PART I

The Framework and Comparative Analysis
Rethinking the Consequences of Neoliberalism

The neoliberal wave has crested and broken. During the last two decades, virtually all developing countries shifted from state-led to market-oriented economic strategies. This global wave of policy reform, which affected the lives of literally billions of people across the developing world, stands as perhaps the most remarkable economic event of the late twentieth century.1

In the wake of this policy revolution, an ideologically charged debate has raged about the consequences of neoliberal reforms. Proponents of neoliberalism herald the triumph of free markets over government control. They euphorically predict new levels of prosperity as market forces are liberated from the fetters of government intervention.2 By contrast, opponents of neoliberalism warn of developmental disaster. They argue that market-oriented reforms set countries on a pernicious “race to the bottom” as they compete to attract footloose global capital by lowering environmental and workplace standards.3

This study aims to get beyond the apocalyptic rhetoric by analyzing fresh evidence about the effects of neoliberal policy reform. The evidence challenges a fundamental assumption shared by both friend and foe of these reforms, who converge in the belief that they result in laissez-faire markets. I find instead that neoliberal policies, rather than unleashing market forces, trigger the construction of new institutions for market governance.

1 For a vivid overview of this wave, see Yergin and Stanislaw (1998).
2 See, for example, De Soto (1989); Friedman (1990); and Schwartz and Leyden (1997).
3 See, for example, Clark (1991, esp. ch. 13); Walton and Seddon (1994); Collins and Lear (1995); Green (1995); and Wallach and Sforza (1999).
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By vacating institutionalized policy domains, neoliberal reforms create opportunities for political incumbents to expand their authority and their support bases by “reregulating” sectors of the economy.4 Organized societal groups have a stake in how markets are reregulated and can mobilize to support or challenge politicians’ reregulation projects. Neoliberal reforms thus trigger two-step reregulation processes: First, political entrepreneurs launch projects to build support coalitions by reregulating markets; second, societal actors respond to these projects by mobilizing to influence the terms of reregulation. The varying strengths and strategies of politicians and societal groups, in turn, determine the various types of new institutions for market governance that will result from these reregulation processes. In short, rather than ending government intervention in markets and narrowing the range of the political, neoliberal reforms result in a new politics of reregulation.

Recognizing that neoliberal reforms create opportunities and incentives for institution building raises a further issue: What kinds of new institutions replace those destroyed or displaced by neoliberal policies? Because these institutions are likely to have a crucial impact on how countries perform in the global economy, it is imperative to understand their origins and dynamics.5 To achieve this objective, I propose a framework for explaining the different types of new institutions for market governance that emerge after neoliberal reforms.

In sum, this book has three overarching goals. First, by showing that neoliberal policies can result in new institutions for market governance instead of unregulated markets, it challenges expectations rooted in neoliberal economic theory. Second, it provides a framework for explaining the different kinds of institutions that replace those destroyed by neoliberal reforms. Finally, by shifting the focus from the politics of neoliberal reform to the politics of reregulation, it moves beyond the well-studied questions

4 The term “reregulation” has been employed since the early 1980s by students of regulatory reform in the United States and other advanced industrial countries. For an early use of the term, see Weingast (1981). See also Vogel (1996). The loci classicus of the idea that free-market reforms can result in new regulations is Polanyi (1944). Polanyi (1944:140) observed that “the introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range.” The present study confirms Polanyi’s basic insight, yet offers a new, political explanation for reregulation.

5 In an important shift away from its earlier focus on structural adjustment and neoliberal reform, the World Bank has increasingly recognized the importance of institutional reconstruction after neoliberalism. See Burki and Perry (1998).
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of why countries choose neoliberal policies and how they implement them. In taking this step, the book develops a new agenda for comparative political economy: the study of politics after neoliberalism.

Beyond Neoliberalism: How Far Do Existing Studies Go?

The study of neoliberal reform has dominated work on the political economy of development during the last decade. Because most analyses treat market-oriented policies as a dependent variable, however, few explore the political effects of these policies. Many scholars seek to explain why countries choose neoliberal policies.6 Within this focus on policy choice, some try to account for cross-national variation in the timing of reforms (Nelson 1990b). Others analyze differences in the composition of policy packages, attempting to explain, for example, why countries pursue orthodox or heterodox policies (Kahler 1990). Scholars have also focused on issues of policy implementation, identifying political and social conditions that help or hinder implementation of neoliberal reforms.7 Such studies mainly try to explain what makes neoliberal reforms possible, rather than explain their political consequences.

Previous work offers important insights about the factors that induce politicians to support or oppose neoliberal policies and about how political institutions affect their implementation. These insights help explain why countries have had varied success at achieving macroeconomic stabilization and structural adjustment. Because they focus on the dismantling of ancien régimes based on state-led, inward-oriented development strategies, however, existing analyses shed little light on how institutions for market governance are reconstructed after transitions away from statism.

The few analyses of developing countries that look beyond the dismantling of old statist regimes have been curiously apolitical. Scholars have increasingly noted that states acquire new capabilities in the course of implementing neoliberal reforms. However, they have focused mainly on capabilities linked either to technical requirements of neoliberal policies, such as preparing state enterprises for sale and improving control of public expenditures, or to global market pressures, such as providing sophisticated information about export markets to domestic producers to

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5 See, for example, Nelson (1990a) and Bates and Kraeger (1993).
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help boost their competitiveness abroad. These analyses underemphasize the possibility that neoliberal reforms can trigger politically motivated institution building, driven not by technical or market exigencies but by ambitious politicians looking to control policy areas vacated by state downsizing.

Perhaps because most advanced industrial countries embraced neoliberal reforms earlier than their counterparts in the developing world, students of those countries have focused considerable attention on policy dynamics after the implementation of such reforms. Most notably, they have shown that the shift to market-oriented policies in countries such as Britain and the United States actually increased government regulation in high-technology sectors like telecommunications and financial services.

Although studies of reregulation in advanced industrial countries do go beyond the implementation of neoliberal reforms, they de-emphasize the distributive effects of regulatory policy and instead portray reregulation as a relatively apolitical process led by technocrats who strive to promote economic performance, codify rules, or expand their bureaucratic prerogatives. Consequently, these studies offer weak leverage for understanding how reregulation works in developing countries.

In developed and developing countries alike, the distributive effects of regulatory policy generate powerful incentives for political action. In most developing countries, however, autonomous bureaucratic agencies insulated from “capture” by political actors are nonexistent or scarce. Hence the impulse to reregulate often stems from politicians, not from technocrats. Understanding the dynamics of reregulation in such contexts requires a perspective that highlights politicians’ efforts to gain and keep power.

In short, existing work in comparative political economy offers few insights about the politics of reregulation, leaving us, consequently, without a satisfactory framework for explaining the reconstruction of insti-

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9 Chile is a notable exception. See Foxley (1983).

10 On reregulation in advanced industrial countries, see Weingast (1981); Borrus et al. (1985); Moran (1991); and Vogel (1996).

11 According to Vogel (1996:19), the “core agenda of regulatory reform” consists of efforts by bureaucrats to generate revenue and design new mechanisms for policy implementation.

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The Politics of Reregulation: A Framework

This section develops a framework for analyzing the politics of reregulation. The framework combines a focus on politicians’ choices of regulatory policies with a focus on subsequent bargaining between politicians and societal groups over the terms of reregulation. Together, these two perspectives help explain varied reregulation processes and the divergent institutions for market governance that result from them. Figure 1.1 summarizes the core components of the framework.

Reregulation Projects: A Politician-Centered Perspective

The distributive consequences of market regulation give politicians strong incentives to harness regulatory policy to political purposes. Regulation makes it possible to distribute “rationed favors, privileged access, and individual exceptions to general rules,” thereby helping “generate the resources by which to govern” (Bates 1983:131). In contexts where bureaucratic agencies insulated from political control are scarce, we should expect regulatory policy to serve frequently as a tool that incumbent politicians deploy to build support and compete for power.

Neoliberal reforms give incumbents further reasons to regulate. First, such reforms often impose high costs on organized interest groups (e.g., industrial labor, government employees), thus creating difficult coalitional challenges for politicians.14 Because regulatory policy generates divisible benefits and targetable rewards, reregulation can be a potent instrument for maintaining or restructuring support coalitions strained by neoliberal

14 Collier (1992); Levitsky and Way (1998); and Burgess (1999).
reforms. Second, neoliberal shocks evacuate policy domains, and, from the perspective of ambitious politicians, these vacant domains may represent opportunities for increasing their authority. Reregulation can thus serve not only as a means to preserve power in situations of coalitional crisis caused by neoliberal reforms but also as a way to expand power.

Combined with the distributive consequences of regulatory policy, the characteristic political challenges and opportunities posed by neoliberal reforms give incumbents compelling incentives to reregulate. Thus there is a strong basis for expecting reregulation to serve as a coalition-building tool wielded by politicians in the paradigmatic “soft states” of developing countries that lack robust autonomous bureaucracies.15

The recognition that the impetus for reregulation stems from ambitious politicians, rather than from insulated technocrats, puts incumbents’ strategic calculations at the center of the analysis. Yet politicians are not completely free in their choice of reregulation strategies. Their policy choices are constrained by societal forces and political institutions. Furthermore, politicians often have ideas and beliefs that prescribe a course of policy choice and implementation. To explain reregulation strategies, we need a framework that links societal and institutional constraints as well as politicians’ ideas and values to the shaping of policy choice.16

**Societal Forces.** The configuration of societal interests in a policy area constrains politicians’ reregulation strategies by delimiting the range of feasible policy options. Mapping the policy preferences of societal actors thus serves as an important first step for explaining reregulation strategies.

However, the distribution of societal preferences cannot by itself explain these strategies. As students of collective action have long observed, group preferences do not necessarily translate into group demands. Moreover, even if societal groups do organize to defend their interests, it is politicians, not interest groups, that are authorized to make regulatory policy. And, as we shall see, the responsiveness of politicians to interest-group demands depends on political institutions.

In sum, focusing on societal forces helps explain the menu of policy options. However, such a focus, while important, serves more to narrow the range of possible strategies than to explain actual strategies. To account

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15 The term “soft state” is from Myrdal (1968:66).

16 Previous efforts to develop a multilevel, integrated analysis of policy choice include Gourevitch (1986) and Haggard (1990).
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for politicians’ reregulation strategies, we thus need to consider additional factors.

**Regime Institutions.** Regimes are the formal and informal rules of a political system that determine how authoritative decisions are made and who may participate in the decision making process (Collier 1979:402–3). Regime institutions have an important impact on reregulation because they define who holds authority to make regulatory policy. In federal regimes, for example, state and local governments may have authority over aspects of regulatory policy in their jurisdictions, which means that reregulation processes can unfold differently across subnational units and may involve intergovernmental competition to control policy areas abandoned by the federal government. In unitary regimes, by contrast, potentially autonomous policy jurisdictions usually do not exist at the subnational level, and reregulation is thus likely to be a territorially more uniform process than in federal systems. Nevertheless, a unitary system, too, can experience varied reregulation dynamics, with variation occurring across economic sectors, rather than administrative units, and involving interagency, rather than intergovernmental, bargaining.

Regime institutions also shape reregulation strategies by defining the structure of the policymaking process. This structure helps determine the political tasks incumbents need to accomplish in order to achieve their policy objectives. In regimes with multiple veto points (e.g., systems in which executive power is checked by a legislature and judiciary), politicians may face complex challenges in securing consent from actors empowered to overturn or modify their policy initiatives. Regulatory policy in such contexts is likely to be a collective output that reflects the preferences of multiple actors from different government agencies and organizations. By contrast, in regimes with few veto points (e.g., systems in which policy can be made or changed by executive fiat), regulatory policy often reflects the preferences and political styles of a handful of leaders and their advisers.

Finally, regime institutions influence regulatory policy by determining the responsiveness of politicians to societal interests. Regime institutions shape incumbents’ career incentives by defining those to whom they are

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18 Such centralized regimes are exemplified by “delegative” and “majoritarian” democracies. See O’Donnell (1994) and Lijphart (1984).
accountable. In competitive multiparty democracies, for example, elected officials often face strong incentives to represent citizens in their districts because their career fortunes hinge on winning reelection (Mayhew 1974). In such contexts, incumbents are downwardly accountable and thus highly responsive to societal interests. In other types of regimes, by contrast, incumbents may be upwardly accountable to political elites and, hence, relatively unresponsive to societal groups. For example, in nondemocratic systems and in democracies with highly centralized parties or constitutional prohibitions against immediate reelection, performing constituency service can mean pleasing political elites, not societal interests.

Because they shape the responsiveness of politicians to societal pressures, regime institutions help explain how much their reregulation projects reflect the preferences of societal groups. If regime institutions give politicians compelling incentives to respond to societal demands, interest groups may exert decisive influence over reregulation strategies. By contrast, if regime institutions generate only weak incentives to serve societal interests, incumbents can have more freedom choosing reregulation strategies.

**Policy Repertoires.** Although I assume politicians are motivated mainly by the goals of gaining and retaining office, regulatory policies are not necessarily optimal career boosters. Politicians often have distinct *policy repertoires* that condition their policy decisions and may lead them to support regulatory policies that do not enhance their career fortunes. Policy repertoires are coherent frameworks of beliefs, values, and ideas that prescribe a course of policy choice and implementation. These repertoires include conceptions about the proper role for government and the appropriate means of government intervention. They can also include specific understandings and expectations about the political effects of different regulatory policies. Policy repertoires shape incumbents’ perceptions of both the types of policy tools at their disposal and the methods available for manipulating these tools to create political dividends.19

Policy repertoires consist of more than just expert knowledge transmitted by policy analysts and professional economists. In addition to embodying such *pure* policy knowledge, politicians’ repertoires are anchored in practical, *applied* knowledge, based on their accumulated expe-

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19 On ideas and policymaking, see Hall (1997).
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terence in government and potentially distorted interpretations of expert
prescriptions. Policy repertoires may be shaped in profound and enduring
ways by a politician's formative career experiences. Consequently, rather
than mirroring current expert consensus, policy repertoires may reflect
outdated, past prescriptions.

Data about incumbents' career paths and memberships in political
cohorts or generations should help explain the content of their policy
repertoires. For example, incumbents with extensive experience adminis-
tering statist policies may have distorted understandings of how neoliberal
reforms should be implemented. These understandings can lead them to
interpret core neoliberal imperatives, such as achieving macroeconomic
stabilization and increasing exports in sectors with comparative advan-
tages, not as mandates for shrinking the state's role, but rather as tasks that
require expanding it.

By recognizing how beliefs, values, and ideas can shape policy choices,
a politician-centered perspective need not reduce incumbents to faceless
calculators of costs and benefits. Although it is a helpful and powerful sim-
plication to assume that incumbents seek mainly to maximize their career
fortunes, these efforts are framed by historically constructed, potentially
idiosyncratic understandings about the range and consequences of policy
options. A focus on policy repertoires thus illuminates how incumbents
pursue political survival and helps explain why, for example, politicians
seeking support from similar constituencies may have quite different policy
agendas.

The influence of repertoires on policy choice should increase with the
degree of autonomy incumbents have from societal forces. If politicians
enjoy significant autonomy from societal pressures, their beliefs and ide-
ological orientations can play a decisive role in their choice of reregula-
tion strategies.

Institutional Outcomes: An Interactive Perspective

At the most general level, I argue that the politics of reregulation leads to
two institutional outcomes: oligarchic policy frameworks that generate
monopoly rents for a narrow group of elites, or, alternatively, mass-based
policy frameworks that distribute benefits widely to nonelite groups. Oli-
garchic frameworks are as inefficient as they are exclusionary. If neoliberal
reforms always resulted in oligarchic outcomes, it would be difficult not