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Volume Title: The Macroeconomics of Populism in Latin America

Volume Author/Editor: Rudiger Dornbusch and Sebastian Edwards, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-15843-8

Volume URL: <http://www.nber.org/books/dorn91-1>

Conference Date: May 18-19, 1990

Publication Date: January 1991

Chapter Title: The Political Economy of Latin American Populism

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Chapter URL: <http://www.nber.org/chapters/c8296>

Chapter pages in book: (p. 15 - 43)

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# The Political Economy of Latin American Populism

Robert R. Kaufman and Barbara Stallings

The crisis of the 1980s has brought into stark relief the economic and political limitations of populist policy cycles, in which governments seek to spur economic growth by the expansion of domestic demand and the redistribution of income. Such approaches have been recurrent features of Latin American political economies since the 1930s. Although moderate versions have arguably played a positive role in fostering industrialization, they sooner or later run into serious external bottlenecks. In their more radical incarnations—those, for example, associated with Perón, Allende, and Alán García—they have led to major (and predictable) economic and political collapse. These are characterized by very high levels of inflation, stagnation of growth and exports, capital flight, and political polarization.

There are four questions that need to be asked about populist policy cycles in Latin America. (1) Why have they been so prevalent in Latin America, as opposed to other parts of the world? (2) What accounts for variations in the intensity and frequency of populist policy cycles within Latin America? (3) What accounts for persistence in these policy cycles over time, notwithstanding predictable limitations? Under what conditions is there a “learning process” that can lead to positive modifications in such approaches or to the adoption of others? (4) What are the prospects for the future? Have populist cycles ended and, if so, why?

## 2.1 Definitions: The Economic and Political Context of Populism

Before beginning to address these questions, we need to make clear what we mean by populism. Our definition is more specific than most others; it

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The authors would like to thank Paul Drake and Alberto Alesina for helpful comments on an earlier draft of this chapter.

involves a set of *economic policies* designed to achieve specific *political goals*. Those political goals are (1) mobilizing support within organized labor and lower-middle-class groups; (2) obtaining complementary backing from domestically oriented business; and (3) politically isolating the rural oligarchy, foreign enterprises, and large-scale domestic industrial elites. The economic policies to attain these goals include, but are not limited to: (1) budget deficits to stimulate domestic demand; (2) nominal wage increases plus price controls to effect income redistribution; and (3) exchange-rate control or appreciation to cut inflation and to raise wages and profits in nontraded-goods sectors.

To further specify our definition, a few additional comments may be helpful. First, we are referring to the political and economic characteristics of *governments*, not just to isolated *policies* or to the *movements* or parties associated with political leaders.<sup>1</sup> Second, the political characteristics of the alliances described eliminates "right-wing populism," whether of the Reagan or Latin American military variety.<sup>2</sup> The definition also excludes from consideration certain historical populist experiences with a rural focus. In fact, it should be emphasized that we are referring specifically to Latin American versions of populism in the twentieth century. Third, we are including here both "classical" and "new" populism, to use the distinction put forward by Cardoso and Helwege (in this volume). We are not saying that the set of macroeconomic policies discussed are the only policies followed, nor are we specifying the ultimate goals of the governments.<sup>3</sup>

Using our definition, it is possible to rank and compare various experiences of Latin American populism. One attempt to do so is shown in table 2.1. The cases included are Salvador Allende (Chile, 1970–73), Juan Perón (Argentina, 1973–76), Alán García (Peru, 1985–90), José Sarney (Brazil, 1985–90), Luis Echeverría (Mexico, 1970–76), and Carlos Andrés Pérez (Venezuela, 1974–78). The table suggests that Allende, Perón, and García rank high on both the political and economic components of populism. Echeverría and Pérez represent less intense populist episodes. Sarney is in-between; his economic policies are more like the first group, but his political alliance was more similar to that of Echeverría and Pérez.

In the Allende, Perón, and García periods, labor and other low-income

1. This distinction was introduced by Paul Drake of the University of California, San Diego, one of the commentators on an earlier version of this paper at the conference held at the Inter-American Development Bank, Washington, D.C., May 18–19, 1990.

2. The notion of right-wing populism is suggested in Williamson (1990, p. 3).

3. Cardoso and Helwege (in this volume) also draw a distinction between populism and "socialism," claiming that Allende's Chile and Sandinista Nicaragua should not be considered populist. While we agree with them about Nicaragua (although because of its policies and the war, rather than the supposed socialist character of the government), we strongly disagree about Chile. Regardless of the ultimate goals of the Allende government, even its own participants did not claim the government was socialist but "preparing for a transition to socialism." More important, as a way of increasing political support, a multiclass coalition was sought and distinctly populist policies were followed.

**Table 2.1 Latin American Governments Ranked according to Populist Tendencies**

Government	Political Goals			Economic Policies		
	Labor Base	Business Alliance	Anti-oligarchy, Foreign Capital	Budget Deficits	Wage Increase/ Price Controls	Overvalued Exchange Rate
Allende (1970–73)	++	+	++	++	++	++
Perón (1973–76)	++	+	+	++	++	++
García (1985–90)	++	+	++	+	++	++
Sarney (1985–90)	+	++	+	++	++	+
Echeverría (1970–76)	+	++	0	+	+	++
Pérez (1974–78)	+	++	0	+	+	++

*Note:* ++ = very important/large; + = moderately important/large; 0 = not important/large. Entries represent peak of populism during given presidential period

groups constituted the primary support base of the governments in power. This reflected the historical origins of the parties or coalitions led by Perón (*Justicialista*) and Allende (Socialist and Communist). The APRA (*Alianza Populara Revolucionaria Americana*), García's party, has a more complicated history. It was never the main representative of organized labor, but García, as a candidate of the party's left wing, attracted much labor and "popular-sector" support from outside the party. Within the parties themselves, there were already substantial numbers of white-collar workers and professionals. Beyond this inherent multiclass character, the decision was made to seek support from most domestically oriented business. These were broad coalitions that targeted only a small group as being outside: the largest domestic business firms with close international ties ("the monopolies," as they were labeled in Allende's Chile), foreign business itself, and the landed oligarchy. It was clearly recognized that these cross-class alliances would place limits on the policies that could be followed, but their numbers were necessary to win elections. Thus the macroeconomic policies of all three governments focused on the populist elements outlined above. The package of budget deficits, nominal wage increases, and controls was designed to produce growth and distributive effects that would appeal to the disparate elements of the coalitions.

Both economic and political factors distinguished Echeverría and Pérez from the three governments just discussed. Their coalitions were of the same multiclass type, but the relative weight of the popular class and business elements varied. Specifically, business groups were more dominant, while labor was relatively weaker. The negative targeting of big business/foreigners/oligarchy *in general* was not very important, although specific actions were directed against individual elements of these groups. For example, Pérez nationalized the oil industry, and Echeverría encouraged takeovers of large farms in certain regions. In terms of macroeconomic policies, the same package of measures was followed, but demand stimulation was weaker in Mexico and Venezuela.

In economic as well as political terms, Sarney fell between the two groups of governments just discussed. The business/labor relationship in Brazil was similar to that in Mexico and Venezuela. In terms of the "enemy," however, it should be noted that Sarney not only initially advocated an agrarian reform (from which he later retreated), but Brazil also initiated a moratorium on debt payments at two points during the Sarney administration. Macroeconomic policies during the Sarney administration were similar to those of Allende, Perón, and García with respect to budget deficits and wage increases, although the exchange rate was never allowed to become as overvalued.

Why these coalitions and policies? Our primary hypothesis is that populism is rooted in the distributive political struggles that have characterized Latin America since the beginning of the century. Although such distributive struggles are ubiquitous in the region, variations in institutional arrangements across countries and time periods determine the extent to which they are ex-

pressed through populist policies. A move away from populism seems to have occurred in the late 1980s, but we have doubts about how to interpret this trend. On the one hand, despite the fact that most governments have abandoned populism, important groups in society still support such policies. On the other hand, populist politics—where workers play a key role—seem to have been displaced by struggles among sectors of capital. Although the macroeconomic results are superficially similar, the processes are quite different and require more analysis.

## 2.2 Latin American Social Structure: Class and Sectoral Inequalities

Most countries of Latin America are distinguished from those of other regions by two sets of structural characteristics, each rooted in the formation of strong traditional export oligarchies during the second half of the nineteenth century.<sup>4</sup> The first is a very high concentration of income and assets. Table 2.2 shows the differences in income distribution in comparison to some of the principal Asian countries. It suggests that income inequality is two and a half times as great in Latin America. The average ratio between the highest and lowest quintiles of household income is 21.1 in Latin America and only 8.7 in East Asia.

The second structural feature is a sharp division between employers and workers in industry and services versus the primary products export sector controlled by the traditional oligarchy. Sectoral antagonisms became particularly pronounced after the 1930s, when the shocks of the Depression encouraged an acceleration of the import-substitution industrialization (ISI) processes begun earlier in the century, and paved the way for the formation of influential new development doctrines—widely associated with the UN Economic Commission for Latin America—which emphasized inward-oriented strategies of development. At the same time, the capacity of most export oligarchies to block significant land reforms meant that, in contrast to countries such as Korea and Taiwan, the political weight of urban popular groups was not typically counterbalanced by the presence of a large class of independent farmers or small export-oriented manufacturing firms.<sup>5</sup>

Sharp class and sectoral divisions may encourage populist policy approaches in several ways. In the first place, there is probably some link between income/asset inequality and redistributive pressures on the government, although objective disparities in income rarely constitute a very satisfying explanation for the mobilization of such pressures.<sup>6</sup>

A more important aspect of highly unequal societies is that upper-income groups are generally in a good position to resist direct taxation. This has

4. Similar points are raised by Sachs (1989).

5. For comparisons of the situation in Latin America and East Asia, see Haggard (1990) and Gereffi and Wyman (1990).

6. On the relationship between income distribution and politics, see Dahl (1971, pp. 81–105).

**Table 2.2** Comparison of Income Distribution in Latin America and East Asia\*

Countries	Lowest Quintile	Highest Quintile	Ratio
Latin America:			
Argentina	4.4	50.3	11.4
Brazil	2.0	66.6	33.3
Chile	4.5	51.3	11.4
Colombia	2.8	59.4	21.2
Costa Rica	3.3	54.8	16.6
Ecuador	1.8	72.0	40.0
Mexico	4.2	63.2	15.1
Panama	2.0	61.8	31.0
Peru	1.9	61.0	32.1
Trinidad/Tobago	4.2	50.0	11.9
Uruguay	4.4	47.5	10.8
Venezuela	3.0	54.0	18.0
Average	3.2	57.7	21.1
East Asia:			
China	7.0	39.0	5.6
Hong Kong	6.0	49.0	8.2
Korea	6.6	49.4	7.5
Malaysia	3.5	56.0	16.0
Philippines	3.9	53.0	13.6
Singapore	6.5	49.2	7.6
Taiwan	8.8	37.2	4.2
Thailand	5.6	49.8	8.9
Average	6.0	47.5	8.7

Source: Adapted from Sachs (1989, table 1).

\*Based on national household surveys in the late 1960s or early 1970s

placed a major limit on the capacity of Latin American governments to deal with distributive pressures within the context of growth-oriented export models. In small open European economies, for example, the expansion of the welfare state has been an important political concomitant of liberal trade policies. Transfer payments negotiated through corporatist bargaining institutions have typically been employed to even out the differential gains and losses associated with economic adjustments to shifts in the international market (e.g., see Katzenstein 1984, 1985). Since Latin American states had much more limited capacity to tax income and assets directly, such open-economy welfare state models were far less feasible. During the 1930s and 1940s, it was politically easier to turn to ISI, rather than welfare transfers, in order to protect politically mobilized working- and middle-class constituencies from international market shocks, notwithstanding the higher economic costs.<sup>7</sup>

Urban-oriented populist policies, in turn, can be linked directly to the sharp sectoral divisions that emerged within the context of ISI and the primary ex-

7. On the issue of sectoral clashes in general, see Mamalakis (1969, 1971).

port sector. Although there is no *necessary* connection between populism and ISI, and the latter was accompanied by fairly orthodox macroeconomic policies in some instances (e.g., Chile and Colombia in the 1960s), in practice there usually has been a link. On the one hand, ISI provided the intellectual justification for policies that, if carried to extremes, resulted in populism. For example, the emphasis on the domestic market justified large wage increases and higher government spending. In addition, high tariffs and/or overvalued exchange rates were allowed in order to protect the new industries.

On the other hand, the industrialization process itself created groups that supported such policies. The ISI industries, together with the public sector, provided the main source of employment for the groups in the best position to mobilize distributive pressures against the government in power: the urban middle classes and blue-collar unions. As producers of nontraded goods, these groups could capture substantial short-term gains from policies that combine fiscal expansionism and an overvalued currency. Since small groups dominate commodity exports in Latin America, governments seeking popular support had relatively little to lose in the short term by policies that transferred income from the traded goods sector, even though the export elites frequently passed the costs of such policies onto the unorganized rural workers under their control.

Class and sectoral divisions may suggest some important answers to the question of why populist policies appear more frequently in Latin America than in other regions, but they do little to account for cross-national or overtime differences within Latin America itself. There is little or no intraregional correlation between populist policy cycles and income distribution. Such cycles have been more frequent in societies with relatively equal income distributions, such as Argentina and Uruguay, than in countries with greater income concentration, such as Colombia and Venezuela.

A focus on sectoral divisions, rather than class conflict, provides a somewhat better fit with populist experiences. In the cases of Argentina and Uruguay, several familiar aspects of the traditional wheat and livestock sectors have exacerbated conflicts with groups in services and ISI. Since export proceeds are generated by only a small fraction of the total population, they offer an especially tempting target for urban-oriented politicians. Moreover, since wheat and livestock are also important wage goods, the distributional effects of exchange-rate policy are almost immediately evident to the urban population.<sup>8</sup> Nevertheless, intense populist policy cycles have also been played out in countries with very different types of export structures (e.g., Allende's Chile) as well as in societies with comparatively large rural populations (e.g., Brazil under Sarney or Peru under Alán García).<sup>9</sup>

8. For an analysis of these relationship in the Argentine case, see O'Donnell (1978).

9. See accounts of Allende, Sarney, and García in Larraín and Meller (in this volume), Rabello de Castro and Ronci (in this volume), and Lago (this volume). See also the comparative analyses by Sachs (1989) and Dornbusch and Edwards (this volume).



To understand more fully the conditions under which governments adopt populist policies, we need to look at the institutional mechanisms through which characteristics of the social structure are translated into political behavior and policy choice. We examine the impact of two of these in the following sections: the influence of the party system and of political regime in determining cross-national differences in the intensity and frequency of populist policies.

### **2.3 Party Systems and Cross-national Differences in Populist Policies**

Party systems in Latin America vary widely across countries, sometimes reflecting regional, religious, or personal conflicts that date back to the late nineteenth or early twentieth century. A full elaboration of the historical origins or contemporary workings of these systems would take us well beyond the scope of this essay.<sup>10</sup> For our purposes, however, the crucial question to ask is the extent to which long-term partisan alignments offer incentives for politicians to attempt to form anti-elite coalitions of unions, white-collar employees, and import-substituting industrialists. We argue that these incentives are relatively weak in systems where one or two multiclass parties have provided governmental elites with stable electoral majorities. They have been much stronger in societies where popular-sector groups have been linked to parties that have been systematically excluded from electoral competition and/or in multiparty systems where competing political elites are unable to organize stable electoral majorities.<sup>11</sup>

Systems characterized by stable electoral blocs include Mexico's dominant party system and those of Colombia and Venezuela, where two parties have either shared power or rotated in office for the last several decades. In Mexico, the dominant party, the PRI (Partido Revolucionario Instituto) has until very recently encompassed virtually all sectors of the electorate and maintained close organizational links to the union movement. The two-party systems in Venezuela and Colombia also aggregate a wide range of interests, although in somewhat different ways. In Venezuela, the AD (Accion Democratica) and COPEI each incorporate similar multiclass electoral constituencies and, like the Mexican PRI, maintain close links to the labor movement. This has encouraged the two parties to adopt roughly similar macroeconomic approaches and has reduced broad swings in policy when governments change hands. In Colombia, the more traditional Liberal and Conservative parties have much weaker ties to the organized labor movement than the parties in either Mexico or Venezuela and are much more extensively influenced by economic elites. As in the other two countries, however, each of the major parties maintains

10. For such a historical analysis, see Collier and Collier (1990). We have relied heavily on this volume for descriptions of party systems.

11. Arguments in this section parallel those in Haggard and Kaufman (1990).

strong electoral roots among popular-sector voters, whose partisan allegiances have been passed on from one generation to the next.<sup>12</sup>

A second pattern is one in which substantial portions of the popular-sector support parties are periodically barred from entering the electoral competition by economic and military elites. The most important examples in this category are the Perónists in Argentina and the Aprista party in Peru.<sup>13</sup> Even during periods of civilian government, these parties frequently suffered prolonged military bans on electoral participation and/or winning control of the presidency. Because these parties had gained the allegiance of broad portions of the electorate, the bans—or the ongoing threat of them—made it virtually impossible to establish systems based on stable governing majorities.<sup>14</sup>

The final pattern is one in which fractionalization of the system into a large number of narrowly based parties impedes the formation of stable governing coalitions. The Chilean party system, with its sharp ideological divisions, falls into this category. Prior to the military coup of 1973, shifts in coalitional alignments caused control of the presidency to shift between the right, center, and left. Brazil's multiparty system provides a second example, although in this case, regionalism and personal political rivalries have weighed much more heavily in the divisions among the parties.<sup>15</sup>

The Uruguayan system, finally, should be mentioned as a special case that combines several of the patterns discussed above. On the one hand, as in Colombia and Venezuela, two multiclass parties, the Colorados and Blancos, have traditionally dominated electoral contests. At the same time, the "double simultaneous voting system" has allowed both of these parties to field three or four presidential candidates, who frequently represented widely divergent policy positions.<sup>16</sup> By the early 1970s, moreover, a new center-left coalition, the Frente Amplio, had begun to make major advances as a third electoral force, especially within the capital city of Montevideo.<sup>17</sup>

It is not surprising that Argentina, Chile, Brazil, and Peru—the systems with exclusionary and/or unstable multiparty patterns—have been the countries most prone to populist policy cycles. Several of these cycles (Allende,

12. For an analysis of political parties in Mexico, Venezuela, and Colombia, see the following sources, respectively: Levy and Szekely (1987), Levine (1989), and Hartlyn (1988).

13. It should also be noted that there have been extended bans on left or populist parties in other systems as well—including the Chilean Communists between 1948 and 1958 and the Brazilian Communists from 1946 to 1964. Unlike the Perónists and the Apristas, however, these were more narrowly based parties that would not have been able to capture the presidency or to dominate the legislature if they had been allowed to run.

14. Peronism and the APRA are discussed, respectively, in Rock (1987) and Bonilla and Drake (1989).

15. On parties in Chile and Brazil, see Cavarozzi and Garretón (1989, pp. 139–242, 335–465).

16. The double simultaneous voting system functions as a primary and general election rolled into one. Voters select both a party and competing candidates within the party. The candidate with the most votes of the party with the most votes becomes president.

17. On parties in Uruguay, see Cavarozzi and Garretón (1989, pp. 243–96).

Perón, García, and Sarney) have been discussed earlier in this paper and elsewhere in this volume, but there have been many others as well—including the first Perón government in Argentina, Vargas and Goulart in Brazil, Ibáñez in Chile, and Velasco in Peru.

Several types of political incentives help to account for these tendencies. On the one hand, for the leaders of periodically excluded multiclass parties such as the Perónists and the Apristas, broad distributive appeals to workers and industrialists have been a way to mobilize the support necessary to regain entry into electoral politics and to consolidate power on occasions in which they have been allowed to take office. More narrowly based working-class parties such as the Chilean Communists and Socialists face similar incentives. Cross-class distributive appeals to middle-sector groups and industrialists were perceived by many leaders of Allende's Popular Unity government as crucial means of avoiding political isolation and stabilizing the governing coalition. Finally, in highly fragmented multiparty systems such as Brazil's, one or more of the competing segments of the divided "political class" typically faces a strong temptation to strengthen its electoral position by appealing to the distributive interests of politically available working-class groups.

Political leaders in countries with more stable electoral blocs have sometimes engaged in similar strategies. Compared to Argentina, Brazil, Chile, and Peru, however, populist politicians in these systems have generally had a harder time winning office and face greater constraints when they do arrive. It is more difficult for populist challengers to win office precisely because they must compete within the framework of broadly based governing parties that already claim substantial support among working-class voters. Once in office, political leaders such as Echeverría or Pérez, who are inclined to cultivate popular-sector support, face opposition within their own ruling coalitions from factions that seek closer ties with economic elites. A brief survey of the macroeconomic experiences of these countries illustrates these points.

Venezuela experienced a brief period of distributive populism under Carlos Andrés Pérez in the mid-1970s; since the late 1970s, however, both AD and COPEI governments have exercised tight monetary and fiscal controls. Indeed, since his reelection to the presidency in 1989, Pérez himself has backed very tough stabilization policies and a wide-ranging program of liberal reforms in the Venezuelan economy.<sup>18</sup> In Colombia, traditionally cautious fiscal and monetary policies were challenged by the nearly successful populist campaign of Gustavo Rojas Pinilla in 1970 as well as by the demand-expansion policies initiated by Belisario Betancur in the early 1980s. Nevertheless, with both major parties still heavily influenced by coffee and financial elites and a high priority on consensus, macroeconomic policy has been consistently more conservative than in most of the other countries.<sup>19</sup>

18. Populist policies under Carlos Andrés Pérez are analyzed in Karl (forthcoming).

19. Economic policies in Colombia, and the absence of populism, are discussed in Urrutia (in this volume).

Mexico has exhibited more extensive political polarization and policy swings than Colombia and Venezuela, but these have still been relatively mild compared to those of the South American populists. Expansionist policies pursued under Echeverría—intended to deflect growing left-wing militancy among unions, students, and the peasantry—did lead to serious macroeconomic disequilibria during the 1970s. After 1982, however, the capacity of the PRI to dominate both the electorate and organized labor made it possible for more orthodox factions of the party to engineer a sharp change in policy direction without major political upheavals. Such a shift might possibly have come even earlier if the oil boom of 1978–1981 had not temporarily alleviated the exchange crisis of the mid-1970s.<sup>20</sup>

Long-term macroeconomic experience in Uruguay, finally, appears to reflect the complex mix of features within its party system. On the one hand, institutionalized factionalism within each of the major parties made it difficult for civilian governments of the 1950s and 1960s to deal effectively with inflationary pressures and external accounts problems rooted in conflicts between agro-export elites and urban-based popular-sector groups. By 1973, these conflicts had culminated in political polarization and a military coup. On the other hand, the nonideological character of the two major parties does appear to have had an effect on economic policy. From the early 1950s to the 1973 coup, all civilian presidents represented centrist or right-wing factions of their respective parties. Although none was able effectively to stabilize the economy, none systematically used expansionist policies to mobilize support from a popular-sector coalition. Centripetal tendencies within the major parties also appear to have played a role during the democratic transition of the 1980s. Centrist factions predominated in both parties in the presidential contest of 1984, and there was a greater emphasis on wage and fiscal restraint than was the case during comparable transitions in Argentina and Brazil.<sup>21</sup>

## 2.4 The Role of Political Regimes and Regime Change

We consider the nature of the principal sociopolitical cleavages in society, as reflected in the political party system, to be the single most important factor in explaining differences in populist tendencies across Latin American countries. Nevertheless, the rules that govern political interaction—such as type of political regime, characteristics of institutions, and timing of elections (if any)—are also important. They can reinforce the influence of party structure; they can also temporarily mute it. As will be discussed in the next section, however, these rules are more easily changed than the cleavages themselves. Of course, the two are not completely independent, as seen in the Uruguayan case, but it is usually possible to separate their role for the purposes of analysis.

20. On economic policies in Mexico, see Bazdresch and Levy (in this volume).

21. Uruguayan policies are discussed in Noya and Rama (1988).

In the Latin American context, observers have tended to separate political regimes into the categories "authoritarian" and "democratic." In an earlier study, we found it useful to add the category of "transitional democracies" (Kaufman and Stallings 1989). We defined authoritarian regimes as those that do not permit competitive elections; they restrict the space allowed to either oppositional or interest group activity. Democratic regimes, by contrast, were characterized as ones where a government must win and retain power through competitive elections, tolerate opposition challenges to its incumbency, and deal with relatively independent interest groups. A transitional democracy is one that has recently changed from authoritarian to democratic; several turnovers of government need to be accomplished before a democracy can safely be considered as consolidated.

An authoritarian regime affects a political system by preventing underlying divisions from manifesting themselves for a certain period. Elections can be suspended, parties and interest groups outlawed, and congress closed. Also the conditions that led to a military intervention (the most frequent type of authoritarian regime) can themselves submerge societal divisions in the short run. Under these circumstances, populist policies are unlikely, since the government is not primarily reliant on public support. Nevertheless, the end of an authoritarian period may produce populist-like policies aimed at softening the military's reputation before they return to the barracks.<sup>22</sup>

In the longer run, an authoritarian regime will inevitably be replaced, leading to a transitional democracy. There are several reasons why a transitional democracy will be especially susceptible to populist policies. First, authoritarian regimes (and thus transitional democracies) are most likely to occur in countries with exclusionary or unstable multiparty systems, which have already been identified with populist tendencies. Second, transitional democracies face considerable pent-up economic demand from their constituents. Third, in the new democracies, institutional uncertainties tend to shorten the time horizons of both the incumbent governments and their opponents. For such governments, there is a premium for meeting distributive expectations early in the administration and a substantial discount for the political risks attached to later problems with the balance of payments and inflation. Institutional uncertainty and shortened time horizons likewise affect the calculus of opposition political parties and other economic actors. Without some expectation that they will be able to share in future gains from growth, it may make sense for labor and other popular-sector groups to seek "unrealistic" nominal wage gains even if they know that these will later be wiped out by inflation.

Finally, like authoritarian systems, consolidated democracies are less likely than transitional democracies to experiment with populism. The reasons are

22. Argentina in 1982-83 would be an example of this phenomenon. It should be pointed out, however, that these are populist *policies*, not a populist *government*. The political coalition of the Argentine military clearly did not resemble a populist coalition.

essentially the opposite of those prevailing in transitional situations. Consolidated democracies tend to be found in systems with stable governing electoral blocs; by definition, abrupt changes of regime are less likely. Also, with longer time horizons, it may pay for a newly elected president to impose unpopular policies early in his or her term in order to reap the political payoffs of later success. Moreover, unlike an authoritarian regime, a consolidated democracy does not rely as heavily on satisfying material demands, since its legitimacy derives from political as well as economic factors.

Some empirical support for these propositions was found in our study referred to above. At least for the 1980s, we found a high correlation between type of regime and choice of economic policies. These relationships are shown in table 2.3. The analysis showed that authoritarian regimes (Chile and Mexico) were most likely to choose orthodox macroeconomic policies and to take significant steps toward liberalization and privatization. Established democracies (Venezuela, Colombia, and Costa Rica in our study) were also associated with orthodox macro policies but did little with respect to structural change. It was the transitional democracies (Peru, Argentina, and Brazil) that followed populist policies. Uruguay was the exception to our analysis. It was a transitional democracy but behaved more like the consolidated democracies. Our explanation was focused on the nature of the political system, a two-party system, similar to those of Venezuela, Colombia, and Costa Rica.

## **2.5 Repetition of Populist Cycles and Problems of Political Learning**

Countries vary not only with respect to the intensity of populist policy cycles, but with respect to the recurrence of those cycles. As suggested above, Argentina, Chile, Brazil, and Peru have each experienced several episodes that approximate the populist policy cycles outlined by Dornbusch and Edwards, whereas other countries discussed in this essay have experienced no more than one. The most severe episodes, in terms of macroeconomic disequilibria and political polarization, are listed in table 2.4. The table does not include a fairly large number of briefer or less extreme populist initiatives—for example, those of Frondizi in 1958 or Alfonsín in 1984.

Such patterns are not necessarily immutable. In principle, they may change either because social actors learn from earlier experiences and/or because they are forced to adapt to new conditions in the present. In the final section, we examine the influence of some of the comparatively new international conditions that emerged during the decade of the 1980s. Here we offer some hypotheses about the possibilities for learning from the past.

There are two variants of the argument that the lessons drawn from earlier experiences can eventually bring an end to populist policy cycles. The first is that repeated iterations of cycles in which “everyone loses” will eventually encourage more cooperative attempts to find nonpopulist policy alternatives. The second relates to the severity of the cycles: support for macroeconomic

**Table 2.3 Economic Policies by Type of Regime in Latin America, 1980s**

Country	Administration Dates	Political Regime Type	Stabilization Type	Trade Liberalization	Relations with International Monetary Fund (IMF) and Banks
Chile	Pinochet, 1982–90	Authoritarian	Orthodox	Substantial	Collaborative
Mexico	de la Madrid, 1982–88	Authoritarian	Orthodox	Substantial	Collaborative
Costa Rica	Monge, 1982–86 Arias, 1986–90	Established democracy	Moderate orthodox	Limited	Collaborative with IMF, but suspended interest payments
Venezuela	Lusinchi, 1984–89	Established democracy	Moderate orthodox	Limited	Broke with IMF, but collaborative with banks
Colombia	Betancur, 1982–86 Barco, 1986–90	Established democracy	Moderate orthodox	Limited	Broke with IMF, but collaborative with banks
Brazil	Sarney, 1985–90	Transitional democracy	Heterodox	None	Broke with IMF, moratorium
Peru	Belaunde, 1980–85	Transitional democracy	Moderate orthodox	None	Broke with IMF, moratorium
Argentina	García, 1985–90 Alfonsín, 1983–89	Transitional democracy	Heterodox Moderate heterodox	None None	Broke with IMF, moratorium Collaborative with IMF, but suspended interest payments
Uruguay	Sanguinetti, 1985–89	Transitional democracy	Moderate orthodox	Limited	Collaborative

Source: Robert Kaufman and Barbara Stallings. 1989. Debt and Democracy in the 1980s: The Latin American Experience. In *Debt and Democracy in Latin America*, ed. Barbara Stallings and Robert Kaufman, p. 211. Boulder, Colo: Westview.

**Table 2.4** Populist Episodes in Eight Latin American Countries

High Populist Countries	Low Populist Propensities
Argentina	Colombia
Perón (1946–55)	Betancur (1982–86)
Perón (1973–76)	
Brazil	Mexico
Vargas (1951–54)	Echeverría (1970–76)
Goulart (1961–64)	
Sarney (1985–90)	
Chile	Venezuela
Ibáñez (1952–58)	Pérez (1974–78)
Allende (1970–73)	
Peru	Uruguay
Belaunde (1963–68)	Batlle (1954–58)
Velasco (1968–75)	
García (1985–90)	

discipline is likely to be greater if the consequences (or perceived consequences) of populist policies have been especially bad.

Although both of these hypotheses are plausible, the empirical support for them is ambiguous. In Chile since 1984, there are preliminary indications that some social learning has occurred. Most of the major party leaders of the Left and Center have indicated that they intend to avoid the mistakes of the Allende years by adopting a much more cautious macroeconomic approach. “Social learning,” however, does not account fully for these changes in orientation. The changes must also be explained in terms of the global and regional pressures that have operated throughout Latin America during the 1980s, and— even more important—by the structural changes imposed during the Pinochet era. The latter include a severe economic weakening of the urban-industrial base of leftist support, and the emergence of new commercial-agricultural groups with strong interests in the maintenance of export-led growth models.<sup>23</sup>

In other countries, particularly prior to the 1980s, there is even less evidence that past experiences in themselves have been sufficient inducements for changes in policy orientation. Neither the Perónist episodes in Argentina nor the experience with Goulart in Brazil inoculated those countries against the subsequent resurfacing of populist “temptations.” The same is true with respect to the relation between Velasco in the early 1970s and Alán García a decade later.

What have been the impediments to more effective long-term adjustments in policy behavior? Before turning in the next section to conditions that might diminish the likelihood of repeated populist cycles, it is important to highlight

23. On political changes in Chile, see Cavarozzi and Garretón (1989, pp. 395–465).



several factors that have contributed to a maintenance of the pattern. First, and most obvious, many of the same political and institutional factors that help to explain the intensity of populist policy episodes have also encouraged their recurrence. The possibility of new rounds of populism has been highest in systems where severe electoral rivalries encourage an emphasis on redistributive issues and/or the exclusion of partisan adversaries. Similarly, where tenure insecurities have limited the time horizons of governments, officials have tended to discount heavily the longer-term costs of populist policy choices.

The second concerns the way in which social actors have perceived the alternatives to populist macroeconomic policies. Although some countries (e.g., Colombia) have had considerable success with mixed economy models, a great deal of the ideological debate in Latin America has focused on the relative merits of more orthodox approaches urged by international lending agencies and developed-country governments. Evidence about the positive social welfare effects of this alternative, however, has been mixed at best and has in general provided governments with very little incentive for abandoning comparatively activist fiscal and monetary policies. The most notable exception is Chile where—despite the extraordinary hardships imposed under Pinochet—the post-1984 recovery did contribute to a reorientation of economic policy perspectives. In most cases (including Chile itself), the most visible short-term effect of this alternative has been to transfer resources from urban wage earners to exporters and financial elites.<sup>24</sup>

Finally, it should not be surprising that iterations of populist/orthodox policy cycles have been as likely to reinforce self-fulfilling zero-sum assumptions as to encourage a convergence around common welfare interests. Especially in countries like Argentina, the historical record itself has placed competing sociopolitical groups in prisoner's dilemma situations, in which the groups must choose between the possibility of achieving mutual gains from cooperative behavior and the high costs they must bear if they cooperate and others defect. Even after repeated iterations, there is no single "equilibrium solution" to this game. It may be just as rational to seek short-term distributive advantages as to collaborate in support of more disciplined fiscal and monetary policies.

## 2.6 Prospects for the Future

What are the possibilities that such vicious circles can be reversed over a longer time period? Events in the last few years suggest a changing policy climate in the region. On the one hand, voters in a number of countries have elected leaders who openly ran on antipopulist platforms. These would include Aylwin in Chile, Collor in Brazil, Lacalle in Uruguay, and Chamorro in

24. Negative outcomes of orthodoxy are analyzed in Sheahan (1987), Pastor (1987) and Weeks (1989).

Nicaragua. On the other hand, several new presidents who had been expected to follow populist policies—Meném in Argentina, Pérez in Venezuela, Manley in Jamaica, and Borja in Ecuador—changed their stance once in office. It appears that Fujimori in Peru will do the same. But how enduring are these policy trends, and what are the chances that they will continue to receive public support?

Within the international system, there have been changes at both the economic and ideological levels that have reduced the viability of populist policies operating within an ISI framework. The most important economic change is the cutoff of external finance to Latin American governments. The availability of public-sector funds in the 1960s, and especially private bank loans in the 1970s, made it possible for governments to run trade and budget deficits. When this financing dried up following the Mexican crisis of August 1982, they had to choose between populist policies and debt service. It is not surprising that the choices generally followed the pattern outlined earlier. That is, Mexico, Venezuela, Colombia, and Uruguay squeezed their populations in order to maintain debt service, while Brazil, Argentina, and especially Peru took the opposite path. The exception was Chile, whose military government had made substantial changes in that country's political alignments and economic policy choices in comparison with the Allende administration and earlier years.<sup>25</sup>

The change in material conditions was reinforced by a significant shift in the intellectual climate in many parts of the world during the 1980s. The most important was in the United States, where the Reagan government not only changed U.S. priorities (or at least rhetoric) but also put pressure on other governments to carry out tight fiscal and monetary policies as well as to limit the role of the public sector. The U.S. voice in the international financial institutions was influential in forcing similar policies to be incorporated into those institutions' programs for Third World countries. At least as important, however, was the demonstration effect of different parts of the Third World. As Latin America and Africa became mired in recession with no end in sight, the Asian newly industrialized countries (NICs) suffered only small fluctuations in their growth patterns and then continued their upward trajectories. Although it was recognized that some misrepresentations were being made in the analysis of the policies followed in Asia, it was nevertheless clear that populism and ISI were much less prevalent in that region. The lesson extracted was that the latter two characteristics were responsible for many of Latin America's problems.<sup>26</sup>

A second important change has been the shift in the intellectual and political discourse within Latin America itself in favor of greater fiscal restraint,

25. On different responses to the debt crisis, see Frieden (1989).

26. On the East Asian cases and the lessons drawn by Latin America, see Haggard (1990) and Gereffi and Wyman (1990).

trade liberalization, and privatization. Although this shift was conditioned by the international developments just discussed, by the end of the 1980s it had been buttressed by sharp contrasts in the experience of specific countries within the region itself. On the one hand, in Chile, where the Pinochet government had pursued highly orthodox economic strategies, there was substantial growth and comparatively low inflation after 1984. Conversely, new democratic governments in Argentina, Brazil, and Peru had all engaged in heterodox experiments aimed at protecting popular-sector incomes, and these countries were mired in the worst economic crises in their modern history. Although the policy implications are far from clear, lessons have nevertheless been drawn.

Among competing economic interests, finally, there have been important changes in access to resources and new divisions that cut across old class and sectoral lines. Even before the debt crisis, the liberalization of capital markets had opened up major new opportunities for the growth of the financial sector. At the same time, although there is still considerable uncertainty about the distributional consequences of the debt crisis, the cutoff of external financing appears to have seriously weakened important components of popular-sector coalitions. Public employees have generally been hit hard, with wages declining at a faster rate than in the private sector. Business groups that are especially dependent on state subsidies or contracts have also been particularly disadvantaged. Such changes alter the balance of power among segments of union and business organizations and diminish the capacity of such organizations to mobilize strong political opposition to market-oriented adjustments. The weakening of "rent-seeking" groups, in turn, increases the political latitude available for governments seeking to push through stabilization measures and market-oriented reforms.

What does this analysis suggest about future outcomes? There seem to be four possible scenarios on the horizon. First, the market-oriented policies might yield significant improvements in growth rates, employment opportunities, and price stability over the medium run. If this were to happen, public support for such policies would increase. For long-run stability and continuity, of course, it would still be necessary to mobilize the beneficiaries into political support groups and to establish institutional arrangements within which they could operate.

Even if reasonably positive results do occur in terms of growth, however, opposition is likely to increase if the benefits are distributed in a very skewed manner. This was clearly part of the reason for the defeat of the military government and its presidential candidate in Chile. A second strategy, then, is a set of policies that maintain the emphasis on balanced accounts and competitiveness but place equal weight on policies geared toward increased equity. These include social policies as well as wages and benefits. The potential support for such a coalition is vast, but the economic policies would be extremely difficult to manage.

If the new market-based policies do not produce positive medium-term results, opposition will increase and, in spite of the weakening of the traditional support bases of populism, a return to populist cycles could occur in at least some countries. In the recent Brazilian presidential election, the candidate of the left, running on a very traditional populist platform, was only narrowly defeated by the antipopulist Fernando Collor. And in Mexico, Cuauhtémoc Cárdenas, also running on populist principles, mobilized the most serious electoral challenge ever launched against a candidate of the dominant PRI. Whether such candidates, once in office, would actually implement populist policies cannot be determined in advance. Like Meném and Pérez, they might betray the voters' expectations. If they did try to implement populist policies, the situation could quickly degenerate into chaos as seen in recent years in Peru.

New populist experiments in a world where international finance is not readily available is one route to a fourth alternative: a disintegration of civil society and a steady deterioration in the capacity of state authorities to frame and implement policy alternatives of any sort. In circumstances where popular-sector groups have been badly weakened, and a coalition around market-based policies has not been mobilized, this final alternative cannot be ruled out. At the present time, contemporary Peru perhaps best approximates this situation—although it is by no means the only country where it could happen. As the 1990s begin, the problems faced by this society is rooted not so much in conflicts between populism and orthodoxy as in the institutional fragmentation of parties and political coalitions, atomized competition among business groups, and self-fulfilling bets against the government's capacity to control prices or guarantee order. In other words, the problem is no longer class or sectoral conflict, but a decline in the capacity for collective action of any sort.

Prediction about the relative likelihood of the four scenarios for the region as a whole is impossible. On the contrary, it seems clear that Latin America will see ever-greater differentiation among countries. Indeed, each of the scenarios is likely to appear somewhere in the region. For any individual country, the situation will depend on political organization as well as economic outcomes.

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## Comment Paul W. Drake

To understand the political economy of populism in Latin America, it is necessary to explore the forces driving that phenomenon. Robert R. Kaufman and Barbara Stallings provide an excellent beginning for that task. Their work can be complemented with a longer historical perspective. As they suggest, Latin American populism cannot be explained as an irrational set of self-destructive economic measures to redistribute income through deficit spending. Behind those policies is a political logic that propels the emergence and recurrence of populist programs despite the cautionary advice of orthodox economists.

### Historical Definition

Populism is not new in Latin America. To the contrary, the heyday of populism is past. Historically the term referred to a reasonably definable category of political actors and proposals. To illuminate that record and its current manifestations, it is important to distinguish among populist movements, policies, and governments.<sup>1</sup>

### Populist Movements

As a political movement, populism has been quite common since World War I and will continue to surface in some countries. Prime examples would

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1. For standard sources on Latin American populism, see Michael L. Conniff, *Latin American Populism in Comparative Perspective* (Albuquerque, N.M., 1982); Torcuato Di Tella, "Populism and Reform in Latin America," In *Obstacles to Change in Latin America*, ed. Claudio Veliz (London, 1965), pp. 47-74; Thomas Skidmore, "A Case Study in Comparative Public Policy: The Economic Dimensions of Populism in Argentina and Brazil," *The New Scholar* 7 (1979):129-66; Jeffrey Sachs, "Social Conflict and Populist Policies in Latin America," NBER Working Paper no. 2897 (Cambridge, Mass., 1989); Rudiger Dornbusch and Sebastian Edwards, "Macroeconomic Populism in Latin America," NBER Working Paper no. 2986 (Cambridge, Mass., 1989); Guillermo O'Donnell, *Modernization and Bureaucratic-Authoritarianism* (Berkeley, Calif., 1973); Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley, Calif., 1979); Guita Ionescu and Ernest Gellner, *Populism: Its Meaning and National Characteristics* (New York, 1969); Ernesto Laclau, *Politics and Ideology in Marxist Theory: Capitalism, Fascism, Populism* (London, 1977); Aníbal Quijano and Francisco Weffort, *Populismo, marginalización y dependencia* (San Jose, Calif., 1973); Francisco Weffort, *O populismo na política brasileira* (Rio de Janeiro, 1978); A. E. Van Niekerk, *Populism and Political Development in Latin America* (Rotterdam, 1974); Octavio Ianni, *A formação do estado populista na América latina* (Rio de Janeiro, 1975) and *Crisis in Brazil* (New York, 1970); Paul W. Drake, *Socialism and Populism in Chile, 1932-52* (Urbana, Ill., 1978); Heraclio Bonilla and Paul W. Drake, *El APRA de la ideología a la praxis* (Lima, 1989); Steve Stein, *Populism in Peru* (Madison, Wis., 1980). Rafael Quintero, *El mito del populismo en el Ecuador* (Quito, 1980); Candido Mendes, *Beyond Populism* (Albany, N.Y., 1977); Christopher Mitchell, *The Legacy of Populism in Bolivia* (New York, 1977); Robert J. Alexander, *Prophets of the Revolution* (New York, 1962); Lars Schoultz, *The Populist Challenge: Argentine Electoral Behavior in the Postwar Era* (Chapel Hill, N.C., 1983).

include Victor Raúl Haya de la Torre and the American Popular Revolutionary Alliance (APRA) in Peru from the 1920s to the 1970s, the Chilean Socialist party in the 1930s, Jorge Eliécer Gaitán in Colombia in the 1940s, Rómulo Betancourt and Democratic Action in Venezuela prior to the 1950s, and some aspects of the campaigns of José María Velasco Ibarra in Ecuador over several decades. Most of these movements were characterized by three key features: (1) paternalistic, personalistic, often charismatic leadership and mobilization from the top down; (2) multiclass incorporation of the masses, especially urban workers but also middle sectors; and (3) integrationist, reformist, nationalist development programs for the state to promote simultaneously import-substituting industrialization and redistributive measures for populist supporters.

These three essential ingredients of populism were logically interconnected. Ideally, a charismatic leader welded together a polyclass coalition to compromise on the coterminus expansion of industry and social welfare. Such a movement fitted the historical circumstances and structural conditions in highly agrarian countries that had not yet used the government significantly to foment industry and to assimilate emergent urban groups into national politics. Populism provided a coherent political response to the dislocations caused by the increasing tempo of industrialization, social differentiation, and urbanization.

By the same token, such movements might be expected still in the poorer countries of Latin America that have not advanced very far in the elaboration of national industry and an inclusive political system, for example, in Central America. It will still be tempting for politicians to create a new constituency by galvanizing the urban underprivileged. Elsewhere, echoes of populism may reverberate in nations that have already gone through such experiences, because of the continuing inadequacies of development and the maldistribution of income. Populist rhetoric and promises retain widespread appeal, as seen with the electoral surge of Cuauhtémoc Cárdenas in Mexico in 1988 and Luís Inácio da Silva ("Lula") in Brazil in 1989.

In countries that have already had a lengthy history of populism, however, "bait-and-switch" populists have now become more common. They reflect the contradiction today between the immiseration of the majority of the population and the imperatives for neoliberal economic restructuring to favor market mechanisms and to honor the foreign debt. These putative populists awaken hopes of massive redistributionist policies on the campaign trail but implement free-market austerity packages once in office. "Baiters and switchers" may sincerely desire to revive an emphasis on social justice, but current resource constraints frequently consign such plans to the dustbin. Recent examples would include Carlos Andrés Pérez in Venezuela, Michael Manley in Jamaica, Rodrigo Borja in Ecuador, Jaime Paz Zamora in Bolivia, and Carlos Meném in Argentina.

### Populist Policies

Like Populist movements, populist policies have been fairly common in the twentieth century. A certain set of initiatives and instruments has become associated with populist attempts to ram through rapid industrialization and redistribution. Traditional populist policies have included tariff protection and subsidized credits for industry, discrimination against agriculture and exports, wage hikes, deficit spending, and proliferation of state planning, employment, and welfare agencies. However, some combinations of these policies have also been tried by many Latin American governments without a populist leadership, social base, or reform agenda; they have been enacted for reasons other than the incorporation of neglected urban sectors, including foreign exchange constraints, revenue shortages, and pressures from organized interest groups. Although the policy outcomes may have been quite similar, the policy causes were quite different.

### Populist Governments

In contrast with populist movements or policies, full-blown populist governments with a magnetic inspirational leader, a multiclass urban clientele, and a hothouse program to raise domestic demand and production have been rarer. The classic models are Argentina under Juan Perón (1946–55, 1973–76), Brazil in the democratic period of Getúlio Vargas and his heirs (1951–64), and Peru under Alán García (1985–90). Other contenders might include many facets of Lázaro Cárdenas in Mexico in the 1930s, the Popular Front in Chile before World War II, the National Revolutionary Movement in Bolivia in the 1950s, and Juan Velasco in Peru, 1968–75.

The quintessential populist administrations have undergone fairly predictable experiences. They enjoyed a couple of years of successful redistribution and expansion through Keynesian deficit spending. That buoyant moment was followed by demand exceeding supply, as investment and growth declined because of bottlenecks constricting capital, government revenues, and foreign exchange. As a result, deficits and inflation ballooned, eroding the initial gains for the poor. While scarcities dimmed the luster of the popular leader, conflicts erupted among his or her multiclass backers, especially between industrialists and laborers. On the heels of the spiraling economic and political crisis often came authoritarian repression of popular expectations, demands, and mobilization. The state clamped down on the lower classes in order to facilitate macroeconomic stabilization, government austerity, and capital accumulation for renewed growth. Although failing to achieve their higher objectives, populists bequeathed a residue of greater industrial capacity and enhanced leverage for organized labor. Moreover, the memories of their early good years, in contrast with the harsh period that followed, left a reservoir of popular support.



These populists must be differentiated from superficially similar nonpopulist cases. Neither more leftist governments pursuing socialist aspirations nor more rightist administrations failing to hold the line on deficits and inflation really belong in the populist camp. Their policies are not a result of reformist movements energized by efforts to accelerate capitalist industrialization and worker integration.

Salvador Allende in Chile (1970–73) led a socialist, not a populist, movement and government, though he employed some populist policies his first year. He sought to move the country toward socialism, not just to reform the capitalist system to incorporate workers. Allende's leadership was neither paternalistic nor charismatic. His social base concentrated far more on the working class than any multiclass movement, stretching from dissident industrialists to the lumpenproletariat; class conflict was far more pronounced than class collaboration. Allende's government preferred to expropriate, not foment, industry. Whereas populism signifies redistribution of income, socialism denotes redistribution of property and wealth.

José Sarney of Brazil (1985–90) is an even more unlikely candidate for any pantheon of populists. This accidental president was scarcely the fiery champion of an aggressive mass movement dedicated to economic modernization and social justice. Rather, Sarney was a conservative who proved too weak to impose a stabilization program in the face of concerted opposition from vested interests and international circumstances. His inability to surmount the economic crisis of the 1980s was not due to his dedication to populist forces. Sarney's style, coalition, and objectives were a far cry from those of true Brazilian populists like João Goulart and Leonel Brizola.

### **Historical Phases**

Latin American populism has gone through three stages: early, classic, and late. The "early" populists appeared in the opening decades of the twentieth century in the more prosperous countries. As the strains of urban growth eroded upper-class hegemony, populist precursors protested insufficient state attention to disaffected elites, emergent middle classes, and, to a lesser extent, nascent labor groups. These moderate leaders advocated liberal reforms to open up aristocratic political systems to greater participation for the literate few. Examples would include Arturo Alessandri in Chile and Hipólito Irigoyen in Argentina.

Populism flourished following the disruptions of international trade by World War I, the Great Depression, and World War II. In the aftermath of those shocks, discontent with *laissez-faire* economics and with exclusionary political systems swept the more advanced republics of the hemisphere. The traditional oligarchic order faced a fourfold crisis of growth, distribution, participation, and legitimation. Populism responded to that crisis with industrial-

ization, state welfare, worker mobilization, and mass support for the government.

During the 1930s and 1940s, the “classic” populists took center stage. Compared to their predecessors, they were more dedicated to the urban working class and to socialistic visions of government reform. Their programs mainly resulted in state capitalist promotion of industry and urban welfare. They relied on renegade elite leadership and cooperation, especially from industrialists, intellectuals, and the middle class. For some elites, the costs of excluding segments of the working class—strikes, protests, ideological radicalization, and so on—seemed to exceed the costs of including them through mild reforms. Populists mobilized, enfranchised, and incorporated previously marginal lower-class groups (particularly urban workers) and continued to exclude others (particularly peasants). These classic populists proved most successful when periods of growth generated temporary surpluses after periods of recession and austerity.

After the heady days from the 1930s to the 1960s, populism waned in the leading countries for several reasons. The relatively easy stage of replacing manufactured consumer goods from abroad was exhausted. At the same time as economic resources tightened, the number of organized and voluble contenders—rural-urban migrants, peasants, women, and so on—for incorporation and redistribution multiplied. In several countries, privileged groups concluded that the costs of including the masses—inflation, property transfers, and the like—exceeded the costs of excluding them; many elites opted for expelling previously incorporated lower-class elements from the crowded political arena. Populist coalitions among industrialists and workers unraveled. Rightist groups lashed populists as demagogues who spurred excessive mass expectations and inflation. At the same time, leftists denounced populists as charlatans who duped the workers into settling for reform instead of revolution.

Into this unpropitious environment in the 1970s and 1980s strode “late” populists like Luis Echeverría in Mexico, Juan Perón in Argentina, and Alán García in Peru. They found it increasingly difficult to revitalize the populist alliances and programs of earlier years. The network of entrenched interests and demands had become too thick, the state too cumbersome and burdened, the economy too inefficient, inflation too relentless. Repressed in some countries, spurned in others, populism became less viable as a governing formula, even when it retained favor as an electoral device.

As the 1980s unfolded, populist governments, except for the anachronistic APRA administration in Peru, did not exercise power, despite rumblings at the ballot box. Almost regardless of who got elected president, populist policies were discredited and discarded in most of the hemisphere. As Kaufman and Stallings point out, there are several reasons for the paucity of populist administrations in the eighties and nineties.

The recession of the early 1980s, the debt crisis, and the perceived need for market-oriented restructuring to reignite growth have convinced most leaders that resources are inadequate for swift redress of income inequalities. At the same time, import-substituting industrialization and other policies once promulgated by the UN Economic Commission for Latin America have been eclipsed by neoliberal economic formulas. Free enterprise solutions modeled after the East Asian success stories are in vogue. It has become fashionable and virtually unavoidable to reduce government interference with domestic and international markets. Partly as a result of those economic transformations, the long-standing enemies of populism—capitalist and export elites—have been strengthened, while the stalwarts of populism—organized labor and the urban masses—have been weakened. Furthermore, after years of authoritarian repression of labor and the left, reformist politicians have tried to restrain populist impulses so as not to capsize democratization. Consequently, populism seems unlikely to sweep the Americas anytime soon.

So long as populism is in retreat, the most pressing issue in the 1990s is not how to stamp out the vestiges. Rather, the key question is how to address, better than populism did, the burning issues of severely unequal distribution without sacrificing growth and stability. The problem is how to bridge the gap between the political, electoral logic of speaking to the desperate needs of the deprived majority and the economic, governing logic of adhering to the requirements of investors and entrepreneurs. In democratic political systems, the trick is to design a new winning coalition that can sustain equitable growth. Today, most of Latin America is plagued with poverty, not populism.

## Comment Alberto Alesina

Robert Kaufman and Barbara Stallings have written an interesting paper that emphasizes the effects of income inequality on political polarization and on populist experiments. I quite agree with their approach. In fact, in my view, explaining populism amounts to explaining why is it that economic policy in Latin America has been so polarized; that is, why we observe major swings in the orientation of economic policy in this part of the world.

A crucial characteristic of populist experiments is the use of macroeconomic policy to achieve redistributive goals in favor of certain social groups. Thus, it is not surprising that these experiments are often followed by reactions against those same groups when the latter lose political control. Kaufman and Stallings argue that this political polarization arises from

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income inequality: this phenomenon would explain important differences between Latin American and Asian countries. However, as the authors themselves acknowledge, income inequality alone cannot account for the differences in policy experiments in different Latin American countries.

As additional explanations, the authors refer to various kinds of institutional arrangements. One question, which is not sufficiently addressed in this respect, is whether these institutional arrangements are exogenous or endogenous. More specifically, are these arrangements themselves a function of various socioeconomic forces, such as income inequality, or do they affect the socioeconomic characteristics of different countries? Perhaps the answer is that both directions of causality are important. Examples of institutional characteristics that may affect economic policy-making include different kinds of electoral rules (say, the degree of proportionality of the electoral system, which may affect the degree of fragmentation of the party system), the existence of constitutional rules that are institutionally difficult to change (say, because they require qualified majorities in the legislature), systems of checks and balances between various branches of government, and the degree of independence of the Central Bank.

Different degrees of political polarization can also be the result of different histories. A country history may be the result of two types of equilibria. One is the cooperative equilibrium: when a party or group is in office, it does not pursue extreme redistributive policies, expecting that its opponents will do the same (i.e., they will be moderate) when they will be in office in the future. In the noncooperative equilibrium this implicit cooperation is broken, and when a group controls policy, it pursues radical redistributions, knowing that an economic "revenge" will follow, when political power changes hands. When a country is trapped in the noncooperative equilibrium, it may be very hard to move away from it, since one group has to begin to act in a "moderate" way, even though history indicates that its adversaries have never been cooperative. Different institutional arrangements, such as those mentioned earlier, may affect the likelihood that a country is trapped or not in the noncooperative equilibrium.

The basic problem that underlies much of the discussion on political polarization, is that these radical swings of policy, back and forth, from and toward populism, imply aggregate inefficiencies. It is worthwhile to summarize why it is that political polarization leads to losses in aggregate welfare. Three related arguments can be made.

1. *Political polarization leads to high uncertainty about future policies or even about property rights.* This, in turn, leads to difficulties in making long-run economic decisions such as investments in plants and equipments. Instead, economic agents may find it more profitable to engage in capital flights. The latter reduce taxable resources in the country, leading to a worsening of the fiscal situation. As the fiscal crises deteriorate, political struggle over the distribution of the tax burden may become even harsher, leading to even more

political polarization and instability. The potential for vicious cycles are very clear.

2. *In a noncooperative political equilibrium, politicians view their horizon as short.* They know that when they will be out of office their opponents will show "no mercy." Thus, policymakers may try to redistribute resources not only from currently taxable resources, but they will also borrow abroad to distribute resources to their supporting constituencies. Future governments will be left with the debt burden; in the meantime, the beneficiaries of the foreign borrowing can take advantage of it and may even shelter their resources from future taxation. Note that these kinds of short-sighted partisan policies are not necessarily the prerogative of populist governments, but also of right-wing governments. During the tenure of the latter, one often observes at the same time public borrowing and private capital flight.<sup>1</sup>

3. *Political polarization may lead to costly delays in adjustment to adverse shocks, and to repeated failed stabilization attempts.*<sup>2</sup> If, in the aftermath of an adverse shock, countries need to pursue costly stabilization policies, different politically powerful groups may disagree on the allocation of the burden of the adjustment. In a politically polarized country, these groups may find it hard to agree on a mutually acceptable division of the burden. Instead, they may engage in political struggles to shelter themselves from all or most of the stabilization costs and make the other groups pay for the adjustment. Successful stabilizations are then delayed until one of the groups consolidates its political influence and makes it impossible for its opponent to "veto" its desired stabilization plan. Lacking cooperation, time is needed to resolve the non-cooperative "war" over who should pay for the adjustment. Needless to say, in most cases, the more one country waits to stabilize, the higher are the aggregate costs of the stabilization when it is finally implemented. In many cases, these delays take the form of monetary financing of budget deficits in a situation in which a political deadlock makes it impossible to raise noninflationary taxes or cut expenditures.

These views are consistent with the finding of the paper by Kaufman and Stallings that the countries that experienced the largest economic difficulties are transitional democracies. These are in fact cases in which political uncertainty, polarization, and unresolved political struggles between groups are particularly important.

I will close with a general remark concerning the usefulness of the political economy approach. A question is often asked in the discussion of populist experiences, and more generally in the discussion of Latin American economic difficulties: Why is it that certain countries keep repeating the same "mistakes" and never learn? In fact, once the political and institutional incen-

1. For a formal discussion of this case, see Alberto Alesina and Allan Drazen, "Why are stabilizations delayed?" NBER Working Paper no. 3053 (Cambridge, Mass., 1989).

2. This case is argued by Alberto Alesina and Guido Tabellini in "External debt, capital flight and political risk," *Journal of International Economics* 27 (November 1989):199-220.

tives and constraints are correctly taken into account, policies that appear to be mistakes are perfectly rational responses to distorted or imperfect political incentives. The political economy approach attempts to explain why certain apparent mistakes repeatedly occur. This approach underscores that one cannot correct the “mistakes” without addressing the institutional features which make these so-called mistakes likely to occur.