NEOPOPULISM AND MARKET REFORM
IN ARGENTINA, BRAZIL, PERU, AND VENEZUELA

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Kurt Weyland
Department of Political Science
Vanderbilt University, Station B
Box 351564
Nashville TN 37235-1564
Kurt.G.Weyland@Vanderbilt.Edu

Sabbatical address AY 99/00:
Woodrow Wilson Center
One Woodrow Wilson Plaza
1300 Pennsylvania Ave, NW
Washington, DC 20004-3027
ph.: (202) 691-4125
fax: (202) 691-4001
WEYLANDK@WWIC.SI.EDU
Foreword

The present paper is part of a book project that analyzes the politics of market reform in fragile democracies. Preceding chapters explain the main theoretical argument, provide background on the economic deterioration and postponed or failed adjustment efforts of the 1980s, and analyze the initiation of drastic stabilization plans in 1989 in Venezuela and Argentina and in 1990 in Brazil and Peru. The chapter that constitutes the main body of this paper analyzes the political conditions and repercussions of promoting structural reforms, such as trade liberalization, privatization, and fiscal reform. Subsequent chapters analyze whether the new market model has become politically consolidated in Argentina and Peru and what the prospects for neopopulist leadership are in those countries; and why and how market reform has alternated between advancing and stalling in Venezuela from the mid-1990s onward. Drafts of those chapters are available from the author.

THEORETICAL INTRODUCTION

The Puzzle of Painful Reform in Fragile Democracies

During the 1980s, most scholars assumed that democracy and neoliberal economic reform would be incompatible in Latin America. Democracy gives political voice to large numbers of poorer people, who bear much of the burden of drastic adjustment. According to the prevailing view, democratic politicians would anticipate the opposition of this majority of voters and therefore shy away from imposing neoliberal measures. Where strong pressures, especially from international financial institutions, would nevertheless force the adoption of structural adjustment, popular protest would likely erupt. In response, governments would resort to repression, corroding--if not destroying--democracy. Thus, scholars commonly believed that the tremendous costs of neoliberal reform would preclude its enactment under democracy--or undermine democracy if structural adjustment had to be enacted.

But a number of democratic governments did manage to initiate tough market reforms in the late 1980s, and in several instances, the population endorsed these painful measures, at least initially. In fact, after imposing stringent stabilization and painful structural reform, Presidents Carlos Menem of Argentina and Alberto Fujimori of Peru even won convincing reelection victories in open, democratic contests. These unexpected developments cast doubt on claims of an incompatibility between democracy and neoliberalism. Indeed, the successful adoption of market reform in Latin America constitutes one of the most important puzzles currently facing the field of Comparative Politics (Remmer 1995: 114).

What accounts for the surprising willingness of governments in fragile democracies to impose drastic adjustment? What explains the striking popular acceptance of draconian measures in several cases--and their rejection in other instances? Why has there been considerable variation, both in the capacity of governments to enact market reforms and in citizens' response to these measures? Why, for instance, have neoliberal reformers Menem and Fujimori achieved political success, while their counterparts Fernando Collor in Brazil and Carlos Andrés Pérez in Venezuela provoked fierce opposition and were eventually removed from office?
The Insufficiency of Established Arguments

What accounts for the adoption of tough market reforms by democratic governments and for the surprisingly positive popular response that these painful measures received in several countries--but not in others? My field research suggests that extant explanations make important contributions, but are not fully convincing.

*Economic arguments inspired by a dependency perspective* hold that the decisions to enact market reform resulted from the tight constraints imposed by global economic structures and the strong pressures exerted by international financial institutions (IFIs) (Stallings 1992). But in initiating structural adjustment, Latin American governments did not simply give in to IFI demands. In fact, they often imposed more drastic programs than the IFIs recommended or added unorthodox measures (such as internal debt moratoria) that the IFIs disliked.

*Political-institutional arguments* maintain that a government's capacity for enacting drastic adjustment depends on its institutional strength and its capacity to marshal organized support in society, especially via strong parties (Haggard and Kaufman 1995). But party strength, which was high in Argentina and Venezuela, yet low in Brazil and Peru (Mainwaring and Scully 1995: 17), cannot account for the political success of market reforms in Argentina and Peru and their (initial) failure in Brazil and Venezuela. Also, on its own, an approach that invokes institutional constants cannot explain change over time, such as the adoption of neoliberal reform.

*Ideational theories* focus on change over time by stressing the importance of policy learning by elites and value shifts among citizens (Kahler 1992: 121-130; Mora y Araujo 1993: 311-321). But it is questionable whether there was a mass conversion to neoliberalism (Stokes and Baughman 1998). Moreover, there is evidence that old populists, such as Carlos Menem in Argentina and Carlos Andrés Pérez in Venezuela, adopted market reform less out of conviction than for tactical economic and political reasons. In sum, economic, political-institutional, and ideational theories emphasize context factors that influence the decisions of political leaders and common citizens, but do not determine their choices. My research suggests that political actors retain considerable autonomy from these constraints. How then did leaders and citizens use this substantial margin of choice?

*Rational-choice theorists* claim that political leaders adopted drastic market reforms in order to pay the costs of overcoming economic crises quickly and to produce medium-term benefits that would strengthen their political support (Przeworski 1991: 162-180). They also used these painful measures to punish the followers of their political rivals (Geddes 1994). But given the pervasive political instability in the countries under investigation, it is doubtful whether the bold enactment of costly reforms, which threatened to trigger rejection and protest, was fully rational. In fact, advocates of rational choice had argued that chief executives in the early 1980s were shying away from structural adjustment out of fear for their political survival (Bates 1981: chs. 5-6). While those accounts implicitly assumed risk aversion, the new models postulate strong risk acceptance. Rational choice itself cannot account for this shift in leaders' propensity towards risk; it therefore does not provide a fully convincing explanation for the adoption of drastic market reform.
A New Explanation Derived from Prospect Theory

Given the deficiencies of extant approaches, my project draws on psychological theories of decision-making, especially prospect theory. Prospect theory provides a more convincing microfoundation for explaining adjustment politics because it can account systematically for leaders’ and citizens’ shifts from risk aversion to risk acceptance (Weyland 1998a).

Prospect theory rests on the consistent experimental finding that people are risk-averse when facing prospects of gains, but accept considerable risks when confronting prospects of losses (Kahneman and Tversky 1979; Payne, Bettman, and Johnson 1992: 96-97, 122). Thus, people assess their options relative to a reference point--usually the status quo--and make quite different choices, depending on whether they see themselves in a domain of gains or a domain of losses. Strong loss aversion induces most people to prefer risky options when facing the prospect of losses, whereas they pursue gains with caution.

These psychological findings suggest that severe crises induce political leaders to abandon the caution displayed by their predecessors and adopt bold, drastic stabilization measures. Acute open crises also lead many citizens to endorse the painful, risky policies imposed by their leaders. By contrast, where chief executives foresee a grave crisis and therefore impose adjustment, but citizens are unaware of this imminent danger, much of the population will reject these painful preemptive measures.

These psychological findings also help account for the political fate of market reform in the medium run. Where drastic adjustment--despite its risks--produces an economic recovery, political leaders return to the domain of gains, become more cautious, and shy away from completing the structural reform program recommended by their neoliberal advisers and the IFIs. Similarly, many citizens turn risk-averse and accept the new (though not fully completed) market model despite persistent economic and social problems. A majority therefore votes for the experienced incumbent--"the devil they know," such as Menem and Fujimori--, rather than making a risky electoral choice for the untested opposition.

Based on these arguments, my book project shows that risk-seeking in the domain of losses can account for the initiation of drastic stabilization plans in Argentina, Brazil, Peru, and Venezuela in 1989/90. Facing negative prospects, Presidents Carlos Menem, Fernando Collor, Alberto Fujimori, and Carlos Andrés Pérez consistently preferred boldness over caution and enacted adjustment plans that held great economic and especially political risks. Given these dangers, the stabilization plans arguably were suboptimal for the presidents' main goal, namely to ensure their own "political survival." But due to incipient or full-scale hyperinflation, clear majorities of Argentines, Brazilians, and Peruvians initially approved of these adjustment programs, thus boosting the political standing of their presidents. By contrast, the absence of hyperinflation made many Venezuelans face less dire prospects. Therefore, a majority tended towards caution and considered the risky shock plan imposed by President Pérez "unnecessary." This widespread rejection actually triggered large-scale riots in late February 1989 (el Caracazo), which shocked Venezuela and weakened President Pérez's clout.
The strong initial support for drastic adjustment in Argentina, Brazil, and Peru had two important ramifications for the politics of neoliberal reform. First, it boosted the personal leadership of Presidents Menem, Collor, and Fujimori and strengthened their unmediated, quasi-direct relationship to large numbers of unorganized citizens. As true or self-proclaimed outsiders, the three leaders had used support from such a heterogeneous following to win presidential elections. Thus, they had applied a typically populist political strategy to attain office--and they maintained this strategy as presidents. Accordingly, they sought to bypass organized civil society, weaken or subordinate intermediary organizations, and attack privileged groups and the "political class," at least rhetorically. The widespread initial endorsement for their bold stabilization plans strengthened Menem's, Collor's, and Fujimori's hand vis-à-vis their adversaries.

Second, this popular support--and the use of populist political tactics--facilitated the profound structural reforms that dismantled the inward-looking, state-interventionist development model and gave market forces free rein. Backing from the mass of the population permitted Presidents Menem, Collor, and Fujimori to limit opposition from organized interests that had a stake in the established system. In a systematic "mobilization of bias" (Schattschneider 1975: 30), they invoked "the will of the people" against "special interests" that defended their own "privileges", rather than the "common good." And as populist political tactics furthered structural reform, those reforms in turn strengthened populist leaders because they weakened organized interest groups and parties that sought to hem in the leaders' latitude. Thus, neoliberal economics and populist politics went hand in hand in Argentina, Brazil, and Peru.

Conversely, the high level of popular disapproval for President Pérez's stabilization plan hindered his efforts to apply populist tactics and advance structural economic change. The president's weak standing in public opinion encouraged interest groups and especially sectors of his own party to offer passive resistance and, eventually, active opposition to market reform. The fact that Pérez was much less of an outsider than Menem, Collor, and Fujimori further complicated his task. The latter three presidents gained support for their populist leadership and neoliberal reforms by attacking the preceding government. Pérez, by contrast, could not criticize the Acción Democrática administration of Jaime Lusinchi too openly without antagonizing important sectors of his own party. For him, populist efforts to gain mass support thus threatened his Congressional backing, whereas for Menem, Collor, and Fujimori, these two requirements largely coincided.

As chapter five has argued, both of these factors--popular rejection for tough stabilization measures and Pérez's hailing from the incumbent party--reflect the absence of an acute open crisis, such as hyperinflation. Thus, the main variable emphasized by my prospect theory interpretation--the depth of the crisis--played a crucial role in the political difficulties that hobbled President Pérez's government from the beginning. While a temporary economic recovery--fueled by the increase in petroleum prices stemming from the Persian Gulf conflict of 1990/91--allowed the Pérez administration to recover the appearance of normality, the subsequent economic downswing reignited popular discontent and fuelled growing protest. When junior officers made an almost successful coup
attempt and many citizens sympathized with this violent move, the Pérez government entered a terminal crisis that led to the president's impeachment in May 1993. Aversion to neoliberalism led a majority of voters in the 1993 presidential elections to choose candidates who promised to reverse market reforms. Victorious Rafael Caldera in fact reimposed a host of economic controls. Thus, Pérez's "great turnaround" ended in political and economic failure.

While initial popular support for drastic stabilization measures put Presidents Menem, Collor, and Fujimori on a different trajectory, it did not guarantee political and economic success. In fact, whereas Menem and Fujimori managed to win democratic reelection, Collor suffered the same political fate as Pérez. Weakened by tenacious passive resistance and growing active opposition, he was impeached on corruption charges. Interestingly, however, his successor Itamar Franco did not reverse his neoliberal policies, and Fernando Henrique Cardoso--as finance minister and as president--advanced many structural reforms that were more moderate versions of Collor's plans. Thus, while failing politically, Collor did help to reshape Brazil's economic agenda irreversibly.

Why did the three governments that started out with massive popular support suffer such different political fates? Why did Collor fail to translate his initial political capital into a successful government performance? A comparison with President Fujimori is particularly revealing. Contrary to President Menem, both Collor and Fujimori lacked organized support. Furthermore, they faced institutional obstacles as the Brazilian constitution enshrined economic provisions that hindered neoliberal reform and the Peruvian charter allowed Congress to censor ministers, thus weakening the government. Yet whereas Collor remained tied down by these obstacles, the tremendous depth of Peru's economic and security crisis allowed Fujimori to cut the Gordian Knot by closing Congress and revamping the constitution. The less severe problems confronting Brazil would not have permitted Collor to take a similarly bold step.

Once again, the differential depth of the crisis appears as the crucial factor that accounts for the different political and economic fate of the countries under investigation. In line with my prospect theory argument, particularly grave crises in Argentina and especially Peru allowed Presidents Menem and Fujimori to win widespread support, preempt, obstruct, or break opposition, and thus advance market reforms successfully. The absence of an acute open crisis undermined President Pérez's effort to proceed along a similar course. And in an intermediate trajectory, hyperinflation helped President Collor win broad support for orthodox stabilization, but the better performance of Brazil's established development model in the 1980s--compared to Argentina and Peru--limited the perception of decline and therefore made political support for neoliberalism less strong and firm.

**Populist Politics**

**The Concept of Populism and Its Theoretical Implications**

The initial outpouring of support for their drastic stabilization plans boosted the efforts of Presidents Menem, Collor, and Fujimori to base their governments on political a populism. Populism is a political strategy through which a personalistic leader seeks or exercises government power based on direct, unmediated, uninstitutionalized support from large numbers of mostly unorganized followers (Weyland 1999a: 24). Accordingly, a personal leader appeals to a heterogeneous mass of
followers who feel "left out" and are available for mobilization. The leader reaches the followers in a quasi-personal manner that relies heavily on the modern mass media, nowadays primarily TV, and ascertains the "will of the people" via opinion polls, which serve to demonstrate and engineer plebiscitarian acclamation (Conaghan 1995). This quasi-personal relationship bypasses established intermediary organizations, especially parties. If the leader builds new parties or revives old populist parties, they remain personal vehicles with low levels of institutionalization (Weyland 1999b: 381).

Populism embodies a majoritarian notion of political rule. By appealing to unorganized masses of people and criticizing "special interests", populist leaders stress numbers--rather than intensity of preference or other forms of special weight--as the only legitimate criterion for considering citizens' interests. In fact, while hierarchical in its focus on a personal leader, populism has a strong egalitarian, democratic element as chief executives base their rule on appeals to the mass of the populace, distance themselves from organized civil society, and attack "selfish elites", nowadays especially the "political class." Furthermore, to limit the influence of established elites on the "little people", populism uses aggregative, non-deliberative mechanisms for the expression of popular preferences, especially voting and nowadays opinion polls.

These characteristics of populism have two decisive implications for my prospect theory interpretation. First, its un-institutionalized, fluid nature and the adversarial relationship to intermediary organizations and established elites turn populism into a high-risk strategy. The political sustenance of populist leaders is always precarious; when they encounter difficulties, their followers may desert them quickly. Thus, while populism promises high rewards--namely particularly great presidential power and autonomy--it also carries a substantial danger of failure, if not disaster. Only risk acceptance in the domain of losses can explain why political leaders kept embracing this dangerous strategy after winning presidential elections and taking office.2

Second, the leader-mass relationship underlying populism makes insights on individual choice-like those offered by prospect theory--particularly relevant. Given the disproportionate power and autonomy of populist leaders, which reinforce the chief executive's predominance in Latin America's presidential systems, economic policy is decided ultimately by a single individual (cf. Bueno de Mesquita 1981: 16-18). Therefore, this individual's situationally conditioned propensity towards risk is of great importance. As for the political role of the masses, populism gives the aggregated choices of individual citizens in elections and opinion polls crucial significance. Therefore, scholars need to elucidate people's propensity towards risk, which shapes their political choices (cf. Quattrone and Tversky 1988).3 Thus, populist politics strengthens the plausibility of applying a psychological approach like prospect theory to political decision-making.

My political definition encompasses both the classical populists of the 1930s through 1950s and the neopopulists of the 1980s and 1990s. Despite considerable differences in the socio-political setting and in their economic policies, Juan Perón, Getúlio Vargas, Lázaro Cárdenas, Alan García, Carlos Menem, Fernando Collor, and Alberto Fujimori all share the same political strategy by basing their governments on a quasi-direct, personalistic relationship to largely unorganized masses of people.
But there also are some differences between classical populism and neopopulism, even in their specific political strategies. Above all, neopopulism is more anti-organizational and therefore more precarious than classical populism. Leaders like Perón and Vargas founded populist movements in societies with low to medium levels of organization. They attracted many followers who lacked an associational affiliation, but who—as formal-sector workers—had considerable capacity for collective organization. Effecting the "primary incorporation" of these organizable sectors (Collier and Collier 1991: chs. 2, 5), classical populists built parties and trade union confederations that—while being too leader-centered to be firmly institutionalized—created lasting loyalties.

By contrast, Menem, Collor, and Fujimori rose in societies with much higher levels of organization and therefore adopted a more anti-organizational stance. Although existing parties and trade unions were discredited, they continued to have support among the industrial working class and the professional middle sectors that had a high capacity for collective organization. The primary targets of Collor and Fujimori's mass appeals were therefore the urban informal sector and rural poor, who are too heterogeneous to form strong national-level organizations. And precisely because established intermediary organizations were discredited, Collor and Fujimori refrained from forming their own mass party. Instead, they created narrow personalistic vehicles and technocratic movements. Their mass following therefore remained unorganized and particularly precarious. Due to this lack of solid political sustenance, any serious difficulty that the leader seemed unable to resolve posed a serious political threat. Neopopulism therefore contains even greater risks of failure than classical populism.

In some ways, President Menem was in a more favorable position than Collor and Fujimori because longstanding Peronist loyalties gave him two legs to stand on, both the minimally institutionalized Peronist movement and the unorganized mass of followers whom he attracted with his personal appeals. The populist origins of Peronism made this double-sided strategy possible. Inside the movement, personalistic leadership had always taken precedence over firm institutionalization (Levitsky 1998). Menem therefore managed to reshape large parts of the movement according to his own priorities. In the end, only small sectors, namely the "group of eight" leftist Congressmen and the Ubaldini wing of the trade unions, insisted on Peronism's traditional policy orientations and openly opposed Menem's conversion to neoliberalism (Novaro and Palermo 1998: 81-92; interview Ubaldini 1995). Most Peronists' willingness to follow the leader—a typical characteristic of populism—allowed Menem to marshal widespread acceptance of his drastic policy change inside the movement.

But the party and its affiliated trade unions also imposed some constraints on Menem's latitude. While going along with many market reforms that affected its constituents, such as the privatization of public enterprises, the Peronist movement defended some core interests, including highly protectionist labor laws, which therefore experienced only limited modifications. Furthermore, the Peronist party provided a launching pad for other powerful politicians, who threatened to turn into Menem's rivals for the presidency. Since these competitors commanded organized support, which Menem could not afford to antagonize, he faced strong internal opposition to his idea to run for a third consecutive term (see chapter seven). By contrast, since Fujimori's ethereal Cambio 90/Nueva Mayoría has depended entirely on the president and has not given any of his underlings an independent power base, Fujimori has managed to prevent any internal rival from emerging.
The Impetus and Preconditions for Neopopulist Politics

Several factors induced and allowed Presidents Menem, Collor, and Fujimori to maintain during their term in office the neopopulist strategy that proved so useful in their electoral campaigns. First of all, the three leaders faced a domain of losses, tended towards risk acceptance, and therefore embraced a political strategy that promised substantial pay-offs, though at high risk of failure. Chapter five showed that in the economic sphere, Menem, Collor, and Fujimori faced a domain of losses upon taking office. Incipient hyperinflation also created serious political threats, as recent experiences suggested: President Alfonsín had been forced to step down ahead of schedule; and at the end of President García's term, Peru was rife with coup rumors. Thus, the grave economic problems afflicting their countries gave the new presidents good reason to fear for their own political survival.4 Facing a domain of losses, the new chief executives were predisposed a risky political strategy such as populism.

Such a populist strategy promised to reverse political losses that the predecessors had incurred. The economic deterioration of the 1980s had weakened effective presidential powers. For instance, pressure groups--such as Saúl Ubaldini’s CGT in Argentina--had come to hem in the government's latitude. Political parties had defied presidential leadership. And sectors of the military had engaged in rebellions in Argentina, prepared coup plans in Peru, or claimed tutelage over civilian authorities in Brazil. By bypassing and weakening these organizations and by concentrating power in a personalistic leader, a populist strategy held the prospect of recuperating presidential authority, though at considerable risk.

While risk-seeking in the domain of losses provided the main impulse for the adoption of neopopulism, the outsider status of the three new presidents made this political strategy feasible. Their distance from the preceding government allowed them to garner mass support by leveling accusations of incompetence, malfeasance, and corruption against their predecessors--without offending their own supporters. And since these leaders had no direct responsibility for the grave crisis afflicting their countries, they were untainted by failure and able to depict themselves as saviors who could turn the nation around. The crisis itself thus provided a golden opportunity for the rise of charismatic leaders. And the new presidents were able to justify their tough plans of stabilization and restructuring as indispensable for cleaning up the mess left behind by the outgoing administration. With this argument, they managed to shift responsibility for the pain caused by their own adjustment measures, thus protecting their popularity. Finally, since the new presidents--especially Collor and Fujimori--did not have many visible connections to established interests, they could claim the mantle of impartiality and objectivity (see Fujimori 1991). In this way, they were able to invoke the "common good" while painting their opponents as selfish "special interests".

Furthermore, hyperinflation was the type of problem that provided a good opportunity for the rise of charismatic leadership. Tough countermeasures can quickly bring exploding price increases under control and thus provide a dramatic, visible benefit to the suffering population, at least by averting imminent further losses. By ending hyperinflation, personal leaders can thus turn their country around in a matter of weeks or even days. As Menem came to realize, it is much easier to "pulverize" hyperinflation than unemployment (as he promised in the 1995 campaign). Attacking the
crisis head-on proves leaders’ courage and determination, especially by comparison to the hesitation and perplexity that their predecessors had displayed at the end of their term. By boldly cutting the Gordian Knot that had tied down the country, personalistic leaders seemingly perform magic and demonstrate their "supernatural" capacities.

The high initial support for stabilization plans in fact strengthened personalistic leaders and facilitated their use of neopopulist tactics. While the election campaigns had revealed substantial divisions among the citizenry, the massive endorsement of the first adjustment measures suggested that the new presidents commanded support from a large majority. This plebiscitarian acclamation strengthened their hand against interest associations, parties, the "political class," and the military. The widespread endorsement of draconian adjustment measures and their initiators reflected people's admiration for the boldness and determination of the new presidents. Thus, mass backing rewarded more the style of leaders' neopopulist politics than the substance of their neoliberal economics. Presidents Menem, Collor, and Fujimori thus encountered favorable conditions for retaining a neopopulist strategy. As the next subsection shows, neopopulism actually facilitated the adoption of market reforms, which in turn played into the hands of neopopulist leaders.

By contrast to the other three presidents, Carlos Andrés Pérez faced greater hindrances to adopting a neopopulist strategy. Above all, his status as a political outsider was ambiguous, and his first stabilization plan provoked large-scale rejection. Since Pérez saw himself in the domain of losses when taking office in February 1989, he was tempted to adopt a neopopulista strategy, including efforts to bypass his own Acción Democrática party. In fact, he had long had tense relations with important sectors of the party, whom he had antagonized further by endorsing the proposals of a constitutional reform commission for direct gubernatorial elections and internal party democracy. The tension with the established party apparatus gave Pérez additional impetus for employing neopopulist tactics, for appealing directly to the people, and for bypassing or weakening the party.

But Pérez enjoyed much less favorable conditions for applying neopopulism than Menem, Collor, and Fujimori. To begin with, his credentials as an outsider were questionable. Certainly, Pérez hailed from the "out" faction of Acción Democrática and defeated the hand-picked candidate of his predecessor for the presidential contest of 1988. Also, Pérez made great efforts to depict himself as an outsider, stressing his personal leadership and criticizing the established party oligarchy. His electoral campaign was highly candidate-centered and did little to help his own party in the simultaneous legislative contest. AD in fact won a much lower vote share for its congressional delegation than Pérez garnered for himself (43.76% vs. 54.56%: Stambouli 1989: 232, 234).

But while Pérez claimed the mantle of a political outsider, his party clearly was the prototypical insider organization. By early 1989, Acción Democrática had occupied the presidency for twenty out of the thirty years of the post-1958 democracy, including the immediately preceding term. Pérez himself had been president from 1974 to 1979, and he had many friends and followers inside the party and the state apparatus. Indeed, the bonanza caused by the OPEC oil price increase of 1973 had induced Pérez to spearhead a huge new spurt of state-led, debt-financed heavy industrialization, which soon exacerbated Venezuela's economic problems and thus helped precipitate the decline of the 1980s. Thus, Pérez's first presidency held considerable responsibility for the
problems that he sought to resolve during his second term. His earlier period in office was also notorious for exorbitant corruption (Karl 1997: 146-51), which many common citizens saw as the main reason for the country's economic difficulties (Keller 1996: 67-68, 79).

Since the new president and his party were seen as sharing responsibility for Venezuela's decline, Pérez found it more difficult to depict himself as the providential savior who would turn the country around. His charisma--while still quite strong in early 1989--was tainted by earlier policy failures and lingering suspicion of malfeasance. Since Pérez came from the incumbent party and needed its support in Congress, he also faced a trade-off in treating the preceding administration. Accusing the predecessor and his aides of incompetence, favoritism, and corruption is a typical neopopulist tactic for whipping up mass support; it is especially useful for reformers--such as neoliberals--who seek to delegitimate the status quo. But Pérez's use of such accusations drove powerful sectors of his own party into opposition (interviews Celli 1996, Hospedales 1996); in addition, his own earlier involvement in shady deals left him vulnerable to similar attacks. Pérez's questionable track record also made criticism of the predecessor less credible with educated sectors of the public. For the new president, typical populist tactics thus carried much greater cost and risk than for Menem, Collor, and Fujimori.

An even more important source of political weakness was the large-scale rejection that Pérez's shock program provoked. From the traumatic riots of February 1989 onward, 33-48% of poll respondents consistently felt that the administration was decisively weakened and would not be able to recover. Throughout Pérez's second term, presidential popularity remained at low levels. Only in 1989 did approval outnumber disapproval, and by very low margins; in 1990 and 1991, his ratings averaged -11%, before plummeting to very low levels in 1992 and 1993 (Consultores 21 1994: 60). The lack of popular support made Pérez's claim to charismatic leadership appear questionable. In fact, the substantial disapproval provided encouragement to the president's opponents among interest groups, politicians, and--most consequentially--the military.

For these reasons, the neopopulist strategy adopted by Pérez was much more costly and rested on weaker foundations than the similar efforts of Menem, Collor, and Fujimori. Right from the beginning of his second term, his chances for political success were limited.

Neopopulist Politics and Market Reform

Neopopulist politics facilitated market reform in a number of ways, and market reforms in turn played into the hands of neopopulist leaders. First, the massive support that Presidents Menem, Collor, and Fujimori elicited with their direct appeals to large numbers of people increased their influence against politicians and interest groups that sought to defend important aspects of the established development model. Second, the efforts of neopopulist leaders to extend their personal latitude by weakening and dividing interest associations, political parties, and bureaucratic structures facilitated the assault on the innumerable regulations, subsidies, and protections that shielded these sectors from the rigors of the market. Finally, neopopulist rhetoric legitimated neoliberal reforms. Appeals to the "will of the people" and the "common good" (cf. Novaro 1994: 80, 82, 86) and attacks on "special interests" helped to justify structural changes that entailed diffuse, uncertain benefits and clear, concentrated costs (cf. Haggard and Kaufman 1995: 9, 157).
Conversely, market reforms boosted neopopulist leadership because they gave personalist leaders a technocratic rationale and external support for eroding the clout of intermediary associations and political rivals that sought to constrain their autonomy. For instance, the deregulation of the labor market lowered trade union influence, and the downsizing of the public sector weakened traditional patronage politicians. Also, despite the prevailing free-market rhetoric, important market reforms strengthened the apex of the state and thus augmented the institutional capacities and financial resources at the disposal of neopopulist presidents. For instance, economic stabilization and tax reforms increased fiscal revenues, which allowed personalistic leaders to engage in new forms of discretionary spending and thus bolster their mass support. In sum, neopopulist politics and neoliberal reform mutually reinforced each other. What specific mechanisms created this synergistic relationship?

First, strong popular support helped neopopulist leaders silence opponents of market reforms. For instance, President Menem's high popularity ratings made it difficult for trade unions to resist measures such as deregulation and privatization. Since large numbers of their own constituents endorsed the president's adjustment efforts, union leaders could not claim to represent "the working people" if they resisted governmental initiatives (McGuire 1997: 234-237). Similarly, the "group of eight" dissident Peronists, who threatened to attract wider sectors of the movement during the difficult year 1990, suffered a stinging defeat in the parliamentary elections of late 1991 and had minimal influence in the following two years (Novaro and Palermo 1998: 81-92). Thus, mass backing, as revealed by opinion polls and elections--the favorite instruments of neopopulist leaders--greatly helped President Menem to contain resistance to his structural reforms.

In a similar vein, President Fujimori put unions and social movements on the defensive by winning surprisingly strong mass support for his brutal stabilization efforts (Balbi 1993: 103). And business firms were reluctant to challenge the stricter enforcement of tax rules, which received widespread endorsement in public opinion (Durand and Thorp 1998: 142). Most importantly, the massive acclamation of his self-coup of April 1992 made it much easier for Fujimori to push ahead with the neoliberal agenda. Although the Peruvian Congress had approved many of Fujimori's market reforms in 1991 (interview Pease 1996), opposition seemed to coalesce and intensify in early 1992 (Boloña 1993: 98; Torres y Torres Lara 1992: 73-100). The unconstitutional dissolution of Congress was followed by a spate of new structural reforms (Boloña 1993: 55). Fujimori took advantage of the institutional hiatus to decree some particularly controversial measures, such as the partial privatization of Peru's social security system. The outpouring of popular approval for closing Congress was crucial for giving Fujimori the political clout to push ahead his ambitious reform program.

President Collor also used his initially strong mass support to face down potential resistance. The 35 million votes he won in the presidential election and the high approval ratings for his first stabilization plan were among the main arguments that the president and his aides used to coax a reluctant Congress into passing his controversial adjustment program (interviews Kandir 1995; Pojo do Rego 1995; see in general Bresser Pereira 1991: 12-14).

Second, personalist leaders resent the fetters on their latitude that pressure groups and established politicians try to impose; they therefore seek to weaken and divide these "veto players."
These neopopulist attacks on intermediary associations and the "political class" put many of the potential opponents of market reform on the defensive and thus help to pave the way for structural change. In this vein, President Menem encouraged a split inside the powerful Peronist trade union confederation CGT. This division undermined the CGT's political clout and limited the resistance to the government's neoliberal program that incumbent CGT president Saúl Ubaldini could exert (interviews Miguel 1995, Ubaldini 1995).

Similarly, President Collor's economic team built up as one of its main interlocutors a new movement of young business people that offered internal opposition to the established leadership of the powerful FIESP (interview Butori 1992; Kingstone 1999: 136-137), which encompassed many import-substituting industrial sectors that were therefore afraid of--if not resistant to--neoliberalism. Collor also courted a moderate trade union confederation in order to counterbalance the mighty socialist Central Unica dos Trabalhadores (CUT), which opposed many of his market reforms, especially the privatization of state enterprises. Since Peru's civil society was already fragmented and weak, President Fujimori directed most of his fire at the "political class." In particular, he relentlessly attacked parties as coteries of elites that lacked connections to the people. His self-coup, which he justified in those terms (Fujimori 1992: 43-47), decisively undercut the resistance that politicians could pose to his market reforms.

Third, the rhetorical attacks of neopopulist leaders on "special interests" helped to legitimate their neoliberal programs. Several types of structural reforms--such as trade liberalization, the "flexibilization" of labor laws, and the dismissal of public officials--impose immediate, visible costs on concentrated, organized constituencies and therefore run the risk of provoking fierce resistance. Delegitimating these opponents as selfish defenders of special privileges can "mobilize bias" against them and thus facilitate the enactment and implementation of reform. Conversely, since the potential beneficiaries of many market reforms--for instance consumers--are unorganized and have difficulty foreseeing the positive effects of neoliberal change, appeals to their interests alone cannot attract widespread, strong backing. The neopopulist invocation of the "common good" helps to fill this support gap.

In this vein, Menem stressed on the day he took office that it was one of the main purposes of the imminent "tough adjustment, costly adjustment, severe adjustment" to "abolish, from today on, the privileges of whatever type" and "to refound a state at the service of the people, not at the service of the bureaucracies" (Menem 1990: 16-17). Collor went even further by publicly snubbing FIESP on several occasions, disqualifying it as a "refuge for the retrograde" (covil de retrógrados), and engaging in angry exchanges with its president Mario Amato. And although the automobile industry was widely seen as one of Brazil's leading sectors, the president branded cars produced in Brazil as outdated "caroças" in order to justify his trade liberalization, which sought to improve productivity, efficiency, and competitiveness (interview Macedo 1995; see in general Kingstone 1999: 153, 171-172). In similar terms, Fujimori denounced "privileged groups" and "cliques of party leaders" (Fujimori 1992: 43-45), concentrating his attack mainly on the "political class," especially electoral politicians and public officials.

Market reforms in turn strengthened the personal leadership of Presidents Menem, Collor, and
Fujimori. First of all, some neoliberal measures deliberately fortified the apex of the state, thus giving neopopulist presidents more institutional prerogatives and economic resources for bolstering their power. While paradoxical in light of neoliberalism's anti-state rhetoric, these efforts emerged from the recognition that a functioning market economy depended on public goods provided by the state and that the very enactment of neoliberal reforms required a strong state capable of overcoming sectoral resistance.

To enable the state to fulfill its basic tasks--such as the maintenance of order and the administration of justice--neoliberal experts (advised by international financial institutions) designed wide-ranging tax reforms that sought to give the public sector a solid fiscal basis. Together with macroeconomic stabilization, which ended the drastic erosion of public revenues by high inflation via the Olivera-Tanzi effect, these fiscal measures raised the effective tax burden, especially in Argentina and Peru (SIP 1995: 11; SUNAT 1996).

Alleviating the fiscal crisis was a crucial precondition for Presidents Menem and Fujimori to reassert state authority and restore order--one of the central tasks of neopopulist leaders. The revenue increase also allowed the two presidents to initiate new spending programs, including targeted anti-poverty measures. The international financial institutions recommended such social emergency measures in order to compensate some of the losers from tough adjustment plans, create new winners, and thus protect neoliberal reform against political challenges. Neopopulist leaders, in turn, used these social programs to strengthen their mass support by handing out visible benefits to large numbers of people (Graham and Kane 1998: 85-99; Roberts and Arce 1998: 231-237; Weyland 1998b: 556-562).

To push through market reforms and fortify their institutional capacities, Presidents Menem, Fujimori, and--less successfully--Collor also sought to concentrate power and attributions in the presidency, for instance through drastic administrative reform. For instance, President Fujimori created a new Ministry of the Presidency and boosted its attributions and budget. President Collor reorganized ministries in order to tie many portfolios closely to the presidency. And President Menem packed Argentina's supreme court in order to preempt any challenges to his decisions. The three presidents also usurped more extensive decree authority. Facing severe crises, Congress often acceded, at least through a temporary delegation of legislative powers. Collor, Fujimori, and Menem indeed enacted crucial parts of their neoliberal agenda, especially stabilization measures, via decree (Ferreira Rubio and Goretti 1998; Power 1998; Schmidt 1998).

In addition, Menem and Fujimori skewed the balance of power between the presidency and legislature through constitutional reform. Most drastically, Fujimori disbanded an opposition-controlled parliament and used this institutional hiatus to engineer a new constitution that strengthened presidential powers, though less than initially expected (Schmidt 1998: 113-114). To extend their personal leadership, Fujimori and Menem also managed to eliminate constitutional rules that prohibited their immediate reelection. All of these measures, which neoliberal experts supported in order to advance their program of market reforms against opposition, served the goal of neopopulist leaders to strengthen their own autonomy and preeminence.
Furthermore, neoliberalism provided a modern, technocratic rationale and support from international financial institutions for some of the neopopulist tactics employed by personalistic leaders, especially their attacks on intermediary associations and the "political class" and their concentration of power at the top of the state. Through their demand-making and pressure tactics, trade unions, for instance, hem in personalist leaders. Neoliberal stabilization plans weakened unions by causing an increase in unemployment, which made workers reluctant to rock the boat. Labor market deregulation, which gave employers more discretion over their work force, had a similar moderating effect on union activism. The reduction of legal protection for workers, which governments justified with the need for greater productivity and competitiveness, increased the cost of strikes and other pressure tactics. In Peru, where the neoliberal reform of labor laws has gone farthest among the countries under investigation (Gonzales de Olarte 1998: 54, 117), trade unions have therefore suffered the most drastic reduction in their political clout (Balbi 1993).

Market reforms--especially the revamping of the state apparatus--are also useful for weakening the political rivals of neopopulist leaders (see in general Geddes 1994: 113-117). During the long years that the "political class" controlled the government, it made innumerable patronage appointments, packing the state apparatus with its cronies and followers. Through the dismissal of public officials and the privatization of parastate enterprises, which is often preceded or followed by a drastic personnel reduction, neopopulist leaders manage to eliminate many supporters of their political adversaries. As a result, these opponents lose access to patronage and the capacity to obstruct the new leaders' policy programs. By restructuring public bureaucracies and exercising ample discretionary authority over state officials, neopopulist leaders also boost their preeminence inside the state. Neoliberal state reforms thus make crucial contributions to the efforts of neopopulist leaders to consolidate their power and enhance their personal autonomy.

Yet while neopopulist tactics facilitated market reform, it was dangerous carrying them to the extreme. In particular, attacks on established interest groups and the "political class" worked most effectively when combined with efforts to make strategic allies. In this vein, Presidents Menem and Fujimori applied systematic carrot-and-stick tactics, combatting some powerful socio-political forces while cooperating with others. In fact, divide-and-rule tactics allowed these presidents to establish such alliances mostly on their own terms.

In their relations with business people, for instance, Menem and Fujimori kept domestically oriented, protectionist sectors and associations at bay (interviews Cassullo 1995, Majluf 1996), but Menem and, to a lesser extent, Fujimori cooperated with internationally oriented conglomerates, whose compliance Menem guaranteed through favorable privatization deals. And while Menem and especially Fujimori attacked good parts of the established "political class", Menem cooperated with important sectors of the Peronist movement, and Fujimori nurtured a new political and administrative elite. Since these emerging cadres lacked an independent power base and owed their positions to the leader, they could not afford any disloyalty. Last, not least, both Menem and Fujimori used selective appointments, promotions, and dismissals to establish an unprecedented degree of civilian--though personalistic--control over the military (Hunter 1997: 463-467; Obando 1998: 198-207).

By contrast, President Collor carried neopopulism too far by seeking unfettered autonomy
and by antagonizing all important sociopolitical forces in Brazil. As perceptive observers warned early on (Martins 1990; Bresser Pereira 1991: 12-14; also interview Assis 1995), the new president was so impressed with the 35 million votes he received in the 1989 election--his neopopulist mass base--that he overlooked the need to find an accommodation with powerful veto groups. Collor treated even his allies in such an arrogant manner that they remained fair-weather friends and displayed little lasting loyalty. Refusal to consult and angry disputes with business leaders--especially FIESP's Mario Amato--did little to dispel entrepreneurs' initial impression of Collor's capricious and unpredictable temperament. And by stepping on the toes of the military--for instance, through the ostentatious disbanding of the old secret service--, Collor exposed himself to retaliation. Thus, by pushing neopopulist tactics to the extreme, Collor incurred considerable political risks.

The Common Push for Market Reform--and Its Differential Outcomes

In addition to the political reasons just analyzed, there were of course powerful economic reasons for following up on neoliberal stabilization plans with efforts to restructure the established development model. First, all four presidents and their expert advisers regarded structural reforms as decisive for achieving or maintaining economic equilibria. Risk-seeking in the domain of losses, which responded to acute economic problems and which prompted the adoption of drastic stabilization plans, thus provided a strong impulse for profound, socially costly, and politically risky structural reforms as well. Second, the international financial institutions urged the four presidents to adopt market reforms. These admonitions gained special force because structural change became a precondition for favorable debt rescheduling deals under the Brady Plan, which would bring a permanent reduction in external obligations.

Contrary to the recommendations of economists to sequence stabilization and structural reform, the four presidents systematically used structural reforms as instruments for stabilization. For instance, in Argentina, Brazil, and Peru, where the first round of adjustment measures failed to bring inflation under control, governments accelerated trade liberalization in order to force prices down. Similarly, financial liberalization was designed to attract capital inflows and thus tap current account deficits. Even the privatization of public enterprises--i.e., the sale of permanent state assets--served partly to resolve short-term fiscal problems (Álvarez Rodrich 1997: 10; Manzetti 1999: 80-81, 164, 167-168, 247-248). Furthermore, neoliberal policy-makers used determined structural reforms to signal to foreign investors their serious intention to conduct "responsible" economic policies. In this way, they hoped to attract new foreign investment, which would help them maintain economic stability and boost growth.

Moreover, the Brady Plan of 1989 and, in general, the increased coordination between the IMF and World Bank had turned neoliberal restructuring into a precondition for debt relief. Stressing the profound roots of the problems afflicting the debtor countries, the IFIs conditioned their assistance on market reforms. Specifically, the Brady Plan stipulated that only countries that "modernized" their economies would qualify for the alleviation of the debt burden (Edwards 1995: 79-81). This provision constituted an important incentive for market reform because a reduction of the heavy debt service could contribute much to economic stabilization. IFI conditionality thus strengthened the connection between structural reform and stabilization. Political leaders who had
taken the risky decision to pursue drastic stabilization thus saw themselves pushed forward on the path towards full-scale market reform.

In Argentina, President Menem initiated structural reforms immediately upon taking office in order to signal to domestic and foreign investors that his abandonment of Peronism's protectionist, state-interventionist economic policies and his conversion to neoliberalism were irreversible. The most prominent measures—the hasty, ill-prepared sales of the national airline and phone company—also served to "buy" support for this policy shift among business people and politicians, who benefitted from favorable privatization deals and outright corruption (Corrales 1998: 39-42; Palermo and Novaro 1996: 354-356). After the first adjustment effort—the Bunge & Born plan—failed, new Economy Minister Erman González followed the advice of paleoliberal Alvaro Alsogaray and used structural reforms for purposes of stabilization. The economic team designed painful fiscal measures, especially tax raises and budget cuts, to improve public finances, and it accelerated trade liberalization to force prices down through more intense foreign competition (Smith 1991: 59-62). Minister Cavallo's convertibility plan of early 1991 necessitated a new round of such structural reforms (Llach 1997: 132-140). The commitment to free convertibility also tied the government's hand for the future by turning any backtracking into an immediate threat to economic equilibrium. Thus, the perceived requirements of stabilization and the convertibility scheme adopted to guarantee stability provided crucial impulses for restructuring Argentina's development model.

Risk-seeking in the domain of losses gave President Menem considerable political support for his bold, costly agenda of restructuring. Specifically, battered by two outbursts of hyperinflation and decades of economic stagnation, large parts of the Peronist party and union movement endorsed reforms that held the uncertain promise of guaranteeing stability and ushering in a recovery, albeit at substantial risk of economic and political failure.

Furthermore, in a context of severe crisis, established party loyalties among Peronist politicians and unionists helped Menem in moments of failure, as during the second bout of hyperinflation in early 1990. But rather than basing his government on organizational connections, Menem applied a neopopulist strategy to keep his party subordinate, diminishing its institutionalization. For instance, he put party stalwarts on the defensive by endorsing the popular aversion to professional politicians (for instance, after the campaign over constitutional reform in Buenos Aires province in 1990) and by recruiting a new type of candidate who lacked a political background, such as former race car driver Carlos Reutemann and singer Ramón "Palito" Ortega (Novaro 1994: 76-77, 134-143; McGuire 1997: 241-251). The president also used divide-and-rule tactics to neutralize potential opponents to structural reform, for instance by setting low sales prices for public enterprises, by offering generous severance packages to some laid-off workers, and by allowing for considerable corruption. In all of these ways, Menem guaranteed support for his market reform program and limited opposition.

In these ways, Menem managed to execute a comprehensive, radical program of structural reforms. His government quickly lowered barriers to foreign trade and capital; thoroughly deregulated the economy; and privatized almost all of Argentina's public enterprises in the course of five years (good overviews in De la Balze 1995: 88-122; Llach 1997: 195-229; Manzetti 1999: ch. 3). In
addition, it substantially improved the fiscal position of the state through budget cuts, profound tax reforms, and tougher rule enforcement, especially a determined campaign against evasion (interview Tacchi 1997; Durán and Sabaini 1994: ch.2). As a result, tax revenues increased from 12.52% of GDP in 1988 to 16.36% in 1993 (SIP 1995: 11). In sum, neoliberal reforms retrenched, but also strengthened the state.

In Peru, President Fujimori’s second economic team used structural reforms even more directly for economic stabilization. Despite the brutal adjustment measures of August 1990, inflation soon threatened to spiral out of control again, reaching 24% in December and 18% in January 1991. Stuck in the domain of losses, President Fujimori replaced his pragmatic Economy Minister Hurtado Miller with free-market enthusiast Carlos Boloña. Boloña decided to combat the threat of exploding inflation with determined, comprehensive structural reforms that thoroughly reshaped the Peruvian economy. Some reforms—such as faster import liberalization—were designed to lower domestic price increases quickly. With other measures, such as privatization and financial liberalization, Boloña intended to signal to potential investors that Peru had made an irreversible choice for a free-market economy; in this way, he hoped to attract new investment that would reignite growth and expand exports (Boloña 1993: 109-120, 123-126). The new economy minister also expected that with the whole package of market reforms, Peru could regain the trust of foreign creditors, which Alan García’s combative stance had undermined, and meet the IFI’s conditions for a debt rescheduling along the beneficial lines of the Brady Plan.

Since President Fujimori remained in the domain of losses, he firmly supported Boloña’s risky effort to push this reform agenda ahead. The persistent economic crisis and the Shining Path’s assault on the Peruvian state also helped limit resistance in Congress because many politicians feared complete chaos if Fujimori failed. Given these profound problems, the president’s denunciation of politicians as selfish and unconcerned with the good of the country induced parliamentarians not to obstruct the government’s rescue efforts. Only in early 1992 did ex-president Alan García try to unify the opposition in Congress. President Fujimori, however, overrode any potential obstacle to Boloña’s market reforms by closing Congress with his self-coup of 5 April 1992. Immediately after this unconstitutional act, the economy minister had the president decree another round of neoliberal measures.

Boloña’s reform efforts resulted in a rapid opening of the Peruvian economy to foreign imports and capital inflows (Seminario 1995: 119-145). After a slower start than in Argentina, the privatization of public enterprises also advanced decisively, and due to better preparation, the process was less tainted by corruption (Manzetti 1999: ch.5). Moreover, the government deregulated the labor market, removed restrictions on foreign investment, and privatized social security. After years of negotiations and the temporary setback caused by Fujimori’s self-coup, Peru also managed to normalize relations with its foreign creditors and reschedule its debt in 1993. Thus, with Fujimori’s firm support, Boloña led Peru towards a profound restructuring of its development model (see Boloña 1993: 109-130).

The Fujimori administration achieved particular success in the important area of taxation. Ambitious legal changes simplified the fiscal system, especially by replacing distortionary tax handles with an efficient value-added tax. And a drastic modernization of the fiscal administration allowed
for stricter rule enforcement and an all-out attack on tax evasion. These measures, combined with the end of hyperinflation, boosted tax revenues from a woeful 4.9% of GDP in the first half of 1991 to 14.1% in 1996 (Durand and Thorp 1998: 137, 144, 146; similar SUNAT 1996). Thus, the Peruvian state regained a more solid fiscal base.

In Brazil, President Collor also sought to employ structural reforms for purposes of economic stabilization, yet after an initial push, he attained much less success due to political obstacles. The temporary success of the Collor Plan, which quickly reduced inflation, allowed the president to initiate a series of market reforms. Some measures, such as the opening of the economy to foreign competition, had a lasting impact, forcing business to raise productivity (Fernandes et al. 1994: 188-189, 194; Moreira and Correa 1998: 1862, 1869). Yet other projects, such as the privatization drive, quickly ran into opposition. The government faced resistance from trade unions and some powerful business sectors (interviews Moreira 1992, Collor 1995; Andrei et al. 1995: 106-123) and never gained stable majority support in Congress.

The failure of the first Collor plan and of a stop-gap stabilization program enacted in January 1991 (see Faro 1991; interview Kandir 1995) induced the administration to embark on more ambitious structural reform efforts. The economic team focused on fiscal adjustment, which it depicted as a precondition for getting inflation under control. The constitution of 1988 enshrined many provisions—such as a far-reaching decentralization of financial revenues and generous increases in social spending—that made it difficult for the federal government to obtain a balanced budget. Collor's aides therefore elaborated an ambitious blueprint for thoroughgoing changes. But this "Project of National Reconstruction" (Collor 1991a) aroused widespread resistance among interest groups, state governors, and—most importantly—Congressional politicians. The strong decline of presidential popularity after mid-1990 made it impossible for Collor to put these opponents on the defensive and impose his program through neopopulist tactics. Although the government watered down its initial goals (Collor 1991b), Congress stubbornly refused to pass structural reforms, especially amendments to the constitution. The government's claim that these changes were essential for economic stability fell on deaf ears. Thus, Collor was unsuccessful in pursuing the same strategy as Menem and Fujimori, namely to use—and legitimate—market reform as a crucial instrument for macroeconomic stabilization. In particular, the fiscal situation of the Brazilian state remained precarious as the total tax burden fell from its temporary rise to 28.78% of GDP in 1990—produced by the one-time tax measures of the first Collor Plan—to 25.24% in 1991 and 25.01% in 1992, little higher than under the preceding administration (Varsano et al. 1998: 39).

President Pérez faced similar opposition to crucial structural reform initiatives, especially in the areas of taxation and privatization. As in Collor's case, the failure to control inflation weakened the president politically. In fact, Pérez's shock program itself fueled inflation by lifting price controls and drastically devaluing the currency. As a result, prices rose by an unprecedented 84.3% in 1989. And in subsequent years, inflation consistently surpassed 30%—its level before Pérez's costly stabilization plan, which therefore seemed unsuccessful to many common people. Disapproval of the president therefore remained high; in fact, it outnumbered approval from early 1990 onward (Consultores 21 1994: 60). As mentioned above, Pérez's weak popularity ratings obstructed his efforts at using neopopulist tactics and hindered his market reform program (Naím 1993: 136).
Paradoxically, yet in line with prospect theory, an unexpected, fleeting success posed additional obstacles. The Iraqi invasion of Kuwait suddenly raised petroleum prices in mid-1990, boosted Venezuela’s export earnings and fiscal revenues, and intensified the recovery from the deep recession of 1989. As many politicians and government officials entered the domain of gains, risk aversion spread and the willingness to adopt painful structural reforms diminished. Since economic problems magically eased, a costly, risky overhaul of Venezuela’s development model appeared as unnecessary. In particular, the efforts of Pérez’s economic team to enact a comprehensive tax reform and thus lower the state’s dependence on oil revenues seemed to have low urgency when the treasury was flush with petrodollars. The plan to introduce a modern value-added tax—a cornerstone of neoliberal fiscal reform—therefore did not find Congressional approval (González 1995: 10, n.1).

Interestingly, the strongest resistance to the government’s reform agenda emerged from inside Pérez’s own party, which dragged its feet and refused to pass the president’s bills in Congress, except in strongly watered-down or distorted versions (interview Celli 1996). In particular, an important tax reform proposal languished in Congress for years (González 1995). Also, the party helped to pass a labor law that increased regulations and protection for workers, thus contradicting the main thrust of the president’s neoliberal agenda. Privatization elicited similarly widespread opposition and proceeded only haltingly; for instance, the partial sale of the national telephone company, one of the few successful privatization deals under Pérez, required lengthy bargaining and concessions to opponents (interview Martínez Móttola 1996). By contrast to this powerful resistance from electoral politicians, societal groups turned out to be "paper tigers" (Naím 1993: 14, 91-92, 136). Many business sectors were so dependent on the state that they had limited capacity to obstruct governmental initiatives, and trade unions were weakened by the economic problems of the 1980s and discredited by corruption in their own ranks.

As a result, only reforms that did not require Congressional approval went ahead on schedule. For instance, trade liberalization quickly exposed Venezuela’s coddled business sector to stiff foreign competition (Jongkind 1993: 77-83). But privatization advanced at a glacial pace, social security reform stalled, and protectionist labor legislation became tighter, not more flexible. Perhaps most importantly, the Pérez administration had minimal success with its tax reform proposals, which intended to give the Venezuelan state a more solid fiscal base than dramatically fluctuating petroleum revenues provided. But Congress watered down the income tax reform by creating numerous loopholes, and it stubbornly refused to approve the value-added tax, which could have boosted fiscal revenues (interview Palacios 1996; González 1995). Thus, the Venezuelan state remained fiscally fragile.

In sum, a comprehensive set of structural reforms advanced rapidly in Argentina and Peru, but proceeded haltingly and unevenly in Brazil and Venezuela, especially in the fiscal area.

**Causes of the Differential Advance of Market Reforms**

What are the root causes for the much greater speed and ease with which structural reform proceeded in Argentina and Peru than in Brazil and especially Venezuela? The initial outburst of approval for drastic stabilization plans in Argentina, Brazil, and Peru cannot account for successful restructuring; despite this—temporary—asset, President Collor failed to revamp Brazil’s development model. In fact,
this initial popular support declined quickly in all three cases; why did it recover in Argentina and especially Peru, whereas it remained at low levels in Brazil and Venezuela?

As chapter two has shown, institutional factors alone--specifically, a strong presidency and an institutionalized, centripetal party system (Haggard and Kaufman 1995: 9-11, 163-174)--cannot account for the differential advance of market reform either. Instead, differences in the severity of the economic problems plaguing the four under investigation were decisive because they allowed presidents to reshape the established institutional framework in some cases, but not in others. In line with my prospect theory interpretation, the more acute and profound the structural economic problems were that a country confronted, the more political support did neoliberal restructuring elicit and the more successfully did it advance. This crisis variable encompasses not only conjunctural problems such as hyperinflation, but also the exhaustion of the established development model and the resulting economic stagnation and decline. On this dimension, Peru and Argentina clearly fared worse than Brazil, whereas Venezuela was in the best position. Market reforms therefore advanced much more rapidly in Argentina and Peru than in Brazil and particularly in Venezuela.

In many ways, Peru confronted the gravest economic and political challenges among the four countries under investigation. Hyperinflation erupted in September 1988--two years before President Fujimori assumed power. During these two years, large sectors of the population suffered dramatic losses and the Peruvian state virtually collapsed. This disaster capped fifteen years of economic decline, which was interrupted only temporarily by the artificial boom produced by Alan García's heterodox experiment. Peru also faced enormous political problems. Powerful guerrilla movements--especially the brutal Shining Path--launched a full-scale attack on the state, causing tremendous economic damage and greatly exacerbating the insecurity of the population.

Argentina also confronted grave difficulties. While erupting only in April of 1989, hyperinflation had a much more explosive trajectory than in Peru and Brazil and quickly triggered widespread social unrest and military coup rumors. Furthermore, Argentina had suffered from relative economic stagnation since the 1960s, and the failed orthodox reform effort of the last dictatorship had ushered in a decade of decline and growing poverty (Morley and Alvarez 1992).

By contrast, Brazil's economic difficulties were less profound. As regards the most acute problem, the cost of hyperinflation was mitigated by comprehensive indexation, which protected business, formal workers, and--via frequent readjustments of the minimum wage--even some of the poor. Also, despite recessions at the beginning and the end of the decade, the Brazilian economy produced considerable net growth during the 1980s, proving the continuing dynamism of import-substitution industrialization.

Finally, Venezuela stands out among the four countries under investigation because it never approximated hyperinflation. Also, its fabulous oil wealth seemed to offer a magic solution to the problems of the 1980s. If this abundance were administered well--so the widespread popular perception--the country could easily achieve growth and prosperity. Thus, the blame seemed to fall on corrupt politicians and inefficient administrators, not on the oil-dependent development model as such (Keller 1996).
As a result of particularly deep economic and political crises, President Menem's and Fujimori's structural reform proposals elicited much more support than the similar initiatives undertaken by Presidents Collor and especially Pérez. Also, when Menem and Fujimori faced institutional or other political obstacles, they encountered much more support for—or at least acquiescence in—their efforts to bend or break these constraints, especially by packing the Supreme Court (Menem) and by closing Congress and purging the judiciary (Fujimori). Confronting less grave problems, Presidents Collor (at least after his short honeymoon) and Pérez would not have been able to engage in similarly drastic and risky efforts to reshape institutional constraints and break political resistance to their neoliberal agenda.

The stronger support for market reform in Argentina and Peru than in Brazil and Venezuela is evident in surveys. Unfortunately, comparable data exists only from 1995 onward, when the new *Latinobarómetro* began to ask the same questions in eight Latin American countries. Using those data actually biases the results against my crisis argument because by 1995, Argentina's and Peru's worst problems had already passed, whereas Brazil had just brought megainflation under control and Venezuela was sinking into ever deeper problems. Also, the initiation of market reform, which usually coincides with the high point of popular support for the neoliberal agenda (Carrión 1995: 11-13; Graham and Pettinato 1999: 20), lay several years in the past in Argentina and Peru, whereas Brazil's new president Fernando Henrique Cardoso was just in the middle of launching his restructuring efforts. Thus, the observable cross-country differences in the data, which correspond to the implications of my crisis argument, are particularly noteworthy.

In the *Latinobarómetro* survey conducted in May and June 1995 (Latinobarómetro 1995), a private enterprise system with or without state intervention found support among 33.9% of Argentines, but only 18.7% of Brazilians and 29.3% of Venezuelans; by contrast, 21.9% of Argentines, but 37.2% of Brazilians and 35.3% of Venezuelans preferred a private enterprise system with worker participation in important decisions. And a majority of Argentines (54.2%) and Peruvians (60.8%), but a minority of Brazilians (34.9%) and Venezuelans (41%) listed economic growth—the main promise of the neoliberal model besides stabilization—as the primary goal among several options (question 67). Furthermore, a significantly larger proportion of Argentines (71%) and Peruvians (83.2%) than Brazilians (60.5%) and Venezuelans (59.8%) regarded foreign investment—one of the neoliberal growth engines—as "beneficial for the economic development of the country" (question 56). Finally, material rewards for greater performance and efficiency appeared as "just" to significantly more Argentines (69.9%) and Peruvians (66%) than Brazilians (53.8%) and Venezuelans (49.1%, question 75). Thus, important underlying principles of the neoliberal reform effort found more popular support in the two countries that had suffered from the most profound, urgent economic problems.

More importantly for actual policy outcomes, the greater depth of the crisis induced electoral politicians and party delegations in Congress to offer much more support for the neoliberal agenda in Argentina and Peru than in Brazil and Venezuela. For instance, government parties of similar ideological background and organizational structure backed market reforms in Argentina, but opposed them in Venezuela (Corrales 1996). And presidents with similarly weak parties found their reform proposals mostly supported by Congress in Peru, even before 1992 (interview Pease 1996; McClintock 1994), but largely obstructed in Brazil (Kingstone 1999: ch.5).
Certainly, the longer, deeper crisis in Argentina and Peru also weakened societal groups that had a stake in the established development model and therefore disliked neoliberal reform. At the same time, the problems of the 1980s strengthened groups such as the financial sector that preferred drastic liberalization. In Brazil, by contrast, import-substituting sectors continued to expand during the 1980s and thus commanded greater economic weight. But these cross-country differences in the balance of socioeconomic forces had limited political repercussions. Trade liberalization—the neoliberal reform most costly for protectionist sectors—advanced at a rapid pace in all four countries. Thus, the constellation of socioeconomic forces did not significantly affect governmental policy decisions (in general Geddes 1994).

In sum, the differential severity of the conjunctural and structural economic problems facing a country largely accounts for a leader's political success or failure in advancing market reform. In line with my prospect theory interpretation, the crisis variable once again appears as crucially important. Institutional factors, by contrast, did not determine outcomes. But they influenced the means a leader used to attain his goals. In particular, President Menem took advantage of Peronist loyalties to proceed inside the confines of the democratic institutional framework, which he bent but did not break. By contrast, President Fujimori, who lacked solid, organized support, eventually saw it as feasible and beneficial to overthrow the constitution. Thus, institutional factors played a role, but only in interaction with the crisis variable.

Immediate Outcomes of Structural Adjustment Efforts

The variations in economic restructuring just analyzed, especially the differential success of fiscal adjustment and tax reform, put Argentina and Peru on a different economic and political trajectory than Brazil and especially Venezuela. Argentina and Peru achieved stabilization and renewed growth—indeed, a temporary boom. In line with my prospect theory interpretation, this turnaround in economic fate put Presidents Menem and Fujimori in the domain of gains. The two presidents therefore shifted from risk acceptance to risk aversion and became much more cautious than at the beginning of their terms. As a result, market reforms slowed down considerably. The "second stage of reform" advanced much more haltingly than the initial round of neoliberal restructuring. This deceleration resulted not only from increasing political and institutional obstacles, as stressed by Naím (1995), Nelson (1997), and Heredia and Schneider (1998), but also from the diminishing reformist zeal of successful neoliberal neopopulists. Having achieved a recovery, Menem and Fujimori became more reluctant to run the political risks of pushing for further market reform and more willing to make concessions to its opponents.

By contrast, the incapacity of Presidents Collor and Pérez to enact lasting fiscal adjustment and the political weakness that this failure revealed hindered economic recovery in Brazil and dragged down the Venezuelan economy after the short-lived boom of 1990-92 came to an end. This lack of economic success kept President Collor in the domain of losses and pushed President Pérez, whose economic team had misinterpreted the temporary recovery as a definite victory, back into it. My prospect theory interpretation expects that the two presidents would want to take bold steps to combat these challenges. Collor and especially Pérez indeed considered very drastic measures, especially in response to the coup attempt of February 1992. But the two leaders were greatly
weakened and lacked the necessary standing in public opinion and the support of powerful sociopolitical forces (especially the military) to pull off any daring move. Unable to stop the further deterioration of the economy and suffering increasing political isolation, the two presidents lacked the clout to suppress charges of corruption, which resulted in their impeachments.

The Slowdown of Structural Reform in Argentina and Peru

After two years in which President Menem's and Fujimori's stabilization efforts achieved only limited, precarious success, Argentina and Peru finally experienced economic recovery. Despite its inherent risks, the Argentine convertibility plan succeeded in controlling inflation, which fell from 1,344% per year in 1990 to 17.5% in 1992 and 3.9% in 1994. Indeed, economic stabilization produced a boom from mid-1991 on. Average annual growth reached 7.5% between 1991 and 1994. Employment grew. Poverty in Greater Buenos Aires diminished drastically from 47.4% of all residents in October 1989 to 21.6% in October 1991 and 16.1% in May 1994 (Ministerio de Economía 1994: 53). The only blemish on this impressive record was unemployment, which increased from 8.1% in May 1989 to 12.2% in October 1994.

In Peru, Minister Boloña's conservative macroeconomic policies and determined structural reforms eventually paid off as well. Inflation diminished from 139% per year in 1991 to 39.5% in 1993. As soon as stabilization seemed assured, the government eased its restrictive economic policies. Growth therefore rose to 7% in 1993 and a spectacular 14% in 1994. Poverty fell from 54% in 1991 to 47% in 1994 (FONCODES 1995: 21; similar Medina Ayala 1996: 77). In addition, the guerrilla threat eased with the capture of the Shining Path leadership. The restoration of minimal security and order brought tremendous relief to the terrified population.

The economic turnaround in Argentina and Peru put more and more people from the domain of losses into the domain of gains. A growing number of citizens saw their own economic situation and their country's fate improve in retrospective assessments, and an even larger proportion came to hold optimistic expectations for the future. In Argentina, 72-80% of respondents from late 1992 through mid-1995 thought their country's economic situation had improved or remained the same since the enactment of the convertibility plan; only 16-24% saw a deterioration (Estudio Graciela Römer & Asociados 1999: 5). Also, from 1992 to early 1995, 30-47% of Argentines were optimistic about the country's future and another 33-43% had neutral expectations; only 20-30% remained pessimistic (Mora y Araujo 1995, 12). In Peru, 53.5% of respondents thought in January 1995 that the country's economic situation had improved during 1994, and another 35.2% rated it as unchanged; 33.6% reported an improvement in their family's economic circumstances and 49.4% no change. Only 10.5% and 16.2% saw a decline in the country's and their family's situation, respectively.13 Also, the percentage of Lima residents who expected an improvement in their family's and their country's economic situation rose from 29% in June of 1992 to 48-51% in December 1994 (Apoyo December 1994: 36).

Economic stabilization and recovery in both countries and the strategic defeat of the guerrilla challenge in Peru also put Presidents Menem and Fujimori from the domain of losses into the domain of gains. Menem, for instance, stressed in 1993 how his government had managed to overcome a
number of serious economic problems and had brought about renewed growth (Baizán 1993: 46-48). These accomplishments bolstered the political standing of the two presidents, as demonstrated in the election victories achieved by Menem's Peronist Party in late 1991 and late 1993 and by Fujimori's Cambio 90/Nueva Mayoría movement in late 1992. Rather than having to fear for the survival of their governments, the two presidents could now focus on positive goals; above all, they sought to extend their reign by engineering their immediate reelection.

As my prospect theory interpretation expects, entry into the domain of gains induced Presidents Menem and Fujimori to give up their initial boldness and adopt a much more cautious posture. As the crisis eased, government policies turned less daring. While President Menem had imposed exceedingly tough adjustment measures from 1989 to 1991, this reformist zeal waned with the success of the convertibility plan. Projects that were crucial for the program of neoliberal restructuring, such as the deregulation of the labor market and the reform of the social security system, languished in Congress, and additional privatizations required ever more concessions (interview Austerlitz 1995; Cavallo 1995: 1-2; Etchemendy and Palermo 1998; Ghio 1999; Llanos 1998). Certainly, some of these measures were of special symbolic and electoral importance to the Peronist Party and therefore aroused strong opposition. Yet they do not appear less palatable than initial unpopular stabilization measures, such as the large-scale dismissal of civil servants, the hasty privatization of public enterprises, and the restrictions on the right to strike decreed in 1990. Thus, resistance was not stronger because of the particularly painful nature of the government's proposals. Rather, due to the recovery, the Peronist movement turned to risk aversion and therefore refused to gamble by making further immediate sacrifices for the sake of uncertain long-term benefits, such as the reduction in unemployment predicted by the government.

More importantly, the government's pressure on Congress to approve these bills was significantly weaker. As a political advisor to the presidency and a leading economic aide affirmed confidentially in 1995, the government's determination to push through these projects diminished considerably in the preceding three years, due to the economic recovery. As President Menem emerged from the domain of losses, his willingness to take bold, risky decisions and impose profound reforms declined. This turn to caution frustrated the efforts of his economic team to complete the neo-liberal reform program (Llach 1997: 92, 131, 237, 255, 267, 316, 386).

Only the fall-out of Mexico's crisis of December 1994 motivated the Menem administration to give market reform an additional push. The tequila effect undermined investor confidence, interrupted Argentina's easy boom, and threatened the convertibility plan (Cavallo 1995; or Cavallo 1997: 214-222; Llach 1997: 232-233, 239). A devaluation could have caused an economic catastrophe because exchange rate parity was decisive for controlling inflation and for enabling enterprises to service their high dollar-denominated debts. Thus, the country's economic prospects suddenly worsened, putting the government again in a domain of losses.

In line with my prospect theory interpretation, this new threat induced the Menem administration to resort again to tough, politically risky adjustment measures, such as budget cuts and tax raises. Also, after years of hesitation, it finally pushed through Congress some stalled structural reforms, such as the partial flexibilization of the labor code (Cavallo 1997: 226). These painful steps...
carried considerable political risk. In fact, the government's political wing was highly concerned about the fall-out in the upcoming elections of May 1995.\textsuperscript{16} The economic team, by contrast, called the crisis an "opportunity" for completing its comprehensive reform project.\textsuperscript{17} Thus, thrown back into the domain of losses, President Menem turned again to risky measures and enacted important changes.

Yet as soon as the new crisis eased and the convertibility plan emerged unscathed, the Menem government resumed a cautious posture and diminished anew its push for further restructuring. For instance, the "second reform of the state," which sought to rebuild public institutions in order to turn them more productive and efficient (interview Abad 1997; Jefatura de Gabinete de Ministros 1997), made little headway. The comprehensive revamping of labor market institutions and of medical service delivery that neoliberal experts had pursued for years remained bogged down in debates between the economic and the political wing of the government, which drew support from business and from Peronist politicians and trade unions, respectively. In 1997, Menem eventually settled for a compromise that satisfied unions, yet disappointed neoliberal experts and business—a clear divergence from the bold steps he took during the deep crisis at the beginning of his first term.

These clear shifts in President Menem's propensity towards risk are of particular significance for my prospect theory interpretation. By explaining people's risk propensity as a function of their perceived domain, prospect theory advances a situational--not a personality-based--argument. The fact that in direct response to the wild fluctuations in Argentina's economic conjuncture during the 1990s, the same person moved back and forth between risk acceptance and risk aversion corroborates this situational argument. These shifts from boldness to caution and back show that President Menem's adoption of risky adjustment policies at the beginning of his first term was not due to impulsive, audacious character traits, but to the president's perception of the dire situation he was facing.

President Fujimori also shifted his propensity towards risk in line with Peru's changing economic fortune. After the economy achieved some level of stability in 1992, he revealed even more clearly than Menem his reluctance to impose additional profound market reforms at a breakneck speed. In late 1992, he removed doctrinaire neoliberal Carlos Boloña and appointed as his new economy minister traditional conservative Jorge Camet, a business leader. The outgoing architect of Peru's recovery warned that his removal threatened the further advance of the ambitious neoliberal agenda, which had been enacted only half-way (Boloña 1993: ix, 178-80, 202). Boloña saw his dismissal as evidence for the president's diminishing reform impulse--a drastic shift from Fujimori's earlier posture, which was characterized by boldness and risk acceptance.

Boloña was correct: Fujimori did turn more cautious in his economic policy approach from early 1993 onward. While Minister Camet maintained basic continuity with his predecessor, neoliberal reform began to advance more slowly. The president did not--or only with great delay--enact a number of important proposals prepared by Boloña and already approved by the cabinet.\textsuperscript{18} For instance, after the drastic measures taken from 1990 to 1992, labor reform did not advance much further. And the courageous efforts to reform the fiscal system and combat tax evasion grew significantly weaker after 1993 (Durand and Thorp 1998: 144-149). Furthermore, the "second reform of the state" announced in 1996 never got off the ground as the government, which had decreed
brutal adjustment measures in its early years, now shied away from incurring the political costs involved in dismissing public officials (interviews Abogattás 1999, Torres y Torres Lara 1999). Even privatization, which continued after Boloña’s ouster due to the fiscal needs of the state and the electorally motivated spending goals of the president, slowed down considerably by the end of the decade.

In addition to the slowdown of structural reform, Fujimori decided to soften tight austerity and use more resources for social projects, which have a high electoral payoff. As Peru's fiscal crisis eased, he expanded several expenditure programs, depicted as efforts to combat widespread poverty. For instance, the president embarked on a school-building spree that benefitted many destitute communities in a highly visible way and allowed him to garner support by attending hundreds of festive inauguration ceremonies. Thus, as soon as the Peruvian economy turned the corner, Fujimori became less risk-acceptant. Rather than pushing his draconian, costly measures even further, he adopted traditional means for perpetuating his influence and consolidating his leadership position.

Thus, in Argentina and Peru, economic recovery put the president and many citizens in the domain of gains and induced them to become more risk-averse. In both countries structural adjustment therefore lost its initial dynamism.

The Political Failure of Neoliberal Reform in Brazil

By contrast to Presidents Menem and Fujimori, Collor never achieved economic stabilization, not to speak of a recovery. After two shock plans had failed, inflation was again on an upward trajectory in early 1991. Collor's incapacity to stem price increases diminished his standing in public opinion (Datafólia 1991: variable 8), the government's main base of sustenance. Greatly weakened, the president finally realized that he and his brash Economy Minister, Zélia Cardoso de Mello, were moving ever deeper into a cul-de-sac with their confrontational style. In May 1991, he beat a retreat and appointed as Economy Minister Marcílio Marques Moreira, a cautious diplomat with close links to domestic and international financial circles. In this way, he sought to restore business confidence and ensure entrepreneurs that he would not impose new risky shock programs.

Thus, his political isolation and weakness forced Collor to assume a more cautious stance although Brazil's crisis had eased little and both the president and many common citizens still saw themselves in the domain of losses. Collor lacked the political clout to follow Menem's and Fujimori's path and combat persistent problems with ever more daring stabilization measures, such as Domingo Cavallo's convertibility plan. Thus, Collor was unable to fulfill many citizens' expectation of a determined attack on the lingering crisis.  

At the same time, Minister Moreira faced considerable problems in pursuing his cautious, orthodox economic policy. He found it very difficult to restore the confidence of business and the broader public, which Collor's initial decrees and his impulsive, unpredictable style had undermined. The president's occasional rhetorical attacks on entrepreneurs and international financial institutions did not help. In addition, the conservative forces that increasingly "occupied" the government never lost their distrust of the president, and the center-left Partido da Social Democracia Brasileira
rejected Collor's calls for an alliance. Therefore, the Collor administration continued to lack sufficient support for its structural reform program, which the economic team tried to sell as necessary for achieving economic stabilization. A package of constitutional amendments, submitted to Congress in October of 1991, died in the committees, and an ample project of fiscal reform, elaborated in mid-1992, suffered a similar fate (Collor 1991b; MEFP 1992; interviews Macedo 1995, Moreira 1995). Thus, although Collor still tried to combat the persistent crisis with important proposals, he lacked the clout to push them through Congress. His crippling political weakness prevented him from acting on risk acceptance in the domain of losses by enacting bold measures, as he had done at the beginning of his term.

In particular, Collor would have been unable to break opposition to his structural reform proposals as President Fujimori did in April 1992. Lack of support among the ever larger sectors of the population, the private sector, and the military ruled out any effort to reshape the institutional framework and concentrate power through extraconstitutional means. Collor did not have the political force to override institutional obstacles, which Fujimori gained by successfully combatting Peru's particularly severe crisis. In fact, the failure of Collor's stabilization efforts and his weak base of support made him vulnerable to the corruption charges advanced by his own brother. Short of firm backers and besieged by numerous enemies, the president was unable to ride out the wave of public protest against his misdeeds. As a result, he suffered impeachment (Weyland 1993)--ironically at the hands of a Congress full of corrupt politicians, as revealed by the Congressional budget scandal of late 1993.

Yet while Collor failed politically, his government did change the direction of Brazilian development. He set in motion processes that facilitated the adjustment efforts undertaken under the successor governments of Itamar Franco (1992-94) and Fernando Henrique Cardoso (1995-present). For instance, Collor's determination to open up the Brazilian economy to foreign trade prompted domestic industry to increase its productivity and competitiveness (Fernandes et al. 1994: 188-189; Moreira and Correa 1998). In an even more important way, the president irreversibly changed the agenda of Brazilian politics. His high initial popularity and broad support demonstrated the political importance and pay-off of painful measures of inflation control, and his apt rhetoric of modernization further discredited state interventionism and boosted support for concepts such as competitiveness and fiscal responsibility (Nóbrega 1992: 32-45; Kingstone 1999: ch.5). In fact, Collor's structural reform plan (Collor 1991a) reads like an outline of President Cardoso's projects.

Thus, despite his spectacular political failure, Collor managed to put Brazil on the path towards market reform.

The Collapse of Neoliberal Reform in Venezuela

President Pérez had less success than Collor in laying a solid foundation for neoliberal reform. Throughout his second term, he suffered from persistently low popularity ratings and faced stubborn resistance to his structural reform agenda; these difficulties in turn reflected the absence of a profound open crisis in Venezuela. Facing widespread popular discontent and opposition from his own party,
Pérez sought to enhance his political standing by using ambiguous rhetoric. For instance, while seeking support from the IMF, he attacked its "obscene conditions" and denounced it as an instrument of the First World "to maintain its exploitation of the developing countries" (OCI 1989: 24). Obviously, this self-contradictory discourse did not strengthen support for market reform.

Pérez's weak political standing encouraged the enemies of neoliberalism. The resulting lack of support for presidential proposals in Congress and the ceaseless demonstrations and protests in the streets created a widespread sense of political vacuum and ungovernability. Even forces who had initially supported good parts of the president's economic and political reform agenda, such as the "group of notables", became increasingly critical. The only actors who seemed unaware of the government's fragile political position were the president and his economic aides. Overly impressed by the short-lived boom of 1990-92 and confident in Pérez's charisma, leading ministers thought in late 1991 that they had managed to consolidate neoliberalism in Venezuela (interviews Rodríguez 1996, Rosas 1996).

These illusions were rudely destroyed on 4 February 1992, when junior officers tried to overthrow and possibly assassinate Pérez. Shockingly, many citizens expressed support for the coup attempt (Norden 1998: 155), thus revealing their intense discontent with the president and his market reform efforts. Pérez was unable and unwilling to combat this dangerous challenge with the drastic means that President Fujimori used in Peru in April 1992. Some sectors in the government suggested autocratic measures, but the president refused. In addition to his commitment to democratic norms, Pérez could not risk such a forceful response to the coup attempt. He had little support among politicians, his standing in public opinion was low, and loyalties within the military were unclear. Pérez therefore decided not to go on the offensive (interview Blanco 1996).

The president sought instead to save his government through accommodation, especially an alliance with the main opposition party COPEI. But given Pérez's low standing, only one sector of this divided party agreed to join the government, and merely for a few weeks. The president also appointed a consultative commission with ample representation, but it called for a reversal of neoliberal reform, which Pérez refused to enact (Recomendaciones del Consejo Consultivo 1992: 462-471). All of the other proposals for overcoming the stalemate, for instance through a constitutional convention, were blocked by the government, by Acción Democrática, or by the opposition parties.22

The growing political paralysis was punctuated by a second coup attempt in November 1992. Seeing democracy endangered and taking inspiration from the ouster of President Collor in neighboring Brazil,23 Venezuela's political class decided to impeach Pérez. Compared to his predecessor's reported misdeeds, the alleged infractions were relatively minor, consisting of an illegal transfer of funds between different budget categories. Discovery of this formal misappropriation turned fatal for Pérez because he had lost virtually all political support.

Thus, contrary to President Collor, Pérez never managed to garner strong support for market reform and to demonstrate that such painful measures can bring substantial political payoffs. The president's stubbornly low popularity ratings and the fiasco with which his government ended further
discredited neoliberalism in the eyes of many Venezuelans.

**Conclusion**

This chapter has shown that the successful enactment of market reform in Argentina and Peru, the difficulties in Brazil, and the failure in Venezuela reflect the differential depth of the economic crises facing those countries. Specifically, drastic neoliberal restructuring went forward only in countries that were plagued both by dramatic disequilibria, especially hyperinflation, and by serious economic decline that discredited the established development model. By contrast, where hyperinflation erupted in an economy with considerable growth potential, massive approval for initial stabilization measures did not translate into support for structural reform. And where the absence of hyperinflation made the turn to neoliberalism appear "unnecessary" (chapter five) and a bonanza resource inspired hope in an easy escape from economic decline, market reform confronted insurmountable obstacles.

In line with my application of prospect theory, acute disequilibria and severe stagnation and decline induced neopopulist presidents Menem and Fujimori to push particularly hard for painful, risky structural reforms designed to shore up their precarious adjustment efforts. In this way, they hoped to recuperate the broad support that their initial stabilization plans had elicited from a population that largely saw itself in the domain of losses. Acute open crises also facilitated determined reform efforts by weakening interest groups and politicians that had a stake in the established development model. The crises eroded the power resources and organizational capacity of these veto groups and made their resistance look like the stubborn pursuit of narrow self-interests at the expense of the whole country's well-being.

By contrast, after President Collor's shock plan stopped hyperinflation, but did not eliminate substantial price increases, he lacked the political force to push through crucial market reforms--especially definitive fiscal adjustment--because support for a painful, risky overhaul of Brazil's development model, which had produced considerable growth during the 1980s, was quite limited. The opponents of costly market reforms therefore commanded substantial political resources and legitimacy and managed to obstruct the reform efforts of an increasingly isolated president. Finally, President Pérez's neoliberal program was always hobbled by the widespread rejection that his initial shock plan had provoked. Moreover, the temporary increase in petroleum prices and in Venezuela's OPEC quota from 1990 to 1992 reinforced the impression that the decline of the 1980s could be reversed in a painless way.

In sum, the political success or failure of market reform and its initiators depended on the perceived depth and obduracy of the developmental crisis plaguing a country. As this chapter has shown, the four countries under investigation therefore entered two divergent economic and political trajectories. The rapid advance of neoliberal reform in Argentina and Peru raises the question whether the new market model has become politically consolidated in those countries--the topic of chapter seven. And chapter eight examines whether and how structural adjustment was reinitiated in Brazil and Venezuela after the political failure of Presidents Collor and Pérez.
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This definition—justified in depth in Weyland (1999a)—embodies a purely political concept of populism and deliberately refrains from situating populism in a specific social and economic setting and from identifying it with certain economic policies; such associations should not be determined by definitional fiat, but left open for empirical investigation. My definition emphasizes the aptitude of populist leaders to adjust to different opportunities and constraints. Such flexibility and opportunism—rather than firm commitments to any policy, program, or ideology—are typical of populism.

2. This continued use of populist tactics contradicts Drake's (1991: 36) "bait-and-switch" interpretation.

3. And while stressing the significance of the mass of "the people," populism seeks to weaken and marginalize organizations for collective action, which prospect theory has not yet managed to model (Levy 1997: 102-105).


8. For instance, a leading Collor aide told this author in 1995 that in mid-1992, when the president was facing serious corruption charges, a top military official sought to convince his colleagues that they should jointly pressure Collor to step down.

9. Boloña did not need another shock stabilization plan because public sector prices, which Hurtado Miller had readjusted dramatically, were not lagging behind inflation (interviews Boloña 1996, Velarde 1996).


12. Support for a mixed economy and the predominance of public enterprises ran at similar levels of 20.4% to 23.1% in all three countries (question 59). Data on Peru are missing.


21. Confidential author interviews with several leading officials in the Pérez government, Caracas, June 1996.
