Statist vs. Pro-Market

Explaining Leftist Governments' Economic Policies in Latin America

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Beginning with the election of Venezuelan President Hugo Chávez in 1998, the rise to power of the left took Latin America by surprise. During the previous two decades, the region's economies had increasingly moved toward an open, market-oriented model of development and away from the statist, import-substitution-industrialization (ISI) model that had prevailed for decades.[1] Toward the end of the twentieth century, there were few if any challengers to the liberalizing trend. The devastating effects of the debt crisis of the early 1980s contributed to a generalized perception that ISI and state-interventionist policies advocated by the left had failed. The collapse of the Soviet Union—exposing the vices and inconsistencies of centrally planned economies—gave credence to this view and heralded the universalization of the market economy as the only feasible mode of organizing economic relations. The Washington Consensus permeated most policy and academic circles as the dominant paradigm.[2] Against these trends, the left's political revival seemed extremely unlikely.

To make matters worse for the left, the market-oriented reforms adopted across the region severely undermined the left's main base of support—organized labor.[3] The exposure of previously protected domestic industries to foreign competition and the privatization of state-owned companies resulted in widespread layoffs particularly affecting highly unionized sectors. Stabilization policies that relied on wage restraints to enhance productivity and competitiveness eroded labor's negotiating power. Overcoming these obstacles was a challenging task for leftist parties in the region. In describing its general disarray in the early 1990s, Steve Ellner and Barry Carr characterized the left as "more disoriented and lacking in credible options than ever before."[4]

In this adverse context, a series of leftist electoral victories swept the region. Leftist candidates were democratically elected in Venezuela (1998), Chile (2000), Brazil (2002), Argentina (2003), Uruguay (2004), Bolivia (2005), Ecuador (2006), Peru (2006), Nicaragua (2006), and Paraguay (2008).[5] In light of this "leftist tsunami," scholars have begun to study different aspects of the rise of the left. Some authors have focused on the political parties that brought leftist candidates to power.[6] Others have emphasized classification issues, highlighting the variety of leftist projects and the inadequacy of monolithic classifications of the left.[7] Others have grappled with the relationship between the rise of the left and democracy in Latin America.[8] Still others have sought to explain the factors conducive to the arrival of the left to power and the timing of this arrival, emphasizing the region's unaddressed income inequality and the erosion of the military's veto power as key explanatory factors.[9]

Although these studies have offered valuable insight regarding electoral, taxonomical, and political issues about the left, they have virtually ignored the left in government in general and their economic policies in particular.[10] This constitutes an important lacuna, given that leftist governments in Latin America often relied on the condemnation of market reforms as a way to define their political campaigns and give meaning to their political projects. In particular, the striking differences in economic policies followed by leftist governments—in spite of their shared commitment to social justice and wealth distribution—remain understudied.[11] Why have some countries—Bolivia, Ecuador, and Venezuela—adopted statist economic policies in the form of nationalizations, price controls, foreign exchange controls, and land reform, while others—Brazil, Chile, and Uruguay—have generally adhered to market orthodoxy?

That is the question that drives this inquiry. This article proceeds in several parts. It first examines the dependent variable—the type of economic policies that leftist governments have carried out—by way of highlighting the variation that this article seeks to explain. It then engages the existing literature in search of accounts for this behavior and evaluates three theories that could plausibly account for these differences, including extraordinary executive strength, sudden economic crises, and rentier state theory.

Having considered each closely and found that none is adequate in explaining this variation, I advance an institutionalist perspective by arguing that the type of economic policies conducted by leftist governments in the region is best explained by the degree to which the party system is institutionalized. I find that centripetal dynamics characteristic of institutionalized party systems make piecemeal reforms and the preservation of the status quo more likely, while centrifugal dynamics typical of party systems in disarray are conducive to unpredictable policies and significant economic transformations.[12] This is due to differences in both the type of candidate that is likely to reach power and the parties' ability to influence the executive's policies. The theory is illustrated by the cases of Chile and Venezuela. The article concludes with a discussion of how similar dynamics might account for transformations beyond the left and Latin America.

Policy Differences among Leftist Governments

Although recognizing that important nuances are often overlooked, scholars have classified leftist governments into two camps when it comes to their economic policies: those which have departed from economic orthodoxy by significantly increasing the level of state intervention in the economy, and those which have embraced market-oriented policies but sought to address social inequality through targeted social spending.[13] Examples of the statist group are the governments of Evo Morales in Bolivia (2006–present), Rafael Correa in Ecuador (2007–present), and Hugo Chávez in Venezuela (1999–present). In Bolivia the government has conducted nationalizations in the gas and telecommunications industries,[14] introduced price controls on a variety of goods and services,[15] and implemented an ambitious land reform program.[16] In Ecuador Correa has carried out nationalizations in the energy sector,[17] established price controls,[18] eliminated the Central Bank's autonomy from the executive,[19] and defaulted on its sovereign debt.[20] In Venezuela Chávez has nationalized the oil, cement, telephone, and power industries,[21] implemented price and exchange controls,[22] and carried out several waves of land reform.[23] Rather than "toning down" neoliberal reforms like the rest of the region, these countries have decidedly reversed several orthodox measures implemented by pro-market governments during the 1980s and 1990s.

Conversely, on the pro-market side, the leftist administrations of Ricardo Lagos (2000–2006) and Michelle Bachelet (2006–2010) in Chile, Lula da Silva (2003–present) in Brazil, and Tabaré Vásquez (2005–present) in Uruguay have preserved a framework of market orthodoxy, maintaining remarkable fiscal prudence, leaving prices to the market, and fighting poverty through targeted social programs. In Brazil the Lula government even went far beyond expectations of fiscal discipline by significantly tightening fiscal spending to increase the government's primary surplus beyond the International Monetary Fund's recommendation, and pushed for fiscal reform along the lines of what Fernando Henrique Cardoso (1994–2002) had outlined in his administration.[24] In Uruguay the Vásquez government has begun talks toward a preferential trade agreement with the United States and implemented a series of business-friendly reforms, including reducing corporate taxes from 35 to 25 percent.[25] In Chile leftist administrations have furthered the liberalizing agenda by signing a number of free trade agreements and conducting privatizations in the transportation, infrastructure, water and sanitation, and energy sectors.[26]

The governments of Néstor Kirchner (2003–2007) and Cristina Kirchner (2007–present) in Argentina have been considered a bridge case between these two groups,[27] although their administrations have gradually moved the country in the statist direction. Nestor Kirchner's statist policies included price controls, sovereign debt default, and relatively limited nationalizations of the postal service and a water works company. Cristina Kirchner reinforced this trend by nationalizing Argentina's private pension funds.[28] Other leftist governments were only recently elected, which makes them hard to classify at this point.

Assessment of Prominent Explanations

Why have Bolivia, Ecuador, and Venezuela succeeded in conducting significant statist economic policies, while Brazil, Chile, and Uruguay have maintained an orthodox economic framework? The existing literature offers some accounts for economic transformations that are both specific to Latin America and apply in the comparative political economy context more generally. As a first step to answer this question, three prominent hypotheses are examined for their ability to explain the adoption of significant statist economic policies in Latin America: (1) extraordinary executive strength; (2) sudden economic crises; and (3) resource dependence. Each has limited ability to systematically explain variation across countries.

Extraordinary Executive Strength Several persuasive accounts suggest that executive strength played a central role in explaining the end of ISI and the adoption of market reforms.[29] When unpopular neoliberal reforms were adopted around the world during the 1980s and 1990s, scholars identified the executive's relative strength vis-à-vis the legislature as a useful explanatory factor to account for variation across the region. Accordingly, countries with strong executives were better able to implement unpopular reforms than those with weak presidents. Joan Nelson, for example, highlighted the role of executive strength in pushing for "vigorous and wide ranging market-oriented reforms" in countries as dissimilar as Ghana, Sri Lanka, and Turkey during the 1980s.[30] Similarly, Stephen Holmes argued that institutional restrictions on executive powers became an obstacle to the effective implementation of economic reforms in the former communist world.[31]

In Latin America executive power became a good predictor of the governments' likelihood to carry out significant economic transformations. Variation regarding executive strength helped explain why draconian reforms were successfully implemented in Chile and Argentina—with the strongest executives in the region—but only partially in Brazil and very timidly in Venezuela—with considerably weaker presidents. An extreme case of presidential power, Chile's Augusto Pinochet's authoritarian regime was able to drastically reverse Salvador Allende's socialist policies. Also with extraordinary presidential powers but in a democratic regime, Argentina's Carlos Menem carried out ambitious market-oriented transformations as a result of the president's prerogative to issue "Need and Emergency Decrees."[32] Conversely, at the other end of the spectrum, Venezuela was the country least able to adopt neoliberal reforms due to extreme executive weakness. Without decree or veto powers, Carlos Andrés Pérez's attempt to implement an ambitious set of orthodox reforms failed.[33] With a stronger executive than that of Venezuela but weaker than those of Argentina and Chile, Brazil's adoption of market reforms was only moderate during the Cardoso administration.

Drawing on the experience of the 1980s and 1990s, this view would suggest that strong leftist executives—as in Chile and Argentina, for example—would be able to carry out the most drastic transformations, while weak leftist presidents—as in Bolivia and Ecuador—would have a much harder time altering the status quo. However, the statist reforms carried out by leftist governments in Latin America suggest that the strength of the presidency is inversely correlated with the type of economic policies. Bolivia and Ecuador—where presidents are often sacked before completing their term—were among the weakest presidencies at the time leftist governments came to power.[34] Conversely, Chile has one of the most powerful executives, but its presidents have not used their powers to push for drastic reforms.

Drastic Economic Crises A second strain in the literature suggests that severe economic crises affect governments' ability to implement drastic reforms.[35] It argues that countries experiencing an economic crisis are more likely to conduct significant reforms since crises make such reforms more palatable to the public, whereas countries without a drastic deterioration of economic conditions tend to have a harder time passing significant reforms due to the public's unwillingness to try extreme measures. In other words, "economic crises pave the way for a development of a social consensus on the need for policy change and remove potential sources of resistance."[36] John Waterbury, for example, suggested that the extent to which Egypt, India, Mexico, and Turkey conducted economic reforms during the 1980s responds to differences in the severity of economic crises in these countries.[37] Similarly, the decisive adoption of orthodox measures in Estonia is credited to that country's 1992–1993 crisis.[38]

In Latin America the adoption of significant market reforms in Argentina, Bolivia, and Peru during the 1980s and 1990s was explained by the public's willingness to switch course after the devastating effects of debt crises and constant bouts with hyperinflation. Dire economic conditions led the public to grant the governments of Menem (1989–1999), Víctor Paz Estenssoro (1985–1989), and Alberto Fujimori (1990–2000), *carte blanche* to conduct "bitter reforms."[39] Conversely, governments in Brazil and Venezuela found it more difficult to implement deep neoliberal reforms because economic conditions were not as dismal. In Brazil Cardoso attempted to pick up some of the reforms his predecessor had left unfinished, but was able to conduct only moderate reforms in some areas.[40] In Venezuela generalized riots and two attempted coups forced the Pérez government to back off from more aggressive reforms.[41]

Following this logic, we would expect to see the most significant reactions to market reforms in countries that experienced serious economic crises, such as Brazil (1998), Argentina (2001–2002), and Uruguay (2001–2002). However, the empirical evidence provides little support for this hypothesis. In Argentina, after the economy contracted by 22 percent as a result of the financial crisis,[42] the government opted to default on its debt obligations; but the country's dramatic economic downturn did not translate into the statist measures observed in the Andean countries. In Uruguay, where the crisis made the population 20 percent poorer, and in Brazil, where the currency lost 70 percent of its value, leftist governments have operated within a general framework of market orthodoxy.

This theory is also unable to explain Bolivia and Ecuador's embrace of statist policies during periods of economic bonanza. Both countries elected leftist presidents and adopted statist policies in the middle of one of their most prosperous periods in decades. Before Correa attained power in Ecuador, real GDP per capita grew at its highest rates in a decade. Between 2000 and 2007, the income of the average Ecuadoran grew 26 percent, and for the first time since 1976 Ecuador experienced eight consecutive years of positive GDP per capita growth rates. Although it was less spectacular than in Ecuador, Bolivia also experienced an improvement in economic conditions in the years leading to Morales's inauguration in 2006. In the five years prior to Morales's election, real GDP per capita grew almost 2 percent annually, compared to 0.3 percent in the preceding five years. Given the improved economic conditions in the years prior to the election of leftist governments in the region, economic crises cannot account for statist policies in these countries.

Rentier State Theory A third explanation is based on rentier state theory, which argues that rents from raw materials undermine a country's commitment to economic orthodoxy.[43] According to a cognitive strain of this view, "resource rents lead to irrational exuberance, producing a 'get-rich-quick mentality' among businessmen and a 'boom-and-bust' psychology among policymakers, marked by bouts of excessive optimism and frantic retrenchments."[44] Due to the influx of windfall profits into government coffers, the public rejects austerity measures and emphasizes the need for the redistribution of wealth. Following this logic, commodity booms "make the neoliberal quest for wealth creation through productivity, efficiency, and competitiveness look unnecessary."[45]

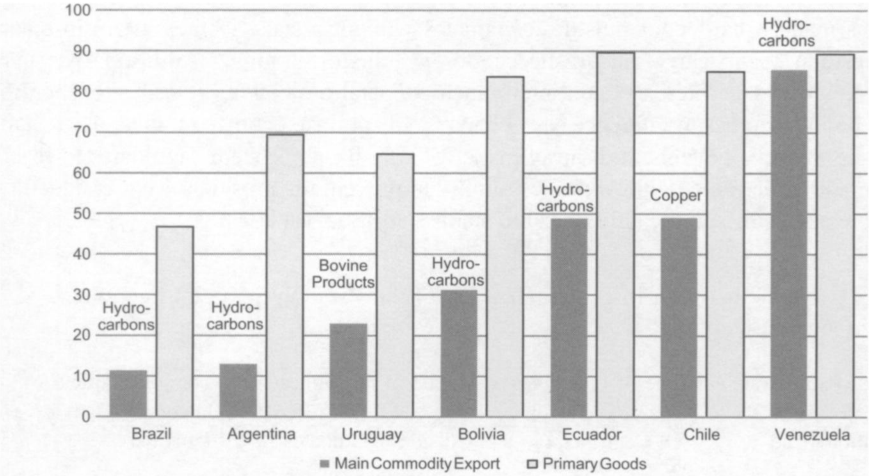
This perspective has identified a variety of commodities as culprits of irrational exuberance in a host of countries. Scholars have studied this "policy myopia" resulting from exports of timber in the Philippines, Malaysia, and Indonesia,[46] to oil in Algeria, Iran, Nigeria, Venezuela,[47] and Russia,[48] to diamonds in Botswana.[49] In the context of Latin America, this view would anticipate stupor-induced statist policies in countries with undiversified economies, highly dependent governments on commodity revenue, and a boom in commodity prices.

Evaluating this perspective against the empirical record in the region, this view's ability to explain policy variation among leftist governments appears more powerful than those previously assessed. Rentier features seem to explain statist policies by leftist governments in Bolivia, Ecuador, and Venezuela. Between 2000 and 2006, primary sector exports represented more than 80 percent of total exports in all three countries, and their main commodity export represented a significant percentage of the total in at least two of the three countries: 85 percent in Venezuela, 48 percent in Ecuador, and 33 percent in Bolivia.[50] Additionally, the price of their main export virtually doubled during this period, resulting in a massive flux of resources to government coffers.[51] However, several important deficiencies render this explanation unsatisfactory.

The first criticism of rentier state theory is that the mechanism remains underspecified, with "little evidence that policymakers collectively fall into wealth-induced stupors."[52] For example, the timing of statist policies in Bolivia, Ecuador, and Venezuela does not correspond to the psychology of exuberance and restraint cycles, since their governments' proclivity for statist policies has been consistent across time regardless of commodity prices. In Bolivia, without regard for the dramatic drop in the price of natural gas and in the midst of one of the most severe global economic downturns, Morales carried out a new wave of land reform in February 2009.[53] In Ecuador, after the price of oil precipitously dropped by half, Correa forced oil companies to rescind existing oil contracts, took over their oil fields in the Amazon region, and nationalized a hydroelectric complex.[54] In Venezuela Chávez carried out such policies as nationalizations and land reform before, during, and after the surge in oil prices. In short, these leaders' statist policies certainly did not begin or end with price-related exuberance.

Second, there is a critical case that this perspective fails to explain: Chile's strict adherence to market orthodoxy in spite of its resource dependence (See Figure 1). Between 2000 and 2006, Chile's copper exports represented 49 percent of the country's total—higher than commodity shares in Bolivia (33 percent) and Ecuador (48 percent)—and accounted for 35 percent of public revenue—significantly higher than Bolivia's (22 percent) and Ecuador's (24 percent).[55] However, in spite of the price of copper tripling to reach record highs during this period,[56] leftist governments in Chile have adhered strictly to market orthodoxy. Similarly, this perspective is unable to account for the adoption of statist policies in Argentina in spite of the absence of rentier features.

Figure 1 Exports of Primary Products and Main Commodity Export as a Percentage of Total Exports (Average 2000–2006)



Sources: UN ECLAC, Statistical Yearbook 2007, Table 2.2.2.1; and World Bank, 2008.

Thus far, the three hypotheses have helped account for economic policies in one or a handful of countries, but they have trouble systematically explaining variation across the region. Even if we concede that a rentier mentality is behind policy myopia in Bolivia, Ecuador, and Venezuela, this perspective leaves important questions unanswered. What prevents countries with rentier features from falling into rent-induced stupor? Why might statist policies be pursued in countries without rentier features? Although additional income resulting from higher commodity prices will certainly allow any government to do more of what it had originally intended, an explanation based on irrational exuberance overlooks the existence of constraints in the political arena. Constraints—or their absence—that come with different types of party systems are crucial in accounting for policy variation among leftist governments in the region.

Party Systems and Policy Moderation

The features of highly and poorly institutionalized party systems have been studied by a variety of scholars.[57] The argument presented here relies on Scott Mainwaring and Timothy Scully's influential work, which identifies institutionalized party systems as those presenting stable patterns of interparty competition across time, strong roots in society, a generalized sense of legitimacy among the population, and party organizations with stable rules and structures.[58]

Although research on party systems has focused mostly on their consequences for democracy, the features of institutionalized party politics also have important implications for the type of policies that result from different types of party systems.[59] Their consequences can be seen by considering two factors: (1) the type of candidate—insider versus antisystem—that is likely to reach the presidency; and (2) the type of dynamics—participatory versus contentious politics—affecting whether parties are able to shape the president's policies. Centripetal incentives characteristic of institutionalized party systems make it harder for outsider candidates without a stake in the system to reach the presidency and carry out drastic economic transformations.[60] Additionally, such incentives facilitate interparty and interbranch cooperation, making it easier for the different political forces to influence such changes. In contrast, centrifugal incentives characteristic of party systems in disarray make it likely for antisystem candidates to reach power, and undermine political parties' ability to prevent the president from conducting drastic changes to significantly alter the status quo (See Table 1).

Table 1 Nexus between Institutionalization of the Party System and Economic Policy Outcomes

Type of Party System	Type of Incentives	Type of Dynamics	Economic Policy Outcome
Institutionalized	Centripetal	Insider candidates and Consensus-building politics	Status quo
Disarray	Centrifugal	Anti-system candidates and Contentious politics	Drastic transformations

Insider versus Antisystem Candidates In party systems with a strong institutional life, several constraints accompany participating in party politics.[61] First, candidates are unlikely to run for president unless they have followed a certain institutional path (for example, local, then regional, then national politics) with the party.[62] This process forces politicians to accommodate different party sectors behind their campaign and generates experience and negotiation skills. Thus, their support is more a product of their ability to rally other party members—for programmatic or compromise reasons—than exclusive charismatic appeal.[63] Moreover, participation in party politics establishes a record of discipline, and a reputation of honoring commitments to supporters throughout the process. In highly institutionalized party systems, a party's policies tend to be moderate and consistent with its historical program. Political leaders strive to protect not only the party brand, but also the system in which they play a prominent role in checking the president's power and shaping his or her policies.

In contrast, in disjointed party systems, newcomers are able to rise to power without the preelectoral alliances, broad consensus building, and a political record.[64] There are few incentives for interest accommodation and the incorporation of differing views in a common government program. Owing their power to charismatic stardom, programmatic coherence and reputation become secondary concerns, and association with the party establishment becomes an electoral liability.[65] Thus, lacking the political commitments that party politics requires, outsider politicians without a stake in the system are more likely to adopt drastic measures to alter the status quo than rank-and-file politicians.[66]

The Politics of Contention versus Consensus In addition to the type of candidate likely to reach power, party systems also play a role in determining whether moderate or extreme policies are likely outcomes.[67] Institutionalized party systems generate centripetal incentives that facilitate finding common ground among political forces and enable parties to shape the executive's economic policies. First, the continuity of parties across time results in longer time horizons, which generates incentives for negotiation and intertemporal cooperation.[68] The expectation of repeated interaction across time increases tolerance for dissenting views and encourages consensus seeking. Additionally, complex rules and organizational structure result in parties with wide-ranging, collective interests that become more important than particularistic views. They lead to predictable, meaningful policy positions, which make negotiation and compromise easier. Further, strong roots among the population enable parties to acquire and mobilize resources and consolidate a consistent base of supporters. Crucially, a generalized sense of legitimacy gives parties the necessary traction to shape the president's policies. In institutionalized party systems, parties are able to translate popular support into the legislative leverage that makes them relevant political actors worth taking into account.

These centripetal incentives play a crucial role in watering down the executive's policies to a common denominator acceptable to a working majority. Although agreement is not guaranteed on every issue, predictable, established, and legitimate patterns of competition encourage negotiation among the different forces because political parties matter. Since common ground is found among a narrow range of policy alternatives acceptable to a working majority, the result is piecemeal reform rather than drastic transformations.[69]

Conversely, party systems in disarray generate centrifugal incentives that discourage cooperation and are conducive to extreme, unpredictable positions. In such systems, lack of party continuity results in the shortening of the different actors' time horizons and encourages extreme positions in order to acquire fast, short-term gains. The prevalence of ephemeral electoral vehicles diminishes the incentives for negotiation and raises the stakes of policy decisions, given the high uncertainty that concessions today will be paid back in the future. Also, often lacking complex rules and organizational structure, parties in these systems forego the process of interest accommodation and negotiation that comes with the formation of cadres. Instead, the particularistic concerns of a charismatic leader become the law of the land, and collective reputations become secondary matters.

Moreover, without strong roots in society, parties are more likely to be malleable in their policy positions. Often without a clear government program, it becomes easier to switch back and forth between opposite ends of the spectrum. Lastly, the generalized discredit of parties undermines their legislative muscle, which leads to street politics rather than legislative bargaining. Due to low levels of legitimacy in the eyes of the population, the president lacks incentives to incorporate them in the decision-making process. Instead, executives will tend to sideline political parties and appeal directly to the public to carry out their government programs.

Thus, these centrifugal incentives contribute to the adoption of extreme positions away from the status quo. They discourage legislative bargaining and interbranch cooperation, and favor the politics of confrontation and street mobilizations. Confrontation among the different political forces in turn raises the stakes of adopting a particular policy course and contributes to the radicalization of positions. In this context, the president has every incentive to circumvent opposition to his or her project and push for extreme transformations by decree.[70]

It is worth emphasizing that party systems in disarray do not lead to statist policies per se, nor do institutionalized party systems necessarily result in market orthodoxy. Instead, party systems in disarray make likely the election of revisionist candidates and enable governments to carry out extreme, less predictable policies that severely alter the status quo, regardless of whether such policies are statist or pro-market. Whether a particular candidate wins a given election is contingent upon a variety of factors, from how well they run their campaign, to their policy positions, and even their looks. However, insider candidates are more likely than their antisystem counterparts to reach power in institutionalized party systems, because parties in these systems constitute socially legitimate barriers to entry for outsiders and provide the infrastructure, resources, and organizational capacity often required to win a national election. This selection mechanism is effective since parties in such systems are regarded by the population as decisive in determining who governs.[71] Thus, outsider candidates may reach power in institutionalized party systems, but the odds are against them. The same logic holds for the parties' ability to shape the executive's policies. Although a consensus may not be reached on every policy initiative, institutionalized party systems generate incentives to take into account the perspectives of the main congressional forces, for whom reputation and compromise matter. Such incentives obviate the president's need to circumvent the legislature and govern by decree, and make legislative bargaining the norm rather than the politics of street confrontation.

Given the theoretical considerations advanced above, this argument would predict policy moderation and the general preservation of the status quo as more likely in countries with institutionalized party systems. It would expect candidates with a history of party politics to be more likely to reach office in such systems, as well as the different political forces represented in congress to take an active role in shaping the executive's policies. Furthermore, this view would also predict a tendency for less moderate adjustments in countries with party systems in disarray. It would expect outsider candidates—owing their political rise to the explicit rejection of the status quo—to be more likely to reach power. It would also expect the disarray of the different political forces to lead to confrontation and impair their ability to influence the president's policies.

Cross-National Evidence Evidence regarding the type of economic policies conducted across the region provides consistent empirical support for these propositions. Table 2 illustrates in comparative perspective the correspondence between leftist governments' economic policies and party system institutionalization. Based on the relationship between volatility scores as an indicator of institutionalization and statist economic policies adopted in each country,[72] it shows that leftist governments in countries with higher levels of party system institutionalization—Brazil, Chile, and Uruguay—generally preserve the status quo, while leftist governments in party systems with low levels of institutionalization—Bolivia, Ecuador, and Venezuela—carry out drastic policies significantly altering the status quo.[73]

Table 2 Party System Institutionalization and Type of Economic Policies among Leftist Governments

Country	Party System (Volatility Score)*	Nationalizations	Price Controls	Land Reform	Debt Default	End of Central Bank Autonomy	Currency Controls	Type of Policies
Ven	**Low (41)**	√	√	√			√	
Bol	**Low (41)**	√	√	√				**Statist**
Ecu	**Low (28)**	√	√		√	√		
Arg	**(26)**	√	√		√			
Bra	**High (20)**							
Uru	**High (16)**							**Status quo**
Chi	**High (7)**							

*Source: Jones. Ecuador's score understates the disarray of the country's party system at the time the left reached power since it does not account for the 2002 election due to the lack of adequate vote data.

In line with expectations, leftist governments conducting statist policies and those preserving the status quo differ significantly in their experience regarding both the type of candidate that reached power and political parties' influence over executive policies. On the one hand, leftist presidents Tabaré Vásquez in Uruguay, Lula da Silva in Brazil, and Ricardo Lagos and Michelle Bachelet in Chile share a history of party politics. Before becoming presidential candidates, they—and the main opposition candidates they defeated—participated in internal selection mechanisms or primaries, ran for other offices, exercised the art of negotiation and interest accommodation, and established a reputation within the existing rules of the game. Furthermore, institutionalized party systems in these countries give political parties the ability to leverage support into legislative strength and provide incentives for the executive to seek common ground on important and often contentious issues, from healthcare reform in Chile, to tax reform in Brazil, to free trade agreements in Uruguay. In the words of Ricardo Berzoini, Brazil's former social security minister and the person in charge of shepherding reforms through Congress, "the government must compromise and systematically make concessions in order to maintain congressional harmony and get things done."[74]

On the other hand, Presidents Evo Morales in Bolivia, Rafael Correa in Ecuador, and Hugo Chávez in Venezuela reached power as antisystem candidates by means of highly personalistic electoral vehicles. Lacking the constraints that come with a trajectory within party politics and owing their popularity to the parties' lack of legitimacy, these candidates had few incentives to moderate their extreme policy positions. Furthermore, a product of weak party systems, political forces represented in these countries' legislature have proved unable to shape the president's policies.[75] Instead, their disarray forced them to give in to executive pressure and street mobilizations, even when they commanded a majority in Congress.[76] As a result, the legislative body has been circumvented, new constitutional assemblies convened, and statist measures conducted by decree.

Evidence from Chile and Venezuela

The relationship between party system institutionalization and economic policy moderation can be further tested in two key cases. Having similar features of single commodity export economies but very different party systems, Chile and Venezuela provide insight into the mechanism that rentier state theory proved insufficient to explain.

Chile With the combination of an economic crisis, strong executives, and high dependence on copper exports during a period of record high commodity prices, leftist governments in Chile should have been prime candidates to depart from market orthodoxy according to explanations based on economic crises, executive powers, and rentier state theory. First, although without a major economic catastrophe since the early 1980s, Chile's 1999 recession constitutes an example of a crisis that failed to prompt the leftist government to introduce statist reforms. After averaging 8 percent of GDP growth for sixteen years since its last recession in 1983, the Chilean economy contracted by 1 percent and unemployment doubled to 10 percent. Discontent with President Eduardo Frei's handling of the economy caused his popularity to drop from 60 to 28 percent during Lagos's bid for the presidency.[77] However, the economic recession and the outgoing president's record low approval levels did not prompt Lagos to change the economic model.

Moreover, the extraordinary powers of the Chilean presidency provided Lagos with the necessary leverage to alter the status quo. Among the strongest in the world since the 1980 constitution, Chilean presidents have the exclusive ability to introduce legislation in all matters of taxation, create government agencies, establish entitlement programs, and formulate social security and collective bargaining procedures.[78] These prerogatives give Chilean presidents such leverage vis-à-vis the legislature that Chile is considered "an exaggerated presidential system."[79] Yet Chilean presidents rarely rely on such powers.

Additionally, Chile's dependence on commodity exports and the spike in copper prices to historical highs should have prompted leftist governments to pursue statist policies according to commodity based explanations. The average price per pound of copper almost tripled between 2003 and 2006, and copper revenue accounted for more than a third of the government's total revenue, resulting in the country's largest budget surplus in two decades—7.9 percent of GDP.[80] Thus, if we considered only these three explanations, Chile was overdetermined to be part of the statist left.

Instead, the incentives and constraints characteristic of institutionalized party systems have made policy moderation the norm in Chile. One of the most highly institutionalized in the region, Chile's party system has been characterized by remarkable continuity among the main political parties, a strong connection between parties and society where party identities permeate everyday life, well-established national organizations that reach the most remote villages in the country and effectively shape political life, and clear programmatic correspondence.[81] These features have resulted in two main dynamics.

First, institutionalized party politics in Chile has resulted in the selection of presidential candidates with a history of political accommodation, consensus building, and party loyalty. A product of the party system, Chilean presidential candidates climb through the ranks to develop a stake in a system they strive to preserve. They are forced to navigate a system of party accommodation and consensus building in order to achieve their parties' nominations. This has been the case not only for leftist presidents Ricardo Lagos (2000–2006) and Michelle Bachelet (2006–2010), but for every candidate reaching the presidency since the return of civilian rule. In contrast, attempts at creating personalistic electoral vehicles have floundered.[82]

Second, Chile's party system fosters accommodation and consensus seeking in the legislature, generating an essential "framework of predictability for economic decision-making," where executives negotiate policy courses of action rather than rule by decree.[83] Consequently, policies are "watered down" to become acceptable to a working majority of parties.[84] Institutionalized party politics has forced the socialist administrations—and those of the Concertación in general—to govern by trying to obtain the consent of predictable and stable political forces represented in congress. This practice in turn generates a culture of compromise that reinforces the government's ability to reach consensus and obviates the need to use the executive's extraordinary powers.[85] Consequently, the opposition has had the ability to substantially shape the content of policy in Chile. Given the predictability of the rules of the game and parties' long time horizons, the opposition responds by espousing responsible policy positions and engaging in "intense parliamentary negotiations" in order to pass important economic reforms.[86] Coalitional discipline helped leftist governments to enlist broad support from the right for expanding social programs, for example.[87]

The result is a piecemeal reform process that incorporates a broad consensus and has proved effective to pass compromise versions of the original proposals and bar any drastic changes to the status quo. Lagos's emblematic healthcare reform constitutes a prominent example of the moderating role that the Chilean party system plays. Although Lagos had trumpeted the reform as one of the signature causes championed by his administration, the government was forced to water down its proposal and ultimately eliminate a provision to create a Solidarity Compensation Fund—which would have made contributions to a universal healthcare fund mandatory—in order to guarantee its passage in Congress.[88] Similar examples of legislative compromise during the Lagos administration took place in the approval of controversial measures, such as labor reform and the free trade agreement with the United States.[89]

Venezuela Without a sudden economic crisis leading to Chávez's election and with a presidency classified as one of the weakest in the world until the Venezuelan political system was essentially refounded in the 1999 Constitution,[90] Venezuela's statist policies would appear to be a consequence of policy myopia resulting from periods of commodity-led bonanza. Leading to Chávez's election in 1998, economic performance in Venezuela during the 1990s had been erratic, with the economy growing at 3.4 percent annually on average and without a sudden economic downturn in a decade.

During this period, Venezuelan presidents attempted to introduce economic reforms but were largely unable to do so in part because of executive weakness. Lacking executive powers such as the power of veto and the ability to introduce legislation, and requiring congressional approval to issue decrees on a narrow range of economic issues for a limited time, Presidents Pérez and Caldera presided over one of the most limited efforts to introduce market reforms in Latin America.[91]

Notwithstanding executive weakness and the absence of sudden economic crises, the period of record high oil prices undoubtedly played a role in supporting Chávez's statist policies in Latin America's most commodity export-dependent economy. Additional revenue from commodity exports allowed governments—from Chile to Venezuela—to do more of what they intended to do and sustain such policies over time, regardless of institutional strength. In this sense, the flow of oil resources into government coffers became one of Chávez's main allies to garner popular support by maintaining high levels of government spending on social programs while managing to preserve macroeconomic stability.[92]

Contrary to an explanation based on rentier state theory, however, Chávez's proclivity for state intervention—both as a candidate and as president—has remained constant regardless of significant changes in oil prices. First, as a candidate—when the price of oil was severely depressed—through campaign speeches, party manifestos, and government programs, Chávez openly advocated significant state intervention in the economy. Moreover, his election in 1998 came just as the price of oil reached its lowest point in history ($15.90 per barrel). According to rentier state theory, Chávez's statist campaign at a time when oil prices were at historical lows—the "bust" part of the cycle—should have been extremely unpopular and his election unlikely.

Second, as president, Chávez conducted statist policies before, during, and after the spike in oil prices. In the first couple of years of his presidency, with the price of oil averaging \$27 per barrel—Chávez took steps to transfer control of all oil production and distribution from private to state ownership and to begin his ambitious land reform.[93] The series of statist measures continued into the period of oil-induced bonanza as the price of oil steadily climbed to \$126 per barrel in June 2008, with further nationalizations and price controls. However, despite the precipitous decrease in oil prices, Chávez continued with his statist plans. In November 2008, after the price of oil fell by 62 percent from its peak to \$49 per barrel, he nationalized Santander's Banco de Venezuela,[94] and in January 2009—as the price of oil reached \$33 and in the midst of a global recession—his government continued with the wave of nationalizations by taking over the Las Cristinas mining complex.[95] Thus, Chávez's consistent statist measures severely undermine an account based on the boom and bust mentality of policymakers in rentier states.

Instead, the Venezuelan case illustrates how the centrifugal dynamics prevailing in Venezuela's weakly institutionalized party system led to the election of an antisystem candidate advocating drastic reforms, and the escalation of conflict between the president and the legislature following his election. Higher stakes and weak, unorganized, and discredited parties generated incentives for Chávez to circumvent congress in order to carry out his statist economic program by decree.

For the last two decades, Venezuela's party system has been characterized by high electoral volatility, loosely organized parties without much organizational complexity or established cadres, recently created party labels without strong roots in society or programmatic coherence, and extremely discredited parties with low levels of party identification.[96] First, these conditions allowed for the election of an antisystem candidate significantly challenging the status quo. The parties' weak ties to the population and their generalized discredit generated incentives for candidates to dissociate themselves from the existing political parties and adopt extreme policy positions. The traditional parties—Democratic Action and COPEI—ceased to be legitimate gatekeepers to the political arena. Instead, renowned party members rushed to abandon their ranks and dissociate themselves from the prevailing political and economic order.[97] In 1994 former president Rafael Caldera resigned from COPEI to create a new vehicle that allowed him to reach the presidency a second time. By the 1998 presidential election, being associated with traditional parties had become the kiss of death for candidates. The three main contenders created their own parties less than a year before the election.

Second, without incentives for consensus building and constraints on radical policy changes that come with institutionalized party politics, Chávez's first years in office were characterized by increasing confrontation among parties and interbranch conflict. Shortly after his inauguration in February 1999, he clashed with the opposition over a request for extraordinary powers to decree legislation related to Venezuela's oil industry. Following the legislature's refusal, Chávez appealed directly to the public and vowed to declare a state of emergency.[98]

Lacking resources, organizational capacity, and strong ties among the population to leverage popular support into legislative muscle, congressional opposition gave in despite its legislative majority.[99] After sending a desperate letter to the Organization of American States, the opposition conceded defeat a few days later and granted the extraordinary powers.[100] In the ensuing months, attacks between the president and the legislature escalated to the point where Chávez dissolved Congress, which enabled him to conduct a series of statist policy changes by decree.[101]

Conclusion

In accounting for the differences between leftist governments pursuing statist economic policies and those adhering to market orthodoxy in Latin America, three commonly cited explanations of economic transformations—extraordinary executive strength, economic conditions, and rentier state theory—are insufficient. Instead, an account based on the type of party system provides greater explanatory power. Differences in party system institutionalization determine the type of candidate likely to reach office, as well as parties' ability to influence the executive's policies. These factors played a crucial role in the adoption of significant statist policies in Bolivia, Ecuador, and Venezuela, and the preservation of the dominant framework of market orthodoxy in Brazil, Chile, and Uruguay. Important theoretical and policy implications follow from these findings.

First, these findings challenge commonly held views regarding the determinants of significant economic transformations. They show that strong executives and economic crises might play a role in accounting for economic changes in one or two cases, but fail to explain the variation in leftist governments' economic policies in Latin America. They also suggest that rentier state theory presents plausible insight into politicians' motivations, but is limited in that it overlooks the issue of constraints. This theory's inability to account for orthodox policies in Chile and statist policies in Argentina, and its difficulties in accounting for the mechanism and timing of reforms, suggest that leaders' motivations are only part of the story.

An understanding focusing on the incentives and disincentives characteristic of each type of party system completes the picture—accounting for both statist and orthodox policies of leftist governments—by focusing on the role of institutions. Although resource dependence and economic crises might contribute to the emergence of nationalist positions motivating statist policies, strong institutions constitute the crucial restraints that explain both the moderate positions held during commodity booms in resource-dependent economies and the drastic transformations that occur in diversified economies. When institutionalized, party systems generate the incentives and disincentives for moderation and consensus building; when weak, they lead to confrontation and the radicalization of policy positions. Thus, strong institutions have allowed Chile to maintain orthodox economic policies irrespective of the rentier features of its economy, whereas institutional weakness has undermined moderating constraints in countries with less rentier economies, such as Bolivia and Ecuador.

Second, although the usefulness of institutions as an explanatory factor has been challenged due to their flexibility and ability to change rapidly,[102] institutions are crucial both in shaping the formation of actors and in creating incentives that shape their behavior.[103] The question is not how fast institutions change, but whether the phenomena we seek to explain co-vary with institutional change. Across our cases, the party system landscape has remained fairly constant since the return of civilian rule, with the exceptions of Brazil's gradual institutionalization and Venezuela's fast deterioration.[104] In both countries, governments' ability to modify the status quo has changed accordingly. Progressive institutionalization of the Brazilian system has resulted in increasing policy moderation, while Venezuela's deinstitutionalization allowed for drastic economic transformations. Thus, although changes in party system institutionalization have occurred in different directions and at different speeds, the economic policy outcomes have been consistent with the expectations of the view advanced in this article.

Third, these findings highlight the importance of institution building for policy moderation. Although the analysis presented here focuses on economic policies carried out by leftist governments, the policy moderation that results from institutionalized party systems seems to hold true regardless of the policy sphere—economic, political, social—or ideology—left or right. Governments in highly institutionalized party systems are moderate not only regarding their economic policies, but in a variety of government areas. They rely on the predictability of the different parties' positions and their stake in the preservation of the system to build consensus and accommodate differing views, not only in the economic realm, but also in political, social, and cultural matters. Conversely, governments with weakly institutionalized party systems tend to conduct radical policy changes by sidelining dissenting perspectives in a variety of issues beyond the economic realm. They circumvent moderating institutions—as governments in Bolivia, Ecuador, and Venezuela have done with the legislature—to establish a direct link between the president and the population in order to implement drastic policy changes. Thus, the degree of institutionalization of the party system affects policy moderation regarding economic, political, and social issues.

Finally, weak party systems do not necessarily result in policies associated with a particular ideology or group but in extreme policy positions away from the center. In the context of market orthodoxy as the dominant paradigm in Latin America at the end of the twentieth century, the rise to power of the left offered variation between countries following the status quo—that is, a general framework of market orthodoxy—and those adopting extreme policy transformations away from the status quo—that is, significant state intervention in the economy. However, extreme policy positions can occur with right wing governments in a context of institutional weakness as well.[105] Paz Estenssoro's (1985–1989) and Fujimori's (1990–2000) ability to reach power and conduct dramatic, "shock therapy" style economic transformations in the context of weak party systems in Bolivia and Peru, respectively, constitute recent examples from the region.

Beyond Latin America, evidence from the liberalizing efforts in Eastern Europe suggests that governments' ability to push for significant economic reforms has been a function of the type of party system. Once the basic conditions of a market economy were established during the 1990s, countries with weakly institutionalized party systems—Estonia, Slovakia, and Romania—have been able to carry out significantly more drastic reforms than those with an institutionalized party system—the Czech Republic and Hungary.[106] Although these examples resulted in extreme economic transformations in the pro-market direction, they are consistent with the findings presented here. Fully testing this article's findings against the Eastern European case constitutes an avenue for future research.

NOTES

I am indebted to John Bailey, Jorge Domínguez, Francisco Flores-Macías, Marc Howard, Sarah Kreps, Chappell Lawson, Steven Levitsky, Raúl Madrid, Scott Mainwaring, Kenneth Roberts, Michael Shifter, Arturo Valenzuela, Kurt Weyland, and anonymous reviewers for their valuable comments on earlier drafts. I am grateful to Georgetown University's Center for Latin American Studies for providing funds for field research, and Harvard University's Rockefeller Center for providing an environment where many of these thoughts came together.

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