Political and Social Constraints on Economic Restructuring in Latin America

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The issue at stake in most Latin American countries today involves more than just creating conditions appropriate for sustaining markets. Equally important are questions of how to design social policies dealing with those excluded from the benefits of economic growth and how to improve governmental services reaching the citizenry at large. These constraints unless dealt with effectively have the potential of derailing the shift toward markets. The link between politics and markets requires that reformers give as much attention to those adversely affected by the economic restructuring underway and to inequities in service delivery as they do to economic policy.

The upheavals in politics, society, and economics in the northern tier of South America over the last decade, in particular, call attention to the explosive ramifications of the politics of exclusion that go hand in hand with the revival of markets in Latin America. From the outset, economic reforms identified with market-friendly strategies promoting economic stabilization and new economic growth engendered a debate over their impact on social inequities in the region. But in Venezuela and Colombia—the first, a mass-based democracy and the second, a limited democracy, countries which did not succumb to the military rule dominant

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in South America during the 1960s and 1970s—the pressures to restructure the economy have hastened the demise of past political accommodations. If the Caracas riots in early 1989, protesting economic austerity and ineffective response by elected officials to popular needs, led eventually to the demise of a dominant two-party system, in Colombia the inability of government to respond to the demands for reform and to constrain guerrilla movements linked to narcotrafficking, has brought the country to the brink of collapse. While these are crisis cases, they as well as the political experiences of other countries in South America flag the unresolved social and political issues that shape today's debate over market reforms and demo-cratization.

Links with the Past Which Constrain the Present

If we stand the hemisphere on its head and survey the region from the vantage point of those Latin American republics first experiencing sustained political and economic progress early in this century, then it becomes clearer that especially in South America this is neither their first encounter with democracy or markets. Rather, the political and economic history of Latin America, seen from this perspective, in-volves long-standing experience with the struggle to make democratic institutions work and to make markets perform as effective ways to achieve economic growth and raise the levels of living for all the peoples inhabiting these nations. Hence, before we look at recent attempts both in market reforms and state reforms, it behooves us to examine legacies from the past that continue to shape the present.

What has proven to be endemic for the South American republics is the repeated breakdown of democratic and market initiatives. The issue is not whether one can institute market reforms or promote democracy, but rather can market reforms and democratic reforms be sustained and institutionalized. Redemocratization speaks to the fact that in this region we have seen distinct cycles of efforts to make democracy work since the

nineteenth century, out of which political breakdowns have occurred leading either to authoritarian rule or major reconfigurations in political power structures. While we do not yet know the outcomes of the current democratic wave, there are signs that political turbulence once again may well constrain or undercut the prospects for further economic and political reforms. Neoliberalism calls attention to the fact that, despite earlier attempts to install economic liberalism in the late nineteenth and early twentieth centuries and to build national markets, the countries making the greatest progress under that economic model suffered dramatic losses in the late 1920s and early 1930s. The current cycle represents yet another attempt to make markets work and to create appropriate mechanisms for governance to sustain reform initiatives. This shift to markets, thus, offsets a half century of experimentation with alternative strategies designed to replace the first model by letting the state assume responsibility for stimulating economic development through state-owned enterprises or joint ventures, designed to constrain the earlier reliance on foreign capital and to fill the vacuum where domestic entrepreneurship appeared to be in short supply. Redemocratization is linked to the fact that these countries have experienced two cycles of democratization, only to experience breakdown and the recursion to authoritarian rule because of the inability of the limited democracies established to respond to the demands of those excluded from the benefits of earlier economic growth for substantive democratic reforms. The issue posed in these instances was the fact that commitment to procedural democracy (through building support for democratic institutions by deciding on one's leaders exclusively at the ballot box and by legislating economic and social reforms according to the majority principle) did not create a mechanism in which social and economic inequities could be dealt with effectively (through demonstrating to the poor and the excluded that the substance of democracy, measured in terms of equality of opportunity could attend to their desires to improve their socioeconomic conditions).

Given the diversity of the political and economic experiences of the Latin American states, an effective way to capture both the political and social constraints which are emerging in the present as well as the paths pursued in the past which continue to shape the present is to use theoretically relevant case studies. By examining key country cases which flag developments that later became crucial in the evolution of politics and economics in the region, it becomes easier to understand the continuing political and social forces that have the capacity to constrain or reverse the shift toward markets. To capture these developments, Argentina, Brazil, Mexico, and Venezuela are particularly relevant.

The Argentine Case: Harnessing Populism to Fit the Demands of Neoliberalism

No country in the region demonstrates more effectively than Argentina the ties between the past and the present, in the debate over the most appropriate political and economic models for achieving sustained economic growth and installing political regimes responsive to the values of progress and individual freedom transferred into the New World from Western Europe. In the first wave of economic and political reforms in the Americas, the commitment to late nineteenth century economic liberalism and political democracy in Argentina moved that country to the forefront of the Latin American republics. On the eve of the Great Depression of 1929, Argentines could look back on 40 years of spectacular growth and development that put their country at a threshold where they could aspire to a future on a par with the economic and political achievements identified with Western Europe. Through external investments (especially British), massive European immigration, commercialization of its agricultural resources in beef and wheat, and commitment to procedural democracy (through electoral reform such as the Saenz Peña Act of 1912), its leaders had created a vibrant economy and a political democracy in which universal male suffrage had become

accepted and elections were generally agreed upon as the appropriate mechanism through which national leaders could be selected to govern.

For all its successes, the prevailing economic and political regime, however, was not without its problems. Labor protest in urban and in rural areas in the late 1910s and early 1920s signaled the fact that, while the new middle classes were able to integrate themselves effectively into a growing economy and expanding political system, working class individuals found little tolerance for reallocating economic resources in such a way as to permit higher wages or to change the bases of political power to permit adjustments in social benefits to those disadvantaged by the shifts in the economy in urban and rural areas. Consequently, when generalized economic collapse hit the country in 1929, those who had the power to impose an immediate solution (the group generally referred to as the *Concordancia*) closed the political system down in order to control social unrest, ensure order, and give priority to economic recovery. Fifteen years later, in the context of World War II, neither full economic or political recovery had been achieved. But, what did occur was that, after more than a decade of attempted economic and political engineering, a radical group of younger military officers with lower middle class backgrounds, referred to as the colonels clique and the *Grupo de Oficiales Unidos*, carried out a coup within an earlier coup of their military superiors. One of them Col. Juan Perón found in his assignment as Minister of Labor a working class constituency responsive to his attempts to attend to their needs and willing to accept his leadership to achieve immediate economic and social re-vindication. Despite the attempts of his military superiors to sideline him, when he and his wife Evita fought back, they found a huge mass of working class men and women backing them and willing to go into the streets to support them. In a very short period of time the Peróns found behind them a huge popular mandate which they were able to convert into a new political movement that overwhelmed existing civilian and military forces.

Consolidated in the election of 1946, *Peronismo* introduced a new popularly-based, mass political movement that changed Argentine politics and economics once and for all, through suspending the rules of procedural democracy and imposing by force what the masses perceived to be substantive democratic gains. By enfranchising workers, not so much through formal politics as through guaranteeing to them immediate economic and social benefits adjusting disparities in income and in access to social services, the Peróns built what their supporters believed to be a social justice movement. The *Movimiento Justicialista* became for them the embodiment of the rejection of established democratic procedures that benefited the affluent. It guaranteed immediate and direct substantive gains for working-class Argentines under progressively more and more authoritarian practices in the name of direct and substantive adjustments in social and economic inequities. For this reason, when we speak of populism—*populismo*—in the Latin American context, the Argentine experience frequently becomes the prototype of the populist movements which swept across the region in the 1940s and the 1950s, into the 1960s. Rejecting disciplined political party organizations, mass movements rallying behind middle-class leaders dominated the second wave of democracy that followed the end of World War II. Generally speaking, these movements had three essential characteristics: 1) charismatic leaders (drawn from discontented middle sectors of society and able to mobilize people into action through their rhetoric and use of the mass media); 2) a disposable mass of working class and lower middle class individuals (ready to submerge their own individual needs in competing with others for a place in society into a mass movement focused around a leader promising immediate social and economic reforms); and 3) an emotional appeal to nationalism (defined as social justice by redistributing national wealth for the benefit of the people of the nation, statism as the solution to savage capitalism, and xenophobia as the means for denouncing the ties of the economic elite with international capital that had led to the exploitation of the "popular classes").

The second wave of democratic experimentation which followed these earlier democratic breakdowns and populist authoritarian rule and/or restricted right-wing authoritarian regimes were limited democracies. In them no stable form of democratic rule could be found because of the determination of the dominant political and military rulers to exclude or to limit populist forces through writing democratic rules which constrained the impact of the masses. Each of the countries experiencing this second phase of democratic rule has a distinct set of national experiences. But once again the Argentine case further defined this prototype by directing attention to the creation of populist democracies and the attempt to sustain democratic regimes, as long as they did not threaten the political and economic power of national elites (those who held the economic and political power to determine outcomes—*los que mandan*).[1]

Argentina's re-encounter with democratic rule under these conditions extends from 1958 to 1966, followed by a long cycle of authoritarian rule, 1966-84 (broken intermittently by failed attempts to re-establish democracy). The breakdown of this second democratic cycle, which provided for much less stable democratic practices, generated a longer cycle of authoritarianism. Failed initiatives to return power to civilians ultimately led to violence and the determination of hard-line military authorities to repress the opposition at all costs. On the economic side, throughout these years an alternative economic model prevailed—import-substitution-industrialization—and the practice of active state involvement in the economy to control markets and exchange rates and to stimulate new economic development through joint ventures or state-owned enterprise.

Both of these initiatives at political and economic reform eventually failed. In the shifts in Argentine politics since January 1984, there has been a new political convergence around the desirability of a

[1] The classic that was written in these years which sums up most effectively the politics of limited democracy in the case of Argentina is José Luis de Imaz, Los Que Mandan (Those Who Rule), translated and with an introduction by Carlos A. Astiz, with Mary F. McCarthy (Albany: State University of New York Press, 1970).

re-democratized polity in which both major political movements, the *Radicales* and the *Peronistas*, could compete openly at the ballot box. Once the Peronistas, under the leadership of their new leader Carlos Menem, were able to demonstrate a clear-cut popular majority and to gain power, major economic restructuring followed. Import-substitution-industrialization and state-dominated economic policies were replaced by rapid movement in the direction of free markets under neoliberal economic policies, emphasizing first fiscal stabilization and then significant structural adjustments to ensure the functioning of market mechanisms without constraints. In the Argentine setting this was made possible by Menem's ability to re-focus the forces of populism in his society in such a way as to put together a dominant coalition, extending across two terms of office. In the process *peronismo* was redefined as *menenismo*, in such a way that the techniques of power for obtaining mass support first developed by the Peróns was re-formulated and converted into a new populist coalition that supported the dramatic turnaround in the Argentine economy. This was made possible politically by the legitimacy accorded to this heir of Perón who once in power re-structured the Argentine economy in such a way that a free market economy emerged with a vitality not seen even in the old days the economic elite remembered from the interwar period.

During national elections in fall 1999 and in the transfer of power from Menem to Fernando de la Rúa in early 2000, power was ceded to the opposition. While the latter draws its strength from the Radical party and supporters of a third party movement centered around those demanding social justice and trials for those involved in human rights abuses by the military during authoritarian rule, it too has engaged in populist political strategies to assemble a majority both in elections and in congress to support their leaders.

Again, while there are important variations in this resurgence of populism elsewhere in Latin American during the 1990s, Argentina once again has become the prototype of what is now called neopopulism. This

is the use of populist political practices drawn from this past in a democratic context to enlist mass political support for the purposes of economic restructuring. These refurbished mass movements have been reconfigured to fit the times, principally through redefining the link between leader and working class and lower middle class support. In neopopulism leaders advocate abandoning statism, refocusing nationalism (by reaffirming confidence in one's own society in cooperation with the new economic forces identified with globalization), and heightening the powers of the presidency (by minimizing the impact of parties, legislatures, and the courts under presidentialist forms of governance).[2] While there are marked political differences , then, between Menem and de la Rúa, they are similar in the political strategies and the political alliances they have constructed for the purpose of winning elections and ruling the country.

The Brazilian Case: Reform-Mongering While Encouraging Democratic Practices

Yet another pattern which is emerging that is important in identifying political constraints on sustainable public sector development in Latin America can be illustrated by looking at Brazil. There the path taken diverges from the Argentine example in that the convergence in the new political economy, with its emphasis on markets, democracy, and institutional reform is Brazil, under the presidency of Fernando Henrique Cardoso, has followed a model emphasizing decentralization and

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[2] Kenneth Roberts, "Neoliberalism and the Transformation of Populism in Latin America: The Peruvian Case," **World Politics**, 48 (October 1995), and Kurt Weyland, "Neopopulism and Neoliberalism in Latin America: Unexpected Affinities," **Studies in International Comparative Development**, 31:3 (Fall 1996). While scholars who call attention to the phenomenon of hyperpresidentialism do not necessarily link this phenomenon to neopopulism, this is an important ingredient in the re-appearance of populism in the 1990s, See: Carlos Santiago Nino, "Hyperpresidentialism and Constitutional Reform in Argentina," in Arend Lijphart and Carlos H. Waisman (eds.), **Institutional Design in New Democracies: Eastern Europe and Latin America** (Boulder, CO: Westview Press, 1996).

engineering economic and political reforms by respecting the principle of the division of powers which is inherent in democratic presidential practices. Throughout his rule Cardoso has accepted consistently the limits placed on the presidency by congress and the courts and has attempted to sustain a strategy of economic and political reform by working within these constraints.

In this regard, it is important to see Brazil in a new light, not simply as yet another Latin American state, but as a country whose continental dimensions have come to match its economic weight and influence within South America, despite periodic crisis. As the world's eighth largest economy, be it with an expanding economy or one that is in recession and in crisis, Brazilian developments now have reverberations outside national borders throughout the South American region. This shift has been enhanced by the development of Mercosur, the regional trading association involving Brazil, Argentina, Uruguay, and Paraguay as full members and Chile and Bolivia as associate members. Increasingly, despite economic restructuring in Argentina that is much more significant than Brazil's, the dynamics of Mercosur are being driven by the size of the Brazilian domestic market (the largest in Latin America). The other Mercosur countries are finding that under their new trade agreements, which have the long-term goal of establishing a single common market, Brazil's devaluation of its currency, the *real*, has placed real constraints on their internal markets and external trade. While Chile is much better situated to withstand these pressures because of its own earlier economic restructuring and insertion into world markets independently of developments in Argentina and Brazil, Argentina has discovered new economic vulnerability today in its dependency on Brazilian markets.

During these years, the Government (i.e., the two administrations of Fernando Henrique Cardoso, 1995-98 and 1999-2002) has followed the new orthodoxy in structural reform. First, it achieved economic stabilization through the *Plano Real.* Then it undertook an aggressive program in privatization which involved a political reform component,

through amending the constitution in those areas where public enterprise has been linked most closely with economic nationalism. Subsequently, once Cardoso had engineered his reelection for a second term of office, the Government expanded the scope of its political reforms by increasing the powers of the federal government in fiscal policy at the expense of the state governments through the imposition of federal controls over state indebtedness. In the process of implementing these changes and confronting the problems of controlled exchange rates, it became the Latin American country most in the international news during the first quarter of 1999. Devaluation of the *real,* the economic turbulence that ensued as a consequence of the decision to float the country's currency, and acceptance of a de facto loss in the value of the *real* mounting initially to approximately 40 percent, had reverberations throughout the world. Yet, while the Government acted quickly and decisively, correction in the value of the *real* proved to be only temporary. By the second half of the year it was fluctuating between 1.8 and 1.9 reals to the dollar. Within this context the image of Cardoso as effective leader quickly moved from positive assessment in the polls, to increasingly negative reactions to the drift in Brazilian politics as Cardoso ran into more and more opposition in congress. Overnight an image of stalemate and stasis at the national level replaced the earlier one of reform and change. As the year progressed, he encountered not just opposition in congress that has placed real constraints on his reform initiatives but also judicial interpretations of his actions that negated his attempt to reduce public expenditures.[3]

Cardoso's mixed record not only mirrors the ambiguities that have long been present in Brazilian politics and economics, but also poses the dilemmas which Latin American leaders must confront if they attempt to couple economic reform with political change designed to strengthen democratic practices. Under presidentialism, democratic political reforms must respond to legislative strengthening endeavors and pressures for

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[3] These developments are summarized in "Brazil's Efforts on Budget Imperiled by Court Rulings," **New York Times**, October 1, 1999, p. C2.

judicial reform, designed to offset excessive presidential power and abuses that undercut democratic institutions. The Brazilian case makes it very clear that commitment to democratic institutions and decentralization impose real constraints on the ability of presidents to negotiate the social and administrative reforms which must follow market reforms, especially when past political practices have linked presidentialism in the Latin American experience to abuses of executive power.

Democratization in Brazil in the mid-1980s did not get off to a very good start, either in terms of consolidating democratic practices or in encouraging free markets. Rather, the Brazilian transition during these years appeared to be captured by those forces most resistant to change.[4] Groups favoring the comfortable corporatist practices of the past in which government and domestic firms maintained a symbiotic relationship continued their operations unabatedly. Extensive and rampant clientelism reappeared, though which newly elected officials at the federal, state, and local level provided public employment for their electoral cadres. During these years the opposition movement which had been so successful in mobilizing mass protests against authoritarian rule became demoralized. First, their leader, Tancredo Neves, who was designated via indirect elections to take power in March 1984, became seriously ill and died on the eve of assuming office. Replacing him was his vice president, José Sarney, a man identified with the liberal wing of the previous authoritarian coalition. He had been placed on the ticket to balance the reformist and opposition politics with which Tancredo Neves was identified as the leader within the state of Minas Gerais of the main opposition party, the PMDB. Second, the newly elected congress which also served as the constituent assembly became hopelessly bogged down on the issue of constitutional reform. The initial draft of the constitution gave real voice

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[4] Frances Hagopian, "The Compromised Consolidation: The Political Class in the Brazilian Transition," in Scott Mainwaring, Guillermo O'Donnell, and J. Samuel Valenzuela (eds.), **Issues in Democratic Consolidation: The New South American Democracies in Comparative Perspective** (Notre Dame: University of Notre Dame Press, 1992), pp. 243-93.

to democratic forces within Brazil, only to become watered down with amendment after amendment. What finally emerged in 1988 was a complex document that protected vested interests while reaffirming the government's commitment to human rights and democratic liberties. Third, the first presidential direct election in Brazil in more than 25 years, that of 1989, brought to power a politician from the small northeastern state of Alagôas, Fernando Collor de Mello. Despite his appeal as a young, attractive, new candidate, once in office he carried corrupt practices and patronage politics to a level hitherto unknown in Brazil. In December 1992, rather than stand for trial in the Senate under impeachment charges levied against him in the Chamber of Deputies because of extensive corruption and illicit contributions to him and his associates, Collor resigned. Fourth, the man who became president as a consequence of his position as vice president, Itamar Franco, constituted yet another national leader tied to the status quo. In this setting, with inflation running well above a 1,000 percent annually, Brazil drifted aimlessly.

At the moment when Brazil bordered on economic collapse, Itamar Franco appointed Fernando Henrique Cardoso as finance minister and charged him with the need for immediate action. In contrast to previous finance ministers, who had devised schemes that promised extensive economic reforms only to see their plans fail because of politicians arrayed against these reforms, Cardoso produced a economic stabilization plan that worked: the *Plano Real*. The ending of acute inflation opened the way to major economic reforms, reforms which placed Brazil on the road to the installation of a free market economy. The economic turn-around produced by Cardoso led in turn to his candidacy for president and his election at the end of 1994.

On taking office in January 1995 Cardoso embarked on a strategy of constitutional reform, designed to remove those articles in the 1988 Constitution which limited the impact of the privatization policies to which he was committed. As he approached the end of his first term of office in 1998, Cardoso had achieved economic success by embracing

markets and aggressively pursuing privatization, to the point that Brazil was now engaged in the largest privatizations in the region. With economic stabilization measures in place and the economy open to foreign investment without constraint, foreign capital poured into Brazil to take advantage of the sale of numerous public enterprises and the opening up of the Brazilian economy.

To achieve the constitutional reforms necessary to sustain his commitment to privatization, Cardoso built and maintained a broad-based coalition that brought together reformers and moderates on the center-right. Key to this coalition was an alliance among his own party, the PSDB (the Brazilian Social Democratic Party), the PMDB (the Party of the Brazilian Democratic Movement), and the PFL (the Liberal Front Party). To this one should add a number of smaller parties and representatives in congress, sufficient to muster the 3/5 vote needed, in each house, in two successive votes in each chamber, to reform the constitution.

While there were defections and new adherents on each vote, the core of Cardoso's reformist coalition held throughout his first term of office. The accomplishments were notable, not just in introducing privatization into public enterprises hitherto identified with Brazilian economic nationalism (electricity, telecommunications, and oil and gas), but also in gaining support for amending the constitution so that he could stand for a second term. In the latter case, however, the trade-off in votes led to the writing of an amendment in which all incumbent executive officers could stand for re-election. Not just the president but governors could stand for re-election, and, in the next round of mid-term elections, mayors too will benefit from the last of Cardoso's constitutional reforms. Key to the success of this strategy was Cardoso's ability to sustain the support of the PFL and its leader, Antônio Carlos Magalhães (ACM). What was notable about this success was Cardoso's ability to build and sustain a broad based coalition that could deliver the necessary votes on issues crucial to him.

As national elections approached in late1998, the country had to face a major challenge in the global economy, beginning in August. In that setting, with a badly overvalued currency and with increasing doubts that the Government could maintain its fixed three-tiered exchange rate by permitting only gradual adjustments in the exchange rate, capital flight ensued. Given the Government's commitment to maintaining the free flow of capital, the result was dramatic drops in the country's foreign reserves during the last four months of 1998 and marked increases in interest paid on savings in the range of 45 percent. While there were splits within the cabinet, Cardoso's decision to maintain the value of the real held firm until his re-election was secured. Once elections were over, he delayed action until his new ministerial team was in place. Subsequently, on January 13, 1999, the Government announced devaluation of the real and, shortly after that, on the 15th, made the decision to allow the currency to float in international markets.

Consequently, as Cardoso moved into his second term, he faced major difficulties. Already the criticism had been levied against his government that, in the commitment to markets and extensive privatization, there was no place for social reform. And, as the new budget took form, it was clear that there would be even larger cuts in health, education, and social welfare. When all this settled out, major splits within the Government and problems with the Administration's coalition in congress produced an alliance by July that was notably farther to the right and more dependent than ever on the support of ACM. The immediate cause of this shift was political realities. While the coalition supporting Cardoso in congress consisted largely of the same parties, electoral outcomes produced an important realignment. In the new congress, the conservative PFL led by ACM had the largest number of representatives, followed by a PMDB whose centrist position produced more ambiguity than ever. In third place was Cardoso's PSDB with Michel Temer as president of the Chamber of Deputies. The coherency of the PFL organization and ACM's leadership role in that party as

president of the Senate, combined with the coalition character of the PSDB and the PMDB, meant that ACM had become an even more important player in national politics in Cardoso's second administration. The net result of these outcomes was Cardoso's increasing dependence on ACM for any legislation he wished to pass and the limiting of his options at best to economic measures that matched both his reformist agenda and Magalhães' conservative interests. In that setting negotiating further reforms in social policy and within the state apparatus, all of which affected existing power relations directly, ceased to be a viable option.

Thus, Cardoso's commitment to economic and political reforms within the framework of democratic politics, so notable during his first administration, and his difficulties with deepening reform initiatives in his second administration call attention to the limits of "reform-mongering" in regimes similar to Brazil's. Increasingly, lacking a majority in congress to support further reform initiatives, he has had to opt for a strategy in which further economic structuring has been occurring by default through allowing market forces to determine outcomes.[5] Herein

[5] The disarray in the Cardoso's political coalition should not lead one to conclude that economic restructuring has ceased. To the contrary, strategic planning within the context of Cardoso's economic team during the first administration already had identified four global scenarios to which the country would have to respond regardless of political outcomes within the country. In the Brazil 2020 project, mounted by the Center for Strategic Studies in the Presidency of the Republic, the National Bank for Economic and Social Development (BNDES), and the Planning Ministry, four scenarios were developed. The two identified as the most relevant to Brazil's immediate economic positioning in the international context were the need to respond to globalization as a process driven essentially by international market forces and the shift toward knowledge-based industries centered around high technology. By the end of 1998 it appeared that Brazil was well situated in the South American context through the Cardoso reforms at the center and the push toward decentralization that had given new meaning to state and local government to be able to accommodate further economic restructuring through market-based solutions over the short term. While secondary, but of potentially growing importance in individual states and Brazil's more advanced regional economies, the options opening up in the area of knowledge-based industries likewise point to developments at the state and local level, which when combined with state-based economic and political reforms, offset the tensions present in Brasília. See: Lawrence S. Graham, "New Dynamics in Economic Restructuring: Cross-National Patterns in Regional Accommodation and the Brazilian

lies the anomaly of an economy that overall continues to do well, despite increased unemployment and economic dislocations, linked to protests and demonstrations against the economic changes underway.

In such a setting, it is important to understand that, while the Brazilian transition to democratic rule is over, one should not conclude that this implies categorization of Brazil as a consolidated democracy. Many other Latin American republics face similar dilemmas in consolidating democratic practices, while seeking to engage structural reforms. These "democratic situations" remain highly vulnerable to internal and external shocks and dependent on conjunctural circumstances.[6]

Nevertheless, for the present, conjunctural circumstances, externally and internally, do not threaten the Brazilian situation and support the current status quo. Despite protest and discontent with the Government's continued commitment to economic restructuring through privatizations and use of market forces, a more fundamental reversal along the lines of a populist resurgence remains unlikely. To date, the left in Brazil has been unable to win control of the presidency and seems unlikely to do so in the near future. In the last three elections, the leading contender for this option has been the leader of the Labor Party (the PT), Luís Inácio ("Lula") da Silva. While he argued consistently in each for reordering policy priorities in favor of more aggressive social action by government to deal with the inequities of Brazilian society, and to ameliorate the hardships imposed on the poor by neoliberal economic reforms, he has failed each time to amass the necessary majority.

Response," 3rd International Conference on Technology Policy and Innovation," Austin, Texas, LBJ School of Public Affairs, August 30-September 2, 1999.

[6] This term, "democratic situation," is an adaptation of Juan Linz's earlier characterization of authoritarian Brazil as an "authoritarian situation, rather than as a consolidated authoritarian regime similar to Franco's Spain and Salazar's Portugal. In that setting, while there was no immediate prospect for a reversal of authoritarian rule, Linz argued that the Brazilian regime was not consolidated due to the absence of an ideology which could replace the legitimacy accorded to democratic rule. See: Juan J. Linz, "The Future of an Authoritarian Situation or the Institutionalization of an Authoritarian Regime: The Case of Brazil," Alfred Stepan (ed.), **Authoritarian Brazil** (New Haven: Yale University Press, 1973), pp. 233-54.

Existing structural constraints make a major difference and contribute to regime maintenance. Brazilian federalism has undergone major changes since 1988 with the decentralization of political power and the enhancement of the roles of state and local governments in questions of governance. Hence, offsetting stalemate at the national level, is the presence of reformist agendas at the subnational level, where regional coalitions have emerged favoring political and economic change and supporting reformist agendas. This can be seen in the enormous difference between sustained PT performance and effective governance in Porto Alegre and the surrounding state of Rio Grande do Sul and its limited capacity to build an effective alternative national coalition, in a republic in which, while increasingly urban, large urban areas are consistently underrepresented as one moves from the state and local level to the national arena. In such a setting, rather than look for major changes over the short term, what is much more likely is continued muddling through, with economic restructuring continuing in the midst of political protest and the drawing off the pressure for change into individual arenas at the state and local level.

The Mexican Case: Engineering State Reform in the Midst of Democratization

Mexican developments highlight yet another path taken in engineering political, economic and institutional reform in today's Latin America. The redefinition of the role of the state throughout Latin America over the last decade cannot be separated from the realm of politics and the economic and political transitions which have swept across the hemisphere. The side of the equation that is probably best understood falls within the purview of economics where the return to markets as the primary regulating forces has led to a retreat of the state from intervention in the economy throughout Latin America. On a worldwide basis, state shrinking is a consequence of structural adjustment policies, those policies which require major change in

the structure of the economy, the state, and society. In Latin America, to date the most visible aspects of this change have been the use of monetary policy to end inflation and the recourse to privatization and the opening up of national economies, previously dominated by state-owned enterprises and statist strategies for economic growth, to private sector firms. What has been much more difficult to achieve is structural change within the apparatus of the state itself. Here the case of Mexico is instructive for understanding how difficult it is to move from the first phase of structural adjustment policies into the second where restructuring political and administrative institutions is required in order to consolidate markets. If Brazil illustrates the limits of political reform while attempting to enhance democracy and markets, Mexico speaks to the difficulties of reforming the state while attempting to restructure the economy and to democratize. But to capture these differences in strategy and political choices, one needs to understand that there is a difference between micro-oriented administrative reforms, within a country's public administration, and macro reforms directed at the state, where one must deal simultaneously with political institutions (executive power, legislatures, and courts) and administrative institutions (ministries, departments, commissions, and field offices).

It is much easier to sketch out the parameters of the retreat of the state from the economy due to the primacy of a single dominant economic model emphasizing markets than it is to identify appropriate strategies for pursuing state reform. This is because restructuring the state touches on questions of political power and established relationships among organized groups inside and outside government. Thus, while there is a uniformity in the market-friendly strategies advocated today, there is no such uniformity in tackling the issue of state reform. This is because the political transitions underway and the debates over how to consolidate more open forms of governance throughout the region are derived essentially from internal conditions peculiar to each individual national society. Simplistic approaches to structural adjustment policies may well lead one to think that if markets are at the source of the retreat of the state from the economy,

democracy should be the common thread in engendering the retreat of the state in the administrative field. The problem with this vantage point is that it assumes that the primary driving forces in the political changes underway today also come from external sources, when in fact they are driven by internal changes in the relationships between state and society and the interplay between traditional and new political forces in each of these countries.

The administrative systems of Latin America have evolved in conjunction with political and social institutions that have contributed to the development of twenty very different national states. While the point of departure in the building of states and nations throughout Latin America historically came from a common set of conditions and outcomes in politics—their independence in the early nineteenth century from Spain and Portugal—by the end of the twentieth century what warrants much more attention is how varied the political and administrative behavior of individual states in this region has become.

The country that has advanced the farthest in state reform is Chile. But, those political and administrative changes are the consequence of a particular set of political choices followed by Chile's authoritarian rulers (the Pinochet government) prior to the return to democracy in 1989. Elsewhere in Latin America, state reform is embedded in the politics of redemocratization and internal debates over how more open forms of governance are to be institutionalized. The country where this issue of state reform has been engaged most clearly is Mexico. While Brazil was also a good candidate for state reform at the beginning of government under Cardoso, for reasons outlined above in the re-emergence of political obstacles to further change at the center, Mexico provides clearer insight into how political transitions away from authoritarian practices toward more open forms of governance shape the debate over state reform. This is because state reform issues have been a part of the policy agendas of Mexican presidents since the administration of Lopez Portillo, the six-year term of office or the *sexenio* that ran from 1976 to 1982.

Because Mexican attempts at state reform stretch across more than twenty years, engaging major economic and political change in the process, these attempts are particularly useful for illustrating how changes in national politics shape the debate over state reform. By using Mexico as a theoretically relevant case study on this axis, four aspects of state reform can be clarified. First, it is imperative to understand that this process is guided by internal political conditions. For example, what is occurring today in Mexico, in an economic and political transition that can no longer be controlled by the Presidency of the Republic, bears no relationship to what has been occurring in Peru under Alberto Fujimori, as that president has de-institutionalized both state and society and used the tactics of neopopulism to consolidate his power. Second, it is essential that we see how variations in national politics have become the guiding force throughout the hemisphere in shaping what have become very different national political and administrative systems. Third, this particular combination of externally induced economic change and internally directed political and administrative change is leading to a retreat of the state from active involvement in social policy. The political upheavals in Venezuela during 1999 and 2000 should serve as a warning to all that harsh but necessary economic structural adjustment policies, no matter how successful over the short-term, have dire consequences for existing democratic arrangements, especially when a country can tap into political and economic resources of its own that defy conventional wisdom.[7]

It is not just the United States that is wrestling with how to reduce commitments by government to provide a safety net for disadvantaged

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[7] In this regard, Venezuela differs from the pattern identified by Joan M. Nelson and her collaborators in **Intricate Links: Democratization and Market Reforms in Latin America and Eastern Europe** (New Brunswick, NJ: Transaction Publishers, 1994). There the authors discuss the factors which explain why governments decide "to launch serious stabilization and structural reform measures, despite the considerable political risks" (pp. 10-11). In the Venezuelan case, economic and political crisis led to a situation where new leaders emerged challenging the stabilization and structural reform measures identified with Acción Democrática and COPEI governments and produced a major internal political realignment.

groups; virtually every Latin American government that has engaged the issue of how to reduce costs has found it necessary to cut back on social services that a decade ago were assumed to be the right of organized groups in each country's labor force. Herein lies the message of Venezuela's new encounter with populism, despite 30 years of democratic institutional development, and the return to conditions which originally led to the emergence of populism in Argentina. Fourth, as governments in this hemisphere abandon the objective of consolidating state autonomy through designing administration systems with greater capacity to implement economic and social policy and look to economic and social forces outside government to guide socioeconomic development, they have accelerated the process of limiting the access to effective political power to the privileged and contributed to the staffing of governments by an increasingly limited set of policymakers using the rhetoric of majoritarian politics to promote the interests of a relatively limited group of actors, those who would use the resources of state power to advance their own and immediate self interest.

Seen from this vantage point, Mexico constitutes the Latin American country where the retreat of the state in the administrative field and the consequence of these actions for mobilization politics can be analyzed most clearly. For, it is in Mexico that this tension between sweeping internal political and economic changes and external conditionalities identified with structural adjustment policies is the greatest. There the juxtaposition is particularly clear of external pressures in economics (the primacy of markets, above all else "world" markets) and internal pressures for change in politics (the primacy of political mobilization from below in the attempt of new groups entering politics to redefine the concept of national community in ways that are not compatible with existing definitions of nationalism, as shaped by the PRI [the dominant party] over the last half century). The actions of Carlos Salinas de Gortari and Ernesto Zedillo in Mexico, of Alberto Fujimori in Peru, Carlos Saúl Menem in Argentina, and Fernando Henrique Cardoso in Brazil are all producing very different sets of national outcomes.

The economic and political crisis facing Mexico today has generated widely divergent interpretations of the transformations which are taking place in state and society. Most of this analysis has focused on developments outside government: Indian revolt in Chiapas, the growing strength of the PAN in the north (especially in Monterrey and Nuevo León) and in the center (in León and Guanajuato), the rapid decline in the value of the peso and the need for periodic U.S. bailouts to keep the current economic reforms going, and social protest over the rise in prices and the return of inflation. Yet, within the regime—in the corridors of central governmental organizations where key policy decisions are made—equally great change has been going on which warrants greater attention. Couched in bureaucratic terms, the issue has become how to reform the state in order to consolidate the changes achieved in the economy and, in so doing, how to separate party (the PRI) and government. While that issue was already paramount in the Zedillo government, it has become all the more pressing with the recent victory of opposition presidential candidate, Vicente Fox.

Seen from the perspective of the opposition, at the core of the Mexican state is a highly centralized regime in the process of redefinition and movement away from the corrupt practices and ineffective programs derived from more than fifty years of PRI-dominated rule. While these critics have identified the emergence of a new technocratic elite and call attention to a new PRI in the making, once one moves below the political and administrative elites who consolidated their control over Mexican government during the Salinas *sexenio* what remains in place is a clientelistic-oriented bureaucracy. At this level jobs are awarded and advancement occurs according to political and personalistic criteria and there is a notable turnover in personnel every time there is a change in political leadership. From this vantage point, the central actors remain the president and his entourage at the national level and the governors and their supporters at the state level. Effective reform is usually equated with the victory of opposition parties at the state and local level and their instigation of new concepts of governance centered around performance criteria, in which

competing state and local PRI administrations identified with the reformist wing of the Party hold a poor second. For them, regime transformation has become embodied in the movement in favor of a New Federalism, in which state and local governments have set their sights on obtaining meaningful and real autonomy.[8]

Defenders of the existing order and scholars who stress the reforms that have accompanied the economic and political openings inaugurated by Miguel de la Madrid (1982-88) and consolidated by Carlos Salinas de Gortari (1989-94) also see a new regime in the making, but in very different terms, as the PRI shifted its strategy toward becoming a force also in the country's democratization under the Zedillo administration. In this new order, they have called attention to an ever clearer demarcation between government by a technocratic elite (drawn from Mexico's new professional and business groups) and a political process and party system long dominated by the PRI at the national level and increasingly under attack by a growing opposition, beginning below in the states and localities where competitive politics had become the norm, and culminating with the electoral victory of Vicente Fox, for the PAN, over the PRI and its candidate. At the forefront of arguments supporting these claims stands analysis of economic policies linked to market reforms and privatization. Here the emphasis falls on the consequences: considerable success in creating a more open and competitive economy but severe economic dislocations that can be measured in terms of job compression and increased costs for goods and services.

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[8] Victoria E. Rodríguez and Peter M. Ward, "Disentangling the PRI from the Government of Mexico," **Mexican Studies/ Estudios Mexicanos**, 10:1 (Winter 1994), pp. 163-86; Rodríguez and Ward, "The New PRI: Recasting Its Identity," in Rob Aitken, Nikki Craske, Gareth A. Jones, and David E. Stansfield (eds.), **Dismantling the Mexican State** (New York: MacMillan, 1995), Rodríguez and Ward, **Opposition Government in Mexico** (Albuquerque: University of New Mexico Press, 1995); and Enrique Cabrero Mendoza, "The State of Guanajuato: An Innovative Model," and Mauricio Merino, "The Go-Between Government: Obstacles and Opportunities to Good Local Government in Mexico," in Robert H. Wilson and Reid Cramer (eds.), **International Workshop on Good Local Government: First Annual Proceedings** (Austin: Lyndon B. Johnson School of Public Affairs, The University of Texas at Austin, 1995), pp. 65-78.

In the midst of these public debates over the direction the Mexican transition is taking and competition between government and the opposition to control the process, inside government economic reform has continued and is not likely to be disrupted as the country moves from PRI to PAN control of the presidency. At this level, despite differences over the direction and the content of the political opening, both sides generally concur that continued progress in economic reform is contingent on extensive changes in the state's administrative apparatus. In this regard, while calls for administrative reform are not new to Mexico, what is different about current discussions is the extent to which economic reform has now become linked to state reform. As a consequence, there is a new consensus emerging between the Mexican business community and central government officials that civil service reform, emphasizing non-partisan, merit-oriented criteria in recruitment and promotion, is in their best interest. This is especially the case when one compares the programs of PAN in the states and major cities where it is now in office with those of the Zedillo administration in the federal bureaucracy during the last six years (1994-2000).

This convergence between reformers in both camps must be juxtaposed against the increasing turbulence and uncertainty in politics as the pace of change accelerates in Mexican society. There is a simple reason why this is the case. For all the problems and difficulties inherent in the present situation, Mexico continues to have a relatively strong state, in which public officials in strategic sectors have considerable capacity to design and to implement the economic and social policies to which government is committed. Groups in the center and on the right politically do not wish to see this resource squandered. In this regard, Mexican experience in state building stands in marked contrast with that of most other developing countries; in Latin America, only Chile can match the Mexican record. This new convergence among Mexican elites, in business and government, on the need for strong state capacity transcends partisan differences and must be factored in as an important part of the political equation. For, despite all

the signs of upheaval in Mexican society, this is not a regime bordering on collapse. Both sets of policymakers generally agree smaller, more professional administrative apparatuses capable of implementing a broad range of social and economic policies more effectively are essential, at whatever level of government they are operating.

In the eyes of Mexican reformers a technocratic revolution is also underway. While set back by unexpected political assassinations, popular protest and revolts, and continued instances of police corruption, those operating inside the federal government have not lessened in the least their push to consolidate a new regime based on the instrumentalities of a strong state. Those identified with what is often referred to as "the New PRI" (the new alliance between professionals and party officials committed to greater transparency in politics, but not in government) differ little, for example, from those staffing PAN governments in the city of Monterrey and the state government of Nuevo León. Furthermore, Miguel Ángel Centeno (the author of an important book on the internal workings of the Mexican state) argues that when one looks at the top, and examines elite interaction, separation between party (the PRI) and government has already occurred.[9] While difficult to see before 2000, once Fox has assumed power and consolidated his control of the presidency, this process will have become complete.

Against the desiderata of Mexican reformers must be juxtaposed more than half a century of partisan political practices. Reformers, operating at the apex of the political and economic systems, have had the capacity to shape policy and control the reform agenda. But their success in determining macro-economic policy has not coincided with their ability to implement other aspects of economic and social policy at the grassroots level. For all the talk of reform, the issue of corruption and influence peddling abounds at the state and local level. Seen from below, within the middle and lower levels of government employees and outside government in the middle

and working sectors of society, the labels of party and government remain inseparable. From this perspective, one of the major challenges at the end of the Zedillo sexenio and facing the incoming Fox government concerns whether or not it will be possible to move this debate among insiders over reform of the state out of the offices of the privileged and into mass-based state and party organizations, without rupturing the prevailing presidentialist regime. As Centeno makes so clear in his analysis of the technocratic revolution in Mexico, the past strength of the PRI-party-state was its ability to sustain a political settlement in which the civilian bureaucracy was able to retain the upper hand over politicians and military within the framework of a single dominant party organization that could deliver mass support.[10]

As pressures increase for adjustments in social policy to absorb the further dislocations likely to occur as economic liberalization advances and the opposition takes control of the presidency, the old formula of bureaucratic expertise at the top and political party patronage below within the organs of the state can no longer work. This is because along with greater transparency in the economy has come greater transparency in politics. In the older political world controlled by the PRI, public employment at the middle and lower levels of Mexican society was linked to job creation and enhancement for individuals who lack employment opportunities elsewhere in the economy. This style of political clientelism is no longer compatible either with the newer demands for greater efficiency and effectiveness in government, as the economic reforms advance, or with the opening up of politics in such a way that more and more government officials are finding themselves subject to public scrutiny and accountable for their actions.

Given the changes underway, one should not minimize earlier attempts to reduce central government personnel during the de la Madrid and Salinas administrations. For, public employment figures show a decline from a

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[9] See Miguel Angel Centeno, **Democracy within Reason: Technocratic Revolution in Mexico** (University Park, PA: Pennsylvania State University, 1994), especially chapter 5, "The Technocratic Vanguard."

[10] Centeno, pp. 47-51.

high of 1,432,968 employees in 1984 to a low of 818,775 in 1992.[11] But one should also note that these adjustments have been made at what I would call the margins of the state and largely within the category often referred to as "parallel administration" (state-owned enterprises now subject to privatization, independent commissions, and a variety of autonomous government authorities). The current challenge is how to achieve that drastic downsizing of the state carried out in Chile under Pinochet at the very point when PRI dominance of the Mexican state has come to an end and the opposition has gained control of the presidency. This is because the current economic model, as applied earlier in Chile and in vogue in Mexico today, cannot advance without a major reduction in government expenditures on public-sector salaries and programs.

At a time when so much attention is being focused on crisis government in Mexico it is important to keep in mind the institutional setting that shapes Mexican politics, for the constants remain the same. These constants are a spin off of the settlement arrived at in Mexican politics in the 1930s. They are integral parts of the framework of government that has provided stability and continuity in Mexican government and the basis for economic growth and progress during the 1950s and 1960s. Furthermore, while a new elite settlement seems to be in the making, if one accepts Centeno's arguments, these elements will remain a vital part of any new accord on the rules which will guide a political system in which party competition becomes the norm.

First, this is a highly centralized state in which power and policy initiatives are concentrated in the Presidency of the Republic. The rationalization of administrative structures that date back to the administration of López Portillo (1976-82) began a process of tightening up internal controls in such a way as to ensure that the President would have the power to control public finances and personnel. Along the way there were three major crises: 1982, with the devaluation of the peso and economic restructuring; 1988, with the rise of strong opposition movements on the

[11] Archivo, Dirección de Integración y Control, Ministerio de Hacienda y Crédito Público, 1994.

right and the left which threatened PRI dominance for the first time, and 1994, with political assassinations of key PRI officials identified with the reformist wing of the PRI and new economic crisis stemming from the precipitous fall of the peso at the end of the year. Yet, despite reports that would lead one to think that the system was bordering on collapse, economic and political reforms continued and Zedillo, like his predecessors, accelerated efforts to consolidate a new basis of power.

During these years, technocrats concluded that if the pace of economic reforms was to be continued and economic restructuring accelerated, there would have to be more fundamental change in government institutions. Over the past two decades a number of significant, albeit partial administrative reforms have been achieved. Embedded with the language of rationalization (*racionalización*), efficiency, and effectiveness, they have been designed to give to the Presidency (that superministry known as the *Presidencia de la República*) the capacity to implement those policies of immediate interest to the President. Given these priorities, the outcome since 1995 has been an extremely powerful set of governmental organizations in the domain of economic policy: the Presidency, Finance (*Hacienda e Crédito Público)*, Commerce and Industrial Development (*Comercio y Fomento Industrial*), the Comptroller General (*Contraloría*), and the Central Bank (*Banco de México*). As Fox and his supporters within the PAN take over this policymaking apparatus, it is likely that the new leadership will seek to expand this base, now that it has been coordinated and consolidated, to embrace other key public organizations essential to the control and regulation of the public agenda. These embrace economic areas directly linked to the NAFTA accord and outside the original set of key economic organizations (for example, Customs and PEMEX), as well as social and security affairs (*Desarrollo Social* and *Gobernación*).

Second, the Mexican state is federalist administratively, but unitary politically—albeit not without significant experiments in deconcentration. While standard textbook characterizations of Mexican politics always begin with statements to the effect that Mexican federalism has little substance,

from a policy perspective the instruments of governance today follow federalist precepts with a clear-cut demarcation among federal, state, and local authorities. This gives to the Mexican state an internal complexity that is rarely appreciated by those who focus their attention on politics and society. The growth of the state apparatus since the 1940s has, as a consequence, engendered considerable institutional pluralism that today interacts with growing political pluralism.

For anyone wishing to trace the circuitous route that any policy must follow in moving from central governmental offices, to the states, and into the municipalities, intergovernmental relations must become a topic of major interest. While the institutional setting certainly is different from that of the United States, the same complex mixture of federal, state, and local offices, officials, commissions, and authorities abounds. Not only are there multiple centers of power, some with greater and others with lesser degrees of importance in the existing hierarchy of relationships, but also there is an extraordinarily complex set of relationships among federal, state, and local officials depending on which institutions of governance one is working with. Hence, while decision-making is centralized, the President's authority is far from absolute. This can be seen most clearly in contrasting the instruments for macro-economic policy management with those designed to deal with questions of social policy, control of the police, and questions of corruption.

Third, because many of the instruments of governance follow European models more closely than those identified with the United States, partial reforms engineered within the state apparatus have produced staffing arrangements that divide government employees de facto into three groups which cut across internal organizational divisions (the administrative elite [secretaries/ministers, undersecretaries, charges d'affaires/*oficiales mayores*, and directors-general], occupants of middle-level positions [directors, sub-directors, departmental heads, and liaison personnel], and lower-level personnel [unionized workers and rank and file employees]). One of the least understood mechanisms of governance in Mexico concerns public personnel management; yet, it is crucial in conceptualizing the relation

between merit and ascription in personnel policies. At the apex are senior civil servants comprising an administrative elite or executive class who rotate among a select set of central (or federal) government organizations, some of which fall within the "direct" administration category while others belong to separately constituted public entities with greater or lesser amounts of autonomy. This is the administrative elite addressed by Centeno whom he characterizes as the technocrats. According to his analysis it is they who are in alliance with political leaders. His conclusions are that this group controls the policy agenda in such a way as to keep both PRI party officials and the military at a distance while they decide on key issues in economic and social policy. According to the Finance Ministry, these people numbered 1,247 at the end of the Salinas sexenio.[12]

Distinct from those individuals who set the policy agenda is an administrative class of technicians (*personal de mando medio superior y de enlace*), adept at specific tasks according to their professional training and experience. In the earlier literature on the Mexican state, these individuals were identified as *técnicos*. They were considered to be an important subset of actors, distinct from *políticos*—the PRI political party leaders who dominated the regime and secured the linkages between the organs of government and the mass organizations that made the PRI and the state inseparable. Among them, engineers, lawyers, economists, accountants, and representatives of the newer professional fields now recognized in Mexico predominate. Since the 1980s most political analysts have found these demarcations, dichotomizing Mexican officialdom into técnicos and políticos, less and less meaningful, as roles between professionals and politicians blurred. Few professionals rose to influence within the state without an active PRI affiliation and fewer and fewer politicians could move into the inner corridors of power without extensive experience and work within state organizations involved in development programs and projects. Furthermore, over time as the political and administrative systems became more complex, specialization of roles occurred. Still, while Centeno

[12] Archivo.

emphasized the waning affiliations with party among the administrative elite, rare were the instances of top officials (in both these categories) who had not spent time in IEPES, the PRI's research and policy institute (Instituto de Estudios Políticos, Económicos y Sociales). Under the Fox administration, since political control of the state apparatus is essential, one can expect to see major changes in public personnel at this level because under presidentialism, especially when a critical election has occurred bringing to power a totally new political alignment, political control of public bureaucracy becomes very important and who occupies these oversight positions becomes very important.

In this study of Mexican public bureaucracy during the Salinas sexenio, Centeno records how bureaucratic roles have converged at the top and analyzes in detail the formation of this new bureaucratic elite: the technocrats. But here it is important to draw attention to the fact that técnicos also have continued to exist as a distinct category of public employee, distinct from the administrative elite, and that they perform essential roles in the Mexican policy process. It is they largely who implement policy at the federal, state, and local level. Their ranks are larger that those comprising the administrative elite, although they too constitute a small percentage of total public employment: 47,604 in 1994.[13]

At the bottom of this hierarchy stands a much larger number of public functionaries (*personal operativo*) in a multitude of menial tasks for whom educational background is much less important than individual abilities to respond to the mandates of their administrative superiors. At this level patronage politics is alive and well and it is here that major turnovers in public personnel can be expected. Without the support of lower level personnel—executive secretaries, those assigned to personnel and budgeting tasks, etc.—whatever the initiative and however innovative it may be—specific projects and programs become bogged down in a hopeless series of bureaucratic details and delays unless their support is secured. The administrative reform issues of the day are thus not grandiose designs but

[13] Archivo.

very practical and substantive issues such as customs administration, budget execution, and accounting reforms. Employees in this category total 311,695, and it is here that the overlap between party service, clientelism, and public employment are the greatest.[14] Complementing these employees within the public sector, but not reported in public pay records, are medical personnel, contract personnel (*personal eventual*), consultants, teachers, and lower level military personnel. In the figures on the public payroll reported by the Dirección de Integración y Control, in the Ministerio de Hacienda y Crédito Público, these employees numbered 461,443 in 1994.[15]

In this setting where tremendous political, social, and economic changes are underway, it is proving to be more and more difficult to balance centrifugal and centripetal forces. The analysis of opposition politics ranges from the assessment of PAN state and local governments in the northern states and in Guanajuato to instances of PRD versus PRI competition in the south, to Indian revolt in Chiapas.[16] In these cases major adjustments occurred during the Zedillo sexenio as party competition has raised new demands that government perform its tasks with greater effectiveness and efficiency. The cases in point are studies of the changes in state and local government in Baja California (Ensenada and Tijuana), Nuevo León (Monterrey), and Guanajuato (León). What this case material suggests is a twofold process: acceptance of increased state and local autonomy, in regions where disaffection with PRI rule has been the greatest, and demands for political reform, coupled with a tightening up of PRI control over the central governmental apparatus under the leadership of the reformist wing of the PRI. With the election of Fox, the task is no longer one of distinguishing between traditional politicians accustomed to old-style clientelism and manipulation of the vote and younger, better educated technocrats. Instead, it has become one of identifying the political

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[14] Archivo.

[15] Archivo.

[16] See Rodríguez and Ward, "Disentangling the PRI;" Rodríguez and Ward, "The New PRI;" and Rodríguez and Ward, **Opposition Government**.

preferences of those occupying the centers of power, when their public discourse is couched in technical and apolitical terms. This is especially the case with the rhetoric used by those holding power to secure external support from multilateral institutions for administrative reforms tied to economic liberalization. At their level, it is very difficult to separate politics and administration, and by extension, to determine when party identification is essential for appointments in the federal bureaucracy as opposed to professional appointments independent of party affiliation. These anomalies in Mexican politics and administration call attention to the need to separate earlier endeavors linked to administrative reform, inside the public bureaucracy, and the newer emphasis on state reform, which argues that without significant change in political institutions (in the executive and the legislative branches of government operating at the federal, state, and local level), changes in administrative operations will remain mixed at best

In such a context, one should keep in mind that Mexican concepts of federalism follow much more closely Spanish rather than U.S. thinking. If this is the case, then it is not inconceivable that regional autonomy in selected areas can go hand in hand with an accommodation between the PRI and the PAN (much in the same way that Catalán autonomy in Spain laid to rest one of the most divisive issues in Spanish politics). If the perspective provided by analysis of opposition politics is broadened to include the growing disaffection between PRI party officials and working-class individuals, in which older corporatist party divisions (viz., the CTM) are on the wane, the new territorially-oriented PRI that is emerging is much closer to PAN programs and practices. For these new leaders, commitment to the economic agenda of market liberalization and continued structural reforms precludes their willingness to let Mexican governance revert to the weak state characteristic of Mexico in the last century.

The impact of NAFTA and of sustained support for this agreement in Mexico among elites, despite economic hardship for major segments of the Mexican population, argue for sustained movement in the direction of a state at the middle and upper levels that is less politicized than conventional

wisdom would suggest. When the strength of opposition politics is compared with the strength of those long accustomed to control of the official organs of the state, it is certain that the Mexican transition will remain a lengthy one, as was the case with Brazil's. Given the resources both sides have at their disposal and the fact that neither can be excluded from power without resorting to repression at a level unacceptable to significant groups inside and outside Mexico, what is to be expected eventually is a new settlement in which business elites are accommodated more fully within the state without rupturing fundamentally the institutional framework developed for Mexican governance over the past fifty years. Skeptics of such an interpretation, among the various scenarios constructed to interpret the Mexican transition, should always keep in mind that virtually no one in Mexico wishes to see recreated the conditions present at the beginning of the century and the mass upheaval that followed.[17]

In this particular setting, projects to end administrative centralism, decentralization, and regionalization have become highly politicized. What goes on within the administrative system is and will remain a function of changing political relationships in state and society at large as PRI control of politics comes to an end and opposition groups gain a larger and larger voice in Mexican politics. In such a setting—aside from the reduction of the state's role in regulating the economy and the adjustments which will be necessary as a consequence of the economic policies that will continue to be pursued to control inflation, manage the debt, and stimulate economic growth—administrative change will not be a case of the state in retreat. Instead, it will be one in which the competition for power and influence among different political actors and groups will dominate the internal administrative system as much as it already does the external political system. None of this is intended to minimize the importance of the election of the opposition PAN leader, Vicente Fox, the defeat of the PRI, and the

[17] Wayne A. Cornelius, Judith Gentleman, and Peter H. Smith, "Overview: The Dynamics of Political Change in Mexico," in Wayne A. Cornelius et al., **Mexico's Alternative Political Futures** (La Jolla, CA: Center for U.S.-Mexican Studies, University of California, San Diego, 1989).

impending break of the hold of the PRI on the state apparatus, but rather to call attention to the fact that the transformation of the institutions of governance over the last twelve years (during the governments of Salinas and Zedillo have breathed new life into the Mexican congress and its federal system. This is a democratic transition linked to a gradual but steady increase in democratic practices in which the state apparatus at the national, state, and local level has been rendered responsive to voter preferences. This is no small accomplishment. Herein, if one is to capture the dynamics of Mexican governance, it is essential to abandon the narrow perspectives of public administration with its call for new administrative initiatives and to transcend the mixed reform record of the past. What has emerged is a new awareness of the importance of fundamental change in the political as well as the administrative components of the Mexican state. The demand then is no less than an appeal to state reform which will transform all the institutions of governance in Mexico.

By extension, it is the larger political arena and the political forces active in national politics in each of the Latin American republics that will determine outcomes in the administrative arena. As Mexico moves beyond the continued restructuring necessary for economic reasons, the state runs the risk of being superseded by other forces, other needs, other conditions. The enormity of these changes required in state reform suggests that what lies ahead for many Latin American states, especially those in Central America and the Caribbean, will be variations on the Mexican theme: the domination of the state by the forces of society as competing groups vie for power and new accommodations are worked out in state and society. In such a setting the driving forces will be the economy and the struggle to consolidate a new distribution of power. It is these forces which will determine which is done within individual administrative systems. The alternative emerging then is not so much a retreat of the state in the administrative field as it is movement from an era in which groups struggled to control the state and to build new forms of state power into one in which weaker states dominated by interests and groups in society will lead to

increased incoherence and marginality in government institutions attending to social policy, but increased capacity to regulate economic policy. What is underway is not just privatization in the economy but privatization of social policy in which social security systems, educational establishments, health systems, and other social institutions, which in an earlier era were brought into the domain of the state, are now being cut loose and moved into an environment in which competing social and political groups are engaged in a struggle to determine who will design and control the policies which will determine the nature of the projects and the programs to be pursued. Here the case of Venezuela becomes as important as the experiences of Argentina, Brazil, and Mexico in considering yet another trajectory. But we should keep in mind that retaining a relatively strong state, albeit with a much reduced role, as is the case with Mexico and Chile, defines a path very different from neopopulism in Argentina and reform-mongering in Brazil where weak central state apparatuses are likely to continue for the present.

The Venezuelan Case and the Resurgence of Old Style Populism

From 1958 through 1998 the progress made in institutionalizing democratic practices in Venezuela was impressive. This ended an earlier pattern of confrontation politics that culminated with Acción Democrática demonstrating its capacity to obtain an absolute majority in national elections in 1946, only to trigger a military coup in 1948 and dictatorship under Gen. Marcos Pérez Jiménez (1952-58) designed to reverse what were perceived to be radical reforms. In the ensuing democratic settlement, the leaders of the three major parties—the majoritarian Acción Democrática, the leading opposition party COPEI, and a smaller populist party, the Unión Radical Democrática made up of AD dissidents—banded together in a political pact. In the *Pacto de Punto Fijo* they committed themselves to respecting electoral outcomes as the sole legitimate way to determine the country's government. Eschewing taking power by alternative means and agreeing to respect the norms of procedural democracy, they proceeded to institutionalize

democratic practices. Facilitating this agreement was Venezuela's new found oil wealth which from the 1930s onward made Venezuela one of the major oil producing countries and produced steadily increasing governmental revenues. Yet, agreement on democratic rules was not easily accomplished. First, Acción Democrática (AD) and its opponents had to make democracy work by getting their leaders and followers to respect electoral outcomes, when that meant turning over government to one's opponents under conditions of extreme partisanship . As a left of center political movement mobilizing workers in the oil industry and in the cities and countryside, AD had to convince its political allies that they could use their electoral majorities to govern effectively by designing and implementing a reform agenda that would respect the reservations of their political opponents in the center and the right, while fighting a guerrilla movement on the left that sought revolutionary changes. In the process, AD modified its agenda, became increasingly a centrist political alliance, and benefited from the left's eventual abandonment of armed struggle and acceptance of the principle of competition at the ballot box. When, after two terms of office, AD lost national elections to COPEI in 1968, it was not at all certain that their left wing would honor the commitment to accept the transfer of power of power to a center-right Christian Democratic party in 1969. Party splits resulted, but AD's Rómulo Betancourt remained adamant they would pass into the opposition. In an electoral system in which there were repeated scandals, charges of corruption, and accusations of manipulated results in electoral districts, the party leadership on both sides honored the agreement. What ensued was a succession of party governments in which the AD and COPEI as the two major parties alternated in office for the next 25 years. In the process, the country passed through partial agrarian reform, gradual nationalization of the oil industry, and alternative economic programs designed to lessen the dependency on oil and to stimulate national economic development.

Throughout these years, there was always a debate among political analysts inside and outside Venezuela as to the basis of the country's success

in sustaining commitment to democratic rule under conditions initially of adversity, in the split between right and left over the country's future and AD's commitment to finding a middle way. Critics argued that what sustained Venezuela democracy was its oil-based economy which subsidized government and made it possible to use the country's economic wealth and oil revenues to ameliorate social and economic conditions by rewarding the party faithful with subsidies, jobs, and direct benefits. Others defended the accomplishments by pointing out how consensus had been built on democratic rules, how the revolutionary left had been isolated, defeated, and then folded into the system, and how the country was making progress in diversifying its economy and laying a foundation for sustained economic progress.[18]

Then, in 1989 economic crisis hit Venezuela in a way that transformed the country's economy and politics. In February riots broke out against austerity measures designed to correct the country's economic decline as oil revenues dropped precipitously. AD's Carlos Andrés Pérez, in office for a second term after an earlier presidency in 1974-79, responded with policies intended to balance the necessary economic restructuring under austerity measures and neoliberal reforms with a continuation of the social subsidies and party favoritism that had long characterized Venezuela democracy. Economic and political turbulence, however, increased rather than lessened. The economic situation continued to deteriorate, leading to a virtual collapse of the banking system in 1994, followed by a $9 billion international bailout.

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[18] In the extensive literature on Venezuela democracy, books and articles which capture this debate well are Terry Lynn Karl, "Petroleum and Political Pacts: The Transition to Democracy in Venezuela," in Guillermo O'Donnell, Philippe C. Schmitter, and Laurence Whitehead (eds.), **Transitions from Authoritarian Rule** (Baltimore, MD: Johns Hopkins University Press, 1986); Daniel Levine, "Venezuela since 1958: The Consolidation of Democratic Politics," in Juan J. Linz and Alfred Stepan (eds.), **The Breakdown of Democratic Regimes** (Baltimore, MD: Johns Hopkins University Press, 1978); Franklin Tugwell, **The Politics of Oil in Venezuela** (Stanford, CA: Stanford University Press, 1975); and Michael Coppedge, "Venezuela: Democratic Despite Presidentialism," in Juan J. Linz and Arturo Valenzuela (eds.), **The Failure of Presidential Democracy** (Baltimore, MD: Johns Hopkins University Press, 1994).

Political partisanship reached unprecedented levels as one political scandal followed another and Carlos Andrés Pérez involvement became more and more murky. This culminated in two failed military coups in 1992 to remove him by force from office and his impeachment in congress in May 1993 and removal from office in such a way that, while AD suffered the brunt of the criticism, COPEI was equally damaged. In the subsequent presidential election, accordingly COPEI's Rafael Caldera found it necessary to stand as the head of a multiparty coalition minimizing his ties with his own party. Caldera, even less than Pérez, could not reverse the country's economic crisis. Then, in December 1998, voter revolt against the established parties generated a clear-cut victory for one of the former coup leaders, Hugo Chávez. Convinced that he had a mandate from the voters to imposed radical change by changing the country's political system and convoking elections in July 1999 for a constituent assembly to write a new constitution, he attacked a congress where the opposition retained a majority and the courts for opposing implementation of what he perceived to be a mandate from the voters to change prevailing political and economic policies radically by concentrating power in the Office of the Presidency.

This political explosion in Venezuela, first, in the December 1998 election of Chávez by a clear majority, followed by constituent assembly elections with an even higher level of support in July 1999, and a favorable standing in the polls of an estimated 75 percent in September signal the return of old-style populism with a vengeance, as a mass movement of the disenfranchised and the excluded demanding immediate social justice and a redistribution of the nation's wealth to benefit the majority. The classic ingredients originally present in Juan and Evita Perón's *Movimiento Justicialista* have thus been galvanized in a way not seen since the late 1940s and early 1950s in Argentina: charismatic leadership, mass political support breaking with previous party and political structures, and re-vindication in the demand for direct and substantive economic and social benefits for the popular masses. While the parallels with Alberto Fujimori in Peru and Hugo Banzer in Bolivia are commonplace, this is not neopopulism in the

way it has been characterized in those two countries and in Argentina by harnessing populism as a mass movement to legitimize neoliberal economic reforms. Rather, it has all the ingredients that led originally to the political explosion in Argentina that ruptured the country's politics and economics in such a way that it took 50 years to reach a new political and economic accommodation. Chávez's demands are for re-vindication and a change in current economic policies identified with austerity measures, market reforms imposed from the outside, and structural adjustment policies intended to reduce the role of the state in the economy and to consolidate markets.

It is not at all certain that the changes demanded by Chávez and his supporters can be absorbed into the framework of democratic politics developed in Venezuela since 1958. What is needed are new institutional arrangements for governing Venezuela. Yet equally pressing is the simultaneous need to renegotiate economic accords abroad and to get the Venezuelan economy back on track.[19] As events moved ahead in 2000, Chávez was able to consolidate his control over the presidency and has remained very popular, but he has been unable to obtain the absolute power he sought. While his supporters control a majority in the new congress, in the country's governorships, and in its municipalities, he failed to achieve the two-thirds majority he needed to have to secure automatic passage of his legislation in congress. Likewise, while COPEI was virtually wiped out as a party in the election, AD once again has restructured itself and emerged as the major opposition group in congress, coupled with a respectable showing

[19] An article indicating that, while Venezuela is at the crossroads in terms of its democratic system, there is still the possibility that this political revolt can be folded into its democratic institutional framework for resolving conflict, is "Supporters of a Drive to Reshape Venezuela Make a Retreat: A Constitutional Assembly is Stung by Criticism," **New York Time**, September 11, 1999, p. A2. Should Venezuela ride out this economic and political crisis which is of major import, then it will have met a key requirement in passing from what I would define as a democratic situation of long-standing into the ranks of a consolidated democracy. In the current setting, international factors, involving the role of multilateral institutions and the policy options pursued in negotiating economic accords, carry the prospect of avoiding the confrontational politics nationally and internationally that led to the consolidation of a

around the country at the state and local level. Even more important, despite Chávez's assault on power and upheavals in Venezuela politics, Chávez and all the participants continue to abide by electoral rules to gain power. Furthermore, once again, a revival in Venezuela's oil fortunes, due to increases in the price of oil in world markets, has filled government coffers with unexpected revenues, to such an extent that he, like previous presidents, will be able to support the programs he desires to see enacted. The question which remains, however, is whether or not this will be sufficient to head off the need for basic and fundamental state reform, in such a way that the majority of Venezuelans can receive the public services long promised by those elected to office.

Conclusions and Trends

What the outcomes will be within the Latin American region, as current economic, political, and social trends evolve, are open ended and subject to how reform policy is redefined within these countries and outside as we move into the next millennium. But the paths and the choices to be made are increasingly clear:

- neopopulism in which mass movements outside the framework of established parties, centered on excesses in presidential power can be harnessed to neoliberal economic policies, but reopen the old issue of constrained democracy and limited democratic substance in responding to social and economic grievances (the case of Argentina, coupled with variants present in both Peru and Bolivia);
- reform-mongering in economics and politics that is tied to enhancing democratic practices but is not conducive to sustaining economic reforms requiring major political and economic restructuring and making essential social adjustments (the case of Brazil and other attempts at

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populist mass movement in Argentina and the rupturing of prior political and economic institutions earlier.

reform-mongering in such different countries and contexts as those presented by Uruguay and Colombia);

• advancement of state reform in the midst of democratic initiatives that respond to demands for opening up participation and contestation in society, after the initial restructuring of the economy and the state under authoritarianism (the cases of Mexico and Chile). Nevertheless, in linking together Mexico and Chile, one should never forget the difference between the inclusionary authoritarian system present in the former up until 1994 and the exclusionary one in the latter in place until 1989. These prior authoritarian regimes led to very different reform policies and outcomes once the decision to democratize was made.

• reversion to old-style populism with increasing economic and political turbulence and negative impact both on markets and politics insofar as the survival of substantive democratic practices is concerned (the recent experience of Venezuela and possibly Ecuador), made possible by increased oil revenues funding public programs and heading off the necessity of engaging in a fundamental restructuring of the state and perhaps the economy.