DEMOCRACY AND ECONOMIC CRISIS:
The Latin American Experience

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SINCE 1979, the politics of Latin America have been transformed by the longest and deepest wave of democratization in the region's history. At the same time, the continent has been confronting its most serious economic crisis since the Great Depression. The confluence of these two trends has raised serious concerns about the future of democratic governance in the region.[1] The prevailing assumption is not merely that economic decline undercuts prospects for democratic consolidation. Because of their vulnerability to popular political pressures, democracies—particularly new democracies—are also seen as incapable of mounting effective policy responses to critical economic challenges.

In this essay, the relationship between democracy and economic crisis is examined with specific reference to the question of policy response. Are democracies less likely than other regimes to address economic crises with appropriate policies? Do they tend to intensify rather than ameliorate economic challenges to their survival? How important are political regime characteristics for explaining varying policy responses to common economic difficulties? A comparative study of policy outcomes in Latin America after the outbreak of the debt crisis in 1982 suggests that the conventional wisdom about democracy and economic crisis not only exaggerates the relationship between political regime characteristics and policy choice; it also fundamentally misconstrues the strengths and weaknesses of democratic forms of governance.

[1] Jimmy Carter and Howard Baker, "Latin America's Debt and U.S. Interests," in Robert A. Pastor, ed., *Latin America's Debt Crisis: Adjusting to the Past or Planning for the Future?* (Boulder, CO: Lynne Rienner, 1987), 2; U.S. Congress, House Committee on Foreign Affairs, *Global Debt Crisis*, 99th Cong., 2d sess., 1986, pp. 57, 59, 76; Inter-American Dialogue, *The Americas in 1989: Consensus for Action* (Aspen, CO: The Aspen Institute, 1989), 1-2; Pedro-Pablo Kuczynski, *Latin American Debt* (Baltimore: The Johns Hopkins University Press, 1988), 146; Mitchell A. Seligson and Edward N. Muller, "Democratic Stability and Economic Crisis: Costa Rica, 1978-1983," *International Studies Quarterly* 31 (September 1987), 323; "Bush Aides Are Likely to Offer a Plan Soon on Third World Debt," *Wall Street Journal*, March 9, 1989, p. 1; "Third World Debt Won't Wait," *New York Times*, October 1, 1988, p. 4; "Latin Debt Crisis Seen as Threat to Continent's New Democracies," *New York Times*, January 17, 1989, p. 3.

Regime Characteristics and Public Policy

For nearly three decades, comparativists have been arguing over the determinants of policy choice. The debate is far from closed, but a growing body of research has generated considerable skepticism about the importance of regime variations for understanding policy performance.[2] Not only are policy choices constrained by socioeconomic realities, but the political similarities and differences among nations appear to be far too complex and multifaceted to be captured by simple distinctions among types of regimes. As a result, knowing that a regime is civilian rather than military, democratic rather than authoritarian, or even inclusionary rather than exclusionary establishes only a limited basis for making predictions about policy outcomes. The reasons are obvious. What counts in the formation of policy is not merely the rules of the political game, but the composition of governing coalitions, the ideological orientations of government leaders, and the structure of decision making. Recent literature on policy formation in Latin America and Western Europe has accordingly stressed such issues as the ideology of the dominant party, differences between presidential and parliamentary rule, national policy commitments, the belief systems of policy makers, the role of technocrats, union organization, relationships between the state and business groups, and corporatist forms of interest representation.[3]

[2] For a summary and review of this literature as it pertains specifically to Latin America, see Karen L. Remmer, "Evaluating the Policy Impact of Military Regimes in Latin America," *Latin American Research Review* 13, No. 2 (1978), 39-54.

[3] David Cameron, "Social Democracy, Corporatism, Labor Quiescence, and the Representation of Economic Interest in Advanced Capitalist Society," in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Oxford: Clarendon Press, 1984); Francis G. Castles, *The Social Democratic Image of Society: A Study of the Achievements and Origins of Scandinavian Social Democracy in Comparative Perspective* (London: Routledge & Kegan Paul, 1978); William Coleman and Wyn Grant, "The Organizational Cohesion and Political Access of Business: A Study of Comprehensive Associations," *European Journal of Political Research* 16 (September 1988), 467-87; Catherine M. Conaghan, *Restructuring Domination: Industrialists and the State in Ecuador* (New Haven: Yale University Press, 1988); Merilee S. Grindle, *State and Countryside: Development Policy and Agrarian Politics in Latin America* (Baltimore: The Johns Hopkins University Press, 1986); Stephan Haggard and Robert Kaufman, "The Politics of Stabilization and Structural Adjustment," in Jeffrey D. Sachs, ed., *Developing Country Debt and Economic Performance*, Vol. 1: *The International Financial System* (Chicago: University of Chicago Press, 1989), 209-54; Douglas A. Hibbs, Jr., "Political Parties and Macroeconomic Policy," *American Political Science Review* 71 (December 1977): 1467-87; Robert R. Kaufman, *The Politics of Debt in Argentina, Brazil, and Mexico* (Berkeley: Institute of International Studies, University of California, 1989); Peter Katzenstein, *Small States in World Markets* (Ithaca, NY: Cornell University Press, 1986); Stephen McBride, "The Comparative Politics of Unemployment: Swedish and British Responses to Economic Crisis," *Comparative Politics* 20 (April 1988), 303-23; Ronan Raddison, *The Fragmented State* (Oxford: Basil Blackwell, 1983); Philippe C. Schmitter, "Reflections on Where the Theory of Neo-Corporatism Has Gone," in Gerhard Lehmbruch and Philippe C. Schmitter, eds., *Patterns of Corporatist Policy-Making* (London: Sage Publications, 1982).

Policies designed to cope with acute economic crises stand out as a key exception to these generalizations about research trends. Beginning with Thomas E. Skidmore's seminal study of economic stabilization,[4] scholars have repeatedly stressed the significance of regime characteristics for understanding the capacity of governments to manage serious economic disequilibria.[5] Either because economic austerity is seen as posing different kinds of risks for democratic and authoritarian governments or because the capacity to impose unpopular adjustment programs is assumed to vary with regime type, authoritarianism has been repeatedly linked with the successful management of economic crises, and democracy with failure. The first line of theoretical argument is represented by a recent work on the debt crisis, which asserts that "a democracy which is not accompanied by social and economic betterments for the population at large is putting its survival at risk."[6] A quotation from another recent work on Latin America illustrates the complementary argument—namely, that democracies are unable to administer the economic medicine required by crisis conditions. "Present economic policy . . . demands decision-making centers able to impose policies resisted by almost all segments of society. This is a task that prior cycles show is beyond the capacity of open democratic regimes in Latin America."[7] Authoritarian rule, which implies less dependence on popular support and more capac-

[4] Skidmore, "The Politics of Economic Stabilization in Postwar Latin America," in James M. Malloy, ed., *Authoritarianism and Corporatism in Latin America* (Pittsburgh: University of Pittsburgh Press, 1977), 149-90.

[5] Christian Anglade and Carlos Fortín, eds., *The State and Capital Accumulation in Latin America*, Vol. 1 (Pittsburgh: University of Pittsburgh Press, 1985), 8; Alejandro Foxley, *Latin American Experiments in Neoconservative Economics* (Berkeley: University of California Press, 1983); Robert Frenkel and Guillermo O'Donnell, "The 'Stabilization Programs' of the International Monetary Fund and Their Internal Impacts," in Richard R. Fagen, ed., *Capitalism and the State in U.S.-Latin American Relations* (Stanford, CA: Stanford University Press, 1979), 171-216; Robert R. Kaufman, "Democratic and Authoritarian Responses to the Debt Issue: Argentina, Brazil, and Mexico," *International Organization* 39 (Summer 1985), 473-503; Riordan Roett, "The Foreign Debt Crisis and the Process of Redemocratization in Latin America," in William N. Eskridge, Jr., ed., *A Dance along the Precipice: The Political and Economic Dimensions of the International Debt Problem* (Lexington, MA: Lexington Books, 1985), 207-30; John Sheahan, "Market-oriented Economic Policies and Political Repression in Latin America," *Economic Development and Cultural Change* 28 (January 1980), 267-91; Barbara Stallings, "Peru and the U.S. Banks: Privatization of Financial Relations," in Fagen, pp. 217-53; Rosemary Thorp and Laurence Whitehead, "Introduction," in Thorp and Whitehead, eds., *Inflation and Stabilisation in Latin America* (New York: Holmes and Meier, 1979), 11, 18; Jorge Dominguez, "Political Change: Central America, South America, and the Caribbean," in Myron Weiner and Samuel P. Huntington, eds., *Understanding Political Development* (Boston: Little, Brown, 1987), 83.

[6] Institute of Latin American Studies, *The Debt Crisis in Latin America*, Monograph No. 13 (Stockholm: Institute of Latin American Studies, 1986), 11.

[7] James M. Malloy, "The Politics of Transition in Latin America," in James M. Malloy and Mitchell A. Seligson, eds., *Authoritarians and Democrats: Regime Transition in Latin America* (Pittsburgh: Pittsburgh University Press, 1987), 249.

ity to override political dissent, is consequently seen as more compatible with economic crisis than democracy.

To date, comparative research has provided only limited support for this line of analysis, and most of that support has been drawn from the historical experience of the three largest Latin American states. To the extent that researchers have considered a broader variety of cases, evidence of any strong linkage between regime characteristics and policy performance in the area of economic stabilization has remained distinctly elusive. A 1986 study, which presented both diachronic and cross-sectional analyses of IMF standby programs in Latin America over a thirty-year period, concluded that democratic regimes have been no less likely to introduce stabilization programs than authoritarian ones, no more likely to break down in response to their political costs, and no less rigorous in their implementation of austerity measures. If anything, the evidence suggested that the edge with respect to program implementation was with the democracies.[8]

Studies encompassing other areas of the third world have arrived at similar findings. According to Stephan Haggard's study of IMF Extended Fund Facility programs between 1975 and 1984, the capacity to adjust to economic crisis depends less on regime characteristics than on other variables, including the economic ideologies of governing elites, the importance of political clientelism, and the existence of a cohesive group of economic technocrats.[9] Joan M. Nelson's analysis of third-world stabilization programs reached similar conclusions.[10]

Despite this evidence, the economic policies and performance of Latin American states continue to be analyzed in terms of regime characteristics. The reason is twofold. First, either implicitly or explicitly, regional specialists have dismissed the relevance of prior research on the grounds that the current economic crisis is qualitatively different from any in the past. Thus, in their recent book on the debt crisis, Barbara Stallings and Robert Kaufman argue that "political regime type has been an important determinant of policy choice in the 1980s, even if it was not necessarily crucial in the more affluent 1960s and 1970s." In their view, "regime type weighs more heavily in conditions of crisis, when there are sharply contrasting views about how to allocate costs."[11] The argument parallels that of Peter Gourevitch, whose comparative analysis of responses to eco-

[8] Karen L. Remmer, "The Politics of Economic Stabilization: IMF Standby Programs in Latin America, 1954-1984," *Comparative Politics* 18 (October 1986), 1-24.

[9] Haggard, "The Politics of Adjustment: Lessons from the IMF's Extended Fund Facility," in Miles Kahler, ed., *The Politics of International Debt* (Ithaca, NY: Cornell University Press, 1985), 157-86.

[10] Nelson, "The Politics of Stabilization," in Richard E. Feinberg and Valeriana Kallab, eds., *Adjustment Crisis in the Third World* (New Brunswick, NJ: Transaction Books, 1984).

[11] Stallings and Kaufman, "Debt and Democracy in the 1980s: The Latin American Ex-

nomic crises stressed that "the moments of greatest freedom are crisis points."[12]

The recent origin of most Latin American regimes has provided a second reason for dismissing the results of past research. Questions about the capacity of the region's democracies to manage the current crisis have been articulated specifically with respect to "newly emerging," "fledgling," "nascent," "struggling," or "incipient" democracies,[13] and not necessarily with reference to the generic properties of democracy as a system of governance. New democracies are singled out because of their supposed fragility or lack of legitimacy; indeed, the adjectives "new" and "fragile" have been used almost interchangeably to describe democratic governments in such countries as Argentina and Brazil.[14] The operative theoretical assumption is that, "in postauthoritarian situations, political legitimacy is very fragile and strongly contingent on material payoffs."[15] In a similar vein, Seligson and Muller have argued, "Demands of labor unions, middle-class groups, and peasants must all be at least partially satisfied if these regimes [the new democracies] hope to build their legitimacy."[16] Fragility, however, is not merely seen as a reflection of the contingent nature of popular support. New democracies also harbor strong antidemocratic forces, which may take advantage of widespread political unrest.[17] As a result, political leaders in recently established democracies are portrayed as facing unusually intense pressures to resist economic orthodoxy and to pursue policies that are likely to push their economies in the direction of total financial collapse.

Economic Constraints and Political Instability

Neither the depth of the post-1982 crisis in Latin America nor the recent origin of the majority of the continent's democratic regimes estab-

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perience," in Stallings and Kaufman, eds., *Debt and Democracy in Latin America* (Boulder, CO: Westview Press, 1989), 203, 220.

[12] Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, NY: Cornell University Press, 1986), 240.

[13] Seligson and Muller (fn. 1), 322, 323; House Committee on Foreign Affairs (fn. 1), 76; "Third World Debt Won't Wait," *New York Times*, October 1, 1988, p. 14; William C. Smith, "Heterodox Shocks and the Political Economy of Democratic Transition in Argentina and Brazil," in William L. Canak, ed., *Lost Promises: Debt, Austerity, and Development in Latin America* (Boulder, CO: Westview Press, 1989), 156.

[14] See, for example, "Brazil's Democracy in the Balance," *COHA's Washington Report on the Hemisphere* 9 (December 7, 1988), 4; see also the statement of James A. Baker, III, the secretary of state-designate, at his confirmation hearings before the Senate Foreign Relations Committee, January 17, 1989, reprinted in U.S. Department of State, Bureau of Public Affairs, *Current Policy*, No. 1146 (January 1989), 1.

[15] Smith (fn. 13), 156.

[16] Seligson and Muller (fn. 1), 322.

[17] Institute of Latin American Studies (fn. 6), 11.

lishes an altogether compelling basis for dismissing prior research findings. First, the magnitude of the recent crisis has limited the choices open to Latin American countries far more severely than in the past. Regardless of their ideology or institutional base of support, leaders have been forced to choose between losing access to international financial markets or making concessions to the IMF and the international banking community in the form of orthodox policy measures and market-oriented programs of economic restructuring. Under such conditions, it seems plausible to assume that regime characteristics have become less rather than more important than in the past. What has counted is international bargaining position, not domestic politics.

Second, the assumption that new democracies will succumb more readily to economic challenges, or will handle them differently from old democracies, is also questionable. New democracies are not necessarily more fragile than old ones, nor do they necessarily enjoy less legitimacy or support. To assert otherwise is to argue by tautology. Myron Weiner errs in this direction when he states, "when countries have remained democratic for a generation, they appear more likely to remain democratic."[18] To the extent that this and similar statements take us beyond the conclusion that stable (or "institutionalized") democracies are stable (or institutionalized), they hardly comport with the Latin American experience.

Up until the recent wave of democratization, the peak year for democracy in the region was 1960. The correlation between democratic age in 1960 and subsequent durability is statistically insignificant ($r = .0181$). Table 1 illustrates the point. In 1970, there were seven liberal democracies in Latin America, three of which (Chile, Uruguay, and Costa Rica) had been established for a generation or more. Two of these three had collapsed by 1973. The breakdown rate for the "new" democracies was actually lower. Only one of the four (Ecuador) was overthrown by the wave of militarism that swept over the continent in the 1970s. The results are similar if 1960 or 1965 is chosen as a base year. If anything, past Latin American experience thus suggests that old democracies are more unstable and fragile than new ones.

The experience of Latin America since the outbreak of the debt crisis also raises questions about the supposed fragility of new democracies. Despite repeated prognoses of collapse, every Latin American democracy, whether old or new, weathered the first eight years of the debt

[18] Weiner, "Empirical Democratic Theory," in Myron Weiner and Ergun Ozbudun, eds., *Competitive Elections in Developing Countries* (Durham, NC: Duke University Press, 1987), 18.

TABLE 1
BREAKDOWN RATES OF LATIN AMERICAN DEMOCRACIES
(IN PERCENTAGES)

	1960	*1965*	*1970*
"New" democracies[a]	66.7 (9)	40.0 (5)	25.0 (4)
"Old" democracies	100.0 (2)	66.7 (3)	66.7 (3)

[a] "New" democracies are defined as those under a generation old at the relevant date.

crisis. The fate of authoritarian regimes was different: of the six authoritarian governments that existed in South America in 1982, five had been overthrown by mid-1989. The sixth (Chile) was defeated in a national plebiscite in 1988, paving the way for a democratic transition. In Central America and the Caribbean, the situation was similar. There were no instances of democratic regime breakdown, but the twenty-eight-year Duvalier dictatorship was displaced in Haiti, and Guatemala underwent a partial transition from military to civilian rule. Based on this record, it might be more appropriate to emphasize the fragility of "old" authoritarianism rather than the weakness of "new" democracy.

The assumption that new democracies lack the support or legitimacy to see them through a protracted crisis also appears unwarranted. Albert O. Hirschman has pointed out that democratic governments that displace highly repressive or widely discredited authoritarian regimes can count upon a special reserve of political support and trust that may carry them through economic crises.[19] As a result, new democracies may be at a distinct advantage. The transition from authoritarianism to democracy, which allows "political goods" to compensate for declining per capita incomes, provides new democracies with a breathing space not enjoyed by older regimes, whether democratic or authoritarian.[20]

POLICY PERFORMANCE IN LATIN AMERICA

The policy performance of Latin American countries between 1982 and 1988 provides a basis for evaluating the conventional wisdom concerning the linkage between regime and policy. During this seven-year period, the region existed in a condition of continuous economic crisis characterized by net outflows of capital, lowered standards of living,

[19] Hirschman, "The Political Economy of Latin American Development: Seven Exercises in Retrospection," *Latin American Research Review* 22, No. 3 (1987), 28.

[20] The concept of "political goods" in this connection is drawn from Kuczynski (fn. 1), 147.

high unemployment, and depressed levels of investment. At issue is the relevance of regime characteristics for understanding varying responses to these common economic difficulties.

Three principal hypotheses are examined:

1. Under conditions of economic crisis, regime is an important determinant of policy choice.
2. Democracies respond to economic crises less effectively than authoritarian regimes.
3. New democracies respond to economic crises even less effectively than old democracies.

For the purpose of this analysis, regime differences have been defined in relatively conventional terms. Governments selected on the basis of popular and competitive elections have been classified as democracies. Governments based upon military power or noncompetitive elections have been classified as authoritarian.[21] To address the theoretical issues posed by the relatively recent origin of many Latin democracies, a distinction has also been drawn between "new" and "old" democracies. All of the democratic regimes that emerged after 1979 have been assigned to the former category.

Policy performance has been assessed on the basis of six indicators, which were selected to minimize problems of data availability as well as to circumvent a variety of theoretical controversies. Three of the indicators represent fairly conventional measures of economic performance: the annual GDP growth rate, the annual percentage change in the rate of inflation (logged to achieve distributional normality), and the annual percentage shift in the ratio between total external indebtedness and export earnings. A fourth indicator was designed to provide a direct measure of policy choice as distinct from policy outcomes—namely, the annual percentage change in the ratio between the central government's deficit and GDP. Taken together, these four indicators establish a relatively uncontroversial basis for assessing policy success and failure. Whether inspired by orthodox or unorthodox thinking, efforts to cope

[21] These criteria are utilized solely because they pose few classificatory problems for the time period and the set of countries in question. The only ambiguous case is that of Brazil, which made less than a complete transition to democracy during the period under consideration. For other purposes, a more complex set of operational indicators might be preferable in order to separate inclusionary and exclusionary forms of competitive rule and to differentiate between limited and open competition. For recent efforts along these lines, see John A. Booth, "Elections and Democracy in Central America: A Framework for Evaluation," paper prepared for the Southwestern Political Science Association meeting, Little Rock, AR, March 30-April 1, 1989; Karen L. Remmer, "Exclusionary Democracy," *Studies in Comparative International Development* 20 (Winter 1985-1986), 64-85; Evelyne Huber Stephens, "Capitalist Development and Democracy in South America," paper presented at the Midwest Political Science Association, Chicago, April 1988.

with the debt crisis have consistently placed a high priority upon limiting deficit spending, controlling inflation, restoring economic growth, and reducing the burden of debt servicing.

The two remaining indicators of policy performance reported in the subsequent tables pertain to labor conditions and are more ambiguous with respect to the question of policy success. These are the indicators of changes in real wages and unemployment, which were included in the analysis primarily to assess the supposed vulnerability of democracies to popular pressures. Much of the existing literature on the relationship between democracy and economic crisis assumes that democracies will attempt to protect real wages and employment levels, even at the risk of courting economic disaster. Hence, to the extent that regime type affects economic performance in line with the hypotheses derived from the literature on the debt crisis, the evidence should indicate that authoritarian regimes outperform democratic regimes, and that "old" democracies outperform "new" democracies, except with respect to the indicators of wages and employment, which should exhibit the opposite pattern.

Because the subsequent analysis is designed to explore variable responses to a common set of crisis conditions, the case base is limited to the ten Latin countries of South America, plus Mexico. The study thus encompasses all of the region's principal debtor nations, but excludes Central America and the Caribbean, which are conventionally considered part of the Latin American region. The reason for this exclusion is that the causes and dynamics of economic crisis in the Caribbean Basin have differed fundamentally from those of the rest of the region. The key problem has not been international indebtedness, but the regional political crisis originating with the struggle to oust the Somoza regime in Nicaragua. Likewise, the capacity of political actors to manage economic difficulties has been shaped more heavily by military conflict and outside intervention than by pressures from the international banking community and associated outflows of capital. Heavy U.S. aid flows to countries such as Honduras, El Salvador, and Costa Rica, for example, have compensated (and in some cases more than compensated) for the cost of servicing the foreign debt; while the performance of economies such as the Nicaraguan has reflected guerrilla warfare and external intervention. The magnitude of the economic problems posed by the onset of the debt crisis also differed significantly in Central and South America. In 1982, debt-service ratios in countries such as El Salvador, Haiti, and Guatemala were less than one-third of the regional average.[22]

[22] World Bank, *World Debt Tables, 1984-85* (Washington, DC: World Bank, 1985), 158-227.

Data on the policy performance of the eleven states have been drawn from official sources as reported to the Economic Commission on Latin America (ECLA) and the Inter-American Development Bank.[23] To augment the case base and to avoid classification problems posed by regime transitions, the statistical analysis has been conducted in terms of pooled data rather than on a country-by-country basis. The data on Argentina for 1982 and 1983, when the military still governed the country, have thus been treated as cases of authoritarian program administration, while those of the five subsequent years have been coded as instances of democratic performance. The same procedure has been followed in the cases of Brazil and Uruguay, which also shifted regime categories in the middle of the period under consideration. The "new" democratic administrations thus include Argentina (1984-1988), Bolivia (1982-1988), Brazil (1985-1988), Ecuador (1982-1988), Peru (1982-1988), and Uruguay (1985-1988). Authoritarian program administrations include Chile (1982-1988), Mexico (1985-1988), and Paraguay (1982-1988), in addition to Uruguay (1982-1984), Argentina (1982-1983), and Brazil (1982-1984). Colombia and Venezuela have been coded as "old democratic." The resulting breakdown yields fourteen years of "old" democratic policy administration, thirty-four years of "new" democratic program administration, and twenty-nine years of authoritarian program administration.

Tables 2 and 3 summarize the effects of regime differences on policy performance. The evidence in Table 2 demonstrates that no major differences separate democratic and authoritarian regimes in Latin America. Not one of the indicators listed in the table points to a contrast that is remotely significant in statistical terms. What is more, the indicators are inconsistent with the hypotheses drawn from the literature inasmuch as they point in the direction of more effective democratic rather than authoritarian crisis management.

A similar picture emerges from Table 3, which analyzes the differences between new and old democracies as well as the contrasts between these regimes and authoritarian ones. These differences are statistically significant with reference to only one of the six indicators of economic performance—the rate of unemployment; and even that indicator fails to conform to the literature on the management of economic crisis. New democracies in Latin America have turned in the best record in the area of employment, but old democracies have not evinced greater sensitivity

[23] CEPAL, "Balance preliminar de la economía latinoamericana, 1988" [Preliminary balance of the Latin American economy, 1988], *Notas sobre la economía y el desarrollo*, No. 470 (December 1988); *ibid.*, No. 387 (December 1983); Inter-American Development Bank, *Economic and Social Progress in Latin America* (Washington, DC: IADB, 1982-1988).

TABLE 2
DEMOCRATIC AND AUTHORITARIAN REGIME PERFORMANCE[a]

	Democratic (N=48) %	*Authoritarian (N=29)* %	*F*	*Significance*
GDP growth	1.6	0.3	1.3994	.2406
Rate of change govt. deficit/GDP[b]	3.6	9.9	.0231	.8796
Log % change inflation rate[c]	4.8	4.7	.1938	.6611
Rate of change debt/exports[d]	6.5	10.4	.5088	.4779
Real wages (annual % change)[e]	−0.5	−2.4	.2950	.5888
Unemployment rate[f]	8.9	9.0	.0138	.9067

[a] Calculated on the basis of preliminary data for 1988.
[b] Based on the ratio between the central government deficit and GDP. Because some data were missing for 1988, calculations are based on 63 observations.
[c] Based on consumer price index.
[d] Calculated on the basis of the total disbursed debt divided by total exports of goods and services.
[e] Based on average manufacturing wage. Brazilian data represent averages for Rio de Janeiro and Sao Paulo.
[f] Urban unemployment only. Data for Argentina, Bolivia, and Venezuela represent national urban averages; data for other countries are based on one or more major cities.

to unemployment levels than authoritarian regimes. Contrary to the expectation that authoritarian regimes and new democracies represent the two ends of the policy spectrum, with the performance of old democracies falling somewhere in between, the best and worst performances in the area of employment belonged, respectively, to the new and old democracies. What is more, no statistically significant differences separate the average annual unemployment rates of new democracies from those of authoritarian regimes ($p=.7889$).

A similar pattern emerges with respect to the other indicators. Not one points in a direction consistent with the literature on economic crisis. In terms of economic growth, real wages, and the rate of change in government deficits relative to GDP, the two extremes of the spectrum correspond to the old democracies and the authoritarian regimes rather than to the new democracies and authoritarian regimes. In terms of the indicator of inflation, new democracies have turned in the worst average record, but no differences separate the other two regime types. The average figures for changes in the debt-to-export ratio also run counter to prediction inasmuch as new democracies have outperformed the other

Table 3
Regime and Policy Performance[a]

	"Old" Democracies (N=14) %	*"New" Democracies (N=34)* %	*Authoritarian Regimes (N=29)* %	*F*	*Significance*
GDP growth	2.4	1.3	0.3	.9690	.3842
Rate of change govt. deficit/GDP	−3.7	7.2	9.9	.0296	.9708
Log % change inflation rate	4.7	4.9	4.7	.5649	.5709
Rate of change debt/exports	7.0	6.3	10.4	.2546	.7759
Real wages (annual % change)	0.2	−0.7	−2.4	.1625	.8503
Unemployment rate	11.6	7.8	9.0	5.1583	.0081
Debt/exports	251.2	411.4	340.3	13.9313	.0000
Interest payments/ exports	24.3	35.3	32.6	4.7000	.0120
Annual % change purchasing power of exports	3.6	1.1	10.2	1.6238	.2041
1982 debt/export ratio	216.0	322.1	321.7	10.6656	.0001

[a] Calculated as indicated in notes to Table 2.

regime types, with authoritarian governments turning in the worst average records. As a result, not only are none of the differences between the newly established democracies and authoritarian regimes statistically significant, but newly established democracies have outperformed authoritarian regimes in promoting growth, containing the growth of fiscal deficits, and limiting the growth of the debt burden. Overall, the old democracies appear to have adhered to the most orthodox line of policy and compiled the strongest records of economic performance.

The last set of indicators in the table, which measures the severity of the economic constraints confronting policy makers, provides some basis for understanding these patterns. Old democracies outperformed other regimes in managing the debt crisis because they faced the fewest economic constraints. As suggested by Table 3, the old democracies—Colombia and Venezuela—entered the crisis in 1982 with debt-to-export ratios that were significantly lower than those of the new democracies and authoritarian regimes, while the authoritarian regimes began at a slight advantage relative to new democracies. Indeed, in terms of linear measures of association, the only indicator presented in Table 3 that is significantly correlated with regime is the 1982 debt-to-export ratio ($r = .3681$), which is also significantly correlated with the post-1982 debt-to-export ratio ($r = .7081$) and the ratio between interest payments and exports ($r = .8017$). When controls are introduced for the debt burden at the outset of the crisis, any relationship between regime and policy performance disappears.[24] In short, the fundamental problem confronted by competitive regimes in such countries as Argentina and Brazil in the 1980s has not been caused by the pressures or constraints of democratic governance, but by the sheer magnitude of the debt burden bequeathed to them by their authoritarian predecessors.

The Impact of Regime Change

In view of the unusually high level of indebtedness of the new South American democracies, is there any basis for arguing that new democracies have actually coped with crisis conditions more effectively than

[24] It may be noted that the results are virtually identical if the analysis is limited to the nine larger and more modern economies of the Latin American region, upon which Stallings and Kaufman focus their discussion of the link between regime and policy (fn. 11, chap. 12). The only difference with the findings reported here is that the relationship between rates of unemployment and regime remains significant at the .04 level after controlling for the 1982 debt burden. Again, however, that relationship does not conform to the hypotheses presented in the literature inasmuch as (a) the highest rates of unemployment are found in the old democracies rather than in the authoritarian regimes, and (b) the unemployment rates of new democracies and authoritarian regimes are not significantly different.

other regimes? The cross-national data establish no support for such an argument; however, because three South American countries shifted regime categories after the outbreak of the debt crisis, it is possible to compare the policy performance of democratic and authoritarian regimes within national units.

Although the results of these comparisons are mixed, they do provide some basis for arguing that a shift to democracy can actually strengthen, rather than weaken, the capacity to cope with economic challenges. Particularly striking in this regard is the case of Uruguay, where a new democratic regime managed not only to increase real wages and reduce unemployment, but also to accelerate growth, limit the expansion of the debt burden, cut the government deficit as a percentage of GDP, and put the brakes on an inflationary spiral. In the other two cases, the economic impact of the transition to democracy was less positive. As indicated in Table 4, short-term improvements in several key economic indicators followed the regime transition, but these improvements appear to reflect the policy ineffectiveness of disintegrating authoritarian governments rather than the policy effectiveness of democracy. The diachronic comparisons thus reinforce the results of the cross-sectional analysis, concretely underlining the diversity of performance patterns encompassed by broad regime categories and the resulting lack of clear contrasts among them.

Even in terms of policy choice (as distinct from performance), major contrasts do not emerge between authoritarian and democratic governance in the three countries that changed regime categories after 1982. As suggested by the figures on changes in deficit spending, in Brazil a lack of strict policy orthodoxy characterized the management of the economy both before and after the election of a civilian president. In neither period did policy makers impose strict fiscal and monetary constraints or pursue a program of restructuring through privatization and liberalization—all of which constitute basic elements of an orthodox program in the 1980s. Probably the closest Brazil came to orthodoxy was in 1982, when its net international reserves dropped by U.S. $5.3 billion, forcing the military's economic team to introduce a series of austerity measures and to open negotiations with the International Monetary Fund. Far from heralding a major shift in the direction of orthodoxy, however, the letter of intent that was signed with the Fund in January 1983 was never fulfilled. Within six months, IMF support had been suspended. As indicated in Table 4, part of the problem was the fiscal deficit, which was allowed to increase from 2.5 to 4.0 percent of GDP; but the rate of growth of domestic credit, which rose by more than 50 percent in 1983, also points to a lack of concern with orthodoxy.[25] Between 1983 and 1985, five more letters of intent were signed with the IMF—and all of them were suspended for noncompliance. Thus, the program of the military in the face of economic crisis can at best be characterized as halfhearted orthodoxy—an approach not clearly distinguishable from the halfhearted heterodoxy of its civilian successor.

Under the leadership of Minister of Finance Francisco Neves Dornelles, the civilian government of José Sarney began with an orthodox economic orientation. It subsequently embraced heterodoxy in the form of the Plan Cruzado, which was announced in early 1986. The failure of that plan, in turn, paved the way for the restoration of a more orthodox approach under the leadership of Finance Minister Mailson Ferreira da Nóbrega. Policies arguably varied within the 1985-1988 period as much as they did between the periods of military and civilian rule, emphasizing the weakness of the link between regime and policy choice. In any case, the evolution of international conditions dilutes the significance of any contrasts that might be drawn between the wavering orthodoxy of the military and the wavering heterodoxy of Sarney's civilian government. Through time, perceptions of the debt crisis changed significantly, as did Brazil's economic position, thus increasing incentives and opportunities for departures from policy orthodoxy. In 1982, Brazilian policy makers had been worried about short-term liquidity problems rather than long-term constraints on growth. Moreover, dramatic improvements in the level of international reserves created possibilities for experimentation between 1985 and 1988 that did not exist at the outset of the crisis.[26]

Uruguay represents the opposite end of the political spectrum: it pursued a relatively orthodox set of policies both before and after the transition to democracy. Indeed, among the countries of Latin America, only Chile—long identified as a paragon of economic orthodoxy—could be described as adhering more consistently to orthodox precepts. A key difference between the two countries is that in Uruguay the military response to the crisis of 1982 was ineffective and vacillating. During the last three years of military rule, the fiscal deficit averaged 6.0 percent of GDP, while the average annual rate of growth of domestic credit exceeded 60 percent. Nevertheless, basic elements of the orthodox approach that had dominated the management of the economy between 1973 and

[25] Inter-American Development Bank, *Economic and Social Progress in Latin America: 1987 Report* (Washington, DC: IADB, 1987), 246.

[26] Johanna Sharp, "Regime Type and Economic Policy Formation: The Case of Brazil, 1982-1989," unpub. (Albuquerque, NM: 1989).

Table 4
Democratic Transition and Policy Performance[a]
(percentages)

	GDP Growth	*Govt. Def./GDP*	*Change Govt. Def./GDP*	*Infla-tion*	*Change Rate of Inflation*	*Change Debt/ Exports*	*Change Real Wages*[b]	*Unemploymt. Rate*[c]
Argentina								
1982	−5.8	−3.9	−26.3	209.7	59.8	44.4	−10.4	5.3
1983	2.6	−14.9	261.5	433.7	106.8	2.1	25.4	4.7
1984[d]	2.2	−7.2	−48.9	688.0	58.6	0.6	26.4	4.6
1985	−4.5	−4.5	−37.5	385.4	−44.0	−1.4	15.2	6.1
1986	5.8	−3.1	−31.1	81.9	−78.7	26.8	1.6	5.2
1987	1.6	−8.0	158.1	174.8	113.4	10.3	−5.9	5.9
1988	0.5	n.a.	n.a.	372.0	112.8	−19.6	−5.0	6.5
Brazil								
1982	0.9	−2.5	0.0	97.9	−2.7	33.2	7.3	6.3
1983	−2.4	−4.6	60.0	179.2	83.0	−0.2	−9.8	6.7
1984	5.7	−5.8	26.1	203.3	98.7	−12.5	−1.3	7.1
1985[d]	8.4	−11.8	103.4	228.0	12.1	5.8	15.1	5.3
1986	8.1	n.a.	n.a.	58.4	−74.4	18.7	16.7	3.6
1987	2.9	n.a.	n.a.	365.9	526.5	−5.9	−10.5	3.7
1988	0.0	n.a.	n.a.	816.1	123.0	−25.3	−4.1	4.0

Uruguay								
1982	−10.1	−8.6	85.0	20.5	−30.3	50.8	−0.3	11.9
1983	−6.0	−3.7	−57.0	51.5	151.2	17.4	−20.7	15.5
1984	−1.3	−5.0	35.1	66.1	28.3	11.7	−9.2	14.0
1985[d]	0.2	−1.9	−62.0	83.0	25.6	8.0	14.1	13.1
1986	7.0	−1.4	−26.3	76.4	−8.0	−10.7	6.7	10.7
1987	5.3	−1.3	−7.1	57.3	−25.0	8.6	4.8	9.3
1988	0.0	n.a.	n.a.	68.5	19.5	−6.6	2.3	9.2

[a] Calculated as indicated in notes to Table 2.

[b] Average manufacturing wage; Brazilian figures represent averages for Rio de Janeiro and Sao Paulo.

[c] Data for Argentina are for all urban areas. Data for Brazil are calculated on the basis of the metropolitan regions of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador, and Recife. Data for Uruguay are based on unemployment rates in Montevideo.

[d] First year of democratic administration.

1982, such as international opening and economic liberalization, were retained and carried forward into the late 1980s under civilian leadership. In Uruguay, regime transition entailed more effective policy implementation rather than major changes in policy orientation.

The case of Argentina resembles that of Uruguay in that authoritarianism proved incapable of mounting a coherent response to the outbreak of the 1982 crisis. In Argentina, however, the lack of policy coherence under authoritarianism was more pronounced. Confronted with a rapidly deteriorating international position in 1982 and 1983, the Argentine armed forces wavered between state interventionism and more orthodox approaches, but they were too divided and discredited to implement any effective policy response. The agreement reached with the IMF in January 1983, for example, committed the military government to limiting its fiscal deficit to 2.1 percent of GDP, but the actual figure for the year reached a level of 16.8 percent.[27] The democratic government of Raúl Alfonsín consequently inherited an extremely difficult situation. Its initial response was one of policy drift, but in mid-1985 it announced a bold economic plan, known as the Plan Austral, which combined conventional orthodox measures with a heterodox wage and price freeze. After a brief period of success, however, the economy began to deteriorate again, leading to a progressive drift away from orthodoxy. Hence, as in Uruguay, regime change initially enhanced rather than diluted policy orthodoxy, but the policy shift in the Argentine case was less decisive and less durable.

Analysis of the impact of regime change thus casts further doubt upon the conventional wisdom regarding democracy and economic crisis. The performance of the new democracies in the three countries that changed regime categories during the debt crisis was not markedly worse than that of their authoritarian predecessors. In one of the three cases, democracy was linked with improved rather than diminished policy effectiveness; in the other two, it brought a temporary respite from deepening crisis. The longitudinal evidence also indicates that the way in which governments responded to economic crisis was not a function of regime characteristics. Contrary to the literature crediting authoritarianism with the capacity to administer the harsh medicine of orthodoxy, no sharp differences can be delineated between the approaches of democratic and authoritarian governments in the three countries.

Overall, the evidence points less in the direction of domestic determinants of policy choice than to the relevance of international conditions. Of the three countries that shifted regime categories, Brazil had the

[27] Inter-American Development Bank (fn. 25), 214; *1983 Report*, 148.

strongest international bargaining position and evidenced the least propensity to adhere to orthodox precepts or IMF recommendations either before or after the transition to democracy. Moreover, such shifts as occurred in its policies through time can be linked to the changing international situation. Uruguay, the country with the weakest international bargaining position, adopted a relatively orthodox set of policies both before and after regime transition. Argentina occupied the middle ground, both in terms of its bargaining position and its level of policy orthodoxy.

Conclusion

The experience of Latin American countries since the outbreak of the debt crisis establishes no basis for asserting that authoritarian regimes outperform democracies in the management of economic crisis. When we control for the magnitude of the debt burden at the outbreak of the crisis, no statistically significant differences emerge between democratic and authoritarian regimes or between new democracies and more established regimes. The importance of regime characteristics for explaining differing responses to economic crisis has been exaggerated, as have the inadequacies of new democratic regimes. Despite debt burdens that were significantly higher than those of more established regimes, the supposedly fragile new Latin democracies performed just as effectively as their authoritarian counterparts in managing the debt crisis. Longitudinal data support the same point. The experience of countries that shifted regime categories after 1982 suggests that the inauguration of a democratic regime does not necessarily undermine, and may actually enhance, the capacity of political actors to cope with economic challenges.

The weakness of the link between regime and policy performance can be related to external constraints on policy choice. As suggested by the longitudinal analysis, large countries—particularly those with dynamic export sectors—have enjoyed a much broader array of policy options than smaller ones. In countries that shifted regime categories, the continuities in policy performance over time also point to the possible relevance of factors such as economic structure or national policy commitments, which may not change with regime transitions.

More fundamentally, however, the paucity of evidence linking regime and policy speaks to the wide array of ideologies, political coalitions, and decision-making structures that are encompassed by broad regime categories such as "democracy" or even "new democracy." In countries such as Ecuador, the right dominated the recent process of democratic transition, giving rise to decision-making structures that protected business interests and shielded economic policy making from electoral pressures.[28] In neighboring Peru, however, democracy unleashed populist forces, threatening the access of business to the decision-making process and pushing policy in more nationalistic and less orthodox directions. Because of important variations in orientation, base of social support, and regime structure, the policy performance of authoritarian regimes has also differed considerably from one case to another.

The problem is that prevailing conceptualizations of regime characteristics do not leave room for such variations. As a result, the potential fragilities and policy costs of authoritarianism have been understated, whereas those of democracy have been exaggerated. Particularly intriguing in this regard are the sharp contrasts that emerge between the debt burdens of the new democracies and authoritarian regimes on the one hand, and of old democracies on the other. In the 1980s, Latin American democracies not only handled economic crises as effectively as authoritarian regimes; they achieved a far better record at avoiding acute crises in the first place.

The findings thus address questions about democracy that transcend the issue of crisis management. Like scholars of other third-world regions, Latin Americanists have spent most of the past two decades explaining the instability and rarity of democratic rule. While virtually every aspect of Latin society—from international structures of dependence to cultural values—has been seen as an obstacle to democracy, the dominant theoretical frameworks have emphasized the role of economic performance. In Guillermo O'Donnell's influential formulation, socioeconomic modernization failed to enhance the probability of democracy in the Latin American context because popular-sector pressures came increasingly into conflict with socioeconomic constraints on policy choice.[29] James Malloy, while taking a more cyclical view of political change in the region, has similarly linked the fragility of democracy with public policy, arguing that "since the 1930s the problem has been to found a government capable of solving key economic problems." He views the root of the problem as a tension between the need to accumulate capital for economic development and the need to build political legitimacy by meeting demands for increased consumption.[30] Similar arguments con-

[28] See Conaghan (fn. 3), 120-44.

[29] Guillermo O'Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: Institute of International Studies, University of California, 1973). See also O'Donnell, "Reflections on the Patterns of Change in the Bureaucratic-Authoritarian State," *Latin American Research Review* 13, No. 1 (1978), 3-38; O'Donnell, "Tensions in the Bureaucratic-Authoritarian State and the Question of Democracy," in David Collier, ed., *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979), 285-318.

[30] Malloy (fn. 7), 239.

cerning the role of policy failure have been applied to Southeast Asia as well as to areas of the world characterized by comparatively low levels of modernization and popular-sector mobilization.[31] A recent volume on Africa, for example, attributes democratic decay and delegitimation to "the poor, often disastrous, economic performance of democratic regimes."[32]

Although the political face of Latin America has been dramatically transformed since 1979, the process of theoretical reorientation has hardly begun. Emphasis continues to be placed on the link between democratic fragility and policy failure. The puzzle of the 1980s, however, has not been the fragility of democracy, but its surprising vitality in the face of overwhelming economic constraints. To understand this vitality, it is necessary to set aside the assumptions that have been made about the operation of democracy in Latin America. At issue is not merely the question of pseudo-democracy, in which democratic institutions mask authoritarian realities, or even of exclusionary democracy, in which a restricted suffrage undergirds oligarchical control, but also the broader debate about the ways in which capitalism has accommodated democracy. In emphasizing the fragility of democracy in Latin America, scholars have conjured up systems in which the "privileged position of business," the "iron law of oligarchy," "private government," and other related constraints on popular control disappear, leaving policy responsive to the unmediated demands of peasants and workers.[33] Such systems have no empirical counterpart in the North Atlantic, much less in the highly inegalitarian societies of Latin America.

The strengths and weaknesses of Latin American democracy have been further distorted with respect to the political calculus of democratic political leaders. Contrary to the assumption that elected officials will attempt to enhance their legitimacy by delivering material payoffs to the bulk of the population, even at the cost of financial disaster, the lessons of the past have induced considerable political caution. Political leaders are aware that the rise and the fall of democracy in Latin America have corresponded less to the whims of the voting majority than to the concerted opposition of business and military elites.

[31] See, in particular, William Crowther, "Philippine Authoritarianism and the International Economy," *Comparative Politics* 18 (April 1986), 339-56, and Hyug Baeg Im, "The Rise of Bureaucratic Authoritarianism in South Korea," *World Politics* 39 (January 1987), 231-57.

[32] Larry Diamond, "Introduction: Roots of Failure, Seeds of Hope," in Larry Diamond, Juan J. Linz, and Seymour Martin Lipset, eds., *Democracy in Developing Countries*, Vol. 2: *Africa* (Boulder, CO: Lynne Rienner, 1988), 15.

[33] Charles E. Lindblom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic Books, 1977); Robert Michels, *Political Parties: A Sociological Study of the Oligarchical Tendencies of Modern Democracy* (New York: Collier Books, 1962); and Grant McConnell, *Private Power and American Democracy* (New York: Knopf, 1966), chap. 5.