Issues of Leadership During Economic Reform

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Spring 2000

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> "If around 1982, this process had started in Chile under democratic rule we would still have been able to do it, but at a much slower pace. It would have taken us 10 years to reach the same result. It is clear, though, that only an authoritarian dictatorship could have executed such a harsh coup in the economy, a coup that unleashed 30 percent unemployment and brought down whole sectors of national industry by switching, overnight, from an import-substitution to an export model. *Only a closed political system could have opened the economy so drastically*."
>
> Patricio Aylwin[1]

INTRODUCTION

Experience has shown that economic reforms such as stabilization and structural adjustment are never easy to successfully implement. The sacrifices required by such reforms are immediate and focused, while benefits are often dispersed, delayed, and unproven at the time they are undertaken (Geddes, 1994). Based on this understanding, as well as the record of apparent early success by military governments such as Chile, theorists and politicians alike argued that such reforms were only likely to be achieved by authoritarian regimes. Yet history has shown otherwise—not only has the theory failed statistical studies (summarized in Haggard, et.al., 1995), but observers seemed to completely overlook efforts of countries such as New Zealand, a democracy that nonetheless voluntarily implemented profound changes to its economic and governance structures.

Unable to explain successful reform in terms of simple coercion, theorists began to look at the degree to which policymakers were influenced by interest groups. Although a government's institutional structures were considered important, the type of system (democracy v. dictatorship) was not. Instead, the "autonomy" of policymakers was seen as key; distancing reformers from immediate political imperatives made implementation easier (Haggard and Kaufman, 1995). In other words, economic leadership was understood to help the public in spite of itself.

This does not mean that good leadership is completely divorced from broader society; success meant being able to create a functional balance of support and resistance to reform efforts (Haggard, et.al., 1995). Yet, despite acknowledging the need for even authoritarian regimes to maintain a base of support, these theorists continued to treat autonomy as a quality of the government or specific bureaucratic entities, rather than the result of political processes (Bates and Krueger, 1993). But because politics never occur in a vacuum, leadership cannot be understood simply in terms of the state. No matter how much events and institutions may insulate policymakers, social forces remain part of the equation. To truly understand successful leadership, we must expand our focus to include the ways by which interest groups choose (or are encouraged) to offer support or resistance.

EXPLORING LEADERSHIP

Thus, although state autonomy is often the explanation given for success, the concept is problematic. It implies that successful governments possess some intrinsic quality enabling them to serve the common good while avoiding special interest pressures (Bates and Krueger, 1993). It is not coincidental that most autonomy-based theories were based on studies of authoritarian regimes (Geddes, 1994). Such autonomy seems an inherently anti-political idea, difficult to imagine outside of a climate dominated by fear and violence. Even for military-dominated

[1] (Emphasis added.) From a 1990 interview, after his election as Chile's first democratically elected president since the 1973 coup.

governments, these conditions are extremely costly to maintain; moreover, they run counter to efforts to establish a stable climate for long-term, sustained economic growth.

Describing autonomy as a *property* of certain political institutions, regimes, governments, agencies, or individuals implies it can be measured and observed directly. That no examples of this exist reveals the problems inherent in the underlying assumption. In fact, "state autonomy has not been, and perhaps cannot be, directly observed" (Geddes, 1994: 5). Instead, theorists are only able to imply the presence of autonomy by working backwards from political outcomes, or through institutional analyses. Theorists like Geddes have focused on describing autonomy in terms of institutional structures, arguing that the actions of politicians and bureaucrats reflected political incentives inherent in those systems. Yet, although this allows for dynamics between interest groups and policymakers, the model still describes autonomy in positive, rather than relative terms. Interest groups are still important, but are seen as somewhat peripheral to successful reform. By focusing solely on structural incentives, Geddes may miss some of the subtleties of support or resistance to reform.

I argue that while autonomy can contribute to successful leadership, both concepts need to be investigated further. Success appears to rely not simply on the isolation of policymaking groups, but also the relative unity and organizing skills of potential supporters and opponents, as well as the government's capacity to manipulate those groups. Moreover, effective leadership requires an ability to correctly diagnose problems and establish policies, as well as care to communicate in a way that demonstrates commitment and an underlying coherence. I elaborate these ideas below, followed by a brief overview of the reforms of Chile and New Zealand, both recognized leaders of neo-liberal economic reform (Tanzi and Schuknecht, 1997). Based on their experiences, I then offer evidence supporting such a broadened understanding of economic leadership, concluding with a few ideas on how such a theory might find real-world application.

"Real" autonomy

Leadership success obviously requires a significant institutional capacity. Weak governments, including autocratic ones, will find it difficult to correct systemic problems, even with well-designed policies (Haggard, et.al., 1995). Strong governments still rely on accurate diagnoses and policy advice, even if they do truly strive to act in the public interest (Geddes, 1994). Regardless of political context, successful leadership is based on underlying technical and administrative capabilities.

Also important to reform is the level of preparation and clarity; if programs are not well-planned, or successfully communicated to political leaders, they are unlikely to be fully supported, by the leadership or the broader community. In this way, international norms can influence state capacity, guiding and lending credibility to reforms. Clear, theoretically acceptable policies communicate the government's intent, as well as its foresight in implementing reforms. Closely related is the government's commitment to change. Painful policies may sometimes be justified politically by conditionalities "imposed" by external actors; inversely, governments may signal commitment to investors by implementing more comprehensive programs, or by increasing the pace of reform (Piñera, 1993).

As noted above, autonomy has often been characterized as a separation of policymakers from interest groups. While such insulation may indeed support a certain purity or dedication to reform, it is still dependent on the skill and wisdom of policymakers. Isolated, powerful groups are not new to politics, nor is their record uniformly positive. Moreover, such separation cannot be sustained indefinitely; as economic conditions and societal norms change, pressures inevitably emerge. Incumbent parties or regimes may also find it useful to distance themselves from policymakers, even as they shelter their efforts. Such delegation of responsibility can thus serve a dual purpose – it encourages undiluted reforms, while providing the government with a potential scapegoat, should such efforts fail.

“Effective” autonomy

When theorists speak of autonomy as separation from special interests, they imply that such groups are constant and universal – given a chance, they will always lobby for favorable policies. While this may often be the case, it ignores situations which may discourage such action. Some societies may find it difficult to unite due to ideology or history, despite shared interests. Systems in which a number of political parties receive relatively equal support often display a greater deal of instability (Haggard, et.al., 1995). Likewise, weakness or divisiveness within interest groups can create an absence of political pressure, offering the state *de facto* autonomy. Lowering the capacity of social groups to resist may even be a strategy of reformers:

> “Pushing reforms through rapidly may actually weaken interest groups that are tied to the status quo, or at least exploit any delay in the mobilisation of anti-reform forces”
> (Haggard, et.al., 1995).

Barbara Geddes’ 1994 model of state autonomy is based on institutional analyses. Yet she paid little attention to how institutions or government policies might directly influence the capacity of social groups or special interests to organize. This seems especially crucial under authoritarian regimes, which often restrict such activities. By creating conditions which prevent interest group mobilization, authoritarian states strengthen their ability to act with impunity. While such tactics may have limitations, they can be extremely effective in the short and even medium term.

Group interests or priorities are not always self evident; threats to an individual or group’s survival will be more immediate than specific assets. The crisis conditions that often prelude stabilization or adjustment programs may encourage perceptions that certain sacrifices are necessary to support longer term interests. Such attitudes may discourage efforts to press for special treatment. Fear of the government—or what might emerge in its absence—may often serve similar purposes. Supporters of reform programs may encourage similar apprehensions to promote compliance with their efforts.

While the impacts of stabilization are often more immediate and abrupt, the effects of structural adjustment take years to unfold (Haggard, et.al., 1995). Once the climate of crisis has passed, reform programs may be eclipsed by other issues and concerns, such as threats to national security. Governments with the capacity to manipulate public opinion may attempt to divert attention from contentious policies. Unsophisticated publics, or groups with limited or declining resources may find it difficult to monitor policy changes, giving a greater measure of autonomy to reformers (Geddes, 1994).

Yet another form of effective autonomy is the capacity of special interests to adapt to the conditions of reform. Neo-liberal reforms and transitions to export-led growth are often favorable to certain exporters, or those with access to international capital flows. The ability of these and other groups to approach policy changes as opportunities rather than threats may lend support to reforms, if it is not expressed directly. Other groups may find it easier to protect their assets by transferring them to other economic environments. While the capacity to "exit" (capital flight) is a significant risk to economic recovery, removing such opportunities may increase the potential for interest group pressure on policymakers.

Support for reforms

Many of the outcomes described in the preceding section could be characterized as "passive" support for reform policies. Yet while disunity or disinterest may serve the government's interests, such "support" is likely to be short-lived, or sensitive to the severity of the effects of reform. Although the relatively short lifecycle of stabilization policies may permit governments to rely on real and effective forms of autonomy, successful structural adjustment will likely require the active cooperation of society.

Sometimes such support appears even before reforms have been announced—economic crises can create popular perceptions that "something must be done." Policymakers can encourage such beliefs and inspire support by carefully communicating the purpose of reforms. Leaderships are also very careful about signaling their commitment to reforms to both domestic and international audiences. If policymakers are able to represent reforms as ultimately desirable, and leading towards conditions of greater stability and prosperity, they are likely to achieve some measure of popular support. Instances where the costs and benefits of reform are unevenly distributed may require the leadership to target relief to those most affected. Such efforts not only serve to diffuse potential protests, but may generate support by improving the government's credibility.

For longer-term or "gradual" reform projects, leaders may find it useful to generate "early victories," to offer concrete evidence of their success. Such strategies can enable governments to expand their base of support and while reducing resistance to reforms (Haggard, et.al., 1995). If a climate of cooperation can be nurtured by the leadership and interest groups, both may be able to contribute to the policymaking process. While such efforts obviously reduce the autonomy of policymakers, encouraging broader "ownership" of reforms can create significant incentives for their full implementation.

Finally, though the concept of a strong, capable government implies a certain internal unity, it is important to be aware that political transitions are almost never total—even those established by force must rely not only on the skills and experiences of an existing bureaucracy, but its willingness to support leaders' efforts (Migdal, 1988). This necessity has been one of the great frustrations of reform and development projects worldwide; resentment or longing for a previous leadership can sabotage an incoming government's capacity. It is therefore essential for successful leadership to rally support within the state apparatus, by gradual replacement, or various forms of persuasion. Reforms that are wholly supported within the bureaucracy are much more likely to be successful than those facing internal resistance.

Thus, successful implementation of sweeping, long-term economic reforms requires a capable leadership that not only protects policymakers from special interests, but also ensures a level of competency within that insulated group. Because even authoritarian regimes do not exist in a vacuum, leadership must work to prevent resistance, and encourage support for the policies and goals of reform. Viewed separately, each can be seen as necessary, but not sufficient elements of a successful reform process.

REAL-WORLD LEADERSHIP

Both Chile and New Zealand have become "role models" for countries intent on implementing comprehensive reforms (Tanzi and Schuknecht, 1997). Chile was the first to attempt such changes in the Americas, in a violent response to movement towards a socialist system. It is now known as the region's "best managed" economy, and among the best worldwide (Economist, 1993). By the mid-1990s, Chile enjoyed low and declining unemployment, low inflation, steady growth and rising personal incomes. Its economy no longer relies on market protection; in 1993, exports accounted for more than 35 percent of gross domestic product (Labán and Larraín, 1993).

Prior to reforms, New Zealand had one of the industrialized world's most sheltered economies, large public and private debts, and rampant inflation. When the government overvalued the currency in the early 1980s, speculators quickly depleted the country's foreign reserves and its Central Bank was unable to acquire emergency loans from credit markets (Schwartz, 1991). Yet by 1998, independent studies by the Cato Institute and the Heritage Foundation judged New Zealand to be one the five most open economies in the world (McTigue, 1998). The country's approach to policy reform has followed extremely orthodox principles; it may demonstrate the outer limits of what reforms are politically feasible. That it implemented such dramatic changes without the assistance of international financial institutions is remarkable (Schwartz, 1991).

Overview of reforms

Chile

Chile is often offered as proof that "serious and lasting economic reform can only be achieved under authoritarian government" (Economist, 1995: 17). Few seem aware of the fact that Chile's full transition took nearly twenty years, including with a return to democratic governance. Though the most sweeping and painful measures were directed by the military government, those reforms were not fully consolidated until after the return to democracy (Gallagher, 1992).

In 1973, General Augusto Pinochet led a military coup against the socialist government of Salvador Allende, killing him during an attack on the presidential palace. The coup was largely a reaction to the political and economic turmoil that accompanied policies such as the expropriation of property and expanded public spending. Supported by business interests, over the next two years the junta returned property the Allende government had seized (Moran, 1991). There were also initial attempts to stabilize and improve the economy, but these generally lacked clarity or coherence (Corbo, 1991).

By 1975, the leadership had revealed its intention to act independently of specific interests, announcing dramatic tariff reductions and deregulation of the financial sector, although short-term capital controls were maintained to limit externally induced instability and capital flight. Also important were dramatic expenditure cuts to reduce the fiscal deficit (Corbo, 1991), which was completely eliminated by 1978 (Edwards and Teitel, 1986). The privatization program was expanded, as state-run enterprises began to be sold off (Moran, 1991).

Although some of the economic problems that faced Chile in the early 1980s were due to factors beyond its control, many domestic policy choices aggravated their effects. During the late 1970s, the government had signed labor agreements that indexed wages to inflation. At the same time, it implemented the *tablita*, a pre-announced, active crawling peg exchange rate which caused the value of the peso to gradually appreciate (Corbo, 1991). At the same time, weak or non-existent oversight of the highly concentrated banking sector encouraged risky and speculative lending (Moran, 1991). Each created significant inflationary pressures in the economy.

In 1981, dramatic increases in international interest rates caused crisis conditions throughout Latin America. When Mexico threatened to default in 1982, foreign capital flows effectively ended. With a large trade deficit, Chile was impacted especially hard, and a deep recession developed. The already low national savings rate declined, and the government was forced to increase unemployment subsidies in the face of popular pressure (Corbo, 1998). In June of that year, the Chilean peso was devalued to improve the country's balance of payments situation.

Finance minister Sergio de Castro strong advocated an "automatic adjustment" to the crisis. He was fired in April of 1982, following large-scale public protests; the government apparently believed that inaction would threaten its very survival (Stallings and Brock, 1993). The following year it was forced to assume ownership of the country's five largest banks to prevent a complete collapse of the financial system (Moran, 1991).

By 1984, guided by negotiations with officials from the International Monetary Fund (IMF), Chile began a program to encourage export-led growth, based on a stable macroeconomic environment (Corbo, 1991). The peso was devalued again in September, and it was announced that henceforth, the exchange rate would be determined by a passive crawling peg against the dollar. Taxes on high-income brackets were reduced, and corporate taxation policies were changed to encourage investment (Moran, 1991). This reinforced the intended effects of the national pension program, introduced in 1981. Concerned with the low levels of domestic investment, and trying to further reduce expenditures, the government had introduced a system of privately funded pensions (Economist, 1995). Unfortunately, any improvements the program was designed to have had on investment rates were delayed by the 1982 recession.

The following year, the government announced a three-year structural adjustment program, focused on exports, balance of payments, increased domestic investment, and "rehabilitation" of business and finance. Firms that had been saved by earlier government intervention were re-privatized once they had become economically sound (Moran, 1991). At the same time, Hernán Büchi was appointed minister of finance. An engineer by training, Büchi was familiar with both the government's economic advisors and Chilean business interests. His approach, based on consultation and consensus building between business and the economists, represented a significant break with the government's earlier strategies (Stallings and Brock, 1993).]

By 1986, privatization efforts were essentially completed (Moran, 1991). The country's private sector was extremely successful in the latter half of the 1980s; the number of small and medium-sized firms increased, while exports grew and diversified (Economist, 1995). In 1989, the Central Bank was given autonomy from the government bureaucracy and charged with maintaining the currency's purchasing power (Fraga, 1994).

Democratic elections were held the following year. Patricio Aylwin, who had also been president during the 1960s, won on a platform committed to continued reforms, but which acknowledged some of the social costs involved. After the election, the government raises taxes slightly to pay for increases in social spending, especially health and education. The poverty rate, which had been around 40 percent in 1987, declined to 28 percent. (Economist, 1995). In the meantime, the economy boomed, as foreign investors found the stable macroeconomic climate to be “exceptionally” encouraging for long-term growth and development (Fraga, 1994: 67).

New Zealand

In July of 1984, the Labour Party took office with a substantial parliamentary majority, following a snap election held in reaction to economic mismanagement by the outgoing National Party government. The new government immediately devalued the exchange rate by 20 percent and announced a temporary price freeze, to give it time to formulate an economic strategy (Deane, 1986). Roger Douglas, Labour’s Minister of Finance, soon introduced policies that used market mechanisms to regulate business while reducing the role of government. This philosophy became the centerpiece of New Zealand reform processes; the dramatic degree to which it has been applied sets the country apart from other reform efforts.

One of the first areas where this approach was applied were the financial markets, which were completely deregulated in the first year of the Labour government. At the same time, price controls and producer subsidies were eliminated, and import barriers were drastically reduced (Easton, 1994). As a result of deregulation, the financial services sector experienced phenomenal growth between 1984 and 1987, leading to a boom in both the stock market and the construction industry (Bollard, 1993). The exchange rate was fully floated in March of 1985, partly on the justification that any weaknesses in the country’s economic policies would then be identified more quickly (Deane, 1986). In spite of this, the government was unprepared when the 1987 global stock market crash popped New Zealand’s speculative bubble (Quiggin, 1998). Local stocks lost over half their value, dramatically reducing equity funds for investment. Over the next three years, the construction industry workforce declined by 40 percent (Bollard, 1993).

In 1986, the government implemented a universal value-added tax of 10 percent, while lowering marginal rates on personal income. The following year, the government adopted a strict monetary policy to grow the money supply at less than the rate of inflation. Import licenses were completely phased-out by 1989 (Bollard, 1993).

The Labour party was reelected in 1987, although this seemed to be less based on its economic policies than the adamant stance the Prime Minister had taken against the testing and transport of nuclear weapons (Quiggin, 1998). Shortly after the election, Finance Minister Douglas resigned, over disagreement on the strength and pace of reforms. That same year state-owned enterprises (SOEs) were corporatized and required to operate on a profit basis, which generated further government revenues while making them more economically efficient (Schwartz, 1991). Contradicting earlier promises, the government began to privatize many of these organizations the following year. By 1992, twenty-two of the SOEs had been sold (Bollard, 1993). Although the reversal was justified for fiscal reasons, the government made little effort to secure high prices for those assets (Easton, 1994).

In 1989, the New Zealand Central Bank was given full control over short-term interest rates. Public interests are now assured through the Bank governor’s contract, which permits him to be fired if the annual inflation rate exceeds two percent (Bollard, 1993; Brash, 1995).

Division within the Labour party and a poor public opinion of its record allowed the National Party to return to power in 1990. Shortly after taking office, it implemented many of the social service and labor reforms that the outgoing government had been unable, or unwilling to attempt. These included introducing charges for certain welfare services, while targeting benefits for the very poor. The National party continued the program to reduce government provision of goods and services. It also radically altered the rights of organized labor, replacing collective bargaining with individual worker-employer contracts (Easton, 1994). Taxes were again reduced on upper-income groups, and the value-added tax was increased.

Although the New Zealand economy has not reacted as strongly as have others, the reforms were dramatically successful in opening its economy to world trade, in reducing inefficiency and increasing worker productivity, and especially in lowering government expenditures and regulation of the economy. By the mid-1990s, New Zealand enjoyed low inflation and respectable growth, although apart from an exceptional year in 1993, it has performed consistently lower than OECD averages (World Bank, 1998).

The politics of reform

Real autonomy

Capacity

- At the time of the coup, Chile had a functional and reasonably efficient bureaucracy. Although the junta's economic team was vital to the success of reforms, they could never have been implemented them without a significant underlying capacity (de Gregario, 1993).

- New Zealand began the reform process with a strong and capable state administration, a significant advantage that enabled the government to implement policies such as the universal value-added tax, which may have been unthinkable in other countries (Schwartz, 1991). However, the rapid reforms and dramatic downsizing of the public sector has meant some loss of institutional capacity, which may cause the country problems in the future (Easton, 1994).

Preparation and Clarity

- Upon seizing power, the Chilean military actively solicited advice on how to handle the country's economic policy. Businessmen, lawyers and economists were asked their opinions on the proper course of reform. From this group, only the economists were able to offer a clear diagnosis of the changes that would be necessary. The group was essentially of a single mind; this encouraged the leadership to entrust the reform process almost entirely to them (Piñera, 1993).

- In 1980, New Zealand Labour Party representative Roger Douglas published There's Got to be a Better Way, which proposed a "radical new" policy agenda, based on market principles (Quiggin, 1998). Over the next few years, he worked with a "close-knit" group of Labour party members, as well as bureaucrats from the Treasury and National Reserve Bank, to develop an orthodox stabilization blueprint, the program he began to implement upon becoming the Minister of Finance in 1983 (Schwartz, 1991).

Commitment

- The Chilean government's commitment to structural adjustment was obviously key to its success. "Its long tenure and authoritarian character allowed the military government to pursue strong actions and implement policy changes with relative ease" (Moran, 1991). Yet by demonstrating a commitment to maintain course, Aylwin's democratically elected government was able to consolidate the reforms, giving to the Chilean public a sense of "ownership" of the economic system (Gallagher, 1992).

Institutionalized insulation

- During the period Chile's most radical economic reforms, its economic advisors were protected by the military; this afforded the team a "fairly wide range in which they could operate" (Bates and Krueger, 1993). By centralizing all economic decision-making, alternative channels for influence were eliminated (Stallings and Brock, 1993).

Other features of Chilean reforms were also crucial to directly limiting the potential for influence; perhaps most important was granting the Central Bank official autonomy in 1989. This enables the Bank to focus on maintaining low inflation without feeling pressured to generate short-term, but short-lived economic upturns for political purposes. (Fraga, 1994). Also important were provisions in Chile's 1980 Constitution that grant line-item veto authority to the executive, as well as rules that restrict government borrowing to the federal level (Corbo, 1998).

- New Zealand's reform process was possible in large part to the system's lack of checks and balances; the county has no written constitution, a single-body legislature, and at the time of reforms, single-member districting, which encouraged a consolidation of electoral support (Easton, 1994). The structure enables parties with a clear majority to implement policy with few institutional barriers (Quiggin, 1998). After Labour came to power and Douglas joined the cabinet, he and his supporters were able to dominate policymaking by centralizing power within the Treasury (Schwartz, 1991). This permitted a Douglas to use a "blitzkrieg" approach to impose reforms on an unsupportive public (Quiggin, 1998).

As in Chile, the New Zealand Central Reserve Bank has been granted near-total autonomy, with the only stipulation being that it maintain inflation within a narrow range (Easton, 1994). It is now considered one of the most independent central banks in the world (Tanzi and Schuknecht, 1997). By removing control of interest rates from the political process, the New Zealand leadership increased the country's chances of achieving economic stability.

Delegation

- When Chile's military junta accepted the judgement of economists and charged them with implementation, they were chiefly concerned with finding the most effective path to reform (Piñera, 1993). Although the government appeared to fully support that group's efforts during the first years of reform, it also shifted some blame onto Finance Minister de Castro, as public protests to the economic situation of the early 1980s became seen as a threat to the regime. Isolating Chile's economic policymakers not only reduced the potential for corruption, but allowed the country's leadership to distance themselves from specific policies when they became politically unsupportable.

Relative autonomy

Political Division

- Prior to the 1973 coup, political support was evenly split between three parties with widely divergent ideological positions. Much of the political turmoil before the coup might well have been expected, considering that Allende's Unidad Popular was elected by only a one percent margin (Frieden, 1991). Resistance to the military regime and its policies was limited in part because Chile's citizens were so divided.

> "Although some sectors expressed concern about the military's policies, and the regime responded to some of these concerns, in general factoral pressures dominated sectoral pressures, and this had substantial effects both on economic policies and on politics" (Frieden, 1991).

When Frieden speaks of "factoral pressures" dominating Chilean politics during the late 1970s, he is referring to class-based identification. Events during the Allende years had so threatened Chile's propertied class that they were willing to support almost any actions that would prevent a return to Leftist politics.

- In the early 1980s, New Zealand's Labour party had been in opposition for nearly a decade; as a result, most of the country's powerful interest groups did not have strong ties with the party. Because it was largely free from political promises, the Labour government was able to approach the reform process with little direct interest group pressure (Bollard, 1993).

Representation

- Many commentators have argued that the key difference of the Chilean experience was the complete elimination of political competition. More important than the unity or isolation of the policymaking team was the absence of criticism of their actions (Bradford, 1993). By centralizing power and eliminating Chile's democratic institutions, the military regime cut off all means of influencing policy processes (Stallings and Brock, 1993). Moreover, the pace at which reforms were implemented was calculated to prevent interest groups from being able to develop strong resistance (Piñera, 1993), or even to "liquidate" those that were seen as inefficient in the new system (Feinberg, 1993).

However, even the power of brutal repression can be limited; fearing it would be unable to control popular dissent in the early 1980s, the Chilean leadership changed economic policy to reduce the impacts of the crisis on the country's poor and middle classes (Bates and Krueger, 1993).

- New Zealand's Labour government typically avoided direct confrontation with union interests, effectively attacking them by neglect. Weakened by a decade of high unemployment, these groups were unable to resist labor reform when it was eventually attempted by the National party government (Quiggin, 1998).

Additionally, the country's "first past the post" electoral laws were changed recently to a system of proportional representation, partly in response to demands for alternatives to the two main parties. However, because it will now be more difficult for any single group to establish a parliamentary majority, it effectively "locks in" previous economic reforms. In this way, broader representation can decrease the impact of reactions to past policy choices (Clifford, 1995; Tanzi and Schuknecht, 1997; Quiggin, 1998).

Limited information

- Former Chilean Labor Minister José Piñera has described his use of the country's popular media to generate support for the pension reforms of 1981 (1993). Yet while mass media can be liberating, inasmuch as it encourages more informed decision-making, in naïve or authoritarian societies, control of communications channels can lead to misuse (Feinberg, 1993). Even groups in relatively open societies with well-educated publics can find it difficult to monitor the record of policymakers. In a repressive system, facing deteriorating political and economic resources, many groups find it difficult to keep themselves and their supporters informed.

Issue salience

- As noted above, during New Zealand's 1987 elections, economic issues were overshadowed by broad public support for the government's anti-nuclear foreign policy. However, division over economic policy remained, even within the Labour party; without other issues to divert attention, the party experienced a "crushing" defeat in the 1990 elections (Quiggin, 1998).

Support for reform

- In the case of New Zealand, the model of an autonomous group of policymakers breaks down somewhat; under the reformist Labour government, cabinet ministers received significant and direct financial support from financial sector interests. This helped to offset the dramatic fall in Labour party membership, from 77,000 in 1984 to 10,000 in 1988[2] (Schwartz, 1991). This decline was especially apparent among the working-class; in 1987, Labour's electoral success was partly based on crossover support from the New Zealand Party, which advocated free-market reforms and an anti-nuclear stance (Quiggin, 1998).

Moreover, it does not seem unreasonable to believe that the general lack of protest to the reform processes of either country may have been interpreted as tacit support. Yet, as I have demonstrated above, the leadership of each country benefited from multiple barriers that limited, or even prevented, resistance to reforms. Some of these barriers were institutionalized, and others required active political repression. Both made the full implementation of reforms easier.

Crises

Many commentators have noted the importance of political or economic crises in triggering reforms. Deteriorating conditions not only alert leaders and policymakers that something must be changed, but inspire a sense of "a need for change," both in small interest groups and the public at large. Generally speaking, the support for change will be reflected in the breadth and severity of the crises impacts (Haggard, et.al., 1995).

- In 1973 Chile, the crisis conditions were felt most acutely by business and propertied interests. After supporting the military coup, these groups became "fervent supporters of almost anything the new government proposed" (Stallings and Brock, 1993: 97). By 1983, conditions had changed somewhat; while the economic elite were still fearful of a return to socialist politics, the military was no longer able to rely on their unconditional support. Thus, when faced with an increasingly agitated public, the government changed course, temporarily side-tracking reforms.

[2] Bollard (1993) estimates this shift in Labour party support from "about 100,000 to about 10,000 members."

- In New Zealand, failure of the National party's policies led to a dramatic foreign exchange crisis in 1984; popular belief in the need for real change meant that Douglas and his supporters were able to implement their program "without regard to community concerns or opposition within the Labour party" (Quiggin, 1998).

Communication

- As noted above, Chile's policymakers sometimes used the popular media to develop support for programs that were not initially supported even within the military government. Discussing such tactics, former Chilean Labor Minister Piñera argued that:

> "You must make your case to the people, even if your policies are adopted by military decree rather than by referendum. At a minimum, economic actors must be informed about the new rules under which they must operate. Policies will not work if they are not understood and… accepted" (1993).

The importance of clear communication carries beyond attempts to rally support. The choice and pace of reforms can "signal" leadership's commitment to the reform process. Inconsistent policies can also communicate contrary messages to both domestic and international actors. Chile's problems in the early 1980s were aggravated by such conflicting incentives; although the government claimed it was pursuing policies to encourage export growth, the crawling peg system caused the currency to slowly appreciation. After the government bailed-out a poorly managed private bank in 1977, financiers believed their interests would be similarly guaranteed. This action, combined with lax regulation and perceptions of future instability of the exchange rate, encouraged speculation and risk-taking (Corbo, et.al., 1986).

However, signaling can also have positive effects—once foreign investors were assured that Chile's return of democracy would not lead to backsliding on reforms, the country experienced a substantial investment boom (Corbo, 1998).

Targeted benefits

- Even Chile's right-wing military government was conscious of the need to mitigate some of the negative effects reforms had on the country's poor. However, such efforts were not necessarily altruistic, but based on political expediency. The relatively small side-payments could diffuse public reactions, enabling implementation to move forward at a more rapid pace. Subsidizing low income groups during the "turbulent period of transition," enabled the leadership to avoid the higher cumulative cost of an extended adjustment (Piñera, 1993). Targeted programs, such as free milk and pre-natal care for pregnant women, received broad public support, lending needed credibility to the regime (Labán and Larraín, 1995).

Demonstrated success

- Although some theorists have criticized New Zealand's specific sequence of reforms, this does not appear to have been as significant as the *credibility* of the reformers. To generate support early in the reform process (both from interest groups and the broader public), Labour party policymakers had incentive to focus on "easy" changes, deferring more difficult issues until later (Easton, 1994). This observation is reinforced by the fact that labor reforms did not occur until the National party reassumed power in 1990.

Inclusion

- Although this essay's opening quote suggests that Chile's President Aylwin was fully in support of the exclusionary tactics of the Pinochet regime, his administration was identified with an increased concern for broader participation in the Chilean economy. This was largely driven by popular concerns about a "lack of social justice," resulting from some of the reforms. Later, in the same interview, he qualified his support for the military government: "the model of an authoritarian opening of the market would have inevitably imploded because of the extremely high social price" (Aylwin, 1993: 7). Even during the authoritarian period, popular reactions to 1983's economic crisis forced the government to switch its policymaking practices; Finance Minister Büchi's approach encouraged consultation and bargaining with special interests. While this approach may have been counterproductive earlier in the reform process, it was seen as essential to making the reforms politically sustainable and fully institutionalized. Once interest groups were allowed into the process, economic growth resumed (Bates and Krueger, 1993).

This "climate of consensus" was continued after the transition back to democracy, though the key principles of the earlier reforms remained at the center. Cooperation between labor, business, and political parties has been seen as crucial to preserving the country's macroeconomic stability (Labán and Larraín, 1993).

Another more subtle policy change has also strengthened Chile's growth, even as it expanding popular involvement in the country's economy. While the pension reforms of 1981 have elevated Chile's savings rate well above that of any industrialized nation (Economist, 1995), an interesting side-effect has been connecting worker interests to the success of the private sector (Corbo, 1998; García and Wells, 1983).

- In New Zealand, policymakers prided themselves on avoiding compromises, based on the argument that such efforts would please no one. Instead, it focused exclusively on solutions that would reduce the level of government intervention in the country's economic activities (McTigue, 1998). Finance Minister Roger Douglas, the most passionate and effective supporter of reforms, regarded consultative processes as "little more than a device to confuse and neutralize opponents" (Quiggin, 1998: 82).

Bureaucratic support

- While still in opposition, representatives of New Zealand's Labour party were able to develop a coherent economic plan with assistance from Finance and Banking (Schwartz, 1991). Once Labour assumed power in 1984, the leadership found significant support for reforms within the government bureaucracy. After decades of being mired in bureaucratic details, many senior staff had "independently formed the view that their most positive contribution would be to minimize their involvement in private investment" (Bollard, 1991). This harmony between the objectives of leadership and public servant attitudes undoubtedly contributed to the successful implementation of reforms.

CONCLUSIONS

Perhaps most importantly, this essay offers further evidence that successful implementation of even dramatic economic reforms does not require authoritarian leadership. Even in Chile, often praised as the best example of this approach, success was not assured until after the return of a democratic governance. Moreover, the country's military rulers were not insensitive to survival of marginalized groups, nor completely immune from public or special interest group pressure. While the success of reforms in Chile may be in large part due to the regime's ability to prevent "capture" of the reform process, they would have surely eventually failed without being embraced by the broader society.

Interestingly, New Zealand offers stronger evidence in favor of the state autonomy theory. Unique features of its governance structures, especially the unicameral legislature and lack of a constitution, offered New Zealand governments a power to direct sweeping changes that rivaled even that of Chile's military regime. Yet while the country's institutional framework certainly facilitated the adoption of reforms, the extreme political insulation enjoyed by the policymaking team was also a feature of their ideological fervor and lack of active political ties. These factors eventually eroded, as Labour's term in office increased, and persons within the party began to interpret the impacts of reform in different ways.

From these case studies, it is obvious that a degree of political autonomy was vital to the successful adoption of reforms. However, such autonomy did not emerge fully formed, nor did it remain constant throughout implementation. Although institutional or historical conditions enabled them to begin the process from relatively advantaged positions, leaders were only able to maintain their power through skillful politics. Moreover, neither country was seen to have fully embraced the reforms, until after new leadership had assumed power without rolling back the reforms. Such governmental transition implies some sense of dissatisfaction with the original leadership, as well as an active push for change. It offers proof of the inability of regimes to perpetually maintain their ability to enact policy with impunity. Thus, while autonomy may be real, it is never apart from politics, and cannot be continued forever.

For policymakers and advisors, it is obvious that much more than economic theory or institutional structure needs to be considered when proposing reforms. Sooner or later, pressure groups will play a role in the process; effective leadership is that which can persuade those groups that reforms are ultimately in their best interests. Those groups are much more likely to agree if they feel the leadership has listened to them and understands their interests.

Moreover, even the most capable policy team is sure to make occasional mistakes; if they are *too* insulated from political opinion, if they are unwilling to modify their efforts in the face of failure, the reforms they attempt are unlikely to be successful. Although interest groups can be expected to press for special favor, they are also often the first to know when conditions turn for the worse. Because successful economic reform requires the ability to adapt, excessive isolation can be counterproductive. Effective leadership is able to include special interests without being dominated by them. This is as true of government bureaucrats as it is of investors, merchants, or social activists.

Finally, these case studies show that reforms cannot happen overnight; regardless of the specific policies, or the pace or sequencing of their implementation, the process will inevitably involve a range of political strategies. Autonomy may be more important during the early stages, while inclusion may become essential for the ultimate consolidation of reform. Lines of communication between reformers and interest groups may need strengthening or be allowed to lapse; understanding this, governments must consider political timelines and their capacity to endure declining support. Skillful leadership may be able to deflect or prevent some criticism, by carefully communicating the form and purpose of reforms.

In this essay, I have shown some of the limitations to the theory of government autonomy, and examples which both support and contradict it. In doing so, I believe I have drawn a more complete picture of reform processes, and shown some of their intrinsically *political* nature. I have also tried to demonstrate that successful reform is not a function of specific institutional structures or power relationships, but depends much more on the adeptness with which politicians are able to measure and balance the needs and demands of both special interests and broader society. In other words, successful reform requires a skillful and capable *leadership* that is able to adapt to changes in the political and economic environment. Success is not formulaic —governments cannot rely solely on administrative skill, expert opinion, or conviction. Wisdom is still the essence of leadership, no matter how sophisticated our analyses may have become.

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