PART I

Introduction and Theory

1

Consuming the Washington Consensus

> A clear majority in all [Latin American] countries favour a market economy rather than a closed, state-directed one.
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> – *The Economist*, in the November 5, 2005, issue (*Economist* 2005a, 11)

> There is disillusion [among Latin Americans] with free-market reforms that are seen as having been sponsored by the United States.
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> – *The Economist*, in the same issue (*Economist* 2005b, 41)

On October 27, 2002, Luiz Inácio Lula da Silva became the first candidate from a left-wing party to be elected Brazil's president. Lula's poor, working-class upbringing was also a first for a Brazilian president and made him a rarity in Latin America's political history. His personal victory after three failed attempts and the ascendancy of the Brazilian Workers' Party (PT) to the presidency seemed to many observers the electorate's repudiation of the free-market policies implemented by his predecessor, Fernando Henrique Cardoso (1995 to 2002). Cardoso had initiated and overseen eight years of newfound price stability and expanded consumption, but in the 2002 election the increase in unemployment and deindustrialization that had occurred during his two terms seemed to weigh more heavily on voters' minds. Opponents of the incumbent party received 76% of the presidential vote.

The election in Latin America's largest country of a left-leaning president seemed the high point of a regionwide trend that began during the recessionary "lost half-decade" of 1998 to 2002. During and after these difficult five years, voters in most Latin American countries – Argentina, Bolivia, Brazil, Chile, Ecuador, Guatemala, Nicaragua, Paraguay, Peru, Uruguay, Venezuela – either elected presidents from leftist parties or chose ones that openly criticized the market orthodoxy of the "Washington Consensus." Well into its second decade as the region's development strategy, journalists, scholars, and politicians alike spoke of mass fatigue with the various elements of the market reform package: privatization, trade and capital account liberalization, and fiscal discipline. Market advocates feared that election mandates would translate into policy reversals: a re-nationalization of privatized enterprises, higher protectionist barriers, and fiscal profligacy. Socialists and other opponents of market liberalization felt vindicated in their belief that voters had finally figured out the hazards of "neoliberalism."

This seemingly straightforward interpretation of voters' beliefs about economic reform, however, is simplistic. Consider Lula's election victory. Lula and the PT did emerge on the national scene as committed socialists in the 1980s, with roots in some of the country's most radical labor and social movements. In his first presidential bid in 1989, the party's platform proposed nationalization of the financial sector and suspension of foreign debt payments. By 2002, however, Lula had moderated his views on economic policy, calling himself "Little Peace and Love Lula" (Hunter 2007; Samuels 2004). The PT platform did not contain the word "socialism." Lula promised not to reverse any major privatizations. He criticized developed countries not for trading too much with Brazil but for trading too little. The most well-publicized line from his "Letter to the Brazilian People," released near the start of his campaign, was the commitment to honor standing contracts with foreign creditors. In short, voters did not elect an outspoken antimarket candidate in 2002.

Moreover, after his inauguration, Lula pursued many fiscal and macroeconomic measures that largely matched those of his predecessor. He implemented an austere reform of the state-provided pension system, maintained a tight monetary policy, and sustained a large budgetary surplus. These were all policies that the PT had strictly opposed during the preceding eight years. By the end of his first year, many observers were referring to Lula's administration as "Fernando Henrique's third term." However, rather than feeling betrayed by Lula and the PT's pro-market about-face, Brazilians rewarded him with high presidential approval ratings and eventually a second term.

Lula's steady move to the ideological center thus raises a series of crucial questions about his mandate and mass beliefs about economic reform. Was the victory of a leftist in Brazil a popular mandate for reversing market reform, an "unraveling of the so-called Washington consensus" (Samuelson 2002, A25)? Or was Lula's necessitated moderation a mandate for continuing the extant economic model? In other words, did Brazilians choose a leftist in 2002 because they were experiencing "reform fatigue"? Or did they choose a *former* leftist because of his promises to keep market policies in place? In short, did most voters in Brazil want to see the continuation or reversal of market reforms?

Similar questions surround interpretations of leftist victories and reform reversal elsewhere in the region. Besides the election of left-of-center candidates, privatizations have been blocked or reversed at the behest of demonstrators in numerous countries, including Bolivia (water), Colombia (telecommunications), Costa Rica (electricity and telecommunications), Dominican Republic (electricity), El Salvador (hospitals), Guatemala (water), Mexico (electricity and petrochemicals), and Peru (electricity) (Harris et al. 2003). Few Latin American countries have *not* seen such movements, with some pro-privatization observers bemoaning "mob rule" in countries where protest has been successful in changing policy (*Economist* 2005c). Some reversals have even occurred at the behest of broader public opinion, as evidenced by the results of national referenda in Bolivia and Uruguay that blocked privatizations or foreign investment in their energy sectors.

Despite these events and the oft-touted leftward swing in voters' preferences after 1998, some observers have spoken of an "ideological pruning" (Colburn 2002, 5) and a "diminishing latitude for economic policy choice" (Weyland 2004, 145) because large-scale reform reversal has not appeared to be a viable political option (Domínguez 1998). Successful presidential candidates from a variety of party types and political backgrounds have railed against neoliberalism during their campaigns: from Nicanor Duarte (Paraguay, 2003) to Néstor Kirchner (Argentina, 2003) to Evo Morales (Bolivia, 2005). Outside of Venezuela, however, only limited policy change has occurred in this direction (Castañeda and Navia 2007; Lora and Panizza 2003). Most "reversals" have been mere tweaks, especially when compared to the state-led policies predominating before reform implementation: "The greatest achievement of the right is that it no longer matters who governs. Yesterday's revolutionaries have ended up administering the model that best suits the right" (*Economist* 2005d, 38; see also Castañeda 2006).

As in Brazil, the implications of these conflicting tendencies for election mandates and for mass preferences are fraught with ambivalence. In Chile, the 2000 victory of Socialist President Ricardo Lagos (2001 to 2006) may have been a sign of popular discontent with the incumbent liberal economic policies. His party's reelection to the presidency in 2005, however, may have indicated widespread approval of the free trade agreement he signed with the United States and his unwillingness to reverse the country's market orthodoxy. In Bolivia, the 2005 victory of Morales (2006 to the present) may have represented widespread approval of his platform to nationalize the country's natural gas sector, yet his high approval ratings even as he pushed for enhanced commercial ties with the European Union may have suggested that voters endorsed freer trade. Even in Venezuela, the many electoral affirmations of Hugo Chávez (1999 to the present) may signify the electorate's wholehearted embrace of his fiery socialist and anti-imperialist rhetoric as well as his strict rules on foreign ownership in the petroleum sector. Alternatively, they may represent an endorsement of Venezuela's relative openness to world trade and its growing import volumes from the United States and Europe.

In short, amid the "left wave," leaders have kept most market reforms intact. Does this indicate that voters would consider undesirable a spate of re-nationalizations and increased tariff barriers? Or have voters used their discretion to grant statist mandates to their governments, only to be betrayed not by moderate leaders but by the economic policy straitjackets imposed by international financial institutions, global market competition, and budgetary constraints? Existing answers to these questions are almost completely speculative. It remains extremely unclear what Latin America's citizens actually think of the nearly two-decade-old experiment with market orthodoxy.

Scholarly Dissensus over the Washington Consensus

These ambiguities make it difficult to reach any clear conclusions about the nature of the Left's mandate and the overall reasons for the "left turn." Reading the election-result tea leaves is a highly imperfect science. Voting behavior and the issue preferences of candidates expressed during campaigns are at best ambivalent proxies for the balance of citizen attitudes, so imputing mass beliefs about market reforms using the ideological stance of election victors can be misleading (Armijo and Faucher 2002; Dore 2003; Roberts and Arce 1998; Stokes 2001a).[1] For example, while conventional

[1] For example, elections may not always be contested on the grounds of economic policies, as other issues such as candidates' personalities, democratization, or corruption may dominate. Alternatively, the leftward shift in leadership after 1998 may have been the natural result of anti-incumbent, not antimarket, voting during tough times.

wisdom in the early 2000s interpreted the success of left-of-center parties as a sign of voters' statism, by 2006 some observers claimed that the reelection of these same parties was an electoral affirmation of the market-oriented status quo (Castañeda and Navia 2007).[2] Overall, the election mandates of recent years have provided enough imprecision and leeway for ideological observers to find what they are looking for in citizen sentiment: Socialists see mass outrage at continued market liberalization, while capitalists see diffuse acceptance of a market model.

Imputing mass beliefs from the preferences of small but vocal civil society organizations and protestors can be equally misleading (Forero 2002, 2005; Johnson 2004; Petras 1999; SAPRIN 2004; Walton and Ragin 1990; Wise et al. 2003). Privatizations have often been greeted with protests, and many have turned violent. Arequipa, Caracas, Cochabamba, and San Salvador have been among the sites of violent antiprivatization or antiglobalization protests in recent years, and in 2003 protests in Bolivia even overthrew a president (Gonzalo Sánchez de Lozada). While it is tempting to conclude that these protests represent widespread distaste for market liberalization, they may be misleading measures of the entire electorate's pulse. The impact of economic reforms may feature concentrated costs for relatively small but highly vocal groups and diffuse gains for a silent majority. As a result, relying too heavily on the preferences of protestors may lead scholars and other observers to overpredict opposition to the Washington Consensus.

Moreover, many observers assume that any given citizen holds equivalent opinions about each of the varied policy elements of the Washington Consensus. In other words, attitudes toward potentially different issues, such as privatization, trade liberalization, and pension reform, are presumed to be unidimensional, as exemplified by the conclusion that Latin Americans in the new millennium have expressed a "massive rejection of the International Monetary Fund and the Washington Consensus" (Rohter 2005, A3). These policies, however, were often implemented separately and have each exerted very different effects on citizens' livelihoods. Assuming that citizens evaluate them as a monolithic whole may oversimplify and mislead. Some reforms may be more popular than others.

[2] Consider the following interpretation of the region's slate of elections in 2006: ". . . incumbency strength should . . . be considered as an endorsement of the policies implemented by the outgoing leaders – for the most part committed to free trade" (Castañeda and Navia 2007, 52).

Even scholarly accounts that rely on survey or other kinds of data have added to the confusion. After more than a decade of research, a persistent division remains. On one side is the "reform-is-popular" school:

> There has . . . been a conversion to free market open economy policies among ordinary people. (Hojman 1994, 210)

> Public opinion surveys . . . generally show that a majority of Latin Americans prefer markets and the private enterprise system to government control. (Rodrik 2001, 12)

> . . . [T]here is still broad-based support for the market economy in general. (Graham and Sukhtankar 2004, 365)

> Latin Americans show few signs of being eager to abandon the market economy. (Shifter and Jawahar 2005, 52)

> Many Latin American voters – in some cases solid majorities – continue to support neoliberal economic policies. (Castañeda and Navia 2007, 53)

On the other side is the "reform-is-unpopular" school:

> . . . [O]rdinary citizens and social movements were taking fervent issue with free-market dogma and its inequitable outcomes. (Smith 2000, 345)

> Across the region only [a small minority] of the people believe that the state should leave economic activity to the private sector. (Mahon 2003, 61)

> In general, Latin American public opinion on the reforms has not been favorable. (IDB 2004, 137)

> If neoliberal policies are not causally responsible for Latin America's economic problems, the political fact remains that they have become associated with them in the popular mind. (Kurtz 2004, 287)

> A large political backlash to privatization has been brewing for some time, and public opinion and policymakers in Latin America . . . have now turned against privatization. (Chong and López-de-Silanes 2005, 57)

Ambivalence also abounds over the contours of group-level differences in opinion, especially regarding the extent to which the poor are disproportionately harmed by, and thus are the group most vehemently opposed to, market reforms. The prevailing opinion is that wealth is the most important correlate of attitudes: The poor are less pro-market than the rich (Castañeda 2006; SAPRIN 2004). Many observers have greeted the victories of left-leaning candidates as a political triumph for the poor and their demands to overturn exploitative market policies. However, most left-of-center presidents were elected by broad cross-class coalitions (Dix 1989;

Roberts 2002). In fact, several reform-implementing presidents were elected and reelected with disproportionately high support from the poor (Roberts and Arce 1998; Singer 1990). Moreover, well-heeled rent-seeking groups, such as public-sector workers and subsidized business owners, were often the main beneficiaries of state intervention, not the poor (Weyland 1996).

Scholarly findings on wealth and economic attitudes are highly contradictory. The prevailing opinion has some empirical support:

> . . . [P]rivate ownership was supported by 77 per cent of the upper class, but by only 49 per cent of the lower class. (Turner and Elordi 1995, 484)

> . . . [S]upport for pro-market positions declined monotonically with social class. (Stokes 2001a, 148)

> Not surprisingly, wealth levels . . . had positive and significant effects on pro-market attitudes. (Graham and Pettinato 2002, 85)

Yet, the countervailing claim also has adherents:

> [Neoliberalism] appeals to unorganized, largely poor people in the informal sector. . . . Better off groups offer the most powerful resistance to neoliberal reforms. (Weyland 1996, 10, 13)

> In much of Latin America, the lower classes have given their electoral consent . . . to neoliberal projects. (Roberts and Arce 1998, 218)

> . . . [T]he staunchest foes of privatization tend to be found among the middle class. (Lora and Panizza 2003, 124)

> Educated people are . . . less likely to be satisfied with how the market is working. . . . Wealth is *negatively* correlated with favouring lower taxes, as are years of education. (Graham and Sukhtankar 2004, 264, 367)

Needless to say, the confusion over *whether* Latin Americans are neoliberals – that is, whether market reforms are largely popular or unpopular throughout the region – and *which* Latin Americans are neoliberals – that is, how wealth and other individual-level characteristics relate to mass beliefs about market reforms – has muddled the picture about *why* Latin Americans think the way they do about the Washington Consensus. Labor markets have tightened in the new market era, so scholars who think reforms are unpopular presume that citizens evaluate them by considering their impact on job opportunities and wages: "Undoubtedly, the widely held perception that the reforms were detrimental to workers is behind the opposition of the public to the so-called neoliberal agenda" (Lora et al. 2004, 14). In contrast, the market-friendly era has also been one of relatively low inflation, so scholars who believe that markets are popular often presume that citizens evaluate them by thinking more about their consequences for consumers: "... [T]he biggest reason for popular support of reformist politicians ... is that market reforms have ended inflation" (Armijo and Faucher 2002, 29; see also Gervasoni 1995). Still others claim that concrete economic consequences matter less than the long-standing political biases that color citizens' perceptions of economics or the rhetorical efforts of elites to shape these mass beliefs (Kaufman and Zuckermann 1998; Przeworski 1991; Stokes 2001b).

Summary of Theory and Findings

Descriptive Findings

This book moves beyond these vague and contested impressions of public opinion in Latin America by taking a microscope to citizens' beliefs about the policies that have transformed their economies in recent decades. To provide a more empirically sound basis for understanding Latin Americans' attitudes, I analyze cross-national surveys administered in eighteen nations between 1990 and 2007 and conduct an in-depth case study of Brazil. A central task of the book is thus descriptive: I set the record straight on two seemingly straightforward but to date poorly answered sets of questions.

First, what is the balance of aggregate opinion about various elements of the market-oriented development strategy? In other words, are Latin Americans neoliberals? Or, more precisely, *how many* Latin Americans are neoliberals? This question remains a hotly debated topic, typically because so little public opinion data are consulted when answering it. Even when such data are used, inappropriately worded questions and a failure to recognize that Latin Americans do not evaluate all policy elements of the Washington Consensus as a unidimensional set have led to confusing and contradictory findings.

Figure 1.1 provides a preliminary answer to the "how many" question by demonstrating that most Latin Americans are enthusiastic about globalization and unenthusiastic about privatization. The figure reports some exemplary results from the cross-national survey datasets used throughout this book. The four diamonds in the figure (ignoring momentarily the curved horizontal lines) represent the percentage of respondents in eighteen Latin American countries that supported each of four different market policies (measured between 1996 and 2001). From left to right, they are trade liberalization, enticements to foreign investors, privatization in general, and the privatization of pensions. (Question wordings for these and all other survey items are reported in the Survey Data Appendix at the end of the book. All survey questions are given italicized variable names that can be used to locate their wordings in the Appendix.) The two leftmost diamonds are much higher than the two rightmost diamonds, an indication of the first central finding: Majorities supported free trade and foreign investment, while far fewer citizens supported privatization in general and pension privatization. In other words, a "popularity gap" existed between globalization and privatization. Moreover, this implies that a certain degree of "unpacking" took place when citizens evaluated

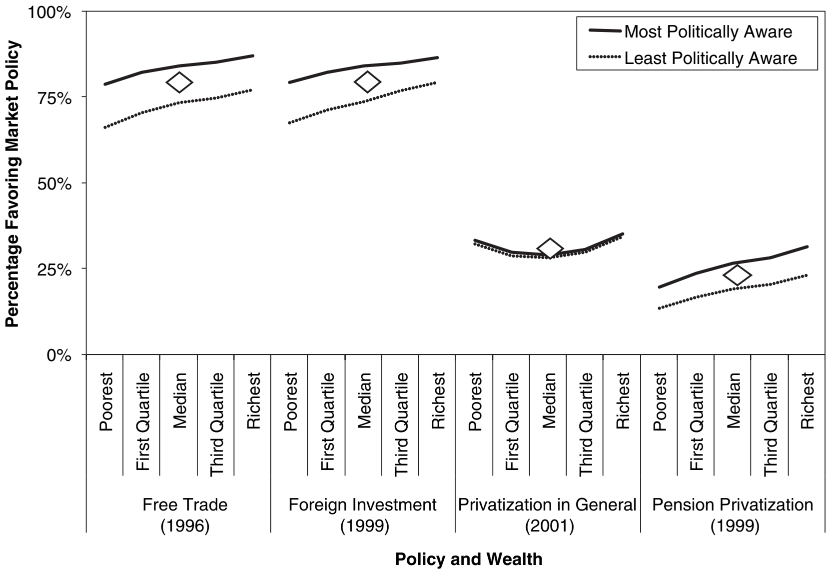

Figure 1.1 Support for Four Market Reforms in Eighteen Latin American Countries by Wealth and Political Awareness, 1996–2001.
Note: Lines are predicted values from four different ordered probit regressions with the following dependent variables: *Free trade helps country* (LB) in 1996, *Foreign investment should be encouraged* (LB) in 1999, *Privatization is good for country* (LB) in 2001, and *Privatization by sectors: Pensions* (LB) in 1999. Diamonds represent the simple observed percentages. "Poorest" are the 5th percentile of wealth, and "Richest" are the 95th percentile.
Source: LB.