FREE POLITICS AND FREE MARKETS IN LATIN AMERICA

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Never before in the history of Latin America have so many countries had constitutional governments, elected in free and competitive elections under effective universal suffrage, that also pursue market-based economic policies. Early in the twentieth century, many Latin American governments favored open economies, but rulers were chosen either by narrow oligarchies or by military officers. By the middle of the century, many Latin American governments were democratically chosen, but pursued statist policies that sought, as far as possible, to sever the links between their nations' economies and the world market. Thus the combination of the 1990s—an era of free politics and free markets—is truly without precedent.

This may explain why scholars, policy makers, and many ordinary citizens have found it hard to believe that democracy and open markets can even coexist, much less thrive jointly. The 1970s were pervaded by a seemingly well-grounded pessimism about the ability of Latin American democracies to implement sound, growth-friendly economic policies. There seemed to be an elective affinity between sensible economic policies and bureaucratic-authoritarian regimes, and also between economic malperformance and the demagogic populism of civilian politicians.[1]

In the late 1980s and early 1990s, democratic rule returned to Latin America at about the same time that it was making its dramatic entrance in Eastern Europe. During those years, the democratic pessimists argued

that "democracy in the political realm works against economic reforms."[2] They predicted that populist demagogues would bar or wreck market-oriented policies, or else that such reforms as might make headway under democratic conditions would prove politically destabilizing, as rent-seeking firms and labor union bosses worked to get the reformers voted out of office.[3] The least pessimistic of these observers allowed that democracies might enact reforms and survive, but only if strong presidents or prime ministers could force their peoples to be free.[4]

The record does not bear out these arguments. Latin American authoritarians proved no better than democratic populists at making sound economic policy.[5] Indeed, the authoritarian governments that had taken over in country after country by the late 1970s were principally responsible for the catastrophic regionwide economic collapse of 1982–83.

Consider the allegedly sterling economic performance of General Augusto Pinochet's dictatorship in Chile (1973–90). His government deserves credit for inaugurating several valuable structural economic reforms, yet its overall record hardly bespeaks economic wizardry. According to the UN Economic Commission for Latin America and the Caribbean (UNECLAC), in 1982, at the birth of the international debt crisis, Pinochet's Chile experienced the worst one-year per-capita GDP decline (a 14.5 percent drop) of any country in the Western Hemisphere. Behind the debacle lay the arrogance and blundering of Pinochet's economic advisors. Moreover, according to the Inter-American Development Bank, from 1981 to 1990 Chile's per-capita GDP (as measured in 1988 dollars) grew at an average annual rate of just 1 percent—a miracle, yes, but only in public relations.[6]

Even if they were mistaken about the larger picture, the democratic pessimists did offer an important insight. The truth was that freely elected governments in Latin America had not put together a good record of sound, sustained macroeconomic policies and performance. Whether one looks at Brazil in the early 1960s under President João Goulart, or Chile in the early 1970s under President Salvador Allende, or Argentina in the mid-1970s under President Isabel Perón, or any number of other cases, one sees a depressing parade of constitutional regimes hewing to stunningly irresponsible economic policies that brought poverty and hardship to millions and contributed to the breakdown of democracy.

And yet even in these countries, democratic governments had once done much better. Examples would include Brazil in the late 1950s under President Juscelino Kubitschek, Argentina in the mid-1960s under President Arturo Illia, and Chile in the middle and late 1960s under President Eduardo Frei.[7] A key question, therefore, was whether democrats could learn from their mistakes and change their economic preferences and policies. Another was whether democrats could win the support of many of those who, at one time or another, had supported authoritarian rule.

The Critical Junctures for Change

If the great Latin American depression of the 1980s had any good result, it was that it did wonders for the prospects of democracy and markets. The severity and duration of the downturn forced many to reassess their basic assumptions about the statist, import-substitution policy framework that had prevailed for decades. When the crisis hit, authoritarian governments still ruled most countries, and even in the fledgling democracies recently discredited authoritarians came in for much of the blame. The crisis itself contributed to the further opening of political systems, but did not produce instant learning. When constitutional governments under presidents José Sarney of Brazil and Raúl Alfonsín of Argentina chose to resist fundamental reform and thereby suffered eventual political defeat, their cautionary example convinced politicians across Latin America to embrace the need for further changes.

During the crisis, there was available an international pool of theoretical and empirical ideas that emphasized the utility of markets. These ideas had become dominant in the governments of the industrialized countries in the 1970s and 1980s, and enjoyed important bases of support in private foundations, universities, and international financial institutions. They were learned by young "technopols"—politically involved, adept, and technically qualified people—and brought home for application. In the 1990s, earned social-science doctorates graced the resumés of the Brazilian and Mexican presidents as well as a number of finance ministers across the region. Most important reformist technopols had spent much time in the opposition; some had been political exiles. While the economic crisis did not "cause" the political opening, the former did ease the way for the latter by giving technically expert opposition leaders an occasion to criticize authoritarian technocrats on their own terms. Bolstered by the legitimacy they derived from the support of the international community, opposition technopols challenged their governments and, in so doing, built their own constituencies at home.

Beginning in the 1970s, another international pool of ideas became available. It asserted the centrality of democracy as the way to govern and the importance of respect for human rights in the relationship between state and society. The international federations of Christian democratic, social democratic, and liberal parties, present worldwide but especially prominent in Western Europe, contributed mightily to this international change. Especially pertinent for Latin America was

Spain's experience under President Felipe González and his social democratic government. Spain's Socialists demonstrated that market-oriented policies fostered the consolidation of democracy and, just as importantly, that voters would reward politicians who dropped past statist commitments in favor of promarket policies.

The international community began to demand democracy in politics and competence in economics just as a new generation of Latin American elites was at last able and willing to supply them. In this way, the governments of the major industrial democracies, the international financial institutions, and the major private foundations made a powerful contribution to Latin America's simultaneous double transition toward democracy and markets. Although one must look at each country separately to explain the particulars of these developments, the synchronic hemispheric sweep of the change can only be understood as part of a common international process. Latin America's transformation is a dramatic example of the power of ideas and international action to foster change within a number of different countries at more or less the same time.

The Logic of Democracy and Markets

Market reforms (especially deregulation, privatization, and the ending of business subsidies) can serve democratic goals. Under statism, broader participation and fair contestation tend to suffer as economic and political elites become bedfellows. The leading business groups are often those whose profits depend more on political connections than on efficiency or quality. Market reforms can break the ties between political and economic elites, reduce the opportunities for corruption and rent-seeking, and create a more level playing field for economic actors. Involvement in international markets, especially if guaranteed by free-trade agreements, increases the leverage that external actors can apply in defense of constitutional government, should the need arise.

While not an absolute guarantee against authoritarianism, freer markets can be an important check on the abuse of state power. They would, for instance, have left less room for arbitrary state actions of the sort that were prevalent across much of Latin America from the mid-1960s to the late 1980s. Markets may not disperse power sufficiently for all purposes (in Latin America's small economies market power is often highly concentrated), yet they do disperse power more than if it were centralized in the hands of state decision makers.

Democracy can help to consolidate a market economy. In countries with traditionally high levels of societal contestation and political instability and strong, well-organized opposition forces, democracy can reduce "transaction costs." Grievances and energies that might otherwise fuel strikes or insurgencies can take the form of peaceful, democratic political activism instead. In addition, democratic regimes can involve the political opposition in support of a market economy more effectively than can authoritarian regimes.

Most importantly, a democratic polity informed by a genuine and practical commitment to markets is in the long run the best political response to the problems posed by the rational expectations of economic actors. Presidents, ministers, and cabinets can and do change; rational economic actors look for rules and institutions that endure. Authoritarian regimes can provide certain assurances to economic actors for some time, but democratic regimes can also provide long-run assurances, provided that both government and opposition are committed to the same broad framework of a market economy. In this sense, the opposition gives a market economy its most effective long-term guarantee. When the opposition supports the basics of a market economy, actors can rationally expect that the end of a particular administration will not spell the reversal of all their economic expectations. And only a democratic polity can embody the compromises and commitments that are needed freely to bind government and opposition to a consensus on a market-oriented framework.

Nor are these all the advantages that democracy can offer. Competitive elections provide a regular means for making "a clean sweep." Voters get the chance peacefully to retire failed policies and politicians and start afresh, something that is not so easy to arrange under authoritarian conditions. Democracy's stress on the consent of the governed gives leaders an incentive to consolidate efficient economic reforms for the long run, setting and signaling the sorts of clear, lasting political and economic policy rules that create stable expectations and promote productive economic life. Experience has long borne out this lesson in Western Europe, North America, and Japan. In the 1990s, it finally became Latin America's experience as well.

No democratic regime has ever survived in the absence of a market economy. To add the claim that democracy can be good for markets, as I have done, is more controversial, especially if Latin America is the region under discussion. Hence we turn to some Latin American case studies.

Internalizing New Policies and Practices

In many Latin American countries in the 1990s, democratic institutions and procedures have worked to set the long-term rules that enable rational economic actors to believe that the open market economy is here to stay. To be sure, democracy means civil contestation, and conflicts may take a long time to settle, often with a compromise that leaves neither side fully satisfied. Yet the harder and longer the

struggle, the more credible the bargained outcome often is. In none of the cases discussed below was the process simple. In many instances, citizens and politicians had to give up cherished hopes. But once an agreement was reached, time and again it helped to set and then to begin consolidating the foundations for Latin America's comprehensive economic turnaround in the 1990s.

Chile. By the late 1990s, Chile featured Latin America's most clearly consolidated open-market economy. The birth of that consolidation can be marked precisely. In March 1989, Chile's broad-based democratic opposition coalition, the Concertación (comprising principally the Christian Democrats, the Socialists, and the Party for Democracy), adopted a detailed social and economic program for government. After spirited and contentious debate, the coalition agreed to support the broad framework of a market economy and to pursue policies consistent with it. Only when the opposition so agreed could rational economic actors believe that the market framework would endure. (The outgoing dictator could guarantee his policies only during his own tenure.) Once in power, the Concertación delivered. Economic actors could count on the long-term endurance of open economic policies precisely because all the major political parties had endorsed them. Democracy's capacity to fulfill the rational expectations of economic actors was superior to that of the Pinochet dictatorship.[8]

Equally important was the new democratic government's commitment, right from the start, to seek a consensus on economic policy that was often broader than the share of votes it commanded in Congress. That government's first significant measure, for example, was a tax increase earmarked for social spending to address needs long neglected by the dictatorship. The new government negotiated the key details of the tax package with the center-right opposition, securing a congressional supermajority. In this instance, it was the center-right National Renovation party that successfully addressed the problem of rational expectations: Chileans from both the right and the left were ready to invest in the health and education of their people.[9]

Argentina. A prosperous country at the beginning of this century, Argentina had to work hard to achieve underdevelopment. At least since the 1930s, its economic history has been a sad study in persistent policy incompetence and decline. Argentina turned around in the 1990s, however, and its story illustrates the utility of democracy for the transition toward a more open market economy.

In May 1989, Carlos Menem was elected president, returning the Peronist party to power for the first time since the 1976 military coup. Bucking his party's old and deep attachment to economic statism, Menem endorsed orthodox macroeconomic policies and a turn toward more open markets. Yet in keeping with another aspect of Peronist tradition, he sought to enact these changes through an assertion of presidential power. He issued decrees, in effect trying to command markets to be free. In his first two years in office, he issued three times more presidential decrees with the force of law than all other Argentine presidents combined since the adoption of the 1853 Constitution. Menem's mania for decrees proved counterproductive. Argentines had no reason to take him at his word; in their lifetimes, no president had deserved that much trust. They took it for granted, for instance, that no government would ever tame inflation, which in the 1980s had reached dizzying heights.

Economic recession and yet another bout of hyperinflation forced Menem to reconsider his approach. In early 1991, he appointed Domingo Cavallo his economy minister. Cavallo's key contribution was to grasp: 1) that Argentina's basic macroeconomic problems could only be addressed through politics; and 2) that the procedures of democracy were especially well-suited to this task. At first, Cavallo's credibility and prospects in this area seemed as shaky as his boss's. He was Menem's fourth economy minister in less than two years, and his earlier brief stint at the head of the Central Bank under military rule had been a fiasco.

What was needed for the new anti-inflation policy, therefore, was a self-binding strategy. The 1991 "convertibility law" established the free convertibility of the national currency into dollars at a fixed rate of exchange. The Central Bank was prohibited from printing paper money to cover budget deficits unless new currency issues were backed by gold or foreign reserves. Most importantly, this policy was adopted not by decree but through an act of Congress. Henceforth, only Congress could authorize either a change in the value of the currency or the issuance of paper money under other rules. The purpose of the law was to bind the president, the economy minister, and Congress (and through the latter the Peronist party) to the anti-inflation policy. The law was an immediate, stunning, and lasting success. It has become the anchor of Argentina's impressive macroeconomic performance in the 1990s. Only through democratic procedures could Argentina's economy finally achieve a turnaround. The executive and legislative branches jointly enacted most of the significant measures to promote an open-market economy (including detailed approval of privatization decisions), thereby contributing to make the new rules credible for the long term.[10]

Several subsequent democratic steps helped. Before the 1995 presidential election, leading opposition contender José Octavio Bordón of the FREPASO party ran to the left of Menem but nonetheless endorsed the fundamentals of the new economic framework. Then in July 1996, Menem replaced Cavallo as economy minister with no change of policy,

signaling a continuity that transcended personnel. In preparation for the October 1997 congressional elections, the new opposition alliance of the Radical party and FREPASO, the country's second and third largest parties, endorsed the new economic framework, not as a candidate's personal decision but as a program adopted by these parties. Heading toward the presidential balloting slated for late 1999, all the major contenders continue to voice public support for the fundamental framework of a market economy.[11]

It was not, in short, the president's decree authority, or the talent and boldness of his economy minister, or even the skill of his entire governing team that ensured the inauguration and later the consolidation of Argentina's shift to an open-market economy. Indeed, the "strong" presidency at first actually impeded the installation of market reforms.[12] And consolidation began only when the opposition endorsed the change in framework and the policy survived the departure of its key architect. Only democracy can commit the future.

El Salvador. In the early 1980s, no one would have predicted that the late 1990s would see El Salvador with its brutal civil war ended, fair and competitive elections the norm, and one-time blood enemies sitting side-by-side in Congress. Peace came to El Salvador because the lesson of Thomas Hobbes' *Leviathan* proved true once again: After years of watching the hard hand of war make so many lives "poor, nasty, brutish, and short," citizens thirsting for order found it through a complex and far-reaching political contract. Peace, not surprisingly, became the cornerstone of prosperity. According to UNECLAC's 1997 *Preliminary Overview,* El Salvador has been Central America's top economic performer in the 1990s.

Democratic procedures helped to build the peace. El Salvador's democratic left played a crucial role in constructing the bases for a peace settlement prior to the formal agreement. For example, in the 1980s Rubén Zamora had been allied with the revolutionary insurgency and served as its international civilian spokesman. Eventually, his Democratic Convergence (CD) party chose to participate in the 1989 and 1991 national elections. After the latter, the ruling conservative party (best known by its acronym, ARENA) and the CD agreed to organize the legislature, voting for each other's respective candidates for leadership posts. Thus the democratic left reassured the military and conservative elites that it could be trusted to be law-abiding and to govern, and it signaled to the insurgents that much could be gained through elections.[13]

Democratic procedures have also improved the prospects for economic growth. In May 1995, economic exigencies forced President Armando Calderón Sol's ARENA government to hike the value-added tax. Deserted by his normal legislative allies, who feared the political repercussions of the vastly unpopular increase, Calderón Sol cut a deal with the new Democratic Party, led by the leading former revolutionary commander, Joaquín Villalobos. In what turned out to be a very costly decision for himself and his party, Villalobos agreed to push the tax increase through Congress.[14]

In June 1997, a new opposition majority in the legislature repealed the law governing the privatization of the state-owned telephone company. With its other hand, however, the opposition held out to the administration an offer of detailed negotiations (indeed, the government's lack of consultation and resort to presidential decree had been at the heart of the opposition's objections to the way in which phone-company privatization was being handled). The talks succeeded, and in July 1997 a legislative supermajority approved a privatization plan that increased the probability of more competition and more effective regulation.[15]

El Salvador is at an earlier stage than Chile or Argentina in learning how to use democratic procedures to consolidate a market economy. Yet Salvadoran politicians from both the right and left are slowly learning that democracy and the market can be mutually enhanced if each supports the other, and that in the long run only a democratic opposition can ensure the future of market-oriented economic reforms.

Brazil. For decades, Fernando Henrique Cardoso was Brazil's internationally best-known social scientist. He was also a man of the left and a political exile during the military government. Cardoso intellectually observed, and personally suffered, the arbitrariness of Brazil's oversized state under military rule. He also learned firsthand the volatility, indiscipline, and unreliability of Brazil's political parties. As a member of Congress, finance minister, and eventually president, he set for himself the goal of democratizing Brazil. That required shrinking the bloated state, making it subject to law, and reinventing parties and parliaments to make democratic procedures work.[16]

Cardoso has acted in the persistent belief that laws enacted by Congress are by far the best means available to reorder Brazil's economy for the twenty-first century. He has had good empirical (as well as normative) reasons for such beliefs. In the decade before his election, three presidents had tried and failed to stabilize the economy and enact economic reforms by decree. To be sure, steering reform through Congress is a maddeningly slow business. Cardoso's party is in the minority, and coalition and party discipline are so feeble that each vote must be negotiated afresh. But an act of Congress offers more assurance than a mere presidential decree that today's economic rules will endure tomorrow.

By the late 1990s, Congress had approved key proposals on the privatization of telecommunications and the oil industry. The fixed-line telephone sector became open to private capital, which also gained access to an oil sector that had long been a state monopoly. Important privatizations have also occurred in iron mining, electricity, and railroads, among other sectors. Congress has enacted some administrative reforms and even crept toward meaningful social security reform. Each success has depended on the laborious cobbling together of a multiparty coalition, yet this makes it more likely that today's policies will be supported by many parties tomorrow. Laws are superior to decrees, and coalition governments and supermajorities are often superior to simple one-party majorities in increasing the likelihood that new rules will be credible and enduring.[17]

All was not rosy, to be sure. In order to enact these reforms, Cardoso and his lieutenants have had to engage in the pork-barreling and horse-trading that have long been congressional specialties. "One vote, one side payment per pivotal deputy" seems to be the standard operating procedure. Nonetheless, Cardoso's program has gathered behind it a large majority whose occasional volatility has not eclipsed its usual reliability. It has been strengthened by public opinion, and by the growth of the president's own party, the Brazilian Social Democratic Party (PSDB), whose internal coherence and discipline are among the highest in Brazilian politics.

In late 1997, the Asian financial crisis that had broken out in the second half of the year threatened to overwhelm Brazil, whose stock market tumbled badly. In November, the Cardoso government announced a combination of tax increases, payroll cuts, and other spending reductions intended to slash the budget deficit. By this time, international investors, too, had begun to learn the lesson of democracy and markets: Praise for the measures was accompanied by a plan to wait and see whether Congress would support them. It did, and the crisis eased.[18] Democratic procedures played an important role in this success.

Brazil's economy in the 1990s did not perform as well as that of Chile, Argentina, or El Salvador, but Brazil's economic restructuring moved forward through democratic procedures, making it more likely that its economic growth rate will improve.

Nicaragua. Throughout most of the last quarter of the twentieth century, Nicaragua has been an economic "basket case." According to UNECLAC's 1995 Overview, Cuba and Nicaragua are the only two Spanish-speaking countries in the hemisphere whose per-capita GDP fell substantially during the first half of the 1990s. The legacy of civil and international war made it virtually impossible for Nicaraguans to address their country's fundamental economic problems. Their national legislature barely functioned. One of the most enduringly divisive issues was the dispute over property seized by the Sandinista government of 1979–90. Success in sorting out property disputes eluded the 1990–

96 government of President Violeta Chamorro. The lack of credible property rules was one important reason for Nicaragua's poor economic performance.

Arnoldo Alemán took office as president in January 1997, trumpeting his intention to step on toes, recover properties "usurped" by the revolutionaries, and bring order to property relations. His stance was reminiscent of President Menem's belief that he could right economic wrongs on his own. Alemán failed in his quest until he turned toward democratic compromise. In November 1997, a legislative supermajority comprising Alemán's Liberal Party and the Sandinistas enacted a new property law to settle disputes and open a new chapter in the country's political and economic history.[19] The law was just a beginning; much detailed conflict resolution must follow. But Nicaragua's story shows yet again how useful democratic procedures can be in sealing a political and economic peace and reopening the possibility of economic growth.

Answering the Critics

Some might object that, in important respects, democratic procedures in Latin America are superficial or even a sham, and that at heart the problem is that democracy and the market have been forced together in a kind of "shotgun marriage." Democracy requires, theorists would insist, that the majority's duly voted-on preferences regarding economic policy be translated into government policy. Yet there have often been yawning gaps between campaign promises and eventual policy, as typified, for instance, in the 1982 election of Salvador Jorge Blanco in the Dominican Republic, the 1989 election of Carlos Menem in Argentina, and the 1990 election of Alberto Fujimori in Peru. The gap was also considerable in the 1985 election of Víctor Paz Estenssoro in Bolivia, the 1989 election of Carlos Andrés Pérez in Venezuela, and the 1989 election of Michael Manley in Jamaica. In each case, the winner, once elected, proved to be much more economically orthodox and market-friendly than his campaign rhetoric had suggested. Many voters understandably felt deceived. The connection between the preferences of voters and the actions of elected officials had been severed, at democracy's peril.[20] And if such politicians would lie to voters, might they not lie to investors as well?

Voters later had opportunities to pass judgment on the liars and the relative merits of the programs eventually adopted. In the Dominican Republic and Venezuela, they punished the liar's party in the next presidential elections. In both Argentina and Peru, however, voters approved a change in the constitution to permit the incumbent president's immediate reelection, and then reelected him. In Jamaica, the liar's party was also rewarded with the electoral ratification of its incumbency. In the round of elections after the politicians had sinned, voters discerned

differently in various countries according to the economic results. Democracy malfunctions when politicians lie, but democracy is self-correcting: It allows the voters to render judgments iteratively. So too in the case of markets: Investors could judge the results and, in most cases, they joined in the judgment of the voters.

In many other cases, campaign promises all along have been closer to the actual programs of government. This has been the case in all Chilean elections since the restoration of democracy and in El Salvador since the late 1980s. The connection between promises and policies was also quite close in the 1994 elections in Brazil and in Mexico.

Three broad trends, in brief, were evident in the relationship between economies and elections in Latin America in the 1980s and 1990s. First, amid economic crisis in the 1980s, voters tended to vote against the incumbent party in virtually every country where competitive elections were held (Colombia was the main exception). Second, in a number of these elections, key politicians lied, but voters retained the opportunity to pass judgment on them or their parties at the next election. Third, by the mid-1990s, "sincere" campaigning had become more common. Incumbents had little choice but to run on their record. More importantly, challengers in many countries—including countries as different as Brazil and El Salvador—chose to run on transparent platforms. Blatant lying on the campaign trail—troubling and damnable as it is—may have turned out to be just a regrettable transitional phenomenon.

Another worry is that democracies will endure only as long as prosperity does, and that economic setbacks will lure democracies back to their old statist and populist habits. The 1990s provided at least one modest test of this proposition. In December 1994, a financial panic hit Mexico. It affected the entire region to some degree, hurting Mexico, Argentina, and Uruguay quite badly. Yet no Latin American government was overthrown by the armed forces in 1995, nor did any backtrack on its commitment to markets. Most impressively, Argentine voters reelected Menem despite a deep recession with very high unemployment. Statism and populism, these voters understood, were not the answer to a business-cycle downswing, even a severe one. And neither Menem nor his principal opponent advocated statist or populist policies.

Other grounds exist for doubting that the connection between democracy and the market is wholly benign. Do not many of the devices designed to maintain fiscal discipline barely meet the test of democracy? Closed and technical styles of decision making reinforce state unresponsiveness to societal demands. Elected presidents sometimes rule by decree, deliberately bypassing the legislature. This has been the case in virtually every country discussed in this essay. The turn toward markets has coincided with spectacular corruption scandals, two of which brought down the presidents of Brazil and Venezuela through Congressional impeachment. Concern about corruption looms large in nearly every country. The early stages of privatization, for example, bring many opportunities for officials to favor certain groups. And the courts are always slow, and often inept or corrupt. All of this, and more, is true. In every instance, however, the performance of authoritarian regimes was either no better or actually worse.[21]

Democracy means pork-barreling, of course, and so exacts a cost in terms of reduced economic efficiency and transparency. This cost no doubt remains high across Latin America. President Fujimori used pork-barrel expenditures in order to build himself a bastion of popularity among Peru's poor and rural voters, for instance.[22] Pork still greases the wheels of the Brazilian Congress, as it lurches forward toward reforms that will one day make the pork barrel smaller. In Mexico, President Ernesto Zedillo pacified near-rebellious state governors from his own party by handing major revenue-sharing schemes over to their control. In the Dominican Republic, former president Joaquín Balaguer built his highly successful political career on pork. These costs are difficult to purge from democratic politics. Most Latin American countries have yet to accomplish this—and prospects do not look good.

Moreover, there remain tragic cases of systematic political and economic malpractice where the ills of Latin America's democratic past remain very much alive. Ecuador is a case in point. Until 1998, no successful presidential candidate since the return of civilian rule in 1979 had been both a supporter of sound market-oriented macroeconomic policies *and* "sincere" about it during the presidential campaign. Each successful Ecuadoran presidential candidate during the past two decades had been deceitful during the campaign, albeit to varying degrees. Ecuadoran political parties remain both fragmented and undisciplined. Coalitions are formed for transient tactical advantage; they have not been governing coalitions of the type that has worked so effectively at various times in Chile, Bolivia, or Colombia, for example. Presidents have lacked congressional majorities and, consequently, have relied on decrees. Congress notoriously retaliated by impeaching the most hyperactive president, Abdalá Bucaram, in 1997. Most parties are clientelistic and rent-providing in their approach to politics; most of these parties are regionally based and lack a national scope. Yet whereas Ecuador might have been the "poster boy" for Latin American populist democracies decades ago, in the late 1990s it is noteworthy precisely because it has become an exception. No other Ibero-American country is so badly governed.[23] Will Jamil Mawad, elected in 1998, succeed in wedding democracy to the market?

Democracy is not a cure-all. But in Latin America in the 1990s democracy is serving people's needs far better than it ever has before, or than other types of regimes could. In none of the cases considered here did presidential caesarism ever manage to launch economic reform. Rather, reform took off *only* when constitutional procedures were followed to create credible economic-policy commitments based on reliable assurances about respecting and honoring the role of opposition political parties. Prospects for the consolidation of democratic politics and economic reforms depend on the use of democratic procedures to construct stable majorities in support of freer markets and freer politics. Democracy, in sum, is more likely to represent citizens' preferences, to build the structures and rules that will credibly address the rational expectations of economic actors, and to enact the wise laws that make us free.

NOTES

1. The classic statement appears in Guillermo O'Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: Institute of International Studies, University of California, 1973), ch. 2.

2. Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge: Cambridge University Press, 1991), 161.

3. Ibid., 180.

4. In democratic transitions, "centralized executive authority plays a pivotal role in overcoming the collective action problems and distributive conflicts associated with the initiation of comprehensive economic reforms." Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995), 163.

5. An examination of the data for Latin America during the 1970s and 1980s reveals no significant statistical relationship between regime type and economic performance. See, among others, Karen L. Remmer, "Democracy and Economic Crisis: The Latin American Experience," *World Politics* 42 (April 1990): 315–35.

6. United Nations Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Economy of Latin America and the Caribbean, 1989* (Santiago, Chile, 1989), 19; Inter-American Development Bank, *Economic and Social Progress in Latin America: 1991 Report* (Baltimore: Johns Hopkins University Press, 1991), 273. For an analysis, see Sebastian Edwards, "Stabilization with Liberalization: An Evaluation of Ten Years of Chile's Experiment with Free-Market Policies, 1973–1983," *Economic Development and Cultural Change* 33 (January 1985): 223–49.

7. For a comparison, see William Ascher, *Scheming for the Poor: The Politics of Redistribution in Latin America* (Cambridge, Mass.: Harvard University Press, 1984).

8. Jeanne Kinney Giraldo, "Development and Democracy in Chile: Finance Minister Alejandro Foxley and the Concertación Project for the 1990s," in Jorge I. Domínguez, ed., *Technopols: Freeing Politics and Markets in Latin America in the 1990s* (University Park: Pennsylvania State University Press, 1997), 229–75.

9. Delia M. Boylan, "Taxation and Transition: The Politics of the 1990 Chilean Tax Reform," *Latin American Research Review* 31 (1996): 7–31.

10. Javier Corrales, "Why Argentines Followed Cavallo: A Technopol Between Democracy and Economic Reform," in Jorge I. Domínguez, ed., *Technopols*, 49–93.

11. Interviews conducted in Buenos Aires, 21–24 July 1998, with former president Raúl Alfonsín, candidate Eduardo Duhalde, leading opposition economic advisor José Luis Machinea, candidate Graciela Fernández Meijide, candidate Ramón Ortega, Economy Minister Roque Fernández, and President Carlos Menem.

12. In his influential article, "Delegative Democracy," *Journal of Democracy* 5 (January 1994): 55–69, Guillermo O'Donnell drew heavily from Argentina under Menem to reflect upon cases of highly Caesarist presidential behavior, and to criticize the consequences of such behavior for democracy. It should also be remembered that O'Donnell argued that "delegative democracy" might at first give the illusion of economic achievement, but that it would produce few if any meaningful reforms. My analysis agrees with O'Donnell's on this key point, although I also suggest that even that initial illusion is particularly fleeting.

13. Rubén Zamora, "Democratic Transition or Modernization? The Case of El Salvador Since 1979," in Jorge I. Domínguez and Marc Lindenberg, eds., *Democratic Transitions in Central America* (Gainesville: University of Florida Press, 1997), 165–79.

14. Jack Spence, David Dye, Mike Lanchin, Geoff Thale, with George Vickers, *Chapúltepec, Five Years Later: El Salvador's Political Reality and Uncertain Future* (Cambridge, Mass.: Hemisphere Initiatives, 1997), 26.

15. For details, see "El Salvador: Compromise Reached on Sale of ANTEL," *Lagniappe* (New York), 25 July 1997, 9; "Asamblea Legislativa frena venta de ANTEL," *Nacional* (San Salvador), 30 May 1997.

16. João Resende-Santos, "Fernando Henrique Cardoso: Social and Institutional Rebuilding in Brazil," in Jorge I. Domínguez, ed., *Technopols*, 145–94.

17. Riordan Roett, "Brazilian Politics at Century's End," in Susan Kaufman Purcell and Riordan Roett, eds., *Brazil Under Cardoso* (Boulder, Colo.: Lynne Rienner, 1997).

18. On the response to the Asian crisis, see *Lagniappe*, 12 December 1997, 3. On the general role of Congress in the process of economic reform, see page 3 of each of the following issues of *Lagniappe*: 25 July 1997, 17 October 1997, 14 November 1997, and 28 November 1997.

19. "Nicaragua: Law Aims to Solve Property Mess," *Lagniappe*, 12 December 1997, 9.

20. Susan Stokes, "Democracy and the Limits of Popular Sovereignty in South America," in Joseph S. Tulchin and Bernice Romero, eds., *The Consolidation of Democracy in Latin America* (Boulder, Colo.: Lynne Rienner, 1995), 59–81.

21. See the detailed case studies in Jorge I. Domínguez and Abraham F. Lowenthal, *Constructing Democratic Governance: Latin America and the Caribbean in the 1990s* (Baltimore: Johns Hopkins University Press, 1996).

22. Carol Graham and Cheikh Kane, "Opportunistic Government or Sustaining Reform? Electoral Trends and Public Expenditure Patterns in Peru, 1990–1995," *Latin American Research Review* 33 (1998): 67–104.

23. Anita Isaacs, "Ecuador: Democracy Standing the Test of Time?" in Jorge I. Domínguez and Abraham F. Lowenthal, eds., *Constructing Democratic Governance: South America in the 1990s* (Baltimore: Johns Hopkins University Press, 1996), 42–57.