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ECONOMIC CRISIS, POLITICAL REGIMES,

AND SOCIAL EXPENDITURES IN LATIN AMERICA. (1980/1990)

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During the eighties Latin America suffered its worst economic crisis since the Great Depression. Usually called the "lost decade," the period's central feature was the need of governments to adapt to a sudden shortage of external financing. To acquire the necessary foreign currency to pay the increasing debt burden, governments devaluated their exchange rates and tried to equilibrate trade imbalances. To avoid runaway inflation, they had to control their internal budget deficits through the cutoff of public expenditures and tighter fiscal policies.

In general, if the Great Depression brought heterodox experiments with greater state intervention in the economy, the Debt Crisis of the 1980s generated "a scaling back of the state's developmental and redistributive commitments." (Haggard and Kaufman, 1992) Instead of a deepening of heterodox experiments, countries, with varying intensity, were pushed to leave them in exchange for more orthodox measures. This policy turnaround aggravated the harsh social consequences of the economic crisis, since the retreat of the state was not promptly followed by any kind of market replacement. As it is well documented, the period was characterized by terrible social performance and great increase in the regional poverty and inequality.[1]

Regarding the political aspects, however, the picture could not be more distinct. Beginning with the inauguration of Ecuadorian president Jaime Roldós in 1979, the same "lost decade" could be presented as a very successful period when a new, and most extended, democratic wave took the place of former authoritarian regimes. Moreover, as argued by Remmer (1993), the competitive regimes that emerged during this last democratic wave were far more inclusionary than their predecessors; in the sense that their constituencies reach broader segments of the society.

This paper consists of a very preliminary analysis of the consequences of these processes over public policy options. More specifically, it is focused on the impact of economic crisis and the democratization on public social expenditures. What are the combined effects of

[1] - In 1990, it was still possible to read that "(...) The accumulated social costs of inflation, the stabilization programs, the negative external capital flows, and the fiscal adjustments are responsible for a 13% drop in the consumption per capita, compared to the 1980." (ECLAC, 1990).

these contrasting aspects on social spending, when the need to cope with increasing budget deficits meets the expansion of the political arena, with a greater room for distributive conflicts? Due to the economic crisis, the option of increasing taxes was hardly feasible. Quite the contrary, an increase in the tax burden would probably lead to more evasion than revenue. As external financing was restricted, the only alternative was a cutoff of public expenditures. How can democracy work when it is pressured by both the macroeconomic needs of public retrenchment and increasing popular demands concerning the alleviation of the crisis effects?

Why are social policies so important? Despite accounting for a large part of the public sector, social policies have been neglected by the extensive literature on economic adjustments. When they are taken specifically into account by that literature, they are treated only as a compensation mechanism, where new programs are created to alleviate targeted social consequences of economic reforms on the poorest sectors. Without disregarding those questions, social policies are important also because they usually reach a much greater proportion of the population than the poorest; and this last aspect makes them a very important political resource in times of regime transition. The way social policies reflect past distributive conflicts has important consequences for the way regimes will manage those expenditures during times of public retrenchment.

POLITICAL REGIMES AND PUBLIC POLICIES

The relationship between regime type and public policies is not a new subject. However, with few exceptions, the discussion has evolved around the relations between types of political regime and economic performance, and not specifically with policy options. The general argument claims that democracies will be unable to carry out politically costly reforms because of their greater responsiveness to social pressures. In that case, even if reforms are attempted, policies would lack the necessary coherence to reach the expected results. Though the absence of coherence is not a monopoly of democratic regimes, democracies would be less prone to implement such kinds of policies because incumbents do not want to hurt their constituencies, risking a defeat in the next election; thus, it is improbable that they will make any attempt to cut policies that reach large contingent of voters.[2]

Two problems with this literature need to be discussed here. The first is the confusion between policy options and economic performance, or the broad brushes of economic adjustment packages. Policy options are deduced from their outcomes, with the problematic assumption that politicians have clear knowledge about the consequences of their choices, which is hardly the case. Further, similar economic performances may hide very different policy options.[3] Although the Latin American economic performance in the 80s shows an undeniable similarity, and some convergence in the general economic policies [4], this fact does not necessarily mean absence of variation in more analytical levels. In sum, even if the regime variable has little explanatory power for economic performance during the 80s in Latin America as argued by Remmer (1990), this does not imply that regimes are not important to explain different policy options that were taken during the same period.

The second problem relates to the fact that even if in “normal situations” policy options depend less on the rules of the political game than on the composition of government coalitions, the role of technocrats, and other more specific institutional characteristics, regime transitions cannot be considered as “normal situations”. And they cannot because what will be considered “normal” in future decision making processes is still undefined in the context of high uncertainty that characterizes political transitions. It is important to note, however, that there might be two possible interpretations regarding the effects of the transitional situation over public policies.

One interpretation is drawn from the fact that new democracies face greater popular expectations generated during the transition process. In addition, the expansion of the

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[2] - This approach is very frequent among those who see some form of “bureaucratic insulation” as a required mechanism to enforce policies that will be perceived as necessary in the long run, but very unpopular at the beginning. cite studies about Asian miracles, central banks, etc. insulation from particularistic pressures.

[3] - Of course, the reverse is also true: similar policy options can yield very divergent outcomes

[4] - The convergence in economic policies gets stronger towards the end of the decade, mainly after the failure of the “heterodox” attempts by Argentina, Brazil and Peru.

political arena, where distributive conflicts can occur legitimately, provides greater opportunities for popular sectors to resist the costs of fiscal adjustments.[5] As a polarization of the distributive conflicts would threaten the still fragile political institutions, new democracies would be unable to undertake the necessary cuts in public expenditures. They would rely more in increasing budget deficits, and on what some economists have called “populist policies”[6]. Still, this interpretation could be extended, with minor changes, to the last authoritarian governments. Since these governments will have to leave office soon, they can act as if they were much less constrained by the scarcity of resources; so, they would increase public spending to cushion their leaving by pleasing as many groups as possible, and by pushing up the costs to the new democratic government.[7] In both situations, the main goal is to avoid an escalation of the political conflict through the distribution of the public benefits.

The second possible interpretation of the “transitional situation,” the “political goods” perspective, would lead to an opposite conclusion. It argues that exactly because those democracies are new, they are able to deliver other kind of goods, “political goods,” than economic ones; consequently, as they do not depend so much on economic performance, they would be in a better situation to undertake the necessary cuts. (Hirschman, 1987) According to the predictions entailed by this last interpretation, we should be able to establish a clear difference between authoritarian and democratic regimes, but this difference would be contrary to the one expected by the first interpretation.

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[5] - See, for instance, Stallings and Kaufman (1989).

[6] - See, for example Sachs (1989); and Dornbusch and Edwards (1991). The central argument of these authors is that acute social conflicts, as well as the fragility of the democratic links between state bureaucracy and collective actors would generate conditions for the “populist” economic policies. This definition is very problematic because the term “populist” conveys the idea that deficits were generated to achieve distributional goals, mainly by pleasing the urban masses in general. Yet, Cardoso and Helwedge (1991), found no relationship between economic populist episodes in Latin America and changes in income distribution, and conclude that in spite of its general “populist” appeal, the increase in the expenditures served very selected constituencies. Another point is that this literature does not take into account that alleged “populist” experiences in Argentina, Brazil, and Peru, during the eighties, should be considered in a context of economic experimentation that featured most part of that period. It is important to recall today that, at that time, the Argentinean and Brazilian plans were approved by traditional orthodox institutions like the IMF.

[7] - For an interesting discussion about the relationship between “survival conditions” and budgetary options in the pre-debt crisis Latin America, see Ames (1987)

Finally, it is important to consider that the economic crisis of the period cannot be considered "normal" either, since it deeply questioned the former developmental model and the role of public policies thereof. Broader changes were gradually perceived as necessary, since old patterns of policy choice may make things even worse at this time.[8] However, if governments have to change the old pattern of resource allocation, alternative policies have to be devised and new alliances have to be formed. Former coalitions based on expansion policies should be revised when old mechanisms, which reallocate resources through a general expansion of the budget, cannot be reproduced.[9] As a result, this period should be considered a turning point in the region developmental path, one of the moments with greatest freedom, according to Gourevitch (1986), where old coalitions are questioned and politics and policies are more fluid.

But what specific role was played by social policies in this process? This is the theme of the next section.

ECONOMIC ADJUSTMENT AND SOCIAL POLICIES

The relationship between democracy and social policies usually assumes that the political equalization produced by democratic institutions would bring also some sort of social citizenship, or social rights.[10] Social policies would respond to these demands with the provision of education, health, and varied forms of income maintenance. In times of democratization, then, it is expected that the return of political rights would reinforce demands concerning social needs. In the case of Latin America during the 80s, those

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[8] - Remmer (1990), for example, argues that the magnitude of the recent crisis may have strongly limited the choices open to governments. This is the cause why "regime characteristics have become less rather than more important than in the past".

[9] - "Executives knew they could cushion losses in the budgetary shares by increasing total expenditures enough so that every program enjoyed an absolute increase. Overall, increases were easier, of course when potential budgetary resources (as GDP or export receipts) were rising. Some administrations particularly those following multiclass strategies, lived under such stress that they increased total budgets more than resources increased. Even during economic downturns, nothing could deter these vulnerable regimes from expansionary fiscal policies. It comes as no surprise, therefore, that the International Monetary Fund has such difficulty in imposing stringent conditions on Latin America debtors."(Ames, 1987, p.214)

[10] - See, for example, the widely known distinctions made by T.H. Marshall (1964) between the historical sequence of the extension of civil, political and social rights. What is peculiar to Latin America, and much more striking in the East European cases of democratization, is the compressed character of this agenda in comparison with the traditional path followed by Western Europe.

demands should be increased in number and intensity not only because of the broader inclusionary character of those democracies, when larger extents of the poorest were entitled to vote for the first time, but also because of the effects of the economic crisis itself.[11] Therefore, if governments were pressed to increase social expenditures; on the other side, the fiscal imbalance core of the economic crisis pressed them to reduce social expenditures in a context of general public retrenchment. From the economic point of view, the paradox is that social expenditures should be restricted when they are most needed, which runs against their supposed counter cyclical effects in times of economic downturns.[12]

In many Latin American countries, social policies undoubtedly are an important compensation mechanism for the costs of adjustment,[13] but they also represent a substantial portion of the state apparatus and expenditures.[14] If coping with the fiscal deficit requires an effort to trim public expenditures, how much of this effort was accomplished through cuts in social spending in the last decade? Were social expenditures protected during the retrenchment process? The idea of protection does not mean that these sectors are immune to expenditure cuts, but if they experience decrease, this decrease is proportionally smaller than that experienced by other areas of government expenditures.

For instance, in a study about developing countries in the 70s and early 80s, Hicks and Kubisch (1984) claim that social expenditures were protected during most of the

[11] - According to Karl(1991), "the 'issue of 'who benefits' from democracy is singularly problematic in Latin America, where the pattern of dependent capitalist development has been specially ruthless in its historical patterns of exploitation. This means that the extension of citizenship as equal political rights must take place in a context of extreme inequality, which is unparalleled even in Africa or Asia."

[12] - Cominetti (1994) argues that albeit social expenditures were not related with the increasing of the fiscal deficit, they were, more frequently than not, an important component of the attempts to fiscal adjustment. Mesa Lago (IDB, 1990) argues that "The adjustment-induced retrenchment in public expenditures for social services (particularly in the first half of the 1980s) reduced the safety for the most vulnerable segments of the population. Although some recovery in outlays took place at the end of the decade, there was still a reduction in the overall level of and access to social services and a deterioration in their quality."

[13] - See Maravall (1993), for a discussion of the Spanish case, and Nelson (1992) for a broader set of countries.

[14] - Among the countries to be studied, the mean share of social expenditures over the total public expenditures is 42.68%, with a minimum of 16.70 and a maximum of 71.20%.

adjustment process, relatively to the other forms of government expenditures. The argument is that there are "higher political costs in reducing spending on them." As those authors do not explicitly refer to any political variables, it is possible to assume that, despite the characteristics of the political regime, governments would prefer to cut investment expenditures, mainly in infrastructure and production, even at higher future costs in terms of development. In more technical terms, the greater the discount rate of future, the less prone will be political actors to cut social expenditures.[15]

The same conclusion about the relative protection of social expenditures is reached by Grosh (1990) when analyzing nine Latin America countries during most of the 80s.[16] She finds that social sectors were generally protected in times of declining government expenditures. However, a different conclusion is reached by Cominetti and Di Gropello (1994) when discussing a richer set of data for twelve Latin American countries.[17] According to those last authors, during the 80s, there is evidence that social policies were less protected than other kinds of expenditures, what would suggest a change in government priorities, regarding social sectors, in that period.

Finally, assuming that social spending protection varies, what conditions would make social policies be more or less protected? Some interesting hints come from recent works by Paul Pierson about the "feedback" effects of policies (Pierson, 1994, 1995). He takes seriously the old idea that policies influence politics, by providing resources to some interest groups and influence the ability of such groups to make those resources bear in the decision arena; he tries to identify how, when, and where those effects are more likely to occur. In this sense, retrenchment moments are crucial to observe those effects, because former favored groups would have strong incentives to mobilize themselves to protect their "spoils." The necessary imposition of losses creates a qualitatively different situation

[15] - "Politicians may find it more acceptable to reduce investment, growth, and future consumption, particularly if these reductions are uncertain and far off, than to make politically difficult cost reductions in present consumption. Since the social sectors are specially labor intensive, with high recurrent costs, reducing expenditures on them not only cuts basic services highly valued by the public, it also causes relatively high unemployment per unit of reduction. (Hicks and Kubish, 1984, p.38)

[16] - The countries are Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Jamaica, and Venezuela

[17] - The ten of South America, plus Costa Rica and Mexico.

from the past development as the structure of the political game changes from positive to zero sum. Therefore, if in times of increasing budgets it is relatively painless to increase social spending, even at a slower rate, the situation changes radically in times of budget contraction. In these conditions, we can expect a costly confrontation between governments and former beneficiaries.

Although Pierson is concerned with comparing the retrenchment policies in the Thatcher and Reagan's governments, this approach fits well in the case of Latin America. Some interesting ideas come from Carmelo Mesa-Lago's work about the development of region's social security systems.[18] According to this author, the development of those systems cannot be understood without attention to their stratification and relative unification patterns. These patterns were instigated by the simultaneous activity of pressure groups and the state. In this way, the state not only answered to interest groups pressure but it also had the initiative, when it used social security to co-opt and preempt activities that could threaten the "status quo," in a more traditional "corporatism from above"[19] pattern of intervention and control.

As discussed above, the fiscal nature of the 80s economic crisis in the region may be considered as a turning point regarding previous forms of state led development, during which social policies played an important role. The moment of retrenchment, with the necessary realignment of former coalitions, will have in the social sectors a crucial area of conflict. Moreover, and incorporating the "feedback" perspective, it is expected that conflicts will be more severe the more developed and complex those systems are. In these cases, systems are likely to attend a bigger number of people, and be more institutionalized in the daily life of their beneficiaries as well as in the aspirations of their prospective ones.

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[18] - See among others, Mesa-Lago (1978, and 1989). Thanks to the work of Mesa-Lago, it is known that many Latin American countries have reasonably developed social welfare systems, This point would single out those countries relative to other developing ones.

[19] - Schmitter (1974).

HYPOTHESIS SPECIFICATION AND DATA

This paper is concerned with policy choices, rather than economic performances. If the magnitude of the economic crisis makes the different choices converge to similar results, this fact per se does not allow the inference of a unique pattern in coping with that crisis. The main objective is not to assess the performance of the governments, but to distinguish possible differences among expenditure options, and the role played by social policies considering the options adopted during this period. More specifically, the central dependent variable is the priority, or protection, given to social policies when compared with other government expenditures during the last decade.

The general hypothesis about the existence of different priorities regarding social policies will be explored not only between regimes but also among democracies. First, authoritarian options will be compared with democratic ones. Were authoritarian regimes more prone to cut social expenditures when compared with democracies? Had they used social policies more as a “survival” resource during the transition process? (Ames, 1987). Second, options among democracies will be compared. For instance, as discussed above, new democracies are expected to be more constrained in having social expenditures as one of their main cutting options.

It is also important to take into account that many of these social programs were introduced several decades ago, and they have grown during this period. Besides the question of internal dynamic that characterizes most bureaucracies, it is important to consider that older programs are probably bigger, more diversified, and are more institutionalized into the daily life of most citizens. Moreover, if policies create politics, once started those programs may acquire their own dynamics, independent of the organizational and political power of their former beneficiaries. In other words, old programs would tend to present a greater inertial reproduction, and consequently a bigger political cost of being cut.

Regarding the fiscal priority of social spending over other sources of expenditures between 1980 and 1990[20], four hypothesis will be examined:

1) Due to their supposed vulnerability to popular pressures, it is expected that democratic regimes will tend to give higher fiscal priority to social spending than authoritarian ones.

2) New democracies will be more vulnerable to popular pressures than old ones. Because of their characteristic instability, new democracies will not be strong enough to face the supposed high political costs entailed by the change in the budgetary priorities. Hence, they will give higher fiscal priority to social expenditures than authoritarian regimes or old democracies.

3) Higher priority to social spending will not be not specifically related to a type of regime, but to the political instability that characterizes the transition process as a whole. Consequently, it is expected that transitional regimes, whether in their authoritarian or democratic stage, will give greater fiscal priority to social expenditures than stable regimes.

4) Any effect of the political variables above can only be perceived if the different institutional characteristics of the systems are taken into account. More specifically, due to the wider range of interests involved and bureaucratic inertia, changes in fiscal priority should be easier in new systems than in older and more complex ones.

Finally, it is important to underline that this paper is concerned with expenditure choices, outputs, and not their results, outcomes. There is no normative intention here to ascribe an "adequate" level of social expenditures. The level of social expenditures that a country is able to manage is hard to calculate due to the several factors that intervene on this question, such as the rate of the economic growth, how the benefits of this growth are

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[20] - Although the beginning of the "Debt Crisis" is conventionally located at 1982, with the official declaration of the Mexican Moratorium, its effects began to be felt earlier. For the group of countries under study, the mean variation of the GDP per capita was 1.96 for 1980, -0.58 for 1981, and -5.48 for 1982. The central government deficit(-)/surplus for the same years were -2.29 , -2.73, and -5.00, respectively. Regarding both economic indicators, the worst years of the entire period were 1982, and

appropriated, the characteristics of each country's "social debt", and the level of taxes that can be borne by the private sector.

The set of cases will be composed of annual data from the ten Latin American countries of South America, plus Costa Rica and Mexico. These countries comprise the largest social spenders of the region. Other Latin American countries were not included due to the absence of available data on social expenditures. The analysis is based on pooled data rather than country by country variation, since this procedure allows an increase in the number of cases.

Regarding the independent variables, the regime classification will follow the traditional way. Democracies are understood by their political characteristics. In this way, democratic governments were the ones elected by popular and competitive elections. The crucial questions for this definition are the clear end of the previous authoritarian rule and the importance of elections in the composition of government.[21] By the same token, authoritarian governments are the ones structured over dictatorial rule, either civil or military, or based on some form of non-competitive election. As a general rule, any year of transition between categories was coded as democratic only if the new government assumed office in the first half of the year, otherwise it was coded as authoritarian.

New democracies were defined as the democratic regimes that emerged during the last "wave" of democratization in the region. Thus, all democracies that appeared after 1979 were considered as "new". Colombia, Costa Rica and Venezuela were coded as "old".

To address the question of the "transition" effect, a distinction was drawn between "stable" and "transitional" regimes according to the extensive literature on democratic

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1983. Consequently, setting 1980 as the base year of the series seems to be reasonable because, though it already presents some problems of fiscal imbalance, it can be considered the last pre-crisis year.

[21] - This simple criterion avoids many problems of classification that are not relevant for this paper. Even though, there are three ambiguous cases: Brazil under Sarney, Paraguay under the General Andres Rodrigues, and Mexico under Salinas. In the case of Brazil, since Sarney's term represented the end of military rule in the country, and faced free elections for all other levels of government, it was classified as democratic. The end of the previous authoritarian rule cannot be assured in the cases of Paraguay and Mexico; consequently, they were coded as authoritarian regimes. Finally, those criteria follow the conventional definitions for those three countries adopted in the literature.

transitions. What matters is the political uncertainty that features these processes. A stable regime was defined, by contrast, as non-transitional.[22] The problem here is that if the "democratic transitions" literature is reasonably clear about the beginning of transitions, it is not about their end. Therefore, the inauguration of the second democratic government was defined as the conclusion of the transitional period. According to the rule established earlier, if this government began in the first half of the year, this year was coded as stable democracy; otherwise, the code of transitional democracy was applied. All the classifications are included in Table A at the end.

The last independent variable will be a measure of the age and complexity of the social welfare programs. This is a dummy variable based on an extension of the classification made by Carmelo Mesa-Lago (1989) between "top" and "intermediate" groups of countries according to their welfare systems. This classification comprises different characteristics of these systems such as age, population covered, contributions to financing, etc. Although the original index is restricted to the social security programs (social insurance and health), it is a good proxy for the institutionalization and complexity of the other programs. Historically, Mesa Lago's "top countries" also were the first to develop programs other than Social Security. Therefore the "top" group consists of Argentina, Brazil, Chile, Costa Rica, and Uruguay. The "intermediate" group includes Bolivia, Colombia, Ecuador, Mexico, Paraguay, Peru and Venezuela.

Among the dependent variables, two indicators of social spending will be used: the first, and foremost, is the share of the total public spending, which will measure the fiscal priority of the social sector among other types of expenditures as well as its protection in times of cuts. A second variable, the share of social spending over the GDP, will help to assess the general tendency of public expenditures, and the magnitude of social

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[22] - Again, this simple definition does not avoid two ambiguous cases: Mexico and Paraguay. In the case of Mexico, it is considered as a transitional regime after the 1988 elections, when for the first time, the survival of the national ruling coalition represented by the PRI was electorally challenged. Since then, the PRI have to take into consideration a higher level of political uncertainty. In the case of Paraguay, the transition began in 1989, with the non-competitive election of the General Andres Rodrigues.

expenditures as a general macroeconomic effort during the period.[23] Therefore, a decrease in the share of total public expenditures, for instance, may be accompanied by an increase in the share of the GDP. This situation would mean that total expenditures are increasing, with a slower rate for social policies. For those two variables, all data were drawn from a country study project led by UN/ECLAC, and recently published by Cominetti and Di Gropello(1994).

Moreover, to minimize country by country variations, and to make comparisons easier, those last two variables were indexed in relation to 1980, the starting point, which was set with a value of 100. Therefore, the analytical procedure, and the results presented henceforth, represents a comparison of the mean variation of these indexed variables during the period under study. [24] General descriptive measures of these variables, with its real and indexed values are presented in Table 1 below.

TABLE 1
DESCRIPTIVE MEASURES OF THE SOCIAL SPENDING VARIABLES

	Mean	Standard Deviation	Minimum Value	Maximum Value	Number of Cases*
Social Spending/ Total Public Spending	42.60	14.66	16.70	71.20	128
Social Spending/ Total Public Spending (1980=100)	98.30	13.69	49.71	147.92	128
Social Spending/GDP	10.26	4.96	2.30	23.10	128
Social Spending/GDP (1980=100)	96.28	19.63	38.81	154.05	128

* There is no information for Colombia in 1989. Data for Paraguay after 1987 is not comparable with earlier years.

[23] - While there is no reason to believe that social expenditures would respond immediately to variations in the GDP, how their share of the GDP varies is a good indicator of the macroeconomic effort along the time.

[24] - It is important to note that any country effects will be more likely to happen on the expenditures over GDP; either because this variable has a greater inertia, regarding short term economic variation, or because higher spenders are expected to have smaller variations. Fortunately, there is no reason to believe that these factors will have the same weight on the fiscal priorities.

In helping to identify different strategies to deal with the crisis, two other variables were added: the annual unemployment rate, and the variation of the minimum wage. The rationale is that even though governments have a limited short-term influence over the unemployment rate, a decrease in fiscal priority may be compensated by a greater emphasis in job maintenance. Likewise, as the minimum wage is fixed by governments, a greater effort to maintain the value of the poor's income may compensate a lower fiscal priority of social policies.[25] In addition, the lower priority of social policies would be softened by the reduction of their need. Instead of minimizing the social consequences of the crisis by compensating them, these strategies would center in attacking their sources. This is the core of the "compensation hypothesis" that will not be formally tested, due to the absence of adequate data, but may help to depict possible hypotheses that can be tested in the future. The data for those variables have been drawn from UN/ECLAC yearly publications.[26] In the case of the minimum wage variable, there are three missing data points for Bolivia, between 1980 and 1982.

Among the last two dependent variables, central government deficit/surplus measures the extension of the economic adjustment. The deficit/surplus variable intends to provide an idea about possible different fiscal adjustment patterns. The data for this variable have been drawn from the yearly report of the Inter-American Development Bank.[27] There is two missing cases for Bolivia, since the data are not comparable after 1988.

Finally, the annual variation of the GDP/p.c. will provide a perspective about the seriousness of the economic crisis faced by the different regimes. The data for this variable was drawn from the same UN/ECLAC publication used above.

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[25] - The definitions of social spending protection and fiscal priority will be considered as interchangeable, and both relate to the social policies' share of the total public expenditures relatively to other types of public expenditure. It is crucial to understand that the absolute amount of expenditures and the fiscal priority are two different variables. Thus, it is possible that a decrease in the absolute amount of the social expenditures represents an increase in their fiscal priority, or protection.

[26] - UN/ECLAC, Economic Survey of Latin America, and Statistical Yearbook of Latin America, various issues.

[27] - Inter-American Development Bank, Economic and Social Progress of Latin America, various issues.

POLITICAL REGIMES AND SOCIAL EXPENDITURES

Testing the First Hypothesis: the Effects of Political Regime

Table 2 below shows the impact of regime differences on expenditures options in dealing with the crisis. Contrary to the first hypothesis about the greater tendency of democracies to protect social spending, the evidence demonstrates, quite surprisingly, that authoritarian regimes have protected more those types of expenditures than democratic ones.[28] Moreover, this greater protection did not relate to a smaller macroeconomic effort, which would represent protection among intense cutoffs. This conclusion can be deduced from the second line that shows that the share of the GDP was also higher for authoritarian than democratic regimes. In sum, when compared to democracies, authoritarian regimes have both a higher priority for social expenditures, and a higher level of social spending as a share of the GDP. Finally, the other indicators are not significantly different in statistical terms, which is consistent with previous findings.[29]

A first explanation for these results is that the analysis made here does not take into account other effects of the economic crisis, mainly its different timing among the countries. Yet, in this case, it would be necessary to explain both the relationship between those effects and the fiscal priority options, and the variation of those effects along political regimes. In other words, although it would be very reasonable to assume effects of economic crisis over the absolute amount spent, there is no reason to assume the same effects on the fiscal priority. It is important to recall here that the main variable relates to

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[28] - All values presented here depend much on which year is set as the base one. For example, the results will change if 1982 is set the year equal to 100. In this case, the effects of regime on social expenditures fiscal priority not only loses its statistical significance, but also have democracies with a slightly greater fiscal priority. The reason for this is that during 1981 and 1982 authoritarian regimes increased both social expenditures fiscal priority and their share of the GDP. The only exception was Argentina, where the share of total expenditures went down in 1982, probably due to the Malvinas War effort. Comparing 1980 and 1982, real fiscal priority decreased in Argentina (-10.1); Bolivia (-5.4,), Ecuador (-2.3), Venezuela (-3.5), and the transitional Peru (-0.8). Colombia suffers an increase of only 0.4. On the other hand, the same variable increased in authoritarian Brazil (+5.0), Chile (+7.1), Mexico (+2.8), Paraguay (+12.0), and Uruguay (+3.0). The exception in this group was the democratic Costa Rica with an increase of (+5.5). On the other hand, keeping 1980 as the base year, and taking the mean for values from 1982 on, do not alter any result. Consequently, the results are stable if the base year is 1980, otherwise they lose their statistical significance.

[29] - See Remmer (1990).

proportional variations of social expenditures regarding other governmental types of expenditures, not to their absolute amount.

TABLE 2
TYPE OF POLITICAL REGIME

	Authoritarian	Democratic		
	Mean	Mean	F	Significance
Social/Total Public Spending (1980=100)	103.70	95.17	12.603	0.001
Social Spending/GDP (1980=100)	103.26	92.22	10.071	0.002
Unemployment Rate	7.74	8.18	0.480	0.489
Annual Variation of the Minimum Wage	0.07	- 4.47	2.226	0.138
Central Government Deficit(-)/Surplus	- 3.62	- 3.97	0.156	0.693
Annual Variation of the GDP/p.c.	- 0.27	- 0.66	0.207	0.650

A more plausible, and more interesting, explanation would center on Hirschman's idea of "political goods," by which democracies are less constrained to present material results at the short time, because they can provide other forms of goods such as freedom of speech and organization, electoral competition, and so on. The problem with this point is that it is hard to measure satisfaction with the "political goods." A third explanation is that the effects of political variables are conditioned by differences regarding the age, complexity and institutionalization between top and intermediate systems. This hypothesis is tested below.[30]

A comparison between Tables 2A and 2b shows that much of the regime effect over the social fiscal priority, as shown in Table 2, is conditioned by the characteristics of the welfare system. More specifically, in Table 2A, with the intermediate welfare group, the previous general effects are not only confirmed but also appeared stronger. A different picture emerges when the analysis is restricted to the top group, as demonstrated by table 2B. In this last case, the effects are quite smaller, and have no statistical significance. Also interesting in this last case, it is the central government deficit surplus variable, whose

[30] - The autonomous effects of the variable welfare complexity on the fiscal priority are quite similar and have no statistical significance (values are 99.07 for intermediate, and 97.58 for top welfare systems, with

values and statistical significance may indicate that the effort of protecting social expenditures came at the cost of postponing the adjustment of the fiscal imbalance.

TABLE 2A
TYPE OF POLITICAL REGIME (INTERMEDIATE WELFARE SYSTEMS)

	Authoritarian	Democratic		
	Mean	Mean	F	Significance
Social/Total Public Spending (1980=100)	108.60	94.41	15.713	0.000
Social Spending/GDP (1980=100)	100.32	86.56	7.306	0.009
Unemployment Rate	5.27	9.06	48.509	0.000
Annual Variation of the Minimum Wage	- 1.03	- 4.47	0.544	0.463
Central Government Deficit(-)/Surplus	- 4.98	- 2.99	3.493	0.066
Annual Variation of the GDP/p.c.	- 0.08	- 1.14	0.892	0.348

TABLE 2B
TYPE OF POLITICAL REGIME (TOP WELFARE SYSTEMS)

	Authoritarian	Democratic		
	Mean	Mean	F	Significance
Social/Total Public Spending (1980=100)	99.00	96.39	0.795	0.377
Social Spending/GDP (1980=100)	106.08	101.36	1.358	0.249
Unemployment Rate	10.41	6.74	11.214	0.002
Annual Variation of the Minimum Wage	1.12	- 4.47	2.189	0.145
Central Government Deficit(-)/Surplus	- 2.15	- 5.52	5.807	0.019
Annual Variation of the GDP/p.c.	- 0.48	0.11	0.188	0.666

Another interesting finding is the strong and inverse effects over unemployment rates, effects that could not be perceived in the Table 2 because they canceled out each other. Thus, among the intermediate welfare group of table 2A, the evidence shows that authoritarian regimes did clearly better than democratic ones. The picture is entirely

a significance of 0.5459). Therefore, what is going to be tested in this paper are possible interaction effects between type of welfare and type of political regime.

different in Table 2B, with the top welfare group. In this case, authoritarian regimes did quite worse than democratic ones.[31]

What could explain this relationship? In a general manner, the effects of regime depend on the type of extant social welfare apparatus, and this is valid not only for the degree of protection of those type of expenditures, but also for the unemployment rate. In the first case, a more complex welfare apparatus and greater social expenditures had enabled the maintenance of the same level of protection. Although the data available allow only some conjectures, these results seem to strengthen the "feedback" perspective, inasmuch as it would call attention to possible links between social expenditures and the material basis of organized interests in those democracies. In this way, greater social expenditures would provide more material resources for groups to organize. Groups that benefited from those policies will try to block any cutoff attempt, which would make these attempts more costly and with more unclear consequences. Going a bit further, it would be possible to inquire about the differences between corporatist and non-corporatist mechanisms of social and political incorporation. Unfortunately, a deep analysis of those ideas goes beyond the scope of this paper.

In the case of the unemployment rate, the results were not expected by the informal "compensation hypothesis" that predicts a positive association between unemployment and welfare expenditures. Yet, the results are quite in order with traditional European Welfare perspective that relates the maintenance of full-fledged welfare systems to low levels of unemployment. In those systems, high unemployment rates would be devastating both because it would restrict the source of revenues for the system, and, at the same time, would increase the demand for its services. If the developed Latin American welfare

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[31] - As in the case of the fiscal priority, there is no autonomous effect of type of welfare system over unemployment rates. The test of this hypothesis presented quite similar, and not statistically significant results (values were 7.78 for intermediate welfare systems, and 8.34 for the top ones, with a statistical significance of 0.3736).

systems are closer to the European systems than to the other developing countries, this idea could lead to interesting new paths of analysis.[32]

One of these paths, for instance, would try to depict different types of democracies based on the relationship between patterns of welfare systems and of social and political incorporation, as discussed above. Despite the acknowledged limited capacity of the state to determine the level of unemployment, another possible path of analysis would relate the pursuit of lower levels of unemployment to the postponement of the adjustment of the financial disequilibrium. The question, then, would be why some democracies postponed the adjustment, and the possible influence of the social welfare type on this postponement. Again, a deeper analysis is beyond the reach of this paper.

The Second Hypothesis: the Effects of Democratic Newness.

In trying to differentiate the democracy cases, the second hypothesis would predict that the relatively worse results of democracies can be credited mostly to old democracies. The supposed vulnerability of new democracies to long repressed popular pressures would entail higher political costs for any social spending cuts as a mechanisms to reduce the public deficit and reach fiscal equilibrium. Therefore it is expected that new democracies will protect more social expenditures in relation to other areas of expenditure.

Table 3 below tests the second hypothesis about the specificity of "new democracies" when compared with authoritarian regimes and old democracies. In general, the results did not confirm the "new democracies" hypothesis. Specifically on the case of the social expenditures fiscal priority, the results reassert the findings of Table 2. New and old democracies have quite similar results, and a smaller fiscal priority when compared with authoritarian regimes.

Two other points are also interesting in the comparison between democracies. The first is that, when compared with old democracies, new democracies have a similar fiscal priority and a slightly smaller share of the GDP, these two characteristics indicate that their total

[32] - Admittedly, the differences between the two types of systems are also great, mainly with respects to

public expenditures have a smaller share of the GDP. However, despite this last point, new democracies have a higher public deficit, which leads to the conclusion that the source of this deficit is not a special prodigality concerning either to public expenditures in general, or to social expenditures in particular. A reasonable explanation for this result would relate it not to any kind of particular vulnerability to social pressures, common in the "populism" explanatory framework, but to the fact that new democracies were struck harder by the international debt crisis than old ones.(Remmer, 1990)

TABLE 3
TYPE OF POLITICAL REGIME AND DEMOCRATIC NEWNESS

	Authoritarian	New Democracy	Old Democracy		
	Mean	Mean	Mean	F	Significance
Social/Total Public Spending (1980=100)	103.70	95.08	95.30	6.255	0.003
Social Spending/GDP (1980=100)	103.26	90.18	95.36	5.778	0.004
Unemployment Rate	7.74	7.36	9.40	3.555	0.031
Annual Variation of the Minimum Wage	0.07	- 8.80	1.95	5.549	0.005
Central Government Deficit(-)/Surplus	- 3.62	- 5.33	- 2.03	4.843	0.009
Annual Variation of the GDP/p.c.	- 0.27	- 0.79	- 0.48	0.146	0.864

The second point of interest in Table 3 refers to the unemployment variable where, though with a weak statistical significance, new democracies have a performance similar to the one showed by authoritarian regimes and poorer than old democracies. In this case a plausible explanation may relate to the fact discussed in the "compensation hypothesis" by which decreases in social expenditures would be compensated by attempts to keep employment and wages. The big problem with that explanation come from the results of the minimum wage variable. In this case, new democracies performed significantly worse than both old democracies and authoritarian regimes; those results are clearly against the ones predicted by the "compensation hypothesis". The differentiation between top and intermediate types of welfare systems, as done before, may help at this point.

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the stratification of benefits structure and the size of the formal market. See Mesa-Lago (1978, and 1989).

Tables 3A and 3B below reinforce the perception that there is not much difference among new and old democracies when they are classified according to the type of welfare. In general, the same patterns found in the previous tables are reasserted. When controlled by the type of welfare variable, democracies have a lower fiscal priority than authoritarian regimes among the intermediate countries. Similarly, among the top welfare systems, no significant difference is found when regimes are compared.

TABLE 3A

TYPE OF POLITICAL REGIME AND DEMOCRATIC NEWNESS (INTERMEDIATE WELFARE SYSTEMS)

	Authoritarian	New Democracy	Old Democracy		
	Mean	Mean	Mean	F	Significance
Social/Total Public Spending (1980=100)	108.60	95.09	93.48	7.840	0.001
Social Spending/GDP (1980=100)	100.32	79.63	96.13	8.591	0.000
Unemployment Rate	5.27	7.81	10.70	46.695	0.000
Annual Variation of the Minimum Wage	- 1.03	- 9.31	1.90	2.690	0.075
Central Government Deficit(-)/Surplus	- 4.98	- 4.45	- 1.20	5.495	0.006
Annual Variation of the GDP/p.c.	- 0.08	- 1.71	- 0.37	0.975	0.382

TABLE 3B

TYPE OF POLITICAL REGIME AND DEMOCRATIC NEWNESS (TOP WELFARE SYSTEMS)

	Authoritarian	New Democracy	Old[33] Democracy		
	Mean	Mean	Mean	F	Significance
Social/Total Public Spending (1980=100)	99.00	95.07	98.79	0.819	0.447
Social Spending/GDP (1980=100)	106.08	105.47	93.88	3.018	0.058
Unemployment Rate	10.41	6.71	6.80	5.503	0.007
Annual Variation of the Minimum Wage	1.12	- 8.05	2.04	3.127	0.052
Central Government Deficit(-)/Surplus	- 2.15	- 6.52	- 3.69	4.070	0.023
Annual Variation of the GDP/p.c.	- 0.48	0.55	- 0.68	0.305	0.739

[33] - The mean is based on cases that came only from Costa Rica. This is the only table where this type of situation happened.

Concerning the share of GDP, an interesting figure appears in Table 3A, where new democracies are clearly outperformed by both old democracies and authoritarian regimes. This provides additional information for the findings of Table 2A, since it is possible to attribute a great part of the lower performance of democracies in that table to the new democracies effect. In sum, when controlling by the characteristics of the welfare system, it is possible to ascertain that social expenditures were less protected within the group with smaller and less complex systems. Still, the evidence about the final consequences of this strategy on the reduction of the fiscal imbalance is not clear, since new democracies in this group have a public deficit quite similar to the one showed by authoritarian regimes, and bigger than the one presented by old democracies. The differentiated impact of the debt crisis, again, might help to explain those results.

In relation to the unemployment rate, in Table 3A new democracies are in a midway position between authoritarian regimes and old democracies, while in Table 3B both kinds of democracies have a quite similar performance. This last result reinforces the general perspective that, regarding unemployment among bigger welfare systems, what matters is only the general differences between authoritarian and democratic regimes. Conversely, in the cases of less developed welfare systems, it is possible to find a difference between new and old democracies, which may indicate that the lower rigidity that qualifies those systems turns them more sensitive to political variations.

Finally, regarding the minimum wage, the pattern of Table 3 is repeated in both tables, albeit with no statistical significance. New democracies may be clearly differentiated from old democracies and authoritarian regimes, despite the type of welfare system. In all cases new democracies had the worst performance, followed by authoritarian regimes and old democracies. A possible explanation for these results would take into account the fact that in some countries, the minimum wage is used as the basis for calculating the value of some social benefits. Consequently, a decrease in the value of the minimum wage is a necessary condition to reduce some types of social expenditures, even if that reduction is compensated by an increase in other benefits.

To get a different perspective on those last points, it is necessary to introduce the last set of tables, the ones that concern the third hypothesis.

The Third Hypothesis: The Transitional Effect

This hypothesis departs from the assumption that policy expenditure choices are related not to regimes but to the political uncertainty that permeates the transitional process. It predicts that, due to their instability, transitional regimes are more prone to spend money trying to enlarge their political support. Because executives have fixed terms of office, they can choose to postpone the payment of their bills, which would enable them to manage their expenditures as if they were less constrained by the economic crisis.

On the other hand, stable regimes wouldn't have the same type of option for different reasons, both related to lower levels of uncertainty. In the case of authoritarian regimes because leaving office would not be a pressing problem; in the case of democracies, the reduction of the political uncertainty would leave room for facing the economic crisis, whose worst consequences should be fully apparent due to the way the prior transitional democratic regime chose to manage it. Therefore, even if the temptation to postpone exists, the conditions for its exercise are more restricted.[34]

Finally, some countries shifted categories along the last decade, going from stable authoritarian regimes to transitional regimes, or stable democracies. This situation allows some speculation about expected strategies that would be pursued in each stage of the transition process.

The evidence presented in Table 4 below do not confirm such expectations. Transitional regimes and stable democracies have a similar fiscal priority for social expenditures, and both have a lower priority than stable authoritarian regimes. A difference in strategies can be observed when one also considers the share of the GDP. In this case, while they have a similar fiscal priority, transitional regimes and stable democracies differ in the total amount

[34] - Granting that the same phenomenon happens in old democracies, as argued by the literature on the "business electoral cycle", there is a clear difference of degree that is related to the level of political uncertainty. The more institutionalized a democratic regime is the smaller the scope for "postponement" strategies.

expended. Again, the difference in the public deficits would suggest that this greater amount in public expenditures may correspond to an attempt to postpone the fiscal adjustment. In other words, in a situation of general public retrenchment, the transitional hypothesis may be useful to explain not the upward trend of public expenditures, but their rate of decrease.

TABLE 4
TYPE OF REGIME AND REGIME TRANSITION

	Stable Authoritarian	Transitional Regime	Stable Democracy		
	Mean	Mean	Mean	F	Significance
Social/Total Public Spending (1980=100)	108.56	94.93	96.44	10.743	0.000
Social Spending/GDP (1980=100)	109.71	96.81	88.89	11.301	0.000
Unemployment Rate	8.14	7.13	8.85	3.108	0.048
Annual Variation of the Minimum Wage	- 1.14	- 4.73	- 1.85	0.547	0.580
Central Government Deficit(-)/Surplus	- 3.57	- 5.27	- 2.46	4.640	0.011
Annual Variation of the GDP/p.c.	0.05	- 0.49	- 0.84	0.308	0.735

Therefore, it is possible to say that, during the transitional period, a hypothetical democratizing country would have a first cut in the public expenditure with a larger proportion for social spending. When democratic stability is reached, from the second democratic government on, there would be a second attempt to reach fiscal equilibrium, with a new public expenditures cutoff; but, at this time, social expenditures would not suffer more than other government sectors, since their fiscal priority would not change.

Following the same procedures applied in former hypothesis, Tables 4a and 4B below summarize the effects of the transitional hypothesis when controlled by the characteristics of the welfare system. Again, the evidence did not confirm the general transitional hypothesis. A comparison between the two tables seems to reaffirm previous results since both systems have ended the democratic transition period with lower social expenditures than stable authoritarian regimes. However, those differences have distinct magnitudes and paths. Among the cases with less developed welfare systems, it is possible to perceive that transitional regimes have values very close to stable democracies in both variables: the fiscal priority and the share of the GDP.

TABLE 4A
TYPE OF REGIME AND REGIME TRANSITION (INTERMEDIATE WELFARE SYSTEMS)

	Stable Authoritarian	Transitional Regime	Stable Democracy		
	Mean	Mean	Mean	F	Significance
Social/Total Public Spending (1980=100)	112.14	94.64	95.45	9.086	0.000
Social Spending/GDP (1980=100)	107.97	87.47	85.36	8.145	0.001
Unemployment Rate	5.11	6.73	9.58	27.548	0.000
Annual Variation of the Minimum Wage	- 0.79	- 8.52	- 2.02	1.000	0.373
Central Government Deficit(-)/Surplus	- 5.04	- 5.65	- 1.83	6.987	0.002
Annual Variation of the GDP/p.c.	0.17	- 1.56	- 0.76	0.667	0.516

TABLE 4B
TYPE OF REGIME AND REGIME TRANSITION (TOP WELFARE SYSTEMS)

	Stable Authoritarian	Transitional Regime	Stable Democracy		
	Mean	Mean	Mean	F	Significance
Social/Total Public Spending (1980=100)	102.83	95.12	99.08	2.242	0.116
Social Spending/GDP (1980=100)	112.51	102.84	98.21	2.914	0.063
Unemployment Rate	13.29	7.42	6.85	10.597	0.000
Annual Variation of the Minimum Wage	- 1.75	-2.42	-1.39	0.027	0.973
Central Government Deficit(-)/Surplus	- 1.07	-5.00	-4.06	2.119	0.130
Annual Variation of the GDP/p.c.	- 0.15	0.27	-1.06	0.333	0.718

In the group with intermediate welfare systems, the same hypothetical country discussed above would not make a two-stage cutoff strategy, since there is no difference between the values for the transitional period and the ones showed by stable democracies. In this case, stable democratic governments apparently did not resort to expenditure cuts to reduce their deficit problem. Their lower deficit was reached through other mechanisms. Finally, an opposite pattern appear in the unemployment rate where transitional regimes have performed closer to stable authoritarian than to the stable democracies.

A different picture emerges from Table 4B, with the top welfare systems cases. There, following a pattern much alike to the other hypotheses, the transitional variable loses its effect on the fiscal priority of social expenditures and its share of the GDP, though at this time, numbers are close to showing some statistical significance. The only exception, again in a pattern very similar to the previous results, is the unemployment variable. In this case, it is possible to draw a clear distinction between stable authoritarian regimes, from one side, and transitional and stable democracies, from the other.

In that situation, the same hypothetical country going along those variables would keep its fiscal priority for social expenditures, as well as its share of the GDP, and would tend towards a lower unemployment rate during the democratization process.

CONCLUSION

This paper discussed the effects of the economic crisis and the democratization over the policy options regarding public expenditures during the last decade. More specifically, the central focus was about the effects of political regimes, and regime transition, over the social expenditures fiscal priority in a context of general public retrenchment.

Starting from the assumption that very similar economic performances may reflect very distinct policy options, three hypothesis were tested. A fourth hypothesis assumed that any effect from the political variables should be controlled for the type of welfare system.

The results confirmed only the last hypothesis. In no occasion protection, if present, happened in the direction predicted by the first three hypothesis. Strong results were related to the interaction effects as expected by the last one. In this case, it was possible to distinguish two different behaviors concerning social policies fiscal protection.

Among less developed welfare systems, the effects went against the one expected: democracies protect social expenditures less than authoritarian regimes; new democracies did not distinguish from old ones, and both showed a lower protection of the social expenditures than authoritarian regimes; and, finally, transitional regimes did not show a higher fiscal protection than stables ones. On the contrary, all three cases were cases of adjustment attempts with a higher burden for social policies, though the results of these attempts on the reduction of the public deficit were not clear.

Among the more developed welfare systems, the effects of political variables become negligible. In all three cases no significant difference was found, and no attempts of adjustment could be inferred. This last aspect suggests that the preservation of the fiscal priority for social policies, and the general level of public expenditures, might be related to the postponement of the fiscal adjustment.

Another interesting finding, about the unemployment rate, resulted from the interaction between political variables and the type of welfare system. Although no formal hypothesis about this matter was tested in this paper, a strong association appeared, and it deserves some attention. Therefore, among less developed welfare systems, in all three cases authoritarian regimes presented the lowest unemployment rate. New democracies, or transitional regimes, stayed midway in a movement towards increasing unemployment rates, either between authoritarian regimes and old democracies, or between stable authoritarian and stable democratic regimes.

This situation is completely reversed in the case of developed welfare systems. There, authoritarian regimes always showed the highest unemployment rate. In addition, differently from the other group, new democracies and transitional regimes showed results very close to the ones presented by either old or stable democracies. Those results bring more plausibility for the "feedback" effects of policies on politics. It was speculated that more developed welfare systems would entail a different pattern of state-society relationship, by which social policies generated interest organizations of beneficiaries, that would exercise influence over politics, mainly through the opportunities opened by the democratization.

But despite those results, it is necessary to discuss the reasons why the other three hypothesis failed in their predictions. All of them supposed some kind of relationship between a greater permeability to popular pressures, and higher fiscal priority for social expenditures in the budgetary decisions. Inasmuch as transitions can be understood as a gradual lifting of former authoritarian controls, it would entail a greater sensitivity to popular demands; further, as social policies usually reach a large and diversified contingent of the population, they would appear to be a natural candidate for protection, even in a general environment of public retrenchment. Governments, as discussed above, would prefer to preserve social expenditures rather than take the higher political risks involved in cutting them off. While this reasoning was very plausible at the beginning, all the evidence presented in this paper could be summarized in one point: democratization did not lead to greater fiscal protection for social policies. Whether failures imply the abandonment of all previous work, and a restart from the scratch, or are interpreted as important sources of information for theoretical improvement, will depend on a clear understanding of what went wrong.

In this case, the problem seems to rely on the assumption of the linkage between democratization, greater sensitivity to popular pressures, and higher fiscal priority for social policies. A similar assumption can be found in works that discuss the threat represented by economic crisis to democratization and new democracies, since that greater sensitivity, in a context of economic crisis, would hinder the necessary coherence of public policies to cope with the crisis. This is the essence of the tradeoff faced by those governments between the short and long-term results of adjustment economic policies. Consequently, the absence of strong democratic institutions and priorities among public policies would reinforce each other, threatening the survival of the young democratic regimes.

Yet, as pointed by Remmer (1990), the puzzle of the last decade is the surprising resilience of the new Latin American democracies against the economic crisis, and their ability to cope with the challenges of the adjustment processes. The findings of this paper allow the suspicion that those democracies may be surprising not only because they are showing unexpected survival abilities, but also because they are working in unexpected ways.[35]

The assumption of a greater democratic sensitivity to popular pressure begs the question of how those pressures get into the political arena. Part of the answer, surely, relies on the institutional differences among democracies and the consequences those institutions have over the shaping of the political arena.[36] In addition to that point, the results of this paper, specially the interaction effects between democratization and types of welfare regime, underline another aspect, namely, the ways popular pressures get organized using the resources provided by public policies. In other words, the type of state-society relationship would have a great influence over both the ways popular pressures get into the political arena, and the policy choices made during the economic crisis; this aspect is more important, the more the former regional pattern of development required a great state intervention in the society.

A further development of the perspective above would lead to understand the results here only as a partial failure of the broad assumption behind the first three hypotheses. In this way, those democracies would present a selective sensitivity to popular pressures, and selective protection of social policy expenditures. Whether, as argued by Nelson (1992), attempts to impose income losses over powerful groups would probably end up in compromise, it would be reasonable to expect the same procedures regarding social expenditures cutoffs. In this way, it could be hypothesized that the politics of social expenditures retrenchment follows a similar stratified pattern that featured those systems in times of expansion.[37] Therefore, the most protected programs should not be the universal ones, but those where the middle and higher classes have a bigger stake. This is a

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[35] - This may be the source of the current spurt of academic creativity on adjectives to democracy. In a recent work on this subject, Collier and Levitsky (1994) found more than 300 adjectives.
[36] - See, among others, Przeworski (1988); O'Donnell (1991)
[37] - " Whether the poor exert pressure as part of a larger threat to government security, as voters in highly competitive elections, or as members of community organizations, a similar theme emerges: when governments respond to "popular" pressures, the poor are subordinate partners. They are likely to benefit to the degree that their needs overlap those of their allies. On issues where their interests diverge, the poor are unlikely to prevail." (Nelson, 1992, pp:237/8)

very interesting hypothesis and, hopefully, it will be tested in future developments of this work.

In that last case, the politics of retrenchment would end up being similar to the politics of expansion. Is this perspective in contradiction with the argument about the “feedback” effects of policies, which claims that the politics of expansion and retrenchment are qualitatively distinct? This would not be the case because of the nature of the expansion game is rather different from the nature of retrenchment one. If the return to the old expansionary budget policies is not possible anymore, with it goes the old politics to solve distributive conflicts through inflationary measures where distributive trade-offs could be pushed into the future. If in times of expansion, governments manage conflicts about who is going to receive more, in times of retrenchment the struggles centered around losses distribution, the same kind of coalitions cannot be engendered in the two cases. And they cannot also because it is not possible to disregard the effects the crisis had on the internal politics, shifting the balance of power among the contending interests. Finally, if retrenchment could be done for the same expansionist coalition, it would be necessary to explain why the “lost decade” pictured so many failed attempts to adjust.

One of the main objectives of this paper is to contribute to a further understanding about what kind of democracy is being built under those conditions.

TABLE A

VARIABLES CODIFICATION

Country	Authoritarian	Transition	Democratic	Social Welfare Complexity
Argentina	80/83	82/89	84/90	Top Welfare System
Bolivia	80/82	80/85	83/90	Intermediate Welfare System
Brazil	80/84	80/89	85/90	Top Welfare System
Chile	80/89	88/90	90	Top Welfare System
Colombia	__________	___________	80/90	Intermediate Welfare System
Costa Rica	__________	___________	80/90	Top Welfare System
Ecuador	__________	80/84	80/90	Intermediate Welfare System
Mexico	80/90	88/90	____________	Intermediate Welfare System
Paraguay	80/90	89/90	____________	Intermediate Welfare System
Peru	80	80/85	81/90	Intermediate Welfare System
Uruguay	80/84	80/89	85/90	Top Welfare System
Venezuela	__________	___________	80/90	Intermediate Welfare System
TOTAL	50 (23 Trans.)	52 (23 + 29)	82 (29 Trans.)	12 (5 + 7)

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