

Policy Issues

Competitiveness and Democracy

Richard Feinberg

ABSTRACT

After reviewing progress in Latin America's economic stabilization and international competitiveness in the last two decades, this essay discusses the current post-Washington Consensus "social democratic convergence" agenda, which aims to sharpen market efficiency, improve the quality of democratic governance, and advance equity goals by attacking the social deficit. Two illustrative examples, at opposite ends of the development spectrum, are Nicaragua's pro-CAFTA agenda and Chile's Chile Compete program. More generally, pluralistic democracy can hamper progress by giving veto powers to recalcitrant vested interests; but enlightened political leadership can make gains by combining carefully crafted coalitions, international support, popular pressures, and an attractive ideological message.

Over the last 25 years, Latin America has made considerable progress on the two central challenges of our time: overcoming an authoritarian past and installing democratic institutions and procedures, and overcoming economic underdevelopment by improving the management and sustainable growth prospects of its national economies. Inevitably, the speed of progress has been uneven across countries and over time; but with a few notable exceptions, back-peddalling has become less common. Nevertheless, the region faces major challenges in the years ahead. There is much left to accomplish in building strong, representative public institutions and in crafting economies that can compete successfully in global markets. Most important, poverty levels, in terms of both absolute numbers of poor and percentages of the population, remain unacceptably high.

Especially when contrasted to the region's own history, the past 25 years have been fruitful ones for many Latin American countries. Earlier decades had made notable strides in a number of areas, including mass urbanization, incipient industrialization, and the notable improvement in social indicators. But so much of the progress proved illusory and unsustainable; it came crashing down in the destructive hyperinflations and severe financial crises of the 1970s and early 1980s, which brought with them the nightmares of harsh authoritarian rule, a darkened Latin America characterized by nearly wall-to-wall dictatorships. Many lessons were learned, nevertheless, both by policymakers and by the broader citizenry; and the 1980s and 1990s were a period of significant reforms.

As a consequence, never before in Latin American history have so many countries adopted democratic institutions (albeit imperfect)—and maintained them for two decades and more. Never before have so many countries stabilized their financial systems, improved the quality of economic decisionmaking, reached internal agreement on key characteristics of a general model of economic growth, and maintained that economic model for two decades and more. Despite skepticism in some quarters and backsliding in a few countries, for the most part the perennial pendulum—drastic swings among paradigms—seems to have finally come to a stop. For example, in the critical area of trade liberalization, governments have generally resisted domestic pressures to reinstate protectionism (Finger and Nogues 2006). In many countries, a healthy domestic debate is taking place—itself a sign of active democracy—on how to build on and improve on the recent progress. For the most part, however, the debate is not whether to return to an increasingly dark and distant past but how to deepen democracy, how to make it more representative and meaningful to the average citizen, and how to accelerate economic growth and spread its fruits more widely and equitably among the population.

Just how successful have been the political and economic reforms of the last 25 years is, of course, itself a matter of some debate. Yet the various assessments are not as far apart as the strident rhetoric would sometimes suggest. For example, an oft-cited criticism of neoliberalism, “Successes and Failures of Neoliberalism,” by Evelyne Huber and Fred Solt (2004), begins by admitting that “[t]he old model was clearly not sustainable and was kept afloat by easy borrowing during the 1970s, and thus had to be changed. It also had serious regressive components in social policy that needed to be changed.” They conclude that in “the last two decades of the twentieth century, more liberalized economies performed better in economic growth and in improvements in the quality of democracy than less liberalized economies,” although the more liberalized economies witnessed greater increases in poverty and inequality (2004, 150). Their argument is not antireform; rather, it opposes big-bang, overly aggressive reforms, preferring a “more cautious reform course” that places greater emphasis on social policies.

Reasonable people can debate the proper speed and sequencing of reforms, and much has been learned from experiences worldwide. Generally, the optimal reform course depends on the context: the country’s history, the current political environment and strength of the governing coalitions, and the conditions of the international economy. In the current decade, Latin America is in the midst of a prolonged and widespread economic expansion that expands the policy space—financially and politically—to address pressing social problems.

The still broader debate on globalization, while not the subject of this article, is well reviewed in Brune and Garrett 2005. These two schol-

ars conclude that there is “no solid consensus” in the literature on the key issues of how globalization affects inequality, whether among or within countries. The debates run afoul of treacherous methodological problems: how to measure globalization and how to draw causal inferences about its effects. The two authors urge us to acknowledge the limitations of the kind of cross-national quantitative research that dominates the literature. I will argue in this essay, however, that in light of recent experiences, we have learned that a proglobalization economic reform agenda must explicitly and simultaneously address issues of national competitiveness, social equity, and democratic inclusion.

GLOBAL COMPARISONS

Latin America is not alone in the world. It is inserted in an ever more internationalized world economy, and its accomplishments are measured against those of other regions. In this increasingly integrated world, the success of an economy must be measured in terms relative to the performance of other nations and regions. And in today’s briskly paced global economy, Latin America’s progress must be judged against the record of East and South Asia, Eastern and Southern Europe, the Middle East, and Sub-Saharan Africa. Moreover, there is competition in some global markets among Latin American economies themselves to attract capital and technology, to access consumer markets, and to participate in global supply chains. In this never-ending struggle for global rankings, Latin America is advancing more rapidly than the world’s most troubled, conflict-ridden regions—notably the non-oil Middle East and Sub-Saharan Africa—but is struggling to keep pace with the world’s most dynamic regions—East and South Asia and Eastern and Southern Europe. Indeed, by some indicators, Latin America’s global competitiveness is slipping. Despite undeniable progress, as measured by absolute indicators, Latin America is losing ground in the global competitiveness sweepstakes.

Latin America’s troubles are not confined to the economic sphere. The quality of its political institutions, while often superior in various respects to those of Asia and Eastern Europe, nevertheless falls short as measured by certain global indicators. Moreover, Latin Americans themselves are dissatisfied. As the landmark report by the United Nations Development Program, *Democracy in Latin America* (UNDP 2004), concluded, while there is much to celebrate in the progress of the last 25 years, political institutions and procedures are falling short of the expectations of the citizenry. And as we now appreciate, the quality of governing institutions impinges not only on political life but also on economic performance. Imperfections in the powerful executive branches, emerging legislatures, and still-weak judiciaries not only mar the quality

of Latin American democracies but also impinge on the quantity and quality of savings and investment, detract from the provision of social services, and cloud the climate for business start-ups and technological innovation.

This essay will review progress in Latin America's economic stabilization and competitiveness in the last two decades—where progress has been made and where further challenges remain. It will discuss the current moderate “social democratic convergence” agenda, which combines further market efficiency reforms with democratic governance and social equity goals (often referred to as the second-generation reforms). Democracy, it must be admitted, can hamper progress by giving veto powers to vested interests, but can also offer opportunities for forward movement, and I will make suggestions for mounting winning strategies. First, however, allow me a note on the much-maligned Washington Consensus. In order to shed some light on this heated debate, I will place it in its proper historical context.

THE WASHINGTON CONSENSUS: WHAT IT DID AND DID NOT ADDRESS

When John Williamson published his landmark *Latin American Adjustment: How Much Has Happened?* (1990), Latin America was just emerging from a tumultuous, harrowing decade of extreme economic instability. Many countries had been ripped apart by hyperinflation measured in the triple digits or more, devastating external debt crises that culminated in de facto defaults, protracted international bargaining and major restructurings, and sharp economic contractions. Fiscal and monetary policies were unstable, as many governments expanded spending as though there were no tomorrow, building up unsustainable levels of internal and external debts while weak central banks were unable to stem unsustainable credit expansions. Exchange rate policies were equally unsustainable, as overvalued rates cramped export competitiveness, thereby widening trade imbalances, and eventually collapsing in an orgy of import compression, stagflation, and political recriminations. The 1980s were the famous lost decade, when per capita incomes in many Latin American countries tragically declined.

But the 1980s were not a lost decade when it came to policy lessons. So great were the economic shocks, so deep the psychological scars, that policy elites and the general public were willing to entertain major changes in economic policy. While it may be hard to imagine today, it had been popular in Latin America to denounce “monetarism” for arguing that money mattered and that excessively expansionary fiscal and monetary policies were unsustainable and ultimately counterproductive, reducing growth and harming the poorest and most vulner-

able populations. It had been popular to denounce devaluations of the exchange rate as an attack on national sovereignty, as a sellout to foreign interests. It had been popular to deride private ownership and to extol the role of government in controlling “the commanding heights.” It had been common to question both the morality and the efficiency of markets, and certain versions of the “dependency” school—whose underlying assumptions often colored popular debate—argued that participation in the global economy was a losing game for Latin America.

Against this intellectual backdrop, and propelled by the harrowing experiences of the 1980s, the Washington Consensus marked a sharp shift in economic policymaking. Yet today its basic tenets sound unremarkable, even mundane. Few now question that large budget deficits are dangerous and that fiscal discipline is smart, and more subtly, “that large and sustained fiscal deficits are a primary source of macroeconomic dislocation in the forms of inflation, payments deficits, and capital flight” (Williamson 1990, 10). More subtly still, the Washington Consensus noted that fiscal deficits can be closed either by expenditure reduction or by higher tax revenues. Williamson did not reject tax hikes, yet he underscored the now widely accepted principle that the tax base should be broad and marginal tax rates should be moderate.

In the area of credit markets, reacting against the previous practice of suppressing interest rates to negative nominal levels—which made it so much fun to borrow, regardless of the inherent value of the proposed investment or consumption—the Washington Consensus came down in favor of market-determined interest rates that should be positive in real terms. Similarly, noting the dislocating effect of artificially high exchange rates, Williamson advocated realistic, competitive real exchange rates, consistent with macroeconomic stability and export expansion. (Williamson did not, however, press for early liberalization of international capital flows.)

Williamson also repeated the basic truisms of International Economics 101: that, with some qualifications, it is wise to open your economy to international trade and investment flows as the best way to foster market efficiency, augment domestic savings and investment, and tap into global technological innovation. It is interesting that Williamson was more cautious on privatization, noting that it can relieve pressure on government budgets and can be constructive when it results in increased competition, but “I am not persuaded that public service is always inferior to private acquisitiveness as a motivating force” (Williamson 1990, 16). Such nuances, however, are often lost in rhetorical references to the Washington Consensus.

In the wake of the severe financial volatility of the 1980s, economic policy in the early 1990s necessarily focused on stabilization. Just as one cannot realistically expect economic growth in the context of a civil war,

so must a modicum of financial stability be restored before one can focus on renewed expansion. So it makes little historical sense to criticize Williamson's 1990 publication for paying more attention to stabilization than to growth. However, as a commentator (this author) on Williamson's paper noted, there was not yet a full consensus on two important matters. First, there was continued disagreement on the role of the state:

We are agreed that there should be some trimming and streamlining. But do we want the final product to be a sleek, high-performance Jaguar or a minimalist Yugo? Washington contains at least two schools of thought on this issue. On one side are those who favor the restrictive Reaganite model: provide for national defense, set the appropriate macro conditions, and walk away. On the other side is the more activist school, which includes the proponents of industrial policy and strategic trade theory. (Feinberg 1990, 22)

Second, there was no consensus on poverty—either on its importance or on what should be done about it. I also remarked, not as a criticism but as a statement of fact, that the Washington Consensus did not encompass agreement on a theory of economic growth. “Neoclassic economics is primarily an exercise in comparative statistics: it lacks a robust theory of dynamic growth” (Feinberg 1990, 24).

In the current decade, now that Latin America, by and large, has internalized the truisms of the Washington Consensus and has made real progress in stabilizing its economies, attention is turning, quite appropriately, to these vital “second-generation” issues: reform of the state and social justice. Having enjoyed five years of sustained growth, having reduced levels of internal and external debt through sounder fiscal management, and having adopted more flexible exchange rates and accumulated unprecedented quantities of foreign exchange reserves, most countries are now in better condition to tackle these closely related challenges (and to weather any future external shocks) (ECLAC 2007).

THE COMPETITIVENESS AGENDA

We can divide the forward-looking competitiveness agenda into three broad categories. First, we have the unfinished market-clearing agenda, where certain markets remain restricted and inefficient. In many countries, these include labor markets but also credit markets and, in many cases, monopolistic goods markets, where one or a few national firms, often family-owned, constrict competition. Second, the institutional reform agenda, which includes reform of the state, broadly defined, but may also include institutions of political life and civil society. Third, social justice—extending access to quality social services, including

health and education; and the social safety net, neatly summarized in the U.N.-sponsored Millennium Development Goals (MDGs). We will consider each reform agenda in turn.

This three-pronged competitiveness agenda strongly resembles the general development agenda. What is the difference between competitiveness and growth? Some economists would argue that they are essentially two words for the same concept. The frameworks differ, however, in that competitiveness places national economies squarely within the global economy. This contextual distinction matters, sometimes greatly. For example, corporate and individual income tax policies that fail to take into account global rates will fail to optimize revenues. Educational curricula that ignore a nation's competitive advantages will fail to provide firms with the workforce they will need; supply and demand in labor markets will not balance. Industrial policies that ignore global supply chains will simply fail. Regulatory policies that do not take into account global industrial organization will backfire. Competitiveness, then, is the appropriate framework for a Latin America that wants to win in the twenty-first century.

THE UNFINISHED MARKET EFFICIENCY AGENDA: LABOR, FINANCE, AND GOODS

Two decades of promarket reforms notwithstanding, there is an unfinished agenda with regard to rendering markets more efficient in Latin America. As noted above, three general areas where reforms would enhance efficiency and competitiveness are labor markets, financial systems, and many goods markets.

The World Economic Forum's annual *Global Competitiveness Report* compares labor market efficiency across regions and countries and finds that as a whole, Latin America lags behind Eastern Europe and, especially, emerging markets in East Asia. Specifically, the index of labor market flexibility and efficiency considers hiring and firing practices, flexibility of wage determination, cooperation in labor-employer relations, reliance on professional management, pay and productivity, brain drain, and private-sector employment of women. Some Latin American countries rank reasonably high: of 104 countries, Chile ranks as number 26, Costa Rica 29, and Brazil 52, whereas Honduras ranks as 94, Ecuador 101, and Bolivia 103 (World Economic Forum 2004–5, table 5, 68–69; IMF 2006, box 9, 36–37).

Similarly, with regard to the competitiveness and sophistication of financial markets, Latin America as a region lags behind Eastern Europe and East Asia, including China (World Economic Forum; Stallings 2006). The World Economic Forum index includes measurements of ease of access to loans, venture capital availability, soundness of banks, and

local equity market access. Again, there is significant dispersion among Latin American countries. Financial markets in Chile (19) and Brazil (33) are relatively well developed, but others, such as Venezuela (84), Argentina (89), and Honduras (93), lag behind and are a drag on competitiveness and growth.

The World Economic Forum's index of market competition in goods takes into account measures of intensity of local competition, efficiency of antitrust policy, prevalence of trade barriers, and foreign ownership restrictions. In addition, measures of "distortions" include the efficiency of the legal framework and the number of procedures and the time required to start a new business. Once again, Latin America lags in rankings behind other emerging markets in Asia and Eastern Europe (World Economic Forum).

REFORM OF THE STATE

Gradually, the international community has come to recognize that economics and politics are inexorably intertwined, and that the institutions of government have an impact on market performance. That is, the quality of governance influences economic competitiveness.

Therefore, economic development institutions, such as the Inter-American Development Bank, now issue publications with titles such as *The Politics of Policies* (Stein and Tommasi 2006) and its sequel, *The State of State Reform in Latin America* (Lora 2006). These publications employ various measures to rank, sometimes against global competition, progress in a series of public policy areas. The contents cover public administration, budgetary institutions, tax reform, local government, privatization and regulation, judicial systems, pensions, and education. The IDB research teams essentially argue that Latin America has been improving the quality of public governance, even if progress is uneven across countries and sectors and much remains to be done.

In the latter publication, the chapter by Eduardo Lora is indicative. The senior IDB economist demolishes the myth that market-oriented economic reforms have dismantled the state, as tax revenues have actually risen slightly; but public sector coffers are still shallow compared to the treasuries of industrial countries, due partly to widespread tax loopholes for the powerful, a culture of tax evasion, and underutilization of corporate, real estate, and individual income taxes. Another chapter, by Alberto Melo and Andrew Rodríguez-Clare, addresses emerging national competitiveness strategies that seek to strengthen physical and human infrastructure for successful export growth. The various chapters identify the political obstacles that have slowed—but usually not reversed—reforms, and argue that reform-mongering coalitions must be built carefully, case by case.

THE SOCIAL DEFICIT

Latin America has long suffered from sharply unequal distribution of wealth and income. Comparative studies inevitably chastise the region for ranking among the most unequal on earth. The origins of this inequality can be traced back to patterns of colonization and land settlement, or even further back to the bureaucratic centralism of some prehispanic empires. More recently, analysts have come to accept strong linkages between equity and competitiveness, through at least two causal mechanisms. If patterns of inequality are so skewed as to deny populations basic education and nutrition, the quality of the workforce suffers and labor productivity lags. And if economic inequalities foster political conflicts that lead to policy discontinuities, investor uncertainties, and, in the worst cases, breakdown and bloodshed, then, obviously, economic performance will suffer as well. As the International Monetary Fund noted recently, "Making Latin American societies fairer will remove an important source of volatility in a region in which economic inequality and social plight have often fed populist policies, which have in turn undermined stability" (IMF 2006, 25). So we now have additional causes, for reasons of economic competitiveness, to address the region's longstanding social justice agenda.

Here as elsewhere, there has been some progress. Social indicators have improved in recent decades, whether we are measuring infant mortality, longevity, access to primary health care, coverage of sewage systems and electricity, or access to primary, secondary, and tertiary education (World Bank, various years). However, in much of Latin America, as elsewhere in the developing world, the rate of progress has slowed (Weisbrot et al. 2005), partly because it is more difficult to reach the poorest of the poor. Here again, in important respects, Latin America is lagging other emerging markets, most notably in quality of education. It is, of course, absurd to argue that integration into global markets is incompatible with social progress, as the experience of many economies worldwide demonstrates, most recently in East Asia (Haggard and Kaufman forthcoming). The debate regarding the impact of globalization on income distribution is less conclusive (Brune and Garrett 2005). As the compelling theory of "multiple equilibria" suggests, however, nations have choices regarding the relative sizes of the public and private spheres, and there is more than one path to success (Garrett 1998).

THE SOCIAL DEMOCRATIC CONVERGENCE

In recent years, Latin American polities have been struggling toward a new convergence on their political economy preferences: a convergence toward a moderate form of social democracy. Admittedly, the

term *social democracy* enjoys an illustrious and contentious history. Przeworski wryly writes, “the longterm historical evolution of ‘social democracy’ proceeded from revolution to reformism to remedialism” (1994, 316). Here, I will define social democracy to refer to economic policies that seek to combine sustained economic growth with real progress on poverty alleviation and promotion of social equity (perhaps akin to Przeworski’s “reformist” stage of social democracy, emphasizing employment and social insurance within a sound macroeconomic framework). By social equity goals, let us, too, mean broadening access to employment; essential social services, including quality education and health care (and a clean environment); and a resilient social insurance safety net. I would also add the affirmative removal of market or regulatory barriers to equal opportunity in the marketplace—for individuals seeking employment or business credit as well as for small and medium-sized enterprises. I distinguish this more moderate or centrist characterization from more radical or egalitarian social democracy, which would promote a sharp redistribution of income and assets and a commanding role for the state in economic production.

The democracy component of social democracy refers not only to economic justice but also to political democracy. Perhaps here we can refer to the characteristics provided by the Inter-American Democratic Charter as adopted by the Organization of American States (2001): “inter alia,” periodic free and fair elections, respect for human rights, the rule of law, separation of powers, transparency in government activities, and strong political parties; moreover, “it is the right and responsibility of all citizens to participate in decisions relating to their own development.” This description is consistent with the UNDP treatment of democracy (2004).

The observed convergence around moderate social democracy is wholly natural for a region where, in the early twenty-first century, representative democracy is the only legitimate political alternative, and where a large portion of the voting population languishes in poverty. Social democracy is also consistent with many of Latin America’s intellectual and cultural traditions, including progressive Catholicism and Christian democracy, European-style liberalism, social democratic philosophies, including some variants of Marxism, and family philanthropy. Governments with explicit social democratic programs—as defined above—now rule in Brazil, Chile, Peru, Uruguay, Honduras, and Costa Rica; and various government programs in Mexico, Argentina, Colombia, and El Salvador include important social democratic tenets. (Venezuela and Bolivia are not included here because their governments’ adherence to the democratic characteristics outlined above is in question). There are, of course, important differences among these governments—hence the preference for the word *convergence* rather than *consensus*—but the constant threads are the intentions to deepen

democracy and political inclusion through governance reform and to gradually eradicate poverty and promote social justice. Naturally, the political will and ability of governments to transform oral pledges into effective programs is variable, but this does not negate the importance of the ideology hegemony that social democracy has attained (Przeworski 1994).

Increasingly, these Latin American democracies frame their national strategies in terms of international competitiveness, and address the three new post-Washington Consensus agendas: correcting the remaining market inefficiencies, improving the quality of democratic governance, and attacking the social deficit. The precise mix of policies varies, in large measure, as a function of the level of national economic development, but we can reasonably apply the umbrella label “social democratic convergence.” Two illustrative examples, at the opposite ends of the development spectrum, are Nicaragua’s pro-CAFTA agenda and Chile’s “Chile Compete” program.

When it passed the legislation implementing the U.S.-Central America Free Trade Agreement (CAFTA), the Nicaraguan Congress annexed a “complimentary agenda” intended to allow its economy to take full advantage of the international market opening. The complimentary agenda addressed a wide range of national competitiveness measures, including measures to make markets more efficient, render the government more effective, and spread the benefits more widely. Market-perfecting measures included a competition law intended to protect smaller firms, land titling to ensure property rights for small landowners, and stronger institutions to promote international standards in agricultural certification. State modernization goals included an online land registry, information systems for smaller firms, budgetary resources for the Ministry of Labor, customs facilitation, and alternative dispute resolution mechanisms. To foster wider participation in CAFTA’s marketing opportunities, the Nicaraguan Congress proposed new rural road systems and technology transfer to small firms.

Not all of these measures were funded, but the Nicaraguan deputies demonstrated their understanding and support for a strong national competitiveness agenda. The emphasis on competitive markets and assistance for smaller firms is part and parcel of an equity-oriented, pro-opportunity agenda. When the Sandinistas assumed power in January 2007, they reaffirmed their support for CAFTA and this complimentary agenda, while placing greater emphasis on social equity; for example, credits to farmers’ cooperatives and larger budgets for health and education, within the constraints of an IMF-approved macroeconomic framework.

At the other end of the development spectrum, the government of Michele Bachelet committed to “Chile Compete,” a comprehensive com-

petitiveness program appropriate to its higher level of national achievement. Market efficiency measures include strengthening of the national competition regime, financial market reforms to stimulate venture capital, and market openings through bilateral trade liberalization accords with China and Colombia, among other markets. Technological innovation is to be pursued with the creation of a National Innovation Fund, resources for partnerships between universities and private firms, and tax subsidies for corporate research and development. State modernization measures include additional transparency and anticorruption programs. Projected fiscal savings are being used to grow a Social Stabilization Fund to improve social services and further reduce poverty. The governing center-left coalition has reduced poverty dramatically since assuming power in 1990, in the context of exemplary macroeconomic management and a diversified expansion of trade and investment flows.

Many other Latin American nations are pursuing their own variants of a national competitiveness program. The one outstanding exception to this moderate social democratic convergence is the government of President Hugo Chávez in Venezuela (and perhaps that of President Evo Morales in Bolivia). Chávez represents—in rhetoric if not always in practice—a return to an authoritarian populism and state centralism that rejects not only many of the economic prescriptions of the Washington Consensus and social democratic convergence but, seemingly, representative democracy itself. Venezuela has the luxury of natural resources, which, at least for the moment, allows for strong macroeconomic growth despite gross inefficiencies, even if these “antipolicies” are not sustainable over the long run (Lapper 2006).

DEMOCRACY AND COMPETITIVENESS

Democracy is advancing in many Latin American countries. Much has been accomplished, even as much remains to be done (UNDP 2004). One important recent survey, *Citizenship in Latin America* (Tulchin and Ruthenburg 2006), finds a significant broadening and deepening of democratic participation (even if practices often fall well short of the ideal). Studies of individual countries also find progress, even when the investigators' predisposition was to underscore shortcomings, as is apparent in the publication *Argentine Democracy: The Politics of Institutional Weakness* (Levitsky and Murillo 2005). In his memoir *The Accidental President of Brazil* (Cardoso 2006), a former president and social scientist chronicles the dramatic advance of democracy in South America's most populous nation. The two IDB studies cited above, which survey many political economy issues, also chronicle impressive advances. There are important country exceptions, notably in the volatile Andean region, where deep ethnic cleavages endure; and in

Venezuela, where a charismatic caudillo is seeking to revive deepseated preferences for authoritarian rule. Nevertheless, the overall political trends in Latin America are promising.

Democracy as it exists in Latin America both facilitates and hampers the new competitiveness agenda. The precise balance of forces—whether progressive or retrograde—will vary from sector to sector and over time and place. Clever political skills can construct winning coalitions even in the face of recalcitrant vested interests (Nelson 1992).

Where reforms have stalled, it often is not hard to discern the blocking political forces.

- Social service delivery reforms that seek to target the needy and promote equality of opportunity may be resisted by the wealthier middle classes, which have long benefited from official subsidies. These middle classes tend to be better organized, better located, and more vocal, and therefore better able to affect the political process. While broad-based social programs that promote multiclass coalitions have worked to promote social democracy in Europe, unless Latin American governments can very substantially augment their fiscal resources, policymakers must face the tough trade-offs.
- Education reforms are notoriously hard to implement. Shirkers can include teachers' unions, centralized bureaucracies, well-to-do or subsidized communities unwilling to give up privileges, and ideologically driven opponents who dispute, for example, the best mixture of public-private delivery of services. Well-intentioned analysts can differ on how to measure progress and which incentives will work best, even as there is wide agreement that educational opportunity is an essential component of social justice.
- Tax reforms are vetoed by those very interests that were well enough connected in the first place to persuade legislators, assessors, and regulators to grant them exemptions, loopholes, and other special treatment. Yet the capacity of governments to fulfill pledges to broaden access to social services hinges on fiscal reform.
- Labor reforms may be resisted by well-placed unions whose members enjoy job tenure and hefty benefits. "Flexibility," in their minds, equates to job vulnerability and pension reductions (Cook 2007). Yet in some cases, corporatist unions protect their members to the detriment of the employment prospects of those trapped in unemployment or in the informal sectors.
- Antitrust reforms have been defeated by the monopolies—often closely held by a single individual or family—that the competitiveness policies are seeking to break up or force to yield market share. State capture has emerged as a major challenge to the equation of market opening with greater competition.

- Judicial reforms that favor professionalism and the rule of law, as pointed out by Mariana Sousa (2006), have, on occasion, been blocked by a conservative judiciary, a political class that benefited from a controlled judiciary, and by opposition parties. In some cases, the media have only underscored the judiciary's ongoing failures. Thus they, too, have failed to play a positive role in legitimating initial reforms, coloring public perceptions, and opening the path to reversal.
- Civil service reforms that favor merit and tenure may be stalled by political parties that use patronage to reward party activists and by political leaders who prefer to stack agencies with loyalists.

It would be a grave error, however, to conclude that democracy is inherently conservative and inimical to procompetitiveness and pro-equity reforms, just as it would have been erroneous to imagine that the first-generation Washington Consensus economic reforms were incompatible with the democratic awakenings of the late 1980s and 1990s. Around the world, thriving democracies are, year after year, adopting and implementing national competitive policies, and progressive coalitions are defeating vested interests. Latin America itself is chock-full of success stories (Lora 2006; Stein and Tommasi 2006; Tulchin and Ruthenburg 2006; IMF 2006).

From these success stories, we can make several statements about democracy and competitiveness reform.

- The challenges to reformers will differ from sector to sector and across time and place. The trick will always be to gauge carefully the political environment and structure the reform package so that it appeals to a coalition strong enough to prevail; and, where possible, to add components that will appease, mollify, or include side payments to the opponents. Sometimes a comprehensive package of reforms will be the best course to accumulating political force, while at other times a more gradual, piecemeal approach will be all that the traffic will bear.
- International actors can often be added to the proreform coalition; for example, foreign firms will support competition policies that open markets to their products, just as foreign investors will generally prefer judicial reforms that promise more predictable, transparent procedures less easily influenced by domestic interests with strong local connections.
- Broad-based grassroots pressures—while sometimes difficult for finance ministers to manage—can be mobilized to support reforms that reduce the antimarket privileges of the powerful and well connected. Progressive technopols may need the pressure of the

streets to achieve their goals. Tax reforms can gain wide support when they cut exemptions and yield revenue for targeted social programs. Civil service reform can be popular if it is understood to promise better services rendered by a proud, professionalized, decentralized delivery system.

- The very concept of national competitiveness can serve to ennoble specific reforms. The concept appeals to patriotic sentiments and to the broad national interest.

Leadership also matters. Recently, Fernando Henrique Cardoso and Ricardo Lagos exerted strong, effective leadership in advancing the social democratic convergence in Brazil and Chile. Enlightened political leadership will combine all four elements—carefully crafted coalitions, international support, popular pressures and an attractive ideological message—to promote the new social democratic convergence and its international competitiveness component. There will be temporary defeats and setbacks, but in most countries in Latin America, there are good reasons for optimism in the years ahead.

NOTES

A previous version of this article was prepared for the Task Force on Democracy and Reform in Latin America: How to Build More Competitive Economies, Center for Hemispheric Policy, University of Miami, originally presented at a session on Democracy and Reform in Latin America: How to Build More Globally Competitive Economies, December 4, 2006. The author would like to thank William C. Smith and two anonymous reviewers for valuable comments on an earlier draft.

REFERENCES

- Brune, Nancy, and Geoffrey Garrett. 2005. The Globalization Rorschach Test: International Economic Integration, Inequality, and the Role of Government. *Annual Review of Political Science* 8: 399–423.
- Cardoso, Fernando Henrique. 2006. *The Accidental President of Brazil: A Memoir*. New York: Public Affairs.
- Cook, Maria Lorena. 2007. *The Politics of Labor Reform in Latin America: Between Flexibility and Rights*. University Park: Pennsylvania State University Press.
- Feinberg, Richard. 1990. Comment. In Williamson 1990. 22–24.
- Finger, Michael, and Julio J. Nogues, eds. 2006. *Safeguards and Antidumping in Latin American Trade Liberalization: Fighting Fire with Fire*. New York: Palgrave Macmillan.
- Garrett, Geoffrey. 1998. *Partisan Politics in The Global Economy*. Cambridge: Cambridge University Press.

- Haggard, Stephan, and Robert Kaufman. Forthcoming. *Recrafting Social Contracts: Welfare Reform in Latin America, East Asia, and Central Europe*. Princeton: Princeton University Press.
- Huber, Evelyne, and Fred Solt. 2004. Successes and Failure of Neoliberalism. *Latin American Research Review* 39, 3 (October): 150–64.
- International Monetary Fund (IMF). 2006. *Regional Economic Outlook: Western Hemisphere*. Washington, DC: IMF.
- Lapper, Richard. 2006. *Living with Hugo: U.S. Policy Toward Hugo Chávez's Venezuela*. New York: Council on Foreign Relations.
- Levitsky, Steven, and Maria Victoria Murillo, eds. 2005. *Argentine Democracy: The Politics of Institutional Weakness*. University Park: Pennsylvania State University Press.
- Lora, Eduardo, ed. 2006. *The State of State Reform in Latin America*. Washington, DC: Inter-American Development Bank.
- Nelson, Joan M. 1992. Consolidating Economic Adjustment: Aspects of the Political Economy of Sustained Reform. In *Development Finance and Policy Reform: Essays in the Theory and Practice of Conditionality in Less Developed Countries*, ed. Paul Mosley. New York: St. Martin's Press. 105–28.
- Organization of American States (OAS). 2001. *Inter-American Democracy Charter*. Washington, DC: OAS.
- Przeworski, Adam. 1994. How Many Ways Can Be Third? In *Latin American Political Economy in the Age of Neoliberal Reform: Theoretical and Comparative Perspectives*, ed. William C. Smith, Carlos Acuna, and Eduardo Gamarra. New Brunswick: Transaction. 312–33.
- Sousa, Mariana. 2006. A Brief Overview of Judicial Reform in Latin America: Objectives, Challenges, and Accomplishments. In Lora 2006. 87–123.
- Stallings, Barbara. 2006. *Finance for Development: Latin America in Comparative Perspective*. Washington, DC: Brookings Institution Press.
- Stein, Ernesto, and Mariano Tommasi, eds. 2006. *The Politics of Policies: Economic and Social Progress in Latin America, 2006 Report*. Washington, DC: Inter-American Development Bank.
- Tulchin, Joseph S., and Meg Ruthenburg, eds. 2006. *Citizenship in Latin America*. Boulder: Lynne Rienner.
- United Nations Development Program (UNDP). 2004. *Democracy in Latin America: Towards a Citizens' Democracy*. New York: United Nations.
- United Nations Economic Commission on Latin America and the Caribbean (ECLAC). 2007. *Latin America and the Caribbean in the World Economy 2006. Trends 2007*. Santiago: ECLAC.
- Weisbrot, Mark, Dean Baker, and David Rosnick. 2005. *The Scorecard on Development: 25 Years of Diminished Progress*. Washington, DC: Center for Economic and Policy Research.
- Williamson, John, ed. 1990. *Latin American Adjustment: How Much Has Happened?* Washington, DC: Institute for International Economics.
- World Bank. Various years. *World Development Indicators*. Washington, DC: World Bank.
- World Economic Forum. Various years. *Global Competitiveness Report*. New York: Palgrave Macmillan.