Labor Unions, Partisan Coalitions, and Market Reforms in Latin America

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Unions' Dilemma: How to Survive Neoliberalism

As all the starts shrivel in the single sun,
The words are many, but The Word is one
that becomes uncoded later, with an exchange of capital letters:
The words are many, but the word is One.
Jorge Luis Borges (1932)

In less than seven months, three men named Carlos assumed the presidencies in Mexico, Venezuela, and Argentina and produced the most important policy turnaround of the postwar era in these three countries.[1] In December 1988, Carlos Salinas de Gortari from the Institutional Revolutionary Party (PRI) was inaugurated as president of Mexico. In February 1989, Carlos Andrés Pérez from the Social Democratic Party, Democratic Action (AD), started his term as president of Venezuela. In July 1989, Carlos Menem from the Peronist Party followed suit in Argentina. All three were the candidates of populist labor-based parties, which had supported protectionism and state intervention in the postwar period.[2] Once in office, however, all three presidents actually reduced state

[1] These three countries are among the largest and most important in Latin America and the Caribbean. By 1995, they comprised 32% of the total population and 34% of the urban population in the region. They produced 43% of the regional gross domestic product and 48% of regional exports of goods and services, and they were responsible for 43% of total regional consumption according to the Inter-American Development Bank (1996: 357–61).

[2] "Labor-based parties are parties whose core constituency is *organized labor*. Such parties depend to a significant extent on trade union support . . . for their political success, and as a result, trade unions exercise an important degree of influence over the party leadership in terms of strategy, the party program, and candidate selection . . . labor-based parties vary ideologically (from Communism to Social Democracy to various forms of populism). . . ." (Levitsky 1999: 5–6). Populism was a style of campaigning by charismatic politicians who drew masses of new voters into their movements and retained their loyalty even after the leaders died. These charismatic politicians inspired a sense of nationalism and cultural pride

intervention and opened their economies, thus moving their labor-based parties away from the policies upon which the historic relationship with their long-term labor allies had been built.

Because these three countries had labor-based parties in power and corporatist labor regulations, the common strain created by their parallel convergence into neoliberalism should have provoked a uniform reaction among labor unions according to the conventional wisdom. However, the patterns of union-government interactions in Argentina, Mexico, and Venezuela varied not only across the three countries, but also within them. Unions' reactions ranged from active resistance to passive quiescence. Some unions endorsed policies that hurt their constituencies and organizations. Others rejected market-oriented reforms despite their alliance with governing parties. In Argentina, Peronist unions had opposed the stabilization and privatization efforts of the previous non-Peronist president to the point of calling thirteen general strikes during his administration in the name of nationalism and social welfare. When President Menem privatized the very same companies nationalized by Perón fifty years before, the Peronist unions not only accepted privatization, but also became private entrepreneurs as owners of public utilities, trains, cargo ships, and pension funds. In Venezuela, union leaders made Pérez win the AD primaries and helped him get elected president. However, after Pérez announced his policy shift, the Venezuelan Workers' Confederation (CTV) put aside a long tradition of labor peace, which had prevented general strikes since the establishment of democracy in 1958, and halted activities in the entire country less than six months into his administration.

Furthermore, labor's ability to obtain concessions from allied governments that implemented market reforms was also varied. Some unions were able to change government policies. Others tried and failed. The Argentine and Mexican teachers' unions were the largest in their respective countries. Both were led by skilled and determined female leaders who had joined efforts in the organization of a Latin American association of teachers' unions. Teachers' unions in both countries were facing government efforts to decentralize the administration of education to the provincial level. The militancy of the Argentine teachers accounted for more than

in their followers while promising to improve their lot. The vast majority of their followers were urban workers and the poor, but middle-class voters and elites also join these cross-class coalitions (Conniff 1999: 4).

one-third of total strikes during the year of this reform. However, the government ignored their demands. In Mexico, teacher opposition to key pieces of the decentralization process not only limited its scope but also served to provide salary and fringe compensations for teachers. This book examines the conditions that explain these variations in union-government interactions and their effect on the transition from close to open economies. Its comparative analysis provides useful implications for understanding similar interactions in other countries where labor-based parties have also shifted away from their traditional policies under the pressure of international shocks.

Labor Politics and Market Transitions

Labor-based parties have a comparative advantage for implementing market-oriented reforms[3] that bring uncertainty to their constituencies because they are more credible when they claim that *need* – provoked by economic distress – rather than *taste* – influenced by their ideology – has induced them to implement these policies (Cukierman and Tommasi 1998). In these three countries, the labor-based incumbents blamed globalization pressures, fiscal deficits, the foreign debt, or macroeconomic imbalances for policies presented as both urgent and indispensable. In the words of President Pérez, in his March 1990 State of the Union address:

> We have effectively perceived the unavoidable need to confront our economic reality. Our inefficient, subsidized, and overprotected economy lacked the capacity and the productivity for exporting. Moreover, and more important from my point of view, it lacked the capacity to improve the living standards of the population, which had been continuously declining since the first years of this decade. . . . These circumstances did not allow us to keep following the same path and thus we had to propose a deep change. . . . It was indispensable to define a new development strategy to rescue the country from stagnation. . . .

According to President Salinas (in Cordera and Rocha 1994:15):

> The economic reform was done because while the state increased its ownership, the people increased its needs. Therefore, we had to privatize to obtain resources to pay for the debt acquired by the state during all these years.

[3] Market-oriented reforms include short-term stabilization measures, fiscal restraint, tax reform, financial liberalization, competitive exchange and interest rates, trade liberalization, privatization, and deregulation of most markets, including the labor market (Williamson 1990).

The sudden conversion of the labor-based parties forced them to deal with business's distrust of their former populist character and attempt to bring capital back into their economies. Hence, their new policies were drastic to show their new commitment to the market. In the words of President Menem (in Baizán 1993:37–38):

> The government was becoming weaker and giving in more to lobbies and organized interests . . . everybody was taking advantage of the state to benefit their particular interests. The whole society was financing these subsidies with an uncontrollable inflation. . . . It was clear that we need a shock of hyper credibility to change the economic structure in the most drastic way. To propose a new environment where the private initiative was the engine and the state left the scene. . . .

However, drastic market reforms have costs for labor unions and workers whose influence has developed based on state expansion, protectionism, rigid labor markets, and political clout. Trade liberalization increases differences among workers across and within sectors, making it harder to organize labor unions based on horizontal solidarity. International competition and privatization also provoke labor restructuring and layoffs in sectors that have been among the most highly unionized in the past, thereby reducing the bargaining power of labor unions in these sectors. Higher unemployment hurts union bargaining power and increases job instability for union constituencies.[4] Stabilization policies relying on wage restraint and international competition further reduce unions' wage-bargaining power.[5] The reform of social and labor regulations challenges institutions that have provided unions with legal and political clout (ranging from appointments on social security boards to

[4] In Argentina, unemployment increased from 6.5% in 1988 to 18.6% in 1995 (INDEC 1996). In Venezuela, unemployment rose from 6.9% in 1988 to 9.6% in 1989 and 10.4% in 1990 although falling afterward to reach 6.5% in 1993 (Betancourt et al. 1995: 5). In Mexico, unemployment measurements are highly contentious, but open unemployment peaked in 1983 and 1984 (Friedmann, Lustig, and Legovini 1995: 337) and the combined official rate of open unemployment and underemployment grew from 6.8% in 1989 to 8% in 1994 (Salinas 1994).

[5] In Argentina, hyperinflation cut manufacturing real wages by 36.3% between January 1989 and March 1991. Even after the success of stabilization, industrial real wages fell by 12% between April 1991 and June 1995 (Consejo Ténico de Inversiones 1997: 65). In Venezuela, the real industrial wage fell 35% in the 1989–93 period (ILO). In Mexico, real wages in manufacturing had dropped by almost 40% between 1982 and 1988, and despite improving during the Salinas administration, they did not recover to their 1982 level (Pastor and Wise 1997: 432).

monopolies of representation), which they would not be able to achieve based solely on their industrial power. More importantly, market reforms introduce a high degree of uncertainty about the future labor-market positions of union constituencies that often induce workers to distrust these policies despite partisan reassurances. All these effects are more acute in previously subsidized sectors, such as the public and the manufacturing sectors that have enjoyed high levels of protection and constituted the core of populist coalitions pursuing import substitution industrialization.[6]

Students of market-oriented reforms point out that, in developing countries, organized labor has traditionally had its strongholds in the protected sectors of the economy. Because protection from foreign competition and state intervention had benefited labor unions with greater bargaining power, this literature expects their acrimonious rejection of market reforms. Moreover, it is assumed that the costs of reforms are concentrated in protected groups (including labor unions) that are already organized and can mobilize against the reforms. On the contrary, the potential winners of reforms are uncertain about their identity, and the benefits of reforms are diffused among unorganized individuals making it unlikely that they will be able to successfully support these policies (Fernández and Rodrik 1991). Thus, for Nelson (1989), Williamson (1994), and Haggard and Kaufman (1994), it was important to understand which institutions insulate policy makers from labor and societal pressures to enable them to implement market reforms.[7] Geddes (1995: 67), however, dissipates their fears when arguing that "working class opposition to adjustment has resulted in neither systematic defeats for incumbent politicians nor the wholesale abandonment of reform policies." The scheduling of reforms and their partial implementation nonetheless have

[6] After the Great Depression, Latin American countries followed a development strategy of state-led import substitution industrialization that promoted domestic manufacturing of previously imported goods. Governments originally raised tariffs to compensate for the shortage of foreign exchange produced by the crisis. They gradually moved their protectionism into subsidized exchange rates for importing inputs, nationalizations, and subsidies for the industry based on the transfer of resources from exporters of primary products. Closed markets, though, created few incentives for developing industries competitive enough to export (Diaz Alejandro 1984, Hirshman 1968). These policies allowed the formation of populist coalitions between urban workers and industrialists producing for the domestic market (Cardoso and Faletto 1969, O'Donnell 1973).

[7] In two studies of market reforms in Latin America, Acuña and Smith (1994) and Conaghan and Malloy (1994) point to the combination of repression, co-optation, and insulation of skillful policy makers for the success in the implementation of these policies.

important distributive consequences.[8] An assessment of concessions and changes in the reform process from the perspective of labor organizations will provide an important piece in the debate about the transition from closed to open economies.

The study of union-government interactions during economic liberalization contributes directly to this debate. By shifting the focus from policy makers to organized labor, I show that unions can organize either support for or opposition to the reforms, thus changing the costs of reforms for policy makers. I also provide empirical evidence to assess the effect of union action on the feasibility, design, and implementation of reforms; that is, the ability of unions to obtain concessions in their bargaining over market reforms.[9] The delays in modifying labor-market regulations in Argentina, Mexico, and Venezuela despite publicly announced intentions by governments to undertake this reform are but one example of labor influence on the pace of policy implementation.

Concessions to unions, however, do not explain the militancy of some unions and the restraint of others. Because strikes are costly for both parties, strong unions should be able to obtain concessions without exercising their muscle if governments have complete information about their strength. Weak unions, instead, have more to lose from militancy than from restraint because the cost of militancy is likely to have no payoff. Kennan (1986) discusses the difficulties in finding rational explanations for strikes when complete information is available. With incomplete information in the bargaining, strikes can serve as tools through which labor obtains information about the state of the firm and its ability to pay for labor demands (Hayes 1984) or a bluffing strategy of weak unions pretending strength (Tsebelis and Lange 1997).[10]

[8] Hellman (1998: 232) shows the distributive consequences of partial reforms in post-communist transitions "where actors who enjoyed extraordinary gains from the distortions of a partially reformed economy have fought to preserve those gains by maintaining the imbalances of partial reform over time." Schamis (1999) shows the distributive consequences of certain reform sequencing that benefited entrenched business sectors in Latin America.

[9] According to Hellman (1998), concessions to losers can have positive externalities, such as checking the power of early winners that may oppose further advances in liberalization and deregulation.

[10] Kennan (1986) presents the Hicks's paradox or the impossibility to explain strikes when complete information is available. Hicks suggested two possible explanations. Either the union is trying to maintain a "reputation for toughness" or there is incomplete information in the bargaining. Following Hayes's (1984) idea of strikes to obtain information,

Partisan links, however, facilitate communication about labor and government's intention. Partisan links can cause labor unions to trust the government and make it unnecessary for labor to probe its willingness to concede. Instead, labor cooperation with partisan allies could be based on its trust about the *need* for policies and the alternative legislative gains and favorable state regulations that compensate for industrial restraint.[11] Garrett (1998) and Iversen and Wren (1998) still find that social democratic administrations use state expenditures to compensate their constituencies in Organization for Economic Cooperation and Development (OECD) countries in the 1990s. Such compensations could explain labor restraint. This interpretation is consistent with the Latin American literature on state corporatism, which argues that the combination of state regulations on industrial relations and political affiliations of labor unions created political patterns of strike activity.[12] This literature predicts restraint when labor-based parties are in control of the state apparatus of incentives and constraints in corporatist countries, such as Argentina, Mexico, and Venezuela (Zapata 1987, 1993).

Furthermore, the appropriate institutional settings can facilitate labor peace by enhancing labor unions' control of the behavior of their members when they trust partisan allies. Referring to market reforms, Przeworski (1991: 181) argues that cooperative unions "constitute encompassing, centralized organizations and must trust in the good faith of government." He is applying to developing countries the findings of Garrett and Lange (1985, 1989) and Alvarez, Garrett, and Lange (1991) for OECD countries. They argue that countries with labor governments and a centralized union movement or countries with right-wing government and

Tsebelis and Lange (1997) suggest that strikes may be a bargaining strategy, like bluffing in poker, to pretend strength in the case of weak unions. In such a case, employers may want to probe the union to assess its strength, even at the cost of industrial conflict, to reduce their offers and maximize their profits.

[11] For the literature on *power resources*, partisan allies provide legislative resources that explain the decline in the use of industrial resources (Korpi 1978, 1985).

[12] Schmitter's (1974) definition of *corporatism* refers to a system of interest representation based in functionally differentiated categories, recognized or licensed by the state and with representational monopoly within their respective categories in exchange for controls in the selection of leaders and articulation of demands. It implies functional representation of labor and business combined with state institutions that subsidize and control functional groups. In *societal corporatism*, organized interests constitute themselves in a more autonomous way before they are recognized by the state. In *state corporatism*, state incentives and constraints played a larger role in the organization of societal interests (Schmitter 1974, Collier 1995).

decentralized wage bargaining have a better macroeconomic performance due to wage restraint.[13] In the Latin American tradition, corporatist regulation and controls over labor mobilization are used to explain labor restraint.[14]

However, all three countries – Argentina, Mexico, and Venezuela – had labor-based administrations and corporatist labor regulations. Wage bargaining was predominantly at the industry level in Argentina and decentralized to the company level in Mexico and Venezuela. These patterns of wage bargaining, along with labor-based administrations, were not supposed to lead to wage restraint and good macroeconomic performance. Furthermore, state retrenchment was an essential part of labor-based parties' policy agendas in Argentina, Mexico, and Venezuela, making any compensation through public expenditures difficult. Within this common institutional and partisan context, *What conditions explain labor loyalty to or betrayal of long-term party allies?* Moreover, *Why did government officials grant concessions in some cases and not in others?*

To answer these questions, this book shifts the focus of analysis to the interactions between labor unions and governments at different levels of organization and in different national and sectoral contexts. This multilevel study allows me to overcome the limitation of theories based on system-level variables, which are inadequate to understand the organizational dynamics of individual unions, and to bridge the gap between macrolevel and microlevel explanations.[15] Macrolevel variables provide the context that affects organizational dynamics and define national trends. However, they are insufficient to explain the internal politics of labor unions and their effect on the interaction with government officials. Instead, I analyze a variety of labor organizations, including national con-

[13] Centralized union movements had authority to restrain wage militancy and trusted that social democratic allies would provide expansive fiscal policies and full employment in return. This argument is derived from two sources. First, the political exchange and neocorporatist literature that associates wage restraint in corporatist social democratic countries with the political compensations received by labor (Korpi and Shalev 1980, Cameron 1984). Second, from Calmfors and Driffill (1988) finding of a hump-shaped curve for wage militancy in OECD countries, where both centralized and decentralized labor movements have lower wage militancy than those with medium levels of centralization.

[14] Country studies of labor regulations and their effect include Ellner (1993) for Venezuela, Middlebrook (1995) for Mexico, and McGuire (1997) for Argentina.

[15] Recent political science studies have moved to the study of the microdynamics within labor unions. Most notably Golden (1997) analyzes the effect of organizational dynamics on union-employer interactions during strikes against job redundancies.

federations and industrial unions in Venezuela, Mexico, and Argentina, in terms of their strategic interaction with labor-based governments implementing market-oriented reforms. Based on these empirical findings, this book argues that the incentives created by partisan loyalties, leadership competition, and union competition explain these interactions. Partisan loyalty derived from a long-term union affiliation with the incumbent party facilitates labor restraint and collaboration. The union trusts the government and does not need to strike to probe its intentions. Yet, leadership competition among union leaders affiliated with different political parties for the control of unions can make the incumbent labor leaders fear displacement and resort to militancy. Although militancy may not augment their bargaining leverage, the fear of replacement increases their incentives for militancy as a way of showing their responsiveness to the rank-and-file hurt by market reforms. Militancy, in this case, is not a bargaining tool but the outcome of the union's own internal dynamics. Union competition among labor organizations for the representation of the same workers makes coordination more difficult, thereby weakening unions. Union competition rather than the degree of militancy thus signals to the government the weakness of the union and, in doing so, affects its capacity to obtain concessions.

This theory has broad comparative implications for understanding union-government relations in other countries as well. In Latin America and other regions of the world, unions and labor-based parties exchanged labor support for the party's commitment to provide unions with access to the state. The debt crisis and the failure of inward-oriented development strategies provoked the policy shift of labor-based parties in Latin America.[16] Trade integration and capital mobility made labor-allied parties shift toward market-oriented reforms in other regions of the world (Rodrik 1997). Hence, by focusing on a small number of variables explaining union dynamics in different contexts, my theory can be applied to union-government interactions in other countries facing similar dilemmas. Changes in the partisan identity of the government and its relationship to organized labor, union competition, and leadership competition should also affect the incentives of union leaders in other national contexts.

[16] Import substitution industrialization had led to budget and trade deficits by the 1970s due to its reliance on heavy state expenditures and overvalued exchange rates and the lack of adequate tax bases. However, the inflow of capital (mostly in the form of loans) allowed governments to keep these policies until the debt crisis (Frieden 1991, Geddes 1995).

This study contributes to understanding the impact of market reforms on partisan coalitions and partisan identities. In all three countries, the turn to neoliberalism by governing labor-based parties facilitated the growth of electoral contenders who criticized incumbents for the costs of drastic reforms. These same political parties made inroads into the union movement affecting the levels of partisan competition for the control of unions. Hence, the new electoral dynamics and the agenda of institutional change led incumbent labor-based parties to build broad political coalitions to sustain the process of reform and their political power. Labor unions played a prominent role in the success and demise of these coalitions in the case of these labor-based administrations. Moreover, the emergence of new political identities and partisan ties in the labor arena reverberated in the reshaping of the political party systems in these three countries.[17]

[17] Collier and Collier (1991) argue that labor incorporation into these labor-based parties shaped the configuration of the party system in all three countries. Changes in the political economy of Latin America have been associated with a redefinition of partisan coalitions and even party regeneration (Roberts 1995, Gibson 1997, Levitsky 1999).