

Efficient or Egregious Economics?  
A Theoretical Approach to Understanding Neoliberal Economic  
Reform in Argentina and Chile

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The process of economic reform in developing countries often determines whether a nation will be able to progress and modernize or whether it will remain stifled and under developed. This is clearly reflected in Latin America, where some nations are thriving after years of neoliberal reform, whereas other countries are still suffering from egregious levels of poverty despite taking the same measures. To understand this divergence, it is not only important to study the process of economic reform and how it unfolds, but why its outcomes are triumphant in some nations and failures in others. In this paper, I address this very problem, examining different developing states' capabilities to implement economic reform effectively and efficiently.

In approaching this question, political scientists generally tend to examine individualistic, institutional, or societal/cultural dimensions separately. This is to say that theorists only analyze one aspect of the question at hand instead of looking at the entire perspective. This is most likely for the sake of parsimony, but it is overly simplistic and inhibits the explanatory power of any given theory hoping to explain economic reform. Consequently, I argue that individual levels of analysis cannot stand alone, and that a combination of theories offers the best explanation when comparing the outcomes of economic reform.

However, contending that all theories must be examined in every situation is as unproductive as using a one-dimensional model, and thus I also show that reform follows a certain path, and that each stage of change is shaped by the one prior to it. Using such a model of path dependency helps show when certain levels of analysis are likely to be the most relevant and significant for study.

As I mentioned, the theories that will be discussed in this paper can be categorized into three different schools of thought: 1) those scholars who believe that the study of elites is the most relevant when discussing economic reform 2) those who believe structural/institutional factors offer the most explanatory power, and finally 3) those who claim that cultural/societal and collective psychological elements are the most decisive.

The first group of scholars consists of those who believe that cultural and societal factors play the most decisive role in whether economic reforms are enacted or not. Scholars of this field believe that by observing public opinion and researching the population's expectations and reactions, one has a more comprehensive understanding of any given phenomenon. Kurt Weyland's *Prospect Theory* (1996) can be applied to the beliefs of this cultural level of analysis. His theory states that political leaders and individual members of the electorate consider and support decisions previously against their interests in crisis situations when they feel as if they have little to lose. In contrast, they are more likely to be cautious and very risk averse when they enjoy the status quo. This theory fits within this last category because it predicts the behavior of the political elites, but can be applied to the actions of the populace, supporting the idea that civil society plays a role in whether economic reforms are instituted or not.

The second category of scholars is made up of political scientists who believe that institutional factors, specifically internal government structures, are the most important in analyzing economic reform. These institutionalists study how governments shape policies by looking at candidate selections procedures, political party strength, the number of people who have the power to veto legislations, and the actual government configuration. These theorists find that internal political institutions are the most decisive factors in whether

economic reform gets passed and implemented. Scholars such as Haggard and Kaufman (1995), Cox and McCubbins (2001), and Scott Morgenstern (2002) all agree with this central argument, believing that “the diversity of economic policies is rooted in the diversity of democratic institutions in each country” (Cox and McCubbins 2001: 21).

Finally, there is the third group of scholars: those who believe that elites or small groups led by these elites play an integral role in determining whether economic reform is implemented or not, insisting that politicians need to be analyzed as the main unit of decision-making. This school of thought primarily examines who is making the decisions, her preferences, cognitive abilities, value systems, and other factors in this vein. Political theorists in this field often act on the assumption that strategy and political skill drive elite decisions, emphasizing that politicians in developing nations are forced to make decisions and to choose whether to implement reform with much greater risk and uncertainty than in developed nations. Inasmuch, policymakers may seem to avoid, delay, or miscalculate change, as a result of trying to strategically make the “proper” choice with unreliable and limited information. This, however, does not mean that politicians are altruistic, but simply that they are using tactical reforms as a means to their ends (generally electoral goals). Grindle and Thomas (1991) fall squarely within this category, representing these ideas under their *Political Strategic Theory*.<sup>1</sup>

Given this vast amount of literature, my main objective in this paper is to assess and analyze why Latin American countries chose to implement unpopular neoliberal economic policies and why these reforms were easily passed and successfully executed in some nations and only failed experiments in others. I argue that despite all the research that exists on this topic,<sup>2</sup> political scientists currently do not have a comprehensive theory that can

adequately answer this question. In other words, only the combination of various levels of analysis can provide a sufficient explanation. Thus my independent variables will be each level of analysis tested against my dependent variable: the implementation and extent of neoliberal policies in Argentina and Chile.

Figure 1: Independent Variables

<b>Independent Variables</b>		
<b>I. Individualistic Factors</b>	<b>II. Structural Factors</b>	<b>III. Societal/Cultural Factors</b>
<i>a. Prospect Theory</i>	<i>b. Domestic Political Institutional Theory</i>	<i>c. Political Strategic Theory</i>
Weyland (1996, 2002)	Cox and McCubbins (2001)	Grindle and Thomas (1991)

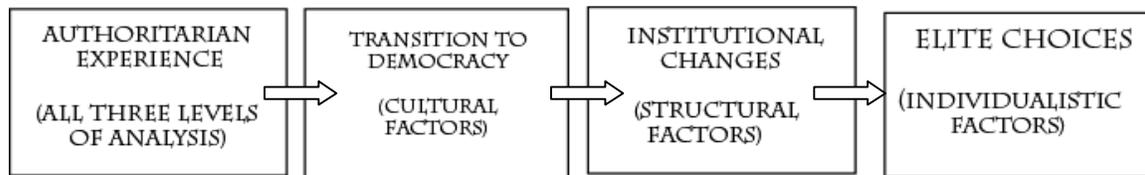
*See appendix for definitions of theories*

Although one should consider all factors, to be sure, some will be more prevalent at certain times than others. The first phase in which the reform is initiated will shape the boundaries for the following phase, which in turn regulates the conditions for the next one, creating a path dependent model. In both Argentina and Chile, this inception period started under military rule. These authoritarian experiences, as well as the failures and successes under them, eventually created the atmosphere that disheartened the public and led to social movements calling for the transition to democracy in both nations. Thus in the context of such a changeover, cultural factors are the most important. This shift was then followed by institutional changes, some superficial, others quite drastic, making these structural changes the most important to study in the phase of reform following democracy re-instatement. In turn, these configurations determined the boundaries for the new elites in power. Thus, in

this last phase, it is most important to study the individualistic factors discussed earlier.

Figure 2 is an illustration of this reform path.

Figure 2: Path of Economic Reform in Argentina and Chile



When applying this path progression to Argentina, it becomes clear that Argentina went through three distinct phases of reform (the Military, Alfonsín, and Menem eras) and was only able to implement and execute neoliberal policies successfully after 1990. I argue that Argentina's delayed and lengthy process is a result of the limitations originally set in the first initiation phase by the military, as this set the precedent for instituting short term economic initiatives in the next phase. Alfonsín followed the military's example, but felt additional constraints due to the return of democracy, which altered his decisions and impeded his ability to act effectively. Finally, reform reversals under the previous two phases, as well as democratic changes, set the stage for Menem to come in and make drastic reforms with virtually no dissent. I will also show how each of the three levels of analysis came into effect as this path of reform progressed, highlighting institutional factors after the transition to democracy and then elite factors in the next phase.

In the case of Chile, reforms again took place in three phases (Military, Financial Crisis, and Democratic eras) although in a much more condensed and straightforward manner. Again the path dependency approach shows the importance of the first military phase in shaping the structural changes that followed in the next phase, as well as future leader's decisions. However, Chile's path was much more accelerated in comparison to Argentina's due to the nature of General Pinochet, a leader who was able to manipulate institutional changes in his favor, while simultaneously convincing the public that he was

acting on their behalf. Instead of being limited by his situation, Pinochet maneuvered around it so that he was able to move his reform policies towards success.

In looking at the capacity of nations to implement successful economic reform, I process trace. I examine historical, political, and economic accounts of the context surrounding these countries at the time when neoliberal reforms were first instituted up until they could be considered successful. In this way, I will be able to synthesize a variety of reports, apply and evaluate various theories that transgress ‘levels of analysis’ boundaries, and then assess the validity of these arguments in determining the capacity of my states to execute policy changes. In general “successful policy” will be that which has not been overturned within one year and that was able to withstand transitions in leadership.

I selected Argentina and Chile as my cases in this study because both nations had thriving neoliberal reforms in place by the 1990s but had such vastly different processes in arriving to that point. Both nations sought to implement neoliberal economic reforms relatively around the same time (1970s) and experienced the same strong initial resistance followed by eventual acquiescence. However Argentina’s reform process was drawn out and did not show signs of success until a third attempt, while Chile saw clear achievement within only a few years of military rule. This difference is particularly puzzling given that Argentina and Chile have quite similar historical, political, and economic backgrounds. Both of these nations are presidential and have had authoritarian turnovers (Argentina, 1943-46, ‘66 – ‘73, ‘76-‘83; Chile, 1973 – 88) integrated into periods of democracy. Thus I use a similar systems design – two similar nations attempting one major reform - so that I can eliminate the idea that fundamental background differences are causing these differences in outcome.

## **Argentina**

In 1989, the inflation rate in Argentina measured at 4,924%, creating an unsustainable environment. When in accordance with the 10% decrease in the per capita GDP over the prior 6 years, it was clear that the situation could no longer be ignored by politicians (Waisman, 1995: 98). Indications that the economy was headed for a crisis of this magnitude were apparent throughout the 1980s, but allowed to fester under authoritarian military rule. Limited steps towards unpopular market reform were initiated, but only in combination with state interventionist policies. In 1983, under Raúl Alfonsín's new government, most of the neoliberal policies of liberalization were abandoned. This left the economy to rely on heavy statist regulations, resulting in a stalled economy that collapsed in 1989. When Carlos Menem entered the presidency later that year he swiftly implemented drastic economic change with significant success. Neoliberal reforms failed for over a decade, but succeeded under Menem's rule; the following section will explain why this is so.

### ***The Military Era***

**Summary:** The first neoliberal market policies were cautiously put into place by the military government under Jorge Videla towards the end of the 1970s. Economic policies implemented were ambiguous; a mixture of protectionist policies and neoliberal market reforms. As a result, economic policies were "heterodox" and true neoliberal reforms remained 'peripheral' at best (Teichman, 2001: 101). This oscillation led to a lack of confidence in the government as there was no way to gauge the government's commitment to the policies at hand. However, a broad base of opposition from all social sectors alike did not coerce the regime to consider different tactics, and it continued to enforce failing

initiatives. This caused the fall of the military government and the return to democracy in 1983, but not before the nation went through a period of “chaotic adjustment” in which the military instituted “strong devaluations, price controls, heavy restrictions on lending” (Teichman, 2001: 102) and the country spiraled into the notorious debt crisis of the early eighties.

***Analysis:*** The rough beginning for neoliberal reforms under the military can best be explained by cultural, structural, and elitist factors as this phase was essentially the birth of market reform and thus was not influenced significantly by past stages. In this era, the military’s ambitions to minimize costs while attempting reform, inability to think in the long term, lack of complete information (all individualistic factors), extreme isolated and centralized authority (institutional factors), and its intentional alienation from all social bases (cultural factors) clearly manifest that the military was more interested in self serving devices rather than real economic change. As a result, Argentina’s military experience was certainly a negative one and led the populace to push for a return to democracy.

The military’s self-regarding motivations for centralization and isolation led to reform failure. Despite their claims that such alienation would facilitate the passage of economic policy, it soon became clear that the military instead wanted to manipulate the structure of the government to benefit themselves as their decisions and actions were blatantly slow and ineffective. Despite the increase in external debt, the gross overvaluation of the domestic currency, and the failing domestic banks,” the military maintained the current policies for as long as possible (Damill and Frenkel, 1996: 58). This foot-dragging is something very typical of Latin American elites benefiting from the status quo (often through corrupt measures) as implementing new policy seems too costly when the benefits are unpredictable

and likely lower than sustaining the current corrupt policies. Thus, the military's delay of reform was quite intentional and due to strategic politicians seeking to maneuver the system to their advantage.

In addition to simply being slow, the military was unable to make effective decisions. Not only was the Argentine military filled with politicians consumed with short term benefits, but it also was extremely removed from local and regional politics, both factors creating restrictions of limited information. As José Maravall claims, centralized governments rarely have access to information that allows them to implement good policy and thus instate bad ones (that are easily reversed and not technically sound). This leads to illegitimacy and political instability, causing the eventual demise of the regime. Maravall writes that if reform processes are to be successful, these policies have to be the correct ones, which is unlikely in systems with strong governmental authority (Maravall, 1995: 19). This speaks directly to how the structure of the military was not conducive to effective reform.

This lack of 'correct policy' was seen in Argentina with its heterodox blend of protectionist and market policies. Scholars often argue that it was this irregularity and inconsistency as well as the disregard for the need of regularity and consistency in economic policy that led to its unpopularity amongst the populace and its failure (Pereira and Nakano, 1998: 21). Thus, the public was completely discontent; not only were things not changing for the better, but it soon became apparent that the military was not really concerned with making this change. As Damill and Frenkel write, the military did everything in its power to 'rid itself' of any social bases and "to position itself over and above the society it attempted to govern, while attempting these market reforms," causing a "state of utter isolation" (Damill and Frenkel, 1996: 58). The Argentine military was not acting strategically to

alleviate economic difficulties, but avoiding costly changes instead. This led to the loss of all public support, the call for democracy, and the eventual dismissal of the military. This directly manifests the main principles of *Prospect Theory*; collectively the Argentine populace felt that they were losing and thus called for drastic return to democracy. Under strong public pressure, the military was forced to oblige.

### *The Alfonsín Era*

**Summary:** Raúl Alfonsín was elected president in 1983 in a new Argentine democracy. However, stagnation and crisis continued under his government, despite a clear urgency and desire for new policies. Alfonsín, armed with the lessons of the military, but also weary of the costs of market reform, completely avoided it. He justified this simply by claiming that the public did not want neoliberal changes since they associated market reform with dictatorship (Teichman, 2001: 102).<sup>3</sup> While, this may have been true in part, it was also conveniently in Alfonsín's electoral interest. By employing the opposite techniques of the hated ex-military, he felt he would gain popular support. This was more of a concern that finding a correct policy solution and thus Alfonsín maintained a powerful interventionist state.

In this same vein, Alfonsín kept the Argentine government very centralized, a tactic most scholars consider detrimental in developing democracies. As Waisman writes, "the new democratic government did not see the need or the possibility of undertaking a structural transformation...Alfonsín himself and much of his immediate circle were wedded to the autarkic policies of the past, and refused to see that these policies and the institutions they had generated were the ultimate cause of the current catastrophe" (Waisman, 1995: 98). Here there is a clear conflict of interest between economic needs and political incentives; clearly it is in Alfonsín's interest to have more concentrated power, a tradition passed on

from previous leaders, but as Waisman argues, it was this that was causing economic hardship.

*Analysis:* Alfonsín was different from the military leadership in that he felt somewhat responsible to and restrained by public opinion. This, as predicted by the path dependency model, was due to the transition to democracy and the new institutions that came with it. However, Alfonsín was also quite interested in maintaining his corrupt side profits that were inherent in the status quo political system. As political scientist Hector Schamis states, interventionist economic policies are often rent-seeking, meaning beneficial to elites already in power (Schamis, 2002: 9). Thus, Alfonsín not only had an incentive to keep his preferences intact, but also to execute programs that he felt would keep up his short term electoral support. This generally meant that he put forth superficial reforms, but stayed short of neoliberal reforms, which were controversial and uncertain for short term interests. This shows how his strategic analysis, perversely, kept him from initiating and executing sound reforms.

Similarly, Alfonsín also avoided decentralization of governmental structures as a way to circumvent the power diffusion that generally comes with democracy. As mentioned, Alfonsín was consumed by keeping popular support while also maintaining his own interests. Stephen Haggard explains this elite tendency, writing that legislators have a collective interest in effective fiscal management as it affects their reputations, but are also plagued with particularistic and often corrupt side benefits. This often leads to a “sub-optimal policy” (Haggard, 1997: 248). Alfonsín was a clear example of this; he was fearful of decentralizing presidential control as was expected in this new democracy, but felt the need to reform. He decided he could avoid one while still pretending to do the other,

representing the tenets of the *Democratic Institutional Theory*. In this case, his centralization certainly exacerbated the economic situation, and allowed his mistakes to remain unchecked by any other actors or institutions, as is essential in a democratic system.

The importance of government structure and rules in this era also manifests itself in that Alfonsín felt pressured to please the populace, but did not have to concern himself with re-election as this was not allowed by the Argentine constitution. Thus, he had the liberty to act as he pleased, rather than enact strategic policy as way to secure a re-election bid.

However, the popular dissent and lack of support that emerged under Alfonsín really came to a head in the 1989 election when his government left office six months early, and Menem of the opposing Peronist party was elected (Steif, 1989). Clearly, Alfonsín's inability to fix the endemic economic problems led to the loss of support, which set up the stage for Menem's rule.

### ***The Menem Era***

***Summary:*** Carlos Menem entered the presidency in 1989, elected on the belief that he would reverse a decade's worth of bad economic policy by implementing drastic change. He fulfilled his promises and executed the most dramatic turnaround in the Argentinean economy by enacting radical economic liberalization. While the debt crisis of a few years earlier, a fiasco of equal magnitude, had not incited as warm of a reception for new policies, by this point the people were fully prepared for change. In fact, Argentines likely had been ready since the debt crisis, but as a beneficiary of the status quo interventionist regime, Alfonsín had not emphasized the need for deep reform. Menem on the other hand, was very aware of this dire necessity for new economic policy, as well as the ways he could use it to his advantage given the failures of the past two regimes. Accentuating the emergency

situation of the country, Menem freely used presidential decree to implement neoliberal reforms. His first two years were dedicated to liberalizing trade, privatizing industries, and devaluing the currency, all of which yielded positive results. However, even as panic started to subside, Menem continued his hyper-presidential tendencies. He further centralized his closed and isolated decision making team and directed legislative and judicial matters under his own prerogatives. A few years into his term, it became clear that Menem was not willing to give up his autonomy. In fact, by the end of his rule Menem had given himself the option of using “more decrees than all other presidents in the history of Argentina combined” (Grindle, 2000: 164).

***Analysis:*** In examining economic reform under Menem, analysis should start by looking how the previous phase structured this new era. Alfonsín’s failures, a new democracy, and the popular discontent at the time all interacted to create an aura of change, which surrounded Menem and influenced his authoritarian and severe decisions, as predicted by the reform path model.

In looking at Menem’s successes, it is first important to question the populace’s willingness for change, which mostly stemmed from the severe losses they had been facing up until this point as discussed. *Prospect Theory* is on target in its explanation of this phenomenon; after dealing with decades of chaos and hardship, Argentines were ready to authorize radical change and a truly autonomous executive. As Damill and Frenkel tell us, “policies and methods that would have been questioned before, came to be positively valued, in the hope that they would open up new roads to overcome a very prolonged period of crisis and stagnation (Damill and Frenkel, 1996: 84). Further, as Weyland tells us, “Hyperinflation is...the single most important condition for massive number of people to

see themselves in the domain of losses” (Weyland, 23: 2002).<sup>4</sup> Given the drastic degree of inflation 1989, it is not surprising the public believed Menem’s promises and supported his radical market reforms, thus rendering neoliberal reforms successful, showing how Menem as a whole was crucial in market reform but how legacies of past experiences were also integral in the immediate period after his election.

In speaking of the importance of Menem as a leader, it is important to emphasize his strategic nature and tendency to think in the long term. This is not to say that Menem was non-preference seeking or that he had selfless motives, but simply that he was more tactical in which policies he implemented and how he executed them, so that he could win over the populace simultaneously. This fits very well with Grindle and Thomas’s elite theory which states that politicians are often aware of societal limitations and willing to either work within this framework or change it. Here, Menem used the promise of reform and his immediate results to his advantage, but not without regards to the role of society. Menem realized that economic reform at this point could not be taken care of with band aids or short term plugs, but by implementing technically sound policy, which intrinsically is a more future oriented project.

To start his mission Menem made severe changes immediately so as to provide almost instantaneous results, and then used public support to start making deeper structural changes in his favor. Although political scientist Hector Schamis does not agree with an elitist approach to studying reform, he does agree with the idea that economic reform often serves as the channel that politicians need in order to enact severe...changes, especially structural ones (Schamis, 2002: 6). This is seen in the way that Menem manipulated the short term in order to benefit in the long term, unlike both the military and Alfonsín who

only acted with regards to short term interests. Menem's reforms continued to succeed, allowing him to start consolidating his power in more permanent structures and institutions, such as written laws and the Constitution. In this sense, *Domestic Institutional Theory* shows a) how Menem, unlike Alfonsín knew how to work around and manipulate the new institutional structures so that he controlled them instead of vice versa and b) how these structures ironically gave Menem the security to implement drastic reforms.

However, some scholars argue that the successful inception of neoliberal reform under Menem was most fundamentally due to the autonomy of the state, rather than political intuition and skill. As Waisman writes, "radical economic liberalization was an instance of state autonomy because it was not the result of pressures from domestic economic elites, which largely benefited from the old regime or, at least primarily, of external influences..." (Waisman, 1995: 105). However, his argument seems to be inaccurate to some extent. As has been discussed, the lack of state autonomy in the Argentine case has never been an issue. The Argentinean military was clearly a central power and Alfonsín was armed with decree powers, enabling him to overcome potential legislative gridlock.<sup>5</sup> Consequently, the argument that Menem was now able to push his policies through due to state autonomy falls short and cannot stand as the main explanatory theory, although it is helpful in combination with others.

***Conclusions for Argentina:*** Economic progress in Argentina went through three very distinct phases, all of which were shaped by the phases preceding them. In explaining to what extent the state was able to initiate and sustain neoliberal reform, I looked at the inception of the policies themselves under the military regime, the continuation of failure under Alfonsín, and then final success under Menem. Cultural despair and cry for

democracy after the military and Alfonsín, institutional manipulation under Menem, and the need for long term strategy demonstrate clearly that no one theory can fully explain the adoption and maintenance of economic reform.

### **Chile:**

During the 1970s, Chile found itself in a similar downward economic spiral to that of Argentina, encountering the most severe economic difficulties since the 1920s. However, unlike in Argentina, where market reforms did not succeed until the early 1990s, Chile's neoliberal market policies were initiated by the military regime starting in 1974 and were thriving by the mid 1980s. This is almost the exact opposite of Argentina's process of events, although reforms were also enacted in three different phases. Here I look at what caused the difference in Chile's economic turn around.

#### *The Military Era*

**Summary:** Chile's experimentation with neoliberal model started in the 1960s, under the "Chicago Boys", a group of Chileans who had studied economics in Chicago and returned to implement some of these "economic truths" in Chile (Teichman, 2001: 66). However, there was resistance to privatization and little success in institution due to fractionalization within the group until military rule was instated in 1973 under General Pinochet. At this time, several Chicago Boys were awarded elite advisory positions in the new regime and subsequently, economic liberalization took off with unprecedented vigor.

Due to the economic training and technocratic nature of the Chicago Boys, the military regime in Chile had high accessibility to sound economic knowledge and was educated to make good fiscal decisions. Despite protest against liberalization within the military Pinochet's heavy-handed disciplinary techniques, as well as the high isolation that

the Chilean military had created kept reforms in progress.<sup>6</sup> Teichman writes, “Under military rule...domestic policy networks were highly integrated, cohesive, hierarchical, and fiercely resistant to penetrations – the closest fit to the ideal type constructions of any of the policy networks in [Argentina and Mexico]” (Teichman, 2001: 65). Moreover, due to his extreme control Pinochet was able to place men of his ideology or those who would respect his beliefs in office, meaning he was able to leave all economic decisions to the Minister of Finance. By 1975, it was clear that privatization measures were largely successful as inflation had decreased significantly, and the fiscal deficit had dropped from 25% in 1973 to 2.6% (Teichman, 2001: 73). As the Argentine military was also highly alienated, but not disciplined, the importance of a strong leader in initiating reform in the short term is clear. It was this discipline and authority that enabled Pinochet to separate political and economic spheres without feeling threatened.

As reforms continued to flourish, Pinochet started to make minor institutional changes, declaring that the military junta had constitutional and legislative powers, and then naming himself president of this junta. He further established veto powers for himself and slowly eliminated members of the government that were at odds with his beliefs. In 1977, Pinochet pushed the “nueva institucinalidad” initiative, which essentially was a complete restructuring of the institutional sector. As Schamis writes, “Pinochet announced the creation of a new institutional framework...one that would be ‘authoritarian, protected... [and] rooted in the principle of subsidiary’...which is the basis of economic freedom” (Schamis, 2002: 70). The minor institutional changes became more serious when in 1980, economic elites strategically drafted a constitution “that provided the essential institutional framework for market reform...measures that would become key in preventing alterations in

economic policy” (Teichman, 2001: 75). These restrictions were written with the intention of maintaining vested interests even when democracy was reinstated.

***Analysis:*** As Chile’s military era was the naissance of concerted market reform attempts, it is important to examine all three levels of analysis in this phase. One can start by looking at the success of Pinochet’s centralized and hierarchical government, which evidences the claim that economic reform requires an isolated power. This demands a re-examination of Maravall’s argument (which states that the power for reform under an authoritarian regime is overstated due to its inability to pass “good economic policy”). Although this was true in Argentina, it is not the case in Chile, since Pinochet was so dedicated to accepting technical and purely economic expertise in making his reform choices. This was quite strategic on Pinochet’s part, and he was able to create a policy network that was rational, technocratic, strategic, and autonomous. Recall, the Argentine government was also a centralized authority, but had little concern for economic accuracy in reforms instated. Furthermore, there was little strategy, little concern for political viability, and a general disregard for society as a whole. Alfonsín tried to reinstate some balance between democracy and economics, but failed again due to lacking economic knowledge and the large role of incomplete information.

Pinochet’s strategy further showed itself in the way he quickly and effectively took his promising economic reforms and consolidated them through law; specifically with the intention that General Pinochet could maintain a clear role in economic decision making even when he was not in power and that economic policy would enjoy its own isolated sector in the government. Not only do these actions emphasize Pinochet’s political skill, but also his ability to play within the institutional system by changing it. This set the precedent

for the following phases of reform where Pinochet's institutions allowed for hyper-presidentialism to continue. Thus, the General very much epitomizes the importance of strategic leaders, and thus also the importance of *Political Strategic Theory*. Institutional factors are also clearly important, as shown here since Pinochet required them to justify his actions, showing how *Democratic Institutional Theory* comes into action.

Finally, cultural factors are also noteworthy, as predicted under *Prospect Theory*, which can explain the acceptance of reforms during these intense and sometimes uncomfortable reforms. As Weyland writes, "new leaders are not tied down by association with the existing developmental model...they therefore respond to deep crisis in the risk acceptant fashion predicted by prospect theory" (Weyland, 2001: 266). As the military was certainly not tied down to a certain paradigm, and reforms thus far seemed to indicate continuing gains, the populace was generally content to make sacrifices.

### ***The Financial Crisis Era***

**Summary:** Despite its market liberalization successes in the late 1970s, Chile was not immune to the financial crisis that hit the Latin American continent in 1981. The consequences were severe and caused a comparable amount of damage as to what was seen in Argentina. However, it is most important to note how quickly Chile was able to stabilize after this massive shock - mainly because Pinochet's government reacted rapidly, accepted a new international context, and dealt with repercussions. Chile accepted significant amounts of monetary help in order to maintain free market policies, despite the resistance of some sectors of the populace. Unlike Argentina, which refused to acknowledge or pay its massive debt, Pinochet was open to international aid and the construction of an international policy network in a way that Alfonsín never was, and further acted almost immediately to gain this

support, unlike Alfonsín's foot dragging techniques. Teichman further explains that newly accessed international funds went directly to those strongly dedicated to the market reforms, further muting dissenting groups (Teichman, 2001: 79). This shows clearly that Pinochet saw the long term advantage of gaining international credibility as well as international funds.

**Analysis:** Chile's accelerated recovery after the debt crisis and the continuation of the military experience can best be analyzed by looking at elite factors, structural factors, and also cultural factors, as this phase is a continuation of the military experience. In particular these levels of analysis show why Chile's process of reform was able to move so expediently due to institutions that were put in place in the previous phase via the military, which served to maintain already implemented reforms. After the devastation of the debt crisis, it was these new structures (for example the constitution of 1980) that allowed reform to continue to progress. Additionally, cultural factors were also important as Pinochet's manipulation and abuse of the system became more severe and worrisome. This eventually caused the public to mobilize towards a new democratic government.

The measures that Pinochet took to consolidate his changes are indicative of how institutional factors from the previous phase helped cement newer reforms. By creating laws that prevented the reversal of neoliberal reforms, Pinochet clearly manufacture structural institutions so that his reforms would be embedded regardless of the outcomes they yielded. In other words, he was able to secure his power and position structurally, much in the same way that Menem did in Argentina, showing the applicability and significance of *Domestic Political Institutional Theory*.

As Pinochet's reforms became further engrained in the system, the population became more satisfied with this new status quo. However, as a society that was starting to enjoy their situation, they also became more risk averse. As it seemed that Pinochet was becoming greedier for more power and autonomy, the public became concerned that Pinochet was holding too much control in his hands alone. Thus, at this point, the populace began to call for a democratic government, a less risky regime with greater credibility and stability (Teichman, 2001). This speaks perfectly to the accuracy of *Prospect Theory*.

### ***The Return of Democracy Era***

**Summary:** In 1990, Pinochet conceded to the public's desire for a return to democratic rule. However, despite this smooth transition, the legacy of concentrated economic power continued into the new era, again mainly as a result of the institutional changes that Pinochet made, such as the Constitution of 1980. Thus, in this era as the path dependency theory forecasts, structural institutions are the most important variable for examination given the legacy of the military. As Garréton claims, the economics in Chile are not subjected to the general rules of the game that generally come with democracy due to the history that was oppressively embedded in the time of Pinochet (Garréton, 1994: 153). Thus, despite the expected institutional changes inherent in democracies, Chileans were deprived due to Pinochet's maneuvering in the past two phases. However, despite the lag of representative democratic principles, economic successes continue to thrive.

**Analysis:** I have discussed up until this point how Pinochet started this process of economic reform with long term objectives of complete power and quasi authoritarian rule. In addition to his intuition and dedication, I've also shown how he further secured his power through institutional means, further adding complications in changing the system he established.

Thus, despite expectations that accompanied the return of democracy, structures from the past did not change. As Teichman writes, “under civilian rule, Chile remains heavily presidentialist with macroeconomic policy lodged in the hands of a committed elite...the state retains its technocratic character and the Finance Ministry remains hegemonic within the state” (Teichman, 2001: 84). Consequently, newer democratic institutions only reflect the old.

The way that Chile’s current government is structured greatly hinders changing the system. Chile is a multi-party system whose parties are often divided, polarized, and highly competitive, thus making it impossible to create a majority in Congress. This generally makes change near impossible since as Mainwaring writes, “multi-party presidentialism is more likely to produce immobilizing executive/legislative deadlock than either parliamentary systems or two party presidentialism” (Mainwaring, 214, 2002).

Consequently, market reforms written into the 1980 constitution maintain substantial stability and little fear of reversal as the weakness of majority governments makes it difficult to attain the 28 votes needed for constitutional change (Teichman, 2001: 86). Furthermore, divided parties increase the number of veto players within the group, again making policy consensus difficult (Tsebelis, 1995). Last, but not least, Chile’s government is one in which all three major parties receive roughly equal support, meaning that majorities in cabinets are impossible to achieve and presidents are often forced to build governing coalitions, again making change a difficult and tedious process. The significance of the *Democratic Institutional Theory* is clear.

The way that this structural organization has affected leaders post-Pinochet is also interesting and significant in understand the lasting nature of reforms. Morgenstern tells us

that despite the Constitution and legislative road blocks, post democratic presidents Patricio Aylwin and Eduardo Frei have worked hard with Congress on economic issues in the interest of gaining some opposition party votes on other proposals since neither have had the luxury of a majoritarian government (Morgenstern 2002: 99). Thus, there is maintenance of neoliberal policies, but also general debate and discussion for specific policies. It seems that despite the fact that Chile's institutional structure is characterized by a strong presidential position, unlike in Argentina, post-authoritarian presidents, Aylwin and Frei, have avoided the use of president decrees. As market reforms have already been institutionalized and the economic sphere remains relatively autonomous (Teichman, 2001: 84) strong presidential powers have not adversely affected reform. In contrast, moderate and reasonable presidents have been helpful in aiding democratic modernization, thus showing how specific elites are just as crucial in the maintenance of reforms thus far.

***Conclusions for Chile:*** The implementation and maintenance of market reforms in Chile was a much simpler process than in Argentina. This is because Chile's first initiatives and tastes of success were experienced under the same regime. Pinochet's strategy, long term visions, and separation of political and economic spheres, along with his isolated decision-making center and frequent use of presidential decrees, were certainly crucial in continuing these reforms. Further, the Constitution of 1980 also served and continues to serve as a primary reason that rigid restrictions on economic policies stay in place. Thus, it is clear the culture, structure, and elites enabled market policies to succeed.

## **Conclusions**

In this paper, I wanted to determine whether there is any one theory that holds more explanatory power than another when looking at why some developing nations can efficiently implement economic reform, while others cannot. I looked at the case of

Argentina, which had an extensive and lengthy process in instituting market reforms, and Chile where the military enacted neoliberal reforms that were flourishing by the mid-eighties.

The most fundamental implication to be drawn from my research is that individual, structural, and cultural factors have to be integrated together to adequately explain the intricacies of economic reform. Despite the norm of both economists and political scientists to value parsimony over accuracy, this is a huge disservice to the field of political science. It is necessary to delve into the history and process trace, as I've done here, to really understand who the key players were and why they were acting in the way they were. Often times, it is only a combination of theories that can really offer any explanatory power.

However, my research also shows how the stages of economic reform are path dependent. Both nations endured severe and irresponsible military regimes that instigated neoliberal reform (phase 1). Eventually both Argentine and Chilean societies rejected these authoritarian governments, and served as the catalysts for new democracies (phase 2). In the post-transition phase, institutions began to change although not as thoroughly as desired, but even these superficial changes created a new atmosphere in these eras (phase 3). Finally, elites that have come into power after structural changes have been forced to work within these new systems, whether through corruption or through genuine commitment. This path dependency model helps create a framework that facilitates case study analysis and organizes the study of all three levels of analysis.

Given my argument and results, these two case studies offer two main insights. First, it seems that whether a reform will be successful or not is dependent on the phase of initiation and the leaders in place. These preliminary conditions set the stage for the

reform process and thus are highly significant, although it cannot be said that elites are the most explanatory variable because as shown they are constrained by domestic governments and public opinion. Secondly, the path dependent model shows that reform processes inherently are not efficient; consolidated and irreversible economic change is a long process and cannot be rushed if it is to be done correctly. If there is need for another change, it has to start from step one with a societal movement. All three of these points are directions for future research.

Finally, it is also important to keep in mind that these results (in particular the importance of strategic leaders) may be unique to Latin American countries where populist and charismatic politicians are highly valued. However, these are also something that has been targeted as a problem in other developing regions where the process of reform has not become routine. Again, this is another area for further research.

The idea that reform processes are highly dependent on previous influences has been studied to some extent, but not with a consideration of different levels of analysis as I did here. Thus, in offering insight as to why some nations are unable to pass economic reform, while others seem to do so efficiently, this paper has offered new considerations for both economic reform literature as well as political science. The answer seems to come down to cultural support, structural frameworks to embed these policies, and finally political strategy. Although this leaves room for unsound policies to be consolidated, it also seems to be the way that Latin American countries work. Whether this is right or wrong lies outside the scope of this paper, although by showing how economic processes develop and why they continue to exist in the face of distribution problems and authoritative rule, this paper has offered the first step in thinking about how to reform reform processes.

## Notes

<sup>1</sup>Under the individualistic category, there are other parallel theories that are slight modifications of this main idea. The first is Barbara Geddes' *Outsider Theory* (1994) which states that a politician must arise outside of the current system to successfully enact change. Another theory is the *Technocratic Elitist Theory*, which states that an elite politician will pull on the advice of knowledgeable individuals in certain fields and form an isolated group that can make 'good' policy decisions but is under one leader's rule. This is an idea supported by Haggard and Williamson (1994). Pereira and Nakano (1999) also agree with this analysis claiming that successful economic reform is reliant on consistent and good policy. They argue policy makers weigh the costs of waiting (strategically) rather than making rash decisions due to the understanding that if an economic program adopts mistaken policies it will fail.

<sup>2</sup>All possible theories are not included in this paper due to space constraints. The theories chosen for each school of thought are those that are most representative of the available ideas on economic reform.

<sup>3</sup> She writes, "in the public mind, orthodox stabilization and market reforms were associated with the loathed military regime...hence Alfonsín resisted strict austerity and market liberalizing measures" (Teichman 102).

<sup>4</sup> For more information on how crisis helps reform, look at Javier Corrales' article "Do Economic Crises Contribute to Economic Reforms?" (1997).

<sup>5</sup> Ana Mustpic claims that Alfonsín's rule was a classic example of "hyper presidentialism" because of his use of decree powers and strong authority.

<sup>6</sup> As Teichman writes, "just as important as Pinochet's active support for market reforms...was his control and management of the armed forces, which inhibited the Chilean military from blocking reform as the Argentine military did" (Teichman, 73).

## Appendix A: Independent Variables

### Independent Variable # 1: Individual Factors

Variable Operationalization:

- *Political Strategic Theory*: States that individual decisions are based on strategy and political skill, rather than based on costs or benefits. These politicians are acting within social constraints, as well as with an emphasis on long term interests.

*Not included in chart but examples:*

- *Outsider Theory*: states that those individuals entrenched in the system, usually have created ways to benefit from it, and thus will likely oppose changes that would better the collective interest but lower personal benefits
- *Technocratic Elitist Theory*: States that politics and economics are different spheres that need to be completely separated (economists in one, politicians in the other) to function most effectively. An elite politician will pull on the advice of knowledgeable individuals in certain fields and form an isolated group that can make ‘good’ policy decisions but is under one leader’s rule

### Independent Variable # 2: Structural Factors

Variable Operationalization:

- *Domestic Political Institutional Theory*: States that internal political institutions are the most decisive factors in whether economic reform gets passed and implemented.

*Not included in chart but examples:*

- *Veto Player Theory*: An increase in veto players – individuals or collective actors who can say no to legislation – will increase the stability of the status quo situation. Thus, a government with many veto players will have a hard time passing policy.

### Independent Variable # 3 Cultural/Societal Factors

Variable Operationalization:

- *Prospect Theory*: States that political leaders and individual members of the electorate enact and support decisions against their interests in crisis situations when they feel as if they have little to lose.

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