Free Market Democracy and the Chilean and Mexican Countryside

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Posing the Right Questions

This book begins with an odd contrast: while the recent emergence of many "free market democracies" in Latin America and much of the rest of the underdeveloped world is not in doubt, this outcome stands in marked conflict with almost two decades of scholarship that suggested that the process of free market *democratization* should at best be difficult and conflictual and at worst be impossible. However stable an equilibrium liberal capitalist democracy might be in both political and economic terms, the costs of transition, particularly among the historically statist and inward-oriented late developers, ought be very high. Economically, the abandonment of import substitution policies induces unemployment, uncertainty, mass bankruptcies, and increases in inequality and poverty. Politically, processes of economic reform typically entail attacks on a broad swath of powerful vested interests, including protected industrialists, organized labor, peasants, and even the state bureaucracy. Yet despite these challenges – huge economic costs and politically powerful opponents – free market democracy has sometimes emerged in the unlikeliest of settings, often with a minimum of instability and upheaval.

Chile, long one of the most statist political economies and stable democracies on the South American continent, had by 1970 elected a Marxist president and launched a peaceful transition to socialism. Three years later the military seized power in the context of hyper-mobilization and paralyzed politics (Valenzuela 1978), eventually setting the stage for radical economic transformation. In an uneven and

piecemeal fashion, the subsequent military government of General Augusto Pinochet (1973–89) imposed a wide-ranging and coherent neoliberal developmental model (Silva 1996; Kurtz 1999a). This free market transformation inserted Chile into the international economy and eventually, after two severe economic crises, produced high rates of growth. But it also dramatically widened income inequality, more than doubled the rate of poverty, and reduced large segments of the labor force to informality (Vergara 1994). From 1983–6, in the midst of a severe economic downturn, protests rocked the country and threatened the very survival of the authoritarian regime – though they were harshly repressed and in the end unable to force a transition. Instead, defeat in a plebiscite in 1988 over the continuation of General Pinochet's military government ushered in a democratic transition. What emerged was a rapidly consolidated free market democracy. Political freedom and opposition victory did not, however, bring a rollback of neoliberal reforms or a return to the polarized redistributive politics of the early 1970s. Instead, three successive elected governments dominated by Christian Democratic and Socialist opponents of military rule have, if anything, extended the free market development model. Nor has democratization been accompanied by the political turmoil and/or blocked reform efforts that have characterized posttransition Argentina, Peru, Ecuador, and of late, Venezuela.

This has led some to argue that what is needed is a firm hand in the implementation of market-oriented economic reforms until such time as their economic merits can be demonstrated, *after which* democratization can be accomplished in a comparatively unproblematic fashion.[1] While such an explanation is consistent with the sequence of

[1] It is precisely this concern for the short-run problems involved in imposing neoliberal reforms on an economically prostrate and potentially unwilling population that has led some analysts to counsel political centralization, bureaucratic insulation, and decree powers in order to consolidate reform rapidly before politics are loosened (Lipton and Sachs 1990; Williamson 1994). Remmer (1990), however, points out that democracies may be no less able than authoritarian regimes to respond to economic crisis and initiate painful reforms. This suggests implicitly that even authoritarian regimes can face serious barriers to policy reform. Others, equally expecting popular resistance to reform, have proposed gradualist approaches that might allow for the construction of viable reform-oriented political coalitions. Geopolitical differences may matter as well. In the postsocialist context, marketization and democratization may be mutually

reform and political opening that took place in Chile, it cannot be sustained on other grounds – a clear majority of the population at the time of democratization continued to suffer materially from neoliberalism. Moreover, some of the most reliable supporters of conservative, free market political parties came from those peasant population segments *most* adversely affected by economic opening. Whatever the causes of support for neoliberal parties, for this segment it is not economic self-interest.

A comparative perspective casts further doubt on sequencing explanations. First, free market reforms do not always produce sustained growth over the medium to long term (e.g., Argentina and Mexico). Second, they are often implemented coterminously with or subsequent to democratization itself (e.g., at roughly the same time in Mexico, and after democratization in Brazil). In Mexico, the dual process of economic and political liberalization culminated in the consolidation of open economic policies with the North American Free Trade Agreement (NAFTA) of 1993 and the establishment of national-level democracy with the first opposition legislative victory in 1997 and a presidential victory in 2000. Both marketization and democratization occurred alongside each other without sustained or widespread political upheaval, serious efforts to turn back reform, or the interruption of secular progress toward greater political and market openness. This was despite the two catastrophic economic downturns in the 1980s and 1990s.

So how is stable free market democracy brought about? The empirical task this book sets itself is to provide a socially grounded political account of the construction of free market democracy in both countries. It is an account that will avoid the tautological assertion that the institutional foundations of the market economy are intrinsic to the definition of democracy, as well as the claim made on the political right that free market reforms are *in themselves* inherently democratizing – there

reinforcing for unique political reasons (Bunce 2000, 719), though some disagree (Kurtz and Barnes 2002). Bienen and Herbst (1996) have argued that efforts at joint liberalization and democratization in Africa face additional, and daunting, challenges. A few have suggested either that market reforms need not produce severe costs, or, at a minimum, that they are far lower than the price of inaction (Rodrik 1996, 29), and thus may not be so politically difficult to implement after all.

are far too many free market authoritarianisms for this to be the case. Equally, however, it rejects the assumption prevalent on the left that market economics and meaningful democracy are incompatible. Rather, this book focuses the discussion on when, why, and how free market economics and democratic politics come together in a stable political equilibrium.

Before the question can be adequately answered, however, it must be correctly posed. This chapter will be focused around two questions that frame the theoretical emphasis presented in Chapter 2 and the empirical analysis that comprises the remainder of the book. First, what is it about the process of economic liberalization that poses challenges for democracy's establishment, and how have these barriers been overcome? Second, moving beyond the question of consolidation, we must ask what is the relationship between consolidated free market democracy and the prospects for the *deepening* of democratic social relations? This is an issue that is a matter of ongoing debate among the "first wave" democratizers and it represents a set of new challenges in the underdeveloped world. Finally, I consider the relationship between these two processes, arguing that efforts to extend and deepen democracy introduce trade-offs with its consolidation. It is this, usually unacknowledged and unhappy dilemma that stands at the center of the relationship between markets and democracy.

OVERCOMING THE ANTINOMIES OF FREE MARKET REFORM AND DEMOCRATIZATION

The point here is to understand how states overcome the challenges that face them in attempting to render free markets and democratic politics compatible in the underdeveloped world. Not all scholars, however, accept that the twin phenomena are anything but mutually reinforcing. Prominent proponents of economic liberalism have long held that it is essential to human freedom (Hayek 1944; Friedman 1962), while arguing that statism (and particularly state socialism) are inherently corrosive of democracy (Friedrich and Brzezinski 1956; Fainsod 1957). More recently scholars have promoted a more nuanced argument that rejects a deterministic linkage, but suggests that liberal economies foster the conditions that are propitious for the survival of democratic politics (Fukuyama 1989, 8). Others, like Huntington (1984, 24) suggest

that key features of the market economy – private property rights and the dispersion of political power they are said to entail – are at least necessary conditions for the maintenance of democratic politics.

The vast majority of scholars, however, have argued that the dual transition (away from statism and authoritarianism) is inherently difficult in the short term. The crux of the problem is that the economic reforms essential to economic liberalization – *inter alia* privatization, deregulation, trade opening, fiscal austerity, and tax reform – produce harmful material consequences for the vast majority of citizens (Przeworski et al. 1995, 68). In the context of democratic politics, this provides fertile ground for the emergence of "nationalist" or "populist" politicians seeking office based on promises to reverse the reforms (Nelson 1989). Rodrick (1996, 10) has captured the crux of this problem: "Good economics does often turn out to be good politics, but only eventually. . . . Conversely, bad economics can be popular, if only temporarily."

From this perspective one would expect opposition to liberal economic reform from powerful vested industrial and commercial interests with a stake in continued statism (Krueger 1974). On the other hand, the beneficiaries of economic liberalization tend to be at their weakest politically at the time at which reforms are initiated. Indeed, many of the economic sectors that stand to benefit from reform may not even have a meaningful presence at the time of opening, and thus they cannot be its political author. The key to reconciling democracy and the market thus involves the construction of a political coalition capable of sustaining reforms in a politically open context. The paradox is that if voters, firms, unions, and peasants act on their interests defined in material terms, no such coalition can be assembled. Implicitly, either democracy will consume the market, or marketization must take place in the absence of democracy. Should politicians endeavor to launch economic liberalization, they would still face the orthodox paradox: entrenched bureaucrats unwilling to engage in the retrenchment of the state, but who would nonetheless be responsible for implementing liberalization (Kahler 1989, 55).

Understanding free market democracy, then, involves understanding how these twin paradoxes can be solved. Empirical reality – in stark contrast to theory – suggests that they can, even in unfavorable circumstances (Remmer 1990). In Chile, the very same polity that had

in 1970 produced the world's first elected Marxist government had by 1989 generated a political system in which nearly all political actors supported open, market-based economic organization (Roberts 1995). In Argentina, a democratic government was able to push through and consolidate a package of economic liberalizations far more ambitious than those even a previous savage bureaucratic authoritarian government was unable to impose, and more extensive than those undertaken in the East Asian newly industrializing countries over the course of decades (Rodrik 1993, 356). In Mexico, a long-standing dominant party founded on revolutionary nationalist economic policies was able to open the economy, induce catastrophic declines in living standards for the broad majority of citizens, open up political competition to an unprecedented degree, remain in power throughout the transition, and eventually pass the presidency to an opposition party equally committed to free market policies.

Four perspectives dominate the efforts to explain this apparent paradox. The first emphasizes the sequencing of reforms, such that marketization precedes democratization and can become a fait accompli by the time political opening is achieved. A second perspective suggests that a sufficiently gradualist approach to economic liberalization – despite potential efficiency costs – can help to make reform politically palatable (and thus durable). A third suggests that the galvanizing force of economic crisis can make otherwise unpalatable reforms politically feasible. Finally, some have pointed to a new form of "populist" politics that combines free market economic positions with a charismatic and antioligarchic political style and/or targeted side payments (social welfare programs) that can be used to mitigate opposition to neoliberal reforms.

Arguments about sequencing have been most prominent in the literature on transitions in the formerly communist countries (Williamson 1994). And they mirror the conventional understanding of the Chilean case, a stylized scenario in which an ideologically committed military government imposed sudden and harsh neoliberal reforms on the economy, which after a severe downturn eventually produced a sustained high-growth outcome (Edwards and Edwards 1987). In addition to inducing adjustment and efficiency, the neoliberal reforms were also consciously designed to disarticulate remaining supporters of statism (Piñera 1991). By the time of democratic transition in 1988, the benefits

of liberalization were said to have been manifest, leading to the commitment even of most of the opposition parties to the free market model (Puryear 1994, 112; Roberts 1995).

There are three principal problems with the sequencing argument, however. First, in most empirical cases the return to growth has either not materialized (as in much of the formerly communist world) or has not been sustained (e.g., Argentina, Brazil, Peru, and Mexico). Moreover, even in Chile where rapid growth was maintained, this did not imply material improvements for the vast majority of the population. Near the time of transition, free market policies had raised rates of poverty and indigence to nearly triple and quadruple their 1970 levels, with over 42 percent of the urban and over 53 percent of the rural population impoverished (León 1994, 11). While there is debate as to the merits of neoliberalism as a growth strategy, few argue that in the medium term it produces anything but regressive distributional outcomes that are hardly conducive to constructing a mass following. Thus the second problem is political – arguments about the long-term benefits of growth only make sense if politicians can construct coalitions based in the winners from neoliberalism. But in Chile the free market political forces on the right have as a large portion of their political base peasants who were among the greatest victims of the neoliberal transformation. This is despite the reduction in poverty achieved during the post-transition reformist administrations. That is, the neoliberals have constructed a viable political coalition, but it is not the one predicted by sequencing approaches. Finally, arguments about sequencing would expect that the more simultaneous the reforms the more severe the resistance (as losers from the reform process have greater ability to resist in more democratic settings). But in Mexico a much more contemporaneous process of political and economic reform – despite catastrophic economic results in the mid-1980s and again in the mid-1990s – produced far less open resistance than experienced in Chile during the 1980s in a decidedly more authoritarian setting.

Others scholars, also operating under the assumption that painful reforms will provoke serious societal resistance, have argued that politicians should take a gradualist and more democratic approach to economic reform. In the process, political coalitions supporting reform can be constructed (Bresser Pereira et al. 1994, 182). Nelson (1992, 259–60) contends that failure to do so may require either a reversion

to authoritarian practices or the abandonment of reform, but she does suggest ways in which even fiscally constrained states might construct reform coalitions.[2] Buttressing this perspective are arguments by Rodrik that suggest that economic reforms are not as painful in the short run as commonly assumed (1996, 29), and Bunce's (2000, 719) observation that neoliberal reforms have the political side "benefit" of disarticulating reform opponents. Finally, and most compellingly, Schamis (1999) points out how the process of neoliberal reform can create rents for potential reform beneficiaries, and thereby help construct a viable proreform coalition.

While there is some merit in this second general perspective, it ignores several crucial points. Rodrik's claim that economic reform is not as painful as is usually argued makes sense only in comparison to a counterfactual – the potential consequences of failure to reform. But it is not likely that the vast majority of citizens will make that comparison in place of a judgment of relative change in material well-being since the onset of reform. By the latter yardstick, short-run costs have been enormous almost everywhere. Gradual approaches to economic reforms also raise the strong possibility that opposition majorities can be mobilized to slow, block, or roll back liberalization (e.g., crucial pension reforms in Brazil). Certainly liberalization's rents can create allies among powerful interests (e.g., privatized firms, the finance sector), but it is difficult to see how mass electoral support could thusly be generated. Indeed, these rents can sometimes cause the reform process to stall in unfavorable partial reform equilibria (Hellman 1998). And surprisingly frequently specific economic reforms are taken in a rapid way, while accompanying social welfare programs designed to mitigate dissent and build overall support for politicians implementing the model are typically inadequate to the task, if they are present at all.[3]

[2] A recent examination of the Argentine reform experience by Etchemendy (2001) suggests that a coalition for reform was established by transforming (but not eliminating) the rents provided key members of business and labor, as well as by the avoidance of wholesale liberalization in sectors dominated by the powerful traditional beneficiaries of import substitution.

[3] It is clear that in important instances politicians have used social development expenditures in an effort to build political support (Horcasitas and Weldon 1994 for Mexico; Schady 2000 on Peru). But whether they are adequate to the task of compensating for neoliberal reforms is an open question. Weyland (1998), argues that

A third prominent perspective suggests that economic crisis is a key ingredient to successful reform. Typically, such an approach argues that where hyperinflation is present, economic reform is made easier by the fact that the *status quo ante* is decidedly harmful to almost all social actors, making stabilization a win-win outcome. While this is undoubtedly true, it applies only narrowly. First, while all the Latin American cases suffered some degree of economic downturn after the debt crisis, only some reached hyperinflationary proportions (Brazil, Argentina, Peru, Bolivia, Nicaragua, and less clearly Chile). Second, while all political players in such contexts would benefit from stabilization, this is only a small component of the overall neoliberal reform package of structural adjustments that includes policies that are decidedly harmful to labor and capital alike. It is true that in the wake of inflationary imbalances one would expect monetary tightening and fiscal austerity, but why would one expect support for trade opening, privatization, deregulation, or labor "flexibilization"?

A refreshing move in the direction of more overtly political explanation can be found in the literature on neoliberal populism. Roberts (1996, 88), for example, explains reform outcomes in terms of leaders who reconcile harsh economic policies with mass followings by emphasizing personalist appeals, antioligarchical discourse, mobilization that bypasses existing institutions, and redistributive or clientelistic social spending. While welcome for its explicit focus on the process by which a neoliberal political coalition is constructed, this form of populism is comparatively unusual. Particularly because of its emphasis on bypassing existing forms of institutional intermediation, it seems likely to emerge only in settings in which traditional parties and social organizations are notably weak or absent (post-1990 Peru, possibly Brazil, but not Mexico, Argentina, or Chile). An alternative and extremely useful approach can be found in Gibson's (1997) analysis of market reform in Mexico and Argentina, that emphasizes the ability of

compensatory packages are simply too small to create a coalition in favor of the initiation of neoliberal reform, but might help consolidate support behind them once they are fully implemented. Instead, he contends that only where preceded by hyperinflationary crises did neoliberal reforms manage to receive substantial immediate approval. It is important to note that in some cases the funds for social development, for example in Peru, in large part came from former allocations to municipal and line ministry budgets, and thus do not reflect dramatic increases in new spending.

traditionally statist parties to impose economic reform without losing electoral viability – though in both cases losing elections – through the construction of a two-sector coalition that includes urban beneficiaries of economic reform and a crucial bastion of rural voters providing a mass electoral base for the reformist party.

The key insight here is that the social coalition that appears to support neoliberal reforms is both sectoral and extremely heterogeneous. It incorporates masses of peasants who are among the most materially disadvantaged by free market reforms alongside business and middle-sector elites who have benefited disproportionately from liberalization and the ensuing rise of wealth and income inequality. It is a "sandwich coalition"[4] that is *prima facie* implausible, yet empirically present in both Mexico and Chile. It is the task that this book sets for itself to answer three questions framed around the construction of just such a coalition: (1) Why are the victims of liberalization in a freely democratic setting among its chief electoral supporters? (2) How does economic liberalization drive this political reorientation of the rural sector, especially given that neoliberal policies are corrosive of traditional clientelistic patterns of control? (3) What are the longer term implications for democratic deepening of a marriage of economic liberalization and political democracy?

THE POLITICAL CONSTRUCTION OF A NEOLIBERAL COALITION IN CHILE AND MEXICO

We now turn briefly to Chile and Mexico. It is widely accepted that for democratic transitions to be stable, incumbent elites must believe that the opening of politics will not create political conditions that are threatening to their fundamental interests, and that a reversion to authoritarianism is on the whole undesirable or excessively costly (Linz and Stepan 1996, 6). But how do elites provide for the sort of democratic "outcome insurance" that keeps regime-threatening issues off the political agenda? Indeed, fears of such a return to redistributive politics led the Chilean military government, with the support of prominent private-sector allies, to savagely repress an enormous wave

[4] I thank Arun Swamy for this term.

of urban popular mobilization against continued military rule between 1983 and 1986. But then only a few years later a rapid and almost violence-free transition to democracy was launched in the wake of the 1988 plebiscite defeat of the military; and it was a transition that had the (grudging) support of some of the military's crucial upper class allies. Or, at least, they saw it as less costly than efforts to subvert the plebiscite results. What had happened to make democratization palatable to at least some economic elites and (barely) tolerable for soldiers?

By 1988 neither the military nor its civilian allies felt directly threatened by democratization – they were confident that freely elected leaders would not (or could not) alter property rights or other fundamental aspects of the free market development model, in decisive contrast to the 1970–3 period. But why? Part of the answer is to be found in the conventional wisdom and has to do with institutional features of the Chilean transition "pact."[5] Embedded in the military-drafted constitution of 1980 and the accessory organic constitutional laws enacted after the 1988 plebiscite were features that introduced appointed senators (some from the military itself) into the legislature, electoral rules that in practice favor the right, and requirements for supermajorities in both houses of congress to introduce changes to existing laws in important issue areas. Linked to this were protections for the autonomy of the military as an institution and the tenure of military-era judges. These institutional features helped to guarantee the broad outlines of the neoliberal model even in the face of opposition victory at the polls.

This explanation is part of a broader set of recent advances in our understanding of democratization that have emphasized institutional variables (Snyder and Mahoney 1999). But for progress to continue we must explicitly connect these insights to the social formations in which they are necessarily embedded. Institutional rules, then, provided a modicum of security for the privileged classes in Chilean society

[5] Strictly speaking, of course, the Chilean transition was not pacted but rather carried out under the terms of the military-imposed 1980 constitution. Nevertheless, in the final years of military rule fundamental changes were negotiated with respect to postmilitary political institutions as a condition for opposition participation under the basic terms of the 1980 constitution.

against distributive demands from below, but they operate only if conservative forces *also* have a substantial electoral base – one the extends well beyond the privileged sectors. Thus, institutional safeguards are only half the story. Without mass support for the right, even a biased electoral law would produce an overwhelming opposition victory. And given the brutality of Chilean authoritarianism, an economic system that created record levels of poverty and inequality at the same time it produced record economic growth, and a recent experience of massive democratic and distributive popular demands, it is surprising that Chilean elites were comparatively confident of just such a mass base.

How such an electoral base can be constructed in a free market context is the central issue for this book. My argument is that neoliberal reforms made possible the construction of an unusual social coalition for the neoliberal right in Chile: it is a "sandwich coalition" of traditional well-off supporters in urban areas coupled with a mass rural base of some of neoliberalism's greatest victims. This has stabilized Chilean democracy, giving conservatives a veto role over key policies, and thus bringing elites into the democratic game. But how was such an improbable bloc created? The answer to this question hinges on the dynamics of economic liberalization. As liberal forms of economic organization were introduced in the 1970s and 1980s in Chile – reversing course in what had been among the most statist economies on the continent – the political consequences of these reforms differed markedly in urban and rural settings. While marketization was consonant with competitive politics and the survival of, albeit diminished, associational life in urban centers (Oxhorn 1995), in the countryside it provoked social fragmentation, economic dependence, immiseration, and the near collapse of organization. Certainly, urban areas also suffered from social decapitalization and demobilization relative to their precoup experiences, but the point is that this result was so much more severe in rural areas as to constitute a qualitatively different phenomenon.

When market-induced rural atomization was coupled with a political system in which the reformist center and left support almost identical agrarian policies as those of the neoliberal right, the conservative voice in the countryside has become a monologue. And because high levels of rural economic dependence and vulnerability to local elites was another consequence of the neoliberal reforms, it is unsurprising that the countryside has become not only a repository for a

large number of votes for conservatives, but also an area of decidedly underdeveloped democratic competition. This rural base, magnified by institutional biases, has made democratization safe for elites. The sectorally uneven social transformations induced by marketization are the crucial complement to conventional explanations of Chilean democratic consolidation – they give political meaning to the institutional variables usually highlighted.

Herein lies the paradox of free market democracy. The reconciliation of the inherently austere policies of free market reform with open politics is based not in a sequence of imposition but rather a *segmentation of social effect*. It is precisely the democracy-inhibiting character of specifically rural free market reforms that make national-level neoliberalism compatible with open politics. Neoliberal elites, whether on the Chilean right or within the Institutional Revolutionary Party (PRI) in Mexico, stabilize their power even in the course of severe economic contraction because of their hold in rural areas. In the absence of this sandwich coalition, however, free market reform or democracy might well fail either through the victory of illiberal politicians, or through the unwillingness of authoritarian elites (and their supporters) to open up politics in the first place.

If the conventional sequencing explanation fails to withstand scrutiny in Chile, it is decidedly less plausible for Mexico. There political and economic opening were much more simultaneous, and the latter has yet to produce a sustained return to growth, to say nothing of improvements in average living standards. Long an unusual case of "inclusionary" authoritarianism and statist economic development, Mexico took up the path toward market opening and democratization in the wake of the debt crisis of 1982. While newly elected President de la Madrid (1982–8) did put an end to the populist experiment that characterized the final years of López Portillo's (1976–82) presidency, his efforts at stabilization took on at first a decidedly heterodox complexion. In 1988, however, in the closest election in postrevolutionary Mexican history, Carlos Salinas eked out a fraud-marred victory. Not only was this a sign of the beginnings of meaningful political liberalization, it was soon followed by the first opposition gubernatorial victories as well as the first widespread opposition domination at the municipal level. Within a decade opposition from the right (the National Action Party, or PAN) would control a half-dozen state governorships, while

that of the left (the Party of the Democratic Revolution, PRD) would control the crucial Federal District mayoralty.

But this was also a decade of tremendous economic transformation. The economic collapse of the de la Madrid (1982–8) *sexenio* was followed by a package of economic reforms that in their totality amounted to the abandonment of the state-led development strategy that had prevailed since the 1930s. While Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986, the massive privatization of public enterprises was carried out by Salinas after 1988. Similarly, the former regime of import licenses and strong protection was replaced by rapidly falling tariffs as Mexico imposed its outward-looking reforms. Perhaps most fundamentally, the constitution was amended to simultaneously end the process of agrarian reform and permit the privatization of large tracts of agricultural land long held in collective forms of tenure (*ejidos*). The process of external opening culminated with the ratification of NAFTA in 1993. In social terms the effects of transformation were catastrophic – wages fell dramatically in real terms as the state attempted to stabilize surging prices and formal sector employment collapsed, while in the countryside price supports for virtually all agricultural products were abandoned (save corn and beans) and access to credit curtailed. Indeed, the effect of the crisis in the already impoverished countryside was, if anything, more severe than in the cities.

How could the Mexican regime square the circle of allowing dramatically increased political competition after 1988, a time during which it was imposing tremendous economic hardship? Moreover, while doing so, how did it manage to retain power for so long? In the Chilean case, we saw that posttransition conservative parties were able to construct a strong political base for neoliberal policies in the form of a sandwich coalition of upper-class winners from liberalization and the atomized and economically dependent rural-sector losers from the same process. This has also taken place in Mexico. The long-governing PRI maintained its hold on power throughout the transition not because it has continued to control politics in urban centers where beneficiaries of reform were concentrated, but rather because it is still overwhelmingly – and paradoxically – dominant in the rural areas.

Some would not consider this sectoral domination particularly surprising. After all, the PRI has been hegemonic in the Mexican countryside since the suppression of the Cristero rebellions of the 1920s

and 1930s and the initiation of the agrarian reform. Indeed, since its creation in 1938 the Confederación Nacional Campesina (CNC) – the corporatist arm of the PRI in the countryside – has been the mediator of rural social control, using its privileged access to the state to channel, fragment, and control rural demand making. While this is true, it cannot account for PRI domination in the countryside in the 1980s and 1990s. First, economic liberalization eliminated or dramatically reduced the pool of resources available for distribution through clientelist channels like the CNC. Moreover, the end of the agrarian reform removed perhaps the most useful tool the CNC had at its disposal – a monopoly on access to redistributed land (Bartra 1985). Indeed, even the limited (and delayed) social welfare efforts initiated under Salinas had as their goal the bypassing of this traditional apparatus of rural social control.[6]

The answer, I contend, is similar to that found in the Chilean case. Marketization in agriculture produced social consequences that undermine the practice of democratic political competition – limiting the ability of alternative perspectives to reach, or be expressed, there. One caveat is very important here – with respect to liberalization and political opening, the transformation of the Mexican countryside is less advanced than that of Chile; and implementation has been far more geographically uneven given the realities of a federal institutional structure. Nevertheless, free market policies in Mexico have produced similar patterns of atomization, disorganization, fragmentation, and economic dependence that has rendered peasants vulnerable to the pressures of the governing party and (depending on location) its allies among the rural elite. There are, however, differences. Most importantly the political monologue in the Mexican countryside is not entirely cemented by the absence of organization in civil society, but by the fact that much of the political space in rural areas is already *occupied* by organizations linked to a dominant neoliberal party (by the 1980s, the PRI). The presence of such groups creates incentive structures that, when combined with the severe collective action problems induced

[6] And these policies, at least on their face, were compatible with if not directly supportive of substantial levels of autonomous local social organization. For an insightful discussion of the variegated implications of Salinas-era social welfare policies, see Fox (1994).

by marketization, permit little autonomous political organization or participation. And increasingly the PRI has become dependent on the strength of this rural base.

To assert, however, that free market democracy is stabilized in an unlikely elite-peasant coalition does not explain *why* neoliberal economic reforms make this possible. It is to that crucial task that I turn in the second chapter.