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DISTRIBUTIONAL COALITIONS AND THE POLITICS OF ECONOMIC REFORM IN LATIN AMERICA

By HECTOR E. SCHAMIS*

INTRODUCTION

IN much of the discipline of economics a liberal economic order is treated as a public good. As such, it is subject to familiar collective action problems: the completion of liberalization benefits all groups in society, but vested interests who enjoy sector-specific protections are tempted to maintain a closed economy. The former are therefore prone to free riding, while the latter have incentives to organize against an open economy. Accordingly, an influential application of this collective action approach, labeled "neoclassical political economy," has explained state intervention as the result of the deliberate action of distributional coalitions—rent seekers who profit from subsidies, tariffs, and regulations.[1] Given this state of affairs, policymakers implementing reform programs must be uncompromising with groups whose market reserves are eliminated by liberalization. As a prominent advocate of liberalization put it, in a "handful of heroes" lies the "secret of success."[2]

The metaphor is telling, yet it renders certain characteristics of the reform experience puzzling, particularly in Latin America. If the foes of an open economy possess such a capacity for collective action, what explains the pace, scope, and length (in some countries over twenty

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[1] For a summary of this field, see David Colander, ed., *Neoclassical Political Economy: The Analysis of Rent Seeking and DUP Activities* (Cambridge, Mass.: Ballinger, 1984); and T. N. Srinivasan, "Neoclassical Political Economy, the State, and Economic Development," *Asian Development Review* 3, no. 2 (1985).

[2] Arnold Harberger, "Secrets of Success: A Handful of Heroes," *American Economic Review* 83 (May 1993). For a similar view, see Mario Blejer and Fabrizio Coricelli, *The Making of Economic Reform in Eastern Europe: Conversations with Leading Reformers in Poland, Hungary, and the Czech Republic* (Brookfield, Vt.: E. Elgar, 1995).

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years) of the liberalization trend? How could reform-minded policymakers, on their own, launch policies to abolish the privileges of those powerful and well-organized interest groups and still survive their pressure, often under conditions of economic crisis and political instability? In other words, how did these "heroic" policymakers manage to surmount such an unfavorable collective action context?

A wealth of research has addressed these issues under the heading "the politics of economic adjustment."[3] Scholars in this research program, for the most part political scientists, have provided a rather straightforward answer to the questions above. Paradoxically, however, and despite their greater sensitivity to political factors, their explanation does not depart significantly from propositions rooted in the neoclassical paradigm. Since liberalization concentrates present costs on the beneficiaries of a closed economy and disperses (initially uncertain) benefits in the future, losers have incentives to engage in collective action but prospective winners, facing uncertainty about payoffs, remain disorganized. The pro-reform coalition is thus seen as "fragile" vis-à-vis those forces favoring import-substituting industrialization (ISI). Consequently, the reform process needs to be politically "managed"—groups favoring the status quo must be thwarted. Lacking adequate societal support, reform elites rely on enhancing autonomy, cohesiveness, and institutional capacities in order to override opposition.

Whereas economists have generally emphasized the importance of consistency and credibility for successful reform, political scientists have stressed the resolve and insulation of policy-making elites, positing these factors as the main causal variable of the process. Both therefore adopt an approach "from above." While an explicit conception of power tends to be absent from the work of economists, political scientists underline the importance of negative power, that is, the capacity of the executive to disorganize opposition. Seen in this light, the "politics of economic adjustment" reads merely as the "politics of neutralizing the losers." In fact, the lack of a conception of positive power and the neglect of proactive collective action overlooks a most crucial aspect of the reform process: how coalitions organize *in support* of liberalization. The larger politics of economic reform thus remains unexplored, and the collective action driving policy change, undertheorized.

[3] By "the politics of economic adjustment," I refer to works such as Joan Nelson, ed., *Fragile Coalitions: The Politics of Economic Adjustment* (New Brunswick, N.J.: Transaction Books, 1989); Joan Nelson, ed., *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (Princeton: Princeton University Press, 1990); Stephan Haggard and Robert Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992); and Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995).

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This article represents an effort to close this gap by treating the politics of economic reform as the "politics of empowering the winners." The argument below does not deny the centrality of institutional capacities or the significance of the choices made by reform elites; rather, it regards capacity and choice as rooted in power relations among socioeconomic groups. An examination of the economic reform process in Latin America reveals that the institutionally strongest state—the one most capable of launching policy reforms and sustaining them over time—is the one that has become the agent of powerful economic groups. This suggests that the influence of winners and their capacity for collective action have set off that of the losers. Policy-making elites did, in fact, insulate themselves from the latter, but often by forming alliances with groups of beneficiaries well informed about the payoffs of the reforms at the very outset of, or prior to, the implementation of those programs. From these links, reformist governments drew organized political support for liberalization.

Furthermore, the Latin American experience demonstrates that the coalitions that organized in support of liberalization are most appropriately described as distributional ones; the ties policymakers built with the firms that benefited from the process account for collusion; and the behavior engaged in by interest groups in order to reap the benefits of state withdrawal can be adequately defined as rent seeking. The cases examined therefore suggest that the dominant theories of collective action and the literature on economic adjustment are in need of modification that will allow us to capture the political behavior of interest groups during marketization.

The article is organized as follows. I first discuss the neoclassical political economy approach and the literature on the politics of economic adjustment, in order to exhibit their limitations to capture the politics of reform. Second, I present a stylized set of policy combinations that fosters incentives for rent-seeking behavior and distributional coalition building, even if those policies lead to comprehensive liberalization. On this basis, I extend the conceptual framework of the neoclassical political economy to the study of market-oriented reform. Third, I evaluate the argument by examining the experiences of Chile, Mexico, and Argentina, with particular reference to trade, finance, privatization, and exchange-rate policies. These nations have implemented the most comprehensive economic reforms in the region under different political contexts—military in Chile, dominant-party in Mexico, and military and democratic in Argentina—yet exhibit noticeable similarities in the collective action patterns of the process. I thus conclude with a discus-

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sion of the need to put societal interests at the forefront of our theorization in political economy (which state autonomy arguments omit), irrespective of whether the economy is closed or open (which neoclassical perspectives overlook).

Economic Policy and Collective Action: The Intellectual Terrain

For collective action theories inspired by neoclassical economics, it is the strategic behavior of individuals and groups that accounts for political intervention in the economy. Interests have incentives to organize in small groups because organization is costly and large groups facilitate free riding. When they ascertain that the benefits they obtain will exceed the costs incurred, these groups invest resources in seeking protection. Since additional output must be shared with the rest of society, distributional coalitions penetrate decision-making arenas only in order to redirect existing wealth toward themselves, a scenario that increases state intervention in the economy. As Olson put it, "The accumulation of distributional coalitions increases the complexity of regulation [and] the role of government."[4]

Olson's is mainly a capture theory: public officials are targets of well-organized groups, the rent seekers who "demand" protection.[5] But there is also a supply side to this story.[6] To the extent that politicians maximize their utility by exchanging policies for political support, they prefer allocation through political bargaining rather than through market exchanges and thus provide rents to their constituencies. Applied to the developing world—Latin America in particular—this perspective sheds light on the persistence of ISI. In fact, protectionism generally nurtured a system of patronage in favor of domestic-oriented industrialists, organized labor, and public enterprise—the urban and often-populist coalition behind ISI.[7] In turn, the proliferation of these distributional

[4] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982), 73; and idem, *The Logic of Collective Action* (Cambridge: Cambridge University Press, 1965).

[5] The theories of the rent-seeking society share the viewpoint. The original contribution is Anne Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (June 1974). See also Robert Tollison, "Rent Seeking: A Survey," *Kyklos* 35 (1982).

[6] For earl contributions, see Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957); and William Norhaus, "The Political Business Cycle," *Review of Economic Studies* 42 (April 1975).

[7] Significant contributions on this problem are Barry Ames, *Political Survival: Politicians and Public Policy in Latin America* (Berkeley: University of California Press, 1987); John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey* (Cambridge: Cambridge University Press, 1993); and Barbara Geddes, *Politician's Dilemma: Building State Capacity in Latin America* (Berkeley: University of California Press, 1994).

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coalitions causes economic decline. The economy wanes because the politicization of economic policies leads to inefficient allocation and because resources are increasingly wasted in efforts to influence policymakers, namely, in directly unproductive profit-seeking (DUP) activities.[8]

It is axiomatic of this approach that government intervention and rent-seeking behavior go hand in hand; that is, virtually any state intervention creates opportunities for rent-seeking behavior. As James Buchanan put it: "Rent-seeking activity is directly related to the scope and range of government activity in the economy, to the relative size of the public sector."[9] Conversely, a government committed to the market will be less penetrable, will discourage the formation of distributional coalitions, and will thus dissipate rents. As a reviewer of this literature conveys: "The best way to limit rent seeking is to limit the government."[10]

At no point does this approach consider whether analogous distributional coalitions could organize in order to induce governments to *withdraw* from the economy in anticipation of market reserves made available by liberalization. The bulk of the scholarship on economic reform in the developing world has a similar view, although more for what it omits than for what it proposes. It has been the prevalent view to see the reforms as inevitable, the consequence of deep economic disequilibria,[11] or exogenous, the result of the pressure of foreign governments and multilateral institutions.[12] These factors together forced governments to adjust, depriving them of domestic political support, especially at the outset of the reform process when economic pain has to be distributed widely in society.[13] Thus, these reforms can originate only in the realm of insulated policy-making teams who have to design and implement policy autonomously from society because, as Haggard and Kaufman put it, "compared to those who gain from the status quo, the diffuse beneficiaries of the reforms may have substantial difficulty

[8] Jagdish Bhagwati, "Directly Unproductive, Profit-Seeking (DUP) Activities," *Journal of Political Economy* 90 (October 1982).

[9] Buchanan, "Rent Seeking and Profit Seeking," in James Buchanan, Robert Tollison, Gordon Tullock, eds., *Toward a Theory of the Rent-Seeking Society* (College Station: Texas A and M University Press, 1980), 9.

[10] David Colander, "Introduction," in Colander (fn. 1), 5.

[11] See, for example, John Williamson, "What Washington Means by Policy Reform," in Williamson, ed., *Latin American Adjustment: How Much Has Happened?* (Washington, D.C.: Institute for International Economics, 1990); and Anne Krueger, *Economic Policy Reform in Developing Countries* (Oxford and Cambridge: Blackwell, 1992).

[12] See, for instance, Barbara Stallings, "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform," in Haggard and Kaufman (fn. 3, 1992); and Miles Kahler, "International Financial Institutions and the Politics of Adjustment," in Nelson (fn. 3, 1989).

[13] Thus leading to compensation programs. For a recent review of compensation literature and policies during liberalization, see Béla Greskovits, *The Political Economy of Protest and Patience: East European and Latin American Transformations Compared* (Budapest: CEU Press, 1998), chap. 8.

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organizing, particularly when the gains from the policy reform are ambiguous and uncertain."[14]

This view has permeated "the politics of economic adjustment" throughout. John Waterbury, for example, sees the state sector as "the lynchpin of a reputedly powerful coalition of beneficiaries with well-established claims to public resources," whereas "the beneficiaries of reform and privatization remain unorganized," enhancing in this setting the importance of "the coherence of technocratic policy change teams."[15] In this context, argues Joan Nelson, where "the benefits of structural changes are often delayed and accrue to individuals and groups who are not politically organized and may not even recognize their potential gains when the policy is launched . . . it is hard to build a political alliance with them."[16] With these assumptions, it would be logical to limit political analyses to the role of negative interests, that is, to those who oppose economic reforms, and to disregard how interests organize in support of them.

A Political Economy of Reform

What is missing in much of the research on economic reform is a socioeconomic logic to politics, namely, the recognition that economic agents (both losers and winners) are informed about the distributional consequences of government policy and consequently reveal their preferences to policymakers. They do this through a range of behaviors, from the purely individual and generally reactive (disinvestment) to the highly organized and proactive (political pressure).

This essay thus gives primacy to distributional considerations, even in the case of economy-wide policies like those typical of current liberalization programs. To the extent that asymmetries among interest groups are largely based on differences in market power, societal coalitions often become distributional ones, as groups seek market reserves and the concomitant rents because that is the most effective and least uncertain way to increase their market power. On this basis, I extend

[14] Haggard and Kaufman (fn. 3, 1992), 27. Even if in *The Political Economy of Democratic Transitions*, Haggard and Kaufman consider other variables to explain economic reform—regime type, party systems, corporatist frameworks, and electoral rules, among others—they insist that "the costs of reform tend to be concentrated, while benefits are diffused, producing perverse organizational incentives; losers are well organized, while prospective winners face daunting collective action problems and are not" (p. 157). Because of this, the explanatory power of insulated policy elites remains higher in the hierarchy than the other variables.

[15] Waterbury, "The Heart of the Matter? Public Enterprise and the Adjustment Process," in Haggard and Kaufman (fn. 3, 1992), 183.

[16] Nelson (fn. 3, 1990), 359.

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the conceptual apparatus of the neoclassical political economy to the study of liberalization, to point to ex ante links between interest groups and policymakers, as well as to the manner in which societal support can be organized during the implementation of reforms on the basis of expected distributional effects. Either way, whenever the logic of economic and political elites coincides, state autonomy arguments become questionable.

In this sense, following Olson, I define distributional coalitions as groups "oriented to struggles over the distribution of income and wealth rather than to the production of additional output."[17] Following Buchanan, I define rent as that part of the payment to an owner of resources above the alternative earning power of those resources, that is, as a receipt in excess of opportunity cost. Rents are profits, but the "in excess" clause indicates that those kinds of profits are realized in activities where freedom of entry is curtailed. In institutional settings where entry is blocked, profit seekers will invest resources in trying to get in, so that they can secure market reserves. As resources are increasingly utilized in politically related activities, and the allocative process is suboptimal, individual efforts to maximize value will generate social waste rather than social surplus. In this context, profit seekers become rent seekers.[18]

As discussed above, rent-seeking behavior is typical of interventionist-regulatory regimes. Based on the Latin America experience, however, this paper makes the argument that liberalization policies can generate incentives for rent-seeking behavior as well. It is not only that the supporters of the reform process organized around short-term distributional considerations or that they often colluded with the reformers in order to get their preferences translated into policy. It is also that particular combinations of liberalization policies can concentrate benefits upon a small coalition and disperse costs among a larger set of groups, leading to less than optimal aggregate results and to a setting favorable for rent appropriation. The stylized facts are as follows.

Trade liberalization accompanied by a nominal exchange-rate anchor leads to appreciation of the domestic currency, hurting exports and squeezing the tradable sector's profitability during a period of major productive restructuring. If, as part of an ongoing stabilization effort,

[17] Olson (fn. 4, 1982), 44. The end of the paragraph reads: "(or organizations that engage in what, in one valuable line of literature, is called 'rent seeking')."

[18] See Buchanan (fn. 9). In the same volume, Gordon Tullock, in "Rent Seeking as a Negative Sum Game," states that "an individual who invests in something that will not actually improve productivity or will actually lower it, but that does raise his income because it gives him some special position or monopoly power, is 'rent seeking,' and the 'rent' is the income derived" (p. 17).

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domestic interest rates are higher than international ones, inflows of capital will increase and will be used to finance a growing trade deficit. The manufacturing sector is thus simultaneously besieged on three different fronts: open trade, appreciation, and high interest rates. The reallocation of resources produced by this context will generate efficiency losses that partially offset the welfare effects of trade liberalization. The growth of private sector indebtedness and increasing incentives for arbitrage produce a massive transfer of resources from the real to the financial sector, allowing for a disproportionate expansion of the latter. And real exchange-rate overvaluation will induce firms to lobby for concessions, concentrating benefits on those who obtain special regimes.[19]

This setting is often the outcome of what students of the sequencing of reforms have referred to as a premature liberalization of capital inflows.[20] Capital account opening during trade liberalization will result in real appreciation and large current account deficits. A nominal anchor will only exacerbate these inconsistencies. And as they become unsustainable over time, they will lead agents to anticipate a future devaluation, largely by attacks on the currency through transactions in the capital account. In trying to defend the parity, the government will deplete central bank reserves until a devaluation and the ensuing inflation become inevitable.[21]

These balance-of-payments crises, however, are not distributionally neutral. Financial deregulation increases the opportunities for groups to access financial adaptation instruments (currency substitution, dollarization, capital flight) in order to reduce their taxable base and protect themselves from inflation. This practice, in turn, will further accelerate inflation and raise welfare losses, particularly among groups for whom financial adaptation is not available, forcing them to bear the heavier

[19] See Sebastian Edwards, *Real Exchange Rates, Devaluation, and Adjustment: Exchange Rate Policy in Developing Countries* (Cambridge: MIT Press, 1989). For the seminal contributions on the real exchange rate during liberalization, see Ian Little, Tibor Scitovsky, and Maurice Scott, *Industry and Trade in Some Developing Countries: A Comparative Study* (London and New York: Oxford University Press, 1970); and Béla Balassa et al., *The Structure of Protection in Developing Countries* (Baltimore: Johns Hopkins University Press, 1971).

[20] For example, Ronald McKinnon, *The Order of Economic Liberalization* (Baltimore: Johns Hopkins University Press, 1991); Sebastian Edwards, "The Order of Liberalization of the External Sector in Developing Countries," *Princeton Essays in International Finance* 156 (1984); and Dani Rodrik, "How Should Structural Adjustment Programs Be Designed," *World Development* 18 (July 1990).

[21] For the original theoretical contribution, see Paul Krugman "A Model of Balance-of-Payments Crises," *Journal of Money, Credit, and Banking* 11 (August 1979). Krugman's model has been extensively applied to Latin American currency crises. See, for example, Guillermo Calvo, "Balance of Payments Crises in a Cash-in-Advance Economy," *Journal of Money, Credit, and Banking* 19 (February 1987); and papers in *Journal of International Economics*, Symposium on Mexico, 41 (November 1996).

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burden of inflation and relax their poststabilization conditions.[22] This setting facilitates the formation of distributional coalitions, in the sense that groups with high asset mobility are more likely to tolerate higher inflation and for longer periods than groups with fixed assets.[23] If they can "wait and see" during inflation, their exit threats become more credible, increasing the costs to policymakers not willing to defer to such groups when designing stabilization and liberalization packages.

During privatization programs, in turn, the absence of effective regulatory frameworks prior to the divestiture process creates incentives for the transfer of public utilities as vertically integrated monopolies.[24] If privatization also takes place in the banking sector, it will lead to a concentration of assets and interlocking ownership that allow financial institutions to engage in unhealthy lending practices. This setting is often exacerbated when governments are under severe macroeconomic constraints; in order to maximize fiscal proceeds they tend to favor selling those firms fast and as monopolies. This context is propitious for collusion between policymakers and business groups involved in divestiture operations. It also allows newly private firms to enjoy skyrocketing rates and windfall profits, without any tangible benefits for consumers.

To the extent that these combinations of policies generate suboptimal aggregate results, profits made in this context qualify as rents. The examples above disclose central features of the Latin American experience with economic reform. Below, I offer more detail on the collective action patterns generated by economic liberalization in the region and the coalitions organized in support of those policies. The main theoretical implication is that economic liberalization may not be enough to eliminate incentives for rent-seeking behavior; indeed, it may just as well generate new ones. This suggests a criticism of the Olsonian collective action framework and the neoclassical political economy literature: to assume too hastily that the problem of distributional coalitions is invariably resolved by liberalization. Yet it also highlights that its

[22] For this intertemporal dynamic, see Raúl Labán and Federico Sturzenegger, "Distributional Conflict, Financial Adaptation, and Delayed Stabilizations," *Economics and Politics* 6 (November 1994); and idem, "Fiscal Conservatism as a Response to the Debt Crisis," *Journal of Development Economics* 45 (December 1994).

[23] This parallels Jeffry Frieden's proposition that holders of liquid assets are better shielded from unfavorable government policy. This does not mean, as Frieden suggests, that because of this they are "indifferent to policy." See Frieden, *Debt, Development, and Democracy* (Princeton: Princeton University Press, 1991).

[24] For a series of essays on this problem, see Brian Levy and Pablo Spiller, eds., *Regulations, Institutions, and Commitment: Comparative Studies of Telecommunications* (Cambridge: Cambridge University Press, 1996).

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conceptual apparatus, if extended to market reform experiments, can have even more explanatory power than expected. If this is so, state autonomy arguments, widely used to explain market-oriented reform, should be reconsidered.

The Cases

Chile

A broad coalition formed by domestic-oriented manufacturing, organized labor, and the urban middle sectors sustained ISI for most of the postwar period in Chile. This pattern lasted until the 1970s, when the policies of the Allende government (1970–73) dismantled the ISI regime and destroyed its multiclass political base. As a result, all propertied groups—landowners, industrial groups, and the middle classes—came together against the UP (Popular Unity) government and in support of the military. The heterogeneous character of this coalition was reflected in the moderate approach to stabilization and liberalization initially pursued by the Pinochet government. With political parties banned, and aside from the armed forces, the main institutional source of support for the government came, in fact, from the traditional business associations of industry, agriculture, mining, and commerce. Gradualism thus reflected the need to accommodate various sectors with different policy priorities.[25]

The core constituency of the military government, however, rested on a coalition of a handful of diversified economic conglomerates whose main firms were in export activities (mining, fishing, agriculture), manufacturing in internationally competitive industries (food processing, paper), and liquid-asset sectors (finance, insurance, real estate). Tight links between the upper echelons of these conglomerates and the armed forces had been forged prior to the coup, when big business mobilized against the Allende government and their leaders participated in the design of economic policy for the projected postcoup phase.[26] When the military took power in September 1973, important

[25] See Eduardo Silva, *The State and Capital in Chile: Business Elites, Technocrats, and Market Economics* (Boulder, Colo.: Westview Press, 1996), esp. chap. 4.

[26] Several of the contributors to the so-called "El Ladrillo," the economic policy document commissioned by the Navy and written during 1972–73 that served as the basis for the Pinochet economic model, were linked to three economic groups: Edwards, Matte, and BHC (later split in two, Cruzat-Larraín and Vial). For detailed accounts of these links by insiders, which document the company affiliations of the main actors involved, see Arturo Fontaine Aldunate, *Los Economistas y el Presidente Pinochet* (Santiago: Zig-Zag, 1988); and Arturo Fontaine Talavera, "Sobre el Pecado Original de la Transformación Capitalista Chilena," in Barry Levine, ed., *El Desafío Neoliberal* (Bogota: Editorial Norma, 1992).

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executives and directors of those firms joined the government, mostly in second-tier positions. Their rise to top cabinet and central bank posts toward the end of 1974 signaled the end of gradualism: trade and financial liberalization accelerated and the stabilization program deepened.

By 1976 the government had eliminated all nontariff barriers and announced a uniform, flat 10 percent tariff, reached in June 1979. As part of the ongoing stabilization effort, severe fiscal and monetary shocks, price deregulation, and exchange-rate devaluations were implemented. After 1978, however, the approach included the unprecedented step of liberalizing the capital account. This strategy was part of a proposed long-term structural transformation, but it was also intended to meet short-term stabilization goals. Under the monetary approach to the balance of payments, in the context of open trade and liberalized external capital flows, interest rates were expected to homogenize and domestic inflation rates to converge toward the lower international rate.[27]

These reforms eliminated controls and allowed residents to hold foreign exchange. In a context of excess liquidity in international markets, dollarization expanded further, from a traditional role of store of value to less conventional ones of unit of account and medium of exchange. Liberalization proceeded sequentially; permission to operate without interest-rate ceilings was granted first to private financiers and later to the banks, reallocating resources toward the former. The exchange rate remained generally overvalued, first tied to a preannounced crawling-peg rule and later, in 1979, fixed (which remained in place until 1982), while domestic interest rates remained significantly higher than international ones. Limits on foreign borrowing were gradually relaxed and eventually eliminated, simultaneously with the complete liberalization of capital inflows.

In addition, existing regulations did not allow the banks to take the exchange-rate risk; rather, all their loans financed with external funds had to be documented in foreign currency, with the final borrower assuming all of the exchange-rate risk. These regulations generated a highly segmented credit market, where in the end only some of the agents (largely the *financieras*) had access to credit denominated in foreign exchange. By this mechanism, large rents were captured by the financial intermediaries associated with the conglomerates who had

[27] For a review of these policies, see Nicolas Arditto Barletta, Mario Blejer, and Luis Landau, *Economic Liberalization and Stabilization Policies in Argentina, Chile, and Uruguay: Application of the Monetary Approach to the Balance of Payments* (Washington, D.C.: World Bank Symposium, 1983).

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access to foreign funds and who could lend in domestic currency.[28] Overall, this policy context had "Dutch-disease" effects, as broad incentives for arbitrage and private sector indebtedness generated a massive reorientation of resources from the real to the financial sector.

Currency appreciation, combined with simultaneous trade and financial and capital account liberalization, led to a serious deterioration in the real economy. The level of real protection in the manufacturing sector plummeted and had unequivocal distributional consequences. Exports expanded in copper and noncopper mining, fish and sea products, forestry and wood products, and agriculture. Imports, however, increased faster than exports, especially in the consumer durable, food, intermediate, and capital goods sectors, in that order. The manufacturing sector thus experienced considerable deindustrialization, particularly in traditional import-substituting activities.[29]

Liberalization also coincided with the privatization of 190 firms and 19 banks. Purchases were effected with a down payment provided by a direct loan from the state agency CORFO (Chilean Development Corporation) at a preferential interest rate and guaranteed by the very assets privatized. According to some calculations, the subsidy involved in these loans amounted to 30 percent of the net worth of the firms divested.[30] Receipts from privatization equaled $543 million, and 65 percent of those assets were purchased by eight economic conglomerates. By 1979 the four most politically involved of these conglomerates—Cruzat-Larraín, Víal, Matte, and Edwards—owned assets equivalent to 20 percent of GDP, including the largest private banks. In fact, the two largest banks (Banco de Santiago and Banco de Chile), owned by the Cruzat-Larraín and Víal groups, respectively, controlled 42 percent of credit.[31]

Interlocking ownership, concentration, and deregulation allowed these newly private banks to engage in excessive risk-taking practices: most typically lending to related companies within these groups (*auto-*

[28] See Roberto Zahler, "The Monetary and Real Effects of the Financial Opening Up of National Economies to the Exterior: The Case of Chile, 1975–78," *CEPAL Review* 10 (April 1980); and Julio Galvez and James Tybout, "Microeconomic Adjustment in Chile during 1977–81: The Importance of Being a 'Grupo,'" *World Development* 13 (August 1985).

[29] For a detailed study, see Jaime Gatica, *Deindustrialization in Chile* (Boulder, Colo.: Westview Press, 1989).

[30] See Alejandro Foxley, *Latin American Experiments in Neoconservative Economics* (Berkeley: University of California Press, 1982), 66; and data in "Así Arruinaron la CORFO," *Análisis* (January 14, 1991).

[31] For the first privatization phase, see Fernando Dahse, *El Mapa de la Extrema Riqueza* (Santiago: Aconcagua, 1979). For a general overview, see Dominique Hachette and Rolf Lüders, *La Privatización en Chile* (San Francisco: CINDE, 1992).

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préstamo) or to undercapitalized and highly indebted firms. Financial assets thus rose from 19.7 percent of GDP in 1975 to 48.1 percent in 1982, and private sector indebtedness grew from 42 percent to 70 percent of GDP between 1980 and 1982. By 1981, however, once international interest rates increased, the balance of payments deficit could not be financed any further and the nominal anchor was no longer credible. In June 1982 the government had to devalue the currency. Given the volume of dollar-denominated debt, a widespread recession followed, with unemployment reaching 26.4 percent and the economy shrinking by 14 percent for the year.

The severity of the recession prompted Pinochet to distance himself from the financial conglomerates. In August 1982, therefore, he appointed Rolf Lüders as both minister of the economy and minister of finance. Lüders had been number two in the line of command until March of that year (but was still the second largest shareholder) at the Víal group. Given the virtual collapse of the sector, the government needed somebody with detailed knowledge of the operations of the main financial concerns. On January 13, 1983, in a decision that remains controversial to this day, Lüders decreed the dissolution of three banks and placed another four in receivership.[32] Through these bailouts, the government took over 67 percent of the deposits, 57 percent of the accumulated pension funds, and 70 percent of the firms privatized between 1974 and 1981.[33]

Pressures for reversing the liberalization process intensified thereafter. The recession combined with mounting criticism altered the balance of power inside the business community. Reflecting these pressures, Pinochet appointed a rather protectionist team—led by Arturo Escobar and Modesto Collados—to navigate the crisis. The demands of the traditional sectoral associations were heeded: interest rates were lowered and tariffs increased to 35 percent.[34] In addition, the authorities began to prioritize a more adequate level of the real ex-

[32] For Lüders's assessment, see "La Razón de ser de la Intervención del 13 de Enero," *Economía y Sociedad* 35 (March 1985). It should be noted that at the time Pablo Baraona, Jorge Cauas, and José Luis Zabala—contributors to "El Ladrillo" (see fn. 26) and key policymakers of the government in the 1970s—were presidents of the Unido de Fomento, Santiago, and Concepción Banks, respectively; these group-related institutions were liquidated or placed in receivership.

[33] Fiscal resources used for the bailouts equaled 5 percent of GDP for five consecutive years. See Andrés Velasco, *Liberalization, Crisis, Intervention: The Chilean Financial System, 1975–1985, International Monetary Fund Working Paper* 88/66 (July 1988); and José P. Arellano, "De la Liberalización a la Intervención: El Mercado de Capitales en Chile, 1974–83," *Colección Estudios CIEPLAN* (December 1983).

[34] For a detailed analysis of this phase, see Guillermo Campero, *Los Gremios Empresariales en el Período, 1970–1983* (Santiago: ILET, 1984), chap. 5; and idem, "Entrepreneurs under the Military Regime," in Paul Drake and Iván Jaksic, eds., *The Struggle for Democracy in Chile, 1982–1990* (Lincoln and London: University of Nebraska Press, 1991).

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change rate, established foreign-exchange controls, and achieved an effective renegotiation of the foreign debt.[35]

Yet there was no return to ISI. As soon as the crisis was brought under control, the dominant coalition reconstituted itself around the economic groups that were able to overcome the recession. In February 1985 Hernan Büchi, a young economist with impeccable orthodox credentials, was appointed minister of finance. Tariffs were subsequently lowered to 15 percent, and the government launched the reprivatization of the banks placed under receivership during the 1982–83 financial crash and the privatization of the large SOEs in the tradable and nontradable sectors (virtually all the public utilities). Between 1985 and 1989 those privatizations became the main mechanism for the reorganization of the private sector and generated new opportunities for coalition building. If in the 1970s the direct beneficiaries of privatization were the financial conglomerates that had maneuvered their own people into top policy-making posts, the 1980s phase generated the conditions for the emergence of new economic groups, based on investing groups and former officials of the Pinochet government, who took over the natural monopolies.

Some examples illustrate the point. In electricity, presided over by former minister of labor José Piñera (and with former foreign minister Hernán Errazuriz on its board), the ENERSIS-ENDESA holding acquired property rights over 80 percent of usable water streams, including control of generation, transmission, and distributions grids. In telecommunications the long-distance telephone company ENTEL, which received exclusive satellite access, put former minister of finance Jorge Cauas on its board after privatization. In the nitrate company SOQUIMICH, the board after privatization included Julio Ponce-Leroux—Pinochet's son-in-law—as president and ex finance minister Sergio De Castro, ex budget director Juan Carlos Méndez, and ex mining minister Enrique Valenzuela, among others, as directors.[36]

The liberalization experiment in Chile thus shows a collective action pattern: key policymakers of the Pinochet government served on the

[35] Oscar Muñoz, "Crisis and Industrial Reorganization in Chile," *Journal of Interamerican Studies and World Affairs* 31 (Spring–Summer 1989).

[36] Information is drawn from the annual reports of those companies between 1985 and 1991. Note the similarities between these attributes of privatization and the East European process, where well-positioned former communists have become wealthy entrepreneurs by taking over state assets. See, for example, David Stark, "Privatization in Hungary: From Plan to Market or From Plan to Clan?" *East European Politics and Society* 4 (Fall 1990); idem, "Recombinant Property in East European Capitalism," *American Journal of Sociology* 101 (January 1996); and Jacek Tarkowski, "Endowment of Nomenklatura, or Apparatchiks Turned into Entrepreneurchiks, or from Communist Ranks to Capitalist Riches," *Innovation* 1 (1990).

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boards and in the executive offices of large economic conglomerates before and after holding cabinet and central bank positions, leading to collusion between economic power and political power. Beneficial policy contexts allowed these firms to extract rents and consolidate positions of leadership, even monopoly ones, in their respective sectors, at times in the context of negative aggregate outcomes. With Chile's return to democracy in 1990 and a center-left coalition in office ever since, the participation of policymakers of the military government on the boards of the largest firms in the country expanded, which suggests that the alliances forged during the long economic reform experiment were built to last.[37]

Mexico

In Mexico the creation of a proliberalization coalition between the government and private sector elites is better explained by historical attributes and structural changes of the economy than by the capture of policy-making posts. Compared with other ISI economies in the region, Mexico had historically had a relatively open financial system. Financial adaptation was a common practice among economic elites, especially when political events threatened their property rights, such as immediately after the revolution and during implementation of the land-reform program in the 1930s. Because of this, governments early on had to create attractive conditions at home in order to neutralize capital flight. They maintained free capital and currency markets and for the most part allowed fully convertible dollar-denominated accounts while setting high barriers of entry to limit the activities of foreign banks.

These policies sustained the "bankers' alliance," an arrangement based on a close relationship among the Finance Ministry, the Bank of Mexico, and the largest private banks.[38] The bankers became the main link between the government and the business community as a whole. An explicit trade-off was established: the government would safeguard an auspicious, yet protected, financial environment and a prudent macroeconomic regime, and business elites would refrain from intervening in politics. A moderate public deficit was financed through do-

[37] This is the general tone of a revealing article in the conservative weekly *Qué Pasa*, which provides detailed information on the participation of former policymakers on the boards of these firms, many of them privatized during their tenure in office. See "El Olimpo Empresarial," *Qué Pasa* (May 4, 1992).

[38] See Sylvia Maxfield, *Governing Capital: International Finance and Mexican Politics* (Ithaca, N.Y.: Cornell University Press, 1990).

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mestic and international financial capital markets and the private sector was willing to mobilize rapidly growing domestic savings. Governments managed to redirect investment toward the manufacturing sector and finance ISI, thereby avoiding the macroeconomic distortions common in other Latin American nations. "Stabilizing development"—a period of low inflation, exchange-rate stability, and rapid growth—followed in the 1950s and 1960s.[39]

This cooperative relationship was strained in the 1970s, however. At that time growth had exacerbated sectoral, regional, and income inequalities; private investment began to fall; and external balances deteriorated. As stabilizing development showed its own internal limits, the Echeverría administration (1970–76) responded with active macroeconomic policies. Thus, overly expansionary fiscal and monetary policies led to a typical Latin American cycle of inflation and current account deficit, which concluded in a stabilization package and a 59 percent devaluation in August 1976, ending twenty-two years of exchange-rate stability.[40]

These events would not go unnoticed by the business community. In fact, private sector elites began to express their discontent by individual as well as coordinated types of behavior. Increasing levels of capital flight exemplify the former. The latter type was best expressed by the growing politicization of business groups, as reflected by their involvement with PAN (National Action Party) and the creation of new institutions. In May 1975 the CCE (Consejo Coordinador Empresarial) was founded with the explicit goal of influencing policy-making on the verge of a change of sexenio. Conceived as an "organization of organizations," the design of its decision-making structure was disproportionately tilted in favor of liquid-asset sectors. Few firms grouped in associations of finance, insurance, and brokerage houses, plus the elite CMHN (Mexican Council of Businessmen), which includes thirty-eight conglomerates with pivotal financial interests, often outvote thousands of firms clustered under the traditional associations of industry (CONCAMIN), employers (COPARMEX), commerce (CONCANACO), and agriculture (CNA). Given this internal distribution of power, the CCE early

[39] By the main architect, which includes an analysis of the main problems of stabilizing development, see Antonio Ortiz Mena, "Desarrollo Estabilizador: Una Década de Estrategia Económica en México," *El Trimestre Económico* 146 (April–June 1970).

[40] See Carlos Bazdresch and Santiago Levi, "Populism and Economic Policy in Mexico, 1970–1982," in Rudiger Dornbusch and Sebastian Edwards, eds., *The Macroeconomics of Populism in Latin America* (Chicago: University of Chicago Press, 1991).

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on became a vibrant advocate of economic liberalism and a critic of state intervention.[41]

The López Portillo administration (1976–82) initially eased tensions thanks to the country's vast oil reserves (and positive price shocks) and the abundance of foreign credit. The government used oil as a collateral and borrowed heavily in order to increase state intervention. Highly liquid international financial markets allowed the government to increase its financial and political autonomy vis-à-vis business elites, but it had also provided private firms with more funding options and financial adaptation instruments. Private sector access to foreign credit facilitated a process of concentration and conglomeration among firms that participated in this process, as it allowed them to finance the purchase of new assets by contracting debt on behalf of firms, while simultaneously protecting their capital by sending it abroad.[42] When in the 1980s the price of oil declined and interest rates rose, the government tried to control capital flight by limiting currency movements and imposing exchange controls. After defaulting on debt service payments in August 1982, and in a paramount instance of state autonomy aimed at reasserting the power of the presidency, López Portillo nationalized the banks in September of that year.[43] As a result, criticism turned into outright confrontation, and the bankers' alliance broke down.

Unprecedented levels of capital flight and inflation forced the De la Madrid administration (1982–88) to execute a veritable policy U-turn in order to restore private sector confidence, especially among financial and large manufacturing firms. The interruption of the once-fluid communication between the PRI and business elites persuaded the government that major decisions would have to take account of private sector preferences. The first signal was, in this sense, a political one: to concentrate economic policy-making in the hands of a technocratic elite linked to public financial agencies—mostly the central bank and the ministry of budget and planning—renowned for their economic ortho-

[41] See, for example, Ricardo Tirado and Matilde Luna, "La Politización de los Empresarios Mexicanos (1970–1982)," in Julio Labastida, ed., *Grupos Económicos y Organizaciones Empresariales en México* (Mexico D. F.: Alianza/UNAM, 1986); Cristina Puga and Ricardo Tirado, "El Consejo Coordinador Empresarial: Una Radiografía," in *Cuadernos del Proyecto Organizaciones Empresariales en México* 1 (Facultad de Ciencias Políticas y Sociales-Instituto de Investigaciones Sociales de la Universidad Nacional Autónoma de México, 1992); Cristina Puga, *México: Empresarios y Poder* (Mexico D.F.: UNAM-Porrua, 1993).

[42] See Jorge Basave, *Los Grupos de Capital Financiero en México (1974–1995)* (Mexico D.F.: UNAM/EI Caballito, 1994); esp. chap. 3.

[43] For this interpretation, see Carlos Tello, central bank director at the time, *La Nacionalización de la Banca en Mexico* (Mexico D. F.: Siglo XXI, 1984).

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doxy.[44] Soon thereafter the government provided generous compensation to the expropriated bankers, returned their nonbanking assets (industrial-commercial firms, brokerage houses, and so on), allowed private investors to purchase up to 33 percent of the nationalized banking sector, and launched FICORCA—a program that bailed out firms with large foreign obligations.[45]

Bank nationalization had prompted private financiers to transfer their resources from the banks to other financial concerns, mainly brokerage houses. Forced to raise credit domestically (because foreign flows were drying up) and curb capital flight, the government issued treasury bonds (CETES) as the main instrument and granted exclusive trading rights to those brokerage houses. The trading of CETES led to a stock-exchange boom and a colossal expansion of the brokers, not merely as traders but as suppliers of larger financial services. As a result, from 1982 to 1990 the participation of brokerage houses in the overall flow of funds increased 587 percent while that of the (nationalized) banking system decreased 40 percent. In the process, not only did this sector grow but it also restructured itself. The highest rates of expansion were not experienced by the former bankers, but were instead enjoyed by relatively newer firms owned by younger and more innovative financiers who exploited the volatility of the 1980s.[46]

In the mid-1980s the collapse of the price of crude reduced the country's main source of revenue, enhancing the leverage of creditors, mobile-asset holders, and exporters. The government responded by initiating a program of trade liberalization. Licenses, quotas, and reference prices were all abolished, and tariffs, which had reached 100 percent in the early 1980s, were lowered to a maximum of 20 percent toward the end of 1987. Foreign-exchange constraints forced the government to reinforce the competitiveness of export-capable firms—provided that, depending on the import content of their products, their demand for hard currency was mitigated. Export-promotion programs were implemented along with import liberalization, targeting large firms already

[44] For a journalistic investigation, see *Sucesión Pactada: La Ingeniería Política del Salinismo* (Mexico D.F.: Plaza y Valdés, 1993). For academic references of this process, see Miguel Angel Centeno and Sylvia Maxfield, "The Marriage of Finance and Order: Changes in the Mexican Political Elite," *Journal of Latin American Studies* 24 (February 1992); and Miguel Angel Centeno, *Democracy within Reason: Technocratic Revolution in Mexico* (University Park: Penn State University Press, 1994).

[45] Ernesto Zedillo, the head of FICORCA between 1983 and 1987, was elected president in 1994.

[46] See the following chapters in Esthela Gutiérrez Garza, ed., *Testimonios de la Crisis IV: Los Saldos del Sexenio (1982–1988)* (Mexico D.F.: Siglo XXI, 1990): Cristina Puga and Constanzo de la Vega, "Modernización Capitalista y Política Empresarial"; and Alejandro Dávila Flores, "La Bolsa Mexicana de Valores: Alternativa Para el Financiamiento de la Inversión Productiva?"

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engaged in exports. These firms received significant concessions on inputs, high levels of protection for their final products, and preferential lines of credit. As a result, export growth was experienced by the automobile, glass, steel, cement, and electricity sectors.[47]

In the last quarter of 1987, with a sizable fiscal deficit and inflation reaching 160 percent, the government outlined a stabilization strategy based on deeper structural reforms and the adoption of a nominal exchange-rate anchor. This new approach, along with concerted income and price controls, gave shape to the Economic Solidarity Pact (PASE), signed in December of that year.[48] As in the southern cone nations in the 1970s, by conceiving and portraying trade opening as a price-stabilizing device, protectionism in Mexico was now linked to inflation, prompting the government to seek broader societal support for liberalization. As trade policy became a central macroeconomic concern, it was placed in the hands of public financial agencies. As a result, SECOFI, the main industrial policy agency, was ostracized, leaving import substituters without input into the policy process and unable to generate coordinated action against liberalization.[49]

Consequently, the proliberalization coalition gained momentum. Given the capacity of the bigger establishments to control key prices, the government gave primacy to direct consultation with large industrial and commercial firms, generally circumventing sectoral chambers and associations. This strategy enhanced the position of the elite CCE, making it the government's main interlocutor throughout the design and implementation phases of the PASE.[50] This alliance proved politi-

[47] For an overview, see Blanca Heredia, "Contested State: The Politics of Trade Reform in Mexico" (Ph.D. diss., Columbia University, 1995); and Jaime Ros, "La Reforma Comercial en México Durante los Años Ochenta: Sus Efectos Económicos y Dimensiones Políticas," *UN-ECLA Series Reformas de Política Pública* 4 (April 1993).

[48] For the PASE, see Robert Kaufman, Carlos Bazdresch, and Blanca Heredia, "Mexico: Radical Reform in a Dominant Party System," in Stephan Haggard and Steven Webb, eds., *Voting for Reform* (New York: World Bank and Oxford University Press, 1994); and by the pact's architect, Pedro Aspe, *El Camino Mexicano de la Transformación Económica* (Mexico D.F.: FCE, 1993).

[49] See Heredia (fn. 47).

[50] On paper the pact was a typical tripartite concertation, but the most important accords were made with big business. Agustín Legorreta, former banker and then president of the CCE, confirmed that "the pact was an agreement between the president and a very comfortable little group of three hundred people who make the economically important decisions in Mexico. We gave the government a deadline to fix its finances. It has met that goal earlier. The government has even fulfilled the verbal promises which were not part of the pact's text, such as the liquidation and dissolution of nationally significant firms like Aeroméxico and Cananea." See *Unomásuno* (May 18, 1988), 1, 14. In a follow-up to this statement the weekly *Proceso* reports increasing pressures for privatization on the part of the CCE. See, especially, "Legorreta usa toda su capacidad de presión para que se privatice la economia," *Proceso* 607 (June 20, 1988), 10–19. Reportedly, the other organized influence over policy-making came from the Monterrey-based industrial elite who had regular meetings with President De la Madrid and his economic cabinet. See María de Lourdes Melgar Palacios, "Economic Development in Monterrey: Competing Ideas and Strategies in Mexico" (Ph.D. diss., MIT, 1992).

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cally pivotal after March 1988, when the exchange rate was fixed and the increasing exposure of domestic industry intensified grievances from import substituters.[51] Only large firms could absorb the costs of simultaneous trade opening and appreciation, while at the same time expecting to extract tangible market reserves for their support, whether as subsidies to export promotion, which they were already enjoying, or as privatization, which they were demanding. Given the size and multisectoral character of those firms, the CCE was their most effective organizational tool.

During Salinas de Gortari's term (1988–94) the ties between the PRI and large private investors strengthened, bolstering the overall program of reform. A number of factors account for this. First, by mid-1988 and after a few revisions, the PASE had begun to yield positive results in the area of stabilization. Second, the strong performance of the center-left Democratic Current (which opposed economic liberalization) in the August 1988 election turned out to be a blessing in disguise for Salinas, for it convinced the business community that the safest strategy was to close ranks behind the PRI even further.[52] Third, the new president's approach toward business groups differed from De la Madrid's. De la Madrid had sought to create conditions conducive to curbing the distrust of the private sector and, at best, to restore the arrangement of stabilizing development. Salinas, instead, pursued more explicit political accords with business elites and made no secret of his alignment with the largest firms since the electoral campaign; in fact, he met with them in every state he visited.[53]

In just the second week of his term, and in a decision that reversed an entrenched postrevolutionary tradition that had excluded businessmen from public office, Salinas appointed Claudio X. Gonzalez (director of Kimberly Clark, stockbroker, and president of the CCE between 1985 and 1986) as presidential adviser for foreign investment. With that, the collaboration between policymakers and large investors took a new direction. For large private firms, access to top executive offices became frequent and transparent, at the expense of sectoral associations,

[51] Until 1988 currency devaluations were used to partially offset the effects of trade opening. With the PASE, the adoption of a fixed exchange rate led to a decline in effective protection in the manufacturing sector, from an average 34.8 percent in 1988 to 13.8 percent in 1991. Data from Fernando Sanchez Ugarte et al., *La Política Industrial ante la Apertura* (Mexico D.F.: SECOFI/FCE, 1994), 127. For exchange-rate management, see Adriaan Ten Kate, "Trade Liberalization and Economic Stabilization in Mexico: Lessons of Experience," *World Development* 20 (May 1992).

[52] For this interpretation, see Francisco Valdés Ugalde, *Autonomía y Legitimidad: los Empresarios, la Política, y el Estado en México* (Mexico D.F.: Siglo XXI/UNAM, 1997), 219–21.

[53] Carlos Elizondo, "Privatizing the PRI? Shifts in the Business-PRI Relationship" (Manuscript, CIDE, Mexico D.F., March 1994).

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which were often vilified as mere protectionist lobbies and therefore ignored.[54] This context was conducive to deeper reforms in the financial and parastatal sector: further opening of the capital account and, satisfying a long-postponed demand of the private sector, the privatization of the large SOEs and the banks. Both reforms were also essential to attract the capital needed to finance the growing trade deficit and sustain the exchange-rate-based stabilization program.

Desincorporación, the buzzword for privatization, was a key mechanism for reshaping private economic groups, strengthening traditional groups adapted to a new environment, and facilitating the emergence of new industrial-financial conglomerates. It also put the finishing touches on the new PRI–private sector alliance. The divestiture process had started under De la Madrid, but under Salinas the nationalized commercial banks and the natural monopolies were transferred to the private sector—93 percent of them to national firms—generating proceeds of U.S. $20 billion.[55] Most enterprises were sold at auctions. In order to participate, private firms had to meet technical, financial, and operational standards: for the most part, only large firms were able to do so.

Privatizations in the tradable sector generally entailed the participation of groups with previous presence in related activities, such as in the mining and agribusiness sectors. The privatization of the banks and the natural monopolies, in turn, was achieved through more innovative strategies, involving asset diversification and the formation of new economic groups. The newly private banks have benefited from promising market conditions; from legislation that specifies stricter property rights; and from a regulatory framework that included high differentials between active and passive rates in a deregulated domestic capital market, but combined with high barriers of entry to foreign banks.[56] Most assets were transferred to the booming stockbrokerage houses of the 1980s, such as in the cases of Banamex-Accival, Comermex, and Somex—respectively, the first, fourth, and fifth largest cases of privatization. In other cases privatization has given rise to further sectoral integration and concentration, as ownership is shared between stockbrokers and large exporting concerns in the manufacturing sector, such as Bancomer and

[54] See Puga (fn. 41), 181–204.

[55] See Jacques Rogozinski, head of the government "disincorporation unit," *La Privatización de Empresas Paraestatales* (Mexico D.F.: FCE, 1993).

[56] Under NAFTA, Mexican bankers managed to negotiate a gradual opening that restricts the operation of foreign banks to no more than 15 percent of the market in the first six years of the agreement (a process accelerated by the currency crisis of December 1994). See Carlos Elizondo, "The Making of a New Alliance: The Privatization of the Banks in Mexico," CIDE *Documento de Trabajo* 5 (1993).

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Serfin—the second and third operation in magnitude—purchased respectively by the Monterrey-based Visa and Vitro conglomerates.[57]

Resources for the purchase of SOEs were often obtained through financial packages that, for the purchasing firms, implied gaining control of large amounts of capital from investors in domestic and international capital markets. Since it involved players of different arenas, this method provided a decisive impetus to privatization. The most notorious of these operations took place in the telecommunications sector, when in 1992 TELMEX was purchased as a monopoly for $1.76 billion by the CARSO group in association with France Telecom and Southwestern Bell. CARSO, originally a stockbrokerage firm that diversified into other activities, pursued an agressive strategy of procurement of funds for the TELMEX operation, taking advantage of the issue of nonvoting shares on the international market. In this way, CARSO took over the company by purchasing only 20.4 percent of the stock, while simultaneously assuming control of 25 percent of the market capitalization of the Mexican stock exchange.[58]

The economic power distributed through the reform process cemented a new political relationship between the PRI and the large financial and industrial conglomerates. This alliance did not emerge spontaneously as a consequence of liberalization. On the contrary, the coalition was built piece by piece ex ante, largely on the basis of benefits distributed selectively among firms and sectors throughout the liberalization experiment. The strategic quality of this alliance became rather explicit in February 1993, when at a dinner with twenty-seven of the country's wealthiest men (most of them beneficiaries of privatization), Salinas asked each of them to donate $25 million for the 1994 electoral campaign. At this point, it became evident that this distributional coalition—a plutocracy, in the words of one observer[59]—had sustained a decade of economic policy reform.

[57] See Rebecca Hovey, "The Mexican Commercial Bank Privatizations: Market Reform, Economic Power, and the Transformation of Public and Private Interests" (Ph.D. diss., Cornell University, 1996); and by the head of the Bank Disincorporation Unit, Guillermo Ortiz Martínez, *La Reforma Financiera y la Desincorporación Bancaria* (Mexico D.F.: FCE, 1994).

[58] See Basave (fn. 42), chap. 5; and Celso Garrido, "National Private Groups in Mexico," *CEPAL Review* 53 (August 1994).

[59] Lucy Conger, "Power to the Plutocrats," *Institutional Investor* (International Edition) 20 (February 1995). For the dinner, see *Proceso* 853 (March 8, 1993). Reportedly, business groups were involved in the PRI campaign since 1988, through the so-called "Comisión de Financiamiento y Consolidación Patrimonial del PRI." See Carlos Alba Vega, "Los Empresarios y el Estado Durante el Salinismo," *Foro Internacional* 36 (January–June 1996). More on these links was revealed during the Fobaproa scandal, a $65 billion bailout of several of the privatized banks. Guillermo Ortiz Martínez, for instance, revealed the existence of political favoritism in the privatization and bailouts of the banks. See *El Financiero*, "Fórmense, vamos a repartir los bancos, dijo Salinas" (July 20, 1998).

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Argentina

In contrast to the rather cumulative trajectory exhibited by Chile and Mexico, the Argentine liberalization experience displays a series of discontinuous and often contradictory policy episodes. The first took place under the military government that came to power in March 1976 as a consequence of the deepest political crisis in the country's history. In orthodox economic circles that crisis was seen as the straightforward consequence of protracted ISI. Allegedly, protectionism in the manufacturing sector had swollen domestic industry and thus artificially strengthened unions, which radicalized their demands in the process. José Martínez de Hoz, a prominent member of the agroexport and financial elite who persuaded top military leaders of this connection, became economy minister.[60] His approach was appealing for the armed forces: liberalization would seek not just to allocate resources more efficiently but also to discipline hypermobilized organized groups, decompose the social base of populism, and restore order.[61]

Accordingly, by April 1976 the authorities had devalued the currency, liberalized prices, frozen wages, and reduced export taxes and import tariffs. In June 1977 additional measures deregulated the banking industry by easing the entry of new financial institutions, reducing reserve requirements, freeing interest rates, and redirecting public sector borrowing toward private credit markets. As a result, real interest rates became positive, leading to a considerable slowdown in 1978. Despite the recession, inflation had remained stuck at about 150 percent, prompting the government to deepen stabilization policies and accelerate the course of liberalization. The government thus launched "The 20 December 1978 Program," the cornerstone of which was an exchange-rate policy based on an active crawling peg.[62] The *tablita*, as it came to be known, consisted of a series of preannounced devaluations based on a declining rate of inflation. With the tablita came the elimination of restrictions on trade and capital accounts. Through these measures the government expected to bring the economy more in line with international prices and induce a process of reallocation according to Argentina's comparative advantages.[63]

[60] At the time Martínez de Hoz was the president of the Argentine Economic Council (CEA), an elite organization that grouped the most traditional firms in extractive, manufacturing, and financial activities, renowned for their free-market stance. His economic team included a group of orthodox economists highly reputed in financial circles.

[61] Adolfo Canitrot, "La Disciplina como Objetivo de la Política Económica: Un ensayo sobre el Programa Económico del Gobierno Argentino desde 1976," *Estudios CEDES* 2, no. 6 (1979).

[62] Carlos Rodríguez, "El Plan Argentino de Estabilización del 20 de Diciembre," *CEMA Documento de Trabajo* 5 (1979).

[63] For comparisons, see Arditto Barletta et al. (fn. 27).

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The preannounced exchange rate, set at levels below the rate of inflation so as to reduce inflationary expectations, increased real appreciation. With trade and financial liberalization, this new competitive environment put pressure on manufacturing firms, especially those in the consumer-oriented ISI sector. Domestic real interest rates higher than international ones and the exchange-rate risk offset by the tablita generated massive inflows of capital and drove firms into dollar-denominated debt, either to keep their operations afloat or to engage in arbitrage. Characteristic of exchange-rate-based stabilization programs, appreciation and the oversupply of foreign credit financed a consumption boom of imports that was instrumental in gathering support among otherwise castigated middle sectors, precisely during the most coercive phase of the military regime. As a result, private external debt increased from $4 billion in 1978 to $9 billion in 1979, leading to a threefold increase in total (private and public) debt between 1978 and 1981. Most private debt was concentrated among large firms and banks, one-third of it with ten banks and ten industrial firms.[64] Argentines thus coined the term *patria financiera* (financial motherland) to refer to the main beneficiary of the liberalization process.[65]

As in Chile, the liberalization of cross-border capital flows also opened an entirely new chapter in Argentina's political economy. Appreciation under ISI generally led to foreign-exchange crises arising out of the accumulation of trade deficits over time. From 1978 on, attacks on the currency through transactions on the capital account could deplete international reserves suddenly. This occurred after 1979, when the fast deterioration of the balance of payments highlighted the flaws of the predetermined exchange rate and led to massive outflows of capital in anticipation of a future devaluation.[66]

This inherently vulnerable macroeconomic context was further compounded by changes in the nature of the country's distributional conflict. Under ISI, income struggles among sectors had been based on the distribution of the agrarian surplus, but as commodity prices began to

[64] A. Humberto Petrei and James Tybout, "Microeconomic Adjustments in Argentina during 1976–1981: The Importance of Changing Levels of Financial Subsidies," *World Development* 13 (August 1985).

[65] In the early 1970s disputes within the Peronist movement developed between factions advocating either a *patria socialista* or a *patria peronista*. Later on, and as a consequence of the influence accumulated by labor leaders during the 1973–76 Peronist government, the public made references to the *patria sindical*. In the late 1970s and early 1980s allusions to the *patria financiera* conveyed that power was now located in the financial sector.

[66] The ensuing banking crisis prompted the government to take over fifty-nine financial institutions between March 1980 and December 1981 alone. See Luis Giorgio and Silvia Sagari, "Argentina's Financial Crises and Restructuring in the 1980s," in Andrew Sheng, ed., *Bank Restructuring: Lessons from the 1980s* (Washington, D.C.: World Bank, 1996).

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decline in the second half of the 1970s (eventually collapsing in the mid-1980s), economic groups increasingly began to direct demands toward the welfare-with-producer state. The military government responded to these pressures in three ways. First, it revitalized an existing program of sectoral incentives called "regime of industrial promotion" and combined it with tax exemptions for firms relocating in frontier provinces (due to security concerns on the part of the military). Second, it increased public investment in infrastructure, petrochemicals, and the military-industrial complex, generating opportunities for contractors and suppliers of the state who took advantage of old legislation that gave priority to nationally owned firms in public auctions. And, third, in 1981–82 the central bank enacted a program by which private debtors could transfer their foreign obligations to the state. This scheme of multiple subsidies generated larger deficits that, when monetized in the context of an open capital account with a fixed exchange rate, also contributed to wiping out foreign exchange reserves rapidly, leading to sharp devaluations and explosive cycles of skyrocketing inflation.[67]

Paradoxically, a military-sponsored liberalization experiment institutionalized Argentina's secular distributional conflict at the level of the fiscal sector. More than ever before, influence over the destination of state resources was the main way to resolve inter- and intrasector rivalries and, thus, the way alliances among economic groups were built. By the turn of the decade severe fiscal constraints limited the government's largesse in the overall distribution of subsidies, forcing firms to pursue economies of scale in rent seeking, and increased the selectivity of the process, generating incentives for favoritism, overinvoicing, and misappropriation, among other practices. Thus, by the early 1980s a few private groups had accumulated vast amounts of wealth while the economy as a whole was on the brink of collapse. In the manufacturing sector, for example, firms able to access industrial promotion and public contracts expanded significantly during the 1976–83 period, while the sector as a whole declined by about 12 percent. These beneficiaries, in turn, were virtually the same ones who were responsible for 79 percent of the total private external debt that was transferred to the state, although they represented only 5 percent of all private debtors.[68] At this

[67] There is a full treatment of this in Eugenio Díaz-Bonilla and Hector E. Schamis, "The Political Economy of Exchange Rate Policies in Argentina, 1950–1998" (Paper presented to the IDB project "The Political Economy of Exchange Rate Policies in Latin America," Washington D.C., August 1998).

[68] Data from Jorge Schvarzer, "Estrategia Industrial y Grandes Empresas: El Caso Argentino," *Desarrollo Económico* 18 (October–December 1978); idem, "Cambios en el liderazgo Industrial Argentino en el período de Martínez de Hoz," *Desarrollo Económico* 23 (October–December 1983); Mario Damill

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point a new distributional coalition was formed. Nicknamed *patria contratista* (contractor motherland) by the public, but self-identified as "the captains of industry," this group's success was the result of its capacity to access the wielders of political power and its effective control of (mostly family-owned and originally import-substituting) diversified economic conglomerates through highly centralized decision-making structures.[69]

Checked by domestic discontent and internationally isolated after the Falklands-Malvinas War, the military had to execute a quick withdrawal from office, leaving behind a truncated liberalization experiment, a high concentration of economic power, and a vacuum of political power. The democratic administration of Raúl Alfonsín (1983–89) tried to fill the political vacuum by creating a "third historical movement," namely, by absorbing the labor movement (largely Peronist) into a new permanent electoral majority.[70] An extensive "deperonization" of the working class, however, depended on prolonging the initial success of the Austral Plan, the stabilization program launched in mid-1985, as well as on the availability of resources to distribute material rewards and divide the labor leadership. Given these coalition-building priorities, the Radical government sought to retain discretionary control over the key macroeconomic variables, thus avoiding structural reforms deemed necessary to make disinflation durable.

Conflicting objectives also characterized the approach vis-à-vis business. On the one hand, the government emphasized the need to increase the overall competitiveness of the economy (via deregulation, export promotion, and so on) in order to put a definitive end to inflation. On the other hand, the capacity of the leading financial and industrial firms to set key prices of the economy compelled the authorities to bring the captains of industry more formally into the policy-making process.[71] This political alliance translated into a more orthodox macroeconomic management (reductions in the money supply, cuts in spending, and increases in interest rates) but combined with a microeconomic

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and José María Fanelli, "Decisiones de Cartera y Transferencias de Riqueza en un Periodo de Inestabilidad Macroeconomica," *Documento CEDES* 12 (1988); Daniel Aspiazu, Eduardo Basualdo, and Miguel Khavisse, *El Nuevo Poder Económico en la Argentina* (Buenos Aires: Nueva América, 1987); Eduardo Basualdo and Daniel Aspiazu, *Cara y Contracara de los Grupos Económicos: Estado y Promoción Industrial en la Argentina* (Buenos Aires: Cántaro, 1991).

[69] For detailed investigations, see Pierre Ostiguy, *Los Capitanes de la Industria: Grandes Empresarios, Política y Economía en la Argentina de los Años* 80 (Buenos Aires: Legasa, 1990); and Luis Majul, *Los Dueños de la Argentina* (Buenos Aires: Sudamericana, 1992).

[70] See Luis Aznar et al., *Alfonsín: Discursos sobre el Discurso* (Buenos Aires: EUDEBA/FUCADE, 1986).

[71] See Ostiguy (fn. 69), 328–38; and William Smith, "Democracy, Distributional Conflict, and Macroeconomic Policymaking in Argentina, 1983–89," *Journal of InterAmerican Studies and World Affairs* 32 (Summer 1990).

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approach that maintained a rather closed trade regime and selective subsidies for firms in the manufacturing sector. The micro soon affected the macro. By 1987–88 outlays for public contracts and the regime of industrial promotion represented 2 percent of GDP and more than half of the nonfinancial fiscal deficit.[72] With a fiscal position already compromised by debt service payments and the collapse of commodity prices, high inflation resumed.

A Peronist landslide in the September 1987 congressional and gubernatorial elections further impaired the Alfonsín administration's capacity for economic management. A last attempt to recover stability was made in August 1988, through yet another package, the *Plan Primavera* (spring plan).[73] Like the Mexican PASE signed in December 1987, the program was based on a series of price agreements with the peak associations of industry (UIA) and commerce (CAC), tighter monetary and fiscal policies, and the adoption of a fixed exchange rate. Yet Argentina's political and macroeoconomic environment at the time was far more precarious than Mexico's. The government's capacity to enforce compliance across society was thus remarkably lower: agricultural interests exhibited zero tolerance to currency appreciation and labor rejected wage restraint.

By the end of 1988 the credibility deficit of the spring plan was widespread. As long as the government was determined to maintain the nominal anchor and the capital account remained open, the central bank was forced to intervene in currency markets, eroding its reserves. This process accelerated as of January 1989, when the realization that the macroeconomic imbalances were unsustainable led to runs against the currency, flight from money, and other forms of financial adaptation. In early February the situation deteriorated even more dramatically. Central bank authorities suspended foreign-exchange auctions, unexpectedly ending their commitment to exchange-rate stability. The largest corporations responded to this unforeseen decision with a concerted run to the dollar that caused the virtual collapse of the price system in domestic currency. At that point, the attack on the currency had become a political gesture, to the extent that financial media described it as a "market coup."[74]

Delivered against the Alfonsín government, the "coup" was also a warning to the Peronist candidate Carlos Menem, frontrunner in the

[72] World Bank, "Argentina: Public Finance Review, from Insolvency to Growth" (February 11, 1993), report 10827-Ar.

[73] See José Luis Machinea, central bank president during most of this period, "Stabilization under Alfonsín's Government: A Frustrated Attempt," *Documento CEDES* 42 (1990).

[74] *Ambito Financiero* (December 15, 1989), 1, 2.

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May 1989 election.[75] Menem acknowledged the message: he abandoned the populist rhetoric of his campaign—"productive revolution" and massive wage increases (*salariazo*)—as soon as he was elected, and embraced an agenda defined as "popular liberalism." Menem's sudden conversion, it was said, was a "hyperrealist" and "hyperpragmatic" response to hyperinflation. He reportedly had little option but to "strike a deal" with the captains of industry.[76] In fact, when Menem was inaugurated in July, central bank reserves equaled $500 million and the monthly inflation rate was 190 percent. The new government needed to prioritize the reconstruction of the fiscal base. The distribution of rents through subsidies and public contracts could not continue, but at the time no government could afford the opposition of the large economic conglomerates, the corporate culture of which had been forged more in the political arena than in the marketplace.

Accordingly, Menem delivered an unambiguous political signal by filling the key economic policy-making positions with top executives of Bunge y Born (Argentina's oldest conglomerate and a staunch adversary of Peronism) and leaders of the Ucede political party (the earliest and most articulate advocate of economic liberalization).[77] With this support, Menem set out to centralize authority in his office, a task he deemed essential to overcome what, by all accounts, constituted the deepest economic crisis in the country's history, and to launch a reform program. On the president's initiative, Congress approved the State Reform Law in August, which made virtually all public companies eligible for privatization, and the Economic Emergency Law in September, which gave extraordinary powers to the executive to expedite the process. This legal framework set the stage for the elimination of industrial subsidies, the reduction of import restrictions (with some significant sectoral exceptions), cuts in public expenditures and employment, and increases in tax collection. In March 1991 a new anti-inflation strategy—the Convertibility Law—was approved by Congress. Still in effect in 1998, the program pegged the peso one-to-one to the dollar, determined the full convertibility of domestic currency, and transformed the monetary and exchange-rate functions of the central bank

[75] In author interviews with members of the Bank Association (ADEBA) and representatives of large industrial conglomerates held between May and August 1989, several of them admitted that by February 1989 there was a widespread feeling that "something drastic had to be done" in order to make politicians understand, "once and for all," that the business class would no longer tolerate unpredictability.

[76] Author interviews with top economists of the Justicialista Party, later officials in the economy and foreign ministries, Buenos Aires, June 1989, and Washington, D.C., December 1989.

[77] For this unprecedented alliance, see Edward Gibson, *Class and Conservative Parties: Argentina in Comparative Perspective* (Baltimore: Johns Hopkins University Press, 1997), chap. 6.

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into a quasi currency board by which the monetary base has to equal liquid international reserves.

Price and exchange-rate stability and what appeared as a commitment to rules, rather than discretion, were necessary conditions for a full-fledged privatization, especially given the increase in private sector demand for credit to finance the purchases. Since the divestiture process outlined a payment method that included foreign debt paper, purchasing consortia often included a creditor bank, an international firm operating in the area to be privatized, and a large domestic firm belonging to one of the main economic groups. The case of the telephone system is illustrative. The public monopoly was privatized as a duopoly, which included Citibank, Telefónica de España, and the local Techint group as one half, and Morgan Bank, France Telecom, and the Pérez Companc group as the other.[78]

Since the government maximized speed and fiscal proceeds, companies were generally tendered undivided and with monopoly rights. As a consequence, contractors and suppliers with specialization in certain areas exploited their information, experience, and effective access to those organizations, and took over energy, water, petroleum, railroads, and highways, for the most part in association with foreign banks and international operators. The result was a pattern of concentration in ownership and in capital markets along with horizontal diversification by which domestic firms participated in ownership of various privatized companies. This context was conducive to rapid gains in the productive efficiency of the privatized firms, reportedly the result of tariff increases, the preservation of protected markets, and regulatory flaws.[79] This occurred not just in the public utility sector, where monopolies tend to prevail due to economies of scale and high barriers of entry, but also in tradables and areas subject to competition, such as oil refineries, air transport, and international telecommunications.

In the end privatization became the very political foundation of the reform program. It allowed the government finally to secure a lasting deal with the captains of industry: the former replenished state coffers and the latter made up for lost rents. In fact, the domestic groups involved in the largest privatization operations—Macri, Techint, Bridas,

[78] See Claudia Herrera, "The Privatization of the Argentine Telephone System," *CEPAL Review* 47 (August 1992).

[79] See Pablo Gerchunoff and Guillermo Cánovas, "Privatización en un Contexto de Emergencia Económica," *Desarrollo Económico* 34 (January–March 1995); and idem, "Privatization: The Argentine Experience," in William Glade, ed., *Bigger Economies, Smaller Governments* (Boulder, Colo.: Westview Press, 1996).

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Pérez Companc, Astra, Soldati, Roggio[80]—were also the main beneficiaries of public contracts and the regime of industrial promotion in the 1970s and 1980s, and among the largest private debtors who transferred their foreign obligations to the state through the subsidy implemented in 1981–82. In the 1990s, therefore, the captains of industry consolidated their economic leadership and, by constituting themselves in the dominant distributional coalition, reaffirmed a political centrality that no government could afford to ignore.

Conclusion

This paper has discussed the collective action and coalition building associated with economic liberalization. The flaws of the approaches reviewed above account for their incomplete reading of the behavior of interest groups during the reform process and, crucial in political economy, for the type of state theory they construct on the basis of that reading. The neoclassical political economy approach links the strategic action of groups to government policy only under conditions of state intervention. Scholars in this research program present a theory of collective action that is mostly a capture theory, though one that goes only in the direction of government intervention. The reverse situation, however, remains untheorized, namely, that interests organize and capture decision-making arenas to induce governments to withdraw from the economy. Economic liberalization is thus explained by the action of enlightened policymakers—Harberger's heroes—but what exactly allows them to prevail over well-organized forces seeking protectionism is not specified. In this sense, the neoclassical political economy approach can furnish only a theory of the "interventionist" state.

The literature on the politics of economic adjustment, in turn, has mirrored the premises of the neoclassical paradigm. As noted above, Haggard and Kaufman and several of their collaborators hold that economic liberalization diffuses benefits and concentrates costs. Potential winners are said to be uncertain about the payoffs of the reforms and are therefore pictured as passive and disorganized. Losers, by contrast, are considered to have stronger incentives to engage in collective action against those policies. On the basis of these assumptions, only cohesive and insulated policy-making elites can deliver reform packages success-

[80] Data from INDEC, *Anuario Estadístico de la República Argentina* (Buenos Aires: Ministerio de Economía y Obras y Servicios Públicos, 1997), 480–98.

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fully. This approach, then, mainly advances a theory of the "autonomous" state.

Despite different points of departure, the approaches of economists and political scientists reviewed in this paper converge in their understanding of the economic policy-making process. Yet neither the proposition that only interventionist policy contexts generate incentives for groups to engage in rent-seeking behavior and distributional coalition building nor the claim that liberalization flows from insulated policy teams because losers are better organized than winners conforms to the empirical materials discussed above. Theoretically, these claims are based on a profoundly negative view of politics characteristic of neoclassical economics (that is why whenever societal groups engage in political organization, protectionism is invariably expected to follow) and on what appears to be an increasingly prevalent tendency in the field of political economy: to view political institutions—particularly the state—as autonomous structures with their own distinctive configurations, ideas, and interests, and take them as the independent variable that explains various socioeconomic outcomes, government policy among them.

As shown from the Latin American reform experience, free trade combined with real exchange-rate overvaluation generates important allocative inefficiencies: manufacturing firms are driven into debt, producing massive transfers of resources from the real to the financial sector, and into lobbying for special concessions, thereby offsetting the welfare gains of liberalization. Capital account liberalization together with an exchange-rate-based stabilization program magnify the macroeconomic vulnerability. This also increases the availability of financial adaptation instruments and allows those who can access them to protect themselves from inflation. Over time, however, this practice will raise inflation further, concentrating the welfare losses on groups unable to access financial adaptation. Mobile asset holders will thus try to secure a policy context that facilitates their access to financial adaptation. Public utilities privatized as vertically integrated monopolies consolidate disproportionate economic power in a few private firms, setting incentives for collusion between those firms and policymakers without tangible benefits for consumers. Firms with political clout use it to take over the assets of these SOEs.

This collective action setting highlights the need to rethink the propositions of the state-centered approach in political economy.[81]

[81] The landmark contributions are Peter Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978) (yet more open to the role of societal groups); Peter Evans, Dietrich

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Scholars persuaded by this approach, mostly political scientists, have sought to reject views of the state as epiphenomenal of societal forces. Far too often, however, state-centered explanations have gone much beyond a welcome *analytical* distinction between the state and the economy—necessary to underscore the specificity of the political—to reify instead the state as an apparatus unrelated to the economic domain, almost as a separate object of study. Not only has this intellectual operation limited the explanatory power of this type of political economy but it has also obscured the very understanding of the state and other political institutions. It misses the point that, to the extent that the enforcing institutions of a society affect its economic performance as well as the distribution of wealth, they become the battlegrounds for interest-group politics. Because of this, institutions are generally created not by actors pursuing optimal choices but by actors seeking to gain strategic advantage in ways that secure distributional outcomes.[82] If we approach the study of those institutions as autonomous domains, we can treat them only as independent variables. If institutions are delinked (insulated) from the preferences and strategies of societal groups, crucial factors that account for the process of institutional creation and change are missed.

The causal primacy assigned by the approaches reviewed above to the policy consistency, autonomy, and institutional capacities of the reformers displays an unwarranted state-centered emphasis on the liberalization process at the expense of the structural power of the beneficiaries of economic reform. By contrast, this paper has sought to bring interests to the forefront of political economy and thereby highlight the impact of group preferences on government policy and institutions. Having developed a more accurate picture of the behavior of these groups, we can link the preferences and coalition-building strategies of societal actors to policy choices and to the institutional forms adopted by economic reform experiments. As shown above, in market economies asymmetries among interest groups are based largely on differences in market power. Interest groups seek market reserves and the

Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985); and Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992). For a criticism, see Adam Przeworski, *The State and the Economy under Capitalism* (Chur, Switzerland: Harwood Academic Publishers, 1990); and Jonas Pontusson, "From Comparative Public Policy to Political Economy: Putting Political Institutions in Their Place, and Taking Interests Seriously," *Comparative Political Studies* 28 (April 1995).

[82] For discussions along these lines, see Jack Knight, *Institutions and Social Conflict* (Cambridge: Cambridge University Press, 1992), esp. chap. 2; and George Tsebelis, *Nested Games* (Berkeley: University of California Press, 1990), esp. chap. 4.

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accompanying rents because that is the most effective and least uncertain way to increase their market power. In closed economies (such as those under ISI) market reserves take the form of tariffs and government regulations; the rent-seeking literature has highlighted the structural incentives that explain the political activities behind this process. Through identical political activities, however, interest groups can secure market reserves in liberalizing contexts as well.

In fact, the evidence presented in this paper demonstrates that collusion between political and economic power and the formation of small distributional coalitions have been the driving forces behind the policy reform process in Latin America. Frequently, such a collusion was made explicit by revolving-door relationships between corporate and executive posts, as in Chile during the expansion of the *grupos*, or by direct channels of access enjoyed by a reduced number of firms, as revealed by the leaders of the Mexican CCE. Uniformly, these relationships translated into the preservation of market reserves, as most clearly expressed by the Argentine captains of industry, first state contractors and later privatizers. On the basis of these findings, this essay has suggested extending the insights of the theories of the rent-seeking society to the study of market-oriented reform and placing state autonomy arguments under scrutiny. Only so, with such a detailed examination of the political behavior of interest groups during liberalization can we capture the politics of economic reform.

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