THE POLITICS OF NEOLIBERAL REFORM IN LATIN AMERICAN DEMOCRACIES: ARGENTINA, BRAZIL, PERU, AND VENEZUELA

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CH.1: INTRODUCTION

The Puzzle

What explains the surprising willingness of several Latin American democracies to enact harsh neoliberal reforms? What accounts for the high level of approval that these costly measures initially elicited in some countries, especially Argentina, Peru, and initially Brazil--whereas similar policies provoked rejection and protest in Venezuela? And why did structural reforms advance quickly in Argentina and Peru, but much more haltingly in Brazil and especially in Venezuela? My study explores these important and intriguing questions by analyzing the politics of economic policy in Argentina, Brazil, Peru, and Venezuela, the major Latin American democracies that enacted market reforms during the last decade.

Many observers had assumed that democratic governments would avoid implementing painful adjustment measures for fear of massive popular disapproval. In this view, only dictatorships--such as the Pinochet regime in Chile (1973-90)--had the power to impose draconian neoliberal reforms (Foxley 1983: 16, 102; Pion-Berlin 1983; Sheahan 1987: 319-323). The refusal of new democracies in Argentina, Brazil, and Peru to enact orthodox adjustment policies during the mid-1980s seemed to confirm this argument.

Yet contrary to these expectations, several democratic governments initiated and successfully implemented draconian neoliberal programs in Latin America during the last decade. After their predecessors had hesitated for years, the governments of Carlos Saúl Menem in Argentina (1989-present), Fernando Collor de Mello in Brazil (1990-92), Alberto Fujimori in Peru (1990-present), and Carlos Andrés Pérez in Venezuela (1989-93) imposed neoliberal shock programs shortly after taking office. Unexpectedly, these painful policies aroused little protest and much support, or at least acquiescence, in Argentina, Brazil, and Peru--while triggering unprecedented riots in Venezuela. And despite the hardships that orthodox adjustment caused, Presidents Menem and Fujimori managed to win convincing reelection victories in open, democratic contests--whereas Presidents Collor and Pérez faced widespread opposition and suffered impeachment on corruption charges. The politically successful adoption of market reform in some Latin American countries--but not in others--constitutes one of the most important puzzles currently facing the field of Comparative Politics (Remmer 1995: 114). What accounts for this surprising turn of events? And what accounts for the divergence in outcomes, i.e., the political triumph of market reformers Menem and Fujimori compared to the political failure of their counterparts Collor and Pérez?

Significance

To what extent democracy and capitalism are compatible, especially in less developed countries, represents a crucial question for political science (see recently Almond 1991; Offe 1991; Armijo, Lowenthal, and Biersteker 1994). Some observers emphasize the commonalities between democracy and a capitalist market economy, which are both based on freedom and individual initiative and which have coexisted for decades in the West. Other theorists stress the tensions between democracy, which guarantees equal political rights for all citizens, and market capitalism, which allows for--and perhaps even requires--considerable socioeconomic inequality. By limiting the concentration of power, democracy also makes drastic change difficult. It may thus impede marketization, i.e., the political process of instituting a capitalist market economy.

By examining how--and how successfully--fragile democracies in major Latin American countries instituted neoliberal programs, this book analyzes the preconditions for a convergence of democracy and capitalism in an "underdeveloped" region. What has made democracy and market reform compatible in several Latin American nations--but not in others? Are the institutional powers of the government and its organizational mechanisms for garnering support, such as political parties, decisive? Alternatively, do deep economic crises paradoxically provide a golden opportunity for imposing painful adjustment measures (cf. Drazen and Grilli 1993)? Or are the political skills of individual leaders more important?

To answer these and other important questions, the book assesses and invokes a variety of theoretical arguments derived from economic, political-institutional, ideational ("cultural"), rational-choice, and psychological theories. Economic arguments emphasize that severe economic problems resulting from external dependency and strong pressures from international financial institutions forced Latin American governments to adopt orthodox adjustment (Stallings 1992). Political-institutional theories argue that the successful enactment of neoliberal reform depended on the institutional powers of chief executives and the support provided by strong political parties (Haggard and Kaufman 1995). Ideational accounts stress that political elites and citizens learned from the economic failure of state interventionism and therefore embraced neoliberal ideas (Kahler 1992: 123-131). Rational-choice arguments claim that--given severe economic crises--politicians rationally chose drastic shock programs over gradual market reform in order to minimize the political costs of structural adjustment and to reap political benefits by using neoliberal measures to weaken their adversaries (Przeworski 1991: 162-180; Geddes 1994a). Finally, psychological findings suggest that the severity of the economic crisis plaguing their country induced political leaders to initiate--and common people to support--neoliberal shock programs despite the high economic and political risks inherent in them and despite the feasibility of more prudent, less painful adjustment policies (Weyland 1996b).

In assessing these divergent theories, the study addresses some of the "paradigmatic" debates in political science, especially the issue of "structure vs. choice" and the question of rationality in politics. As regards the debate concerning structure vs. choice, the current predominance of institutionalist approaches and the legacies of economic-structural theories leave little room for leadership. These constraint-oriented arguments account fairly well for normal politics, which tends to proceed in well-established patterns. But are they fully convincing in crisis situations, when the existing system seems to be "up for grabs"? In such situations, can leaders take advantage of severe challenges and evade--or even break through--the constraints they are facing?

As regards the issue of rationality, do leaders--and their followers or opponents among the citizenry--act in strictly rational ways, or do they display some of the deviations from rationality that psychological experiments have consistently found? By exploring the extent to which rationality principles or psychological regularities are reflected in politics, my research speaks to the emerging debate between rational-choice approaches and psychological theories of decision-making (Hogarth and Reder 1987; Cook and Levi 1990; Wittman 1991; Levy 1994: 132-135; Morrow 1995; Friedman 1996).[1] Whereas rational-choice approaches deliberately start from simplifying assumptions about decision-making and strategic interaction, psychological theories are based on empirical findings about human cognition and action. Rational-choice approaches have been on the advance in political science during recent years, but they are facing new challenges from psychological decision theories. While the latter theories have attracted increasing attention in the field of International Relations (Stein and Pauly 1993; Farnham 1994; Levy 1997; McDermott 1998), this study is--to the best of my knowledge--the first book-length effort to apply some of these insights to Comparative Politics.[2]

The Main Argument

My research suggests that economic, political-institutional, ideational, rational-choice, or psychological theories alone cannot provide a satisfactory account of the puzzles under investigation. Structural, institutional, and ideational factors merely set the stage for leaders' choices and citizens' judgments. These choices and judgments in turn--while guided to a considerable extent by political and economic self-interests--reflect some of the deviations from strict rationality that psychological experiments have found. Thus, my research yields a complex explanation that integrates aspects of structure and choice, yet diverges from conventional rational-choice models by starting from psychological insights on decision-making.

The core of this synthesis--its "micro-foundation"--rests on the psychological findings of risk-seeking in the domain of losses and risk aversion in the domain of gains, which have been corroborated by innumerable psychological experiments (Kahneman and Tversky 1979; Tversky and Kahneman 1992; Payne, Bettman, and Johnson 1992: 96-97, 122): Whereas people who face the danger of losses prefer risky choices, people who can choose between different options of gains tend towards great--often excessive--caution. Applying the former result to political decision-making provides a "micro-foundation" for crisis arguments, which scholars commonly use to account for drastic policy reform (Bates and Krueger 1993: 452-4, 457; Callaghy 1990: 263, 317; Grindle and Thomas 1991: ch.4; Haggard and Kaufman 1995: 199-201; Waterbury 1993: 35, 67, 138, 157-8, 192, 265-6). Accordingly, the motivation for governments to abandon the caution displayed by their predecessors and to enact tough neoliberal measures of adjustment and restructuring emerged from the gravity of the economic crises afflicting their country. Acute open crises also induced many citizens to endorse the painful, risky policies imposed by their leaders. By contrast, where the government hid severe imminent problems from the citizenry and many people therefore did not see themselves in the domain of losses, preemptive adjustment measures elicited rejection and protest (Weyland 1996c).

The psychological findings of risk-seeking in the domain of losses and risk aversion in the domain of gains also help account for the political fate of neoliberal reform in the medium run. Where drastic adjustment produced stabilization and recovery, political leaders soon became more cautious and shied away from completing the program of drastic reforms recommended by their neoliberal advisers and the IFIs. Similarly, more and more citizens turned risk-averse and accepted the new market model despite the economic and social problems that structural adjustment often created. A majority of people therefore voted for the experienced incumbent--e.g., Presidents Menem and Fujimori--, rather than making a risky electoral choice by supporting the untested opposition.

My research thus suggests that psychological findings provide the micro-foundation of a comprehensive explanation for the politics of neoliberal reform. As an account of political decision-making, however, this argument cannot stand alone.

Indeed, the hypothesized shifts in leaders' and citizens' propensities towards risk depend on changes in the context of choice, i.e., on moves between the domain of losses and the domain of gains. These changes in context are conditioned by economic, political-institutional, and ideational factors and developments. Thus, the psychological arguments invoked in this study necessarily call for an integration of "choice" and "structure" (cf. Berejikian 1992: 652-655).

How did economic-structural, political-institutional, and ideational factors shape the context for leaders' and citizens' choices and for the underlying moves from risk aversion to risk-seeking and vice versa? Problems resulting from external dependency and from suboptimal domestic policies, such as the debt burden, led to the eruption of deep economic crises. Pressures from IFIs, learning from the failure of heterodox adjustment, and ideological conversions to neoliberalism foreclosed some potential responses to these crises and put a strong premium on neoliberal recipes. Credits from IFIs and favorable agreements for debt rescheduling facilitated economic stabilization and recovery. Finally, presidents' institutional powers conditioned their capacity for imposing adjustment measures against opposition, and the structure of the party system influenced the political support that leaders could muster. In addition, democratization strengthened the responsiveness of politicians to the large mass of voters, who were highly concerned about the fall-out of deep economic crises, and weakened the political strangle hold of interest groups, many of which had a strong stake in the established development model. Thus, structural, institutional, and ideational factors set the stage for the choices of leaders and citizens and conditioned the impact of these choices. My project therefore embeds psychological findings in other approaches and designs a complex, yet systematic explanation for the initiation and political fate of market reform in contemporary Latin America.

Research Design

To assess the psychological arguments that the present study elaborates and places in context, scholars could examine countries that differ starkly in historical background, cultural traditions, development level, economic structure, and political-institutional framework.[3] But an analysis that applies such a "most different systems design" (Przeworski and Teune 1982: 34-39) would focus on one set of variables only and inevitably neglect many other factors that influence the political success of neoliberal reform.

The present study seeks to put flesh around these bare bones by embedding psychological insights on choice in a structural, institutional, and ideational context. Rather than pursuing an analytical goal, the purpose of this book is synthetic. The attention to causal complexity and to context factors, which differ widely across regions, requires a much narrower focus than that of a cross-regional comparison. The current study is therefore much more "case-oriented" than "variable-oriented" (Ragin 1987). By investigating countries that have many context factors in common and that actually initiated neoliberal reform, this study applies a "most similar systems design" (Przeworski and Teune 1982: 32-34). In this way, it seeks to elucidate the political conditions and repercussions of the specific market reforms enacted and implemented in four major Latin American countries.

Argentina, Brazil, Peru, and Venezuela share many historical, cultural, economic, social, and political background characteristics, such as Iberian colonization, predominance of Catholicism, fairly advanced import-substitution industrialization and "social modernization" (Deutsch 1961), similar constitutional structures (for instance a presidential system of government), and exposure to the same ideational trends, for instance the advance of neoliberalism during the last two decades. These commonalities make it easier to assess the causal impact of the remaining differences--such as the severity of economic problems and the strength of political party systems--on the political processes and outcomes of market reform. Their commonalities make it reasonable to assume causal homogeneity among the four countries: Causal factors are likely to have similar effects in these similar settings. Statistical analyses of large samples of "most different" cases, by contrast, make this assumption of causal homogeneity with much less justification (Ragin 1987: ch. 4).

Besides the contextual factors they share, all of the four countries under investigation eventually initiated drastic neoliberal adjustment. These similar starting points make it possible to investigate the reasons for the political success of market reforms in some countries and their (at least temporary) failure in others. Thus, the complex argument advanced in this book explains the finer distinctions in reform outcomes, which prospect theory alone with its stark binary prediction--reform vs. non-reform (depending on domain of losses vs. domain of gains)--cannot capture.

Small-N comparison among "most similar cases" is especially well-suited for this type of fine-tuned causal analysis (Ragin 1987: ch. 3; Collier 1998). In particular, it is attentive to context factors that statistical analysis implicitly abstracts from. Yet the capacity of small-N comparison to isolate the causal impact of specific variables is hampered by multiple interaction effects among the numerous factors that shape the few cases under investigation. This high level of complexity makes analytical controls precarious (Ragin 1987: 42-44, 49-51; Lieberson 1991). As a result, causal inferences cannot be as rigorous and scientific as in statistical analysis (but this variable-oriented approach also has many problems and weaknesses: Ragin 1987: 61-67).

To compensate for this analytical problem, the following study complements the combinatorial logic underlying the effort to isolate causal factors by resorting to "process tracing" (George 1979). For this purpose, it undertakes a longitudinal analysis of the unfolding of neoliberal reform efforts. By accounting for the twists and turns of reform politics, this approach focuses on the operation of specific causal factors at certain points in time and thus permits a tentative sequential isolation of these factors.[4] Also, process tracing is particularly attuned to the path dependency that characterizes contextually embedded political processes: Earlier decisions delimit later choice options, and prior experiences influence the content of later decisions through political learning. Statistical analysis, which assumes independence among cases and therefore has difficulty dealing with the notion of learning--the source of problematic "autocorrelation"--, seeks to abstract from sequential causation. Case-oriented examination, by contrast, regards factors such as learning, which result from conscious efforts at improving problem solving, as one of the most interesting features of politics and a constitutive element of human decision-making. For all of these reasons, the present study relies primarily on small-N comparison.

CHAPTER 2: AN ASSESSMENT OF DIFFERENT ARGUMENTS

This chapter assesses a variety of explanations for the politics of neoliberal reform in Latin America, which invoke economic structures, political institutions, ideas and values, rationality, or psychological models of choice. All of these arguments make important contributions. But by themselves, they cannot account for the variation in observed outcomes. This book therefore designs a complex explanation that integrates different factors into a systematic account of the initiation, implementation, and repercussions of neoliberal reform.

Economic-structural arguments, which are inspired by a dependency perspective, hold that the decisions to enact market reform resulted from the tight constraints imposed by global economic structures and the strong pressures exerted by international financial institutions (IFIs) (Stallings 1992). These arguments shed important light on the economic pressures that Latin American governments had to face. But they cannot explain why these governments waited for years before adjusting their economies to the severe problems caused by the debt crisis. And when governments finally did adjust, they took important measures that went much farther than the IFIs had recommended or that diverged from the "Washington consensus". Even more surprisingly, large numbers of citizens in several countries approved of these drastic adjustment measures, which imposed considerable short-term costs and which therefore--according to the expectations of economic structuralists--should have triggered opposition, if not revolt (cf. Walton and Ragin 1990). Thus, economic-structural arguments are not fully convincing.

Political-institutional arguments maintain that a government's capacity for enacting drastic adjustment policies depends on its institutional strength--especially centralized executive authority--and the presence of organizational mechanisms that marshal support in society, especially a cohesive, nonpolarized party system (Haggard and Kaufman 1995: 163-182). But Brazilian presidents, who command the most extensive constitutional powers among the four countries under investigation (Shugart and Carey 1992: 155), have faced much greater difficulties in garnering Congressional approval for neoliberal reforms than Presidents Menem and Fujimori (1990-92), who have enjoyed much less extensive formal attributions. Furthermore, party strength, which was high in Argentina and Venezuela, yet low in Brazil and Peru (Mainwaring and Scully 1995: 17), cannot account for the political success of market reforms in Argentina and Peru and their failure in Brazil under Collor and Venezuela under Pérez. Thus, institutional arguments alone cannot account for the political fate of market reform.

Ideational theories attribute the wave of neoliberal reform in Latin America to the international diffusion of ideas, policy learning by elites, and value shifts among the citizenry (Kahler 1992: 123-131; Edwards 1995: ch.3). But it is unclear to what extent leading policy-makers--such as Menem and Fujimori--truly converted to orthodox economic ideas (Alsogaray 1993: 171; Boloña 1993: ix, 28, 202), rather than adopting market reforms for political reasons. Similarly, it is questionable whether the 1980s saw a massive move from nationalist state-centrism to neoliberalism among the population (Turner and Elordi 1995: 486). Even the data presented by the advocates of this argument show only a moderate change (Mora y Araujo 1993: 313-315). Thus, the claim that ideational shifts brought about market reforms are not fully persuasive.

Rational-choice models comprise two types of arguments designed to explain the long postponement and final adoption of structural adjustment, namely economic-distributional models (Alesina and Drazen 1991; Drazen and Grilli 1993; Rodrik 1994) and political decision models (Przeworski 1991; Geddes 1994a;

Acuña and Smith 1994). Both of these sets of models provide provocative insights into the politics of market reform. But in depicting distributional conflicts as the primary obstacle to neoliberal adjustment, economists overestimate the political clout of socioeconomic groups and neglect the autonomy of politics. And they (especially Drazen and Grilli 1993) are too functionalist in regarding drastic adjustment as beneficial for society, downplaying the substantial economic uncertainties and grave political risks entailed by drastic neoliberal reform.

Political decision models claim that neoliberal programs are enacted mainly by political outsiders, not by established politicians, who seek to protect their followers and patronage appointees from the high costs of orthodox measures (Geddes 1994a). But this argument provides an excessively proximate explanation and does not account for the very rise of political outsiders. And Przeworski's (1991: 162-80) powerful argument that rational actors committed to marketization will prefer drastic shock programs over gradual adjustment **if** they have confidence in the eventual success of these measures does not explain why political leaders and common citizens would have such confidence. In fact, people normally discount the future heavily, refusing to accept current costs for the promise of future benefits (Thaler 1992: 94). Przeworski's argument rests on an ad-hoc assumption of high risk acceptance, which contrasts starkly with the risk aversion postulated by the rational-choice accounts that purported to explain the long postponement of neoliberal adjustment (cf. Grindle 1991).

Psychological theories--specifically, prospect theory--can account for this drastic variation in risk propensity. Yet its situational argument--risk-seeking in the domain of losses vs. risk aversion in the domain of gains--immediately calls for the incorporation of macro-factors--such as economic structures, political institutions, and ideational trends--that help explain under what circumstances individuals find themselves in the domain of losses vs. the domain of gains. Thus, prospect theory provides the basis for integrating elements of different theories, which on their own are not fully convincing, into a complex explanation, as is necessary for elucidating the politics of neoliberal reform under democracy.

CHAPTER 3: A COMPLEX EXPLANATION OF ADJUSTMENT POLITICS

The core of the explanation advanced in this book draws on psychological theories of decision-making, especially prospect theory. The present chapter embeds into an ideational, institutional, and structural context the robust empirical findings of psychologists on behavioral regularities that diverge from strict rational maximization. In this way, the chapter synthesizes elements of theories which, taken on their own, provide insufficient explanations of the enactment of neoliberal reform under democracy, as the preceding chapter showed.

In elaborating such a complex explanation, the book goes beyond the quantitative model of causality that informs much of modern political science. Reflected most clearly in statistical analysis, that approach assumes that all variables make, in principle, the same type of contribution to an explanation; the difference of interest is merely their relative weight. The main question of this line of research is what percentage of the variance a causal model or a specific variable explains. The idea of causality that informs this "variable-oriented approach" (Ragin 1987) is thus purely quantitative.

By contrast, this book retrieves a qualitative understanding of causality that originated with Aristotle's famous theory of the four types of causes. In a conceptual clarification that is of particular value for analyzing human decision-making (Aristotle 1929: 194a-195a, 198a-b; Aristotle 1978: 983a, 988a-b, 1013a-b), this great philosopher argued that the notion of "cause" can have four essentially different, yet complementary meanings: material cause, formal cause, "efficient (or moving) cause" (or "impulse": Aristotle 1929: 198a), and "final" cause (i.e., goal or intention). Since these four concepts of "cause" refer to different aspects of the same process, all of them need to be taken into account for a full, comprehensive explanation (Aristotle 1929: 198a).

According to Aristotle, the material cause is the matter that is being transformed, i.e., the object that is affected by the other types of causes. The formal cause is the idea that informs this process of transformation. For example, the rock of Mount Rushmore was the material cause of the four presidential sculptures, and the image of their heads, the formal cause. The driving force behind a transformation--for instance, the group of artisans and workers who carved the four presidential sculptures--is the "efficient" (or moving) cause. Lastly, the goal and purpose of the transformation--in this case, the effort to honor four great presidents and thus strengthen national identity--is the "final" (or intentional) cause. While Aristotle gave the latter cause a grand teleological interpretation that skeptical modern and especially "post-modern" scholars would find unconvincing, it is most usefully seen as the purpose, intention or--in modern parlance--the "interest" driving an action.[5]

All four types of causes are crucial for understanding a process of transformation. Since these factors play qualitatively different, yet essential roles (Aristotle 1978: 1013b), the effort to eliminate some of these causes analytically in order to reduce causal models to a small number of variables makes limited sense. Such analytical reduction is useful inside each qualitative category of causality, but not among them. For instance, it is important to assess which one of the ideas that were current at the time shaped the goal of an action, or what type of interest--e.g., political or economic--drove a choice. But in this qualitative view of causality, it is not fruitful to ask whether it was ideas **or** interests that determined a decision--or whether ideas mattered more or less than interests. Rather, both ideas **and** interests mattered, yet in qualitatively different ways. For example, ideas informed the goal pursued through an action, whereas interests guided the unfolding of the action towards this goal.

The multi-factorial explanation elaborated in the present chapter is inspired by this qualitative notion of causality. In fact, it follows a modified version of Aristotle's theory of the four causes. Accordingly, prospect theory's focus on decision makers' shifting propensities towards risk elucidates the "moving cause"--the impulse--of market reform. Ideational theories point to the formal cause, namely the lessons drawn from prior experiences and the international diffusion of ideas that provided the blueprint of the policy change sought. Rational-choice arguments about the political interests that drove the adoption of neoliberal programs shed light on the "final" (intentional) cause. Structural economic arguments analyze the characteristics of the economies that underwent transformation and thus provide the material cause--the object--of reform. In addition, institutional arguments add a dimension not considered in Aristotle's general theory of causality (but of course, in his analysis of politics: Aristotle 1973: book 4), namely the rules and mechanisms for the aggregation of individual choices into collective decisions.

Beyond the specific explanation advanced, the following synthesis thus seeks to resurrect a qualitative understanding of causality that has been marginalized by the advance of powerful quantitative techniques in modern political science. While such techniques--and the underlying quantitative perspective on causality--are useful for "variable-oriented" research (Ragin 1987), a modernized version of Aristotle's distinction of four qualitatively different types of causes may provide important inspiration for "case-oriented" research, like the present study.

I) Psychological Decision Theories

In criticizing economic-structural and sociological-institutional arguments, advocates of rational choice have demanded "micro-foundations" for explanations in the social sciences (e.g., Przeworski 1985: 92-97; Tsebelis 1990: 19-24; Knight 1992: 4-18).

In this methodologically individualist view, only individuals are real actors, whereas collectivities are aggregations of individuals and institutional structures are products of the interplay of individual choices. Scholarly accounts therefore need to be (ultimately) based on individual choices. Holistic explanations that invoke economic structures, culture, or institutions--depicted as shaping individuals--are declared illegitimate and often denounced as "functionalist".

My complex argument accepts this challenge to traditional modes of explanation. While attributing major importance to economic structures, ideational factors ("culture"), and political institutions, it rests on a clear micro-foundation, namely psychological findings on human choice. Arguably, these empirical insights, which have been amply corroborated in innumerable experiments and many field studies, provide a more solid micro-foundation for explanations than the unrealistic postulates and heroic simplifications underlying "rational choice". Any theory of choice that has an empirical purpose is well-advised to start from empirical findings on human choice. My complex argument therefore rests on empirical insights on human decision-making. Since the core psychological findings I draw on have a situational character--risk-seeking <u>in the domain of losses</u> vs. risk aversion <u>in the domain of gains</u>--, they also provide a more natural basis for incorporating macro-factors--such as institutions and cultural trends shaping individuals--that fit only uncomfortably in methodologically individualist rational-choice accounts.

<u>1) Prospect Theory</u>[6]

Psychological theories of decision-making, especially prospect theory (Payne, Bettman, and Johnson 1992; Kahneman and Tversky 1979; Tversky and Kahneman 1992), provide the core of the explanation for the politics of neoliberal reform. The central empirical finding of prospect theory is that people tend towards risky behavior when confronted with threats to their well-being, but are cautious when facing more auspicious prospects. Crises trigger bold actions, while better times induce risk aversion.[7] This finding provides a systematic account of shifts in people's propensities toward risk.

Prospect theory maintains that people do not make decisions based on absolute levels of utility (as conventional rational choice approaches assume), but rather, in terms of relative gains and losses, using the status quo as their normal point of reference. Interestingly, people display a marked aversion to losses, to which they attach much greater importance than to gains of equal magnitude (Kahneman and Tversky 1979). They imbue the status quo with a special legitimacy (Kahneman, Knetsch and

Thaler 1990), defending it more fiercely than they seek further improvements. Decisions therefore hinge on whether a person faces the prospect of gains or of losses. When faced with the choice between different possibilities of gains, people tend to select risk-averse options ("sure bets"). They regularly prefer a certain gain of smaller magnitude to a less likely gain of much higher magnitude even if the expected utility of the latter option (the product of its probability times its value) exceeds that of the former. In the domain of losses, however, many people opt for risk-seeking: They shun a certain loss of small magnitude and prefer instead a lottery that contains the promise of avoiding any loss, but also the risk of a big loss. The aversion to a certain, if moderate loss induces them to choose this risky option even if--due to the low probability of avoiding all losses--its expected utility is lower than the limited decline of the former option.[8]

As these striking findings suggest, people tend towards prudence in their efforts to advance, but are daring in their determination to avoid setbacks. When confronted with threats, they hedge their bets on the unlikely prospect of recouping the status quo, which risky choices offer, rather than accept a certain, yet limited loss. In situations involving a single choice, risk aversion thus prevails in the domain of gains, whereas in the domain of losses, people tend towards risk-acceptance.

Life is more complex, however, as choices arise sequentially. How do prior gains or losses affect future decisions? The outcomes of earlier decisions influence the reference point for assessing later gains and losses. Specifically, most people quickly assimilate gains by raising their reference point. This makes them see the reduction of a recent gain as a loss, a perception that tends to induce risk acceptance. By contrast to the quick assimilation of gains, people tend to retain the old status quo after suffering losses (Kahneman and Tversky 1979: 286-87). Clinging to the previous status quo as their reference point, many victims of privations see any option that falls short of recuperating their prior position as involving a certain loss. In order to regain their "deserved" position, which they regard as their just endowment, they are willing to run considerable risks. This risk acceptance is especially pronounced when people who have suffered losses and who remain in the domain of losses face a decision option that offers the--unlikely--prospect of eliminating all earlier losses and recouping the old status quo, i.e., of "breaking even" (Thaler and Johnson 1990). The endowment effect--i.e., people's tendency to regard the (old) status quo as their legitimate position--thus exacerbates risk seeking in the domain of losses.

Risk-seeking in the domain of losses provides the central impetus for the adoption of draconian adjustment programs and their popular acceptance. It explains why heads of government take the risk to enact measures that neoliberal economists consider economically rational, but that politicians regard as politically irrational. Leaders who face severe crises tend to prefer daring counter-measures to more prudent adjustment policies, and many people endorse these bold efforts to save the country although they hold a substantial risk of failure and further deterioration.[9] Dramatic problems tend to put both leaders and citizens in the domain of losses and thus prompt a common tendency towards risk acceptance.

Economic or political crises put many people in the domain of losses. In crisis situations, further deterioration looms unless the government takes countermeasures. If these countermeasures are prudent and gradual, this deterioration is stopped only slowly, recovery will be long in coming, and structural problems, which are not attacked head-on, may well persist. If, by contrast, the government enacts drastic countermeasures, it takes a bold gamble: Given that the effect of such adjustment "packages" is difficult to foresee, there is a substantial risk that a full-scale catastrophe will erupt. But if the determined countermeasures eliminate entrenched obstacles to prosperity, they can usher in a quick recovery and put the country back on a path towards steady growth. Thus, crises pose a set of decision options that resemble the experimental design for the domain of losses.

If--despite their risks--market reforms lead to economic recovery, both leaders and citizens enter the domain of gains and, as a result, turn to risk aversion. Chief executives therefore adopt more cautious policies and back away from part of the structural reform program that neoliberal experts and international financial institutions urge them to adopt in its entirety. This move to risk aversion helps account for the delay in enacting the "second wave" of reforms.[10] This delay arises not only because these efforts to revamp economic and political institutions are technically complicated and require broad political support; it is also due to the reluctance of chief executives who preside over an economic recovery to push as hard for costly, risky changes as they did when combatting the deep initial crisis.

Furthermore, an ever larger number of citizens benefits from the economic recovery or at least hopes to do so in the future. Moving into the domain of gains, they also turn to risk aversion and prudently accept the new development model, rather than boldly pushing for drastic further improvements. A large number of people therefore endorses the incumbent initiator of neoliberal reform--at least as the lesser evil--and refuses to support the opposition, which has not proven its capacity to administer the new development model and which therefore constitutes a risky alternative. Due to this popular support, which is crucial under democracy, especially in the age of opinion polls and media politics, market reforms achieve political consolidation.

Thus, prospect theory's insights about the shifts in leaders' and citizens' propensity towards risk provides the core of a convincing explanation for the adoption, endorsement, and preservation of drastic neoliberal measures--and a "microfoundation" for common insights on the role of crises in reform initiation (cf. Bates and Krueger 1993: 452-4, 457; Bienen 1990: 729-30; Callaghy 1990: 263, 317; Grindle and Thomas 1991: ch. 4; Haggard and Kaufman 1995: 199-201; Waterbury 1993: 35, 67, 138, 157-8, 192, 265-6). But whereas several extant crisis arguments--especially Drazen and Grilli (1993)--assume positive, beneficial, i.e., eufunctional responses to problems,[11] my prospect theory interpretation emphasizes the dangers inherent in risk-acceptant reactions to crises. In this way, it does justice to the economic problems caused by neoliberal shock treatment--as stressed by Bresser Pereira, Maravall, and Przeworski (1993), Murrell (1993), and Sheahan (1994)--and accounts better for the political failure of many initiators of adjustment, exemplified by the spectacular impeachment of Presidents Collor of Brazil and Pérez of Venezuela and the surprising comeback of ex-Communist parties in several East European countries. Thus, my psychological interpretation accounts better for the uncertainty and indeterminacy of crisis situations (cf. Vierhaus 1978: 322) than other crisis arguments, particularly political economy models like Drazen and Grilli's (1993) and Rodrik's (1994).

2) The "Status-Quo"/Prior-Option Bias

The shifts in risk propensity predicted by prospect theory are, however, mediated by people's strong "status-quo bias"--or, more correctly, prior-option bias[12]--another deviation from strict maximization that psychologists commonly find (Samuelson and Zeckhauser 1988; Arkes and Blumer 1985: 130-2; Thaler 1992: 63-78). Due to loss aversion and a reluctance to admit failure, people tend to persist in an unpromising course of action, hoping against all odds that it will finally bring success and thus limit--or even erase--past losses. Taking into account sunk costs--not only the prospects of future benefits, as strict rationality requires--, they refuse to "cut their losses" and stick to established strategies.

Translated into the terminology of prospect theory, the prior-option bias skews people's assessment of different decision options. Given the high cost of admitting failure[13] and of disavowing earlier efforts and given the dangers involved in drastically changing course, new departures appear to people who are clearly responsible for earlier choices as entailing unacceptably high losses and risks. This makes the risk-averse option of "staying with the devil one knows" relatively more attractive. Thus, whereas people in the domain of losses who are not subject to the prior-option bias choose to take bold action (even at the risk of incurring much greater costs), people who are trapped by the prior-option bias choose the risk-averse option of continuing to pursue their earlier strategies. In this way, they do not have to admit that the costs incurred so far are a pure, unmitigated loss. Instead, desperately hoping that hitherto unsuccessful efforts will finally bring results, they can justify these costs as the necessary effort ("investment") for achieving success.

Applied to politics, this prior-option bias induces longstanding political leaders, who are clearly responsible for earlier policy choices, to keep applying these recipes even when the economy deteriorates ever more clearly. The prior-option bias thus keeps in check the risk acceptance predicted by prospect theory. Only new leaders escape from this trap of sunk costs and respond to a deep economic crisis with drastic adjustment measures that repudiate established policies. In these ways, the prior-option bias reinforces and extends the risk aversion prevailing in the domain of gains and mediates the risk acceptance emerging in the domain of losses.

The prior-option bias thus leads to greater persistence in policy-making than prospect theory alone would expect. By intensifying the "stickiness" of earlier choices, it hinders decision-makers' adaptation to new circumstances. In this way, the prior-option bias leads to stretches of continuity in policy-making. Incumbency thus causes "equilibria" that are "punctuated" by turnover in office (cf. Krasner 1984: 240-243).

The prior-option bias differs from the rational calculation of chief executives at the end of their term to avoid the short-term costs of adjustment because only their successor would reap its long-term benefits. Instead, the fallacy of sunk costs traps incumbents with finite as well as indefinite tenures in office. Thus, it prevails not only under presidential systems of government that rule out immediate reelection, as in Brazil at the end of President José Sarney's term (cf. Weyland 1996a: 116). It also holds sway in parliamentary systems, which do not limit chief executives' tenure in office. A prime example was Margaret Thatcher's stubborn pursuit of orthodox neoliberal reform, which undermined the electoral prospects of the Conservative Party and eventually led to her downfall in November 1990. Similarly, the prior-option bias operates with great intensity under authoritarian regimes of personal leaders--such as Zambia's Kenneth Kaunda in the 1980s or Indonesia's Suharto in 1997/98--who seek to extend their tenure as long as possible. Thus, this bias reflects excessive obstinacy, not rational cost-benefit calculations. It therefore fits in with the psychological decision framework applied in this book.

II) Ideational Theories
1) Learning from Prior Experiences

Whereas the prior-option bias causes sequences of excessive continuity in policy-making, political learning--specifically, learning from perceived mistakes--can lead to significant change. Learning allows new decision-makers, who are not tied down by commitment to established policy approaches, to repudiate the failed policies of their predecessors and to embark on new courses of action. Learning thus provides an opportunity for reassessment, correction, and improvement--an escape from the fallacy of sunk costs. While the prior-option bias--in the metaphor of punctuated equilibrium (Krasner 1984: 240-243)--leads to temporary "equilibrium"--i.e., stability--, learning can produce occasional "punctuation". In statistical terminology, the prior-option bias causes stretches of positive autocorrelation, whereas learning from perceived failure brings about occasional instances of strong negative autocorrelation.

It is important to note that the lessons drawn from earlier experiences are not necessarily accurate. Given the tremendous difficulty of disentangling the causal factors that shape outcomes in a single case, faulty inferences about the reasons of recent failures are quite likely. And even if the assessment of past courses of action is correct, designing better recipes for the future is a daunting task. For these reasons, the new policies enacted as a result of learning are not guaranteed greater success than the preceding ones, which are perceived as failures. In fact, the abandonment of old policies can make the situation worse. Thus, the concept of learning used in this book differs from rational-choice notions that postulate an approximation to "the truth". While such improvement is certainly intended, it is by no means assured. Indeed, trying out new options can backfire and aggravate problems. Policy experiments inspired by learning thus carry considerable risk. According to my prospect theory interpretation, decision-makers tend to take such risks only when seeing themselves in the domain of losses. Due to its potentially non-rational character, political learning thus fits in with the psychological decision framework applied in this book.

The risk inherent in policy experiments that are inspired by political learning is exacerbated by the fact that learning is not only an intellectual process, but also a political process (Hall 1993). Ideas prevail or fall from favor not only due to their intrinsic persuasiveness, but also because the sociopolitical forces espousing them gain or lose in political influence. If orthodox policies prove incapable of stabilizing an economy, for instance, neo-classical economists, neoliberal business sectors, and the international financial institutions lose clout in a country, while protectionist business sectors, trade unions, and "structuralist" economists gain influence. This changing constellation of power--not only intellectual debates about the validity of economic theories--contributes to policy shifts.

As a result of these intellectual and political processes, learning often does not lead to incremental adjustments in policy, but to a widening "swing of the pendulum" between alternative approaches, driven by the ever more drastic rejection of predecessors' failed efforts. Argentina, Brazil, and Peru, for instance, responded to the economic deterioration exacerbated by the debt crisis in this zig-zag fashion: They first adopted moderate orthodox policies in the early 1980s; then embraced the heterodox alternative in the mid-1980s; and quickly returned to neoliberal adjustment--but in a more drastic version--in the late 1980s and early 1990s. Thus, learning can produce policy alternation in a cyclical pattern of intensifying amplitude.[14]

The political nature of learning--especially if it leads to widening swings of the pendulum--aggravates the risk that decision-makers incur when repudiating the policies pursued by their predecessor. Insights on political learning thus complement the psychological interpretation of this book, which explains leaders' shifting propensities towards risk. Specifically, learning helps account for the <u>content</u> of the policies that decision-makers choose. Psychological decision theories explain whether chief executives tend towards risk-acceptant or risk-averse choices. But these theories alone cannot explain whether a policy-maker in the domain of losses will choose bold, drastic policies of an orthodox or of a heterodox nature. Learning helps to fill this gap by elucidating the substance of leaders' policy choices. Thus, ideational theories systematically complement the psychological decision theories applied in this study.

2) The International Diffusion of Ideas

Whereas learning from prior experiences helps explain which one of the available risky (or cautious) policy alternatives a chief executive will choose, the international diffusion of ideas conditions the set of policy alternatives that presidents choose from. Psychological decision theories as such do not explain the range of options that policy-makers consider.[15] For instance, when faced with a debt crisis and its repercussions, decision-makers could, in principle, adopt very different types of bold, drastic responses, including neoliberal shock therapy, protectionist, corporatist state capitalism, or autarky and state socialism. The prevailing ideas condition which subset of these possible recipes chief executives do, in fact, take into consideration. In the 1930s, for instance, corporatism looked like an attractive alternative to liberal democracy and capitalism. Yet with the defeat of "national-socialism" and fascism in World War II, this option lost much of its luster. Similarly, state capitalism or "socialism" appeared to be feasible alternatives to a market economy from the 1950s through the 1970s. Yet with the decay of Communism, full-scale capitalism came to be seen as "the only game in town". Thus, the prevailing ideas of an area delimit the policy options that chief executives consider (cf. Elkins and Simeon 1979: 128-133, 142-143). In addition, if a strong consensus prevails, one of these policy options can gain a special boost, making its adoption more likely. In sum, prevailing ideas condition the possibility as well as probability that a specific policy will be adopted. Since this *Zeitgeist* can change quickly in an increasingly integrated world, the international diffusion of ideas deserves special attention.

Whereas learning from prior experiences has a longitudinal effect, shaping the sequence of policies adopted in one country over time, the international diffusion of ideas has a cross-sectional effect, causing similarities among the policies adopted in different countries at roughly the same point in time. Demonstration and contagion effects trigger waves of reform, such as the embrace of Keynesian economics in the First World after World War II (Hall 1989); the initiation of *CEPAL*-recommended programs of import-substitution industrialization in Latin America in the 1940s and 1950s (Hirschman 1971: 279-291); and the initiation of neoliberal reform in Latin America and other regions in the late 1980s and early 1990s.[16] In statistical terminology, ideational factors--both learning from prior experiences and the international diffusion of ideas--cause (positive or negative) autocorrelation among different cases, which makes statistical analysis difficult. As explained in the introduction, this book therefore relies mainly on qualitative methods, which are more attuned to these ideational factors.

Like learning from prior experiences, the international diffusion of ideas is not necessarily a rational process based on a careful evaluation of other countries' experiences. Instead, fads and fashions--i.e., unthinking, exaggerated enthusiasm for a policy innovation adopted in a model country--are not uncommon.

In fact, such innovations are often imitated even before they yield any beneficial outcomes in the originating country that would justify rational confidence in their success. For instance, Brazil in 1988 imitated President Reagan's income tax reform of 1986 without considering its substantially different impact in a country plagued by extreme levels of income inequality. Similarly, Brazil and Peru enacted drastic neoliberal adjustment in 1990 although similar measures triggered unprecedented riots in Venezuela in 1989 and proved quite unsuccessful in stabilizing Argentina's economy throughout 1990. A rational assessment would have regarded these political and economic failures as deterrents rather than inducements for enacting neoliberal shock programs. Nevertheless, Presidents Collor and Fujimori jumped on the neoliberal bandwagon. Following international fads and fashions thus involves considerable risk--the focus of my prospect theory interpretation. Due to its potentially non-rational character, the international diffusion of ideas fits in with the psychological decision framework adopted in this book.

Through what channels do ideas spread internationally? The training of future elites in a more advanced nation and their return to the native country can have a solid long-term effect. Prime examples of this process are the "Chicago Boys," Chilean economists who received their Ph.D. at the University of Chicago and who helped elaborate and implement the drastic market reforms enacted under the dictatorship of General Augusto Pinochet (1973-90). Even where foreign-trained experts do not have direct participation in policy-making--i.e., where the decision-making process is less technocratic--they may have an important impact by shaping public opinion and the professional discourse in their discipline, which in turn affects the training of future government officials (Valdés 1995).

A more immediate, yet less profound effect results from the efforts of foreign governments and--especially--international organizations to "teach" ideas, norms, and principles of development and to diffuse lessons drawn from experiences in model countries. A wide range of international organizations--such as the World Bank and the International Labour Organization--have pushed their policy advice on Third World countries and have actively promoted "modern" programs and "rational" institutional innovations (Finnemore 1996: ch.4). To what extent the recipients absorb and enact these lessons is open to question, however. Domestic political interests and calculations often lead to a selective implementation of the "recommendations" advanced by international organizations (Brown and Hunter 1999).

Another quickly operating, yet potentially fleeting effect stems from fads and fashions in international policy debates that are inspired by bold experiments in model countries. The adoption of orthodox neoliberal policies by Margaret Thatcher in Great Britain and by Ronald Reagan in the U.S. drastically enhanced the appeal of such recipes in other countries, including--eventually-- in Latin America. The "Chilean model" exerted even greater fascination in the region, especially after the country's free-market economy proved compatible with political democracy (cf. Scully 1996).

The attraction of these foreign models is often open to interpretation, however. Once again, political interests shape people's response to new ideas. Intellectually questionable conclusions, shaped by wishful thinking, may result. In mid-1997, for instance, critics of free-market economics in Argentina and Brazil interpreted the election victories of Tony Blair in Great Britain and of Lionel Jospin in France as a signal that the international intellectual and political hegemony of "neoliberalism" was weakening. Whether this prediction will come true remains to be seen. This episode corroborates the above argument that the diffusion of international ideas is mediated by domestic political structures and constellations of interest and power. The politics that influence learning from prior experiences and the reception of international ideas therefore deserve special attention.

III) Political Interests

Although this book emphasizes shifting propensities towards risk, the prior-option bias, and mechanisms of learning that diverge from rational maximization, it does draw on some important insights advanced by rational-choice authors. These scholars argue correctly that chief executives adopt market reforms in order to pursue concrete political interests (and not only to act out certain economic ideas). While that is usually not their only motivation,[17] politicians do seek to enhance their chances of political survival, i.e., of maintaining and increasing their influence and of weakening their rivals, adversaries, and enemies. These political interests shape their decisions on policies, including economic reform. Thus, the impetus for enacting market reform stems not only from tendencies towards risk acceptance and from particularly persuasive orthodox recipes or neoliberal ideas, but also from the hope that such reforms can strengthen the clout and independence of their initiators.

Specifically, the adoption of drastic, tough stabilization measures and profound structural reforms can prove the courage and determination of political leaders. Especially when confronting a deep crisis, they can save the country from impending doom and thus display their charismatic qualities. They can also prove their modern, "rational" orientation by embracing orthodox policies that high-powered economic experts and the international financial institutions--the guardians of the world economy--advocate. And they can justify their quest for increased power by invoking the need to promote policies beneficial to the country as a whole ("common good") against resistance from selfish "special interests". As neoliberal reforms seek to shield the market from interference by politicians, bureaucrats, and interest groups, they also serve to undermine the clout of these forces, which try to hem in the chief executive's latitude. By weakening trade unions and a number of business sectors, slashing the public bureaucracy, and--due to their technical nature--keeping rival politicians at bay, market reforms thus help to boost the political leadership of their initiators.

Although this book accepts some crucial points stressed by rational-choice authors, it incorporates them into the psychological framework outlined at the beginning of this chapter. Specifically, while chief executives did adopt and use market reforms for the purpose of political survival, they did not do so in a strictly rational way. Rather, the deviations from strict maximization embodied in shifting, asymmetrical propensities towards risk and the prior-option bias shape presidents' political calculations. The political goals of neoliberal reform, especially the inherent attack on established politicians, bureaucrats, and veto groups, exacerbate the risk posed by its adoption. Since market reform involves a struggle over power, it can easily unleash strong conflict. Reform initiators face pervasive passive resistance, and any weakness they show is likely to trigger fierce active opposition. If they stumble, they may well fall. It thus takes a strong willingness to incur risk for a leader to adopt such politically dangerous reforms.

In line with the psychological arguments explained above, only new chief executives who clearly see themselves in the domain of losses run such risks. These leaders do not just "muddle through" and adjust to prevailing circumstances. Instead, they reject established political constraints. They boldly cut the Gordian Knot that threatened to strangle their predecessors, revamp the constellation of political forces, overhaul institutional structures, and thus exert clear transformational leadership (Burns 1978). By contrast, incumbents or their hand-picked successors tend to maintain established political alliances, use conventional strategies and tactics, and confine themselves to leadership by transaction. Similarly, leaders who do not face severe challenges and who therefore see themselves in the domain of gains prefer this prudent, risk-averse course of action.

Thus, risk-seeking in the domain of losses and risk aversion in the domain of gains--as mediated by the prior-option bias--affect not only the choice of economic policies, but also the selection of the underlying political strategies. And the political implications of market reform aggravate the risk that decision-makers incur in adopting such measures, which do not only have uncertain economic success, but can also unleash fierce political conflict. Thus, the political motivations and purposes of drastic market reforms make it even more difficult for rational-choice authors to explain their adoption, given that rational chief executives are generally thought to shy away from offending powerful sociopolitical forces (cf. Ames 1987; Geddes 1994b). This puzzle corroborates the need to rely on psychological decision theories, which can systematically account for such a clear shift in decision-makers' propensity towards risk.

IV) Institutional Factors

1) Institutional Preconditions for Reform Initiation

Institutional structures and their change condition the ways in which chief executives pursue market reform and their inherent political goals. Most importantly for the topic of this book, democratization--like other types of regime change--opens up a "window of opportunity" for reform (cf. Keeler 1993) by undermining established sociopolitical forces and by allowing new or previously excluded actors, who are dissatisfied with the status quo, to enhance their influence. This fluidity in the constellation of power--and, of course, the fluidity in institutional rules that democratization entails--facilitates drastic economic and political change, including market reform.

Democratization weakens some of the vested interests that benefited the most from the old development model, such as protectionist business sectors and the military. At the same time, it enhances the role of the electorate, including the large mass of poor people who received meager benefits under the old development model and who felt politically excluded as well. In these ways, a transition from authoritarian rule can help to pave the way for structural adjustment (cf. Bartlett 1997: 3, 6-7, 12-13).

By causing turnover in political personnel, democratization disrupts some of the particularistic connections to governmental decision-makers that business groups used to enjoy. And by boosting the role of Congress in policy-making (at least as an institution that can veto executive initiatives), democratization makes these direct connections less consequential and forces business groups to adjust to the difficult task of developing a new style of lobbying (Silva and Durand 1998). Finally, by raising the political importance of numbers of people (vs. the economic weight of selective firms and their owners, see Nylen 1993), democratization can also induce small entrepreneurs to become more active and threaten the unchallenged predominance of big business inside established business associations or found new organizations and movements. These new cleavages further weaken the political clout of the private sector, especially its protectionist segments. By contrast, the biggest firms, which are more likely to be competitive and therefore to support neoliberal reform, including trade liberalization, tend to rely less on business organizations for advancing their demands; their huge resources allow them to establish their own direct connections to policy-makers. Thus, a transition from authoritarian rule can weaken entrepreneurs who are lukewarm or opposed to neoliberalism, while leaving the advocates of market reform among capitalists unaffected.[18]

Even more clearly, democratization reduces the political influence of the military. The formal abdication of power at the moment of transition is usually followed by a further diminution in political clout as civilian politicians reclaim resources and responsibilities monopolized by the armed forces under authoritarian rule (Hunter 1997: especially ch.5). This shift in power facilitates neoliberal reform as the military was one of the mainstays of the nationalist, state-interventionist development model that prevailed in earlier decades. Concerned about national security and interested in greater independence from foreign influence, the armed forces played a leading role in pushing industrialization ahead and participated directly in a number of economic ventures, centered around--but by no means confined to--the arms industry. Earlier efforts to enact neoliberal reforms under military rule had therefore faced considerable opposition from inside the armed forces (Biglaiser 1994). The restoration of democracy made this resistance less and less effective.

At the same time, democratization has boosted the importance of the mass electorate. Chief executives nowadays need to attract sufficient voter support. Even if a president can use her institutional prerogatives to impose unpopular measures, she knows that sooner or later, electoral success is decisive for continuing the push for neoliberal reform, which constitutes a medium- to long-term effort, and for forestalling a quick reversal. Major policies therefore need to be acceptable to large numbers of voters, at least by holding a reasonable promise of bringing eventual improvements for "the masses". In order to implement market reform, chief executives thus need to appeal to the hopes and fears of "the people", including their willingness to incur temporary sacrifices and their resentment of the privileges guaranteed to "special interests" by the old development model. Without popular support or at least acquiescence, drastic change is politically impossible to enact.

By changing the balance of power between different actors, democratization facilitates market reform and shapes the ways and means through which neoliberal policies are pursued. Lasting authoritarian rule is nowadays inviable in Latin America, as the strong pressure on President Fujimori to restore democracy after his "self-coup" of April 1992 confirmed. Since sheer imposition with the force of arms is infeasible, reform initiators need to find voluntary support from wide sectors of the population in order to survive electoral contests and challenges. This political need intensifies their tendency to appeal to the large, unorganized mass of common citizens and to use its backing in elections and opinion polls to limit and outflank the likely opposition of vested interest groups in organized civil society. As a result of these political calculations (not of cultural legacies), the enactment of neoliberal reform is nowadays often accompanied and supported by a populist political style (Roberts 1995; Weyland 1996b, 1999).

Another corollary of transitions from authoritarian rule has contributed to the reliance of neoliberal reformers on a populist political style: the introduction of systematic opinion polling. Before the recent wave of democratization in the region, surveys were rare and unsystematic. In this era, public opinion consisted of editorials by journalists, the views of party leaders and militants, and the demands of "special interest" groups. Benefiting considerably from the established state-interventionist development model, these sectors had a stake in its preservation. The large sectors of the population who received few benefits from import-substitution industrialization and who were hurt by high prices and low quality had barely any voice in politics; if represented at all, their views were mediated by clientelist networks, corporatist interest associations, and largely elitist parties.

The spread of systematic opinion polling brought a dramatic change. For the first time, politicians and government leaders gained direct access to the views of the common people. Many of these people had long held a critical view of the established development model, which did not provide them with any of the relative privileges that the middle class, special interest groups, and party leaders enjoyed. Politicians and government leaders thus "discovered" strong discontent with the established system and a general commitment to economic liberty that had been unknown before. Thus, regular, systematic polling may have transformed public opinion by finally giving the long-standing views and values of the unorganized "mass" of people an outlet. This transformation gave leaders additional opportunities to use populist political tactics to dislodge established interest groups and parties and to enact neoliberal reform (Weyland 1996b; Roberts 1995).

Thus, contemporary market reformers use the growing political importance of elections and opinion polls--relative to pressure politics--to their own advantage.[19] They appeal especially to the unorganized mass of common people and attack established interest groups, politicians, and bureaucrats as selfish impediments to the pursuit of the "common good". These attacks play into the hands of neoliberal experts, who seek to bar political interference in the market and who combat the lobbying influence of rent-seeking "special interests". Thus, the new populist politics proves functional for the enactment of profound neoliberal reform. The deep crisis that a number of Latin American countries were facing in the 1980s made possible both the rise of charismatic, neopopulist leadership (Roberts 1995; Weyland 1996b, 1999) and the complete overhaul of the existing development model.

In combatting powerful business sectors, other organized interests, as well as established politicians and bureaucrats and in basing their own political sustenance on fluid, unorganized mass support, neoliberal populists accept great political risks. Their efforts to concentrate power and boost their personal autonomy can easily backfire by limiting their support and making it difficult for them to survive economic challenges and political crises. Under adverse circumstances, their fickle popular backing can evaporate quickly, leaving them defenseless against attacks. Thus, neoliberal populism is a dangerous political strategy. My prospect theory interpretation helps explain why political leaders are willing to risk such a course of action.

If despite these risks, neoliberal shock therapy succeeds in stabilizing the economy and stimulating renewed growth, neopopulist leaders enter the domain of gains and turn more risk-averse. Economic recovery also yields resources for new spending programs. Neopopulist leaders can therefore shift their policies from the imposition of costs to the provision of benefits. Indeed, leaders eagerly resort to more traditional means of buying support in order to strengthen their base of political sustenance. Because they have to face electoral challenges, they institute social programs designed--such as demand-driven anti-poverty plans (Graham 1994)--to spread the benefits of growth and to demonstrate their concern for "the people".

The targeting of these social programs may, in principle, favor either the groups who suffered the highest relative losses from neoliberal reform--usually, sectors of the middle and organized working class--or the sectors who are absolutely worst-off, i.e., the urban and rural poor (Nelson 1992). Several reasons suggest that neoliberal populist governments will prefer the latter option. Democracy in general and populist politics in particular turn votes decisive and thus provide a justification for targeting social programs at the large number of absolutely poor people. Also, limited social spending, which does not threaten budget equilibrium, buys more support among the very poor than among somewhat better-off sectors. Finally, the common psychological tendency to overvalue losses makes it difficult to compensate people for the costs resulting from market reform (Weyland 1998c). Rather than seeking to buy off the losers, governments find it politically more promising to create new winners by extending benefits to the poorest sectors, who had received only minimal pay-offs from the old development model. For these reasons, neopopulist leaders tend to direct new social spending towards the unorganized mass of poor people--the principal targets of their political appeals.

Since the new social programs provide benefits to people who had long been neglected and since they symbolically integrate these "excluded" sectors into national development, they strengthen the incumbent's political support, especially in electoral contests. The implementation of these programs thus enhances the chances for maintaining the course of structural reforms and for consolidating the new market model.

2) Institutional Conditions for Implementing Market Reform

As shown in the preceding chapter, institutional structures on their own do not determine the political success or failure of market reform. In interaction with crisis conditions, however, they have a strong impact on the political fate of neoliberal policies. Specifically, the severity of a country's economic problems shapes the operation of institutional opportunities and constraints. Thus, the factor emphasized by my prospect theory interpretation--crisis conditions and leaders' and citizens' response to them--once again proves crucially important for the politics of market reform.

While not determining outcomes, institutional factors do condition the difficulties that political leaders face in trying to enact market reform. *Ceteris paribus*, the more extensive presidential powers are, the easier it is for political leaders to enact profound, costly change. A president's legislative attributions, particularly his decree powers, are especially important in this respect. By contrast, if a broad range of substantive policy decisions is protected from change, especially by being enshrined in the constitution,[20] it is difficult to transform a country's development model. Complicated amendment procedures and the need for qualified majorities slow down or even impede reform.

Institutional structures--especially formal rules and attributions--are subject to change, however. Indeed, political leaders can invoke procedural constraints that hinder their efforts to combat severe problems as a justification for demanding institutional reform; under crisis conditions, other "veto players" may readily accede. Many chief executives who faced acute challenges have sought--and often managed--to extend their powers in this way (Weyland 1999). When confronting a deep crisis, a chief executive may also usurp additional institutional powers without any formal authorization. In this vein, President Menem has greatly extended the use of presidential decrees, disregarding all constitutional precedent. Finally, if the crisis is exceptionally severe, a president may simply overthrow the established constitutional order and impose a new framework of rules and procedures. Invoking the need to combat a tremendous economic crisis as well as a dangerous guerrilla challenge, President Fujimori took this drastic step, and Russia's Boris Yeltsin proceeded in similar ways. By contrast, President Pérez of Venezuela--a country that was in far less dire straits--disregarded suggestions to follow the same route.

Thus, formal institutions shape presidential powers--but only as long as presidents respect the official procedural framework. Severe crises allow presidents to override these constraints, extend their attributions and powers, and thus enhance their capacity to enact drastic, risky reforms, such as neoliberal adjustment. By giving presidents a good pretext for reshaping the constitution, a particularly constraining procedural framework may dialectically create the opportunity for such an institutional revamping. In a country facing an acute, severe crisis, such an institutional straightjacket may thus--in a long-term perspective-- favor neoliberal reform.

How do chief executives muster solid, lasting support for their reform initiatives? In principle, a strong party system could provide such backing and thus facilitate market reform (Haggard and Kaufman 1995). In fact, however, party strength is a double-edged sword. Rather than supporting a president's move to neoliberalism, as the Peronist Party did in Argentina under Menem, a well-organized, programmatically oriented party may offer passive or active resistance, as *Acción Democrática* did in Venezuela under President Pérez. Conversely, fluid, fragmented parties may make it difficult for a president to garner reliable support, as in Brazil under President Collor. But weak parties may also allow a president to overthrow the established constitutional order and boost his own attributions, as in Peru under President Fujimori.

Once again, there is an interaction effect between institutional characteristics and crisis conditions: The impact of party strength vs. party weakness depends on the severity of the economic and political problems facing a country and, especially, on a president's success in overcoming these problems. Where hyperinflation devastated an economy and where a government's adjustment measures succeed in stopping this price explosion, a strong party tends to provide solid support for the president, even if this endorsement of neoliberalism diverges from the established party ideology. By contrast, where economic difficulties, particularly price rises, are less severe and where a government's stabilization plan does not bring substantial improvement, especially by reducing inflation, a strong party is likely to worry about voters' response to the seemingly unjustifiable costs of reform. As a result, it may oppose a president's adoption of neoliberalism ever more clearly--and with much greater force than a weak party could muster.

Similarly, where a leader faces exceptionally profound economic and political challenges that can serve as an excuse for overthrowing the constitutional order, party weakness lowers opposition to this extra-constitutional effort to concentrate power in the presidency. As a result, party weakness may in the end make it easier to combat the crisis with costly, risky neoliberal measures. By contrast, where a leader confronts less acute problems and therefore cannot take such a drastic step, party weakness greatly hinders presidential efforts to gather solid support for his reform initiatives. Thus, party strength and party weakness can "cut both ways", depending on the depth of the crisis confronting a country.

Given these interaction effects, institutional factors cannot stand on their own, but need to be integrated in the crisis argument advanced in this book.[21] The propensities towards risk stressed by prospect theory--as mediated by the prior-option bias--explain why some political leaders cautiously stay inside the established institutional framework ("transactional leadership," Burns 1978), whereas other chief executives boldly try to reshape these institutions ("transforming leadership," Burns 1978). Since under certain conditions leaders can bend, change, or eliminate institutional constraints, the crisis argument drawn from prospect theory is more fundamental than institutional arguments for explaining the ultimate political outcome of neoliberal reform efforts.

The opportunities and constraints posed by institutional factors are, however, important in helping to explain the ways and means through which leaders pursue policy reform. For instance, in a country with a strong party system, a leader facing a deep crisis can marshal strong support and thus enact costly change inside the established democratic framework. By contrast, in a weak party system, a leader confronting severe challenges may well resort to extra-constitutional means in order to impose reform in the absence of firm, reliable political support (cf. Haggard and Kaufman 1995: 204-209). Thus, institutional structures--as mediated by crisis conditions--do have a crucial impact on the politics of neoliberalism.

V) Economic Structures

1) Economic Causes of Crises

Structural economic factors--in addition to the aptitude of economic decision-making and policy implementation--are crucial for explaining whether a country enjoys economic prosperity or suffers deterioration and crisis--and whether, as a result, political leaders and common people see themselves in the domain of gains or in the domain of losses. Domestic factors lead to differences among countries, whereas international factors can create considerable commonality in nations' economic experiences.

Specifically, the disruptions in world trade caused by the Great Depression and World War II--as well as the international diffusion of ideas--stimulated the pursuit of import-substitution industrialization (ISI) all over Latin America after the 1930s. But specific country characteristics influenced when this process began in each nation, how far it proceeded, and when it ran into a terminal crisis. The different balance of influence between urban industrial sectors and agrarian elites accounts for the early start and impressive advance of ISI in Argentina and Brazil, compared to its delayed beginning and limited progress in Peru and Venezuela. Smaller market size contributed to Argentina's economic stagnation after the 1960s, compared to Brazil's dynamic growth through the mid-1980s. The rash pursuit of drastic ISI policies in Peru during the 1960s and 1970s helps explain the especially deep crisis that this country suffered in the 1980s (Wise 1994). And the poor usage of Venezuela's abundant oil revenues aggravated the boom and bust cycle experienced by this "petro-state" (Karl 1997).

Despite these different development experiences, First World banks reacted in uniform ways to the debt crisis of the early 1980s: They suddenly ended voluntary lending to almost all Latin American countries. This international contagion effect caused severe problems for the whole region, despite countries' different debt loads, international competitiveness, export success, and capacity to re-pay their loans. This shock in global financial markets--and the subsequent pressures from international financial institutions--pushed most of Latin America towards adopting some kind of economic adjustment (Stallings 1992).

Domestic political factors, however, were crucial in determining when political leaders enacted stabilization plans and what type of measures they decided to take, as discussed in the preceding subsections. Domestic economic factors influenced these choices and conditioned the political as well as economic success of stabilization measures. As regards stabilization, for instance, protectionist business sectors had unusual economic weight and political clout in Brazil, which hindered trade liberalization and undermined efforts to end high inflation. In Argentina, by contrast, the initial strength of protectionist business sectors had eroded in twenty years of economic stagnation and further diminished as a result of the abortive neoliberal experiment undertaken by the military government of the late 1970s. As in Peru, where industry had always remained weak, a "shock therapy" approach to stabilization was therefore feasible. In Venezuela, where domestic business also lacked much weight (Salgado 1987), abundant oil reserves always kept the hope for a magic rescue from the country's economic problems alive. Therefore, important economic sectors and many common people were reluctant to accept the rigors of neoliberal adjustment. Economic and political characteristics of each country thus influenced the political fate of market reforms, complementing the operation of common international factors.

2) Economic Conditions of Recovery

While a severe economic crisis places political leaders and many common citizens in the domain of losses, economic recovery puts more and more people into the domain of gains and thus induces them to turn risk-averse and accept the new market model and its initiator. A turn-around in a country's economic fate is therefore a necessary--though not sufficient--condition for the political consolidation of neoliberalism. This argument diverges from the claim based on rational-choice premises that the end of the initial crisis will lead people to demand compensation for their sacrifices and call for an immediate fulfillment of their needs. According to that line of reasoning, the first signs of recovery induce and enable people to advance the demands for rapid improvements that they had to postpone during the crisis. This outpouring of pent-up demands threatens to nip the recovery in the bud and to produce "an opposition majority that threatens the continuation of the reform process" (Acuña and Smith 1994: 40; see 31-41). An application of prospect theory would expect, by contrast, that a country's emergence from the initial crisis consolidates the new neoliberal development model.

What accounts for economic recovery? Certain economic factors, which this study treats as exogenous variables, condition a country's emergence from a deep crisis. The competitiveness and export potential of its enterprises, the availability of foreign capital for loans and investment, and the willingness of external lenders to accept a limited write-off of outstanding debt are among the most important of these conditions.

Factors that are endogenous to my explanation, especially the nature of the initial economic problems and the policies designed to overcome them, also play an important role. Where hyperinflation devastated an economy,[22] drastic, painful adjustment offers immediate benefits to many people and sectors, at least by averting an imminent catastrophe. Stabilization also constitutes a necessary--though not sufficient--condition for renewed growth. The end of hyperinflation and renewed growth help especially poorer sectors, who suffered disproportionate income losses from accelerating price increases (Ahumada et al. 1992) and whose employment opportunities had been restricted by recession and adjustment. As a result, poverty tends to diminish from its high point during the peak of the hyperinflationary crisis.

By contrast, in countries that suffered from repressed inflation, neoliberal reforms unleash a torrent of price increases that hurt especially poorer sectors and discredit the new policies. This explosion of inflation undermines stabilization efforts, strengthens resistance to neoliberal reforms, and turns economic recovery precarious.

The type of stabilization measures that a country enacts also affects the chances for recovery. The orthodox programs recommended by the IMF use restrictions on demand to force down inflation. They therefore tend to bring about prolonged recessions, which entail considerable social cost. By contrast, programs that rely on exchange-rate anchors or currency boards, such as Argentina's Convertibility Plan of early 1991, can bring about quick stabilization and spur renewed growth. But by making it difficult for the government to protect the economy from external shocks and by requiring high interest rates to maintain foreign reserves, these programs can impose long-term limits on growth.[23]

Economic recovery is a necessary, but not sufficient condition for people to enter the domain of gains. Given the deep social inequality prevailing in many Latin American countries, aggregate economic growth may benefit only a few narrow sectors, not the large mass of the population. Due to the urgency of unfulfilled basic needs, the predominance of clientelism--i.e., the exchange of political support for particularistic benefits--, and the social atomization caused by the deep crisis (O'Donnell 1993: 1363-66), voters are guided less by sociotropic considerations--i.e., concern for the well-being of the whole country--than by pocket-book concerns for their individual and family well-being.[24] It is therefore of great political importance that governments create mechanisms designed to spread some benefits from economic recovery to large numbers of voters.

For this purpose, governments need to institute social programs that distribute economic resources and demonstrate the administration's concern for the disadvantaged (Nelson 1992; Graham 1994; Waterbury 1993: 197-208). Ongoing electoral competition provides a strong political incentive for such initiatives, as mentioned in subsection IV.2. If these social programs are targeted at large numbers of poor people and manage to enhance their welfare--or at least create the hope of doing so--, they put more and more citizens in the domain of gains and thus turn them risk-averse. In this way, social programs enhance the acceptance of the newly established market model, create support for its initiators and implementors, and prevent the less well-off from giving the opposition a try.

Due to economic recovery and wide-ranging social programs, neoliberalism attains active approval or at least passive acquiescence. As a result, no significant electoral contender advocates a drastic turn-around in economic policy. Even the opposition candidates--such as Javier Pérez de Cuellar in Peru (1995) and José Octavio Bordón in Argentina (1995)--promise to maintain the new development model and propose only limited modifications. Especially in countries with fluid, fragmented party systems, where new challengers could easily rise, this absence of a fundamental attack on neoliberalism serves as a strong indicator for the political consolidation of the market system.

By contrast, where economic recovery is weak or social policies lag, many people remain in the domain of losses. Therefore, they soon reject the new market model and search for alternative solutions to their country's persistent crisis. Riding on a wave of resentment to market reform, old populist leaders or new personalistic politicians who advocate nationalistic and interventionist economic policies may win office. Political learning from the--seeming--failure of neoliberalism can thus cause a backlash and result in a drastic policy reversal.[25]

VI) Conclusion

This chapter has elaborated a comprehensive, complex explanation for the adoption of neoliberal reform in precarious democracies by embedding arguments drawn from psychological decision theories in an economic-structural, political-institutional, and ideational context. In order to integrate these diverse elements in a systematic fashion, I have retrieved Aristotle's qualitative theory of causality. Accordingly, risk-seeking in the domain of losses--the most distinctive insight of prospect theory--provides the "moving cause" of profound market reform, i.e., the crucial impulse for initiating such a costly, risky transformation. Lessons from prior experiences and the international diffusion of ideas inspire the design of these policy reforms and thus constitute the formal cause. The intention of political leaders to use neoliberal reform for concentrating power and for weakening their adversaries provides the "final" (or intentional) cause. The economic structures of the countries undergoing reform are the objects of this transformation, i.e., the material cause. Finally, institutional mechanisms--mediated by crisis conditions--shape an aspect not considered by Aristotle, namely the translation of individual choices into collective decisions and outcomes.

Prospect theory itself suggests such a comprehensive explanation based on a qualitative understanding of causality. This psychological theory advances situational arguments, contrasting risk-seeking in the domain of losses with risk aversion in the domain of gains. Thus, it calls for an integration of "structure" and "choice" (cf. Berejikian 1992): Prospect theory can predict propensities towards risk and thus elucidate choices, depending on what domain a decision maker is in. But in order to explain which domain prevails, other theories need to be invoked, especially structural arguments about a country's economic (and political) development.

Furthermore, while prospect theory helps explain which one of the available options a decision maker will choose, it does not--in its current version--explain the range of options that a decision maker considers. Given that prospect theory so far lacks a systematic, comprehensive explanation of the framing of decision options (Levy 1997: 88), it needs complementation through ideational arguments, which emphasize learning from prior experiences and the international diffusion of ideas. Moreover, prospect theory--as a psychological theory--has so far not treated the aggregation of individual choices into collective decisions and outcomes. It therefore needs to be complemented with institutional arguments, which shed light on the rules and processes involved in translating individual choices into collective decisions. Finally, some insights from rational choice elucidate the political purposes of neoliberal reform, which aggravated the risks that decision makers incurred in enacting drastic economic measures. The resulting danger of fierce political conflict intensifies the need to account systematically for political leaders' shifting propensities towards risk by drawing on prospect theory.

In sum, prospect theory provides one crucial element of a complex puzzle that has so far not received the systematic attention it deserves. Yet due to the situational character of prospect theory's central argument and due to its current analytical limitations, this psychological theory of decision making under risk needs to be embedded in structural, institutional, ideational, and interest-based arguments. Only such a multi-causal approach can yield a comprehensive explanation for the political fate of neoliberal reform in Latin America.

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Notes

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1 In addressing the debate about rationality in politics, this book can assess the plausibility of the contending positions, but not provide any definite "proof" of the superiority of one approach over the other. The unavailability of precise information makes any final decision impossible. Rational-choice authors postulate that human decision-makers pursue maximum utility, but psychologists find frequent deviations from utility maximization in their laboratory experiments. In applications to the "real world", however, these divergent predictions cannot be tested precisely because neither the numerical pay-offs that policy makers attach to different decision options nor their subjective probability estimates for the occurrence of these decision options can be ascertained with any level of precision. As a result, neither the maximization postulates of rational choice nor the deviations from maximization predicted by psychological decision theories can be proven in any strict sense of the term. The following analysis thus constitutes a "plausibility probe" (Eckstein 1975: 108-113), not a rigorous, scientific test.

2 For article-length studies, see Berejikian 1992; Buendía 1995; Weyland 1996c, 1998.

3 For a preliminary effort, see Weyland (1998).

4 This analytical strategy is masterfully employed in Skocpol (1979). See a recent explication of it in Katznelson (1997: 91-94).

5 For explications of Aristotle's distinctions, see Bröcker (1964: 50-62); Edel (1996: 61-64); Irwin (1988: 94-107); and Reale (1980: 23-27).

6 This section draws heavily on Weyland (1998a).

7 Due to the common tendency towards (unrealistic) optimism (Taylor and Brown 1988), only severe crises put a majority of the people in the domain of losses. For the distortions that excessive optimism creates in people's economic assessments, see Haller and Norpoth (1994).

8 Ample experimental evidence shows that these risk propensities prevail among two thirds to three quarters of subjects, but not among all (Kahneman and Tversky 1979). Thus, prospect theory is probabilistic, not deterministic.

9 While economists keep debating the economic wisdom of neoliberal shock treatment, it clearly holds grave political

risks in the politically unstable Third and former Second World, as explained in the introductory chapter.

[10] The reasons stressed by Naím (1995) and Nelson (1997) cannot fully account for this delay.

[11] Corrales (1997-98) strongly criticizes crisis arguments for this reason.

[12] While the term "status-quo bias" is widely used, it is somewhat misleading. This bias entails persistence in a course of action that was chosen earlier--i.e., a prior option--, not adherence to the status-quo, i.e., the currently existing situation that usually serves as the reference point for assessing gains and losses. The term "prior-option bias" is therefore preferable.

[13] For instance, this loss aversion makes banks reluctant to write off a non-performing loan as a loss.

[14] For a "swing-of-the-pendulum" interpretation of Peru's economic development since the 1960s, see Gonzales de Olarte and Samamé (1994).

[15] Prospect theory stresses the importance of the framing of decision options, but has not developed a theory of framing (Levy 1997: 88). Ideational theories can fill this important gap.

[16] For a lucid explanation of contagion and demonstration effects--focused on the issue of democratization--see Huntington (1991: 33, 100-106).

[17] One of the most prominent advocates of rational choice in Latin American Studies, Barry Ames, stresses that politicians do by no means pursue their political survival to the exclusion of other goals (Ames 1987: 4, 29, 42, 74, 98).

[18] On the diminution of interest group influence that often results from democratization, see Schmitter (1992: 439-445).

[19] The crucial political importance of elections and opinion polls, through which collective choices are made via the simple summation of individual choices, justifies the application of psychological insights on individual decision-making to the mass public.

[20] Brazil's 1988 constitution, for instance, contains specific entitlements--such as public pensions of a clearly defined value for all people above a certain age--that create firm spending commitments and thus make austerity policies difficult.

[21] Haggard and Kaufman (1995), who have advanced one of the most prominent institutionalist explanations of market reform, in fact combine their institutional arguments with arguments on economic crisis. But they do so in a sequential fashion: Economic crisis affects the creation of institutions (Haggard and Kaufman 1995: chs. 1-4), and these institutions in turn affect the fate of reform (chs. 5-10). This book, by contrast,

assumes a continuous interaction of crisis conditions and institutions.

[22] Unemployment is less important in most of Latin America, where a large "informal sector" provides alternative sources of sustenance.

[23] Furthermore, their enactment requires earlier stabilization efforts, which are often of an orthodox nature, as in Argentina in 1990 (Smith 1991: 53-62). A government is therefore best-off if its predecessor(s) already imposed most of the costs of adjustment so that the new economic team can reap the political benefits of economic stabilization without having to decree drastic further costs. In this vein, Brazil's Fernando Henrique Cardoso profited from the politically fatal, yet economically significant adjustment efforts undertaken by Fernando Collor de Mello (1990-92), especially his trade liberalization and fiscal reform measures.

[24] For an empirical investigation with data from Venezuela, see Weyland 1998a.

[25] Even in countries where neoliberalism achieved temporary acceptance, new economic problems can weaken or undermine this consolidation. In line with my prospect theory interpretation, a new round of economic adjustment puts many people back into the domain of losses and makes them turn against market reformers and their economic policies.