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A multivariate analysis of economic reform in Latin America, 1980-1995

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OF ECONOMIC REFORM
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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The current literature on economic reform is fragmented and lacks a cohesive theoretical framework to fully explain the politics of neoliberal reform adoption. The multiple perspectives presented in the literature, including institutional, pluralist, macroeconomic, international pressures, and policy networks, create an incoherent explanation of economic liberalization. In an effort to more completely account for the political dynamics of the economic reform process, my analysis incorporates the primary variables supported by the literature on market-oriented reform within an informal institutions framework. My primary variable of interest is policy networks, and I support this with the theory of informal institutions while considering the political and economic context surrounding the reform process. The model I provide integrates the competing approaches to the study of reform. Unlike past studies, my study offers a comprehensive analysis of the politics of economic reform.

INTRODUCTION

The latter part of the twentieth century marked a dramatic shift in the economic policies of Latin American nations. Decades of poor economic choices, primarily the strategy of import-substituting industrialization, compounded by the 1982 debt crisis, compelled many governments to move toward market-oriented policies. Economic reforms swept the region, enforcing policies that opened the national economy to foreign competition and reduced the role of the state in directing the allocation of resources and production in the economy. Although the nations of this region suffered similar economic hardships and maintained relative dependency on international lenders, the degree of implementation of neoliberal reforms varied from state to state. Some governments, specifically Chile and Mexico, chose to liberalize their economies rapidly, while others, like Argentina, Brazil, Colombia, Peru, and Venezuela, sought a gradual shift to market opening (Edwards 1995). Nonetheless, all these governments pursued economic reform according to the emerging consensus that prescribed reduction of fiscal deficits, deregulation, privatization, and trade liberalization.

The adoption of economic policies in accordance to the so-called Washington Consensus ushered in an era of market liberalization in Latin America.[1] Although the specifics of the reform programs differed in each country, there were two common elements. First, there was a need to establish macroeconomic stability by reducing fiscal deficits (Singh, et al. 2005). Many reforms were initiated to curb the inflationary financing of government deficits. Policies to keep government spending in line with tax revenue were implemented. The second basic component of the emerging economic consensus focused on opening the external sector to foreign competition (Edwards 1995). Increasing the role of market forces through privatization and

[1] The reform policies included tax reform, market-determined interest rates, a competitive exchange rate, trade liberalization, openness to foreign direct investment, privatization, and deregulation (Williamson 1990).

deregulation became crucial to economic openness. Such measures removed currency restrictions and liberalized trade and capital flows, including foreign direct investment. Additionally, the role of the state in the domestic economy was drastically reduced by the sale of state-owned-enterprises. These reform programs consistent with the Washington Consensus sought to stabilize the domestic economy, open the market, and attract foreign investment. While there was an existing consensus on the economics of reform, there was not—and is not presently—a consensus on the politics of economic liberalization.

The politics of market reform must be understood in the context of difficult economic transitions. Opening the market generates high—and painful—transitional costs to society: unemployment, price increases, and production declines (Hellman 1998). These short term costs must be endured while the economy makes the necessary adjustments to become a long-term effective and efficient market economy (Przeworski 1991).[2] Liberalization concentrates present costs on those that benefited from the closed economy—laborers, small firms, and others that received subsidies or privileged positions—while the future benefits of neoliberal policies, such as low inflation, are public goods that are dispersed more widely. The divide among the losers (those favoring the status quo) and the winners (those benefiting now or in the future from market reform) characterizes the political environment surrounding neoliberal policy formation and implementation. There is abundant literature that seeks to specify the political dynamics of economic liberalization.

Five central approaches to the analysis of the politics inherent to economic reform may be identified: institutional, pluralist, macroeconomic, international, and policy networks. Broadly, institutional scholars focus on the institutional arrangements that insulate the state from

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[2] This transition period is informally known as the J-curve. Przeworski (1991) asserts that the "valley of transition" must be traversed in order to reach the "higher hills" of a reformed and efficient economy.

opposition (the losers) and empower policy-makers to pass market reform legislation (Haggard and Kaufman 1992 and 1995; Mainwaring and Shugart 1997; Biglaiser and Brown 2003 and forthcoming). Pluralist studies focus on the societal groups, both winners and losers, and how these interests organize and interact with the government during the reform process (Frieden 1991; Nelson 1992; Schamis 1999; Murillo 2003). Another vein of research concentrates on the macroeconomy and its influence on the behavior and choices of government leaders and society (Weyland 1998; Biglaiser and DeRouen 2004). Alternative studies direct attention to the international pressures for reform and the global community encouraging the opening of markets (Stallings 1992; Kahler 1992). Furthermore, policy networks scholars underscore the importance of the technocratic teams propelling reform programs and their integration of the business groups benefiting from neoliberal policies (Teichman 2001; Waterbury 1992).

Institutional studies focus on the structures that affect market reform. Specifically, this research focuses on the insulation of the state and executive during the reform process. Early studies focused on regime type, contending that authoritarian regimes are more insulated than democracies, and therefore, more capable of implementing painful economic policies.[3] Unlike authoritarian regimes, democracies empower citizens, and protests against unpopular policies may block reform in a democratic regime. Despite the supposed relationship between authoritarian regimes and neoliberal reform, many studies have demonstrated authoritarianism is no longer viewed as a critical prerequisite for the adoption of market-oriented policies (Remmer 1986 and 1998). After all, market-oriented policies have been successfully pursued by a variety of different regimes—military, one-party, democratic (Remmer 1998). Scholars now look to sub-regime features. This "unpacking" of the regime entails the analysis of executive strength,

[3] Chile under Pinochet's rule provides a prime example of the ability of authoritarian regimes to pursue market-oriented reform in opposition of broad sectors of society (Haggard and Kaufman 1995; Weyland 1998).

legislative-executive relationships, electoral systems, and party structures (Biglaiser and Brown 2003). Many contend that strong executives possessing great constitutional powers are effectively insulated from societal pressures (Haggard and Kaufman 1995; Mainwaring and Shugart 1997). Therefore, reform is more easily implemented. Moreover, research shows if the legislative-executive relationship is one of unified government, the executive is further shielded from opposition. This permits the executive to pursue neoliberal reform more freely than if interacting with a legislature controlled by the opposition party (Mainwaring and Shugart 1997; Biglaiser and Brown forthcoming). These institutional arrangements, among others, shape the course of reform. Although institutional studies are useful in identifying the structures that facilitate or hinder reform, they fail to account for social actors in the analysis of reform politics.

Unlike institutional analyses, pluralist research concentrates on the social interests, particularly business and labor, affecting the formation and implementation of economic policy (Frieden 1991). In theory, business groups support neoliberal policies. The opening of the economy provides private businesses with new opportunities of expansion and growth (Schamis 1999). On the other hand, labor groups oppose market-oriented reforms due to the costs of opening of the market (Murillo 2003; Nelson 1992). The removal of protectionist policies and state intervention makes the labor sector vulnerable, often leading to increases in unemployment and decreases in wages. While the pluralist approach demonstrates the importance of business and labor interests, it tends to overemphasize the magnitude of these groups' influence. Moreover, this perspective lacks explanatory power by solely considering the politics of interests during the reform process. For example, the economic conditions tempering the behavior of business and labor groups are neglected. The economic environment is addressed by macroeconomic studies.

The macroeconomic approach asserts that macroeconomic indicators, such as economic crisis, inflation, and growth, explain the adoption of neoliberal policies. The initiation of reform may be spurred by economic crisis and high inflation. These conditions create such high costs to society in the present that reform measures become desirable. Individuals in failing economies are compelled to choose market reform, despite the painful transition that accompanies liberalization (Weyland 1998; Biglaiser and DeRouen 2004). Moreover, the implementation of market reform is linked to economic growth. Poor economies are not able to offset the costs of liberalization to its citizens. Therefore, market reform is more likely with wealthier nations that can "afford" the transition to an open economy (Jensen 2003). [4] This approach emphasizes the importance of economic conditions in the adoption of market reform. Also, studies espousing this perspective show that the economy affects individual behavior in relation to market opening. However, this vein of research neglects the role of the state and international community. While macroeconomic studies overlook international pressures, other scholars focus on this component.

Many scholars have directed attention to the manner in which international influences affect the adoption of market-oriented reforms. They argue that the international community exerts great pressure on governments to liberalize their economies (Stallings 1992; Kahler 1992). It is often the case that the initiation of neoliberal reforms is necessary to obtain capital and resources from international lending agencies. Therefore, research has shown an empirical relationship between international financial assistance and the initiation of market reform (Remmer 1998; Smith, Young, and Li 2006; Biglaiser and Brown forthcoming). These studies demonstrate that international pressures are crucial for the adoption of market-oriented policies.

[4] Jensen discusses this, stating "in countries with large spans of the population hovering just above poverty, economic reform has not been fully implemented. This result is consistent with an explanation similar to Przeworski's J curve. Only the states where the majority of the population could sustain the initial drop in income without falling into poverty enacted and continued economic reform" (Jensen 2003: 1108).

Yet, this approach overemphasizes the role of international agencies and fails to incorporate the domestic actors involved in the reform process. The examination of actors is necessary for a complete analysis of the politics of neoliberal reform, and policy networks studies call attention to this element.

Policy network studies redirect the focus of neoliberal reform analysis to the actors from whom policy originates (Haggard 1990). This approach assumes the reform process to be a highly concentrated activity, resting in the hands of a policy network (Teichman 2001) or change team (Waterbury 1992)—a small group of policy elite—and incorporating domestic and international actors (Kenis and Raab 2003). To date, policy network studies have been qualitative in nature and relied on case studies to highlight the role of these teams in the reform process. Teichman's (2001) analysis demonstrates market reform in Chile, Argentina, and Mexico was dominated by policy networks. Additionally, Waterbury's (1992) research of Mexico offered evidence that coherent change teams facilitate privatization. Even though these studies give prominence to the politics driving reform, the findings are limited to the cases studied. The policy networks approach lacks a quantitative measure of these groups, thereby limiting the general applicability of this approach. Furthermore, this literature miscalculates the power of policy networks by overlooking the role of the executive in appointing technocrats.

The current literature on economic reform is fragmented and lacks a cohesive theoretical framework to fully explain the politics of neoliberal reform adoption. The multiple perspectives presented in the literature create an incoherent explanation of economic liberalization. Pluralist and macroeconomic studies neglect state structure (Haggard 1990; Biglaiser and DeRouen 2004); on the other hand, institutionalist literature overemphasizes the role of the state (Haggard 1990; Silva 1993). Moreover, research focused on international influences overlooks the domestic societal actors affecting reform (Remmer 2002), but policy networks studies overemphasize the power of technocrats (Weyland 2003).

While the competing approaches may produce inconsistencies within the literature, the lack of cohesion may be due to the methods utilized to study this political phenemonon. Qualitative literature tends to exaggerate the role of politics (Teichman 2001) while quantitative studies underplay the influence of political entities (Biglaiser and Brown 2003 and forthcoming). This disconnect between country-specific studies and cross-sectional research may add to the incoherent nature of the literature as a whole. Then again, the fragmented state of the literature on economic reform may simply be contributed to the complexity of the political pheneomena studied. Afterall, the analysis of the transition to neoliberal policies entails the consideration of multiple political actors, institutions, and conditions. Nonetheless, the literature on market reform fails to provide a unified explanation of the politics of economic liberalization.

In an effort to more completely account for the political dynamics of the economic reform process, my analysis incorporates the primary variables supported by the literature on neoliberal reform within an informal institutions framework (Helmke and Levitsky 2004). My primary variable of interest is policy networks, and I support this with the theory of informal institutions while considering the political and economic context surrounding the reform process. I argue that policy networks explain the politics of market reform in their capacity as informal institutions. Due to their highly exclusionary, personalistic, and unofficial nature, policy networks may be considered a type of informal institution. These informal networks may be classified as *substitutive* informal institutions because they serve as surrogates to weak formal structures during the reform process. Ineffective state institutions are replaced with the informal institutions of policy networks during the formation and implementation of neoliberal policies.

Furthermore, I contend that formal institutions, societal interests, and international and economic pressures mediate the impact of policy networks on the reform process.

State institutions, labor groups and the business sector, the international community, and economic pressures affect the role that policy networks play in the reform process. The influence of policy networks is tempered by the bounds of formal institutions, primarily the strength of the executive and the composition of the legislature. These structures determine whether a policy network is empowered or prevented from propelling the reform process. Additionally, societal groups, particularly business, and the international community have bearing on the reform agenda of policy networks. Finally, economic pressures affect the environment in which policy networks operate. For example, high inflation may hinder the ability of policy networks to successfully pursue the sale of state-owned enterprises. Due to their mediating effect on policy networks and their impact on reform in general, the inclusion of institutions, social groups, international and economic pressures is necessary.

My analysis provides a model that integrates the competing approaches to the study of reform. Furthermore, this framework addresses the shortcomings of the policy networks literature by placing a quantitative measure of policy networks in a model that accounts for the executive's strength and will. Unlike past studies, my study offers a comprehensive analysis of the politics of economic reform.

In the first section, the literature on economic reform is reviewed in detail. Then, the theoretical framework of informal institutions is described and incorporated into the discussion of policy networks. The third section outlines the research design, including variables, methods, and model. Section four presents the results and discussion of the findings. In the final section, I present the conclusions of my findings and suggest areas for future research.

LITERATURE REVIEW

There are five main approaches to the study of the politics of economic reform: institutional, pluralist, macroeconomic, international, and policy networks. Institutional studies emphasize the political institutional arrangements of the state, legislature, executive, party structure, and electoral cycle. Pluralist analyses focus on the interests that shape economic policy, whereas macroeconomic studies underscore the economic conditions prompting and effecting reform. Explanations for reform supporting an international perspective highlight the influence of external forces, particularly international financial institutions, on reform adoption. Finally, policy networks studies call attention to the technocratic teams from whom policy originates as crucial actors in the reform process. Each approach answers the question—*what are the politics of neoliberal reform?*—in a different manner; moreover, I argue each provides only a partial explanation. Table 1 provides a summary of the primary components and the strengths and weaknesses of each approach.

INSTITUTIONAL APPROACHES

Recent studies espousing an institutional approach to the analysis of neoliberal reform focus on the insulation of the state and emphasize features of executive strength, legislative-executive relationships, electoral systems, party structures, and electoral calendar. Of these sub-regime factors, I first discuss the literature on executive strength. Second, the variable of executive-legislative relations is considered. Then, the arguments regarding party fragmentation, polarization, and the electoral calendar are detailed. Finally, the weaknesses and shortcomings of this approach are examined.

The strength of the executive is a primary feature of institutional studies. Executive strength signifies a highly empowered and insulated president, and it is commonly

Table 1: Summary of Approaches to the Analysis of Neoliberal Reform in Latin America				
	Main Tenet	Primary Features	Strength	Weakness
Institutional	Insulation of the state is necessary for initiation of neoliberal reform.	• Regime • Executive strength • Executive ideology • Legislative-executive relations • Fragmentation • Polarization • Electoral calendar	Demonstrates institutional arrangements shape the reform process.	Neglects treatment of the societal forces that influence reform.
Pluralist	Formulation of reform policy is impacted by social actors/groups.	• Business interests • Union/labor strength	Shows labor may mount opposition to reform; business supports neoliberal policy.	Overemphasizes ability of groups to organize and lacks explanatory power.
Macroeconomic	Economic conditions affect the reform process.	• Inflation • Growth • GDP per capita • Current account balance • External debt	Explains how the state of the economy spurs particular political behavior, specifically how high inflation encourages reform.	Neglects the institutions binding policy options as well as the actors influencing reform.
International Pressures	External forces pressure the adoption of market-oriented policies.	• External aid	Illustrates the power of international financial institutions in the formation of economic policy.	Overlooks the domestic societal actors affecting neoliberal policy.
Policy Networks	Policy networks are the principle driving force behind neoliberal reform.	• Policy network—finance minister and business sector	Underscores the role of technocratic teams in forming and transferring economic policy.	Lacks an appropriate measure and fails to account for the executive's will in appointing technocrats.

operationalized as the constitutional powers the president possesses. For example, decree power, veto power, and the power to introduce legislation characterize the executive position as one with great strength. Haggard and Kaufman (1995) claim a centralized executive is needed for successful initiation of liberalization. In the same vein, Mainwaring and Shugart (1997) argue a "strong" executive, with or without legislative backing, may successfully force the passage of economic reform legislation. Although strong executives may achieve reform without legislative support, the relationship between the president and legislature is an crucial element of institutional analyses.

Principally, the alignment of political parties between the executive and legislature has been included in institutional analyses. Divided government—a lack of a legislative majority comprised of the executive party—hinders market-oriented reform (Mainwaring and Shugart 1997). On the other hand, when the executive party controls the legislature, the passage of reform legislation does not face impediment by opposition parties. Beyond the relationship of the executive and legislature, institutional studies further examine the legislature via electoral and party system characteristics.

Fragmentation of the party system as a result of electoral rules takes primary focus. Haggard and Kaufman define fragmented party systems as "ones in which social cleavages, ideological divisions, and/or electoral rules (particularly proportional representation) result in a proliferation of parties" (Haggard and Kaufman 1992: 279). A fragmented party system is characterized by a large number of political parties, all representing a variety of opposing preferences. Such a system splits the legislature and makes agreement on policy contingent upon coalitions among several parties, which is often problematic (Mainwaring and Shugart 1997). In addition to the fragmentation of party system, polarization of the party structure is an important consideration of institutional studies. Polarization signifies the ideological distance between parties in the legislature, implying that a large distance hampers reform (Haggard and Kaufman 1995; Mainwaring 1999). In addition to the characteristic of fragmentation and polarization as features of the electoral system, institutional studies examine the electoral calendar as influential to the initiation of neoliberal reform.

Conventional wisdom posits reform is more easily implemented in the first years following an election (Franzese, Jr. 2002; Remmer 1993; Persson 2002). The "honeymoon" period after an election permits the executive to place blame for any painful adjustments and policies on the previous leadership. Moreover, opposition to reform is low following an election because anti-market groups have had little time to organize. In contrast to this argument, some research has shown a "reverse honeymoon" effect has a greater impact on privatization. Biglaiser and Brown (2003) in their study of state divestiture determine "reverse honeymoon"—the years since the last election—is significantly related to the process of divestiture. They contend that market reform is a complex process requiring much time to coordinate and implement, therefore, privatization occurs in the latter years of a presidential term (Biglaiser and Brown 2003). Regardless of its operationalization—"honeymoon" or "reverse honeymoon"—it is evident that the electoral calendar influences the neoliberal reform.

Current institutional studies on market reform have been undertaken by Biglaiser and Brown (2003 and forthcoming). Their analyses of neoliberal reform and privatization consider the following institutional variables: regime type, divided government, polarization, fragmentation, honeymoon, executive strength, and executive ideology. In their examination of economic liberalization, they find no strong correlation between these institutional variables and reform. On this point, Biglaiser and Brown state, "Once important economic constraints have been accounted for, it appears there is no single institution or ideological preference that precludes countries from adopting structural reforms" (Biglaiser and Brown forthcoming: 19).

Unlike the findings of Biglaiser and Brown's studies, Neilson's (2003) analysis of trade reform demonstrates the significance of institutions. This quantitative analysis examines the impact of executive powers, electoral system components, and legislature composition, while controlling for several economic factors. Neilson finds that presidential power is a consistent predictor of trade reform. His conclusions call for more research on the relationship between institutions and economic reform.

Approaches focusing on sub-regime features expose the institutional arrangements that may facilitate or hinder neoliberal reform. Although institutional studies offer insight into the influence of structures, they fail to address the actors involved in the reform process (Haggard 1990). Silva notes, "For all its utility, state structure cannot explain the content of policy. The problem is that the state structure approach, by its very nature, undervalues the fact that policy requires carriers" (Silva 1993: 529). Consequently, institutional approaches neglect the interaction of social actors and their power over market-oriented reform.

PLURALIST APPROACHES

Pluralist approaches focus on the interaction between societal groups and the government in the formation of economic policy. This perspective focuses on the preferences, resources, and strategies of groups in their attempt to influence market-oriented policies to their benefit (Frieden 1991). The literature discusses the organization of two groups during the reform process: businesss and labor.

The business sector and labor groups have great incentives to mobilize in response to reform. It is widely argued that the private business sector supports neoliberal policies due to benefits garnered from market opening (Schamis 1999). However, market reform creates great costs for labor groups in society, including unemployment and decreases in wages. These transitional costs are greatly felt by labor because this sector enjoyed protection before liberalization. While labor is able to effectively organize in opposition to reform due to its existing union infrastructure, general members of the society that benefit from market reform remain unorganized and dispersed (Murillo 2003).[5] Thus, the two groups that emerge in favor of and in opposition of neoliberal reform are business and labor, respectively.

Some pluralist studies contend business interests are the strongest societal force supporting market reform. Remmer writes, "The single most powerful source of domestic support for market-oriented reforms…may be expected to come from exporting interests…" (Remmer 1998: 10). Remmer bears this out empirically by linking exports as a ratio to GDP to greater prospects for reform. Similarly, Silva (1993) illustrates in his case study of Chile that capitalist and landowning coalitions helped shape policy in each stage of reform. Frieden (1991) also relates the manufacturing and agribusiness sectors to changes in economic policy in Brazil, Mexico, and Venezuela after the debt crisis. Likewise, Corrales (1998) explains fluctuations in privatization policy via the challenges and negotiations of the business sector. Certainly, this research has shown business interests are influential to neoliberal reform.

Similarly, pluralist studies have found labor groups affect macroeconomic reforms. Murillo's analysis of reform in Mexico, Argentina, and Venezuela demonstrates labor unions effectively influence the course and pace of market reform (Murillo 2003). Labor unions are in a position to bargain with government leaders on the extent of liberalization and, in the cases Murillo studied, often changed the timing and depth of the reforms implemented.[6] However, there are very few instances in which labor unions actually derail market reform. Although, "labor combined with other elements of the urban popular sectors has done so in some instances"

[5] Recall that the benefits of reform take on the character of public goods. And these goods have not been realized by general society. So, the identity of "winner" remains uncertain and provides little incentives to mobilize support for reform. For a full discussion, see Murillo 2003.
[6] Murillo notes, "Even if labor unions did not derail the reform process, they contributed to its obstruction or success, and pace or shape in the three countries studied The quiescence of Argentine and Mexican unions facilitated the tasks of Menem and Salinas respectively, although unions were more successful in exercising policy input in the former country than in the latter. In Venezuela, labor unrest not only derailed Pérez's social and labor policies, but it also contributed to the demise of his reforms" (Murillo 2003: 200).

(Nelson 1992: 245). Thus, the literature on labor unions concedes that these groups influence reform but do not yield the power to completely derail liberalization measures.

Pluralist studies demonstrate that neoliberal reform is shaped by interaction between government leaders and business and labor sectors (Remmer 2002). However, in examining the interaction of domestic actors and the pressure produced by societal groups, these studies overemphasize the capability of groups to organize and express interests (Stallings 1992). Additionally, the pluralist approach neglects treatment of the state. Geddes (1994) points out that pluralist studies envision the state as a pool of resources that can be utilized by the best-organized groups when full, but useless when empty. Moreover, analyses of this kind have weak explanatory power. Haggard writes, "The strength of different social groups—agriculture interests, labor, and business—can constrain or widen the feasible set of policy reforms, but it is difficult to explain policy outcomes by reference to coalition interests alone, particularly where social groups are poorly organized, interest are subject to uncertainty, and states are 'strong'" (Haggard 1990: 28). Pluralist studies may direct analysis to important interests influencing market-oriented policies; however, the study of interests alone does not sufficiently account for neoliberal reform.

MACROECONOMIC APPROACHES

Macroeconomic studies focus on the macroeconomic variables, including economic crisis, inflation, and growth, that influence the initiation of market reform. These factors are important to understanding the reform process because they affect the choice to pursue or deepen economic reform. Economic crisis and high inflation compels governments to open the economy. The painful transition to a reformed market economy is acceptable when the economy is in a crisis. However, economic reform cannot be successfully initiated and sustained by poor economies. Countries experiencing low income and growth levels cannot bear the transitional costs associated with reform. Such a transition would plummet their society into deeper poverty (Jensen 2003). For these reasons, the study of reform from a macroeconomic perspective entails the examination of economic crisis, inflation, and growth.

Many studies have examined the impact of economic crisis on the reform process. It is argued that crisis affects the behavior of the masses and the state leadership, forcing responses that would not surface otherwise (Rodrik 1994; Roberts and Wibbels 2000). The severe economic consequences of crisis on the populace push executives to make changes in economic policy. However, for the purposes of analysis, crisis explanations have difficulty in accounting for the timing, scope, and content of reform. Williamson and Haggard maintain, "Crisis is clearly neither a necessary nor a sufficient condition to the initiation of reform" (Williamson and Haggard 1994: 589). Moreover, there is a logical problem in relying on crisis as a determinant of reform. As Rodrik (1996) notes, crisis studies are founded on ex post reasoning, arguing that if a crisis did not lead to reform, it was not severe enough to spur changes. However, contrary to Rodrik, many scholars analyze how crisis affects the politics of reform.

High inflation—which is often utilized as a proxy for crisis—has been linked to the initiation of neoliberal reform. Remmer (1998) finds high inflation significantly increases the chances that governments will initiate orthodox programs. Similarly, Weyland (1998) establishes that hyperinflation induces reform. Weyland introduces the prospect theory to explain how inflation prompts executives to pursue—and society to support—market reform. The prospect theory argues that individuals make choices based on the perception of gains and losses. In other words, attitudes and decisions toward risk are dependent upon context. When individuals perceive themselves to be in the "domain of losses", they are more risk-acceptant.

Conversely, when they see themselves in the "domain of gains", they are risk-averse. Citizens in the domain of losses are more risk-seeking and willing to accept uncertain policies, such as market reforms. Moreover, Weyland contends that hyperinflation puts individuals in the domain of losses, thereby encouraging policymakers to implement reform and society to support liberalization measures. Subsequently, Biglaiser and DeRouen test Weyland's propect theory assumptions and find: "skyrocketing inflation can cause paradigmatic shifts away from protectionism and toward market-oriented policies" by putting leaders and citizens in the domain of loss that pushes them to be risk-acceptant (Biglaiser and DeRouen 2004: 574). In addition to the prospect theory explanation, cost-benefit arguments establish high inflation garners popular support for reform by creating a large pool of winners that balances the policy losers from other aspects of reform (Biglaiser and DeRouen 2004: 575). Clearly, research demonstrates high inflation is a catalyst for reform.

Beyond crisis and inflation, positive macroeconomic factors offer explanation for expanding market-oriented reforms. All told, reforms in the short-term are costly (Przeworski 1991). However, in the long-run, a competitive and efficient market emerges, thus promoting economic prosperity. Biglaiser and DeRouen contend, "the expectation is that countries benefiting from high economic growth, a positive current account balance, and low inflation are likely to deepen reforms" (Biglaiser and DeRouen 2004: 565). Studies utilizing macroeconomic factors to explain reform claim positive growth and low inflation are evidence of the success of previous reform and offer a supportive climate for further change.

Focusing the analysis of market-oriented reform on macroeconomic factors underscores the importance of economic forces in the reform process. The literature demonstrates high inflation encourages the adoption of reform. Moreover, studies show that economic growth is linked to the ability of governments to initiate liberalization as well as deepen reforms. Although this literature highlights the economic conditions surrounding reform, its sole focus on the economy neglects the politics inherent to neoliberal reform. This is important for two reasons. First of all, institutions are downplayed. Biglaiser and DeRouen note, "…governments operating under high inflation are motivated to change policy course, with political institutions affecting what they can actually accomplish" (Biglaiser and DeRouen 2004: 575). Examination of institutions in conjunction with economic factors is warranted, as corroborated by Biglaiser and DeRouen's study. Secondly, political behavior and political actors are underestimated. Economic factors are significantly related to the adoption of reform because individuals and groups adjust their political action according to the economic situation. The economy does not dictate reform; rather, individuals chose it. It is important to include economic factors in the analysis of market-oriented reform in addition to consideration of the institutions and interests that influence neoliberal policy.

INTERNATIONAL PRESSURES

International pressures are a principal component in explaining the adoption of market-oriented reforms in Latin America. Neoliberalism was supported by the international community, and the reform measures necessary to open the economy became linked to aid packages. Research regarding the influence of the international community looks at the policy convergence that prompted reform. Also, scholars examine the bargaining game between international agencies and governments that continued throughout the reform process.

Some scholars contend that the policy convergence during the 1980s compelled Latin American governments to adopt neoliberal reform measures in order to gain access to international resources. Stallings (1992) argues that the move to privatization and liberalization in Latin America is prima facie evidence that external forces were at work. This was a period in which the economies of Latin American countries were failing and international influences were strong. Stallings observes, "In the 1980s…international conditions—both political and economic—turned restrictive. The world economy slowed, finance dried up, and an international ideological and organizational consensus emerged around the use of market mechanisms as the proper approach to development. When this consensus was strong…Third World countries faced heavy pressure to go along in order to get access to resources" (Stallings 1992: 84-85). Governments chose to succumb to international pressures supporting neoliberal reform in order to gain resources. To further examine this relationship between the acceptance of international aid and the adoption of market reform, Kahler frames this as a bargaining game.

Kahler (1992) offers another dimension to the international approach by assessing international influence as a bargaining game. Kahler notes, "The bargaining model centers on the core exchange of financial support for policy change, rewarding compliance with continued finance in the next round, pushing slippage with suspension of that support" (Kahler 1992: 94). From this perspective, influence becomes a cycle sustained over time, in which the reputation of the international financial institution breeds cooperation of the state, thereby attracting resources and strengthening the national economy as well as the constituents' commitment to reform. Kahler's bargaining approach remedies the criticism often waged against international studies—that institutions are neglected.[7] Examining the interaction of international financial agencies and domestic actors incorporates the state into the analysis.

Several scholars have tested the relationship between international pressures and market reform empirically (Remmer 1998; Smith, Young and Li 2006). At the aggregate level, Remmer

[7] Haggard elaborates on this criticism, stating, "states remain the central actors shaping the international political economy…External pressures, even the most powerfully constraining ones, are filtered through the prism of domestic political life" (Haggard 1990: 270).

(1998) finds that high levels of external financial support, accepted in the wake of economic crisis, encourage neoliberal reforms. Specifically, Biglaiser and Brown (forthcoming) find a significant link between IMF standby agreements and privatization. Similarly, Smith, Young, and Li (2006) demonstrate that participation in IMF programs is linked to capital account liberalization.

Studies adopting an international approach to the analysis of neoliberal reform illustrate that the inclusion of external variables is necessary in order to capture the complete story of reform. However, such analyses tend to underestimate the role of domestic actors in the reform process. Even though Kahler's argument integrates domestic political actors in the bargaining game of lending, domestic societal forces are neglected. Remmer posits, "The overriding conception is that the process of economic policy reform in Latin America has proceeded through the subordination of domestic political preferences to international economic pressures…" (Remmer 2002: 32). International influences are significant, but their importance is arbitrated by domestic politics and actors. External forces embodied by loans from international financial institutions should be part of a thorough study of neoliberal reform; however they do not constitute a complete analysis independently.

POLICY NETWORKS

The policy networks approach examines the technocratic teams responsible for the formation and implementation of economic reform. Broadly, policy networks may be defined as "a set of actors who are linked by relatively stable relationships of a non-hierarchical and interdependent nature" (Kenis and Raab 2003: 11). These actors share common policy interests and exchange resources to achieve policy objectives. Specifically in the context of market reform, Teichman (2001) argues policy networks are hierarchical, tight, non-transparent groups comprised primarily of technocrats and members of the business community.

Teichman's analysis of market reform in Chile, Argentina, and Mexico demonstrates that although liberalization was a unique process in each country, the reform process in each was driven by policy networks. During market reform policy networks are lead by technocrats, namely the finance minister. Supporting this, Teichman states, "At the helm of the policy network is the technocratic policy clique (a tight team of three of four highly trained individuals, often economists, responsible for a policy area…usually the Finance Ministry or the central bank)…" (Teichman 2001: 18-19). Although policy networks are commanded by the finance ministry, the business sector does play a major role in policy formation. Teichman notes that policy networks have given business a privileged position that has enabled it to effectively shape economic policy. Also, during the reform process policy networks work closely with members of the international community. Teichman argues the interaction of international financial institutions with domestic policy elites was necessary in driving the reform process forward.[8]

Policy network studies underscore the interplay of the technocratic teams responsible for policy ideas and the societal and international forces influencing those options. On this Teichman notes, "As in no other period in Latin American history, policy ideas advocated by radical technocratic reformers came to play a central role in economic policy making, but the impact of powerful societal and intrastate interests continued to be felt and in tempering market reform ideas often determined the extent of market reform accomplishments" (Teichman 2001: 198). The policy network approach provides a framework for incorporating the technocratic

[8] In the same vein, Stallings (1992) posits technocrats are the domestic link to the international community.

teams responsible for neoliberal reform into the analysis of economic policy formation. However, this approach is weak weakened by measurement and theoretical problems.

First, it is difficult to measure and operationalize policy networks (Remmer 1998). This has limited its application to purely qualitative studies, emphasizing case studies and generalizations on a small set of countries.[9] Indeed, this limits the testing of policy networks against the institutional, pluralist, macroeconomic, and international approaches. Second, policy networks overemphasize the role of technocratic teams in shaping reform, and therefore neglect the role of the executive. Weyland writes, "Ultimately, experts are not the most decisive actors in neoliberal reform. In fact, they owe their very positions to the appointment decisions of political leaders. And while presidents do consider economic requirements and constraints, they pursue first and foremost political goals. The political decisions of presidents are absolutely crucial for the initiation of market reform; experts advise and recommend, but in the end, presidents decide" (Weyland 2003: 2). For the policy networks approach to be incorporated into a thorough quantitative analysis, an appropriate measure of policy networks must be devised, and the study must account for the will of the executive in the appointment of technocrats.

[9] It should be noted that technocrats, but not policy networks, have been included in quantitative studies. Nielson's (2003) examination of trade reform introduces "neoliberalism" as a control variable. This variable is a proxy for the "ascension of neoliberal technocrats to positions of policymaking power" (Nielson 2003: 481). It codes country years as a "1" beginning when neoliberal technocrats took power; "0" otherwise. This variable becomes a significant predictor of reform in all his models. Although this variable involves the measurement of technocrats, it is more aptly a proxy for neoliberal ideology than technocratic power.

THEORY

To date the literature on economic liberalization has not provided a cohesive explanation of the politics of market reform. Although existing studies have called attention to important components of the reform process—institutions, interests, macroeconomic conditions, international pressures, and policy networks—these analyses only provide partial accounts of the political environment surrounding the transition to an open market. I contend that the integration of policy networks into the theoretical framework of informal institutions may give a more complete description of the politics of economic reform.

Policy networks may be considered a type of informal institution, and it is in this capacity that their influence on the reform process is consequential. Helmke and Levitsky describe informal institutions as "socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels" (Helmke and Levitsky 2004: 727). In contrast formal institutions are "rules and procedures that are created, communicated, and enforced through channels widely accepted as official" (Helmke and Levitsky 2004: 727). Policy networks demonstrate the traits of the former rather than the latter. First of all, the composition of policy networks evidences its informal character. Policy networks bring together appointed government individuals—technocrats—with powerful members of the private sector. Moreover, as Teichman points out, "individuals may (and often do) constitute a policy network before they obtain formal positions in the state, and networks may even survive after governmental network participants have lost their official positions" (Teichman 2001: 17). Clearly, the individuals compromising market reform policy networks operate in a realm outside of officially sanctioned channels. Second, policy networks share unwritten norms. These groups are highly personalistic and exclusionary, "bound together by personal relationships, particularly trust and loyalty, and [the] commit[ment] to market policy reform" (Teichman 2001: 17). Unwritten norms and behaviors dominate and bind together policy networks. The unofficial character and processes that typify policy networks permits us to classify these organizations as informal institutions.

Helmke and Levitsky create a typology of informal institutions that illustrates their political function (see Table 2). They consider two dimensions: convergence with formal institutions and effectiveness of the relevant formal institutions. When following informal rules produces similar results expected from formal institutions, the informal institution is considered convergent; on the other hand, when informal institutions lead to a substantively different outcome, formal and informal institutions diverge. Additionally, effective formal institutions are those that actually constrain or enable political actors' choices. In this case actors believe noncompliance will be sanctioned. Conversely, ineffective formal rules are those in which actors consider the probability of enforcement to be low. This classification results in a fourfold typology of informal institutions:

Table 2: Typology of Informal Institutions

Outcomes	Effective formal institutions	Ineffective formal institutions
Convergent	*Complementary*	*Substitutive*
Divergent	*Accommodating*	*Competing*

Source: Helmke and Levitsky (2004)

1.) Complementary—convergent and effective informal institutions. These institutions produce a similar result expected from adherence to formal rules and actually constrain political actors' behaviors. They serve to strengthen the incentives to comply with formal institutions.

2.) Accommodating—divergent and effective informal institutions. Such institutions generate incentives to act in ways that alter the substantive effects of formal rules. Therefore, accommodating institutions produce different outcomes than formal rules. Often these institutions are created by actors who dislike the results of formal institutions but are unable to change or openly violate those rules.

3.) Substitutive—convergent and ineffective informal institutions. These institutions exist in an environment where formal institutions are weak. The results from substitutive informal institutions are similar as those expected from formal rules.

4.) Competing—divergent and ineffective informal institutions. Such institutions surface in situations where formal rules are not effective or enforced. These informal institutions structure incentives in a manner that is incompatible with the aims of formal institutions. If one adheres to the rules of a competing informal institution, then the tenants of the formal institution are violated.

Policy networks may be classified as substitutive informal institutions. Substitutive informal institutions subvert existing formal rules to produce results that are compatible, but possibly not achievable with formal institutions. Helmke and Levitsky (2004) note that often substitutive institutions emerge where state structures are weak. In this case, policy networks fill the void of an ineffective central government in creating and propelling reform policy. Furthermore, as Helmke and Levitksy assert, informal institutions such as these may exist and dominate political processes because the pursuit of goals is not considered publicly acceptable. They write, “Because they are relatively inconspicuous, informal institutions allow actors to pursue activities—ranging from the unpopular to the illegal—that are unlikely to stand the test of public scrutiny” (Helmke and Levitsky 2004: 730). Also, the informal character of policy networks and the way they operate serve to expedite the reform process. Helmke and Levitsky note that actors often develop norms and procedures that expedite their work or address problems not anticipated by formal rules. Political actors working within the formal institutional context of reform may permit the existence and dominance of policy networks in order to speed up the reform process. In sum, policy networks as a type of informal institution that serve as surrogates for formal institutions in the pursuit of market reform.

Focusing on policy networks as informal substitutive institutions offers a sound account of economic liberalization in Latin America by redirecting attention to the formation and implementation of reform. There are several ways this particular analysis addresses the shortcomings of the competing explanations for reform, while adding value to the body of literature on market reform. First, the institutional and macroeconomic literatures emphasize the obstacles or conditions hindering reform while disregarding the actors impacting policy. Unlike these approaches, the informal institutions perspective concentrates on the carriers of reform (policy networks) during the formation and implementation of market policy. However, formal institutions are not discarded; rather, the informal institutions approach integrates the consideration of these structures into the theoretical framework by assessing their effectiveness and intended outcomes. Second, similar to the international pressures literature, the analysis of the informal institutions of policy networks considers market reform a process that incorporates foreign lenders and investors. In addition to these international influences, domestic players within policy networks play key roles in the formation and direction of the reform process. Third, the informal institutions explanation treats the state as a formal institution that affects reform, unlike the pluralist approach. Nevertheless, the societal interests championed by the pluralist literature are not ignored. Interests are filtered through policy networks and shape reform via these informal institutions. Finally, embedding policy networks within the theory of informal institutions addresses criticism waged against the policy networks literature.

Critics claim that policy networks explanations fail to fully consider where technocratic power originates (Schneider 2004). Indeed, finance ministers owe their positions and power to the executives that appointed them. Although the policy networks literature may neglect this, analysis from the vantage point that policy networks are informal substitutive institutions demonstrates that executives may tap into these informal networks to achieve rapid economic reform. Executives inheriting weak formal state structures from previous regimes may chose to empower policy networks in order to expedite the liberalization process. In other words, executives and legislatures supporting the president may permit these informal institutions to take on a substitutive role so that neoliberal policies are more quickly implemented. On this Bates writes, "Technocratic power and good policy may well go together…but the former does not cause the latter. Rather, the relationship is the result of the decision of politicians to delegate political power to otherwise powerless experts so as to secure economically superior public policy" (Bates 1994: 30). Unlike existing qualitative policy networks literature, the framing of policy networks as substitutive informal institutions accounts for the will of the executive in the reform process.

This theoretical framework offers a more complete explanation for economic reform in Latin America. The consideration of policy networks as informal institutions demonstrates how economic reform is formulated and implemented. Policy networks bring together technocrats and societal interests, specifically the business sector, in negotiation with international actors to create an economic reform agenda. These networks serve as substitutes for weak formal institutions that are incapable of generating and implementing cohesive policies. Placing policy networks in the context of substitutive informal institutions offers a comprehensive description of how these networks propel and compel economic liberalization. Furthermore, this theoretical account of market reform exceeds competing approaches by considering the actors responsible for neoliberal policy in the political and economic context surrounding the reform process.

RESEARCH DESIGN

DEPENDENT VARIABLES

To assess the effects of political and economic variables on policy choice, particularly the influence of policy networks, I analyze two indices of economic reform provided by Morley, et al (1999). The first index, general reform, is a composite of trade, domestic financial reform, international financial liberalization, tax reform, and privatization. The general reform index adds the values for the reform variables and divides it by five for each country in a given year, producing a scale of zero to one. This general reform index offers a representation of the overall economic liberalization trends. Additionally, I examine privatization independently. The privatization index is a measure of the degree of privatization, and like general reform is a scale of zero to one. Zero corresponds to the case with the least amount of reform for any country year among the period and countries considered. One is identified with the most reformed of the country years in the entire sample.[10]

Analysis of both general reform and privatization permits the identification of the explanatory variables that are most relevant to the privatization process specifically and reform in general. Due to the complicated nature of the reform process as well as the aggregate nature of the index of general reform, it may be the case that the results show privatization entails a political process that differs from general reform. Comparison of privatization to general reform produces a thorough description and explanation of the economic reform process in Latin America, and permits us to make conclusions regarding the role and impact of policy networks.

The selection of explanatory variables is drawn from the existing institutional, pluralist,

[10] These indices are widely employed in the study of economic reform, for instance, Biglaiser and Brown (forthcoming), Walton (2004), Behrman, et al. (2000), Wibbels and Arce (2003), and others.

macroeconomic, international, and policy networks literature.[11] My primary variable of interest—policy networks—seeks to rectify the shortcomings of the policy networks literature by offering a quantitative measure that takes into account the executive's use and empowerment of these groups to advance reform.

EXPLANATORY VARIABLES

Policy Networks

Policy Networks: The policy networks variable I have adopted incorporates a measure of the two most important components of policy networks—finance minister and business interests. The policy networks literature contends that the foremost element of a policy network is the finance minister. On this, Teichman writes, "The most important technocratic policy network is concentrated in the ministry or ministries in charge of macroeconomic policy (usually the Finance Ministry or the central bank), and during the height of the market reform process, and even thereafter, the economic policy clique and its network predominate other networks" (Teichman 2001:19). Furthermore, Schneider adds, "Almost all variants of policy [networks] start with top officials in economic ministries (such as the minister of finance)…" (Schneider 2004: 473). Working in conjunction with the technocratic team found in the ministry of finance is the business sector. The private business sector is given a central role in shaping economic policy (Teichman 2001). Therefore, a policy networks variable necessitates the measurement of two parts—the finance minister and the business sector.

To capture adequately the power vested in the finance ministry, I adapt the central bank literature that demonstrates the frequency of turnovers of the central bank governor provides a more meaningful indicator of central bank authority than formal institutional analysis (Maxfield,

[11] For the descriptive statistics of the variables and observations used in the regression analysis, see Appendix A.

1994).[12] Cukierman (1992) refers to this measure as the "informal authority" of the governor. In the same vein, this measure of tenure may be transferred to the finance minister as an indicator of the informal authority residing in this position. Therefore, employing data from Keesing's Record of World Events combined with additional country sources, I have estimated the informal authority of the finance minister by calculating the number of turnovers within this position for each country year. For example, if two finance ministers are instituted into the office in a given year, this is coded 2; if 1 finance minister takes office, then the year is coded 1; if the incumbent finance minister retains the position, the observation is coded 0. Finally, the turnover rate is multiplied by -1 to facilitate the interpretation of this measure.

The business sector may be measured as exports as a share of gross domestic product. Remmer (1998) contends that the nature of the exporting sector captures the influence of the business sector. She writes, "the single most powerful source of domestic support for market-oriented reforms…may be expected to come from exporting interests, whose political influence will vary with that of the sector's relative economic importance and capacity for political organization" (Remmer 1998: 42). Therefore, the impact of business interests varies according to the strength of the exporting sector, and the business sector component of policy networks is best depicted as such. The final measure of policy networks is the product of finance minister informal authority and exports as a share of GDP.[13] The data on exports as share of GDP are taken from World Development Indicators (2004) and lagged one year.[14]

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[12] Maxfield (1994) contends this is particularly true for developing nations where the turnover rates are more frequent and the economy more volatile.

[13] Policy networks is measured as finance minister turnover * exports/GDP. It should be noted that exports/GDP is also included in my model as a test of pluralist theory. Although exports/GDP appears twice in the model, the policy networks variable is not an interaction term. Policy networks is not constructed nor treated in this model as a multiplication interaction variable. Both this measures are included according to theory. Therefore, I do not believe this model violates the principles of multiplicative interaction terms (Brambor, Clark, and Golder 2005).

[14] For additional information regarding the construction of this variable, see Appendix B.

In sum, the strength and influence of the policy network depends upon: 1.) the authority vested in the finance minister office (measured by the turnover rate of the finance minister position) and 2.) the strength of business interests (measured by the exporting sector). A policy network led by a finance minister with great informal authority, evidenced and produced by the many years in office, in conjunction with strong business sector, captured by a large amount of exports, is expected to be correlated with greater economic reform. In this scenario, not only will the finance minister be given the opportunity to formulate and pursue long-term economic policy, but the business sector will also have a vested interest and the capabilities to support such policies which open up the national market.

Institutional

Regime: Conventional wisdom contends that economic reform is more easily implemented under authoritarian rule (Haggard and Kaufman 1995; Weyland 1998). It is argued that authoritarian leaders are insulated from public sentiment and may implement unpopular and often painful economic policy without the consent of the populace. In contrast, democratic regimes may find it difficult to pursue market reform in the face of popular protest. Another line of argument focuses on the positive relationship between democracy and reform, contending that democracies better protect property rights and more efficiently distribute resources (Biglaiser and Danis 2002).[15] This protection and efficiency creates a friendly investment climate, thereby attracting foreign capital. Due to the conflicting hypotheses in the literature, I make no assumptions on the direction of the relationship between regime and privatization. To test this relationship, I include a continuous measure of regime type based on the Polity IV dataset (Jaggers and Gurr 1995). This dataset reports two scores, one reflects the degree of

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[15] Przeworksi, et al. (2000) in their study of economic growth concur that democracies better protect property rights and allocate resources.

authoritarianism of a regime (AUTOC), and the other represents the degree of democracy (DEMOC). Both indicators range from 0 to 10, with 10 corresponding to the most authoritarian or democratic. In order to create a more continuous measure, I subtract the autocracy score from the democracy score. The resulting measure ranges from –10 to 10, with –10 being the least democratic and 10 indicating a high level of democratization.

Federalism and Total Veto Players*:* Due to the aggregate nature of regime type, it is difficult to make inferences regarding its impact on reform. However, looking at sub-regime factors, particularly federalism, provides insight into the institutions that may hinder or facilitate economic liberalization. Federal systems increase the number of veto players in government thereby creating a potential obstacle to reform.[16] On this, Samuels and Mainwaring write, "…federalism usually adds more 'veto players' to democratic politics, and hence…major policy reform at the national level is likely to be more difficult in federal systems, other things equal" (Samuels and Mainwaring 2002: 86). Therefore, it is expected that federalism is negatively related to economic reform. To demonstrate the effects of federalism on economic policy, I use a composite measure of five federalism indicators taken from the Database of Political Institutions (Beck, et al. 2001). The resultant scale ranges from 0 to 7, with 0 representing a lack of federal institutional characteristics and 7 indicating a highly federal state.[17]

To further tease out the number of veto players, I have included an interaction between federalism and party system fragmentation (described below), termed "total veto players". Some scholars argue federalism has an indirect effect on the number of veto players, therefore an

[16] Samuels and Mainwaring (2002: 87) elaborate on the term veto players: "Tsebelis (1995) developed the notion of veto players to refer to institutional or political actors whose agreement is required to advance a policy decision. With more veto players, negotiations are more complex and policy stability should be greater, and conversely policy reform should be more difficult to achieve."

[17] For a full description of the composite federalism variable see Appendix B.

interaction between this variable and party fragmentation is appropriate to capture the total number of veto players present in the government (Gibson 2004). This line of argument contends federalism influences the political system through "the powers and political resources imparted to political actors located at different points in the federal structure", and therefore creating more veto players (Gibson 2004: 21). The inherent decentralization of the federal system impacts the nature of party system and the structures of incentives for politicians. In sum, federal systems experience a greater number of veto players as both a direct and indirect result of their institutional arrangements. To fully represent the number of total veto players in a system, it is necessary to include an interaction between federalism and party fragmentation. I expect as the number of total veto players increases, the less reform is undertaken.

Party System Fragmentation and Polarization: Party system fragmentation and political polarization of the legislature are obstacles to reform. Fragmentation of the party system signifies a multiparty system with a number of parties beyond the effective number.[18] Consistent with Haggard and Kaufman (1995), I contend the most important veto players in presidential systems are congressional parties. Therefore, as the number of parties increases beyond the effective number, the amount of contending veto players grows, thereby creating impediments to the coordination needed to initiate reform. I hypothesize that the higher the number of domestic veto players, the less governments engage in economic reform (see Tsebelis 1995). The effective number of parties is measured using the Laakso and Taagepara index.[19] The party system fragmentation variable is taken from Roberts and Wibbels (1999).

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[18] The effective number of parties is an indicator that counts parties after weighting them by size; a higher score indicates a higher likelihood of governance by coalition (Laakso and Taagepera, 1979).

[19] This index is calculated on the basis of partisan distribution in lower houses of national congresses. The measure is calculated as: $1/Ss^2$, where s = the share of seats of each party in congress. Electoral data were taken from Nohlen (1993) and the Europa World Year Book.

Similar to party system fragmentation, polarization captures the obstacles to reform present in the legislature. Rather than a measure of veto players, polarization is a proxy for the ideological distance among legislators. The greater the distance among parties, the more difficult it becomes to pass economic reform legislation. I adopt the polarization measure from the Database of Political Institutions (Beck, et al. 2001) that denotes the ideological orientation of the president's party and the largest opposition party in the legislature on a scale of – 1 to 1. A score of -1 indicates a leftist ideological orientation; 0 represents center ideology; and 1 signifies the conservative ideology of the right. The absolute value of the greatest distance between the president's party and the largest opposition party is recorded as a score of polarization. Larger numbers indicate a greater ideological distance and hence more polarization. Therefore, I hypothesize that the greater the polarization existent in the legislature, the less reform.

Executive-Controlled Legislature: Neoliberal reform is facilitated when the president's party controls the legislature (Biglaiser and Brown forthcoming). An executive should expect the support of his own party in policy initiatives (Mainwaring and Shugart 1997). To measure the effect of executive-controlled legislature, I employ the Database of Political Institutions' dichotomous measure recording observations in which the president's party controls all relevant houses (Beck, et al. 2001). A score of 1 represents instances in which the executive's party has an absolute majority in the houses with lawmaking powers; and 0 otherwise.

Executive Strength: Executive strength is manifested in a president with great amount of constitutional powers. Great executive strength empowers leaders to overcome political stalemates and opposition to reform. Haggard and Kaufman (1995) claim a centralized executive is needed for successful initiation of liberalization reforms. In the same vein, Mainwaring and

Shugart (1997) argue a "strong" executive facilitates the initiation of market reform. A strong executive may "shape the policy output of the system regardless of whether they head a party or bloc of parties that controls the legislative majority" (Mainwaring and Shugart 1997: 13). I apply Shugart and Carey's (1992) operationalization of presidential powers to assess the strength of the executive. This measure evaluates the legislative and nonlegislative powers of the president. The legislative powers considered include package veto/override, partial veto/override, decree, exclusive introduction of legislation, budgetary powers, and proposal of referenda. In addition, cabinet formation, cabinet dismissal, censure and dissolution of assembly are incorporated as nonlegislative powers. Each measure is scored on a scale of 0-4, with 0 indicating the least amount of power and 4 the most. The composite scale of executive strength ranges from 0-40. I hypothesize that greater executive strength is linked to higher levels of economic reform.

Executive Ideology: Presidential ideology may influence the government's reform agenda. Historically, in Latin American leftist parties have been nationalist parties maintaining ties organized labor and the middle class (Kingstone and Young 2005). The left's ties to labor, local capitalist groups, and the middle class is in direct opposition with landowners, finance capitalists, and foreign investors. As a consequence, leftist executives have traditionally promoted more government intervention in the economy, in the form of state enterprises and the allocation of resources to labor, domestic business, and the middle class (Kingstone and Young 2005). Thus, leftist presidents are expected to create obstacles to the reform process. To control for executive preference, I include a measure of executive ideology that categorizes presidents on a left-right continuum independent of party orientation. A score of 1 corresponds with leftist ideological orientation; 2 represents the center; and 3 captures right-leaning executives. The data are obtained from the Database of Political Institutions (Beck, et al. 2001). I expect the greater the ideology score (representing a right-leaning executive), the more reform undertaken[20].

Reverse Honeymoon: Part of the political environment shaping reform is the electoral calendar. Although some literature claims reform is most easily initiated after elections due to the ability of the new executive to blame bad conditions on the past president, I hypothesize economic reform takes place in the latter years of a presidential term (Franzese, Jr. 2002; Remmer 1993; Persson 2002). This assumption is based on several observations. First, following Biglaiser and Brown (2003), I expect a delay in the process of market reform following an election. Elections transform the composition of the executive office, the legislature, and cabinets, making fresh political arrangements necessary. The formation of new legislative coalitions and agreements as well as economic policy agendas delay the initiation of economic reform. Second, the domestic economic climate is not conducive for reform, specifically privatization, immediately following an election. Foreign investors have little confidence in a nation's economy and economic reform during a period of transition. A president may create a favorable investment climate, but this takes time and legislation, which usually takes effect in the latter years of the executive term. Due to delayed reform and an uncertain investment climate following elections, I expect reverse honeymoon to be positively related to economic liberalization. This variable is coded as years since the last election. The data are obtained from the Database of Political Institutions (Beck, et al. 2001).

[20] The possibility of including an interaction between executive strength and executive ideology was considered. Such an interaction would demonstrate the manner in which the structure of executive strength aids the translation of the president's ideological preferences. However, when including this interaction in the regression model, the variable performed in the opposite direction. This suggests that presidents with great powers and leftist ideologies pursue more reform than a strong conservative executive. Although this relationship is contrary to conventional wisdom, it has surfaced in other works, primarily Biglaiser and Brown (forthcoming). Therefore, this interaction was rejected as an addition to my model.

Pluralist

Left-Labor Power: Traditionally, labor embodies strong opposition to market reform. Fearing a drop in employment, as well as the weakening of their bargaining power, labor unions present a powerful force working against economic reform. In support of this, Nelson states, "Among the urban popular classes, unionized labor is usually best-organized to defend its interests" (Nelson 1992: 245). To measure labor power, I use a left-labor index that reports the level of unionization, weighted for militancy of left-labor parties. This data are taken from Roberts and Wibbels (1999). I expect left-labor strength to be associated with less reform.

Business Interests*:* In contrast to labor, business interests are the strongest societal force in favor of neoliberal reform. The business sector has much to gain from the opening of the market and has the ability to create great pressure for economic reform. Consistent with Remmer (1998) and Biglaiser and DeRouen (2004), I utilize a measure of exports as a share of GDP to capture the effect. The support and pressure exerted by the business community is manifested in a rise of exports. Therefore, it is expected that business interests, measured as exports as a share of GDP, are positively related to market reform. This data are obtained from the World Development Indicators (2004) and is lagged one year.

International Pressures

External Aid: To adequately capture the forces influencing reform, the inclusion of external factors, particularly international pressures in favor of economic liberalization, is necessary. International financial institutions are a source of immense pressure promoting market opening and privatization of state-owned-enterprises (Weyland 2004). To gain access to international resources, governments are required to pursue reform (Stallings 1992). Economic reform serves as a signal to lenders that the government is taking steps to open the market and attract foreign investment and capital (Biglaiser and Brown forthcoming). Therefore, I expect international pressures for reform to be associated with higher levels of liberalization. To evaluate the effect of international pressures, I use a measure of official development assistance, defined as net disbursements of loans made on concessional terms by official agencies. This data are taken from the World Development Indicators (2004) and is lagged one year.

Macroeconomic

GDP per Capita and GDP Growth: I include an indicator of the relative wealth of the country, measured as per capita gross domestic product. Higher per capita GDP may lead to a "favorable public mood" (Manzetti 1999: 18) allowing market reform. Moreover, as noted by several scholars, wealthier nations may be able to offset the costs of liberalization to individuals, making reform less painful.[21] It is expected that high per capita GDP is positively related to economic reform. I also include a measure of the relative size of the economy, indicated by the country's GDP growth. Small economies are more likely to pursue market reform due to their inability to resist globalization pressures. Both measures are obtained from the World Development Indicators (2004) and calculated in constant 1995 US dollars. GDP per capita is logged and lagged, and GDP growth is lagged.[22]

Inflation: It is important to consider the effect of inflation on economic reform. Not only does inflation affect the behavior and choices of politicians and citizens, it is a crucial determinant of a nation's investment climate. Recall that the majority of the literature on inflation argues high inflation is related to greater reform (Weyland 1998; Biglaiser and DeRouen 2004). Although this is a valid argument, inflation in the context of the investment

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[21] Brune and Garrett (2000) as well as Biglaiser and Brown (2003) argue nations with higher per capita GDP can more easily afford reform.

[22] GDP per capita is logged in order to pull outlying observations closer to the bulk of the data, thereby creating a normal distribution of the variable.

environment should also be considered. Countries with low inflation rates are expected to have a friendlier and more stable investment climate, and thus have a greater opportunity to engage in market opening policies. Moreover, as Biglaiser and DeRouen posit, “Reforms that include . . . privatizing in order to reduce flows of government revenue to loss-making enterprises . . . are needed to limit the possible causes of inflation” (Biglaiser and DeRouen 2004: 570). Thus, inflation acts as an incentive as well as a condition to economic reform. I expect inflation, acting as proxy for investment climate, to be negatively linked to economic reform. To operationalize this variable, I take the absolute value of the logged, lagged consumer price index from the World Development Indicators (2004).[23]

External Debt and Current Account Balance: External debt and current account balance serve as important proxies indicating the economic pressure for neoliberal reform. A government facing great debt and current account deficits is prompted to initiate reform. For example, increasing external debt may support the case for privatization, as the sale of state-owned-enterprises generates income to pay creditors. The need to reduce deficits is a practical motivation to reform, one that “can convince even nationalist leaders of the necessity [of reform]”, contends Manzetti (1993: 433). Following Biglaiser and Brown (2003), I expect high levels of external debt and current account balances to encourage economic reform. Total external debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, IMF credit, and short-term debt. Current account balance is defined as the sum of net exports of goods and services, income, and current transfers as a percentage of GDP. Both indicators are in current U.S. dollars. Both measures are taken from the World Development Indicators (2004) and lagged one year.

[23] Inflation is logged in order to correct for the skewed sample distribution that hyperinflation creates.

Control

Time: I incorporate the measure of time to capture the variation of economic reform throughout the region across a sixteen year period. It is important to control for time because, as Biglaiser and Brown note, this period is unique—"the first half…is marked by wrenching economic crisis, followed by a very slow and gradual recovery" (Biglaiser and Brown 2003: 84). Thus, I expect a trend of increasing market reform as the years of the dataset progress.[24]

Table 3: Summary of Hypotheses

Approach	Variable	Hypothesis
Policy Networks	Policy Networks	Stronger policy networks are correlated with more reform.
Institutional	Regime	No expected relationship.
	Federalism	Higher scores of federalism are associated with less reform.
	Party System Fragmentation	More fragmentation of the party system is correlated with less reform.
	Total Veto Players	The greater the total number of veto players, the less reform expected.
	Polarization	Greater polarization of the party system is related to less reform.
	Executive-Controlled Legislature	More reform with an executive-controlled legislature is expected.
	Executive Strength	Greater executive power is associated with more reform.
	Executive Ideology	Right-leaning executives are linked to more reform.
	Reverse Honeymoon	The more years since the last election, the more reform.
Pluralist	Left-Labor Power	Greater left-labor power is correlated with less reform.
	Business Interests $_{t-1}$	The larger the exporting sector, the more reform.
International	External Aid $_{t-1}$	Greater international pressures are linked to more reform.
Macroeconomic	GDP per Capita (log) $_{t-1}$	Higher levels of GDP per capita are correlated with more reform.
	GDP Growth $_{t-1}$	The smaller the economy, the more reform expected.
	Inflation (log) $_{t-1}$	Greater levels of inflation are associated with less reform.
	External Debt $_{t-1}$	Higher degrees of external debt are related to more reform.
	Current Account Balance $_{t-1}$	High current account deficits are linked to more reform.
	Time	Increasing number of years is associated with more reform.

METHODOLOGY

The data produce a time-series cross-sectional (TSCS) unbalanced data set for 14 Latin American countries with multiple annual entries ranging from 1980 to 1995. Because the data are TSCS, auto-correlation and heteroskedasticity are a concern. OLS estimates of the standard

[24] For a summary of the independent variables and expected relationships, see Table 3.

errors may be misleading due to panel heteroskedasticity or auto-correlation. Beck and Katz (1996) propose a solution to these problems. They suggest using OLS with panel corrected standard errors (PCSEs) once serial correlation has been removed from the disturbances. Following Achen (2000), I deal with auto-correlation by adopting the Prais-Winsten transformation. Consistent with Beck and Katz's advice, fixed-effects are used by including country dummies in the model.

Also, all the economic control factors are lagged one year.[25] This is reasonable considering economic developments take time to affect political decisions and policy outcomes. It also makes the model's direction of causality explicit: if the independent variables in year $_{t-1}$ are correlated with this year's privatization, then I can infer with greater confidence that the direction of causality is in fact running from the factors specified on the right hand side of the equation to the dependent variable on the left-hand side.

The general reform model is specified as follows:

GENERAL REFORM = a + b_1 policy networks + b_2 regime + b_3 federalism
+ b_4 party fragmentation + b_5 total veto players + b_6 polarization
+ b_7 executive-controlled legislature + b_8 executive strength + b_9 executive ideology
+ b_{10} reverse honeymoon + b_{11} left-labor power + b_{12} exports/GDP $_{t-1}$
+ b_{13} external aid $_{t-1}$ + b_{14} GDP per capita (log) $_{t-1}$ + b_{15} GDP growth $_{t-1}$
+ b_{16} inflation (log) $_{t-1}$ + b_{17} external debt $_{t-1}$ + b_{18} current account balance $_{t-1}$
+ b_{19} time + b_{20} country dummies + e.

The privatization model is specified as follows:

PRIVATIZATION = a + b_1 policy networks + b_2 regime + b_3 federalism
+ b_4 party fragmentation + b_5 total veto players + b_6 polarization
+ b_7 executive-controlled legislature + b_8 executive strength + b_9 executive ideology
+ b_{10} reverse honeymoon + b_{11} left-labor power + b_{12} exports/GDP $_{t-1}$
+ b_{13} external aid $_{t-1}$ + b_{14} GDP per capita (log) $_{t-1}$ + b_{15} GDP growth $_{t-1}$
+ b_{16} inflation (log) $_{t-1}$ + b_{17} external debt $_{t-1}$ + b_{18} current account balance $_{t-1}$
+ b_{19} time + b_{20} country dummies + e.

The models specified above serve to test the relative strength of the assumptions of recent research as well as present a cohesive framework in which the politics of economic reform may

[25] For a theoretical discussion of this specification, see Hicks and Swank 1992.

be understood. The resultant coefficients will provide estimates of the correlation between policy networks and the degree of general reform and privatization undertaken in a given year.

RESULTS AND DISCUSSION

Results generated by the models described above are presented in Table 4.[26] Both the general reform and privatization models demonstrate a strong and significant correlation between policy networks and economic reform. Of the institutional variables included, federalism shows a significant relationship to general reform, and executive-controlled legislature is strongly associated with privatization. As advanced by the pluralist literature, left-labor power is a significant correlate to general reform. However, the international influence variable fails to produce a strong association with both reform types. Finally, inflation and GDP per capita demonstrate the powrful influence of economic conditions on privatization. Nonetheless, only external debt reaches significance in relation to general reform.

GENERAL REFORM

As hypothesized, policy networks are significantly and positively related to general reform. Consistent with the theory, as well as recent studies, the regression results support the hypothesis that policy networks function as informal institutions in the reform process (Helmke and Levitsky 2004; Wang 2000). On this, Wang states, "…informal networks play an important role in maintaining political order and facilitating economic activities…" (Wang 2000: 531). Policy networks streamline the creation and implementation of reform policies. As discussed previously, policy networks bring together technocrats, the business sector and the international community in formulating a reform agenda. When economic reform measures are created by economists with the input of the private and international sectors, policies are market-friendly. Therefore, these measures are quickly accepted by foreign lenders and investors and integrated into the international market. Moreover, the implementation of reform is facilitated when

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[26] Additional regressions including a recoded policy networks variable are reported in Appendix C to demonstrate the robustness of the results.

Table 4: The Factors Affecting Economic Reform in Latin America, 1980-1995

	General Reform	Privatization
Policy Networks	0.001 (2.63)***	0.001 (2.43)***
Regime	-0.002 (0.75)	-0.005 (1.39)
Federalism	-0.030 (2.29)**	-0.008 (0.43)
Party Fragmentation	0.005 (0.61)	0.002 (0.36)
Total Veto Players	0.003 (1.08)	-0.001 (0.64)
Polarization	0.004 (0.63)	0.007 (0.98)
Executive-Controlled Legislature	-0.004 (0.23)	0.054 (3.55)***
Executive Strength	0.008 (1.54)	-0.005 (1.09)
Executive Ideology	0.005 (0.81)	-0.006 (0.74)
Reverse Honeymoon	-0.001 (0.68)	0.004 (1.35)
Left-Labor Power	-0.001 (2.24)**	-0.001 (0.71)
Exports/GDP $_{t-1}$	0.001 (0.83)	0.002 (1.31)
External Aid $_{t-1}$	-0.000 (0.06)	-0.000 (0.71)
GDP per Capita (log) $_{t-1}$	-0.061 (0.73)	0.247 (2.49)***
GDP Growth $_{t-1}$	0.001 (1.00)	-0.000 (0.45)
Inflation (log) $_{t-1}$	-0.004 (0.77)	-0.013 (1.84)*
External Debt $_{t-1}$	-0.000 (2.88)***	-0.000 (1.41)
Current Account Balance $_{t-1}$	-0.000 (0.23)	-0.001 (0.74)
Year	0.026 (11.22)***	0.001 (0.65)
Constant	1.174 (1.57)	-1.194 (1.38)
R-Squared	.82	.88
N	177	177

Z scores appear in parentheses.
***Z-scores significant at the .01 level; **Z-scores significant at the .05 level; *Z-scores significant at the .10 level.

propelled by policy networks. Market reform is achieved either through congress-approved legislation, executive decree, or deals negotiated outside government channels (Manzetti 2003). In sum, the creation and implementation of general reform is eased by policy networks because it takes place in the political space of an informal institution. As substitutive informal institutions, policy networks are free from political obstacles, demands for transparency, and popular protest and open to foreign investors and international influences in the pursuit of reform.

The regression results establish that policy networks significantly impact the reform process. However with a coefficient of 0.0005, it seems as though they have a small substantive influence on general reform. Predicted values of general reform for this variable clearly illustrate this (see Figure 1). The predicted general reform score for a strong policy network is 0.666.[27] The predicted score for a weak policy network is not considerably different (0.636). When placed in the context of the total general reform implemented for the period studied, policy networks are only able to account for a small amount of change in general reform.[28] Nevertheless, their statistically significant relationship with the dependent variable supports the contention that they are crucial to the complicated process of reform.

The sole institutional variable exhibiting a significant affect on general reform is federalism. As hypothesized, the results suggest that federalism hinders the reform process (Samuels and Mainwaring 2002). Federalist structures produce a large number of veto players, thereby fragmenting the system. This greatly impedes the implementation of reform. The federalism coefficient of 0.030 implies this variable substantially impacts reform. This is demonstrated by the predicted general reform scores for federalism, as shown in Figure 2. The

[27] Recall that the policy networks with higher values indicate more turnover and instability, therefore policy networks with high scores are actually "weaker" groups. The assigned policy networks value for the general reform predicted values is 0 for "strong" and -58 for "weak".
[28] See Appendix D. General reform progressed from 0.543 to 0.824 during the 1980-1995 time period.

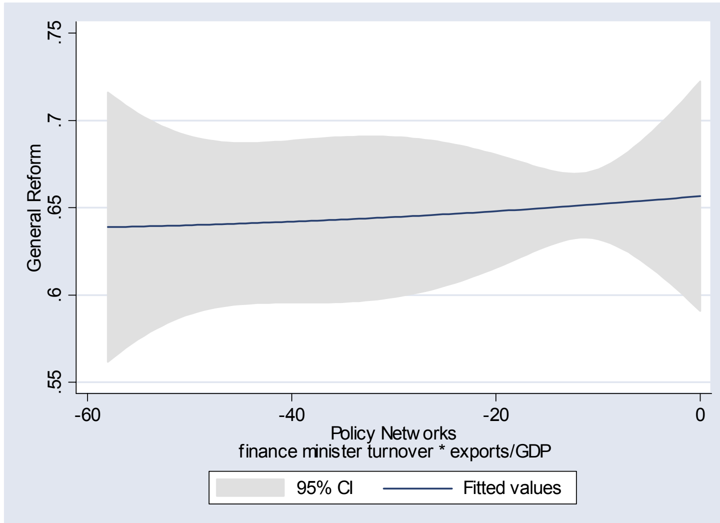

Figure 1: The Effect of Policy Networks on General Reform

predicted general reform score for a non-federal system is significantly higher than a highly federalist system. In the first case with a score of 0 on the federalism scale, general reform is predicted to be 0.738; in contrast, general reform is predicted to be 0.525 in a system scoring 7. Clearly, increased levels of federalist institutions produce less general reform.

As argued by pluralist scholars (Frieden 1991; Nelson 1995), the influence of labor surfaces as a significant, and negative, correlate to general reform. Market reform has potentially devastating effects on the labor sector. Economic liberalization often leads to the loss of jobs, reduced wages, and increased cost of living. Therefore, the labor sector has great incentives to mount opposition to economic reform. The predicted values for general reform demonstrate this effect. As seen in Figure 3, the predicted value for general reform when left-labor power is extremely low—at 5—is 0.698. When left-labor power is strongest at 60, general reform decreases to a score of 0.616.[29] Although this shift is not as substantial as seen with federalism, it clearly establishes that left-labor power reduces the level of implemented reform.

[29] The predicted values for left-labor power begin at 5 and end at 60 in order remove the outliers in this data range.

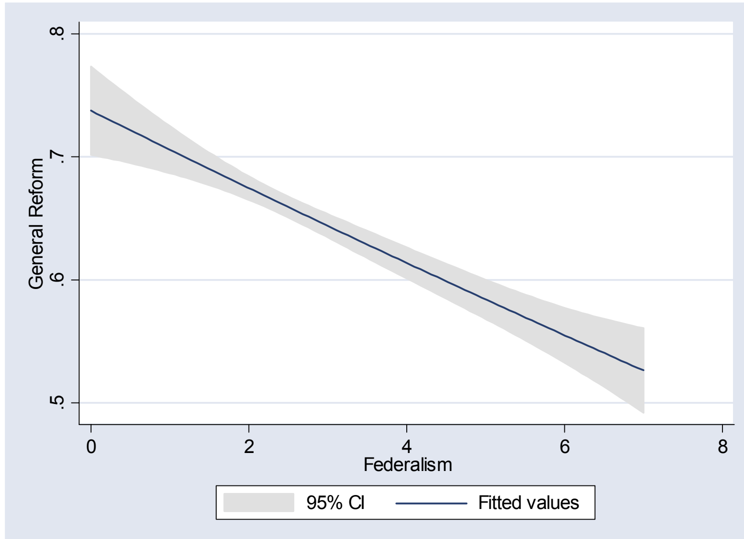

Figure 2: The Effect of Federalism on General Reform

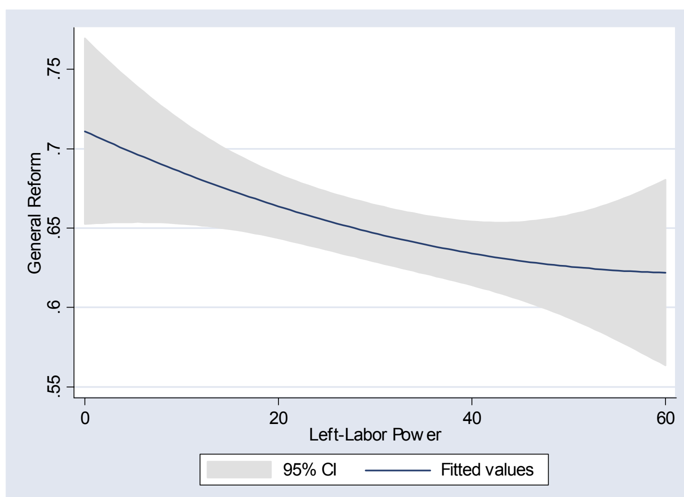

Figure 3: The Effect of Left-Labor Power on General Reform

A country comparison of federalism and left-labor power reveals an interesting correlation—the majority of countries that have strong left-labor groups score high on the federalism scale.[30] When considered jointly, left-labor and federalism greatly impede reform, as

[30] For this information, see Appendix E.

illustrated by Figure 4. The predicted value for general reform when left-labor is at its strongest and federalist institutions are abundant is 0.511.[31] This is in sharp contrast to a scenario in which federalist institutions are absent—general reform increases to a score of 0.693. This coupling of federalism and left-labor power produces the same trend when you consider the variation among scores with weak left-labor groups. General reform is predicted to be 0.775 with weak left-labor groups and the absence of federalism.[32] However, an increase on the federalism scale to 6 reduces general reform to 0.600. It is evident that the joint effect of federalism and left-labor power is damaging to general reform. Due to the fact that all countries in the sample experience some level of left-labor opposition, and only three nations—Ecuador, El Salvador, and Guatemala—have no federalist institutions, this is an important association that bears much consequence on the analysis of the reform and deserves further research.

The final variable showing a significant relationship to general reform is external debt. The relationship is negative, implying that increased external debt actually discourages reform. This finding is contrary to conventional wisdom which posits that high external debt creates incentives to reform in order to generate revenue to pay creditors. However puzzling, this negative relationship is documented in other studies on neoliberal reform, specifically Biglaiser and DeRouen (2004) and Biglaiser and Brown (forthcoming).[33] Future research should further examine this relationship, its magnitude, and impact on neoliberal reform by disaggregating the

[31] The predicted values for this case utilized a fixed value of 60 for left-labor power and 6 for federalism. Although the federalism scale ranges from 0-7, there are no instances in which an observation is coded 7 in the dataset. Therefore, in these illustrative examples reporting predicted values, 6 is the highest score assigned for federalism.
[32] The predicted values for this case utilized a fixed value of 5 for left-labor power.
[33] Biglaiser and DeRouen (2004) find a negative, although not significant, association between external debt and several reform indicators that comprise the general reform index—trade liberalization, financial reform, and tax reform. Additionally, Biglaiser and Brown (forthcoming) discover a negative and significant correlation between debt and general reform (specifically financial reform). Furthermore, the authors do provide an explanation of this relationship.

general reform index and taking into account country-specific factors that may affect the association between debt and reform.[34]

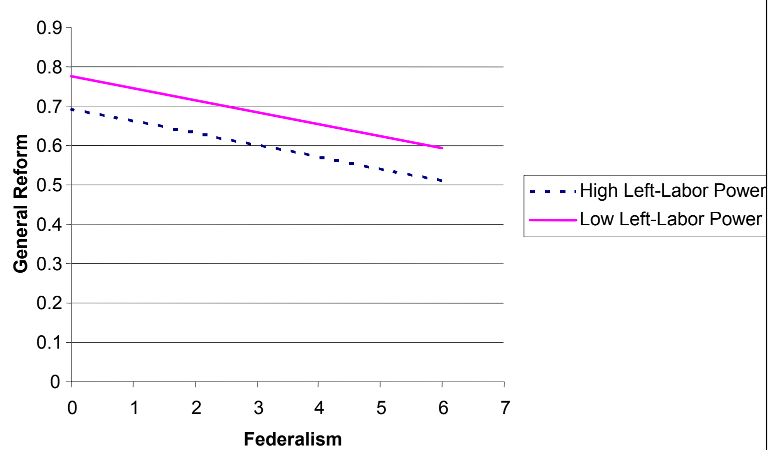

Figure 4: The Effect of Federalism and Left-Labor Power on General Reform

The regression results for the general reform model suggest that institutional, societal, and economic obstacles to reform are more influential than policy networks. Policy networks, though significant, do not establish a substantial impact on general reform. On the other hand, federalism and left-labor power demonstrate strong influences on the reform process. Furthermore, the instances in which both federalism and left-labor are strong suggest that these institutions pose great impediments to reform, particularly when jointly present in a system. Finally, the external debt variable suggests that high levels of debt encumber the reform process.

PRIVATIZATION

As with general reform, policy networks are significantly and positively linked to privatization (see Table 4). As previously mentioned, policy networks acting as informal institutions facilitate the formulation and implementation of economic reform. Specifically in

[34] For a breakdown of debt by country, see Appendix F.

the context of privatization these informal networks ease the divestiture process by offering investment incentives to foreign capitalists.[35] Unlike formal structures, informal institutions are able to bypass official channels, minimize the transaction costs of a sale, and offer protection and credibility to foreign investors.[36] In this sense, policy networks serve as substitutive informal institutions in place of weak state structures (Helmke and Levitsky 2004). These informal institutions are able to achieve what formal institutions cannot—state divestiture—by supporting the enforcement of property rights and promoting favorable deals with purchasers. In sum, informal institutions bring about privatization by acting as substitutes for formal institutions and enhancing the investment climate through favorable negotiations with investors.

The impact of policy networks may be seen in the predicted values for privatization. Figure 5 represents the impact of policy networks on privatization while holding constant all other variables. As shown, the predicted privatization value for a strong policy network is 0.747, while a weak network yields a privatization score of 0.707.[37] Clearly, there is an upward trend indicating more privatization with stronger policy networks. When considering that the region experienced a shift from an average privatization score of 0.735 in 1980 to 0.800 in 1995, informal institutions account for a large amount of privatization initiated.[38]

Of the political control variables included, executive-controlled legislature is the sole indicator significantly affecting privatization. Consistent with institutional literature, the results provide evidence that a legislature controlled by the president's party face less obstacles to

[35] For an account of the investment incentives given to foreign capitalists by Argentine officials and businessmen, see Manzetti (2003).
[36] Biglaiser and Danis note (2002: 98)), "If the policy makers are economists who not only support the enforcement of property rights but also favor policies that benefit the private sector, this provides additional credibility for purchasers."
[37] The predicted values were generated by assigning policy networks a value of 0 and -58, respectively.
[38] See Appendix C for information on the average privatization by year for the region.

reform (Mainwaring and Shugart 1997; Biglaiser and Brown forthcoming). However, the importance of a presidential party majority is more meaningful when recent studies on fiscal

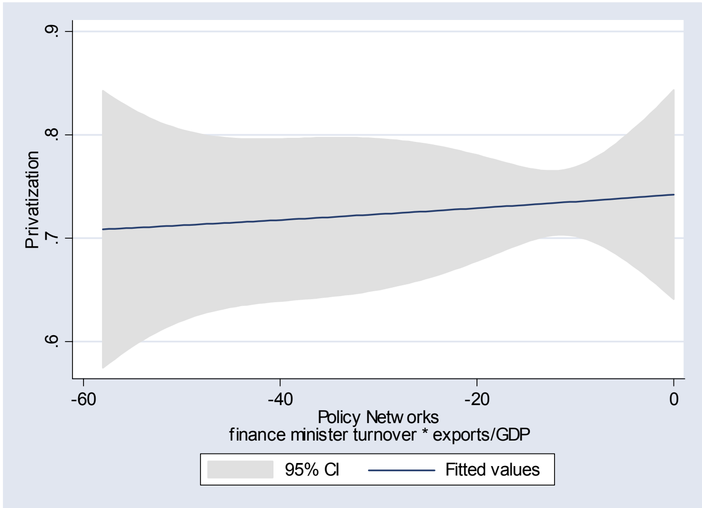

Figure 5: The Effect of Policy Networks on Privatization

discipline in Latin America are taken into account. Hallerberg and Marier (2004) contend finance ministers play a crucial role in the budget process when supported by a majority in congress. They write, "Yet whether the finance minister has any powers outside of the cabinet and beyond the initial proposal of the budget depends on the regularity of majorities behind the president in congress" (Halleberg and Marier 2004: 575). In the case of privatization, I contend that the power of policy networks, which are led by the finance minister, is carried throughout the reform process via an executive-controlled legislature. A congressional majority in support of the president permits the reforms formulated by policy networks to become legislation, usually by any means necessary. It is often the case that the legislature gives the president unrestricted decree power in order to expedite market reform legislation.[39] In support of this, Manzetti (1999: 92-3) notes that in Argentina privatizations were implemented through "decrees

[39] Manzetti (2003: 318) notes, "Thus, in order to 'democratize' the market, many countries in Latin America indiscriminately used executive orders/emergency decrees (Argentina, Brazil, Bolivia, Ecuador, and Venezuela) and in the case of Peru the closing of Congress, which made a mockery of the democratic process."

of necessity and emergency", and Cavallo (finance minister from 1991-1996) "himself admitted that without the power of decrees he could have accomplish only 20 percent of his reforms." Undoubtedly, an executive-controlled legislature is central to the reform process.

The relationship between the informal institutions of policy networks, the legislature, and reform is best depicted by comparing the predicted values for privatization in a scenario where there exists an executive-controlled legislature and a strong policy network and a case in which the legislature is divided and there is a weak policy network. The predicted privatization score for the first case is 0.780; the second, 0.685 (see Figure 6).[40] When only considering the predicted privatization scores for executive-controlled legislature, it is clear that policy networks in conjunction with unified government advance the privatization process. Privatization is predicted to be 0.718 with a legislature not controlled by the executive's party. On the other hand, when the president's party controls all houses, privatization is expected to be 0.772.

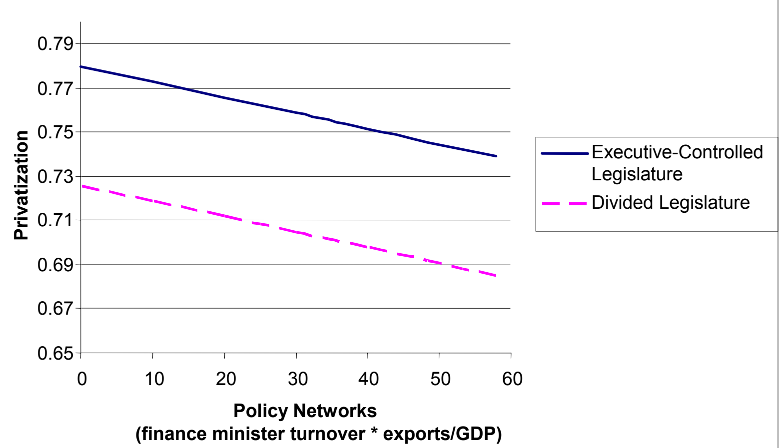

Figure 6: The Effect of Executive-Controlled Legislature and Policy Networks on Privatization

[40] The predicted values were generated by assigning policy networks a value of 0 and executive-controlled legislature 1 in the first case and policy networks a value of -58 and executive-controlled legislature 0 in the second case. Regarding Figure 6, the negative sign is removed from the scale for presentation purposes.

Although this is a considerable difference, it is not as great an impact as illustrated in the scenarios mentioned above. Indeed, privatization is facilitated by the informal institutions of strong policy networks coupled with the formal institution of an executive-controlled legislature.

The economic variables exhibiting a strong correlation with privatization are inflation and GDP per capita. Although GDP per capita may facilitate economic liberalization by offsetting the costs of reform, both indicators serve as representatives of the investment climate. High inflation signals an unstable economic environment to investors, making the sale of state-owned-enterprises to foreign capitalists difficult. Similarly, GDP per capita indicates the health of the economy to potential investors. High per capita GDP implies a strong and stable economy, one that can afford the costs of reform domestically and one in which investments would not be risky. Therefore, the negative relationship between inflation and privatization and the positive correlation between GDP per capita and privatization is best understood in terms of the investment climate.

Inflation stalls the privatization process. Predicted values for privatization demonstrate that as inflation increases from 1% to 5%, privatization drops by 0.021 points.[41] Furthermore, a rise in inflation from 10% to 100% reduces the amount of privatization initiated by 0.029. As noted by Table 5, the majority of the effect of inflation is felt when inflation is increasing in the 0-50% range.[42] Beyond 50%, privatization is minimally affected by rising inflation. Nonetheless, the regression results validate the idea that inflation hampers the privatization process by tainting the investment climate.

[41] Predicted values were generated using the logged values of inflation and then translated into percentages for discussion purposes. A change from 1% inflation to 5% represents about a one standard deviation increase (1.497); a shift from 10% inflation to 100% is an increase of about two standard deviation units.

[42] Summary statistics reveal 0-50% inflation accounts for 69.75% of the observations; 50.1-100% inflation occurs with 12.18% of the observations; 100.1-200% inflation rates are shown in 7.98% of the data points; and the remaining 10.08% of the data contains inflation rates of 200.1-15,000%.

Table 5: The Effect of Inflation on Privatization		
Percent Inflation (CPI)	Log of Inflation	Predicted Privatization
1	0.000	0.788
5	1.609	0.767
10	2.303	0.758
20	2.996	0.749
30	3.401	0.744
40	3.689	0.740
50	3.912	0.738
60	4.094	0.735
70	4.248	0.733
80	4.382	0.732
90	4.500	0.730
100	4.605	0.729
150	5.011	0.724
200	5.298	0.720

In contrast to inflation, per capita GDP strengthens the domestic investment climate. High per capita GDP signals to foreign investors that the national economy is healthy and stable. This allows the privatization process to progress. The coefficient for GDP per capita suggests this indicator greatly impacts privatization. This is supported by the predicted values for privatization shown in Figure 7. As GDP per capita increases, privatization escalates. A shift from $650 per capita GDP to $1000 improves privatization by 0.106. Furthermore, an increase of $1000, from per capita GDP of $1000 to $2000, produces a 0.171 rise in privatization.[43] Clearly, higher levels of GDP per capita are correlated with higher scores of privatization.

The results reveal that informal institutions serve as substitutive structures when the executive party controls the legislature, inflation is low, and GDP per capita is high. In short, informal institutions are able to advance the privatization process when the investment climate is

[43] Predicted values were generated using the logged values of GDP per capita and then translated into real dollar amounts for discussion purposes. A change from $650 GDP per capita to $1000 GDP per capita represents about a one standard deviation increase (0.554); a shift from $1000 GDP per capita to $2000 GDP per capita is an increase of about two standard deviation units.

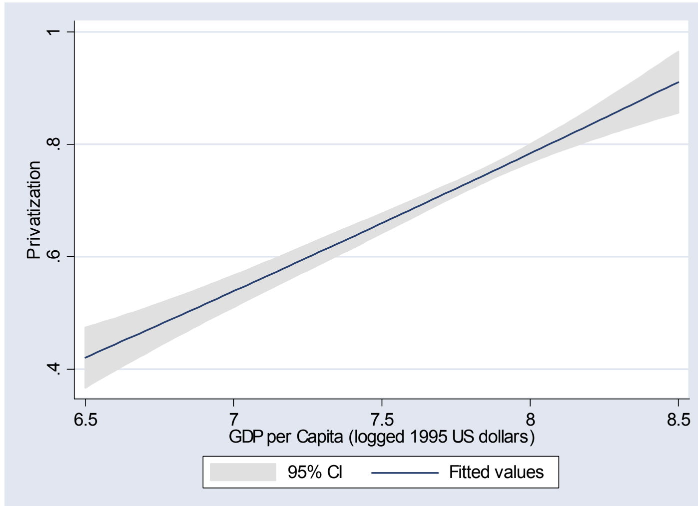

Figure 7: The Effect of GDP per Capita on Privatization

good and the legislature is not divided. As an example, comparing the privatization scores for Brazil 1991 and Argentina 1995 demonstrates the disparity between the former—a case in which informal institutions are strong, the legislature is controlled by the executive's party, inflation is low, and GDP per capita is high—and the latter—a case in which these factors are lacking. Brazil 1991 is characterized by weak informal institutions, a legislature not controlled by the executive's party, high inflation, and moderate GDP per capita.[44] These conditions produced low privatization—a score of 0.669. On the other hand, the case of Argentina 1995 is typified by strong informal institutions, an executive-controlled legislature, low inflation, and high GDP per capita. In 1995 Argentina experienced a privatization score of 1.00. Undoubtedly, informal institutions when embedded within a good investment climate and empowered by a unified legislature are critical to the privatization process. It is within this political and economic context that policy networks successfully replace formal institutions in the pursuit of reform.

[44] Brazil in 1991 experienced the following: policy networks at -8.199, divided government, logged inflation of 7.989, and logged GDP per capita of 8.313. Argentina 1995 experienced the following: policy networks at 0, an executive-controlled legislature, logged inflation of 1.429, and logged GDP per capita of 8.97.

The manner in which policy networks work as substitutes for formal institutions may be further explored by a regression model that removes the policy networks variable. This model (see Table 6) clearly demonstrates that policy networks work as substitutive informal institutions in the privatization process. When policy networks are absent from the model, the democracy variable emerges as a significant and negative correlate to privatization. As many contend, this negative relationship may be due to popular protest in opposition to reform. However, in light of informal institutions, the importance of this regime variable may also be interpreted as protection of property rights and distribution of resources (Biglaiser and Danis 2002). Although the majority of the countries in the sample are coded democracies throughout the time period studied, these states may not have an effective rule of law, specifically formal rules and procedures ensuring property rights and enforcing contracts.[45] Thus, the negative relationship between democracy and privatization may not be a remnant of popular protest against reform, but an indicator of weak states unable to achieve neoliberal reform. In this vein, it is clear that the introduction of the informal institution variable—policy networks—into the regression analysis produces a significant relationship with privatization, precisely because these institutions serve as surrogates for weak formal structures not able to guarantee rule of law, property rights, and contracts during the reform process.

DISCUSSION

The results demonstrate that policy networks, institutions, interests, and economic conditions are principal determinants of reform. This analysis validates the central role of policy networks posited by informal institutions and policy networks literature. Moreover, the findings

[45] The average polity score for the countries in the sample is as follows: Argentina—4.5; Bolivia—6.81; Brazil—4.25; Chile—0.25; Costa Rica—10.0; Dominican Republic—5.88; Ecuador—8.75; El Salvador—2.81; Guatemala— -0.50; Mexico— -1.00; Peru—5.38; Uruguay—4.44; and Venezuela—8.75.

Table 6: Factors Affecting Privatization in Latin America, 1980-1995

	Coefficient	Z-score
Policy Networks		
Regime	-0.006	(1.73)*
Federalism	-0.010	(0.51)
Party Fragmentation	0.002	(0.31)
Total Veto Players	-0.000	(0.09)
Polarization	0.007	(0.92)
Executive-Controlled Legislature	0.058	(3.74)**
Executive Strength	-0.006	(1.09)
Executive Ideology	-0.007	(0.88)
Reverse Honeymoon	0.002	(0.80)
Left-Labor Power	-0.001	(1.02)
Business Interests $_{t-1}$	0.002	(1.13)
External Aid $_{t-1}$	-0.000	(0.58)
GDP per Capita (log) $_{t-1}$	0.255	(2.52)**
GDP Growth $_{t-1}$	-0.000	(0.43)
Inflation (log) $_{t-1}$	-0.012	(1.73)*
External Debt $_{t-1}$	-0.000	(1.34)
Current Account Balance $_{t-1}$	-0.001	(0.51)
Year	0.001	(0.70)
Constant	-1.237	(1.39)
N	177	
R-Squared	.87	

**Z-scores significant at the .01 level; *Z-scores significant at the .05 level

maintain that institutional, pluralist, and economic indicators remain a fundamental part of the examination of neoliberal reform.

First, the findings for the general reform and privatization models support the primary explanatory variable of interest. Both models highlight the role of policy networks in the reform process. Although the results do not support a substantive impact of these informal institutions on general reform, the significance of the variable cannot be overlooked. The general reform model as specified does not provide detailed insight into the exact role these informal networks play in relation to general reform beyond their facilitation of the creation and implementation of reform agendas. Due to the aggregate nature of general reform, a broad relationship has been established, but the mechanism and the magnitude of the relationship is not clear, particularly for the specific types of reform that this index captures. However, for the privatization model, it may be claimed with greater certainty that policy networks do serve as informal substitutive institutions in the privatization process. The results corroborate the theoretical postulation that policy networks propel the reform process by enhancing the investment climate. Undoubtedly, this analysis has demonstrated that policy networks do help shape the course of economic liberalization.

Second, the results of both models underscore the idea that institutions are instrumental in the reform process. The general reform model produced significant relationships between federalism and neoliberal reform. These correlations demonstrated that federalism has a substantial impact on general reform. Additionally, executive-controlled legislature surfaced as a strong correlate to privatization. Clearly, institutions remain necessary to the explanation of policy-making and implementation of reform.

Third, interests remain a salient feature of the reform process. The significance of the left-labor power variable in the general reform model evidences that societal preferences do impact reform. This is particularly interesting in light of recent studies that posit neoliberalism has depoliticized society (Kurtz 2004; Weyland 2002). It seems that for the period following reform initiation until 1995, unions and leftist political parties remained a vital societal force opposing reform. Although this is true for the general reform model, left-labor power is not significant for privatization reform. It may be the case that the privatization process was adequately shielded from social opposition or that labor unions were successfully quieted. Nonetheless, this finding demonstrates that interests must be considered in the analysis of market-oriented reform.

Fourth, the results of this study bear out that the economic environment surrounding reform is crucial. The strong associations between external debt, inflation, and GDP per capita with reform illustrate the effect of the economy on politics. Not only do economic conditions determine the investment climate under which market reforms take place, they also shape political attitudes and calculations in relation to economic liberalization. Economic indicators continue to be important components of the study of reform.

The findings here demonstrate that policy networks do serve as substitutive informal institutions in the reform process. These networks take the place of weak institutions and propel market-oriented policy. The substantive impact of these informal institutions is enhanced when embedded within a formal institutional arrangement that promotes the executive-party's control of the legislature, limits the degree of federalism, and shields left-labor power from blocking reform initiatives. Moreover, in the context of a healthy and stable economy (specifically low inflation and high per capita GDP) policy networks are able to achieve extensive neoliberal reforms. Thus, the results of my analysis suggest that there is no one approach to the analysis of the politics of economic reform. Rather, the politics of liberalization best explained when all components—institutions, interests, economic conditions, international pressures, and policy networks—are taken into account.

Lastly, it should be noted that although the results validate the notion that policy networks working as informal institutions expedite and push forward reform, these findings do not represent the economic and political consequences of these substitutive groups. The trade-off of efficient reform achieved by informal institutions is a lack of accountability and transparency. As aforementioned, informal networks are unofficial and non-transparent in nature. Often deals are brokered behind closed doors, and the transaction cost of doing business in this manner is at the expense of the quality of democracy.[46] Manzetti (2003) contends that an exclusive emphasis on market reform in Latin America permitted governments to pursue liberalization in an unorthodox manner, often resorting to corrupt methods that violate democratic principles. The author writes: "…the Washington consensus for the most part neglected the importance of strengthening institutions of accountability. In short, only one side of the equation (the economic one) was given its due—despite abundant theoretical evidence suggesting that when a country adopts the formal rules (in our case promarket reforms) of another, the results may turn out quite differently because the recipient county may have very different formal and informal institutions" (Manzetti 2003: 317). In sum, the informal institutions of policy networks that serve as surrogates for weak formal structures are successful in achieving substantial economic reform. However, this is often attained via unofficial and corrupt channels and at the cost of accountability and transparency.

[46] In Argentina neoliberal reform was undertaken in this manner. Manzetti (2003: 346) writes, "Most sectors continued to be regulated by secretariats directly dependent upon the Ministry of the Economy and Public Works, which for political reasons often decided to cut deals with the interested companies behind closed doors."

CONCLUSION

The wave of neoliberal reform that swept Latin America in the 1980s was a product of an emerging economic consensus that stipulated governments pursue reform measures to stabilize the economy and open the market. While there was agreement on the economics of neoliberalism, there was not—and is not—consensus regarding the politics of reform. The literature analyzing the political aspects of liberalization is divided, both in perspective and method. In order to move in the direction of a more cohesive examination of the politics of reform, my study has integrated the primary variables of the main approaches to the study of neoliberalism in a quantitative analysis. Moreover, I have provided a theoretical framework that unites the body of work on the politics of market-oriented reforms.

My analysis established that policy networks, working as informal institutions, drive the reform process. Their effectiveness has been shown to be enhanced by formal structures, chiefly a legislature controlled by the president's party. Also, my study demonstrated federalism and left-labor power hinder the progress of reform. Furthermore, the results confirmed that favorable economic conditions, specifically low inflation and high GDP per capita, are needed for successful market opening. Most importantly, my research supported that there is not a single perspective appropriate for the study of the politics of reform. Rather, integration of all elements of the political environment, including institutions, interests, economic conditions, international pressures, and policy networks, is necessary for a comprehensive study.

My study provides a more conclusive explanation of the politics of reform, but there remains much work to do in the analysis of political variables and neoliberalism. Future research should further explore the relationship between federalism and left-labor power, the consequences of external debt, and the interaction between formal and informal institutions.

First, the data and results suggest there is an association between federalism and left-labor power. This may be the result of the multiple veto players federalist structures create; left-labor power may operate as a veto player within a federal state. More research is required to fully understand this link and its effect on reform. Second, the negative correlation of external debt and reform should be examined in depth. The political and economic factors contributing to this relationship should be addressed in future studies. Finally, additional research is needed to clarify the interchange of formal and informal institutions within the context of economic reform. The political mechanisms that mitigate the substitution of informal institutions for formal structures should be examined closely. More research is needed to fully understand the politics of economic reform in Latin America, and my study offers a sound base for future analyses.

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APPENDIX A
DESCRIPTIVE STATISTICS

Summary Statistics of Variables				
Variable	Mean	Standard Deviation	Minimum Value	Maximum Value
General Reform	0.656	0.149	0.343	0.891
Privatization	0.741	0.198	0	1
Policy Networks	-11.608	14.771	-58.129	0
Regime	6.723	3.478	-3	10
Party Fragmentation	3.214	1.467	1	8.67
Federalism	2.548	1.709	0	6
Total Veto Players	7.668	6.624	0	34.68
Polarization	0.814	0.950	0	2
Executive-Controlled Legislature	0.401	0.492	0	1
Executive Strength	14.994	3.101	9	21
Executive Ideology	2.172	0.909	1	3
Reverse Honeymoon	3.113	2.002	1	12
Left-Labor Power	30.075	19.659	3	69.8
Exports/GDP $_{t-1}$	20.686	8.383	6.598	45.084
External Aid $_{t-1}$	1.80e+08	1.39e+08	-2.54e+08	6.71e+08
GDP per capita (log) $_{t-1}$	7.798	0.554	6.682	8.971
GDP growth $_{t-1}$	2.944	4.359	-11.800	12.822
Inflation (log) $_{t-1}$	3.792	1.497	1.429	9.372
External Debt $_{t-1}$	2.96e+10	3.87e+10	1.61e+09	1.52e+11
Current Account Balance $_{t-1}$	-3.218	4.239	-15.592	17.038
Time	9.475	4.168	1	16

APPENDIX B
DESCRIPTION OF VARIABLES

Policy networks: finance minister turnover multiplied by exports as a share of GDP. Finance minister turnover is calculated as the number of times a finance minister is instituted in office per year. For example, if a country year experiences the appointment of four individuals, the observation is coded as 4; three ministers take office, that is coded 3; two finance ministers instituted into office, coded as 2; one finance minister takes office, coded as 1; the incumbent finance minister retains office, coded as 0. Source: Keesing's Record of World Events, corroborated with additional country sources and studies; World Development Indicators (2004).

Regime: The Polity IV dataset reports two scores for regime, one reflects the degree of authoritarianism of a regime (AUTOC) and the other indicates the degree of democracy (DEMOC). Both range from 0 to 10, with 10 corresponding to the most authoritarian or democratic. In order to create a composite measure, the autocracy score is subtracted from the democracy score. The resultant scale ranges from -10 to 10, with -10 being the least democratic and 10 the most democratic. Source: Jaggers and Gurr 1995.

Federalism: composite of 5 Database of Political Institutions indicators to create a scale ranging from 0 (least amount of federalism) to 7 (most amount of federalism). The indicators used are:

1. "auton"—Are there contiguous autonomous regions? (0,1)
2. "muni"—Are municipal governments locally elected? (0 if neither local executive nor local legislatureare locally elected; 1 if the executive is appointed, but the legislature elected; 2 if both are locally elected)
3. "state"—Are there state/province governments locally elected? (0 if neither local executive nor local legislatureare locally elected; 1 if the executive is appointed, but the legislature elected; 2 if both are locally elected)
4. "author"—Do the state/provinces have authority over taxing, spending, or legislating? (if 1 for any of these, category gets 1; 0 otherwise)
5. "stconst"—Are the constituencies of the senators the states/provinces? (1 if elected on state/province level; 0 if elected on national basis)

Source: The Database of Political Institutions (Beck, et al. 2001).

Party fragmentation: Laasko and Taagepera's (1979) effective number of parties in lower house or unicameral legislature. Source: Roberts and Wibbels (1999).

Total veto players: interaction between federalism and party system fragmentation. Source: same as cited above for federalism and fragmentation.

Polarization: ideological variation among legislators. The orientation of the president and legislators is recorded (left = -1, center = 0, and right = 1), then the absolute value of the greatest difference between the president and his party and the largest opposition party is taken. Source: The Database of Political Institutions (Beck, et al. 2001).

Executive-controlled legislature: executive's party controls all houses in the legislature. Source: The Database of Political Institutions (Beck, et al. 2001).

Executive strength: legislative powers and nonlegislative powers of the president. Legislative powers include: package veto/override, partial veto/override, decree, exclusive introduction of legislation (reserved policy areas), budgetary powers, and proposal of referenda. Nonlegislative powers include: cabinet formation, cabinet dismissal, censure, and dissolution of assembly. Each power is scored 0-4, with 4 being the greatest power and 0 the least. The composite creates a scale of executive strength ranging from 0 to 40. Source: Shugart and Carey (1992).

Executive ideology: ideological orientation of the president. Ideological scale used: 1 = left; 2 = center; and 3 = right. Executive ideology is assigned independently of executive party orientation. Source: The Database of Political Institutions (Beck, et al. 2001).

Reverse honeymoon: years since last election. Source: The Database of Political Institutions (Beck, et al. 2001).

Left-labor power: the level of unionization, weighted for militancy of left-labor parties. Source: Roberts and Wibbels (1999).

Business interests: exports as a share of GDP. Source: World Development Indicators (2004).

External aid: net official development assistance consisting of disbursements of loans made on concessional terms and grants by official agencies of the members of the Development Assistance Committee, by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries and territories. Data are lagged one year. Source: World Development Indicators (2004).

Per capita gross domestic product: GDP divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. Data are in constant U.S. dollars. Data are logged and lagged one year. Source: World Development Indicators (2004).

GDP growth: Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 1995 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. Data are lagged one year. Source: World Development Indicators (2004).

Inflation: the consumer price index. This reflects the annual percentage change in the cost to the average consumer of acquiring a fixed basket of goods and services that may be fixed or changed at specified intervals, such as yearly. Data are logged and lagged one year. Source: World Development Indicators (2004).

External debt: the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt. Data are in current U.S. dollars and lagged one year. Source: World Development Indicators (2004).

Current account balance: the sum of net exports of goods, services, net income, and net current transfers. Data are in current U.S. dollars. Source: World Development Indicators (2004).

APPENDIX C
ROBUSTNESS CHECK

To ensure the data are robust, the primary variable of interest—policy networks—is recalculated using a dummy variable for finance minister turnover. This dummy variable codes observations with any turnover as 1; otherwise, the country year is coded 0. Therefore, the robust policy networks variable is the product of the finance minister turnover dummy * exports/GDP $_{t-1}$. The resultant variable is decreased in its magnitude, with a minimum value of -43.268 and a maximum value of 0. Therefore, these regression results demonstrate that the coefficients generated are not a product of the policy networks variable construction.

Robust Regressions: Factors Affecting Economic Reform in Latin America, 1980-1995		
	General Reform	Privatization
Policy Networks	0.001	0.001
	(2.81)**	(2.67)**
Regime	-0.002	-0.005
	(0.72)	(1.41)
Federalism	-0.030	-0.008
	(2.27)*	(0.46)
Party Fragmentation	0.004	0.001
	(0.51)	(0.14)
Total Veto Players	0.003	-0.001
	(1.11)	(0.56)
Polarization	0.005	0.008
	(0.73)	(1.11)
Executive-Controlled Legislature	-0.002	0.056
	(0.15)	(3.65)**
Executive Strength	0.008	-0.005
	(1.60)	(1.02)
Executive Ideology	0.006	-0.005
	(0.86)	(0.70)
Reverse Honeymoon	-0.002	0.003
	(0.88)	(1.20)
Left-Labor Power	-0.001	-0.001
	(2.28)*	(0.73)
Exports/GDP $_{t-1}$	0.001	0.002
	(0.90)	(1.36)
External Aid $_{t-1}$	-0.000	-0.000
	(0.09)	(0.69)
GDP per Capita (log) $_{t-1}$	-0.066	0.240
	(0.78)	(2.44)**
GDP Growth $_{t-1}$	0.001	-0.000
	(0.98)	(0.48)
Inflation (log) $_{t-1}$	-0.004	-0.013
	(0.78)	(1.87)*
External Debt $_{t-1}$	-0.000	-0.000
	(2.97)**	(1.38)
Current Account Balance $_{t-1}$	-0.000	-0.002
	(0.48)	(0.96)
Year	0.026	0.002
	(11.26)**	(0.81)
Constant	1.121	-1.144
	(1.60)	(1.33)
R-Squared	.82	.88
Z scores in parentheses; **Z-scores significant at the .01 level; *Z-scores significant at the .05 level		

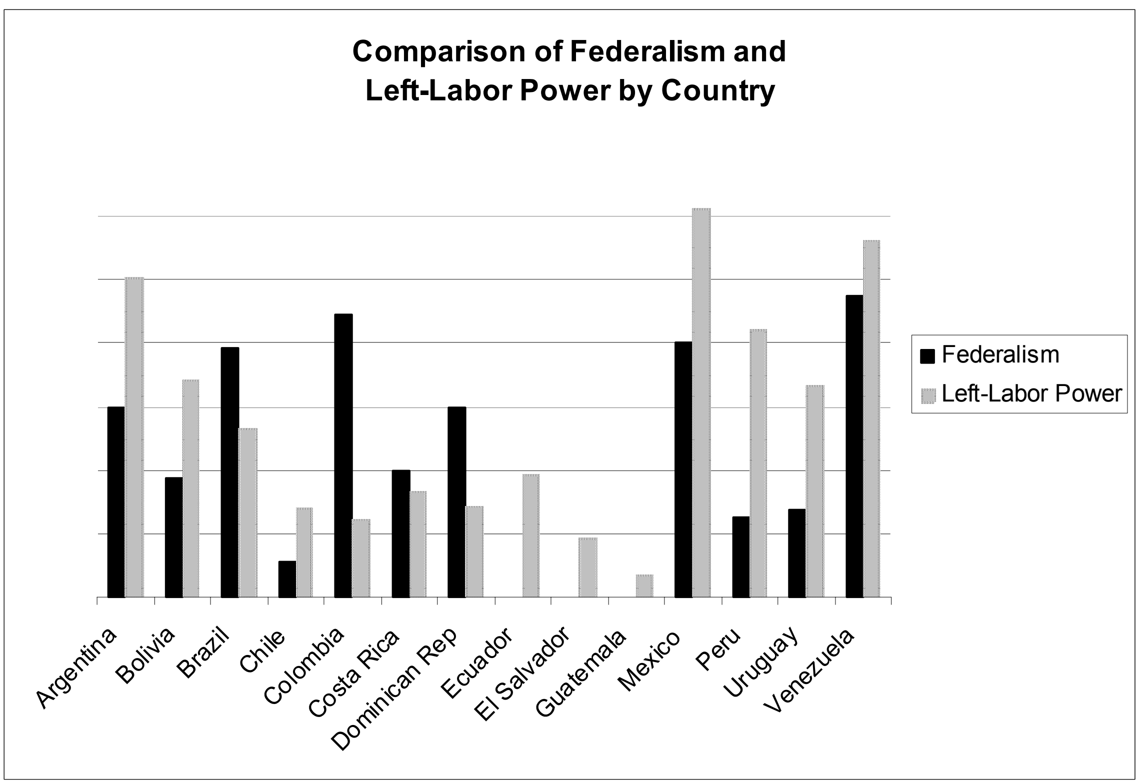
APPENDIX D
AVERAGE REFORM IN LATIN AMERICA, 1980-1995

Average Annual General Reform and Privatization Scores in Latin America, 1980-1995				
	General Reform		Privatization	
1980	0.561	Lowest:	0.735	Lowest:
1981	0.574	0.543, 1984	0.756	0.692, 1985
1982	0.567		0.727	
1983	0.549	Highest:	0.714	Highest:
1984	0.543	0.824, 1995	0.699	0.800, 1995
1985	0.549		0.692	
1986	0.572		0.714	
1987	0.601		0.730	
1988	0.615		0.743	
1989	0.648		0.726	
1990	0.685		0.713	
1991	0.736		0.736	
1992	0.783		0.750	
1993	0.800		0.765	
1994	0.809		0.781	
1995	0.824		0.800	
Source: Morley, et al. (1999)				

Average General Reform and Privatization Scores in Latin America by Country, 1980-1995				
	General Reform		Privatization	
Argentina	0.731	Lowest:	0.883	Lowest:
Bolivia	0.656	0.499, Venezuela	0.442	0.254, Venezuela
Brazil	0.606		0.779	
Chile	0.754	Highest:	0.634	Highest:
Colombia	0.656	0.826, Uruguay	0.753	0.965, Dominican Republic
Costa Rica	0.676		0.727	
Dominican Republic	0.523		0.965	
Ecuador	0.617		0.664	
El Salvador	0.637		0.924	
Guatemala	0.667		0.917	
Mexico	0.679		0.644	
Peru	0.573		0.776	
Uruguay	0.826		0.887	
Venezuela	0.499		0.254	
Source: Morley, et al. (1999)				

APPENDIX E
COMPARISON OF LEFT-LABOR POWER AND FEDERLISM SCORES

Average Federalism and Left-Labor Power Scores by Country, 1980-1995			
Federalism		Left-Labor Power	
Ecuador	0.00	Guatemala	3.59
El Salvador	0.00	El Salvador	9.42
Guatemala	0.00	Colombia	12.33
Chile	0.56	Chile	13.96
Peru	1.25	Dominican Republic	14.39
Uruguay	1.38	Costa Rica	16.61
Bolivia	1.88	Ecuador	19.43
Costa Rica	2.00	Brazil	26.54
Argentina	3.00	Uruguay	33.24
Dominican Republic	3.00	Bolivia	34.36
Brazil	3.94	Peru	42.28
Mexico	4.00	Argentina	50.37
Colombia	4.44	Venezuela	56.32
Venezuela	4.75	Mexico	61.31
Sources: The Database of Political Institutions (2004) and Roberts and Wibbels (1999)			



Note: The left-labor power scores were divided by 10 to produce the above comparison.

APPENDIX F
AVERAGE EXTERNAL DEBT BY COUNTRY

External Debt by Country (in billions of current US dollars)			
	1980 Debt	1995 Debt	Average Annual Debt 1980-1995
Argentina	20.9	75.1	52.7
Bolivia	2.5	4.9	4.2
Brazil	61.3	152.4	108.8
Chile	9.4	22.2	18.2
Colombia	5.9	21.9	14.3
Costa Rica	2.1	3.9	3.9
Dominican Rep	1.6	4.3	3.5
Ecuador	4.5	15.1	9.9
El Salvador	0.9	2.2	1.8
Guatemala	1.1	3.4	2.4
Honduras	1.2	4.7	2.9
Mexico	42.8	138.5	97.0
Peru	9.3	26.5	15.9
Uruguay	1.3	5.1	3.6
Venezuela	24.1	36.9	33.9
Source: World Development Indicators (2004)			

VITA

Ashley D. Ross was born in Conroe, Texas, on September 28, 1981. She attended Texas A&M University from 1999 to 2003 and received a Bachelor of Arts in political science and speech communications. She began work toward a Master of Arts in political science at Louisiana State University in 2004 and is a 2006 graduate candidate. She was advised by Assistant Professor Moises Arce, studying the politics of Latin American nations. Her research interests include the comparative analysis of the political economy and institutions of the Latin American region. She plans to continue her academic career and will be entering the doctoral program for political science at Texas A&M University in the fall of 2006.