

THE DILEMMAS OF DEMOCRACY IN THE OPEN ECONOMY

Lessons from Latin America

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IT became an article of faith among scholars that the continent-wide collapse of democracy in Latin America in the 1960s and 1970s was a result of the emergence of social and political conflicts so severe that they undermined the support of crucial actors for competitive politics. The precise forms these collapses took varied—as military interventions, civil conflict, coups, or the abdication of authority by the occupants of democratic institutions themselves—but they were generally rooted in the emergence of intractable, mobilized political conflict.¹ The logical consequence has been that studies of democratic transition and consolidation since the 1980s have largely focused on the degree to which the sources of such conflicts have been superseded. The theoretical emphasis has thus been on the factors historically posited to cause or mitigate such problems: the character of class or intraclass conflicts, incentives embedded in political institutions, the structure of political coalitions, failures of leadership, pacts and political bargains, the power of particular social actors, or the nature of political parties or the party system in the posttransition polity.²

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¹ Classic studies of such collapses include Arturo Valenzuela, *The Breakdown of Democratic Regimes* (Baltimore: Johns Hopkins University Press, 1979); David Collier, ed., *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979); and Guillermo O'Donnell, *Modernization and Bureaucratic Authoritarianism: Studies in South American Politics* (Berkeley: Institute of International Studies Press, 1973).

² The following have focused on the importance of pacts and elite political bargains in stabilizing democratic regimes: Richard Gunther, Hans-Jürgen Puhle, and P. Nikiforos Diamandouros, "Introduction," in Richard Gunther, P. Nikiforos Diamandouros, and Hans-Jürgen Puhle, eds., *The Politics of Democratic Consolidation: Southern Europe in Comparative Perspective* (Baltimore: Johns Hopkins University Press, 1995); and Omar Encarnación, "Labor and Pacted Democracy: Post-Franco Spain in Comparative Perspective," *Comparative Politics* 33 (April 2001). Others have emphasized institutional design and its effect of the structure of political conflict and the efficacy of representation; see, for example, Peter Siavelis, *The President and Congress in Postauthoritarian Chile: Institutional Constraints to Democratic Consolidation* (University Park: Pennsylvania State University Press, 2000); Scott

In the context of the contemporary wave of democratization in Latin America, however, this theoretical emphasis on avoiding historical problems of polarization and populist mobilization may be miscast. Rather, I argue, destabilizing political conflict in Latin America is no longer the threat to democracy it once was, because, paradoxically, it is currently less likely to emerge out of organized social mobilization. Moreover, the continuing emphasis on the perils of polarization has distracted many scholars from a more fundamental, but quite different threat to democracy: the underarticulation of societal interests, pervasive social atomization, and political quiescence founded in collective action problems that, if they are severe enough, may undermine the efficacy of formal democratic institutions and ultimately regime legitimacy. This argument has been foreshadowed in recent scholarship that has begun to question the depth or quality of “third wave” Latin American democracy.³ The goal of this article is to build on the nascent recognition of potential new problems of democratic deepening and to ground such a perspective in the political economy of free-market reform.

The central hypothesis here emerges from two seemingly contradictory observations. First, contemporary democratization in Latin America is taking place in the context of dramatic economic liberaliza-

Mainwaring and Arturo Valenzuela, *Politics, Society, and Democracy: Latin America* (Boulder, Colo.: Westview Press, 1998); and Juan Linz and Arturo Valenzuela, *The Failure of Presidential Democracy: Comparative Perspectives* (Baltimore: Johns Hopkins University Press, 1994). And yet others investigate the role that the structure of political institutions have in driving severe ethnic conflict in democratic contexts; see Stephen Saideman, David Lanoue, Michael Campenni, and Samuel Stanton, “Democratization, Institutions, and Ethnic Conflict: A Pooled Time-Series Analysis, 1985–1998,” *Comparative Political Studies* 35 (February 2002). For an investigation of the possibility that particular electoral systems may contribute to regime instability through the incentives they create for parties, see Peter Siavelis and Arturo Valenzuela, “Electoral Engineering and Democratic Stability: The Legacy of Authoritarian Rule in Chile,” in Arend Lijphart and Carlos Waisman, eds., *Institutional Design in New Democracies: Eastern Europe and Latin America* (Boulder, Colo.: Westview Press, 1996). Mitchell Seligson and Ana Carrión emphasize instead the role of mass attitudes in making democratic breakdowns likely; see Seligson and Carrión, “Political Support, Political Skepticism, and Political Stability in New Democracies: An Examination of Mass Support for Coups D’Etat in Peru,” *Comparative Political Studies* 35 (February 2002). Finally, for Adam Przeworski, the institutionalization of economic conflict—that is, its containment within moderate and predictable boundaries—is a key issue for the consolidation of democracy; see Przeworski, “The Games of Transition,” in Scott Mainwaring, Guillermo O’Donnell, and J. Samuel Valenzuela, eds., *Issues in Democratic Consolidation: The New South American Democracies in Comparative Perspective* (Notre Dame, Ind.: University of Notre Dame Press, 1992), 126–27.

³ Kurt Weyland, “Neoliberal Populism in Latin America and Eastern Europe,” *Comparative Politics* 31 (July 1999); Kenneth Roberts, *Deepening Democracy: The Modern Left and Social Movements in Chile and Peru* (Stanford, Calif.: Stanford University Press, 1998); David Collier and Steven Levitsky, “Democracy with Adjectives: Conceptual Innovation in Comparative Research,” *World Politics* 49 (April 1997); Frances Hagopian, *Traditional Politics and Regime Change in Brazil* (New York: Cambridge University Press, 1996); Guillermo O’Donnell and Mario Vargas Llosa, “Privatization Is Not Democratization,” *New Perspectives Quarterly* 10 (Fall 1996); Guillermo O’Donnell, “Illusions about Consolidation,” *Journal of Democracy* 7 (January 1996); and Phillippe Schmitter, “The Irony of Modern Democracy and Efforts to Improve Its Practice,” *Politics and Society* 20 (December 1992).

tion. But the neoliberal reforms that did away with the statism of the past, at least in the medium term, have (1) become popularly associated with persistent material hardships (for example, unemployment, declining real wages, rising informality), (2) involved direct assaults by the state on powerful vested interests, (3) been followed by markedly increased levels of poverty and inequality, and (4) often required the abandonment of long-cherished political commitments to nationalist goals. Second, despite these hardships, political activity, protest, mobilization, and even individual voter participation in new or rebuilt democratic polities have been surprisingly anemic and have nowhere provoked the sorts of elite responses that destroyed democracy in the past. Indeed, a level of relative or absolute material deprivation well beyond that which in the statist era would likely have produced radical, mobilized, and destabilizing responses has generally been met by most Latin American societies not with a bang but with a relative whimper.⁴ This curious political silence is in some cases so deafening as to raise critical questions about its meaning.⁵

This outcome—comparative quiescence rather than organized and persistent conflict—is, I argue, largely a function of the radically changed state-economy relationship in which most of Latin American democracy is now embedded. Recent political opening has taken place in a region that has been dramatically transformed by market-oriented reforms, and this has changed core aspects of the democratization challenge. In one sense this quiescence is unequivocally positive. By no means does political violence or unrest per se contribute to democratic development. That said, I do not emphasize only the salutary effects of free markets for building democracy. There is a crucial trade-off here, and thus the thesis is more general: both liberal and statist patterns of economic organization pose challenges for the effective consolidation of democracy. But these challenges are very different. Historically, under statist economic management such threats in Latin America tended to come from (hyper)mobilized grievances, the elite backlashes

⁴The point here is *not* that there is no response by society but, rather, that it is far weaker than might be anticipated based on past experience and that in general it does not threaten the democratic regime. Protest is, however, occasionally threatening to the political fortunes of particular incumbent officials or political parties. The recent turmoil in Argentina is a case in point: while living standards have been reduced to their lowest levels in fifty years, the resultant political protests have not shaken the democratic regime, even if they have shaken incumbent presidents. During the statist era, by contrast, far *less* severe economic downturns repeatedly sparked political conflicts that destroyed democracy.

⁵Others have noted this same surprising outcome. See Kurt Weyland, "The Political Fate of Market Reform in Latin America, Africa, and Eastern Europe," *International Studies Quarterly* 42 (December 1998); and Susan Stokes, ed., *Public Support for Market Reforms in New Democracies* (New York: Cambridge University Press, 2001).

they provoked, or the corporatist tools sometimes used to contain them. In more free-market contexts, however, the problem is the opposite. Rather than the threat of uncontrolled and broadly mobilized citizens, the problem is the very absence or arid character of social organization—of which the absence of protest may be one indicator—and political participation. Indeed, the little-noticed consequence of contemporary economic liberalization has been in many cases to raise such severe barriers to collective action and expression as to render ordinary political participation—individual and via interest groups—difficult or even impossible for large strata of society. To make matters worse from a democratic perspective, when the barriers to participation rise, they may do so to substantially varying degrees for different social groups. Peasants and the informal sector, for example, are typically more associationally disadvantaged relative to their peers in the middle and upper classes. The overall (sometimes socially uneven) political effect of atomization and quiescence can be to undermine the representativeness, accountability, and thus potentially the very legitimacy of democratic institutions and politicians. For the same reasons, however, market-based patterns of economic organization tend not to generate social explosions that drive elite defections from the democratic regime.

That is not to say that contemporary investigations into the social or institutional foundations of severe political conflict should be abandoned. To the contrary, these have been quite fruitful. Nor do I argue that polarized conflict cannot emerge where markets prevail, but it is less likely and generally less severe when it does emerge. Instead, because democratic consolidation in the context of economic liberalization turns in part on a logic distinct from that of the statist era, I seek to draw attention to other, more likely and more pervasive challenges to democracy posed by this form of political-economic organization.

I build the discussion first by comparing the theoretical challenges to democracy's survival in statist and free-market contexts. In the former, the containment of polarization or the avoidance of state control are crucial, while in the latter the underdevelopment of participation looms large. I then employ cross-national data from the Latin American region since the 1970s to show how the neoliberal transformations across the continent have produced empirical results consistent with the change in emphasis I defend. (1) Although market-oriented reforms have sometimes produced economic growth, they have simultaneously often been accompanied by worsening material hardship affecting broad swaths of Latin American society. And (2) despite this apparently heightened foundation for political grievances, mobilized and in-

dividual political activity has declined precipitously. Indeed, it seems that even as political channels have become more accessible to citizens during a time of democratic opening, they become ever-less utilized. This surprising fact supports the hypothesis that the underdeveloped dynamics of political participation and interest-group politics in Latin America have their roots in free-market reform. The article concludes with a discussion of alternative explanations and of how the proposed emphasis on the ways that liberalization can affect the social and institutional foundations of interest aggregation and political participation can help advance our understanding of the dilemmas of democratic consolidation and deepening in the third wave polities. By contrast, if we do not broaden our focus, we may find ourselves continuing to fight the last war—against excessive polarization—one whose relevance has declined with the continent-wide turn to open economic policies in the 1980s and 1990s.

To push this line of analysis further, the next steps would be to investigate whether alternative dynamics, especially selection processes, affect the hypothesized linkage between economic liberalization and quiescence. We must consider the possibility that governments tend to liberalize their economies when they anticipate that reactions against reform will be only limited. External validity in cases outside the Latin American region should also be examined, and much more intensive case-based research is called for to examine critical causal mechanisms more directly.

THE THEORY: DEMOCRACY IN THE OPEN AND THE CLOSED ECONOMY

Understanding the challenges of democratization in a free-market context must begin with careful consideration of what exactly the essential features of democracy are and how they might be affected by differing patterns of economic organization. In its most standard usage, democracy requires, *inter alia*, the free and voluntary participation of individuals and groups in the selection of political leadership.⁶ There are obviously other defining features, but this is the dimension that intersects with the social consequences of the prevailing economic model, and it is one whose centrality has increasingly been recognized.⁷ In dif-

⁶ Collier and Levitsky (fn. 3); Robert Dahl, *Democracy and Its Critics* (New Haven: Yale University Press, 1989), 219.

⁷ Renske Doorenspleet, "Reassessing the Three Waves of Democratization," *World Politics* 52 (April 2000), 387.

ferent ways, statist and free-market economic forms can imperil the autonomous political activity (whether mobilized or electoral) that is essential for pluralist democracy. In statist systems the economic resources controlled by political elites can be brought to bear to threaten the autonomy of citizens—either by creating relations of clientelist dependence or by using patronage to buy electoral advantage. In free-market contexts the problem hinges on the declining ability of citizens to organize or engage in collective action, which can become so substantial as to prevent meaningful political activity altogether.⁸

My point here is simple: declines in social organization and in the ability to participate politically undermine the representativeness of democratic politics and the accountability of politicians. Why is this the case? The role of such interest groups is essential to the process of informing the electorate, helping individuals form political preferences, and actually contesting elections. But this is only part of their function: if representative democracy is to work, elected leaders must also remain accountable to citizens during what are often lengthy interelection periods. Interest groups, in particular, nonparty ones, thus play a dual role. On the one hand, they provide information about the preferences of citizens that is usable by politicians. On the other hand, they can constrain politicians' activity through their ability to inform their respective groups of citizens of the actions of their representatives—information that is typically too costly for most voters to consistently acquire on their own.⁹ They serve a similar function during elections by facilitating informed (and therefore representative) voting.¹⁰

Indeed, if we understand representatives to be the agents of voters, then a vibrant associational life is critical for efforts to maintain the accountability of politicians and at least some semblance of the majoritarian principle that is at the core of democracy—except in the unlikely instance that citizens can fully inform themselves and readily act to influence legislators.¹¹ This accountability to groups becomes even more critical if we take seriously recent criticisms of the electoral mecha-

⁸ Philip Oxhorn and Graciela Ducatenzeiler, eds., *What Kind of Democracy? What Kind of Market? Latin America in the Age of Neoliberalism* (University Park: Pennsylvania State University Press, 1998), chap. 1; Schmitter (fn. 3).

⁹ David Austen-Smith, "Allocating Access for Information and Contributions," *Journal of Law, Economics, and Organization* 14 (October 1998), 277–78.

¹⁰ Richard McKelvey and Peter Ordeshook, "Information, Electoral Equilibria, and the Democratic Ideal," *Journal of Politics* 48 (November 1986).

¹¹ Jan Potters and Randolph Sloof, "Interest Groups: A Survey of Empirical Models That Try to Assess Their Influence," *European Journal of Political Economy* 12 (November 1996), 426–27.

nism's effectiveness in checking elite behavior.¹² As Dunn puts it: "Most of the weight in seeking to secure accountability has to be carried by the vigor of citizen participation and by the scope of rights and liberties open to citizens."¹³ Mueller goes so far as to suggest that the pressure of such organized interests is *more* important than elections in maintaining the regular accountability of elites.¹⁴

The question, however, does not end with an inquiry into the vigor of associational activity and participation in civil society. For truly democratic representation to occur, the organization of interests must also be reasonably well distributed across the major social groups and cleavages of the polity—else politicians are likely to prove responsive only to specific, powerful minorities. But not all interests are equivalent in terms of their collective expression. Thus, it has long been argued that the holders of capital in market societies have a distinct advantage insofar as their views must be considered regardless of whether they are organized collectively or coordinated with each other.¹⁵ Simply put, because the private actions of holders of capital have a decisive effect on the overall growth prospects of the economy, democratic politicians of all stripes must anticipate the consequences of their actions on this group. Business certainly does not always get its way as a consequence, but with or without explicit collective action on its part its interests are almost always considered in the making of policy decisions. This is a position that no other group shares.

The much more important problem, however, is what happens to democracy when interest-group activity is essentially impossible (or very difficult) to organize for a large segment of the populace. Here the question is not one of differences in resources (though these matter as well) but one of a context in which barriers to collective action, rather than apathy or contentment, prevent a group's voice from being heard. If latent interests cannot organize, the absence of strong associational life raises questions about how "informed" (and thus how representa-

¹² Bernard Manin, Adam Przeworski, and Susan Stokes, "Elections and Representation," in Adam Przeworski, Susan Stokes, and Bernard Manin, eds., *Democracy, Accountability, and Representation* (Cambridge: Cambridge University Press, 1999), 50; José Antonio Cheibub and Adam Przeworski, "Democracy, Elections, and Accountability for Economic Outcomes," also in Przeworski, Stokes, and Manin (p. 237).

¹³ Delmer Dunn, "Mixing Elected and Nonelected Officials in Democratic Policy Making: Fundamentals of Accountability and Representation," in Przeworski, Stokes, and Manin (fn. 12), 334.

¹⁴ John Mueller, "Democracy and Ralph's Pretty Good Grocery: Elections, Equality, and the Minimal Human Being," *American Journal of Political Science* 36 (November 1992).

¹⁵ Charles Lindblom, "The Market as Prison," *Journal of Politics* 44 (May 1982); idem, *Politics and Markets: The World's Political Economic Systems* (New York: Basic Books, 1977); Claus Offe and Helmut Wessenthal, "Two Logics of Collective Action: Theoretical Notes on Social Class and Organizational Form," in Maurice Zeitlin, ed., *Political Power and Social Theory* (Greenwich: JAI Press, 1980).

tive) is the character of vote outcomes. At the core of this article is a concern for a generalized decline in the average citizen's ability to organize and act politically—a decline hypothesized to be attendant upon economic liberalization in Latin America. When this associational and participatory decline is differentially severe—affecting, for example, peasants and workers more than the middle and upper classes—the representation problem is only exacerbated. At the extreme it can also challenge the political equality that lies at the core of democracy.¹⁶

In the next sections I elaborate a hypothesis that there are distinctive challenges to democracy posed by state-guided and market-based economic systems. The difference hinges on the formation and autonomy of aggregated interests. Whereas the challenge to democratization under a statist developmental regime hinged on the *autonomy* of organizations in civil society and the tendency for polarized politics to emerge, the problem under neoliberal conditions is the *formation* of groups representing differing societal interests. As much as the existence of interventionist state institutions (from labor laws, to regimes of social provision, to agrarian reform) promoted the formation of concrete interest groups in society and made politics central to everyday life, their privatization reduces such incentives. As a result, problems of collective action can loom large, and in sectors where they undermine autonomous social organization or interest aggregation, they may become problems of democracy.

DEMOCRACY AND STATISM

How does economic context shape the challenge of democratization in terms of the effectiveness of autonomous interest-group participation? In the era of statism the pervasive public intervention across the gamut of markets—for example, credit, foreign exchange, energy, labor, and agriculture—meant that the life chances of almost all sectors of society depended, in a visible way, on political choices. Not only did this often ignite the quest for rents, but it most critically also forced nascent democratic systems and often less-than-capable bureaucracies to cope with strong competing and often irreconcilable demands. Moreover, the very structure of Latin American import-substituting industrialization contained incentives for the state to promote widespread social organization

¹⁶ Schmitter (fn. 3). On the socially uneven effects of economic reform on labor, see Oxhorn and Ducatenzeiler (fn. 8); and James Petras and Fernando Igancio Leiva, *Democracy and Poverty in Chile: The Limits to Electoral Politics* (Boulder, Colo.: Westview Press, 1994). For small industry, see Kenneth Shadlen, "Orphaned by Democracy: Small Industry in Contemporary Mexico," *Comparative Politics* 35 (January 2002). For peasants, see Marcus Kurtz, "Free Markets and Democratic Consolidation in Chile: The National Politics of Rural Transformation," *Politics and Society* 27 (June 1999).

and collective action. The threat to democracy in such contexts was thus dual: either the state could become overly strong and utilize its vast economic discretion to impose corporatist or clientelistic controls over society, or it could easily succumb to uncontrollable demand making from unconstrained interests.¹⁷ Indeed, the political mobilization and populist politics that provoked the military intervention which brought down democracy across much of the continent in the 1960s and 1970s was in important ways linked to a statist pattern of economic organization.¹⁸

Statist development, that is, tends to reduce the *group autonomy* that is essential to pluralist democratic competition. In its state socialist form it most obviously had this effect—public power over the economy was used to organize, control, and depoliticize civil society.¹⁹ The more common mixed-economy cases have also been criticized because of the degree to which public action is distorted by a large state presence in the economy—particularly the organization of political life around the quest for rents.²⁰ Others disagreed to the extent that they accept that democracy can survive in such contexts, but they still acknowledge as legitimate questions about the lack of group autonomy and the inverse problem of state capture by rent-seeking interests—because both could vitiate meaningful democratic competition.²¹ It is the virtue of free-market policies that they necessarily undermine this state tutelage over groups by privatizing or deregulating the economic decisions that had provided the leverage for elites to impose outcomes.

The virtue of statism, however, is that it can encourage the aggregation and expression of interests. This is true in part because organized social agents are not nearly as threatening from an elite perspective under import-substituting industrialization (ISI) as they can be under open-market conditions. In economic terms, the forms of redistribution typically demanded by such groups are not inimical to growth, at least in the short run. During the early phases of ISI, increased wages for the working class (and occasionally peasants) can be paid for, since these same workers will later be the consumers of the products made by

¹⁷ For a discussion of the former, see Brian Crisp, "Lessons from Economic Reform in the Venezuelan Democracy," *Latin American Research Review* 33 (1998); for the latter, see Rudiger Dornbusch and Sebastian Edwards, eds., *The Macroeconomics of Populism in Latin America* (Chicago: University of Chicago Press, 1991); and Valenzuela (fn. 1).

¹⁸ Fernando Cardoso and Enzo Faletto, *Dependency and Development in Latin America*, trans. Marjory Mattingly Urquidí (Berkeley: University of California Press, 1979; O'Donnell (fn. 1); Collier (fn. 1).

¹⁹ Carl Friedrich and Zbigniew K. Brzezinski, *Totalitarian Dictatorship and Autocracy* (Cambridge: Harvard University Press, 1956).

²⁰ Anne Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (June 1974); and Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven: Yale University Press, 1982).

²¹ Crisp (fn. 17).

domestic producers.²² Politically, populist leaders pursuing nationalist/developmentalist strategies have powerful incentives to promote the organization of interests—especially among the usually underrepresented urban working-class groups—both as a counterweight to traditional elites and as a source of legitimacy.²³ In this way the state solves the collective action problem that historically prevented the expansion of domestic demand. But twin perils lurk: that the demands of class and sectoral interests can spiral out of control or that they can be incorporated under state control in varieties of authoritarian corporatism.²⁴

DEMOCRACY AND PARTICIPATION IN THE MARKET ECONOMY

The turn toward neoliberalism in Latin America since the 1980s, however, has very substantially dealt with both problems of statism. On the one hand, the freeing of markets has withdrawn the government from many of its adjudicatory functions in the economy, thereby simultaneously removing a host of critical, zero-sum conflicts from the political arena itself. This also inherently increased the autonomy of political actors from the state—one of the reasons some consider free-market policies to be inherently democracy promoting.²⁵ But on the other hand and just as importantly, liberal policies have had a transformative effect on society and social organization itself. The typical short-term consequences of economic reform have included sharp increases in the informal sector's share of employment, reductions in the size of the organized labor force and its mobilizational capacity, disruption of

²² Albert Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," *Quarterly Journal of Economics* 82 (February 1968); Robert Kaufman and Barbara Stallings, "The Political Economy of Latin American Populism," in Dornbusch and Edwards (fn. 17), 20–21.

²³ Eliana Cardoso and Ann Helwege, "Populism, Profligacy, and Redistribution," in Dornbusch and Edwards (fn. 17); John Waterbury, "The Long Gestation and Brief Triumph of Import-Substituting Industrialization," *World Development* 27 (February 1999).

²⁴ See Samuel Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1969). By way of example, the central criticism of the highly statist pre-1973 Chilean democratic regime was that it was *too inclusive*. Politics was pervaded by an enormous number of conflicting interests, with the result that intense and often contradictory demands were placed on the state. See Hernán Büchi, *La transformación económica de Chile: Del estatismo a la libertad económica* (Barcelona: Group Editorial Norma, 1993); and José Piñera, *La revolución laboral en Chile* (Santiago, Chile: Zig-Zag, 1990). Even in the Mexican case, where societal organization along corporatist lines had since the 1940s been seen as a mechanism of social control, frequent outbursts of political demand making recurred both within and without the official apparatus of the state and party during this period. See Judith Adler Hellman, *Mexico in Crisis* (New York: Holmes and Meier, 1983). But merely because free-market policies undermine the ability of states to pursue these forms of social control does not imply that the reforms are democratizing in and of themselves.

²⁵ Jorge Domínguez, "Free Politics and Free Markets in Latin America," *Journal of Democracy* 9 (October 1998); Samuel Huntington, "After Twenty Years: The Future of the Third Wave," *Journal of Democracy* 8 (October 1997).

long-standing patterns of residence and social geography, and the creation of high levels of unemployment.²⁶ Both supporters and opponents of neoliberal policies are aware of these short-term transitional costs; where they differ is over whether market freeing lays the foundation for sustainable future growth. On this issue I take no position. My emphasis is on the *social*, not economic, effects of free-market reforms. These social consequences raise significant barriers to collective political action and thus induce a decline in the organizational and mobilizational capacity of civil society. It is in this context that the puzzling survival of nascent democracies in trying times is best understood.

What are the causal mechanisms that link free-market reforms with participation-inhibiting social atomization and disorganization? There are two principal avenues through which market reforms can create powerful disincentives or barriers to social organization and political activity. First, the reforms themselves can create collective action problems that inhibit the formation of groups (or for that matter the formation of collective interests) that are essential antecedents of political participation. Second, they can also reduce the scope of political decision making—that is, the set of issues properly thought of as regulated by public policy—which reduces the incentives for individuals to engage in political activity. Obviously not every aspect of a market-based reform package is likely to have the unfortunate political externalities emphasized in this article. But some important components of the free-market model—at least as applied in Latin America—can have such implications, most notably in the modernization of labor and land markets, in privatization, and in trade liberalization.

Changes to labor markets during the course of economic liberalization can have dramatic implications. Not only is the balance of formal-to informal-sector employment typically shifted toward the latter, but the rules that structure formal-sector labor relations are generally loosened. Several consequences ensue. First, as an organized actor the union movement is typically strongest in manufacturing sectors (public or private), and with trade liberalization jobs in these industries are disproportionately made redundant. By contrast, job gains tend to be in the comparatively hard-to-organize service, informal, or export sectors. Second, if these moves are accompanied by loosening or “flexibilization” of the labor law, which historically helped solve collective action problems for workers (and sometimes peasants), then the ability of em-

²⁶John Sheahan, *Patterns of Development in Latin America: Poverty, Repression, and Economic Strategy* (Princeton: Princeton University Press, 1987); Petras and Leiva (fn. 16); Nora Lustig, *Coping with Austerity: Poverty and Inequality in Latin America* (Washington, D.C.: Brookings Institution, 1995).

ployees to organize declines still further. This has been less common in Latin America, with perhaps the best example being the 1979 labor reform in Chile, which was explicitly designed to depoliticize workers.²⁷

The modernization of agricultural land markets can have similarly critical effects on the (always problematic) political role of the peasantry. Here the liberalization of land tenure alongside exposure to international competition has a tendency not only to spark a process of social division and differentiation among peasants but also to destroy the historical institutions of rural social life. It is among peasants that residence and employment are very often geographically coterminous. When market competition emerges and land transfers are transacted freely and frequently, the implications are severe for the stability of communities and local village institutions that have often shaped peasant political participation. As fields are joined and properties are bought and sold, the historical stabilities and social nexuses embedded in villages wither. These were the historical foundations of collective action. By contrast, where agriculture is not subject to free-market transformation, far higher levels of mobilization are usually observed.²⁸ Not only does land concentration into efficient-size units lead to greatly heightened interpeasant competition over land and consequent population expulsions, but modernized agriculture often concentrates landholding and/or provides only highly seasonal wage employment.²⁹ Employment insecurity and residential instability thus hinder social organization.

Trade liberalization and enterprise privatization have disruptive effects on associational life and political participation that go beyond their effects on industrial employment levels. While these reforms often induce efficiency in the economic sphere, they can exert a depoliticizing influence in the social sphere by transferring what were highly consequential policy decisions (price levels, the distribution of protection, employment levels) to private, often international markets. Thus, political decisions become less materially consequential for most citizens, and as a result potential gains from political participation decline even as individuals have fewer shared interests and face increasing difficulty organizing themselves. Similar dynamics ensue in contexts where reforms have extended into the realm of social welfare privatiza-

²⁷ Piñera (fn. 24).

²⁸ Peter Houtzager and Marcus Kurtz, "The Institutional Roots of Popular Mobilization: State Transformation and Rural Politics in Brazil and Chile," *Comparative Studies in Society and History* 42 (April 2000); Kurtz (fn. 16).

²⁹ Bradford Barham, Mary Clark, Elizabeth Katz, and Rachel Schurman, "Nontraditional Agricultural Exports in Latin America," *Latin American Research Review* 27, no. 2 (1992), 53.

tion—when, for example, health care or pensions cease to be a public function, the social organizations and shared interests that were built up over years of interacting with these state institutions also lose their relevance and their role in democratic politics. These organizations are not easily replaced, however, because it is exceedingly difficult to organize individual affiliates dispersed across geography and employers in fragmented private markets.

When adopted aggressively and broadly, free-market reforms may well undermine the motivation for participation in associational life and the potential returns from it. Such reforms may do so even where the basic economic foundations for profound political grievances remain strong or expand, especially demands for compensation and social protection. The dynamics mentioned above—atomization, deregulation and informalization of markets, and intense international competition—can reinforce or create what Roberts has called “segmented” oligarchical party systems that elites use to organize political competition and minimize participation through relations of dependence and clientelism.³⁰ Second, market-induced fragmentation simultaneously undermines the foundations for the sort of collective action necessary to create autonomous political interests (and associated groups). Finally, free-market reforms may also reduce the resources of both finances and time available in particular to the disadvantaged for political participation, while also reducing the potential gains from political action by removing critical decisions from state purview. The point is that under neoliberal conditions the threat to meaningful democracy is not principally polarization and collapse but is instead failures of representation born of atomization and a consequent inability to form, articulate, and sustain interests. The next sections elaborate the theory’s causal mechanisms in two case comparisons and then evaluate its empirical merits using quantitative cross-national data for the Latin American region.

ELABORATING THE THEORY: MARKETS AND DEMOCRACY IN CHILE AND MEXICO

It is not enough to posit these causal mechanisms without demonstrating their plausibility in concrete contexts. Before moving on to the regional-level quantitative analysis, I show how market-induced changes to labor and land markets, as well as the political effects of trade opening and privatization, had substantial dislocating effects in two of the

³⁰ Kenneth Roberts, “Social Inequalities without Class Cleavages in Latin America’s Neoliberal Era,” *Studies in Comparative International Development* 36 (Winter 2002).

earliest and deepest liberalizers in the region: Chile and Mexico. These consequences in turn led to demobilization in civil society.

Beginning in April 1975 Chile became the first important country in the region to launch a process of privatization, deregulation, and trade liberalization, under the auspices of the military government of General Pinochet. This was particularly surprising, since at the time political forces of all ideological hues—including many who supported the 1973 coup—had long been committed to variations on protectionist and statist developmental strategies. Indeed, the military government inherited one of the largest public and parastatal sectors in Latin America, accounting for 39 percent of GDP in the early 1970s.³¹ Nevertheless, the process of privatization and trade liberalization proceeded apace under the military regime. The privatization of the vast majority of firms was implemented alongside a unilateral liberalization of trade that culminated, by 1979, in a flat 10 percent tariff on almost all goods. Even more striking, the privatization process went well beyond the traditional boundaries of productive enterprises to include eventually the national pension programs and parts of the health care and educational systems.

The political and economic consequences were stark. Manufacturing, which had been a mainstay of the economy and a bastion of the organized working class, was devastated. While industrial production claimed 26.6 percent of GDP in 1972, it plummeted to 21.1 percent by 1988, the final full year of military rule.³² But democratic transition produced no change in this pattern as the neoliberal developmental model was continued, and by 1996 manufacturing had slipped even further, to 18.9 percent of the economy.³³ Linked to the decline of manufacturing, the labor movement also underwent a catastrophic compression. This was also partly a consequence of draconian labor-market deregulation imposed in 1979 (but somewhat improved in 1992). In large measure it reflected the fragmenting and demobilizing effects of international competition and industrial decline. In the 1970–73 period, given a substantially smaller population, Chile averaged over twenty-four hundred strikes per year. By contrast, this had fallen to around seventy-four per year in the 1986–88 period at the end of military rule. Between 1988 and 2000, well into a consolidated period

³¹ Rolf Lüders, "Did Privatization Raise Enterprise Efficiency in Chile," in William Glade, ed., *Bigger Economies, Smaller Governments: The Role of Privatization in Latin America* (Boulder, Colo.: Westview, 1996), 222.

³² Banco Central de Chile, *Indicadores Económicos y Sociales, 1960–1988* (Santiago: Banco Central de Chile, 1989), 22.

³³ Instituto Nacional de Estadística, *Panorama Económico y Social: Las Regiones de Chile 1990–1999* (Santiago: INE, 2001), 258.

of democratic rule, the annual number of strikes increased slightly to 118.³⁴ Given the enormous economic losses accumulated by workers during the course of military rule and the presence of ostensibly prolabor posttransition governments, this amounts to very little activity. I hasten to add that a high level of strike activity is not in itself a good thing. But what is noteworthy here is that a low level of strike activity is an indicator of the weakness of societal organization, particularly given the expectation that workers might seek to recoup some of the substantial losses they had incurred under military rule. The privatization of the Chilean pension system in the early 1980s only heightened this depoliticization by removing from the political agenda an issue that had long driven political participation. The new pension system also fragments the working population by making provision of old-age benefits an individual matter managed through a multitude of competing private funds. No clear collective target for workers is available, as neither employers nor the state have a contributory role in the new system.

Similar patterns can be seen in Mexico, where the experience with trade liberalization and privatization did not begin in earnest until the election of President Salinas in 1988. It would, of course, culminate in 1993 in NAFTA, which permanently tied the formerly insulated Mexican economy to that of its powerful northern neighbor. While liberalization certainly provoked a decided expansion of exports in Mexico, it also induced a process of deindustrialization such as occurred in Chile. Manufacturing had accounted for 26.4 percent of GDP in 1987, but by the time of NAFTA's implementation it had declined to 19.04 percent. By 2000 it had rebounded only slightly to 20.7 percent.³⁵ Unlike Chile, however, this deindustrialization and informalization of the economy was not accompanied by the imposition of a labor law designed to weaken unions. Indeed, the actual text of the Mexican labor code was and remains quite progressive, and as political opening progressed through the 1980s and 1990s, enforcement of legal protections for workers likely improved somewhat.

This did not, however, stem the collective action problems induced by trade liberalization and privatization. Indeed, before liberalization, under quite restrictive political conditions but in response to severe economic crisis in the early 1980s, the Mexican working class responded by mobilizing. ILO data show that between 1980 and 1982 Mexico averaged over fourteen hundred strikes a year. But the onset of trade liberalization and mass privatization in the mid-1980s both raised the

³⁴ International Labor Organization, *LABORSTA database* (www.ilo.org/public/english/support/lib/dblist.htm, last accessed September 2003).

³⁵ World Bank, *World Development Indicators 2003 CD/ROM*.

stakes for labor and reduced its efficacy. Strikes declined to roughly 250 per year from 1984 to 1986. Demobilization worsened as neoliberalism consolidated. By the time of NAFTA's ratification in 1993, the annual strike level was down to 155, and over the course of the remaining years (1994–2001), Mexico averaged a mere 53.5 strikes a year. Even the massive downturn sparked by the collapse of the peso in 1994–95 provoked no effective mobilized response—strikes declined from the 1993 level to an average of 106 per year.³⁶

If privatization, trade liberalization, and deindustrialization greatly reduced the ability of the urban working class to organize and act collectively, it was the liberalization of land markets that had the most profound effect on the other large popular sector group—the peasantry. If anything, the demobilizing effects of free-market policies were more severe in the countryside than in the cities. To start, the national political agenda was also largely devoid of issues of importance to peasants. But one further dynamic made atomizing effects even more severe: the creation of private land markets. Because the countryside was characterized by collective or cooperative property rights, privatization provoked massive social differentiation, fragmentation, and internal conflicts of interest that further exacerbated collective action problems.

This was most markedly the case in Chile, whose experience with agrarian counterreform began in the mid- to late 1970s. As part of the free-market development strategy pursued by the military, vigorous agrarian land markets were created for the first time. This was accomplished through the privatization of the formerly nonalienable lands held in cooperatives under the terms of the land reform of the democratic era (1967–73). The process was as sudden as it was socially and politically consequential. From the start of the counterreform (1975–79) roughly half of the peasant beneficiaries of the original land reform were left without land or even residences, and of the remainder nearly 40 percent were forced to sell their properties within a few years of privatization.³⁷ Indeed, the creation of land markets prompted a massive shift of land out of peasant hands and into the hands of private agribusiness. In 1973, at the height of the agrarian reform, some 63.4 percent of land was in peasant hands, while by the mid-1990s this had declined to roughly 37.0 percent.³⁸

³⁶International Labor Organization (fn. 34).

³⁷Instituto de Capacitación e Investigación en Reforma Agraria (ICIRA), *Análisis de la situación de los asignatarios de tierras a junio de 1978* (Santiago: Ministerio de Agricultura, 1979).

³⁸Luz Eugenia Cereceda and Fernando Dahse, *Dos décadas de cambios en el agro chileno* (Santiago: Instituto de Sociología de la Pontificia Universidad Católica de Chile, 1980); World Bank, *Chile: Estrategia para Elevar la Competitividad Agrícola y Aliviar la Pobreza Rural* (Washington, D.C.: IBRD, 1995).

The political effects of land privatization were tremendous. First, long-standing communities were destroyed as private family or corporate farms replaced the agrarian reform co-ops. Second, large numbers of peasants were expelled from their traditional homes, often having been denied land on account of their political activity in the preceding democratic era. Third, land privatization definitively removed the signal peasant issue—land tenure—from the national political agenda and hence as an object of collective action. The result has been an agrarian sector characterized by even more atomization and isolation than the urban centers and the complete collapse of a formerly vigorous peasant labor movement. Indeed, in the early 1970s peasant unionization had reached over 30 percent of the agricultural wage labor force. By 1992 it had declined to 4.6 percent.³⁹

The move toward markets in land in reform-sector Mexico was far less vertiginous; indeed it has not yet been completed. Huge swaths of land have been held in collective tenure since the onset of agrarian reform in the 1930s, and serious privatization was possible only after the constitutional reform of 1992. In contrast to Chile, it was the means not the consequences of privatization that induced the demobilization of the peasantry. In particular, before privatization could begin, plots within the collectively owned reform co-ops (*ejidos*) had to be individually demarcated—this was a situation that induced substantial internal conflict. Second, neoliberal political elites (through the *Procuraduría Agraria*, or agrarian attorney general) retained the right to adjudicate conflicts within the co-ops over the distribution of property—something that heightened the vulnerability of peasants, inhibited their independent organization, and made them reticent about objecting to market-oriented reforms. So important has this internal fragmentation and political vulnerability been that the only serious peasant resistance to the Mexican state's agrarian market-oriented reforms has occurred in the state of Chiapas. Notably, this was the state *least* affected by land liberalization; indeed, substantial land nationalization (and more statist local policy) still prevailed there.⁴⁰ A broader look at rural Mexico has showed that to the extent that independent peasant mobilization did occur, it happened where state governments tended to pursue more cor-

³⁹ Calculated from Patricia Provoste and Wilson Cantoni, *Descripción numérica de la organización sindical chilena, 1968–1969* (Santiago: FEES, 1971); Ministerio de Trabajo y Previsión Social, "Data on Agricultural Unionization" (Manuscript, Ministerio de Trabajo, 1992); and Instituto Nacional de Estadística, *Censo de Población y Vivienda: Resultados Generales, Chile 1992* (Santiago: INE, 1993).

⁴⁰ Neil Harvey, "Impact of Reforms to Article 27 on Chiapas: Peasant Resistance in the Neoliberal Public Sphere," in Laura Randall, ed., *Reforming Mexico's Agrarian Reform* (Armonk, N.Y.: M. E. Sharpe, 1996).

poratist policy strategies (in contrast to national-level neoliberalism). In contrast, where markets prevailed, so generally did atomization and quiescence.⁴¹

The point is thus quite simple: in a variety of ways free-market reforms can introduce social differentiation, fragmentation, and dependence into popular sector communities in ways that inhibit political participation. They do so in part by removing from the national political agenda the issues that historically motivated collective and individual activity. But they also did so by dramatically raising the costs of collective action, thus making it exceedingly difficult, especially for workers and peasants, to force potential demands on to a national agenda ever more removed from their everyday concerns. We will see below that both the pattern of prevalent unmet potential grievances combined with generalized political quiescence and demobilization is *not* a particularly Mexican or Chilean phenomenon. The cross-national evidence suggests that it is a general tendency under conditions of free-market democracy, just as polarization and instability were such under the statist democratic regimes of the past.

Before moving on to the cross-national quantitative analysis, I hasten to make clear that I make no theoretical claim that either developmentalist or neoliberal economic settings are inherently “more fertile” ground for democracy’s implantation. My perspective maintains that *both* pose significant but *distinctive* challenges to democracy’s success.

In the sections that follow I show how the process of market-oriented economic reform in Latin America was accompanied by severe material hardship in the region (though it may not have been entirely to blame for it). This took place, however, without engendering anything like the regime-threatening political and social conflicts that characterized less severe crises in the preceding statist decades.⁴² I will then draw the connection between this quiescence and the ways in which free-market policies themselves undermine the organizational and mobilizational capacity of society. Finally, I highlight how this alternative understanding—the powerful contextual effects of the prevailing pattern of economic organization on democracy’s stability—casts new light on prevailing approaches to the study of both democratic consolidation and the politics of economic reform. With respect to the former, we must realize that declining participation can be as critical a

⁴¹ For a state-level analysis of Mexican rural politics, see Richard Snyder, *Politics after Neoliberalism: Reregulation in Mexico* (Cambridge: Cambridge University Press, 2001).

⁴² It is notable that the most threatening recent case of polarized mobilization occurred in Hugo Chavez’s Venezuela—the most statist political economy on the South American continent.

threat as polarization to the stability of meaningful democracy. And with respect to the latter, it should be recognized that the imposition of market-oriented policies may well not be as politically difficult as commonly thought. Consequently, the efforts at power concentration and bureaucratic insulation sometimes counseled by proponents of orthodox policies may be unnecessary as well as infelicitous with respect to the participatory deficit that may be the hallmark of free-market democracy.

INEQUALITY, POVERTY, AND ECONOMIC REFORM IN LATIN AMERICA

There are two ways in which economic reform could mitigate the potential for mobilized political conflict in the Latin American region: it could ameliorate the social tensions that gave rise to powerful and polarized political cleavages in the past, or it could create new collective action problems that have effectively demobilized severe and worsening social conflicts. The evidence suggests strongly that the latter is the case. Indeed, across a variety of indicators, radical market-oriented reform in Latin America has generally (causally or coincidentally) been associated with increased poverty, economic inequality, and great declines in both relative and absolute standards of living.⁴³ In many cases these declines far exceed the material hardships sufficient to provoke conflicts fatal to democracy in an earlier era. Nor has this hardship been a short-run phenomenon. We are now well into the medium-term legacy of economic liberalization in most of the countries of the region, and in few places has a sustained return to growth been achieved.

What is clear in the data (see Table 1) is that Latin America, even more than a decade into the process of economic reform and outward orientation, remains a region of considerable economic inequality and one awash in poverty. While on both counts there is substantial variation, in very few cases do social conditions and inequalities seem reasonable, given prevailing levels of development. Most countries in the region have poverty rates that exceed 25 percent of the population and levels of inequality that give the top 10 percent of the population more than fifteen times the income of the bottom 10 percent. In some cases, an absolute majority of the population remains in a state of poverty (Bolivia, Guatemala, Honduras). The continent leader in inequality is Brazil, where the top decile receives forty times the income of the bottom decile.

⁴³Lustig (fn. 26).

TABLE 1
SOCIAL CONDITIONS AND INEQUALITY IN LATIN AMERICA, 1997

	<i>Poverty Rate</i>	<i>Indigence Rate</i>	<i>Inequality^a</i>
Argentina ^b	0.13	0.03	17.0
Bolivia	0.52	0.19	23.1
Brazil	0.29 (1996)	0.08 (1996)	40.3
Chile	0.23 (1994)	0.06 (1994)	23.8
Colombia	0.45	0.15	28.2
Costa Rica	0.20	0.05	14.1
Dominican Republic	0.32	0.13	23.6
El Salvador	0.48	0.12	14.8
Guatemala (1989)	0.63 (1989)	0.23 (1989)	37.9
Honduras	0.74	0.48	26.3
Mexico (1998)	0.38 (1998)	0.13 (1998)	12.4
Paraguay (1996) ^c	0.40 (1996)	0.13 (1996)	12.7
Peru	0.37	0.18	n/d
Uruguay ^c	0.06	0.01	7.0
Venezuela (1997)	0.42	0.17	18.2

SOURCE: Comisión Económica para América Latina y el Caribe [CEPAL], *Anuario Estadístico de América Latina y el Caribe, 2000* (Santiago: CEPAL, 2001), 62, 64.

^aRatio of income share of top 10 percent to bottom 10 percent of urban households.

^bMetropolitan area only, not total poverty.

^cUrban poverty only.

Other economic indicators highlight the material distress of the popular sectors in Latin America. These measures also show more clearly that across the decades of economic liberalization, social and economic conditions in general have not improved. In the case of open unemployment, the contrast between contemporary rates of joblessness and those recorded during the height of the debt crisis of the 1980s is particularly instructive (see Table 2). Indeed, thirteen years after the onset of the debt crisis, unemployment generally remains at roughly its crisis peak; in some cases it even exceeds these levels. The most notable apparent exception to this rule is Chile, where the unemployment rate plummeted from 17.0 percent in 1985 to 6.4 percent in 1998. Chile, however, was the first country on the continent to initiate serious neoliberal economic reform, which began in 1975 and was fully consolidated by 1979. The high unemployment rate for 1985 reflects the persistent effects of economic crisis induced by these reforms and the continent-wide debt crisis. Even the comparatively low rates of unemployment of the late 1990s (coming on the heels of more than a decade of rapid economic growth) have not been sustained, with 2001 levels at

9.2 percent.⁴⁴ And Argentina, noted for its strict adherence to orthodox economic policies and momentary return to growth in the 1990s, had by 1999 once again entered a period of protracted economic decline, associated with joblessness on the order of 15 percent in Greater Buenos Aires, rising to 18.3 even before the economic crash of 2002.⁴⁵

Also remarkable is how little improvement has been seen in material standards of living in the wake of economic reform. Setting aside the always-problematic distributional questions in Latin America, the consolidation of market-based economic policies has generally been associated with real material decline or at best tepid improvement. The data in Table 2 present the purchasing-power parity levels of per capita GDP across the region, before and after reform. The former period encompasses the mean real GDP/capita in the five years *prior* to the initiation of serious reform, while the latter period refers to the average of the five years *after* the consolidation of reform.⁴⁶ By way of setting a benchmark, per capita incomes for 1970 are also provided. Even comparing against a “before” period typically marked by economic crisis—indeed, it was crisis itself that frequently provoked the reforms—few countries have posted substantial improvements in average incomes over the medium term. Indeed, the two best performers (Costa Rica and Colombia) are either known for less-than-liberal economic policy (the former) or unorthodox sources of foreign exchange (the latter). By contrast, Brazil and Mexico recorded dramatic gains in real per capita income in comparison with 1970, yet little if any in the wake of economic liberalization in the 1980s. In these cases the statist industrialization of the 1970s was associated with growth more than were the liberal economic policies of the 1980s and 1990s.

The distributional questions, however, are frequently as (or more) politically important than the aggregate levels of economic development induced in the wake of liberalization. This is particularly true in Latin America, where income distributions have historically been both very unequal and quite politicized. On this score economic liberaliza-

⁴⁴Banco Central de Chile, *Indicadores económicos—Empleo y Desocupación* (Data are calculated by the University of Chile, <http://sie.aplicaciones.cl/basededatoseconomicos/900base.asp?usuIdioma=E>, accessed May 29, 2002).

⁴⁵Instituto Nacional de Estadística y Censos, *Tasa de desocupación abierta en los principales aglomerados*. and *Tasa de desempleo*, October 2001 (<http://www.indec.mecon.ar/default.htm>, accessed May 27, 2002).

⁴⁶The “before” period is defined as the five years prior to the achievement of a level of liberalization equivalent to the midpoint for the population of countries (0.587). Consolidation is measured as the five years after the reform index passes the level of 0.7 (on a [0,1] interval). In no case did a country turn away from liberalization once this level was achieved. Data on liberalization are from Samuel Morley, Roberto Machado, and Stefano Pettinato, “Indexes of Structural Reform in Latin America,” *Serie Reformas Económicas* 12 (Santiago: Economic Commission for Latin America and the Caribbean, 1999).

TABLE 2
ECONOMIC CONDITIONS BEFORE AND AFTER LIBERALIZATION

	Urban		Real GDP/Capita ^a		
	Open Unemployment		Before	After	1970
	1985	1998			
Argentina	6.1	12.9	5878	5474	5637
Bolivia	5.7	4.4 ^b	1778	1758	1661
Brazil	5.7	7.8	4134	4080	2434
Chile	17.0	6.4	3579	3674	3605
Colombia	13.8	15.2	2964	3630	2140
Costa Rica	7.2	5.4	3166	3524	2904
Dominican Republic	N/D	14.3	2259	2334	1536
Ecuador	10.4	8.5	2837	2866	1789
El Salvador	N/D	7.6	1826	2007	1810
Guatemala	N/D	N/D	2274	2296	2028
Honduras	11.7	5.8	N/A	1394	1237
Jamaica	N/D	N/D	2409	2463	2645
Mexico	4.4	3.3	5791	6173	3987
Paraguay	5.1	13.9	2056	2204	1394
Peru	10.1	8.2	2606	2322	2736
Uruguay	13.1	10.2	4253	4583	4121
Venezuela	14.3	11.3	6488	N/A	7753

SOURCES: Unemployment data from CEPAL (Table 1). GDP/capita from Penn World Tables 5.6, updated by the World Bank after 1992 by GDP/capita growth rates. Data taken from William Easterly and Mirvat Sewadeh, *Global Development Network Database—Macro Time-Series* (Washington, D.C.: World Bank, 1999) (<http://econ.worldbank.org/view.php?topic=18&type=18&cid=11949>, downloaded 2001).

^aBefore is the average of the five years prior to the initiation of serious economic liberalization (judged to have occurred when the index of economic reform passes the mean value in the data). After is the average of the five years after the index of economic reform passes the 0.7 level (on the [0,1] interval). The endpoints of the liberalization index are set by the most and least liberalized economies in the dataset of Latin American countries. Data are in constant dollars of 1985, adjusted by purchasing power parity.

^bData are from 1997.

tion should be expected to provoke widespread dissatisfaction, as it has tended to accompany widening socioeconomic disparities. Since only limited comparative data on income inequality are available, a better sense for changes in ordinary living standards can be gleaned from the examination of wage trends. Table 3 presents indices of the evolution of the real urban minimum wage and real wages in industrial occupations since 1980. It should be noted that these income trends—generally negative—for ordinary workers often occur in countries experiencing some expansion in per capita incomes. As a consequence one must assume that liberalization has induced quite a substantial concentration of in-

TABLE 3
EVOLUTION OF WAGES SINCE 1980 IN LATIN AMERICA
(1980=100)

	<i>Real Urban Minimum Wage</i>				<i>Real Wages in Industry</i>			
	1980	1990	1995	1998	1980	1990	1995	1998
Argentina	100.0	40.2	78.5	77.3	100.0	75.0	75.6	74.9
Bolivia	100.0	16.1	31.1	37.5	100.0	86.7	94.3	101.8 ^a
Brazil	100.0	55.4	67.1	75.7	100.0	96.7	124.2	135.7
Chile	100.0	73.3	94.8	108.3	100.0	105.8	133.1	149.9
Colombia	100.0	105.7	101.5	103.7	100.0	114.8	123.6	129.1
Ecuador	100.0	33.9	49.5	46.8				
El Salvador	100.0	33.9	36.8	33.1				
Guatemala	100.0	108.7	89.3	84.9				
Honduras	100.0	81.9	80.2	79.0	100.0	73.4	73.9	73.2
Mexico	100.0	42.0	33.3	30.1	100.0	59.6	62.1	56.2
Paraguay	100.0	132.1	112.8	105.2	100.0	102.4	98.8	100.8 ^a
Peru	100.0	21.4	14.7	29.6	100.0	34.4	43.5	43.0
Uruguay	100.0	68.8	42.9	42.8	100.0	110.8	115.5	116.7
Venezuela	100.0	55.2	53.7	42.9	100.0	57.0	38.8	N/D

SOURCE: Organización Internacional del Trabajo, *Panorama Laboral* (Lima: Oficina Regional para las Américas, 1999).

^aData are for 1997.

come among the privileged strata. The minimum wage here is offered as an indicator of the progress of the standard of living of the informal sector, for which official minimum wages can be considered something of a maximum referent. Industrial wage trends are characteristic of those sectors of the working classes historically most privileged—formal sector, often unionized, industrial workers. It should also be noted that the relative size of the informal sector has grown dramatically during the period of economic reform.⁴⁷

What is most apparent is that since the 1980s the consumption power represented by the urban minimum wage has collapsed across many of the countries of the region, having recovered (barely) its pre-debt crisis 1980 level only in three countries (Chile, Colombia, and Paraguay). By contrast, in three cases it had fallen by more than two-thirds over the course of eighteen years (Peru, Mexico, and El Salvador). Considering the data from Tables 2 and 3 together suggests that even in the few cases where average incomes have risen slightly after liberalization, the incomes of ordinary citizens have fallen precipitously.

⁴⁷ Organización Internacional del Trabajo, *Panorama Laboral* (Lima: Oficina Regional para las Américas, 2000), chap. 2.

It appears that liberalization has been accompanied more by inequality than by growth.

Not surprisingly, real wages in industry have performed better than minimum wages. Nevertheless, only six of eleven countries managed any real increase in incomes at all for industrial workers over the 1980–98 period. And in many cases—Argentina, Mexico, Peru, and Honduras—the declines were quite dramatic. But even the positive news here may not be all that felicitous. Given the generalized deindustrialization suffered in the region and the consequent expansion of the informal sector, it is not at all clear that the measured wage increases reflect real improvements at the individual level rather than simply the differential likelihood of collapse of weaker industrial firms under liberalized economic conditions. The firms that survive liberalization may simply be those that were initially stronger and already paid comparatively high wages. Secondarily of note is the growing gap between minimum and industrial wages—both potentially the foundation of a powerful political cleavage and an indicator that liberalization not only heightens disparities between the wealthiest and poorest citizens but also is accompanied by rising class stratification among different parts of the popular sectors.

CROSS-NATIONAL EVIDENCE: THE ANTIPOLITICS OF FREE-MARKET TRANSFORMATION

Scholars and politicians alike have long been concerned that free-market economic reforms would carry with them such severe economic consequences in the short term that it might well be impossible to implement them in democratic settings.⁴⁸ Both because political supporters are weak to nonexistent in the advance of reforms and because powerful vested interests are normally opponents, scholars have alternatively called for political centralization or less than democratic strategies of policy implementation⁴⁹ or counseled gradualism and partiality in the implementation process as a way of sustaining democratic politics.⁵⁰ Others have been concerned that such strategies might induce unfavorable “partial reform equilibria” that would prevent the

⁴⁸ Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge: Cambridge University Press, 1991).

⁴⁹ John Williamson, “In Search of a Manual for Technopols,” in John Williamson, ed., *The Political Economy of Policy Reform* (Washington, D.C.: Institute for International Economics, 1994).

⁵⁰ Stephan Haggard and Robert Kaufman, “Economic Adjustment in New Democracies,” in Joan Nelson, ed., *Fragile Coalitions: The Politics of Economic Adjustment* (New Brunswick, N.J.: Transaction Books, 1989), 74.

completion of needed reforms.⁵¹ Whatever their perspective, most scholars have assumed that political mobilization on the part of powerful vested interests harmed by liberalization would emerge in opposition to reforms. Only after potential medium-term economic benefits emerged would supporters likely become prominent, and even then opponents might remain influential.

Variants of this J-curve assumption—that economic reform causes politically dangerous economic pain and social unrest in the short term—lie at the core of much of the scholarship on third wave democratic consolidation, and indeed in scholarship on the OECD countries as well.⁵² For example, Haggard and Kaufman worried that if economic reforms lead to “sustained poor performance or sudden economic deterioration [this would] lead to an increase in crime, strikes, riots, and civil violence.”⁵³ These are, for them, the classic precursors to military intervention. They and other scholars have generally then turned to examine the institutional arrangements that can mitigate such potential problems. For Haggard and Kaufman, measures that increase executive accountability are key, whether they include a reduction in executive decree power, improved legislative oversight, the negotiation of social pacts, or the construction of democratic corporatist institutions.⁵⁴ Other responses to the fear of social conflict have focused on the comparative merits of presidential versus parliamentary systems. Some find the former dangerous because fixed terms and independently elected legislatures are seen as a recipe for policy stalemate, a lack of cooperation, and consequent political explosions.⁵⁵ Others worry that parliamentary systems lack the moderating centripetal dynamics of presidential systems, permit the survival of extremist parties, and are prone to frequent government collapse.

What these works all share is a similar assumption: that liberal economic reforms are likely only in the longer term (and only if consistently applied) to produce growth and in the short term will be associated with economic pain and substantial social upheaval. Perhaps Bresser-Pereira, Maravall, and Przeworski put it most starkly, contending that neoliberal reforms under democratic conditions make stability

⁵¹ Joel S. Hellman, “Winners Take All: The Politics of Partial Reform in Postcommunist Transitions,” *World Politics* 50 (January 1998).

⁵² Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, D.C.: Institute for International Economics, 1997).

⁵³ Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995), 334.

⁵⁴ *Ibid.*, chap. 10.

⁵⁵ Linz and Valenzuela (fn. 2).

and efficiency principal goals and thus “turn out to be economically either ineffective or counterproductive and politically explosive.”⁵⁶ The empirical evidence from Latin America, however, is in large measure contrary to what has generally been assumed. First, as we saw above, with the exception of Chile (itself now mired in a multiyear recession), a consistent pattern of growth has yet to reemerge throughout most of liberalizing Latin America. The hypothesized “medium term” return to growth is taking longer to emerge. And if neoliberal policies are not causally responsible for Latin America’s economic problems, the political fact remains that they have become associated with them in the popular mind. The second observation is that the political risks assumed to accompany serious reforms—almost everywhere implemented—have not materialized at the level expected despite the severe and sustained material deprivations their imposition is perceived, by business and labor sectors alike, to have caused.⁵⁷ In many cases there was a flurry of resistance at the time of initial liberalization, but this generally did not slow down the pace of change. And once free-market policies were implemented, they provoked little protest, even after successive severe economic downturns. While this result is politically stabilizing, it raises questions about the ability of civil society actors to articulate and act on their interests. This point is at the heart of my argument, and I examine the process of economic reform and the political dynamics it spawns in three areas where polarization and politicization are most likely to be seen: labor mobilization, social protest, and voting. The results are strongly consistent with my argument that the danger economic reform poses for democracy comes not from a tendency to cause social explosion but rather from the hollowing out of political participation that it appears to induce.

LABOR MOBILIZATION

Undoubtedly the most natural opponent of free-market economic reforms is the organized labor movement, and so it is in this arena that the low level of activity is most surprising. Union opposition stems in part from the entailments of the “labor market flexibilization” that is a hallmark of liberalization. Efforts to abolish sectoral wage bargaining, eliminate or privatize union-administered pension funds, render hiring and firing much less difficult, or weaken organizational rights and the

⁵⁶ Luiz Carlos Bresser-Pereira, José María Maravall, and Adam Przeworski, *Economic Reforms in New Democracies: A Social-Democratic Approach* (Cambridge: Cambridge University Press, 1993), 199.

⁵⁷ Barbara Geddes, “The Politics of Economic Liberalization,” *Latin American Research Review* 30 (1995), 205.

TABLE 4
LABOR MOBILIZATION BEFORE AND AFTER ECONOMIC LIBERALIZATION
(STRIKES PER 100,000 EMPLOYED)

	<i>Before Economic Reform^a</i>	<i>Transition Period^b</i>	<i>Consolidated Reform</i>
Bolivia	5.44	3.08	0.78
Chile /1.57 ^d	27.83 (3)	N/A ^c	0.575 (2)
Colombia	N/D	0.643	0.599 (2)
Costa Rica	0.582	0.644 (2)	0.725
Ecuador	1.08	0.88	0.190 (2)
El Salvador	0.819	0.445 (2)	0.627 (4)
Guatemala	0.395 (2)	0.221 (4)	0.247 (4)
Jamaica	2.12 (4)	2.52 (2)	3.03(4)
Mexico	0.889	0.826 (10)	0.105 (4)
Peru	3.34	1.43 (1)	0.105

SOURCES: The index of economic reform is from Morley, Machado, and Pettinato (fn. 46). Data on strikes and employment are from the International Labor Organization (fn. 34).

^aThis is the average strike rate in the five years preceding the onset of economic reform. The initiation of reform is dated from the time at which a country surpasses the mean level of economic liberalization for all countries in the dataset, over the 1970–95 period. Numbers in parentheses indicate the number of years for which data were available to calculate the average if fewer than five were available.

^bThis is the average for all years from dating from the onset of reform (the first year in which the index of economic liberalization surpasses the mean for all countries), to the consolidation of reforms (the first year in which the level of liberalization surpasses the 0.7 level). The number of transition years used to calculate the average is indicated in parentheses.

^cAll transition years in Chile were periods of military rule during which strike activity was illegal and brutally repressed. For that reason no calculation is possible.

^dUnionization and strike activity was legalized in 1979 in Chile. The first set of numbers refers to data from the 1979–83 period (of military rule). The second number is based on strike activity in the first five years of civilian rule (1990–95).

effectiveness of strikes attack the very core functions of any union. To this must be added the economic implications of liberalization. Whether workers are in the public, private, or parastatal sectors, it is apparent that they bear much of the brunt of neoliberal adjustment. This may come through the private sector job losses attendant on the removal of tariff protection and subsequent deindustrialization, industrial rationalization in the parastatal sector in preparation for or as a consequence of privatization, or through public sector layoffs induced by a heightened emphasis on fiscal discipline.

What is surprising in the data in Table 4, however, is that very little labor protest resulted during the transition period when these painful neoliberal reforms were implemented. Indeed, of the ten countries for which usable data were available, labor protest during the transition away from statist economic organization was generally no higher than in the preceding five-year period. It increased very slightly in two of the cases and declined in the remainder. It should also be remembered that

the baseline data—before the initiation of reform—occurred in many of these cases in the context of brutally exclusionary authoritarian rule, a political context decidedly hostile to labor protest. By contrast, the process of economic reform was often initiated by democratic governments under conditions in which economic and political protest was much more legally viable than under preceding authoritarian regimes. Most notably, labor protest actually declined *during* the process of harsh economic adjustment in Bolivia, Ecuador, and Mexico, despite improvements in political freedom and declining constraints on labor movement activity.

Even more telling is the generalized pattern of decline in mobilization after the consolidation of reform. This should not, however, be considered to reflect a generalized contentment with the medium-term economic consequences of free-market policies, since, as we have seen, the overall outcome has usually been negative. While the rate of labor mobilization clearly varies by country—as one would expect given institutional, historical, and economic differences—the within-country trends are striking. Once neoliberal reforms are consolidated, labor protest in most cases declines precipitously. The falloff is in some cases dramatic—Bolivia, Chile, Ecuador, Mexico, and Peru all report levels of mobilization after the consolidation of reforms at less than one-fifth the average level before economic reforms were initiated. Less precipitous declines were recorded in El Salvador and Guatemala, while small increases were noted only in Costa Rica and Jamaica. But as democratization sets in and the short-run benefits of crisis-induced stabilization have passed (for example, in some cases an end to hyperinflation), one would ordinarily expect the opposite result—a resurgence of economic demand making. The material basis for grievances persist, as we saw above; what has clearly evaporated is the mobilizational capacity of the labor movement.

Not only do the before/after snapshots of labor mobilization suggest a generalized decline in even ordinary worker collective action, but the few cases where consistent time-series data are available paint an even clearer picture. Figure 1 graphically presents strike rates (strikes per ten thousand population, left scale) against the level of economic liberalization ($[0,1]$, right scale) for five countries in the region.⁵⁸ In all cases, except Chile, the decision to implement free-market reforms was met

⁵⁸I do not contend that these data are perfect measures of the actual incidence of strikes. At least in Mexico the requirements for the initiation of a strike are complex, and legal approval is frequently blocked by the authorities. Nevertheless, I see no reason why underreporting or strike repression would be correlated with time period or level of economic liberalization. Given this, the trends in measured strike activity across time provide useful information.

with economic protest.⁵⁹ In the wake of liberalization, however, the level of labor protest has declined to near nonexistence, where it has remained. Despite manifest cause for grievance, it appears at least in these five countries that the capacity of the labor movement to act—politically or economically—has all but disappeared.

POLITICAL PROTEST

While the results above are suggestive, they are certainly not definitive. Not only are time-series strike data unavailable for many of the Latin American countries, but these measures are at best imperfect indicators of changes in the capacity for labor-based *political* action—after all, strikes commonly reflect at least in part firm-level economic grievances. Fortunately, other indicators of more specifically political collective action are available. In Table 5 I turn to consideration of the relationship between economic liberalization and large-scale political protest, either in the form of antigovernment demonstrations or in the form of riots. It is unfortunate that valid, cross-nationally comparable time-series data on the extent and depth of social organization do not exist, for they would provide a further important test of the atomization hypothesis. Such analysis has been possible on a country-specific basis, and the results comport with the findings here.⁶⁰ Here I use the mobilizational data only as indicators of the underlying strength of social organization and the capacity for concerted action in society.

The data here are in the form of event counts—the annual number of politically motivated demonstrations or riots involving more than one hundred individuals. These data are obviously not perfect. Among other things it would be helpful to have an indication of event size or duration, and of course there are likely to be some errors in measurement that derive from the quality and coverage of reporting sources.⁶¹ Nevertheless, they provide two further opportunities to assess cross-national effects of economic liberalization on the ability of individuals to engage in mobilized political activity—either in comparatively organized or disorganized forms. The analysis in Table 5 seeks to understand the predictors of political protest in the Latin American region from 1970 to 1990. Since the dependent variable is discrete and naturally

⁵⁹ Chile is the exception here, since most liberalization was undertaken principally between 1975 and 1979, a period during which all labor movement activity was illegal and savagely repressed.

⁶⁰ Marcus Kurtz, *Free Market Democracy and the Chilean and Mexican Countryside* (Cambridge: Cambridge University Press, 2004).

⁶¹ The data are taken from the dataset used by Mike Alvarez, José Antonio Cheibub, Fernando Limongi, and Adam Przeworski [ACLP], *ACLP Political and Economic Database Codebook* (Codebook and data set are available online at <http://www.ssc.upenn.edu/~cheibub/data/Default.htm>, accessed March, 2002).

TABLE 5
ECONOMIC LIBERALIZATION AND ANTI-GOVERNMENT PROTEST IN
LATIN AMERICA

	<i>Anti-Government Demonstrations^a</i>			<i>Political Riots^a</i>		
	<i>Model 1a</i>	<i>Model 1b</i>	<i>Model 1c</i>	<i>Model 2a</i>	<i>Model 2b</i>	<i>Model 2c</i>
Economic reform index (general) [β_1]	1.79 (1.42)	0.070 (1.54)	(1.41)	-2.40* (1.6)	-2.95*	
Economic reform index (trade) [β_2]			1.44 (0.95)			-0.959 (0.889)
Lagged GDP Growth Rate [β_3]	-0.048** (0.0169)	-0.038** (0.017)	-0.049** (0.017)	-0.0080 (0.022)	-0.0025 (0.024)	-0.0079 (0.023)
Democracy [β_4]	1.78* (1.02)	1.49 (1.02)	1.36* (0.75)	2.40** (1.11)	2.38** (2.30)	0.856 (0.669)
Economic reform* democracy [†] [β_5]	-3.29* (1.83)	-3.37* (1.83)	-2.14* (1.102)	-5.38** (2.26)	-5.58** (2.30)	-1.92* (1.11)
Urban population [β_6]		0.093** (0.043)			0.031 (0.044)	
Country dummies						
Constant [β_0]	-0.606 (0.877)	-7.11** (3.135)	-0.546 (0.709)	1.54* (0.907)	-0.654 (3.26)	0.516 (0.745)
N	338	338	338	338	338	338

SOURCES: Data on riots and antigovernment demonstrations are taken from the dataset associated with Adam Przeworski, Michael Alvarez, José Antonio Cheibub, and Fernando Limongi, *Democracy and Development: Political Institutions and Well-Being in the World, 1950–1990* (Cambridge: Cambridge University Press, 2000), which is Mike Alvarez, José Antonio Cheibub, Fernando Limongi, and Adam Przeworski, ACLP *Political and Economic Database Codebook* (<http://www.ssc.upenn.edu/~cheibub/data/Default.htm>, data and codebook, accessed March, 2002). Economic and trade reform indices are from Morley, Machado, and Pettinato (fn. 46). Data on GDP growth rates and the size of the urban population are from World Bank (fn. 35).

“Economic Reform” implies the General Reform Index in models 1a, 1b, 2a, 2b. It implies the Trade Reform Index for models 1c and 2c.

^aEstimation used the negative binomial regression model (as implemented in stata 8 as “xtnbreg”), following the recommendation of Long (fn. 62). In the estimation of the time-series/cross-sectional model negative binomial model the dispersion parameter was allowed to vary randomly across countries, and country dummy variables were included to account for potential unmeasured characteristics of each country that could affect the parameter estimates. As a check on the robustness of the results, parallel models were estimated without the inclusion country dummy variables. This indicated that the findings are not driven by the inclusion (or exclusion) of country dummy variables.

Variable Descriptions: antigovernment demonstrations are the annual total of nonviolent public protests of at least 100 individuals, excluding those expressing “distinctly antiforeigner” sentiment. Riots is the number of “demonstrations or clashes” involving more than 100 individuals resulting in the use of force. Data and descriptions are from Alvarez et al. (see the table sources). Since the dependent variables represent event counts, with substantial numbers in the “0” category, effects were estimated using a cross-sectional/time-series random-effects negative binomial model. The measure of democracy is dichotomous, constructed from the Polity IV dataset. The Polity IV combined polity score [-10,10] was used, and scores greater than or equal to zero were coded as democracies, those below zero were coded as authoritarian political systems. Dichotomization was employed because, at least according to some (see Przeworski et al. (see the table sources) regime type is conceptually discontinuous, and because it affords ease of interpretation. Dummy variables for all countries in the analysis save Argentina were included, but the results have been suppressed for ease of presentation. Data are measured on a yearly basis from 1970 through 1990. The countries included in the analysis are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Peru, Paraguay, Uruguay, and Venezuela.

bounded and clustered at zero, ordinary least squares (OLS) techniques are inappropriate. Following Long, a negative binomial regression model is employed to avoid the problems of bias and inefficiency in OLS.⁶²

The results are consistent with the theoretical expectations of this analysis. Interpretation of the coefficients, however, may require additional explanation. Turning first to the foundations of antigovernment protest, control variables have the expected effects across all three models: higher rates of economic growth reduce the number of demonstrations, while the existence of a democratic regime increases their number. These findings reinforce conventional wisdom. The crucial results have to do with the level of economic reform (measured as an overall index in models 1a and 1b, and in terms of trade reform specifically in model 1c). The conditional effect of economic reform on protest is indistinguishable from zero *in the authoritarian case* (democracy is scored as a dummy variable), as can be seen in the coefficient for the reform indexes directly. But, in the context of open and democratic politics, economic reform is associated with a substantial *decline* in the level of political protest.

The likely explanation for this differential result hinges on the goals of political protest in each context. It appears that—in democratic contexts where protest is most easily organized—public demonstrations against the government decline as the level of economic liberalization increases. This is precisely the prediction of the social atomization thesis that this article proposes—it is liberalization itself that undermines both the foundations of and capacity for political participation. This is less true in authoritarian settings, where the mobilizing force for political protest may not be an opposition to liberalization but an opposition to the authoritarian regime itself. In other words, the very existence of an authoritarian regime provides an incentive for antigovernment collective political activity not present in democratic settings—an obvious and widely shared target for the expression of grievances. In free-market democratic contexts, citizens tend to have conflicting and often disparate material grievances, and the state often

⁶²J. Scott Long, *Regression Models for Categorical and Limited Dependent Variables* (Thousand Oaks, Calif.: Sage Publications, 1997). All the results in Table 5 were generated using Stata 8's cross-sectional, time-series negative binomial estimator (xtnbreg). In the estimation, the dispersion parameter was allowed to vary randomly across countries, and country dummy variables were included to account for potential unmeasured characteristics of each country that could affect the parameter estimates. As a check on the robustness of the results, parallel models were estimated without the inclusion country dummy variables. These analyses made clear that the results in Table 5 are not driven by the presence of the dummy variables; the same patterns emerge in both sets of analyses, and indeed the robustness check was often more supportive of the liberalization-quiescence hypothesis. The data used in this analysis will be available at the ICPSR website.

ceases to be an obvious target for their amelioration. By contrast, authoritarianism itself provides the homogeneous interest that facilitates mobilization—an interest in bringing down the undemocratic regime. The demobilizing results hold across different types of economic reform (general versus trade), and where control for the relative size of the urban population are included.⁶³ Qualitatively, the results comport with the findings of a variety of studies that have pointed to a marked decline in social organization and political activity in the wake of (free-market) democratization in Latin America.

When political riots are taken as the dependent variable—events that require less organization and coordination—the results are substantially similar, with one exception. Here economic liberalization has a direct effect in inhibiting political activity, not simply one conditional on the presence of democratic politics. While liberalization reduces mobilization in authoritarian settings, it has a substantially greater effect in democratic settings. Thus in the case of political riots the core hypothesis of this paper finds even stronger statistical support.

What is unclear from the analysis to this point is the substantive significance of these results. While the effects are in the expected direction and generally statistically significant, the coefficients defy direct substantive interpretation. In Table 6 I consider the predicted annual event counts generated by the models under a variety of different conditions. In all cases variables not explicitly considered were set to their mean values, except for country-dummy variables, which were set to zero. The results are consistent with the theory and suggest strong substantive effects. In the case of antigovernment demonstrations, under authoritarian conditions, economic liberalization does indeed spark slightly heightened protest (a predicted annual number of large demonstrations rising from 0.46 at minimum levels of liberalization to 2.76 at the theoretical maximum). But as indicated above, this is likely protest directed against the authoritarian regime itself, not against liberal policies per se. In any event, a similar pattern is evident only in models 1a and 1c—once controls for urban population (that is, the availability of potential protesters) are included, economic reform in authoritarian settings seems to have no effect on mobilizational outcomes. In marked contrast, however, increased economic reform seems to produce sharp declines in political protest in democratic settings. The predicted results suggest a decline by at least 50 percent, sometimes dramatically more, depending on the model that is

⁶³The control for size of the urban sector is included in model 1b since the measure of protest—demonstrations—is likely to be urban biased. This is true because reporting of urban protests is more likely and because the organization of collective action is in general much less difficult in such settings.

TABLE 6
FREE-MARKET REFORM AND THE PREDICTED NUMBER OF
ANTI-GOVERNMENT PROTESTS AND POLITICAL RIOTS

	<i>Antigovernment Demonstrations</i>					
	<i>Authoritarian Settings</i>			<i>Democratic Settings</i>		
	<i>Minimum</i>	<i>Mean</i>	<i>Maximum</i>	<i>Minimum</i>	<i>Mean</i>	<i>Maximum</i>
	<i>Economic Reform</i>	<i>Economic Reform</i>	<i>Economic Reform</i>	<i>Economic Reform</i>	<i>Economic Reform</i>	<i>Economic Reform</i>
Model 1a	0.46	1.31	2.76	2.73	1.13	0.61
Model 1b	0.17	0.17	0.18	0.74	0.11	0.03
Model 1c	0.49	1.30	2.05	1.89	1.17	0.94

	<i>Political Riots</i>					
	<i>Authoritarian Settings</i>			<i>Democratic Settings</i>		
	<i>Minimum</i>	<i>Mean</i>	<i>Maximum</i>	<i>Minimum</i>	<i>Mean</i>	<i>Maximum</i>
	<i>Economic Reform</i>	<i>Economic Reform</i>	<i>Economic Reform</i>	<i>Economic Reform</i>	<i>Economic Reform</i>	<i>Economic Reform</i>
Model 2a	4.51	1.1	0.41	49.9	0.52	0.02
Model 2b	3.11	0.55	0.16	33.7	0.23	0.01
Model 2c	1.63	0.84	0.63	3.84	0.53	0.22

SOURCES: See Table 5

^aThe values presented reflect predicted numbers of demonstrations and riots given different political and economic conditions. These results were calculated from the models estimated in Table 5. In each case all included variables were set to zero. The theoretical minimum and maximum levels of economic reform are zero and one, respectively. "Economic reform" refers to the general reform index of Morely, Machado, and Pettinato (fn. 46) for models a and b while it refers specifically to the trade (commercial) reform index in the two c models. Predicted event counts are calculated by exponentiating the linear predictions described in Table 5.

estimated. It should be remembered that this outcome is not a consequence of the economic pain that liberalization might produce—controls for rates of preceding economic growth are included in the model.

The results in the case of political riots are even more striking. In all cases, heightened economic reform, whether it is trade reform or a composite index across many dimensions of economic liberalization, produces a dramatic decline in the expected number of violent political outbursts. The effect is greater in democratic as opposed to authoritarian settings, but even in the *least* favorable model from the perspective of the present analysis, movement across the range of economic liberalization suggests nearly a 62 percent decline in political rioting (authoritarian settings, model 2c). The effect is far greater across all the other models.

One important caveat must be included here about the reliability of these data, particularly in authoritarian contexts. Since the data rely on

reported protest events and authoritarian regimes have a tendency to suppress negative information about themselves, one might expect some downward bias in the event counts in such contexts. That said, since all undemocratic regimes have incentives for such suppression regardless of the character of their economic policy, it is not at all clear that this potential bias would affect the pattern of association between economic reform and protest events (though it might affect the absolute reported level of such events in authoritarian contexts). Were bias a severe problem, moreover, we would expect, *ceteris paribus*, to see higher predicted numbers of protest events in democratic rather than authoritarian contexts. The results in Table 6 suggest no such systematic pattern, helping to reduce fears that potential reporting biases are affecting the results.

INDIVIDUAL POLITICAL ACTIVITY

Protest is not the only form of political expression, however important, that has declined. Even relatively costless and uncoordinated forms of political action—for example, the simple act of voting—have declined in a tight relationship with the extent of economic liberalization, as anticipated by the atomization argument presented here. Indeed, if the results of work on the foundations of electoral participation in advanced industrial countries are applicable in this context, the decline in voting alongside liberalization may well be directly related to the decline in the organizational and mobilizational capacity of labor movements across the continent. At least in the first world, such collective organization has been identified as an important foundation of individual electoral participation.⁶⁴

How severe an effect has economic liberalization had on individual political participation? The results in Table 7 attempt to present a preliminary assessment of this question employing data from all the “basically open” elections held in Latin America between 1970 and 1995.⁶⁵ Here the effect of the level of economic liberalization is assessed in relationship to voter turnout, controlling for principal alternative causes of voting. I do not intend here to provide a comprehensive explanation for voter turnout, for that is well beyond the scope of the article. The first model examines controls for the presence of compulsory voting

⁶⁴ Benjamin Radcliff and Patricia Davis, “Labor Organization and Electoral Participation in Industrial Democracies,” *American Journal of Political Science* 44 (January 2000); Mark Gray and Miki Caul, “Declining Voter Turnout in Advanced Industrial Democracies, 1950 to 1997: The Effects of Group Mobilization,” *Comparative Political Studies* 33 (November 2000).

⁶⁵ By “basically open” I mean all elections occurring in countries coded in the Polity IV data set as minimally free, achieving a score on the [-10, 10] combined polity score ≥ 0 . The data are described in Monty Marshall and Keith Jagers, *Polity IV Project: Dataset Users Manual* (College Park, Md.: Center for International Development and Conflict Management, 2000).

TABLE 7
 FREE MARKETS AND POLITICAL PARTICIPATION: UNDERSTANDING VOTER
 TURNOUT IN LATIN AMERICAN FROM 1970 TO 1995^a

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
Economic Liberalization			
Extent of liberalization	-29.7** (10.1)	-19.7** (7.34)	-19.5** (9.41)
Modernization			
Level of development			5.08 (3.10)
Urbanization			-1.10** (0.431)
Education			0.405* (0.212)
Controls			
Compulsory voting	16.96** (3.04)		
Political openness	0.307 (0.314)	-0.151 (0.303)	-0.255 (0.389)
Transition election	-2.10 (4.25)	-4.98 (5.44)	-8.81 (5.20)
Country dummy variables [results suppressed]		[-]	[-]
Constant	84.0** (6.04)	99.4** (7.02)	142** (32.5)
N	84	84	69
R ²	0.27	0.80	0.85
p < 0.0			

SOURCES: Turnout and Compulsory Voting: International Institute for Democracy and Electoral Assistance (IDEA), *Voter Turnout* (www.idea.int/voter_turnout/southamerica/, accessed October 2001); and *Compulsory Voting* (www.idea.int/voter_turnout/Compulsory_Voting.htm, accessed October 2001). Political Openness: Polity IV data from Marshall and Jagers (fn. 65); the liberalization index is from Morley, Machado, and Pettinato (fn. 46); and socioeconomic variables are from World Bank (fn. 35).

^aOLS regression with robust standard errors. Controls for compulsory voting could not be included in models 2 and 3 as the former is a linear combination of the country dummy variables. Data are from all minimally democratic elections in the 1970–95 period in Latin America. Elections held under authoritarian conditions or those characterized by large-scale fraud are excluded. Turnout is as a percentage of registered voters.

rules, the level of political openness, and whether an election is the first one held in the wake of an authoritarian interlude. The results—showing a nearly 30 percentage point drop in turnout over the range of variation possible in the index of liberalization—suggest a very strong negative association between liberalization and voting. The only other factor of importance was the presence of compulsory voting, which had an expected strong, positive effect on turnout. The level of political

openness was unrelated to turnout, but this is not surprising since the data include only cases that represent comparatively open polities (no nondemocratic elections are included). In models 2 and 3 alternative controls are introduced, replacing the indicator of compulsory voting with country-level dummy variables.⁶⁶ In model 2 a similar strong negative relationship between economic openness and turnout is observed (slightly weaker at $\beta = -19.7$). Results are not affected by including controls for the average level of education, socioeconomic development, and urbanization; produced instead is a nearly identical negative estimate of the association between marketization and voting ($\beta = -19.5$).

While of course not definitive, the results strongly suggest that even in the face of controls for most of the common explanations of voter turnout, increases in the level of economic liberalization predict a marked decline in individual political participation. This is especially striking since controls for the “founding elections” of new democracy—usually uniquely high turnout events—are included. I do not, of course, pretend to present a comprehensive cross-national treatment of turnout in the region. Rather, I seek only to begin to test the hypothesis that liberalization induces a decline in participation. While such results cannot prove the hypothesis, they are quite consistent with it.

ALTERNATIVE EXPLANATIONS

Naturally, there are alternative explanations that could account for the patterns of association observed in the quantitative analysis. In the present case two principal counterhypotheses could explain the liberalization-demobilization linkage demonstrated in the sections above: satisfaction and selection. The satisfaction alternative would claim that populations in Latin America do not hold the reform governments to blame for the material pain they have experienced. In its most sophisticated form, this argument suggests that since better alternatives to painful reforms cannot be envisioned, then populations are content with current conditions as something of a “least worst” situation. The selection alternative holds that governments will liberalize when they anticipate a quiescent reaction to reform but will avoid doing so where protest is likely. The consequence of such a dynamic would be that the link observed between liberalization and depoliticization in this paper is caused to some degree by heterogeneity in the characteristics of nations that may promote or diminish mobilization, rather than solely by

⁶⁶ Measures of compulsory voting and these dummy variables could not both be included because the former is a linear combination of the latter. Nevertheless, the effects of compulsory voting laws should be represented in the dummy-variable coefficients, alongside the other country-specific effects.

the effects of free-market reforms. That is, the selection argument would suggest that the observed correlation between free-market reform and politics occurs at least in part because liberalization is adopted mainly in the times and places where citizens were seen as less likely to protest, for example, where reform opponents had few allies, were demobilized, or discredited, or perhaps in more authoritarian settings. I consider each alternative in turn.

There are important problems with the satisfaction hypothesis. Foremost is that it assumes a level of patience and sophistication on the part of the Latin American voter that is far in excess of what would be expected anywhere in the industrialized world. Does the average voter really judge contemporary economic outcomes in light of her estimation of the likely consequence of alternative policy prescriptions? And even if this were the case and citizens exhibited substantial forbearance for the pain associated with economic reform initiatives, the temporal dynamics of protest are not supportive of this claim. If the satisfaction hypothesis is accurate, then quiescence ought to be greatest at the *onset* of reform, with opposition rising gradually if the promised medium-term improvements do not eventually emerge. But, for example, the labor mobilization dynamics outlined in Figure 1 show an opposite tendency: resistance is greatest at the onset of reform and then declines dramatically thereafter.

While there are strong reasons to believe that the satisfaction hypothesis cannot account for the empirical relationships observed, the selection argument cannot be dismissed and therefore most certainly merits additional inquiry. Because we are not certain why reform is pursued, we must consider whether its causes might be correlated with independent factors associated with the likelihood of postreform protest. Indeed, seriously considering the selection processes has the additional merit of squarely focusing attention on the political calculations and elite decision making through which Latin American executives do (or do not) launch painful reform packages.⁶⁷

The selection argument thus poses a compelling alternative account for the “liberalization without regime crisis” that we observe in the region. However, it is not wholly incompatible with the central hypothesis of this paper—that marketization induces depoliticization. Indeed, it is very possible that both dynamics are at work, wherein part of the observed relationship could be induced by the selection process, while at the

⁶⁷For a selection model of market-oriented pension reform, see Sarah M. Brooks, “Social Protection and Economic Integration: The Politics of Pension Reform in an Era of Capital Mobility,” *Comparative Political Studies* 35 (June 2002).

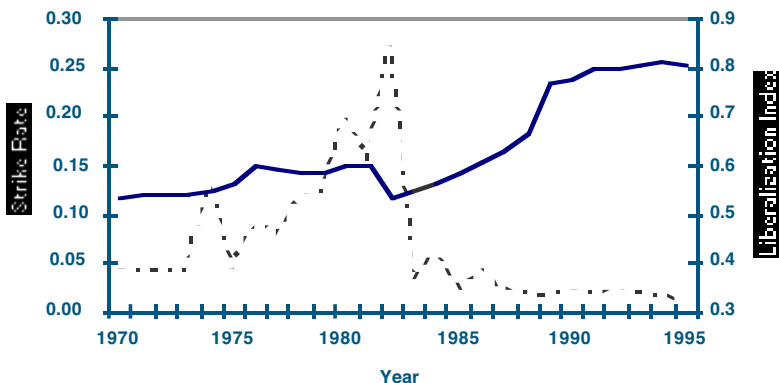
same time liberalization has independent quiescence-inducing effects. One logical and productive avenue for future research would thus be to combine these approaches in order to discern their relative importance.

One way to do this would involve first examining the factors associated with the adoption of free-market economic reforms. This may include factors associated with the interest and capacity of the executive to effect liberalization, as well as factors that may be correlated with our ultimate variable of interest, postliberalization protest. The former could include executive partisanship, the presence of legislative majorities, executive decree powers, or exogenous economic or political pressures, while the latter might incorporate the strength and/or autonomy of the labor movement, the size of the public sector (usually disadvantaged by market-based reforms), or the presence of institutionalized antimarket parties. It is also intuitively plausible that authoritarian rule reduces the likelihood of important mobilization against economic reform. We must, however, approach this possibility with some caution as authoritarian governments in the region have also sometimes had their policy initiatives stymied or changed by citizen resistance.

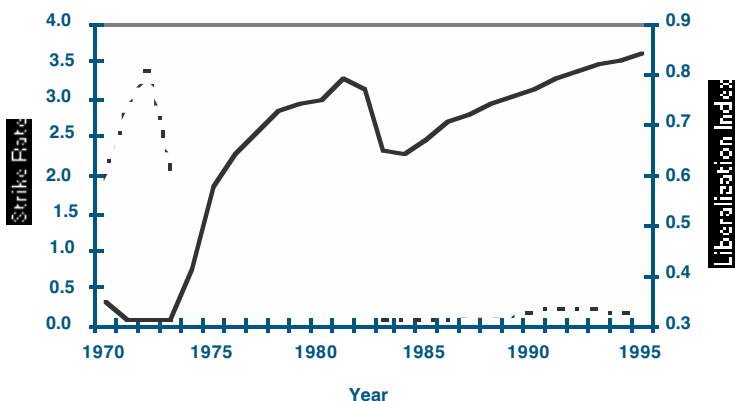
These or similar factors could then be incorporated in a Heckman model that estimates the likelihood of reform and controls for this probability in estimation of the effect of such reforms on subsequent levels of protest. In this way, future research could elucidate what part of the observed linkage between economic reform and its political aftermath owes to the characteristics of the societies in which such measures are adopted, and what part owes to the nature and consequences of the reforms themselves, as examined in this study. At the same time, qualitative research could examine the causal mechanisms underlying each perspective. Elite interviews and careful examination of the political dynamics surrounding reform proposals as they move from conception to implementation in Latin American polities could be used to discern the role of political selection processes as well. Clearly this points to an important and complex research agenda that merits sustained focus in future scholarship.

CONCLUSIONS: RETHINKING DEMOCRATIC CONSOLIDATION AND DEEPENING

The results of this analysis—while obviously a first cut—suggest the need for a reconceptualization of the prospects for democratic consolidation under neoliberalism. By pointing to potentially demobilizing effects of market reforms, the results suggest that we should rethink our



Mexico: Strike Rate and Economic Liberalization

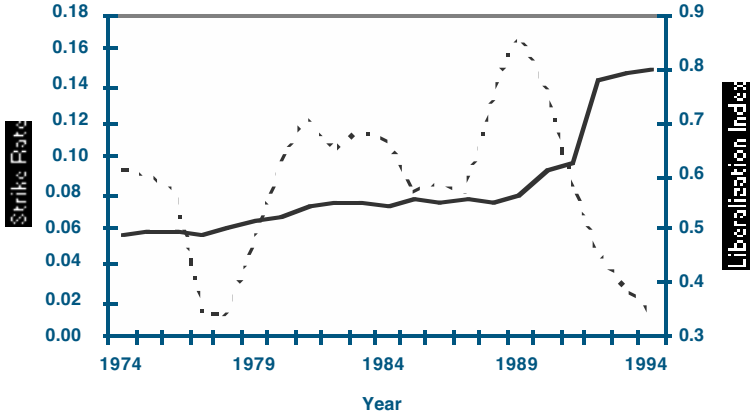


Chile: Strike Rates and Economic Liberalization

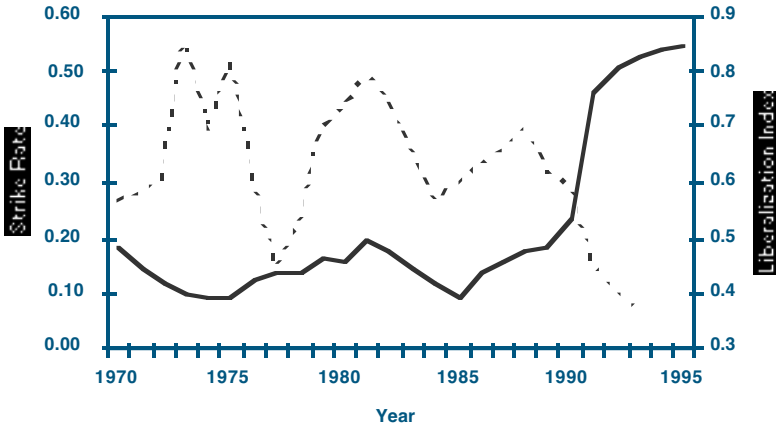
FIGURE 1
STRIKE RATES AND INDICES OF ECONOMIC LIBERALIZATION
IN FIVE LATIN AMERICAN COUNTRIES^a

SOURCES: The liberalization index is from Morley, Machado, and Pettinato (fn. 46), while strike rates are from International Labor Organization (fn. 34) population data are from World Bank (fn. 35).

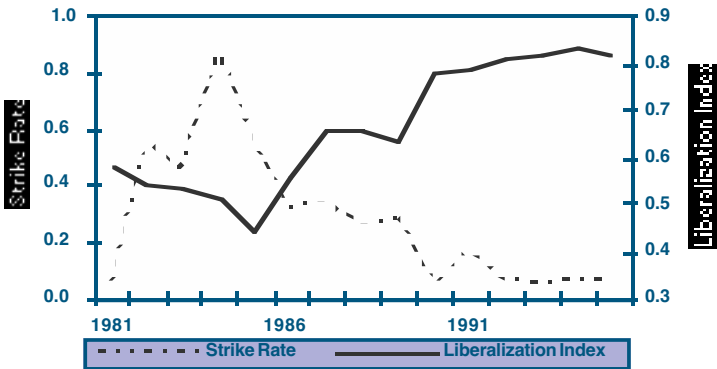
^aStrike rates are calculated as the number of strikes per 10,000 inhabitants per year.



Ecuador:StrikeRateandEconomicLiberalization



Peru:StrikeRateandEconomicLiberalization



Bolivia:StrikeRatesandEconomicLiberalization

emphasis on the design of political institutions, elite pacts, or political coalitions, at least insofar as they relate to the containment of severe political polarization—such eventualities may be substantially more improbable than we have heretofore assumed. If opponents of market reforms are not easily mobilized, then the political centralization often recommended to facilitate their implementation may in fact be unnecessary. We should be more careful in assuming that economic reform and democracy involve simple or symmetrical trade-offs. Nor should we fear suboptimal “partial reform equilibria” if the immediate beneficiaries of economic reform are also inhibited in their political mobilization as a consequence of the reforms themselves. At the broadest level, markets and democracy may be more felicitously combined than many had, alternatively, feared or hoped.

This does not, however, mean that we are out of the proverbial woods. Instead, the results suggest that perhaps our intellectual focus should be recast toward deeper understandings of the dynamics of social and political organization and participation in free-market contexts. Here many of the prevailing institutional or elite bargaining approaches may be very useful, if they are reoriented toward new targets. With respect to the politics of economic reform, perhaps they should be applied to understanding the conditions under which reforms are initiated, as suggested in the selection alternative above. With respect to democracy and democratic consolidation, the implications are even more stark. Instead of considering the ways in which leaders, pacts, or institutions can help to “channel” or “institutionalize” conflict inherent in politics, perhaps the emphasis should be on how they can help promote organization and participation, if economic reform serves to atomize politics? I believe the lesson here is analogous to the one that Polanyi taught about the state’s role in creating and preserving the free market: under liberal economic conditions it may fall to the state, politicians, and political bargains to create, promote, and preserve the political contestation that is the hallmark of successful democracy.⁶⁸ How that is to be accomplished, or whether it should be, is, of course, beyond the scope of this article.

⁶⁸ Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944).