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Volume Title: Developing Country Debt and Economic Performance, Volume 1: The International Financial System

Volume Author/Editor: Jeffrey D. Sachs, editor

Volume Publisher: University of Chicago Press, 1989

Volume ISBN: 0-226-73332-7

Volume URL: http://www.nber.org/books/sach89-1

Conference Date: September 21-23, 1987

Publication Date: 1989

Chapter Title: The Politics of Stabdization and Structural Adjustment

Chapter Author: Stephan Haggard, Robert Kaufman

Chapter URL: http://www.nber.org/chapters/c8991

Chapter pages in book: (p. 209 - 254)

5 The Politics of Stabilization and Structural Adjustment

Stephan Haggard and Robert Kaufman

5.1 Introduction: Politics and Debt

A major theme of the country studies for this project is the relationship between policy choice and economic performance. What policies contributed to national debt crises in the first place and what corrective measures have been most successful in managing them? This chapter, by contrast, examines the way political processes and institutions influence developing country stabilization and adjustment efforts. Rather than treating policy choice as exogenous, we attempt to explain why countries pursue the mix of policies they do and why they vary in their success at implementing them.

Of course, economic circumstance defines the policy agenda and is a powerful constraint on the range of options available. But states that are similarly situated in economic terms have adopted quite different adjustment strategies and external bargaining positions because of domestic political constraints. Programs that succeed in one context prove difficult to implement in others. Political analysis is important, therefore, not only to understanding the past, but for generating realistic and sustainable programs in the future.

The politics of the debt crisis has unfolded on two intersecting planes, one international, the other domestic. Debtor governments play a Janus-faced role in these conflicts. Where possible, they attempt to reduce the costs of adjustment through bargaining with commercial banks, multilateral institutions, and creditor governments. In the first half of

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We have benefitted from comments by Werner Baer, Jeff Frieden, Howard Handleman, Joan Nelson, and Jeffrey Sachs.

the paper, we examine the determinants of international bargaining positions and outcomes.

Since no debtor government can deflect all of the costs of adjustment, however, each must also bargain with domestic actors over how to allocate burdens on the home front. The central political dilemma is that stabilization and adjustment policies, no matter how beneficial they may be for the country as a whole, entail the imposition of short-term costs and have distributional implications. The second half of the paper examines a number of hypotheses on why governments choose the policy packages they do and the political conditions under which they will be sustained. While our primary emphasis is on short- and medium-term adjustment, we also address the question of the institutional and political foundations of longer-term growth strategies. The outward-oriented pattern of growth characteristic of the East Asian newly industrializing countries (NICs) receives particular attention, since it has been advanced as a model for other developing countries.

A word should be said about method. In recent years, theories of rational and public choice have gained ground among political scientists, as has the application of econometric techniques to the study of political phenomena (Alt and Chrystal 1983; Ordeshook 1986). While we have drawn on this literature, we do not model our arguments in a formal way or offer rigorous tests. We have opted, rather, to review a range of different hypotheses and to build some contingent generalizations around the countries included in this project and others that have been analyzed by political scientists and economists.

5.2 The International Politics of the Debt Crisis

5.2.1 The Bargaining Structure and the Political Resources of the Debtors

One of the most notable features of the crisis period that began in August 1982 with the emergency rescheduling of the Mexican debt has been the politicization of international credit issues. International political factors certainly played some role in developing country borrowing prior to the crisis. Creditor governments competed with one another through their export credit schemes (Wellons 1987) and Germany and Japan were able to coordinate commercial bank lending to further foreign policy goals in some cases (Spindler 1984). On the whole, however, loan negotiations were typical of those characterizing any market transaction.

Although the Reagan administration initially hoped to maintain a distance from the negotiations between debtors, banks, and the IMF that has characterized the post-crisis period, concerns about the stability of the international financial system impelled treasury and central bank officials from all of the creditor countries to become actively involved. In the case of certain strategically important countries, such as Mexico, Turkey, the Philippines, Egypt, and, in a different way, Poland, traditional foreign policy concerns also came into play, just as they had in previous international financial crises (Fishlow 1986; Lindert and Morton, chap. 2 this volume; Eichengreen, chap. 3 this volume).

Notwithstanding calls for more comprehensive solutions, rescheduling remained the central mechanism for managing the debt crisis through 1987. International credit flows to developing countries could therefore be analyzed in a bargaining framework (Krugman, chap. 7 this volume). Despite some marginal innovations, three features of the international bargaining structure remained more or less constant. First was the assumption—or the fiction—that all obligations would be met in full. Relief was not on the agenda, despite the development of a secondary market in which developing country debt traded at fairly deep discounts. Second was the assumption that the burden of policy changes should fall primarily on the debtors rather than the creditors. Developing countries failed in their political efforts to link the debt issue with developed country fiscal and trade policies, interest-rate management, or the reform of international commodity trade, and had very uneven success in securing additional concessional aid flows. Finally, all negotiations were handled on a case-by-case basis. Each debtor confronted its creditors alone, rather than in collaboration with other debtor countries facing similar problems. Whatever practical arguments could be advanced in favor of this system over a more comprehensive one—and there were many (Cooper 1986)—it was clearly a bargaining structure that tended *eo ipso* to favor the creditors.

Within this structure, debtor governments have had three sets of resources they could draw on to improve the terms of their negotiations with creditors: size, political significance for creditor security calculations, and access to nonconditional resources.

Size

Following Keynes's familiar adage that big debts become the creditor's problem, we would expect large debtors to have more leverage than smaller ones. Throughout the 1980s, the two countries with the largest debt, Brazil and Mexico, have been in a position to threaten widespread disruption of the financial system. Size of the economy also matters. Compared to small open economies, the governments of large countries may perceive themselves to be in a better position to ride out the shock of credit disruption by adopting more autarkic policies. Countries such as Brazil have long domestic traditions of economic thinking based on such a nationalist logic; during times of economic crisis, they are likely to gain in intellectual currency.

To date, big debtors have received concessions on conditionality and restructuring terms that are unavailable to smaller debtors. A study of commercial reschedulings with Latin American countries by Bogdanowicz-Bindert (1985) found rescheduling packages for smaller debtors offered shorter grace and repayment periods and higher spreads and fees than those extended to Argentina, Brazil, Mexico, and Venezuela. In a study of small countries' relations with the IMF, John Williamson (1985) found evidence of some, but not marked, discrimination in standbys and Extended Fund Facility (EFF) agreements from 1977 through 1984. Williamson concluded that small countries were less likely to borrow under the EFF, were less likely to be given multi-year arrangements, and were likely to receive loans that were smaller relative to quota. On the other hand, the formula for calculating quota includes a measure of foreign trade relative to GNP and thus allows for the fact that small countries are subject to greater external vulnerability.

Larger debtors have also pioneered more unorthodox rescheduling agreements and adjustment packages. In 1985, Argentina was able to win IMF acceptance of the unorthodox price freeze and currency plan known as the Plan Austral. Mexico was the first country to receive a multi-year rescheduling agreement (MYRA) and in 1986–87 negotiated an even more unprecedented series of agreements which tied external financing to fluctuations in oil prices and growth and included an unusually low interest-rate spread over LIBOR (London interbank offer rate for dollar deposits). Both deals were concluded only after significant pressure from U.S. authorities.

A broader picture of the influence of size is provided by table 5.1, which summarizes the terms of agreements for the rescheduling of medium- and long-term bank debt reached between 1978 and September 1986. Small debtors fared worst in terms of the length of the grace period, the tenure of the loan agreement, and interest rates. The largest debtors, conversely received the best interest rates and longest loan tenures, and were second to the medium-sized debtors only in length of grace periods.[1]

Large debtors have also been more successful in securing additional forms of relief, including bridging loans, cofinancing agreements and the maintenance of trade credits. Sachs and Huizinga (1987) have found that large debtors have also been more likely to secure concerted lending agreements. Between 1983 and the third quarter of 1986, three of the four large debtors (Mexico, Argentina, and Brazil) and four of five

Table 5.1 **Average Terms of Bank Debt Reschedulings, by Group of Countries (1978–June 1985)**

	Grace Period	Maturity	Interest Rates (spread over LIBOR)
Large debtors (> $25 billion, 1 Jan. 1985)	3.25 years	11.31 years	1.41%
Medium-sized debtors ($10 to $25 billion)	4.36 years	8.28 years	1.69%
Small debtors (< $10 billion)	2.61 years	7.26 years	1.82%

Source: Watson et al. (1986).

Note: Average terms for rescheduling of medium- and long-term bank debt, both public and private. Excludes restructuring of short-term debt, arears, and terms of trade facilities. Debtors are classified on the basis of total external liabilities of banks and nonbanks to banks end-December 1985. "Large" debtors are Brazil, Mexico, Argentina, and Venezuela; "medium-sized" debtors reaching rescheduling agreements during the period are Chile, the Philippines, Yugoslavia, and Poland. LIBOR = London interbank offer rate for dollar deposits.

medium-sized debtors (Chile, the Philippines, Poland, and Yugoslavia) won concerted lending agreements. Only 7 of the 26 small debtors rescheduling during this period secured concerted lending. Agreements signed between debtors and commercial banks in 1985 and 1986 showed the continuing importance of size (World Bank 1987). Agreements were signed with 23 countries during these two years. Nine countries received new money from the commercial banks: two of the three large debtors signing agreements (Argentina and Mexico); two of the four medium-sized debtors rescheduling (the Philippines and Chile); but only five of the remaining eighteen small debtors—Costa Rica, Ivory Coast, Ecuador, Nigeria, and Panama. While Brazil did not receive new money in its agreement of July 1986, it did secure a large bridge loan that accounted for nearly one-third of all the relief granted to it. Only two other states received bridging loans, Mexico and Guyana. Larger debtors were also more successful in securing agreements for the maintenance of short-term credit. Seven countries secured such agreements in 1985 and 1986: Argentina, Brazil and the Philippines, and four of eighteen small debtors, Cuba, Ecuador, Morocco, and Panama.

The Political and Strategic Importance of Debtor Countries

Size is not the only resource that debtor governments can bring to the bargaining table. Small countries can also seek to extract concessions by exploiting the political concerns of their patrons about national or regional security. Thomas Callaghy (1984; 1987) has shown how

Zaire's President Mobutu has deftly exploited U.S. concern with Soviet gains in central and southern Africa to extract concessional aid. A related fear is that the imposition of austerity associated with stabilization might create domestic political instability which in turn would have strategic implications. As the Senate Foreign Relations Committee staff has written, America "has important security interests in other debtor countries. . . . It can hardly afford to stand by and watch the economies of these countries collapse, or to have their governments undermined politically by financial difficulties" (cited in Cohen 1986a, 131). A third, somewhat different argument is that stabilization episodes tend to be associated with political instability, repression, or the rise of authoritarian governments (Skidmore 1977; Frenkel and O'Donnell 1979; Sheahan 1980; Díaz-Alejandro 1981; Pion-Berlin 1983). New and fragile democracies, such as the Philippines, have argued that additional support is warranted on these grounds.

It is clear that policy actions associated with stabilization and structural adjustment have lead to political violence and instability in particular cases. The policies most likely to generate spontaneous political protest are those that result in sharp changes in the prices of basic goods and services: devaluation, increases in oil prices leading to increased power and urban transportation costs, and the lifting of food subsidies. Poorly managed and ill-timed elimination of subsidies have been responsible for urban rioting in Egypt, Peru, the Dominican Republic, Morocco, Zambia, and a number of other countries. Nonetheless, it is difficult to establish any unambiguous causal relationship between stabilization and political instability, since these programs are launched in response to a variety of economic difficulties that may also plausibly be linked with political unrest (Sidell 1987). As Bienen and Gersovitz (1985) point out, food subsidies have been lifted in a number of other cases without destabilizing political protest.

A general relationship between stabilization and the emergence of authoritarian or repressive rule is difficult to establish as well, even though they appear to be linked in several specific cases, including Turkey in 1958–60, 1970–71, and 1980. A number of Latin American countries have undergone dramatic moves toward democratic rule, however, in part because the economic crisis has delegitimated military governance. The economic conditions leading to political instability and change need to be carefully specified. Is it the austerity of stabilization programs that leads to political instability and repressive solutions or, as Wallerstein (1980) argues convincingly for Brazil prior to the 1964 coup, the class conflict and polarization resulting from inflation? It is important to pose the historical counterfactual: What political difficulties are likely to arise in the *absence* of corrective measures?

Sheahan (1980) argues that those countries in Latin America *failing* to stabilize early in the postwar period were more rather than less likely to get authoritarian regimes.

The precise relationship between economic and political change may be difficult to specify, but strategic and political concerns have nonetheless led creditor governments to use their influence on the boards of the IMF and the World Bank to press for greater leniency and to lobby bank advisory groups for expeditious settlement of rescheduling negotiations (Cohen 1986b). Central banks of the Group of Five have played an important role in managing particular crises through the organization of rescue packages and the provision of bridging loans. Informal conventions have divided these international lender of last resort responsibilities along lines of regional and political influence and interest. Germany has played a leading role in Turkey and Poland, the United States in Mexico, France in Francophone Africa (Wellons 1987, chap. 7). This decentralized pattern of leadership includes the provision and orchestration of concessional assistance, which also follows lines of political interest (OECD 1987). In 1983–84, 27 percent of all U.S. official development assistance (ODA) went to Egypt and Israel. Among the other top ten recipients of American bilateral assistance were El Salvador, Costa Rica, Turkey, the Philippines, and Sudan. The top ten recipients of British and French bilateral assistance are all former colonies. Nine of the top ten recipients of Japanese ODA are in Asia, and four of the top five in the Association of Southeast Asian Nations, with which Japan maintains extensive trade and investment relations.

Turkey provides an example of how geo-strategic concerns influence official assistance. Positioned on NATO's southern flank, Turkey's political significance to the Western alliance grew in the wake of the Iranian revolution. Domestic political violence in the late seventies enhanced Western concern. Between mid-1977 and 1982, Turkey was effectively cut off from international capital markets. Celasun and Rodrik (see the country studies for this project) show that the net transfers to Turkey in the period following her debt crisis were much more substantial than were the corresponding transfers to the other debtors after 1982, however. Of $9.8 billion of debt that Turkey has restructured since 1978, $5.5 billion has been negotiated through a consortium of OECD governments. Although the OECD did link its 1979 offer of concessional finance to acceptance of an IMF program, the amount of additional assistance totaled $3 billion over the next three years. The OECD commitments were followed by unusual levels of assistance from the World Bank and the IMF. These included five consecutive structural adjustment loans totaling $1.6 billion, the largest number of such loans ever made to a single country, and a three-year standby agreement in 1980 that, together with previous purchases, brought total IMF commitments to 870 percent of quota, the largest multiple awarded to any country up until that time.

In the case of Mexico, it is difficult to disentangle the effects of size and political significance. Nonetheless, the U.S. response to Mexico's difficulties was more rapid and comprehensive than its response to the problems of other large debtors, and was linked to concerns about security and Mexico's political stability (Leeds and Thompson 1987). Within a 48-hour period, the United States pieced together a rescue package that included prepayment of $1 billion for Mexican oil sales to the Strategic Petroleum Reserve and a peso-dollar swap arranged through the U.S. Department of Agriculture. U.S. Federal Reserve officials persuaded the central banks of other creditor countries to provide a bridge loan under the auspices of the Bank for International Settlements and acted as a third party in facilitating the negotiations between Mexico and the IMF and its commercial bank creditors (Kraft 1984).

Creditor government involvement in rescheduling has been even more direct with the low-income countries who rely heavily on concessional finance and official borrowing. While the debt crisis is generally associated with commercial bank debt, twice as many LDCs classified as "official borrowers" as "market borrowers" have experienced debt servicing difficulties (IMF 1987).[2] Of 185 multilateral debt agreements signed between 1980 and 1986, 97 were with commercial banks and 88, or 48 percent were with official creditors. In 1985 and 1986, by contrast, 39 of 68 agreements signed, or 57 percent, were with official creditors (World Bank 1987, appendix 2). As a result, Paris Club members are under increasing pressure to consider official relief for low-income aid recipients, many of which are concentrated in Africa.

Temptation: The Availability of Nonconditional Resources

Since the bargaining power of the creditors rests on the debtor's need for continued funding, access to alternative sources of finance will tilt the balance of bargaining power toward the debtor. The availability of additional resources will make a country less willing to accept IMF conditionality and more likely to experiment with heterodox policy alternatives. In general, such windfalls have proved mixed blessings (Amuzegar 1982; 1983). The reasons are not only economic, but have to do with the political correlate to the Dutch disease that might be called the "Nigerian disease." This phenomenon helps explain the problems of the capital-importing oil exporters Venezuela, Nigeria, Ecuador, Mexico, and Indonesia prior to the Pertamina crisis.

The stylized facts are as follows. Commodity booms make governments more dependent on commodity-based revenue because of the relative political ease of taxing commodity exports as opposed to income, particularly in cases, such as oil, where the commodity is directly controlled by the government. In addition, the income from commodity exports provides the basis for additional foreign borrowing. This double windfall has three political consequences. First, it reduces the political incentives to undertake any adjustments that have distributional consequences; difficult decisions are deferred. Second, it increases the range of political claims on state-controlled resources, not only from rent- and revenue-seeking groups in society, but from spending and planning constituencies within the government itself. Finally, the windfalls provide governments with resources that can be used for political ends, whether through corruption and the "financing" of elections, through pork-barrel projects that cement geographically defined bases of support, or through the expansion of subsidies and entitlements.

It is thus common to see increased government revenues from commodity booms mark the beginning of a cycle of increased borrowing, widening fiscal deficits and, ultimately, a return of balance of payments crises. Mexico provides an example. In 1978 when the country began to experience a boom as the result of increased oil revenues, it repaid its obligations to the IMF and abandoned the terms of a standby agreement reached in 1976. A new cycle of borrowing began, purportedly to finance investment in the oil sector itself. Voices within the government and the international financial community were urging caution by early 1982, and even before. Yet as Angel Gurría, the Mexican Finance Ministry's director of external borrowing admitted, "there was a political decision not to stop the country's growth in the middle of the year" prior to elections (*Miami Herald* 30 July 1982). Central to the fiscal problems the country faced was a rapid expansion of subsidies to food and domestic energy consumption designed to increase ruling party support among the urban working and middle classes. The Lopez Portillo administration also witnessed a dramatic growth of corruption at all levels of government.

5.2.2 Anti-systemic Options: Debtor Cartels and Repudiation

In addition to the possibility of exploiting available resources within the prevailing case-by-case bargaining regime, debtors may conceivably seek to alter the rules of the game through cooperative behavior or unilateral attempts to reduce their debt burden. What are the conditions under which such anti-systemic options might be exercised?

A number of institutional features make the barriers to collective action among the banks less formidable than those facing debtor countries, including the dominance of a relatively small group of money-center banks with large exposures and extensive correspondent relations with smaller banks (Lipson 1985). These features, as well as the bargaining structure outlined above, have made it easier for the banks to discourage a debtors' cartel by isolating and punishing recalcitrant debtors (eg., Argentina in 1983–84 or Brazil in 1987), while rewarding others, such as Mexico, for "good behavior." Given these circumstances, the debtors with real power—Brazil, Mexico, Argentina—have preferred the advantages of striking their own separate deals to the risks involved in assuming cartel leadership.

This behavior reflects a collective action dilemma. The adoption of a common front of "tough" bargaining postures among the debtors would bring relief or better terms, but this public good is likely to be underprovided because of free riding. Despite the failures of the Cartagena group of debtors to reach a collective position, the barriers to collective action among debtors should not be overestimated. First, though LDC debt is highly concentrated among a relatively few lenders, it is even more concentrated on the borrower side. The defection of one large debtor would be enough to change the system substantially, even with the assumption of free riding. There can be little doubt that the negotiations surrounding Brazil's February 1987 suspension of interest payments will have a profound effect on future reschedulings. Second, learning among debtor governments allows the concessions granted in one case to become the basis for demands by other countries even in the absence of overt collaboration. When Mexico negotiated an innovative and relatively lenient restructuring in the fall of 1986, the banks claimed that the deal was sui generis. When similar interest-rate terms—13/16% over LIBOR—were extended to Argentina in the spring of 1987, the Philippines threatened to reopen negotiations to secure these terms as well. Though the banks insisted that it would not reopen talks with the Philippines, and the quest was eventually dropped, fear of such contagion is one reason why there has been a general reluctance on the part of the banks to discuss forgiveness or interest-rate capitalization.

Until recently, the threat of exclusion from access to future financing, including not only long-term lending but short-term trade credits, was held to be a powerful deterrent against repudiation by individual debtors (Eaton and Gersovitz 1981; Eaton and Taylor 1986, 221–28). A growing number of countries have unilaterally suspended debt payments or announced ceilings on repayments, however, often linked to overall export earnings.

There are a number of reasons why countries may repudiate. In some cases, "repudiation" occurs gradually, growing out of the accumulation of arrearages that become so large they are difficult to cover up through "new" lending. In some cases, the provision of "new" money through concerted lending agreements is foreclosed by banking regulations that force banks to write down nonperforming debt; this has been the case for Bolivia.

Domestic political pressures can play a role in the decision to repudiate, or can at least help explain the economic conditions making such a decision more likely. Alan García's decision to limit Peru's debt service in 1985 provides the clearest case of a repudiation with domestic political roots. García had used economic policy and relations with the IMF to mobilize left opposition to the conservative Belaúnde regime prior to his election. When announcing Zaire's decision in October 1986 to limit its debt service, Mobutu noted that several other African countries had obtained softer terms after outbreaks of domestic unrest, while in Zaire, "where the people are disciplined and follow their leader in whom they have full confidence, our partners try to tighten the screw more and more" (Callaghy 1987, 18). In the case of Brazil, politically motivated policy created the conditions leading to suspension of payments. Sarney came to office as the head of a new democratic government with the advantage of large international reserves built up by his predecessor. These allowed him to pursue expansionist policies and to oversee dramatic increases in consumption and wages. These policies ultimately contributed to new payments difficulties.

Yet repudiation still presents a puzzle. If a country is capable of repudiating, it should have a threat credible enough to secure its desired level of repayment *within* the normal restructuring process. Banks should be willing to make up the difference between what a country is willing to repay and the total debt service with "new" money that will cover interest payments and thus keep the loan on the books at full face value. This outcome is also superior for the country, even if politics are taken into account, since it would result in a higher level of welfare than with repudiation and reduced access to lending. It is possible that the threat of repudiation was not held to be credible by the banks and that repudiation can thus be seen as the result of failed communication. Repudiation might also simply be a move in a more extended bargaining game rather than a final outcome. President Sarney, for example, coupled his announcement of Brazil's open-ended suspension of interest payments with conciliatory signals that the government was not adopting "an attitude of confrontation" but rather sought a comprehensive solution (*New York Times,* 21 February 1987). President Mobutu of Zaire quickly followed his announcement with a trip to Washington seeking additional concessional aid.

A final reason for repudiation, however, has to do with size, and reverses the Keynsian adage that the large debtor holds the bargaining advantage, at least if exercising the option of repudiation is seen as an advantage. While Brazil's suspension of interest payments in February 1987 provides the most dramatic example of effective repudiation, the large countries have more typically exercised the tacit *threat* of withdrawal. It has been the smaller and weaker countries that have actually exercised the option: Bolivia, Peru, Ecuador, Costa Rica, the

Dominican Republic, Honduras, the Ivory Coast, Zaire, and Zambia. Small debtors may be more tempted to "free ride," particularly in a setting where increasing numbers of other countries are doing so. Reputational reasons on the part of the banks are also a factor, however. It is less costly for banks to let small countries go into default than to capitulate to their demands for additional credits if such demands establish a precedent.

5.3 The Domestic Politics of Stabilization and Adjustment

In the international bargaining arena, where the balance of power is weighted primarily on the creditor side, the central issue has been the terms of debt service; it is assumed that repayment hinges on a range of domestic macroeconomic and structural adjustment measures. At the domestic level, the emphasis is typically reversed. External bargaining positions have been politicized, but this is because stabilization and adjustment have distributional consequences for various social groups and thus political consequences for governments in power. In this section we seek to explain the conditions under which governments will adopt orthodox stabilization measures—particularly fiscal and monetary restraint and devaluation—as opposed to some heterodox alternative, or simply no coherent program at all. This is the problem of program *design*. Second, we seek to identify the most likely constraints governments face in carrying out their intentions, the question of program *implementation* or "sustainability" (Nelson 1984a).

Since these choices have distributional implications, we begin with a consideration of the way policy decisions are influenced by the relative power of competing social groups. Widely different intellectual traditions, including Marxist, pluralist, and neoclassical political economy, all converge on the importance of interest conflicts in the formation of public policy, even if they differ on the types of groups they consider politically relevant. Such "societal" explanations, however, often ignore the institutional setting in which policy is formulated and implemented. We therefore examine three institutional variables: the type of regime, political-electoral cycles, and the strength of the administrative apparatus.

5.3.1 Economic Interests and their Representation

To simplify, interest-based explanations assume that policies are the result of exchanges between politicians and their constituents. Politicians respond to constituent demands in order to advance their personal, electoral, and ideological goals. Interest groups deploy resources in order to gain particularistic benefits, whether through lobbying, threats, the donation of funds, or the promise of votes (Olson 1982). Studies of economic policies generally define the range of relevant interests in terms of factor of production (labor vs. capital) or by sector (urban vs. rural, export-oriented vs. domestic, etc.), and deduce actor preferences from the income and distributional consequences of different policy outcomes (Bhagwati 1982). Policy choice is then explained by reference to the balance of power among competing groups or by reference to the composition or support base of the ruling coalition or party in power.

There are a number of problems in applying this approach, including how to identify the "dominant coalition" in authoritarian settings where electoral politics is not central to the design of policy. Additional complexities are created by the fact that the distributional consequences of individual policies are not always clear, can vary between the short and long run, and are usually combined in policy packages. The influence of particular measures is often difficult to gauge, even for the actors themselves. As a point of departure, however, it is useful to examine the political role of business, labor, and agriculture in the adjustment process, though as we argue, none of these sectors represent undifferentiated sets of interests.

Business-Government Relations and the Politics of Adjustment

The central problem confronting any government in its relation with the private sector is establishing a credible and predictable policy environment. Confidence in government policy is a major factor in determining time horizons and willingness to take risk, and thus affects levels of investment and capital flight. In turn, the ability of business to withhold investment provides it with a potent lever for bargaining with political authorities over economic policy. The pressure to improve the business climate will pose particular problems for leftist governments, since business demands for "reassurance" place them in an awkward position vis-à-vis their core constituencies. Leftist governments, and parties with a history of attacking business and property rights, will have difficulty in establishing credibility even if announced intentions are conciliatory.

Argentina and Korea present a sharp contrast in the ability to inspire private-sector confidence. During the 1950s and early 1960s, recurrent balance of payments pressures impelled a succession of Argentine governments, including Perón himself in 1951–52 and the popularly-elected Arturo Frondizi in 1959–60, to adopt exceptionally severe wage and credit restrictions and devaluations. These actions took place in a context of deep political divisions dating to the period of Perón's populist rule. Orthodox policy measures could reduce imports, but were unsuccessful in generating new investment in the agro-export sector, which stagnated over the 1950s and 1960s. The prices of food exports showed a rising secular trend over the period, but the standard deviation of annual fluctuation was over twice as great as the average yearly rate of improvement, reflecting turbulent political cycles (Mallon and Sourrouille 1975).

Korea's political history is not without periods of turbulence and political protest. Nonetheless, during 18 years of uninterrupted rule, Park Chung Hee constructed a political system based on close working relations with, and support for, large domestic manufacturers. Labor wielded little influence. Even during the period of democratic rule (1964–72), opposition parties were weak, and overtly leftist groups precluded from politics. Investment's share of GNP rose steadily during Park's rule, influenced by a coherent indicative planning framework that ensured large firms adequate financing for approved projects (Collins and Park, see the country studies for this project). Korean economic policy under Park was flexible and responsive to changes in the economic environment, but enjoyed a high degree of credibility among business, particularly when compared with the Rhee regime of the fifties (Jones and Sakong 1980, 137).

Though leftist governments will, in general, have more difficulty in establishing the credibility of their economic policies than rightist governments, it is not necessarily true that all segments of business will favor orthodoxy. Much depends on sectoral position and the nature of international trade and financial links. Liquid asset holders, export-oriented industries, financial interests, and larger industrial and commercial firms with access to external credit markets are more likely to benefit from traditional stabilization and structural adjustment measures. Even where they are not politically organized, liquid asset holders can exert pressure on decision makers through the threat of capital flight.

Firms with investments in specific assets, import-substituting industries, (ISIs), and companies dependent on government contracts and credit are more likely to be threatened by devaluation, budget cuts, restrictions on domestic credit, and reforms that reduce protection and government support. Where they are weak politically, firms of this sort will adjust economically or fail. In countries where such firms are prominent and can mobilize political resources through peak organizations, parties, and the media, they will challenge the imposition of fiscal and monetary austerity. Unable to flee or circumvent the adverse consequences of stabilization, they stay and fight.

Though it is empirically difficult to disentangle these conflicting sets of business interests, the responses of Argentina, Mexico, and Brazil to the stabilization issues of the 1980s are suggestive of their significance (Frieden, forthcoming). In Argentina under the ultraorthodox military governments of the 1970s, deregulation of financial markets induced large firms in the industrial sector to invest in financial activities. The legacy was highly volatile financial and foreign exchange markets that operated as a major constraint on the heterodox leanings of the Alfonsín government, encouraging a cautious approach to fiscal and monetary policy after 1985 (Kaufman 1987). In Mexico, larger industrial groups in Monterrey, Puebla, and Guadalajara, commercial enterprises and new financial institutions played a similar role to the liquid asset holders in Argentina (Maxfield 1986). Although during the 1970s, the government encouraged the growth of industrial groups with close links to the state-owned enterprise sector, the stabilization of the De la Madrid government after 1982 reflected strong pressures from more economically liberal segments of the business class, whose resources held abroad have been estimated to equal over 40 percent of the country's total external debt (Garrido and Quintana 1986, 117).

In Brazil, the São Paulo industrial elite has been a force pushing government policy in a different direction, emphasizing more expansionary credit and fiscal policies. As early as the 1950s, the São Paulo Industrial Association played a role in scuttling a series of orthodox stabilization programs. And although they grudgingly accepted the austerity program under the military government in 1964–67, they lobbied intensively for the more expansionary industrialization programs adopted after the late 1960s. In 1981–83, when balance of payments pressures again forced the military to adopt tight money policies, the industrial elite stepped up its opposition to the regime itself, helping to tip the political balance toward a transition to civilian government in 1985 (Frieden 1987). Since that time, the São Paulo elite generally backed the expansionary aspect of the government's economic policy—especially the strong impetus its Cruzado program gave to domestic demand—while clamoring strongly after 1986 for a relaxation of the anti-inflationary price freeze and resisting governmental efforts to raise interest rates and reduce the size of the growing federal deficit (Kaufman 1987). While exchange rate policy is obviously the critical variable, it is noteworthy that Brazil's capital flight between 1976 and 1985 was substantially less than that from Argentina, Mexico, and Venezuela. (Watson et. al. 1986, 142)

Support for structural adjustment measures will also vary by sector. The stance of import-substituting manufacturing interests towards export-oriented policies, for example, is likely to be ambivalent. On the one hand, industries with inherent cost advantages will benefit from new incentives. These potential beneficiaries are unlikely to be aware of their competitiveness, however, because of long-standing distortions in the system of incentives, and are thus unlikely to provide the political impetus to such reforms. Because of the import-substituting policy regime, information on market conditions and knowledge on the mechanics of production for export is likely to be scarce. In Taiwan in the late fifties, local firms responded to the slowdown in ISI by calling for the cartelization of the domestic market (Lin 1973). The political efforts of organized business in Korea in the early sixties centered on securing government support for large import-substituting projects and increased access to foreign loans (Haggard, Kim, and Moon 1987). In both cases, import-substituting firms demanded and received assistance in making the transition to production for international markets.

The longer an import-substituting policy regime is in place, the more politically difficult the transition becomes. Import-substituting policies generally begin by protecting final consumer goods, while allowing the relatively free import of capital goods. As ISI continues, however, protection is extended upstream into intermediate and capital goods industries. This broadens the coalition of industries supporting protective policies, not only by creating new protected industries but by disadvantaging producers of consumer goods forced to rely on higher-cost domestic inputs. The relevant comparison is between the industrial policies of the East Asian and Latin American newly industrializing countries. Korea and Taiwan experienced relatively short periods of import-substitution before emphasizing exports and had not committed substantial investment to intermediate and capital goods industries. Brazil and Mexico, by contrast, sought to diversify their exports only after decades of ISI policies. Such a pattern of industrial development produces strong protectionist interests, as the heated debate over Mexico's entry into the GATT in 1979 showed. The diversification of exports is therefore even more likely to be characterized by subsidies and administrative measures designed to "push out" exports by offsetting previous biases.[3] A major point of interest is whether the economic crisis of the early eighties will lead to a rearrangement of basic coalitional patterns in Latin America, as the necessity to export creates new trade-related interests.

The Role of Labor

Labor plays a critical role in stabilization and adjustment episodes, even in situations where it is the dog that does not bark. As in the case of business groups, sectoral distinctions must be taken into account since they will determine both the ability of labor to organize and its likely policy preferences. The urban informal sector has constituted a powerful constraint on policy reform in a number of countries because of the threat of rioting, but in general, those segments of the labor force that are presumed to benefit most from structural adjustment measures, including rural workers and smallholders and underemployed informal sector workers, are difficult to mobilize politically. By contrast, unionized workers in both the public and private sectors are better positioned to oppose devaluation and fiscal restraint, with their anticipated consequences for real wages and employment. These workers are also likely to be concentrated in protected industries, and oppose import liberalization or an emphasis on exports that demands more realistic wage rates. They are also likely to constitute a barrier to the privatization or rationalization of state-owned enterprises.

One might therefore expect that the level of unionization and the likelihood of adopting and sustaining orthodox stabilization and structural adjustment measures will be inversely correlated, other things being equal. It might also be expected that populist or leftist governments that rely heavily on working class support are more likely to tolerate inflation (Hibbs 1977), experiment with heterodox programs, and adopt "tough" bargaining postures, since the costs of stabilization and continued repayment are more likely to fall on their core constituents (Korpi 1983).

A growing literature on the advanced industrial states has questioned the logic underlying these presumptions, particularly the inattention to the institutional setting in which labor demands are formulated (Katzenstein 1986; Crouch 1985; Cameron 1984) and the relationship between leftist parties and unions (Jackman 1987). Cameron, for example, finds that "nations with frequent leftist governments tended to experience low unemployment and strike activity and modest increases in earnings and prices, relative to the levels and rates found in nations dominated by nonleftist governing parties" (1984, 159–60) Indeed, it has become almost a new conventional wisdom that leftist governments working closely through corporatist structures with encompassing peak labor organizations are better positioned to secure wage moderation by negotiating compensatory agreements concerning job security, retraining, or unemployment compensation. Nelson (1984a, 1984b, 1985, 1987) has shown that such compensatory packages are crucial to the success of a number of stabilization and adjustment measures in the developing world, such as the lifting of food subsidies.

Holding the economic variables likely to affect labor behavior constant, particularly levels of unemployment, we hypothesize a nonmonotonic relation between the political strength of organized labor and the challenges they are likely to pose to stabilization and adjustment initiatives. Where strategic labor sectors are weak and penetrated, the burdens of stabilization policies are easy to impose, although the economic program, and the government itself, may encounter long-term costs in terms of losses of legitimacy. Controls on wages and limits on the ability of labor to organize were features of the stabilization programs of the "bureaucratic authoritarian" governments of Brazil, Argentina, Uruguay, and Chile over the sixties and seventies (Kaufman

1979) and were components of the Turkish and Korean programs of the early eighties.

On the other hand, labor may acquiesce to restraint within the context of a stabilization program in situations where it is represented by powerful peak associations with secure positions in the political process. There are few, if any, developing countries that can match the social-corporatist arrangements of Western Europe. Nevertheless, in Mexico and Venezuela the integration of unions as components of dominant multiclass parties has mitigated labor opposition by offering labor leaders the opportunity to negotiate short-term compensation and to exercise some influence over longer-run policies.

The most immediate political challenges to stabilization are likely to emerge in intermediate situations, where unions or informal sector workers possess sufficient resources for defensive mobilization but are still vulnerable to periodic repression and lack secure access to decision making or clear rights to organize. Many populist movements in Latin America fall into this category, including those recently resurfacing in Argentina, Brazil, and Uruguay after years of military exclusion. Turkish labor activity during the seventies, Bolivian labor demands in 1984–85 and recent strikes in Korea reveal a similar pattern. One widely suggested strategy for limiting conflict with such groups during periods of attempted stabilization has been the negotiation of comprehensive social pacts, including understandings concerning wage and price policy and other issues of macroeconomic policy. Social pacts, however, have been and are likely to be difficult to conclude or sustain with movements that are decentralized, divided by internal rivalries and concerned with restoring living standards and political rights (Kaufman 1985; Bianchi 1984). Nor is it clear that relatively weak governments can deliver the necessary quid-pro-quos.

An alternative means of containing conflict, recently explored in Argentina, has been to strike agreements with workers in key industrial sectors and to live with strong criticism and opposition from other groups within the labor movement. Such opposition, of course, can be considered a normal part of political life and need not in itself jeopardize the sustainability of stabilization and adjustment policies, assuming that a democratic politics has been institutionalized and labor is willing to accept the role of a loyal opposition. The still unresolved question among the new Latin American democracies is whether the military and right-wing groups will tolerate "legitimate" labor opposition, or conversely, whether labor leaders can hold rank-and-file opposition within "tolerable" bounds.

If labor organization affects the design and implementation of stabilization programs, it is also crucial in efforts to adopt more outwardlooking policies. In a series of comparative studies, Gary Fields (1984; 1985; Fields and Wan 1986) has argued that wage-setting institutions in the East Asian newly industrializing countries—Korea, Taiwan, Singapore, and Hong Kong—have favored market determination of wages, while those in a number of other small open economies, including Costa Rica, Jamaica, and Panama, have been subject to institutionalized wage setting. These institutional arrangements limit the downward flexibility of wages, with consequences for relative economic performance. The advantages of market-clearing wage rates in the developing country context are well known: the avoidance of economic inefficiencies in the allocation of labor; fuller labor utilization and lower levels of unemployment; greater equity both within the urban working class and between the urban and rural sectors; and greater ease in attracting foreign investment.

What has not been adequately underlined is that the labor movements in the East Asian success stories have been politically weak, even by developing country standards (Deyo 1987; Deyo, Haggard, and Koo 1986). Labor in Hong Kong has been weakened by waves of migration from the mainland, by splits between rival federations—one supporting the mainland, one neutral, one supporting the Kuomintang on Taiwan—and by a liberal policy governing union formation and registration that has led to the proliferation of small unions. In Singapore, a powerful labor movement and the leftist party with which it was linked were politically outmaneuvered by Lee Kuan Yew's People's Action Party (PAP) in the early sixties. PAP-affiliated unions were brought under quasi-corporatist control. Labor unions in Taiwan developed under the auspices of the ruling Kuomintang Party in the early postwar period, and are thoroughly penetrated by party cadre. Korea has had the most conflictual and openly repressive labor system of the four Asian NICs. Labor relations were liberalized following the return to democratic rule in 1964, but over the late sixties a number of economically motivated restrictions were placed on labor organization, beginning with workers in foreign-invested companies. Control of labor became more marked after the turn to authoritarian rule in 1973, and has been particularly harsh under the government of Chun Doo Hwan when a number of labor leaders have been arrested.

With the exception of Singapore, there is no evidence that controls on labor activity were instituted for the *purpose* of launching export-oriented growth. It is plausible, however, that the political weakness of the labor movements in these four countries facilitated market-oriented wage setting systems, managerial flexibility, and the maintenance of industrial peace which in turn were central to the success of export-led growth.

Agriculture and the Rural Sector

Markos Mamalakis (1969; 1971) and Michael Lipton (1977) have argued that the sectoral clashes between agriculture and industry and between countryside and city are likely to be of greater political salience in the process of economic development than the class conflict between labor and capital. This sectoral clash is of importance in the determination of trade and exchange rate policies, agricultural pricing policies, and subsidies to food consumption. The distributional consequences of these various policies are complex, but it is now clear that the policies associated with import-substitution—an overvalued exchange rate, high levels of protection to the manufacturing sector, and low or negative rates of protection to agriculture—shift income away from agriculture and mining toward services and industry, activities which, in turn, tend to be located in the cities. This observation has lead to several hypotheses about why these policies come about and are sustained. The most obvious concerns the overall balance between rural and urban interests. First developed by Michael Lipton (1977), this view is stated concisely by Sachs (1985) in a recent comparison of Latin American and East Asian growth strategies:

> The Latin American governments—whether civilian or military, right-wing or left-wing—find their most important constituents among urban workers and capitalists. For decades, the agricultural sector has been relatively weak, though certainly not powerless, almost everywhere in Latin America, with peasants only loosely organized and, with some exceptions, large-scale agricultural interests unable to hold decisive sway. Moreover, political unrest is most dangerous in the cities, so that urban interests must be bought off first in difficult periods. Interestingly, the opposite seems to be true in most of East Asia. Governments there, whether Japanese colonial rulers before World War II or nationalist governments, have felt the pressing need to win support of, or at least to appease, the rural sector (p. 550).

Sachs suggests several proxies for the balance between urban and rural interests in East Asia, including the degree of urbanization. He finds that levels of urbanization are much higher in Latin America than in East Asia, where policies have tended to be more favorable to agriculture.

A second, related argument has been developed by Gustav Ranis (1987) in drawing the same regional contrast. Ranis gives attention to the absence of large rents accruing from agriculture and natural resource exports in Korea and Taiwan when compared to the Latin American NICs. Natural resource exports allowed the Latin American NICs to maintain import-substitution longer than would otherwise be desirable. Once urban groups gained political control over these rents, they became powerful advocates of continuing ISI at the expense of agricultural and mining. Abundance of natural resources had the additional effect of making the Latin American countries vulnerable to fluctuations in their terms of trade. Thus liberalization episodes were subject to backsliding in response to changes in export earnings. The result is a stop-go pattern of liberalization in response to external shocks. In Taiwan and Korea, by contrast, there were no such rents available to finance continued ISI and thus when U.S. aid began to decline in the late fifties and early sixties, it was necessary to shift toward nontraditional exports. The absence of surpluses from agricultural exports meant that the rent-seeking aspects of economic policy that characterized the Latin American model were partly mitigated, and thus the degree of resistance to market-oriented economic policies was less.

While these arguments are broadly plausible, it is useful to introduce some caveats that draw closer attention to how agricultural interests are actually represented in the political process. As with business and labor, it is first important to draw some rough distinctions within the agicultural sector between large landholders on the one hand—whether traditional latifundia, plantations, or commercial farms—and smallholders, tenants, and landless agricultural labor on the other. In general, the second group of agricultural interests are difficult to organize, since they are poor, small, and geographically dispersed. Where they are organized, it is likely to be through the efforts of the government itself, which can exercise control through its power over credit, inputs, and marketing. Thus the degree of urbanization is not necessarily a good proxy for the power of urban as opposed to rural interests, as table 5.2 suggests. A relatively large unorganized rural sector can be politically offset by a highly organized or volatile urban popular sector, particularly where governments are weak. Levels of urbanization in African countries are quite low, comparable to those in Indonesia today or in Korea at the time of its shift toward manufactured exports, even though many of these countries have pursued policies that are strongly biased against agriculture (Bates 1981).

Conversely, it is not accurate to argue that "rural interests" are politically weak in Latin America simply because the level of urbanization is high. While it is true that agricultural producers as a whole have been disadvantaged by macroeconomic policies, large landholders have been able to use their political influence at both the local and national levels to capture particularlistic benefits for themselves, such as credit, access to inputs, irrigation, and infrastructure investments (de Janvry 1981; Grindle 1986). The political conflicts that have wracked Argentina in its postwar history have been closely related to a sectoral stalemate, even though only a very small share of the country's population is involved in agriculture. During periods of balance of payments difficulties, the need to expand exports gives export-oriented agriculture renewed power.

Table 5.2 Indicators of the Rural/Urban Balance

	Urban Population as Percentage of Total		Share of Labor Force in Agriculture (%)	
	1965	1984	1965	1980
Argentina	76	84	18	13
Bolivia	40	43	54	46
Brazil	51	72	48	31
Mexico	55	69	50	37
Indonesia	16	25	71	57
Korea	32	64	56	36
Philippines	32	39	58	52
Turkey	32	46	75	58
Low-income sub-Saharan Africa	11	21	75	58
Middle-income sub-Saharan Africa	16	28	52	50

Source: World Bank, *World Development Report 1986*, tables 30 and 31.

Despite the rapid growth of nontraditional exports in the Latin American NICs, in 1983 fuels, minerals and other primary commodities accounted for 59 percent of total exports in Brazil, 73 percent in Mexico, and 84 percent in Argentina.

One key political variable in determining the orientation of government policy is the extent to which smallholders, tenants, and landless labor are available for mobilization by revolutionary or opposition parties, a point made clearly in the country study on Indonesia. According to Woo and Nasution (see the country studies), Soeharto's attitude toward the exchange rate was heavily influenced by fears of the resuscitation of the Communist Party of Indonesia (Partai Kommunis Indonesia, PKI). In 1965, the PKI had more than two million members, largely landless peasants in Central and East Java where rice production had virtually stagnated for over a decade. The conflict between the government and the PKI following a failed coup in September 1965 left at least 500,000 people dead. The economic policies that followed, including a sharp devaluation, showed greater attention to the countryside than had been the case under Sukarno, even if they fell short of the redistributionist aims of the Communists. The turn to democracy in Turkey in 1950 allowed the opposition Democratic Party to mobilize support through appeals to rural interests. Democratic Party governments over the fifties sought to reverse the bias toward industrialization that had characterized economic strategy during the 1930s and 1940s. Concerns about the growth of rural insurgency have also colored the economic policy pronouncements of the Aquino administration in the Philippines.

Balance of payments constraints rather than concern with the agricultural sector appear to be the critical variable in explaining the transition to export-led growth in Korea and Taiwan. In Korea, *reducing* government credit and subsidies to agriculture was a crucial step in the stabilization required to make the transition (Haggard, Kim, and Moon 1987). Land reforms in both countries sprang from fears of rural-based insurgency, however. The Kuomintang (KMT) lost the Chinese civil war to a revolutionary communist party that built its base of support in the countryside. While no such threat was present in Taiwan, KMT leaders were heavily influenced by their experience on the mainland in the design of their development policies. The South Korean government faced rural insurgency up until the eve of the Korean War and was powerfully influenced in its land reform efforts by the sweeping reforms undertaken in North Korea.

The absence of a powerful agricultural elite may mitigate the sectoral conflict that often surrounds devaluation, but for reasons somewhat different than those suggested by Ranis. In countries otherwise as diverse as Argentina and Costa Rica, devaluation has been politically controversial precisely because it so clearly favors large landholding elites. The distributional conflict is particularly acute in Argentina, since the country's two main agricultural exports, wheat and beef, are also wage goods. Hong Kong and Singapore, of course, have no rural sectors to speak of. In Korea and Taiwan, land reform eliminated this divisive political cleavage and thus changed the politics of devaluation and agricultural pricing policies. It should be noted that both Korea and Taiwan have now followed a trajectory that is common to Japan and a number of European countries. As comparative advantage has shifted out of agriculture, the continuing political concern with rural support has led to highly protective policies.

Finally, it is not clear that the turn to import-substitution policies in Latin America was the result of the rise of urban political forces alone, even though the adoption of such policies created its own constituency over time (Kaufman 1979). Prior to the Great Depression, white-collar urban workers and industrialists identified their welfare with the expansion of the export-economy. With the exception of Mexico, there was never a serious challenge to the property of traditional elites or to their control of the agrarian and export sectors. A key factor was the Depression and World War II which resulted in dissatisfaction with the prevailing export model. But overtly "nationalist-populist" coalitions rose to power relatively infrequently in the thirties and forties. While "populist," the Cárdenas government of the thirties in Mexico depended to a much greater extent on the mobilization of rural support. The post-Depression industrialization process began under the aegis of regimes strongly influenced by the agro-export oligarchies in both Argentina and Chile. And in post-Cárdenas Mexico and the Brazilian Estado Novo (1937–45), manufacturing expanded under governments that, like the authoritarian regimes of the sixties and seventies, placed strict restrictions on the political activities of the urban popular sector.

This historical digression suggests two further observations. First, in the past, external shocks have increased returns to capital and labor in the modern manufacturing sector resulting in "natural" import substitution. Latin American ISI moved forward by a series of shocks, beginning with World War I and lasting through the supply interruptions associated with World War II. The Depression played a critical role in the evolution of Turkey's industrial policy and in Korea, Indonesia, and the Philippines, postwar balance of payments crises set the stage for the adoption of import-substituting policies. The current crisis may push countries in the opposite direction because of the need to generate exports to service their debt. On the other hand, the rise in protectionism and the general slowdown in world economic growth constitute less auspicious conditions for the launching of export-oriented policies than those facing Japan and the East Asian NICs in the fifties and sixties.

Second, caution has to be exercised in drawing too sharp a line between "rural" and "urban," or "agricultural" and "industrial" interests. In the Philippines, landed elites have integrated into financial and manufacturing activities, giving them a somewhat ambivalent set of interests vis-à-vis trade and exchange rate policy. This might help explain why the Philippines, with a relatively low level of urbanization, has pursued a development strategy more similar to the Latin American pattern.

5.3.2 The Influence of Representative Institutions and Regime Type

Identifying the interests of major actors is obviously important in understanding the politics of stabilization and structural adjustment, but as we have argued, the institutional setting can determine which interests matter politically. The major debate in the political science literature on stabilization in the last ten years has centered less on the role of competing interest groups than on the nature of the overall political regime, and in particular, the question of whether "successful" economic stabilization requires authoritarian governments or repression (Skidmore 1977; Díaz-Alejandro 1981, 1983; Pion-Berlin 1983; Kaufman 1979, 1985; Haggard 1986; Bienen and Gersovitz 1985; Remmer 1986; Sidell 1987).

There is no clear evidence that authoritarian regimes in general do any better than democracies in imposing conventional fiscal and monetary restraint. During the 1960s and 1970s, exclusionary military governments in Brazil, Argentina, and Chile did carry out extremely harsh shock packages that would not have been sustainable in less repressive systems (Kaufman 1979). But during the crisis of the 1980s, Mexico's milder one-party civilian government imposed comparable shocks and competitive electoral regimes in Costa Rica and Argentina carried out tough, if more moderate, fiscal and monetary restrictions. In addition, a number of "authoritarian" regimes, such as Haiti and Zaire, have done poorly. The few cross-national political comparisons of IMF programs that do exist, such as Remmer's (1986) study of Latin American programs and Haggard's (1986) analysis of Extended Fund Facility agreements reveal no systematic association between either democracy or dictatorship and the ability to stabilize. Broader studies that have attempted to measure the influence of democracy and authoritarianism on growth have yielded conflicting results (Marsh 1979; Dick 1974; Weede 1983; Kohli 1986).

Despite the lack of a clear empirical pattern, however, it remains plausible that the rules governing public participation and representation are important, quite apart from the nature of the coalition in power. The problem lies in the fact that the "democratic" and "authoritarian" categories are too broad to be of analytic use. Finer distinctions are required to differentiate between types of democratic and authoritarian rule and to link them more convincingly to economic outcomes.

Variation in Democratic Institutions: Plebiscitary vs. Consultative Democracy

A number of variations in democratic institutions can influence the making of economic policy, including the strength of political parties and the differences between presidential and parliamentary rule (Rogowski 1987; Jackman 1987). As noted above in the discussion of labor, Katzenstein (1986) and others (e.g., Goldthorpe 1984) argue that adjustment in the advanced industrial states is facilitated by social-corporatist forms of interest representation in which economic policies are framed through institutionalized bargaining among state officials and centralized peak associations of business and labor. Democratic governments with more pluralistic and decentralized modes of decision making typically had greater problems in this regard.

A slightly different distinction might be made in the developing country context between "plebiscitary" and "consultative" democracies. In plebiscitary democracies, such as Peru or the Philippines, elites rely primarily on diffuse populist appeals to legitimate their authority. Policy is framed through closed-door deliberations among technocrats and other interests within the "inner circle," and while individual political leaders may develop systems of consultation with affected interest groups, they are not constrained to do so. Parties tend to be weak, vehicles for electoral mobilization rather than for the ongoing representation of interests. Although economic stabilization initiatives may have momentary success in such a framework, particularly as such a system is likely to imply a greater degree of executive discretion, they may be more difficult to sustain. On the other hand, we might expect better performance in systems that manage to strike a balance between coherent executive decision-making authority and institutionalized channels through which organized groups can articulate their interests.

An interesting example is provided by Argentina's Austral Plan of 1985–87, a relatively successful combination of orthodox fiscal and monetary restraint with more experimental attempts to control prices and institute a currency reform (Kaufman 1987). The comparatively heterodox aspects of this package reflected strong political pressures for a socially acceptable alternative to the orthodox shocks that had been a feature of military rule. At the same time, during 1986 and 1987, after several years of unsuccessful negotiations with the central leadership of the Peronist unions over a "social pact," the government adopted a new bargaining strategy that centered on negotiated wage agreements with individual Peronist unions representing key economic sectors. While the heads of the central union confederation continued to criticize and demonstrate against government measures, the new bargaining framework did much to deflect opposition to the more orthodox fiscal and monetary components of government policy. In contrast, in Brazil—which corresponds more closely to the plebiscitary pattern—a parallel program, the Plan Cruzado, collapsed in early 1987 when the government was unable or unwilling to build a broad coalition of party and union interests behind necessary demand restraint measures.

Although the Argentine story is particularly dramatic because of the country's long history of instability and zero-sum politics, it is not the only instance of effective democratic response to stabilization. In Costa Rica, a tradition of informal consultation with business and labor unions facilitated acceptance of a comparatively successful orthodox IMF program in 1982–83 (Nelson 1987). While devaluing and sharply raising taxes and public utility and state-owned oil-refinery rates, the government managed and preempted popular discontent with a combination of selective wage concessions to low-income workers and a temporary food aid program. As a class, these democratic governments may well be more effective than many authoritarian regimes, as well as "plebiscitary democracies.'' At the very least, they place some limits on the kind of policy adventurism designed for populist appeal; at best, consultation provides opportunities for persuasion, obtaining feedback and negotiating compensating agreements.

The Variety of Authoritarian Institutions: Weak vs. Strong Authoritarian States

As a first cut at classification of single-party and military authoritarian governments, it is useful to note some broad characteristics of what might be termed ''strong'' and ''weak'' authoritarian regimes, even though these characterizations lump together a number of different variables. The typical ''strong'' authoritarian regime would have the following features:

1. Continuity in leadership and/or relatively clear rules governing succession.
2. A political structure that insulates technocrats and economic decision-makers from societal pressures, as well as from the demands of political elites themselves. The mechanisms may be through the dominance of a single party, as in Mexico, Taiwan, and Singapore, or through military rule, as in Korea, but rests ultimately on the decision by political elites to allow technocrats the political space to operate.
3. An economic policy machinery with a minimum of capture by social groups.
4. ''Corporatist'' organization of interests through state-sanctioned and-controlled associations. These permit official supervision of key social groups and give government officials the capacity to control the agenda of demands.
5. A military, police, or domestic intelligence network capable of penetrating strategic social insitutions and deploying violence where ''necessary.''

A ''weak'' authoritarian state may share many of the formal characteristics of a strong one, such as prohibitions on independent political organization, and repressive or one-party or military rule. But weak systems also have these charcteristics:

1. Frequent changes in leadership through ''palace coups'' or factional rivalry within the ruling political elite.
2. A low degree of insulation for technocrats from the political demands of powerful social groups and the executive itself.
3. A dualistic decision-making structure in which technocrats control only a limited range of policy instruments and compete with political elites who deploy other public resources for both political and private purposes.

4. Extensive networks of patron-client, personalistic, and familial relations within the formal government structure, sustained by corruption, rent-granting, nepotism, and the discretionary allocation of governmental resources.
5. Predatory behavior by military and domestic security forces and the lack of independent, nonpenetrated organizations of social control.

''Strong'' authoritarian regimes may differ as much from weak ones as from democracies in the way they implement stabilization policy. In fact, there is probably greater variation in the performance of developing authoritarian regimes than among developing country democracies, since weak authoritarian regimes are less capable or interested in controlling rent-seeking behavior than either strong authoritarian regimes or democracies.

Korea is illustrative of how the institutional capabilities of ''strong'' authoritarian regimes help explain the coherence of adjustment policy and the speed of its implementation (Haggard and Moon 1986). The need for stabilization and structural adjustment was recognized among an alliance of monetarist technocrats prior to Park Chung Hee's assassination in October 1979, but reform was delayed by the transition to a new government under Chun Doo Hwan. The constitution of the new Fifth Republic, designed by the military coup leaders, exhibited continuity with its predecessor: a strong executive; a weak legislature controlled by the ruling party; forceful executive support for technocratic initiatives; and various limits on the freedom of the press, assembly, and opposition activity. Seeking to distance himself from the economic difficulties that had plagued Park's last years, Chun threw his support behind the stabilization plans of the monetarists. The executive's tight control of the budgetary process allowed a dramatic reversal in the rate of increase of government spending. While expenditure grew 21.9 percent in 1981, it was zero in 1984. The high level of the budget devoted to military expenditures makes the Korean fiscal structure quite rigid. Nonetheless, the government acted against the interests of groups usually able to organize against the imposition of austerities. Food price supports were cut dramatically, various special funds used to target supports to industry were consolidated or eliminated and even the government administration itself was streamlined through the laying off of over 15,000 employees, an action unthinkable in most developing countries. The Korean government never intervened extensively in wage setting prior to the eighties. After 1981, the government relied on new and established institutional controls, including its informal penetration of the union movement, arrest of labor leaders, and restrictive trade union and new dispute settlement laws to curb labor demands.

A second example of the significance of military-imposed institutions is provided by the Turkish case (Pevsner 1984; Okyar 1983). In January 1980, the civilian government of Suleyman Demirel moved belatedly to develop a stabilization and structural adjustment plan. Efforts at implementation took place against a backdrop of parliamentary stalemate, politically-mobilized labor opposition, and escalating violence. In September, the military intervened and enjoyed a high level of public confidence because of its ability to control violence and its reputation, from previous interventions, of disinterest in long rule. Parliament was dissolved and, in general, the military moved to depoliticize society through large-scale arrests and limits on the press and the freedom of interest-group and political organization. Rather than turning to a new economic team, the military retained Turgut Ozal, the principal architect of stabilization under the civilian Demirel government, and gave him new freedom to act. The military took major actions in the area of fiscal policy, including a reversal of politically motivated decisions on agricultural price supports, and developed a new set of institutions for wage settlement that significantly weakened labor's power. Strikes were banned, the major left-wing labor federation was disbanded and collective bargaining suspended. Nominal wage increases that were running in the 60 to 70 percent range prior to military intervention dropped to around 25 percent for 1981. As in Korea, the government's actions were not limited to control of labor. Other politically sensitive moves included the beginnings of reform of the tax system and the state-owned enterprise sector, the liberalization of imports and, in general, the adoption of more liberal and outward-oriented policies that had been the subject of political controversey between the parties during the 1970s.

The Philippines in the late Marcos years represents an intermediate, or "dualistic," type of government that mixed features of "strong" authoritarian rule, such as a powerful executive, weak legislature, and the insulation of economic policy making from electoral pressures, with extensive corruption and political interference by the president. The assassination of Benigno Aquino in August 1983 triggered a reassessment of the Philippines by external creditors. Following a foreign exchange crisis and the declaration of a moratorium on debt payments in October, the government came under intense pressures from the private sector, foreign banks, multilateral agencies, and the United States to initiate stabilization and structural adjustment measures. Despite this pressure, the government continued to balk at stabilization through the first half of 1984, extending large credits to financially troubled "crony" companies and borrowing heavily to "finance" the parliamentary elections of May 1984.

As the pressure on Marcos grew from the IMF and external creditors, the technocrats were granted the leeway to pursue policies destined to have a high political cost, particularly the dramatic stabilization program based on the issue of high-yielding treasury bills. On the other hand, a number of structural adjustment measures were actively resisted. The most important of these was the restoration of market forces in the sugar, coconut, and grains sectors. Though the mechanisms differed slightly in each case, all three industries had come under state or state-sanctioned monopoly control. These monopolies, in turn, were in the hands of close political allies of Marcos who provided political funds and organized regional and sectoral bases of support (Hawes 1987). The failure to move forward with reform of this sector was the critical factor leading to the suspension of IMF drawings in October 1985. The study of Indonesia by Woo and Nasution (see the country studies) suggests a broadly similar political structure, combining islands of technocratic rationality and administrative competence with clientelism, executive intervention, and institutionalized corruption.

For a number of small, poor developing countries, the nature of "authoritarianism" is in no way conducive to implementing stabilization and adjustment measures; indeed, the question must be seriously entertained whether such countries are capable of formulating, implementing, and sustaining *any* coherent economic strategy. In poor, ethnically fragmented societies, such as many of the small sub-Saharan states, political authority is maintained by patron-client relations. The highly personalistic, even familial autocracies such as those in Zaire (Callaghy 1984) or Haiti under the Duvaliers are the clearest examples, but the class of such cases is more extensive. While Bolivia saw an alternation of constitutional and military rule between 1978 and 1982, these formal features of governance were less important than the endemic instability of ruling coalitions and the dense networks of patronage that linked political elites, the bureaucracy, and state-owned enterprises and client groups. As Malloy argues, legal and political institutions were "seen not as ways of doing things but as obstructions to any action" (Malloy and Gamarra 1987, 117). Such countries have histories of failed IMF programs that founder on the inability of outside agencies to induce a rationalization of central government finances, even, in the case of Zaire, where recourse was had to the 19th century solution of installing expatriate teams in strategic economic policy posts (Callaghy 1984). Since the maintenance of political power in such systems rests on discretionary access to state funds and instrumental ties with key regional, bureaucratic, or ethnic elites, the rationalization of public finances is immediately irrational in a political sense.

The problem is not simply one of "corruption"; many countries, including Korea, have grown rapidly with some corruption, though the levels do not approach the drain on resources visible in Zaire, Haiti, or the Philippines under Marcos. The problem is the deeper one of lack of political institutions capable of channeling and containing demands and weak administrative capacity. Under extreme external pressure or absolutely forcing domestic economic developments, such countries may institute surprising reforms, such as Zaire's dramatic devaluation of 1982. Nonetheless, in the absence of political and administrative development, the ability to sustain such reforms or to implement the type of structural adjustment required to get on a higher growth path is open to serious doubt.

5.3.3 Political Cycles

The analysis of the overall balance of interest groups and the nature of the political regime are useful for underlining some broad cross-national variations in policy patterns. Within nations, however, policies are affected by short-term shifts in the political context that condition the expectations of key actors and shape opportunities for mobilizing support for new policy initiatives. A large literature on the political business cycle has argued that regardless of the party in power, economic policy will change over the electoral cycle (Nordhaus 1975; Lindbeck 1976; Tufte 1978). While these arguments have been criticized on both empirical and theoretical grounds, they focus attention on a critical variable: the time horizons of governments. It seems plausible that incumbent governments will grow increasingly reluctant to impose unpopular measures as their tenure in office becomes shorter and/or less secure. Conversely, they will be more prone to take short-term political risks if they perceive they will be around to reap the projected political gains later on.

To make such arguments relevant to developing countries, however, it is necessary to consider not only changes of elected governments but noninstitutional changes of regime. Military intervention or the transition to authoritarian one-party rule has occured in the postwar period in all of the cases included in this project except Mexico (see table 5.3). During the 1980s, this trend was reversed: Argentina, Brazil, Bolivia, the Philippines, Turkey, and Korea have made, or are making, transitions to democratic rule. We thus explore the political cycle hypothesis in two developing country contexts: in those where constitutional changes of government have been comparatively routine and stable, and those where the security of incumbents is less securely institutionalized.

Electoral Cycles in Constitutional Systems

There are several variants of the political business cycle model, but all rest on several basic assumptions: that governments seek to maximize their electoral chances; that voting behavior is driven by short-run economic conditions, particularly levels of unemployment; and that

Table 5.3 Changes in Government, 1970 to Present, Select Countries

Country/Date	Head of Government	Form of Government
Argentina		
6/1966–6/1970	Juan Carlos Onganía (deposed)	Military
6/1970–3/1971	Roberto Levingston (deposed)	Military
3/1971–5/1973	Alejandro Lanosse	Military (transitional)
5/1973–8/1973	Héctor Cámpora	Directly elected
8/1973–7/1974	Juan Perón	Directly elected
7/1974–3/1976	Isabel Perón (deposed)	Succeeded Juan Perón on his death
3/1976–3/1981	Jorge A. Videla	Military
3/1981–12/1981	Roberto Viola	Military
12/1981–12/1983	Reynaldo Bignone	Military (transitional)
12/1983–	Raúl Alfonsín	Directly elected
Bolivia		
9/1969–10/1970	Ovando Candia (deposed)	Military
10/1970–8/1971	Juan José Torres (deposed)	Military
8/1971–7/1978	Hugo Bánzer Suárez	Military-civilian (1971–1973); military (1973–1978)
7/1978–11/1978	Juan Pereda Asbún (deposed)	Directly elected
11/1978–8/1979	David Padilla	Military (transitional)
8/1979–11/1979	Wálter Guevara Arze (deposed)	Civilian-interim
11/1979	Natusch Busch	Military
11/1979–6/1980	Lydia Gueiler (deposed)	Civilian-interim
6/1980–8/1981	Luis García Mesa (deposed)	Military
8/1981–9/1981		Military junta
9/1981–7/1982	Celso Torrelio Villa (deposed)	Military
7/1982–10/1982	Guido Vildoso Calderon	Military (transitional)
10/1982–8/1985	Hernán Siles Zuazo	Indirectly elected
8/1985–	Paz Estenssoro	Directly elected
Brazil		
10/1969–3/1974	Emilio Garrastazu Medici	Military
3/1974–3/1979	Ernesto Geisel	Military
3/1979–3/1985	João Baptista Figueiredo	Military
3/1985	José Sarney	Indirectly elected[a]
Mexico		
12/1970–12/1976	Luis Echeverría	Directly elected, dominant party system
12/1976–12/1982	José Lopez Portillo	Directly elected
12/1982–	Miguel De la Madrid	Directly elected
Indonesia		
3/1966–	General Soeharto	Dominant party system

Table 5.3 (continued)

Country/Date	Head of Government	Form of Government
Korea		
1964–10/1972	Park Chung Hee	Directly elected
10/1972–10/1979	Park Chung Hee	Authoritarian
10/1979–5/1980	Choi Kyu Hah	Civilian-interim
5/1980–2/1981	Chun Doo Hwan	Military
2/1981–	Chun Doo Hwan	Indirectly elected, authoritarian
Philippines		
9/1972–1/1981	Ferdinand Marcos	Martial law rule
1/1981–2/1986	Ferdinand Marcos	Directly elected, dominant party system
2/1986–	Corazon Aquino	Directly elected, took office following revolution
Turkey		
10/1969–3/1971	Suleyman Demirel	Directly elected
3/1971–7/1974		Military-civilian interim governments
7/1974–9/1974	Bulent Ecevit	Directly elected
9/1974–4/1975	Sadi Irmak	Civilian interim
4/1975–1/1978	Suleyman Demirel	Directly elected
1/1978–10/1979	Bulent Ecevit	Directly elected
10/1979–9/1980	Suleyman Demirel	Directly elected
9/1980–11/1983	Kenan Evren	Military
11/1983–	Turgut Ozal	Directly elected

[a]Sarney was chosen vice-president, and assumed the presidency on the death of the presidential candidate, Tancredo Neves.

governments can manipulate the economy to enhance their electoral chances. According to the model developed by Nordhaus (1975), for example, governments will choose combinations of inflation and unemployment on the short-run Phillips curve that are optimal with reference to the popular vote function, even if they involve a heavy discount for future inflation. In the context of stabilization episodes, governments facing electoral contests would therefore be more likely to resist orthodox measures and to seek heterodox alternatives.

The empirical evidence for a political business cycle is extremely weak for the advanced industrial states (Alt and Chrystal 1983, chap. 5). Brian Barry has also forcefully challenged the analytic underpinnings of the model, arguing it assumes "a collection of rogues competing for the favors of a larger collection of dupes" (Barry 1985, 300). Many of the political and institutional characteristics of the advanced industrial states that mitigate the political business cycle are absent in the developing country context, however. These include, among other things, more informed publics, more independent media coverage of economic policy, more institutionalized forms of consultation which lengthen the time horizons of affected social groups, and extensive welfare systems that cushion the costs of unemployment. Given generally lower levels of income and extensive poverty, electoral support in the developing world might plausibly be linked to the government's ability to deliver short-term material benefits.

These hypotheses can be explored in two ways. One is to focus directly on the politics of stabilization. The political business cycle hypothesis would lead one to expect strong pressures on decision makers from members of the party in power facing electoral contests. Regardless of initial ideological predilections, this has the effect of splitting governments into pro- and antistabilization factions. In Jamaica under the leftist Manley, where there was little faith in IMF programs in the first place, there is evidence that populist factions within the government party sought to advance their agenda by aggressively politicizing the IMF issue (Stephens and Stephens 1986). In Sri Lanka, by contrast, where a conservative government under J. R. Jayardene launched wide-ranging reforms after 1977, battles between the party in parliament and the more conservative Finance Ministry are also visible (Haggard 1986). Similarly, as Korea has moved toward electoral politics, government party legislators have been forced to respond to the opposition by taking positions critical of unpopular government initiatives, such as import-liberalization (Haggard and Moon 1986).

The electoral cycle hypothesis can also be analyzed by observing the government's macroeconomic policy behavior. Barry Ames's (1987) research on Latin American fiscal policy from 1945 to 1980 finds strong evidence of electoral cycles. When an election approached, expenditures rose as a way of reassuring followers and attracting new ones. When the election passed, expenditures continued to rise if a new leader or party was elected.

The Mexican experience over the last twenty years provides the clearest example of a political business cycle. Despite the continuity of one-party rule, elections are seen by Mexican political officials as playing an important function in legitimating the political system. In each of the last three changes of administration (1970, 1976, and 1982), expansionary fiscal and monetary policies coinciding with elections generated subsequent inflationary and balance of payments pressures. Stabilization initiatives followed during the initial years of each new administrative term, generally leading to reductions in inflation rates and current account deficits, that were then followed in 1975–76 and 1981–83 by a new round of inflationary and balance of payments pressures. The balance of payments crisis of 1970 in the Philippines has also been attributed to election year spending (Dohner and Intal, see the country studies).

If the period prior to elections is likely to be characterized by expansionary policies and resistance to stabilization, the periods following elections will allow governments more leeway to introduce reforms. Certain factors are likely to expand the room for maneuver of newly elected governments beyond the temporary deliverance from the pressure of electoral contest. First, is the nature of the previous government's policies. The greater the perception and reality of failure, the greater the space for innovation and reform. This helps explain the dramatic initiatives undertaken in Bolivia under the Paz Estenssoro government in September 1985. Second, the government gains where electoral opposition is weak and divided. This is not only true because it provides the legislative space to launch initiatives, but because it is likely to be correlated with a weak ability of the opposition to galvanize action outside of the legislature, such as through strikes, that would undermine stabilization and adjustment efforts.

Unstable Democracies and Transitions to and from Authoritarian Rule

As table 5.3 suggests, the majority of stabilization efforts have come in situations where the tenure of incumbent governments, whether authoritarian or democratic, is highly uncertain. This uncertainty surrounding the fundamental rules of the political game affects politicians' time horizons and policy choices.

The principal challenge facing the leaders of new governments in unconsolidated democracies is typically to sustain the mass support that had previously been built up during the challenge to the outgoing dictatorships. Since the shift from authoritarianism to democracy raises hopes for an improvement in welfare as well as political freedom, newly elected leaders face expectations that are not conducive to the imposition of austerity. On the contrary, whereas new administrations in stable electoral systems may choose to pay the short-term costs of stabilization early in their terms, the leaders of unconsolidated democracies may turn to economic populism as a means of cementing both electoral support and, where there is a lingering threat from antidemocratic forces, broader societal support for the democratic project itself. The new administrations of Alfonsín in Argentina, Sarney in Brazil, and the succession of civilian governments in Turkey after the return to democracy in 1973, and again after 1983, behaved in precisely this way. The return to democracy in Bolivia under the Siles government in 1982 was not followed by large increases in public spending, but as Morales and Sachs (see the country studies) point out, the new-left coalition government was unable to reduce the deficits it inherited from earlier governments. This pattern holds for earlier periods as well.

In Argentina, for example, Frondizi (in 1958), Illia (in 1964), and the Peronists themselves (in 1973), all entered office after periods of military dictatorship with wage increases and expansionist economic programs aimed at accelerating growth.

A new phase in the cycle is reached as such projects encounter constraints and governments are forced to turn toward orthodoxy. During the 1950s Perón and Frondizi imposed two of the harshest and most orthodox stabilization programs in Argentine history. Menderes formulated a wide-ranging stabilization program in Turkey in 1958 after years of expansionist policies. Alfonsín began to change policy course late in 1984, while the populist Bernardo Grinspun was still finance minister. The Austral package of 1985, despite its heterodox price control features, continued in quite conservative fiscal and monetary directions throughout most of 1986–87. In early 1987, after several years of rapid economic expansion, the Sarney government faced similar external accounts pressures, and although one component of the response was a moratorium on external debt payments, the government also appeared to be preparing to adopt a tougher stabilization package at home under the leadership of a new finance minister, Bresser Pereira. These episodes suggest the following stylized cyclical pattern for new democracies: expansion, followed by balance of payments problems, followed by attempts to impose relatively orthodox stabilization packages.

New authoritarian regimes appear to follow the opposite path. There are examples of populist military governments: Bolivia in 1970–71, the Peruvian experiment of the early seventies, and the first year of Korea's military rule in 1961–62. Typically, however, the military seizes power in the midst of political crises that have economic correlates, and the policies pursued in the initial years in office reflect commitments to impose "discipline" and "rationalize" the economic system, in part by politically limiting the demands of leftist and labor groups. This was the general pattern, through under different constraints, in Brazil (1964), Argentina (1966 and 1976), Turkey (1971 and 1980), Indonesia (1966), Bolivia (1971), and Korea (1980–81), as well as in Chile and Uruguay in the mid-1970s. As the initial crisis is brought under control, however, authoritarian regimes begin to face new problems of political consolidation or transition (Ames 1987, chap. 5). At this point, they come under strong pressure to pursue more growth-oriented policies, if not to build support, then at least to fend off or moderate the militancy of the opposition. Brazil's externally financed industrial expansion of the 1970s provides one striking example. The decisions to pursue high-growth policies through the oil shocks coincided almost exactly with decisions taken by the military regime concerning the "decompression" of the political system by gradually expanding opportunities for electoral competition and pluralistic politics. The transition from martial law in the Philippines (announced in December 1981) was followed by local and parliamentary elections in 1982 and 1984 that were accompanied by sharp expansions in the money supply. The military regimes exiting from Argentina in 1970–73 and 1980–83 did so under much more chaotic and unplanned circumstances. Yet both felt it imperative to step away from the economic orthodoxy of the early years of the regime and to adopt policies considered more favorable to the Peronist unions and local manufacturing groups. Thus, while governments in unconsolidated democracies expand then stabilize, their authoritarian counterparts stabilize then expand. In the aggregate, economic performance may look similar for democratic and authoritarian regimes, as Remmer (1986) argues, but these averages conceal differences in the underlying dynamics and timing of policy choices.

5.3.4 The Bureaucracy: Adminstrative Capacity and the State as Interest Group

The foregoing discussion has focused on political competition among interest groups, politicians, and parties. It is clear, however, that characteristics of the bureaucracy and bureaucratic politics are also important for understanding the ability of governments to manage stabilization crises. This is true for two reasons. First, the administrative capacity of the government affects its ability to carry out coherent economic policy. This is particularly true of those structural adjustment measures which demand complex organizational support to be effective. The attention given to "policy reform" among economists is rarely matched by adequate attention to the administrative requirements of successful policy implementation. But the bureaucracy is important for a second reason. In many developing countries, whether democratic or authoritarian, public employees constitute an extremely powerful political force. In a number of low-income developing countries, they *are* the "urban interest." A number of policies associated with stabilization and structural adjustment, including fiscal and wage restraint and the privatization of state-owned enterprises, pose direct challenges to the interests of public employees.

Administrative capacity is affected by several interrelated aspects of staffing and organization. The most basic factor is the existence of institutional mechanisms for training technocratic personnel and recruiting them into pivotal decision-making positions. Such mechanisms are well developed in Korea, where technocratic teams with fairly unified economic ideologies have controlled a highly centralized economic decision-making apparatus over a long period of time. They are less developed in countries like Bolivia, Haiti, and a number of low-income African and Caribbean states where the level of technical expertise is generally low or where trained technicians face overwhelming political constraints in their efforts to influence the policy agenda. In between lie a number of cases where the overall level of technical expertise is high, but where economic decision-making authority is fragmented among ministries representing competing ideological visions or political constituents. This was true for the Lopez Portillo administration in Mexico, under Soeharto in Indonesia, and in Turkey over the late 1970s. Elsewhere, technocrats have been circumvented by interventionist executives, as was true in the late Marcos years in the Philippines. While it is very difficult to generalize about these intrabureaucratic conflicts, it is a truism to say that they have a powerful influence on the design and implementation of economic programs. The politics of stabilization and structural adjustment is also a form of bureaucratic politics.

Procedures for monitoring economic variables, including the accumulation of debt itself, are one revealing indicator of the administrative capacity of developing country bureaucracies. The studies for the project suggest repeatedly that even in relatively developed countries, major gaps existed prior to the debt crisis in governments' knowledge of the extent of debt accumulation. In Mexico, there was a sophisticated system for monitoring public, but not private, debt and in Argentina the crisis was clearly exacerbated by lack of clear information.

States also vary in the organizational resources and range of policy instruments available to implement the more selective forms of economic intervention associated with some structural adjustment measures. These include promoting technological research, facilitating adjustments in labor supply or shifting resources expeditiously into the export sector. Korea's transition to export-led growth provides an important, and often misunderstood, example (Haggard, Kim, and Moon 1987). The dominant neoclassical explanation of this transition holds that it was the result of reforms in the structure of incentives, including primarily a liberalization of imports and a devaluation of the exchange rate. While these reforms were no doubt important, they were accompanied by a range of supportive interventions, including highly subsidized credit from the state-owned banking sector. But the government also developed a sophisticated *organization* for providing market information, assisting firms in developing new products, forging links with foreign buyers, and monitoring export behavior, in some cases down to the level of the individual firm. In addition, the transition to export-led growth was preceded by fundamental institutional changes in the structure of economic decision making. Under President Syngman Rhee (1948–61), business-government relations were characterized by pervasive rent seeking and corruption, with the result that reformist technocrats within the burearcracy were politically marginalized. Under military rule (1961–63), old networks of political influence were broken and new power invested in a highly centralized and autonomous Economic Planning Board. Technocrats gained new access to political elites. New organizations were also developed to allow business to communicate with government over their policy needs, such as monthly export meetings attended by the president himself. In sum, the transition entailed not only policy reforms but institutional innovation as well.

The issue is not simply whether the state has appropriate information and policy instruments at its disposal. The bureaucracy must also be seen as a political actor. The case studies show repeatedly that individual government units and corporations made foreign exchange commitments without the approval of ministers of finance or central banks, even though such commitments became central government liabilities. The behavior of the state-owned enterprise sector was crucial to understanding the debt crises in all the countries included in this project. Some of these enterprises, such as Mexico's PEMEX or Indonesia's Pertamina, represent political constituents in their own right; the managers who head them are more powerful than the ministers who are nominally responsible for overseeing their behavior. As is now well known, state-owned enterprises have assumed a host of political functions, including the transfer of subsidies to consumers, the provision of employment, and in Indonesia, the generation of revenue to finance the military. Over time, domestic suppliers and purchasers of the outputs of state-owned enterprises also develop strong interests in their procurement, and pricing policies can be used to favor selected client groups. Where public sector workers are unionized, they place additional constraints on the government's freedom of maneuver. New studies suggest that the main political barriers to privatization are likely to reside within the state apparatus itself (Vernon, forthcoming).

While it should be clear that bureaucratic capabilities matter, two somewhat contradictory caveats are required. First, the ability of bureaucracies to act, even highly competent ones, is dependent on the larger balance of forces within the political system as a whole. In Mexico during recent decades the technocratic influence of the treasury and central bank has changed directly with the broader political strategy of successive presidential terms. The treasury and central bank dominated economic policy making in the 1950s and 1960s, but their power declined dramatically under Luis Echeverría (1970–76), and to some extent, under Lopez Portillo (1976–82) before being restored to a pivotal decision-making role under De la Madrid (1982–88). Similar stories could be told about Indonesia and the Philippines, where the freedom of the technocrats to act independently was ultimately determined by powerful presidents.

The second, partially contradictory caveat concerns the possibility of "overcapacity"—rigidities that result from the persistence of organizational routines that impede, rather than facilitate adjustment. The dogmatic course pursued by entrenched laisser-faire technocrats in Argentina and Chile provides one possible example of this in the late 1970s. The central policy debate in Korea, Taiwan, and Singapore in the early eighties has been over the degree to which government should continue to guide the process of industrial innovation (Cheng and Haggard 1987). All three possess strong dirigiste traditions, some elements of which may now present barriers to more rapid growth.

5.4 Conclusion: Politics and Policy

Before suggesting some conclusions, it is important to underline an important limitation on political analysis. Prescriptive policy analysis has as its purpose the identification of policies that are optimal given some criteria such as efficiency or growth. Positive political analysis, by contrast, often takes the form of suggesting why certain economically optimal policies are unlikely to be adopted, or are likely to be distorted in implementation. If economists often tend toward voluntarism, in which political contraints are explained by lack of "will," political scientists can be overly deterministic. The challenge for a prescriptive policy analysis that incorporates political variables is to identify those variables which are manipulable and those which are not. This task is by no means easy; what constitutes a constraint in one political system may be overcome through astute political leadership and persuasion in another.

It may appear that the most unmanipulable variable in the policy equation is the overall balance of interest groups. We suggested some conditions under which the interests of business, labor, and urban groups were likely to cut against orthodox stabilization measures, or even to undermine the integrity of more heterodox ones. But interests are not, in fact, fixed. Actors are not necessarily aware of their interests in a particular policy issue, and may be myopic with reference to the longer-term consequences of their own preferences. Some policies, such as taxation, are immediately visible in their effects. The distributional consequences of others, such as exchange rate management or trade policy, are less visible. If we begin with the critical assumption that stabilization and adjustment are not just technical exercises, but demand the building of coalitions of support, it is crucial that potential beneficiaries be identified and persuaded of their interest in the success of the programs. This is true regardless of the substantive design of the program. Research on the distributional consequences of stabilization programs is not only important to identify who gains and loses economically, but to identify relevant political actors.

Regime type also seems a variable that is not manipulable. Within the broad categories of "democratic" and "authoritarian" regimes, we have suggested that consultative mechanisms may assist in reaching consensus on program goals, but studies by political scientists have shown that the nature of these mechanisms—who is included and excluded and on what terms—can themselves be the source of intense political fights (Bianchi 1984). Administrative development is, at least over the longer run, a variable which is subject to manipulation, including by outside actors. In general, it seems that the multilateral institutions have focused too much attention on discrete policy reforms, and not enough on designing the institutions and training the personnel that will be able to implement them over the longer run. Exercising outside influence demands strengthening the hands of reformers within the government.

It is not clear, however, how far outside agents can, or should go in urging changes in the political and administrative structures of target countries. If the charge of interference in economic policy is a common stumbling block to effective programs, the charge of interference in domestic politics is likely to be even more damning. A second reservation is that dissimilar political systems will require different types of policy advice; this necessarily complicates program design. In systems with a "critical mass" of technocratic expertise and with relatively well-developed administrative routines and capacities, consultative mechanisms that enhance the capability of the administration are likely to be a good. In countries where the bureaucracy is penetrated by outside political forces and the level of technical expertise is low, it may be better to advise market-oriented policies and a reduction of the state's role, not only on the grounds of economic efficiency, but on the grounds that such policies reduce opportunities for rent-seeking behavior. It is not enough, however, simply to assume that all developing countries fall in the latter category.

The greatest degree of planning freedom appears to come with reference to the timing of outside advice. We have suggested some fairly obvious generalizations about when programs are likely to succeed and fail as a result of political cycles. This suggests that in some circumstances, no program may be superior to one that is likely to raise expectations and fail. In the end, however, there is no substitute for a nuanced understanding of the particular political setting into which economic programs are introduced.

Notes

1. This was the result of two agreements, one with Mexico, one with Venezuela, which provided long maturities but no grace periods.

2. "Market borrowers" are those obtaining at least two-thirds of their external financing from commercial sources from 1978 to 1982; "official borrowers" are those obtaining less than two-thirds of their external financing from commercial sources (Watson et al. 1986).

3. An alternative solution is the creation of an export enclave, such as that along Mexico's border with the United States, which is only weakly integrated with the rest of the economy.

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