotiator and could coerce industrial business to a six-month truce in July '94, until new presidential elections would have taken place. He made also a direct appeal to public opinion in order to receive support⁴³. After that experience, Cardoso won the presidential elections, but he did not reach the majority in congress⁴⁴. He formed a government with both the left (PMDB) and the right (PFL). At the beginning, "conservative" parties kept blocking reforms, especially the liberalization measures; a new *partitocracia* materialized⁴⁵. Here is the summary of all the mentioned governments:

<p>I) NEO-OLIGARCHIC <i>colonization of the groups</i></p> <p><i>with</i> <i>without</i></p> <p>Perez I Salinas I</p>	<p>III) PARTITOCRAZIA <i>veto from</i></p> <p><i>coalition</i> <i>opposition</i></p> <p>Perez II Salinas II</p>
<p>Fujimori III</p> <p>Menem/Rapanelli</p> <p>Menem/Cavallo</p>	<p>Fujimori II</p> <p>Collor II</p>
<p>Aylwin (pro/business)</p> <p><i>asymmetric</i> <i>symmetric</i></p> <p>II) NEO-CORPORATIST</p>	<p><i>government</i> <i>parliament</i></p> <p><i>strong</i></p> <p>IV) PARTY GOVERNMENT</p>

43. J. Resende Santos Democracy, equity and governance in Brazil, "Latin American Research Review", 2001, vol.36, n.1, pp.207-37.

44. The Brazilian constitution is federalist and the Senate has a territorial representation. Thus, it is very likely that majority is very difficult to be reached in both assemblies.

45. His main effort was directed at breaking with indexation clauses. He received opposition also from traditional left Lula's party, which criticized his social policies and his social security reform. But there were problems also with the public administration reform, tax increases, trade opening...