

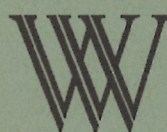
THE LATIN AMERICAN PROGRAM



Number 196

**POLITICS,  
POLICYMAKING, AND DEMOCRATIZATION:  
FOCUS ON THE ANDES**

WORKING PAPER SERIES



WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS  
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Number 196

**POLITICS,  
POLICYMAKING, AND DEMOCRATIZATION:  
FOCUS ON THE ANDES**

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## *Preface*

Within the Andean region, Bolivia and Peru would seem to be headed in dramatically different directions. Bolivia is often considered a success story, having achieved democratic government, a measure of political stability, and economic transformation. Peru, on the other hand, is steeped in crises, facing two guerilla movements, an escalating war against coca producers, and severe human rights and public health problems. And yet, when the two countries are compared in terms of the social cost of economic adjustment programs, the similarities between them become more obvious. Can we learn from comparing the two cases?

The Latin American Program attempted to address this issue when it held its conference, "Politics, Economic Policymaking, and Democratization: Focus on the Andes," on September 14, 1990. The conference was part of the Latin American Public Policy Symposium Series presented by the Latin American Program of the Woodrow Wilson Center in collaboration with the Center for Latin American Studies of the University of Pittsburgh and the Howard Heinz Endowment.

Our presenters, Catherine Conaghan and James Malloy, were recipients of Howard Heinz endowment grants and have spent extensive periods in Peru and Bolivia. Our commentators included a Peruvian cabinet member, Guido Pennano, a Bolivian economist, Juan Antonio Morales, and an U.S. expert in development policy, Joan Nelson. We hope you will find this paper, an edited transcript of the event, as intriguing as we found the conference.

CATHERINE M. CONAGHAN

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This project was an outgrowth of a conference organized by James Malloy that focused on the question of regime transition in Latin America. Those of us who were involved in the conference were struck by the similarities in the dynamics being described, especially in Peru, Bolivia, and Ecuador. The papers pointed to a revitalization of the Right in the 1980s, to a heightened role for business interest groups in politics, and to many problems with governability.

On the basis of the shared interest in those themes, we launched the fieldwork in 1986, specifically focusing on the dynamics of macroeconomic policymaking across the three countries since the period of their respective political transitions: in Ecuador since 1979, in Peru since 1980, and in Bolivia since 1982. We also hoped to say something about the characteristics of those newly emerging democratic regimes. The investigation over the last years has involved extensive archival research in all three countries as well as a large number of interviews (about ninety formal interviews and numerous informal interviews), a collection of the "oral history" of economic policymaking, with the people we believe to have been the key players in the process--economic technocrats, capitalists, and politicians.

My focus here will be on the capitalist side of the triad. Let me first specify what I am talking about when I refer to business elites or the

bourgeoisie. Our focus has been on the leading segments of capital in these three countries; that is, the owners of modern enterprises in manufacturing, agroindustry, and mining. We are talking about what people would call the grand bourgeoisie, not the famous "informal sector" or the petty bourgeoisie. We subsequently focused on the interest groups that represent those leading sectors of capital.

In Politics and Markets, Charles Lindbloom put forth what has now become a well-known argument about the relationship between business and capitalist democracy. He argued that because of their control over economic and political resources, business elites in capitalist democracies hold a privileged position in the policy process; that is, they exert a disproportionate amount of influence over both how policy is made and how policy is implemented.

In fact, this privileged position is what makes democracy such an agreeable arrangement from the perspective of capitalists. In the same vein, Adam Przeworski argued that democracy in the advanced industrial states was consolidated as a result of a class compromise; specifically that, starting from the 1930s onward, a consensus was forged around Keynesian policies. It was an agreement in which capitalists assented to mass participation in the political system and to the extension of social welfare rights in exchange for labor's deradicalization and the acceptance of market mechanisms.

In the work of these and other theorists we find the suggestion that business' support or tolerance for liberal democracy hinges a great deal

upon the extent to which business can be assured a special place in the policy process and the extent to which governments can draw and maintain durable boundaries that seal off business prerogatives from popular interference. There are, then, at least two critical questions in reference not only to the Andean democracies of Bolivia, Peru, and Ecuador, but to Latin America at large. First, to what extent has the privileged position been established for the domestic business community inside these new democratic regimes; and second, if this privileged position has not been secured, what are the ramifications for economic policy in the short run and for democracy in the long run?

It is our position that efforts by the business community to establish this privileged position actually predated the respective political transitions of 1979, 1980, and 1982, and that in fact the political transitions themselves, to a certain degree, can be read as part of business' push to secure for themselves more stable access to decision-making centers within the state. In all three countries, the leading business interest groups were important protagonists in the campaign for political democratization. Why did business interest groups become disenchanted with military authoritarianism in the 1970s? (I am referring to the military regime of General Juan Velasco Alvarado in Peru, the Banzer government in Bolivia, and the Rodríguez Lara government in Ecuador). Business interest groups encountered at least three types of problems in their relationships with the military regimes:

First, there were the normal problems that arise in the course of business-government relations; that is, substantive disagreements over



specific policies--tariffs, taxes, and regulation. Second, there were problems that arose out of the lack of regular and stable access to decisionmakers on the part of business groups. Military regimes suspended channels of representation, so representation became problematic for them as well as for everybody else in the society. And third, there were problems that could be grouped under the label of ideological and perhaps even psychological anxieties; these differed in intensity across the three countries. So, for example, in Ecuador and Peru, which had reformist military regimes, business objected to government rhetoric and action that legitimated popular class claims for new economic and social rights. In Bolivia, the Banzer government was not of a reformist tilt, so the ideological anxiety that was generated inside the business community became more focused on the threat posed by the hyperexpansion of the state in that period.

Our argument is that these conflicts over policy, ideology, and representation had an enormous effect on the political perspectives of the business communities and especially the perspective of business interest group leaders. From their perspective, military rule, even of a more conservative bent as were later seen in the government of Morales Bermúdez in Peru, or the Poveda Burbano regime in Ecuador, could not provide the policy predictability or the access that they had hoped for from these governments.

The dissatisfaction inside the business community was reflected in the growth of a more explicit antistatist discourse. This becomes evident if one looks at the intellectual production of business interest groups in this

period--their position papers and the speeches of business interest groups leaders. The antistatist theme comes out clearly; a kind of demonization of the state takes hold in their discourse from the mid-1970s on. The most intellectually ambitious version of antistatism, as well as perhaps the most emotionally overwrought, is seen in the Peruvian case and embodied later on in the 1970s in the Movimiento Libertad.

In the course of this new offensive, business interest groups were themselves progressively transformed. In all three countries, they were professionalized and technocratized. They expanded and created technical staffs in the late 1970s and early 1980s. They hired outside consultants. This allowed them to couch their attacks on the state in very technocratic terms in the formal language of economics. At the same time, this attack on the state could also be couched in the language of classical liberalism, so that state growth became equated with an erosion of individual liberties and personal prerogatives. This kind of discourse becomes intertwined with demands for political democratization, which were emanating from other groups in the society as well. So there was an overlap between what was being asked for by business and by other groups.

It is important to underscore that while business groups came to favor a political transition, they held a conservative view about how this transition should be structured. For example, in Ecuador, the Chambers of Production opposed a new part of the constitution that enfranchised illiterates. In Peru, the Society of Industry lobbied the constituent assembly heavily to have the country declared a social market economy. So there was a lobby in favor of democracy, but at the same time it was

trying to circumscribe or make more conservative what that democracy would eventually look like.

Even as business interest groups struggled to assure that a political transition would take place, business leaders were also looking for ways to turn this loose antistatist movement within the business community into a more concrete political coalition, one that would either be capable of winning elections or at least of forging alliances that would allow some permeation of the policymaking process and recasting of state-society relations.

The conservative governments that ultimately did come to power in the 1980s--the government of León Febres Cordero from 1984 to 1988 in Ecuador, that of Fernando Belaúnde from 1980 to 1985 in Peru, and that of Víctor Paz Estenssoro from 1985 to 1989 in Bolivia--drew their support from a coalition of business, right-wing technocrats, and right-wing parties. Each of these governments, at least initially, committed itself to retracting the role of the state in the economy, deregulating the economy, and effectively turning a number of functions back to the private sector. However, the strategies and the actual policy instruments that were used in each case were quite different. In the case of Ecuador, for example, there was an emphasis in the neoliberal program on monetary and exchange rate reforms. That was not the focus of the Paz program, which emphasized more of a restructuring of the state.

One might have expected that these conservative governments would usher in a new era of business-government relations, one in which

governments would not only provide the correct signals to business but also create new institutional channels for participation. That did not happen. And that is why looking at policymaking during these conservative governments is revealing, because it illustrates the enormous difficulties that even sympathetic governments can have in formulating and implementing policies to reassure the bourgeoisie and engender sustained investor confidence in the business environment.

Of the three governments under consideration here, the most acute case of mixed or bad signals was that of Belaúnde in Peru. The Belaúnde government did undertake a variety of policies that were favorable to the private sector, steps that ranged from dismantling the industrial community laws of the 1970s to softening regulations on foreign investment. But at the same time, the Belaúnde government was sending bad vibrations by its inability to control its fiscal deficit and its traumatizing of the industrial sector with radical tariff reduction. The net effect of those mixed policies was to drive domestic capitalists into speculative behavior and defensive mechanisms. In Ecuador, there was also this sort of flight into speculation at the end of the Febres Cordero government. That had to do with business' lack of confidence in Febres Cordero, given his problems with the military, among others.

Even Bolivia, which is frequently cited as the showcase of neoliberal reforms because of the extraordinary success it had in terminating the hyperinflation of 1985, has not been successful--neither under the Paz Zamora administration nor the successor government of Paz Estenssoro--in inducing significant new private sector investment. The Bolivian economic

miracle is running headlong into what Antonio Morales has termed "the shyness of investors."

The ability of government to pursue coherent and consistent economic policies can be undermined by a number of factors. Internal struggles inside the economic team can undermine the capacity of the government to put out clear signals to the private sector. Intergovernmental struggles, like those that occurred in Ecuador between Febres Cordero and the congress and Febres Cordero and the military, are also a problem. Two other sticking points can reduce governmental efforts to create credibility and invoke investor confidence. Since these governments are subject to electoral cycles, no government can assure the durability of policy beyond their own tenure in office. Thus, one can view political competition, which is the stuff of democracy, as an obstacle to the process of creating credibility, to sending the right signals to the private sector.

Even when consensus is reached and some kind of durability is assured, in the long run no matter who is in power, business may still remain shy if the government cannot demonstrate a competent management of policy. Thus another sticking point in creating investor confidence is that who is administering the policy is as important as what the package is, as what the substantive measures are.

Needless to say, the problem is not one-sided and is made more difficult by the mentality of the respective bourgeoisies. These are hypersensitive investors who became adept in the 1980s at turning to

speculative behavior almost at the slightest provocation. A good example is Bolivia in the wake of the 1989 elections. No matter who was going to be president, whether Paz Zamora, or Sánchez de Lozada, or Banzer, all three candidates were committed to continuing past policies. Nonetheless, the political uncertainty that surrounded exactly who would be the competent manager of that program gave birth to several months of capital flight.

This may not have been an irrational response. We must keep in mind that these investors experienced extreme volatility not only in the economic environment but in the political environment of the 1970s and 1980s. These are social classes with a memory--a historical memory, and a political memory--and much of their behavior must be viewed through the lens of that memory.

It can be argued that business interest groups in all these countries attempted in an unprecedented way to assert themselves in a political vein in the 1980s. They achieved new levels of technical expertise. They have been able to inject their views into policymaking circles in sophisticated ways. They have also thrown themselves headlong into the ballot for public opinion. Business interest groups have become conscious about their public relations and are interested not only in winning the hearts and minds of policymakers, but also in winning the hearts and minds of everybody else along the way, in order to forge some kind of societal consensus on neoliberalism.

Thus, on one level, business interest groups established themselves as important political personae, yet the projection of their confidence in the political sphere has not yet been matched by a rejuvenation of the bourgeoisie as economic agents, as productive investors. They are still sitting on their hands vis-à-vis all three of these economies. What does this disjunction between an aggressive political persona pushing certain kinds of neoliberal values versus the real economic behavior--which so far is not to invest in these systems, not to bring back their capital yet--mean in the long run?

This disjunction may set the stage for delegitimizing neoliberal formulas altogether. If business elites continue not to invest in the free market that they long have advocated, the stage will be set for reopening the debate over the role of the state and the extent to which the state can be retracted.

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On arriving at formal power when they were elected, the neoliberal coalitions in Ecuador, Peru, and Bolivia saw themselves facing the perceived need to achieve at least two goals: to manage the economic crisis that confronted them and to design and implement neoliberal restructuring along both political and economic lines. They were trying to weld restructured political and economic regimes into an integrated system of political economy, which for good or ill we are calling neoliberal-neoliberal in terms of economic policy, in terms of a perception of democracy as a classical liberal, "pluralist" system.

In this regard, we go along with those who argue that the primary dimension in solving this problem was political. But it is important to make clear that it was not political in the sense meant by many critics of these governments and particularly those who represent external policymaking institutions, who see this as a problem of "political will." Rather, it was a problem of governmental capacity, of solving institutional problems and gaining control over institutional environments, such that governments can manage those institutions and generate a deployable power capacity at the center of government.



In these so-called neoliberal restructurings, the key issue is not so much to disengage the state from the economy or the political system, but to restructure the relationship between the state and the economy. In effect, a leaner, meaner state is created so as to impose broad frameworks of political and economic rules and then maintain and manage those frameworks over time. Thus, despite antigovernment and antistatist discourse, the realization of these projects is fundamentally predicated on taking hold of what are very large but in many senses weak state structures, reorganizing them, and imposing these resolutions upon the system.

Governance is the ability of governments to define, initiate, and sustain policies that solve perceived problems. If governance is viewed in these terms, then the policymaking process is at the core of governance, and the policy process is also at the core of any viable definition of a regime type. The question is not so much how governments come to formal power but how they govern when they are there. In that sense, then, what differentiates an authoritarian from a democratic regime is how the policy process is organized and how it is or is not linked to civil society.

In Ecuador, Peru, and Bolivia, there was an ongoing endemic and fundamentally structural disjuncture and conflict between the executive branch of government and the legislatures. This was recurrent historically and tied up with another recurrent phenomenon--the cyclical alternation between authoritarian and democratic regimes, which is really a question of concentrating or dispersing decision-making power in the state. Historically, one tends to associate concentrated power with authoritarian

regimes and looser, more diffuse power structures with democratic regimes. But within democratic frameworks, this disjuncture between executive and legislative authority has created a problem for all governments in asserting their political authority over the central political dimension of the process.

The second important structural problem that confronts all governments is the administrative process. Asserting authority over the administrative process has two dimensions. One is the sheer question of using the administrative structure of the state to implement policies. The other, and perhaps in the long run more crucial, is that although the existing, relatively large, state structures extract substantial resources from society, precious little of those resources end up as financial resources available to governments to support policies. Often they are consumed by and dissipated within the state apparatus itself.

The third structural problem that confronted these governments as they were trying to put democratic regimes into place is that, by and large, political parties in these three countries do not perform the classic functions of articulating, aggregating, and transmitting the interests of civil society to the state. Essentially, the political process and political structures are on one side and the relationship between the interest group structure and the executive is on the other. Capital, labor, and other groups have looked to directly penetrate the executive either through formal, often corporatist-type arrangements, or through informal networks. In either case, that led to carving out patrimonial and mercantilist privileges--which many today call "rent-seeking"--and to an

institutional arrangement in which executives are set off from, and in antagonistic relationship to, the rest of the political system.

Political parties are the key to the problem. In other debates we would perhaps challenge those who argue that the way to solve these problems is to switch from a presidential to a parliamentary system. But if we are right that political parties are the problem, then that would actually make the problems considerably worse. The parties in most of these countries--there are some variations--are essentially aggregations of patronage-focused factions who are oriented toward capturing and then circulating amongst their members the patronage of the state. This is linked to the incessant drive toward the expansion of the state apparatus and to the corollary of that, the problem of trying to reduce the size of the state in the present democratic context, politically speaking. This process also engenders within the state apparatus a kind of predatory attitude toward the parts of society that produce surplus that can be extracted by the state to maintain itself.

Elections, then, are primarily involved with circulating personnel and formal roles. They do not solve the problem of power in a governmental sense. Rather they produce differentiated executive-legislative situations in which legislatures are dominated by a politics of ins and outs: when a set of "ins" is constituted, there is immediately a broad coalition of "outs" (including some members of the ostensibly "in" party coalition) in opposition to the government. This has led to the constant stalemating of executives who then tend to move to government by decree, which then

generates further constitutional problems with the legislature and leads to all sorts of things, like constitutional coups d'état.

There are really three moments in the electoral process, and these moments are related to different coalition-building problems. One is the electoral moment, the horse race, in which electoral coalitions are mounted. Second are the runoffs and, in the legislature, another moment when presidents are actually selected; then you tend to get completely different coalitional structures. The third moment is when governments put together teams to govern; that also tends, in all three cases, to constitute another set of coalition-building.

There is an interesting joke in Bolivia today that illustrates these moments well. The last election was essentially a contest among the three leaders of three parties: Gonzalo Sánchez de Lozada of MNR (Revolutionary Nationalist Movement), Jaime Paz Zamora of MIR (Revolutionary Left Movement), and Hugo Banzer of ADN (Nationalist Democratic Action). Before the election they all went to see the Virgin of Urkupiña. She told them they could each have one wish. Gonzalo wished to win the election. Jaime Paz wished to be president. And Banzer wished to run the country. They each got their wish.

Another question relates to statecraft. These three governments mounted broadly similar policy processes that moved to concentrate decision-making power in a strong executive whose statecraft was informed by a small, cohesive group of self-consciously technocratic advisors, who were disengaged from either the party structure or the

interest-group structure in the system. Executives, understanding the nature of the institutional constraints alluded to above, realize that there is a perceived need to create a structure to master and dominate these institutional constraints. From this point of view, Febres Cordero and Belaúnde essentially failed to gain control, whereas Paz Estenssoro essentially succeeded.

The Paz Estenssoro government was a variation of what Cynthia McClintock has often referred to as government by stealth--quick development of a program (within seventeen days) in complete secret, which then became public through one single decree that literally shocked everybody in the system. However, shortly after that, through negotiations with his long-standing rival Hugo Banzer, Paz Estenssoro put together an important pact between the two dominant political parties in the system--the MNR and the ADN. This was not a pact to govern; this was not the creation of a coalition government as exists in Bolivia today; it was a pact simply to support the Paz Estenssoro team in the legislature. Paz and Banzer together were able to assert discipline and control over the troops in their party structures. This does not mean that they did not face dissent; they did. But they were able to contain and control it largely because in these highly personalistic, patronage-oriented parties, dominant personalities can assert control over their followers.

Paz followed a style of governance similar to that of Charles de Gaulle in France. Essentially he divided the government into two: the economic government headed by Gonzalo Sánchez de Lozada, who became de facto prime minister for economic policy; and the political government led by

Guillermo Bedregal, the de facto prime minister for political matters. He then played off the two against each other. He pulled back into an Olympian position above the fray, but very much in control of it, with these two out front to take the heat.

Paz realized that the authority he was able to generate was, by definition, time-bound, and as he came closer to the end of his term he backed off from further initiatives. He recognized that there must be a constant process of periodically reorganizing authority and governmental structure through the electoral process. By the end of their terms, the parties of Febres Cordero and Belaúnde were destroyed politically as a result of their behavior; and they were unable to see either their political or their economic policies carried over by a succeeding government. By the time his term ended, Paz's party was hurting but it was still a viable contender in the process. Indeed, it ended up with a plurality in the next elections. More important, he was able to constrain the subsequent political debate so that all of the contending parties accepted the economic and political parameters that he had defined. Thus he was able to pass on the structure. However, while the pact allowed Paz to assert political authority over the system, it worked against his ability to assert his governmental authority over the state apparatus.

Let me also examine briefly the general hypothesis that liberal, pluralist democracy and market-defined capitalism represent a political and an economic system that positively reinforce each other. We have argued that the policy process is the core of the notion of democratic regimes. When most people refer to these as democratic regimes, they are

reducing the definition of democracy essentially to electoral democracy. Rousseau would say that these systems are only democratic on election day. The question is how they govern. Our study shows that they govern with an essentially authoritarian policy process that is folded into a democratic electoral facade.

What is the future of these regimes? They might evolve into new hybrids with different mixes between policy and elections. Another alternative would be the recurrence of military-based authoritarian governments, which is not at all far-fetched in any of these countries (particularly if some of the U.S. policies were to be pushed, especially in the area of militarizing the drug war in the Andes). A final possibility would be the construction of a new kind of civil-military alliance, with a civil-political figure heading a government with an inner military-based core.

These are matters of consequence, particularly in maintaining the underlying neoliberal coalitions among politicians, technocrats, and capitalists and overcoming some important divisions and deep contradictions within those policy coalitions. In this policymaking process we have the ironic situation of capitalists supporting democratic governments because of their dissatisfaction with the representational structures of military authoritarian governments. Under those military governments, they lived in highly uncertain environments, the uncertainty being produced by their inability, on a predictable basis, to penetrate those governments. This led them to slouch into democracy or, in a sense, to back into democracy as a second-best option. But they then confront the

same kind of decision-making situation, and again have no predictable access to these governments.

If we compare these countries and these governments to some of what are considered to be successful cases of forging such alliances, for example, in East Asia, we can see that the connection between coalitions and policy processes takes place on two levels. One is the formation of broad neoliberal coalitions in the sense of large aggregations in civil society connected to political groups who are giving the government broad, generalized support. The other is that in all these regimes, key components of the private sector are integral players in the policy network; while the relative power of politicians, technocrats, or capitalists might shift over time, they are still players in the game. Latin American governments created or brought into existence policy coalitions but did not create the policy networks; this failure, we would argue, leads to an undermining of the fundamental coalition.

This fissure runs deep and has to do with another definitional problem. One of the key questions in Ecuador, Peru, and Bolivia is not so much how to impose democratic regimes but how to define democratic regimes, to define what democracy and capitalism are going to mean. One of the bases of this conflict is that technocrats tend to have a rather different definition of what "market capitalism" is than do practicing capitalists.

Essentially, technocrats, and particularly macroeconomic economists, are interested in capitalism as "the market," as an abstract phenomenon in



which the central concern is with aggregate outcomes. Those aggregate outcomes are seen to be "the national interest," the general interest, and that is what the technocrats represent. Capitalists in a sense are more interested in the day-to-day survival of their firms, their corporations. There are two different orders of logic here: the aggregate-level logic of the technocrats and the more basic particularistic logic of the capitalists. Moreover, as they begin to become aware of this difference in logic, some real hostilities between the two start to emerge.

These technocrats, rather than being called neoliberal, might better be called neoutilitarian, as Peter Evans has done. What we see here is perhaps a playing out of Poulantzas' notion of the relative autonomy of the state in the sense that the technocrats are interested in the system *qua* system and not in responding to any particular fraction of capital. In many ways the attitudes of technocrats in these systems are similar to the attitudes of the neoutilitarian or neoconservative economists of the public-choice school, such as Buchanan, Tullock, and above all, Mancur Olson. That is, they view the presently existing market in these countries as essentially highly cluttered; the market needs to be changed so as to clear it, to use their language. They also perceive the political market as being highly cluttered with interest groups, rent-seekers, iron triangles, distributional coalitions, and so on. So their orientation is to a certain extent to clear the political market.

One might say that the technocrats have a great affection for capitalism but not much affection for capitalists. Indeed, they tend to perceive the existing stock of capitalists to be fundamentally acting in a

noncapitalist way, as rent-seekers in a patrimonial system, so that they are bound and determined not only to triumph over labor and other interest groups but also over the short-term, particularistically-oriented capitalists. To the extent that capitalist investment decisions are central to the long-run survival of these neoliberal projects, politically or economically, this could end up being the fundamental weakness of these experiments and could lead to their failure.

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The stabilization-cum-liberalization program with reforms (Decree 21060) was offered by the government as the only possible way out of the hyperinflation crisis; any other solutions that were suggested went unheeded. In that sense, the government was rather undemocratic. But should it be democratic? Most decisions are taken by the executive through decrees. There is almost no discussion in parliament; when there is, there is no discussion of public opinion. Laws are rushed through the congress. In fact, there is the simplistic view that the productivity of congress is measured by the number of laws approved. International organizations, especially the IMF, have played a part in that. For instance, because certain loan disbursements were contingent upon the approval of several structural reform laws, the Bolivian Congress had to approve, within a week or so, three important pieces of legislation--one related to investment law, one regarding hydrocarbons and treatment of hydrocarbons, and one for a new code on mines.

There are several other elements to be added to the analysis of the resurgence of neoliberalism in these three countries. First, is the influence of outside organizations, such as the IMF and the World Bank, which have sought to impose neoliberal policies in all of these countries. Of course, this is not a sufficient condition for the actual execution of those policies. Second, and this is more idiosyncratic to Bolivia, the oligarchy, especially

the old oligarchy, was well aware of where power lay; they knew that they had to get along well with the United States government and with the international lending agencies. This has an impact in the sense that these behaviors can be perceived as temporary, which might impinge upon investment decisions; people who badly needed loans because of the extremely difficult situation in Bolivia took what the international agencies offered.

Third, and I would place more emphasis on this, is the intellectual influence of the lending agencies, of the U.S. government, and U.S. academia. In the 1970s and 1980s, Keynesianism was destroyed as an intellectual idea. Intervention of the state was dismissed as completely irrelevant or, in many cases, Marxist. The Latin American counterparts, many of whom were trained in the United States and could speak the same language as the international technocrats, learned that lesson.

The neoliberal discourse that grew out of this background has several main themes. The first is that markets allocate resources better than a command economy. This is difficult to explain in simple terms; the logic is relatively elaborate and one needs some training in economics to see that as a normal outcome. Several states in southern India were pointed out to Latin Americans as examples of the absence of state intervention, even though it is not certain that there was none. Another broad generalization is that no state enterprise is as efficient as a private enterprise. This is not necessarily true, but this was part of the discourse.

The technocratic argument--that if the state is overextended, it cannot do its work well--did not have political force. However, excessive state intervention does lead to rent-seeking, and rent-seeking, if not corruption, is close to corruption. Thus, in Bolivia, economic themes are always couched in terms of avoiding corruption. Why uniform tariffs? To avoid corruption. The minister does not want people importing a Mercedes-Benz and classifying it as a tractor; with a uniform tariff, that would not happen. Ingrained in the economic discourse in Bolivia, and perhaps in Peru and elsewhere, is that the size of the state must be reduced to avoid corruption.

By the way, this establishes the missing link between two seemingly contradictory objectives: the restoration of state authority and a freer economy leaning toward the private sector. If people want to restore state authority, why are they at the same time advocating more space for the private sector? The idea essentially is to restore government authority but confine it to definite functions so as not to give rise to rent-seeking activities, to opportunities for corruption. This anti-institutional feeling is not confined to business groups or to the right, to the neoliberals. In fact, it is an old theme in Marxist thought, which has always claimed that the state has a class content, that the state reflects what the ruling classes want. So there was also some sympathy from the left for the reduction of the state in the economy.

In the Bolivian case, there were several examples of neoliberal policy being advocated by both business and labor. For instance, exchange rate policy. Tin and mineral producers traditionally felt that their gains were

expropriated through manipulation of the exchange rate, which was blamed on the "parasitic industrialists." Therefore, both business and labor in the mining sector would agree on an exchange rate that would be beneficial to their sector. Even union members supported some specific arguments, although not the whole agenda (and essentially not the discourse, because there is a difference between what is said and what is actually done).

Many neoliberal policies were implemented because of the structural weakness of the opposition groups. The labor movement was extremely weak after 1985. There was an increase in the so-called informal sector. High rates of unemployment kept down union militancy. More important was the growth of the middle classes, which did not share the values of organized labor or the peasantry. Neoliberal policies were agreeable to most of the middle classes essentially because they allowed them to satisfy their consumerism. Government was conscious that middle-class support was crucial because they controlled the press, the political parties, and many mechanisms in society.

There are some technical arguments that price stabilization cannot go along with trade liberalization, with opening up the economy to imports. But one can view trade liberalization as a signal that the government wanted to send so that the people would believe that things were different; to get the political support of the middle classes for a stabilization program, the economy had to be opened. This is a clear lesson of the Bolivian experience, and it may be replicated in Peru.

GUIDO PENNANO  
Minister of Industry  
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In Peru we have capitalism without capitalists; we have democracy without democrats. In Peru one can win an election without a party and one can run a government without a party (or with a party that only came into existence for one to be a candidate). Even more important, in looking at the political spectrum, is that almost the same people who elected President Alberto Fujimori in 1990 also voted for President Alan García in the election of 1985 and for Belaúnde in the election of 1980, yet these three regimes are very different from each other. My point is that, politically speaking, parties do not run this society. Who has the power? The technocrats.

In the 1970s the Velasco regime distanced itself from the old parties because it was a military authoritarian regime. No one at that time gave the Peruvian military enough credit to be able to run a complex society. But the leaders of the revolution were the generals who graduated from the military schools; thus even the technocrats were trained as part of the old military.

Then we had the return to democracy and Belaúnde took power. But the neoliberal approach of the second Belaúnde regime was not that of the old populists, old Popular Action (AP) members. It was the policy of a small group of Peruvian technocrats who were able to convince Belaúnde

of their logic in solving Peru's problems. When they failed, the American Popular Revolutionary Alliance (APRA) came in; at last, a party arrived at power in Peru after sixty years of fighting for control. It took six months to discover that President García had not retained one Aprista member in his cabinet. Then everybody began to say, "This is not an Aprista regime. García and his technocrats are running this country."

Some of the men who were with García had been with Velasco. And some of the ones who were with Belaúnde were in the Democratic Front (Fredemo). What happened to Fredemo? Part of the alliance was frustrated; they said Mario Vargas Llosa was surrounded by a small clique of technocrats. This precluded the old traditional politicians of the Popular Christian Party (PPC) and the AP from explaining to Vargas Llosa how elections are really won in Peru. The technocrats were convinced that they had already won, so they were already running Peru. Convinced that he was essentially in power, Vargas Llosa rejected Fredemo for the purpose of winning the elections. He jumped into a coalition with the technocrats. And that's why he failed to win the election.

Then came President Fujimori, who was elected in opposition to Fredemo. Yet Fujimori is applying Fredemo's economics and there is no reaction against it. People now agree that if that is what has to be done, then it must be done. Why, then, did they not vote for Fredemo instead of a candidate whose party did not exist as a party twelve months before the election? Fujimori discovered that he did not need a party to win an election, he needed only to look at the statistical distribution of public



opinion and locate himself there to capture votes. After he was elected, he asked, "Where are the technocrats?"

Leadership plays a very strong role in Peru. This complements the idea that there is no democracy but, rather, an authoritarian system. "Take it or leave it" is a contract, not a democracy. So why do technocrats have such incredible power in Peru? Basically because of the old idea, which comes from the Left in Peru, that entrepreneurs are a strong, powerful, coherent, and compact class. That is a mistake. There is no such coherence. We have a dominant class in Peru, but not a leading class. They worry about specific mercantilist laws instead of thinking that they will make more money if the country becomes richer. In the same way and in the same context, we do not have a middle class, the bourgeoisie that we need for a real democracy. We have a class in the middle, which is a different thing. No one wants to be middle class in Peru; they fight to go up or fight not to be sent down.

So we have to start thinking about to whom and to what do these technocrats respond, because that might explain the development of events in Peruvian society. We have to analyze political parties and the problem of the lack of coincidence between what we have in society and what the parties want or think they really have to represent.

JOAN NELSON

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Over the last several years I have been working with a group looking at the politics of adjustment in thirteen countries; nineteen governments were studied in some detail. One of our findings was that those governments which adopted and pursued vigorous stabilization and structural adjustment measures were indeed governments that were exerting strong, centralized executive initiative. The arrogance of the technocrats, the insulation of the technocrats, appears not only in authoritarian governments that have adopted and carried out strong stabilization and structural adjustment programs, but also in democratic governments which have done so.

That kind of strong executive initiative is probably built into the logic of stabilization and structural adjustment measures because these are the kinds of programs where governments can count on virtually no organized public support. This is true even in countries where there has been an extended period of economic decay or stagnation, often accompanied by political conflict and polarization, so that much of the public is not only acquiescent but desperately eager for some basic change.

That does not mean that they are prepared to or organized to support the specific measures that need to be undertaken. And those measures are almost always unpopular. Even where you have a business community (a term that should be used with some care and skepticism)

that not only wants to see more effective economic management, reduction of inflation, a government that can take charge in a disintegrating situation, but also actually explicitly favors market-oriented structural reforms, that same business community usually becomes a congeries of conflicting factions when it comes to many of the specific measures to be put into place.

Because of the inherent nature of the measures that need to be adopted, the political task of a government that seeks to carry out stabilization and structural change is indeed to amass enough power to be able to seize initiative; to act in a strong and rather insulated, quite undemocratic manner; and also to neutralize opposition. Many stabilization and structural reform programs were undertaken when organized potential opposition groups were weak, in disarray for one reason or another, sometimes because of more or less exogenous factors or because they had been discredited by precisely the record of economic and political disintegration that was making the stabilization and the structural adjustment measures necessary. Examples of this are Jamaica in 1980, with the party defeated in the elections in total disarray for about the first two years of Seaga's administration; and Sri Lanka after the elections of 1977, when the defeated party which had presided over seven years of disintegration, was disunited, demoralized, and in the throes of an ardent leadership battle.

Moreover, the governments that carried out such reforms usually have had to supplement the temporary exogenously supplied weakness of opposition groups with tactics of their own, including some partial

compensation for particular groups; or a certain amount of persuasion; but also--and this includes the democratic governments--a certain amount of repression, sometimes just strike-busting or sometimes moving in to try to divide labor unions, to co-opt their leaders, and so forth.

In short, I am suggesting that initiating structural adjustment and stabilization measures is not a very democratic process. And the political tasks of consolidation may be different from those of initiation. Most of the techniques available to neutralize opposition are either inherently temporary or costly. Sooner or later, opposition parties that are demoralized and divided are likely to get their act together (although one might make an exception for countries where the past several decades have been such that most parties are essentially delegitimated among most of the public). Gratitude for single-shot compensation will fade rather rapidly; partial compensation for particular groups, if it continues, is costly and can undermine the structure of the program itself; repression is also costly.

A combination of things needs to happen to consolidate reforms. First, the expectations of some groups may essentially drop; that has happened with organized labor in many countries and is partly a reflection of the essentially structural weakness of organized labor in periods of extensive economic decline. But if the program begins to generate some winners, then, hopefully, one begins to get some vested interest in the continuation of the process. One can also make institutional changes that generate vested interests in the new rules.

In order to do this, both the style of governance, the highly insulated, highly arrogant style, may need to give way to some greater consultation, and the unfettered executive initiative may also need to be relinquished, in part because what today's strong, unfettered initiative by a president and those surrounding him puts in place, either the same president or the next one elected can take away. Therefore, one of the techniques that has been built into the history of some consolidation programs has been a process of depoliticizing certain aspects of economic management. The decision to take a radical devaluation requires vigorous executive initiative, but then the management of the exchange rate can be turned over to a depoliticized mechanism, auction, or a creeping exchange rate (as seen in the history of exchange rate management in Colombia).

Similarly, fiscal responsibility, the decision to take a radical cut in spending, first time around, requires executive initiative. But one can build an institutional bolster to this by creating greatly strengthened budgetary processes that have some control over decentralized parastatals and over the ministries themselves.

This kind of institutional construction is easier said than done, but I am trying to point to a possible change in the nature of the politics of consolidation compared to those of initiation. This may speak to the theme of the apparent incompatibility, as it were, between the movement toward broadened democratic processes on the political side and effective market-oriented reform on the economic side.

## DISCUSSION

JOSEPH TULCHIN (Director, Latin American Program, The Woodrow Wilson Center): The phenomenon of a president arriving in power without the support of a political party or in opposition to a political party is by no means unique to Bolivia and Peru. Argentina and Brazil are two other cases that suggest that trying to figure out the phenomenon alluded to above is worth the attention of a great many people.

In reference to Joan Nelson's point about the changing politics of austerity, it has been suggested by Carmelo Mesa-Lago and others who study the social costs of austerity that perhaps it is necessary to democratize the process of austerity; that is, to allow for democratic decision making in order to allocate the pain throughout society once the executive initiatives have been taken.

PAUL McNELIS (Professor of Economics, Georgetown University): What puzzles me is that many people who have imposed austerity programs come from parties that were populist. President Carlos Menem in Argentina is one example, but Víctor Paz Estenssoro also came from the populist party that undertook highly inflationary policies in previous incarnations; if not those people themselves, at least their parties did. So we see this born-again phenomenon of orthodoxy; the former populists have become orthodox.

As economists we talk about learning behavior--adaptation to inflation, adaptation to trade and financial liberalization. This does not

come about rapidly. It takes time under capitalism for financial institutions to adjust to liberalization in financial markets, to decontrol the financial markets. Many of the problems in these countries have come about because of a rapid change from control to decontrol; since these economic agents cannot learn rapidly, there is a painful learning process.

But what about policymakers? Are they learning from past mistakes, and how fast do they learn? Do we see evidence of a learning process, that just printing more money does cause inflation? Part of the reason they are cutting government expenditures is not because of any ideological role of the state, but because of not having any access to tax revenue. They have to cut government spending in order to cut inflationary policies, to cut monetary expansion, and the fundamental lesson is that inflation has to be stopped before anything else can happen, whether it is from a Left agenda or from a Right agenda. How can we capture this learning process, this learning curve?

JAMES MALLOY: The key to someone like Paz Estenssoro is that he has been on the Bolivian political scene since the late 1930s. He has been a major governmental actor since the mid-1940s. This was his fourth time as president of the country. In his first presidency between 1952 and 1956, the populist policy was to have a sort of state capitalist economic development, and, at the same time, populist distribution. In short, they tried to distribute and invest at the same time against a limited productive base. He set off an inflation that, by 1956, was every bit as grave as it was in the mid-1980s.

As a result of experiencing the political consequences of that, and particularly his dealing with labor, Víctor Paz had long ago made the decision that the worst possible thing to have was inflation. In fact, he supported the original Banzer government in the early 1970s, then broke with Banzer over exchange rate policy and his fear that it was going to kick off inflation.

One cannot look at these cases purely in synchronic terms. While there are synchronic dimensions, one must also understand that the learning and readjusting of strategies in each case is very important. These countries, these programs, these ways of ruling are not simply the product of the impingement of international variables. They are also the product of local contextualized circumstances. We have chosen in this study to hold those international dimensions constant and to focus on the contextually rooted aspects and the process of political learning.

The military governments played a large part in shaping the learning of the various sectors in this community of capitalists. As the learning and the context change, as Joan Nelson pointed out, at certain moments they resemble a community or a class and at other moments they split along all sorts of subsectoral dimensions. That becomes one of the problems of their associations in terms of strategy, to control their members and try to weld them into something resembling a political weapon.

CAROL GRAHAM (The Brookings Institution): I am looking at Bolivia's experience with the Emergency Social Fund--which was a poverty alleviation program in conjunction with the adjustment program that had,



I think, a relatively high degree of executive commitment--contrasted with the Emergency Social Program in Peru, which has had less of that sort of commitment. To what extent do programs targeted at the poor or at those who are most affected by the adjustment process--and they may not be the same--create the sort of vested interests in reform that Joan Nelson refers to, or are they a peripheral aspect in the whole political consensus-building process?

JUAN ANTONIO MORALES: In Bolivia, the emergency social fund was proposed as a temporary mechanism, so that there would not be vested interests in this type of organization. However, the poor now feel some kind of entitlement to those types of programs, so there has been a continuation of what was supposed to be a temporary program and there is a now vested interest constituency supporting these aid mechanisms.

GUIDO PENNANO: There were other factors involved in Peru besides the commitment of the executive. The program was designed to have that executive commitment; but there is no party--with its attendant cadres, officials, and people--to carry out the program. The "executive" means only that we have different parties and some independent people participating in the cabinet.

There was a controversy in the electoral period over who would run this program. The evangelistas? Then the Catholic Church would react against it. The Catholic Church? Then the evangelists had questions about. So the government decided to create an international accord and include all the different institutions that participate in such programs. These

institutions would support the social program and help in the management of the program and its resources. The government simply gets the money and transfers it to the institutions that already have been working in these areas. So the lack of executive commitment in this sense may be deliberate.

BARBARA FRIDAY (Office of Government Services, Price Waterhouse): My question is directed to the comments regarding the theoretical framework for your book. You mention that while looking at development within a country, you wanted to keep consideration of the international environment on hold. I do not see how you can do that. If, for example, you are looking at the policies of the Paz Estenssoro government, it is interesting to note how his philosophy changed over thirty years. However, in the 1980s there was no more money, a fact that cannot be ignored.

JAMES MALLOY: I meant to say that we take account of and recognize its significance, we give it causal weight; however, for purposes of this study, we are putting it in brackets, focusing on the other variables and trying to play them out. The point you made is correct. But the reality is that in 1956 Bolivia also had a crisis and had to submit to an IMF-imposed austerity program because the money had run out. Running out of money is not something new.

CYNTHIA McCLINTOCK (Professor of Political Science, George Washington University): I have some doubts about to what extent the Belaúnde

government can be characterized with the other two, whether you need some kind of qualifier on the classification scheme.

Belaúnde was interested in saying the right things in order to get international monies that would especially satisfy the Alvista wing of his party led by Luis Alva Orlandini. Alva Orlandini was the president's major legislator and sort of a pork-barrel type, and there were many desires to satisfy in that group. I have the sense from some of the technocrats that they ultimately felt used and that he had really come down on the more pork-barrel side of his party.

JAMES MALLOY: We would agree. The technocrats are powerful in all these things, but they are always powerful in conjunction with a strong executive.

GUIDO PENNANO: The relationship between the executive and its technocrats is that one survives as a technocrat as long as what one is proposing works; one then becomes part of the president's survival. If things go bad, he has to throw you out and bring in the next team. In a country like Peru, there are two or three teams. That also explains the pendulum swings in the political economy that we have had in the last twenty-five years.

JUAN ANTONIO MORALES: I would add that in Bolivia, but elsewhere as well, the classic story of technocrats is that they are disposable. Governments use them and throw them away. But they are really recyclable--used by the next government.

CHRISTINE PENDZICH (Overseas Development Council): I would like to refer to the Lindbloom idea that for a democracy to be consolidated, the business class has to seek a privileged position and secure it. What balance do you see in the business sector now in Peru between seeking a new privileged position and defending their old position? Is there any way to make the transition from one to the other?

GUIDO PENNANO: It is difficult to outline briefly. First, we must understand what happened to the business class with the Fredemo movement. The business class jumped on the Vargas Llosa and the Fredemo option. Then they discovered that Vargas Llosa had his own ideas of what to do, not the ideas of the different segments of the business class. They found that the opportunities to reach him, convince him, talk to him, and even to guide him were diminishing. They became skeptical, worried that the economic policy that Vargas Llosa was going to apply would make them the losers. Vargas Llosa was proposing a deep, radical, and complete opening of the economy. And the Peruvian entrepreneurs had basically had twenty-five years of protection and inefficiency.

There was a reduction in the participation of the business sector as a whole. There were members that were active inside, and there was also an ideological fight within the Movimiento Libertad, which was the Vargas Llosa party within Fredemo. This is true today; that fight is taking place between the ultraliberals and the mercantilistas, the entrepreneurs who were invited by Vargas Llosa to be part of the senate or the house.

Then there was the defeat in the election, and the triumph of Fujimori was really a shock to the business class. Only two or three weeks after the final election results, entrepreneurs felt there was nothing more to be done in Peru; it was time to get out. Then Fujimori began to form his cabinet, and it included people who were behind the entrepreneurial segment of society--the prime minister, for instance, who comes from AP, but not the ultraliberal faction, and the minister of industry, who had strong contacts with some segments of the industrial sector.

Two members of the Escalero Socialista party were in the cabinet--Carlos Amat de León and Antonio Sanchez Rivera. They inspired even more confidence in the entrepreneurial sector because the political platform and the economic program that the Escalero Socialista proposed at the elections were almost the same as what Fredemo was proposing (that was one of the criticisms from the Left). Incorporating people from the Escalera Unida in the education sector created some doubts within the industrial sector, which are still there today.

There are three proposals now before the president: the proposal by the central bank, which is ultraliberal, the old Fredemo proposal; the proposal of the Society of Industry; and the proposal of the Ministry of Industry. The president's decision is central to what will happen in terms of realignments in the entire economy, the whole context of distributing surpluses, benefits, and costs.

JAMES MALLOY: What is the nature of the relationship between capitalist groups and the government or the state in terms of the unwritten contract

in relation to incentives? Lindbloom points out that traditionally business used their privileged position to try to extract what might be called unconditional concessions; that is, concessions or incentives that they are then free to decide how to use.

One of the points of conflict with the technocrats is that every one of these schemes has been based upon offering substantial incentives to business. Every one of these governments has thought they were probusiness. But they were always conditioned incentives; that is, we will give you this but it is part of a general script; this is your role in the script, and we expect you to play it. That was one of the central issues that led to Alan García's politically fatal decision to go after the banks. He had thought that his team had provided Peruvian business with a substantial amount of incentives, which they did; but they took them as unconditional and his team thought they were very conditional--they perceived the capitalists to have not played the role ceded to them. They were infuriated by that and they struck out at them.

FRANCISCO DURAND (Professor of Latin American Studies, George Washington University): In analyzing the three cases, Malloy classified two failures--Peru and Ecuador--and one success--Bolivia. And the focus of the explanation is basically on the power holders, the technocrats, the politicians, and to some extent the elites who are in and out in a way. But it is also important to consider the business sector in the analysis of the failure--how the logical formation of defensive, protectionist coalitions were created. The neoliberal option is already in motion, and there are a few surprises in terms of the people you will find there--among labor and

management, the informal sector, there is a protectionist coalition. You would also find the military, people within the government, and so on.

Maybe the logic of the behavior of the business class is that of the logic of the opposition, because they have been socialized politically in that sense. They may not behave based on the logical proposition assumed, at least, in the theory. In this case, maybe it is not the business class that is failing, but the theory.

CATHERINE CONAGHAN: One of the problems in all three of these countries is that the business sector is often schizophrenic, and their political views can fluctuate quite rapidly depending on the conjuncture. While business constantly asks for representation in the policy process, they often do not have a good sense of what it is they want and how. When you press them about consultación--exactly what does that mean, what kind of institutions does one need, how is it going to work--the idea starts to float away.

In a sense that is part of their political dilemma. They are not political scientists, they are not intellectuals, and when it comes to thinking about representation and organizing institutions, they are somewhat at a loss. As a result, they often compensate by saying that they do not need formal institutions; they need only the right people--this particular minister here and that person there--and they can be represented informally. Of course, when they are represented through these informal channels, they realize that those channels do not really work in the way that they had hoped.

JUAN ANTONIO MORALES: There were some significant changes that reached the business sector during the Paz Estenssoro government. While having access to government, the business sector did not always follow the demands made on it. But that was also seen in terms of opposition between groups in the sector. A standard complaint in the eastern part of the country, in Santa Cruz, was that the miners controlled the government in Bolivia and the economic policy favored mining interests at the expense of the eastern lowland agriculturalists and industrialists. When Paz Zamora came, this changed a bit; that is, the business group in the Santa Cruz area has more say within the government.

Bankers were extremely powerful; they were actually benefitting from the hyperinflation. Although they had suffered some kinds of expropriation in 1982, they were extremely powerful with Siles Zuazo, and they wanted to keep this power with Paz Estenssoro; they could not. But they still have access to the players. Bolivia is very small, smaller than Peru; all the elites know each other; they can talk about the government, but they cannot yell. That is the main difference.

GUIDO PENNANO: There is no such thing as a business elite in Peru. They put together their alliances for specific situations, or laws, or debates and, afterwards, they all return to their own position. There is no community. The question is: What part of the business elite are we talking about? There was a part that supported García. The leader of the banking association was an Aprista member in the municipality of Lima. When García changed his policy, this leader took up sides against García. That is an example of the so-called modern, middle-size entrepreneur.



The big entrepreneurs do not worry about who is in power; they have never worried about who is in power. They have always found a way to influence, through money or control of the financial sector. It is the concept of grupo--that means "big ones." "Grupo" means that you are articulated in all the important sectors of the economy, so the final decision, whether it is for exports or for an internal market, does not matter. They are going to make money no matter what strategy the government adopts. There are also the small-size entrepreneurs, the ones who have put Fujimori in power. They are in a completely different situation.

CLARENCE ZUVEKAS (U.S. Agency for International Development): One characteristic that distinguished Febres Cordero from the other two presidents was that he was a practicing member of one of the business elites. More than that, before he was in office, he was used by some segments of the business elite as a channel of communication to the government to try to get various things from the government. Yet, when he came to power, those channels did not seem to work very well between the same business elites and the government. As Cathy Conaghan has pointed out in another context, he certainly did not use his party for that purpose. And even informal contacts did not seem to work the way many of the business elites thought they would.

Is this a matter of a lack of political learning? And, as Febres Cordero was not really a politician by training, was it due to his own "peculiarities"?

CATHERINE CONAGHAN: One of his problems--his inability to create good channels of communication with business groups and everybody else--had to do with the notion held by himself, and within the core of his economic team, that they could govern in a technocratic fashion. They believed that if they came up with the technically right policies and sent them forth, those policies would produce all the benefits; the free market would spread its benefits everywhere, and they would not need to create and maintain their political constituencies. So that is why he did not worry about organizing alliances through his party or anyplace else. He felt that if he found the right technical solutions, the market would provide his political clientele. That turned out to be wrong.

JAMES MALLOY: The whole discussion of the formation of neoliberal coalitions is in fact a discussion of the formation of an opposition coalition. What we are arguing (again, keeping the international factors constant) is that it was in the field of contestation generated by military regimes and the logic of opposition to those regimes that these policy coalitions formed and began to unfold over time. You cannot understand these new oppositional dynamics simply in terms of opposition to policies and the consequences of those policies, even if they are disaggregated. Marx said that for the right to make money, business gave up the right to rule. We are saying that these countries show that this is not the case. These business groups are not willing to give up the right to rule simply to make money, because there are issues in terms of how they can manage their environment that are intimately connected with the right to rule.

In Bolivia, the critical factor in the Paz Estenssoro administration was that it was able to keep the Emergency Social Fund perceived as totally apolitical. One of the directors of the fund was a businessman, Fernando Romero, who also played a role in the group that designed Decree 21060. Indeed, the business people in the confederation were so enraged with his defense of the decree that they ousted him as their president. And then he continued operating as a technocrat. In the current government, the fund is being politicized again. And that is going to have consequences.

We have to differentiate between capitalists and technocrats. In all these governments, one sees individual businessmen intimately involved in governments, implementing policies that business as a class does not like at all. The simple fact that businessmen appear in a government does not mean that business is strong in that government in a class sense. It is important to realize when we talk about a businessperson, capitalist, technocrat, we are talking about roles in a field of contestation. These people at different times wear different hats, and they behave differently when they play different roles. Sometimes they play the role of capitalist, sometimes they play the role of technocrats, as those persons who have played different roles recently know well. I am sure Guido Pennano's behavior is different now, not because he has changed, but because his role in this complex field has changed.

GUIDO PENNANO: Roles are important also because there is some cross-fertilization--they bring to their position their skills as capitalists or technocrats. The Emergency Social Fund was well run because it was run by an entrepreneur; he was above all the politics.

JOAN NELSON: Both economists and political scientists stress the importance of the credibility of programs, a key issue in getting investment started or restarted. And for a program to be credible in the eyes of any particular group or individual, there are really three components that are necessary. The program must be designed appropriately to address the real problems. Sometimes groups or individuals or the public at-large will suspend judgment on that initially, but then they wait for the results. They must also have confidence in the continuity of policy. Even if a government is adopting measures that are favorable to you or your group or your interests today, how do you know what will happen tomorrow or when a new government is elected? That is the importance of representation.

The third, perhaps really an addition to the second point, is that one needs to know that the policies will be continued and have confidence that they will give one a fair share of benefits in the future for whatever costs may be being imposed currently. That is a perceived equity issue, and it is well recognized in the case of business, which wants to be sure that it is not going to be taxed heavily, that it will not have currency conversion problems, and so on. This applies to other groups who also worry about access in order to assure continuity and equity as these policies bear on them.