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Partisanship and Policy Choice

What's Left for the Left in Latin America?

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Leftists seem to be on the rise in Latin America, but it is unclear to what extent this impacts policy. Thus, a crucial question hangs over this apparent "shift" in regional preferences: does the left have any real options to offer? Or in Latin America in an age of globalization, "what's left for the left?" The contending perspectives are compared, and then the evidence is evaluated using a series of econometric models. In sum, no discernible policy differences between the left and the rest were found. In the conclusion, the implications of this result for Latin American democracy are discussed.

Keywords: *Latin America; global economy; neoliberal reform; partisanship*

U.S. policy makers and journalists have been fretting publicly in recent years that Latin America appears to be turning to the left, even asking if the United States is "Losing Latin America?"[1] For others, the spate of leftist electoral victories in countries like Argentina, Brazil, Bolivia, Venezuela, and most recently in Ecuador, as well as close calls in Peru and Mexico, suggests a welcome rejection of the dominance of U.S.-favored models of economic development.[2] Whether one gloats or frets depends of course on one's perspective, but it is not clear to what extent this is a real trend or if it really signals an end to neoliberalism's predominance. For one, Latin Americans have been electing presidents from popular-sector based, left parties consistently since the third wave of democratization swept through the region beginning in the late 1970s. More importantly, it is not clear to what extent electing them has translated into genuine policy shifts away from neoliberal orthodoxy.

It is likely that Hugo Chavez, the highly vocal and aggressively anti-U.S. president of Venezuela, colors the general perception of the leftward turn in the region. Chavez has made some effort to export his brand of politics to his neighbors, most successfully to Bolivia. Yet, Chavez has found political success on the back of a distributive/redistributive economic program based on oil-financed handouts, not a coherent development strategy that can or has been emulated anywhere else in the region (Corrales 2006b). Moreover, the Latin American left is not monolithic and certainly does not uniformly and consistently follow Chavez (Casteneda 2006, Corrales 2006a).

Thus, a crucial question hangs over this apparent "shift" in regional preferences: short of using oil revenues, does the left have any real options to offer; or as Geoffrey Garrett and Peter Lange (1991) asked, "what's left for the left?" In an age of "globalization" where increased capital mobility arguably limits governments' policy autonomy, can leftist leaders really offer an alternative program to their electoral constituencies? Are they free to deviate from orthodox economic policy programs or are they constrained—regardless of their rhetoric—to continue to hew to a neoliberal policy line? In short, does partisanship matter for economic policy in developing countries?

This question has received limited systematic, cross-national attention in the Latin American context—primarily in regard to social spending (Avelino, Brown, and Hunter 2005; Kaufman and Segura-Ubiergo 2001; Wibbels and Arce 2003), yet it is one that merits sustained analysis. First of all, it speaks to a fundamental disagreement in the political economy literature about how the international financial system functions and how it interacts with domestic politics. In essence,

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the literature offers two conflicting images. One portrays a situation in which the threat of rapid flight of capital disciplines governments and forces them to adhere to a strict set of orthodox economic policies (in particular, Frieden 1991; Garrett and Lange 1991; Cohen 1998; Strange 1996; Santiso 2005). The other emphasizes that politics play out in domestic political arenas, governments have to cater to important electoral constituencies, and politicians can do this because the international system actually provides greater leeway to governments to satisfy domestic constituencies than the restrictive view suggests (Garrett 1998; Boix 1998; Maxfield 1998; Wibbels and Arce 2003).

The question is also important as the extent to which governments may enjoy some discretion over the design of economic policy may also affect the durability/quality of democracy in Latin America's young and often fragile democracies. If governments have no choice about the economic programs they must implement, then there is a considerable risk that they will end up betraying their voters and the governing mandate granted to them by winning the election. Politicians must compete in domestic electoral arenas where neoliberal policies may or may not constitute a winning campaign platform. Politicians who campaign on an antineoliberal platform then implement "neoliberalism by surprise" (Stokes 2001) undermine the meaning of representation in their political system and run the risk of deeply alienating voters—both from the government and from the political system in general.[3]

In this article, we apply Garrett and Lange's question—what's left for the left?—to Latin America. The research draws on two databases to examine the extent to which partisanship has had an influence on policy outputs. To assess policy programs, we use the indices of neoliberal reform developed by Morley, Machado, and Pettinato (1999). The Morley, Machado, and Pettinato general reform index aggregates five separate areas of neoliberal reforms into one composite index of reform. The benefit of the Morley index is that can be used directly while also allowing us to disaggregate the most important types of reform. We estimate a similar set of covariates for each area of reform to examine whether and how partisanship matters for each separate area. To classify government ideology, we draw on work by Kaufman and Segura-Ubiergo (2001). The term "left" is subject to considerable conceptual confusion in the Latin American context. Very few traditional "left" parties (i.e., Marxist or Socialist of one stripe or another) have had success in Latin America, and even "revolutionary" parties typically have been nationalist and openly hostile to traditional left-wing parties (e.g. Alianza Popular Revolucionaria Americana [APRA] in Peru, the Movimiento Nacionalista Revolucionario [MNR] in Bolivia, or the Partido Justicialista [PJ] in Argentina). To avoid conceptual confusion, we follow Kaufman and Segura-Ubiergo and use "popular" to denote parties with electoral bases in organized labor and/or other segments of the "popular sector." "Popular" parties has the advantage of including genuine leftist parties, such as the Socialist Party in Chile under Allende, while also capturing the larger number of primarily statist and nationalist parties that have predominated historically on the left half of the political spectrum in Latin America.

The article begins with a discussion of partisanship and government policy in Western Europe and then Latin America. After reviewing the different findings of this research, we discuss why, in Latin America, we should expect different results for partisanship than in the developed democracies. In the next section, we develop econometric models to test the arguments from the previous sections. Following the empirical analyses, we discuss the results of these models and the implications for research in both Latin America as well as other regions. In brief, we find little support for the view that domestic governments have had much leeway to pursue autonomous, alternative economic programs. We find instead that once neoliberal reforms are undertaken, governments—whether of the left or right and regardless of their campaign discourse—continue to pursue the neoliberal course.

Capital Mobility and the Limits to Policy Autonomy

The end of the Bretton Woods system in 1971 ushered in a period of much greater volatility of capital flows as global currencies lost the anchor of the U.S.-managed Gold Standard. The global financial market that emerged was much more decentralized and disconnected from national economies. Instead, investors moved money rapidly in and out of economies ("hot money") in response to changes in economic indicators and concerns about economic fundamentals. The instability of currencies in this new system led one analyst to dub it "casino capitalism" (Strange 1997). Critical observers of the system argued that investors' emphases on macroeconomic fundamentals (e.g. interest rates, exchange rates, budget deficits, and balance of payments) meant that governments could no longer run independent macroeconomic economic policies. In particular, governments could no longer run counter-cyclical monetary and fiscal policies that promoted Keynesian "full-employment" policies. In the

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European context, this was especially important for the social democratic governments, largely in Scandinavia. But social democracies were not alone in facing the harsh discipline of international financial markets as both the British Pound and the French Franc experienced runs on their currencies in the 1980s and 1990s. According to this line of thinking, the tendency has become exaggerated over the past twenty years as portfolio investment has become a larger portion of foreign investment flows and technological improvements have made it easier to rapidly move capital in and out of markets.

In Latin America, governments face the same problems as Organisation for Economic Co-operation and Development (OECD) countries, but the constraint is even more extreme. OECD economies benefit from much higher domestic savings rates in general as well as having much less risky economies than developing countries. Members of the European Currency Union, for example, all have comparable or higher rates of debt servicing as a percentage of gross domestic product (GDP) than most Latin American countries, but have a significantly easier time financing it than Latin American governments. Furthermore, Latin American governments suffer from contagion effects of crises in other developing countries. Thus, the Mexican debt default of 1982 provoked a debt crisis throughout the rest of the region, regardless of individual national circumstances. Similarly, the 1994 Peso Crisis produced a "tequila effect" that swept through the rest of Latin America. The consequence is that Latin American governments have had to run "pro-cyclical" fiscal and monetary policies that reinforce economic cycles rather than counter them (Hausman et al. 1999). Running pro-cyclical policies deepens recessions, but governments that depend on foreign capital have little choice if they want to maintain investment levels.

Dependence on foreign capital in this era of capital mobility was an important element in the general shift in economic orientation in the region toward a set of orthodox economic policies labeled "neoliberalism." Neoliberal policies diffused throughout the region, in some cases because of strong domestic support and in others because of pressure from the "Washington Consensus" actors. Regardless of the political base for the shift, governments needed to adhere to neoliberal policy to get a clean bill of health from international financial institutions and to renew capital flows. A number of critical policies, such as privatization or commercial liberalization, were seen as signals of a government's credibility in its commitment to the market-efficiency enhancing policies of the neoliberal agenda (Rodrik 1989).

But signaling credibility was not enough. Latin American leaders have had to continue to work with Wall Street and international financial institutions to demonstrate their ongoing commitment to neoliberal policy (Martinez and Santiso 2003; Santiso 2005). Santiso documents the extent to which Latin American government officials worked to cultivate the approval of a relatively small and insular financial community (Santiso 2005). In this regard, his analysis complements common leftist critiques of the "Washington Consensus" for its ideological (as opposed to technical) and intolerant character (reviewed in Green 2003). The pressure to maintain foreign investment inflows was so great that at one point Argentine president Carlos Menem publicly observed that "monetary policy autonomy was a fiction"[4] and proposed that his country simply adopt the dollar rather than having to constantly defend the currency from the danger of capital flight. In short, the pressure of the international financial system on Latin American policies suggests little room for policy discretion or autonomy.

Arguments for Policy Discretion

As powerful and plausible as these constraints appear on the surface, some scholars have made important arguments defending the possibility of policy autonomy, at least in the OECD context. For example, Garrett (1998) makes a case for policy autonomy drawing on an extensive literature about the relationship between left party power and union power. In this conception, leftist governments are more capable of maintaining wage discipline in tandem with strong, encompassing labor unions than right-wing governments are. Thus, left-wing governments can finance social-democratic programs and avoid inflationary pressure because of negotiated wage restraint. An alternative argument comes from Carles Boix (1998) that focuses on different ways of shaping supply-side policies. Boix observes that internationalization of the economy has forced governments to focus on the supply-side of the economy, but there are different ways to shape supply-side policies that conform clearly to partisan preferences. Left-wing governments are more concerned with employment and therefore seek to increase productivity of capital and labor through investment in education and infrastructure (and even potentially through a public business sector). In contrast, right-wing governments prefer to improve productivity and efficiency through increased private sector control of investments. Thus, right-wing governments lower taxes and attempt to limit public sector spending. Both Garrett and Boix are supported by a number of

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quantitative studies supporting the view that OECD countries are able to maintain policy autonomy, regardless of the pressure of the international financial system (for example, Oatley 1999).

Latin American governments may face greater pressure than OECD governments to maintain a neoliberal reform orientation, but they may also enjoy important areas of discretion over policy. As Martinez and Santiso (2003) have noted, investors must integrate enormous amounts of information that is continuously and rapidly updated. Investors cope with this extraordinary overflow of information by focusing on a limited number of key indicators and following the signals of market leaders. Governments may need to carefully monitor inflation rates and current account balances, but may enjoy discretion over other areas of policy. The goal of neoliberal reforms is to reduce the role of government intervention in the economy and increase the role of markets, but the limits to investors' attention may mean that popular governments can adhere selectively to the neoliberal program as long as they limit budget deficits, debt, and inflation. In short, "neoliberalism" encompasses a broad set of policies with potentially substantial latitude for partisan influence on policy. Investors/creditors may care about inflation and interest rates, but may care less about domestic taxation or privatization. As a result, popular governments would be freer to tailor their policy programs to shift benefits to or costs away from traditional voting bases.

Some scholars have gone even farther in arguing that the international financial system does not really constrain domestic governments at all. For example, Sylvia Maxfield argues that international investors concern themselves primarily with factors within OECD countries themselves, such as interest rates or global liquidity rates. As a consequence, domestic governments may have very little influence over capital flows in or out of their country. Garrett (1998) finds no support for the view that capital mobility constrains policy autonomy (in a retreat from his earlier position), and Wibbels and Arce (2003) studying domestic taxation policies in Latin America find no negative correlations with capital mobility. Thus, these arguments taken together paint a much more permissive picture for popular sector-based, reform-oriented governments.

Statist Programs and Partisan Politics in the Latin American Context

The various streams of literature on capital mobility and policy autonomy offer two contrasting views of the consequences of the international financial system for domestic policy making. On one hand, a variety of perspectives suggest that governments elected on a leftist or nationalist platform would not be able to pursue an "antineoliberal" program and instead would be forced to hew to an orthodox line. An alternative view suggests that governments opposed to the neoliberal platform should have considerable leeway to at least tailor or limit their adherence to the "Washington Consensus" package. The question is, what would a partisan difference would look like in the Latin American context? We consider this issue further below and relate it to neoliberal reforms, as measured by Morley, Machado, and Pettinato.

Historically, the most prominent "leftist" parties in Latin America have been nationalist as opposed to communist or socialist. This is particularly true in the postdebt crisis context where even putatively socialist parties, such as the Socialist Party in Chile or the Workers Party in Brazil have abandoned any endorsement of socialist principles. Thus, following Kaufman and Segura-Ubiergo (2001), we examine parties in Latin America that historically have had stronger ties to organized labor and the middle class—what Kaufman and Segura-Ubiergo call "popular" parties. Typically, these parties have been committed to development of the internal economy through promotion of domestic industry. Generally, these parties have been wary about integration with the international economy and suspicious of foreign capital. Many of these parties had at least some political ties to local capitalist groups in addition to their strong links to labor and the middle class while overtly in opposition to large landowners, finance capitalists, and foreign investors. As a consequence, these parties have historically been more aggressive in using government intervention in the economy, both through state enterprises and through channeling resources to labor, the middle class, and domestic businesses.

In general terms, one would expect popular parties to oppose neoliberalism. Neoliberal reforms imply embracing a set of policies that challenge the political ties between popular parties and their traditional base. As a result, one would expect such parties, when in government, to turn back or resist neoliberal policies.[5] Neoliberalism, however, is really a package of discrete and separate reforms with different political logics. The different policies likely face different levels of resistance from the popular-based parties. While we would expect popular governments to resist neoliberal policies in general, we would expect popularly based presidents to particularly oppose privatization, tax reforms, and capital liberalization. Aside from ideological hostility,

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privatization adversely affects organized labor through large scale layoffs and can hurt domestic industrialists as well who may depend on state-owned enterprises either for subsidized supply of inputs or as guaranteed buyers. Tax reforms, as defined by the neoliberal agenda, are aimed at increasing the efficiency of the tax system by increasing the neutrality of the tax code. This measure has the potential to increase the regressive nature of the tax code because it requires lowering the marginal rates of taxation on corporations and personal income and making up the shortfall through institution of a consumption value added tax (VAT). While domestic industrialists may support this measure, it is not likely to generate popular party support because it does not enhance the capacity of the state to promote the development of the local economy while it directly and visibly hurts middle-class and working-class consumers.

Finally, capital liberalization frees the flow of investment and profits in and out of the economy. Freer capital flows weaken the government's capacity to control foreign investments in the domestic economy while increasing the exposure of the economy to shocks, another very important source of discipline on government's discretionary spending decisions. As popular parties in Latin America have been consistently nationalist and wary of foreign capital, we expect this to be an important area of political resistance to reform. By contrast, however, capital liberalization is also probably the reform area most important to foreign investors and creditors and as such is likely to be the area where governments face the most external pressure to follow a neoliberal line.

The political logic behind commercial liberalization and financial liberalization are more ambiguous than the others. In general terms, one would expect popular parties to oppose freer trade. Commercial liberalization offered lowered prices throughout the economy. As a result, freer trade could create conflicts among sectors over the pace and rate of liberalization across sectors, but could still find political support within domestic business, labor, and the general public. As Geddes (1995) notes in a review of the reform process, commercial liberalization provoked little to no opposition anywhere in the region from labor or business. Baker (2005) further demonstrated that commercial liberalization enjoyed the strongest levels of public support of any aspect of the neoliberal reform process precisely because it produced lower prices for consumer goods.

Financial liberalization is a similarly ambiguous policy area. The Morley, Machado, and Pettinato (1999) index measures controls on borrow and lending, and reserve requirements. Many, if not most, Latin American countries exercised strong controls on bank lending through these tools. In particular, governments manipulated interest rates to force subsidized loans while setting high reserve requirements to ensure the liquidity of the banking system. But these policies had the effect of significantly repressing the financial system and depressing both savings and the lending available to smaller borrowers, including domestic businesses. This became a particular problem with the debt crisis of the 1980s as finances disappeared and governments across the region lost access to foreign savings to channel into the economy. With governments urgently needing to deepen financial markets and improve domestic savings, restrictions eased throughout the region. It is not clear that popular governments would resist financial system liberalization given the highly inequitable effects of financial system repression and the weakness of state finances from the 1980s on. Thus, overall, we expect strong popular resistance to privatization, tax reform, and capital liberalization. To a much lesser extent, and more tentatively, we expect resistance to commercial and financial liberalization as well.

Hypothesis 1: Popularly based presidents will tend to reform less than other types of presidents.

Hypothesis 1a: Popularly based presidents will particularly resist privatization, tax reform, and capital liberalization.

Figure 1 offers a graphical representation of the level of general neoliberal reform throughout the region from 1975 to 2003.

In addition, the percentage of popular presidents in the region according to Kaufman-Segura is also displayed. Although these data are descriptive, there does not seem to be any aggregate relationship between reform and a higher percentage of popular presidents. Looking at the countries individually (see figure 2) also seems to counter the claim that having a popular president affects general reform within a state.

Costa Rica, Bolivia, and Ecuador, for example, reform under popular presidents and do not reform under other presidents. Paraguay, El Salvador, Honduras, and Guatemala are ruled by the right throughout the sample and experience both periods of reform and nonreform.

In the next section, we outline our strategy to evaluate these hypotheses. The details of the models are further specified below.

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Figure 1
General Reform and Percentage of Popular Presidents in Latin America from 1975–2003

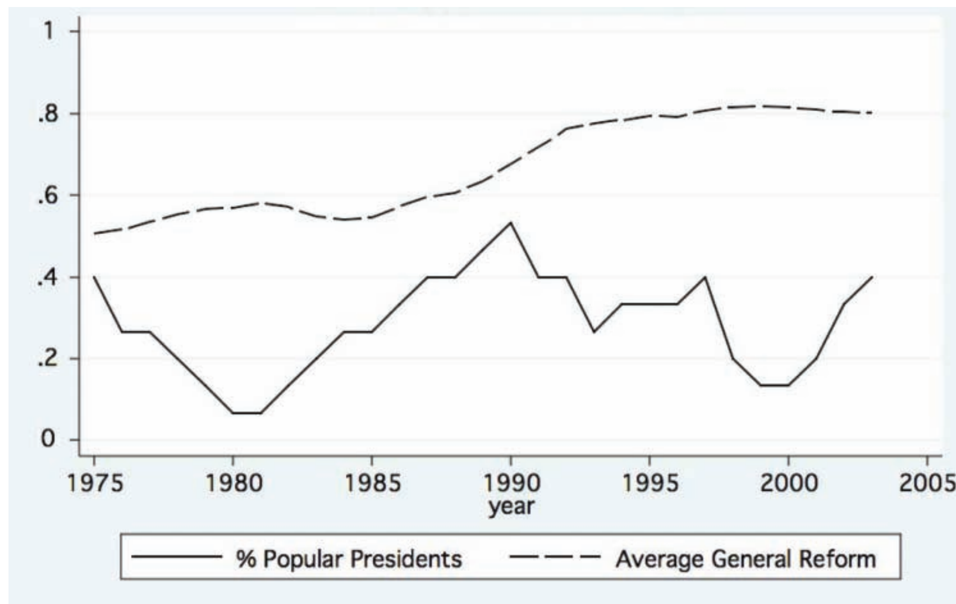
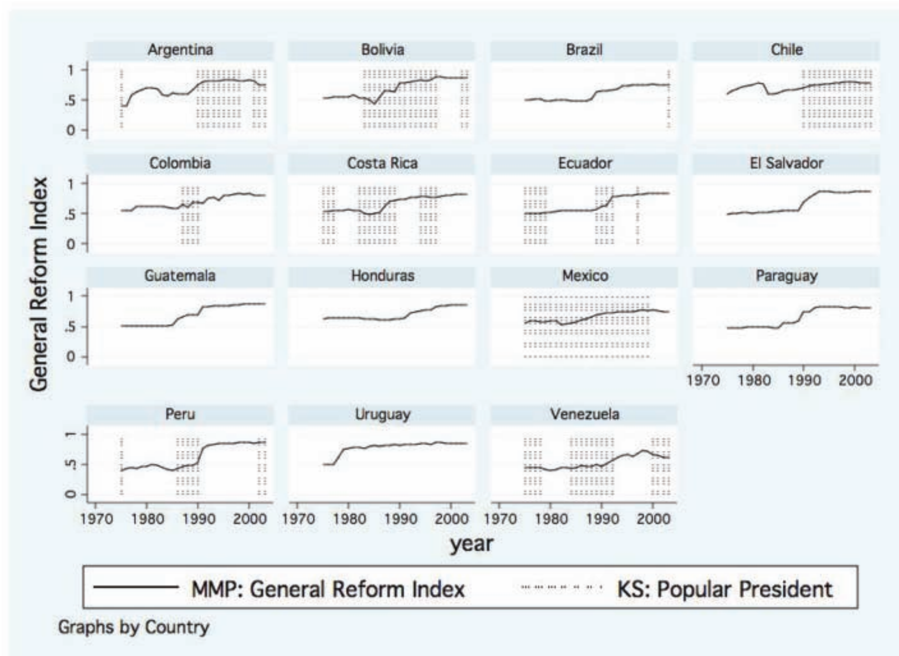


Figure 2
General Reform by Country and Periods of Popular Versus Nonpopular Presidents



Research Design

To evaluate hypotheses related to the political orientation of a president and his or her decision to reform a state's economy, we estimate a series of econometric models. Our sample includes fifteen Latin American countries and includes the years from 1975 to 2003.[6] This time period corresponds with the rapid

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Table 1
Summary Statistics

	Observations	Mean	Standard Deviation	Minimum	Maximum
POPULAR	382	0.270	0.444	0	1
DEMOC	382	4.359	5.909	–9	10
ENLP	382	3.242	2.184	1	11.950
TRADE	382	46.383	19.300	11.500	100.900
GDP	382	24.121	1.518	21.702	27.136
ΔGDP	382	0.794	4.262	–13.864	11.294
INFLATE	382	2.972	2.551	–20.723	9.372
IMF	382	0.521	0.500	0	1
DEBT	382	29.537	16.647	3.870	117.810
Privatization	382	0.746	0.181	0.001	1
General reform	382	0.668	0.136	0.392	0.880
Financial reform	382	0.608	0.279	0.003	0.989
Trade reform	382	0.799	0.162	0.204	0.996
Tax reform	382	0.461	0.175	0.117	0.785
Capital reform	382	0.737	0.191	0.216	1

Note: DEMOC = democracy, ENLP = effective number of legislative parties, IMF = International Monetary Fund, GDP = gross domestic product, ΔGDP = change in gross domestic product.

economic reform in the region, democratic reforms, the debt crisis, and many other major events. Ideally, this sample would include years prior to 1975 and after 2003 to make the inferences from the model as general as possible. Because of the lack of reliable economic data before 1975, the sample could not begin earlier than this date. Our dependent variables for the models, different measures of neoliberal reform, are only coded from 1970 to 2003 leaving the years following 2003 left out of the model.[7] Table 1 provides summary statistics for the estimation sample.

Dependent Variables

To gauge economic reform in Latin America, we use indices developed by Morley, Machado, and Pettinato (1999). These indices measure the level of neoliberal economic reform in each country from the 1970s to present. Morley, Machado, and Pettinato calculate five separate indices and one composite index of the five subindices, the general reform index. They include a measure of the level of trade liberalization or the *Trade Reform* index, the level of privatization of state owned industries or the *Privatization* index, the amount of control the government has over bank borrowing and lending rates or the *Financial Reform* index, a *Tax Reform* index, and the level of capital liberalization or *Capital Reform* index. All of the indices are continuous measures ranging from 0 to 1. They are normalized in relation to the most liberalized state in the region over the entire time period of the sample. Morley, Machado, and Pettinato (1999, 8) explain the process in formal terms:

> [T]he index value for country i at time t is:
>
> Iit = (Max—IRit)/(Max—Min)
> Iit = index value for country i, year t.
> IRit = raw value of reform measure, country i, year t.
> MAX = maximum value of reform measure for all countries, all years.
> MIN = minimum value of reform measure for all countries, all years.

The values of the reform then are not absolute values but relative to the region. The most liberalized state in the region throughout time is then coded a 1 and the other states scores are relative to this maximum score.

Political Variables

Popularly Elected Presidents

Popular presidents (POPULAR) are hypothesized to be more likely to halt or reduce neoliberal reforms than either center- or right-oriented presidents.[8] Presidents whose parties are supported by popular constituencies, especially labor unions, are coded 1 while presidents whose parties or basis of support are generally centrist, right, or enjoy support from groups who favor business interests are coded 0.[9] This variable deliberately does not incorporate the policy preferences

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of the president. Kaufman and Segura-Ubiergo (2001) argue that to define the president's ideology in terms of policy outputs would be tautological. The focus is rather on whether popular antineoliberal constituencies can discipline their leaders to roll back or halt reform.

As a robustness check, we use a variable from the Database of Political Institutions (EXECLEFT) that codes leaders strictly along the lines of party (T. Beck et al. 2001).[10] This variable is coded 1 for left and 0 for all other ideological parties. If this variable were significant rather than the popularly elected president variable, it would demonstrate that neoliberal reform in Latin America is a left-right issue rather than a union-based issue.[11]

Effective Number of Legislative Parties

The effective number of legislative parties (ENLP) is used as a proxy for the level of fractionalization in the political system. The more parties in a system, the more difficult it may be to make policy. Haggard and Kaufman (1996), for example, have argued that making policy in fractionalized party systems is problematical. High levels of fractionalization may prevent popular parties from changing course, regardless of their intent or preferences (Haggard and McCubbins 2001). To construct this measure, we used data from Golder (2005). Missing values were computed using election returns and a formula where the inverse of the summation of seat shares is squared.

IMF Loans

Participating in International Monetary Fund (IMF) programs may be a strong factor influencing the willingness or capacity of a government to alter its policy orientation. The IMF places conditions on many of its loans that call for reforming domestic finance as well as privatizing national industries and as a result may place particularly strong constraints on government autonomy. Thus, in countries where the IMF has programs, we expect that liberalization should be greater than in countries that do not participate in such programs. This variable is coded as 1 when a country is involved in an IMF program in year *t* and 0 when it is not. This variable was created from descriptions available on the IMF Web site.

Polity

We also consider whether regime influences policy change. To measure the degree of democracy of a state, the Polity IV data set is used (Marshall and Jaggers 2003). The level of autocracy is subtracted from the level of democracy to produce a value that represents the level of democracy (POLITY). Scores range from –10 to 10 (–10 = high autocracy; 10 = high democracy). This variable is used as a control as the institutional characteristics theoretically play a more important role in the economic reform of a state. Early studies into the relationship between the degree of democratization and economic reforms argue that the more authoritarian a regime is the easier it may be to impose harsh economic policies on its citizens. Some more recent studies do suggest, however, a positive relationship between neoliberal reform and degree of democracy. For example, Biglaiser and Danis (2002) found that democratic regimes privatized more readily than authoritarian regimes, while Brown and Hunter (1999) found that democratic regimes tended to increase social spending.

Economic Variables

GDP

The size of the economy may affect the need or desire to reform. Countries with larger GDP were able to sustain import substitution industrialization longer and are able to bargain with international financial institutions more effectively. In other words, the larger the economy, the less likely that country is to liberalize. In this study, we use the natural log of the GDP in constant 1995 U.S. dollars from the *World Bank Development Indicators* to account for the size of the economy.

GDP Growth

In addition, change in GDP (ΔGDP) is used to report the yearly fluctuations in GDP. While GDP is included as a control because it may correlate with some of the other independent variables and potentially affects reform, GDP growth rates are much more likely to have an impact on the need to introduce economic reforms. Countries enjoying solid growth rates are much less likely to experience the need to implement economic reforms. Alternatively, countries enjoying solid growth rates may have more political space for governments to introduce reforms, such as of the tax system.

Inflation

The health of the macroeconomy is another possible explanation for the push to reform. Inflation

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(INFLATE) may create a widespread sense of crisis and therefore a perception that reform is necessary and/or possible (Tornell 1995). Alternatively, high inflation may lead to decision makers and their constituents perceiving themselves to be in a domain of losses, and thus be more accepting of economic reforms (Biglaiser and DeRouen 2004; Weyland 2002).[12] We use the natural log of the inflation rate from the *World Bank Development Indicators* to gauge the current economic pressures on the regime to reform, and expect the effect to be positive on the reform indices.

Debt-Servicing Ratio

The debt-servicing ratio (DEBT) is the ratio of debt to total exports of goods and services and is the most important indicator of the capacity of an economy to manage the debt load. That is to say that neither the absolute value of the foreign debt nor the debt as a percentage of GDP says much about how much pressure the government really feels. Debt-servicing ratios give a more meaningful sense of the pressure governments feel to implement economic reforms. This figure is from the *World Bank Development Indicators.*

Model Specification

The model employed is a pooled time-series, cross-sectional design. The general equation is as follows:

$$Y_{i,t} = Ca + Y_{i,\,t-1}\,B_0 + X_{i,\,t-1}B_1 + \mu_{i,\,t}, \qquad (1)$$

where $Y_{i,t}$ is reform in country *i* during year *t,* C is a vector of country dummy variables, $Y_{i,\,t-1}$ is the lag of the dependent variable or the value of the dependent variable in time *t–1,* X_i is a vector of an independent variable at time *t–1,* and $\mu_{i,\,t}$ is the error term.[13]

Models using this design may suffer from serial correlation and heteroscedasticity. These models are prone to bias in the standard errors of the predicted coefficients. To correct for this bias, we use several techniques. Our models employ ordinary least squares (OLS) regression with panel corrected standard errors (PCSE). The PCSE estimator assumes the variance of the error term is heteroscedastic and contemporaneously correlated across panels (countries) and homoscedastic within panels (N. Beck and Katz 1995). Country dummy variables are included to estimate country fixed effects or that each country has a unique experience with liberalization. Finally, lagged dependent variables are included to deal with temporal dependence in the data or correct for autocorrelation.

General Results and Discussion

The most striking result from examining the outcomes of the six models is that popular presidents have no effect on reform. This confirms the descriptive evidence presented in figures 1 and 2. Not surprisingly, the results of the models explain a great deal of the variation in reform. The six models have *R*-squares ranging from .85 to .95 (see table 2). In other words, between 85 and 95 percent of the variation in the dependent variables in the models can be explained by the variation in the independent variables. As the coefficients and *t*-scores on the lags show, this is due in large part to the inertia in policy, that is to say a large portion of this year's policy can be explained by last year's policy. To be parsimonious, the country dummy variables are not shown.

Popular presidents have no effect on the reform process. In some cases, the coefficient is positive, in others negative, but never reaches conventional levels of statistical significance. In addition, the POPULAR coefficient is always very close to zero. The presence of an IMF program is consistently positively correlated with reforms.

Except in the area of *Trade Reform,* democracy seems to have no effect on the reform process. Two of the six regressions demonstrate that a higher effective number of legislative parties (ENLP) lead to *greater* reform. GDP growth is consistently positively correlated with reform suggesting that reforms leading to positive economic gains may beget even greater movement toward economic efficiency. Trade has a similar impact on *Trade Reform* but is not consistently positively associated with the other types of reforms. The results for Inflation (INFLATE) are similarly mixed supporting the notion that many of these individual processes are driven by different logics. Debt servicing (DEBT) has a consistent negative impact across the models yet only reaches statistical significance in the *General Reform* model. The lags in each of the models have large coefficients that dwarf the coefficients of the other regressors.

In general, the hypothesis (hypothesis 1) related to popular-supported presidents having the ability to act autonomously is not supported. Even when using an alternative measure from the Database of Political Institutions, EXECLEFT,[14] the effect of the president's ideology is nonexistent. In addition, the notion that fractionalized party systems block reform, is also not supported. In fact, ENLP in all

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Table 2
Models of Neoliberal Reform in Latin America

	Model 1 General Reform	Model 2 Tax Reform	Model 3 Privatization	Model 4 Trade Reform	Model 5 Capital Reform	Model 6 Financial Reform
POPULAR	0.004 (0.006)	–0.002 (0.007)	–0.005 (0.010)	0.005 (0.007)	0.007 (0.010)	–0.002 (0.02)
DEMOC	–0.0003 (0.0005)	0.001 (0.001)	–0.001 (0.001)	–0.0011* (0.0006)	0.0009 (0.0010)	0.0002 (0.002)
ENLP	0.0029** (0.0014)	0.001 (0.002)	0.0001 (0.002)	0.005*** (0.002)	0.0006 (0.002)	0.005 (0.005)
IMF	0.0072** (0.0036)	0.011** (0.005)	–0.006 (0.007)	0.0085* (0.0045)	0.013* (0.008)	0.032*** (0.012)
ΔGDP	0.0013*** (0.0005)	0.0014*** (0.0005)	0.0020*** (0.0006)	0.0002 (0.0007)	0.001 (0.001)	0.0023* (0.0012)
GDP	0.017 (0.015)	0.017 (0.016)	0.054*** (0.016)	0.015 (0.02)	0.023 (0.023)	0.059 (0.045)
TRADE	0.0000 (0.0002)	0.0001 (0.0003)	–0.002 (0.0003)	0.0007** (0.0003)	–0.0007** (0.0003)	–0.0001 (0.0006)
INFLATE	0.001 (0.001)	0.001 (0.001)	–0.0018* (0.001)	–0.0003 (0.0004)	0.0061** (0.0004)	0.0023 (0.0017)
DEBT	–0.0003* (0.0002)	0.0001 (0.0001)	–0.0003 (0.0002)	–0.0002 (0.0002)	–0.0004 (0.0003)	–0.0006 (0.0005)
LAG	0.915*** (0.0316)	0.903*** (0.038)	0.819*** (0.057)	0.878*** (0.025)	0.911*** (0.042)	0.823*** (0.046)
	$N = 382$	$N = 382$	$N = 382$	$N = 382$	$N = 382$	$N = 382$
	$R^2 = .94$	$R^2 = .95$	$R^2 = .92$	$R^2 = .93$	$R^2 = .91$	$R^2 = .85$

Note: Coefficient estimates for the variables are listed above the values for the standard errors which are listed in parentheses. Dependent variables used in the model are listed below the model number, and significance levels are noted by $*p < .10$, $**p < .05$, $***p < .01$. DEMOC = democracy, ENLP = effective number of legislative parties, IMF = International Monetary Fund, GDP = gross domestic product, ΔGDP = change in gross domestic product.

of the models is positive and achieves statistical significance in the *General Reform* model as well as the *Trade Reform* model. Finally, we find support for the role that the Washington Consensus has had on the reform process in Latin America. In five of the six models, the presence of an IMF program is positively associated with reform. This finding is consistent with previous work that suggests that the IMF and private lenders played an important role in broadening the reform process throughout Latin America (Smith, Young, and Li 2005). Participating in an IMF loan program has the largest effect on *Financial Reform* where the presence of an IMF loan is expected to increase the level of financial reform in a country in a given year by over 5 percent. The effects of having an IMF program point then toward a consistently positive yet modest effect.

We also estimated models without lagged dependent variables as suggested by Achen (2000). In these models some of the coefficients for the controls changed, but again LEFT and EXECLEFT changed signs across the models, never achieved levels of conventional statistical significance, and always had extremely small coefficients. Finally, we estimated models using Plümper and Troeger's (2007) "fixed effects vector decomposition" method (FEVD). This estimation technique is useful when some of the variables are time-invariant or near time-invariant. Only GDP and TRADE in our models exhibit near time-invariance.[15] When using the FEVD method with a PCSE model in the final stage, we again do not find any support for the above hypotheses.[16]

Conclusions/Suggestions for Further Study

Overall, the findings of this article suggest that partisanship does not matter, especially in the presence of substantial constraints on policy-making autonomy. This conclusion is inconsistent with the findings of the literature in European political economy. Governments cannot ignore the discipline of global financial markets, but they must find ways to remain true to their ideology and their base if they are to succeed in Europe. In the Latin American context, popularly based governments, are constrained from enacting the policy preferences of their constituents. The implications for the region and democratic theory are important. First, Smith, Young, and Li (2005) found that the debt crisis fundamentally altered the policy autonomy of the region. Huge crises coupled with a death of ideological alternatives seem to have left Latin America with few options to liberalization. Second, if parties do not offer a real difference in program, then they are not truly representative of the interests of their constituents. "Bait-and-switch" policies (Stokes 2001) may continue to be the norm, leading to even less public support for many of these young democracies.

Although privatization, international trade liberalization, and financial reform did not show a relationship with partisan differences in the composition of the government, this may reflect limitations of the sensitivity of the indices to change from administration to administration. Policy makers may have more discretion than is showing up in these models. One

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suggestion for further study, then, is to think of how to develop more nuanced approaches to capturing ways that ideological and partisan differences emerge in policymaking. This could be through developing alternative data sets or it could be through more qualitative case research comparing administrations within a single country. The latter strategy may be particularly useful for identifying policy areas to focus on in the construction of alternative data sets. In addition, Latin America lacks a research project such as the Manifesto Research Group (Budge et al. 2001) that code ideological leanings of parties. Part of the null findings regarding partisanship could be because of the rough measures of partisanship. Having a measure that focuses on salience of issues to parties and ranges from 0 to 100 might help unravel the puzzle of partisanship and policy choice.

If partisanship matters—beyond the distribution of patronage benefits for select groups—it would be good news for democratic governance. The findings from this article, however, suggest that the tension between meeting the demands of the international financial community and domestic electors is largely unresolvable. Governments need to ensure continuous inflows of capital, but areas of potential policy autonomy and experimentation where governments may seek to reward and/or compensate important electoral constituencies and preserve some ideological integrity may also be constrained. Stokes (2001) has argued that voters lose confidence in democratic institutions when their leaders violate voters' expectations about the government's policy program. The findings in this article suggest that this loss of confidence may be an inevitable byproduct of the constraints of the international financial system.

Notes

1. See for example, Voice of America, http://www.voanews.com, November 30, 2006.

2. See for example, "The Uprising," the *New Statesman* at http://www.newstatesman.com. December 4, 2006.

3. This is the essence of Stokes' argument about mandates and democracy in Latin America. Stokes discusses candidates who run economic "security" oriented campaigns and explores the consequences of such candidates' betrayal of their campaign promises.

4. See http://www.sunsonline.org/trade/process/followup/1999/02030499.htm.

5. One alternative, of course, is to offer compensation to select constituencies as compensation for implementing neoliberal reforms. In fact, scholars such as Schamis (1999), Corrales (2000), Montero (1998) and Etchemendy (2001) have argued that governments have tailored privatization policies to deliver benefits directly to privileged groups allied with the government (whether labor or business). Murillo (2002) has argued that this kind of delivery of selective benefits can show up as partisan differences, with, for example, labor-tied parties distributing a significant percentage of shares to unions. These observations, however, depend on close study of a small number of cases and are very difficult to demonstrate in quantitative, cross-national study. Thus, it may well be the case that partisan differences show up in the ways that governments deliver selective benefits to politically privileged groups, but testing such a claim is well beyond the scope of this article. In any event, there is a meaningful difference between running on an antineoliberal platform and pursuing antineoliberal reforms on one hand and simply compensating privileged groups while implementing neoliberal policies against the parties own ideology, base or electoral platform.

6. The countries included in the sample are Argentina, Bolivia, Brazil, Colombia, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru, Uruguay, and Venezuela. In the sample, we have four Central American countries, ten South American countries, and Mexico. We would have liked to include all countries in the region, but were limited by the dependent variables as they are only available for seventeen countries (only Dominican Republic and Jamaica did not make it into our sample as both lack data for many of the economic variables). If we had more countries from Central America in our sample, we expect that the results found below would only be strengthened as most of the smaller states in Latin America are more affected by international processes than larger states such as Brazil, Colombia, or Argentina.

7. The original Morley, Machado, and Pettinato data were released in 1999. Roberto Machado sent the authors an updated version of the data that coded the dependent variables to the year 2003.

8. This variable was originally coded by Kaufman and Segura-Ubiergo (2001). Using their coding criteria, we added coding for years from 1998 to 2003.

9. Kaufman and Segura-Ubiergo use this terminology of popular-supported president rather than leftist president as a few of the cases in their data are right presidents who enjoy union support. Menem in Argentina, for example, is coded as a popular-based president although he is on the right. In contrast, Fernando Henrique Cardoso is coded nonpopular as he did not receive union support for his policy program even though he was on the political left.

10. The popular-elected president variable and the left/right variable correlate at 0.55 and differ regarding some key coding decisions like Menem and Cardoso.

11. Coppedge (1997) also has data on Latin American parties that begin in the early 1900's. Unfortunately, the data are only available for eleven countries and end in 1995.

12. For example, Armijo (2005) makes the case that Brazilian voters' intolerance of inflation constrains politicians and acts as a barrier against inflationary monetary or fiscal policies.

13. In other words, the independent variables ($X_{i,\ t-1}$) are all lagged. We argue that political and economic variables in say 1992 are leading to changes in reform in 1993.

14. We do not report these regressions here, but all the necessary data and code for all the estimations and robustness checks are available on the following website http://garnet.acns.fsu.edu/~jky04/datadofile.htm. We estimated a separate series of model using only the Left President variable instead of Kaufman-Segura's measure. Using this alternative measure did not affect the estimates of the other variables. This measure did not come to close to reaching statistical significance in any of the six regressions and had an extremely small coefficient.

15. For both of these variables variation between panels was larger than variation within panels. This problem is especially acute for GDP. The results for the FEVD models have extremely high *t*-scores for the variables deemed "invariant." Outside of the recent article (Plümper and Troeger 2007), these models are

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fairly new, and their ability to reduce bias in these settings has yet to be firmly established.

16. Replication materials including do-files and data are available at the following website: http://garnet.acns.fsu.edu/~jky04/datadofile.htm.

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