THE POLITICAL ECONOMY OF NEOLIBERAL RESILIENCE

Developmental regimes in Latin America and Eastern Europe

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Acronyms and abbreviations

AWS	Akcja Wyborcza Solidarność, Poland (Solidarity Electoral Action)
BCRA	Banco Central de la República Argentina
BOE	Bank of Estonia (Eesti Pank)
CORFO	Corporación de Fomento de la Producción, Chile (Corporation for Productive Promotion)
COFOG	Classification of the Functions of Government
CPC	Corporación de la Producción y el Comercio, Chile
EBRD	European Bank for Reconstruction and Development
ECLAC	Economic Commission for Latin America and the Caribbean
EE	Eastern Europe
EMU	European Monetary Union
ER	Exchange rate/ exchange rate regime
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GDP	Gross Domestic Product
IMF	International Monetary Fund
IP	Industrial policy
IPE	International political economy
ISI	Import Substituting Industrialization
LA	Latin America
LPR	Liga Polskich Rodzin (League of Polish Families)
NAFTA	North American Free Trade Agreement
NBP	Narodowy Bank Polski (National Bank of Poland)
OECD	Organization for Economic Co-operation and Development
OPZZ	Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions)
PCCh	Partido Comunista de Chile
PDC	Partido Demócrata Cristiano, Chile (Christian Democratic Party)

PEPR	Political economy of policy reforms
PFE	Popular Front of Estonia (Rahvarinne)
PiS	Prawo i Sprawiedliwość, Poland (Law and Justice)
PJ	Partido Justicialista, Argentina
PO	Platforma Obywatelska, Poland (Civic Platform)
PPD	Partido por la Democracia, Chile (Party for Democracy)
PRSD	Partido Radical Socialdemócrata, Chile
PS	Partido Socialista, Chile
PSL	Polskie Stronnictwo Ludowe (Polish People's Party)
RCA	Revealed Comparative Advantages
SDL	Sojusz Lewicy Demokratycznej, Poland (Democratic Left Alliance)
SME	Small and Medium Enterprise(s)
SOE	State Owned Enterprise(s)
SOFOFA	Sociedad de Fomento Fabril, Chile (Society for Industrial Promotion)
SRA	Sociedad Rural Argentina
UCEDE	Unión de Centro Democrático, Argentina
UCR	Unión Cívica Radical, Argentina
UIA	Unión Industrial Argentina
UNIDO	United Nations Industrial Development Organization
UP	Unia Pracy, Poland (Union of Labor)
UW	Unia Wolnosczy, Poland (Liberal Union)
wiiw	The Vienna Institute for International Economic Studies
WB	World Bank
WTO	World Trade Organization

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INTRODUCTION

The 7th of September of 1986 a terrorist attack tried to kill General Augusto Pinochet when he was returning from his country house near Santiago de Chile. Pinochet was worldwide known for having participated in the bloody putsch against Salvador Allende in 1973, and as the leader of the experiment in radical neoliberal policymaking that ensued. A few years earlier he had managed to sack all his competitors inside the military Junta, remaining the strongman of the dictatorship. A radicalized left-wing cell ambushed Pinochet's convoy attacking it with heavy artillery. Five agents of Pinochet's guard were killed and another eleven severely wounded. Pinochet escaped almost unscathed. Two years later, in October 1988, the united opposition with the help of a significant domestic and international pressure defeated Pinochet in a referendum, forcing a return to democratic rule after seventeen years of dictatorship. As democratically elected authorities took office, however, Pinochet managed to remain Commander in Chief of the Army for another ten years, therewith controlling the democratization process. He became lifelong senator in 1998. In September that year, Pinochet was held captive in London under charges of extradition to be judged for crimes against humanity. The British authorities released him two years later under allegations that Pinochet -aged 84 and with visible signs of physical and mental deterioration - could not stand a trial. As Pinochet returned to Santiago, however, he stood up from his wheelchair, greeted his fanatic followers with his walking stick, and walked out of the airport to the astonishment of the local and international press. He lived comfortably in his mansion in Santiago until he died aged 91.

Pinochet's story illustrates, if somehow cruelly, the empirical puzzle that motivates this dissertation: the *resilience* of neoliberalism in Latin America and Eastern Europe, this is, its "continuity (...) over time, its dominance over competitors, and its survival against powerful challenges and rivals" (Schmidt and Thatcher 2013, xvii).[1] Here I understand neoliberalism[2] as a *developmental regime*, this is, as a "comprehensive developmental strategy with economic, social, and political consequences" (Boas and Gans-Morse 2009, 14; cf. Connell and Dados 2014). I contend neoliberalism has remained alive because of the specific economic and political actors that have sustained it, and thanks to particular mechanisms allowing them to maintain their power resources over time. I use the concept of *dominant social bloc* (Amable and Palombarini 2009) to capture the relation between coalitions of economic and political actors, institutions, and neoliberal policies, and that of *mechanisms of neoliberal resilience* to understand the channels by which dominant social blocs have retained their power resources over time.

I. Background

a) Empirical puzzle

In the final decades of the twentieth century rapid and thorough processes of economic liberalization took place at the capitalist periphery, most notably in Latin America (LA) and Eastern Europe (EE). Countries in these regions embarked in societal projects closely aligned with the rise of the Washington consensus and neoliberalism. Already in the mid-1970s the Southern Cone countries of South America -Chile, Argentina and Uruguay- were subject to radical neoliberal experiments under military dictatorships that anticipated the wave of neoliberal fundamentalism in the rest of the world (Foxley 1983; see Fourcade-Gourinchas and Babb 2002). Most countries in the region embarked in comprehensive market reforms[3] under democratic regimes some time during the 1980s (Edwards 1995). Just a few years later, countries in EE were undertaken "the most

[1] The terms 'neoliberal resilience' and 'neoliberal continuity' will be used interchangeably in the text. For a different yet analogous use of the term "resilience" in conjunction with neoliberalism, see Hall and Lamont (2013).

[2] The concept of neoliberalism has different meanings, and different authors have underscored its plasticity. This means that even when it is conceived as a relatively coherent developmental regime in its orientation, and with relatively clear class agents and distributional consequences behind it, it must not be understood as a clear-cut set of policy proposals or blueprints. See Mirowski (2009), Boas and Gans-Morse (2009), Maillet (2013).

[3] I use here "market reforms" and "neoliberalism" as synonyms. According to Boas and Gans-Morse (2009), these tags have been used interchangeably to refer to the same class of phenomena, although from a different standpoint. The term "neoliberalism" is usually employed with a pejorative tone and has been used by those with a critical view on these processes. The term "market reform", on the other hand, has been considered a more neutral one, and thus used by adherents.

dramatic episode of liberalization in economic history" (Peter Murrell in Bohle and Greskovits 2012, 19) in parallel to efforts to (re)construct liberal democracies and nation-states (see Offe 1991; also Bryant and Mokrzycki 2002; Stark and Bruszt 1998; Elster, Offe, and Preuss 1998).

Neoliberalism in these regions represented not just an elite ideology or a more or less successful challenge to established political and economic institutions, but a developmental regime in its own merit,[4] becoming therefore "the institutionalized framework of state policies" (Connell and Dados 2014, 123). Given the wholehearted commitment to radical market reform, countries like Chile and Poland became true poster children of what came to be known as the "new development orthodoxy" (Rodrik 1996, 12–3)[5] and were taken as benchmarks of good practice for the rest of non-advanced political economies in an era when neoliberalism became the only game in town (see Edwards 1995, 53–5; Sachs 1990; also Åslund 1994).

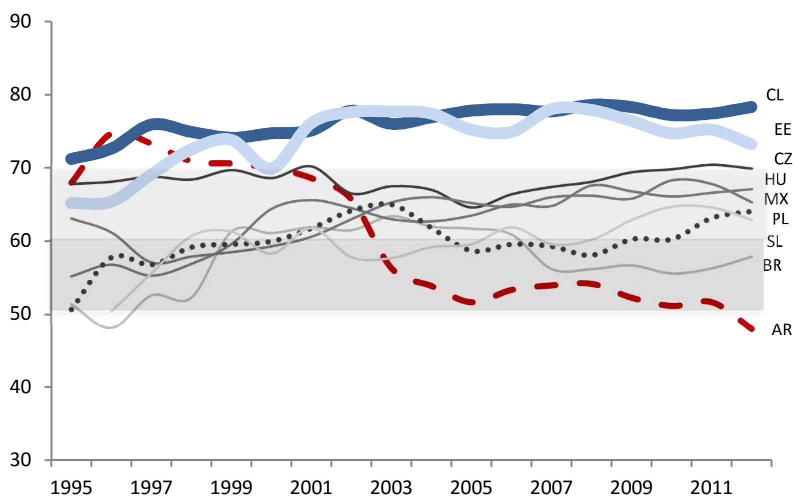
As Karl Polanyi wrote long time ago, conscious attempts at building a market society generate spontaneous societal counter-movements to shelter society from the effects of free markets. In Latin America (LA) and Eastern Europe (EE) these counter-movements came eventually -with or without massive social protests-, and many market-reformed countries shifted over the years towards less orthodox developmental alternatives. Steep and repeated economic crises, the disintegration of industrial and social tissues, growing unemployment and rising inequality sooner or later made authorities slow down the pace of reform or undertake outright policy reversals (cf. for LA Frieden 1991a; for EE Orenstein 2001; also Bohle and Greskovits 2009a). In a number of countries these reversals became so radical that scholars turned their interest from market reforms to the resistance to neoliberalism (E. Silva 2009), the comeback of "state developmentalism" and the rise of a "post-neoliberal" order (Bresser-Pereira 2007; Boschi and Santana 2012; see Rovira 2011), and the radicalization of anti-neoliberal rhetoric and political alternatives (Levitsky and Roberts 2011; Greskovits 2007).

[4] Compare this with the sustained yet gradual effect that neoliberalism has had in advanced political economies (see Streeck 2009; Schmidt and Thatcher 2013; cf. Streeck 2014). Connell and Dados (2014) argue that this difference has affected the way neoliberalism has been conceptualized and researched in the North and the South. Namely, in the north it tends to be pictured as a set of ideas that challenge long-lasting institutional arrangements, while in the south it is much more connected to experiences such as those of the Southern cone countries where class struggles and imposition by force were crucial.

[5] See Williamson (1990) for the policy formulation. See Edwards (1995, 41–65) for a Latin American interpretation.

However, as some analysts duly recall, this should not give the impression that neoliberalism is dead (Rovira 2011, 234; cf. Crouch 2011). It is in fact notable that a handful of countries expose a sort of *neoliberal resilience* that goes far beyond the many nuances introduced over the years. In stark contrast with the rest, these countries have managed to maintain and reinforce neoliberal development regimes over time, despite having been subject to analogous challenges. As Bohle and Greskovits observe, the fact that many countries in EE "significantly diverged from the neoliberal agenda" means that "neoliberalism could not triumph in 'pure' form except in very specific circumstances" (2012, 61). This dissertation intends to disentangle the actors and circumstances that made this possible.

Figure 1:
Latin America and Eastern Europe, Index of economic freedom 1995-2012
(selected countries)



Legend: AR= Argentina, BR= Brazil, CL= Chile, MX= Mexico, CZ= Czech Republic, EE= Estonia, HU= Hungary, PL= Poland, SL=Slovenia.
Source: Heritage Foundation, http://www.heritage.org/index/

Figure 1 offers an indicative graphical representation of the empirical puzzle motivating this dissertation. It shows the Index of Economic Freedom, a measure of "neoliberalism" constructed over a series of indicators assessing neoliberal goals such as the free movement of capital and labor, and minimal government intervention.[6] While most countries follow a pattern of ups and downs over the years staying between the values of

[6] This indicator is based on policy orientations and outcomes. It has been selected over others that show the progress of institutional reform, and where the "developmental regime" content of the indicator was harder to assess, especially in the case of Eastern Europe where all countries were building capitalist institutions. The index here presented has several shortcomings, among which, a lack of coverage of the early 1990s. It should therefore be taken only as a representation of the research problem, and not as a proof of its existence, nor as a case selection technique.

"mostly unfree" (50-60) and "moderately free" (60-70), the trajectories of Chile and Estonia on the one hand, and Argentina on the other, show polar opposite trajectories. While the first two have remained “mostly free” (70-80 points) throughout the period and have shown sustained high index scores (thick lines), the latter (dashed line) descended dramatically from “mostly free” (70-80 points) to “repressed” (40-50 points). How have orthodox neoliberals like Chile and Estonia remained neoliberal over time? What do they have in common and in what respects did they differ from other orthodox neoliberals that switched development strategies over time like Argentina?

b) State of the art

Existing literature presents three main shortcomings to explain this empirical puzzle. First, a lack of conceptualization of policy and institutional reproduction beyond a path dependency framework; second, a too narrow focus on single specific junctures and the consequent inability to capture longer run trajectories; finally, recent research has advanced to cover these gaps but fails to bring them together under a specific concern for the continuity of neoliberal political economies.

During the 1980s and 1990s a set of studies tried to explain the economic, institutional and political determinants of undertaking either radical or gradual reform (Fourcade-Gourinchas and Babb 2002; Balcerowicz 1995; Islam 1993; Hellman 1998) or those of carrying market reforms altogether (Haggard and Kaufman 1992c; Williamson 1994; Bönker 2001; Schamis 1999; Murillo 2001). Issues such as the role of economic crises in creating momentum and tilting the balance of power towards pro-reform political actors (Alesina, Ardagna, and Trebbi 2006; Abiad and Mody 2005), the strength of executives, the cohesiveness of reform teams and their permeability to societal pressures (Nelson 1993; Bönker 2001; Haggard and Kaufman 1995, 163–5), and the timing and sequence of reforms (Ardito Barletta, Bléjer, and Landau 1984; Edwards and Cox 1991, 175–194; Islam 1993; Roland 2002) ranged among the most important questions.[7]

[7] Several works examined the bulk of determinants and tried to establish more parsimonious solutions. See especially the works by Stephen Haggard and Robert Kaufman (1992c; 1995), also Williamson (1994). See also the critical review articles by Barbara Geddes (1994) and Ben Schneider (2004a).

Research on the future prospects of the reformed political economies took the form of a concern over "second-generation reforms", this is, how did countries that introduced a first set of market reforms manage to deepen and/or consolidate them over time (Krueger 2002; Santiso 2003; Roland 2002; O'Dwyer and Kovalčík 2007). The idea was that the politics of the initial period of adjustment was radically different from that of the second period of consolidation. Here, the answers were usually concentrated on politico-institutional elements, this is, the role of specific societal actors and the way institutions affected their ability to either support/participate or oppose/contest the reformed political economies. Yet, the concrete answers were rather contrasting.

According to some accounts, the sustainability of market reforms required the extension of participation to groups previously excluded from decision-making (Santiso 2003; Roland 2002; also Stark and Bruszt 1998; see Przeworski 1991 for an early account) through the implementation of new modes of governance "based on negotiation, coalition-building, and deal-making" (Santiso 2003, 3–4). Joan Nelson (1993, 442) argued for the need to open tax reform and spending priorities to democratic participation. She also advocated social pacts between government, labor and business groups to increase the societal support for the new developmental regime.[8] For others, the sustainability of market reforms depended on the ability of policymakers to allocate rents thereby generating "trade-offs between the losses and gains of specific actors who [were] politically important for the success of adjustment" (Greskovits 1998, 140). The specific measures were designed either to "compensate the losers of reforms", i.e. those actors related to the industries that benefitted from protectionism and state subsidies (their workers and owners/managers) (see Nelson 1992; Greskovits 1998), or to "create winners of reforms" this is, allowing certain groups of actors to reap the benefits of privatization and liberalization (Schamis 1999; 2002).

While posing a set of testable hypotheses to understand neoliberal resilience –most importantly for this research, the role of specific societal actors, the effects of turning points, and the relevance of the politics of compensation-, this literature presents two problems. First, studies of the first-generation reforms were framed under what could be called a *lax understanding of path-dependency as 'early choices matter'* (cf. Greskovits 2000; Pierson 2000, 252). This is, scholars focused in the result of the reform period as if

[8] Ironically, these reforms aimed to "strengthen those institutional foundations of democratic governance that [had] been undermined by first-generation market reforms" (Santiso 2003, 3).

it conduced to an end-state, and little research was devoted to how the developmental regimes once introduced changed over time either reinforcing themselves or engendering new regime patterns.

The literature on second-generation reforms did go a step further by trying to identify the mechanisms of reproduction of the reformed political economies at key turning points. However, it usually concentrated on a specific moment or juncture that marked the persistence or deviation from established neoliberal paths. A longer time perspective reveals, however, that countries –especially those outside the capitalist core- are subject to persistent swings in their development strategies affecting not only policies but complete institutional regimes (see Levitsky and Murillo 2013). As a consequence, while “pacesetters” in market reform can become “laggards” after one period, they can as well recover ground in a second period, only to lose it again later on. One case in point is that of Poland. Poland was the first country in Eastern Europe to break away from communism in 1989 embracing a shock therapy path to a market society. It was therefore often regarded as a benchmark of Washington consensus type of policymaking (Sachs 1994; Balcerowicz 1995; see also Åslund 1994). However, already in the mid-1990s Poland had considerably reduced the pace of further reform, and introduced several "corrections" that made it no longer a free market frontrunner. In fact, by 1995 it could hardly be told that Poland was once a pacesetter (see dotted line in Figure 1 above). Around 2000, Poland recovered ground and climbed once again to the higher positions, only to lose them in the years to come. The most dramatic story is that of Argentina, a country that has been a protagonist of the two waves of market reform in Latin America –that of the 1970s under military dictatorships and that of the 1990s under democratic governments- and has turned towards alternative developmental regimes after a decade or so of neoliberal experimentation in each case (see Veigel 2009; M. Pastor and Wise 2001).

Recent comparative works on Eastern European and Latin American regime patterns have progressed in providing an answer to some of these questions. In their work on EE capitalist varieties, Bohle and Greskovits (2012) identify key decision points that reinforced or modified early choices over time, and highlight the interplay between domestic and international factors in producing both convergence and divergence. They show, for example, that EU accession generated both common and differentiated responses in the four Eastern European political-economy regimes they identify ("neoliberal" in the Baltic states, "embedded-neoliberal" in the Visegrad-4, "neocorporatist" in Slovenia, and the residual "non-regime" of the South-East-European laggards). All countries reinforced state retrenchment and deregulation and became the destination of ever higher FDI flows escaping from high regulatory environments in the European core; at the same time, however, EU accession strengthened or consolidated neoliberal alternatives in the Baltic states and the South-East European countries, while sustaining divergence in the case of the "embedded-neoliberal" and "neocorporatist" regimes. Yet, despite the authors' intention to show regime diversity through "conflicts and compromises between the reform elites" (Bohle and Greskovits 2012, 62) the actual analysis fails to show more systematically how political struggles between competing development projects and coalition-building processes inside each country affected the decisions taken at each turning point.

Conversely, Sebastián Etchemendy's (2012) work on liberalization in Iberian-America analyzes the distributional coalitions that made possible different "models of liberalization". One key aspect the author discovers is that while all liberalized economies shared common aspects, the specific coalition-building strategies that were pursued based on compensation politics led to different political economy regimes. Although the author takes the time to hypothesize what could be the possible consequences of each model of liberalization for the reproduction of the liberalized economies, he does not study them in detail. Moreover, Etchemendy fails to include comparisons of countries that shared similar conditions at the beginning of market reforms, but that ended up generating different models of liberalization, as the cases of Chile and Argentina under the 1970s military dictatorships attest.

Finally, there is a dearth of research addressing the patterns of institutional reproduction in political economies with already widespread liberal arrangements (cf. Peck and Theodore 2007, 755–8) as opposed to the rise of neoliberalism (Campbell and Pedersen 2001) or the patterns of "liberalization" in coordinated market economies (Streeck and Thelen 2005a; Streeck 2009).[9] Following the 2007-8 crisis several volumes have tried to advance in this direction (Crouch 2011; Streeck 2014; Schmidt and Thatcher 2013). With few exceptions, however, these contributions address the continuity of neoliberalism as

[9] Even research on "liberal" market economies such as the US, has focused on its gradual "liberalization" in the last four decades, and the political and institutional mechanisms thereof. See Hacker and Pierson (2010). One exception is Taylor-Gooby's (2001) analysis of the continuity of neoliberal social policy in the UK.

an international regime and its impact on more or less coordinated market economies, rather than on neoliberal political economies per se.

It is necessary therefore to move the research frontier in several directions: to increase the time frame for analyzing processes requiring long time to unfold and reveal their underlying reproduction mechanisms; to re-conceptualize the politics of institutional constraint and choice at crucial turning points, and to better understand the precise type of societal actors involved in the continuity of neoliberal political economies. The following section provides an overview of how I intend to approach these tasks.

c) *Theoretical foundations and scope*

Hall's (1997) distinction between institutions-, interests- and ideas-based explanations in political economy serves to frame the theoretical foundations and scope conditions that underlie this dissertation. Much research has been devoted to understand the ideational underpinnings of market reforms.[10] Strictly speaking, however, ideas-based explanations of market-reform have not questioned the availability of neoliberal ideas in the different reform experiences, but mostly studied the political and institutional factors that conditioned their –better or worse- transmission, enactment and consolidation. On this background, I will consider the existence of reform teams and the availability of neoliberal ideas a scope condition of this study, and not an explanatory factor in itself. This in turn, lends support to pursue a theoretical framework based on the relationship between institutions and interests as the carriers of those ideas (see Gourevitch 1989).[11]

The adoption of neoliberal reforms in Latin America and Eastern Europe constituted a process disruptive enough to affect past institutional structures in the way of a *critical juncture*. This means that institutional and structural constraints were substantially relaxed, while at the same time expanding the range of plausible political choices, and

[10] See for example the works of Mirowski (2009) and Dominguez (1996) on neoliberal ideas and their embodiment by policy technocrats. Valdés (2003), Silva (1991) and Boisard and Heredia (2010) offer good examples for the cases of Chile and Argentina, Bockman and Eyal (2002) for Eastern Europe. See also Undurraga (2014) on the cultural and institutional processes related to the naturalization and legitimation of neoliberal ideas.

[11] For a study of neoliberal resilience using ideas as an explanatory factor see Schmidt and Thatcher (2013). Interestingly, despite the ideational focus of the volume, in the conclusions the authors are forced to recognize that it is difficult to sustain the causal value of ideas without knowing who carries them (interests) and in what context (institutions) (Schmidt and Thatcher 2013, 414).

making the decisions of political actors more consequential.[12] As Bohle and Greskovits (2009b) have stressed, it is contentious to apply institution-based explanations of different reform trajectories to contexts were institutions were in the making rather than established. In the same vein, Levitsky and Murillo (2013) have argued that because institutions in non-advanced political economies are "born weak", they have to face frequent and deep crises as well as regime instability. Therefore, changes in the distribution of power between different actors and their preferences are all the more crucial to explain institutional durability than institutions *per se* (Levitsky and Murillo 2013, 93; 2009, 128). In sum, both the way by which neoliberalism was adopted, as well as the characteristic of institutional regimes in non-advanced economies, seems to lead to a focus on interests and power explanations over -or *in connection with*- institutional ones.

The relationship between interests, power, and institutional continuity and change lies at the core of different institutionalist schools (Knight 1992; Amable 2003; see Hall and Taylor 1996), yet it has received comparatively less attention (Pontusson 1995; see also Streeck 2010a, 36–7; Peck and Theodore 2007, 754–5; Thelen 2012). From this perspective, institutions define the distribution of resources, affect the representation of different actors, and reflect compromises between groups with diverse interests. Institutions not only reflect past political dynamics; they are also modified by ongoing struggles, so that similar institutions may be put to work in very different ways by different political coalitions (Thelen 2012). Neoliberal *resilience* emerges thus in direct connection with the support provided by specific societal actors and the way they manage to make neoliberalism "the institutionalized framework of state policies" (Connell and Dados 2014, 123) for long periods of time.

Interest-based accounts of institutional change have been severely criticized. Critics highlight the less-than-clear translation of interests into policy preferences, and the even less automatic translation of policy preferences into actual policymaking and institutional building (Geddes 1994; B. R. Schneider 2004a; see also Mahoney 2005). Current research stresses that societal actors have to interpret and evaluate their interests and their

[12] On the concept of critical juncture see Capoccia and Kelemen (2007), Collier and Collier (1991), Mahoney (2001). I agree, however, that during critical junctures societal actors do not act in a social void, but resort to social and power structures (Streeck 2010b, 677–9; Thelen 2010, 55) and historical experiences that help them interpret current conditions as liabilities/assets (Bohle and Greskovits 2012; cf. Weyland 2008), and use existing or fading institutional infrastructures to create new ones (Stark and Bruszt 1998).

best strategies in the light of changing contingent situations (Bates et al. 1998; Levi 2002; Katznelson and Weingast 2005). Turning points like economic crises (Gourevitch 1986; Haggard and Kaufman 1995) or key moments of political decision (O'Donnell and Schmitter 1986; Reich 2001) alter the balance of power therefore affecting existing patterns of institutional reproduction (Mahoney and Thelen 2010, 9). These moments need not be the type of large disruptive moments represented by critical junctures, but may be permanent tipping points that have a non-residual effect in terms of the policy context and the ongoing political struggles, potentially making agents seek new strategies and coalitions in the light of the changing circumstances.

Now, by altering the balance of power, turning points not only change the context for policy formation; they also undermine the power resources of different groups therefore limiting their influence on policymaking altogether. In this context, how do societal actors interested in the resilience of neoliberalism manage to remain in power? As Garret and Lange (1996) remind, political institutions not only set parameters for the long-term strategic behavior of societal actors pursuing their policy interests; they are themselves an object of change under certain circumstances. In this vein, political institutions determining the power of different groups –especially those sustaining neoliberal developmental regimes- become critical. I call *mechanisms of neoliberal resilience* the processes that allow specific groups to effectively remain in power in order support the resilience of neoliberal developmental regimes.

Summing up, in this dissertation I will understand neoliberal resilience as a process underpinned by the stability of the actor constellations (economic and political, of domestic and external origin) forming social blocs that support, adopt and institutionalize neoliberal developmental regimes, and defend them at key turning points. Since turning points like economic crises or electoral defeats can alter the balance of power between supporters of and opponents to neoliberalism, neoliberal social blocs need specific mechanisms in order to increase their power resources and remain capable of increasing the resilience of neoliberalism.

II. Aims, research questions and contributions

This dissertation pursues two related research aims. Each of them can be expressed as a series of research questions that guided the investigation process.

The first research aim is to determine what societal actors have formed neoliberal social blocs supporting neoliberal developmental regimes over time. *What constellations of economic and political, domestic and external societal actors are associated with the resilience of neoliberal developmental regimes in Latin America and Eastern Europe? Under what conditions have these actors been able to become dominant in order to establish neoliberal developmental regimes? What have been the policy grounds of their underlying compromises? How have these compromises changed over time?*

The second aim is to determine the mechanisms that are responsible for the resilience of neoliberal social blocs and the developmental regimes they sustain. This purpose refers to both, the continuity of neoliberal developmental regimes as such, and that of the coalitions that support them. *What social mechanisms explain the endurance of neoliberal social blocs through different turning points? How have these mechanisms prevented the opposition from other actors? How have neoliberal social blocs managed to defend neoliberal developmental regimes when they lose power?*

This dissertation fills the research gaps identified above in several ways. First, it offers a longer time frame. This is not intended to "add more observations” to prove relations already analyzed elsewhere; I claim that a longer time frame and a focus on trajectories rather than events allows a better comprehension of processes unfolding over longer time periods such as the crystallization of power structures and institutions, and the embracement or demise of developmental projects (cf. Pierson 2004; Streeck 2014). This longer time frame allows explaining, for example, why the consolidation of neoliberalism in Argentina failed not only under democratic governments but also under authoritarian ones, when the conditions for its consolidation where allegedly higher and similar as in Chile.

Second, this dissertation has a focus on policy. A focus on policy allows studying more directly the relation between interests and institutions. In fact, given that policies have clearer distributional effects, the interests of societal actors for different policy alternatives are more easily identifiable (cf. B. R. Schneider 2004a). Moreover, given that policies can become institutions when they meet certain requirements (Streeck and Thelen 2005b; Pierson 2004) a focus on policy allows looking at processes of institutionalization as a mechanism that is endogenous to the political struggles for neoliberal resilience. Both Chile and Estonia show the importance of the institutionalization of price stability as the core goal of economic policy, building strong institutions such as independent central banks and fiscal rules to prevent departures from a neoliberal developmental regime. However, institutionalization is not always the answer to ensure the resilience of neoliberalism as the Argentine case and its failed currency board regime attests.

This dissertation focuses additionally on two policy domains instead of only one. As some authors have argued, this is a good way to explore the hierarchization of interests by societal actors (Amable 2003), visualize second-best alternatives and the politics of compensation (Etchemendy 2012), and capture processes of institutional change arising from the interplay of "multiple institutions as a source of both tensions and opportunities" (Pierson 2004, 136; see Mahoney and Thelen 2010, 9; Streeck 2009, 17; Hall and Soskice 2001). Societal actors may use alternative –but related- policies as compensation devices to offset the cost of supporting another policy seemingly against their interests. Therefore, what may look as an "irrational" and non interest-conforming behavior, turns out to be a strategic choice in the context of specific situational constraints and opportunities (see Kingstone 2001; M. J. Kurtz and Brooks 2008; Etchemendy 2001; see also Thies and Arce 2009). Societal actors supporting neoliberalism may e.g. temporarily or permanently give up their preferred alternatives in industrial policy in order to defend their preferences in exchange rates which are more directly linked to price stability. This was the case in Argentina in the 1990s, where the utilization of industrial policy as compensation to powerful industries constituted the only way to sustain a renewed neoliberal experiment.

This dissertation offers specific contributions to the literature on institutional development and change in three respects: a more systematic incorporation of interests and power; an enlargement of scope to cover non-advanced political economies; and an exploration of the patterns of institutional development specific to neoliberal political economies.

Regarding the first, this dissertation brings together two strands of literature to enrich historical-institutionalist approaches: the literature on the political economy of policy reforms (PEPR) investigating the relation between political actors and institutions, and the international political economy (IPE) literature studying policy preferences based on structural configurations. Notwithstanding current attempts within the historical-institutionalist camp at incorporating politics into the dynamics of institutional change (see Mahoney and Thelen 2010) "they have little to say about the actors that inhabit these structures and the interests they seek to pursue within and through them" (Thelen 2012, 152). In fact, change agents are treated as abstract categories detached from their historical contexts, and therefore far from the real world capitalist actors pursuing their interests in the context of specific democratic institutions (cf. Streeck 2010b). The PEPR literature offers a set of hypothesis with regards to the role of specific societal actors, the effects of turning points, the relevance of the politics of compensation, and the incidence of political institutions in democratic capitalist societies (see especially Haggard and Kaufman 1995; Etchemendy 2012). These hypotheses are useful as they can be redeployed to understand not only policy adoption, but also policy and institutional reproduction. Moreover, they are sensitive to the particular political and institutional conditions of non-advanced political economies. Conversely the IPE literature offers the possibility to introduce the relationship between economic structure, typical capitalist actors and their policy preferences into the study of institutional development (Gourevitch 1986; Frieden 1991b; Keohane and Milner 1996). One need not share the narrow interest-based and economic-pluralist assumptions of some of this literature to profit from their insights. In fact, there is a significant amount of work that take inspiration on these, but move further to actually explain the effects of economic structures (e.g. production profiles) on the conformation of development actors, and in shaping the developmental prospects of states (see Kurth 1979; Shafer 1994; Greskovits 2005; also Gourevitch 1986). In this dissertation I use production profiles to understand the distribution and structural power of specific economic sectors. Economic structure does not only reflect the resources and capacity to act that different economic actors have; it also sheds light on the dependence of the state -and of incumbent governments- on particular growth dynamics and the political power of different economic sectors thereof.

In terms of scope, several authors have stressed the necessity to broaden current theories of capitalist diversity to regions that have remained largely unattained in the frontline debates (Bohle and Greskovits 2009b; cf. Peck and Theodore 2007, 750). The analysis of two different regions such as Latin America and Eastern Europe together makes it possible to test the argument about the determinants of neoliberal resilience in two contexts with important variations, therefore, making it more robust (see below). The study of non-advanced political economies is moreover useful to understand the processes of neoliberal resilience within the broader picture of capitalism as a world-system. This echoes recent calls that stress the necessity to study capitalist diversity within the framework of the commonalities of capitalism as an institutionalized social order (Streeck 2010a; 2010b; Peck and Theodore 2007). This dissertation is a contribution to the study of the common effects yet diverse responses that the processes of international economic and political integration have in individual countries, and how these are affected by domestic dynamics of institutional building. Now, as Levistky and Murillo (2005, 14) have emphasized, in a majority of countries in the world what is 'normal' is a context of institutional weakness, and not that of relative institutional durability as in advanced countries. Consequently, studies of non-advanced political economies drawing on this caveat are allegedly more representative of how institutions work in most parts of the world.

Finally, this dissertation sheds light not only on general patterns of institutional development and change, but those specific to neoliberal political economies. As Roberts has highlighted (2013; see also Mahoney 2001) a more orthodox as opposed to a reformist or pragmatic implementation of neoliberalism is consequential for the dynamics of support and contestation of the political-economy regimes that ensue. This means that countries that have undergone extensive neoliberal experiments have patterns of reproduction and change that differ markedly from those observed in countries were neoliberal reforms were adopted only half-heartedly. In this dissertation I show that the resilience of orthodox neoliberalism has depended to a great extent on the ability of neoliberal societal actors to constrain the power resources of those actors that would oppose it. In this sense, orthodox neoliberalism has not remained over time thanks to a progressive inclusion of the "losers of market reform"; to the contrary, it has rested on exclusionary politics and institutions that have had serious consequences for the democratic polities in which neoliberalism is embedded.

III. Methodology

a) Research design

The research questions of this dissertation are answered through a small-N study drawing on the tradition of historical comparative analysis (Skocpol and Somers 1980; Mahoney and Rueschemeyer 2003). This research design answers the necessity to study institutional development and change in comparative perspective (Pierson 2004, 140; van der Heijden 2010), as well as the need to enlarge regional studies in Latin America and Eastern Europe to cross-regional research (Juliana Martínez, Molyneux, and Sánchez-Ancochea 2009; Nölke and Vliegenthart 2009, 694).

Current small-N comparative research has tended to combine comparative and within-case methods to sharpen the determination of causality (see especially Mahoney 2003). [13] While comparative methods help to identify relations, eliminate causal factors and rival hypotheses, and isolate necessary and sufficient conditions, within-case methods help to strengthen the validity of the comparative exercise by examining causal links in the individual cases (George and Bennett 2005, 160; Mahoney 2003, 363–365; Collier 2011, 824). More significantly, within-case methods provide an alternative to substitute the "degrees of freedom" problem of small-n comparative research related to the low number of cases and the high number of explanatory variables. Peter Hall (2003; see also George and Bennett 2005), asserts that such combination of methods offers the best way to address research problems which are ontologically constituted by complex and non-linear historical processes, conjunctural and multiple causation, as well as repeated interaction between strategic actors and decisions that accumulate and are consequential over long stretches of time.

In analytical terms, the more or less contemporary transformations of LA and EE from authoritarian to democratic regimes and from *dirigiste* political economies to free-market ones during the 1980s and 1990s marks a substantive common point of departure for comparing the national as well as regional trajectories of institutional development (see Przeworski 1991; Schmitter and Karl 1994; Greskovits 1998; see also Stark and Bruszt

[13] This came as a response to critiques, among which, that of a too deterministic understanding of causation and the lack of unit independence (Lieberson 1991; see also Goldthorpe 1991).

1998, 4; for the opposite argument, see Bunce 1995; Mainwaring and Pérez-Liñán 2007). These regions also share an equivalent position in the international political economy in terms of the dependence on capital flows and their peripheral incorporation into transnational integration regimes, presenting a similar set of enabling and constraining factors for domestic political agents to lead developmental projects (Bruszt and Greskovits 2009; Bruszt and McDermott 2009). Comparative studies of LA and EE drawing on these grounds include i.a. the political economy of policy reforms (Nelson 1993; Przeworski 1991), democratic consolidation and political dynamics (Linz and Stepan 1996; Greskovits 1998; Bruszt 2006), patterns of economic performance and social inclusion (Bruszt and Greskovits 2009), and the interaction between domestic and external actors in development politics (Pop-Eleches 2009).

b) *Research methods*

In this study I compare the trajectory of two policy domains, exchange rates and industrial policy, in four countries, Argentina, Chile, Estonia and Poland.[14]

The within-case part of the study applies process-tracing methods. Process-tracing has been identified as the main technique in qualitative historical research to identify and test causal mechanisms, this is, the mechanism or "process whereby relevant variables have an effect" (Hall 2008, 306; see also Hall 2003; George and Bennett 2005; Beach and Pedersen 2012). The number of definitions of process-tracing that are available in the literature makes it necessary, however, to specify the variant of the technique that is used as well as its specific use for the stated research purposes (see Trampusch and Palier 2013). In this study, process tracing is used in two steps. In a first step, an inductive variant of process tracing (Beach and Pedersen 2012; Trampusch and Palier 2013, 6) helps to explore the relationship between societal actors and policy regimes in the individual cases. Process tracing helps identify relevant economic and/or political turning points that could have affected the trajectory of neoliberal developmental regimes in each country, identify relevant actors supporting/opposing neoliberal exchange rates and industrial policy, and their chances to form coalitions. Process tracing allows here not only to approximate the actors' policy preferences, but also the negotiations surrounding

[14] For a justification of the selection of policies and countries, see below.

reform processes, and the grounds on which political compromises were formed. A theory-testing or deductive variant of process tracing (Beach and Pedersen 2012; Trampusch and Palier 2013, 6) is used in a second step to elaborate mechanisms explaining the persistence of neoliberal regimes and their supporting actor constellations. Undet these considerations, in Chapter 1 I derive a set of theoretically-driven expectations that help to empirically assess the causal link between these mechanisms and neoliberal resilience.

Conversely, comparative methods are used to analyze the formation of dominant social blocs and their adoption of neoliberal developmental regimes, and the causal power of different mechanisms of neoliberal resilience, in the context posed by two world regions: Latin America and Eastern Europe. The comparison between cases in LA and EE provides grounds to assess the formation of neoliberal power blocs and the operation of the mechanisms of their reproduction with two specific contextual variations that may affect them[15]:

1) Class structures and interest-groups. Differently from LA, EE class structures have been built anew after decades under communism. The formation of new interests affecting the constitution of both the polity and the economy –and in some cases the nation-state itself- has been a *sui generis* process (Ost 1993; Eyal, Szelényi, and Townsley 1998) that may affect the weight of political and economic actors, internal and external interests, and the composition of power blocs.
2) Transnational integration regimes. Latin America and Eastern Europe have historically been at the periphery of two competing influence zones, the U.S. and Western Europe. At the end of the 20th century, these hegemons launched their own projects of international integration (NAFTA, EU) that involve institutional as well as economic incentives that may affect the policy preferences of domestic actors, the way alliances are formed, and the way these are reproduced (Bruszt and McDermott 2009).

To carry the comparative exercise I take inspiration from Mill's methods of agreement and difference (see Mahoney 2003, 341–3; Skocpol and Somers 1980, 183–7). The

[15] For an account of how context affects different explanations, with especial focus on causal mechanisms, see Falleti and Lynch (2009). For an empirical application see Trampusch (2010).

method of difference consists of a comparison of units that share similar background conditions (i.e. are located in the same region), but differ in the outcome (neoliberal continuity vs. discontinuity). Hence, those hypothesized factors (particular combinations of actors, mechanisms of resilience) that are present only in the case with the positive outcome are said to be causally linked to it. The method of agreement compares units that differ in background conditions (i.e. belong to different regions), but present the same outcome: neoliberal continuity. Here, the presence of the hypothesized factors (coalitions and mechanisms) in the cases with positive outcome confirms the link between causes and outcomes, despite the different context in which the link takes place.

c) *Case selection*

The universe of cases is composed of middle/high-income countries in Latin America and Eastern Europe who enacted radical economic reforms in coincidence with major political transformation in the last decades of the twentieth century. This leaves outside of this study those countries where neoliberal reforms were adopted only gradually, as well as those were economic reform took place without changing their political regime e.g. remained competitive-authoritarian regimes. Drawing on the literature on political economy of policy reform, case selection has considered a further set of background conditions that may affect policy reforms so as to make initial conditions more similar. These conditions are: 1) political regime, and 2) economic crisis. The table below shows possible cases classified by variation in the outcome and variation in the background context.

Table 1:
Case selection options

Latin America		**Eastern Europe**	
Continuity	*Discontinuity*	*Continuity*	*Discontinuity*
Chile	Argentina	Estonia	Poland
	Uruguay	Latvia	Czech Republic

Four cases were selected to form paired comparisons: Chile and Argentina in LA, Estonia and Poland in EE. All these cases share the fact that neoliberal developmental regimes were enacted following political regime changes, as well as hyperinflationary crises. In all of them, moreover, these regimes combined exchange rate stabilization and structural reforms that dismantled previously interventionist states and industrial policy. In the case of LA, Argentina is selected over Uruguay given the similarity of the developmental regime -and the respective actors- previous to the neoliberal experience with that of Chile, and the extent of the political and economic crisis that triggered neoliberal reforms (cf. Kaufman 1990; Foxley 1983). In EE, Estonia represents the most advanced reformer and the leader to be followed especially in terms of macroeconomic stabilization (see Bohle and Greskovits 2012, 97; 124–31). Conversely, both Poland and the Czech Republic were conceived as cases of orthodox neoliberalism at the beginning of their transition paths, but have gradually moved to a more embedded developmental regime with the years (see Orenstein 2001; Bohle and Greskovits 2012).[16] I select Poland in place of Czech Republic because the latter was not in a situation of economic crisis at the time of the transition nor did it suffer from hyperinflation, and because unlike the Czech Republic, in Poland as in Estonia, extrication from communism followed a pattern of negotiation between old communist and new democratic elites.

Following the periodization in Collier and Collier (1991; also Mahoney 2001) and their application to neoliberal reforms by Roberts (2013), I have identified four periods to analyze the formation of dominant social blocs, the adoption of neoliberal policy regimes, and the operation of mechanisms of neoliberal resilience in LA and EE: *reform*, *aftermath*, *consolidation*, and *heritage*. Each period involves common external constraints for countries in each region, and is punctuated by a political or economic turning point –or both. In terms of inter-regional comparison, the periodization here presented allows the comparison of distinctive regional processes, as well as cross-regional coincidences.

For LA the periods roughly coincide with each decade from the 1970s to the 2000s. The *reform* period starts with the neoconservative military projects of the Southern Cone in the 1970s, and ends with the financial distress that inaugurates the decade of the debt crisis in the early 1980s. The *aftermath* period corresponds to the 1980s, is marked by a setback on market reforms, the debt crisis, and ends with government changes after the first democratic elections or transitions to democracy after long authoritarian experiences

[16] This said, it is necessary to acknowledge that neither of the two countries can be regarded as a case of a true departure from orthodox neoliberalism and of the presence of an alternative to it. The less than perfect conformity of case selection criteria with actually existing cases is a pervasive problem in comparative research and this dissertation is certainly not an exception. As it will become clear in the analysis, however, the explanation for the inability of Poland to present a starker departure from neoliberalism, as was the case with Argentina, falls within the research puzzle that this dissertation intends to respond to.

in the late 1980s-beginning of the 1990s. The *consolidation* period captures the era of the Washington Consensus, and ends with the contagion effects of the successive crises of emerging economies (East-Asia, Russia, Brazil, Turkey, Argentina). Finally, the *heritage* period covers the 2000s, is characterized by the commodity boom and a left-turn in politics, and ends amidst the 2007-8 financial crisis.[17]

In EE, the *reform* period goes from the dissolution of the communist regimes, the Roundtable talks, and the transition to democracy and the market in the late 1980s, until the elections that followed the first democratic governments; the *aftermath* period covers the short period in the mid-1990s when the second democratic government takes office, until the effects of the Asian-Russian crises on EE economies at the end of the decade; the *consolidation* period covers the late 1990s until the burst of the 2007-8 financial crisis. This period is characterized by the proceeds of EU and EMU accession; finally, the *heritage* period covers the responses to the 2007-8 financial crisis.

d) Operationalization: indicators, measurement and data management

In this dissertation I study two policy domains as indicators of the trajectories of neoliberal developmental regimes: exchange rates and industrial policy. The importance of exchange rates[18] and industrial policy for a developmental regime stems from their ability to tackle two essential politico-economic goals, price stability and industrialization, which decisively affect the chances of international economic integration of non-advanced political economies (see Bradford Jr. 1990; see also ECLAC 2012). In this sense, they constitute not only economic policy options, but choices that

[17] The analysis for Latin America doesn't cover the effects of the 2007-8 crisis. Although considered as the most important crisis after the 1929 great crash, for several reasons this crisis did not have significant and consequential effects on the Latin American economies (except for Mexico because of its tight links with the USA). One reason is that they did not make part of the financial circuits of the advanced capitalist economies as had been in previous financial crises originating in the developing world. In fact, the crisis mostly hit Latin America through the real economy, reducing trade links. Second, Latin America did not suffer greatly from the credit crunch that followed because governments had accumulated big fiscal surpluses thanks to the commodity boom of the 2000s. Unlike previous crises, Latin American governments were in a particularly good position to use fiscal expenditure to offset the effects on economic activity and unemployment. In fact, Végh and Vuletin (2014) argue that after many boom-bust cycles, Latin American governments may actually have learned how to master counter-cyclical policy. See also ECLAC (2010).

[18] Policy decisions on exchange rates are made on two issues: exchange rate regimes and the level of the exchange rate. In this study I consider the main policy choice that of exchange rate regimes. As wil become clear in Chapter 1, exchange rate regimes are usually associated with certain exchange rate levels, so that the two are closely related.

shape the organization and structure of the political economy as a whole, as well as the benefits received by different societal actors (see Frieden 1991b). In fact, the two are often thought and used in combination in different development strategies (see Bradford Jr. 1990; Copelovitch and Pevehouse 2013; see also Broz and Frieden 2006, 595). In an era when policy options have turned to the neoliberal side and when actual alternatives have faded in key policy domains such as fiscal and monetary policy, exchange rates and industrial policy –in that order- become crucial components of distributional and partisan struggles.

The identification of policy alternatives associated with specific policy regimes allows analyzing the degree to which neoliberal developmental regimes remain resilient or take a different shape. To measure this I identify different policy alternatives and classify them according to the policy goal they pursue, price stability or national competitiveness-cum-industrialization (see chapter 1). Each policy alternative is associated with a particular policy goal, leading to a specific developmental regime: price stability with neoliberal regimes, industrialization with embedded regimes, and a combination of both with embedded-neoliberal regimes. Following the insight of Hall (1993; see also Pempel 1998; Amable and Palombarini 2009) while policy alternatives and their parameters can change without altering the development strategy at stake, modifications that entail changes in policy goals constitute true shifts in developmental regimes. Consequently, I consider that a country is a case of neoliberal discontinuity when exchange rates and/or industrial policy fall into the domains of an embedded regime.

With regards to exchange rate regimes, I use the IMF 1998 de facto definitions (Bubula and Ötker 2002), and follow Frieden, Ghezzi and Stein's (2001) aggregation of policy alternatives based on the policy goals they pursue.[19] With regards to industrial policy, I consider two policies that affect the patterns of sectoral growth: 1) expenditure in economic affairs as reported in COFOG public expenditure data, especially those related to subsidies and capital transfers (Obinger and Zohlnhöfer 2007)[20], and 2) tariff rates. While the term industrial policy seems to apply specifically to industry, I assume a lax

[19] See details in Annex 1.

[20] Data on public expenditure are extremely difficult to compare because they often refer to different aggregations of levels of government. In this study, cross-regional data on public expenditure *are not comparable*. Data on expenditure is comparable at the regional level for Eastern Europe. For South America it is strictly speaking comparable from 1990 and only for data showing shares of sectoral spending on economic affairs expenditure. For details, see Annex 1.

definition that allows including also other sectors (e.g. agriculture) as a recipient of benefits.[21]

With respect to the societal actors that support neoliberal policies, in this dissertation I distinguish between economic and political actors, domestic and external. Sectoral analysis helps to quantify the structural connection between economic sectors and the state, as well as their crucial role in economic performance. Using data on value added I draw production profiles for each country in every period under study. The strength of a sector is based on a combination of their share in total value added and the growth of that sector in the respective period, which allows the identification of *leading sectors*. In the analysis I show the main sectors as well as their composition in terms of specific industries or segments. To determine the patterns of domestic or foreign ownership in each sector I use data on foreign direct investment (FDI) stocks and inflows. Finally, for labor I use data on union density and institutional characteristics –level of bargaining and coordination of wage setting.

The quantification of the strength of different actors is done in the following way.[22] In relation to *capital*, I established four main economic sectors as relevant political actors (see chapter 1): financial (finance and real estate), public utilities (electricity, water and gas, transport and communications), competitive and non-competitive. To identify which specific *segments* belong to the competitive and non-competitive groups, I conducted a Revealed Comparative Advantage (RCA) analysis (see annex 2). This analysis has been widely used to compare trade specialization patterns (Bekerman and Dulcich 2013; see especially Durán Lima and Álvarez 2011) and to understand sectoral specialization in connection to varieties of capitalism approaches (M. R. Schneider and Paunescu 2012). It allows assessing the competitiveness of different tradable sectors taking into consideration the relation between the weight of a sector in a country's export basket as compared to the weight of the same sector in world's exports. This analysis allows avoiding an a priori definition of sectors, permitting their identification in specific periods and also their change over time.

[21] In many non-advanced political economies the agriculture sector and related manufacturing industries (e.g. food industry) are the engines of economic growth. Recent research has discovered that the politics of subsidization and protection of industrial and extractive sectors such as agriculture are similar (Thies 2014).

[22] For a specification of quantitative data sources and notes on data management, see annex 1.

In relation to political actors, I distinguish political parties[23] in a right-left continuum in terms of their policy preferences this is, whether they support market or state-based policy alternatives. This classification raises a number of issues with regional specific consequences, most notably, the difference in party systems among countries and regions and the different meaning of the right/left label.[24] More specifically, not all party systems are arranged on programmatic lines, and not all programmatic cleavages are necessarily socioeconomic (see for EE Kitschelt 1995; Grzymała-Busse 2001). This research shows, however, that both exchange rates and industrial policies have an importance such as to make political parties express their policy preferences for them. To locate parties in the right-left spectrum I use the literature's evaluation of their general economic policy preferences, and also newspaper articles and interviews to provide evidence of the main parties' specific preferences on exchange rates and industrial policy. Along the text I introduce the necessary nuances to understand the context on which parties can be assigned to right and left. As will become clear, these "deviations" from a clearer left-right continuum do not necessarily affect the analysis and allow making the conclusions more generalizable to countries with different party systems.

Data collection for this dissertation came from official data, an extensive use of secondary information (specialized literature), selective analysis of official documents and newspapers, and interviews with policymakers. Details on quantitative data can be found in Annex 1. With regard to newspaper articles, I made a selective analysis based on the Lexis Nexis database. Two countries received special attention through local newspaper databases, Poland (*Gazeta Wyborcza* archive) and Chile (*Cuadernos CENDA* archive).

Interviews were conducted in order to make sense of the observed processes in the individual countries, to understand policy preferences and strategic actions, as well as for triangulation of the information gathered through other means (Tansey 2007). Interviews did not follow any sampling method, but were conducted according to the possibilities of access of the researcher and the questions that arose during the research process. A total of fifty interviews with key actors (policymakers, business and union leaders), and local

[23] In consideration of time and space constraints, this dissertation did not study more deeply the sources of parties' societal support and their relation to neoliberal resilience. It remains thus as a promising area of future research. For an analysis over these lines, see Amable, Guillaud and Palombarini (2011).
[24] For alternative conceptualizations of the right/left divide, see Luna and Rovira Kaltwasser (2014), Flores-Macías (2012).

policy analysts in the four countries ranging from 40 minutes to two hours was used as a source of information for this dissertation (see annex 3). In order to protect the integrity of interviewees, quotes from interviews are reported anonymously. A handful of interviews from Argentina were facilitated by the Archivo de Historia Oral (AHO), at the Gino Germani Institute.

IV. Outline

This dissertation evolves in the following way. Chapter 1 exposes the analytical framework that serves to study the selected cases. It develops the characterization of exchange rates and industrial policy into policy regimes (neoliberal, embedded-neoliebral, embedded), reviews the policy preferences of economic and political actors, and offers a set of relations between social blocs and their preferred policies, as well as a survey of the contexts that affect policy formation. In a second step I elaborate a theory of how dominant blocs manage to maintain themselves in power and reproduce neoliberal developmental regimes. I develop three mechanisms of neoliberal resilience, *support creation*, *opposition blockade* and *constitutionalized monetarism*, and establish hypotheses with regards to their visible effects to be contrasted in the empirical chapters.

Section I opens the empirical part of the dissertation. Chapters 2 to 5 are dedicated to the most-similar case comparisons (Argentina and Chile, Estonia and Poland). They analyze the policy preferences of relevant actors, how and what coalitions of actors and dominant blocs are formed, whether and how turning points alter the balance of power, and what are the subsequent trajectories of both actor coalitions, and exchange rates and industrial policy. Each chapter of this section contains a political context that sets the limits for the formation of such coalitions, and is divided into periods characterized by specific economic constraints on policymaking. Chapters 2 and 3 analyze Latin American cases under authoritarian and democratic regimes respectively. Chapters 4 and 5 analyze Eastern European cases in the transition from communism and the accession to the European Union respectively.

Section II continues the empirical section with the comparative analysis of the mechanisms of neoliberal resilience exposed in Chapter 1. Chapter 6 is dedicated to *support creation*, Chapter 7 to *opposition blockade*, and Chapter 8 to *constitutionalized monetarism*. Each of these chapters offers evidence of the operation of the respective mechanism in terms of neoliberal resilience in the cases of continuity (Chile and Estonia) following the hypotheses drawn in chapter 1. These are contrasted with the inexistence or "malfunctioning" of the same mechanisms in the cases of discontinuity (Argentina and Poland). The conclusions of these chapters serve to put the three mechanisms into relation, and assess their distinct contribution to neoliberal resilience.

In the conclusion I briefly review the findings already exposed, and elaborate the consequences these findings have for our understanding of the relation between interests and institutions, and of the observed development trajectories. I close with a reflection of what are the consequences of this research for the study of the relation between capitalism and democracy under neoliberal developmental regimes, and the future of democratic capitalism.

CHAPTER 1

INTERESTS, INSTITUTIONS, AND THE STUDY OF NEOLIBERAL RESILIENCE

This chapter provides the theoretical and analytical background that will be used in the empirical sections to analyze the trajectories of Argentina, Chile, Estonia and Poland. In doing so it provides not only the general theoretical thrust of this dissertation and the literature in which it is inserted and aims to contribute to. It also provides specific analytical clues that will serve to organize later on the empirical material and analyze it subsequently.

The argument combines interests and institutions in order to capture the political economy of neoliberal resilience. In a nutshell, economic and political actors with preferences for price stability-driven exchange rates (ER) and neutral industrial policy (IP) form enduring social blocs under particular economic and institutional conditions. These blocs, in turn, are destabilized by recurrent turning points where alternative social blocs may emerge and contend existing policies and institutions. Dominant social blocs manage, however, to remain powerful thanks to the operation of specific mechanisms that allow maintaining their power resources and therefore their ability to affect policymaking in the direction of continued neoliberal resilience.

I construct my analytical framework combining three major strands of literature. The literature on international political economy provides a set of relations between particular actors, their interests, and their connection to policy preferences. I include a review of neo-marxist approaches that permit a more substantive understanding of the longstanding coalitions societal actors form, and the relation between business and politics. Second, the literature on the political economy of policy reforms in Latin America and Eastern Europe offer insights into the strategic actions different groups undertake to foster economic policy reforms. This literature puts a special emphasis in identifying groups of actors, their coalitional possibilities, and the institutional contexts on which these can develop. Finally, I incorporate the literature on institutional change analyzing mechanisms of change and their determinants, highlighting the differences between path-dependency and gradual change arguments, and offering a middle way to understand neoliberal resilience combining both. In this context, I add to existing theories of institutional change a special consideration for business sectors (not only policymakers and political parties) and the structural bases of their veto power.

The chapter is organized in the following way. In the first subsection I explore the concept of developmental regime and expose the way it helps bringing together a consideration for interests, institutions and policy. From this starting point I develop further concepts that allow capturing the nature of the relation between specific economic and political interests, the formation of social blocs and the adoption of policy regimes with concrete policy alternatives in exchange rates and industrial policy. I present an analytical summary that links actors, preferences and policies into a matrix of possible coalitions to be used as a set of empirically observable expectations. The second subsection allows me to introduce variation in an otherwise too static and deductive analysis of interests and policy preferences. I present therefore the idea that the exposed relations are sought in specific contexts characterized by enabling and constraining factors. These factors influence not only the type of coalitions that are fraught, but also the availability of different policy options, and therefore, the strategies of different groups. Finally, in the third section I analyze more specifically how institutions affect coalition and policy formation. I develop what I call *mechanisms of neoliberal resilience*. Three such mechanisms are elaborated with a set of theoretical expectations to test empirically and explore the causal contribution of each mechanism to neoliberal resilience.

I. Developmental regimes and dominant social blocs

In the introduction I laid down the scope and thrust of the theoretical concerns this dissertation faces using Peter Hall's (1997) distinction between ideas, interests and institutions. The concept of *regime* proposed by Pempel (1998) captures the ensemble of relations I focus on, i.e. those between interests, institutions, and neoliberal policies, and allows having a comprehensive approach to the problem of neoliberal resilience. According to the author, a *regime* refers to the "shape, coherence, consistency and predictability of a country's political economy over time" (Pempel 1998, 20). The concept is also close to the idea of institutions as regimes proposed by Streeck (2009; Streeck and Thelen 2005b), where institutional reproduction and change derive from its embeddedness in a societal context where actors with conflicting interests coexist. Regimes, according to Pempel, are characterized by a socioeconomic alliance, arranged under specific political institutions, which foster a particular public policy profile. A regime becomes *developmental* when the set of relationships is arranged in a way to foster catch-up with advanced capitalist nations through a specific political and policy formula (Pempel 1999; see Wylde 2012). Developmental regimes are therefore to be distinguished from *developmental strategies*, which refer only to their policy component, and from *developmental states*, which express the specific variant of a developmental strategy steered by the state bureaucracy (see Pempel 1999). They are also distinguishable from *international regimes*, i.e. the set of rules and norms that create expectations in the domain of international relations (see Ruggie 1982).

Now, while useful to grasp this set of relations and convey the scope of this research, the concept becomes more blurry for analytical purposes and remains subject to a pluralist or society-centered explanation. More specifically, it doe not succeed in capturing the specific nature of the socioeconomic alliances that lie in its base, especially the relation between economic and political actors in political economies marked by the concurrence of two distinctively but intricately institutionalized social orders: capitalism and democracy (see Streeck 2011; 2012).

Antonio Gramsci (2000, chap. 6) tried to conceptualize this relation in terms of a *historical bloc*, this is, as a more or less organic relation based not only on material circumstances i.e. a confluence of interests, but also on a common ideological superstructure that allowed dominant classes to retain state power. Historical blocs share policy preferences based on common interests, but the relation of social forces they entail go beyond the sole aggregation of interests. Nicos Poulantzas (1968; 1971) moved –not without criticisms (see Laclau 1975)- to try to conceive the relation between capital and the state as a conflictual one, and to conceive the class support of the state itself a contradictory ensemble of social forces. In this context, he introduced a distinction between class power and state power that attempted to assert the relative autonomy of the state from its class support base without it being conceived as a completely autonomous apparatus. In this sense, public policy becomes a function of the classes supporting a special formation of the state, but without transparently translating class interests, and with considerable internal conflict. Most interesting for this dissertation is Poulantzas' treatment of the concept of *power bloc* and the analysis of how different class fractions may participate in it (Poulantzas 1971, II:62–9). On the one hand, he distinguished a *hegemonic fraction* whose interests –presented as common interests- lead those of the power bloc and provide the general thrust for a specific form of the state and of public policy; on the other, he distinguished an *allied fraction,* which does not necessarily make part of the power bloc and does therefore not fully benefit from the existing form of the state, but may forge a compromise with the power bloc on specific political or economic domains. Contemporary readings of Gramsci and Poulantzas have introduced the concept of *dominant social bloc* (Amable and Palombarini 2009), which intends to capture the particular role of political parties as mediators between conflicting economic interests and a public policy formula as the outcome of a compromise. In this sense, political parties in power are given a specific value due to their dual partisan as well as electoral interests.

The concept of dominant social bloc allows concentrating in the socioeconomic alliances underlying a developmental regime and establishing certain expectations about their functioning, not as aggregation of interests, but as enduring coalitions between economic and political actors with similar but not entirely coincident interests, based on a particular public policy formula. Thereby, while avoiding an analysis centered purely on societal interests, it does maintain at its core the structural relation between capital and the state in capitalist societies, highlights its conflictual nature, and makes it possible to focus on the underlying compromises between specific economic and political actors.

Now, what is the relation between economic and political actors inside a dominant social bloc? There are two -not exclusive and potentially reinforcing- main channels of business influence over elected politicians: structural power and instrumental power (Fairfield 2010; see Bernhagen 2007, chap. 2 for a review). Structural power is related to the dependence of the democratic state on economic performance, which in turn rests on continued investment by capital (Lindblom 1982; Swank 1992; Streeck 2011; 2014).

Capital enjoys in this relation a privileged position since it can make disinvestment threats when it perceives that certain government actions, including economic reforms, affect its interests. In the classic formulation by Kalecki (1943), capital periodically conveys a "business confidence" level so that governments can readily read business preferences for certain policies, thus *de facto* constraining the policy agenda. Governments faced with credible investment strikes will therefore refrain from conducting reforms perceived as hurting capital interests, and therefore, economic activity and employment. Sectoral analyses have further elaborated this structural dependence link, finding a close relation between the leading economic sector, state revenues, and a government's foreign and trade policy (Shafer 1994; Kurth 1979; see also Swank 1992, 39; O'Donnell 1973, 55). Moreover, according to these analyses, sectoral composition put a structural constraint on the choice and the probability of success of public policy (Shafer 1994).

Instrumental power, on the other hand, refers to the ability of business to affect the legislative process (e.g. Schoenman 2005; McMenamin 2004). The more direct connection between business and politics in this variant is a partisan link e.g. between right-wing parties and business constituencies. Other connections include the recruitment of business to government positions (and the reverse co-optation of politicians to management positions in companies and business associations), and the establishment of concertation institutions with exclusive participation of business actors. Instrumental power can either help business get concessions during the policy process or constrain the policy agenda as executives anticipate that certain policy areas might entail major political battles with business representatives.

What specific political and economic actors count to analyze dominant social blocs? And what are the underlying interests that serve as a first building block to form enduring social blocs? Drawing heavily on international political economy literature in the following sections I will survey economic and political actors under democratic capitalism, construct a map of policies and regimes, and link actors to policies through their interests. This will allow me to establish a set of expectations with regards to the relevant actors and their chances to form social blocs leading neoliberal developmental regimes that will be useful to organize and analyze the empirical material in section I. This set of fully deductive propositions will be softened later in this chapter through the introduction of the contexts that affect interest-, policy- and coalition-formation.

a) Actors

I identify three distinctive actors that are relevant to understand the formation of dominant social blocs in non-advanced political economies (cf. Amable and Palombarini 2009): business divided by sector, labor and political parties.

In the case of socioeconomic actors, Marx himself supplemented the classical divide between capital and labor with that between capital from industrial and financial origins. International political economy theories of policy preferences provide a solution of continuity to the alternative between class-based and sector-based cleavages (see Frieden 1991a; Alt et al. 1996). They argue that the difference between them lies in the assumptions about factor mobility: when factors of production cannot move freely -i.e. capital cannot move to new uses- as is the case in the short run, sector-based cleavages dominate the political arena. This means that labor unions will see their fates directly linked to those of the capitalists in the sectors they are employed and will therefore tend to ally with them. Conversely, when factors of production can move freely as is the case in the long run, class-based struggles dominate policy considerations.[25]

Research on the connection between sectors and the developmental prospects of countries is not new and has been applied extensively to understand the link between economic structure, interests and public policy (see Gerschenkron 1962; Kurth 1979; Frieden 1991a; Shafer 1994; Greskovits 2005). The importance of a specific sector, they assert, is directly related to the link it provides to the international economy. In the classical formulation by Peter Gourevitch (1986, 59), a country's sectoral composition or *production profile* sheds light on "the situation of societal actors in the international economy, the actors' policy preferences, their potential bases of alliance or conflict with other forces, and the coalitions that emerge".

[25] The distributional consequences of different policy regimes may be even more specific, generating cleavages and coalitions between individual firms rather than sectors or factors of production. However, research on the competitive advantage of firms have underlined the key importance of the industry or sectoral level in understanding the success or failure of individual firms (see Porter 1998). Moreover, the channels of business influence in high-middle income countries are organized mainly through associations that often operate either at the peak, the sectoral level or both (cf. B. R. Schneider 2004b). Finally, while in Eastern European economies the most relevant cleavage between firms might run along the domestic vs. foreign ownership lines –and so do also their organization patterns-, it is also true that these are often sector-related distinctions. For example, foreign firms tend to concentrate on the modern export-oriented industries (capital and durable goods) as well as in services (public utilities, finance), while domestic capital in the more backward and domestic market oriented industries (consumer and intermediate goods industries).

Now, what sectors really count? Most theories characterize sectors according to the characteristics of their production factors. IPE theories distinguish according to the degree of mobility of a sector's assets, differentiating fixed- or factor-specific sectors (manufacturing, agriculture) form flexible- sectors (finance, trade). However, this coarse distinction fails to capture significant intra-sector divisions and cross-sectoral cleavage patterns (E. Silva 1996, 19–20). Shafer (1994) expands this distinctions by including a second related feature: the "divisibility" of production. This allows a more detailed classification between indivisible and immobile sectors (heavy industry, industrialized agricultural production), versus divisible and mobile ones (light industry) (see Greskovits 2005 for a further extension). Other authors have stressed the importance of distinguishing between the international versus domestic orientation of sectors (see Gourevitch 1986; Kurth 1979), or whether they are internationally competitive or not (E. Silva 1996). While these approaches are a good starting point because they permit the observation of cross-sectoral cleavages, they however concentrate on tradable sectors who earn foreign exchange through trade (i.e. the current account link to the international economy), but leave out important non-tradable sectors such as finance, construction, and privatized public utilities with other type of international links (i.e. the capital account link) (cf. Myant and Drahokoupil 2012).

In order to summarize these debates and provide a parsimonious categorization yet sensitive for the type of analysis I want to conduct, I have defined two non-tradable sectors with significant although differentiated links to the international economy, *financial* ('finance' and 'real estate' sectors connected through capital flows) and *public utilities* ('electricity, water and gas', and 'transport and communications' sectors connected through FDI).[26] With regards to tradable sectors, I distinguish between (internationally) *competitive* and (internationally) *non-competitive* sectors. An advantage of the latter classification is that it precludes an *a priori* definition of sectors, and allows applying existing techniques identifying which specific industries fall into one or the

[26] Another non-tradable sector that could have been included is construction. However its relation to the other two and to the international economy appears weaker. Although the link between construction and finance seem apparent after the 2007-8 financial crisis, it was much weaker in non-advanced political economies especially before 1990. Then it was often more related to the dynamic of domestic demand and developed an intimate relation with domestic companies producing intermediate goods for the sector. Finally, while the public utilities sector also has a strong connection with domestic demand, the sector is special in that it was closely associated with state ownership as an "'outer skin' of the welfare state" (Obinger and Zohlnhöfer 2007, 184), and following market reforms became the target of strong privatization and FDI inflow processes.

other category. It also allows defining the composition of each sector for specific periods and captures therefore their change over time.[27]

A second cleavage dividing across business sectors relates to the domestic versus foreign sources of ownership. Several decades ago, Cardoso and Faletto (1979; see also Kohli 2009) found that the domestic or foreign control of leading sectors in non-advanced political economies had significant impacts on their chances of development. Cardoso further coined the term "associated development" to understand a situation in which the domestic bourgeoisie enters an alliance with external capital and the state (see Kohli 2009, 404). Several authors point to these coalitions between internal and external interests as one of the links by which the international political economy affects domestic politics (see Stallings 1992; Jacoby 2006). Scholars of the varieties of capitalism school have found that the distinctiveness of the Latin American and Eastern-European capitalisms lie precisely in the nature of this relationship (B. R. Schneider 2013; Nölke and Vliegenthart 2009; also Bruszt and Greskovits 2009). In this direction, Pinto and Pinto (2008) showed that there is a complementary relationship between partisanship of governments, their business constituencies, and the sectors were foreign capital decides to enter in the form of FDI.

In the case of political actors, the main dividing line over economic policy preferences is that between a more market-oriented right and a more state-oriented left.[28] Despite the pervasiveness of convergence theories hypothesizing the end of partisan differences, there is still evidence that partisanship matters to explain the choice of economic policies in general (Garrett 1998; Murillo 2005; see Boix 2000; cf. Franzese 2002), and those of exchange rates (Bearce 2003; Mukherjee and Singer 2008; Steinberg 2010) and industrial policies (Milner and Judkins 2004; Camyar 2014) in particular. Some authors even argue that partisanship makes a difference also in contexts that severely constrain the room of manoeuver for governments to pursue their policy preferences.[29] Finally, labor has a crucial role as a coalitional partner for left-leaning parties (Garrett 1998), therefore,

[27] I calculate the Revealed Comparative Advantage (RCA) of different industries to classify them as either competitive or non-competitive. For methodological details see Introduction and Annex II.
[28] For different conceptualizations of the divide between right and left see Flores-Macías (2012), Luna and Rovira Kaltwasser (2014). For the relation between the socioeconomic and other party cleavages in Eastern Europe see Kitschelt (1995), Grzymala-Busse (2001).
[29] Murillo finds this to be the case with respect to privatization (Murillo 2002) and labor reforms (Murillo 2005).

different patterns of labor incorporation have an enduring effect on the dynamic of a developmental regime (Collier and Collier 1991; Murillo 2001).

b) Policies

In the introduction I have justified the selection of exchange rates (ER) and industrial policy (IP) as indicators of the policy orientation of a developmental regime. Here I classify ER and IP policy alternatives as neoliberal, embedded-neoliberal, and neoliberal. This classification will serve in the empirical chapters to determine the extent of change of a country's developmental regime, this is, if they remain neoliberal or diverge toward alternatives. In the following sections, I link these policy alternatives to the preferences of the specific economic and political actors identified in the previous section.

Both scholars and policymakers have stressed the relevance of exchange rates. Broz and Frieden, for example, contend that "[t]he exchange rate is the most important price in any economy, for it affects all other prices" (2006, 587). Its strategic character derives from its simultaneous effect not only on exports and imports, but also real wages, consumption and savings (Bresser-Pereira 2006). This is even more so in the context of open economies, with substantive financial and trade liberalization (Frieden 1991b; Ffrench-Davis 2010). Exchange rates are crucial in non-advanced political economies as they are one of the main instruments to adjust trade balances, a chronic source of instability and the resulting consequences in terms of external debt and adjustment cycles (ECLAC 2012). Making a comparison with inflation, an indicator often pointed to be a pervasive problem in non-advanced economies, a former Brazilian minister of economy put it bluntly: "inflation cripples, but the exchange rate kills" (Bresser-Pereira 2006, xvii). Similarly, industrial policy schemes, i.e. "government intervention to promote particular patterns of industrialization" (Kosacoff and Ramos 1999, 38), have been the key component of late and "late-late" development strategies, from Europe (Gerschenkron 1962; Kurth 1979), to East Asia and Latin America (Gereffi and Wyman 1990; Khan and Blankenburg 2009).

Exchange rate and industrial policies are used in combination in different *development strategies* (see Bradford Jr. 1990; Copelovitch and Pevehouse 2013; see also Broz and Frieden 2006, 595). Import Substituting Industrialization (ISI) typically applied multiple exchange rate regimes to maintain higher real exchange rates for imports than for exports (Bradford Jr. 1990, 34–5; see Hirschman 1968; Baer 1972). This produced strong subsidies from internationally competitive primary-export sectors to infant industry while facilitating at the same time the import of capital goods. It was furthermore coupled with explicit state intervention and trade protection. Washington consensus type of policies advised "getting the prices right" through market-determined exchange rates, trade liberalization and the reliance on natural comparative advantages in generating the most dynamic sectors. While it originally suggested competitive exchange rate policies to foster exports (Williamson 1990), more often than not Washington consensus-oriented politicians used fixed exchange rates as the primary component of stabilization packages preceding structural reforms (Foxley 1983; Frenkel and Rapetti 2010; see also Thies and Arce 2009; Edwards 1995, 100–1). The neostructuralist theories that emerged after the demise of ISI agree with Washington consensus ones on the importance of trade openness and integration, but stress that *what* you export does matter (Palma 2009; Paus 2004; cf. Greskovits 2005). Accordingly while they agree with neoliberals on the need for fiscal discipline and the maintenance of macroeconomic equilibria, they disagree on the role of exchange rates and industrial policy. They insist on exchange rate regimes allowing discretion to maintain competitive ER levels that favour domestic industrialization and discourage growth patterns based on non-tradable sectors such as construction and finance (Ffrench-Davis 2010; Frenkel and Rapetti 2010). Moreover, they try to use the existing loopholes in international trade regimes such as the WTO to foster new types of selective industrial policy (see Amsden and Hikino 2000; also Khan and Blankenburg 2009, 346). Therefore, in an era when policy options have turned to the neoliberal side and when actual alternatives have faded in key policy domains such as fiscal and monetary policy, exchange rates and industrial policy become crucial components of partisan differences.

Following Hall (1993), I distinguish between policy regimes, concrete policy alternatives and their parameters. I identify three policy regimes according to the degree of state intervention they allow: neoliberal, embedded neoliberal and embedded[30] (see tables 2 and 3). ER policy alternatives vary between the goals of price stability/credibility[31] and

[30] For the original labels see Bohle and Greskovits (2007), Kurtz and Brooks (2008).
[31] Paraphrasing Bearce (2003), it is necessary to note that no actor would reasonably seek "price instability" as a policy goal. The choice between the two has to be seen in the context of strong ideological frames, as well as the trade-off between alternative policy instruments.

competitiveness (Frieden, Ghezzi, and Stein 2001; Broz and Frieden 2006; Frenkel and Rapetti 2010). Neoliberal ER alternatives leading to price stability foster investment and capital flows. They include fixed ER (especially when more appreciated), and floating ER when combined with inflation targeting, which allows monetary discretion but strictly commits to maintain a low level of inflation (see Mukherjee and Singer 2008). In fact, although fixed and floating ER are commonly understood as opposite alternatives, Milton Friedman himself viewed them as closely related policy alternatives given their reliance on market mechanisms and the underlying idea of focusing on a sole policy target: price stability (Hanke 2008). On the other end of the policy spectrum, embedded regimes allowing greater monetary discretion and protection against imports include managed flotation (especially when it is aimed to keep depreciated ER levels) and multiple ER regimes that discriminate between different sectors, allowing authorities to decide the level of ER that each sector faces (see Bradford Jr. 1990; Frenkel and Rapetti 2010). Between these two poles, so-called "intermediate" ER regimes try to tackle both policy goals –price stability and competitiveness- at the same time (see Williamson 2002). This is the case, for example, with ER bands and crawling pegs.[32]

Table 2:
Exchange rates, policy goals and developmental regimes

Policy goal (*regime*)	Policy alternatives	Description	Government discretion
Price stability (*Neoliberal*)	"Dollarization" ("euroization")	A country stops issuing its own currency and adopts a common currency with other nations or one issued by some other country.	-
	Currency board	Explicit legislative commitment to fix the nominal ER at certain parity. The authority guarantees full convertibility of foreign exchange (FX).	↓
	"Tablita"	Authorities pre-commit the future path of the ER given the expectations of evolution of the economy.	
	Free float	Commitment of the monetary authority not to intervene, leaving the nominal ER to be determined by the market.	
Price stability and competitiveness (*Embedded-neoliberal*)	Adjustable peg	Authorities commit to defend a particular parity, but reserve the right to change it under certain circumstances.	
	Crawling peg (Backward-looking)	Authorities peg the local currency to a foreign currency –or to a basket of currencies– but adjust the rate gradually over time in a series of small corrections (usually to account for past inflation).	
	ER bands or Crawling bands	Authorities set an ER target and margins for ER flotation, intervening to maintain a certain parity, but allowing flexibility. The margins can be adjusted over time.	
National competitiveness (*Embedded*)	Managed float	Authorities are not committed to defend any particular rate, but nevertheless intervene in the FX market at their discretion.	
	Multiple exchange rates	Authorities impose restrictions on FX transactions. Different regimes and/or parities are devised according to the type of agents and operations.	+

Source: Prepared by the author on the basis of Babula and Ötker (2002), Frieden, Ghezzi and Stein (2001), Frenkel and Rapetti (2010, 11–13).

[32] A special type of crawling-peg ("forward looking" or *tablita* in Spanish), is closer to the policy goals and operation of a fixed ER than those of intermediary regimes. See Frieden, Ghezzi and Stein (2001).

Table 3:
Industrial policy, policy goals and developmental regimes

Policy goal	Policy regimes	Description	Government discretion
"Get prices right" No market intervention or only to protect/enhance market competition (*Neoliberal*)	Neutral state	Industrial policy reduced to market regulations. The role of industrial policy is expected to be played by other policy domains i.e. liberalization and international integration.	-
	Business-friendly	The role of industrial policy is to reduce costs i.e. flexibility of labor markets, reduction of taxes, and other business support measures.	
"Align prices" Tackle market imperfections though functional interventions (*Embedded Neoliberal*)	Horizontal promotion	Rests on the recognition of recurrent market failures that can be specific to certain sectors (e.g. SMEs). Provision of an array of public measures understood as a common infrastructure that levels the playfield, but does not privilege any sector in particular.	
	Open-economy industrial policy	Low but not necessary uniform tariffs, fiscal and credit incentives for exports, FDI attraction, pro-export bias.	
"Alter" prices Actively induce a pattern of industrialization through selective interventions (*Embedded*)	Developmental state	Strategic use of protectionism, selective subsidies, embedded in domestic capital, importance of state bureaucracy.	+

Source: Prepared by the author on the basis of Kosacoff and Ramos (1999), Román (2003), Schrank and Kurz (2005).

In terms of industrial policy (IP), neutral or neoliberal IP measures are intended to leave market forces and natural competitive advantages lead economic growth. These neoliberal IP regimes also involve state efforts to regulate markets, i.e. establishing clear rules of the game for markets to operate freely, including sanctions for monopoly practices, and efforts to reduce costs through business-friendly measures. On the other end of the policy continuum we find embedded IP regimes that involve a "set of 'price distortions'- that are needed to redefine, through structural change, the path of economic growth" (ECLAC 2012, 32). These imply the selection of specific economic sectors for public investment and/or forced state redistribution across economic sectors, generally from natural-advantage primary sectors to manufacturing industries. These interventions are what is usually considered to be "industrial policy proper" (Chang 1996). The intermediate position (embedded-neoliberal regimes) is characterized by policy measures intended to tackle market failures –in contrast with neoliberal regimes- but without an explicit sectoral bias –in contrast with embedded regimes. Most policy measures are therefore horizontal in nature. Here we find, for example, policies aimed at correcting capital markets through the provision of competitive grants, promoting small and medium enterprises, etc.[33] Under embedded-neoliberal regimes I also include what authors call “open economy IP” (Schrank and Kurtz 2005) or “implicit IP” (Melo 2001), which implies state preferences for certain sectors but not specific activities. An example is the promotion of foreign investment (FDI) and the attempt to channel it to R&D intensive sectors. In order to do this, governments use instruments like tax exemptions, deferrals and rebates, but do not impose additional taxation on certain activities or do not involve an explicit redistribution from one sector to another.

c) *Preferences*

After the identification of relevant actors and the policy regimes that embody different ER and IP policy alternatives, I establish a first link between them through the actors' policy preferences. An important bulk of the literature here reviewed comes from the international political economy tradition, and presents a combination of theoretically derived arguments and empirical assessment through large-n statistical analyses.

With respect to industrial policy, state intervention and protection has been usually associated with the manufacturing industry. In non-industrialized countries, state intervention was directed to the less developed and internationally non-competitive sectors, starting form heavy industry and chemicals and from there to higher technology content sectors (see Khan and Blankenburg 2009; Auty 1994). Non-competitive sectors tend therefore to be protectionists, while internationally competitive sectors tend to be pro-trade openness (Gourevitch 1986; Kurth 1979). Recent research has found that the reasons for protectionist preferences in agriculture are not different than those in industry, and that the political economy dynamics also follow a similar pattern (Thies 2014).

There also is a wide array of literature on economic sectors and exchange rate preferences.[34] Although the crucial factor affecting a sectors' preference seems to be

[33] While the difference between intermediate and neutral industrial policy may seem too small to be actually distinguished, I follow here the insight of Kolodko and Nuti who stress that “even the *least* industrial policy possible may actually amount to quite a lot, while *no* industrial policy simple means a residual industrial policy by default, implicit in other policy choices” (1997, 37).

[34] The deductive determination of interests in the context of ER choice shows the problems of a pure interest-based account. For example, workers (i.e. consumers) are expected to benefit from overvalued exchange rates that increase real wages. However, overvalued exchange rates are also associated with

between a more appreciated and a more depreciated ER level (see especially Broz and Frieden 2006), most contributions focus on the choice of ER regime (Frieden 1991b; Frieden, Leblang, and Valev 2010). There is in fact an intimate relationship between the two (ER regimes and levels) since ER policy alternatives tend to be associated with specific ER parameters or levels (Frieden, Ghezzi, and Stein 2001). Fixed ER tend to be associated with overvalued levels that conserve purchasing power parity and facilitate the acquisition and sale of assets overseas, and are thus associated with investment-based sectors that have a preference for exchange rate stability such as finance and public utilities. Intermediate ER alternatives and embedded ones tend to be associated with depreciated levels that both shelter domestic (competitive and non-competitive producers) from imports and boost the gains in domestic currency of (competitive and non-competitive) export sectors. Given their detrimental competitive position, non-competitive sectors are to benefit the most from the price advantages generated by a depreciated ER.

With respect to ownership, financial integration and the development of financial markets have fostered capital mobility, making it easier for investors to get out of a particular sector (Frieden 1991b, 443). They have been found, thus, to prefer ER that make cross-border transactions easier and maintain the value of the currency for remittances to parent companies, especially fixed ER and their tendency to overvaluation (Frieden, Leblang, and Valev 2010; see also Frieden 1991b). Foreign capital through FDI has been historically seen as providing host countries with increased technology, know-how and management skills. While MNCs look for market access, location and efficiency –i.e. reduction of costs-, host countries expect they will allow a sort of shortcut to industrial and structural upgrading (see Hunya 1998). Therefore FDI intensive sectors require less intensive IP measures than what those sectors would require if they were domestically owned.[35]

decreasing export competitiveness and a general reduction of employment, especially when countries have sizable tradable sectors (see Steinberg 2010). At the same time, exporters are said to benefit from undervalued exchange rates because the gains from trade are greater in domestic currency. However, they are also affected from the higher cost of imported productive inputs (see Frieden, Leblang, and Valev 2010). From the perspective of this dissertation these contradictions are not necessarily controversial; they in fact, provide the basis for cross-sectoral alliances and are the reasons behind coalition changes following drifts in policy contexts. See details below.

[35] The research of Gary Gereffi (1995) on global value chains supports this argument. Research-intensive activities are usually kept in a company's parent country. Therefore, while a developing country may in paper produce and export high-tech products, these usually involve very simple production process (see

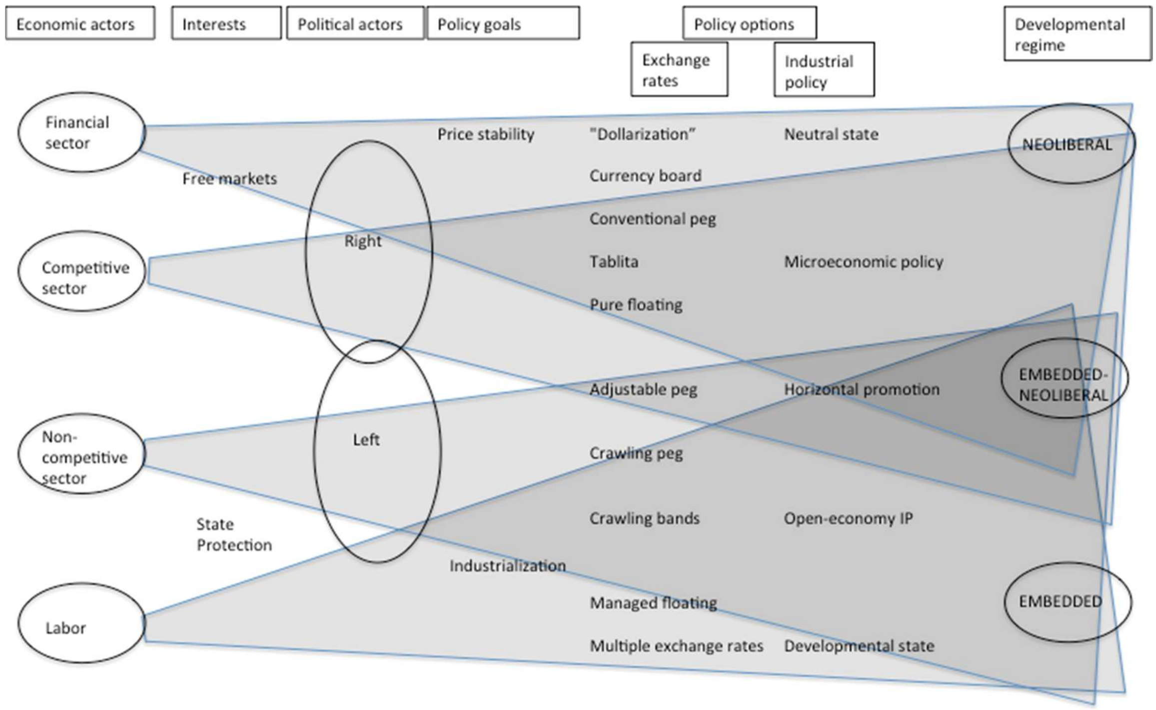
With regards to political parties, research shows that left-leaning parties tend to prefer ER regimes that allow monetary discretion (floating, intermediate or embedded regimes) (Berdiev, Kim, and Chang 2012; Broz and Frieden 2006, 592). They tend to maintain undervalued ER that allow sheltering domestic producers from imports thereby expanding employment (Steinberg 2010). The right, on the other hand, tends to prefer overvalued levels that ease the pressure on monetary policy and foster price stability. Accordingly, they tend to choose fixed exchange rates that foster the interests of their business constituencies (Broz and Frieden 2006, 592). Alternatively, as fix ER have lost popularity because of repeated currency crises, right-leaning governments have tended to introduce free floats that can work as nominal anchors within an inflation targeting framework (Mukherjee and Singer 2008). In terms of industrial policy, right-wing governments are associated with lower spending in direct subsidies and public fixed capital, while the opposite is true for left-leaning parties (Obinger and Zohlnhöfer 2007; Camyar 2014).

In the case of labor, it is expected to benefit from flexible ER allowing monetary autonomy (Bearce 2003, 377; Broz and Frieden 2006) and to be pro-industrial policy, especially when IP is used as a "defensive" strategy i.e. to protect sectors rather than to advance new ones (see Pontusson 1991) and when labor is in alliance with the domestic industrial bourgeoisie (see Rogowski 1987).

This revision allows setting an array of expectations with regards to which actors will tend to favor what kind of policies, and the type of coalitions and/or enduring social blocs that may be formed on the basis of these preferences. These relations are summarized in figure 2.

Paus 2004, 432–3). Moreover, big foreign firms already have a good placement in international value chains. One interviewed analyst commented that foreign firms may, however, demand horizontal type of instruments as a means to plan local production, switch energy sources, etc. Estonia, Interview 2.

Figure 2:
Societal actors, interests, policy alternatives and developmental regimes



Source: Prepared by the author.

I expect to see that the financial sector and the political right will tend to form the *core* of neoliberal blocs, as they show a tendency –both theoretically and empirically- to prefer ER regimes that enhance price stability and IP regimes that guarantee no state involvement in the economy. Competitive sectors appear to have a tendency to prefer policy alternatives trying to combine price stability and export competiveness through neoliberal or intermediate ER and intermediate IP regimes (low tariffs, localized state expenditure for the export industry, FDI attraction). Irrespective of the sector, foreign capital shows a similar position, with a tendency to favor price stability in ER and neutral to intermediate IP. In this sense, I expect that the incorporation of the competitive sector as well as foreign capital into the neoliberal bloc will reinforce the neoliberal orientation of a developmental regime, although potentially dragging it toward intermediate policy alternatives.

This review also helps identifying the actors that may potentially oppose neoliberalism, and the contours of what could become an *alternative social bloc* aiming to fight neoliberals back (see more on this below). It is the non-competitive sector the one that tends to demand higher state intervention and protection. The expectation is for them to prefer ER regimes that allow monetary discretion to boost domestic demand, and depreciated levels that hinder imports. At the same time, they will benefit from IP alternatives that protect from external competition, subsidize their production, and/or allow them to upgrade their production standards to be able to compete with foreign production. These demands may lure organized labor and find resonance in left-leaning parties. The literature sets, however, contradictory expectations with respect to the public utilities sector: on the one hand, favoring state intervention in ER and IP under the form of floating ER and public investment (e.g. in road, electricity, water, etc. infrastructure) that foster domestic demand and improve the sector's productivity; on the other, favoring fixed ER that benefit from increased investment.

d) Context

Few would argue that policy preferences are not affected by changing circumstances, or that coalitions are formed in a social void.[36] Most authors that object the pure interest-based sectoral or partisan theories of policy preferences argue that, in fact, *context matters*. Societal actors have to interpret and evaluate their interests and their best strategies in the light of changing contingent situations (Katznelson and Weingast 2005; Mahoney 2005). As Katznelson and Weingast write

> "[p]references signify propensities to behave in determinate circumstances by people who discriminate among alternatives (…). But preferences in considerable measure may be the product of circumstances and institutions that, in mediating between the agency of persons and large-scale historical developments, can guide reasons for how people actually choose" (2005, 7).

Two contextual elements are often cited in the literature as constraining the range of choice and inducing strategic behaviour by interested actors: economic conditions and institutional structures affecting the power and capacity to act of the relevant actors, as well as those of other actors with similar policy orientations.[37] These contexts not only

[36] Interest-based accounts understand changes in these contexts as changing price structures that affect the bases for coalition making. See Rogowski (1987), Frieden (1991a).
[37] The third factor often cited is ideas. This stands, however, in a different level than the other two. In constructivist theories, ideas not only help framing interests in a certain way so as to help in coalition

constrain power resources, but also affect how actors interpret and frame their interests, as well as the strategies they devise to attain them. One overarching consequence of economic conditions and institutions as contexts for political action is that when the left is in power, both economic constraints (such as high fiscal deficits, external debt and current account deficits) and institutions (independent central banks, low degrees of wages coordination, capital and trade liberalization) increase the leverage of capital. The result is that left-leaning governments decide to strategically postpone their preferred policy choices in order to prevent investment strikes (see e.g. Clark 2003; Swank 1992; Kaplan 2013)[38].

In the following two sections I analyse these two contexts, changing conditions in economic and political turning points, and changing institutional structures, as circumstances that affect actors' preferences and the availability of policy alternatives themselves, altering the policymaking process and the formation of coalitions.

II. Turning points

Turning points constitute contexts that affect policy formation.[39] Turning points change – increase or erode- the power resources of different political and economic groups, and affect the potential and effectiveness of different policy instruments. They produce therefore realignments in the electoral arena and in the benefits received by different economic actors (Gourevitch 1986, 33). The effects may be either concentrated in a specific constituency or group, or affect a wide array of them. In this sense, turning

formation (see Münnich 2011), but constitute the very essence for the construction of those interests (see Hall 2005; Woll 2008). While I do subscribe to the critics of the "tell me what you produce and I'll tell you what you stand for" approaches (see Woll 2008, xi), I take interests as a starting point to understand processes of policy formation under specific contextual circumstances (see Haggard and Kaufman 1995, 6). Additionally, as stated in the introduction, one scope condition of this research is to study radical market reformers were neoliberal ideas and technocratic cadres willing to implement them were a common and pervasive feature. Therefore, by homogenising this starting condition I have tried to reduce the possible effect of ideas as an explanatory factor of neoliberal resilience.

[38] Kaplan (2013) highlights the role of policy learning in these outcomes. In this sense, it is not just necessary to face the prospect of a business investment strike today; the sole memory of it in the past and of government failure following it, might induce center-left governments to forego their preferred policy alternatives.

[39] For a theory of how changing contexts affect policy formation using insights from cognitive psychology, see Weyland (2008).

points pose a challenge to both current policy regimes as well as the coalition of interests that sustain and benefit from them (Haggard and Kaufman 1995, 8). The effects of turning points are thus to be related to the current and prospective alliances between societal actors (see Haggard and Kaufman 1992a, 320).

Here I refer to two types of turning points, economic (economic crises) and political (change of political system or of government, key elections).

a) Economic turning points: the effects of markets on politics

Economic crises can derive from exogenous shocks or endogenous processes. In either case, they affect the distributional consequences of policies and institutions, and therefore, the underlying political compromises (Knight 1992, 145–6; 183; see Haggard and Kaufman 1992a). I consider two types of indicators of the changing economic environment that affect policy and coalition formation. The first are performance indicators that relate to the general state of the economy. Two crucial such indicators are economic growth and inflation (Swank 1992, 38–9; 42)[40]. These performance indicators signal the likelihood of government changes as well as the status of a coalition. In fact, citizens –especially in developing economies- tend to punish bad economic performance through their votes generating high government turnover (Murillo, Oliveros, and Vaishnav 2011, 53; Greskovits 1998). The second set of indicators is related to constraints on policymaking and the availability of policy alternatives. Three of them are fiscal deficits, external debts and trade balances. These indicators are crucially connected with the two policies under study, ER and IP, and therefore, with the capacities of different societal actors to use them as the basis of their enduring coalitions.

Continued economic stagnation and high inflation reduce the prospects of incumbents as well as the power resources of economic sectors in the dominant bloc, increasing the chances of opposition actors to organize alternative blocs. Therefore, crises that aggravate such situation are generally unfavourable to incumbents and generate government turnovers, especially –but not exclusively- under democratic regimes

[40] A third obvious candidate is employment (see Lindblom 1982). I use here only economic growth and inflation as they are not just performance indicators, but also have a significant role in informing the decisions about ER and IP. See below.

(Haggard and Kaufman 1992a, 321; see more generally Haggard and Kaufman 1995). Conversely, good performance (high growth and low inflation) increases the chances that dominant social blocs will survive sudden turning points.

Economic crises also affect policymaking by changing the parameters on which policy depends. I refer to these parameters as the economic constraints on policymaking. Economic constraints are a reflection of economic performance but more specifically, they show the capacity of political actors to resort to different policy instruments as coalition-building devices. For example, Kaplan (2013) has found that the lack of fiscal funds to conduct fiscal policy is one of the drivers of what he calls “market-induced austerity cycles”, this is, those imposed by financial markets on highly constrained left-of-center governments. In fact, the apex of neoliberal policymaking in the developing world coincided with low fiscal resources, the need to resort to external sources of financing, and the well-known effects of IMF-imposed conditionalities (see Pop-Eleches 2009; see also Ocampo et al. 2014). In the same vein, one important interpretation of the left-turns in Latin America has been the increased leeway in fiscal balances brought by the 2000s commodity boom (Levitsky and Roberts 2011).

Fiscal resources, and more specifically the level of expenditure, are crucially related to the capacity of governments to pursue industrial policy. External shocks affecting fiscal resources are usually associated with a contraction of IP (Obinger and Zohlnhöfer 2007; see Frieden 1991a). In fact, unlike social policy spending, industry subsidies are one of the first elements to be cut in the context of an austerity cycle (see Obinger and Zohlnhöfer 2007, 199). The governments of developing countries usually try to conduct fiscal policy in a context of chronic shortage of resources. In this context, external debt becomes one crucial source of financing (Kaplan 2013, 31). External debt levels are thus an indication of a country’s current commitments and if large, might be a sign of explicit or implicit constraints on a government's policy preferences.[41]

The recent episode of commodity boom in developing countries has highlighted a further indicator of fiscal capacity: trade balances. Chronic current account deficits were in the past a significant source of instability and a cause of recurrent stop-go-cycles (ECLAC 2012; see Haggard and Kaufman 1995; O’Donnell 1978a). Governments would therefore

[41] Kaplan (2013) stresses that the passage from bank loans to bond markets in external debt has increased the threat of capital strikes as bondholders can exert a more credible threat of exit through capital flight than was the case with bank loans in the past.

introduce ER corrections and fiscal consolidation policies in order to reduce aggregate spending, equilibrate fiscal deficits and bring the balance of payments into equilibrium (see Abiad and Mody 2005). Consequently, trade balances reflect both, the capacity to sustain certain ER levels, and the capacity to sustain expenditure through the earning of foreign exchange.

In sum, while fiscal deficits and external debt levels reflect the capacity of governments to engage in industrial policy-related expenditure (either via their own resources or though external borrowing), trade balances are a crucial indicator informing the availability of ER alternatives and affecting the availability of foreign exchange.[42]

b) Political turning points: the effects of politics on markets

Political events such as democratization processes or crucial elections have an effect on policy formation because they alter the balance of power between different political actors. Following Haggard and Kaufman (1992b, 31) a change of government or political system is the most important political condition for economic reform (see also Alesina, Ardagna, and Trebbi 2006). This is so because new governments benefit from "honeymoon periods" and/or from the disorganization and discrediting of the opposition. This idea was famously popularized by the architect of polish reforms, Leszek Balcerowicz (1995). He viewed periods of substantial political change as granting a moment of "extraordinary politics" when societal groups hurt by market reforms would be less prone to oppose it. The normative expectation was that the quickest the "necessary" reforms were passed following the transition period, the more rapid its good results would show, preventing therefore a policy backlash.

A second type of effect of politics on markets is through what is called the "political cycle", this is, the enactment (or withholding) of reforms according to electoral timing in order to produce changes in the economy that will benefit incumbents in the next election (see Franzese 2002; see also Kaplan 2013). The classical expectations are that governments seeking re-election will expand the economy and avoid economic adjustments before elections. Consistent with these expectations, researchers have found

[42] Economic growth is also an indication of a government's fiscal capacity as it directly affects tax revenues (Swank 1992, 39).

that governments relinquish adjustment –including ER adjustments- before elections, hoping they can do them after being re-elected (see Frieden, Ghezzi, and Stein 2001), and that this often leads to long delays in the enactment of adjustment programs hoping to force others to bear the costs of reforms (Alesina, Ardagna, and Trebbi 2006). The latter then worsens economic conditions and reinforces the effect of government change on the probability of economic reforms (Haggard and Kaufman 1992b, 31). The relation is however not universal and it can also be reversed under certain circumstances. For example, Schamis and Way (2003) found that a government with declining popularity facing an upcoming election may resort to ER-based stabilization programs because they provide quick benefits in terms of economic growth and taming inflation, and potentially run into troubles only later on when they have secured re-election.

In sum, turning points affect the way economic and political actors consider their policy preferences and the best way to attain them. Economic turning points affect the power resources of economic actors, and may trigger government change when economic performance is poor. Economic crises may also affect the resources government count on for using ER and IP, and therefore constrain the room of manoeuvre for certain policy coalitions. Political turning points, on the other hand, may insulate governments to undertake reforms that do not have enough societal support. Governments may also use elections strategically to either enact or withdraw reforms in connection with their electoral purposes.

Now, if economic and political turning points can affect the power resources of different actors and the policy alternatives underlying their political compromises, how do neoliberal dominant blocs manage to remain powerful enough to sustain their preferred developmental regime over time? I provide an answer to this question in the next section, where I analyse the relation between institutions and resilience, and provide a set of mechanisms able to link dominant social blocs and the continuity of neoliberalism developmental regimes.

III. Institutions

The influence of institutions on policy is observable at two levels (see Mahoney and Thelen 2010; Hacker 2005; Pierson 2004, 155–6): that of the political institutions that act as rules of the game and condition the policy process, and that of the very policies under pressure for change. Institutions affect the resilience of a developmental regime in two related ways: first, political institutions can be arranged in a way that they preclude policy change; second, public policy can become itself institutionalized, and therefore, made harder to change. From this perspective, the political economy of neoliberal resilience revolves around the issue how neoliberalism "becomes the institutionalized framework of state policies" (Connell and Dados 2014, 123) and how it remains so over time. In this section I analyze the relation between policy, institutions and continuity, and construct what I have called mechanisms of neoliberal resilience to understand how neoliberal blocs manage to remain in power using –mostly- institutional channels.

a) *Political institutions and policy formation*

Political institutions affect the policy process through their influence on how interests are aggregated. Given a set of interests, different political institutions produce different patterns of political struggles, coalition formation, and policy outcomes (Keohane and Milner 1996; Garrett and Lange 1996). Political institutions also affect policy outcomes at turning points, because they induce differentiated responses. As Keohane and Milner observe, "[i]nternational price signals may enter the domestic economy, but politics may remain frozen in timeworn patterns" (1996, 20–1; see also Haggard and Kaufman 1995)

Garret and Lange (1996, 53) provide a list of political institutions that typically affect the representation of different actors in the policy process, and therefore, are consequential for policy outcomes. Among the relevant political institutions they distinguish political systems (autocratic versus democratic, presidential versus parliamentarian), electoral laws (proportional versus majoritarian), and independent bureaucrtatic agencies. [43]

George Tsebelis conflated this multiplicity of politico-institutional determinants of policy formation and change into the concept of veto player. A veto player is an "individual or collective actor whose agreement is required for a policy decision" (Tsebelis 1995, 293). The idea was to subsume the set of institutions constraining policy outcomes under a sole category able to capture the potential for policy change. Therefore, policy stability should increase the more veto players there are, the more consistent their policy positions, and the higher their internal cohesion.[44]

Political institutions have a crucial effect on the power resources of possible coalitional allies. It is common wisdom, for example, that social democratic regimes were fostered thanks to a combination of left governments and labor market institutions favorable to trade unions' collective action and negotiation capacity. In fact, some authors connect the decline of social democratic corporatism with the decline in labor power: "[l]eft governments (…) can't pursue interventionist economic policies because their labor allies cannot speak with one voice" (Garrett 1998, 40). Other work has highlighted that left governments are more able to advance their preferred policy regime in the presence of strong societal actors with similar interests opposing neoliberalism, for example, when labor is also strong (M. J. Kurtz and Brooks 2008; Corrales 1998). Finally, work on Eastern European reforms have shown that those countries whose democratic institutions allowed for political competition instead of insulation, witnessed a process if policy moderation (see Orenstein 2001; Vachudova 2005).

b) *Policies as resilient institutions*

Public policy itself may become institutionalized, and therefore, linked to a set of normative as well as practical expectations with regards to its functioning and prospects

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[43] I consider the different contexts for policymaking offered by authoritarian and democratic systems in the Latin American cases (see chapters 3 and 4). In the case of Eastern Europe were political and economic actors as well as the respective institutions were in the making rather than established, I distinguish crucial transformations as contexts that affected the formation of actors, policies and institutions: the transition from communism (Ost 1993; Eyal, Szelényi, and Townsley 1998) and the integration to the European Union (Schimmelfennig and Sedelmeier 2005; Bohle and Greskovits 2012).

[44] For a critique, see Ganghoff (2003).

of change (see Streeck and Thelen 2005b; Pierson 2004, 165–6). *Policies as institutions* are said to be harder to change for a number of reasons (see Mahoney 2000). Path-dependency theories of institutional development highlight the self-enforcing mechanisms that are built into institutions (Pierson 1996; Pierson 2000; Mahoney 2000; Hall 2007). Institutional continuity in path-dependency analyses arises from two related dynamics of institutional development (see Pierson 2000). First, in a trajectory of institutional development, institutional alternatives are narrowed from the outset, making foregone alternatives more costly to pursue later on. Cost-benefit analyses by the interested parties will progressively preclude any attempt at radical change, unless an exogenous force substantively affect the costs of putting an institution in an alternative development path (see Arthur 1994). Most characteristic of political institutions is their self-enforcing dynamic given their distributional effects. Winners of political struggles over institutional reforms become *de facto* veto players with enough power to block significant changes, generating a dynamic that locks institutions into stable or incremental change patterns (see Pierson 1996). A simplistic understanding of path dependency may therefore lead to think that the whole political game is played and finished at the outset of reforms (cf. Greskovits 2000). Once a neoliberal bloc manages to set neoliberalism, then increasing returns dynamics will make their job.

Critics have highlighted the determinism of these theories emphasizing two conditions for a successful analysis of institutional continuity (Thelen 1999; 2003; Mahoney 2000; 2001; cf. Pierson 2004): the consideration of constant turning points and the identification of reproduction mechanisms. First, institutional trajectories do not develop unaltered, but are subject to constant attempts at change. As Douglass North has expressed, "at every step along the way there (are choices) –political and economic- that provide … real alternatives" (cited in Pierson 2004, 52). As analyzed in the previous section, turning points such as economic crises can disrupt path-dependent institutional trajectories and open the possibility of diversion from the path. Second, several authors argue that it is not enough to say that history or early choices "matter"; it is necessary to determine the precise *reproduction mechanisms* of a certain institutional trajectory, so that the spaces for continuity and change are clearly established (Thelen 1999; 2003; Mahoney 2001).

Theories of gradual institutional change have tried to elaborate such mechanisms, and have come to the conclusion that institutions are in constant change (Thelen 2003;

Streeck and Thelen 2005b). Institutional reproduction does not only depend on economic cost-benefit calculi or political constraints by veto players, but is more fundamentally subject to the sociological dynamic of their recurrent enactment by societal actors in bounded social contexts. The patterns of behavior that institutions prescribe are, however, not self-evident but subject to constant interpretation as they are reproduced. This, in turn, implies that societal actors can alter the functioning of an institution as they reproduce it. Institutions are therefore affected by *gradual change* patterns due to problems of imperfect enactment or even of conscious attempts at changing their interpretation through alternative enactments (see Greif and Laitin 2004; Crouch and Farrell 2004). The result is that the way institutions work may change even without formally changing them (Hacker 2005).

Mahoney and Thelen (2010; see Hacker 2005) have provided a sort of synthesis that provides a set of expectations with regards to what *context* empowers what type of *actors* providing them with chances for institutional change through particular *mechanisms*. Concretely, they offer a matrix that links political determinants of change (veto players) with sociological determinants of change (barriers for internal change). However, while this framework takes us one step further to analyze institutional change it brings us one step back to analyze institutional resilience (see also Pierson 2004 especially chap. 5). For example, in the extreme case where many veto players combine with high barriers for internal change, i.e. the least likely scenario for change, the authors still expect ample room for modifications. Change is expected to be a function of the external environment through policy drift or exhaustion, which typically entails the neglect of political actors of necessary adaptations to existing institutions so that their actual functioning is modified (see Hacker and Pierson 2010).

Now, if path-dependency presents a too deterministic account of resilience, and gradual change leaves few spaces to actually think of resilience, how can then institutional resilience be conceived? I contend that resilience can be viewed as an extreme version of Mahoney and Thelen's analysis, one where the political-institutional context affecting change is itself subject to substantive manipulation in order to make it as constraining as possible. As George Tsebelis has pointed out “a potential for policy change does not guarantee such change, but the absence of this potential precludes it” (1995, 293).

Such a scenario is particularly plausible in political economies facing critical junctures that fundamentally alter institutional reproduction at all levels, and where even the most basic rules of the game are in the making rather than already established (see Bohle and Greskovits 2009b). Moreover, this is most likely the case in non-advanced political economies where institutional fragility is pervasive (see Levitsky and Murillo 2005, 14).[45] Levitsky and Murillo (2013) have actually coined the concept of "serial displacement" to capture a type of institutional change prevalent in non-advanced economies where the complete institutional structure is up-for-grabs and subject to overhaul in a relatively cyclical way. This means that the very context that in Mahoney and Thelen's framework determine the most likely types of institutional change, is a permanent part of the political game and not necessarily taken as given or put under pressure only by relatively rare exogenous shocks (cf. Keohane and Milner 1996, 5). In fact, in non-advanced political economies stricter or loser institutionalization and enforcement are often used themselves as political and coalitional strategies (Levitsky and Murillo 2013).

In this context, I contend that neoliberal resilience can be understood as the result of a political struggle where not only the policies/institutions constituting a developmental regime are subject to modification, but also the very parameters affecting the ability of political agents to change those policies/institutions. I call *mechanisms of neoliberal resilience* those processes by which dominant blocs manage to close the sociological, political and structural parameters affecting institutional change in order to make continuity rather than change the more likely outcome of political struggles.

c) *Mechanisms of institutional resilience*

There is a large literature conceptualizing causation in terms of social mechanisms (Hedström and Ylikoski 2010; Mayntz 2004). Social mechanisms are "recurrent processes linking specified initial conditions and a specific outcome" (Mayntz 2004, 241). In this context, mechanisms become the specific link between variables and outcomes, and reveal the sources of causation in the social and political world. In this dissertation I conceive mechanisms of neoliberal resilience as processes triggered by

[45] As László Bruszt has observed, in non-advanced political economies "the stakes [are] not only the rules of the economy, but also the way decisions [are] made about these rules" (2006, 152).

specific political actors, unfolding over time, and producing the recurrent outcome of altering the power resources of specific political and economic actors in a way that the resilience of neoliberal developmental regimes is reinforced.[46] In other words, I consider these mechanisms the enduring link between dominant social blocs and neoliberal resilience.

Already in the 1980s Walter Korpi argued that powerful groups in society actively try to "invest [their] power resources in structures and institutions which, in the long run, affect and constrain the behavior of others" (1985, 38; see also Pierson 2004, 144–6). The political economy of policy reforms (PEPR) literature agreed that the continuity of economic reforms depends on the existence of institutional means that foster the loyalty of key constituencies and allow co-opting oppositions (Haggard and Kaufman 1992a, 327; Nelson 1993; Greskovits 1998), or more generally, that regime resilience rested on the institutional organization of political conflict in ways that prevented policy discontinuity (Haggard and Kaufman 1992a, 35). Consistent with these views, I understand a *mechanism of neoliberal resilience* as a process affecting the ability of different societal actors to influence policymaking, specifically those actors expected to oppose neoliberalism, with the result that the prospects of continued neoliberal policymaking are expanded. The hypothesis behind this proposition is that such a mechanism has a specific causal value in the determination of neoliberal resilience. I therefore lay down a set of hypotheses about the relationship between different mechanisms and neoliberal resilience that can be used as empirically testable expectations. These hypotheses are formed using the above discussion about interests and policy preferences, contexts affecting policy formation, and the role of institutional reproduction and change.

Since my concept of *mechanism of neoliberal resilience* is related to the capacity of specific societal actors to alter existing policies and institutions, I envisage three

[46] A mechanism of neoliberal resilience is in this sense, not a conscious strategy of institutional design, even though intentional actors actively try to affect the ability of other actors to influence policymaking, and in certain specific contexts, they may actually achieve their goals (see Pierson 2004, chap. 4 for a discussion). The concept of mechanism captures the effects of those intentional actions without establishing a causal link between the actors' intentions and the results of their actions. This is consistent with bounded rationality accounts, the possibility that institutions produce distributional effects that were not -and could not be- anticipated, and the existence of social structures arising from an aggregation of the non-intended consequences action.

mechanisms of resilience related to specific actors: structural for business, political for political parties and labor, and sociological for policymakers.

Structural mechanisms of neoliberal resilience are related to the business or sectoral component of dominant social blocs supporting a neoliberal developmental regime. This is closely related to what Héctor Schamis calls the "politics of empowering the winners" (Schamis 1999, 238; 2002), this is, the provision of rents to actors that are seen to be actual (or potential) supporters. In Schamis' formulation, "particular combinations of liberalization policies can concentrate benefits upon a small coalition and disperse costs among a larger set of groups" (Schamis 1999, 242). Governments may allocate rents through policymaking, targeting specific business groups who later become their organized political support. The idea is therefore that the prospects for continued neoliberal policymaking are expanded when business sectors expected to support neoliberalism -e.g. because of their interests or because of a bounded loyalty- are rewarded through specific policies that increase their power resources. I call this mechanism *support creation*. *Support creation* implies the allocation of rents to increase the power resources of business sectors representing actual or potential supporters of neoliberalism.

The literature shows two sources of *support creation*: liberalization and privatization (Schamis 1999). Sebastián Etchemendy's work on compensation politics is a clear example of this mechanism (Etchemendy 2001; 2012). He shows, for example, how the Menem administration in Argentina forged a coalition favorable to market reforms by granting special access to market shares in liberalized markets, as well as by direct allocation of state assets through the privatization of state-owned enterprises. The distributional consequences of privatization and liberalization were therefore quite specific: they helped Menem break the resistance of certain business groups and buy their support for neoliberalism (Corrales 1998; Acuña, Galiani, and Tommasi 2007). Schamis (2002) shows a similar dynamic of *support creation* in Chile. Research on Eastern European reforms, however, shows that empowering certain groups not always pays in terms of support for continued market reforms. Contrariwise, it may stick countries in a "partial-equilibrium reform" that prevents further marketization and democratization (Hellman 1998).

For *support creation* to have a causal effect on neoliberal resilience, one should expect that: 1) privatization or liberalization processes have clear sectoral biases, i.e. the allocation of resources through privatization/liberalization strengthens companies in certain sectors over others; 2) those sectors favored by privatization/liberalization were already entrenched in neoliberal dominant blocs or they become part of it; and 3) these sectors favor the continuity of neoliberal ER and IP alternatives through some explicit channel of business influence on politics.

The second mechanism of neoliberal resilience is related to political representation and influence. Blocking the chances of certain groups for expressing and pursuing their preferences is crucial for institutional resilience, and has been a constant from the very origins of democratic capitalism when limiting the rise of socialist parties and workers' movements was the order of the day. Discussing the relation between institutions and preferences, Garret and Lange observe that "the easier it is for opponents to challenge the policies of the incumbent government, the more responsive will the system be to (…) societal preferences" (1996, 53). In this sense, limiting the representation of opponents becomes crucial, since "generating support may not be nearly as important as avoiding opposition" (Ascher cited in Collier and Norden 1992, 235).

I call *opposition blockade* the manipulation of institutional structures that affect the representation and influence on policymaking of actors perceived as a potential threat to neoliberal resilience. *Opposition blockade* can have several sources, all of them related to the organization of the polity and often enshrined in a country's political constitution. Mechanisms that curb the representation of political interests opposing neoliberalism can be classified into those that bias or limit representation, and those that alter the decisions of representative democratic bodies. I here refer to three sources of *opposition blockade* conforming to these criteria: electoral laws, veto players and labor market institutions.

According to Arendt Lijphart, the choice of electoral system is "*the* most important of all constitutional choices to make in democracies" (cited Kaminski 2002, 350). Electoral systems, majoritarian or proportional affect accountability of and competition between candidates, and therefore, their policy responsiveness (von Hagen 2002, 267). It is common wisdom that there is a relationship between electoral systems and political parties; this relation, however, runs also vice versa: parties decide on the electoral system itself. The practice is so pervasive that it has even received a name on its own: *electoral* *heresthetics* (Kaminski 2002, 325) According to one account, "any current government (provided it has the monopoly over electoral rulemaking) shapes the electoral rules to its advantage (Boix 2000, 609). In the context of *opposition blockade*, neoliberal incumbents will try to reduce the representation of parties with anti-neoliberal platforms or reformist intentions. This will be particularly salient when incumbent neoliberal blocs feel a credible threat from an opposition group or bloc (see Colomer 2005, 3)

Another source of *opposition blockade* is increasing the veto power of political actors expected to favor resilience over change. These veto players can act as checks on the possibility that representative institutions may in fact give access to policymaking to groups with discontinuist intentions. In the extreme case, the nature of such checks may make *opposition blockade* turn the democratic system into a "democracy with adjectives" i.e. convert democracy into a sub-category characterized by its incompleteness or lower levels of democratic quality (see Collier and Levitsky 1997). One example is the democracies characterized as "tutelary". According to Przeworski, a "tutelary democracy" is a "regime which has competitive, formally democratic institutions, but in which the power apparatus, typically reduced by this time to the armed forces, retains the capacity to intervene to correct undesirable states of affairs" (cited in Rabkin 1992, 121). In this case, one powerful group or elite manages to retain control over the limits of possible policy alternatives and enforce it through threats of military coups and other types of blackmail, or has direct influence through special institutional prerogatives. Another example is that of democracies categorized as "delegative". According to O'Donnell, a delegative democracy "consists in constituting, through clean elections, a majority that empowers someone to become, for a given number of years, the embodiment and interpreter of the high interests of the nation" which allows "resistance –be it from congress, political parties, interest groups, or crowds in the streets- to be ignored" (O'Donnell 1994, 60–1).[47] In this case, representation in policymaking is supplanted by a tendency toward technocratic expertise and political support from parties is relinquished in exchange for political support from movements, reducing therefore accountability and allowing for swift policy changes.

[47] While a delegative democracy differs from a tutelary one in that unlike tutelary authority, delegative authority has a direct link to political legitimacy, the outcome of such a regime is also to bypass institutions that have a broader representation as opposed to those -e.g. the presidency- that respond directly to a core support group or movement.

The third source of *opposition blockade* I envisage is related to one specific actor: organized labor. As a political actor, organized labor has had a crucial role in pushing for the embeddedness of capitalist institutions (Garrett 1998; Thelen 2012, 148–9). Labor's power resources and access to policymaking is mediated by labor market institutions that affect its strength -as exemplified in unionization rates-, as well as corporatist structures that increase its bargaining power. Corporatism and the constitution of Tripartite Commissions and concertation spaces increase the ability of labor to influence policymaking. Therefore, *opposition blockade* can be achieved decreasing labor power through the liberalization of labor markets, and/or the individualization of collective bargaining structures.

For *opposition blockade* to have a causal effect on neoliberal resilience, one should expect that: 1) *opposition blockade* has a clear partisan effect, that 2) is translated in a reduced capacity of the blocked groups to influence policymaking, and 3) that realistic counterfactuals can be made on the ability of those groups affected by *opposition blockade* to challenge neoliberalism had the mechanism not been in place.

The third mechanism of neoliberal resilience is institutional in nature, and is related to the narrowing of the room of maneuver for policymaking. A significant strand of literature in political science deriving from the study of electoral or political business cycles, has alleged the necessity that politicians make "credible commitments" (see Pierson 2004, 144–5). Policy –it is argued- has negative long-term effects because it is done by political actors with short-term i.e. election-seeking motivations. The solution is therefore, to remove certain policy alternatives from the politicians' menu options, so that they are entrusted to independent policymaking bodies. Following Streeck, I call *constitutionalized monetarism* the institutionalization of the goal of monetary stability in a way that it "become[s] effectively insulated from political counter-pressures, and (…) become[s] free to proceed regardless of its impact on other economic objectives" (1994, 124). In this case, the mechanism does not rest in the direct promotion or limitation of the power resources of specific actors to influence policymaking, but affects policymaking across the board.

The most (in) famous case of a policy field insulated from government's influence is that of central bank independence which takes away from governments the ability to conduct monetary policy (see Goodman 1991). Rising from research about rational expectations and how the public anticipates expansionary policies, economists advanced the idea of removing monetary policy from the hands of an inflation-prone government, and advised placing it in an institution that would be conservative by nature (because it is staffed with inflation hawks) or law (because it has a mandate to concentrate only on inflation). This technocratic ideal quickly became a crucial element of the neoliberal policy package (Polillo and Guillén 2005), and has been associated with the partisan preferences of right-wing governments, and their willingness to tie the hands of governments to come when they expect government turnovers (Goodman 1991). Another example of insulation of political decisions are fiscal institutions (von Hagen 2002). Devices such as fiscal rules and budgetary processes may be used to effectively reduce fiscal spending and "help mitigate the problems of waste, divergences between public preferences and what the public sector delivers, and fiscal profligacy" (von Hagen 2002, 280). Now, new research on the topic has shown that even in the case of entrenched *constitutionalized monetarism*, partisan links are still at work. For example Adolph (2013) finds that partisanship affects the appointment of central bankers (left-governments tend to select central bankers with "dovish" attitudes toward inflation, while right parties tend to select "hawkish" candidates), and that there are discernable effects of partisan appointments on policy outcomes.

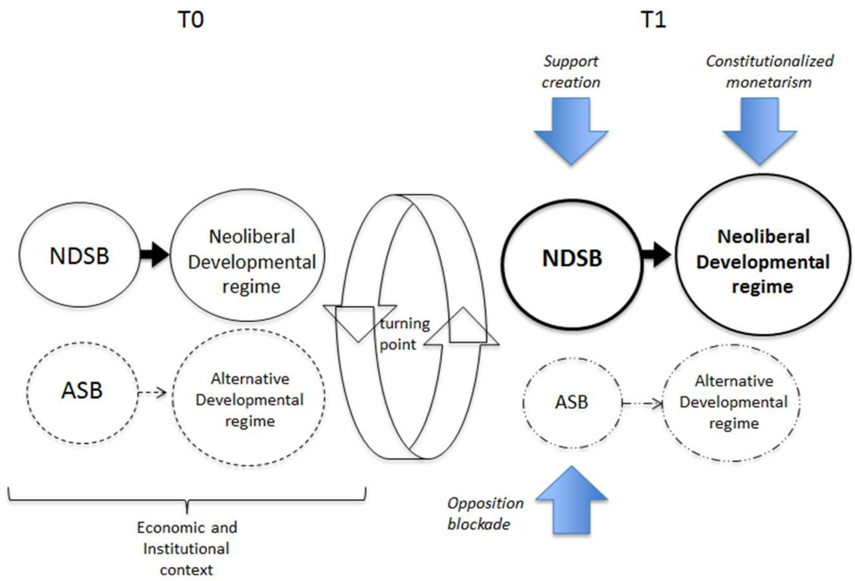
The empirical expectations for *constitutionalized monetarism* to serve as a factor contributing to neoliberal resilience are that: 1) either central bank independence or fiscal rules are pursued by actors in a neoliberal bloc; 2) these actions are intended to constrain the room of maneuver of future governments, and 3) they can be proved to effectively do so, i.e. constrain future governments' room of maneuver.

IV. Summary

To conclude, I briefly summarize the argument and outline the way the discussions in this chapter will serve to observe and analyze the empirical material of this dissertation.

Figure 3 gives a graphical representation of the theoretical argument presented throughout the chapter. The leading economic sector and a political party form an enduring alliance under the form of a dominant social bloc having as a basis their policy preferences, and a context of specific economic and institutional constraints affecting their power resources, the policy formation process, and the available policy instruments. In the discussion on actors and policy preferences I derived the expectation that the *core* of a *neoliberal dominant social bloc* (NDSB) will tend to be formed by the financial and/or competitive sectors with substantive foreign ownership and right-wing political parties. Other political and/or economic actors may give support and constitute *allies* of this neoliberal bloc under specific circumstances. A neoliberal developmental regime emerges therefore in T0, and is characterized by a specific combination of exchange rates and industrial policy. Economic and political turning points may affect this set of relations putting them into question in T1. Most notably, they bring the possibility that actors previously sidelined from the dominant social bloc form an alternative social bloc (ASB) pursuing an alternative developmental regime.

Figure 3:
The political economy of neoliberal resilience



Source: Prepared by the author

The extent to which the neoliberal dominant social bloc (NDSB) manages to retain neoliberalism in T1 is a function of specific mechanisms acting on the power resources of the relevant actors, and on the policy basis of their compromise. *Support creation* increases the power resources of actors inside the neoliberal bloc (more specifically, its business base), *opposition blockade* reduces the power resources of actors potentially forming an alternative bloc (more specifically, the left and labor), and *constitutionalized monetarism* institutionalizes the policy component of the developmental regime so that it is made more difficult to change.

Drawing on the discussion on contexts affecting policy formation, each chapter of section I is arranged as a specific context establishing a set of enabling and constraining factors for the emergence of societal actors, the pursuance of their preferences and the formation of social blocs: chapter 2 for authoritarianism, chapter 3 for democracy, chapter 4 for transition from communism, and chapter 5 for the process of EU accession.

Throughout these chapters, I use the discussion on social blocs and their preferences in order to analyze what and how actors coalesce in order to lead neoliberal developmental regimes. The analysis of turning points serves in turn to specify the strategies they enact in the context of these crucial moments, while the discussion on policy regimes allows analyzing the continuity and departures from neoliberalism during these turning points.

Finally, in section II I use the discussion on mechanisms to analyze how neoliberal power blocs remain in power over time, and how this enables them to sustain the neoliberal developmental regimes identified in section I.

SECTION I

NEOLIBERAL DEVELOPMENTAL REGIMES AND DOMINANT SOCIAL BLOCS

"Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past"

(Karl Marx, The Eighteenth Brumaire of Louis Bonaparte)

In section I (chapter 2, 3, 4 and 5) I analyze the societal actors –economic and political- that form social blocs to pursue neoliberal developmental regimes, as well as those that try to oppose it. In chapter 1 I established a set of expected relations linking societal actors and policy preferences through their interests, and reviewed how changing contexts enable and constraint different type of alliances and policy instruments. In each chapter of this section I analyze the formation of neoliberal social blocs and how they implement neoliberal developmental within the limits of specific contexts. One relevant context is the regional one, characterized by a different starting point for the constitution of political and economic actors, as well as international influences. Chapters 2 and 3 are thus dedicated to Latin America, and Chapters 4 and 5 to Eastern Europe. Each of these chapters moreover, situates coalition building in specific political contexts: authoritarianism (chapter 2), democracy (chapter 3), transition from communism (chapter 4), and accession to the European Union (chapter 5).

CHAPTER 2

NEOLIBERALISM IN THE SOUTH,

ACT 1: AUTHORITARIANISM

In this chapter I analyze the formation of dominant social blocs and neoliberal developmental regimes under authoritarian regimes in Latin America. Following Barbara Geddes (1999; see also Biglaiser 1999), the political dynamics under authoritarian regimes differ according to their governance formula: collegial (when the military as a body is involved), personalist, or single-party. These differences affect the channels of representation of different actors as well as the patterns of internal change and eventual regime fall. In the case of military regimes, Geddes stresses the importance of internal quarrels between military fractions, the need of the military to resort to legitimation other than pure force after some time, and the need to distribute benefits to active supporters and coalition partners. In the latter case, it is crucial to form a civilian base of support, especially under the form of technocratic cadres. These characteristics make military-led authoritarian regimes more prone to disintegration if not counteracted by a concentration of authority in a more personalist fashion. Military dictatorships tend to end in negotiated transitions, while personalist ones by direct overthrow.

The military dictatorships of the Southern Cone were a specific type of authoritarian military regime. They represented what O'Donnell characterized as "bureaucratic-authoritarian" (BA) regimes. Unlike totalitarian or sultanistic versions of authoritarianism, BA regimes were characterized by a specific coalition between state bureaucracy –i.e. the military as an institution, not as a personalistic ruler- and the internationalized business sectors (with a subordinated role of the industrial bourgeoisie), against the emerging popular classes (peasants and urban proletariat) (O'Donnell 1973, 89; Collier 1979; see Linz and Stepan 1996). They also showed a particularly virulent inclination for the use of brute state coercion toward the popular sectors and repression of the political opposition in order to close the possibility of dissent, facilitate technocratic policymaking and economic concentration in the more ‘dynamic’ or ‘efficient’ sectors (O’Donnell 1973, 96).

Following this, the context posed by authoritarianism in Latin America imposes the following analytical challenges: first, the identification of the bases of business and civilian support of the military-led neoliberal project, and their channels of influence in policymaking; second, the identification of fractions and internal quarrels within the military, and the ways by which these are dealt; finally, the patterns of change of these regimes in the context of turning points.

In this chapter I show that the resilience of neoliberalism in Chile rested on a pattern marked by the alternative leadership of financial and competitive economic sectors, which affected the composition of the developmental regime: more orthodox when finance was leading, more pragmatic when the competitive sector was leading. On the contrary, powerful non-competitive sectors were associated with a challenge to neoliberalism and the possibility to form a social block opposing it eventually leading to an alternative developmental regime. Two characteristics of the political actors under authoritarian Argentina made this possible: the existence of institutional channels that linked corporatist/nationalist military with the non-competitive sector, and a political opening process characterized by the loss of power of military incumbents.

I. Reform: The marriage of markets and guns

Democratic rule was suspended by military takeovers in September 1973 in Chile and March 1976 in Argentina amidst generalized economic paralysis and distributive struggles spurted by the exhaustion of the post-war Import Substituting Industrialization (ISI) developmental regime and its underlying class compromises (Collier 1979; O’Donnell 1978b; see Hirschman 1968; O’Donnell 1973; Cardoso and Faletto 1979). Sinking economic growth and hyperinflation crises were the backdrop against which the military took control. The military putsches led by Generals Augusto Pinochet in Chile and Jorge Rafael Videla in Argentina were not intended to be one among many efforts at stabilization, especially in the case of politically stable Chile.[48] Soon after their intervention, the military made public their intentions of conducting a re-organization of the political economy that was substantive enough for future democratic politics not to threat capital accumulation again.

Different actors within the coup coalitions had different views on how that re-organization ought to be done. These fractions were similar in both countries (see table 4). The foremost coincidence among participants of the coup coalition was the need to discipline labor and exclude the left, which under the described circumstances took the form of radical repression, imprisonment, executions and disappearances.[49] The political basis of the neoliberal bloc was composed of the leader of the Junta, Army Generals Pinochet and Videla respectively, technocrats with neoliberal credentials working mostly on the economic positions in cabinet –the so-called "Chicago Boys"-,[50] and other civilian collaborators. Particularly relevant for ideological purposes were the *gremialista* movement in Chile and what is called the *liberal establishment* in Argentina. *Gremialistas* would play a core role in the legitimation, institutionalization and political support for the Chilean military government -and its legacy later on (see especially Huneeus 2007, chap. 5). The Argentine liberal establishment or "traditional liberals" held close connections with the country's landed elites, enjoyed an important social prestige as representatives of the country's "Golden years" of export-oriented development, and given their weakness during ISI were seen as "free from the populist sins" that pervaded Argentine politics (Canelo 2004, 230; Cavarozzi 1986, 43–4). With respect to policy orientations, monetarism provided more an ideological faith in freeing markets from politics, rather than a rigid set of policy measures.[51] In this sense, while the prescription in industrial policy (IP) was relatively clear (eliminate subsidies and reduce tariffs), in

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[48] Argentina had a long history of military putsches starting in the 1930s. The last one had been the attempt by Generals Onganía, Levingstone and Lanusse (1966-73) that was severely weakened amidst popular revolt in 1969 and had to negotiate the terms of its capitulation with the civilian opposition led by Juan Perón (see Cavarozzi 1986). On the contrary, Chile was characterized by political stability and the continuity of democracy. Failed efforts at stabilization under democratic regimes in Chile had taken place under populist Carlos Ibáñez (1952-1958) and during the Right-wing Alessandri administration (1958-1964) (see Stallings 1978).

[49] Comparing South American dictatorships–Argentina, Brazil, Chile, Uruguay-, Ansaldi (2004, 33) concludes that "[i]n matters of application of violence against opponents, the Argentine and Chilean dictatorships –in that order- where the harshest" (own translation). According to official figures, some 3.3 thousand people were killed and another 40 thousand declared victims of political prosecution and torture in Chile. In Argentina some 10 to 30 thousand were made disappear (Ansaldi 2004, 34; McGuire 1995, 183; see Novaro and Palermo 2003, chap. 2).

[50] On the importance of technocrats linked to the University of Chicago see Valdés (2003), Heredia (2004).

[51] Foxley (1983; also Cortázar, Foxley, and Tokman 1984) identifies different phases of policymaking carried out by the Chicago Boys, some of them even contradicting each other.

exchange rates (ER) it changed following the latest developments in the monetarist camp (Ffrench-Davis 2003, n. 14; Heredia 2004, n. 41). The preference for price stability was, however, unmistakable (see Foxley 1983; Ardito Barletta, Bléjer, and Landau 1984).

Table 4:
Argentina and Chile, Social blocs during the reform period

		Coup coalition			
		Neoliberal bloc	*Neoliberal Allies*	*Gradualist bloc*	*Excluded/repressed*
CHILE	*Political*	- Junta leader (Gral. Pinochet), loyal generals - Chicago-boy technocrats - Gremialista movement - Right parties	- Lords of War	- Nationalist military (Gral. Leigh) - Gradualist technocrats (Christian democrats) - Christian Democratic party	- Left (Socialist, Communist and other smaller parties in the Allende government)
	Business	- Internationalized business (New financial sector)	- Competitive sector (raw material exporters)	- Non-competitive business (traditional landlords, industry, SMEs)	--
	Labor	--	--	- Christian democratic unions	- Unions with links to left parties
ARGENTINA	*Political*	- Junta leader (Videla) - Technocratic liberals - Traditional liberal elite	- Lords of War - Acquiescent political parties (UCR, peronist right)	- Nationalist/ Politicist military - Bureaucrats in military-industrial complex	- Left peronism - Left subversives
	Business	- Competitive sector (Internationalized business –CEA-, pampean landlords) - Financial sector	--	- Non-competitive sector (Big industry)	- Non-competitive sector (SMEs)
	Labor	--	--	- Cooperative peronist unions	- Left peronism

Source: Prepared by the author.

Business support for the neoliberals was composed of a handful of the more internationalized business groups. In Argentina, they were grouped around the CEA (*Consejo Empresario Argentino*), an elite club that included owners and managers of the top domestic and foreign corporations (B. R. Schneider 2004b, 185; Canitrot 1980, 914). In Chile, they were of relatively new offspring, heavily dependent on finance, and strongly related to the neoliberal technocrats in cabinet (Javier Martínez and Díaz 1996, 87–90).[52] Big companies in the export sector also figured prominently in coup coalitions. In Argentina, strong support came from the landed elites represented by the powerful

[52] Prominent leaders and executives of these business groups had also studied with the Chicago Boys (the Edwards group, the BHC group -later divided into Cruzat-Larraín and Vial-, as well as the Matte group). See Fontaine (1988)

SRA (*Sociedad Rural Argentina*). In Chile, executives of the biggest private company the *Compañía Papelera* of the Matte group were among the organizers of the coup (E. Silva 1996, 73–5).

A more numerous group composed of military with nationalist/corporatist orientations and the non-competitive sector –i.e. industry at large, especially those segments more strongly dependent on the ISI regime- supported a gradual approach to stabilization, and the maintenance of a certain degree of state intervention under a mix-economy (E. Silva 1996, 66–9; Valdivia 2003, 130–1; Campero 1984, 105–6 for Chile; Canelo 2004 for Argentina).[53] In Chile, they were joined by gradualist technocrats associated with the Christian Democratic party; in Argentina, by military bureaucrats in charge of public companies and political forces traditionally opposed to peronism with the complicity of the right-wing factions of Peronism (Novaro and Palermo 2003, 23–4). In both countries nationalist military controlled the ministry of Work pushing from there a corporatist type of political project which brought together industrialists and cooperative unions, Christian Democrat-led unions in Chile (Valdivia 2003, 174–92; Drake 1996, 129–31), the more centrist peronist unions in Argentina (Drake 1996, 163–4; Pozzi 1988, 207–13). These actors were also in favor of a more rapid political openness.

A key role would be played by so-called “lords of war” within the army (Canelo 2004, 261), active organizers of the coup, in charge of the repression apparatuses, and supporters of an enduring state terror. Despite their national/corporatist economic policy views, they coincided with the neoliberals on their prospects of a long-term military government and the need of popular demobilization.[54] In this sense, they were crucial to provide a certain justification for the enduring military intervention, political insulation from social contention to the adjustment program, and discipline within the military body itself (Canelo 2004, 261–2; 266; Huneeus 2007, 45–53).

[53] The coincidence on general principles of economic policy masked important sectoral differences around which were the best instruments to carry the gradual adjustment process. For Chile see Silva (1996, 66–7).
[54] Analysts speak of a “complementarity” between the political and economic goals of these regimes (e.g. Novaro and Palermo 2003, 56; Canitrot 1980, 917–8).

a) *The ascendance of the neoliberals*

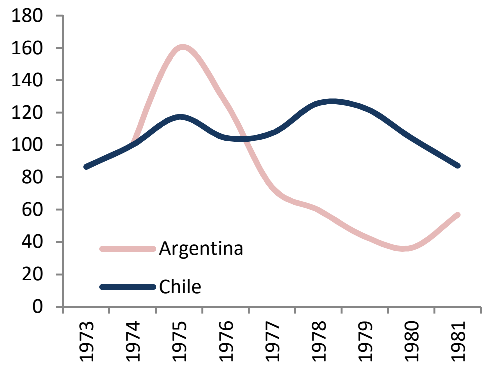
After one year of military government the economic results were meager. Inflation was still at the three-digit level (more than 300% and growing in Chile, 150% in Argentina), and economic recession was heightening the pressures inside the government and its business base of support. In Chile, the more numerous gradualist business sectors criticized the continued hardships they had to endure since the military came to power (see especially Campero 1984). In Argentina, it was the very liberal establishment linked to agricultural interests who criticized the slow pace of the reforms as compared with the initial announcements (Heredia 2004, 355–8; Novaro and Palermo 2003, 64). In a decisive political maneuver, Junta leaders Pinochet and Videla turned the rudder around with a massive cabinet shift. Neoliberal technocrats and sympathizers were confirmed or upgraded from their previous positions while gradualist ones and nationalist military sacked.[55] Most symbolic were the replacements at the respective ministries of Work, bastion of the alternative national-corporatist alternative project. The cabinet shift of April 1975 (and later on, November 1976) in Chile, and October 1978 in Argentina prompted inflation as the key preoccupation of the economic authorities and signaled the commencement of a phase of *shock therapy* accelerating liberalization, state retrenchment and the privatization agenda. In other words, this represented the chance the neoliberal coalition had been waiting to implement a neoliberal developmental regime in full.

The new actor configurations translated into specific combinations of exchange rate and industrial policies. The heyday of the neoliberal project in both countries was the implementation of an exchange-rate-stabilization program following the latest developments in monetarist economics, the so called Monetary Approach to the Balance of Payments (Foxley 1983, 113–9; Frenkel and Rapetti 2010). Both countries experienced with a *tablita,* a type of fixed exchange rate with pre-announced and decreasing devaluations. Chile established a fixed ER later on in 1979, and even envisaged the adoption of a currency board in the near future (Fontaine 2001, 396).

[55] Some caveats apply to the Argentine case. The press interpreted the cabinet shift as an endorsement of the Minister of Economy Martínez de Hoz and his neoliberal plan, and as a strategy to concede him more time and space (Canelo 2004, 247). Novaro and Palermo (2003, 230–46; 261–3), however, point that the confirmation of Martínez de Hoz came along with significant constraints and defeats for the neoliberal bloc. They agree, however, that these constraints prompted Martínez de Hoz to accelerate the pace of reform.

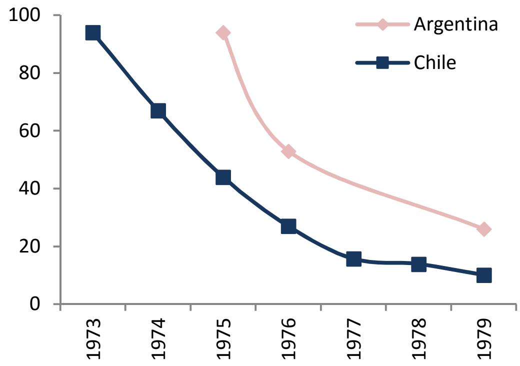
Exchange rate stabilization constituted one of the key elements imposing discipline to the actors that could possibly form an alternative bloc (Canitrot 1980) and according to one account, constituted the coup de grace to the ISI development project after years of lingering (Kosacoff 1993, 25). In fact, ER appreciation and substantive trade liberalization severely hurt the interests of these sectors (see figures 4 and 5).

Figure 4:
Argentina and Chile, REER[a] 1973-1981
(1974=100)



[a] Real effective exchange rate
Source: CL= Edwards and Cox (1991, 75; 116); AR= Della Paolera and Taylor (2011), historical statistics (series RER2).

Figure 5:
Argentina and Chile, Tariff rates[a] 1973-1979



[a] Simple average
Source: CL=.Ffrench-Davis (2003, 119); AR= Kosacoff (1993, 40–2).

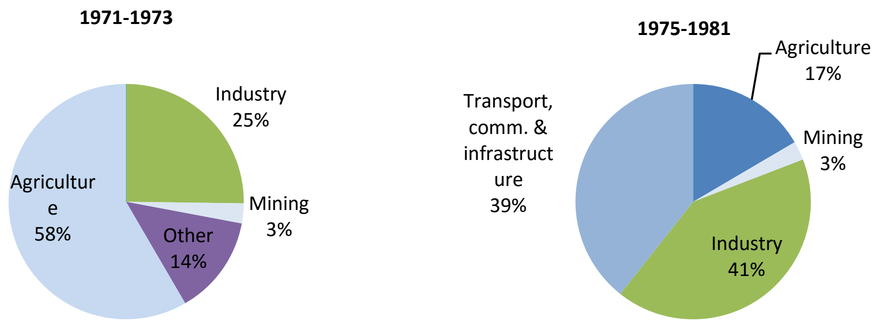
The results in terms of industrial policy were however, diverging. This difference masks a fundamental contrast in the production profiles of the Argentine and Chilean military dictatorships reflecting the business bases of support for orthodox neoliberalism (see below). In Chile, industrial policy followed the developments in the rest of economic policy. During the peak of the neoliberal experiment public investment fell from 7.5% to only 4% of GDP (see table 5). While subsidies to industry grew in relation to subsidies to other sectors (see figure 6), this has to be seen in the context of a general fall of state subsidies (from 13.5% to 12.5% of GDP) (table 5). Moreover, as argued by Marshall (1981, 70) the higher share of subsidies to industry at the end of the period corresponded mainly to the capitalization of companies in the process of privatization, and the granting of subsidized credit to domestic business groups acquiring them. In this context, the main engine of the Chilean ISI project, the state development agency –CORFO-, was kept alive only in order to organize the privatization of state owned enterprises (SOEs) (Román 2003; Muñoz Gomá 2009, 12).

Table 5:
Chile, Public expenditure in industrial policy 1971-1981
(% of GDP)

	1971-1973	1975-1981
Subsidies and transfers	13.5	12.5
Capital expenditure	7.5	4.0
Of which: Fix investment	5.7	3.3
Of wich: Capital transfers	1.9	0.5

Source: Prepared by the author using data from Jofre et. al. (1998).

Figure 6:
Chile, Public expenditure in economic affairs 1971-1981



Source: Prepared by the author using data from Jofre et. al. (1998).

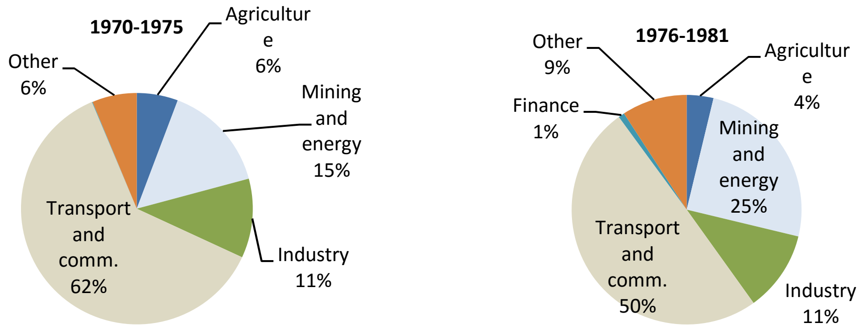
In Argentina, however, neoliberals were unable to dismantle industrial policy. In fact, both public investment and subsidies represented a higher percentage of GDP in this period than in the previous one (see table 6). The continued growth of capital expenditures contrasted with the drastic reduction of current expenditure, especially wages (Schvarzer 1981). Public investment benefited large infrastructure projects and the development of new production plants in strategic areas related to the military-industrial complex (see below). Moreover, while state subsidies grew only modestly (from 6.4% to 6.6% of GDP), they switched markedly from competitive sectors (agriculture) to non-competitive ones like energy and mining (see figure 7). It is worth mentioning in this context the 1977 industrial promotion scheme, supposedly devised to eliminate the industry-biases of existing ones. According to one account, it was "surprising that two laws with such different objectives [like the previous and the new law] (…) could agree on the prioritization and selection of industrial activities, and the industrial regions and geographic areas to be promoted" (ECLAC 1986, 15 own translation).

Table 6:
Argentina, Public expenditure in industrial policy 1970-1981
(% of GDP)

	1970-1975	1976-1981
Subsidies and transfers	6.4	6.6
Capital expenditure	8.3	9.2
Of wich: Fix investment	7.7	8.5
Of wich: Capital transfers	0.6	0.7

Source: Prepared by the author using data from MECON (2005).

Figure 7:
Argentina, Public expenditure in economic affairs 1970-1981



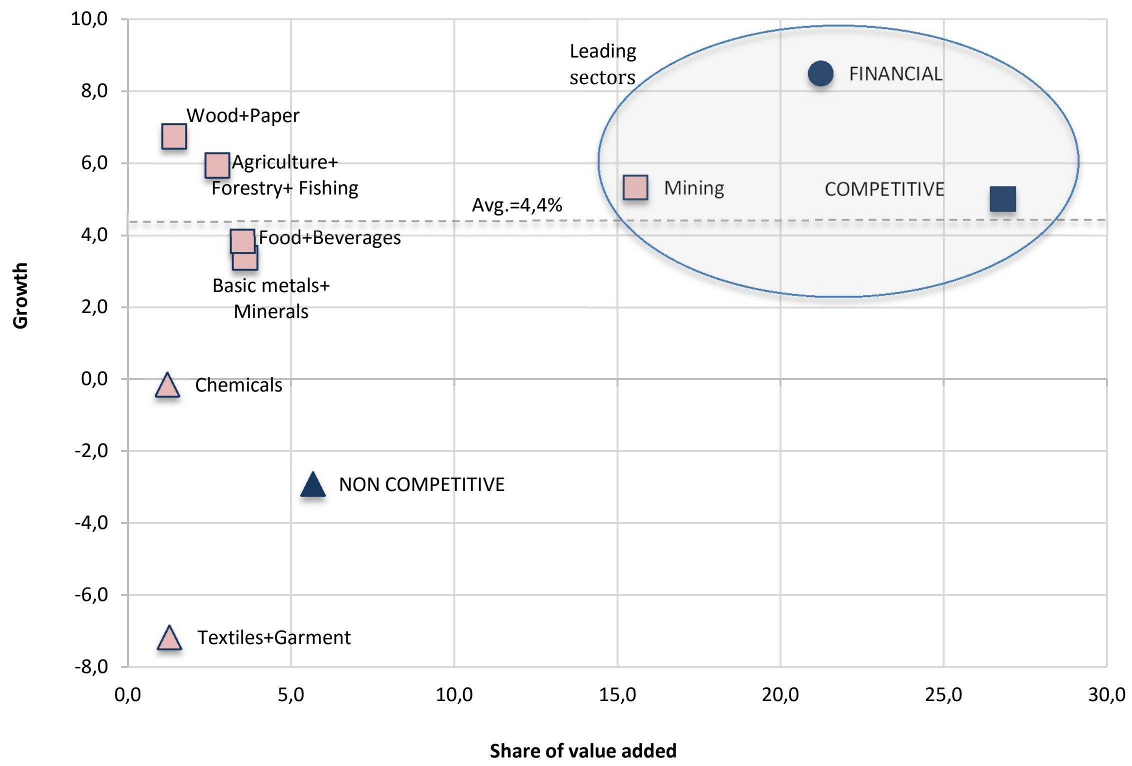
Source: Prepared by the author using data from MECON (2007).

b) Diverse societal support for neoliberalism

The analysis of production profiles in Chile and Argentina suggests similarities as well as differences. As I show below, the differences would become crucial for the sustainability of the neoliberal experiment in both countries.

A basic coincidence is the leadership of the financial sector. In both countries the financial sector grew more than 7% annually and represented close to 20% of GDP. Representatives of this sector in fact had special access to policymaking in the area of banking reform and financial deregulation through their links with civilian policymakers at the Central Bank and the Ministries of Economy and Finance both in Chile and Argentina (E. Silva 1996; Veigel 2009). Substantial differences are observable, however, in the opposite fates of the competitive and the non-competitive sectors.

Figure 8:
Chile, Production profile 1974-1981[a]



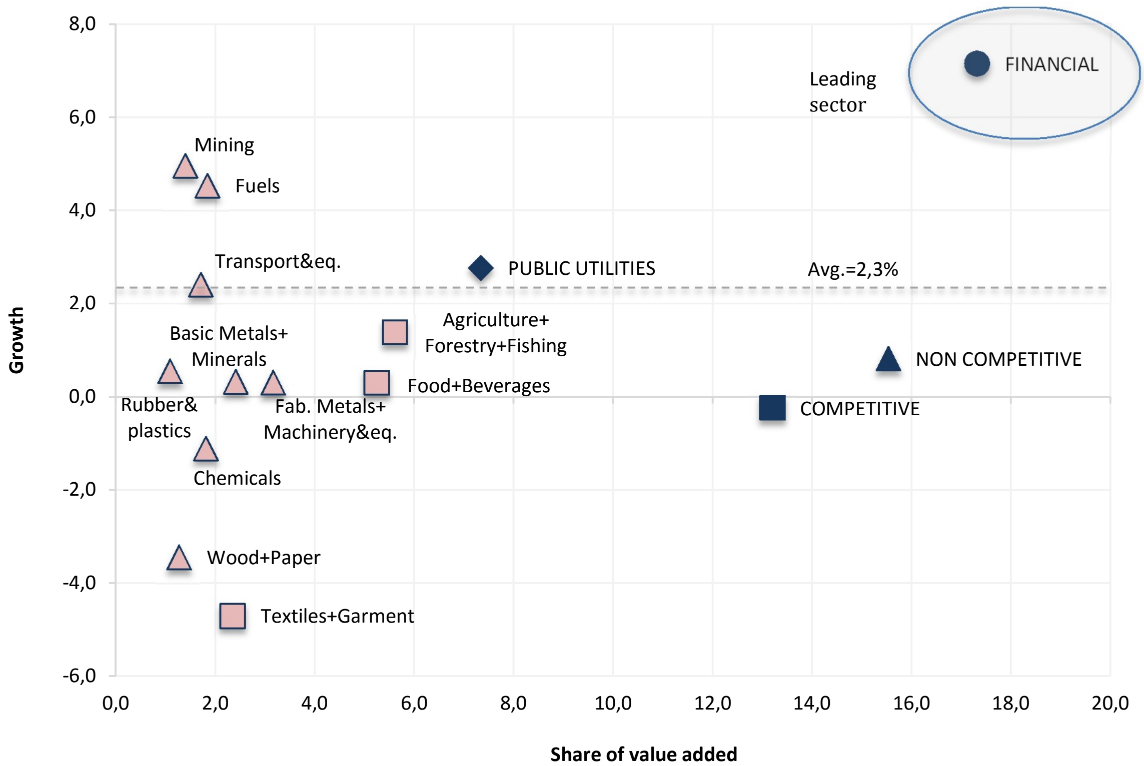
[a] Figure shows only sectors with a share in value added of 1% or more.
Source: Prepared by the author using data from: Value added= ECLAC; Manufacturing value added=UNIDO.

In Chile, the new conditions of liberalized markets boosted the competitiveness of a few raw-material sectors (forestry, fishery and non-traditional agriculture [56] and their manufactures –food/beverages and wood/paper). They showed above average growth, and became strong enough to support and participate in the neoliberal bloc (see figure 8).[57] Eventually, the competive sector in Chile came to represent more than one-quarter of value added. After an impressive performance following trade liberalization, the competitive sector decoupled itself from the fate of the non-competitive sector, and openly allied with the neoliberals (see E. Silva 1996; also Campero 1984, 190–1). According to Campero (1984, 171–2), this decoupling can be traced to the emergence of a justification in support of the neoliberal developmental regime that contrasted markedly with the previous criticism. Leading firms in the "modern" competitive sectors

[56] Traditional crops –sugar, wheat- were historically non competitive in Chile. During the 1970s new agricultural sectors (especially fruit) emerged, producing mainly for export.
[57] Both mining and the manufacturing of metals were still overwhelmingly in the hands of the state following the Allende nationalizations.

highlighted their ability to quickly adjust to external competition and thrive in the free market, and contrasted it with the "old-fashioned" sectors not able to modernize and stuck in the logic of demanding state subsidies. The subsequent economic boom (1979-1981) also eased criticism by some of the more advanced non-competitive sectors (chemicals, metals) (Campero 1984, 193–4; E. Silva 1996, 194). In Argentina, on the contrary, competitive sectors weakened with time, completing below average growth during the period and representing less than 14% of value added. Exchange rate appreciation hit them particularly hard and they viewed trade liberalization as substantive but not enough (Heredia 2004, 361–9; Novaro 2009, 269–70). They thus strengthened their criticism of what they saw was a too timid reform process, eventually making them withdraw the initially stark support they gave to the military government.

Figure 9:
Argentina, Production profile 1976-1980[a]



[a] Figure shows only sectors with a share in value added of 1% or more.
Source: Prepared by the author using data from: Value added= ECLAC; Manufacturing value added= ECLAC (1984).

Most significant was the difference in the strength of the non-competitive sector. In Argentina a few segments showed decline (e.g. wood and paper, chemicals) while other typical non-competitive segments maintained dynamism (rubber and plastics, basic metals/minerals, machinery, transport) and yet another group represented by mining and fuel manufactures -not surprisingly those favored by continued industrial policy support- showed impressive growth rates (see figure 9). Conversely, the non-competitive sector in Chile was in frank decline, with segments such as electronics, transport and equipment (not in the figure), and textiles as the biggest losers of the period.

This difference reflected the ability of the Argentine non-competitive sector to remain strong during the neoliberal assault, most notably through their links to the corporatist and nationalist elements in the military body. Thanks to decades-long state support for military and economic reasons, some industries in the non-competitive sector (steel, pulp, petrochemicals, oil) –also called the military-industrial complex- were in a particularly good shape when the military took over in 1976. Business groups in these segments forged their fates in close relation with the success of the state-led military-industrial complex "either as suppliers, contractors, or clients" (Castellani 2012, 99).[58] In a context of repression of industry-related business associations (Acuña 1996, 38), and fragmentation of institutional decision making channels inside the Junta (Canelo 2004), business groups in this sector could rely on their connections with military bureaucrats in charge of state owned-companies and tap on the sympathy of nationalist.

Argentine non-competitive sectors led by groups such as Techint and Pérez Companc were particularly successful in retaining their strength and influence, escaping the decline of the manufacturing industry taken as a whole.[59] Not only did they use state investment and subsidies to consolidate their dominant positions within their fields, and within manufacturing in general (Azpiazu, Basualdo, and Khavisse 1986; ECLAC 1986). They also benefitted greatly with the subcontracting of state production and services (see chapter 6), and took an active part in financial speculation. When the business groups in the competitive and financial sectors turned the back on the military authorities at the end of the Videla-Martínez de Hoz period in 1981, and the corporatist military took charge of the state, it was these non-competitive sectors who were ready to jump into a renewed – albeit short-lived- coalition (see Veigel 2009, 83).

[58] By the early 1970s the General Directorate of Military Fabrications (*Dirección General de Fabricaciones Militares)* constituted one of the main industrial and financial complexes in Latin America (Canelo 2004, n. 49), represented the main area of concentration of state activity in the economy, and one of the main drives of technological upgrade of Argentine industry (Mallon and Sourrouille 1975, 75–6; see Katz and Kosacoff 2001).
[59] Industrial output in 1983 was only 85% that of 1974, while industrial employment fell one-third (Azpiazu, Basualdo, and Khavisse 1986, 97; 103).

While a group of strong non-competitive sectors in Argentina exploited favorable institutional structures to foster industrial policy plans, their much weaker Chilean counterparts were unable to exploit similar spaces available before Pinochet had consolidated his power. Chilean non-competitive sectors had not only been weakened from the aggressive nationalization policy of the Allende period, but also from a slump in state support during the previous decade. Whereas in 1961-2 investment in the military-related industry amounted to 10.4% of total state investment in industry, in 1969-70 it plummeted to only 1.9% (Stallings 1978, 249). Moreover, although the initial organization of the Chilean Junta as a collegial structure provided institutional resources to countervail the economic weakness of the non-competitive sector (Campero 1984; Javier Martínez and Díaz 1996, 81; Valdés 2003, 16–7; Valdivia 2003, 99) the gradual concentration of power in Pinochet's hands and his favor of the neoliberal frations inside the coup coalition[60] impeded the non-competitive sector to either participate in the power bloc or constitute a powerful alternative coalition able to contest it like in Argentina. When the neoliberals took control, *support creation* favored mainly those business groups in financial sector (see chapter 6). It was these groups who were in the best position to exploit fluid institutional structures, benefitting greatly from financial deregulation and expanding successfully from there to other areas of the economy, especially the dynamic natural resource export sector.

In sum, neoliberal social blocs where constituted bringing together military officers and a set of civilian collaborators with business in the financial sector in both Chile and Argentina. They attempted to set a neoliberal developmental regime including price stability-driven exchange rates and neutral industrial policy. The extent to which they achieved this was a function of the strength of other business sectors and their ability to forge an alternative social bloc. This was the case in Argentina thanks to a long-standing history of imbrication between segments of the non-competitive sector and military officers in charge of public companies. Eventually, lack of progress with reform made the competitive sctor withdraw its suppot for neoliberalism. In Chile, by contrast, the decoupling of the competitive sector and its demise of the more protectionist and gradual reform alternative exacerbated the weakness of the non-competitive sector. As a result,

[60] As a latecomer to the golpista coalition, Pinochet did not have a strong view as to what should be the direction of the dictatorship. The existence of other leaderships with strong projects implied the need to strengthen his own position through a personal project if he was to remain in power (Huneeus 2007; Valenzuela 1993; Valdés 2003). The Chicago Boys offered in this context a cohesive set of collaborators to oppose nationalist military within the Junta, and a permanent supply of loyal cadres.

the Chilean neoliberal social bloc became dominant, and able to implement its neoliberal project both in exchange rates and industrial policy. Argentine neoliberalism, by contrast, remained contested as reflected in the continued embeddedness of industrial policy.

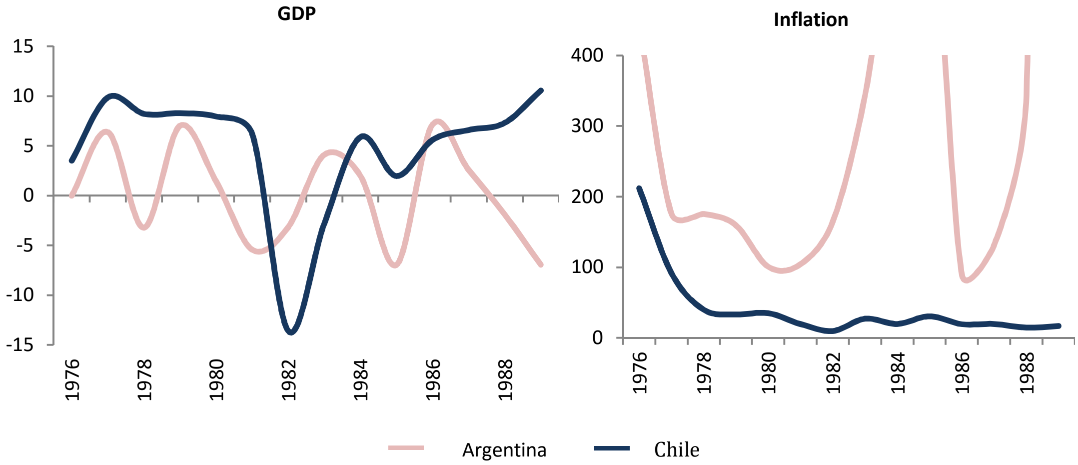
II. Aftermath: Financial collapse, debt crisis and the "lost decade"

The marriage of markets and guns suffered from the fruits of its own exuberance and succumbed to a currency-cum-financial crash. The dynamic was similar in both countries: exchange rate stabilization weakened domestic producers and benefited imports creating a current account deficit that was financed with the amorphous growth of a liberalized financial sector. The boom-bust cycle that this produced ended in a catastrophic financial crisis in the early 1980s (Diaz-Alejandro 1985; Arellano 1983; Frenkel, Fanelli, and Sommer 1988).

The falling in disgrace of the financial sector and the orthodox neoliberal developmental regime it sought to impose set the stage for the reorganization of the dominant neoliberal social bloc in Chile, and the contested neoliberal social bloc in Argentina. Therefore, the analysis of the aftermath of neoliberal reforms focuses on the strength of the competitive and non-competitive sectors, the availability of opposition political actors, and their ability to construct an alternative development project to dismiss neoliberalism. The chances for the success of these alliances were crucially shaped by the pressing economic constraints emerging from the crisis years.

During 1981-1983 GDP plummeted in both Argentina and Chile accumulating a fall of 8.6% and 16.4% respectively, while inflation soared (see figure 10). Chile suffered its worst crisis since the Great Depression. These problems of economic performance put a significant stress on the ability of military authorities to navigate through the crisis.

Figure 10:
Argentina and Chile, Performance indicators 1976-1989
(% growth)

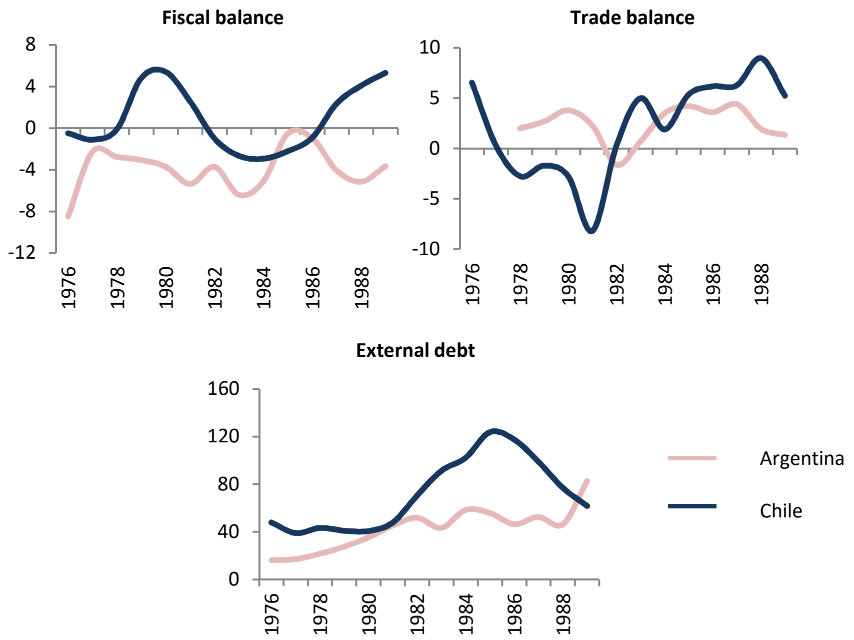


Sources: Inflation= IMF, GDP= ECLAC.

The crisis significantly constrained the room of maneuver for the utilization of fiscal policy. The hard achieved Chilean fiscal surplus fell into deficit again, while the small Argentine deficits became larger and larger with the crisis. In both countries external debt skyrocketed (see figure 11). The period coincides in fact with the increase in international interest rights, which went from -3.4% in 1970-80 to 27.8% in 1982 (Edwards 1995, 22). This created the perfect scenario for the Mexican default of mid-1982 and the launching of a decade of tight international financial conditions (see Edwards 1995; Ocampo et al. 2014).[61] In this context, export sectors and producers for the internal market became crucial: the first, through their pivotal role as both the backbone of an export-led growth regime and provider of the foreign currency necessary to repay debt; the second, through their ability to substitute imports (E. Silva 1996, 181).

[61] During the early 1980s external funding was cut in about 40% and the biggest debtor countries were forced to close their current account deficits in less than three years (Edwards 1995, 23). Almost all Latin American economies fell into the debt crisis. Chile and Argentina were among the few where high indebtedness was not driven by the state, but by the private sector (Edwards 1995, 17–8).

Figure 11:
Argentina and Chile, Economic constraints indicators 1976-1989



Sources: Trade= IMF; Debt= ECLAC; Fiscal balance, AR= MECON (2005), CL= Jofre et. al. (1998).

a) *Neoliberal power blocs during the debt crisis*

The crisis permitted a significant shift in the balance of power. In terms of political actors, it produced a move from neoliberal technocrats to those advocating more nationalist and corporatist views. The crisis also defied the societal bases of support of the neoliberal regime, especially the financial sector and those productive sectors whose indebtedness had grown hand in hand with it. This reactivated opposition to the military-led neoliberal policies from competitive and non-competitive sectors, as well as opposition political parties and trade unions who started to voice their demands for rapid democratization.

In Chile, competitive and non-competitive business formed an alliance against the financial sector and the Chicago Boy technocrats (see table 7). This was most visible through the criticisms of key companies that had previously supported the neoliberal experiment such as the *Compañía Papelera* in the competitive sector, and more generally through the discourse of the encompassing business association CPC (Campero 1993, 268–7; E. Silva 1996, 157–8). During the 1970s, the competitive sector had remained in alliance with the neoliberal bloc but continued to voice its criticism against the high interest rates brought about by financial liberalization and the dominance of the financial sector. These criticisms aggravated with the crisis (cf. Campero 1984, 150; E. Silva 1996, 156–7). Together, competitive and non-competitive sectors demanded a shift in the orientation of the developmental regime towards a more *pragmatic* economic policy. This implied more business involvement in decision-making, as well as alleviation of the distress caused by the crisis. Specifically, they demanded measures such as debt-rescheduling programs, a higher exchange rate, a re-activation plan including public works and housing programs, and higher protections for import-competing producers (E. Silva 1996, 157–8).

Table 7:
Chile, Social blocs during the aftermath period

	Neoliberal bloc		**Alternative blocs**	
	Orthodox	*Pragmatic*	*Moderate*	*Radical*
Political	Chicago Boys	- Pinochet, loyal generals - Pragmatic technocrats - Right	Alianza democrática (AD) (Christian Democrats and moderate socialists)	Movimiento Democrático Popular (MDP) (Communist and left-socialists)
Business	Financial sector	- Competitive sector - Non-competitive sector	--	--
Labor	--	--	Christian-democratic led unions	Communist-led unions

Source: Prepared by the author.

A wave of protest against the harsh economic conditions reinvigorated union activity and facilitated the organization of the left-of-center political opposition (Javier Martínez and Díaz 1996, 18–40; E. Silva 1996, 183–4; Drake 1996, 135). Protests extended with monthly regularity from early 1983 to mid-1984, and met with intense support among the population (Javier Martínez and Díaz 1996, 18–25). Two distinct opposition movements emerged proposing an alternative developmental regime. Alianza Democrática (AD), the biggest political group, was led by the Christian Democratic Party and supported by vast segments of a "renovated" Socialist camp, and was in favor of a negotiated democratization and a mixed economy. On the other hand, the Movimiento Democrático Popular (MDO) composed of Communists and more radical socialists was in favor of insurgent resistance and popular overthrow of Pinochet. In 1983-4, AD started a series of contacts with the civilian supporters of the regime to force a rapid democratization, and in parallel approached discontent business sectors in an effort to build a viable alternative bloc (E. Silva 1996, 184–5; Campero 1993, 281–2; Huneeus 2007, 367; 372–80).

In Argentina, General Roberto Viola took the succession as the Junta leader in 1981. Viola belonged to the politicist faction in favor of a quick political openness –with military tutelage- and staunch critic of the neoliberal policies of Minister of Economy Martínez de Hoz. Viola sacked most neoliberals from their positions and included representatives of business and nationalist military in the cabinet. Most significantly, the new cabinet included prominent businessmen form the non-competitive sector that had been critical of the neoliberal experiment (see Veigel 2009, 83). At the same, Viola started a series of contacts with the political opposition to negotiate a path of political openness (Acuña 1996, 41; McGuire 1996, 179). Political parties organized in the Multipartidaria organization and demanded immediate democratization.

b) Old wine in new bottles? the faith of the first neoliberal experiment

In Chile, the neoliberal bloc recomposed itself maintaining the grip over the changes that would occur in the developmental regime. Whereas the orthodox Chicago Boys in government wanted to maintain the market-solution to the crisis problems, supported the maintenance of the fixed exchange rate regime, and insisted that no bail-outs would be granted (Meller 1996, 218; Edwards 1984, 29), a second generation of Chicago-boy technocrats privileged a more pragmatic approach.[62] Pinochet made another wheel turn in mid-1982. Benefitting from the concentration of power in his hands, he sacked orthodox neoliberals from their posts and in successive cabinet switches appointed more pragmatic technocrats signaling a shift in the new economic and political conduction.

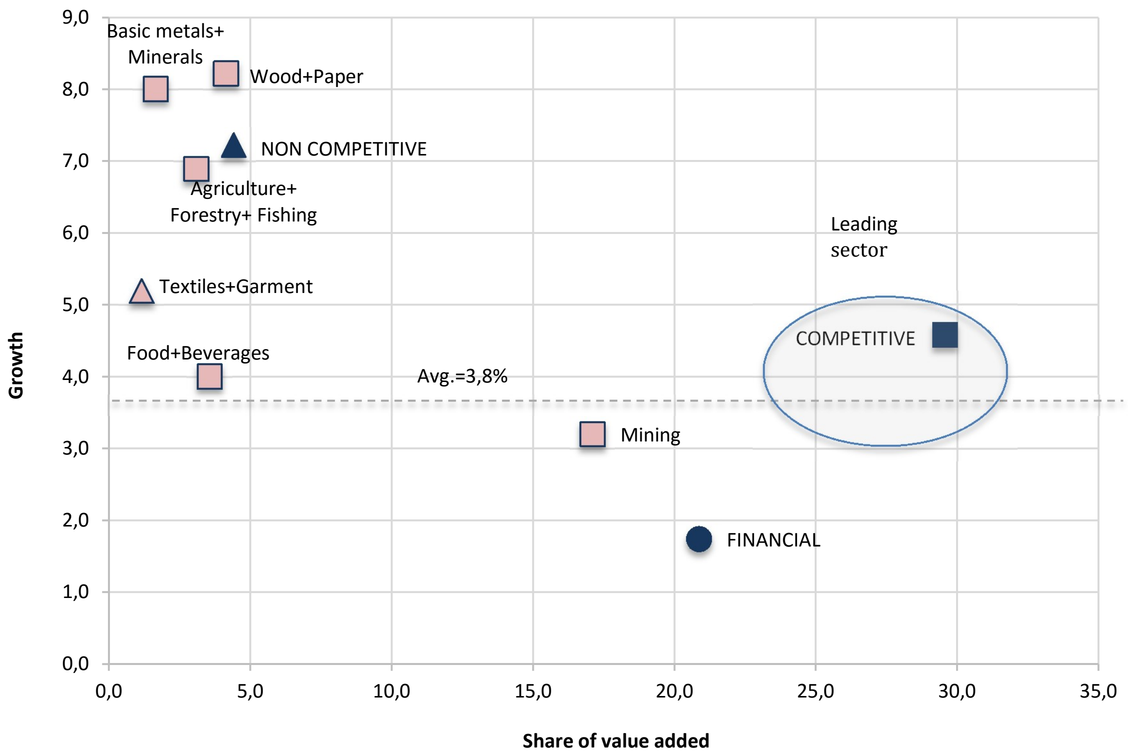
More importantly, amidst the crumbling of his business base of support, popular revolt, economic crisis, and an incipient alternative coalition, Pinochet managed to strike an enduring compromise with the business community led by the competitive sector. The new compromise was sealed with a series of policy concessions, the inclusion of business representatives to the cabinet, and the opening of direct business participation in policy design (E. Silva 1996, 176–92; 203; Campero 1993, 271–2). Right-wing politicians and business representatives associated with a more protectionist stance came to control key

[62] For the orthodox and pragmatic positions see Wisecarver (1983) and Fontaine (1983) respectively.

positions of the cabinet for a few months in 1984-1985 (Campero 1993, 271–2; E. Silva 1996, 186–7). The alliance with Pinochet allowed business the possibility to continue repressing wage earners, politically and economically (see chapter 7). In exchange, the business community committed unrestricted support to Pinochet precluding an alliance with the alternative social bloc and foreclosing the possibility of rapid democratization.

The terms of the renewed neoliberal bloc were sealed in the particular economic conditions that the 1982-3 crisis left behind (see Meller 1996, 133–265). Firstly, the depth of the fall of GDP left ample room of maneuver for satisfying business interest without threatening price stability. In fact, the umbrella association CPC (*Corporación de la Producción y el Comercio*) under the leadership of the competitive sector bargained with the economic team the toleration of a certain margin of fiscal deficit and two-digit inflation (E. Silva 1996, 176). Conversely, the strict commitment to repay the IMF credit conceded to stand the debt crisis, gave the neoliberals a reassurance that the fiscal deficit should be maintained under control. Finally, the need to ensure a commercial surplus to re-pay debt, placed the competitive sector at the center of a recomposed neoliberal bloc (E. Silva 1996, 182).

Figure 12:
Chile, Production profile 1983-1989[a]

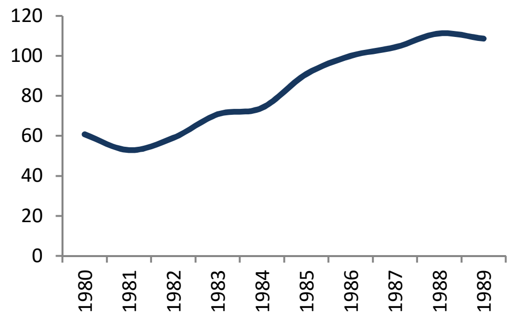


[a] Figure shows only sectors with a share in value added of 1% or more.
Source: Prepared by the author using data from: Value added, ECLAC; Manufacturing value added, UNIDO.

During the decade, the export sectors that had emerged in the previous decade (forestry and fishery, non-traditional agriculture, and their related manufactures –wood and paper, food and beverages), flourished, while the bulk of non-competitive sectors benefitted from momentary greater protection recovering greatly from the slump of the previous decade (see figure 12). External capital became an important ally in alliance with domestic business, especially in the competitive sector, participating in privatizations (see chapter 6).

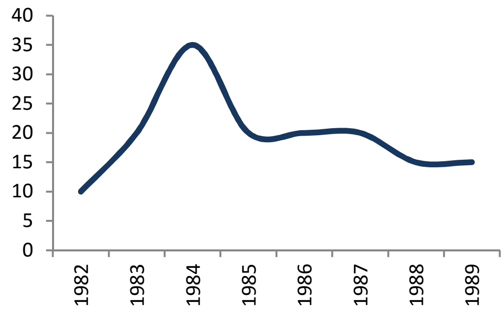
The new coalitional conditions shifted the Chilean developmental regime in a qualitative manner, combining embedded neoliberal ER and a business-friendly neoliberal IP (e.g. Meller 1996, 246–9; Ffrench-Davis 2003, 273–8; Edwards and Cox 1991, 212–5; Agosín 2001). A crawling peg ER regime was established in order to combine the concerns of export competitiveness and price stability (Frenkel and Rapetti 2010, 34; Morandé and Tapia 2002, 68). Monetary authorities carried out small periodical devaluations to compensate for the inflation differential, and thereby keep a competitive real exchange rate (see figure 13).

Figure 13:
Chile, Real exchange rate 1980-1989
(1986=100)



Source: Reinstein and Rosende (2001, 360).

Figure 14:
Chile, Tariff rates[a] 1982-1989



[a] Simple average
Source: Meller (1996, 248).

Conversely, industrial policy started to be slowly reconstituted (see M. Kurtz 2001). The figures on public expenditure show a retrenchment of state investment, but an increase in subsidies (table 8). Some sector-specific instruments such as price-bands for agricultural products competing with domestic production and over tariffs for sectors such as electronics and automobiles and a general tariff increase from 10% to 35% were established right after the crisis, but were quickly scaled back with the reassertion of pragmatic neoliberals in policymaking. The most important measures were horizontal instruments that benefitted the competitive sector, e.g. export drawbacks. They were directly designed by the consultative bodies under control of competitive sector representatives, established as part of the compromise underlying the new pragmatic neoliberal dominant bloc (E. Silva 1996, 204).

Table 8:
Chile, Public expenditure in industrial policy 1975-1989
(% of GDP)

	1975-1981	1984-1989
Subsidies and transfers	12.5	14.1
Capital expenditure	4.0	2.9
Of which: Fix investment	3.3	2.4
Of wich: Capital transfers	0.5	0.5

Source: Prepared by the author using data from Jofre et. al. (1998).

In Argentina, the situation went differently. The new social bloc composed of military aiming for quick democratization (under the leadership of general Viola) and the non-competitive sector fell apart. It succumbed to an internal coup amidst the radicalization of the economic situation and widespread protest by labor unions and the major political parties in the *Multipartidaria* alliance not willing to forge a democratization compromise with a weakened military government. In this context, military "lords of war" sought to reinstate military control and temporarily renewed their alliance with the neoliberals (Canelo 2004, 304). Widely discredited among politicians and business, the Junta now under the hands of General Galtieri tried a desperate if self-destructive maneuver to get back control of a chaotic economic and political situation: it launched the invasion of the Falklands islands (or Malvinas by its Spanish name) and entered war against Britain. The defeat in the war brought the decomposition of the military government. The Army remained the sole Armed Force in the Junta and democratization was imminent. The caretaker government of General Bignone was left in an extremely weak position to defend any of the "achievements" of the military/neoliberal experiment and called for democratic elections at the end of 1983 (see McGuire 1995). Bignone granted widespread bailouts, reversed trade liberalization and ran an expansive economic policy in an attempt to find allies.

This moment marks not only the defeat of the first neoliberal experiment in Argentina, but also the divergence of its developmental trajectory from that of Chile. The outgoing military authorities were not in a position to bind the future democratic authorities in any way, producing the only "unpacted" democratic transition in South America (Linz and Stepan 1996, 191; McGuire 1996, 197). The economic debacle identified with the monetarist experiment of Minister Martínez de Hoz made the business community at large withdraw their support from the military-technocratic alliance and seek a new compromise under democracy (Acuña 1996, 42–3; Beltrán 2006, 216–7). The manufacturing industry (grouped around the UIA) heavily condemned the consequences in terms of the widespread bankruptcies it produced (Beltrán 2006, 217) and a majority of industrial sectors vowed for a return to import-substituting industrialization (ISI) and the strengthening of the internal market (see Viguera 1998, 5). A new business clique later known as the Captains of Industry (*Capitanes de la Industria*) emerged. This contained mainly the big manufacturing companies in the non-competitive sector that had been successful under the dictatorship (Ostiguy 1990). The *Captains of Industry* favored continued state support for industry, a reorientation of public spending to this goal, and gradual liberalization (Beltrán 2006, 212), and were determined to become the supporting group of the new democratic government (Acuña 1996).

The widespread denouncement of the economic policy of the military dictatorship marked the fall of disgrace of economic liberalism and its carriers, making it harder for the remnants of the neoliberal bloc -especially the competitive sector and the liberal elite- to find a political ally (see Gibson et al. 1990; Heredia 2004, 367–8). A new political party representing these sectors, the rightist *Unión de Centro Democrático* (UCEDÉ), would become a relevant political force only towards the end of the decade (Gibson et al. 1990; McGuire 1996, 182–3). The two major parties in Argentine history came back to the political scene: the populist and labor-backed *Partido Justicialista* (PJ) -also known as peronist for his origins in the populist regime of Juan Perón- and the middle-class backed Radical Civic Union (*Unión Cívica Radical,* UCR). The PJ and UCR are both centrist parties with right and left wings that had historically tried to represent multi-class alliances despite their greater association with popular and middle-class constituencies respectively (Spiller and Tommasi 2008, 82–3). In fact, according to McGuire (1996, 183), the ideological distance inside each party is bigger than between them (see also Ostiguy 2009)

Both PJ and UCR campaigned over the revitalization of domestic demand through wage increases and re-industrialization, together with a harsh rhetoric against the financial sector (Heredia 2006, 166–7). The UCR candidate Raúl Alfonsín representing the left wing of his party won the upper hand, thanks to his stronger condemnation of human rights abuses during the dictatorship and compromise with re-democratization.

Table 9:
Argentina, Social blocs during the aftermath period

	Neoliberal bloc	Alternative blocs	
		(1)	*(2)*
Political	- Traditional liberal elite - UCeDe	- UCR (president Alfonsín) - Heterodox technocrats	- PJ
Business	- Pampean landlords (SRA) - Banks	- Non-competitive sector ("Capitanes de la industria")	
Labor	--	- Non-peronist unions)	- CGT (peronist)

Source: Prepared by the author.

The Alfonsín government had several stages in economic policymaking, which were determined by the deterioration of the pressing domestic and external economic constraints in which he took office (see W. C. Smith 1990). The tendency was to include ever more neoliberal elements (Ortiz and Schorr 2006; Heredia 2006). However, at least until the final stages of his government both industrial policy and exchange rates remained on the embedded side of policy regimes. In this sense, it put a definitive end to the first Argentine neoliberal experiment (see Novaro 2009; W. C. Smith 1990).

In terms of industrial policy, for example, Alfonsín maintained the high tariffs re-introduced by General Bignone, re-instated export taxes and added a set of non-tariff restrictions.[63] In 1987, average tariffs were 39.4% with a maximum rate of 102.5% (Casaburi 1998, 14). While public expenditure in industrial policy declined during the period mainly due to the need to equilibrate fiscal expenditures in order to repay debt, industrial promotion programs were maintained, becoming crucial supporters of investment during the period (Basualdo 2006, 254). He also introduced new IP measures in the line of export-oriented industrialization,[64] launched the integration project with Brazil (*Mercado Común del Sur,* Mercosur) one of the main objectives of which was the development of a joint capital goods industry –automobiles, aviation- and other

[63] Three different lists were devised containing permitted, semi-permitted and banned imports. These lists were negotiated and updated together with the respective business associations. IMF Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER), several years.
[64] Argentina, Interviews 10 and 16.

technology intensive sectors, and developed programs such as the *Programas Especiales de Exportación* (PEEX) that conditioned state subsidies to the achievement of export quotas in higher technology sectors such as electronics.

With respect to the exchange rate, the Alfonsín government is (in)famous for the repeated stabilization programs it had to launch in the context of the aforementioned economic constraints. While these stabilization programs moved gradually in the direction of using the ER for anti-inflationary purposes, the initial plans –which were also the ones launched under less urgent conditions- reflect however this was not the initial orientation. By contrast, the idea was to use a stable and high ER to aid the external sector, in combination with the export-oriented industrial policy.[65] For example, despite the orthodox components of the most important stabilization plan –the Austral plan of june 1985- it was widely viewed as a heterodox attempt at stabilization because it rested mainly on price and wage controls (W. C. Smith 1990, cf.; Heredia 2006, 181–2).[66] In fact, economic authorities explicitly avoided stabilization measures that would hurt wages and contract domestic demand, and rejected the utilization of the exchange rate as a nominal anchor.[67]

III. Conclusions

This chapter has shown the formation of dominant social blocs and the establishment of neoliberal developmental regimes under authoritarian regimes in Latin America. This context served to analyze how neoliberal blocs are assembled when a bureaucratized military body instead of political parties have the reins of public policy and act as their political base. It has also shown how neoliberal developmental regimes can survive a major economic turning point such as the one presented by the 1982-3 financial crisis.

[65] Argentina, Interview 16.
[66] The analysis of orthodox domestic economists of the Austral plan as a "populist" experience supports this view (see Fernández 1991). For example, deficit reduction rested mainly not on spending cuts, but on a combination of export taxes, increased prices of public services and –much importantly- the very effect of a sudden halt of inflation in tax revenues (the so called Olivera-Tanzi effect) (Frenkel 1987, 320–1). For the opposite perspective see Schamis and Díaz-Bonilla (2001).
[67] The economic authorities in charge of the plan had actually studied in detail and from a critical position the exchange rate stabilization experience of the military government. Argentina, Interviews 8 and 5.

Neoliberal blocs were assembled by military incumbents willing to eradicate the pattern of distributional struggle present in the previous ISI regime, technocratic and right wing civilian collaborators uniting liberal economics and conservative politics, as well as the financial sector. The establishment of exchange-rate stabilization programs (through fixed exchange rates and extensive trade and financial liberalization) constituted the heyday of the first experiment with neoliberal developmental regimes in Argentina and Chile. Industrial policy, however, went in opposite directions. In comparative perspective, the power of the non-competitive sector was crucial to understand this outcome. A weakened non-competitive sector in Chile was not able to transform its criticism of neoliberalism into actual contestation; an empowered non-competitive sector in Argentina managed to forge alliances with corporatist/military and maintain an embedded industrial policy regime. The ability of the Argentine non-competitive sector to influence policy maintaining an embedded industrial policy had moreover, a direct effect in reinforcing its power resources, therefore making it available for the construction of an alternative bloc when the opportunity was ripe. This opportunity came with the 1982-3 crisis. Although the Argentine non-competitive sector was unable to forge an enduring bloc with corporatist/nationalist military, it offered support for a renewed embedded regime under a left-wing democratic government when the military regime crumbled.

In Chile, by contrast, the weakness of the non-competitive sector made it unable to present a credible threat of forming an alternative social bloc with the center-left democratic opposition calling for early re-democratization and the re-embedding of the Chilean developmental regime. Instead, a competitive sector empowered thanks to trade liberalization took the post as leading sector, and pressed for a renewed compromise with the military under an embedded-neoliberal regime that prevented early democratization, as well as a more progressive alliance with the center-left parties and labor.

CHAPTER 3

NEOLIBERALISM IN THE SOUTH,

ACT 2: DEMOCRATIZATION/ DEMOCRACY

In this chapter I analyze the formation of dominant social blocs and neoliberal developmental regimes under the process of democratization in Latin America and the democratic regimes that emerged.[68] Democratization processes in Latin America were crucially affected by the type and strength of the outgoing authoritarian regime (Geddes 1999). Whether a collegial military structure or a more personalist rule, and whether they fell amidst a crisis or following a negotiation process. The more frequent cause of destabilization of collegial military structures, were economic crises and intensification of internal quarrels, leading to a fall of authoritarianism through the decomposition of the military government. In theory, when this was the case the power of the outgoing military government was the weakest, and the incoming democratic authorities had the lowest political constraints to pursue their preferred policies (Linz and Stepan 1996). Conversely, when power was held by personalist leaders, authoritarian regimes were more resilient and their fall had more to do with a negotiated exit. In this case, outgoing regimes were able to negotiate the terms of the democratization process and bargain concessions.

In a review of O'Donnell and Schmitter's famous four volume study on transitions from authoritarian rule in Southern Europe and Latin America, Nancy Bermeo reckons, however, that independent of the type of exit and the strength of actors associated with the authoritarian regime, incoming democratic authorities faced daunting challenges with respect to the consolidation of the new democratic regimes (Bermeo 1990, 363–5). These challenges included silenced demands of economic re-distribution and political

[68] Given that democratization in Argentina was already analyzed in the context of the crumbling of the authoritarian government amidst the 1982-3 crisis, in this chapter I will only review the main outcomes of the period, and analyze how they affected the future prospects of the alternative social bloc and democratic governments.

participation, which required significant state efforts and could put countries with fragile democracies into the voragine of acute distributional struggles once again. In this sense, democratic consolidation, according to the author, inevitably led to policy moderation and a postponement of issues such as aggressive redistribution and retaliation against past policies, and the acceptance of –or even collaboration with- pro-business right-wing parties and ideas. In short, the conclusion was that "electoral democracy must be built upon the patience of the poor" (Bermeo 1990, 374).

The first problem to be solved in terms of the consolidation of democracy, was therefore 'how to institutionalize uncertainty without threatening the interests of those who can still reverse the process" (O'donnell and Schmitter in Bermeo 369). The solution was the building of institutions through pacts among contending elites. Through these pacts political elites established "formulas for sharing or alternating in office, distributing the spoils of office, and constraining policy choice in areas of high salience to the groups involved, while excluding other groups from office, spoils, and influence over policy" (Geddes 1999, 120). O'Donnell and Schmitter observed that the willingness to compromise might be more pronounced among politicians than among class-based groups, especially among parties, because of their ability to sustain commitments and exact party control over rival internal factions (in Bermeo 1990, 369). Geddes also argued that pacts were all the more probable when political parties had a long history prior to the outgoing authoritarian regime, and when these parties enjoyed a substantial organization under authoritarianism (Geddes 1999, 136–7).

Following this, the context posed by democratization and the subsequent democratic regimes in Latin America imposes the following analytical challenges: first, the identification of the strength of different actors at the fall of authoritarianism; second, the identification of political parties and how -and what- cleavages emerge. A third analytical challenge, i.e. the emergence of elite pacts that constraint the choice of institutions for the new democracies, will be studied in more detail in chapter 7 with especial reference to the case of Chile.

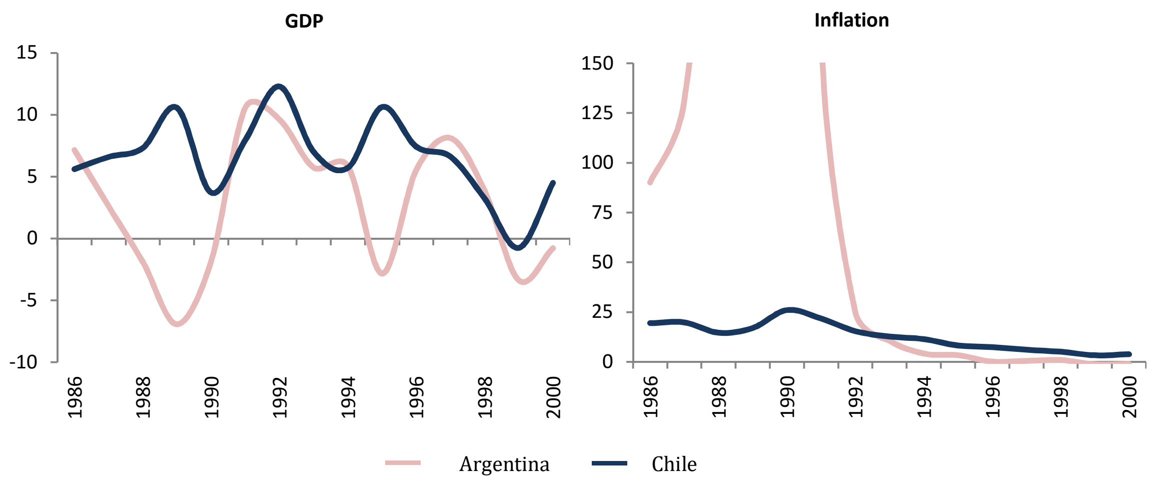
In terms of neoliberal resilience, this chapter shows that either the economic or the political conditions surrounding democratization weakened the prospects of center-left governments, and their ability to organize an alternative social bloc. Again, the strength of non-competitive sectors remained crucial to explain neoliberal resilience. Weak non-competitive sectors in Chile were not able to present a coalitional possibility to the center-left *Concertación* governments, further deepening the leadership of competitive and financial sectors within the dominant bloc. After the Asian crisis, center-left sectors explicitly sought to ally with the neoliberal bloc. Conversely, after the misfortune of the Alfonsín government, a strong non-competitive sector in Argentina was able to unite with labor to exact significant concessions from a renewed neoliberal bloc, using these to maintain their power resources and lead a renewed alternative bloc in the 2000s.

I. Consolidation: the neoliberal tide at both side of the Andes

Chile and Argentina entered the consolidation phase in different contexts, but both with uncertainty about their developmental regime and the underlying political alliances. In Chile, neoliberalism had asserted itself after withstanding the 1982-3 financial crisis with a recomposition of the dominant social bloc –now led by the competitive sector- and a shift of the ER and IP toward embedded-neoliberalism. However, the center-left *Concertación* coalition, successor of Alianza Democrática and its alliance between Christian Democrats and moderate Socialists, won the 1988 plebiscite against the Pinochet dictatorship and the subsequent presidential elections of 1989 forcing a return to democratic rule.[69] The ascendance of the center-left coalition produced crispation in the business comunity who explicitly backed the persistence of pragmatic neoliberalism under Pinochet's iron fist (E. Silva 1996; 2002; Weyland 1999a). The case of Argentina is especial because democratization had already took place in the early 1980s. As we will see, however, the failure of the center-left Alfonsín government to strike an enduring alliance that could sustain an alternative developmental regime produced a scenario highly biased toward the establishment of a new neoliberal experiment.

[69] As part of the legitimation strategy of Pinochet, the 1980 Constitution drafted by the military authorities included the realization of a referendum in 1988 to decide whether Pinochet should stay for another eight years, or new elections be convoked. While Pinochet was confident he would win the contest, the moderate fractions of the opposition put all their efforts to defeat Pinochet using his own rules.

Figure 15:
Argentina and Chile, Performance indicators 1986-2000
(% growth)

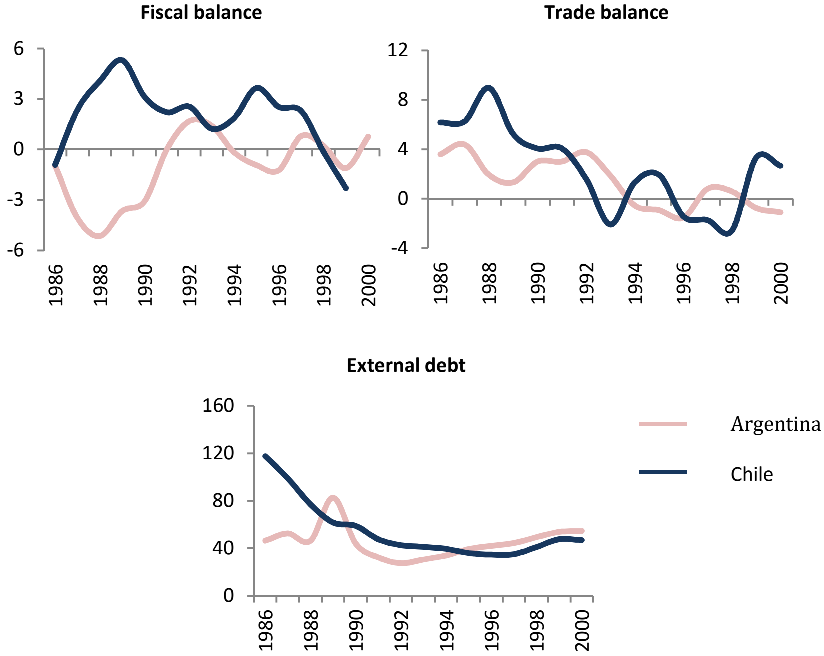


Sources: GDP= ECLAC; Inflation= IMF.

Economic conditions were radically opposed in both countries. After the 1982-3 crisis Chile experienced a period of sustained growth and moderate inflation (see figure 15), which sparked the idea of a "Chilean miracle" (see Richards 1997). Surplus fiscal accounts were among the main determinants of controlled inflation. Growth was led by a strong export push that generated continuing trade surpluses, which –together with favorable negotiations with international debtors and the IMF- served to gradually alleviate the debt burden (see fugure 16). In the antipodes, Argentina's fiscal and debt problems deteriorated heavily at the end of the decade despite the efforts of the Alfonsín administration. Alfonsín's strategies of debt re-negotiation and inflation taming failed epically and by the end of the decade external debt climbed to more than 80% of GDP, inflation skyrocketed and the GDP sunk.[70]

[70] Alfonsín was unable to forge an enduring compromise with the sector of non-competitive business and with organized labor. The lack of results of the Austral plan and several failed concertation efforts reignited the distributional struggle with the consequences of mounting inflation and creeping external debt. At the same time, his strategy to form a "debtors bloc" with Mexico and Brazil to negotiate debt-alleviation under favorable terms backfired, making creditors particularly biased against any debt write-off. While until around 1986 the unwillingness of the government to negotiate with organized actors eroded the possibility of constituting an enduring power bloc, in the second, the pressing urgency of domestic and external constraints left little margin of maneuver to sustain an embedded developmental regime. For a succinct account of the period over these lines see Smith (1990).

Figure 16:
Argentina and Chile, Economic constraints indicators 1986-2000
(% of GDP)



Source: Trade= IMF; Debt= ECLAC; Fiscal balance, AR= MECON (2005), CL: Jofre et. al. (1998).

In Chile, a democratization process in the context of good economic performance gave the upper hand to the neoliberal bloc and reduced the capacities of the new center-left government to advance an alternative social bloc, least so a more embedded developmental regime. In Argentina, the pressing economic situation virtually closed any chances to re-create a progressive alliance and an alternative developmental regime. In this sense, while Chilean democratic governments were constrained by credible threats of investment strike from business in the neoliberal bloc, in Argentina the upcoming democratic government was *ex-ante* constrained by a lack of policy alternatives and coalitional bases.

International conditions would change radically at the beginning of the 1990s and ease some of these constraints toward the middle of the decade. The signing of the Brady Plan[71] to alleviate debt and the financial instability in the developed markets combined

[71] In the context of the Latin American debt crisis, the Brady Plan of 1989 (named after US. Secretary of the Treasury Nicholas Brady), constituted a major shift in the attitude of international creditors towards the need to include significant debt reduction both of nominal debt levels and interest rates –although upon harsher conditionalities (Edwards 1995, 69–83; Bustillo and Velloso 2014). The Brady Plan encouraged the exchange of due debt for guaranteed sovereign bonds that included debt restructuring and reduction, and that could be traded in secondary markets. In 1996 ten Latin American countries had signed Brady

with a reduction in international interest rates, produced record high capital flows into the region. The conformity of the region's economy with the new development orthodoxy produced a boom cycle, but also made it extremely vulnerable to the vicissitudes of capital flows (see Frenkel 2003). The region would have to overcome two such events: the Mexican ("Tequila") crisis of 1994-5, and the Asian crisis towards the end of the decade.

a) *Chile: center-left governments without a business base*

The return to democratic rule brought political parties back into the center of the Chilean political scene. The new party system resembled in many ways the one that was in place before the military putsch, with its main party-lines and cleavages (see Scully 1996). The most important new features were the emergence of a new cleavage marked by the support or not for the dictatorship,[72] which marked the collaboration between the center Christian Democratic Party (PDC) and the "renovated" left in the Socialist Party (PS)[73] under the *Concertación* alliance.[74]

The Concertación's economic teams (*equipos técnicos)* had been the main critics of the military-led neoliberal developmental regime (P. Silva 1991). They had voiced in this context, an economic policy program combining trade openness and competitive exchange rates promoting export sectors, as well as more selective industrial policy to promote competitive advantages in the manufacturing sector. In 1984, Alejandro Foxley –future Minister of Finance of the first *Concertación* government- had argued in favor of a development policy "as a method of classification and compatibilization between long-term objectives and the role played by each industrial sector" (Foxley 1984, 34

agreements, and debt alleviation ranged from 30% to 45% of all debt stocks (Bustillo and Velloso 2014, 93).

72 For Scully (1996, n. 56) this cleavage dissolved quickly after the first democratic election. Other authors give it relevance up until the end of the 2000s (e.g. Luna and Mardones 2010, 116).

73 Among the Chilean left, the Socialist Party (PS) was historically to the left of the more moderate Communist Party (PCCh). They were the more radicalized faction of the Allende government and portrayed by the right as one of the main instigators of subversion. During the 1980s, both parties switched positions, and a "renovated" socialism embraced democracy and the market economy. See Roberts (2011). During the 1990s Socialists in the *Concertación* ranged from those converted to "liberal socialism" to others that remained strongly in favor of state intervention in the economy. The former usually held the most prominent positions in the *Concertación* governments. Chile, Interview 6.

74 Two other parties participated in the Concertación: the small Radical Party (PRSD) and the catch-all Party for Democracy (PPD).

translation is mine), strongly insisting on the need of a selective and interventionist industrial policy (1984, 41-2).[75] As the possibility of regaining democracy increased, the Concertación tempered its discourse in order to generate support among reluctant business elites (E. Silva 1996; Barrett 1999, 10). However, although much more moderate, the *Concertación* government program of 1989 still included the establishment of a Ministry of Industry and a new framework for productive promotion (Barrett 1999, 14). After the alliance of the socialists with the Christian democrats in the *Concertación,* Communists remained the main party at the left-of-center. Their chances to be represented in parliament, however, were severely curtailed by the electoral system enshrined in the Constitution by the outgoing military authorities (see chapter 7).

The *Concertación* alliance was copied at the union level as parties reasserted their control over worker organizations at the end of the 1980s (Drake 1996, 143), and the Christian Democratic and Socialist unions took the lead at the renovated all-union Unitary Workers Central (*Central Unitaria de Trabajadores*, CUT). After the experience of the dictatorship, and despite the reinvigoration of protest amidst the 1982-3 crisis, unions were particularly weak. While unionization rates peaked after the return to democracy, climbing from 14% in 1986 to 20.6% in 1991, they were rapidly reduced and stabilized only at around 13% at the end of the decade (Visser 2013).

At the right of center stood the parties that defended the legacy of the Pinochet regime. The center-right was occupied by the National Renovation (*Renovación Nacional, RN*) party. RN was the biggest party of the right, included members of the disappeared National Party representing traditional and agrarian interests, and a young generation of liberals who had supported the restoration of civilian rule. RN figures had led the dialogue with the opposition in the aftermath of the 1982-3 crisis. To the right of RN stood the Independent Democratic Union (*Unión Demócrata Independiente,* UDI). The UDI emerged as a splinter of RN in the late 1980s, and constituted the political domicile of the closest collaborators and supporters of Pinochet. It enjoyed support of the higher classes and the sympathy of the business community, constituted the staunchest opponent

[75] See also similar ideas by Carlos Ominami, Minister of Economy of the first *Concertación* government (Ominami 1987).

to any change of the status quo, and managed to take root in some local shantytown organizations thanks to patronage policies during the dictatorship.[76]

Despite significant popular support,[77] the Christian Democratic-led *Concertación* governments of Patricio Aylwin (1990-93) and Eduardo Frei (1994-1999) faced stiff opposition from the right-wing parties in parliament and business skepticism. Thanks to successful *opposition blockade* mechanisms, RN and UDI were able to veto any legislation that aimed to change the status quo (see chapter 7). After the 1982-3 crisis, the business community at-large was committed to free-markets and external openness, pushed for the gradual establishment of a free floating exchange rate[78] and was heavily against any expansion of the state in the economy least so the implementation of industrial policies. One *Concertación* policymaker stresses the degree to which the neoliberal bloc opposed a more embedded industrial policy:

> "additional things that we wanted to do but we couldn't: industrial development policies. It was vetoed. If we talked about that, we had the press falling upon us and all the nebeoliberal extremism, the UDI, etc."[79]

In fact, the Chilean production profile during the 1990s was not particularly favorable to the introduction of a more embedded developmental regime. The competitive primary exports sectors prolonged their dominance well into the decade (see figure 17) thanks to the reconfiguration and concentration made possible by privatization during the 1980s, and their diversification into public utilities (see *support creation* in chapter 6). Most important were the "ideological" business sectors in the dominant bloc, i.e. those formed through the privatization of state companies to officials of the military regime, who controlled important segments of the non-competitive sectors such as the chemical and metallic industry. During the decade, the financial sector recomposed its strength, constituting once again a powerful component of the neoliberal bloc.

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[76] Many UDI politicians had been appointed majors of the most important municipalities during the dictatorship. The UDI also controlled key positions in government that allowed it to take root in civil organizations. See Huneeus (2007, 243–60).
[77] Presidents Aylwin (Christian Democrat) and Frei (Christian Democrat) were elected with 55.17% and 57.98% of the vote against 29.4% and 24.42% of their closest right-wing opponents. The *Concertación* also obtained the majority of votes for Congress and municipalities during the 1990s. Data from http://www.servel.cl.
[78] Chile, Interview 2.
[79] Chile, Interview 2.

Conversely, the non-competitive sector enjoyed high growth rates, but with a share of value added of only 5% it could hardly become the leading sector for an alternative developmental regime. Moreover, while continuing to ask for greater state protection, the more dynamic segments of the non-competitive sector (rubber and plastics, fabricated metals and machinery) switched strategies toward export markets and therefore embraced trade openness as advocated by the dominant social bloc and its leading competitive factions (see Bull 2008).

Figure 17:
Chile, Production profile 1990-1999[a]

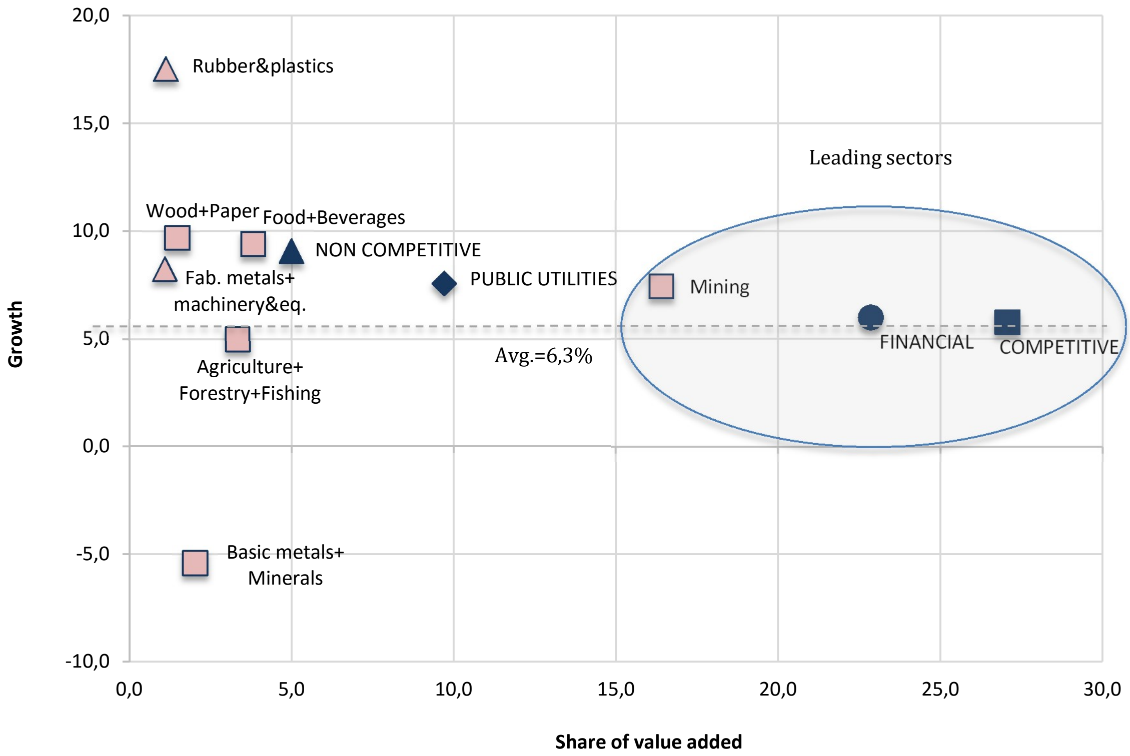


Figure shows only sectors with a share in value added of 1% or more.
Source: Prepared by the author using data from: Value added, ECLAC; Manufacturing value added, UNIDO.

With lack of majorities in parliament, no significant business sectors to push for an alternative developmental regime, and hostile leading economic sectors threatening with business strike, the *Concertación's* more centrist wing decided that democratic consolidation needed policy restraint and accommodation (see Fazio and Parada 2010, chap. 1). A pattern of consensus policymaking would emerge from this, privileging continuity with the previous neoliberal developmental regime. Analysts have called it "*consensual democracy*" (Siavelis 2010; Garretón 2013, 87).[80] *Concertación*-led unions echoed the politics of restraint of the *Concertación* with the need to "lower their expectations so as not to upset political or macroeconomic stability" (Drake 1996, 144)

Table 10:
Chile, Social blocs during the consolidation period

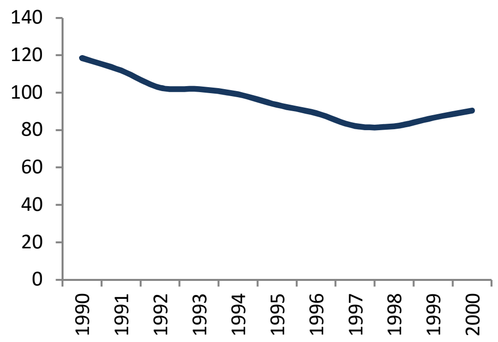
	Neoliberal bloc		Alternative bloc	Excluded
	Core	*Allies*		
Political	Right (UDI- RN)	Center-left (Concertación)	--	Left (Communist Party)
Business	- Competitive sector - "Ideological" business sectors - MNCs	Non-competitive sector	--	--
Labor	--	- Conertación-led CUT	--	--

Source: Prepared by the author.

In sum, the Chilean neoliberal bloc maintained its power resources in the 1990s and forced the actors previously advocating a departure from neoliberalism to become their allies. This confirmed the pragmatic neoliberal develomental regime in place, with minor variations. In the case of the exchange rate, this configuration implied the confirmation of the general monetary framework combining price stability with export competitiveness. Although the particular conditions of the early 1990s -record high capital inflows and the quick appreciation of the Chilean Peso- gave room for a more heterodox management of the exchange rate, including the introduction of capital controls (see Frenkel and Rapetti 2010, 35–6; Ffrench-Davis 2003), when export competitiveness started to conflict with price stability, the preference was clearly set for the latter (Morandé and Tapia 2002, 70–1). In fact, from 1995, the Central Bank openly let the ER appreciate to alleviate the effects on inflation of sustained high economic activity (Frenkel and Rapetti 2010, 36) (see figure 18). Similarly, when the Asian crisis busted in 1997, the main fear of the Central Bank was that massive capital outflows would threaten the established inflation targets. It thus made monetary policy extremely contractive in a context of already perceptible economic downturn (Céspedes et al. 2005, 22; Morandé and Tapia 2002, 70; see also Ffrench-Davis 2003, 371).

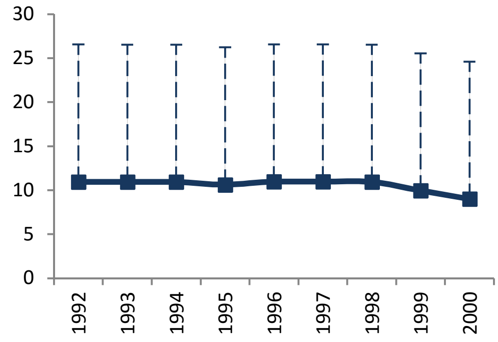
[80] The fate of the failed center-left Alfonsín government at the other side of the Andes, helped to convince Concertación leaders of the importance of moderating social demands during the first democratic government (Giraldo 1996, 255).

Figure 18:
Chile, Real exchange rate 1990-2000
(2005=100)



Source: Central Bank of Chile.

Figure 19:
Chile, Tariff rates[a] 1992-2000



[a] Effectively applied tariffs (AHS), weighted average. Error bars show maximum rate.

Source: WITS (World Integrated Trade Solution).

The trade policy that was followed set the tone for the industrial policy efforts, and characterized the struggles within the governing coalition. At the beginning of the democratic transition there were two positions regarding international integration (Wehner 2011, see; Bull 2008). The first was held by the Ministry of Finance and privileged integration with the advanced countries, a trade policy preference that benefitted competitive sectors, especially exporters in the raw-material segments. The key policy for this fraction was the negotiation of an entry to the North American Free Trade Area (NAFTA).[81] The second view was held by the Ministry of Economy and privileged integration with Latin America and especially the country's neighbors such as the emerging Mercosur bloc. This trade policy benefitted and was supported by export-oriented segments of the non-competitive sectors.

Several developments signaled the precedence of price stability over a more active role for industrial policy, as well as the privileging of an alliance with the neoliberal bloc. The Aylwin and Frei administrations continued the policy of unilateral trade openness of the dictatorship, gradually diminishing tariffs throughout the decade (see figure 19) and complementing it with the signing of bilateral Free Trade Agreements (FTA). Chile declined the invitation to join Mercosur in 1990 and rushed to negotiate an FTA with the

[81] As part of US President G. Bush's hemispheric integration plan "Initative for the Americas", Chile got a promise that it would be able to access NAFTA. In 1994 the invitation was formally made, but was rejected in the US parliament amidst the problems caused by the 1994-5 Mexican crisis in the regional bloc. As the invitation was receded, Chile sought to "enter NAFTA through the back door" (Bull 2008, 204), i.e. by signing individual FTAs with each NAFTA member (Wehner 2011, 85–102). Chile subsequently signed FTAs with Canada (1996), Mexico (1997), and the USA (2003). See Fazio (1996, 85–102).

USA. This agreement -signed in 2003 but negotiated throughout the 1990s-, severely curtailed the ability of authorities to use heterodox measures such as applying royalties to natural resource producers in order to finance industrial policy measures, or using capital controls (Fazio and Parada 2010, chap. 3).[82] Moreover, the accession of Chile to the WTO (1995), made necessary the elimination of several of the successful export support measures introduced a few years earlier (Agosín 2001). As a *Concertación* policymaker reckons when asked about the trade-off that the access to the WTO generated: "Nobody ever said 'to hell with the WTO, let's keep the *reintegro* [export incentives]'. That didn't exist as a position".[83]

Within the constraints of unilateral trade liberalization, the quest for fiscal surpluses and the principle of policy neutrality, some *Concertación* officials tried to impulse a more consistent horizontal industrial policy framework. They established a new battery of demand-side benefits, consisting mainly of financing grants for SMEs (Román 2003, 40; see also Muñoz Gomá 2001, 49), strictly designed to prevent any kind of sectoral preference (Muñoz Gomá 2009, 13). Public spending figures (table 11) show a decrease in subsidies and transfers, and a slight increase in public investment.

Table 11:
Chile, Public expenditure in industrial policy 1984-1999

	1984-1989	1991-1999
Subsidies and transfers	14.1	11.1
Capital expenditure	2.9	3.3
Of which: Fix investment	2.4	2.9
Of wich: Capital transfers	0.5	0.4

Source: Prepared by the author using data from Jofre et. al. (1998).

b) Argentina 1: a renewed neoliberal experiment

In 1989, Argentina celebrated the first change of office between two democratically elected presidents in more than half a century. This great achievement was however besieged by a catastrophic state of the economy and growing social protest and turmoil. Whereas hyperinflation and capital flight made the economic landscape extremely acute and volatile, the victory of peronist Carlos Menem under a traditionally populist and

[82] Chile maintained the capacity to use capital controls, but only in cases of economic crisis, i.e. when they are of no longer use because capital flows go in the opposite direction.
[83] Chile, Interview 9.

state-centered discourse did not help (Murillo 2001, 134). An intelligent politician, president Menem foresaw the necessity of a drastic turn if he was to survive this untenable economic and political situation (Murillo 2001, 134; M. Pastor and Wise 1999, 478–9; Acuña, Galiani, and Tommasi 2007, 39).[84] Accordingly, he deployed a complex set of alliances and relationships that allowed him to construct a working coalition based on the very actors he attacked during the presidential campaign: the liberals, the big conglomerates -especially those demanding state retrenchment and liberalization-, and the financial sector -external creditors included.

Menem assembled the new coalition through two bold moves (Murillo 2001, 135). First, in order to neutralize the potential for a new "market coup"[85], Menem invited the most internationalist business sectors to participate in his government, nominating an executive of the Bunge&Born group to the Ministry of Economy. Bunge&Born was the biggest economic conglomerate in Argentina, with diversified interest in several sectors, but concentrated mainly in the competitive sectors of agricultural commodities and food manufactures (Etchemendy 2012, 75–6).[86] Moreover, during the 1980s, high executives of Bunge&Born had attended the economics course for businessmen organized by the Argentinean Chicago Boys.[87] Menem's first political move was therefore intended to signal not only the government's general responsiveness to business interests, but a particular commitment with free-market policies (Etchemendy 2012, 75–6). Second, he invited the conservative UCEDE party to take part in the government. During the 1980s, the UCEDE had successfully reorganized the political right, revitalizing the neoliberal discourse from the discredit of the dictatorship years, and acquired major significance among the upper and middle strata of Buenos Aires (see Gibson et al. 1990).[88] Thanks to

[84] Several authors coincide that the severity of the domestic and external constraints left literally no other choice than to follow the neoliberal way (Beltrán 2006, 204; see especially Acuña, Galiani, and Tommasi 2007).

[85] The economic convulsions and capital flight that surrounded the 1989 elections, the early turnover of office that this made necessary (five months in advance of the expected date), and the U-turn of the Menem administration made analysts picture the situation as a true "market coup" (see Starr 1997, 101).

[86] The boldness of the move can only be seen through the eyes of Juan Perón himself. Referring to the Bunge&Born group he wrote in 1959 a book entitled "The sellers of the fatherland. The proofs of a traison" ("*Los vendepatria. Las pruebas de una traición*"). Bunge&Born represented the landowning oligarchy that had historically opposed the populist alliance between domestic industrials and the working class that was the basis of the peronist movement and Justicialista party to which Menem belonged (Basualdo 2006, 286 n. 6).

[87] Argentina, Interview 15.

[88] A third relevant move made by Menem was the recomposition of relations with the military. In the first neoliberal experiment, corporatist military rank-and-file had strongly opposed privatizations affecting the strategic military-industrial complex. During the 1980s, discontent grew among the Armed Forces with the trials against military crimes pushed by the Alfonsín government and the discredit of the military as a

Menem's neoliberal turn, however, the PJ would absorb many of the adherents of the UCEDE in the subsequent years, adding to its electoral basis the support of high and high-middle classes (Cherny 2009, 190–1).

The initial lineup of the Menem administration moved swiftly to implement a developmental regime in accordance with the interests present in the emerging dominant social bloc. This was most visible in the quick trade liberalization and deregulation moves, and the enactment of the Law on State Reform and the Law on Economic Emergency which gave the executive ample powers to start state retrenchment i.e. privatization and the elimination of subsidies. Moreover, the Menem administration designed a series of stabilization plans in order to control the inflationary context.

Menem's initial moves met with scant political opposition. First, the populist PJ was torn between its disagreement with the course of economic policy, and the need to support its government. As Steven Levitsky has documented, the PJ's strong party culture and weak internal institutionalization make it particularly capable of surviving swift policy changes and adapt to new situations losing neither electoral power nor party discipline as they enable party leaders to wield autonomy from party ranks, arbitrarily change the party cadres, and circumvent internal procedures (Levitsky 2003; 2005; see Jones 1997, 271–2). Menem was skillful enough to use these features to take control of the party machine, appointing his brother Eduardo Menem to chair the party amidst internal divisions.[89] Second, the labor movement also divided into loyalists and opposition. Loyalists reaped the benefits of negotiating reforms (labor code, unions welfare system[90]) in beneficial terms (see chapter 7). Moreover, the very control of the party leadership allowed Menem to gradually diminish the power of the union movement inside the party structure (Levitsky 2003). The unions that remained in opposition created minor splinter groups such as the Movement of Argentine Workers (MTA) (truckers) and the Congress of

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body. Menem offered several symbolic gestures to redeem the Armed Forces, and more importantly, granted generallized pardon to those still affected by trials in exchange of the acceptance of privatization (Starr 1997, 105–7).

[89] The control of the party was a crucial political resource. It gave Menem power over the nomination of candidates for the next parliamentary elections, and thereby loyal congressmen (Cherny 2009, 191–2). For a more general account of the relation between party structure, party bosses and candidate selection, see Spiller and Tommasi (2008, 92–5).

[90] Since 1944, an important part of the Argentine social security system –health insurance, complementary pensions- is run by unions through their *obras sociales*. These were made mandatory in 1970. Payroll contributions go directly to these funds, increasing greatly the financial capacity of labor unions, as well as difficulting the emergence of a private health insurance sector. See Murillo (2001, 144–5).

Argentine Workers (CTA) (white collar public employees, and informal workers) (Murillo 2001, 132; Etchemendy and Collier 2007, 369).

Third, the most important party in the opposition, the UCR, was submerged into an internal crisis after the experience of hyperinflation and the defeat in 1989. Support for the radicals in presidential elections sunk from 52% in 1983, to 37% in 1989, to only 16% in 1995 (Starr 1997, n. 33). Moreover, the three biggest parties in the electoral arena (PJ, UCR and UCEDE) all gravitated towards neoliberal economic policies in the 1989 election (McGuire 1996, 183; 191). This opened space for new parties to emerge, parties that would slowly occupy the left of the political spectrum. The Front for a Solidary Country (*Frente de País Solidario,* FREPASO), founded by left-wing splinters from the PJ and the radicals, plus other minor leftist forces, gained notoriety only from 1995.

Table 12:
Argentina, Social blocs during the consolidation period

	Neoliberal bloc		**Alternative bloc**
	Core	*Allies*	
Political	- President Menem and collaborators - UCEDE	- PJ - UCR (Angeloz)	- FREPASO
Business	- Competitive sector - Financial sector (domestic and external) - MNCs	- Non-competitive sector (favored by privatizations)	- Non-competitive sector (not favored by privatizations)
Labor	--	- CGT (San Martín, Azopardo)	- MTA - CTA

Source: Prepared by the author.

Far from producing a stable developmental regime, however, the new political configuration and policy advances by the Menem administration launched a set of struggles within the business sector (Basualdo 2006, 287–8; Beltrán 2011, 227; Etchemendy 2012, 76–7). Most importantly, the elimination of the promotion schemes and industry subsidies dating back to the early 1970s, and the prospects of a privatization process that could transfer state assets to external capital, alienated the most dynamic fractions of the non-competitive sector dependent on state aid and the activity of state companies. They openly voiced their discontent and engaged in practices that undermined the success of Menem's initial stabilization attempts. Among them, unilaterally breaking price freeze agreements and engaging in currency speculation (Etchemendy 2012, 76; see also Corrales 1998).

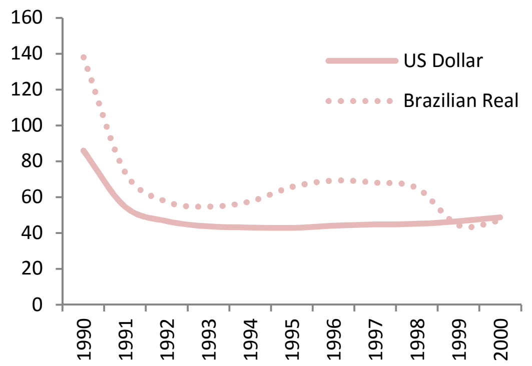
Around 1990 the Menem government was in an extremely fragile situation. Two consecutive stabilization plans had failed, inflation was on the verge of becoming "hyper" again, and the consequent plummeting of approval for the president not to mention the alienation of his electoral base and own party threatened to lose the mid-term congressional elections (Heredia 2011, 185; Starr 1997, 109). Menem made a last effort to strengthen the new dominant bloc. This involved both an "insurance policy" to the financial sector in terms of his commitment with price stability, and significant concessions in terms of industrial policy to the reluctant non-competitive sector.

Regarding the first, Menem appointed a new team to the Ministry of Economy led by Domingo Cavallo. A renown pragmatist, Cavallo and his team argued that the only way to overcome an extreme economic situation was an extreme solution (see Frenkel and Rapetti 2010, 30–1). In march 1991 Cavallo launched the "Convertibility plan" establishing a currency board ER regime. The Congress dispatched it quickly thanks to the peronist majority in both chambers. Moreover, the continued situation of high inflation and economic volatility enticed support from a wide array of actors provided that the new plan was finally able to stabilize the economy (see Heredia 2011, 192; Starr 1997; Cherny 2009). The Convertibility law established a 1=1 parity of the Argentine peso with the US dollar, requiring congressional approval for any change. [91]

In parallel but in the contrary direction, several measures were taken to compensate the non-competitive sector. The leading companies in the non-competitive sector were benefitted handsomely with privatization (see chapter 6). In the case of industrial policy, the measures were designed as a compensation for the expected costs of restructuring under a fixed ER and to induce the move toward export markets.[92] This was especially so after the bold process of exchange rate appreciation that followed the introduction of the currency board (see figure 20).

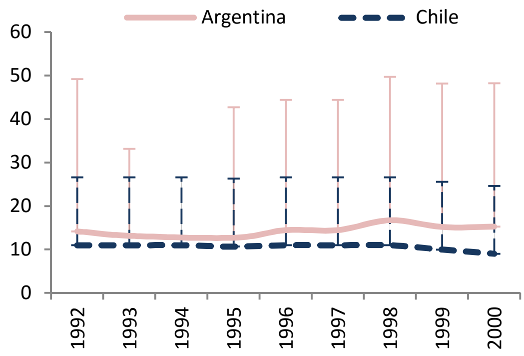
[91] When the new economic team took office, two consecutive stabilization plans had failed. The idea of the currency board had already circulated in the Ministry of Economy previous to the arrival of Cavallo, but the authorities were wary of its risks –especially after the experience with a fixed ER during the military government. It is also relevant to note, that in the early 1990s currency boards were not of the taste of the IMF who tended to recommend free floats instead. In the case of Argentina, the IMF was afraid that the defense of the exchange rate parity would erode the gains from privatization and jeopardize debt-repayment. See Heredia (2011), Cherny (2009). Interestingly, the Chicago boys in government and some members of the right-wing UCEDE did not support the currency board bill in Congress because they considered it was not constraining enough as it contained clauses that made it more flexible.
[92] According to Cherny (2009, 147–8), apart from the compensations, the cheaper access to finance in dollars, as well as economic reactivation were also important to mark the support of the strongest groups in the non-competitive sector for neoliberalism.

Figure 20:
Argentina, Real exchange rate 1990-2000
(2005=100)



Source: Center of International Economy, Ministry of Foreign Affairs.

Figure 21:
Argentina and Chile, Tariff rates[a] 1992-2000



[a] Effectively applied tariffs (AHS), weighted average. Error bars show maximum rate.

Source: WITS (World Integrated Trade Solution).

In the case of trade, the new directions favored a combination between trade openness and selective protection. This was accomplished in the context of the constitution of Mercosur, which sought to liberalize trade within the bloc, but selectively protect certain sectors from outside competition (see Manzetti 1993; Gardini 2006).[93] Thus, while the average tariff rate decreased markedly from the previous decades and was not significantly different than that of Chile, differential tariff and non-tariff protection for non-competitive sectors such as automobiles and steel makers imposed an important dispersion (see figure 21). Tariffs where slightly increased in Menem's second term in order to further shelter domestic producers from the more competitive Brazilian business (Manzetti 1993). Other protective measures were added, such as antidumping regulations that benefitted the strongest non-competitive segments -metallic industry, transport equipment (Etchemendy 2012, 103–4).

In the case of public expenditure, while public investment fell considerably from the already lower levels of the 1980s, subsidies and transfers to the private sector recovered significantly (see table 13). These new measures can be classified at the intersection between a horizontal and an "open economy" embedded-neoliberal IP regime. Most new benefits, however, were accrued on a competitive basis and favored no specific sector

[93] Menem's Mercosur was however far more neoliberal-oriented than what Alfonsín had sought. In its initial conception, it comprised a sector-by-sector integration agreement with Brazil, with the goal of promoting specific capital goods sectors. Only during the 1990s it included the idea to create a customs union between its member countries. Mercosur remained, however, diametrically opposed to a policy of unilateral tariff reduction and bilateral FTAs, as well as integration with the advanced countries first as in the case of Chile. See Manzetti (1993).

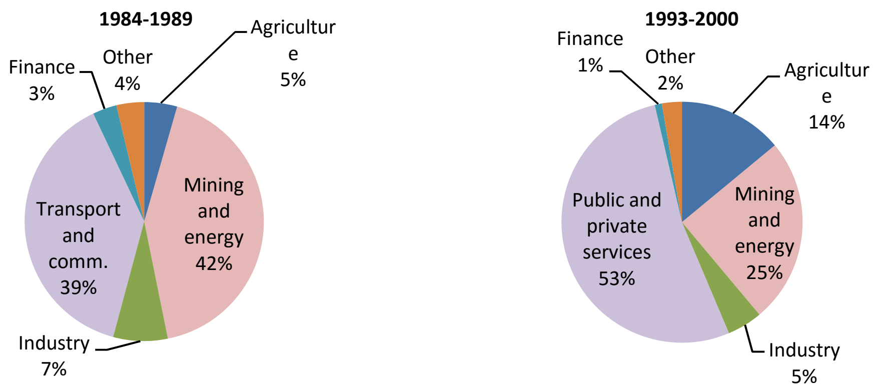
(Sirlin 1999, 109; Sánchez, Butler, and Rozemberg 2011; Baruj, Kosacoff, and Ramos 2009, 19–22). Data on sectoral composition of economic affairs expenditure (figure 22) shows in fact the growth in the share of expenditure to the neutral "public and private services" category over specific sectors.

Table 13:
Argentina, Public expenditure in industrial policy 1984-2000

	1984-1989	1991-2000
Subsidies and transfers	7.3	11.1
Capital expenditure	6.0	2.2
Of wich: fix investment	5.5	1.4
Of wich: Capital transfers	0.5	0.3

Source: Prepared by the author using data from MECON (2005) (years 1984-1989) and CEPAL (years 1991-2000).

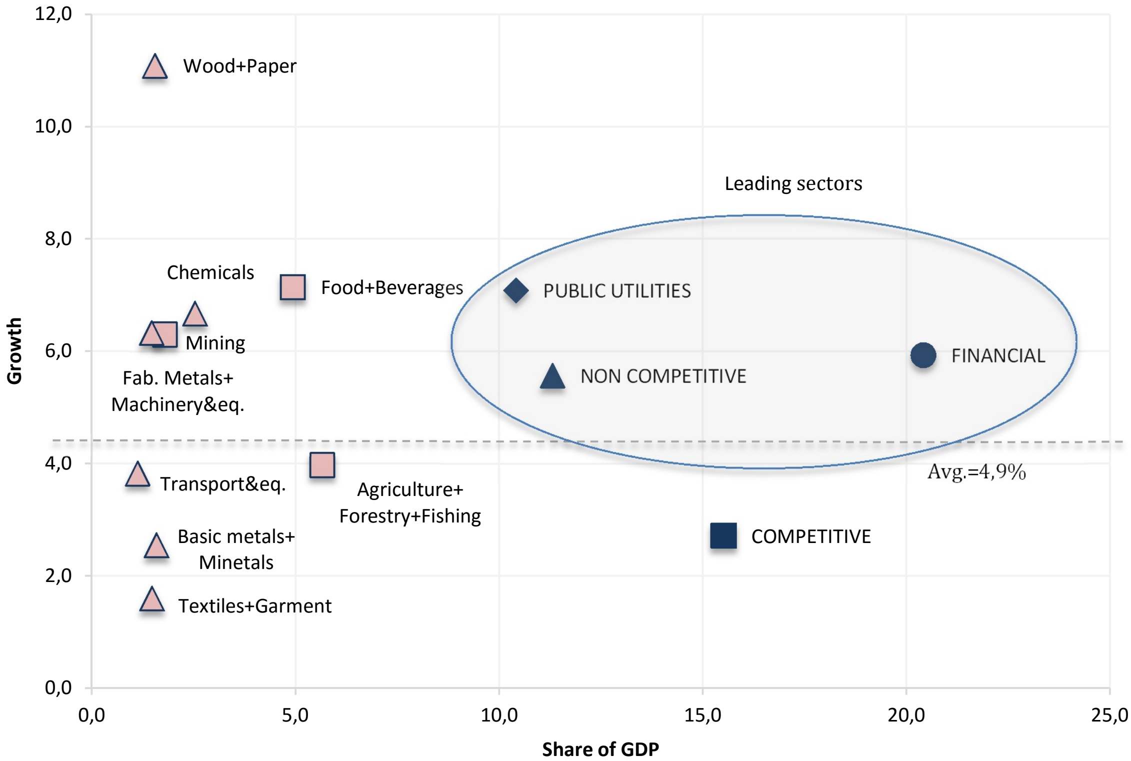
Figure 22:
Argentina, Public expenditure in economic affairs 1984-2000



Source: Prepared by the author using data from MECON (2007).

Argentina's production profile reflects well the renovation of alliances at the level of the business support of the emerging neoliberal bloc, as well as the resulting policy mix (see figure 23). The financial sector appears as the unquestionable leading sector, representing over 20% of value added and more than 6% of growth. The non-competitive sector benefitted greatly from the array of compensations designed to make it an ally of the neoliberal bloc. Some of the more dynamic segments (metallic and machinery industries, chemicals, transport) were those directly benefitted. The public utilities sector was also a significant participant in the neoliberal bloc. It grew thanks to the privatizations of the period and benefitted greatly from a large flow of FDI into the sector (see chapter 6). The competitive sector also participated in full right in the neoliberal bloc. Although weakened by specific segments not shown in the figure (fuel manufactures), traditional competitive segments such as food and beverages and agriculture were among the most dynamic sectors during the period.

Figure 23:
Argentina, Production profile[a] 1990-1999



[a] Figure shows only sectors with a share in value added of 1% or more. The figure doesn't show the fuel manufacturing segment (competitive) despite having a share larger than 1%.
Source: Prepared by the author using data from: Value added, ECLAC; Manufacturing value added, UNIDO.

c) Argentina 2: sustaining neoliberalism through rough waters

The renewed neoliberal developmental regime in Argentina stood three successive challenges: the contagion of the Mexican Tequila crisis in 1994-5 that threatened to break the currency board, a presidential election in 1995 when Menem was reelected, and a second presidential election in 1999 when a united opposition (UCR and FREPASO) took office. The first two were critically tied, and their simultaneous overcoming implied a major victory for the neoliberal bloc. The third reinforced the currency board, but at the price of economic collapse.

The contagion of the Tequila effect produced a steep run from emerging markets, making the currency board –highly dependent on the inflow of foreign currency- shake heavily.

Around 18% of capital in the Argentine financial sector (US$7.5 billion) flew the country in the first months of 1995 only, making the central bank (BCRA) lose one quarter of its reserves (Starr 1997, 97–8; see also M. Pastor and Wise 1999, 484) Given the automatic adjustment mechanism built in the currency board, this led to an important contraction in GDP: from 6.2% in the last quarter of 1994, to -4.6%, -8.1% and -7.7% in the first three quarters of 1995 (Starr 1997, 98). Concomitantly, unemployment rose from an already all-time high 10.8% in may 1994, to 18.6% the very month of the presidential election; in the capital Buenos Aires, it was above 20% (Starr 1997, 98; M. Pastor and Wise 1999, 484).

As Mariana Heredia (2011, 205; see Starr 1997, 109) reckons, the may 1995 elections in the midst of the Tequila crisis were successfully framed by the PJ as a decision between "convertibility or the cliff", portraying Menem as the only capable of steering the country through the rough waters. Argentine's believed so and elected Menem by a 20% margin to his closest competitor, despite declining support for his government and economic program a few months earlier (Starr 1997, 109).[94]

After the short but steep crisis, the government confronted three alternatives to strengthen the argentine economy (Starr 1997, 114): internal devaluation (i.e. decrease in domestic costs), external devaluation (i.e. change in the parity), or increase in productivity. With a recent re-election in his shoulders, Menem took a clear decision for the first, which implied the strengthening of the existing dominant bloc and the neoliberal developmental regime. The first move was to appoint Chicago-Boy technocrats that had so far remained at the margins, to the main positions at the Ministry of Economy and the Central Bank (Heredia 2011, 207; 209).[95] The new Minister of Economy Roque Fernández and Central Bank governor Pedro Pou decidedly moved to strengthen the currency board through deepening the utilization of dollars in domestic contracts, and launched a renewed assault on fiscal expenditure as well as labor market flexibilization proposals (Cherny 2009, 119; 123–4; Novaro 2009, 512).

[94] Interestingly, support for the president rose again above 50% just before the election, while support for the economic program continued to sink, stabilizing below 30% (see Cherny 199 figure 6.4)

[95] Some authors notice, however, that the dismissal of the father of the currency board, Domingo Cavallo, was not entirely welcomed (Starr 1997, n. 35; Cherny 2009) Despite his orthodox credentials, the new minister Roque Fernández was considered politically weaker than his predecessor. Investment circles believed Menem would try to boost to the economy before mid-term elections in 1997.

These steps were particularly welcomed by the financial sector, domestic and international, and received the open recognition by the IMF who became now a staunch supporter of the Argentine stabilization model (Heredia 2011, 205–6).[96] The IMF and the international financial community were crucial for the survival of the currency board through the Tequila crisis, injecting some US$4 billion to underpin falling international reserves. In exchange, the government committed to increase the VAT (from 18% to 21%) and reduce salaries of public employees by 15% (Cherny 2009, n. 77).

The business bases of the power bloc were also recomposed, towards higher weight of finance and MNCs (Castellani and Gaggero 2011; Cherny 2009, 148–9). A series of buyouts by foreign banks and a further wave of privatization of state-owned banks left a financial industry much more concentrated and dependent on external capital (Castellani and Gaggero 2011, 243–7). Foreign banks increased their participation in domestic deposits from 17% in 1994, to 44% in 1999. In 2000, 90% of the banks represented in the bankers association, Asociación de Bancos Argentinos (ABA), were foreign (Cherny 2009, 153–4). Conversely, forced to adjust to the conditions of an appreciated currency, the export sector enacted a strategy of deepening its specialization in the competitive extractive segments: agriculture and mining (see Castellani and Gaggero 2011, 280–3). The biggest companies controlling the farmers' association (SRA) were successful in keeping criticism from small producers at bay (see Beltrán 2011). On the other hand, troubled with increasing competitiveness problems, the non-competitive sector enacted two alternative strategies (see Castellani and Gaggero 2011, 283–7; see also Cherny 2009, 148–9): exit (it took advantage of renewed capital inflows and sold their assets), or loyalty (bet on the maintenance of domestic consumption through the currency board). As a result of these processes, participation of national companies in the economy fell from 50% in 1994 to only 30% in 1998 (Cherny 2009, 148).

In the aftermath of the Tequila crisis the actors in the political opposition started to unite fronts and threaten the neoliberal bloc (see Starr 1997; Novaro 2009, 522–40): the non-competitive business sector affected by exchange rate appreciation started to gradually voice its disgruntlement; support for the president sunk to less than 15% at the end of

[96] The IMF had been reluctant to support the currency board in 1991, but did not make open criticism. After the Tequila crisis, it supported it wholeheartedly providing the necessary loans to shield it from speculation (Heredia 2011; Cherny 2009, 171–3). From 1995, the IMF was proud to present Argentina as a showcase country. President Menem was invited as guest speaker to the Joint Annual conference of the WB and IMF in october 1998. Michel Camdessus, then director manager of the IMF, welcomed him with the following allocution "Argentina has a story to tell the world." (Cherny 2009, 173, n. 154).

1996 and discontent was duly exploited by the opposition parties, especially the center-left FREPASO; finally, labor united against the renewed assault on labor market flexibilization. The 1997 mid-term congressional elections were a proof of the strength of the center-left opposition against Menem, a result that was confirmed when the alliance between UCR and FREPASO won the 1999 presidential elections.

In 1999, Fernando de la Rúa an old politician from the conservative wing of the UCR became president after reaching 45% of the vote, 10% more than his closest competitor, peronist Eduardo Duhalde. The new government constituted a coalition between the UCR and the FREPASO, the Alliance for Work, Justice and Education (*Alianza por el Trabajo, la Justicia y la Educación, Alianza*), the first of its kind in the Argentine history. The *Alianza* ran an ambiguous campaign trying to balance the more conservative and more center-left feelings inside the coalition, together with an equilibrated mix between criticisms and continuity with the Menem administration (Novaro 2009, 553; Llanos and Margheritis 2006, 88; M. Pastor and Wise 2001, 67–8). It emphatically criticized the social cost of the neoliberal developmental regime but was extremely cautious not the shed doubt about the continuity of the currency board. Even though the new economic team was not its biggest fan,[97] the new economic authorities did not enjoy enough vortes in parliament to change it (see *constitutionalized monetarism* in chapter 8). Moreover, the presidential campaign in the middle of a volatile international scenario and the nervousness of financial markets following the Asian/Russian crises, helped consolidate the idea that the currency board was untouchable (Cherny 2009, 124; see Novaro 2009). The maintenance of the currency board was no less necessary for electoral purposes *tout court*. In fact, the *Alianza* lost significant votes to candidates identified with the previous administration and perceived to be more able to "pilot" the economy through the crisis as in 1995 (Novaro 2009, 553). This was most notably the case with ex-Minister of Economy and presidedntial candidate Domingo Cavallo. In fact, the loss of the peronist candidate Eduardo Duhalde had to do, at least in part, with a confusing declaration where he supposedly supported an exit from the currency board (see Cherny 2009, 224–5; Novaro 2009, 542).

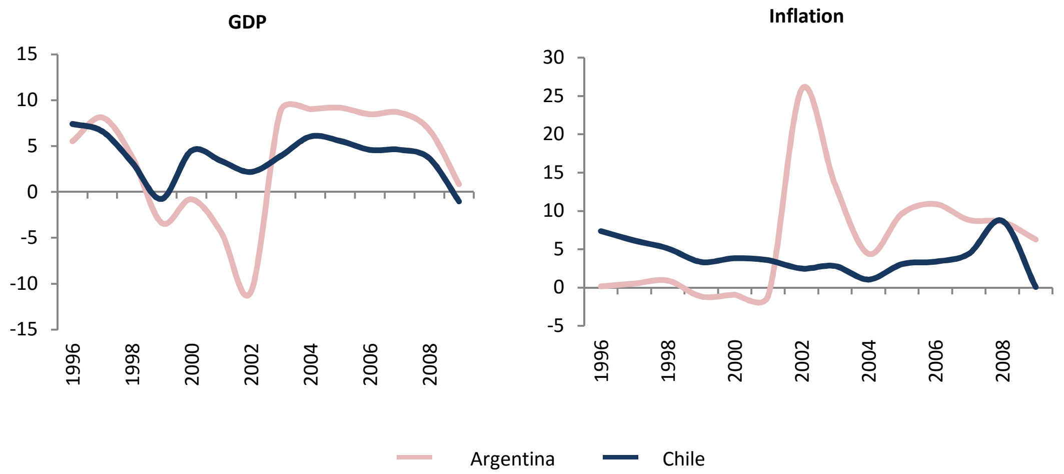
[97] Minister of Economy José Luis Machinea had participated in the heterodox stabilization plan under president Alfonsín in the 1980s. In the early 1990s he had openly opposed the currency board, but once established accepted it as he saw the costs of an exit outweighed those of maintaining it. Accordingly, as a consultant to the industrials association (UIA) he tried to propose several policies (from social policies to subsidies and incentives to less competitive sectors) to help mitigate the effects of the currency board. Argentina, Interview 8.

In sum, the Chilean neoliberal developmental regime continued its sedimentation during the consolidation phase. The tight entrenchment of its business base of support and the weakness of labor made the new center-left democratic authorities unable to find coalitional partners to attempt an alternative project. Moreover, while the center-left *Concertación* was able to tilt the existing embedded-neoliberal regime a little further toward the embedded end, coalitional as well as institutional circumstances prevented that these efforts went too far. Conversely, in Argentina the populist peronist party gave a U-turn under the command of president Menem intending to escape the pressing economic and coalitional conditions of the late 1980s. He managed in this context to assemble a new dominant social bloc composed of populist and right-wing parties together with the financial and competitive sectors, and was able to entice the cooperation of the powerful non-competitive sector and labor unions. Strict institutionalization of the neoliberal developmental regime and the context of an international crisis prevented its breakup when the center-left opposition arrived in government.

II. Legacies: the "turn to the left" and the future of neoliberalism in Latin America

The final period of analysis corresponds to the legacies of more than three decades of neoliberal experiments in Latin America. The stage is opened with the crisis of emerging economies at the end of the 1990s, the subsequent "left turn" experienced by most countries in the region, and the economic conditions brought by the commodity boom. The Asian crisis and its contagion to other developing economies (Russia, Turkey) threatened the Washington Consensus policies in Latin America destabilizing governments across the region (see ECLAC 1998; Levitsky and Roberts 2011). On the one hand, capital outflows and fears of currency crises and the related financial collapse mounted, making domestic markets particularly fragile and economic activity decrease (see figure 24). On the other hand, a reduction of international trade, a fall in commodity prices and increased competition of cheaper Asian products, amplified the pressure on the trade balance and fiscal revenues, further reinforcing the recessionary scenario (figure 25).

Figure 24:
Argentina and Chile, Performance indicators 1996-2009
(% growth)



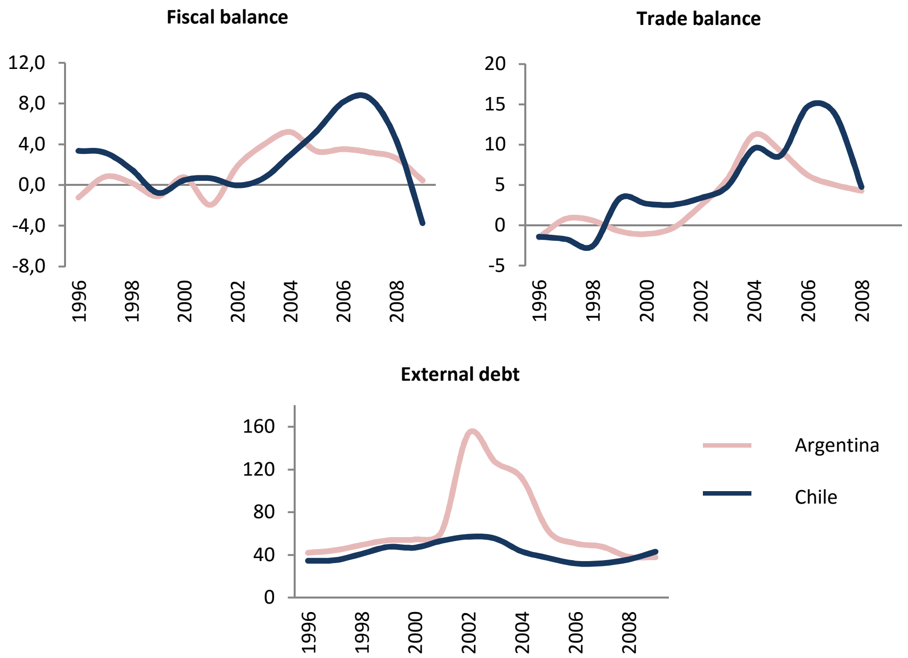
Sources: IMF, ECLAC.

* Argentinean official inflation data have been under scrutiny since 2007 due to alleged government manipulation. Independent measurements systematically show inflation levels above 20%.

The effects of the Asian crisis extended to the early 2000s given the overreaction of domestic Central Banks led by neoliberal policymakers.[98] Towards the middle of the decade, however, a reversal of fortunes greatly favored the region. The quest for higher yields in financial markets –as well as sustained demand for raw materials from China- generated a boom in the prices of commodities (G. Epstein 2008), producing sustained economic growth, and twin trade and fiscal surpluses. The left-of-center governments that took office as a reaction against Washington Consensus policies saw therefore their room of maneuver for domestic policymaking significantly increased (see Levitsky and Roberts 2011; cf. Flores-Macías 2012).

[98] Inflation hawks in charge of Central Banks in the region made sudden increases in interest rates and other highly contractive measures that magnified the recessionary effects of the crisis. Gabriel Palma (2006) dully called this over-reaction a sort of “macho-monetarism”.

Figure 25:
Argentina and Chile, Economic constraints indicators 1996-2009
(% of GDP)



Sources: Trade: IMF; Debt and Fiscal balance: ECLAC.

In Chile, this context served to seal the dominance of the neoliberal bloc, the acquiescence of the center-left and the deepening of the neoliberal developmental regime. In Argentina, by contrast, it exacerbated the contradictions within the dominant bloc and the neoliberal developmental regime, conducing to a spectacular fall with dramatic overtones. What resulted from the ashes of this renewed neoliberal experiment was the reconstitution of a powerful alternative social bloc conducing a progressive developmental regime. While in Chile the weakness of non-competitive sectors and of labor remained a chronic problem for center-left *Concertación* governments trying to find coalitional partners, in Argentina the continued strength of non-competitive sectors and labor thanks to the concessions of the 1990s transformed them into key coalitional partners when the center-left Kirchner government took office.

a) Argentina: the dramatic downfall of a neoliberal poster child

The conditions surrounding the Asian crisis heightened the contradictions inside the neoliberal bloc engineered by Menem during the 1990s. The Brazilian devaluation of

1999 was crucial to tighten the economic constrains and polarize the preferences of economic actors (M. Pastor and Wise 2001, 63; Frenkel and Rapetti 2010, 22). Economic slowdown –driven by a sluggish export sector- eroded both the already substantial current account and fiscal deficits, increasing the chances of a capital stampede and a default on external debt (see Frenkel and Rapetti 2010, 32–3). The neoliberal bloc led by an internationalized financial sector fiercely defended the continuity of neoliberalism epitomized in the maintenance of the currency board. The Menem administration even envisaged full-fledged dollarization was the crisis to threaten the continuity of the neoliberal developmental regime (see chapter 8).[99]

Conversely, from 1999 the non-competitive sector, led by the same groups that had accepted neoliberalism in exchange of handsome benefits during the 1990s, would timidly start to voice its discontent with the currency board and the need to change it (Beltrán 2011, 241–2; 245–6).[100] This defensive position became offensive during 2001, when they openly supported a devaluation, the drop of the currency board for a floating regime, plus a conversion scheme of dollar-denominated debt to pesos (Cherny 2009, 150–1; Castellani and Schorr 2004, 73). They envisaged this as part of an alternative developmental regime that could restore the importance of the domestic economy, the manufacturing industry as the leading economic sector, and the alliance with labor (see Castellani and Schorr 2004, 74–5).

The De la Rua government was bound, however, to maintain the currency board. Despite the initial hopes of a rapid recovery that would make policymaking less constrained, the contagion effects of the crisis only worsened with time. In 2000, of all big emerging economies with fixed exchange rate arrangements during the 1990s (e.g. Sout-east Asia, Mexico, Brazil, Russia), only Turkey and Argentina were still alive (Cherny 2009, 169). The high popularity of president de la Rua (70% at the beginning of his mandate) was moreover strongly related to his promise to keep the currency board (Cherny 2009, 210). In fact, the maintenance of the currency board enjoyed a growing support among the public who saw in it the only way to maintain high levels of consumption and avoid economic collapse (Novaro 2009, 560).

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[99]. This alternative also included an exit from Mercosur and a new international integration agenda following the US-sponsored FTAA (Free Trade Area of the Americas) (Castellani and Schorr 2004, n. 33).
[100] One important constraint on the devaluation strategy was the high level of foreign denominated debt. In fact, near 75% of deposits in domestic banks and almost 80% of total credit were in dollars (Damill, Frenkel and Maurizio 2002 in Cherny 2009, n. 61).

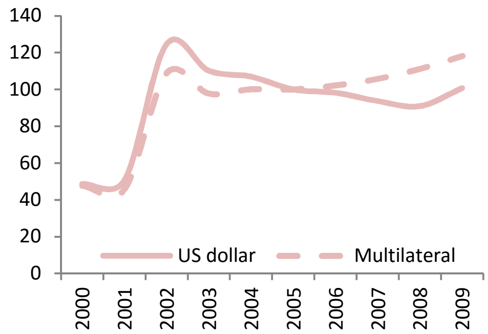
With the crisis unraveled, the De la Rua government could do nothing to appease the nervousness of international markets, and international finance finally turned its back to the Argentine neoliberal bloc. Bad political management (Llanos and Margheritis 2006), and the tightening conditions of external creditors made the situation untenable (see especially Corrales 2002). The currency board was kept alive thanks to substantive capital inflows attracted by high yields until late 2000 when they suddenly stopped. After three successive Ministers of Economy and several failed negotiations with the IMF, towards the end of 2001 the situation exploded. Amidst massive capital flight and popular revolt, President de la Rua was forced to resign in December 2001 and a caretaker government led by Eduardo Duhalde took office.[101] Duhalde was close to the domestic industrial bourgeoisie and had been in favor to default on external debt. He brought the president of the industrials association (UIA) to the cabinet as minister of production (Cherny 2009, 228–33).

With the support of the non-competitive sector and the PJ majority in parliament, Duhalde dropped the currency board and defaulted on external debt in 2002, as new elections approached. The elimination of the currency board eroded much of the power of the financial and public utilities sector, the core of the neoliberal bloc (Cherny 2009, 158). Capital flight and the decision to default on external debt, increased again the importance of exporters and producers for internal market to resume growth (Cherny 2009, 182–3). In 2003 Néstor Kirchner from the left-wing of the PJ was elected. With a harsh anti-neoliberal rhetoric, Kirchner established a renewed alliance with labor unions and non-competitive sectors, in order to provide a new version of state developmentalism (see Richardson 2009; Etchemendy and Garay 2011; Wylde 2012).

The new alternative social bloc established a developmental regime decidedly towards the embedded side. It included an ER regime of managed flotation, intended at keeping a high and stable ER to promote domestic manufacturers of higher value added goods (Frenkel and Rapetti 2010) (see figure 26).

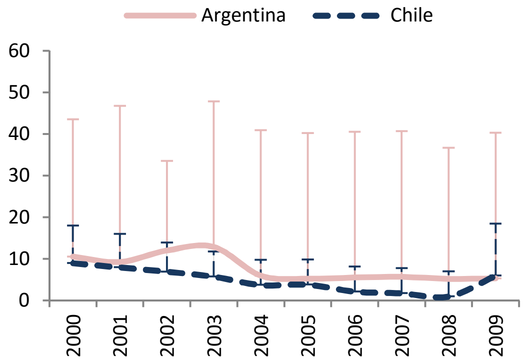
[101] Following the constitutional procedure, both chambers of the Congress nominated Eduardo Duhalde - the contester in previous elections- to lead the government. Duhalde committed not to submit himself to the next elections.

Figure 26:
Argentina, Real exchange rate 2000-2009
(2005=100)



Source: Center of International Economy, Ministry of Foreign Affairs.

Figure 27:
Argentina and Chile, Tariff rates[a] 2000-2009



[a] Effectively applied tariffs (AHS), weighted average. Error bars show maximum rate.

Source: WITS (World Integrated Trade Solution).

Table 14:
Argentina, Public spending in industrial policy 1991-2006

	1991-2000	2003-2006
Subsidies and transfers	11.1	11.9
Capital expenditure	2.2	3.3
Of wich: GFKF	1.4	2.0
Of wich: Capital transfers	0.3	0.7

Source: P Prepared by the author using data from CEPAL.

There is a debate on the extent of industrial policy measures during the Kirchner administration. Some analysts underline the importance of IP (e.g. Wylde 2012, 85). This was also the perception of the bases of support of government.[102] Others perceive that despite the new bias towards greater selectiveness, no new master plans have been designed and that industrial policy was in great part a continuation of the previous situation (see Azpiazu and Schorr 2010).[103] The empirical evidence is mixed. On the one hand, Kirchner re-launched the taxes on exports that had been the basis of import substituting industrialization (ISI), and used the excess revenue to redistribute among his societal bases of support (see Richardson 2009). He also increased public investment from the previous decade (see table 14 above), and started to gradually shift existing IP instruments towards greater selectiveness (see Baruj, Kosacoff, and Ramos 2009). On the other, tariffs remained low during the whole period -although maintaining high

[102] Argentina, Interview 4.
[103] Argentina, Interview 9.

maximum rates- (see figure 27 above) and the policy instruments were essentially the same as in the previous decade (Baruj, Kosacoff, and Ramos 2009; Sánchez, Butler, and Rozemberg 2011).

b) *Chile: the perils of lacking a business base*

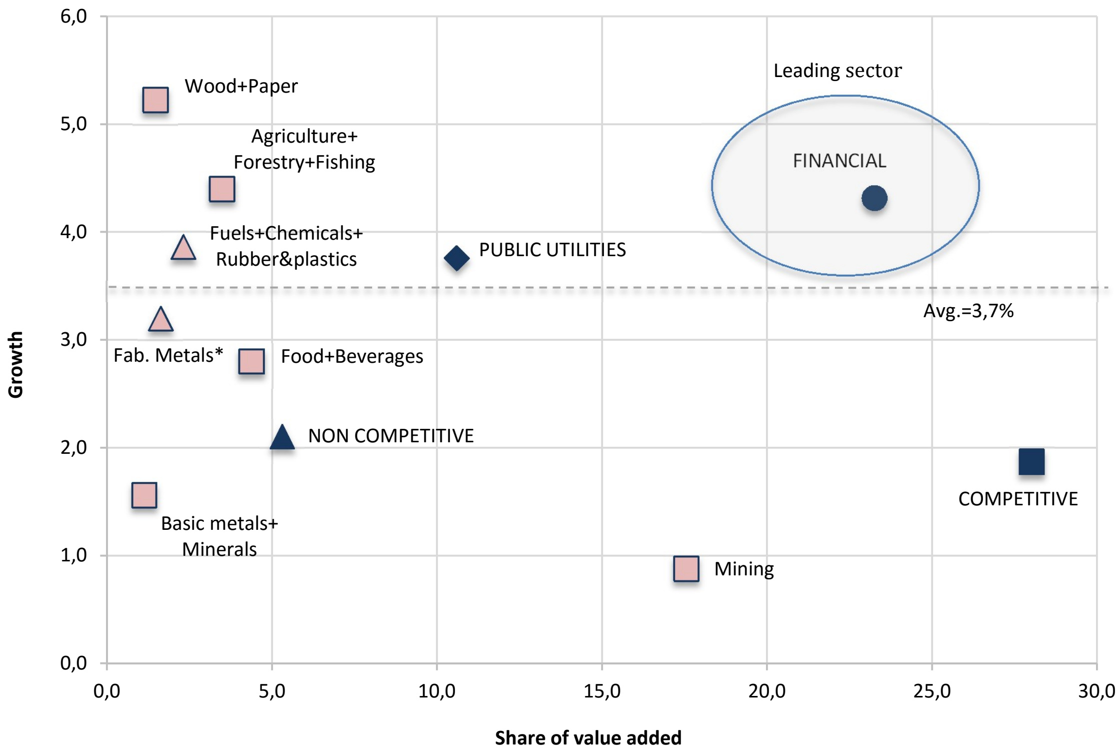
In Chile, the effects of the Asian crisis threatened the *Concertación* governments, and strengthened the right parties united in the "Alliance for a change" (*Alianza por el cambio, Alianza)* coalition. Two phenomena stand out in terms of the balance of forces. First, the return of the right as a viable political alternative signaled the erosion of the political cleavage based on support or not for the dictatorship (see Luna and Mardones 2010). In fact, the *Alianza* was able to force a runoff for the first time in Chile's history in 1999, and congressional support grew alike. This –together with the *opposition blockade* measures- allowed the right to continue having a veto position in Congress.[104] The *Concertación* won the presidential election of 1999 by a margin of just 2.5%. Second, a new polarization of forces was manifested in the simultaneous growth of the leftist parties within the *Concertación* (the socialist party and its splinter PPD), and the UDI within the *Alianza* (Garretón 2000, 84; E. Silva 2002, 346; Roberts 2011, 334). This was confirmed with the election in 2000 of the first socialist president after Allende, Ricardo Lagos, and another socialist in 2006, Michelle Bachelet. The *Concertación* itself polarized and two poles emerged (Garretón 2000, 79; 2013, 87–93):[105] one that viewed the necessity, in the context of a leftist government and increasing business nervousness, to further confirm the commitment of the coalition with pragmatic neoliberalism; and another that criticized the "consensual democracy" mechanism that underpinned the accommodation with the right and business interests, hoping that the new governments could serve as a platform for the revitalization of the left.

In terms of the production profile, with the pass of the decade the competitive sectors lost strength and so did non-competitive ones (see figure 28). High demand for commodity

[104] After constitutional reforms in 2005, the Bachelet government (2006-2010) started its term with a majority in both chambers for the first time since 1990. The relaxation of the dictatorship divide, however, led to a series of defections at both ends of the *Concertación* coalition leaving her again with lack of majority and the need to negotiate reforms as the rest of *Concertación* governments (Roberts 2011, 344).
[105] The ideological struggle within the *Concertación* was depicted by the press as the conflict between the leftist "self-flagellants" (*autoflagelantes*) and the more moderate "self-satisfied" (*autocomplacientes*) (Luna and Mardones 2010, 110).

prices increased the price of copper, the Chilean main export staple, generating symptoms of *dutch desease* that severely affected non-copper exports (Fazio and Parada 2010, 99–109; Lüders 2010). At the end of the decade, these export sectors started to timidly propose a modification of the existing neoliberal developmental regime towards greater embeddedness. For example, they have constantly voice the need to maintain a high ER, using capital controls if needed (see Díaz Cordero 2011). Conversely, the financial sector regained its leadership. New business groups emerged at the top of the company rankings, especially those linked to retail commerce, whose profits derived in a great deal from the provision of consumer credit (see Lefort 2010; González 2015).

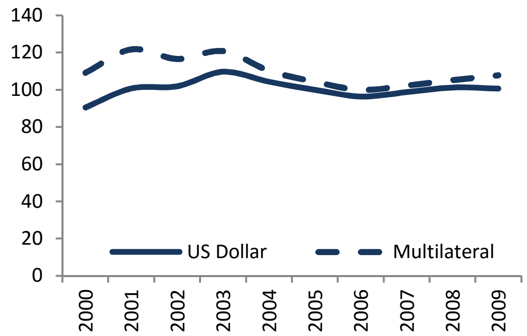
Figure 28:
Chile, Production profile 2000-2009



[a] Figure shows only sectors with a share in value added of 1% or more.
* Includes Machinery&eq., Electric&electronic appliances, Transport&eq.
Source: Prepared by the author using data from: Value added= ECLAC; Manufacturing value added= Central Bank of Chile.

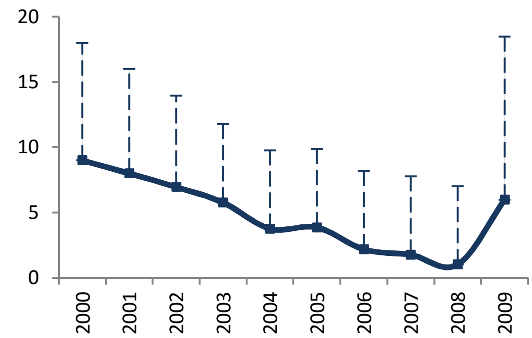
The Chilean developmental regime reflected once again the shifts in the balance of powers. In the case of exchange rates, once the Asian crisis was behind the Central Bank rushed to ratify price stability as the main policy goal. Capital controls were eliminated and the ER was set for free flotation allowing intervention only 'under special circumstances' (i.e. when depreciation threatened the inflation targets). Further efforts were made at diminishing the discretionary powers of the Central Bank insulating it from political pressures, and at binding the utilization of fiscal policy through a structural balance policy (see chapter 8).

Figure 29:
Chile, Real exchange rate 2000-2009
(2005=100)



Source: Central bank of Chile.

Figure 30:
Chile, Tariff rates[a] 2000-2009



[a] Effectively applied tariffs (AHS), weighted average. Error bars show maximum rate.

Source: WITS (World Integrated Trade Solution).

Table 15:
Chile, Public expenditure in industrial policy 1991-2009
(% GDP)

	1991-1999	2000-2009
Subsidies and transfers	9.7	9.6
Capital expenditure	3.1	3.5
Of which: Fix investment	2.8	2.3
Of wich: Capital transfers	0.3	1.2

Source: ECLAC.

Industrial policy followed a mix between continuity and change. Data on public expenditure shows continuity in subsidies and transfers, and a slight increase in capital expenditure (table 15). Existing horizontal programs were extended, reconverted or new ones created. Examples of this are the Fund of Guarantees for SMEs (FOGAPE), and InnovaChile. The Lagos administration was particularly keen in following the business-sponsored microeconomic policy reforms, known as *Agenda pro-competitividad,* which involved a series of measures in the direction of reducing labor and environmental costs. Tariffs underwent a gradual and sustain reduction, a trend that was upset only during the 2007-8 crisis (see figure 30). On the other hand, however, the more progressive factions of the *Concertación* were able to push greater selectiveness forward (Agosín, Larraín, and Grau 2009 fn 7).

One example of this was an FDI attraction program promoting the sector of information and telecommunication technologies. This program was initiated as a response to the failure to attract an Intel semiconductor plant in 1997, allegedly due to the lack of incentive packages that resulted from the pervasiveness of horizontal industrial policy approaches (Agosín, Larraín, and Grau 2009, 35). Most significantly, the more progressive factions of the *Concertación* in Congress were able to pass a tax on copper sales to be destined to a National Fund for innovation and business promotion activities.[106] The National Council of Innovation for Competitiveness (CNIC) was established in 2005 as a consultative body to the presidency to decide how to spend the fund for innovation. It conducted a series of studies that recommended that the fund be use to support strategic productive clusters (see Agosín, Larraín, and Grau 2009). While the selected clusters constituted the activities in which Chile had already demonstrated a comparative advantage (e.g. mining, salmon fisheries, fruit, etc.) it did constitute a qualitative difference with respect to the pervasiveness of horizontal measures in the past decade. Moreover, some horizontal instruments have actually been skewed to support more selectiveness. For example, InnovaChile's most important component, the business innovation program, has been deliberately used to support the clusters selected for promotion at CNIC with about 51% of its resources used to fund priority clusters (Agosín, Larraín, and Grau 2009, 26–7).

III. Conclusions

This chapter has shown the formation of dominant social blocs and the continuity of neoliberal developmental regimes under democratization processes and the ensuing democratic regimes in Latin America. These contexts served to analyze how neoliberal blocs and developmental regimes survived the passage from authoritarian to democratic

[106] The tax on copper sales was staunchly opposed by the business community and the right-wing opposition in Congress. It was first rejected in parliament in 2004, and approved in 2005 in a substantively watered down version. See Napoli and Navia (2012).

rule and the consolidation of democratic politics with its chances of increased representation of hitherto excluded societal actors.

The conditions surrounding the fall of authoritarian regimes were crucial to the resilience of neoliberalism. In Chile, the democratization process came after the reorganization of the neoliberal bloc with the competitive sector on the lead, the recovery from the 1982-3 economic slump and several years of good economic performance. The incoming center-left authorities were weakened by the lack of business support and the threat of investment strike. Moreover, strong right-wing parties -favored from constitutional prerogatives- were able to veto any attempt at changing the existing developmental regime.

In Argentina, by contrast, the fall of the dictatorship after the Malvinas War in the context of the 1981-2 crisis broke the neoliberal bloc apart and allowed the center-left government of Raul Alfonsín to attempt the reconstruction of an alternative social bloc. Harsh economic constraints would eventually jeopardize the prospects of the new government, and throw the country into a new hyperinflationary crisis followed by social turmoil. The scenario was set for a new neoliberal alliance and developmental regime. The ability of president Menem to buy the support of the non-competitive sector and labor was crucial for the success of this new neoliberal experiment. This came at the expense of significant concessions that infused the new neoliberal developmental regime with the seed of its own downfall.

The crisis of emerging economies at the end of the 1990s set Chile and Argentina again in different paths. In Chile, it helped to strengthen the grip of the neoliberal bloc over the neoliberal developmental regime -now led once again by the financial sector- reinstating price stability-oriented exchange rates. Segments of the new polarized center-left Concertación would, however, manage to tilt industrial policy toward an “open economy” embedded-neoliberal regime. In Argentina, the crisis radicalized the fates of the business sectors inside the dominant bloc; the non-competitive sector eventually exited it and forged a renewed alliance with the center-left Kirchner government and labor.

The political right has been a consistent member of neoliberal power blocs and has been able to successfully defend neoliberalism when it has been strong (Chile). Where the right has been rather weak, as in the case of Argentina, it has participated as a crucial ally when populist parties attempted neoliberal experiments (as in the case of the UCEDE under Menem). The left, on the other hand, has tended to reject neoliberalism in principle, but followed it in practice. Its ability to pursue alternative developmental projects seems directly related to the extent of current economic constraints and the existence of coalitional allies from business (non-competitive sector) or labor. In any case, even when governing over neoliberal developmental regimes, the left has been able to move industrial policy toward more embeddedness.

Finally, strong non-competitive sectors provided the possibility to forge alternative developmental regimes, especially when backed by empowered labor unions.

CHAPTER 4

NEOLIBERALISM IN THE EAST,

ACT 1: TRANSITION

In this chapter I analyze the formation of dominant social blocs leading neoliberal developmental regimes in political economies with newly established market economies and democratic polities, and therefore, were capitalist and democratic societal actors were in the making. The analysis takes two moments into consideration that mark the emergence of a different set of actors. First, the period of reforms which was famously characterized by polish finance minister Leszek Balcerowicz as a moment of "extraordinary politics" were the political constrinats on reforms were lower (Balcerowicz 1995; for Estonia see Laar 2002). Reform-minded political elites steering this processes broadly aligned into two camps: radical or gradual reformers (see Orenstein 2001; Bléjer and Coricelli 1995; Balcerowicz 1994). The differences between radical and gradual reformers about the overall reform program, was followed by a second dispute between neoliberals and industrialists (usually state enterprise managers) on industrial policy choices and the type of privatization (Drahokoupil 2009; Meaney 1995). Key issues surrounding these reform strategies were the insulation or not of reformers from societal pressures, the capacity of the population to withstand continued economic pains, and the further incorporation of the "losers" of the initial reforms through compensation measures (Nelson 1993; Roland 2002).

A second moment is represented by the fading into a period of normal politics were parliamentary democratic mechanisms come to the fore and capitalist economic relations start to take root. The analysis of political economies where economic/capitalist and political/democratic actors were in the making has two contextual consequences in terms of the study of dominant social bloc formation: i) the existence of a second –often more important- political cleavage associated with cultural and value issues, which provides for new possibilities for political representation and coalitional politics (Kitschelt 1995;

Elster, Offe, and Preuss 1998, 247–54)[107]; and ii) the greater significance of privatization, external capital and the patterns of sectoral FDI to understand the emergence of leading economic sectors (Hunya 1998; Greskovits 2005; see Drahokoupil 2009).

This chapter shows that the emergence of neoliberal developmental regimes in the East depended on the existence of political elites committed to radical and quick reform plans, as well as the pattern of sectoral growth and emergence of business groups that followed the breakthrough to capitalism and democracy. In terms of political supply, right wing parties emerging from communist dissidents and advocating radical reforms consistently led orthodox neoliberal regimes, while communist successor parties and/or reform communists transformed into social democratic parties tended to temper them (Vachudova 2005; cf. Grzymała-Busse 2002; Tavits and Letki 2009). Two variations can be observed with respect to the formation of dominant blocs in Latin America. First, the existence of agrarian parties that represented the interests of declining agricultural and food processing sectors and provided coalitional allies for alternative social blocs. Second, the emergence of nationalist parties aligned to the right in the cultural cleavage, but to the left in economic policy positions. In terms of economic sectors, the composition of neoliberal developmental regimes in Eastern Europe shows similarities with Latin America, the non-competitive sector providing the best chance for deviations from an orthodox neoliberal path. Additionally, the patterns of privatization and FDI attraction appear as crucial to reinforce emerging sectoral configurations. Labor remained institutionally and organizationally weak in both countries, except for a brief period in the early 1990s in Poland.

[107] One overarching division is what Gryzmała-Busse (2001) called the "regime divide" separating former communists from dissidents. This regime divide tended to overlap, but was not fully coincident with the cultural GAL/TAN cleavage, where GAL stands for Green/Alternative/Libertarian and TAN for Traditional/Authoritarian/Nationalist (Hooghe, Marks, and Wilson 2002). These distinctions will be specified and refined when analyzing political representation and party politics in each country. What is most important in the context of this dissertation is how in Eastern Europe other cleavages interacted with the socioeconomic one generating specific possibilities for political coalitions.

I. Reform: The dissolution of communism through shock therapy

Communism in Eastern Europe crumbled following a process of economic stagnation, decay of the state-party apparatuses, and opposing civil society movements (Ekiert 1996; Berend 1996). In Poland, the process started with the failure of the economic and political reforms of the 1970s and the emergence of the Solidarity trade union (*Solidarność*) in the summer of 1980 (Ekiert 1996, 222–259). As the first independent trade union movement in the Soviet bloc, Solidarity demanded better work and living conditions, and political opening.[108] After a period of martial law foreclosing possibilities of quick change, and amidst the radicalization of economic and political conditions in the country, in 1988 the government announced a series of talks with Solidarity in order to negotiate the opening of the communist system. The "Roundtable talks" as they were called, started in February 1989 and finished with agreements on substantive economic and political liberalization two months later, setting in motion a process that would lead to the first non-communist government in Eastern Europe since World War II. In Estonia, opposition from both within the Communist party as well as civil society was fostered by Gorbachev's political and economic reforms in the mid-1980s (Lauristin and Vihalemm 1997, 74–75; Ruutsoo 1996). The Baltics, and Estonia in particular, became true "champions" of these reforms leading the route of economic and political autonomy within the Soviet Union (Lauristin and Vihalemm 1997, 87–8; Nørgaard 1996, 1). Autonomist and independentist groups came to dominate the political scene in the late 1980s and managed to get elected to the main representative organs, paving the way to the transition to a market economy and independence from the Soviet Union.

The first economic reform approaches recommended a gradual transition from a command economy to a market economy. Given the state of economic emergency that surrounded the transition, gradual reforms were intended to steadily change existing structures sheltering at the same time the population from acute dislocation, as well as setting a basic infrastructure for the functioning of a market economy (see Islam 1993). In this context, market reforms were seen as a way to bring political stability and a solution to structural bottlenecks (for Poland see Ekiert 1996). In the case of Esonia, they were closely connected to the will to regain economic sovereignity from the Soviet

[108] For the history of Solidarity and a discussion of its origins see Kubik (1994).

Union. The radicalization of the political and economic events that followed the initial liberalization, however, opened a period of "extraordinary politics" and advocates of radical reform moved to the forefront policymaking positions. Radical reforms were presented as economically inevitable and politically desirable. Soaring inflation, declining output and widespread shortages made radical stabilization measures and institutional overhaul the only possible alternative according to their advocates (Åslund 1994; Balcerowicz 1995). Moreover, their rapid enactment was vital to secure a decisive "leap" out of communism, and prevent being stuck in a "partial reform equilibrium" (see Balcerowicz 1995; Hellman 1998).

a) "No time for a third way"[109] ... the ascendance of the neoliberals

The controlled political opening of the late 1980s gave ascendance to opposition movements were gradualist reformers were the majority. This was the case of Solidarity in Poland as well as the Popular Front (*Rahvarinne*) in Estonia, who called for a gradual and negotiated transition (see Kowalik 2011; Johnson and Kowalska 1995 for Solidarity; Nørgaard 1996, 24; D. Smith 2001, 46; Lauristin and Vihalemm 1997, 73; 89 for the Popular Front). These broad and encompassing movements were challenged by smaller groups calling for the acceleration of the transition through radical economic reforms.

In Poland, this challenges came from a minority within Solidarity who strongly criticized the pro-worker agreements at the Roundtable talks (Orenstein 2001, 28; Balcerowicz 1994, 168), and voiced the necessity to engage in a Latin American type of shock-therapy stabilization. This group was backed by a handful of international advisors closely related to financial circles and international organizations. Interestingly, reform communists held quite similar views.[110] In Estonia, radical reform advocates came from civil society organizations calling for an immediate declaration of independence from the Soviet Union. They invoked international law to claim Estonia an illegally annexed

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[109] This phrase was a common justification for quick market reforms. It was followed by another saying that "the third road leads to the third world". See Lewandowski (2010), Laar (2002, 9).

[110] In contrast with the official Solidarity position, regime officials in Poland were in favor of a quick reform path in order to secure control of the political *tempo* (Johnson and Kowalska 1995, 189) According to Kowalik (2011, 66), the program they presented at the Roundtable talks was strikingly similar to what would later be the "Balcerowicz plan".

state[111], voiced the necessity to form a parallel legislative body not-tainted with Soviet laws using the pre-annexation electoral base, and saw radical market reforms as a way to rapidly depart from the Soviet past (Lauristin and Vihalemm 1997, 89; Pettai and Hallik 2002, 509–11; Ruutsoo 1996, 109). Differently from Poland, a third conservative force trying to stop the reform process altogether was present in the form of an alliance between Russian-speaking state apparatchiks, managers of state enterprises and their workers, the so called Intermovement group. This group aimed at preventing the demise of state socialism, as well as to protect the interests of the large Russian-speaking minority who felt threatened with the political and economic independence demands (Pettai 2012, 88–95). [112]

A combination of economic and political factors brought radical reformers to the front of economic policy positions. In Poland, price liberalizations in 1989 threw the already visible inflationary process into outright hyperinflation with a chain of consequences in terms of shortages of goods, soaring budget deficits and generalized economic paralysis aggravating existing current account and external debt problems (Johnson and Kowalska 1995, 187–8; Sachs 1994, 40–1). In Estonia, the fragile economic situation was destabilized with the severance of economic ties with Russia after independence. Shortages of food and fuel –not least of money itself- and hyperinflation made the economic scenario critical (D. Smith 2001, 115–6).

The political landscape changed completely in Poland following the roundtable agreements on political openness and the ensuing elections in June 1989. Solidarity won the complete 35% of the seats available at the lower chamber, and all but one of the available seats for the newly established Senate. After this surprising support, and in the context of increasing social turmoil due to the faltering economic situation, Solidarity representatives convinced the smaller satellite communist parties in parliament to support Solidarity leader Tadeusz Mazowiecki for Prime Minister as the only way to control the situation (Howard and Brzezinski 1998, 137; Ost 2005, 48–9). In a U-turn from previous

[111] During WWII, the Baltic states were secretly ceded to the sphere of influence of the Soviet Union following the Molotov-Ribbentrop pact. After the War, formerly independent Estonia became part of the Soviet Union as the Estonian Soviet Socialist Republic (ESSR).
[112] After the Soviet invasion, russian speakers in Estonia increased from 5% of the population to around 40% in 1989. Most of them were Russians that had been imported to supply the lack of blue-collar workers during the Soviet industrialization plans. The issue of their integration to the new independent state became crucial in the reform period.

policy statements and agreements,[113] Mazowiecki selected radical reform advocate Leszek Balcerowicz and his team to draft an economic plan for the new government.[114] Balcerowicz prepared a shock therapy blueprint later known as the “Balcerowicz Plan” based on macroeconomic adjustment, widespread liberalization and privatization (Sachs 1994, 45–7).

In Estonia, the leader of the Popular front Edgar Savisaar, now presiding over the Supreme Council –precursor of the Estonian parliament-, launched in 1990 his advocated strategy of gradual and negotiated reforms, with integration of the sizable Russian minority. However, the military intervention of Soviet troops in neighbouring Latvia and Lithuania in early 1991, as well as the visibility of the Intermovement actions trying to stop independence altogether, helped to tilt the balance of power toward the more radical approach advocated by the parallel Congress of Estonia (Pettai and Hallik 2002, 512–3). The sudden declaration of independence in August 1991 following a takeover attempt in Moscow, opened the need for fast political and economic changes (Lauristin and Vihalemm 1997, 100). Several ministers defected from Savisaar’s cabinet forming a new Supreme Council government in January 1992 in support for radical reforms (Knöbl, Sutt, and Zavoiceo 2002; D. Smith 2001, 69–70). The first moves of the cabinet led by Tiit Vähi were geared to ensure the financial viability of the new state, which involved steep fiscal retrenchment and the introduction of a national currency.

b) *Neoliberal policy regimes in Eastern Europe*

The Balcerowicz plan included the explicit utilization of the exchange rate as a nominal anchor, reflecting a preference for price stability over industrialization (Balcerowicz in Bléjer and Coricelli 1995, 44–6; Poznański 1996, 176–7).[115] The ER was devalued to the

[113] Tadeusz Kowalik, a prominent polish economist and first hand participant in the Roundtable Talks, emphasized that the economic demands of Solidarity -which ended in agreement with the communist government- were related to the introduction of wage and pension indexation, as well as to increase worker power and autonomy through the strengthening of worker councils. See Kowalik (1994, 136–7; 2011), also Johnson and Kowalska (1995, 189–90).

[114] Leszek Balcerowicz was relatively distant from the core of the Solidarity movement, had not participated in the Roundtable Talks, but was known for having steered a team of economists that worked on economic reform plans during the 1980s (Orenstein 2001, 28–31; see Bléjer and Coricelli 1995).

[115] The Balcerowicz Plan is sometimes understood as a “heterodox” stabilization plan because it contained "unorthodox" measures such as wage controls, like the Argentinean Austral plan (see Poznański 1996, 176–7). They differ, however in their goals as well as instruments. In the Polish case there was an explicit goal of contracting domestic demand, whereas Argentinean reformers explicitly rejected contractionary

level existing in the informal market, and pegged to the US dollar at the value of 9500zl x 1 USD (Berg and Sachs 1992, 133). The exchange rate peg was viewed as a crucial element of the Balcerowicz plan, as it was supposed to help bring inflation rates to international standards in the context of trade and financial liberalization, as well as to induce a government commitment to stabilization and market reforms (Johnson and Kowalska 1995, 194; also Kołodko and Nuti 1997, 5–6; Sachs 1994, 54). This decision indeed influenced other related economic measures, for example, the need to secure a stabilization fund from international organizations in order to support the peg, as well as the need to maintain a tight monetary and fiscal policy (Sachs 1994, 52–3; Nuti 2000).

The Balcerowicz plan combined drastic stabilization with the elimination of any type of government intervention in the economy in terms of industrial policy. In an interview in 1994 Balcerowicz stated that:

> "My major concern was to avoid adopting a western type of protectionist and overregulated policy with respect to agriculture, especially of the European Community's CAP type, or the sort of industrial policy whereby the state bureaucracy would pick the winners by manipulating the tax system or credit policy" (cited in Bléjer and Coricelli 1995, 46).

The elimination of industrial policy was done through two means. In the case of trade liberalization, quotas and other non-tariff measures were quickly replaced by a uniform tariff, whose average rate fell from 18.3% to 5.5% during 1990 (Kołodko and Nuti 1997, 12). This sudden fall of trade barriers led to a popular saying that "Poland became the most laissez-faire (free-market) country in the world, just after Hong Kong" (Kowalik 2011, 138). The assault on the expenditure side followed the idea of Minister of Industry and Trade Tadeusz Syryjczyk for whom "the best industrial policy [was] no industrial policy" (Kołodko and Nuti 1997, 37). The share of subsidies to enterprises in public spending fell from 33.2% in 1988 to only 17% in 1990 (Johnson and Kowalska 1995, 225). The only area of industrial policy in which the plan could not be developed as quickly was mass privatization, with only small scale privatization advancing fast.

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stabilization measures. Moreover, while in Poland the exchange rate was used under the influence of the neoclassical law of one price, in Argentina the idea was to achieve a sort of coordination of prices in the context of a relatively sheltered economy. See chapter 3.

In Estonia Siim Kallas, governor of the Bank of Estonia (BOE) and advocate of radical reforms managed to impose his terms on currency reform reintroducing the Estonian Kroon under a fixed ER regime with active support from international advisors (see chapter 8). Estonian authorities went further in their preference for price stability opting for a currency board. The kroon was pegged to the Deutsche Mark at the rate of 8=1, and the parity protected by law. Other reforms included massive price liberalization and the creation of privatization agencies that accelerated large scale privatization. Especially important was the approval in the new Constitution of a balance budget provision that forced the slashing of state subsidies. As a result, capital expenditures and transfers declined from 26% of total spending in 1991 to only 19% in 1992[116] (World Bank 1993, 23; 292).

II. Aftermath: unfolding the umbrella over neoliberal reforms?

The previous section showed the fast implementation of neoliberal exchange rates and industrial policy by radical reform elites taking advantage of true political windows of opportunity. This section focuses in the period following the neoliberal reforms. The analysis shows the emergence of societal groups either defending or opposing them, as well as the political supply of parties competing to represent the emerging interests.

In Poland, support for continued reforms rested on two elements that deterred opposition to the Balcerowicz plan. First, the symbolic power of Solidarity and its relation with the social movement: the Solidarity union and its political representatives acted as a sort of "umbrella" over neoliberal reforms, on the one hand, investing the symbolic capital of the movement in the Mazowiecki government committed to radical reforms, and on the other, *de facto* containing workers' demands as the only way to progress with economic reforms (Ost 2005; Orenstein 2001, 32; Linz and Stepan 1996, 273–4). Second, the advance of market reforms required parliamentary support, which was tied to the acquiescence of the ex-communists parties holding a majority of seats until 1991, not to speak the cohesiveness of the highly heterogeneous Solidarity caucus. The popularity of the government declined rapidly in 1990 due to the social effects of economic reforms,

[116] Considers capital expenditure and transfers to local budgets from the central government.

increasing social discontent and the political actors aiming at capturing it. When normal politics was back in late 1991, the inability of the Solidarity governments to *create supporters* from privatization (see chapter 6) or *blockade oppositions* (see chapter 7) in parliament led to the unfolding of the umbrella over neoliberal reforms.

In Estonia, support for continued reform efforts depended on the connection between market reforms, independence and nation building, which infused the new economic institutions and neoliberal reforms with nationalist sentiments (Lauristin and Vihalemm 1997, 96–100; D. Smith 2001, 68–9; Pettai and Hallik 2002, 512–3). The constitution of the new state under internal threat from the Soviet-leaning Intermovement and external threat from the Soviet Union, and the formation of a market economy under emergency conditions helped crystallize the idea that independence required harsh measures and extended sacrifices (Lauristin and Vihalemm 1997, 102–3; D. Smith 2001, 81). While this may seem an idiosyncratic characteristic of the Estonian trajectory due to an ethnically divided society, I show that the key to understand neoliberal resilience in Estonia is the way this "umbrella" was institutionalized and how the right societal actors were (dis)empowered, preventing policy backlashes (see the mechanisms in chapters 6, 7 and 8).

a) Extraordinary politics in Poland: the gradual unfolding of the umbrella

The economic effects of the Balcerowicz plan had a clear outcome in terms of separating the winners and the losers of reforms (Johnson and Kowalska 1995, 211–2).

Table 16:
Poland: Families' real income 1989-1994
(1989=100)

	Workers	Peasants	Pensioners and retirees
1989	100	100	100
1990	66	75	72
1991	66	62	90
1992	61	57	73
1993	67	64	87
1994	77	72	101

Source: Ekiert and Kubik ,(2001, 188).

Table 17:
Poland, Registered unemployment 1990-1993
(%)

	January	April	July	October
1990	0,3	1,9	3,8	5,5
1991	6,6	7,3	9,4	10,8
1992	12,1	12,2	13,1	13,5
1993	14,2	14,4	15,4	15,3

Source: Central Statistical Office.

Two effects were particularly salient as they helped to alienate Solidarity's main constituencies (Orenstein 2001, 48): 1) a massive drop in industrial output and a surge in unemployment (see table 17), and 2) a drastic reduction of real incomes (see table 16).[117] Starting in 1990, opinion polls evidenced the increasing discontent with the economic and political situation (Ekiert and Kubik 2001, 68–9). Given the lack of responsiveness from Solidarity’s political parties and union representatives, discontent turned into protest (Ekiert and Kubik 2001, 157). Protest events increased in number, massiveness and intensity from 1990 to 1993.[118] A majority of them were led by those sectors directly hurt by the Balcerowicz plan: i.e. workers and managers of previously protected state-owned companies (steel, coal and iron mining, railways), civil servants, and farmers (Ekiert and Kubik 2001, 109).

In the case of workers, demands were mainly for higher wages and the stop of massive layoffs, as well as for the implementation of a structured strategy of industrial restructuring and privatization[119] (Sznajder Lee 2010, 43; see Ekiert and Kubik 2001, 130–1). In support for these demands, labor unions in SOEs were joined by the company management willing to be able to freely set wages[120] and to receive state funds for restructuring (Ost 2005, 150–1; Kohl and Platzer 2004, 118). In the case of farmers, wage-related demands including price floors and guarantees gave way to a more politicized opposition to neoliberal reforms and more violent protest as their representation switched from the Solidarity rural unions to the more combative Self-Defense (*Samoobrona*) union (Forys and Gorlach 2002, 56–7; Ekiert and Kubik 2001, 136). A third group voicing demands for change –although more institutionally- were companies in the tradable sector. They complained vocally through the press against the process of ER appreciation produced by the fixed ER, and demanded sustained

[117] Defenders of shock therapy have argued that official figures overstated the drop in output, employment and wages (see Berg and Sachs 1992; Sachs 1994; 2001, 67–8).
[118] While protest in Poland did not differ greatly form high protest events in West European countries, they were by far the greatest in a region characterized by “patience” (Ekiert and Kubik 2001, 113; cf. Greskovits 1998).
[119] According to Ost (2005, 150–2), much of the preoccupation of unions with privatization came not so much from fears of massive layoffs, but from fears that if they didn't control the process the company would fall in the hands of old *nomenklatura* people as it did at the beginning of transition, and was common practice in other post-communist countries.
[120] Wages in SOEs were de facto frozen due to the existence of a tax on excess wage. The tax on excess wage –*popiwek*- consisted of a tax penalty on above-inflation wage increases that was valid only for SOEs. It was supposed to create incentives to the growth of the private sector as well as to make workers in SOEs push privatization in hope for higher wages (Sachs 1994, 55–6; Kołodko and Nuti 1997, 25).

devaluation of the currency (see Johnson and Kowalska 1995, 227; *Gazeta Wyborcza* 1991a).

A supply of political parties started to emerge trying to represent these demands. Personal disputes as well as the decline in support for the government below 50% at the end of 1990 (Orenstein 2001, 38) led to an early breakup of the Solidarity caucus in parliament, a fragmentation of the Post-Solidarity camp, and the emergence of a competitive post-communist alternative condemning neoliberal reforms and their effects (Johnson and Kowalska 1995, 225–6). The Polish United Workers Party was transformed into the Social democracy of Poland (SdRP), which together with the former Communist Confederation of Labor Unions OPZZ, and other ex-communist organizations formed the Democratic Left Alliance (SLD) to contest the 1991 parliamentary elections. The SLD linked the output and employment drop directly with the lack of protection of agriculture and the inexistence of an active industrial policy, advocating more state intervention, protection of the domestic market and higher taxes for the wealthy (Markowski 2002, 62–3). Conversely, the Communist satellite agrarian Party transformed into the Polish Peasant Party (PSL) competed for the representation of farmers' discontent. The PSL stressed the need for protection of agriculture before integration with the West, advocating an active role of the state in the economy e.g. guaranteeing minimal prices for agricultural products (Gorlach and Mooney 1998, 274–5).

Table 18
Poland, Political cleavages and major parties 1989-1993

	Right	**Center-right**	**Center**	**Center-left**	**Left/Populist**
GAL (Gay/			--- Democratic Left Alliance (SLD) (12.0) --		
Alternative/Libertarian)	Democratic Union (UD) (12.2)				
	Liberal Congress (KLD) (7.5)				
				-----Polish Peasants Party (PSL) (9.2)	
		Center Alliance (PC) (8.7)---------------			
TAN		Peasants Alliance (PL) (5.5)			
(Traditional/			Catholic Electoral Action (WAK)/		
Authoritarian/Nationalist)			Christian National Union (ZChN) (9.0)		

Source: Prepared by the author using data from Jasiewicz (1992) and Orenstein (2001). Between parenthesis, results of the 1991 parliamentary elections (% of votes), taken from Stanley (2013).

The breakup of the cohesion of Solidarity was formalized when the movement's two most prominent leaders, Lech Wałęsa and Tadeusz Mazowiecki, competed against each other for the post of President of the Republic in 1990. The Post-Solidarity camp fragmented into a multitude of parties and formations, which distanced themselves mainly resorting to the cultural cleavage (Jasiewicz 1992; Orenstein 2001, 32). Table 18 shows the most important formations. While the liberal/GAL camp, identified with the Mazowiecki government and the Balcerowicz Plan, was clearly in favour of continuing neoliberal reforms, the TAN camp offered a confusing mix that included speeding up reforms and reducing their social cost at the same time. Although these parties tried to compete for the discontent vote by playing on the cultural cleavage instead of proposing alternative economic policies e.g. blaming ex-communists in parliament for the social consequences of reforms (see especially Ost 2005; also Ekiert and Kubik 2001, 52), they helped to disintegrate the support for the post-Solidarity parties who were advocating a clear continuation of economic reforms. The Solidarity camp was heavily fragmented on the cultural GAL/TAN cleavage, but still united by the regime divide as they all had been opponents to communism and rejected an alliance with ex-communists.

Three post-Solidarity governments succeeded Mazowiecki. Jan Krzysztof Bielecki, (jan-dec 1991) from the liberal KLD who confirmed Balcerowicz in his post and tried to boost the reform program; Jan Olszewski (dec1991-june 1992) from the TAN Post-Solidarity side promising a halt to economic reforms and the start of a process of de-communization and lustration (see chapter 7), and Hanna Suchocka (july 1992-may/oct 1993) from the liberal Democratic Union, trying to re-establish once again the path of reforms. In the context of continued social protest, these governments offered policy concessions that eroded the initial program's homogeneity and radicalness (see Ekiert and Kubik 2001, 138–9; Johnson and Kowalska 1995, 232).

In the case of exchange rates, the Bielecki government continued to back the ER peg and denied rumours of devaluation associating the release of the exchange rate with economic disaster (*Gazeta Wyborcza* 1991a).[121] Any move intended to devalue the zloty was seen as a way to help both exporters in general and state-owned firms in particular (*PAP News Wire* 1993). However, the first modifications came soon. In May 1991, the peg was changed from US dollar to a basket of currencies with the implicit intention to achieve a real devaluation. The zloty devalued by 17%[122], a change that was received by exporters as “nice but not enough” (*Gazeta Wyborcza* 1991b). In October 1991, a new

[121] While initially the plan was to sustain the peg for three or four months, unexpected current account and fiscal surpluses in 1990 led economic authorities to try to consolidate it (Nuti 2000, 53).
[122] The following figures are taken from Nuti (2000).

change comprised the ER *regime* altogether in search for greater export competitiveness but maintaining price stability. A crawling peg was put in place, with the basket-related ER parity subject to daily devaluations and a monthly ceiling of 1.8%. The change was explicitly justified as an aid to exporters, as well as a preventive of currency run among expectations of a larger devaluation (*Gazeta Wyborcza* 1991c). In february 1992, when the Olszewski government was still settling, the government forced a sudden devaluation of another 10.7%, an action interpreted as a response to the "agrarian and industrialist lobbies" (Kamiński 1998, 196; see Skalski 1992).

In terms of industrial policy, the trajectory of increasing concessions was similar. With respect to privatization, a new attempt at mass-privatization failed during the Bielecki government. In exchange, a more pragmatic approach was assumed. The government would now decide on a case by case basis which firms to privatize (King and Sznajder 2006, 771). More importantly, it set the Agency for Industrial Development (AID) for the purpose of providing financial assistance to companies in distress previous to their privatization. Yet another turn occurred during the Suchocka government. A new Enterprise and Bank Restructuring Act was passed in February 1993 after lengthy negotiations with trade unions and employer associations (Orenstein 2001, 47–50; Ost 2005, 514 n. 36). Under the new law, state banks were recapitalized in order to roll-over companies' debts, and the AID was empowered to undertake a wide arrange of measures, including giving and underwriting loans, buying equity stakes, coordinating restructuring programs, helping in liquidating enterprises and manage post-liquidation, and helping to organize and hold shares in regional development agencies (King and Sznajder 2006, 772). The new act gave workers a substantive role and participation in the restructuring-cum-privatization plans. Concessions were also given to farmers. While systematic subsidies were denied, interest rates were lowered for agricultural inputs, a new Agency of Agriculture Market was created in order to regulate food prices, and the Social Security Fund for Peasants was created (Pleines 2008, 106; 110; Johnson and Kowalska 1995, 215). In parallel to these development, tariffs were raised again to 18.4% in august 1991, while in december 1992 a temporary import surcharge of 6% was implemented (Kołodko and Nuti 1997, 12).

These concessions notwithstanding, the post-Solidarity governments found themselves under increasing distress and parliamentary deadlock due to the politization of demands, and the attempt by parties –not least those emerged from Solidarity itself- to represent them (see Johnson and Kowalska 1995, 233). The fall of the Suchocka government due to a no confidence vote supported by conservative post-Solidarity parties in may 1993 marked the final unfolding of the Solidarity umbrella over neoliberal reforms (Ost 2005, 77).

b) Extraordinary politics in Estonia: connecting neoliberalism and nationalism

The umbrella over neoliberal reforms did not unfold in Estonia. On the contrary, it prolonged the extraordinary politics period and the insulation of neoliberal reformers from societal demands, thus helping in the consolidation of a neoliberal developmental regime in the aftermath of market reforms.

Table 19:
Estonia, Real wages and employment 1989-1994

	1990	1991	1992	1993	1994
Real wages	100	61	34	36	45
Employment (total)	100	98	93	86	84
Agriculture	100	95	84	68	58
Industry	100	96	88	76	73
Construction	100	99	91	79	75
Services	100	100	100	103	106

Source: OECD (2000a, 234; 236).

Table 20:
Estonia, Employment of ethnic groups in economic branches ca. 1989

	All	Estonian	Russian
Total	--	**58.3**	**31.8**
Industry	32.3	**44.6**	**43.5**
Agriculture and forestry	14.2	87.9	7.8
Construction and infrastructure	9.9	61.0	28.8
Transport	7.2	**46.4**	**40.0**
Trade and supply of food	7.8	64.0	27.7
Services	20.4	64.4	27.1

Source: Mettam and Williams (1998, 379).

The effects of shock therapy were similar as in Poland (see table 19). Real wages declined sharply, beginning to recover only in 1994 but at levels well below those of 1990. The differential drop in sectoral employment confirms that the harder hit sectors were also agriculture and industry. In this scenario, the connection between neoliberal reforms and national independence, and the maintenance of the ethnic politics context this produced affected the emergence of protest movements. In fact, the closeness of the declaration of independence in mid-1991 with the elaboration and approval of a new constitution in June 1992, and the first fully free parliamentary elections in September 1992 tainted the market reforms process with a strong nationalist sentiment.

The concentration of non-Estonians –mainly Russians- in industry and their participation in the anti-independence movements in 1990-1, made industry appear as an obstacle to independence, leading political elites to favor policies that avoided protecting the sector (Lauristin and Vihalemm 1997, 90). In fact, while ethnic Estonians were roughly two times more in the total population and employment, in industry –concentrating about one-third of total employment- ethnic Estonians and ethnic Russians were virtually equally represented (table 20). Moreover, it is estimated that in the mid-1980s between 85% and 90% of Estonian industry was under the direct control of Moscow (Mettam and Williams 1998, 373). The concentration of the Russian minority in industrial employment produced not only a rejection of industrial policy-type protective measures; the association of protest with the pro-Soviet Intermovement actions and its industrial support base helped to propagate a feeling that protesting amounted to supporting the Soviets and blocking independence.[123] This nationalist sentiment pervaded trade unions, who embraced the independence cause instead of fighting for workers' rights (cf. Ruutsoo 1996, 109–10). A symptom of this was the fact that union leaders were often white-collar workers strongly identified with the more nationalist and right-wing movements (see chapter 7).

Rejection of the Soviet past prevented the emergence of protest groups not only in industry, but also in rural areas. The countryside was indeed seen as embodying the true core of the Estonian nation (see Unwin 1998; Alanen 1999, 432). Therefore, initial demands in the agricultural sector were not dominated by the stark decline in output, employment and income, but by the more nationalistic claims of land restitution. As Terk (2000, 51; also Alanen 1999) observes, this implied a further support to demobilization as it incidentally meant giving rural land to the heirs of pre-WWII tenants now living in urban centers and with little to no relation to real agricultural production (see chapter 6). Two further issues complicated the organization of farmers' interests (Pettai 2012, 100–1): first, any appeal to the farmers as a corporative group with special interests was doomed to be seen as causing disunity among Estonians; second, the first rural organizations were led by former managers of state-collective farms, which reduced the legitimacy of their demands.

[123] Although less than one-third of the Russian-speaking minority supported this group, the visibility of their demands as well as the direct support from Moscow made the anti-independence cause appear much larger and socially supported than it actually was (D. Smith 2001, 49; 56–7; Lauristin and Vihalemm 1997, 95–7; Pettai 2012, 52).

The ethnic politics umbrella over neoliberal reforms helped the more exclusionary integration stance advocated by radical reformers prevail, as reflected in the new constitution and citizenship law heavily curtailing the political rights of the Russian-speaking minority (see *opposition blockade* in chapter 7). As a consequence, in the run up for the 1992 elections those parties that combined radical economic reforms with the exclusion of the Russian minority from the polity ran with advantages (see table 21). Among them were the parties emerged from the Congress of Estonia, such as the Pro Patria alliance (*Isamaa*) and the National Independence Party. A group of liberals and social democrats within the Popular Front (PF) with a more exclusionary view of the ethnic issue formed the Moderates Party. Much behind came those parties combining a more integrationist stance with gradual reforms: on the center-left, former PM and Popular Front member Edgar Savisaar and his Center Party (*Keskerakond*)[124], and to its center the Secure Home alliance uniting pragmatic ex-Communist managers and apparatchiks (the Coalition Party led by ex-PM Tiit Vähi) and representatives of rural associations (Rural Union) in favour of continued reforms with some responsiveness to the problems in the countryside (Pettai 2012, 101).

Table 21:
Estonia, Political cleavages and major parties 1992

	Right	Center-right	Center	Center-left	Left
Inclusionary			---Center Party (14.9)---		
			-----Secure Home (14.9)----		
Moderate		--Moderates (5.9) ----------			
	Pro Patria (28.7)				
Exclusionary	National Independence Party (11.9)				

Source: Prepared by the author using data from Pettai (2012); Between parenthesis, results of 1992 parliamentary elections (% of votes), taken from Lagerspetz and Vogt (2013).

Mart Laar from Pro Patria, a representative of the younger generation of Estonians free from ties with the Soviet past and serious advocate of shock therapy reforms, became PM with the aim of continuing market reforms (D. Smith 2001, 83; see also Lauristin and Vihalemm 1997, 106). On the side of industrial policy, the Laar government introduced a flat tax on corporate income, eliminated previous tax benefits for foreign investors openly rejecting any instrument involving selective measures, and started a large-scale

[124] The Center Party cannot be considered left-wing by international standards, but according to local observers, it is the one party that seeks support from less advantages groups, and has been ever since considered the only alternative to neoliberalism in the electoral arena (Pettai 2009, n. 15).

privatization program (Sutela 2001, 19). Not only were all kinds of support and subsidies slashed; the Estonian privatization process itself became known for not including previous reorganization or restructuring of the state enterprises to be sold (Laar 2002, 179–80; Terk 2000, 61). According to the World Bank (1993, 48), by 1993 subsidies to state-owned companies were virtually non-existent. At the same time, the Laar government started a policy of aggressive unilateral trade liberalization. By the end of 1993, average tariffs were a mere 1.4% (Feldmann and Sally 2002, 84).

At the same time, the new government strongly backed the Currency Board. The capital account was fully liberalized in 1994 and new banking regulations were adopted (Bank of Estonia 1999, 19). More significantly, Laar stood back to back with Bank of Estonia governor Siim Kallas to withstand a financial crisis triggered by the dissolution of the ruble zone in late 1992 (OECD 2000a, 105–7). In the context of a still incipient market economy, Laar and Kallas strongly rejected bailouts under the basis that they would produce inflation undermining the fixed exchange rate and the operation of the currency board (Fleming, Chu, and Bakker 1996, 14; Pettai 2009, 77). Consequently, affected state owned enterprises were placed in bankruptcy and filed for privatization (Fleming, Chu, and Bakker 1996, 20).

c) Normal politics in Estonia: strengthening neoliberalism

The results of the 1994 elections in Estonia were seen as marking a voice of discontent with the existing path of transformation (Nørgaard 1996, 149; D. Smith 2001, 94; cf. Lauristin and Vihalemm 1997, 108–9). Farmers slowly increased their discontent with neoliberal policies, and new political groups emerged in order to represent them. The most important one was the Country People's Party led by ex-communist manager and former runner up in the 1992 presidential elections Arnold Rüütel. This party together with other smaller agrarian parties and the League of Pensioners' and Families demanded higher subsidies and tariff barriers to protect agriculture as well as an improvement of social policy (D. Smith 2001, 95; *Baltic News Service* 1995c). As table 22 shows, right-wing parties, including that of former PM Laar, fell significantly in their share of votes in 1994, and parties supporting protection for the losers of reform such as the Center Party and the Russian alliance Our Home is Estonia increased theirs (see Taagepera 1995; D.

Smith 2001, 95–6). Particularly significant were the favorable results of the Country People's Party -running under the KMÜ banner together with the centrist Coalition Party.

Table 22:
Estonia, Parties with parliamentary representation in 1992 and 1995

	1995		1992	
	% of vote	% of seats	% of vote	% of seats
Right/Center-right	*35.3*	*37.6*	*56*	*68.3*
Reform Party	16.4	18.8	--	--
Pro Patria and National Independence Party /a	7.9	7.9	32	40.6
Moderates	6.0	5.9	9.8	11.9
Right wingers	5.0	5.0	--	--
Independent royalists	--	--	7.2	7.9
Estonian Citizens	--	--	7.0	7.9
Center/Center-Left	*52.4*	*62.3*	*24.8*	*29.8*
Coalition Party and People's Country Union (KMÜ) /b	32.2	40.6	12.4	14.9
Center Party	14.2	15.8	12.4	14.9
Our Home is Estonia	5.9	5.9	--	--

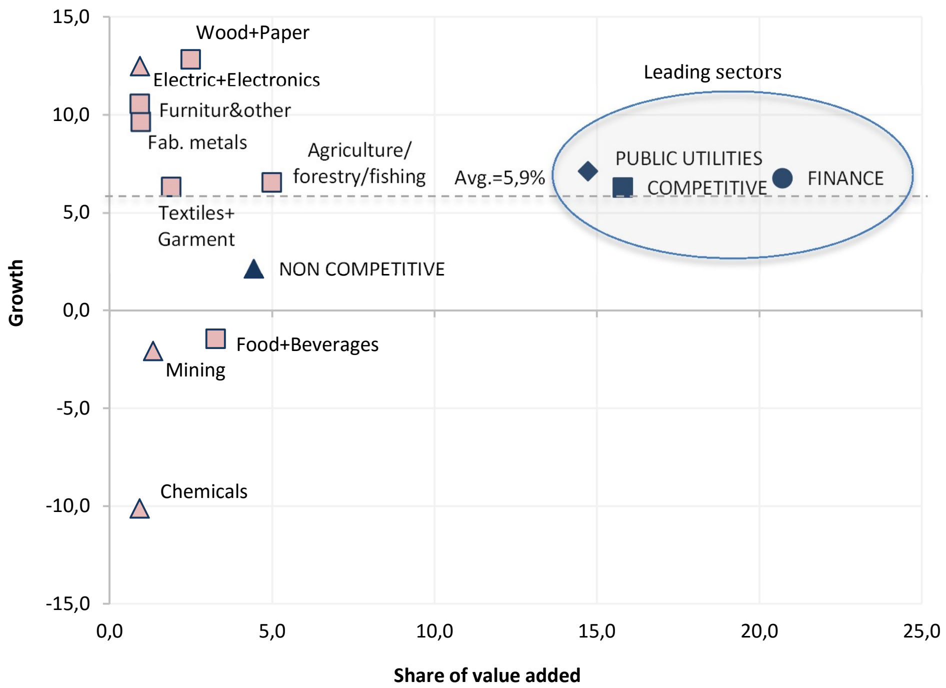
/a run separately in 1992
/b in 1992 run under the "Secure Home" coalition.
Source: Laagerspetz and Vogt (2013).

Despite the higher vote for center-left parties, a backlash against neoliberalism or even a substantive halt to the reform process failed to materialize given the lack of business support for an alternative development project and the *blockade* of a stronger support for center-left parties (see chapter 7). To the contrary, developments during the period helped consolidate an entrenched neoliberal dominant social bloc and strengthen the neoliberal developmental regime established in the previous period.

The ethnic cleavage still shedding light on party politics and the exclusion of the Russian minority prevented a higher support for the center-left Center Party, according to some the only party who could have provided a real alternative (Pettai 2009, 86; Lagerspetz and Vogt 2013, 55). Conversely, the second majority went to the pro-market Reform Party (*Reformierakond*), a merger of former Pro Patria and Moderates members led by architect of monetary reform Siim Kallas. The Reform Party conditioned its participation in government to the elimination of protective tariffs from the government's program, and demanded that the new government ruled out the possibility of supporting ailing sectors through selective subsidies (*Baltic News Service* 1995e).

An alternative development project also failed to garner support from business. Firstly, the quick privatization process enacted by the outgoing Laar administration prevented the formation of a more stable business support base from state-owned enterprises under distress (see *support creation* in chapter 6). Additionally, in spite of the early banking crisis in 1992, the financial sector excelled all the others during this period with a weight of 20.7% in total value added and an average growth rate of 6.8% (see figure 31). According to some accounts, the dominance of the financial sector was crucial to support the operation of the currency board and viceversa (Sörg and Vensel 2000, 128; 132): the fears of a possible devaluation induced the deepening of financial and derivative markets as economic actors demanded exchange rate insurance and swap contracts; at the same time, the issue of such forward contracts ensuring current exchangre rate levels helped to dispel doubts about the continuity of the currency board.

Figure 31:
Estonia, Production profile 1995-1998[a]



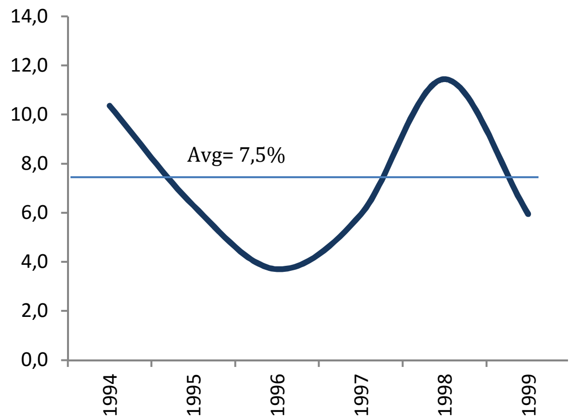
[a] Figure shows only sectors with a share in value added of 1% or more.
Source: Prepared by the author using data from OECD.

Close in the leading positions came the public utilities sector with a share of value added of 14.7% and a growth rate of 7.1% owing to the liberalization of prices of social services as well as fast privatization. Finally, the competitive sector led by resource intensive segments such as the Wood and paper and the Furniture industry, and extractive sectors such as Forestry and Fishing (including agriculture) completed a production profile that was hardly supportive of alternative projects. In fact, the leading sectors in particular, and big business in general, were ardent defenders of the neoliberal regime established at the beginning of the 1990s and were happy to see PM Tiit Vähi from the Coalition Party plea to continue the path of economic reforms (*Baltic News Service* 1995b).

The only sector reported to have sought higher protections through an agreement with the rural parties in government, was that of the Food industry (*Baltic News Service* 1996d). The issue became more pressing in the context of the Asian/Russian crisis that heavily affected agriculture and the food industry. The agrarian Country People's Union re-introduced the issue of custom tariffs for food products and tried to look for allies in parliament to support them –most eminently the Center Party-, amidst the rejection of the other governing parties (Reform party and Coalition party) and the fall of the government majority in 1997 (*Baltic News Service* 1996b; *Baltic News Service* 1998a). They were also heavily criticized by other segments of the business community, most notably businessmen from competitive and non-competitive high growing segments such as textiles and electronics (*Baltic News Service* 1996e; *Baltic News Service* 1996c). Most significant in this context seems to be the weakness of the non-competitive sector. It not only represented a meager 5.6% of value added (less than the agriculture/forestry/fishing sector as a whole), but it also grew significantly less than the average during the period. Two declining segments within this sector were chemicals and mining, both connected with Soviet times heavy industry (see e.g. Mettam and Williams 1998).

These trends were further supported by the large flows of FDI that followed quick privatization (see figure 32). FDI represented an average of 7.5% of total value added, with a high point of 11.4% in 1998. The most dynamic competitive sectors, namely those in raw materials (wood) and light industries (forestry, food and textiles) became highly concentrated and dependent on foreign capital as part of the "Nordic international economic clusters" (Tiits, Kattel, and Kalvet 2006, 74–81). Not only did external capital help to strengthen the leading sectors in the Estonian economy -finance, public utilities and competitive- with the highest shares of capital inflows during the period (see table 23). The arrival of foreign capital to declining non-competitive segments such as chemicals further prevented the formation of an opposition business bloc. As table 23 shows, capital stocks in the chemical sector more than doubled the sector's value added during the period. External capital also made significant inroads in non-competitive sectors with higher technology content (electronics, machinery and equipment), using Estonia as a cheap assembly station for their global value chains (see Tiits 2007, 334–5). These were usually highly concentrated niches, sometimes even dependent on a handful of firms (Sutela 2001, 44–5).

Figure 32:
Estonia, FDI inflows 1994-1998
(% of total value added)



Source: Prepared by the author using data from wiiw.

Table 23:
Estonia, FDI stocks 1997-1998 [a]
(%)

	Total	Sector value added
TOTAL	**100.0**	**30.5**
COMPETITIVE	**23.9**	**52.8**
Food product + beverages	9.1	90.2
Non-metallic minerals	4.7	178.9
Wood, and paper products	4.6	54.8
Fabricated metals [b]	2.6	77.0
Textiles and clothing	2.6	43.4
Furniture	1.9	54.7
Agriculture/Forestry/Fishing	1.3	7.7
NON COMPETITIVE	**7.8**	**61.4**
Chemicals	6.1	251.8
FINANCIAL	**19.4**	**156.1**
PUBLIC UTILITIES	**15.2**	**69.8**
Transport and communication	15.0	71.7
OTHER SERVICES [c]	**28.9**	**28.1**

Source: Prepared by the author using data from wiiw.
[a] Sectors with a share higher than 1% of total FDI. Annual average during period.
[b] Includes basic metals.
[c] Comprises mostly retail trade and tourism (restaurants + hotels)

Table 24:
Estonia, Social blocs in the reform and aftermath periods

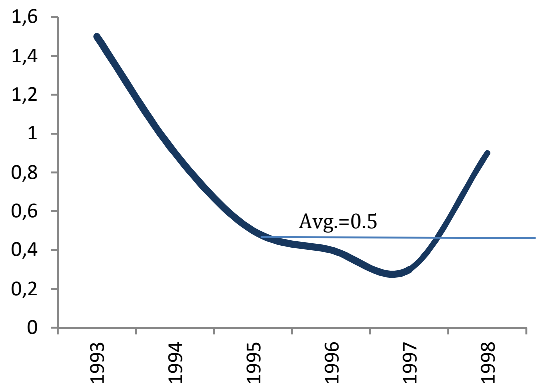
	Neoliberal bloc		*Alternative bloc*	*Excluded/repressed*
Actors	*Core*	*Allies*		
Political	- Reform Party - Pro Patria	Coalition party	- People's Union - Center Party	Russian parties (Our Home is Estonia)
Business	- Financial sector - Public utilities - Competitive	Non-Competitive	--	--
Labor		Estonian trade unions	--	Russians

Source: Prepared by the author.

As a result of these political economic dynamics, a strong social bloc emerged in order to back the continuity of the neoliberal developmental regime (see table 24). The bloc was composed of nationalist and liberal parties in parliament (Pro patria and Reform party) and a foreign-owned business base led by the financial, public utilities and competitive sectors.

The Estonian neoliberal bloc defended the currency board from rising criticism during the KMÜ-Reform Party government in 1995-7, as well as during the Asian/Russian crisis in 1997-8. The quick switch of the ER peg from Deutsche Mark to euro in 1999 maintaining the currency board was a further confirmation of the commitment of Estonian authorities to defend existing ER arrangements and their price stability orientation (see chapter 8).

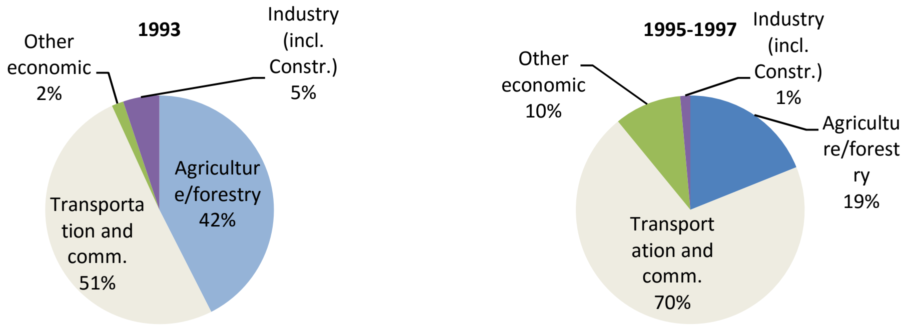
Figure 33:
Estonia, Subsidies and transfers to enterprises 1993-1998
(% of GDP)



Source: EBRD Transition report, several years.

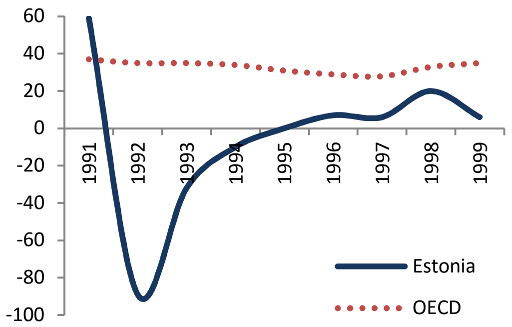
In the case of industrial policy, data on subsidies to enterprises show a continued decline with an average of only 0.5% of GDP between 1995 and 1998, even when including the unexpected hike in 1998 (figure 33). Interestingly, subsidies to industry (including manufacturing, mining, energy and construction) fell from an already low 5% of all expenditure in economic affairs in 1993, to a negligible 1% in 1995-7. In fact, expenditure was dominated –and increasingly so- by two segments in the public utilities and competitive sectors: transport and agriculture (see figure 34).

Figure 34:
Estonia, Public expenditure in economic affairs 1993-1997



Source: Prepared by the author using data from Statistical Yearbook of Estonia, respective years.

Figure 35:
Estonia, Producer Support Estimate (PSE) 1991-1999
(%)



Source: OECD (1999, 301–2).

Table 25:
Estonia, tariff rates [a] 1995-1999

	Tariff Type		
	AHS	MFN	Max
1995	0.05	0.07	16
1996	0.01	0.03	16
1997	0.01	0.03	16
1998	0	0	0
1999	0	0	0

Source: WITS.
Legend: AHS= Effectively applied tariff; MFN= Most favoured Nation tariff; Max= Maximum tariff
[a] Simple average

A higher share of subsidies to agriculture is also manifested in the OECD Producer Support Estimate which captures all support measures to this specific sector (see figure 35). This means that the demands of agrarian parties and business groups in the food industry finally found echo, producing a rise in subsidies to agriculture which may be interpreted as evidence of higher embeddedness of industrial policy. However, while the increase may seem important judging from the low previous levels, it remained way below OECD levels. Moreover, the sudden 1998 hike is to be interpreted as an effect of the steep fall of international prices of food due to the Russian crisis (see OECD 1999, 150–1).[125]

[125] The PSE is an indicator that takes into account the share of transfers in total farm receipts, and is therefore highly sensitive to sudden price fluctuations. Accordingly, when prices of agricultural products suddenly fall, transfers make up a larger amount of total receipts. Also, a faster fall of external prices

In fact, demands for higher subsidies were accepted only when they were framed as a necessary step to adapt Estonia's agricultural policy to the European Common Agricultural Policy (CAP) in the context of EU accession (see *Baltic News Service* 1996a; *Baltic News Service* 1997d). Initial proposals to establish a protective custom tariff and other policies to protect the agricultural and food sector were either rejected in parliament or repealed by the constitutional court (D. Smith 2001, 104; Feldmann and Sally 2002, 92). In fact, Estonia not only did not adopt tariffs, but further strengthened its regime of absolute free trade (see table 25 above).

In sum, the neoliberal developmental regime in Estonia was strengthened during the aftermath period. While the prevalence of an ethnic cleavage strongly connected with economic policy preferences prevented the formation of an alternative bloc comprising both left-wing parties and non-competitive sectors, the arrival of high FDI inflows thanks to a fast privatization process helped to strengthen the leading sectors (finance, public utilities and competitive in that order) and silence non-competitive ones. The result was a neoliberal developmental regime only slightly more pragmatic in its response to specific coalitional interests. However, inasmuch as the new subsidies were framed as necessary to enter the EU -a project championed by the right-wing parties especially the Reform Party and which harnessed support from all business sectors- they can hardly be understood as comprising an overture of the dominant social bloc toward new societal bases of support.

d) Normal politics in Poland: seeking alternatives

The situation went differently in Poland in the aftermath period. The policy concessions enacted to incorporate discontent groups during 1991-1993 did not stop the unfolding of the umbrella that served to shield neoliberal reforms. The elections of October 1993 brought the ex-communist SLD and PSL into a government alliance, which can be interpreted as a rejection of the arms-length neoliberal developmental regime proposed by the Solidarity-led governments of the early 1990s, and the opening up of a period where political and socioeconomic actors tried to form an alternative social bloc (cf. Blazyca and Rapacki 1996, 87; Orenstein 2001, 37–8).

compared to internal ones translate into temporary higher levels of support as measured by the PSE. See the PSE manual pp. 166-167 at http://www.oecd.org/tad/agricultural-policies/psemanual.htm

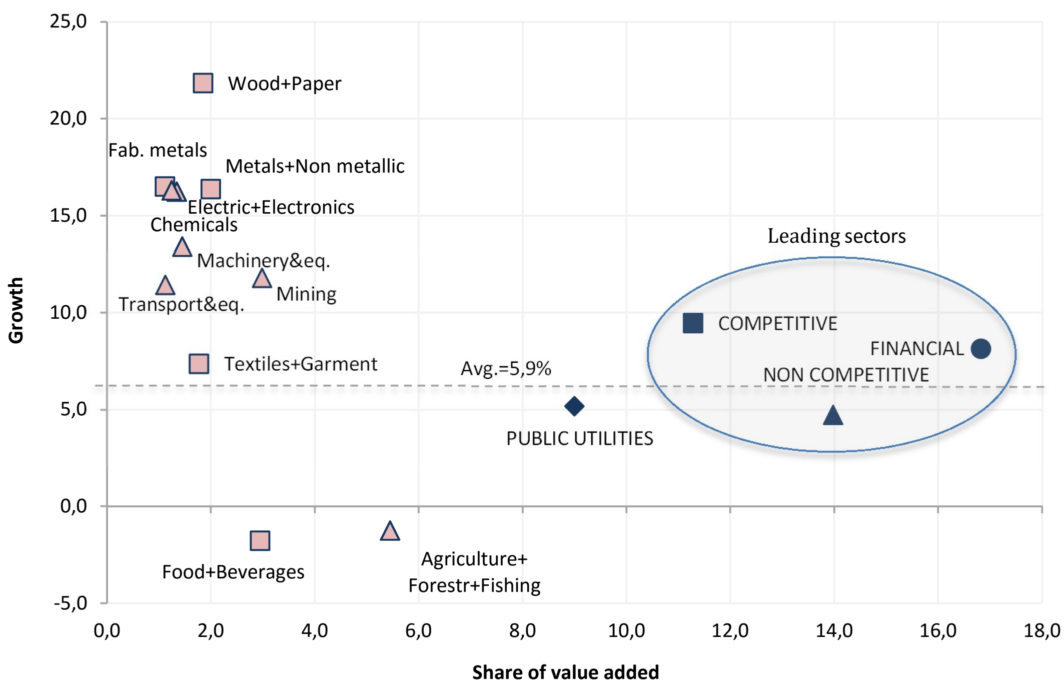
Two arguments speak against this idea. First, the new government majority was not necessarily an endorsement of an alternative developmental project, but an effect of the electoral system. In fact, the newly introduced election thresholds heavily affected the fragmented Solidarity camp and boosted the representation of the post-communist parties from around 1/3 of the votes to almost 2/3 of seats in parliament (see Szczerbiak 1998).[126] However, the election in 1995 of SLD leader Aleksander Kwaśniewski as president of the Republic against high-rank Solidarity leaders (Lech Wałęsa, ex-minister of Labor and Solidarity activist Jacek Kuroń, ex-PM Jan Olszewski) is a further evidence of a true opening of the electorate to the center-left. Moreover, what will be stressed here in contrast with Estonia, is how the center-left SLD/PSL government tried to build a new social bloc out of those actors opposing neoliberal reforms, and the contours of such formation in terms of the actors involved and the policies they fostered.

The second contrary argument relates to the pro-market stance of the SLD and the overall reformist character of the SLD/PSL government. In fact, research shows that after more incendiary critics against economic reforms, the SLD embraced market reforms and reworked its electoral profile in order to appear as a modern social democratic party (see Grzymała-Busse 2002; Markowski 2002). However, while prudent macroeconomic policy and a context favorable to international integration are often cited as examples of continuity (e.g. Blazyca and Rapacki 1996), the picture looks different when analyzing the specific changes in exchange rates and industrial policy in contrast with the previous period, and in opposition with the continuity path in Estonia. The picture looks even more complete when taking into consideration the changing societal bases of support for developmental projects in both countries. In fact, several authors stress that the decrease in protest activity in Poland starting in 1994 can be more or less directly linked to the policies of the new administration and the institutionalization of representation channels for the demands of the more vocal protests groups (for farmers Gorlach and Mooney 1998, 279; Forys and Gorlach 2002, 59; for manufacturing workers Sznajder Lee 2010, 52; Pleines 2008). In this sense, I concur with Mitchell Orenstein that “the backlash against shock therapy was politically effective in Poland insofar as it stopped or delayed the implementation of additional reform legislation” (Orenstein 2001, 42).[127]

[126] See more on this in Chapter 7.
[127] Another critic of the Polish path, reckons that while “in general macroeconomic policy, the government differed little from previous ones” it did manage to do “small but meaningful changes” (Ost 2005, 81).

The analysis of the polish production profile during 1994-1997 in comparison with the Estonian shows to contours of the business base of an emerging alternative bloc (see figure 36). While average value added growth was the same in the two countries (5.9%) its sectoral composition was quite different. Three differences stand out. First, while the financial sector experienced significant growth also in Poland, its structural power was limited by its share of value added: less than 17% compared to over 20% in Estonia. In this sense, growth was much less finance-dependent. More significantly, the financial sector in Poland was still overwhelmingly in state hands. As Epstein (2002, 22) has noted, managers of state-owned banks actually opposed policy proposals of right-wing neoliberal parties such as the independence of the central bank.

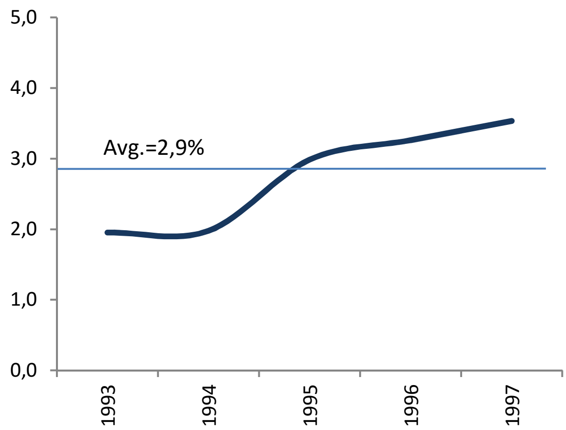
Figure 36:
Poland, Production profile 1994-1997 [a]



[a] Figure shows only sectors with a share in value added of 1% or more.
Source: Prepared by the author using data from OECD.

Second, public utilities played a much lesser role and cannot be counted in the leading sectors. This is again explained by the opposite effect as in Estonia, namely, the slow proceeds of privatization. Finally, the good standing of the non-competitive sector makes the case for incorporating it among the leading sectors. The share of the Polish non-competitive sector in value added more than tripled the Estonian (14% versus 4.4%). When looking at the specific segments, the growth of industries traditionally considered among the losers of reform and that led the protest wave during 1990-3 e.g. mining, chemicals, machinery, and transport, is noteworthy.

Figure 37:
Poland, FDI inflows 1993-1997
(% of total value added)



Source: OECD.

Table 26:
Poland, FDI stocks 1996-1997 [a]
(%)

	Total [b]	Sector value added
TOTAL	**100.0**	**9.5**
COMPETITIVE	**26.4**	**22.3**
Food product + beverages	10.3	31.0
Transport & eq.	6.6	53.8
Wood and paper	4.3	21.6
Rubber and plastics	3.0	34.7
Basic and Fabricated metals	2.3	10.0
NON COMPETITIVE	**8.3**	**5.4**
Chemicals	4.2	29.5
Machinery & eq.	1.4	8.7
Textiles	1.1	6.3
FINANCIAL	**14.5**	**8.2**
PUBLIC UTILITIES	**2.1**	**2.2**
Transport and communication	2.1	3.2
OTHER SERVICES [c]	**13.6**	**2.7**

Source: Prepared by the author using data from wiiw.
[a] Sectors with a share higher than 1% of total FDI
[b] Percentages don't sum 100% because a large part of FDI during the period was assumed under the category "other".
[c] Comprises mostly retail trade and tourism (restaurants + hotels)

FDI flows also show significant differences with Estonia. First, the magnitude of inflows as percentage of GDP was more than twice as big in Estonia than in Poland (average 7.5% of GDP versus 2.9%) (see figure 37). This means that during this period external capital deposited less –although growing- interests in the Polish developmental regime with a crucial effect on the domestic vs. foreign composition of the emerging business sectors. In fact, FDI stocks as a share of total value added were over 30% in Estonia, but only 9.5% in Poland (see table 26). The sectoral analysis of FDI stocks, especially in the crucial non-competitive sector, is more significant to understand the emerging alternative social bloc in Poland as opposed to the neoliberal bloc in Estonia. While the sector attracted the same share in terms of total FDI in both countries (8%), in Poland FDI stocks were negligible as a share the sector's value added (5.4% compared to over 60% in Estonia). Even in the more internationalized competitive sector, FDI represented only about a half the level in Estonia (22.3% vs. over 50%). This higher domestic component of the emerging business sectors in Poland –especially in the case of the non-competitive sector- is an indication of a more fundamental difference between the two countries: the role of State Owned Enterprises (SOEs) –i.e. those that had participated in the protest events of the early 1990s- in forming an alternative social bloc that supported if not a stark departure from neoliberalism, a significantly different version.

The SLD-PSL government's economic plan, the "Strategy for Poland", was devised by Minister of Finance and deputy prime minister Grzegorz Kołodko as a direct challenge to Balcerowicz's shock therapy. Kołodko had opposed the fixed exchange rate (*Gazeta Wyborcza* 1991a) and advocated a managed regime in order to use the ER for export competitiveness and not anymore for stabilization purposes (Kołodko 1993, 16; Kołodko and Nuti 1997, 13; 27).[128] Minister Kołodko engaged in heated fights with the governor of the Polish National Bank (NBP) Hanna Gronkiewicz-Waltz wanting to use the ER to reduce a two-digit inflation rate (R. A. Epstein 2008, 55–6). Gronkiewicz-Waltz had diminished the rate of devaluation of the crawling peg thus forcing an ER appreciation. She even put forward the idea of establishing a free float ER regime to the cherish of the emerging private financial sector (*Gazeta Wyborcza* 1995b; *Gazeta Wyborcza* 1995c). Thanks to the fact that the government still legally enjoyed the possibility to set the goals of monetary policy (see chapter 8), Kołodko forced an agreement with the NBP. He accepted the release of the ER, but in exchange of a significant reduction in interest rates in order to compensate producers in the competitive and non-competitive sectors with cheaper loans, as well as to reduce incentives for capital inflows appreciating the ER (see *Gazeta Wyborcza* 1995a; *Gazeta Wyborcza* 1995b). The agreement also included the introduction of margins -floating bands of +-7%- in order to guide intervention in the foreign exchange market. Following the agreement, the SLD/PSL government was energetic in demanding an active management of the ER to maintain higher ER levels (*Gazeta Wyborcza* 1995d). The increase in current account deficit in 1996-7 made the NBP more docile in switching price stability for export promotion as a policy goal (Leszczyńska 2011, 65; cf. Gomułka 1998).

[128] The choice of ER regimes during these years was also affected by the prospect of future EU and EMU accession. On this subject, Kołodko envisaged a long transition process with emphasis on fiscal and monetary policy coordination, "gradual preparations and soft landing" in order to avoid a "deep competitive recession" (Kołodko and Nuti 1997, 45–6). This stance was opposite to the more liberal views seeing the necessity to rapidly stabilize exchange rates through a highly contractive monetary and fiscal policy (e.g. Orłowski 1996; Gomułka 1998).

The "Strategy for Poland" document also accorded an important role for state intervention in industrial restructuring, the stimulation of exports and domestic investment (Kołodko 1993, 6–8; Kołodko and Nuti 1997, 37; King and Sznajder 2006, 774). Three ideas stand out: 1) industrial policy as regional development, which sparked the creation of special economic zones in selected regions,[129] 2) industrial policy as an instrument to enhance competitiveness in the context of gradual external openness, especially EU integration (e.g. through the implementation of export credit insurance and guarantees), and 3) industrial policy for the restructuring and privatization of SOEs with the use of social dialogue structures. While the first two components were rather horizontal in nature,[130] the third was highly selective. Much of this industrial policy effort was dedicated to compensate and subsidize the non-competitive and competitive sectors that had been critical of the neoliberal reforms of the Solidarity governments.

In the case of restructuring and privatization of SOEs, Poland abandoned both mass privatization and case by case analysis, for sector-based restructuring programs (King and Sznajder 2006, 775–6). It continued the drop in industry subsidies started with the Balcerowicz plan, but at a much lower pace and maintaining a level significantly higher than in Estonia (1.6% versus 0.5% of GDP) (see figure 38 below). Additionally, while expenditure in industry (including manufacturing, mining, energy and construction) as a percentage of total spending in economic affairs remained relatively constant, spending for the specific purpose of industry restructuration grew from 5% to 9% of the total (see figure 40 below).

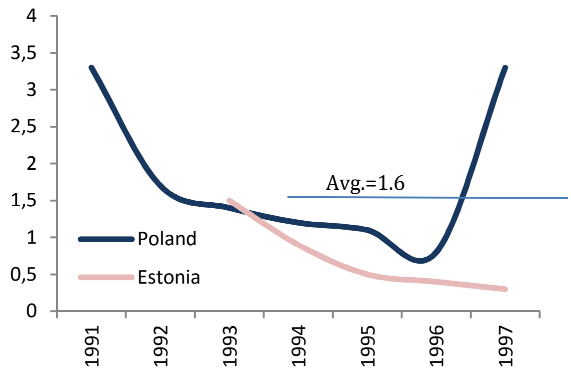
It was in fact the SLD/PSL government who put the provisions of the 1993 Enterprise Act into practice, igniting SOE restructuring processes with the participation of trade unions (Ost 2005, 214 n. 36). This sparked the creation of restructuring plans and the institutionalization of social dialogue in key industries in competitive and non-competitive state sectors such as the contentious steel and coal mining industries (see Sznajder Lee 2010, 43; Gilejko 2011, 68). These sectors also benefitted from the

[129] Special Economic Zones were intended to attract investors, especially foreign ones, to regions with industries in need of restructuring, especially regions with high unemployment. The main instrument was offering tax breaks (full break the first half time of the operation of a zone, followed by a reduced rate the rest of the time). In 1997 there were 16 Special Economic Zones (King and Sznajder 2006, 776).
[130] Nevertheless, according to King and Sznajder (2006, 776), even some economic zones, by definition horizontal, served selective purposes as in the case of industry-concentrated regions.

establishment of Tripartite Commissions, were enterprises and unions could negotiate for the first time wages and working conditions at the sectoral level.

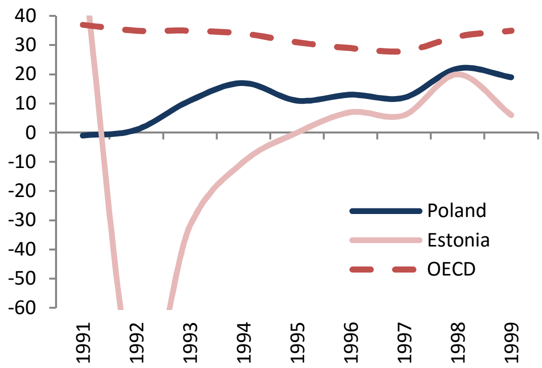
Two important caveats need to be made here. First, as some authors have argued (Ost 2000; cf. Gardawski and Meardi 2010), in the end these sectoral dialogue structures served more to facilitate labor acquiesce to privatization than for labor's actual incorporation. The politicization of trade unionism and the constant quarrels between the Solidarity and the ex-communist OPZZ offer some insight to explain labor's continued weakness (see chapter 7). Second, private companies were excluded from participating in Tripartite commissions until the early 2000s, and were also spared from applying agreements on wages and working conditions. This means that it was mainly state-owned companies who were favored with the industrial policy measures, and that unions remained in the fringes of the emerging alternative bloc.

Figure 38:
Poland, Subsidies and transfers to enterprises 1991-1997
(% of GDP)



Source: EBRD Transition report, several years.

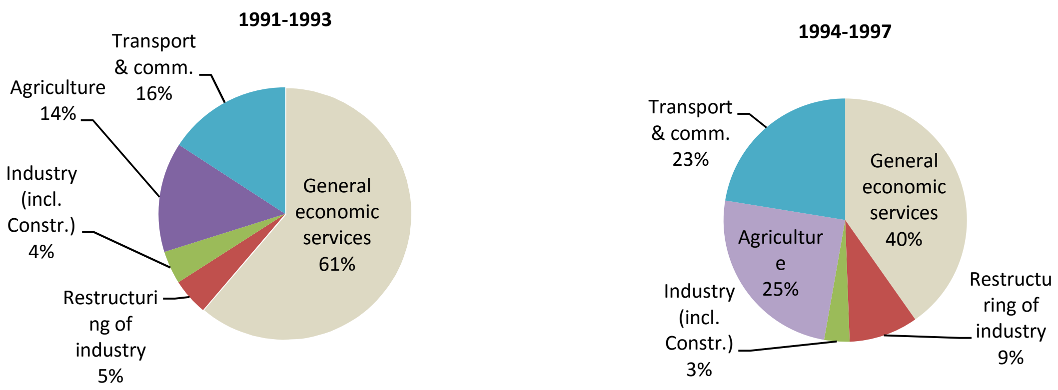
Figure 39:
Poland, Producer Support Estimate (PSE) 1991-1999
(%)



Source: OECD (1999, 301–2).

With respect to agriculture, the presence of the PSL in government provided a direct channel for the expression of farmers' interest in the government (Pleines 2008, 212). Most significantly, the PSL was successful in bridging the power gap between the agriculture and economy/finance ministries in order to provide increasing protection to agriculture. The SLD/PSL government capitalized the agricultural bank to provide cheaper loans, incorporated custom tariffs for imported agricultural products, created new subsidies and other social benefits (Forys and Gorlach 2002, 60).

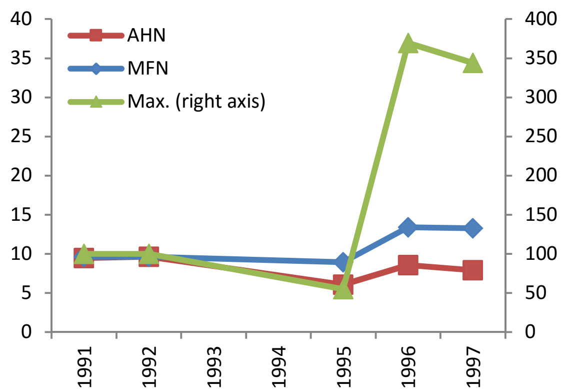
Figure 40:
Poland, Public expenditure in economic affairs 1991-1997



Source: Prepared by the author using data from Statistical Yearbook of Poland, respective years.

Subsidies to agriculture as a % of spending in economic affairs increased almost two-fold in Poland (figure 40 above). Polish expenditure in agriculture remained consistently above the Estonian figures even in their best years (25% against 19% in 1997). Figure 39 above shows the "Producer Support Estimate" (PSE) for Poland in comparison with Estonia. The PSE increased sharply in Poland following the change of government, from -1% in 1991 to 17% in 1994 and remained way above the Estonian level throughout the 1990s –although still below OECD levels.

Figure 41:
Poland, Tariff rates 1991-1997



Source: WITS. Simple averages
Legend: AHS= Affectively applied tariff
MFN= Most favored nation tariff; Max= Maximum tariff

Table 27:
Poland and Estonia, tariff rates 1995-1999

	Poland			Estonia		
	AHS	MFN	Max	AHS	MFN	Max
1995	8	9.61	55	0.05	0.07	16
1996	10.45	15.74	369.3	0.01	0.03	16
1997	9.8	16.97	344	0.01	0.03	16
1998	8.15	16	324.1	0	0	0
1999	5.15	15.11	293.3	0	0	0

Source: WITS.
Legend: AHS= Effectively applied tariff; MFN= Most favoured Nation tariff; Max= Maximum tariff
[a] Simple average.

Finally, while average tariff rates remained similar as in the previous period, there was a significant hike in maximum rates reflecting once again selective protection (see figure 41). In fact, when Poland entered the WTO in 1995 it decided to bind its tariffs at the maximum allowable level, and actively made use of selective temporary tariff exemptions, quotas, and non-tariff restrictions to protect specific industries of the competitive and non-competitive sectors including food, chemicals, electronic and precision components and equipment, and the automotive sector (Kamiński 1998, 196–8). Both average and maximum tariffs lie in stark contrast with the almost absolute free trade conditions in Estonia (table 27).

In sum, the SLD/PSL government brought changes to the Polish developmental regime that in comparison to neoliberal Estonia, allow speaking of a departure from the neoliberal developmental path established at the beginning of transition. Left leaning parties sought to bring the competitive and non-competitive sectors together to pursue a developmental regime that falls in the domain of embedded neoliberalism (see table 28). The presence of the PSL in government provided channels for the representation of farm interests. Conversely, the slow pace of privatization and the existence of state owned enterprises in these sectors facilitated the emergence of a social bloc in favor of an alternative developmental regime. Exchange rates were managed in a way to foster exports and protect domestic producers (through a crawling band ER regime), while industrial policy was used both to shield non-competitive sectors from external competition and help their restructuring, and to provide competitive sectors with export oriented infrastructure and upgrading possibilities. Labor remained split into the regime divide, and therefore, unable to fully participate in the emerging social bloc.

Table 28:
Poland, Social blocs in the reform and aftermath periods

	Neoliberal bloc		*Alternative bloc*
Actors	*Core*	*Allies*	
Political	Liberal Post Solidarity parties (UW)	Nationalist Post-Solidarity parties	- Post-communist parties (SLD, PSL)
Business	New private sector	--	- SOEs (Non-Competitive and Competitive) - Agriculture
Labor	Solidarity union (leadership)	--	OPZZ union

Source: Prepared by the author.

III. Conclusions

In this chapter I have analyzed the establishment of neoliberal developmental regimes and the formation of social blocs supporting them in the context of extraordinary and normal politics following the transition from communism to capitalist market economies and democracies. In Poland and Estonia, particular economic and political conditions brought radical reformers to the forefront policymaking positions managing to quickly set these countries in an orthodox neoliberal development trajectory. The continuity of this initial spurt rested on the maintenance of the emergency conditions that served to insulate neoliberal reformers, and the emergence and support from new political parties as well as business sectors.

The analysis showed that protest from the part of the losers of reforms, most significantly in the agriculture sector, as well as workers and managers of state owned enterprises, was significant in the case of Poland to take away the consensus over neoliberal reforms and open the chance for the formation of an alternative social bloc. The existence of political parties -centrist ex-communists and more left-leaning agrarian parties- willing to represent the discontent actors led in the aftermath period to the emergence of an incipient alternative social bloc in Poland. This was comprised of center-left parties and the non-competitive and competitive sectors formed by state-owned enterprises and farmers. These actors tried to change both exchange rates and industrial policy from their price stability orientation to policy goals related to the promotion of exports and the protection from external competition. In Estonia, the nationalist and ethnic conflicts of the reform period threw a clout on the aftermath period. This context trumped the chances of forming a more decisive center-left government, despite the presence of reform communist plus agrarian parties as in Poland. It also reduced the possibilities of contestation from non-competitive sectors, workers and farmers, thereby putting less pressure on the reform communists in government.

Resilient neoliberalism in Estonia and contested neoliberalism in Poland also show a distinct composition in terms of ownership of the newly emerging business sectors (domestic vs. foreign, as well as private vs. state owned). Resilient neoliberalism in Estonia was supported by a higher share of private business, and a higher share of external capital ownership, with especial concentration on the leading financial, public utilities and competitive sectors. On the contrary, contestation of neoliberalism in Poland is associated with a higher share of domestic business, and especially, state-owned in the non-competitive and competitive sectors. The patterns of privatization and FDI attraction appear therefore as crucial to reinforce emerging sectoral configurations. Strong non-competitive sectors able to ally with center-left governments and push more interventionist policies were associated in the case of Poland with a protracted privatization process and the arrival of FDI mostly to competitive and financial sectors. In the case of Estonia, rapid privatization together with large FDI flows also to non-competitive sectors prevented the formation of a business support base for alternative policies.

With respect to the cultural cleavage and regime divide that marks a difference with the Latin American cases, the chapter shows that it makes coalition formation on the basis of economic interests more difficult and thus, reduces the changes for opposing neoliberalism. This is most clear in the Estonian case, where nationalism and ethnic conflict provided a substitute for class solidarities. However, this was also manifest in the case of Poland, and prevented the formation of a more cohesive alternative bloc. The struggle between workers from Solidarity and the ex-communist OPZZ union, left labor outside the alternative social bloc diminishing also the extent of the departure from the orthodox path. Comparing with Argentina, monopoly of worker representation might by one reason behind the stronger resistance to neoliberalism in the Latin American country (see chapter 7).

CHAPTER 5

NEOLIBERALISM IN THE EAST,

ACT 2: EUROPEANIZATION

This chapter serves to understand the consolidation (or not) of neoliberal developmental regimes in the context posed by the accession to the European Union (EU). In contrast with the "shallow" international integration regimes pursued by the Latin American cases (see Bruszt and McDermott 2009), Europeanization substantively changed the context for the consolidation of neoliberalism in Eastern Europe (EE). Two ways can be identified: first, as an agent of active international leverage, the EU affected domestic balances of power by either imposing conditionalities and changing structures of rewards and sanctions, or by directly supporting certain normative discourses and policy paradigms over others (see Schimmelfennig and Sedelmeier 2005; Vachudova 2005). Second, it increased the influence of markets from West European neighbor economies - especially financial markets- (K. Dyson 2006, 12) underscoring once again the role of capital flows and the patterns of sectoral FDI in supporting leading economic sectors.

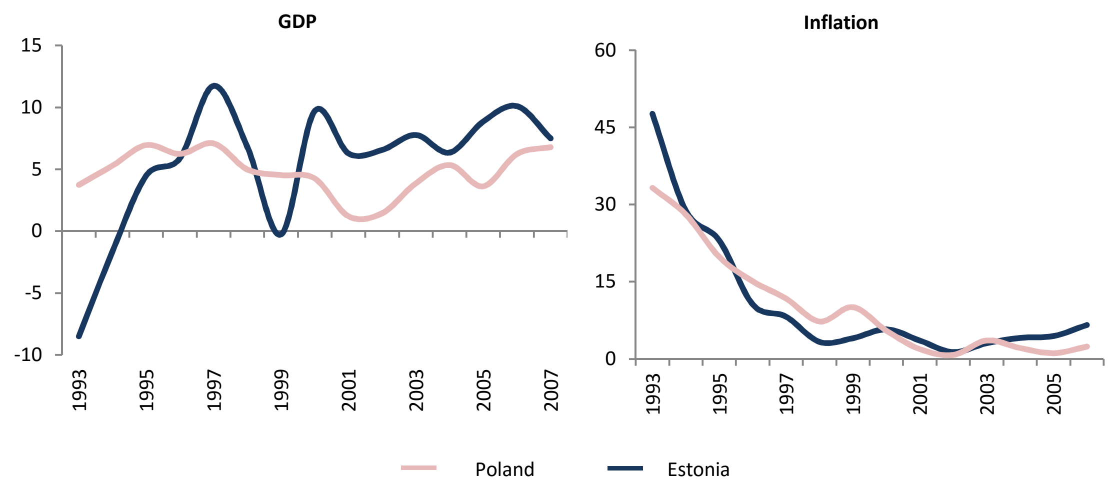
The will to become a candidate member of the EU and the context of EU accession itself affected party preferences and the very existence of political alternatives in EE (Vachudova 2008; Grzymała-Busse and Innes 2003). EU accession narrowed the space of policy competition for the more established parties, especially when they were –or had big chances to be- in government, although also providing space for the polarization of smaller parties especially after accession when the more pressing constraints were lifted. Conversely, EU accession accelerated FDI flows to the region exposing the more protectionist non-competitive sectors to external capital. In the case of policy regimes themselves, the EU favored price stability driven exchange rates, and a neoliberal-embedded industrial policy framework (see below).

EU accession provided a strong pressure for the consolidation of neoliberalism. The actual effect, however, varied according to existing domestic institutions and political dynamics (see Bohle and Greskovits 2012; Vachudova 2005). In Estonia, it allowed to consolidate the established neoliberal bloc as well as the neoliberal develomental regime, with a slight embedding in the case of industrial policy. The pressure was felt mostly in Poland, were europeanization shook the political and socioeconomic bases of the emerging alternative social bloc. In this context, the ability of populist parties to compete for the representation of the "losers" of reform and to maintain the link between SOEs, non-competitive sector and higher protectionism would be vital to maintain the contestation over neoliberalism.

I. Consolidation: Europeanization and transnationalization

At the turn of the century, East-Central European developmental regimes had to face two challenges. The first was the Russian crisis in 1998 that destabilized domestic financial markets and forced a definitive reorientation of economic relations away from the Eastern bloc and toward the EU. The crisis brought a decrease in economic activity that helped to depress inflation levels. As Figure 42 shows, this process was steeper in Estonia -with a quicker recovery as well- and more delayed and with a longer recovery in Poland.

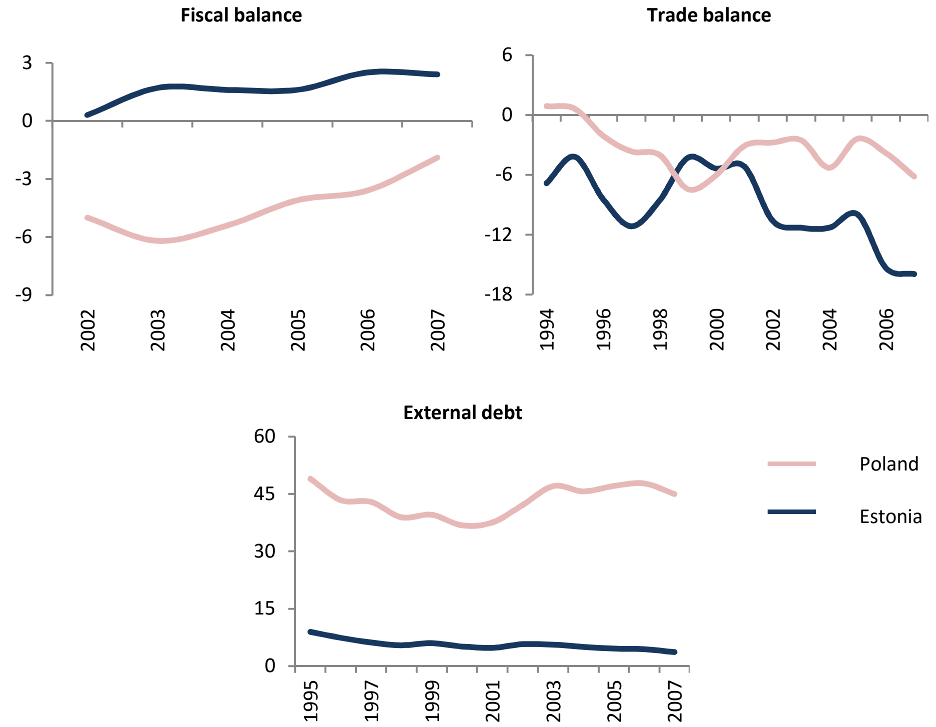
Figure 42:
Estonia and Poland, Performance indicators 1993-2007
(% growth)



Source: Growth= OECD; Inflation= IMF.

The impact of the Russian crisis also aggravated current account problems in both countries, which put pressure on their exchange rates (see figure 43). A significant difference of how they reacted was the room of maneuver in fiscal policy. Both public deficits and debt grew in Poland, and would become problematic in the context of EU accession and the need to meet Maastricht criteria. Estonia by contrast, enjoyed low levels of debt and public surpluses, and was able therefore to choose policy responses more freely.

Figure 43:
Estonia and Poland, Economic constraints indicators 1994-2007
(% of GDP)



Source: Fiscal balance=OECD, Trade balance and external debt=Eurostat

The second challenge was the process of EU accession itself, whose impact on domestic politics, policymaking as well as institution building entered a crucial face. According to Héritier (2005, 203; 207), the key to understand EU's effects is the type of accession problem posed by each specific policy domain, and how these were translated into specific patterns of domestic competition and institutional change (see Bohle and Greskovits 2012). In the case of exchange rates, EU accession strengthened neoliberal-minded actors. In concrete, preparations for EMU empowered central banks and promoted discourses of “fiscal discipline, sound money and finance” (K. Dyson 2006, 10–1). While no specific conditionalities were attached -other than the obligation to prepare for euro accession with flexibility in dates and policies- the requirement of central bank independence, the proscription for central banks to finance government debt, and the need to liberalize capital accounts strongly affected domestic policy choices on ER (see K. Dyson 2006).

In the case of industrial policy (IP), EU accession generated divergent pressures: toward greater embeddedness in the more liberal countries, and toward liberalization in the more embedded countries. In the first case, the EU provided financial support for the development of legal and institutional capacity and the elaboration of strategic plans for industry promotion and the restructuring of agriculture as harmonization and pre-accession periods e.g. through the PHARE and SAPARD programs (Suurna and Kattel 2010; Kattel, Reinert, and Suurna 2009; OECD 2005, 81–3). Although limited in scope, in some cases these initiatives proved more relevant for industry restructuring than domestic IP efforts altogether, marking the commencement of a more selective orientation in IP (see Suurna and Kattel 2010, 651). At the same time, however, the EU was strongly against subsidizing industries and established phasing in/out periods for industry and agricultural subsidies much stricter than those faced by older EU members (see Sznajder Lee 2006; OECD 2005, 79–80; see also Héritier 2005), affecting the work of social dialogue institutions set to negotiate state aid and restructuring domestically (see e.g. Czarzasty and Owczarek 2012, 84). This was especially so in sectors were new member states could outcompete old member states, i.a. steel, agriculture and food processing. One polish civil servant referred to EU conditionality in terms of decreasing sectoral subsidies as “a pistol held to our head” (Sznajder Lee 2010, 225).

a) *Estonia: Consolidating neoliberalism*

The period of consolidation and the process of EU accession acted precisely in the direction of further solidifying neoliberalism in Estonia, both in terms of the respective policies and their institutional infrastructure, as well as the dominant social bloc supporting them. In terms of the political scenario, right-wing parties consolidated their dominance. The most significant indicator is the prevalence of the Reform Party. As the third most voted party in the 1999 and 2003 elections, and despite the breakups in the initial government coalitions, the Reform Party managed to form part of all governments from 1999 on, maintaining a decisive grip on government programs (see Solvak and Pettai 2008). A new actor entered the party arena to refresh the center-right, the Res Publica party, presenting some of the populist and anti-establishment overtones found in other countries in the region (see Taagepera 2006). Res Publica rose after a period of upheaval of public opinion and in the context of EU accession, presenting itself as a party closer to the interests of ordinary people, emphasizing anti-corruption measures and a higher sensibility for the social aspects of market reforms. However, Res Publica maintained an overall liberal orientation therefore conducing the anti-establishment vote into a right-wing platform (see especially Taagepera 2006; also Pettai 2004).[131]

EU accession constituted a basic consensus among Estonian elites and did not have big impacts in the patterns of domestic political competition (Lagerspetz and Vogt 2004; Mikkel and Kasekamp 2008; Sikk 2009). In fact, given the orthodox neoliberal regime existing in Estonia, EU accession implied that Estonia would have to increase its embeddedness, most notably in industrial policy. This effectively lowered opposition from left-leaning parties.[132] For example, the need to increase agricultural subsidies as part of the implementation of the CAP dissuaded opposition from rural areas and the agrarian People's Union party (Sikk 2009, 476; Mikkel and Kasekamp 2008, 303). The positive effects of higher subsidies and the use of structural funds was also highlighted by the Center Party (Sikk 2009, 476–7). The biggest challenge was therefore for right-wing parties, who saw EU accession as a threat to Estonia's neoliberal regime (e.g. Raig 2007). They assumed, however, that EU accession (together with the accession to NATO) was more than justified as a matter of national security and as a further step away from Russia, EMU accession being the key goal (Lagerspetz and Vogt 2004, 77; Mikkel and Kasekamp 2008, 309; Feldmann and Sally 2002, 99). One Reform Party MP put it in the following terms:

[131] Compare below with the situation of more radical populist parties in Poland.
[132] The populist-cum-center-left People's Union and the Center Party, however, attempted a more critical stance in the run-up of the accession referendum in order to capture the vote of a fairly eurosceptic population.

"In the nineties we had more free market and more liberal ideas than now, because the European Union is a Keynesian society. But of course, we had to follow the ideas of the EU".[133]

Most importantly, the mood of EU accession as well as direct pressures from the European Commission for the harmonization of citizenship and integration laws and initiatives, brought a relaxation of the ethnic cleavage which increased the chances of center-left parties –especially the Center Party appealing to losers of reform and the Russian speaking population (cf. Lagerspetz and Vogt 2013). The element of change of the period is therefore constituted by the increase vote share of the Center Party (see table 29). It actually managed to become the biggest party in parliament in 1999. Furthermore, despite the attempt to sideline the party from the formation of government coalitions (see especially Pettai 2009), the constant quarrels within the right-of-center governments opened up the possibility to strike strategic deals between right and left parties, most notably the seemingly opposite Reform and Center parties. It was this way how the Center Party arrived to the government in 2002 (with the Reform Party), and in 2005 (with the Reform and People's Union Party). In the first occasion, the policy input of the Center Party was squarely reduced by the pragmatic agreement to postpone party programs in order to focus around the relatively uncontroversial issue of finishing EU accession talks (Pettai 2004, 829). In 2005, however, the government agreement actually included demands of the left-leaning parties in the coalition.

Table 29:
Estonia, Parties with parliamentary representation in 1999 and 2003

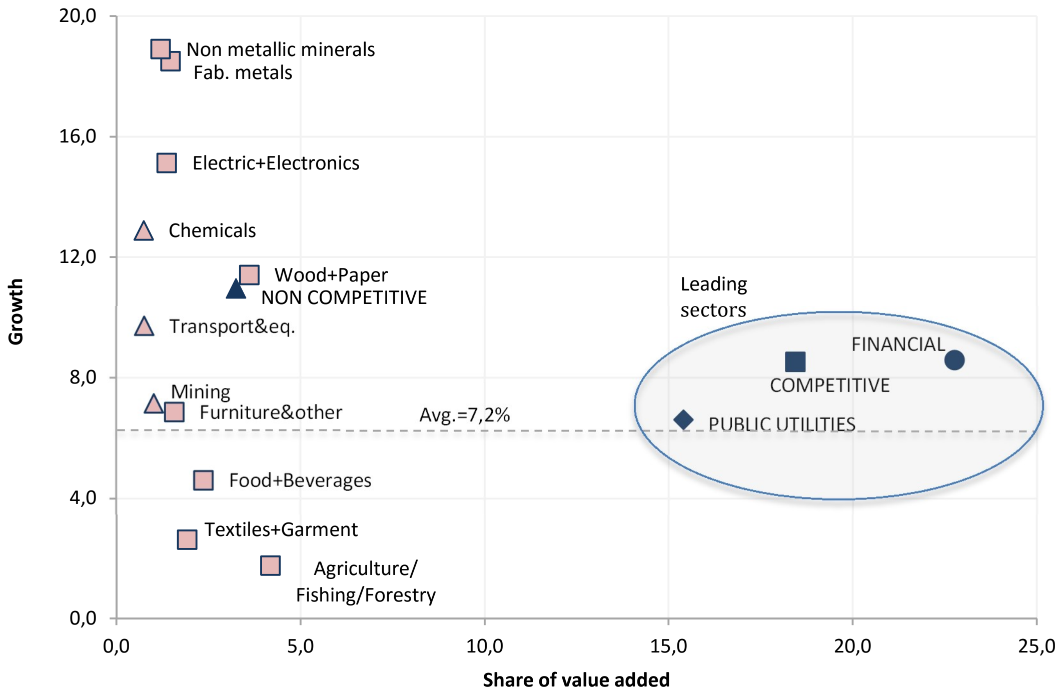
	1999		2003	
	% of vote	% of seats	% of vote	% of seats
Right/Center-right	**53.3**	**58.3**	**56.6**	**59.3**
Reform Party	15.9	17.8	17.7	18.8
Pro Patria Union	16.1	17.8	7.3	6.9
Res Publica	--	--	24.6	27.7
Moderates/ Social Democratic Party	15.2	16.8	7.0	5.9
United People's Party	6.1	5.9	--	--
Coalition Party	5.9	5.9	--	--
Center/Center-Left	**30.7**	**34.1**	**38.4**	**40.6**
Country People's Party/ People's Union	7.3	6.9	13	12.9
Center Party	23.4	27.7	25.4	27.7

Source: Lagerspetz and Vogt (2013, 75).

[133] Estonia, Interview 8.

In terms of business support, the production profile in Estonia shows a striking continuity with that of the previous period (see figure 44). Three sectors remain in the lead with high growth and weight in total value added: financial, competitive and public utilities. The absolute dominance of the financial sector over the rest of the economy is noteworthy. It not only represented close to 23% of total value added during the period; it also grew at an average rate of more than 8%. Conversely, although the non-competitive sector grew alike, the sector's share of value added remained at a very low 3.2%. In fact, the whole non-competitive sector represented the same share of value added as high growing competitive segments such as wood and paper.

Figure 44:
Estonia, Production profile 1999-2007 [a]

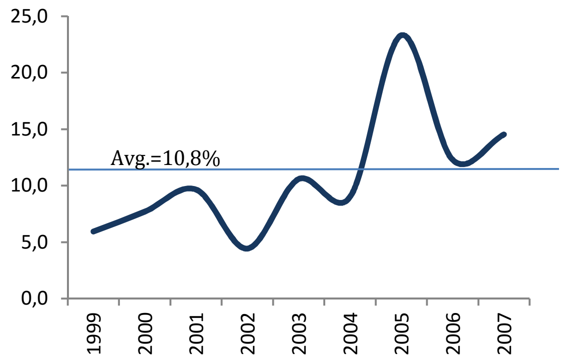


[a] Figure shows only sectors with a share in value added of 1% or more.
Source: Prepared by the author using data from OECD.

This pattern was further supported by the acceleration of FDI flows during the decade. FDI inflows grew from an average of 7.5% of total value added in the previous period, to almost 11% between 1999-2007 (see figure 45). The lion's share of this increase was captured by the financial sector, with over 50% of the total (table 30). FDI stocks surpassed by far the sector's annual value added during the period. FDI positions in total value added confirm the picture of an economy overly dominated by external capital. FDI stocks represented on average 71% of annual value added during the period.

Conversely, while stocks of FDI declined in the non-competitive sector with respect to the previous period, they remained high at 43.6% of the sector's value added, confirming earlier trends of transnationalization in the sector.

Figure 45:
Estonia, FDI inflows 1999-2007
(% of value added)



Source: Prepared by the author using data from wiiw

Table 30:
Estonia, FDI stocks 1999-2007[a]
(%)

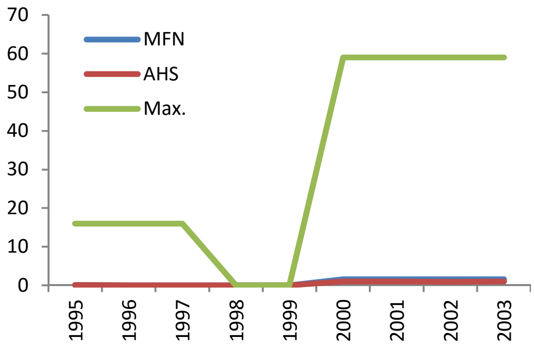
	Total	Sector value added
TOTAL	**100.0**	**71.0**
COMPETITIVE	**16.4**	**68.7**
Wood, and paper products	4.0	83.0
Food + beverages	3.8	104.2
Non-metallic minerals	2.4	148.2
Textiles and clothing	1.8	63.1
Electrical and electronics	1.3	61.1
Fabricated metals	1.1	53.7
NON COMPETITIVE	**4.4**	**43.6**
Chemicals	1.4	139.1
FINANCIAL	**47.0**	**156.1**
PUBLIC UTILITIES	**17.1**	**69.8**
Transport and communication	14.4	71.7
Electricity, gas, water	2.7	60.0
OTHER SERVICES [b]	**16.3**	**28.1**

Source: Prepared by the author using data from wiiw.
[a] Annual average. Sectors with a share higher than 1% of total FDI.
[b] Comprises mostly retail trade and tourism (restaurants + hotels)

The consolidation of the neoliberal bloc in Estonia, with right-wing parties participating in all governments during the period, strong performance of the leading sectors, especially finance, and significant flows of external capital reinforcing them, further strengthened the existing developmental regime. In exchange rates, the preference for price stability was once again confirmed as Estonia plead to join EMU as quick as possible, seeing in the maintenance of the currency board the direct and best way to enter EMU. In fact, commentators note that from a strict monetary point of view, since the pegging of the kroon to the deutsche mark (DM) in the early 1990s Estonia had been a de facto member of the euro zone (Sörg and Vensel 2000, 133). This continuity between domestic policy choices and those enshrined in the EU made the support for fast adoption easier (Feldmann 2006b, 127). Only the final step of *the jure* adopting the euro was missing.

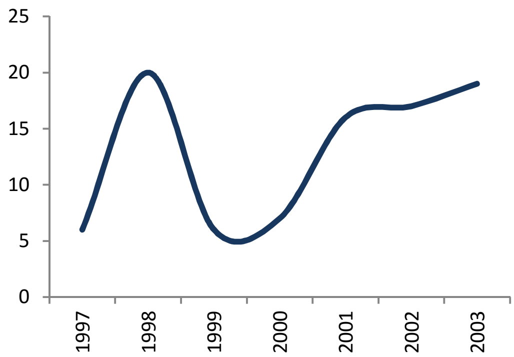
Estonia already marked its preference for rapid EMU accession by avoiding a devaluation in 1998, and by changing the peg of the Estonian kroon from DM to euro in 1999. With little to no opposition, all governments during the 2000s sought accession as a key priority (Feldmann 2006b). Estonia constituted the first country of the 2004 enlargement –together with Slovenia and Lithuania- to enter the last phase before accession, the ERM II, in june 2004. However, the EMU issue would become a bittersweet story. Although exceling in the deficit and debt criteria, Estonia suffered the pro-cyclical effects of the currency board and systematically failed to meet the stringent inflation criterion in large part due to the sizable FDI inflows that followed accession (see figures 45 above). After several failed attempts, around 2007 the government decided to stop kicking forward the issue of EMU accession and decided to postpone quoting an entry date until the conditions were met.

Figure 46:
Estonia, Tariff rates[a] 1995-2003



Legend: AHS= Effectively applied tariff; MFN= Most favoured Nation tariff; Max= Maximum tariff
[a] Simple average.
Source: WITS.

Figure 47:
Estonia, Producer Support Estimate 1997-2003
(%)

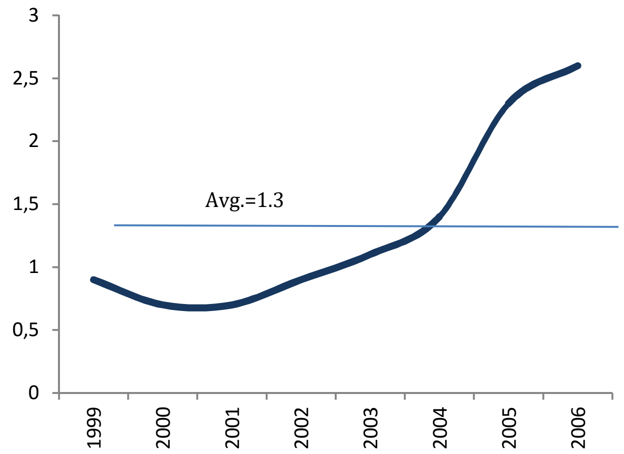


Source: OECD (2002, 56–7; 2005, 284; 299)

Contrariwise, EU accession brought an increasing embedding of industrial policy. This served as the basis for a stronger drive toward selectiveness in the second half of the decade when center-left parties managed to enter the government. The process can be observed through four steps. First, Estonia had to raise its tariffs as well as to adopt several non-tariff and quota restrictions on free trade in line with the EU preferences for selectiveness and protection against third countries (Feldmann and Sally 2002, 99). This implied that Estonia had to give away its free trade regime, as well as free trade agreements it had with third countries (see Feldmann and Sally 2002; Raig 2007). The change is most visible in the increase of maximum tariff rates (see figure 46). Second, as already anticipated in the previous section, Estonia had to incorporate the provisions of the Common Agricultural Policy (CAP) which implied an increase in agricultural subsidies (OECD 2002, 22–3; 25). Although the increase amounted to only a fraction of the subsidies received by older member states given the phasing in period established by the EC, this constituted a significant shift for Estonia's low previous levels (see figure 47).

Third, the pre-accession process opened up the possibility to adopt a new framework of industrial policy (Tiits, Kattel, and Kalvet 2006, 60). Two public bodies were established under the idea of providing a horizontal battery of instruments mostly to promote SMEs and exporters: Enterprise Estonia and the Credit and Export Guarantee Fund (KREDEX). Together, these offered a variety of matching grant schemes that ranged from start-up businesses, training, contracting consultancies, developing infrastructure and R&D, to loan programs and guarantees to overcome collateral problems (Kuusk and Jürgenson 2008; OECD 2009, 142–3). Broadening and institutionalizing new IP measures had two crucial outcomes: first, familiarize state bureaucracy with the idea of selectiveness[134], and second, to empower the few sites of alternative economic thinking proposing more active IP in the country.[135] Thus, whereas in a first moment the new programs were strictly horizontal and restricted to the arrival of EU funds, over time government spending as well as selectiveness started to slowly increase (Tiits, Kattel, and Kalvet 2006, 59).

Figure 48:
Estonia, Subsidies and transfers 1999-2006
(% of GDP)



[134] Estonia, Interviews 2 and 4.
[135] Estonia, Interview 2.

Source: EBRD Transition report, several years.

The latter served as the basis for the establishment of a more selective IP as reflected in increasing spending figures (see figure 48). An example of this step was the foundation in 2006 of the Development Fund (*Arengufond*).[136] The Development Fund constituted the result of a quest started in the early 2000s to foster innovation and new sectors in the context of losing competitiveness (see e.g. Tiits et al. 2003; Tiits, Kattel, and Kalvet 2006). In its conception, it was strongly influenced by SITRA, the Finnish innovation and development fund. In its final form, the Development Fund constituted a publicly financed development agency working under direct mandate from the Estonian parliament. It consists at the same time of a research unit in charge of making studies of prospective areas of profitable investment –including new industries-, and a financial facility to invest in those identified areas. Unlike the other three "embedding steps" of IP, the Development Fund constituted a purely domestic push and had a clear selective conception (*Eesti Rahvusringhääling* 2005). It was conceived by the center-left Center party and received especial support from its chairman Edgar Savisaar acting as minister of Economy when the Center Party managed to enter government in 2005. Savisaar skillfully managed to bring the other center-left parties (People's Union, Social Democrats) as well as the center-right Res Publica and Pro Patria Union to support the project, against the skepticism of the neoliberal Reform Party. In its final composition, the government allocated to the Development Fund the 3% equity stake it still maintained in Estonian Telecom (value estimated between €32M) plus a one-time budgetary allocation to cover current expenses. In the position of Minister of economy, Savisaar also re-nationalized the Estonian railways company (Pettai 2009, 86).

b) *Poland: in the search for a dominant social bloc …*

Between 1998 and 2007 the polish developmental regime came under contestation once again. Three successive coalition governments of different sign attempted to affect the existing arrangements with their own developmental projects: a liberal-right dominated government trying to reenact market reforms; a center-left ex-communist government trying a more moderate embedded-neoliberalism; finally, a populist government attempting higher state interventionism with nationalist overtones.

[136] Draws heavily in Estonia, Interviews 4 and 11.

Unlike in Estonia, the process of EU accession confronted all of these governments as well as their prospective societal supports with preference changes with respect to EMU accession and agricultural/industrial subsidies. Big business and the financial sector voiced their preference for a free float ER in the early 2000s (*Polish News Bulletin* 2002d) and switched to demand quick euro entry in the pre-accession period. They envisaged one of two formulas to speed up convergence: 'unilateral euroization' or a currency board (see Jankowiak 2005; zubek 2006, 200)[137]. This position was echoed by the Freedom Union Party (UW) and after its dissolution, by the Civic Platform (PO) and Central bank authorities (see Zubek 2006, 199–200). Conversely, exporters and SOEs moved from demanding devaluation and currency intervention (*Polish News Bulletin* 2001b; *Polish News Bulletin* 2002c), to euro accession although with the caveat that it happened in a context of a high exchange rate level (see *Polish News Bulletin* 2006d; cf. Zubek 2006, 209) as a part of a transnationalizing shift in this alliance (see Drahokoupil 2009, chap. 6). This position was defended mostly by the SLD (see *Polish News Bulletin* 2002a). Farmers were by far the more sceptic about EU accession in general, the entry to the EMU, and especially the effects on state subsidies. So was the agrarian party PSL and especially the populist Law and Justice (PiS), League of Polish Families (LPR) and Self-Defense (*Samobroona*) parties.

Ultimately, party competition and government alternation as well as the context of EU accession, made the successive governments unable to consolidate their preferred policy switches and specific business support bases (McMenamin 2004; cf. Schoenman 2005). While the liberal parties and the context of EU accession provided a scenario to renew and institutionalize the neoliberal project, the resulting policy regime and supporting actors reflect a much less orthodox version of neoliberalism than in the early 1990s, and most significantly, its permanent contestation.

In terms of political supply, the Polish political landscape was renewed after each election with the entrance of new parties and the partial or complete overhaul of existing ones. Table 31 shows old and new players and their policy positions, while table 32 shows electoral results.

[137] For a review of options to enter the Eurozone see Gomulka (2002); for the "unilateral euroization" argument in particular, see Bratkowski and Rostowski (2004).

Table 31:
Poland, Political cleavages and parties from 1997

	Right	Center-right	Center	Center-left	Left/Populist
GAL			--Democratic Left Alliance (SLD)		
			Social democracy of Poland (SdPL)		
	Freedom Union (UW)				
			Democrats		
Centrist			Polish Peasants Party (PSL)		
	---- Civic Platform (PO)--------------				
		Solidarity Electoral Action (AWS)			
		---------------- Law and Justice (PiS) ----------------------			
					Self-Defense
TAN				League of Polish Families (LPR)	

Source: Prepared by the author using data from Markowski (2006) and Jasiewicz (2008).

Table 32:
Poland, Parties with parliamentary representation in 1997, 2001 and 2005 (lower house)

	1997		2001		2005	
	% of vote	% of seats	% of vote	% of seats	% of vote	% of seats
Right/Center-right	***47.2***	***56.0***	*21.4*	*14.2*	*24.1*	*29.0*
Freedom Union (UW)	13.4	13.1	3.1	0.0	--	--
Civic Platfrom (PO)	--	--	12.7	14.2	24.1	29.0
Solidarity Electoral Action (AWS)	33.8	43.9	5.6	0.0	--	--
Center/Center-Left	*39.9*	*41.7*	***50.0***	***56.4***	*18.3*	*17.5*
Democratic Left Alliance (SLD)	27.1	35.8	41.0	47.2	11.3	12.0
Polish Peasants party (PSL)	7.3	5.9	9.0	9.2	7.0	5.5
Union of Labor (UP)	4.7	0.0	/a	/a	..	..
Left/Populists	*0.1*	*0.0*	*27.6*	*29.5*	***46.4***	***53.4***
Law and Justice (PiS)	--	--	9.5	9.6	27.0	33.8
League of Polish Families	--	--	7.9	8.3	8.0	7.4
Self-Defense	0.1	0.0	10.2	11.6	11.4	12.2

Source: Stanley (2013).
/a Run in the same list with SLD.

In 1997 a renewed Solidarity camp re-won government. The bigger coalition partner was Solidarity Electoral Action (AWS), an alliance of smaller groupings mostly from the TAN wing of Solidarity. AWS managed to unite the hitherto fragmented solidarity camp under the banner of “finishing the Solidarity revolution” with more cultural than economic overtones (Szczerbiak 1998, 79; Szczerbiak 2004, 62–5). It actually pledged to capture the vote of those outraged with the return of former communists to government. By appealing to the cultural cleavage and Solidarity’s history of opposition against communism, it helped to prevent the solidification of a political bloc with left leaning policy preferences (Ost 2005; see also Grzymała-Busse 2001). The junior partner in the coalition was the Freedom Union (UW) formed around those who participated in the liberal Mazowiecki government. They explicitly targeted the winners of reforms for political support, and campaigned over the completion of market-reforms and the elaboration of a “second Balcerowicz plan”.

While the AWS economic program remained an unclear mix between reform and protection, the appointment of Leszek Balcerowicz as Minister of Finance and deputy prime minister set the tone for the government’s policy orientation (see *EIU Business Eastern Europe* 1997; *The Economist* 1997). This comprised a renewed assault on public spending including four major reforms (education, health care, pensions and local government) and a new mass privatization program. In agreement with the central bank (NBP), Balcerowicz facilitated in 2000 the change towards a free float/inflation targeting exchange rate framework.[138] This change represented a return of an exclusive anti-inflationary goal in exchange rates, as well as a move intended to provide more growth margin to the financial sector (*Polish News Bulletin* 2000). The renewed fixation in price stability was also influenced by the approaching EU accession date and the need to accelerate the reduction of inflation in order to secure a quick adoption of the euro (see Zubek 2006, 199). The new floating regime did not preclude ER intervention, but this could only happen when inflation targets were under threat (Panbuła, Kozinski, and Rubaszek 2011, 293).

Soon however, the reform plans of the AWS/UW government were aborted. A new wave of protest -the first massive protests since early 1990s- were organized by the same sectors that led them back then: agriculture (Forys and Gorlach 2002, 60; Pleines 2008, 107), steel (Gilejko 2011, 72), and coal mining (Pleines 2008, 153; 158–9). Protesters complained against the planned reduction of state subsidies and the new restructuring programs in the state sector. For example, workers in the coal mining sector heavily protested against the World Bank-inspired restructuring program prepared by the Ministry of Economy (Pleines 2008, 154). In the case of farmers, protests coincided with the effects of the Russian crisis on agricultural exports, and demanded higher food prices and import barriers. The farmers’ protests became increasingly vocal and politicized when they fell once again under the organization of the populist Self-Defense union (*Samoobrona*) (Forys and Gorlach 2002, 61). The protest scenario brought a steep decrease in government’s popularity, straining an already difficult governing coalition, and forcing its breakup in 2000 (see Szczerbiak 2002b).

[138] The zloty was *de facto* freely floating since the AWS/UW government took office, as the last NBP intervention had been in 1998 (Panbuła, Kozinski, and Rubaszek 2011, 285).

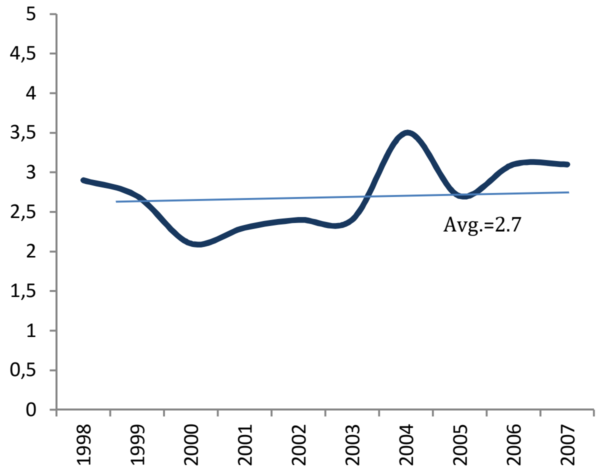
The 2001 election was marked by the dissolution of the parties making the previous government and the slowdown of economic growth due to the effects of the Russian crisis. The election brought again to power the center-left SLD/PSL coalition plus the left-leaning Union of Labor (UP). While in the last years the SLD had shown itself more willing to accept economic reforms and was decidedly in favor of EU accession (Grzymała-Busse 2002; Szczerbiak 2002c), it campaigned over a revitalization of domestic demand and a frontal attack on the neoliberal AWS/UW reforms. In fact, the secretary general of SLD went as far as to propose a "'temporary suspension of the rules of the free market economy' in order to overcome economic stagnation and unemployment" (see *Polish News Bulletin* 2006c). The SLD-UP/PSL government was further pulled to the left by the populists in parliament. The Self-Defense farmers union converted into a political party capitalized on the farmers' increasing euroscepticism and became the third party in congress. Self-Defense conditioned the support for EU accession on a negotiation of unlimited subsidies and production ceilings for polish non-competitive and competitive sectors (agriculture, steel, coal and iron mining) (Szczerbiak 2002c, 8; Szczerbiak 2002b, 56–7; see also Jasiewicz 2008).

The SLD-UP/PSL government struggled to maintain election promises in the context of economic slowdown, a rising fiscal deficit and the final stage of EU accession negotiations, not least attacks from the populists (Szczerbiak 2002b, 68; *Polish News Bulletin* 2001a). The reduction of the fiscal deficit before EU accession constituted by far the most pressing policy of the period, and helped to alienate the coalitions' electorate. In fact, the last-minute unveiling of a hitherto unknown austerity program took away from the SLD what in opinion polls appeared as a clear majority in parliament (Szczerbiak 2002b, 53–4; Markowski 2006, 818). In spite of this, in terms of exchange rates (ER) and industrial policy (IP) the coalition tried to undo the liberalizing changes of the previous government, pushing a more embedded developmental regime.

In ER, the context of EU accession and a contractive policy by the central bank (NBP) produced increasing capital inflows and appreciation of the zloty under the free floating regime. The government was torn between representing its support base and the need to complete EU accession. In a first moment, it answered the calls from exporters and SOEs demanding active intervention, and engaged once again in fights with the NBP for a more active management of the ER. It even advanced plans for an outright change to a managed floating system in order to keep a low and stable ER (*Polish News Bulletin*

2002a).[139] It unsuccessfully tried to force an agreement with the NBP implying an exchange of spending cuts for a relaxation of monetary policy meaning lower interest rates and ER devaluation. The recently approved independence of the NBP proved crucial for it to maintain its stance (see *constitutionalized monetarism* in chapter 8). As a second strategy, the Miller government plead for fast EMU entry as a way to win the support of the NBP to allow the government to use the bank's revaluation fund to close the budget gap (see Zubek 2006, 208–9). Neither the NBP agreed to such strategy, nor the SLD-led parliament approved the related fiscal consolidation efforts, further alienating the government's support base.

Figure 49:
Poland, Subsidies and transfers 1998-2007
(% GDP)



Source: EBRD Transition report, several years.

In terms of IP, the government made attempts to make a difference with respect to its right wing predecessor postponing further privatization in exchange for yet another wave of state-sponsored restructuring plans (Sznajder Lee 2006, 227). The new plans involved the consolidation of SOEs under large state-owned conglomerates as a phase previous to their sale to a strategic investor (see for the steel sector Sznajder Lee 2010, 44–5; Gilejko 2011, 72). This entailed an acceleration of subsidy disbursements before the entrance to the EU limited its use (see figure 49). In other cases the government blocked privatization altogether. This was the case with the state insurer PZU, which the

[139] Poland, Interview 8.

AWS/UW government had agreed to sell to dutch investor Eureko.[140] Conversely, the PSL tried to increase the benefits for the non-competitive food and agriculture sectors, most notably through demanding a tough stance in the agriculture chapter of accession negotiations (Szczerbiak 2002c, 9). Poland managed to get concessions from the Commission that were seen as a major victory for the government and for Polish farmers (*EIU Newswire* 2003). Among them, an increase in the level of EU subsidies during the phasing-in period, as well as longer phasing-out periods for the purchase of land by foreigners. Among the ten new member states, only three entered the EU with the maximum subsidy rate or more: Slovenia, Latvia and Poland (OECD 2005, 80).

The SLD-UP/PSL government fell victim, however, to the deterioration of the economic situation and the inability to meet the EU fiscal criteria. Three consecutive plans at curbing budget deficits failed to pass in parliament and forced the breakup of the government coalition (see Zubek 2006). The fall of the government amidst economic stagnation and corruption scandals marked the decline of the ex-communist SLD (see Szczerbiak 2007, 207).

With the sudden dismembering of the SLD in the left camp, the 2005 parliamentary and presidential elections were a competition between the newest post-Solidarity formations, the TAN and increasingly populist Law and Justice (PiS) and GAL and liberal Civic Platform (PO). The absence of a competitive ex-communist party led to the most socioeconomically contested election since 1989 (Markowski 2006, 827), with PiS moving to occupy the representation of the losers of economic reforms, and other two smaller populist parties, Self-Defense and League of Polish Families (LPR), polarizing the election (see Jasiewicz 2008).[141]

PiS' economic program combined a general vagueness in terms of concrete policies with a heated re-foundational rhetoric, economic nationalism and euroscepticism (see Markowski 2008, 1056; Jasiewicz 2008).[142] PiS leader Lech Kaczynski explicitly rejected previous economic policies as "dictated by two powerful lobbies: the bankers,

[140] The AWS/UW government privatized 20% and the other 31% was to be realized during the following term. The issue remained highly contentious and the deal was even repealed as fraught with corruption by a special parliamentary commission.

[141] PiS framed the election as the choice between liberal and well-off versus social-solidaristic and worse-off Poland, capitalizing on the preferences of the polish electorate for more state intervention and redistribution (Szczerbiak 2007, 211).

[142] For the specific policy proposals of the respective parties see Maciejewicz and Wielowyeska (2005), Nowakowska and Wielowyeska (2005) and (*Polish News Bulletin* 2005a).

and the importers" (cited in *Polish News Bulletin* 2004). Consequently, they proposed to delay EMU accession, use monetary and fiscal policy to boost domestic demand, and maintain a high ER and low interest rate. PiS incorporated some of the banners of the populist Self-Defense party (Szczerbiak 2007, 211; 218–9) including a reform the "too monetarist, too liberal and too independent" central bank (Markowski 2006, 821). In terms of industrial policy, PiS hoped to maintain strategic productive sectors in state hands (Nowakowska and Wielowieyska 2005). Conversely, the contester PO vowed to speed up privatization and establish a flat-tax. PO was also in favor of setting the earliest possible entry date to the EMU (*Polish News Bulletin* 2005b).

PiS claimed victory in the two elections in 2005 –parliament and president- and rejected a government agreement with PO, leading a minority government in 2005 and joining forces with the populist Self-Defense and LPR in 2006. The PiS-led government fell in 2007 after calling for early elections in an attempt to outvote its coalition partners and consolidate itself as a hegemonic party. Despite a mix register in economic policies,[143] and the not so glamorous record as leader of the "most turbulent period of Polish party politics" (Markowski 2008, 1055; see also Szczerbiak 2007), the PiS government did seek alternatives to neoliberalism in exchange rates and industrial policy. In a similar way to the SLD/PSL governments, it rejected a price stability-driven ER and continuously fought the central bank (NBP) for a less contractionary monetary policy threatening to curtail the bank's independence if it did not cooperate. Self-Defense leader and deputy PM Andrzej Lepper proposed to use the NBP reserves to provide cheap loans to domestic producers. The attempts of the PiS-led government to change the statute of the NBP failed amidst opposition from the EU itself. It managed, however, to appoint loyal collaborators to important positions at the NBP as a way to influence its decisions (see chapter 8).

In terms of IP, despite EU pressures, Poland maintained relatively high levels of subsidies and transfers to enterprises (see figure 49 above). On average, subsidies to enterprises during the period doubled those in Estonia, even when taking into accounts Estonia's growing IP embeddedness. Although non-competitive sectors had moved

[143] In spite of earlier declarations, the PiS-led government ended being rather conservative in macroeconomic policy. Policies closer to the neoliberal camp included the maintenance of a balanced budget, and the elimination of taxes on financial transactions adopted by the previous SLD government. Moreover, many of the key positions in the economic cabinet where occupied by liberal technocrats. One of them, Zyta Gilowska, who served as Minister of Finance and deputy PM, had been one of the main architects of PO's economic program.

together with the SLD to promote euro accession, the PiS-led government tried to create its own business support base throught the utilization of industrial policy and privatization. First, it halted privatization and advanced the idea to consolidate state stakes in crucial sectors to strengthen domestic business and promote polish brands and national champions. The latter was particularly meaningful in the banking sector, were the government attempted to merge the two largest polish financial institutions in state hands (insurer PZU and retail bank PKO BP) with other minor state-owned banks in order to create a state-owned financial giant that could serve as a domestic investment-cum-development bank (*Polish News Bulletin* 2006a; Gadomski 2007). Interestingly, this had already been attempted under the SLD/PSL coalition in 1994-7 (R. A. Epstein 2008, 90). The government advanced plans to establish state-controlled sectoral holdings in other competitive and non-competitive sectors such as energy, chemicals, mining, food and beverages and telecommunications (see table 33) (*Polish News Bulletin* 2006b).

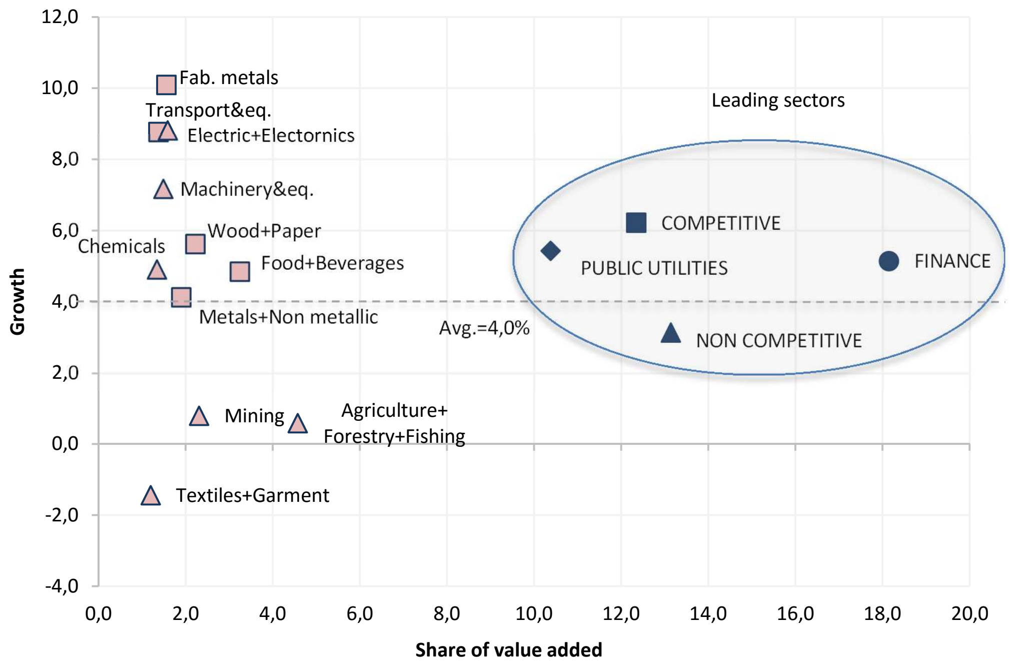
Table 33:
Poland, PiS' planned state-controlled sectoral holdings 2007

Groups	Sector	Member companies	Value Bill. zl.	State control
Financial	Banking	PKO BP, PZU	80.8	>50
Energy	Oil/Energy	PKN Orlen/Lotos	..	..
PGE	Mining/Energy	PGE Energia, BOT, PSE	56.0	>60
EP	Energy	PKE, Elektrownia Stalowa Wola, Energia Pro	22.4	..
Grupa Centrum	Mining/Energy	Bogdanka, Elektrownia Kozienice, Enea	12.0	..
Grupa Polnoc	Energy	Energa, ZE Ostroleka	9.1	..
Chemical	Chemicals	Ciech, ZA Pulawy, ZCh Police	5.3	..
Spirit	Food&Beverages	Four Polmoses and WW Koneser	0.6	..

Source: (*Polish News Bulletin* 2007a)

The Polish production profile shows a basic continuity with the previous period in terms of sectoral composition (see figure 50). Only slight changes made a difference. The financial sector appears in a clear leading position thanks to a vigorous growth trajectory (5.2% during the period). However, representing only 18% of total value added, it remained way behind the strength of its Estonian counterpart. Most significantly, the non-competitive sector maintained the pace of moderate growth and while it ceded space to the fastest growing sectors, it maintained a high 13% share of total value added (almost triple that in Estonia). The segments that explained this pattern remain those were the state maintained high stakes. In fact, substantive productive sectors remained still in the hands of the state despite the acceleration of privatization in public utilities (see chapter 6).

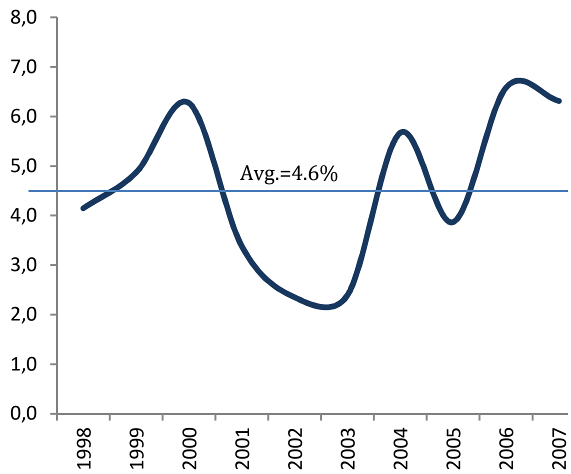
Figure 50:
Poland, Production profile 1998-2007 [a]



[a] Figure shows only sectors with a share in value added of 1% or more.
Source: Prepared by the author using data from OECD.

An important outcome of the EU accession period was the acceleration of FDI flows and the change in the domestic vs. foreign sources of business ownership. FDI inflows increased significantly with respect to the previous period, going from 2.9% to 4.6% of GDP on average (see figure 51). FDI stocks as a share of total value added went from 9.5% to almost 30% confirming the transnationalization of the Polish economy during the period. This was especially so in the financial and competitive sectors. The already important transnationalization of the competitive sector was further strengthened while the financial sector fell substantively under foreign capital. In both cases, FDI reached around 50% of the sector's value added. The composition of FDI also changed (see table 34). While the competitive sector kept receiving a large share, it was the financial sector who received the largest portion, almost 30% of the total. All of them, however, fall behind the levels in Estonia. Most significantly, the polish non-competitive sector maintained its domestic ownership. In fact, although FDI in the sector's value added almost tripled (from 5.4% to 16.7%), being particularly significant in the higher-technology segments, it remained low and significantly lower than the 46% in Estonia. From a position of relative power –although clearly subordinated-, it was thus able to reedit its alliance with the competitive sector, now foreign owned. As Drahokoupil (2009, 145) recalls, the basis of this alliance was the "Polonization" of transnational production networks by experienced large firm managers. The alliance also won the consent of labor, who realized that foreign-owned companies often offered better wages and benefits than domestic-owned firms (see Drahokoupil 2009, 146–8; see also Sznajder Lee 2010).

Figure 51:
Poland, FDI inflows 1998-2007



Source: Prepared by the author using data from wiiw

Table 34:
Poland, FDI stocks 1998-2007 [a]

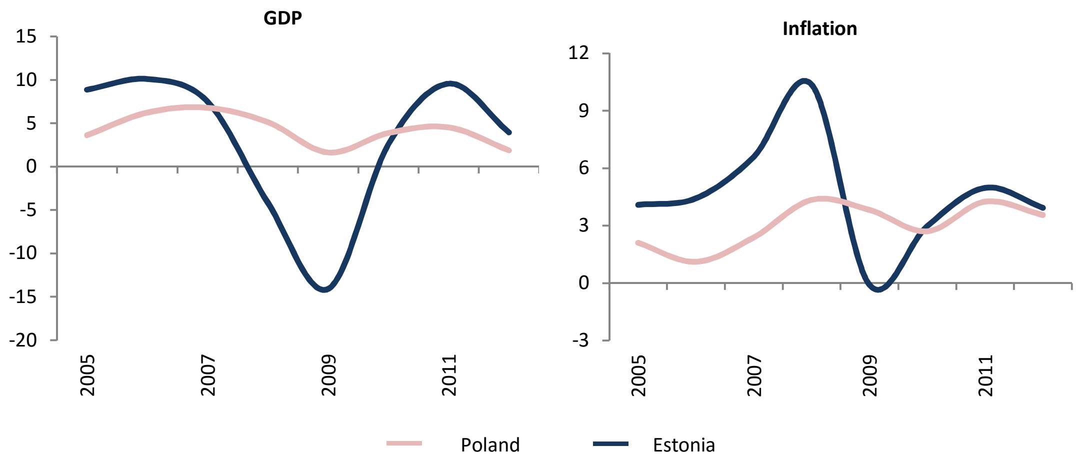
	% total	% sector value added
TOTAL	**100.0**	**28.7**
COMPETITIVE	**22.7**	**51.5**
Food and beverages	7.3	60.4
Transport equipment	6.2	122.3
Wood and paper	4.0	51.8
Basic and fabricated metals	2.7	37.2
Rubber and plastic	2.5	68.4
NON COMPETITIVE	**7.7**	**16.7**
Chemicals	3.8	80.1
Electrical and electronics	1.1	20.4
Machinery and equipment.	1.4	28.2
FINANCIAL	**28.4**	**47.4**
PUBLIC UTILITIES	**10.2**	**29.2**
Transport and communication	8.0	33.2
Electricity, gas, water	2.2	21.1
OTHER SERVICES [b]	**20.8**	**13.3**

Source: Prepared by the author using data from wiiw.
[a] Sectors with a share higher than 1% of total FDI
[b] Comprises mostly retail trade and tourism (restaurants + hotels)

II. Legacies: Crisis in the center and the future of neoliberalism in the East

The fourth and final period of analysis correspond to the legacies of two decades of neoliberal resilience in the East, and coincides with the impacts of the global financial crisis. The crisis provoked a financial stampede out of Eastern Europe, a contraction of credit and of trade relations that tightened domestic economies. The slump was particularly pronounced in Estonia, while Poland managed to maintain economic growth although at a lower pace (see figure 52). In terms of inflation the performances were also divergent, with prices plummeting alongside growth in Estonia, and rising from relatively low previous levels in Poland.

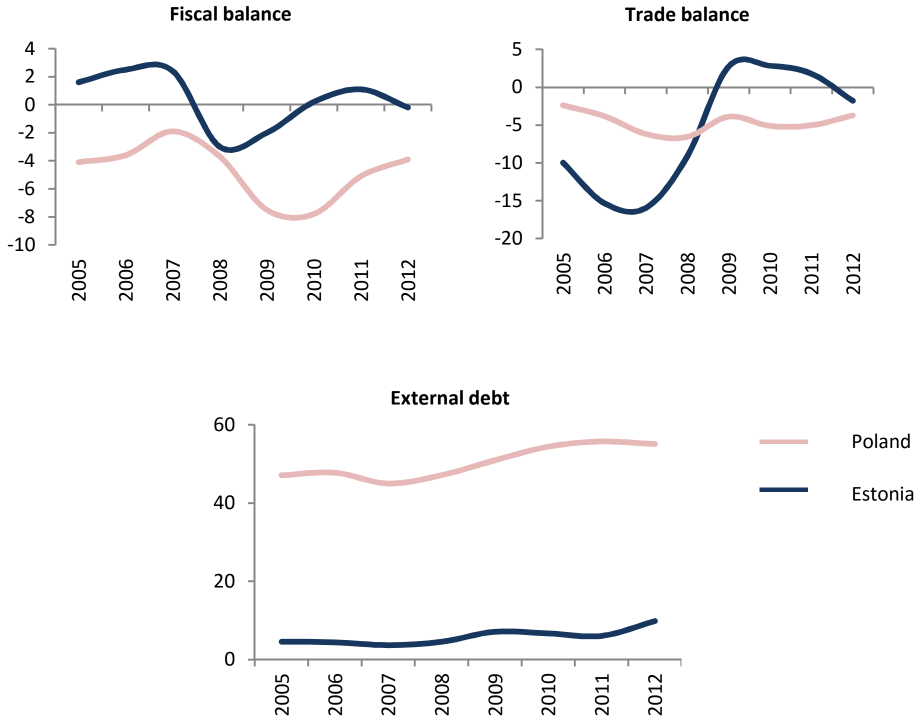
Figure 52:
Estonia and Poland, Performance indicators 2005-2012



Source: GDP=OECD, Inflation=IMF

In terms of economic constraints, Estonia was favored by low levels of fiscal deficit and debt, although it was dependent on external capital to finance large current account deficits (see figure 53). Poland, on the other hand, enjoyed a more favorable trade balance -yet still with a sizable deficit-, while the room of maneuver for fiscal policy both in terms of deficit and external debt tightened.

Figure 53:
Estonia and Poland, Economic constraints indicators 2005-2012
(% of GDP)



Source: Fiscal balance=OECD, Trade balance and external debt=Eurostat

The way domestic political economies reacted to the crisis closely reflected the consolidation of specific developmental regimes, their institutional arrangements and underlying sociopolitical compromises (see Becker and Jäger 2010; Myant and Drahokoupil 2012; Myant, Drahokoupil, and Lesay 2013). In Poland, the effects of the crisis reinforced the status quo, namely: the contested nature of a pragmatic neoliberal regime composed of neoliberal –but flexible- exchange rate regime plus a neoliberal-embedded industrial policy; a societal base with no clear leading sector characterized by strong and externally controlled financial and competitive sectors and a durable non-competitive sector made from domestic companies, especially the remaining state-owned sector; and alternating government coalitions. The elections of 2007 produced a massive shift toward the liberal PO. With the post-communist left virtually disintegrated, PO received the protest vote against PiS's government lack of respect for liberal democratic procedures (see Markowski 2008; Jasiewicz 2008, 11). PO captured much of the left's vote through tempering its liberal discourse and making it more responsive to an electorate with more economic interventionist and socially sensitive views, and playing strong on the values of political liberalism and democracy. PO ended up forming a government with the agrarian and center-left PSL, which contributed to moderate even more the economic orientation of the new government (Markowski 2008, 1057; 1965–6; Myant, Drahokoupil, and Lesay 2013, 397).

This moderate orientation was seen in the way the PO/PSL government reacted to the crisis. As Myant, Drahokoupil and Lesay (2013, 397–9) note, despite the strong neoliberal pedigree of the senior coalition party, the reaction to the crisis was closer to a social-democratic response than a neoliberal one. In fact, a crisis package was negotiated in the tripartite commission with employers and unions, and had the mixed objective of trying to balance the budget deficit and providing compensatory measures (Myant, Drahokoupil, and Lesay 2013, 398; Czarzasty and Owczarek 2012). This more pragmatic approach was reflected once again in 2011, when the government had to face high debt levels approaching the constitutional thresholds, as well as pressures from the European Commission to close its deficit along the points outlined in its Convergence program. Instead of using this external leverage to push austerity policies, the PO/PSL government responded with measures that undermined some of the institutional bastions of neoliberalism in Poland such as central bank independence and the pension system (see chapter 8).

Although these measures could be seen as a short-term reaction to the impact of the crisis and the prospects of re-election in 2011, there are indications that the PO-led government changed its long-term policy preferences toward a more embedded developmental regime (see Naczyk 2014). In the case of ER, instead of vowing for fast EMU adoption as it had sought in the past, it stalled the discussion and even postponed it indefinitely owing to the good performance of the free floating system and the good response from the export sector. Conversely, echoing the "economic patriotism" of its political competitor (PiS), it came closer to the idea of more selective industrial policy (see Naczyk 2014). One crucial point in this turnabout was the realization that Poland could not rely on external capital for a stable growth strategy, and had to promote a domestic business base including national brands and champions.

In Estonia, the crisis served to reinforce the orthodox neoliberal developmental regime, dispelling possibilities of devaluation as well as earlier departures toward more embedded industrial policy. The 2007 election brought a revitalization of the ethnic cleavage that once again reduced the chances of left-leaning parties.[144] This was compounded by fears that the left-leaning Center-party would emerge as the single winner in the new elections (Pettai 2009, 86). A re-accommodation of the party system took place by which the neoliberal Reform party moved to occupy more conservative positions responding to the decline of the conservative Pro Patria and Res Publica Union, hegemonizing therefore the political right. At the same time, the decline in agrarian parties and the awareness of distributive conflicts arising with the crisis made the Social Democrats (former Moderates) move to compete with the Center party for the representation of the center-left (Solvak and Pettai 2008; Pettai 2004, 831).

The 2007 elections made the Reform party the biggest party in parliament. It chose to form a quirky four-party government (with the conservative Pro patria and Res Publica Union, the Social Democrats and the newly created Greens), only to prevent forming yet another government with the second biggest and center-left Center Party (Pettai 2009, 86). With the crisis unleashed, the Reform Party-led government insisted in the goal of EMU accession starting a process of internal devaluation, and hoping that it would help finally meeting the inflationary target for the adoption of the euro (Raudla and Kattel 2011, 175). The need to maintain the confidence of investors and thereby the prospects of a rapid exit from the crisis was continuously stressed as a rationale for strong austerity measures (Raudla and Kattel 2011; *Baltic Business News* 2009b). Consistently, budget cuts amounted to 9% of GDP, producing massive layoffs and rocketing unemployment; meanwhile, the government raised indirect taxes decreasing disposable incomes and further enhancing the contractive effects of the crisis (OECD, 2009, p. 23). Estonia became thus a true "poster child for austerity defenders".[145]

Among the spending categories affected by the budget cuts, the reversal of recent developments in industrial policy is noteworthy. Quickly after its introduction, the Development Fund had come under attacks from businessmen connected with the financial sector, as well as the business-related press (*Eesti Rahvusringhääling* 2009a;

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[144] The so-called "Bronze Soldier Statue" affair, i.e. the removal of a statue commemorating the actions of Soviet soldiers liberating Estonia from the nazi occupation located in the downtown of the capital Tallinn - opposed by Russians and strongly endorsed by Estonian nationalists- served to reignite dormant ethnic animosities. See Solvak and Pettai (2008). Furthermore, the five-day War between Russia and Georgia in 2008 brought back the phantoms of a Russian occupation of Estonia, adding to the rise in nationalist sentiments among the population (see Gugushvili, Melchior, and Moes 2014).

[145] The phrase was coined by Paul Krugman in a blog entry that criticized the Estonian policy measures, provoking the rage of Estonian authorities. See Greeley (2012).

Baltic Business News 2009a). One advisor to PM Ansip from the Reform party summarized it bluntly:

> "We have in Estonia a lot of people who are saying every day that the state must go on the credit market to take loans from abroad and invest in the economy, how to say, in this 'smart economy'. But for me, I can't understand how the state can be more clever than the entrepreneurs".[146]

The Development Fund was, in effect, one of the first to be sacrificed. While the government did not have enough votes in parliament to eliminate it altogether, it did alter its functioning. In 2009 the Telekom shares that had been the basis of its funding were taken back and sold, significantly limiting the Fund's resources. According to one former manager of the Fund, this amounted to its "killing" (*Eesti Rahvusringhääling* 2009b). Additionally, the new management nominated by the Reform Party-led government revamped its structure, significantly changing its functioning and original purposes.[147]

These policies paid-off, however, as they allowed Estonia to finally fulfill the criteria for EMU accession. In fact, thanks to the decrease in inflation provoked by the recession and the government policies, the maintenance of the ER parity and the ability to retain low levels of fiscal deficits and debt, the EU Commission announced the acceptance of Estonia to the Eurozone in 2011.

III. Conclusions

This chapter has analyzed the resilience of neoliberal developmental regimes in the context of EU accession and the effects of the 2007-8 financial crisis. The EU provided incentives for neoliberal developmental regimes to consolidate through supporting their preferred policy alternatives, and strengthening the discourse of neoliberal-minded actors. It also provided a push for external capital inflows, which either reinforced their sectoral dominance or managed to displace domestic business bases. In neoliberal regimes EU accession strengthened price stability while at the same time providing room

[146] Estonia, Interview 8.
[147] Estonia, Interview 11.

for a moderate embedding of IP; in the case of alternative developmental regimes, EU accession provided a clear pressure toward neoliberalization.

EU accession allowed a final and definitive lock-in of the Estonian neoliberal developmental regime. Between 1999 and 2007 the neoliberal dominant bloc strengthened both its political and business base. On the one hand, right-wing parties formed part of all governments since 1999. On the other hand, the production profile shows a clear structure biased toward sectors preferring price stability over industrialization. This structure was reinforced by flows of FDI that reinforced the position of leading sectors, and weakened the possibility that non-competitive sectors demanded additional protection. EU accession confirmed a longstanding preference for price stability in exchange rates, but at the cost of giving away part of its orthodox neoliberalism in industrial policy. With respect to this, the EU provided both a direct and an indirect influence. First, directly through the need to adopt higher tariffs, agricultural subsidies and a general infrastructure for IP. Second, indirectly, helping to loosen the ethnic cleavage, thus facilitating the entrance of center-left parties to government coalitions. However, a relatively rapid overhaul of the most selective IP measures during the 07-08 financial crisis shows that the greater embeddedness of IP will remain a remainder of the transient pass of center-left Center Party in government.

In Poland, EU strengthened domestic political and business actors with preferences for price stability and facilitated flows of foreign capital to the financial and competitive sectors. Moreover, the social bases of what was referred to as the emerging alternative social bloc (ex-communist center-left parties and state-owned companies in the competitive and non-competitive sectors) moved to accept EU accession and the pressure for neoliberalization this implied –except for farmers. As a result, the polish developmental regime moved back to neoliberalism. Party alternation appears here as crucial to maintain an alternative to neoliberalism alive. In fact, the existence of populist parties with strong nationalist-cum-protectionist discourses maintained the developmental regime in tension and under permanent contestation. After the 07-08 crisis, right-wing parties had to accommodate to political competition for higher interventionism.

At the cross-regional level, the role of the EU as an external anchor of domestic institutions and of political alternatives in Eastern Europe provides some contextual support to understand the difference with the Latin American cases in terms of neoliberal resilience. In this sense, given the orientation of the EU in both exchange rates and industrial policy pressing Estonia and Poland toward the neoliberal side, both Eastern European cases (Estonia and Poland) appear as more neoliberal than their Latin American counterparts (Chile and Argentina respectively). It is therefore telling, that neoliberal resilience in Chile required a broader socioeconomic support base and a more pragmatic developmental regime than in Estonia; concomitantly, the constitution of alternative social blocs and the departure from neoliberalism in Argentina went much further than in Poland.

SECTION II

MECHANISMS OF NEOLIBERAL RESILIENCE

"Suppose –just to limber up our minds- that we faced the fanciful task of designing a political system or a political/economic system that would be highly resistant to change. How to do it?" (Lindblom 1982, 324)

In section II (chapter 6, 7 and 8) I analyze what I have called "mechanisms of neoliberal resilience" this is, the structural, political, and institutional sources of the resilience of neoliberal developmental regimes and the dominant blocs that sustain them, identified in chapters 2 to 5. In chapter 1 I argued that the continuity of neoliberal developmental regimes rests crucially in the resilience of the dominant social blocs that sustain them. These dominant social blocs remain powerful enough to defend neoliberalism thanks to three mechanisms: *creation of supporters*, that increases the power resources of their core supporters or allies (Chapter 6); *opposition blockade*, that reduces or limits the power resources of their opponents (Chapter 7); and *constitutionalized monetarism*, that institutionalize neoliberal developmental regimes so that they are harder to change (Chapter 8).

CHAPTER 6

CREATION OF SUPPORTERS

In this chapter I analyze the first of three mechanisms of neoliberal resilience: creation of supporters. In Chapter 1 I defined creation of supporters as the increase of power resources to societal actors –expected to be- interested in the resilience of neoliberal developmental regimes. As a mechanism, creation of supporters can have several sources. Here I concentrate in privatization as a way to alienate state assets and empower specific economic groups and/or sectors (see Schamis 2002).[148] In this sense, creation of supporters acts on the business support base of a neoliberal social bloc.

In Chapter 1 I derived a set of propositions or empirical expectations that we should find in order to consider *creation of supporters* a causal factor contributing to *neoliberal resilience*. If privatization is to be a causal factor of neoliberal resilience we should find that 1) privatization processes have clear sectoral biases, i.e. the allocation of resources through privatization strengthens companies in some sectors over others, 2) that those sectors favored by privatization were the ones entrenched in neoliberal dominant blocs, and/or that 3) these sectors favored the continuity of neoliberal exchange rate (ER) and industrial policy (IP) alternatives through some explicit channel. In comparative perspective, if privatization is to be consistent across the studied cases, we should expect that at least one of these links is missing in the cases of neoliberal discontinuity. The preferences and channels of influence of different economic sectors for exchange rate and industrial policy have been already analyzed in section I. Here I concentrate on the connection between privatization and the empowerment of specific sectors.

[148] Another source that will not be dealt with here is liberalization in general, and of specific markets in particular (see Schamis 1999). Privatization of public policy (especially social security but also education) is yet another way of strengthening the power resources of neoliberal blocs.

This chapter shows that *creation of supporters* has contributed to the resilience of neoliberal developmental regimes in Chile and Estonia when it has been channeled to two sectors: financial and competitive. Empowered financial sectors have been staunch defenders of price stability ER and conservative fiscal policy, decreasing the margin of maneuver for IP. They have either directly demanded neoliberal policy alternatives or, given their strength, prevented the formation of alternative social blocs. Conversely, empowered competitive sectors have decreased the demand for IP –or stabilized it around mild business-friendly measures-, and favored trade openness. External capital has had a significant participation in privatization processes. Its effects on neoliberal resilience have been threefold: First, strengthening the respective financial and competitive sectors in partnership with domestic capital, and acquiring major stakes in the public utilities sector; second, reinforcing neoliberal developmental regimes through FDI inflows when in need of capital[149]; finally, "silencing" non-competitive sectors given their lower demand for IP measures.

The cases of neoliberal discontinuity (Argentina and Poland) show failed mechanisms of *support creation* were one of the above links are missing. These are characterized by either 1) significant delays in privatization that allowed the constitution of a strong cross-sectoral state-owned pole (as in Poland), or 2) the alienation of state assets to non-competitive sectors in order to win their acquiescence to neoliberal reforms (as in Argentina). While in the first case, strong state-owned companies have maintained the demand for state protection, preventing at the same time the formation of a more powerful business support base for neoliberalism –although leaving this possibility virtually open in the case of a future acceleration of privatization-, in the second case privatization has had the contradictory effect of advancing market reforms in the short run, but making them dependent on the availability of support from economic sectors ready to demand state protection and withdraw their support for neoliberalism. In crucial turning points, these groups have indeed been the basis of support for alternative social blocs and attempts to build alternative developmental regimes.

The chapter is organized in two sections, one analyzing the cases of neoliberal resilience (Chile and Estonia) and the other analyzing the cases of neoliberal discontinuity

[149] It is important to note that capital flows have tended to be rather pro-cyclical, helping to trigger not avoid economic crises. The pattern here described alludes to the quick return of capital flows after the initial turmoil has passed, often led by the decrease in domestic asset prices and a drive to acquire them.

(Argentina and Poland), following the most similar case designs outlined in the introduction. Each section shows the processes of privatization in detail and analyzes them in terms of the three propositions stated above. I conclude with a comparative section that makes a parallel of the operation of these mechanisms in resilient and contested neoliberalisms, and highlights the causal links between creation of supporters and neoliberal resilience.

I. With a little help of my friends… creating supporters for neoliberalism

a) Chile: stabilizing a pragmatic coalition

Privatization significantly helped the dominant neoliberal social bloc consolidate in Chile. It supported the financial sector's leading position, which the sector used to strongly support a very orthodox version of neoliberalism in the 1970s; after its fall amidst the 1982-3 crisis it: 1) permited a compromise with the competitive sector in order to support a more pragmatic version of neoliberalism, and 2) the "silencing" of the non-competitive sector by giving state assets to loyal collaborators of Pinochet. This process was strengthened with the massive arrival of external capital during the 1990s in association with domestic capital in the most dynamic competitive and public utilities sectors. This pattern of support creation serves to understand the unavailability of a business support base for an alternative social bloc in Chile (in the 1980s, 1990s and 2000s), and consequently the lack of demand for an alternative developmental regime.

Table 35:
Chile, State owned enterprises 1965-2000

	1965	1973	1983	1989	1998
No. of SOEs	68[a]	596	48	45	38
% of GDP	14.2	39.0	24.0	12.7	9.0

[a] 1970
Source: Hachette (2001, 113).

Table 36:
Chile, Sectoral participation of SOEs 1965-2000
(%)

	1965	1973	1983	1989	1998
Mining	13.0	85.0	83.0	60.0	45.0
Industry	3.0	40.0	12.0	3.0	3.0
Public services	25.0	100.0	75.0	25.0	20.0
Transport	24.3	70.0	21.0	10.0	5.0
Communication	11.1	70.0	96.3	0.0	0.0
Finance	..	85.0	28.3	10.0	10.0

Source: Hachette (2001, 115)

When Allende was overthrown in 1973, the presence of the Chilean state in the economy reached a record figure: 39%, in contrast to 14.2% eight years earlier (see table 35). This decreased to 24% after the first neoliberal experiment, 12.7% at the end of the Pinochet regime, and 9% after the first *Concertación* governments. In 1998 state owned companies had decreased their participation in all but one sector (mining) compared to 1965 (see table 36).[150] Privatization in Chile has had three stages that roughly coincide with the three decades that follow the adoption of neoliberalism. In each stage a different economic sector has been targeted as recipient of privatization advantages, usually the leading one: the financial sector in the 1970s, the competitive sector in the 1980s, and the public utilities sector in the 1990s. No further significant privatization waves took place during the 2000s.

The first two waves of privatization and their relation to *support creation* are strongly related to the nationalization attempt during the Allende government. Allende's nationalization policy rested mainly on two strategies: 1) aggressive takeover through stock purchases using the state promotion agency CORFO,[151] who then owned the shares; and 2) nationalization by force when business opposed stock takeovers. In this case, the government took control of the firms by appointing state interventors as managers, but did not legally change property rights. As the military took over, the return of nationalized companies was the main concern of the business community (E. Silva 1996, 104). During the 1970s, therefore, privatization corresponded not to traditional state companies but to those that had fallen into state's hands due to nationalization during the Allende period. The different speed of re-privatization depending on the previous nationalization method (stock purchase or forced takeover) had an enduring effect on the balance of power between different economic sectors.

[150] State presence in mining is now still significant thanks to the ownership of CODELCO –the world's biggest copper extracting and manufacturing company. CODELCO's profits make a significant part of the state budget and the company is an important source of national pride. These motives were important to prevent its privatization during the military dictatorship. See Fontaine Aldunate (1988). The reduction of state presence in the mining sector after 1983 is therefore associated mainly with the expansion of the private sector.

[151] Authorities used several strategies to weaken companies and force owners to sell. See Larrain and Meller (1991, 189). There were also conspicuous cases of resistance to nationalization, most notably that of the biggest private company *Compañía Papelera* in October 1971. This was a highly public *affair* because of the connection between this paper company (Matte group) and the conservative newspaper and bastion of the conspiracy against Allende, *El Mercurio* (Edwards group). See Silva (1996, 47) and Schamis (2002, 56 n. 19).

As several authors recall, after the coup it was easier for the military to return those firms that were still legally private than those owned by the state through shares and for which the right devolution formula had to be convened (E. Silva 1996, 105; Schamis 2002, 56; Valdivia 2003, 131–2); incidentally, these still legally private firms were also the firms belonging to the groups that had more fiercely opposed Allende, had crucial stakes in the financial sector, and were in favor of radical market reforms (E. Silva 1996, 104–6; Schamis 2002, 56–7).

Table 37:
Chile, Pace of re-privatization march 1976
(nº of companies and %)

	Type of nationalization	
	By force (%)	*CORFO shares (%)*
Total nationalized	259	235
Re-privatized	251 (96.9)	118 (50.2)
In process	0	38 (16.2)
Pending	8 (3.1)	83 (35.3)

Source: Valdivia (2003, 137)

Table 38:
Chile, Concentration of the financial sector 1978
(% of total)

Group	Bank assets (regulated)	*Financiera* credit (unregulated)
Vial (ex- BHC)	18.9	19.5
Cruzat-Larraín	1.0	9.8
Edwards	3.4	6.8
Other	7.3	26.7
Total	30.6	62.8

Source: Silva (1996, 116–8) .

Almost all companies nationalized by force were returned to their owners already in 1974, and only a handful were pending of privatization by March 1976 (see table 37). By contrast, around a half of those nationalized through share buying still had to be re-privatized in 1976.[152] This was also the case of banks nationalized through stock purchases, whose shares the state sold only in the second half of 1975, i.e. two years after the coup (E. Silva 1996, 104). Thanks to their connections to Chicago Boys in cabinet, a handful of groups with core business in the financial sector –Cruzat-Larraín, Vial and Edwards among other- actively participated in the financial deregulation procedures taking place at the Central bank in 1974. These groups expanded rapidly and significantly into the deregulated financial sector, controlling credit in both the deregulated and regulated sectors (see table 38).[153] In 1978, two-thirds of non-regulated

[152] Similarly, in 1979 only 30% of nationalized land holdings had been restituted to former owners (Foxley 1983, 67).

[153] The new *financieras* were free to borrow from abroad, while banks faced significant constraints (high reserve requirements, and limits to external financing) up until 1979, when the capital account was fully liberalized. The arbitration between external and internal interest rates was one of the key mechanisms they used to grow exponentially. See Arellano (1983), Reinstein and Rosende (2001).

credit and close to one-third of all banking assets were in the hands of a handful of financial conglomerates (E. Silva 1996, 116–8). In a context of financial scarcity and retrenchment of state credit, when the privatization of the rest of nationalized companies began, these were the only groups able to raise enough capital (Rozas and Marín 1988, 50). They managed to acquire over half of privatized state shares in previously nationalized companies, and control almost 40% of the assets of the Chilean 250 bigger companies (see table 39). Faster privatization benefitting these groups therefore not only strengthened them earlier with the devolution of their firms; it also provided them with crucial resources to acquire a significant majority of stakes in the further privatization process of firms nationalized through stock purchases.

Table 39:
Chile, Beneficiaries of privatization 1974-1978

Group	**Re-Privatization (A)**		**Top 250 firms (B)**	
	US$ million (1978)	*% of total*	*US$ million (1978)*	*% of total*
Cruzat-Larraín*	164.93	30.4	936.9	24.7
Vial*	90.81	16.7	477.3	12.6
Angelini	36.39	6.7	141.8	3.7
Luksic	21.89	4.0	141.8	3.6
Edwards*	17.30	3.2	96.0	2.5
Galmez	14.56	2.7	--	--
Matte	3.43	0.6	325.3	8.6
Briones	2.95	0.5	54.9	1.4
Yarur-Bana	..	..	92.0	2.4
Total financial sector	273.04	50.3	1510.2	39.8
Total	543.0	100	3791.7	100

*Indicates groups with core business in the financial sector.
Source: (A) Schamis (2002, 57); (B) Silva (1996, 118).

As I showed in chapter 2, financial conglomerates had a direct influence in policymaking. Before Pinochet consolidated his power, their links to Navy-officers secured them important positions in the ministries of finance and the central bank, from where they were able to push their preferred version of financial reform in opposition to the plans of the more gradualist Christian Democrat technocrats.[154] After Pinochet consolidated his power, ex-executives of these groups came to the fore of the

[154] The majoritarian view in the business community and the Christian Democrat technocrats was a mixed private and public sector with important presence of state development banks. Chicago-boys and financial conglomerates, instead, pushed fast financial deregulation. See Silva (1996)

policymaking positions providing a constant supply of cadres that populated the most important positions in the state bureaucracy. The acceleration of trade liberalization and the introduction of a fixed exchange rate (and its staunch defense amidts the 1982-3 crisis) is crucially linked to this.

The 1982-3 crisis, however, marked a major reversal of fortunes for the conglomerates in the financial sector that led the neoliberal bloc. They were the most indebted groups, those that engaged the most in self-lending, and the most exposed to non-performing loans[155] (see Arellano 1983). Outraged by the extent of the crisis and the concentration of debt in a few hands, Pinochet decided to take direct control of their assets in 1983 (Rozas and Marín 1988, 46; 58). Through this means, 67% of bank deposits and 70% of previously privatized firms returned to the hands of the state creating what became known as the "exotic area" *(área rara)* of state property (Schamis 2002, 60).

After the crisis passed, the re-composition of the neoliberal bloc followed closely the second big wave of privatizations of the Pinochet regime. This privatization wave had two major components. The first was the re-privatization of the "exotic area" of state property during 1984-1986. The main beneficiaries of this process were those business groups that were in a better position to assume the debts of these firms as well as their need of restructuring, i.e. those in the dynamic natural resource export sector such as the Angelini, Luksic and Matte groups. This change of property nicely reflects the change of leadership within the business bases of support of the regime, from finance to competitive sectors.

Big groups in the competitive sector carefully targeted selected firms as a business strategy, either to complement their present activities through functional links to other sectors (for example, controlling energy production and electricity distribution) or consolidate their dominant position in their core activities (E. Silva 1996, 195; Lefort 2010, 412–3; Montero 1996). For example, the Angelini group already present in the competitive forestry and fishing sectors, acquired Copec (see table 40). Copec was one of Chile's major companies, with its core area in the field of oil production and distribution, a sector were the Angelini group was starting to place its stakes. Copec had been previously in the hands of the Cruzat-Larraín group, who converted it into a holding with

[155] These groups used their strategic access to cheaper finance to lend to their related companies in the productive sector.

significant investments in the forestry and fishing sectors. Thanks to this and other acquisitions, at the end of the decade Angelini was the biggest Chilean business group. Another example is the Matte group, heavily involved in the competitive forestry sector and the manufacture of pulp and paper, owner of the powerful *Compañía Papelera,* and important ally of the orthodox neoliberal bloc. The Matte group acquired Inforsa, a major competitor within the forestry sector that had been in the hands of the Vial group since the previous privatization process (E. Silva 1996, 195 n.58).

Table 40:
Chile, Major privatizations "area rara"

Company	Sector (A)	Book value of equity (US$ million 1987) (A)	Previous controller (C)	Domestic buyer/control (D)		External capital (E)
				Group	Sector	
COPEC	Competitive (fishery, forestry) and non-competitive (oil)	310	Cruzat-Larrain	Angelini (27.0)	Competitive (fishery, forestry)	27.0
Banco de Chile	Finance	285	Vial	Diluted ownership	..	..
Banco de Santiago	Finance	156	Cruzat-Larrain	Diluted ownership	..	..
INFORSA	Competitive (Paper)	85	Vial	Matte	Competitive (Forestry, pulp/paper)	..
Pesquera Coloso	Competitive (Fishing)	47	..	Menéndez	Competitive (fishing)	Carter Holt (10.1) [a]
INDUS	..	45	..	..	..	Banesto (92.0) [a]
Banco de Concepción	Finance	44	Ascuí	SONAMI[b]	Competitive (mining)	
AFP Provida	Finance (private pensions)	18	Cruzat-Larrain	..	..	Bankers trust (40.0) [a]
AFP Santa María	Finance (private pensions)	13	Vial	..	..	Aetna (51.2) [a]

[a] Percentage corresponds to this group alone.
[b] Business association of the mining sector.
Source: Prepared by the author using data from: (A) (B) Meller (1996, 268); (C) (D) (E) Rozas and Marín (1988).

The alienation of state assets to these groups served as a crucial coalitional instrument to prevent the formation of an alternative social bloc in the midst of the 1982-3 economic crisis, as competitive sectors favored an alliance with the dictatorship instead of the more embedded regime offered by the center-left opposition trying to topple the regime (see chapter 2). Following this alliance, moreover, they were offered crucial access to policymaking though *ad hoc* commissions that were responsible of drafting legislation on economic issues. One outcome of these commissions was the support for the export sector under the form of increased subsidies and export drawbacks.

Table 41:
Chile, Major privatizations 1985-1989

Company and industry	Book value of equity (1987) (US$ million) (A)	Controller (% participation) (B)	Sector of controlller (C)	Relation to neoliberal bloc (D)	External capital[b] (E)
ENDESA (energy)	1314	CChC (4.3), Matte/ Angelini (1.4)	**Competitive**, Constuction	1, 2	25.6
CAP (steel)	679	De Andraca, Menéndez/Angelini (8.9)	Non Competitive, **Competitive**	1, 2	39.2
CTC (Telecomm.)	306	CChC (1.8)	Construction	..	63.4
Chilgener (energy)	264	CChC (3.9) , Matte/ Angelini (3.2), Menéndez/Angelini (2.0)	**Competitive,** Construction	1, 2	61.1
Chilmetro (energy)	206	Yuraszeck (21.0), Matte/Angelini (4.8)	**Competitive,** Public utilities	1, 2	25.9
SOQUIMICH (Chemicals)	102	Ponce Lerou (15.5)	--	1, 2	39.5
ENTEL (telecomm.)	93	Hurtado Vicuña (12.5)	Public utilities	1, 2, 3	33.7
IANSA (Food)	90	Larraín-Vial (6.6)	Financial	1	50.1
Enacar (Mining)	71	..	..	..	..
Chilquinta (energy)	52	Fernández León (19.4), Menéndez/ Angelini (14.2), Matte/Angelini (11.5), Hurtado Vicuña (10.1)	Public utilities, **Competitive**	3	30.7
Lan Chile (Transport)	49	..	..	..	..
Pilmaiquén (energy	44	Angelini (20)	**Competitive**	1, 2	..

[a] Total control may not add up because sometimes the control of domestic groups is exercised through partnerships with external capital.
[b] With relation to % in private hands
Legend: 1= Regime official, 2= Supporter of UDI, 3= Ex-executives of Cruzat-Larraín group
Source: Prepared by the author using data from: (A) Meller (1996, 268); (B) (C) (E) Rozas and Marín (1988); (D) Monckeberg (2001).

The second privatization component corresponded to the alienation of the traditionally state-owned companies that remained in the hands of the state during the 1970s wave of privatization. These companies constituted big players not only in the public utilities sector, but also in productive sectors such as oil production and refinery, and basic metallic industries (Rozas and Marín 1988, 61). The beneficiaries of this process were mainly state officials who became directors of the companies they previously managed on behalf of the military regime (Schamis 2002, 63–4). The process thus generated new business groups in the public utilities sector and other productive sectors, closely related to the neoliberal technocrats in government and fierce defenders of the regime's political and economic legacy. In fact, Monckeberg (2001, 24) found that the controllers of many of these privatized companies became members or close collaborators of the right-wing UDI party. Table 41 shows that in most of the transactions one of three relations to the neoliberal bloc can be found (see column D): officials of the dictatorship -usually sitting in the board of the respective company-, members of the UDI party, or previous executives of the Cruzat-Larraín group. A significant set of these privatizations were finished in 1988-9, only a few months before the new democratic authorities took office, highlighting even more their “support creation” character (see Huneeus 2007, 440–1).

One crucial outcome of this second privatization component was to neutralize the potential interests of non-competitive sectors for a more embedded developmental regime, constituting instead a sort of “ideological” business support for neoliberalism. Two showcase examples are those of SOQUIMICH (chemicals) and CAP (fabricated metals), two companies that were leaders in the non-competitive sector and emblems of Chilean industrialization, and were alienated to individuals that were closely associated with the military regime. SOQUIMICH was left in control of Julio Ponce Lerou, son in law of Pinochet and CEO of the company designated by the dictatorship during 1980-3. Two prominent directors of privatized SOQUIMICH were Hernán Büchi and Sergio de la Cuadra, both ministers of Finance of the Pinochet regime; other high civilian and military officials of the military government also had high positions inside the company (Monckeberg 2001, 94–6). Conversely, CAP was the first public company to be privatized in this second wave of privatization, coming under the control of Roberto de

Andraca, former executive manager nominated by the dictatorship.[156] Important officials of the Pinochet government figure in the board of directors of CAP after its privatization, and well into the 1990s (see Monckeberg 2001, 81).

The formation of an "ideological" business support base had a direct consequence for the resilience of neoliberalism in Chile: it prevented the formation of a business support group close to the center-left *Concertación* governments in the democratization period. This, in turn, played the role of tempering the policy proposals of the *Concertación*, sometimes even washing them out completely, as a way to entice cooperation from a powerful business community closely associated with the dictatorship (E. Silva 1996; Weyland 1999b). This inability of the *Concertación* to build a business base on its own was to be a significant factor preventing the possibility of an alternative social bloc. For example, speaking of the possibility to pursue a more aggressive industrial policy program, one policymaker at the Ministry of Economy said:

> "we were suspect that we were going to do all sorts of nonsense, so for us it was completely impossible in the year 1990 to start saying: 'look, we will privilege this sector, or that'. There was no condition whatsoever to do that".[157]

This was most visible at the beginning of the *Concertación*-led transition to democracy. One of the main ideologues of the *Concertación* coalition and its policy orientation stated straightforwardly:

> "Convincing the business community of the center-left's ability to govern was very important. Hence, a main economic goal of the transition was to build the thrust of the business community. They were suspicious of the center-left coalition; not unreasonably presuming that it would be more statist/interventionist. The product of this skepticism was that the center-left coalition was determined to demonstrate their governability. This led to a higher degree of controls in economic policy; more prudent policy aimed at assuaging the business and investment community" (Edgardo Boeninger cited in Kaplan 2013, 65).

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[156] The majoritarian control was acquired by the swiss group Schmidheiny. This group left the company when it acquired the full property of CAP's subsidiary in the forestry sector "Forestal Terranova". After this move, De Andraca became CEO of CAP (Monckeberg 2001, 73–81).
[157] Chile, Interview 2.

In the same vein, Alejandro Foxley, the first Minister of Finance of the *Concertación*, explains the need for fiscal austerity as a way "to show the private sector that we were serious, that we were not populists" (cited in Kaplan 2013, 206).

The lack of a business support base became visible again during the government of socialist president Ricardo Lagos in 2000-2005 (see E. Silva 2002). With lack of majority in parliament and a strong opposition by business at large, Lagos saw the need to approach the leading business sectors (finance, and competitive) as its only chance to survive politically. As Lagos himself has later recognized:

> "I didn't have to convince the business community. I had to act! It is not a question of talking. You convince them by what you do" (cited in Kaplan 2013, 66).

His government came to be famously recognized as pro-business, and instead of supporting the *Concertación*'s left-wing industrial policy proposals, he supported the business-sponsored IP program highlighting labor market deregulation and tax reductions (see chapter 3).

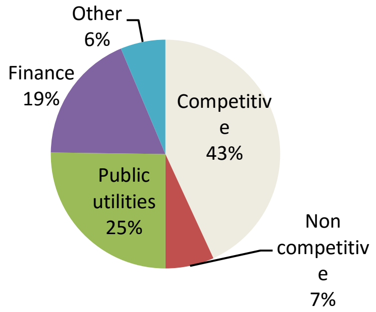
After the return to democracy in 1990, privatization continued the process already started in the mid-1980s. Of special importance was the continuity of the privatization of the public utilities sector, which helped to consolidate the dominant positions of business groups in the competitive sector. Looking to shelter themselves from external price shocks, during the 1990s, groups with major presence in the competitive sector privatization as strategy of diversification into public utilities which offered them more stable returns (see e.g. Fazio 1997, 75). As table 42 shows, the main business groups in the competitive sector (Matte, Angelini, Yaconi-Santa Cruz) acquired significant shares in the public utilities sector in cooperation with foreign capital.

Table 42:
Chile, major privatizations 1990-1999[a]

	Sector (A)	Value of sale (millions of US$)[b] (B)	Domestic buyer/control (C)		External capital (D)
			Group	Main sector	
EMOS	Public utilities (Water services)	964.0	..	..	Aguas de Barcelona/ Lyonnaisse des eaux (51.2)
Colbún-Machicura	Public utilities (energy)	405.1	Matte (41.5)	**Competitive** (fishery, forestry, pulp and paper)	..
El Abra	Competitive (Mining)	329.8	..	..	Phelps Dodge (51.0)
EMPORCHI[c]	Public utilities (Transport)	300.0	Claro, Antonijevic, Agrosuper, Von Appen	Transport, **Competitive** (food)	SSA Holdings
Tocopilla	Public utilities (Energy)	175.0	Yaconi-Santa Cruz	Public utilities, Commerce, **Competitive** (fishing)	Tractebel
ESVAL	Public utilities (Water services)	138.0	--	..	Endesa (72.0), Anglian Water International (28.0)
ESSEL	Public utilities (Water services)	112.5	..	..	Thames Water/ Electricidade de Portugal (45.0)
EDELNOR	Public utilities (energy)	86.4	..	..	Southern Electric (82.0)
ESSAL (Los Lagos)	Public utilities (Water services)	82	Yaconi-Santa Cruz	Public utilities, Commerce, **Competitive** (fishing)	Ibadrola (51.0)
EDELAYSÉN	Public utilities (Energy)	43.0	Angelini	**Competitive** (Forestry, fishing), non-competitive (oil)	..
PEPASA	Public utilities (transport)	30.1	..	..	..
FERRONOR	Public utilities (transport)	12.0	..	..	..
ESSAL (Valdivia)	Public utilities (Water services)	10.5	Chilquinta	Public utilities	Aguas de Barcelona
EMPREMAR	Public utilities (Transport)	4.5	Antonijevic	Transport	..

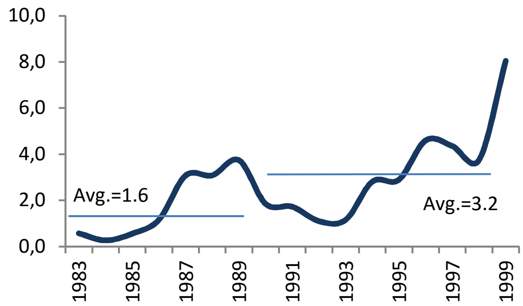
[a] Companies whose property was privatized at least 50%. Does not include companies whose privatization started in the 1980s.
[b] Value of sale the year of privatization
[c] Privatization of port terminals Valparaíso, San Antonio (north and south) and San Vicente.
Source: Prepared by the author using data from (A) Hachette (2001) and Fazio (2000); (B) Hachette (2001) and Fazio (2000); (C) (D) Fazio (2000).

Figure 54:
Chile, FDI inflows by sector 1990-1999



Source: Prepared by the author on the basis of Foreign Investment Committee, Chile.

Figure 55:
Chile, FDI inflows 1983-1999
(% of GDP)



Source: ECLAC.

Foreign capital was encouraged to acquire stakes in the privatized companies in alliance with domestic groups throughout the second and third privatization waves, providing crucial financial assistance.[158] Three were the main channels (E. Silva 1996, 202): first, in partnership with competitive groups to face the debt of the companies re-privatized from the "exotic area"; second, they participated in debt-for-equity programs by which they acquired major stakes in traditionally state-owned companies together with ex-regime officials; and finally, directly acquiring companies in the competitive sector or the financial sector, and later on in the public utilities sector (see figures 54 and 55). During the 1990s FDI flows reached record highs and supported the development of the economic sectors were the neoliberal bloc had its bastions: the competitive sector (43.1% of all FDI inflows), public utilities (25.2%), and finance (18.4%).

b) Estonia: the building blocks of neoliberal capitalism

The process of privatization in Estonia constituted a special type of *creation of supporters* because it was heavily influenced by the concomitant process of independence from the Soviet Union and the nationalist sentiment that pervaded radical economic reforms. The result of the mechanism was to foregone the creation of a domestic capitalist base and to incorporate external capital as a key "stakeholder" and supporter of the Estonian neoliberal developmental regime. Three steps were crucial in

[158] Another key financing mechanism was the utilization of the pension funds privatized in 1980. Private fund administrators (AFPs) directed workers savings to capitalize the newly privatized firms.

this process. First, Estonian reformers avoided the development of insider privatization – i.e. privatization to workers and managers of SOEs- in order to prevent Russians to take up substantive concerns in the Estonian economy. As a by-product of the nationalist sentiment and the idea of restoring the nation-state illegally occupied by Soviet invaders, restitution of property to pre-WWII owners bcame a priority in the initial plans. This had the effect of delaying privatization, which was consequential especially in the countryside were it trumped the formation and organization of farmers interests. As a way to speed up the process, privatization in the rest of the economy took the form of direct sales to key investors. Given the lack of domestic finance, as well as the permanent threat that Russians would acquire major stakes in Estonian SOEs, the process was oriented to finding western investors. FDI inflows eventually became key to stabilize the Estonian economy in moments of distress, restore economic growth and dispel the possibility of breaking the currency board through a devaluation.

Although Estonia constituted a sort of laboratory for economic reforms in the Soviet Union, including market mechanisms, joint ventures with foreign capital and privatization (Lauristin and Vihalemm 1997, 76; Laar 2002, 45–6) before the start of market reforms, practically all economic activity (90%) was in the hands of the state (see table 43). As was typical in socialist economies, the industrial sector was overwhelmingly developed while services -especially finance- was conspicuously missing (table 44). Estonia also lacked the type of second-economy found in reform communist countries such as Poland and Hungary. In this context, the creation of support through privatization became all the more important to sustain neoliberalism in time (see Blom, Melin, and Nikula 1996, 16–20; Ruutsoo 1996, 110).

Table 43:
Estonia, State owned enterprises 1990-2005

	1991	1992	1996	2000	2005
No. of SOEs (A)	2.234	..	..	..	..
% of GDP (B)	90	75	30	25	20
% of employment (C)	85.1	..	..	28.7	24.5

Source: (A) WB 1993 (47; 266; 307); (B) (C) EBRD Transition report, several years.

Table 44:
Estonia, Sectoral participation of SOEs 1990-1996
(% in turnover)

	1990	1991	1992	1996
Industry	95	90	65	18
Housing	90	70	70	30
Services	90	70	45	11
Retail trade	90	65	19	4
Finance	..	..	..	14 [a]

Source: Purju (1999, 229).
[a] Share of capital in commercial banks, 1995

The discussions on privatization strategies of the pre-independence years were strongly marked by the ethnic politics context already described in Chapter 4. In the mid-1980s between 85% and 90% of Estonian industry was allegedly under direct control of Moscow (Mettam and Williams 1998, 373). Russian speakers were concentrated in industry, and specifically in the higher management and lower industrial positions, posing the real threat that a spontaneous privatization process would leave substantive state stakes in Russian hands. This was exacerbated by existing Soviet legislation that gave the right to first purchase to worker collectives (Andersen 1997, 304), and by the behaviour of SOE managers pressing branch ministries to expedite insider privatization.[159] Close observers indeed detected an incipient process of nomenklatura privatization (World Bank 1993, 46–7; see Terk 2000, 28–9; 33–4). When the Popular Front (PF) came to power in early 1990, the first task was therefore to close the door of privatization eliminating insider advantages, and suspending the sale of state assets until appropriate legislation was in place (Terk 2000, 67; Lauristin and Vihalemm 1997, 107).

During 1990 two processes were launched. First, privatization of small trade and shops (so called "small scale privatization"), were employment was of a majoritarian Estonian composition. With respect to big companies -the backbone of the privatization disputes- the PF was in favor of direct sales in order to maximize financial returns to an ailing state treasury (see Terk 2000). Accordingly, in december 1990 the Savisaar administration started the corporatization[160] of big SOEs and in 1991 put in place a pilot program of direct sales including seven big enterprises. This process led to the constitution in september 1992 of the Estonian privatization enterprise under the image of the East-German Treuhandanstalt in order to start a massive program of sales.

The results of the pilot program, however, sparked the opposition of the nationalists in parliament as most of the enterprises in the pilot program were sold through management-employee buyouts (World Bank 1993, 42). This outcome, together with the independence scenario in 1991, heightened fears that Russian managers still in charge of SOEs would use their contact networks and find intricate ways to get privatized companies into their hands (see also Purju 1999, 203).[161] The need to divide property

[159] Estonia, Interview 4. Interviewee underscores, however, that a majority of managers rather wanted to maintain companies in state hands and that the issue for them was to keep them working.
[160] Change in ownership structure from direct ministry control to control through shares and administration through a management body.
[161] Estonia, Interview 4.

between the new nation state and the disintegrating Soviet Union, not least the threat of buyouts directly concerted by Moscow in order to reassert control over Estonia further reinforced this fears (see Terk 2000, 13; 31). In this context, the neoliberals-cum-nationalists strongly favored the development of privatization through restitution of property rights to pre-WWII owners. It became the main privatization method in 1991 and especially after the right-wing Laar administration took office in 1992 (Terk 2000, 50–1). It constituted in fact, one of its main campaign promises (Purju 1999, 204).

The result of the change in discourse from direct sales to restitution was a significant slowing down of privatization (World Bank 1993, 41–4; Terk 2000, 13; 53–7; Alanen 1999, 438). In fact, restitution entailed many aspects complicating the process and got involved in heated debates. In late 1992, the only issue that had been solved was that of who was a potential claimant, with still many others to elucidate e.g. how restitution claims translated into privatization, their connection with other methods such as voucher privatization, etc. (Terk 2000, 57). As a result, by late 1992 of 200,000 restitution claims received, the government had processed only about 1,000 (World Bank 1993, 44).

Restitution therefore stagnated while the parliament continued to debate what was the right method. After three years of discussion and several experiences under way, in 1993 it became clear that if steered in the right way, the method of direct sales offered advantages. The parliament also reached a compromise creating a compensation fund were proceeds of direct sales were to be deposited in order to pay for compensation as restitution, thus appeasing the nationalists (see Terk 2000, 58–9; Purju 1999, 205).

In June 1993 the privatization act was passed and the privatization agency constituted. Two characteristics of the new agency are to be underlined: its concentration of decision over privatization, i.e. taking away the involvement of line ministries, and the leeway it enjoyed in terms of methods and criteria (see Terk 2000, 76–9). The agency had to prepare privatization programs to be approved by the government every year. The programs contained bundles of companies to be privatized, as well as other clauses including restrictions, sectoral biases, etc. It was however, up to the officials in charge to decide which method to use, which clauses to apply, and which companies to include in every year's program. In the end, the agency could decide relatively autonomously between different methods as well as different ways to limit or restrict sales. In practice, the agency privileged speed over any other considerations (Terk 2000, 84; 88).

Moreover, given the lack of domestic capital -despite the clause that domestic capitalists could pay in installments-[162] finding a core external investor became the quickest way to proceed (see OECD 2000a, 126–36). As the manager of the Privatization Agency Liina Tönisson recognized, strict sorting processes were carried out to screen the participation of foreigners, which served to avoid a Russian takeover (Andersen 1997, 309; see also D. Smith 2001, 128). In fact, each bid was screened individually (Terk 2000, 35). Most of the sales deals of large enterprises, therefore, took the form of a tender pre-negotiated with the buyer (Purju 1999, 211; Terk 2000, 158).

Table 45:
Estonia, Method of privatization medium and large enterprises 1995
(% of total)

	Sale to outside owners	Insider buyout	Voucher	Restitution	Other	Still in state hands
By number	**64**	30	0	0	2	4
By value	**60**	12	3	10	0	15

Source: World Bank in Lauristin and Vihalemm (1997, 107)

In 1996, the OECD reported that among Eastern Europe, Estonia was the only country where 90% of privatization had been accomplished (Terk 2000, 9). Insider buyouts were kept at a minimum, while most sales (around 60%) went to outside owners (see table 45). Between 1993 and 1998 some 31% of total privatization revenue came from external capital (OECD 2000a, 131) and privatization-related FDI constituted 20% of all FDI inflows (OECD 2000a, 131).[163] This orientation strengthened the already important bias given by the currency board toward the transnationalization of Estonian economy.

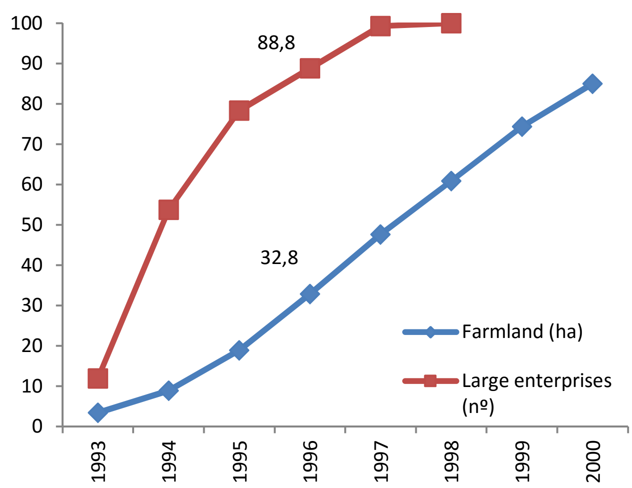
The privatization process in Estonia had two main effects on neoliberal resilience. First, as in Chile, it prevented the formation of economic interests opposed to neoliberalism. More specifically, it helped to "silence" the possible opposition by the non-competitive sector and the agricultural sector in particular. Second, external capital –and other international actors thereby related- showed commitment to support the Estonian

[162] The fact that the state did not restructure SOEs before selling, and that the buyer was responsible for the inherited debts, seems to constitute a significant deterrent for domestic investors in spite of what otherwise seemed as favorable conditions (e.g. payment in installments or with vouchers).
[163] Although this figure might seem rather unimpressive, it underestimates the impact of FDI since it is driven by the low value at which sells were made. On the contrary, as Sutela (2001, 43–44) points that privatisation sets “an important precondition for FDI” and encourages further investment under the form of reinvested income.

developmental regime by stabilizing it through massive capital inflows when it was put to test by economic crises.

With respect to the first, the impacts of the privatization process in the agriculture sector are telling. As already discussed in chapter 4, this was one of the hardest hit sectors by the shock therapy reforms of the early 1990s, and was also one of the more vocal protesting against them in Poland. Again, in the context of a lack of a sizable private sector in agriculture –contrary to the case in Poland- privatization was crucial in the formation of economic interests. Privatization, however, proceeded slowly in the agriculture sector severely slowing down the formation of a proprieted class. Moreover, it froze production in the countryside contributing to its downfall.

Figure 56:
Estonia, Progression of privatization 1993-2000
(% of total)



Source: Prepared by the author using data from Terk (2000, 161; 168).

Unlike the situation in other industries, the main method of privatization in the countryside remained restitution (Terk 2000, 166; Alanen 1999). This made the privatization process in agriculture particularly slow: while in 1996 about 90% of large companies in other sectors had been privatized, in the case of agriculture more than two-thirds of land was still in state hands (see figure 56). One cause of this -as mentioned above- was that restitution in itself constituted a long and expensive process. This was aggravated by the number and wide circle of claimants –extending even to the children of siblings of original tenants- and the existence of a series of technical steps mediating between approving a claim and taking effective possession in the particular case of agriculture (e.g. surveying of land, entry of the land parcel into a land cadaster and then into a national land registry, difficulty in calculating the exact fund that was to be physically returned, etc.) (Terk 2000, 167; see also Alanen 1999, 438; 441; Purju 1999, 218).

More crucially, the process of restitution itself was detrimental for the formation of interests in the agriculture sector, and demobilized existing ones. As Terk (2000, 51) observes, in practice restitution became a method to compensate the heirs of the original pre-WWII tenants, heirs that were not necessarily farmers themselves. It is estimated, in fact, that around two-thirds of those with land restitution claims lived in the city at the time of reform (Alanen 1999, 444; also Terk 2000, 51). In exchange, workers of collective farms who did have a significant stake in the future of the sector were sidelined. This not only trumped the process of interest formation, but also aggravated the crisis in the countryside. In fact, after getting their land parcels in restitution, in a majority of cases the heirs stayed in the cities, leaving the land idle (Terk 2000, 169). According to Alanen (1999, 441), as of 1997 still a majority of farms returned to heirs were not actively cultivated. Other technicalities of the process further reinforced this. For example, the division between land and the movables in it separated the land itself (privatized through restitution claims) from the means of production -in the hands of former workers of collective farms- aggravating the production crisis in the countryside (Alanen 1999, 441–2; Terk 2000, 169). This picture reflects the process of restitution alone. With respect to the privatization of land not subject to restitution claims, the process began only as late as 1996 (Terk 2000, 164–5).

With respect to the non-competitive sector, as I argued in chapter 4, a high share of external capital in the sector was one of the reasons why it did not develop a pattern of contestation toward the neoliberal developmental regime as in Poland, most significantly, demanding a change of the exchange rate –e.g. devaluation- or higher state subsidies. The decision not to restructure SOEs or clear their debts before selling them, and to leave these responsibilities to the prospective buyers further reinforced this outcome: buyers should be those with enough capital and technological capabilities to make the companies' competitive by themselves. As a consequence the most powerful firms in Estonia were controlled by external capital.

Table 46 shows the biggest Estonian firms in the year 2001. Two characteristics stand out: the dominance of foreign firms, and the diversity of sectors with predominance of the public utilities sector crucially linked to privatization.

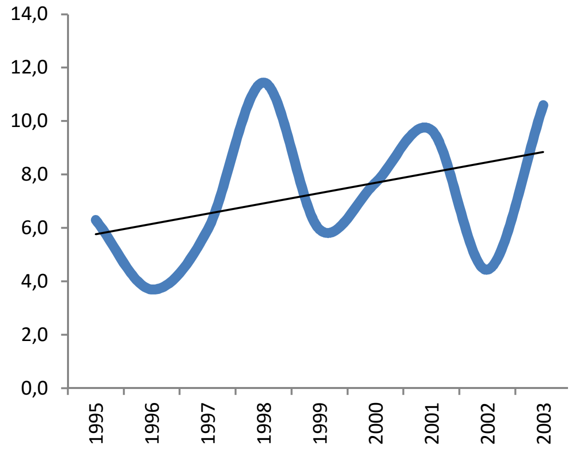
Table 46:
Estonia, 15 biggest firms in 2001

Company	Sector	Controller	Privatized	Sales[a]
Eesti Energia AS	Public utilities (Energy)	Estonian treasury	--	4376000
Eesti Telefon AS	Public utilities (Telecomm.)	Telia (SWE), Sonera (FIN)	Yes	2505708
Hansatee Group	Public utilities (Transport)	Tschudi Group (NOR), Eesti Ühispank (SWE)	Yes	1840539
EMT (Eesti Telekom)	Public utilities (Telecomm)	Telia (24.5 SWE), Sonera (24.5 FIN), Other foreign (23.7)	Yes	1620170
Merko Ehitus AS	Construction	Merko Grupp (74.0), Merita Panga (9.8 FIN)	Yes	1420469
Sylvester AS	Competitive (forestry)	4 estonian-based groups	..	1326080
Kreenholmi Valduse AS	Competitive (textiles)	Böras Wäfveri (100 SWE)	No	1240479
Tallinna Kaubamaja AS	Commerce	NG INvesteeringud (66.8)	Yes	1189770
Eesti Merelaevandus AS	Public utilities (Transport)	Tschudi Group (80.0 NOR)	Yes	1146419
NT Marine AS	Competitive (fuels)	..	..	1135041
Neste Eesti AS	Competitive (fuels)	Fortum OIl and Gas oy (100 FIN)	..	1011741
Balti Laevaremonditehase AS	Non Competitive (Transport&eq.)	estonian capital	..	1005000
Intopex AS	Public utilities (Transport)	Nikolai Jakuskin (100)	No	1001098
ONAKO Eesti AS	Public utilities (Transport)	Benevent AS (70), AVR Marine AS (30)	..	965370

Source: Prepared by the author using data from Aripäëv (2001) .
[a] thousands of kroons (EEK)

External capital not only acquired major stakes in all sectors of the Estonian economy - through privatization as well as greenfield investment. It also responded to these with a commitment to stabilize the Estonian economy with massive inflows when major crises put pressure on the currency board-dependent developmental regime. In the context of the Asian/Russian, a large current account deficit caused by ER appreciation produced fears that the authorities would attempt a devaluation (see Sutela 2001; *Baltic News Service* 1997e). However, massive capital inflows shortly after the initial shock dissipated fears of devaluation and quickly stabilized the economy bringing quick calm after the storm (see Eamets, Varblane, and Sostra 2003). .

Figure 57:
Estonia, FDI inflows 1995-2003
(% value added)



Source: Prepared by the author using data from wiiiw.

Table 47:
Estonia, FDI stocks as % of sectoral value added

	1997	2000
TOTAL	26.2	51.5
Competitive	47.5	61.3
Non-competitive	53.7	46.4
Financial	19.1	79.2
Public utilities	31.3	78.2

Source: Prepared by the author using data from wiiw.

Figure 57 shows that far from declining, FDI inflows to Estonia took a renewed air after the Asian and Russian crises. Already in 1997, one third of the Estonian output generating over 50% of its exports was controlled by foreign capital (Sutela 2001, 19). As table 47 shows, three years after the beginning of the crisis, FDI stocks in the country had doubled. The process was particularly significant in the leading financial sector where FDI stocks went from representing close to 20% of value added in 1997 to almost 80% in 2000. In fact, 85% of the Estonian banking, 90% of leasing and 30% of the insurance market became concentrated in two major Swedish-controlled financial groups: Swedbank and SEB (see table 48). Analysts even hinted at the possibility that foreign concerns–especially banks- explicitly manipulated expectations so as to take over strategic positions in the country once asset prices went down following the crisis (*Baltic News Service* 1997c; *Baltic News Service* 1998c; see Eamets, Varblane, and Sostra 2003, 11–2)

Table 48:
Estonia, Major banks ca. 2000

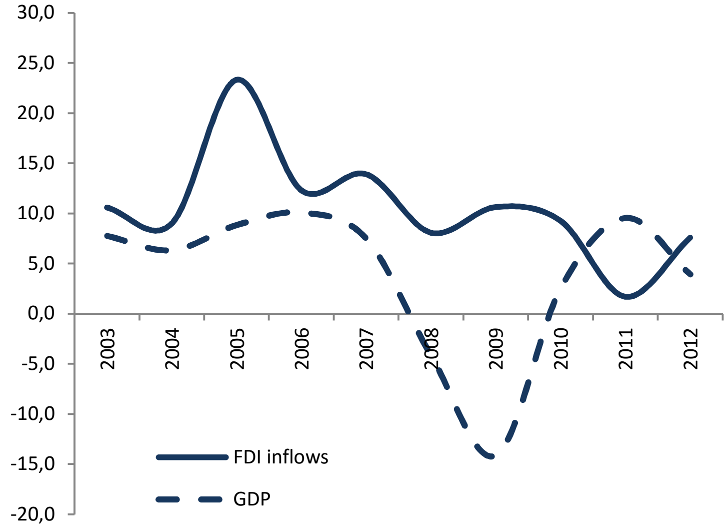
Bank	Controller (% of control)	Assets (USD million)
Hansapank	Swedbank (SWE) (57.5), EBRD (UK) (9.7)	1595
Eesti Ühispank	Skandinaviska Enskilda Banken, SEB (SWE) (95.1)	1014
Sampo Pank	Sampo Finance (FIN) (>90)	238
Eesti Krediidipank	Merita bank (FIN)	38
Tallinn Aripanka AS	...	20

Source: OECD (2000a, 116).

The effect of the consolidation of external interests in the neoliberal bloc could be seen more clearly during the financial crisis in 2007-8. One unlikely external actor provided crucial support for the maintenance of the currency board and the government's deflationary policy: the Swedish government. According to Kuokštis and Vilpišauskas (2010, 6–7) the Swedish government was concerned with the problems a devaluation of the kroon would bring to the Swedish banks controlling the Estonian banking and financial systems, which could eventually imply the need to use Swedish taxpayer money for bailouts. In order to fend off speculators and dispel the possibility of devaluation, the Swedish Central Bank and the Bank of Estonia negotiated an agreement by which the former would support Estonia with fresh liquidity and/or the necessary loans in order to defend the currency board.[164] In addition to the support given by Sweden given the compromise of Swedish banks in the Estonian financial sector, FDI appears as a significant element preventing a further downfall of GDP during the hardship years of 2008 and 2009. In fact, as figure 58 shows, FDI kept a constant inward flow during the period at an impressive rate. Only in 2011 FDI declined significantly, but by then the Estonian economy was already recovered.

[164] Estonia, Interview 9.

Figure 58:
Estonia, FDI inflows[a] and GDP growth 2003-2012
(%)



Source: FDI=wiiw; GDP= OECD.
[a] Inflows as % of value added.

II. When love is not enough…

a) Argentina: between state retrenchment and coalition building

Despite the efforts at privatization by the Argentine military government, privatization in Argentina did not reach the scale it reached in Chile until the second neoliberal experiment under the democratic Menem administration (1990-9). Through the previous period, state control of the economy remained above 30% (see table 49), concentrating in public and private services, as well as fuels, oil production and refinery (see table 50). In this context, it is necessary to explain first, why the military dictatorship was not able to significantly use privatization in order to create winners, and second, why despite the success of the Menem privatization program, it was unable to create enough support for neoliberalism among business.

Table 49:
Argentina, State owned enterprises[a] 1975-2000

	1975 [c]	1983	1989	1999
No. of SOEs	24	21	18	1
% [b]	35.6	31.5	32.0	1.3

[a] Considers 200 biggest companies in the country.
[b] Share of sales.
[c] For a figure comparable with Chile, for this year Castellani (2012, 97) estimates the total number of SOEs to be around 300 and to represent 8% of GDP.
Source: Basualdo; (2006, 157; 263; 387).

Table 50:
Argentina, Sectoral participation of SOEs 1976-1983
(%)

	1976	1983
Oil	79.2	56.3
Industry	13.3	7.4
Services	94.8	96.0

Source: Basualdo (2006, 166).

Privatization ranked high in the plans of the neoliberals in 1976 (Canelo 2004, 289; cf. Cavarozzi 1986, 44). By then, SOEs were responsible for around 35% of the economy (see table 49), similar to the 39% in Chile. The strength of the non-competitive sector and its connection with nationalist military, especially those in charge of running state enterprises, proved however crucial to frustrate privatization attempts. This alternative coalition was able to block not only the privatization of traditionally state-owned companies, but also that of previously private firms (see Schvarzer 1981).[165]

In order to overcome this opposition, neoliberal Minister of Economy Martínez de Hoz designed what was called “peripheral privatization” (Schvarzer 1981, 60; Novaro and Palermo 2003, 229–30). Through this, public companies were supposed to subcontract their activities to the private sector so as to tighten their budget constraints and induce their restructuring. At the same time, they were cut off from direct finance from the state budget and obliged to raise capital in the private market. In this sense, the allocation of power resources to supporters was to take place through the provision of a market share in those sectors where state companies would retrench and subcontract activity rather than through the direct alienation of state assets (cf. Etchemendy 2012). In accordance, peripheral privatization took place in the sectors were the state had biggest stakes: oil and fuels (gas). State participation in these sectors decreased from almost 80% in 1976, to 56.2% in 1983, while state presence in state industry as a whole decreased from 13.3% to 7.4% (table 50 above).

[165] Due to economic problems and bankruptcy, since 1967 a number of large traditionally private firms had been taken over by the state (Schvarzer 1981, 35).

Table 51:
Argentina, Companies privileged with peripheral privatization[a]

Group/ Company	Sector	Peripheral privatization	Other links to state
Techint	**Non-competitive** (Basic metals, machinery), Construction	Oil and gas	1, 2
Pérez Companc	**Non-competitive*** (Oil, plastics/rubber, machinery, construction), competitive (fishing, food) and finance	Oil and gas	1
Desaci	..	Oil and gas	1
Bridas	**Non-competitive** (Oil)	Oil and gas	1
Astra	**Non-Competitive** (Oil, Chemicals)	Oil	2 [b], 4 [b]
Bunge&Born	Competitive (Agriculture, Food)* and non-competitive (Chemicals)	Oil	--
Garovaglio and Zorraquin [c]	Non-competitive (Petrochemicals), Competitive* (Food, Agriculture)	--	2, 4
Richards (Indupa)	**Non-competitive** (plastics/rubber)	--	2, 4
Acindar	**Non-competitive** (Basic metals)	--	2, 4
Fate	**Non-competitive** (Basic metals)	--	3, 4
Aceros Bragado	**Non-competitive** (Basic metals)	--	2

Source: Prepared by the author using data from Castellani (2004, 207–8) and Azpiazu et. al. (1986)
Legend: 1= Public works contracts, 2= Buyer to state firms, 3= Supplier of state firms, 4= industrial promotion schemes.
* Indicates main sector when groups are diversified into other sectors.
[a] Doesn't include benefited multinationals: Pirelli, Siemens, Lepetite Dow and Indupa.
[b] As participant in the Bahía Blanca Petrochemical Pole through shares in IPAKO.
[c] Corresponds to the Bahía Blanca Petrochemical Pole that they controlled through IPAKO, with a significant presence of the state.

The mechanism, however, did not serve to increase the power resources of the neoliberal bloc (financial sector and/or competitive sector), but was exploited by the dynamic groups in the non-competitive sector thanks to their contacts with military officials in charge of SOEs (Corrales 1998, 36). This close relation had grown hand in hand during the last ten years as part of the strategy of several Argentine governments to foster manufacturing sectors as part of an export promotion strategy (Castellani 2012; Katz and Kosacoff 2001). In the words of Castellani, this produced "the development of a number of companies closely related to the state, either as suppliers, contractors, or clients" (2012, 99).[166] Together with industrial policy, big companies in the non-competitive

[166] Through the operation of a National Purchase Regime (Régimen de Compras del Estado Nacional), these companies often charged public companies twice the price in international markets, or bought inputs from them at subsidized prices. For example, in 1988, Siderca (subsidiary of the Techint group) was the only Argentine company producing the pipes used by YPF (the largest public company in the oil sector). While Siderca charged YPF US$51.06 per meter, it sold the same product abroad at only US$22.46 (Corrales 1998, 32).

sector used peripheral privatization to consolidate their position, both by concentrating their market niches and diversifying their activities (see table 51). As a result, the participation of these business groups in the profits of the 100 biggest companies grew from 21,5% in 1976 to 65,9% in 1983 (Castellani 2012, 102). Moreover, among these top companies, those linked to the state through peripheral privatization had an utility/sells ratio of more than five times that of the companies not participating in peripheral privatization (Castellani 2004, 201). As a result, segments of the non-competitive sector remained strong enough to benefit from access to policymaking. In fact, even when financial deregulation in 1977 was engineered by representatives of the financial sector with close ties to the central bank (Veigel 2009, 63), just as in the case of Chile, it was the powerful non-competitive sectors who mostly benefitted from financial expansion. In strong contrast to the Chilean indebtedness process before 1982-3, in Argentina around 40% of all external debt was held by groups with primary concentration in the non-competitive sector –another 33% was held by external capital (Basualdo 2006, 172).

The big privatization process in Argentina took place during the Menem administration in the 1990s. The state went from having 18 firms among the first 200 in 1989, to having only 1 in 1999, and a share in their sales from 30% to only 1% (see table 49 above). The Law on State Reform passed in august 1989 conferred extraordinary powers to the executive to advance in the privatization of SOEs. This, together with the Law on Economic Emergency eliminating state subsidies and the national purchase regime, constituted a major condition of external creditors for the negotiation of the pressing external debt problem. In fact, external creditors saw these as the only way the state could ensure debt repayment (Basualdo 2006, 283–292).

Again, the thorn in the side of these plans was the strong business groups in the non-competitive sector that had already frustrated two privatization attempts with different coalitional allies, during the 1976-83 dictatorship and during the Alfonsín government[167] (see Corrales 1998). Business groups in the non-competitive sector saw privatization as a double threat: on the one hand, it would bring in powerful and competitive MNCs, some of them challenging directly their market niches.[168] On the other, privatization would cut

[167] In his last years in office, Alfonsín pushed partial privatization as a way to show commitment to fiscal retrenchment and get debt alleviation (see also Machinea 1990, 32).

[168] Developments in the chemical sector, were privatization procedures were most open and competitive, are a confirmation that these fears were right. See Etchemendy (2012, 128–38).

the fruitful relationship with the state as both buyers and suppliers of SOEs at favorable prices, among other benefits. Staunch opponents of president Alfonsín's privatization plans (Ortiz and Schorr 2006, 37; Beltrán 2006, 226–7), the biggest groups in this sector had even supported Menem over the officialist candidate in the last elections, given Menem's campaign promises to stop ongoing privatization plans (Corrales 1998, 29).[169] After the president's U-turn, they used all their means to stop privatization, threatening to create social unrest by funding strikes, laying off workers, lobbying congress and supporting opposition parties (Corrales 1998, 29).

As several authors have highlighted (Corrales 1998; Etchemendy 2001; 2012; Acuña, Galiani, and Tommasi 2007), privatization constituted the key to unravel Menem's neoliberal project. In fact, as table 52 below shows, 24% of the top30 firms in terms of sales and 63% of the top20 firms in terms of profits received some type of compensation through privatization. Half of privatizations were made to only ten economic conglomerates, domestic business getting 40% of them (Cherny 2009, 202 n. 188). Instead of imposing neoliberal reforms, Menem's strategy was therefore to conceal support by directly involving opposing business groups in their enactment (Corrales 1998; Etchemendy 2001; Etchemendy 2012). In the words of Acuña, Galiani, and Tommasi (2007, 53) the premise was to "ignore the weak, weaken those that you can, and buy the support of the strong".

Similar as in the case of Chile during the 1980s, privatization proceeds developed through two means: 1) as a compensation through securing market shares in order to help companies consolidate their dominant position in the respective sectors (Etchemendy 2012, 65–7), and 2) as a compensation through rent allocation in the public utilities sector (Etchemendy 2001, 23). The allocation of rents, however, went not to the financial or the competitive sectors, but to the powerful non-competitive sector that threatened the survival of the emerging dominant bloc and the neoliberal developmental regime to be. Thus, differently from Chile, privatization reinforced the dominance of the powerful conglomerates in the non-competitive sector.

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[169] Menem's party, the PJ, had also been crucial to halt privatization in Congress during the Alfonsín administration.

Table 52
Argentina, Privatization among top firms

Group	Top30 sales %	Top30 sales n.	Top20 profits %	Top20 profits n.
- Compensated	24%	10	63%	11
- Non compensated	76%	20	37%	9
Of which: Foreign	22%	8	22%	6
: Local	10%	4	7%	1
: State owned	44%	8	8%	2
- Total	100%	30	100%	20

Source: Etchemendy (2012 table 3.4).

Table 53:
Argentina, Producers of steel and oil
(% of total sector)

	Before privatizations (1988)	After privatizations (1994)
OIL		
State (YPF)	65.2	42.6
Pérez Companc	8.0	13.6
Astra	2.9	5.2
Bridas	3.1	4.3
Other domestic	1.9	11.1
Other MNCs	18.7	13.0
Total	99.8	89.8
STEEL		
State	56.3	0.0
Techint	11.3	63.0
Acindar	28.0	30.5
Aceros Bragado	4.4	2.3
Altos Hornos Zapla	..	4.1
Total	100.0	100.9

Etchemendy (2012, 105; 113; 119).

The process can be clearly seen in the non-competitive oil and steel sectors were state participation was the highest (Basualdo 2006, 267). In the oil sector, the privatization process entailed several procedures that included the removal of price controls, the awarding of new areas of exploration (new bids, new association contracts, and revision of old contracts), and the privatization of the oil producer and major public company, YPF. This privatization process threatened established groups like Pérez Companc, Astra, and Bridas, who had either concentrated or diversified to oil production using peripheral privatization and other links to the state. They therefore lobbied intensively to be considered in the process. As a result, most privatization procedures were relatively competitive, with the exception of the change of old contracts in which strict collaboration with the affected companies was the norm (Etchemendy 2012, 110–1). As a result, they expanded significantly their share in the industry (see table 53). In 1996 more than 70% of oil was extracted through these old –redefined- contracts whereby established groups increased their control of the sector, and less than 30% was produced under the new regimes (Etchemendy 2001, 14).

Table 54:
Argentina, Privatization of public utilities and beneficiaries

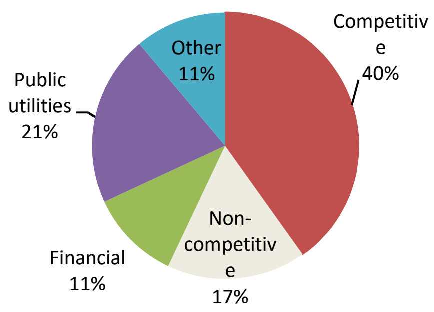
Sector	Company (A)	Sale value (US$ million) (A)[a]	Domestic buyer/control (B)	Sector (C)	External capital (B)
Electricity	Edenor	320[b]	Astra (20.0)	**Non-competitive** (petrochemicals)	Electricité de France (FRA, 34.0) Endesa/Santander (ESP, 25.0)
	Edesur	390	Pérez Companc (21.0)	**Non-competitive*** (diversified), competitive, finance	Chilectra (CHI, 69.0)
	Transener	234	Sadesa (17.0), Techint (<10.0)[c]	**Non-competitive** (diversified)	Duke Energy (USA, 20.0)
Tele-communications	Telecom	1651[b]	Pérez Companc (25.0)	**Non-competitive*** (diversified), competitive, finance	STET (32.5), France Cable (32.5)
	Telefonica	1331[b]	Pérez Companc[d] (15.3), Techint (8.1)[c]	**Non-competitive*** (diversified), competitive, finance	Citicorp (USA, 20.0). Telefonica Internacional (ESP, 10.1)
Water	Aguas Argentinas	..	Soldati (20.7)[f]	Transport	Lyonnaise des Eaux/Dumez (FRA, 25.3), Aguas de Barcelona (ESP, 12.6)
Gas	TGS	1066[b]	Pérez Companc (17.5)	**Non-competitive*** (diversified), competitive, finance	Enron (USA, 17.5)
	TGN	233	Techint (22.3)[e]	**Non-competitive** (diversified)	Transco (22.3), Nova Corp (16.2)
	Metrogas	320	Pérez Companc (25.0), Astra (20.0)	**Non-competitive*** (diversified), competitive, finance	British gas (ENG, 41.0)
	GASBAN	266[b]	..	..	Gas Natural Int (54.0)

[a].Nominal US$ at the year of privatization.
[b] Considers two privatization processes.
[c] Through Eléctrica de la Plata
[d] Trough Banco Río de la Plata
[e] Through Inversora Catalina.
[f] Through Sociedad Comercial de la Plata.
* Indicates main sector, when groups are diversified into other sectors.
Source: Prepared by the author using data from Gerchunoff, Greco, and Bonderevsky (2003).

In the steel sector, the privatization process went in an analogous way. The big and powerful non-competitive groups operating in the sector ran with advantage. Prominent international steelmakers such as Italian Iretecnia and German Thyssen publicly denounced the process as ridden with biases towards domestic producers (Etchemendy 2001, 17; Etchemendy 2012, 107). The negotiations were particularly fruitful for Techint and Astra, other two business groups in the non-competitive sector favored by peripheral privatization and state promotion, which expanded their market dominance horizontally and vertically (see table 53 above).

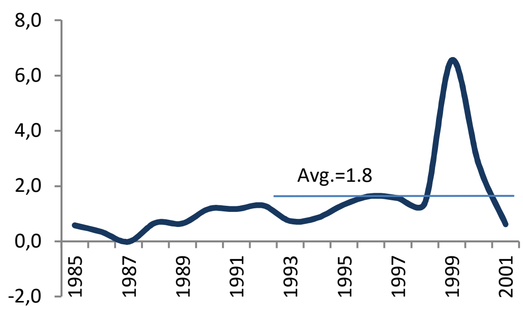
The powerful business groups in the non-competitive sector also received important shares of the privatized public utility companies in connection with external capital, helping them diversify their operations (see table 54). From 1991 FDI started to steadily pour in (see figure 60). During 1990-1993, 44% of net capital inflows went to privatization proceeds (Heymann 2000 in Cherny 2009, 105). FDI to the public utilities sector was second only after the competitive sector. Together they amounted to more than 60% of all FDI flows during the period (see figure 59). In conclusion, during the 1990s foreign capital entered Argentina to reinforce the neoliberal dominant bloc, especially in the competitive and public utilities sectors.

Figure 59:
Argentina, FDI inflows by sector 1992-2000



Source: Prepared by the author using data from ECLAC (2002).

Figure 60:
Argentina, FDI inflows 1990-2001
(% of GDP)



Source: ECLAC.

As I pointed before, the privatization strategy of the Menem government was crucial to harness support to the neoliberal developmental regime during the 1990s. In this sense, it is doubtful that the neoliberal bloc of the 1990s in Argentina would have had any chance of attempting to establish a neoliberal developmental regime and governing it through more than a decade. At the same time, however, the way privatization worked i.e. strengthening the power resources of the non-competitive sector, was also crucial to maintain these sectors alive during the hardships of exchange rate appreciation and the turbulence of the Tequila crisis (see Castellani and Gaggero 2011, 286–7). In fact, in

1997 groups in the non-competitive sector ranked highly among the Argentine top business groups (see table 55).

Table 55
Argentina, 13 biggest business groups in 1997

Group	Sector	Sales (AR$)
Techint	**Non-competitive*** (basic metals, oil, construction) and public utilities (gas)	7000
SocMa	Competitive (Construction, food)	2170
Banco/Velox	Finance	2118.3
Pérez Companc	**Non-competitive*** (diversified), competitive and finance	1621
Clarín	Media, publishing	1651
Bunge&Born	Competitive* (food, agriculture) and non-competitive (chemicals)	1340
Arcor	Competitive (food)	1070
Bemberg	Competitive (food, agriculture)	892
AGD	Competitive (food, transport)	840.6
Sancor	Competitive* (food) and finance	720
Pescarmona	**Non-competitive** (electronics, construction)	658
Aluar/Fate	**Non-competitive** (basic metals, rubber)	654.7
Acindar	**Non-competitive*** (basic metals) and public utilities	600.8

* Indicates main sector, when groups are diversified.
Source: Fracchia, Mesquita, and Quiroga (2010, 327).

As I showed in chapter 3, it was precisely these sectors who constituted the main critique to the neoliberal developmental regime at the end of the decade, the first business groups to promote an exit from the currency board and an alternative developmental regime, and the groups that eventually entered a new power bloc that led the revival of state developmentalism during the Kirchner government.

b) *Poland: sustaining state-ownership in the era of transnationalization*

Privatization in Poland failed to create a business base of support for orthodox neoliberalism. During the 1990s it was basically stalled or favored insiders accustomed to state subsidies and protection. Polish neoliberals therefore could not count with a strong business support base to maintain orthodox neoliberalism during the first phase of transition, losing momentum and the possibility to consolidate a neoliberal developmental regime. From 1997 privatization speeded up especially in the financial and competitive sectors, but the state maintained significant stakes in the biggest companies in the non-competitive sector. This weakened on the one hand the potential demand for a consolidation of neoliberalism, and maintained the demand for state subsidies and protection. As a result, while during the 1990s privatization prevented the formation of a business support base for neoliberalism, in the 2000s this base remained too weak to push neoliberalism further.

If anything, Poland ran with advantages for the creation of a buoyant private sector. Along with Hungary and Yugoslavia, Poland belonged to the type of reform socialism where the shares of private ownership as well as economic links with the West were higher than anywhere else in the communist world (see Berend 1996). It is estimated that in 1989 around 25% of output was produced by the private sector (compared to only around 10% in Estonia). This was most notably the case in agriculture where some 75% of land was privately cultivated, contributing with about half of the private sector's share (Nuti 1999, 81). Poland was the pacesetter in the jump from command to market, and was also among the first countries to announce and launch a large-scale privatization program (Nuti 1999, 81).

Table 56:
Poland, State owned enterprises 1990-2005

	1989	1993	1996	2000	2005
No. of SOEs (A)	7,500	6,000	..	..	..
% of GDP (B)	75	50	40	35	25
% of employment (C)	..	..	37	28	29

Source: (A) Lewandowski (1994, 4); (B) (C) EBRD Transition report, several years.

Table 57:
Poland, Sectoral participation of SOEs 1990-1996
(% output)

	1989	1991	1994	1996
Industry	83.8	75.4	61.7	48.3
Construction	74.5	40.5	15.0	12.1
Transportation	88.5	74.8	54.9	60.5
Domestic trade	40.5	NA	8.5	7.1
Finance [a]	..	..	..	46[a]

Source: Błaszczyk (1999, 215);
[a] % of total capital in Banking sector, OECD (1996, 73)

Table 56 shows that the private sector did grow significantly during the 1990s. However, most of the process was due to so called bottom-up privatization, this is, establishment of new private entrepreneurships and not necessarily as a result of the alienation of state assets (Błaszczyk 1999). As I analyzed above, Estonia started with some 90% of state sector in the economy, large scale privatization was officially launched only in 1993, but by 1996 already had 90% of the process completed and most notable, over 80% of industry and finance were in private hands. In stark contrast, although starting in a better condition in terms of private sector development and mass privatization plans, by 1996 the Polish state sector still accounted for 40% of the economy –most notably, close to 50% in industry and finance- and some 55% of the privatization process was still to be carried (see table 57). Moreover, if one counts companies corporatized but not privatized, as well as incomplete privatizations, completion amounted to only about 20% (Nuti 1999, 82).

Initial conditions made reformers overly optimistic. The Mazowiecki government announced massive and clean privatization –to oppose nascent nomenklatura privatization- and created in september 1989 the Office of the Plenipotentiary for privatization. It was believed that by 1992 half of the privatization process would have been carried (Nuti 1999, 81–2; Lewandowski 1994, 7; Błaszczyk 1999, 200). By 1990, however, the deadline had already been moved to 1995 recognizing lack of progress and the need for greater human and material resources. Polish neoliberals were confronted with a dilemma.[170] Their own preferences dictated they should try a radical approach to speed up privatization, e.g. commercializing large packages of 1,000 firms at once. However, this entailed big technical and operational efforts, as well as uncertainty about the efficiency of the process in a context of massive concomitant changes. Most importantly, they feared that ex-communists in parliament would block such process, jeopardizing the rest of the reform plan. They opted instead to give a general mandate for privatization and negotiate more gradually its contents. In august 1990, the government created the Ministry of Ownership Transformation, whose first program of privatization had two crucial characteristics (Lewandowski 1994, 7): a multitrack method, and the decentralization of decisions.

The first characteristic is not different from Estonia. In the case of small scale privatization, the process was handed in to local governments, went relatively quickly, and favored mostly insiders (Nuti 1999, 84; Meaney 1995, 287). For large scale privatization, two methods were available, direct sales (auctions or deals) and voucher privatization. The Mazowiecki government preferred the former in order to favor external capital, but also viewed it as politically conflictual (see also Stark and Bruszt 1998, 94; Lewandowski 1994, 18). Moreover, the method proved slow as foreign investors seemed to prefer other countries like Hungary (Stark and Bruszt 1998, 94). The election of Lech Wałęsa and the government of liberal Jan K. Bielecki gave a spurt to

[170] Poland, Interview 5.

mass privatization through vouchers in order to increase popular support for the privatization program (Stark and Bruszt 1998, 95–6; Nuti 1999, 82; Błaszczyk 1999, 203). In practice, however, the Polish voucher program handed over privatized firms to asset management funds, who would control them and find a suitable investor in the name of shareholders (or in this case, voucher holders). In this sense, the process was not unlike that of direct sales, only politically more convenient (see Nuti 1999, 82).

Nevertheless, mass privatization through vouchers also got severely delayed, this time due to opposition in parliament. The law was made effective only in june 1993, three years after the launch of the plan. One of the main points of criticism from both the post-communists and the TAN post-solidarity parties was based on the view that it would produce a massive transfer of polish assets to external interests (Bonamo 1997, 577; Meaney 1995, 285–7; Ekiert and Kubik 2001, 148). When in government, the ex-communist SLD/PSL actually reduced the scope of the program and delayed it until 1996. A former Minister of Privatization under Solidarity governments regarded the voucher system as one of the “greatest victims” of the political battles over privatization (Lewandowski 1994, 19).

Conversely the need for decentralization stemmed from political economy considerations. Given the importance of work councils in the polish economy in the early 1990s, and workers' expectations that privatization would comprise a strengthening of employee self-management, decentralization aimed at buying crucial support from the coalition of workers and company managers (Stark and Bruszt 1998, 95; Nuti 1999, 86–7; see Meaney 1995, 281; Lewandowski 1994, 18). All methods of privatization, therefore, included significant participation of employees and managers. In the case of direct sales, for example, they controlled the entry of a company to the corporatization process; in the case of liquidation, employees had priority over other bidders. This meant that in practice employees and management had the right to veto almost any privatization proposal (Błaszczyk 1999, n. 8). The law stipulated several additional privileges for insiders. For example, in the case of direct sales they could buy up to 20% of total shares at 50% of the public price the first day of sale. The center-left SLD/PSL government brought several legislation changes aiming at speeding up the privatization process, but maintaining the insider bias and a considerable state presence (see Błaszczyk 1999, 202–4). Thus, while it reduced the veto power of works councils over the whole process it also increased their privileges. Under the new 1996 privatization law, employees could acquire up to 15% of their company free of charge, and a further 15% was to be reserved for farmers and/or fishermen supplying a company on a contestant basis. These benefits were extended moreover to former employees now retired and those on disability pensions. In 1996 a special privatization track was opened for indebted companies, and several sectors were excluded from privatization, among which, strategic industries (energy, coal and defense) and a majority of public utility companies.

Table 58:
Poland, Method of privatization medium and large enterprises 1995
(% of total)

	Sale to outside owners	Insider buyout	Voucher	Restitution	Other	Still in state hands
By number	3	**14**	6	0	**23**[a]	**54**

Source: World Bank in Lauristin and Vihalemm (1997, 107).
[a] Includes liquidation methods wither by transfers to municipalities or insolvency procedures.

Decentralization set the polish privatization experience in the antipodes of that of Estonia. There, the choice of method had fallen under the Privatization agency who could set clauses and carry the process at discretion; in Poland, the choice of method and the very decision to privatize remained largely in the hands of the enterprises themselves. As a result, while in Estonia the privatization agency favored external capital, Polish SOEs favored insider buyouts and employee ownership. Considering insider buyouts and the liquidation method that was also overwhelmingly insider oriented, by the end of 1995 some 37% of SOEs had been alienated to company insiders, and another 54% was still in the hands of the state (see table 58). More significantly, the state remained in possession of the biggest polish companies in all sectors, financial, public utilities, competitive, and non-competitive (see table 59 below).

Johnson and Kowalska (1994, 234) put these results into a blunt conclusion:

> "Did the Balcerowicz team miss chances to build a supportive political coalition (by, for example, accelerating institutional changes)? With the advantage of hindsight, the answer is yes. Faster progress should have been made in reorganizing large state firms and restructuring the banking system. Even better, some form of mass privatization, involving the free distribution of shares to all citizens, could have created a strong political umbrella for more painful economic adjustments."

If we consider then the delay in the process, and the pro-insider bias, the picture of the business societal base for continued neoliberalism looks completely different than in Estonia.

Table 59
Poland, 15 biggest companies in 1997

Rank	Previous year	Group	Sector	Controller	Privatized	Revenue (mill zl)
1	2	PSE	**Public utilities** (energy)	**Polish state**	--	11809,9
2	3	PKP	**Public utilities** (railways)	**Polish state**	--	9654,6
3	4	PKO BP	Finance	**Polish state**	--	9110,8
4	5	Petrochemia Ploch (PKN Orlen)	**Non-competitive** (oil)	**Polish state**	--	8910,7
5	6	Telekomunikacja Polska	Public utilities (telecomm.)	**Polish state**	--	8490,0
6	7	PZU SA	Finance	**Polish state**	--	8223,5
7	1	CPN SA (Centrala Produktów Naftowych)	**Non-competitive** (oil)	**Polish state**	--	7666,2
8	8	Fiat Auto Poland SA	Competitive (automotive)	Fiat (ITA)	Yes	6198,9
9	9	PGNiG SA (Polskie Górnictwo Naftowe i Gazownictwo)	**Non-competitive** (mining, oil)	**Polish state**	--	4753,6
10	17	Makro Cash and Carry Poland	Commerce (retail trade)	Metro AG (GER).	No	
11	10	Daewoo-FSO (Fabryka Samochodów Osobowych)	Competitive (automotive)	Daewoo (KOR)	Yes	4278,4
12	14	Huta Katowice	**Competitive** (basic metals)	**Polish state**	--	4253,5
13	27	Poczta Polska	**Other services** (post)	**Polish state**	--	3460,6
14	11	Bank Pekao	Finance	**Polish state**	--	3397,0
15	12	BGZ	Finance	**Polish state**	--	3255,5

* Indicates main sector, when groups are diversified.
Source: Prepared by the author using data from Gazeta Bankowa (1998)

With the arrival of the rightist AWS/UW government in 1997 the picture changed. A new privatization law was finally passed and was ready to work the second half of 1997 (Błaszczyk 1999, 203). Faithful to their promise of retaking the grip on economic reforms, the government sought to speed up the process (OECD 2000b, 83–5). Already the first year in office marked a record in state revenue from privatizations of zl 7,1 billions or 1,3% of GDP (OECD 2000b, 84); by 2000 the figure reached an all-time high zl. 27,0 billions (OECD 2001, 89). The new wave of privatization had three crucial characteristics: it concentrated in the financial sector –although with important advances in the public utilities and competitive sectors-, it produced a massive incorporation of external capital, and it included the largest SOEs (see table 60). The state remained, however, in control of the non-competitive sector, and maintained shares in the privatized public utilities and financial sectors (table 60).

Table 60:
Poland, Major privatizations 1997-2000

Firm	Sector	Controller	Sale value (zl mill)
Telekomunikacja Polska (TPSA)	**Public utilities** (telecomm.)	France Telecom (FRA), Kulczyk, **Polish state** (35.0), Employees (15.0)	21766.7
Bank Pekao SA	Financial	UniCredito Italiano, Allianz, **Polish state** (8.0)	5597.5
PKN Orlen	**Non Competitive** (fuels)	**Polish state** (28.4)	3374.5
PZU	Financial	Eureko (HOL), BIG Bank Gdanski, **Polish state** (56.0)	3018.0
Bank Zachodni	Financial	AIB European Investments, **Polish state** (4.3)	2284.8
Bank Handlowy	Financial	Citibank	1647.2
KGHM	**Non-competitive** (mining)	**Polish state** (49.6)	1348.4
Powszechny Bank Kredytowy	Financial	Bank Austria Credit AG, Bank of New York (7.9), **Polish state** (4.0)	1342.5
Elektrocieplownie Warzawskie	Public utilities (Energy)	Vattenfall, **Polish state** (45.0)	959.5
Polfa Poznan	**Non competitive** (Chemicals)	Glaxo Wellcome (ENG), **Polish state** (2.7)	770.3
Orbis	Commerce (Tourism)	Acor (20), FIC (10.4), Global Trade Center (5.0), **Polish state** (6.2)	669.7
Zaklady Przemyslu Tytoniowego Krakow	Competitive (Food, beverages&Tobacco)	Phillip Morris (HOL), **Polish state** (4.5)	579.7

Source: OECD 2001 (2001, 84–5).

During the 2000s privatization suffered a series of setbacks. It slowed down heavily during the SLD-UP/PSL government in 2002-2005, was partly reversed with the PiS-led government in 2005-2007, and was postponed by the pro-market PO/PSL government in 2007-2011. Thus, while the advances of the 1998-2002 period increased the power of the financial and the competitive sectors, facilitating at the same time the entrance of foreign capital to Poland, state concerns remained high especially among the biggest Polish firms. This was most significant in the non-competitive sector, but included as well others areas such as public utilities and finance (see table 61). In fact, Poland remained among the countries in Eastern Euroipe with a largest share of state assets in banking (23.5%, second only to Romania with 41.8%) (R. A. Epstein 2008, 76).

Table 61
Poland, 15 biggest companies in 2012

Rank Size	Rank Profit	Company	Sector	Controller (%)[a]	Sales (mill zl)
1	3	PKN Orlen	**Non-competitive** (Coke&fuels)	**Polish state** (27.5)	88,349
2	25	GK Grupy Lotos SA	**Non-competitive** (Coke&fuels)	**Polish state** (53.2)	33,111
3	2	Polska Grupa Energetyczna SA	**Public utilities** (energy)	**Polish state** (58.4)	30,557
4	--	Jeronimo Martins Polska SA	Competitive (Food&beverages), Commerce	Soc. Francisco Manuel dos Santos (PRT, 56.1)	28,908
5	4	GK PGNiG SA	Non-competitive (Coke&fuels)	**Polish state** (72.4)	28,730
6	5	GK Tauron Polska Energia SA	**Public utilities** (energy)	**Polish state** (30.1), KGHM (10.4)	24,741
7	1	KGHM Polska Miedź SA	**Non-competitive** (Mining, Basic metals)	**Polish state** (31.8)	21,338
8	37	Grupa Eurocash SA	Commerce	Luis Amaral (PRT, 43.8)	16,576
9	--	Metro Group w Polsce	Commerce	Haniel (GER, 30.0), Schmidt-Ruthenbeck (GER, 15.8), Beisheim (GER, 9.1)	14,960
10	7	GK Orange Polska	Public utilities (telecomm.)	Orange SA (FRA), 50.7	14,147
11	--	Fiat Auto Poland SA	Competitive (Transport&eq.)	FIAT (ITA)	14,114
12	--	BP Europa SE Oddział w Polsce	Non-competitive (Coke&fuels)	BP Amoco (ENG)	13,459
13	13	GK Energa SA	**Public utilities** (energy)	**Polish state** (51.5)	11,177
14	49	Kompania Węglowa SA	**Non-competitive** (mining)	**Polish state** (..)	10,721
15	8	GK Enea SA	**Public utilities** (energy)	**Polish state** (51.5)	10,096

Source: Prepared by the author using data from Polityka, Lista 500 http://www.lista500.polityka.pl/;
[a] Companies investor relations website.

III. Conclusions

Privatization has been crucial to strengthen the business support base of neoliberal social blocs in the cases of neoliberal resilience. Both in Chile and Estonia, privatization proceeds have benefitted the core of the neoliberal bloc. Chile highlights how privatization allowed the core of the neoliberal bloc to strengthen different business sectors at different times, thereby constituting an ample and strong multi-sector neoliberal business front. It helped the financial sector reach absolute hegemony among business in the 1970s, provided crucial tools to stabilize the leadership of the competitive sector during the 1980s, and offered alternatives for diversification and the creation of new business groups in the 1980s-1990s together with external capital, most notably in public utilities. A second noteworthy feature of the Chilean privatization process is the neutralization of the non-competitive sector through privatization, creating what I called “ideological” business groups. These groups are owned or run by the very individuals that were behind the neoliberal project during the military government, significantly preventing therefore the constitution of a business support base for alternative social blocs and developmental projects.

In Estonia the decision to avoid privatization to insiders and to Russian speakers privileged Western investors. Privatization served therefore to sign a compromise with the transnationalization of the Estonian economy, and as an invitation for external capital to play a crucial role in its future development. The arrival of massive external capital to the leading financial, competitive and public utilities sectors was an important factor producing a demand for external openness and sound money. Foreign capital responded to its established interests supporting neoliberalism (most notably, the currency board arrangement) through the much-needed FDI inflows each time it was required. The support of the Swedish government for the maintainance of the currency board during the 2007-8 financial crisis given the extent to which Swedish banks were involved in the Estonian economy is telling of the way external interests helped consolidate the Estonian neoliberal regime. At the same time, privatization had a crucial role in silencing more protectionist demands among business sectors: the delayed privatization of land prevented the constitution of a more contesting agricultural sector, while the arrival of massive FDI to the non-competitive sector prevented the constitution of a stronger demand for industry subsidies.

Both Poland and Argentina show privatization processes that failed to act as *support creation* mechanisms. In Argentina, privatization served not to favor supporters of neoliberalism, but the opposite, to buy the support of the non-competitive sector opposing it. During the military dictatorship the so-called "peripheral privatization" was controlled by nationalist military in charge of public companies and a segment of the industrial bourgeoisie strongly against liberalization. A similar process occurred during the democratic government of Carlos Menem in the 1990s. Privatization was pursued mainly as a coalitional strategy in order to buy the support of the strong business groups in the non-competitive sector. The effect was that while the strategy increased the chances of survival of neoliberalism in the short run, it decreased rather than increased its resilience in the long run. Whenever economic crises affected the development of neoliberal developmental regimes, empowered non-competitive sectors sought to form alternative social blocs. This was the case both amidst the 1982-3 financial crisis and the democratization period that followed the fall of the Argentine dictatorship, as well as in the context of the 2001 crisis. It appears thus that the need to widen the coalition of support for a neoliberal developmental regime broadened the type of interests inside the dominant social bloc and thus weakened its commitment to neoliberalism.

The Polish story is different from the Argentinean one, but shows important similarities. The need to maintain the pace for reforms and to neutralize the coalition between workers and managers of state-owned firms -mainly in the non-competitive sector- made the case for insider privatization. This in turn, explains the constitution of a private sector that was accustomed to state subsidies and protection, and that did not necessarily support neoliberalism. Conversely, the delay in the privatization process, especially in the case of the biggest firms, helped to maintain a strong segment of state ownership in the financial and competitive sectors thus preventing the constitution of a stronger pro-neoliberal business base. Moreover, continued state ownership in the non-competitive sector provided a constant demand for subsidies and state protection. Privatization accelerated at the end of the 1990s providing grounds for a renewed neoliberal project. Privatization proceeds went mostly to foreign capital, which became the backbone of this renewed neoliberal assault. However, enduring state presence in the country's biggest companies (especially but not only in the non-competitive sector) helped to maintain the demand for subsidies and the possibility to form an alternative social bloc.

Creation of supporters has worked to increase the resilience of neoliberal developmental regimes through three related means. First, it has increased the power resources of those economic sectors whose interests are favored by neoliberal exchange rates and industrial policy. Financial sectors -and to a lesser extent competitive sectors too- have shown their preference for neoliberalism and signal it to governments through different channels, most notably threatening with investment strikes. For example in the context of chilean democratization, a neoliberal bloc led by a competitive sector strongly favored by privatization and against industrial policy was an important factor preventing a more decisive industrial policy drive by the center-left *Concertación*. The alternative path is shown by Argentina, where privatization-strengthened non-competitive sectors demanded more protectionist exchange rate and industrial policy in the 1980s, and industrial policy concessions in the 1990s.

A second way by which *support creation* has reinforced neoliberal resilience has been through the "silencing" of those business sectors more likely to oppose neoliberal ER and IP. It is sometimes the case that not all companies, business groups or even whole industries are equally vocal in making demands, and/or having a clear idea what their exact preferences are in terms of ER and IP. Firms in distress –most notably in the non-competitive- have been by far the more vocal against neoliberal reforms. Support creation had the effect of silencing these potentially vocal firms and business groups in the non-competitive sector in two ways. In Estonia for example, foreign capital brought its own technology and export orientation to firms in the non-competitive sector, therefore diminishing the voice and demands of an otherwise protectionist and IP-demanding sector –as shown by Poland. In Chile, the military alienated state assets in the non-competitive sector to regime officials strongly committed to neoliberalism. This served to weaken even more the demands for protection of the sector in the 1990s and 2000s -unlike the situation in Argentina.

Finally, *support creation* has served to diminish coalitional possibilities for alternative social blocs. By strengthening actors in neoliberal blocs, privatization has served to indirectly weaken groups more likely to form an alternative social bloc. In Chile, the *Concertación* center-left parties dominated governments until 2010, but did not manage to find a business base to support their –initially- more developmental ER and IP proposals. This was most notable at the beginning of democratization and after the Asian crisis. In both contexts, the lack of a business support base and even the open antagonism by the leading sectors made the center-left *Concertación* governments moderate initial demands and try to entice cooperation with the neoliberal bloc by supporting their preferred ER and IP policies. By contrast, at the beginning of democratization and after the 2001 crisis in Argentina, a strong non-competitive sector was able to support an alternative social bloc and a reversal of neoliberalism -rather partial and momentary during the Alfonsín government, and more encompassing during the Kirchner government. Similarly, agriculture and state-owned companies were crucial to support a halt to orthodox neoliberalism and the quest for an alternative social bloc in Poland; in Estonia, by contrast, privatization eliminated exactly these sectors as possible coalitional allies for an alternative social bloc.

CHAPTER 7

OPPOSITION BLOCKADE

In this chapter I analyze the second mechanism of neoliberal resilience, *opposition blockade*. In Chapter 1 I reviewed the theoretical bases of *opposition blockade*, stressing that it consists of a reduction or limitation of the power resources of -stated or potential- opponents to neoliberalism. Based on this, I listed a number of theoretically-derived empirical expectations that we should expect to see in order to consider *opposition blockade* a causal factor contributing to neoliberal resilience. *Opposition blockade* contributes to neoliberal resilience if 1) it has a clear partisan effect that 2) is translated in a reduced capacity to influence policymaking, and 3) if realistic counterfactuals can be made on the ability of those groups affected by *opposition blockade* to challenge neoliberalism had the mechanism not been in place.

In Chapter 1 I also surveyed different sources of *opposition blockade*. This empirical chapter analyzes three such sources: electoral rules, veto players, and labor market institutions. I have identified also a fourth source typical of post-communist countries: lustration.[171] Throughout the chapter I analyze the sources of *opposition blockade* in the four cases in detail, their operation and effects on neoliberal resilience following the premises drawn above. To be consistent across cases, *opposition blockade* should be either absent or have one of the above links missing in the cases of neoliberal discontinuity.

[171] Lustration refers to the screening of candidates running for office and other relevant public positions for their possible collaboration with secret services under communism. A second related process, decommunisation, refers to the limitation for high-rank communist officials to occupy public office in the new democracy. These concepts are often difficult to separate analytically, and even more so in political practice (Misztal 1999). Jozef Oleksy, former Polish PM ousted from government in 1995 under lustration pressures, defined lustration as the "brutal action of the right attempting the elimination of the left from political life" (cited in Misztal 1999, 42).

The chapter shows that two sources of *opposition blockade* were the most successful in limiting the power of political and societal actors -potentially- opposing neoliberalism: electoral systems and labor market institutions. Together, these two mechanisms limited the power resources of the left and of labor in Chile and Estonia. While *blocking* the left constrained the ability of center-left parties to change existing policies, therefore having a direct effect in the resilience of neoliberal developmental regimes, blocking labor diminished the coalitional possibilities for alternative social blocs.

The third source of *opposition blockade*, strengthening the veto power of specific institutional players, was more pervasive in the cases of neoliberal discontinuity Argentina and Poland although not inexistent in Chile and Estonia. The mechanism proved effective as long as office holders remained neoliberal, but backfired when office fell in the hands of opponents. Finally, lustration was not attempted in Estonia and in Poland it was pushed not by neoliberals but by nationalist parties who either decreased the support for continued neoliberalism or directly advocated left-leaning policies.

The chapter is organized in two sections, one analyzing the cases of neoliberal resilience (Chile and Estonia) and the other analyzing the cases of neoliberal discontinuity (Argentina and Poland), following the most similar case designs outlined in the introduction. Each section shows in detail the sources of *opposition blockade* and their operation as mechanisms of neoliberal resilience.

I. Chile and Estonia: restricting participation in the polity and the workplace

a) Chile 1: Shrinking the left

The Chilean left represented by the Communist and the Socialist Party -and its many splinters-, had been an important actor during the 20th century. In the context of a stable political system with three clearly defined ideological poles (right, center, and left) each having about one-third of the vote, and the inexistence of a strong populist alternative, the Communist and Socialist parties had been able to effectively represent the growing working class and popular masses (Collier and Collier 1991; Scully 1996). Excessive politization and calls for class struggle -especially from the more radical Socialist Party-constituted one of the main reasons for the intervention of the Armed Forces in 1973, and served as a justification for the outright repression that ensued (see Valenzuela 1978).

With the return to democracy and without the possibility to resort to military repression, the neoliberal dominant bloc benefitted from *opposition blockade* through institutionalized means. These were enshrined in the 1980 Constitution passed during the military dictatorship under a fraudulent referendum, and recognized by the more moderate opposition parties grouped in the *Concertación* coalition as part of the democratization process. As its main ideologue bluntly put it, the 1980 Constitution was arranged in a way that

> "if the adversaries were to govern, they were constrained to take actions not so different from those that one would desire, or to use a metaphor, (…) the room of maneuver the field imposes to those who play in it [is] so reduced (…) to make the contrary extremely difficult" (Guzmán 1979, 19 translation is mine).

In their comparative work on democratization in Latin America, Eastern- and Southern-Europe, Linz and Stepan regard the Chilean arrangements as "the most constraining constitutional formula for a new democratic government" (1996, 206).

Three key elements can be mentioned in terms of *opposition blockade* (D. Pastor 2004; Siavelis 2010; Linz and Stepan 1996, 205–17).[172] Two of them refer to the strengthening of veto players expected to defend neoliberalism, and another to electoral means. The first was a set of "authoritarian enclaves" that gave the military a tutelary role over the political system (Rabkin 1992). Among them, the inability of the President to remove the Armed forces' commanders and the Council of National Security (COSENA) controlled by the military, with the capacity to impugn and veto institutional reforms and legislation. Second, unelected senators including nine designated by independent state powers –four by the COSENA, two by the President, and another three by the Supreme Court- plus the rule that outgoing presidents would become lifelong senators after finishing their term in office. As a result, when the center-left *Concertación* government took office in 1990, Pinochet remained commander in chief of the Army maintaining crucial veto powers through his direct control of the COSENA, and his ability to veto

[172] Other measures that limited the exercise of authority by the upcoming democratic government included: staffing the Supreme Court, fixing government payroll and fixing military budget (Huneeus 2007, 431–448; Siavelis 2010, 35–42).

legislation and appoint senators. He also wielded indirect power on additional senatorial nominations through his appointments at the Supremce Court. Moreover, when he retired in 1998, he became lifelong senator himself.

The Gordian knot of this architecture was a unique electoral system for congressional elections. This electoral system allowed the right to force the three-thirds political dynamic in place before the coup (right-center-left) into a two-bloc political space with increased representation of the right and reduced representation of the left. Engineered closely after the results of the 1988 referendum, the "binominal" system is a two-member district system where the majority has to outperform its closest competitor by a two-to-one margin to get the second seat. This means that in a two party/coalition system, the second party/coalition needs only 33.4% of the votes -not surprisingly, the historical record of the right- to get 50% of the available seats (Siavelis 2010, 33–4). In practice, given that candidates from third coalitions have systematically won around 10% of the vote the one-third threshold has been even lower (D. Pastor 2004, 45 n. 10).

These dispositions were strongly felt in the key 1989 congressional elections, and marked the future of electoral and coalitional politics. The results of the Western senatorial district of Santiago are a good example (D. Pastor 2004, 46–7). There, the Right managed to get 32.5% of total votes against "only" 61.9% of the center-left *Concertación*. As a result, the two elected candidates were the Christian Democrat Andrés Zaldívar (31.3% of votes) for the *Concertación*, and Jaime Guzmán (17.2% of votes) for the Right, leaving socialist leader Ricardo Lagos (30.6% of votes) out of parliament.[173] With his nearly 400.000 votes, Lagos had been the third candidate with more votes of all candidates in the 1989 election but did not get elected because he ran in the same list as the first majority in his district. The dictatorship electoral analysts also gerrymandered electoral districts to increase the representation of districts where the right had better electoral results.[174]

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[173] Angel and Pollack (1990) underscore the importance of this election. It not only left outside the parliament one of the leaders of the Socialist party, strongly resisted by the business community; it also allowed the father of the 1980 Constitution and staunchest defender of the Pinochet legacy Jaime Guzmán to enter Congress.

[174] The 1988 plebiscite showed a strong correlation between size of regions -in terms of population- and vote for Pinochet, reflecting the historically higher support for the Right in less populated rural areas. This outcome was used to gerrymander electoral districts in the new electoral law (Londregan 2000, 85–93). As a result, while the more populated and left-leaning district of West Santiago -in the above example-, elects

Table 62:
Chile, Opposition blockade

	1989	1993	1997
Net gain electoral system [a]			
Senators	Right=5	Right=2	Right=3
Deputies	Rigth=15	Right=2	Right=3
% of elected seats [b]			
Senators	13%	5%	8%
Deputies	13%	2%	3%
% Total bias [c]	32%	24%	27%

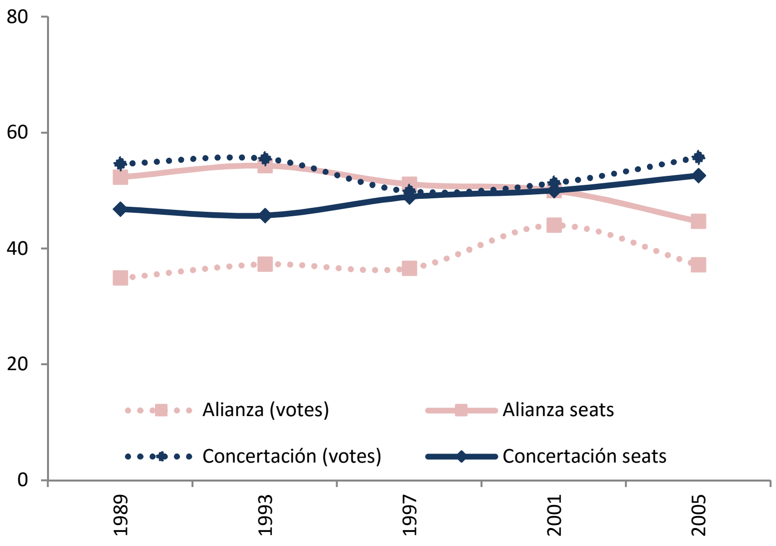
Source: Prepared by the author using data from Sandoval (2013).
[a] Number of benefitted candidates of the right minus other benefitted candidates.
[b] Seats allocated through the bias of the binominal system as % of total elected seats.
[c] Senate seats allocated through "opposition blockade" means as % of total Senate seats. Includes designated senators (19% of total) and seats allocated through binominal system.

Throughout the 1990s the results of this system in terms of representation were clear: it maximized the vote-per-seat ratio in the districts that supported Pinochet in 1988, inflating the seat allocation of the right and shrinking that of the *Concertación,* and especially that of the parties at the left of the *Concertación*. Table 62 shows the net gain of senators and deputies due to opposition blockade mechanisms during the 1990s. The percentage of seats allocated to the more powerful upper chamber through opposition blockade lies roughly between one-third and one-fourth of all Senate seats during the 1990s. Therefore, since 1989 the seat allocation of the rightist Alianza (UDI and RN parties) in the senate has been systematically higher than its vote percentage, while that of the center-left was kept below its vote share, most significantly below 50% throughout the 1990s (see figure 61). At the same time, despite consistently achieving more than 5% of the votes, the parties at the left of the political spectrum remained without parliamentary representation during the entire decade, and well into the 2000s.[175]

one senator every 1.5 million inhabitants, the least populated and right-leaning Aysén elects one senator for only 45.000 inhabitants (Siavelis 2010, 33).

[175] Considering only the coalition formed by the Communist party, the vote shares are for 1989, 1993 and 1997: 5.4%, 6.4% and 7.5% (deputies), and 4.2%, 4.3% and 8.5% (senators). The Communist party managed to enter parliament only in the 2009 election thanks to a negotiation whereby the *Concertación* omitted presenting candidates in certain districts in order to support the communist candidate. The negotiation stemmed from the crucial support the communists gave to *Concertación* presidential candidates Lagos and Bachelet in the 1999 and 2005 runoffs against the Right. Data from www.servel.cl

Figure 61:
Chile, Senate electoral results[a]
(%)



Source: Navia 2010 in Donoso (2013, 76).
[a] Alianza seats include unelected senators.

The final "lock" to any attempt of change was the adoption in the Constitution of a set of supermajority thresholds (Fuentes 2012; Angell and Pollack 1990, 15).[176] The "authoritarian enclaves" (National Security Council, unelected and life long senators) and the Binominal electoral system were attached to the highest one: two-thirds majority in both chambers. Other crucial institutions such as the Central Bank, were given "organic constitutional" status and attached to a four-sevenths threshold in both chambers. With the overrepresentation granted by the binominal system, the help of the unelected senators, and the supermajority thresholds, during all the 1990s the Right had the power to block any legislation attempting to change Pinochet's economic legacy, not to mention modify the constitutional sources of *opposition blockade* (Huneeus 2007, 451; Barrett 1999, 19–22; see e.g. Aninat et al. 2008).[177]

[176] The 1980 Constitution includes four types of supermajority thresholds (Fuentes 2012, 40–1; Huneeus 2007): the milder one regulates "qualified quorum laws" (*leyes de quorum calificado*) and require absolute majority for changes. One example is the TV and Radio Council regulating censorship. The second threshold regulates the "organic constitutional laws" (*leyes orgánicas constitucionales*), and require 4/7 of both Chambers. They apply to areas such as political parties, local and regional administration, the functioning of the Congress and the Armed forces, and the Central Bank. The third supermajority relates to constitutional reforms and require 3/5 of approval in both Chambers. The final and stringest one is the 2/3 threshold reserved for key institutional legacies of the Pinochet dictatorship.

[177] To be sure, the Constitution has been formally amended. It is in fact one of the most amended constitutions in the history of the country, with more than 79% of its 120 articles suffering at least one modification (Fuentes 2012). This has been indeed a recurrent argument from the Right to claim its

Opposition blockade in Chile worked to strengthen the resilience of neoliberalism not only through explicitly blocking legislative attempts, but also preventing them altogether. In the first place, certain reforms were just not sent to parliament knowing that they would be blocked. For example, despite the stated intention to change the Central Bank law "as soon as the new government was elected" (Alejandro Foxley cited in Bianchi 2008, 15), once in power the *Concertación* dropped the plan. One policymaker at the Central Bank later recognized: "we were convinced that we couldn't [change the law] because we lacked the majority in the senate, and we knew that we would lose" (Ffrench-Davis in Boylan 1998, 457). In 2006 a group of *Concertación* senators send a bill to change the central bank's mandate and increase its accountability (see chapter 8). The proposed changes did not even make it to the floor votation. Unlike regular laws -thus was the argument- only the president of the republic could propose a modification to "Organic Constitutional Laws". Therefore, the *Concertación* senators' proposal was declared unconstitutional.[178]

This led to a convincement that the only way to advance in the government program was to negotiate key reforms with the Right, engendering what scholars called "consensus policymaking". This meant that areas which were perceived as not being negotiable were directly relinquished. One such area was industrial policy. As a *Concertación* policymaker reckons:

> "additional things that we wanted to do but we couldn't do: industrial development policies. It was vetoed. If we talked about that, we had everybody upon us, all the press and the neoliberal extremism, the UDI, etc. And this would have kept us from doing other things…".[179]

The argument about *opposition blockade* as a mechanism of neoliberal resilience in Chile seems plausible for the 1990s. Electoral and veto-player sources of opposition blockade effectively constrained the power of the left and as the quotes above show, reduced its policymaking influence. Other effects of the institutions in place such as the convergence

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legitimacy. However, the core articles in which the economic and political legacy of Pinochet was enshrined remained almost intact until 2005. According to Munck (1994), it is ironic that democratic consolidation in Chile depended on the Right accepting the democratic game, which in turn depended on the existence of such anti-democratic provisions.

178 See Diario de Sesiones del Senado, República de Chile. Legislatura 354ª Sesión 36ª, Ordinaria. Miércoles 19 de julio de 2006.

179 Chile, Interview 2.

of political parties toward centrist alternatives are harder to test in this context, but contribute to the diagnose of reduced alternatives to carry left-wing policies (see Aninat et al. 2008; Flores-Macías 2012). The argument, however, falters into the 2000s. As figure 61 above illustrates, the *Concertación* managed to get control of both chambers during the Lagos[180] and Bachelet administrations, having enough votes to make changes to laws requiring simple thresholds such as tax reforms or those involving increased public expenditure. This is even more valid for the Bachelet government. In 2005 a Constitutional reform eliminated the "authoritarian enclaves", wiping away the possibility that non-elected veto players would block legislation during the Bachelet administration.[181]

b) Estonia 1: Disenfranchising ethnic minorities

To understand *opposition blockade* in Eastern Europe one has to take into account the relationship between the socioeconomic cleavage dividing right and left, with the "regime divide" separating communists and their successor parties, from those emerging out of communist dissidents and opposition (Grzymała-Busse 2001). As already analyzed in chapters 4 and 5, the regime divide in Estonia acquired the characteristic of an ethnic politics dynamic were the dissident/communist labels were transformed into ethnic Estonian/ethnic Russian. The first and foremost source of *opposition blockade* followed therefore the exclusion of the large –mostly Russian-speaking- non-Estonian minority from voting. As Steen has recognized, "[d]ue to the delicate ethnic situation, the first priority of the Estonian and Latvian indigenous elites was to oust Russians from power positions. Former CP [communist party] membership therefore became subordinate to the ethnic background of the new power elite" (Steen 1997, 100).[182] The latter is also a reason why lustration did not loom large in the Estonian political landscape. The effects of *opposition blockade* on neoliberal resilience depended therefore in the case of Estonia

[180] While initially the Lagos administration counted with only 50% of the seats in the Senate, the *Concertación* found itself with absolute majority for almost the full two first years of government given the temporary impeachment of two right-wing senators (Pinochet and Errázuriz).
[181] The binominal electoral system remained in place, however, and was finally abolished while I was finishing to write this dissertation, in January 2015.
[182] In fact, one of the areas were ethnic Russians were overrepresented was public administration. Moreover, although the magnitude of public sector employment was much smaller than e.g. industrial employment (ca. 20.000 versus 120.000), in relative terms public administration was even more Russian-concentrated than industry (with 46.6% participation of Russians vs. 43.5% in industry) (Mettam and Williams 1998, 381).

on the superposition of the political/cultural cleavage with the socioeconomic one dividing winners and losers of reform. The argument is that excluding ethnic-Russians from voting blocked the representation of those who would have voted against the continuation of market reforms (see also Nørgaard 1996, 149; Pettai 2009). This in turn, influenced a party politics dynamic that trumped the formation of a more powerful left bloc since parties did not have to worry about representing the interests of the losers of reform.

The story goes back once again to the transition process and the independence from the Soviet Union in August 1991. Until then, the moderate Popular Front in control of the parliament had been able to assert the principle of an "option" for the new citizenship law, requiring residents to simply decide if they wanted the Estonian citizenship or not (D. Smith 2001, 73). They argued that this solution increased the loyalty of Russian minorities to the new nation state. After the declaration of independence, the need to count with a new Constitution accelerated the definitions on the citizenship issue. The citizenship law became crucial since it would define those persons eligible to vote for the referendum on the new Constitution of independent Estonia (June 1992) and the first parliamentary elections (September 1992) after more than 50 years.

Discussions on the new constitution, citizenship law included, took place in the pressing context of the restoration of relations with Russia and the attempts by Estonian authorities to achieve the final withdrawal of Russian troops from Estonian soil – completed only in mid-1994. As Steen reckons, in this conditions "the democratic ideal of proportional representation of minority groups was perceived as a direct menace to national and cultural independence" (Steen 1997, 92).[183] The new citizenship law echoed the exclusionary "legal restorationism" principle according to which the new nation state should be a restoration of the "illegally occupied" pre-1940 Estonian state and its nation base, meaning in practice that citizenship should be given only to those persons who were lawful citizens of Estonia prior to Soviet annexation and to their descendants (see Pettai 2001; Pettai and Hallik 2002). This seemingly legalistic interpretation had a clear

[183] Estonian authors have complaint that by focusing in individual rights, Western accounts of Estonian citizenship laws have been too critical and have not understood the nature of the challenges to the building of the new nation state a more liberal law would have entailed. In this sense, they underscore that Estonian citizenship law is not much different from Western European ones, and that the status of Russian-speakers was not different than Turkish "Gastarbeiter" in Germany (see D. Smith 2001, 75) or Arabs living in Israel, who only got citizenship rights after almost 20 years (Grofman, Mikkel, and Taagepera 1999, n. 4).

effect in terms of *opposition blockade*: it denied citizenship and voting rights to the "Soviet settlers" arrived to Estonia after 1940. The effect could be readily observed in the electoral registry: before the new citizenship law, persons eligible to vote were 1,144,309; after the citizenship law the figure dropped dramatically to about 669,100, this is, 42% less (Pettai and Hallik 2002, 513). The 1992 citizenship law not only excluded non-Estonians from voting in national elections;[184] it also banned them from running for office and from membership in political parties (Andersen 1997, 311), barred them from positions in the public administration in all but a few exceptions (D. Smith 2001, 74), and included a naturalization clause with language requirements which very few Russians were able to pass (D. Smith 2001, 74).[185] The new citizenship law did, however, give voting rights to Estonians living abroad. Electoral results revealed afterwards that *emigré* Estonians had even more rightist views than those living in the country (Raun 1997, 355 n. 68).

Several other legislation strengthened the harsh citizenship law and its surrounding regulation in the following years. Among them, the 1993 Law on Aliens which established the procedures and requirements for non-citizens to get permanent residency and work permits, and served in practice to intensify pressure on non-citizens to repatriate themselves to Russia (D. Smith 2001, 87; see also Pettai and Hallik 2002, 513; Andersen 1997, 312) and the tightening of naturalization requirements in 1995.[186] The one attempt to universalize citizenship promoted by a handful of pro-Russian MPs in 1997 was rejected (D. Smith 2001, 102).

Table 63 shows the effects of the citizenship law in terms of eligibility to vote between 1990 and 2011. For the founding 1992 elections only 60% of those with voting age were allowed to vote. The number grew in 1995 and 1999 to 70% and 80% respectively, and increased gradually during the 2000s. Still, in 2011 around 13% of the Estonian population -mostly ethnic-Russians- was banned from participating in national elections.

[184] Non-citizens were allowed to vote and run for local elections from 1993. This was a necessary step since in some regions of the Northeast non-Estonians accounted for some 80% of the population, and Russian-speaking authorities threatened with a secession referendum (see D. Smith 2001, 88–9).
[185] Grofman, Mikkel and Taagepera (1999) recount that in 1992 some 7500 persons applied for citizenship; 5400 were granted, among which close to ¾ constituted ethnic-Estonians that did not conform to the automatic pre-1940 citizenship rule.
[186] New requirements included knowledge of the country's history and constitution, and had the practical effect of stalling naturalization applications (Pettai and Hallik 2002, 514; D. Smith 2001, 102).

Table 63:
Estonia, population and elections 1990-2011

	Population				Vote	
	Total (A)	Voting age (B)	Registered (C)	Eligible (%) (C/B)	Total (D)	Turnout (%) (D/B)
1990	1,571,000	1,162,540	1,163,683	100.1	910,000	78.3
1992	1,544,000	1,142,560	689,319	60.3	467,629	40.9
1995	1,490,000	1,117,500	791,957	70.9	545,770	48.8
1999	1,415,236	1,071,447	857,270	80.0	492,356	46.0
2003	1,415,681	1,040,400	859,714	82.6	500,686	48.1
2007	1,315,912	1,039,335	897,243	86.3	555,463	53.4
2011	1,282,963	1,046,458	913,346	87.3	580,264	55.5

Source: Prepared by the author using data from International Institute for Democracy and Electoral Assistance (International IDEA). http://www.idea.int/vt/countryview.cfm?CountryCode=EE

The claim here is: had non-citizens with permanent residence in Estonia have the right to vote in Congressional elections through the 1990s, they would have generated different political constellations in parliament and a different result in the stability of the neoliberal regime (see Pettai 1997; Pettai 2009).[187] Now, how much is this true, i.e. that Russian-speakers would have voted the left? And how much was the Estonian center-left willing to promote an alternative developmental regime? Although it is hard to make counterfactuals, I show three arguments to make this a likely proposition. First, that non-ethnic Estonians were concentrated among the losers of reform. Second, that they evidenced discontent with existing economic and political institutions, and that they showed a propensity to vote for left-leaning parties. Finally, that when these parties were in government, they did to some extent try to alter existing neoliberal policies.

I already showed in Chapter 4 that Russians were overly concentrated in industry, the sector that bore the costs of economic reforms. The following data reinforce this taking a different proxy to show the concentration of hardship on the Russian minority: regional disparities. Russian-speakers have been concentrated in the North-East of the country, especially in the Ida-Viru County, the second largest in the country and holding around 15% of its population. The percentage of non-ethnic Estonians –mainly Russian-speakers- living in the Ida-Viru County was about 80% throughout the 1990s, which is equivalent to about a third of all non-ethnic Estonian population in Estonia.[188] Tables 64

[187] Several scholars interviewed supported this view.
[188] Data from Statistics Estonia population database, http://pub.stat.ee/px-web.2001/dialog/statfile1.asp.

and 65 show employment and production data for the three largest counties of the country, containing around two-thirds of its population and close to 70% of economic activity. Counties with a high concentration of Russian-speaking population were harder hit by market reforms as evidenced in systematically worse industrial production and unemployment figures. Other measures that show disadvantage for non-Estonians include occupation (Russian-speakers concentrated in the unskilled and elementary employments) and earnings (Russian-speakers earned consistently less than ethnic-Estonians) (Titma, Tuma, and Silver 1998; Pettai and Hallik 2002, 517).

Table 64:
Estonia, Industrial production in three largest counties 1995-1998
(index 1995=100)

	1995	1996	1997	1998
Estonia	100	96.9	113.0	117.5
Harju County	100	97.4	112.2	117.8
Tartu County	100	97.1	116.6	162.6
Ida-Viru County	**100**	**94.1**	**103.2**	**97.8**

Source: Statistics Estonia database, http://pub.stat.ee/px-web.2001/dialog/statfile1.asp.

Table 65:
Estonia, Unemployment in three largest counties 1993-1998
(%)

	1993	1994	1995	1996	1997	1998
Estonia	6.6	7.6	9.7	9.9	9.6	9.8
Harju County	5.3	6.6	8.4	8.5	8.5	9.1
Tartu County a	7.9	9	12	11.6	11	10
Ida-Viru County	**10**	**10**	**14.6**	**14.6**	**13.3**	**14.7**

Source: Statistics Estonia database, http://pub.stat.ee/px-web.2001/dialog/statfile1.asp.
a Includes (Jõgeva, Põlva, Tartu, Valga, Viljandi and Võru Counties)

Russian-speakers not only bore the costs of market reforms; they were also more prone to vote economically (Ehin 2007, 15). In fact, opinion polls show that while 65% or more of ethnic-Estonians where prone to accept the costs of economic reforms during the first half of the 1990s, more than 55% Russian-speakers (70% in 1995) where ready to try alternatives if reforms did not quickly deliver (Lauristin and Vihalemm 1997, 125). Eventually, harder socioeconomic conditions led them to a lower trust in political institutions and a higher support for authoritarian alternatives (Ehin 2007; see also Titma, Tuma, and Silver 1998). As late as the year 2000, 25% of Russian-speakers still supported a return to communism (Ehin 2007, 10; Lauristin and Vihalemm 1997, 122).

All this led Russian speakers to support left-leaning political alternatives, more specifically, the Center Party. Table 66 shows that in 2003 two parties concentrated the vote of poorer constituencies: the agrarian People’s Union and the Center Party. The People’s Union, was mostly supported by Estonians, while close to 30% of supporters of the Center Party were Non-citizens –the highest share among Estonian parties. This is confirmed by table 67, which shows that a great plurality of Russians preferred the center-left Center Party over other parties.

Table 66:
Estonia, Support basis of main parties in 2003
(%)

	All	Centre Party	People's Union	Moderates	Reform Party	Pro Patria	Res Publica
Nationality							
Estonians	85	71	93	89	90	98	93
Non-estonians	15	**29**	7	**11**	10	2	7
Income[a]							
< 2000 EEK	49	**58**	**58**	38	35	33	43
> 6000 EEK	5	1	0	1	**12**	**9**	**15**

Source: Lagerspetz and Vogt (2004, 65).
[a] Columns do not sum 100 because of omitted middle income ranges.

Table 67 :
Estonia, identification with political parties by nationality in 2005 [a]
(%)

	All	Estonian	Russian
Pro Patria Union	20	28	1
Estonian Reform Party	31	37	18
Res Publica	11	13	8
Social Democratic Party	16	21	5
Centre Party	**32**	**24**	**48**
People's Union of Estonia	13	16	5
None of them	11	10	12
Not interested/doesn't know the parties	20	16	31

Source: Lauristin (2007, 54).
[a] Response to the question: "The interests and positions of which Estonian political parties are most similar to your own". Column totals do not sum 100 because respondents were allowed to choose two alternatives.

Now, *opposition blockade* in Estonia was not only institutionalized as an exclusion of the Russian-speaking minority from participating in national elections. It was reinforced by the emergence of a political culture that prevented the constitution of more consistent left-wing political alternatives. Some authors have actually claimed that the maintenance in time of a two-cleavage political space –institutionalized in Estonia with the citizenship laws- prevents the formation of a credible left-wing alternative (Kitschelt et. al. in

O'Dwyer and Kovalčík 2007, 10). There is some evidence that this was actually the case. As Raun has observed, "[f]ollowing the collapse of communism the left was so discredited that no party with any serious ambitions for electoral success would have dared to associate itself with that side of the political spectrum" (1997, 360). In 1995 Estonia became the first ex-communist country were the direct successor of the communist party was not represented in parliament, at least partly explained because of the party label it used in the electoral ballot: "Left-Opportunity" (D. Smith 2001, 82). Ethnic-Estonians were also reluctant to vote for the left-leaning Center Party as they saw it as "overly compliant toward Russian-speaking settlers (D. Smith 2001, 82; see O'Dwyer and Kovalčík 2007, 15). An industrial relations scholar claims: "You can't vote for the Center party if you are a good Estonian. You would maybe like their policies, but you can't vote them".[189] In fact, local analysts observe that "most Estonian politicians […] view the Russians as a largely peripheral force, to be used when a few extra votes were needed, but not to be relied upon for the longer term" (Pettai and Hallik 2002, 514).

In chapter 4 I showed that the few moments when center-left parties participated in government were characterized by policy changes, most notably increasing embeddedness of industrial policy. This was true during the participation of the agrarian People's Union in the 1995-98 cabinet, and most notably, that of the Center Party in 2005-07. Now, due to *opposition blockade*, they were not able to exert a greater influence on the trajectory of the Estonian developmental regime. *Opposition blockade* was more strongly felt in 1995, when electoral results showed a turn to the left (see chapter 4). The formation of the new government, however, became a contentious issue. The center-left KMÜ alliance –especially the agrarian parties in it- had a closer policy affinity with the Center-Party than with other parties represented in the parliament. However, the Center Party's image as a pro-Russian party affected both its chances within the Estonian electorate –coming only third in the electoral results- and as a possible coalition partner in the future government (see *Baltic News Service* 1995c). Conversely, the neoliberal Reform Party –the second majority- conditioned its participation in government to the elimination of protective tariffs from the government's program, and demanded that the new government ruled out the possibility of supporting

[189] Estonia, Interview 1.

ailing sectors through selective subsidies (*Baltic News Service* 1995e).[190] The formation of a KMÜ-Reform Party government effectively implied that electoral promises of higher protection for the agrarian sector and increased social policy benefits had to be dropped (see D. Smith 2001, 95–6).

During the period, center-left parties raised doubts about the functioning of the currency board, especially its suitability for different government goals ranging from rapidly tackling inflation to increasing social spending. While PM Vähi of the centrist Coalition Party hinted at the possibility to establish a floating exchange rate regime allowing the Central Bank to use active monetary policy to bring inflation down (*Baltic News Service* 1995d), the agrarian and more left-leaning Country People's Union intended to merge the Central Bank reserves with those of the Treasury in order to allow higher public spending (*Baltic News Service* 1997b). The opposition and left-leaning Center Party even asked Central bank authorities to outline what were the possible ways by which a devaluation could be done (*Baltic News Service* 1998d). Once again, the Reform Party –together with officials from the Bank of Estonia- were strong to defend the currency board and criticize any attempt at changing it. They remained confident that strict institutionalization, especially the need for parliamentary approval, prevented any change (see chapter 8). In the future, the rightist Reform Party became the bulwark of the currency board, even including "no-devaluation" in its policy platform (see *Baltic News Service* 1999).

Estonia also shows signs of *opposition blockade* through empowering veto players -in this case, the president of the Republic Lennart Meri-, although much weaker than in Chile. In the Estonian political system the parliament enjoys ample government rights and the president is a rather decorative figure, although not a toothless one. According to the constitution, Estonian president can mandate parties to conduct government talks, nominate the PM and even veto legislation –the last two subject to confirmation by parliament. These powers became more decisive in the hands of Lennart Meri who was "eager to set precedents and determine the full scope of his powers" (Pettai 2001, 131). Meri was Minister of Foreign Affairs during the Popular Front government in 1990-2, was one of the main responsibles of Estonia's free trade policy, and was close to the

[190] The final government composition came as a result of three rounds of coalition talks. In the first round, the neoliberal Reform Party rejected participating in a government with the center-left agrarian altogether. In the second round, KMÜ reluctantly turned to the Center Party and formed a short-lived government that fell after a political scandal, eliminating the Center party as a government member. In the third round, the Reform Party agreed to participate in the government, but only at the expense of a written commitment that protectionist policies would be excluded. See below and chapter 4.

right-wing Pro Patria party (Feldmann and Sally 2002, 90–1). He was elected president by the right-wing-dominated 1992 parliament, and confirmed again in 1995.

Meri used his powers for *opposition blockade* two times. First, after the 1995 parliamentary elections, Meri was key to force the breakup of the center-left KMÜ-Center Party government. He obliged Center-party chairman and Interior minister Edgar Savisaar to resign under accusations of having tapped coalition talks, thereby forcing a new government configuration with the presence of the right-wing Reform Party (Pettai 2009, 83–4; Pettai 2001, 133). Second, in 1999 Savisaar's Center Party became the biggest party in parliament 7% ahead of its closest rival. Meri, however, mandated not the Center Party but the rightist Pro Patria Union to form a new government which together with other center-right parties (Reform Party and Moderates) managed to maneuver the Center party out of government leaving the first majority in parliament in the opposition (Pettai 2009, 84).[191]

Finally, electoral laws contributed, but were not a crucial part of *opposition blockade* in Estonia. On the one hand, the 1992 electoral law did favor larger parties thereby constraining the representation of minorities (see Grofman, Mikkel, and Taagepera 1999). In fact, due to a 5% threshold, in 1992 some 20% of the vote -i.e. that for smaller parties- was spoiled. This was further strengthened in 1999 with a ban on electoral alliances with which smaller parties could be pulled by larger ones. However, as Grofman, Mikkel and Taagepera (1999) have stressed, the electoral law constituted a compromise between representatives of virtually all major currents of Estonian politics at the time –ex-communists, Popular Front and Congress of Estonia. More crucially, due to its complexity, electoral results were almost impossible to trace least so to calculate (see also Kaminski 2002, 350). Similarly, the ban on electoral alliances followed more a divide between smaller and larger parties, rather than partisan preferences (see also D. Smith 2001, 105).

[191] Pettai (2009, 83–4) notes that much of this also has to do with personalities. The figure of the Center Party chairman, Edgar Savisaar, became increasingly hostile to the full spectrum of political parties.

c) *Chile 2: Farewell to the labor movement*

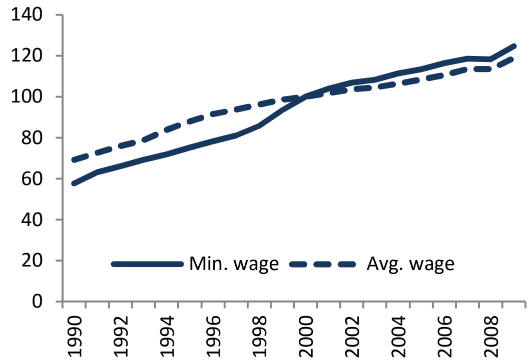
Before the military coup, Chilean Labor was the second strongest after the Argentinean among the countries of the Southern Cone (Drake 1996). It had grown in close association with political parties of the left, Socialist and Communist, and with an important penetration of the centrist Christian Democrats (Collier and Collier 1991). Outright repression and anti-union legislation under the military regime severely curtailed workers' rights and negotiating power. The democratization process brought some hope of restoration of lost rights given the important role of labor, but right-wing parties in government blocked the more relevant legislation. Unions have remained weak ever since.

As soon as it took over, the military government outlawed the national federations and the all-union CUT, denied association rights and forbade union activities (Drake 1996, 129). The rise of Chicago Boys in cabinet and the slashing of corporatist projects involving the Ministry of Labor and Christian Democratic unions marked the distance of the regime with the union movement as a whole (Drake 1996, 132; 138–9). From then, unionization rates fell from 27% in 1973 to only 8% in 1983 (Drake 1996, 134)

The assault on unions was consolidated in a new Labor Code in 1979, which contrasted markedly with the initial plans of the corporatist military leaders. The new Labor Code sanctioned voluntary membership in unions and federations, union activity only at the plant level (including wage bargaining), severely limited the right to strike –e.g. it permitted the replacement of striking workers-, prohibited the political involvement of union leaders, and facilitated the firing of workers without significant justification (Drake 1996, 131; Javier Martínez and Díaz 1996, 92–8). However, unions managed to maintain their organization and used the new regulations to resume activity. The 1982-3 crisis was crucial for their reactivation. Starting from an opposition to the new Labor Code, labor unions became the main organizers of social protest and calls for re-democratization (Drake 1996, 135; Javier Martínez and Díaz 1996) The first national strikes of the 1983-4 protest wave that destabilized the orthodox neoliberal bloc were successfully initiated by labor unions. This favored a revival of unionism and membership rose by the end of the decade to about 14% (Visser 2013).

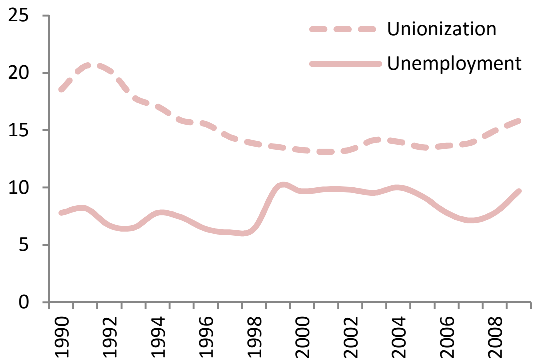
The run-up to the 1988 plebiscite and the 1989 presidential elections facilitated a shift in leadership of the opposition to Pinochet from labor unions to political parties, who reasserted their historical control over unions (Drake 1996, 143). In this context, *Concertación*-led unions concentrated in recovering the lost ground, focusing in bread-and-butter issues and in the rebuilding of their organizations (Drake 1996, 137). The democratization process and a consequent if temporary re-politization made unionization rates peak at 20.6% in 1991 (see figure 63). Once in power, the *Concertación* parties proposed "profound changes in labor institutions" (Henríquez Riquelme 1999, 93) committing to restore labor as a social partner. A set of reforms to the labor code was sent to parliament, including most notably recognition of unions and the right to strike, and changes in collective bargaining (see Henríquez Riquelme 1999; Frank 2002)

Figure 62:
Chile, Real wages 1990-2008
(index 2000=100)



Source: ECLAC.

Figure 63:
Chile, Unionization and unemployment 1990-2008
(% of labor force)



Source: ECLAC.

Electoral *opposition blockade*, however, was crucial to limit the *Concertación*'s initial plans. The much-voiced labour reforms had to be negotiated with the strong right-wing opposition in Congress. The *Concertación* also invited the peak employers association CPC as a way to entice bipartism. The neoliberal bloc staunchly opposed collective bargaining beyond the plant-level,[192] an aspiration that has remained a top priority for unions ever since but that has been continuously vetoed in parliament (Frank 2002, 42–3; Donoso 2013, 239–40). Another crucial issue, the ability of employers to hire

[192] The new 1993 laws allow negotiation beyond the plant-level, but only as a voluntary instrument, which heavily reduces its impact. According to Henriquez Riquelme (1999, n. 14), from 1990 to 1995 it was used only in about 0.3% cases of all collective bargaining rounds.

replacement workers during strikes, was strongly supported by business and remains contentious until today.[193] Other provisions such as the ability of employers to negotiate with parallel non-unionized groups were also maintained, severely damaging union strength (see Henríquez Riquelme 1999; Frank 2002). Moreover, individual employers have been systematically found to use a number of extra-legal means to weaken even more the already precarious power of labor at the plant-level. One example is the division of firms into smaller legal units using multiple enterprise register codes ("Multirut") so that workers are allocated to legally different companies therefore limiting the formation of more powerful unions and weakening collective bargaining processes in the firm as a whole.[194] Another example is the increasing use of outsourcing, even in the case of a company's core activity. With time, labor accepted the constraints imposed by the *Concertación*-led democratization process, as the price to pay for higher wages and reduced unemployment (see figures 62 and 63). Lower union activity helped to diminish membership rates, which stabilized at around a low 13%.

Despite the revitalization of union activity in the second half of the 2000s, the gains have remained limited. For example, the wave of protest of the outsourced workers (*subcontratistas*)[195] created awareness of the problems of outsourcing and a bill was sent to parliament in order to limit this widespread practice. The bill was passed in 2006 and prohibited the practice in the case of a company's core activity. The Work Inspectorate (*Dirección del Trabajo*) in charge of supervising labor relations, made substantive efforts to monitor compliance obliging companies to incorporate *subcontratistas* that carried core activities as staff workers. Employers fought back these sanctions in Court arguing that they were unconstitutional. This brought the activity of the Work Inspectorate to a halt, severely diminishing the consequences of the bill.[196]

[193] Chile, Interview 10.

[194] For example, retail chains usually use different company registers dividing different commercial activities or even dividing the operation of companies' in different regions of the country. Hence, the same retailer in two regions of the country operates as a completely different company for the purposes of collective bargaining. Chile, Interview 4.

[195] The combination of 1) acquiescenet union leadership, and 2) the expansion of outsourcing, gave way to a new set of labor leaders that voiced the demands of the outsources workers (*subcontratistas*). The movement was led by *subcontratista* workers in the competitive copper-mining and forestry sectors. See Donoso (2013).

[196] Chile, Interview 4.

d) Estonia 2: Labor, the actor that never was…

The transition and the context of independence from the Soviet Union were not propitious for workers' organizations and the emergence of strong labor unions in Estonia. Moreover, the first governments implemented legislation to make labor markets the main source of economic adjustment. Since then, labor has remained a weak actor in Estonia, hardly being a prospective ally in an alternative social bloc.

The history of labor unionism in independent Estonia was heavily marked by the independence struggle and not by the defence of workers' rights. In 1988, Russian-speaking company managers founded the United Council of Work Collectives (TKÜN), as a way to foster *perestroika* reforms and defend the rights of Russian-speakers (Pettai 2012, 85–95). It joined the anti-independence and pro-Soviet Intermovement organization and their highly visible protest actions against the Estonian independence and market reforms. As an immediate reaction, Estonian company managers founded the Estonian Union of Work Collectives (TKL) to oppose the Russian-speaking sister organization. TKL was mainly a pro-democracy and pro-independence group uniting company managers and white-collar workers, who backed the more radical Congress of Estonia views on transition (Pettai 2012, 95–6). TKL was active in pushing the declaration of independence once the Popular Front came to power in 1990 and some of its most prominent leaders became the founders of right-wing parties in the years to come. This was the case of Siim Kallas, who was a director at the state Savings Bank until 1986, was governor of the Central Bank of Estonia from 1990 to 1994 –where he was the main responsible of the Currency reform- and founded the neoliberal Reform Party in 1994.[197] Another case was Ülo Nugis, company director at an engineering firm, and a member of the conservative Pro Patria alliance and its right-wing splinters (Pettai 2012, 116; *Postimees* 2011). Following independence, only Estonians were allowed to be union leaders, reinforcing the ethnic divide within unions (Andersen 1997, 311).

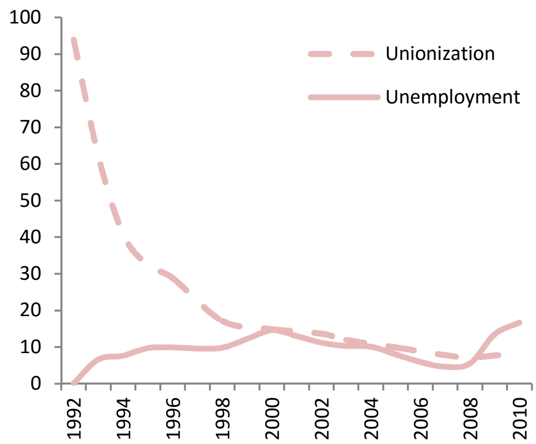
After transition, being part of a trade union was seen as something Russians would do, but not Estonians.[198] Therefore, "trade unions [were] not popular with either employers

[197] See profile in http://www.reform.ee/en/honorary-chairman.

[198] An industrial relations scholar puts this in the following terms: "A good Estonian person is the one who suffers, is patient enough and suffers. And the one who starts screaming loudly, that is not really an Estonian thing. So to come and really protest and fight for your rights, that is not really what an Estonian is supposed to do". Estonia, Interview 1.

or employees” (Eamets et. al. in Kohl and Platzer 2004, 109). In fact, unionization rates fell sharply to represent the lowest levels in EE (Feldmann 2006a, 840). Unemployment also remained high during the whole 1990s, receding during the economic boom of the mid-2000s and surging once again amidst the 2007-8 crisis (see figure 64).

Figure 64:
Estonia, Unionization and unemployment 1992-2010
(%)



Source: Unionization=Visser (2013); Unemployment: Statistics Estonia.

After independence, the implementation of the currency board signaled a commitment to labor market flexibility as the main adjustment mechanism in Estonia (Feldmann 2006a, 848–9). Authorities adopted therefore a “non-accommodating monetary policy stance to wage setters” (Feldmann 2006a, 848) as the default policy response. According to Ardo Hansson –a close collaborator in the introduction of the currency board and future governor of the central bank- "a precondition for the stability of the currency is labor market flexibility (...) 'Companies must be flexible and take into account that payroll is the principal expenditure category and in a situation where the economy is not growing quite so fast pay discipline is of great importance'" (*Baltic News Service* 1998b). Accordingly, despite the view of Estonian labor market as rather rigid (see OECD 2009, 100–1), average job tenure in Estonia was among the shortest in transition countries (Feldmann 2006a, 841).

A set of regulations introduced early on in the transition process facilitated this (Feldmann 2006a, 840–1; Eamets and Kalaste 2004, 50–1; Kohl and Platzer 2004, 177–9). First, the collective agreements law of 1993 set collective bargaining at the company level, which heavily influenced its low coverage –only around 10% of the workforce (Feldmann 2006a, 840). Company level democracy was also negligible, as work councils were made voluntary. The 1993 law allowed sectoral-level bargaining, but in practice this was possible only in the public sector or in companies where the state still had high stakes (e.g. public services, energy, railways, communications), which reduced rapidly as a consequence of quick privatization during the decade. In 2000 sectoral agreements covered only about 5% of the workforce (Feldmann 2006a, 840). However, differently from Chile, workers showed a low level of interest in branch-level agreements (Kohl and Platzer 2004).

Labor laws include several clauses which, together with law violations and anti-union practices, have helped to decrease an already low bargaining power (Adam, Kristan, and Tomšič 2009, 74; Kohl and Platzer 2004, 55–7; 177; 233). First, the legislation established the possibility to organize negotiating groups outside the titular labor unions. Second, although collective agreements cover only union members, in practice employers extended them to all workers, reducing thereby unionization pressures. This practice was made explicit in 2003, when new legislation allowed to legally extend collective agreements to non-unionized workers –if the parts agreed. As a result, unionized and non-unionized workers show no wage differences (Eamets and Kalaste 2004). Most notably, this has led to economic sectors "free of unions" were individuals are often offered higher pays. Finally, the law established no direct sanctions for anti-union practices. Estonian managers actually consider labour regulations rather flexible, which is an indication of their ability to violate an otherwise rigid employment law (Eamets and Masso 2005, 80). Conservative estimations report that some 46% of enterprises regularly violate labour legislation (Eamets and Masso 2005, 80).

II. Argentina and Poland: the perils of incorporation under democratic rule

a) Argentina: opposition blockade through delegative democracy?

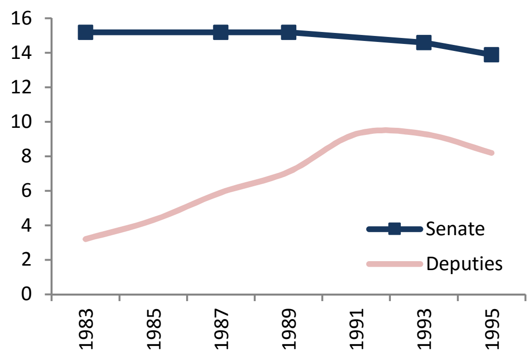
Opposition blockade was not successful in Argentina and did not stop the formation of alternative blocs that twice challenged the resilience of neoliberalism (see chapters 2 and 3). Whenever present, attempts at manipulating electoral laws followed a small/big party divide and anti-labor legislation was reversed before the return to democracy. The most consistent attempts were made during the Menem administration in terms of increasing the power of veto players that would favor the maintenance of the status quo. As will become apparent, however, these attempts failed because they rested on a personification of support for neoliberalism rather than in establishing clear institutional blockades.

With respect to electoral *opposition blockade*, the caretaker military government of general Bignone issued an *ad hoc* electoral law before the 1983 elections that could be seen as an attempt to bias representation in a similar way as in Chile. It reduced the threshold for obtaining representation in Congress from 8% to 3% of the vote, potentially favoring minor provincial parties that had supported the military government (McGuire 1995, 190). However, as McGuire notes "not even the big parties objected strenuously to the new law" (1995, 190). In fact, electoral results confirm they were not threatened. In 1983 the two biggest parties, the Justicialista Party (PJ) and the Radicals (UCR), gathered a combined 84% of the vote for legislative elections, equivalent to 94.5% of the seats.

Until 1994, elections for the lower chamber were based on a closed-list proportional system with districts of different magnitude, while the senate was elected by provincial governors with each province electing two seats (Jones 1997). These dispositions had two visible outcomes in terms of representation. First, they entailed a bias toward rewarding the biggest parties, PJ and UCR, in the chamber of deputies (see Mustapic 2002). Several authors (Negretto 2004, 556; Jones 1997) argue that these electoral rules combined with the ability of congressional party leaders to distribute policy and pork, has provided for high party discipline reinforcing the strength of the PJ and UCR. The second outcome is that the smaller –usually rural- provinces are overrepresented in the Senate, which favors the clientelistic machines of the PJ (Spiller and Tommasi 2008, 78; 82–3; 90–4; cf. Levitsky 2003) and small provincial right-wing parties (Jones 1997, 266).

Figure 65 shows that these small right-wing parties have systematically done better in senate elections than in the chamber of deputies. However, the overall distribution of governorships has maintained the dominance of the two biggest parties, the PJ and the UCR (see table 68). Moreover, in the 1990s when the PJ turned to neoliberalism under the leadership of president Menem, it was the UCR who increased its share of governorships -and therefore its representation in the senate- and not the PJ (Jones 1997, 280–1; see Negretto 2004, 555). In sum, the Argentine electoral system did not serve as an *opposition blockade* mechanism because it did not have a clear partisan effect.

Figure 65:
Argentina, Representation of right-wing provincial parties
(% of seats)



Source: Jones (1997, 266).

Table 68
Argentina, Governorships by party
(nº)

Party	1983-87	1987-91	1991-95	1995-6
PJ	12	17	14	14
UCR	7	2	**4**	**6**
Other in alliance with PJ [a]	1	1	1	1
Other in alliance with UCR[b]	2	2	2	1
Other[c]			2	2
Total	22	22	23	24

[a] Movimiento Popular Neuquino; [b] Pacto Autonomista Liberal; Partido Bloquista; Acción Chaqueña; [c] Movimiento Popular Fueguino; Partido Renovador de Salta; Fuerza Republicana.
Source: Jones (1997, 281).

The Menem administration did further attempts at *opposition blockade*. These attempts implied the circumvention of Congress and the strengthening of the figure of president Menem as the only capable of consolidating the neoliberal developmental regime (see Acuña 1995, 124). As I discussed in chapter 3, Menem's term in office started troubled from the outset. He assumed five months in advance given the extent of the ongoing economic, social and political crisis of the late 1980s. The decision to move forwards the assumption of the presidency entailed a big risk, not only because of the pressing situation, but also because Menem would have to work with a Congress elected two years before when the correlation of forces for Menem's party (the PJ) was not so favorable. In this scenario, as part of the agreement with the outgoing Alfonsín presidency (UCR), Menem bargained that the sizeable UCR caucus in Congress allow a temporary increase of powers for the executive in order to cope with the emergency situation. The two emergency laws of 1989 conferred extraordinary powers to the president to control the public budget and alienate state assets. The justification Menem gave was that the Congress was too slow and that the situation required fast action (Rubio and Goretti 1996, 445).[199]

The use of extraordinary powers, justified during those months of 1989 when the executive was short of a majority in parliament, extended however throughout Menem's two consecutive mandates. Other institutional veto points and supervisory bodies also came under the influence of the presidency. Through different moves, Menem was able to control not only the internal apparatus of his party (see chapter 3), but also both chambers in Congress, the Supreme Court of Justice, the Public Prosecutor and other administrative control organs. Menem achieved this through three related means: the discretionary use of Decrees of Necessity and Urgency (DNUs), packing the Supreme Court with loyal judges, and reforming the constitution to be able to run for reelection.

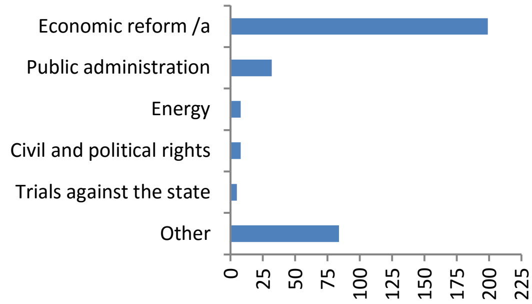
The Decrees of Urgency and Necessity (DNUs) were a prerogative of the Argentine president that was not clearly sanctioned in the constitution, but that had been used in a handful of situations in the past in contexts of extreme emergency.[200] However, differently from the two emergency laws mentioned above, the rest of DNUs that Menem expedited were not founded on a delegation of powers from the congress to the executive; they consisted of a self-delegation of legislative power without approval nor explicit consent of the congress (Rubio and Goretti 1996, 448–9).[201] Menem's interpretation of the constitution was that "the legitimacy and validity of these acts is founded on the basis of a manifest intention to submit them to legislative approval" (Rubio and Goretti 1996, 455). In this sense, including a sentence to communicate the new norm to the congress was seen as sufficient.

[199] Rubio and Goretti (1996, 445) report that Menem even considered the possibility to close down Congress altogether, and that the leak of the plan to the opposition and the press, and contrary voices inside the PJ, frustrated the operation.

[200] Situations included civil wars, popular revolts and acute economic crises (Rubio and Goretti 1996, n. 24; 28). In most cases, the Congress ratified the decisions of the executive after the emergency situation had passed. For a comparison of similar actions in the US and other European countries, see Rubio and Goretti (1996, 450–1).

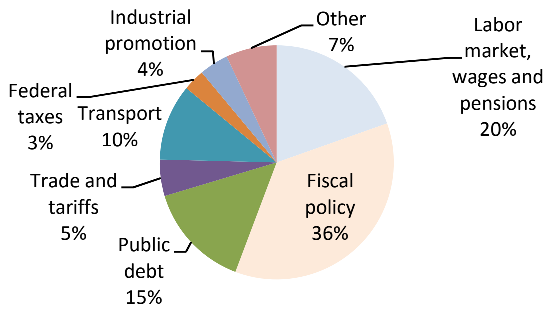
[201] In this sense, DNUs should not be confused with decree-laws which are a constitutional prerogative in several presidential democracies (Mainwaring and Shugart 1997, 44–7; Negretto 2004). As Rubio and Goretti (1996) clarify, even though Argentine presidents seem to have a certain tendency to overcome the institutional bases of their power, the concentration of executive power by the Menem administration through the use of DNUs was unprecedented in democratic times in Argentina.

Figure 66:
Argentina, DNUs by topic 1989-1994



a/ Decrees in this category are most probably under-estimated. Several other categories (e.g. Public administration and Other) also include decrees related to economic reforms such as deregulation, fiscal retrenchment and wages policy.
Source: Rubio and Goretti (1996, 453)

Figure 67:
Composition of Economic reform DNUs



Source: Rubio and Goretti (1996, 453)

Menem signed 162 DNUs in his first term and another 93 in his second term, way above the 35 DNUs used in the past 135 years (Spiller and Tommasi 2008, 207; Negretto 2004, 554).[202] Of these decrees, only 14.1% was ratified by the congress and another 4.3% amended, while 78.8% of the cases congressional response was merely "inaction" (Negretto 2004, 554).[203] The importance of DNUs for the success of economic reform is unmistakable. As the father of the currency board, Minister of Economy Domingo Cavallo himself recognized in 1993: "without them [the DNUs] 'not more than a 20% of economic reforms would have been possible'" (cited in Rubio and Goretti 1996, 446). Figures 66 and 67 above illustrate that the overwhelming majority of DNUs were used to pass economic reforms that would be otherwise opposed in congress. About 39% of those reforms were related to matters of fiscal policy, another 21% to labor market deregulation, wage restraint and pension reform, and another 16% to matters related to public debt.

Given the weak constitutional foundations of the use of DNUs, a second important step in this strategy of *opposition blockade* was the control of the Supreme Court, the highest

[202] Presenting a more extensive interpretation, Rubio and Goretti (1996, 451–2) argue that another 170 decrees were dispatched without recognizing them as DNUs, although "without doubt" sharing their characteristics i.e. a self-delegation of legislative power not authorized or approved by the Congress.

[203] According to Negretto (2004, 556–7), the existence of a PJ congressional majority was crucial to sustain this practice. In many cases PJ legislators explicitly abstained from deliberating on a DNU in order to balance on the one hand, their support for a president who controlled significant political and material resources, and on the other, that of their potentially affected constituencies.

justice tribunal and ruler in cases of constitutional adequacy. As soon as he took office, Menem moved to try to control the Supreme Court by forcing the resignation of some members to be replaced by loyal judges (Rubio and Goretti 1996, 446–7). Following the rejection by sitting members to resign, Menem sent to congress a bill to increase the number of members from five to nine, so that he could gain a majority by appointing the new members. As a justification for this, Menem resorted again to the context of emergency and the need to count with a supportive Supreme Court, citing a similar experience by Franklin D. Roosevelt in the context of the US new-Deal (Helmke 2005, 144).[204] After the approval by both chambers in the second half of 1989, two sitting judges resigned. As a result, Menem was able to staff six out of nine judges giving him what was referred to as an "automatic majority" that validated Menem's policies unconditionally (Helmke 2005, 144; Jones 1997, 284). As expected, the Supreme Court was required to pronounce itself repeatedly against both the form and the content of the DNUs promulgated by Menem. The automatic favor of the Supreme Court, however, served as constitutional backup for the rest of the Menem administration (see Rubio and Goretti 1996, 466–9).

This apparent "success" notwithstanding, *opposition blockade* during the Menem administration rested in the increase of power to the executive, a position that can be taken by any partisan concern not exclusively supporters of neoliberal reform. In fact, the two elected presidents after Menem, De la Rua who continued neoliberalism and Kirchner who abandoned it, made extensive use of DNUs. In a context of legislative weakness and party fragmentation in congress during the Kirchner presidency (2003-2007), the use of DNUs proved crucial to implement an alternative developmental regime (see Richardson 2009). Kirchner enacted 232 DNUs at a rate of 4,3 x month, comparable only to the 4,4 x month of the Menem administration (Levitsky and Murillo 2008, 19). As in the case of Menem, DNUs and other decree powers were used for flagship initiatives in economic reform- although of the opposite sign. One of them was the tax on exports with which Kirchner subsidized wage goods and served to get support from urban low and middle classes (see Richardson 2009). With respect to the Supreme Court, while Kirchner made several advances in the direction to honor the autonomy of the Court (e.g. he reduced its members from nine to seven withdrawing the possibility of

[204] In a live TV show, however, Menem confessed: "Why should I be the only Argentine President not to have my own Court?" (cited in Larkins 1998 in Helmke 2005, 144).

appointing two loyal judges), he increased control over the bodies in charge of judge nominations (Levitsky and Murillo 2008, 19; see also Spiller and Tommasi 2008, 102). In this sense, although Menem indeed used institutional means as a source of *opposition blockade*, the mechanism tended not to institutionalize but to personalize the support for market reforms making them dependent on the political success of a handful of individuals committed to the neoliberal developmental regime.

The third move of the Menem administration -very much in the direction of a personalization of support for neoliberalism- was to propose a constitutional amendment to be able to run for a second term in the 1994 elections. Re-election was not permitted under the Argentinean constitution, and the PJ fell short of the two-thirds quorum needed to pass the reform in congress. The need to negotiate with the opposition eventually watered down Menem's aspirations.[205] While Menem got the possibility to be re-elected plus the explicit declaration of DNUs as constitutional, the opposition UCR exacted several concessions that improved its position. Among them, the limitation of matters in which DNUs could be decreed and their closer supervision by congress (see Rubio and Goretti 1996, 470),[206] and the sharing of nominations to the Supreme Court (Negretto 2013). Perhaps the most important was the inclusion of a third seat per district to be elected for senate elections, a measure known to favor the second largest party, the UCR. According to Negretto (2013, 158) "compared to the status quo, these reforms improved the institutional position of the opposition in general and the UCR in particular".[207] In fact, despite the clamorous defeat in the 1995 presidential elections, the UCR managed to reverse a gradual yet sustained trend of declining representation in congress (Novaro 2009, 524).

In sum, the need to negotiate constitutional reforms to increase *opposition blockade* - presidential re-election and constitutional legitimacy of DNUs- implied accepting significant concessions to the opposition. In stark contrast with Chile, these concessions strengthened rather than weakened the opposition and especially the biggest opposition party, the UCR, who was the main partner of the constitutional agreement. Moreover, the

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[205] The biggest opposition party, the UCR, accepted to engage in negotiations given Menem's threat of passing the reform without the approval of the opposition. In the view of UCR leaders, this involved the risk of having an even less favorable result. The accord known as "Pacto de Olivos" was signed by Menem and ex-president Alfonsín (see Negretto 2013; Jones 1997; especially Acuña 1995).

[206] No DNUs could be decreed in matters related to taxes, electoral issues, political parties, and penal law.

[207] For a somehow different view, see Jones (1997, 295–6).

provision of presidential re-election that was passed served to re-elect a president from the opposite camp, Kirchner's wife Cristina Fernández in 2011.

b) *Poland: attempting a delegative democracy in the East*

Similarly as in Argentina, *opposition blockade* proved a difficult task for neoliberals in Poland. The constant change of electoral laws during the 1990s is a sign of active partisan attempts at favoring certain groups over others by electoral engineering. However, electoral calculations produced short-term and inconsistent party alliances, and unintended effects that made parties eventually discard this as a relevant strategy. A second source of *opposition blockade*, lustration, failed in Poland as those who pushed it were not necessarily identified with neoliberal reforms. The source that advanced the most, as in Argentina, was the strengthening of veto players perceived as more conducive to keep market reforms in track. In Poland this took the form of empowering the leader of the Solidarity trade union Lech Wałęsa. The mechanism, however, did not succeed as in his quest to increase personal power Wałęsa alienated the more democratic neoliberals, as well as its own support base.[208] Eventually, the office passed to the opposition hands.

Electoral engineering was pervasive in Poland during the 1990s. Every parliamentary election, starting from the 1989 semi-free election that ignited the transition from communism, was preceded by a change in the electoral law and the concomitant struggle and calculations by the interested parties. Indeed, Poland had a different electoral law for the 1989, 1991, 1993 and 1997 elections. Each reform process, however, had two characteristics that decreased their efficacy as a source of *opposition blockade* (Benoit and Hayden 2004; Kaminski 2002). First, parties tried to maximize their own vote-share irrespective of that of other parties holding similar policy views. The relevant divide became increasingly that between big and small parties, instead of right and left. Second, a relatively low –although increasing- ability of parties to support the electoral rule that would actually maximize their vote.

[208] To be sure, neither Wałęsa nor Menem were outright neoliberals. They both came from labor-based organizations, and combined market reforms with a populist political style. This in fact made them subject to constant suspicion from the "original" neoliberals. For a comparison over these lines, see Weyland (1999a).

The clearest manifestation of electoral miscalculation came in 1993. Wary of the fragmentation effects that the highly proportional 1991 electoral law had produced (Benoit and Hayden 2004, 412; see Jasiewicz 1992), the largest parties in parliament favored a less proportional system with the introduction of several thresholds for representation. Supporters included most notably the liberal wing of Solidarity, the Democratic Union and the Liberal Democratic Congress parties –later merged into the Freedom Union (UW) party (Benoit and Hayden 2004, 412). The more fragmented TAN Solidarity camp was split between maintaining the status quo and supporting the reform proposal (Benoit and Hayden 2004, 414–5). The new law was approved, and in fact decreased the proportionality of the electoral system with the introduction of thresholds for individual parties (5%), coalitions (8%), and another 7% for a national seat list. The results of the election, however, were not favorable to all those who had supported it. Most notably, the election brought the post-communist SLD and PSL back into power, leaving the post-Solidarity formations heavyly underrepresented in parliament. Thanks to the decreased proportionality of the new system, with little more than one-third of the votes the ex-communists were able to control almost two-thirds of the parliament.

Drawing from the literature on electoral system design (see Benoit and Hayden 2004), one possible cause of the ineffectiveness of the electoral source of *opposition blockade* in Poland is that parties tried to maximize their seat share instead of privileging policy considerations i.e. selecting those electoral systems that would benefit parties having similar policy views independent of the specific results of any single party. On the contrary, as the results of the 1993 elections show, thanks to a terrible miscalculation by right-wing and neoliberal parties, the beneficiaries of the electoral change were the ex-communists who pulled Poland off the trajectory of orthodox neoliberalism (chapter 4).

The second source of *opposition blockade* to analyze is lustration. Lustration debates have been a constant in the polish political scene, most notably in 1992, during the SLD/PSL government in 1994-7 and during the PiS-government in 2005-7. The country adopted a lustration law in 1998, which is still valid. However, lustration was not necessarily aligned with market reform. Neoliberals, tended to support lustration only in its most minimal effects. The lustration law of 1998 that was supported by neoliberals in parliament has been characterized as rather mild and "civilized" (see Szczerbiak 2002a). In fact, it also received the support from the post-communist PSL and ex-SLD leader and President of the Republic Aleksander Kwaśniewski as a way to present themselves clean with the past and to dwarf the possibility of a more extensive or “wild” lustration law (Szczerbiak 2002a; Misztal 1999, 45).

On the contrary, those who backed lustration more fiercely –the TAN Solidarity parties- were not the fiercest advocates of neoliberalism.[209] Moreover, some lustration episodes launched by these parties had opposite effects. For example, during the PiS-led lustration process that implied an increase in scope and extension of lustration, and was declared unconstitutional in 2007, a review of the previous privatization processes was included. The result was to be that companies privatized in connection with communist networks or under suspicious circumstances should return to the state, thus reversing instead of supporting the market reform process (Horne 2009, 357).

The clearest source of *opposition blockade* in Poland came from a quest to increase the power of those veto players that were seen as more conducive to steer the market reform process. The polish reform path bears similarity with the Argentinean one in that it was accelerated by pressing political and economic situations, and launched under the imperative of quick reforms. In this context, the leader of Solidarity Lech Wałęsa attempted over and over to increase executive powers in order to insulate reformers and the reform path from social pressures. As early as 1989, Wałęsa vowed to grant the government extraordinary powers to embrace, in one coup, the whole set of economic reforms envisaged in the Balcerowicz plan, including privatization, state restructuring, and other reforms (Kowalik 2011, 132; 165). The plea was rejected, but the government got in return a “fast lane” congressional revision of all the relevant legislation. This was crucial for a quick passage of the most important legislation backing the Balcerowicz plan in only a few days and with no parliamentary least so public debate (Kowalik 2011, 132; Orenstein 2001, 32).

From 1990, Wałęsa presented himself as the ultimate guarantor of the economic reforms path. One of the reasons was his observance that the commitment of PM Mazowiecki to

[209] In David Ost’s (2005) famous formulation, lustration did serve the purposes of blocking opposition to neoliberalism as it managed to channel worker anger not into a socioeconomic divide -and therefore to support left-wing parties- but into a cultural divide and therefore diminishing the power of workers’ protest. TAN parties, however, did criticize neoliberalism and the continuation of market reforms, and provided –at least discursively- a critique that delegitimized continued reform efforts along orthodox neoliberal lines. As I have analyzed in chapter 4, this criticism was an important factor explaining the “unfolding” of the umbrella over neoliberal reformers, and the rise of a competitive center-left alternative. Ost himself has recognized that although not providing a full departure from neoliberalism, the center-left SLD/PSL government “was able to make (…) small but meaningful changes” (2005, 81).

carry the transition process through strict observance of parliamentarian democracy was in practice slowing the pace of reforms (Orenstein 2001, 32; see Jasiewicz 1997, 132). As Orenstein argued, "Wałęsa seemed inclined to prove that only he could hold the diverse strands of Solidarity together and keep a political 'umbrella' over the technocratic reform program" (2001, 39).

The presidency offered important resources in this context. Amidst the uncertainty about outcomes of the 1989 house and senate elections following the roundtable negotiations, the communists had re-introduced the presidency as a way to guarantee continued authority and oversee of the transition process (Jasiewicz 1997, 132–3; Howard and Brzezinski 1998, 136; Garlicki 1997, 82). The president therefore maintained significant legislative and executive powers, including the nomination of the PM and some ministers, responsibility for internal and external security as well as foreign relations, and the power to initiate and veto legislation, dissolve the parliament, and establish martial law (Jasiewicz 1997, 136–7; Garlicki 1997). Many of these prerogatives had been deliberately left unspecified, leaving ample space for interpretation. Not least, after the introduction of direct popular vote for president in 1990, the presidency enjoyed a higher legitimacy than the parliament, which by then was still a "contract" parliament (Jasiewicz 1997, 136; Howard and Brzezinski 1998, 139–40).

After winning the presidency, Wałęsa tried to use decree power to overcome the parliamentary deadlock and accelerate reforms. During the pro-market Bielecki government, Wałęsa backed a government-sponsored legislation -eventually rejected- that aimed to get temporary special powers for the government to be able to pass all withstanding market-reform-related legislation before the congressional election of october 1991 (Orenstein 2001, 40–1). Wałęsa made a last attempt -again rejected in parliament- to get decree powers to pass withstanding legislation during the pro-market –although weaker- Suchocka government in 1993 (Orenstein 2001, 51). Wałęsa's proposals for breaching the stalemate in congress and continuing the path of reforms included nominating himself as PM, which produced renewed fears of authoritarianism and parallels with other government takeovers by political strongmen in Polish history (Orenstein 2001, 44; see Jasiewicz 1997, 139).

In parallel, Wałęsa tried hardly to influence the discussions on the new constitution in order to introduce a semi-presidential system granting extensive powers to the president.

In his view, only a strong president could reinforce political support for continued economic reforms and maintain their coherence in the context of rising criticism and opposition (Johnson and Kowalska 1995, 208; Orenstein 2001, 38; Howard and Brzezinski 1998, 148). He proposed some drastic measures among which, virtually unlimited power to dissolve parliament, to nominate and dismiss the cabinet and the PM, and to declare state of emergency (Millard 2000, 50). This contrasted strongly with the congress' preferred parliamentary system with a weak president mimicking the German basic law (Howard and Brzezinski 1998, 139–41). After significant delays and deadlock, a decision was made to adopt a temporary legal corpus and maintain a constitutional commission working in parallel on a definitive constitutional text. The temporary 1992 text or Small Constitution basically provided a compromise between parliament and president maintaining, despite Wałęsa's complaints, most of the existing powers of the president plus additional ones (Howard and Brzezinski 1998, 144; 158; Jasiewicz 1997, 147). For example, similar to the DNUs in Argentina, it gave the possibility that the parliament could delegate special powers to government on pre-accorded areas and duration, and with a series of limitations on possible topics, e.g. international agreements, social benefits, personal freedoms and political rights. The provision was justified as necessary to prevent deadlock in public policymaking especially in the area of economic reforms (Howard and Brzezinski 1998, 146).

During the next years Wałęsa made a "maximalist" interpretation of these powers (Millard 2000, 51), most notably during the government of the center-left SLD/PSL government. According to one observer, "Wałęsa's general strategy sought the greatest possible discomfiture for the government" (Millard 2000, 51). He made presidential veto of legislation "almost a routine part of the legislative process" (Millard 2000, 51), and despite large governmental majority able to override vetoes in parliament, he still sent legislation for revision to the Constitutional tribunal thus significantly delaying policymaking. An important target of veto –eventually leading to the ousting of PM Pawlak in 1994- was the government's tax increase bill and a budget law involving spending increases (Jasiewicz 1997, 153). Wałęsa constantly threatened to dissolve the parliament, attacked the cabinet and the PM himself, and had an active role in the downfall of two prime ministers between 1993 and 1995 (see Millard 2000, 50–2; Jasiewicz 1997, 148–54). In fact, the relative policy moderation of the SLD/PSL government can be at least partly explained by Wałęsa's constant pressure (cf. Jasiewicz 1997, 149–50).

In 1995, however, Wałęsa lost the presidential election to the ex-communist SLD candidate, Aleksander Kwaśniewski, producing a reversal not only of the president's behavior but also of the drafts for the new constitution. Until then, the drafts for the new constitution -steered by the SLD-dominated constitutional commission- had been deeply influenced by a fear of a strong presidency, not least by Wałęsa's behavior itself (Garlicki 1997). However, wary of the possibility that his party may lose the next election, Kwaśniewski decided to re-introduce several presidential powers to the draft which were later confirmed and approved (Millard 2000, 42–53; Garlicki 1997, 84–8; cf. Zubek 2001). More significantly, the president remained elected by popular vote, which gives the office a legitimacy of its own independent of parliament –as well as a space to formulate her own policy. The president also maintained legislative initiative (not exclusive) and veto power over legislation. Kwaśniewski did not hesitate to use this veto in spite of his image as a relatively passive and compromising president, especially during the cohabitation with the right-wing AWS/UW government in 1997-2001. In fact, Kwaśniewski passed 14 vetoes (compared to none under the SLD/PSL government) (Zubek 2001, 216; see also Millard 2000). The delay in legislation that this vetoes implied most possibly contributed to the decrease in legislative efficiency of the AWS/UW government, increasing its internal quarrels, and helping in its eventual breakup (see also Szczerbiak 1998; 2004).

c) Argentina: Between curtailing and restoring labor power

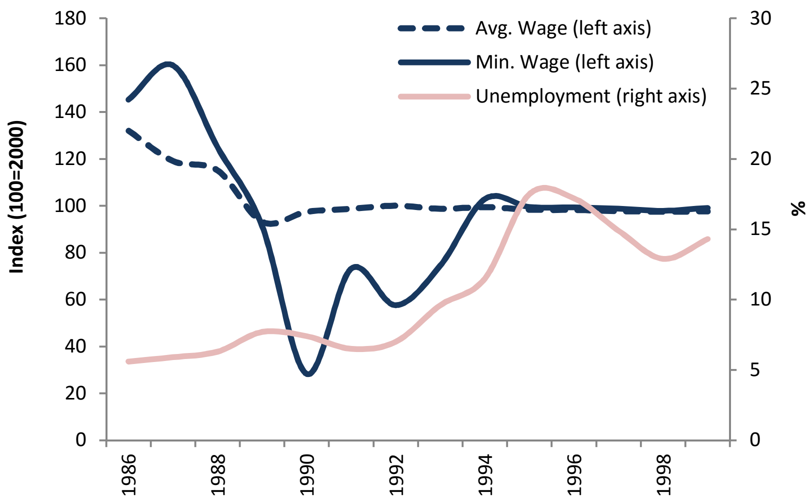
The Argentine labor movement was considered the strongest in 1970s Latin America. The high industrialization rate of the country (just over 30%), a strong organizational power through the all-union General Workers Confederation (*Confederación General del Trabajo*, CGT) relatively autonomous from political parties but with a direct link to the populist Partido Justicialista (PJ), and a labor market historically close to full employment were the basis of this strength (Drake 1996, 150–1; Etchemendy and Collier 2007, 369). This is precisely why the Argentine dictatorship was so harsh on labor. Through a combination of "extermination at the base and incarceration at the peak" labor suffered the “worst persecution in its history” (Drake 1996, 157; Pozzi 1988, 115). In fact, between one-third and a half of the people disappeared by the dictatorship were workers and union members (Drake 1996, 115; Pozzi 1988, 115).

The military Junta suspended collective bargaining and strikes, and prohibited unions' political activities. In 1979, the neoliberal technocrats in cabinet elaborated the "law on professional associations", a new labor law analogous to the 1979 Labor Code in Chile. Among other things, this law eliminated the privileges of union leaders (job security and long-term contracts), encouraged company-level bargaining –instead of the existing sectoral level-, enhanced state control over unions, and eliminated monopoly of representation slashing the power of the CGT (Drake 1996, 166; Pozzi 1988, 129). More crucially, it took the administration of the union welfare funds -*obras sociales*- away from the labor unions, significantly reducing the resources at their disposition. Similarly as in the case of Chile, this assault on unions' rights gave unions reasons to mobilize. Strike activity escalated in 1979, reached a peak during the crisis of 1981-2, and transformed unions into important promoters of democratization (Drake 1996, 167; 170–1; Pozzi 1988, 124–7).

At the return to democracy in 1983, structural constraints on union activity were high. The decline in industrial wage and industrial employment severely affected labor as a whole, and in particular, the sectors were workers were most combative and organized (see Drake 1996, 157–9; see also Azpiazu, Basualdo, and Khavisse 1986, 97; 103). In fact, this weakness contributed to the defeat of the labor-based PJ in the 1983 presidential elections (McGuire 1996, 179–80; Levitsky 2005, 191). The decline in union strength, however, came to a halt in the context of democratization and labor was able to face the second neoliberal experiment in the 1990s with recovered strength.

One crucial difference with Chile lies in the character of the Argentine democratization process (see Linz and Stepan 1996). A heavily delegitimized military government (after the 1981-2 financial crisis and the defeat in the Malvinas War) without a strong compromise with business nor an institutional framework to rule the process safeguarding the interests of the neoliberal bloc, undertook secret negotiations with the conservative wing of the PJ -the most probable winner of the 1983 elections- in order to persuade it away from conducting trials against the military (McGuire 1995, 189). In exchange, the military eliminated the restrictions of the new labor law, and returned the control of the welfare funds back to the unions. The labor movement successfully used these restored rights to reconstitute itself as a political actor during the 1980s. The attempts of the center-left Alfonsín government to favor its own current within the labor movement gave the pro-PJ CGT a common front to unite and fight.[210] The CGT staged a record of 13 general strikes during the six-year presidential period of Alfonsín, plus a number of other smaller conflicts (W. C. Smith 1990, 15; Murillo 2001, 133). The incorporation of labor leaders into the cabinet in 1987 as a way to pacify them signaled the return of the labor movement to the political arena.

Figure 68:
Argentina, Real wages and unemployment 1986-1999



Source: ECLAC.

Menem's sudden U-turn in the 1990s temporarily broke this regained strength. Unions found themselves caught between supporting their president and fighting against his labor-unfriendly measures. Menem's divide and rule strategy managed to split the CGT into several factions: the loyalist –and bigger- CGT San Martín and the moderately-critical CGT-Azopardo on the one hand, the more combative CGT-MNT and a new confederation (CTA) made of critical white-collar workers on the other (Etchemendy and Collier 2007, 369; cf. Etchemendy and Palermo 1998). As a consequence, unionization

[210] While the Alfonsín government was launched with the idea of a social-democratic compromise with labor, the president's party -the UCR- had been the historical rival of the labor-based PJ. As Murillo (2001, 132) expresses, there existed a historical mistrust between the PJ-dominated all-union CGT and the UCR. In this context, the government sought to -unsuccessfully- divide and rule by 1) increasing wages in order to entice unions, and 2) braking the monopoly of representation of the PJ factions inside the CGT.

rates almost halved, from around 67% of the labor force in 1986 to 38% in 1995 (ILO 1997). One additional factor helping the fractionalization within the union movement was the context of acute economic emergency in which the Menem administration took office. This scenario was characterized by a sudden drop in real wages (eroded by hyperinflation), and a rise in unemployment that favored acquiescence (see figure 68 above).

However, after the initial assault, labor was able to reconstitute itself once again and repeal further attacks. Unions rapidly re-united in 1992 using the infrastructure of the all-union CGT and managed to use their caucus within the PJ legislative majority to kill labor deregulation bills in the labor commission, forcing the government to change its strategy (Etchemendy 2001, 9; Etchemendy and Palermo 1998, 564; Murillo 2001, 150–1).[211] From 1994 a new Minister of Labor sought to design a new set of labor laws directly involving unions in the negotiation. The result of the new laws was a deregulation of labor markets only for new entrants, maintaining and reinforcing protection to old workers.

One key outcome of these negotiations was the maintenance of industry level bargaining. Interestingly, employers were not fully convinced of introducing company-level bargaining, especially in the manufacturing sector. Given the militancy of shop floor workers, branch level bargaining in the hands of a conservative union leadership had served historically to contain greater labor demands (Etchemendy and Palermo 1998, n. 7). In this sense, while businesses publicly voiced their support for flexibilization, in private they recognized they viewed company level bargaining as a greater danger.[212] The second victory for labor came from a set of compensations intended to win over its support for privatization, which served to strengthen its power resources. The Menem administration offered to assume all the debt accumulated by the workers welfare funds (Etchemendy and Palermo 1998, 566–7; 571). Additionally, the state offered juicy compensation packages to unions in key privatized sectors such as the non-competitive oil and steel sectors. For example, SUPE, the oil sector union federation was granted 10% of the privatized YPF oil company, while UOM, the metalworking federation got 20% of the privatized Siderar steel company (Etchemendy 2001, 18).

[211] Etchemendy (2001, 9) compares the efficacy of labor reform with that of privatization between 1989-1995. While in the latter 90% of legislation was approved, in the former approval was only of 40%.

[212] Argentina, Interview 1.

After the 2001 crisis, the left-leaning Kirchner government renewed the alliance between the PJ and labor unions, especially the all-union CGT. This new relationship was made possible by the strengthened powers of the labor movement following the compensations during the Menem administration, and the capacity of the CGT to gain autonomy from the party line (see Etchemendy and Collier 2007). During the 2000s, union membership reversed its gradual declining trend going from 38.7% in 1995, to 40.3% of the workforce in 2008.[213]

Summarizing, despite suffering a similar assault during the military dictatorship as Chilean labor, Argentine labor was able to reconstitute itself in the process of democratization. When the second neoliberal experiment came in the 1990s, labor had gone through a process of strengthening and mobilization against the Alfonsín government. While Menem was able to advance in deregulation and break union power in his initial years in office, unions were successful in limiting anti-labor measures. Labor managed to unite under the all-union CGT in order to defend labor rights and oblige president Menem to negotiate further reforms. This not only limited the reforms themselves, but also increased labor's power resources as a byproduct. The latter was more visible during the Kirchner administration when a strengthened union movement was able to support an alternative social bloc from a position of power.

d) Poland: the vestiges of workers' solidarity...

Polish neoliberals were as harsh with polish labor as in the other countries here studied. This was particularly significant in a country with a strong trade union history, and were a trade union, Solidarity, had been the crucial actor to throw away communism and open the way to democracy and the market not only in Poland but in the whole Eastern bloc.[214] According to the architect of Polish shock therapy, Leszek Balcerowicz, given the existence of strong unions and weak capitalists due to pervasive state ownership, at the beginning of transition Poland suffered from an "institutional imbalance within the

[213] Data from ILO.

[214] Some authors have stressed that despite its trade union origins and label, Solidarity was more a civic pro-participation movement including different civil society elements –among which workers- than a trade union fighting for workers' rights per se (see Kubik 1994). This view is challenged by those who stress the pro-worker charter that followed the 1980 protests, and the pro-union content of the economic agreements at the Roundtable talks (see Kowalik 2011; Ost 2005).

labour market" which needed to be quickly corrected (cited in Bléjer and Coricelli 1995, 71). The intellectual leaders of Solidarity supported the neoliberals' views, as they became increasingly wary about the possible negative consequences that a strong labor movement could have for the new market economy and the democratization process (Ost 2005, 39–40; Kowalik 2011, 37–9). Even Lech Wałęsa, the charismatic worker of the Gdansk shipyard and leader of Solidarity stated in 1989: "We will not catch up with Europe if we build a strong trade union" (cited in Ost 2005, 37).

One important source of labor demobilization came therefore from the activity of union leaders themselves, who sought to contain workers' demands, insulating neoliberal reformers from social pressures (see chapter 4). There were also several accompanying institutional measures (Kohl and Platzer 2004, 192–4; Meardi 2013). Company-level bargaining was established early on in the transition process –allegedly at the demand of the Solidarity union itself-, lowering the number of members for creating a company union –thus incentivizing fragmentation- and allowing non-unionized groups to negotiate collective agreements. Additionally, contrary to Solidarity's historical demands the new regulations dismantled workers' councils for the emerging private sector –they remained in place, however, for SOEs.

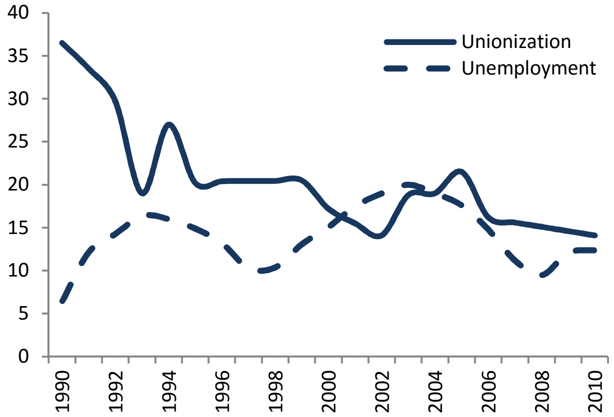
Another significant source of labor *blockade* was the so-called *popiwek.* Used under communism but reformed and re-launched during the liberal Mazowiecki government, the *popiwek* constituted the wage-freeze component of the Balcerowicz plan. It imposed a tax on wage growth above an indexation clause. Tax penalties ranged from 200% to 500% of wage increases above expected inflation, limits being renewed periodically (see Johnson and Kowalska 1995, 188–9). Initially it applied to both public and private enterprises. Quickly, however, it was imposed only on SOEs in order to support the growth of the private sector as well as to entice workers in SOEs to push privatization in hope for higher wages (Sachs 1994, 55–6; Kołodko and Nuti 1997, 25).

Despite this advances, and similarly as in Argentina, labor remained relatively strong as evidenced in the protest activity of the early 1990s that brought Solidarity governments down. Moreover, during this time labor was able to exact significant concessions that differentiate Poland from liberal Estonia. Among them, significant social spending in the form of old age and disability pensions (see Vanhuysse 2006), advantages in the acquisition of shares in privatized companies, and representation in sectoral commissions for industry restructuring (see chapter 6). Privatization negotiations included new collective bargaining provisions and employee protection, plus the establishment of company social funds (Gardawski and Meardi 2010, 74). As I argued in Chapter 4, due to their relation to industrial policy measures (higher company subsidies) and the business support base (maintenance of large state ownership, insider privatization), these concessions were significant in eroding the resilience of neoliberalism in Poland. The arrival of the SLD/PSL government implied a new wave of pro-labor measures (Ost 2005, 80–1; Kohl and Platzer 2004, 194–5). It abolished the *popiwek* and enacted a series of wage increases, established a Tripartite Commission for the negotiation of salaries and work conditions, and took the necessary steps to activate branch level collective bargaining.

However, unlike Argentina, two divisions severely weakened the ability of labor to profit from these improved conditions. The first is between public and private companies. The strength of the state sector *vis á vis* the emerging private sector meant that most of the concessions were valid only for state-owned companies and their employees. This is obviously true for the concessions related to the privatization process, but also other benefits such as the Tripartite Commission and the possibility to bargain at the branch-level were squarely reduced to state-owned companies. Thus the salary levels set at the Tripartite Commission were non-binding for the private sector, and private companies actually paid little to no attention to it (Gardawski and Meardi 2010, 74). Some authors stress this was in a large degree due to a general lack of organized interests at the sectoral level –most notably private employers (Kohl and Platzer 2004, 194–5; cf. McMenamin 2002). As the private sector grew, however, private employers showed a characteristic anti-union attitude and a lack of interest in extending collective bargaining beyond the plant level (Meardi 2013, 24).[215] As a result, the labor market has been segmented between private and public employment, with a tendency of the private sector (i.e. unprotected labor and non-unionized companies) to grow more rapidly, making for declining unionization rates. Since the years of transition, unionization declined to stabilize at a relatively low 15-20% in the 2000s (see figure 69). Although still more than twice the level of unionization in Estonia, it is about half the level present in Argentina.

[215] Private employers were incorporated to the Tripartite Commission in the early 2000s.

Figure 69:
Poland, Unionization and unemployment, 1990-2010
(%)



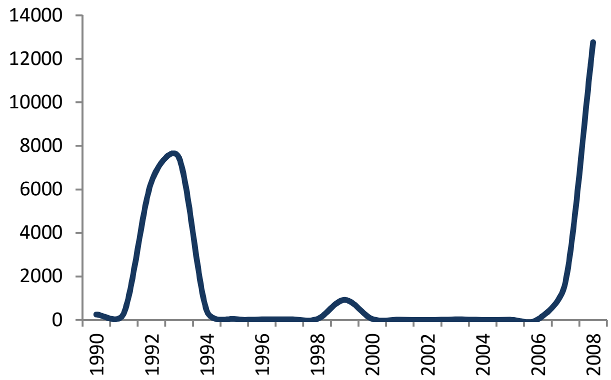
Source: Unionization=Visser (2013); Unemployment= Central Statistical Office.

The second division inside labor relates to the split in its representation between Solidarity and the ex-communist OPZZ union confederations, each of them relating to specific political parties (the TAN Solidarity parties and the ex-communist SLD respectively). It was in fact common during the 1990s that unions ran on party lists and elected members to parliament under these parties' banners (Meardi 2013, 18–9). In contrast with the case of Argentina where monopoly of representation maintained the cohesiveness of the union movement, competition between union organizations had a double-edged outcome in Poland. In the early 1990s it had the positive effect of allowing alternative channels of mobilization for worker protest, bypassing therefore the conservative Solidarity leadership that tried to demobilize the union movement. In fact, often the leadership of the Solidarity trade union called for protest actions only not to fall behind the more effective opposition strategies by contending union confederations, the ex-communist OPZZ and the splinter Solidarity-80 (Ost 2005, 75–6; Pleines 2008, 154; see also Ekiert and Kubik 2001, 105–6). Eventuality, Solidarity was forced to oppose its own government due to declining membership and ended ousting the Post-Solidarity Suchocka government (Orenstein 2001, 49; Ost 2005, 75–6).

However, competition between union confederations had the negative outcome of decreasing union power due to constant infighting (Ost 2000, 105–6; see Gardawski and Meardi 2010). For example, each union tried to make excessive demands when the competing party was in power, thus eroding the work of the Tripartite Commission (e.g. Gardawski and Meardi 2010, 76–7). Solidarity was merciless with the relatively pro-labor SLD/PSL government, but lenient with the pro-market Solidarity government in 1997 and vice versa. This situation was more strongly seen in the context of EU accession when the attempts of the SLD administration to reinvigorate multilateral social dialogue were rejected by the Solidarity union (see Gardawski and Meardi 2010, 77–80).

All in all, however, despite the far from perfect operation of the social dialogue structures (see Ost 2000), the institutionalization of instances such as the Tripartite commission and sectoral dialogue structures maintained at least the possibility of a stronger union involvement in policy matters. The latter turned significant in the context of the 2007-8 crisis. Polish unions started a wave of protest against the expected job cuts and government austerity measures that stands in contrast with the previous years of labor acquiescence, and are reminiscent of the early 1990s protest wave (see figure 70). This marks a stark difference with Estonia, where notwithstanding the devastating effects of the crisis, unions -and society at large- remained surprisingly calm. The protest wave in Poland forced the government to negotiate measures against the crisis with unions and employers using therefore the social dialogue structures constructed more than a decade ago (see Czarzasty and Owczarek 2012).

Figure 70:
Poland, Strikes and lockouts 1990-2008
(annual nº)



Source: ILO, Laborsta database.

III. Conclusions

In this chapter I have analyzed the mechanism of *opposition blockade*. Four sources of opposition blockade have been identified, electoral rules, veto players, labor market institutions and lustration -for the case of Eastern Europe. Electoral engineering was most notable in the case of Chile, were an “innovative” electoral system allowed to boost the representation of the right and shrink that of the left throughout all the democratization period, and until today. In Estonia, the ethnic politics context and the contrasting socioeconomic fates of ethnic groups during transition made possible the direct exclusion of the losers of reform from political participation, i.e. restricting voting rights to the sizable Russian-speaking minority. This not only prevented the representation of this group, but also trumped the emergence of political parties aiming to represent them.

Failed attempts to manipulate electoral laws in Argentina and Poland serve as counterfactuals to understand the circumstances that affect the efficacy of "electoral" *opposition blockade* as a mechanism of neoliberal resilience. In Chile, it was an authoritarian government and the context of an expected democratization process that made the center-left opposition validate the restrictive electoral laws as a way not to trump the process; in Estonia, it was the ethnically-charged independence process which allowed to disenfranchise about one-third of the population. In Argentina, weak military actors (due to the situation of crisis and defeat in the Malvinas War) were not able to institutionalize a political framework favorable to the maintenance of the status quo; in Poland, electoral calculations and engineering proved useless as a way to improve certain groups' power. Here, inability to calculate results was crucial for self-defeating strategies by political parties, and self-oriented rather than policy-oriented- motives for electoral manipulation produced electoral alliances that ran across existing cleavages. Electoral sources of *opposition blockade* depended thus on specific contextual conditions for their activation. Effective experiences in Chile and Estonia suggest neoliberal blocs in these countries were able to clearly identify the groups to block, and to institutionalize a highly exclusionary democracy restricting their representation. At the same time the identification of these groups was more policy-oriented -i.e. blocking those who would support certain policies over others- rather than partisan oriented -i.e. blocking or privileging specific political parties.

Argentina and Poland advanced considerably in strengthening the veto power of specific institutional players that became the bulwark of neoliberalism. In both countries this implied increasing the executive power of presidents as opposed to parliaments were opponents to neoliberalism were more strongly represented, thereby projecting a "delegative" type of democracy. As a mechanism of neoliberal resilience, however, this was effective as long as office holders remained neoliberal. As the two cases show, the time of the neoliberals in office proved too short to be able to entrench neoliberalism more deeply -especially in the case of Poland. Most significantly, the mechanism backfired when opponents managed to be elected to the same veto positions -more especially in the case of president Kirchner in Argentina. The limited impact of this source of *opposition blockade* appears related to a sort of personalization of the chances of neoliberal resilience instead of their institutionalization *per se*. In this direction, for example, beyond the maintenance of Pinochet as political player for a long time in Chile, the veto players installed by the Chilean dictatorship relied more in institutional counterbalances to the possible representation of opponents -e.g. the unelected senators preventing majorities in the upper house, or the COSENA's legislative oversight. Therefore the idea that Chile constituted a case of "tutelary" democracy.[216]

With respect to labor, both Chile and Estonia are examples of the establishment of labor market institutions that severely reduced labor power (e.g. company level bargaining, recognition of non-unionized negotiation groups, inexistence of work councils and declining rates of union membership), which also promoted a regulatory environment permissive of business practices seeking to constantly curb the few regulations in place. Unions were markedly weak and unable to influence policymaking, least so become viable coalitional partners for an alternative social bloc. In Poland and Argentina, by contrast, a context of democratic opening and political competition decreased the chances of labor market sources of *opposition blockade*. This was more evident in Argentina, where unions capitalized on a left-leaning government to reinstate their monopoly representation and negotiation power in the 1980s. This allowed them to face a new neoliberal project from a power position in the 1990s. The need to negotiate concessions with unions eroded the consistency of neoliberalism in Argentina, and served at the same time to consolidate union power making it a valuable coalitional ally for an alternative social bloc in the 2000s. In the case of Poland, in spite of the gradual eroding of labor

[216] See Rabkin (1992). For an interpretation of Estonia as a tutelary democracy, see Pettai (2009).

power through unfavorable labor market institutions as well as competition between union organizations, labor was able to exact concessions at the beginning of transformation that eroded the consistency of neoliberalism and opened the way for the quest for an alternative social bloc. Although social dialogue structures declined in importance with time, they provided a valuable institutional resource for union's involvement in policymaking during the 2007-8 crisis.

CHAPTER 8

CONSTITUTIONALIZED MONETARISM

In this chapter I analyze the third of three mechanisms of neoliberal resilience, *constitutionalized monetarism*. The term applies to the solidification of the institutions in neoliberal developmental regimes so that they are harder to change if opponents manage to increase their power resources and present a threat of backlash. I identify and review two sources of *constitutionalized monetarism*: central bank independence and fiscal rules.[217] While the first insulates the price stability goal of monetary and exchange rate policy from political considerations, the second limits the use of public expenditure to support IP schemes.

The empirical expectations for constitutionalized monetarism to serve as a factor contributing to neoliberal resilience are: 1) that either central bank independence or fiscal rules are pursued by neoliberal blocs, 2) intending to constrain the room of maneuver of future governments, and that 3) they can be proved to effectively do so.

Constitutionalized monetarism has been pervasive in all four cases. This chapter tries to disentangle its effects on neoliberal resilience by analyzing the actors that carried it and their motives, differences in the two sources -central bank independence and fiscal rules-, and their relation to the other two mechanisms reviewed in chapters 6 and 7.

I show that *constitutionalized monetarism* clearly strengthened the resilience of neoliberalism only in very specific cases, usually -but not always- when it was explicitly designed to bind the hands of future governments. The chapter shows that it is difficult to

[217] A third source of constitutionalized monetarism that will not be analyzed here is the signing of Free Trade Agreements (FTAs) both at the bilateral and multilateral level, which bind the development of tariffs and other support measures. Under the same idea falls the entry to transnational integration regimes of different nature such as the WTO or the European Union. For an analysis over these lines see Fazio and Parada (2010, 73–98) for Chile and Feldmann and Sally (2002) for Estonia.

disentangle the effects of constitutionalized monetarism from those of the other two mechanisms, *creation of supporters* and *opposition blockade*, and that in several cases these other mechanisms appear as the true responsible for the operation of central banks and fiscal rules. In fact, the experiences of Estonia, Argentina and Poland are indicative of a mechanism that depended crucially on the underlying political and business bases of support (positively in Estonia, negatively in Argentina, mixed in Poland). Chile is perhaps the clearest case of *constitutionalized monetarism*, although only in the case of central bank independence.

As in the previous chapters, I present the analysis in two sections, one dedicated to the cases of neoliberal resilience and the other to those of neoliberal discontinuity. Each section develops the two sources of constitutionalized monetarism in each case -central bank independence and fiscal rules-, and follows the above distinctions between actors, motives an relation to other mechanisms.

I. The discreet charm of tying the other's hands…

a) Chile: between restraint and commitment

Chile shows two episodes of constitutionalized monetarism: the independence of the Central Bank (1989), and the Law on Fiscal Responsibility limiting public expenditure (2006). As we will see, only the first was enacted as a way to limit the upcoming center-left government's policy alternatives. The latter, on the contrary, was implemented by center-left governments as a sign of commitment to fiscal austerity. While this does not properly fall in the definition of constitutionalized monetarism we have here proposed (i.e. constraining the policy room of opponents to neoliberalism), it has nevertheless made stronger industrial policy measures harder to achieve as they have depended on *ad hoc* revenue increases.

The Chicago Boys were the first in proposing an independent central bank already in the mid-1970s. The first step was to promulgate a new charter prohibiting both the financing of public and private companies, as well as of fiscal deficits, although maintaining the bank's subordination to the government (Fontaine 2001, 394–5). Autonomy of the bank from political authorities was later enshrined in the 1980 Constitution, albeit with the inclusion of rather vague clauses requiring a further organic law for specification (Boylan 1998, 451). The initial discussions on the new organic law envisaged converting the Central bank into a currency board (Fontaine 2001, 395). The 1982-3 crisis, however, and the strong criticism of the fixed ER policy cooled off the process. Strong dependence of the central bank on the government was important to permit the bailout of the banking system in distress, enact a number of pro-business measures (e.g. subsidized exchange rate to repay debt) and to allow a relatively expansionary monetary policy in the years to follow. Therefore, discussions on the bank's organic law resumed only in 1986. A commission was then formed, whose stated purpose was to "isolate –as much as possible- the management of monetary policy from the political process" (Fontaine 2001, 397 translation is mine).

It is no secret, however, that the military authorities rushed to finish the new law once they lost the 1988 plebiscite and in the context of a high probability that the center-left *Concertación* would win the upcoming presidential elections. In this sense, central bank independence was clearly one of the many ways by which the dictatorship sought to tighten the policy room of maneuver of the future political authorities. In fact, as Boylan (1998, 444) stresses, "[t]he Chilean central bank reform of December 1989 is a textbook case of the sort of institutional insulation we should expect to see in the wake of a transition". As a matter of fact, the law was promulgated together with another set of policy-binding regulations only a few days before the presidential elections (see Huneeus 2007, 439–442). Moreover, the law was attached to one of the Constitution's supermajority thresholds requiring four-sevenths (57%) of Congressional approval in both chambers for any change.

The dictatorship's project implied the fixation of the Central Bank in price stability only, and included strict independence of the monetary policy council formed by four members plus the Bank's governor. Members of the council served for a period of ten years[218] and could only be removed against accusations of not fulfilling the Bank's mandate. The dictatorship's formula for the first council was to nominate four members loyal to the regime, and one independent. *Concertación* leaders were extremely critical of the content of the project and its timing. Most objections were directed toward the extreme

[218] Under the idea not to renew the council enterily each time, the first council members were given staggered mandates of 2, 4, 6, 8 and 10 years.

independence of the Bank as well as the insulation of the monetary council (Bianchi 2008, 14). They considered that the military authorities wanted to introduce "'a parallel economic team' that would destabilize the economic policies of the new government" (Bianchi 2008, 15; Boylan 1998, 455) and mounted a strong public opposition contesting the legitimacy of the new central bank and the moral authority of the dictatorship to bind future economic policy after having lost the plebiscite (Bianchi 2008, 15). Future Minister of finance, Alejandro Foxley, warned that:

> "as soon as the new government is elected, we will propose substantial modifications to the law granting autonomy to the central bank (cited in Bianchi 2008, 15).

The dictatorship officials were clever enough to understand these threats would eventually destabilize the new central bank even though the future government would most probably not have the votes in Congress –thanks to the combination of electoral laws and high constitutional thresholds. Negotiations were then carried with the *Concertación* to polish the Central Bank organic law. Negotiators arrived to a new formula whereby the new council would be formed by two members close to the dictatorship, two members close to the *Concertación* and one independent (the 2-1-2 formula). Minister of interior and negotiator on the dictatorship's part Carlos Cáceres observed that the new quota represented a way to assure stability in the transition, as any other combination was either not desirable for the regime or would be dismissed as illegitimate by the entrant government (Boylan 1998, 456).[219]

The *Concertación* quickly gave up its plans to change the bank's charter. According to Ricardo Ffrench-Davis, a renown *Concertación* economist working at the Central Bank between 1990-2 recognized: "we were convinced that we couldn't [change the law] because we lacked the majority in the senate, and we knew that we would lose" (cited in Boylan 1998, 457). Given the impossibility to change the Bank's law in Congress, the *Concertación* tried to conquer it by staffing it with loyal officials. To be sure, they did

[219] Other concessions were also given in order to increase the legitimacy of the project in the eyes of the future authorities. Among them, the possibility for the Finance minister to attend meetings of the monetary policy council with right to voice (but not vote), and some prerogatives like a 15-day temporary suspension of the council's resolutions and veto power on the imposition of exchange controls –both can be overridden by the unanimity of the council. The final law also incorporated a clause stipulating that in pursuing its price stability objective the bank should "have in mind the general economic policy orientation of the government". This "have in mind" [*tener presente*] clause was left explicitly ambiguous to buy the acquiescence of *Concertación* economists. See Fontaine (2001, 400).

not mean to overhaul the monetary policy council as such –they also didn't have enough votes in Congress to do so- nor openly contest the price stability mandate of the Bank. The idea was however to increase the coordination between monetary and fiscal policy, as well as to try to use existing institutions to push a secondary objective, namely, export promotion. In the early 1990s, the *Concertación* managed to alter the composition of the council and have three out of five members from its files (two Christian Democrats and one PPD) plus one independent.[220] This allowed it to conduct a less orthodox monetary policy. Most significant were the adoption of an exchange rate bands regime and the imposition of capital controls to stop the massive entry of hot capital (see Chapter 3). Given the context of high economic growth and capital inflows, these changes allowed the government to smooth a strong pressure toward ER appreciation, therefore maintaining export competitiveness (Ffrench-Davis 2003, 284–5; Frenkel and Rapetti 2010; Fontaine 2001, 413–4). These arrangements, however, ran potentially contrary to the existing institutional provisions and balance of forces, and were condemned to be defeated once they entered into direct conflict with them.

In 1996, right-wing parties in Congress managed to block another *Concertación* nomination aiming at maintaining the 3-2 favorable imbalance. In exchange for passing the nomination in a second round, it got an agreement that future nominations would take into account the 2-1-2 equilibrium established in 1989 and that right-wing parties would be consulted to place candidates close to their line (Novoa 1999). In terms of ER policy, the harmonization between the price stability and the export competitiveness goals became more and more an outright conflict in the context of the Asian/Russian crisis in 1997, and was finally solved following the Bank's mandate: price stability (see Morandé and Tapia 2002). After the Asian crisis had passed, the bank established a free float plus inflation-targeting framework, dropped capital controls and turned all its efforts to prevent a rise in inflation. In the view of the more critical *Concertación* economists, this led to an overshooting of interest rates that further accentuated the ongoing recession (Ffrench-Davis 2007, 10–1). These developments made some senators from the socialist party propose the idea to make monetary council members directly accountable for their responsibility in the economic downturn, and include in the bank's charter the objectives

[220] From 1991 to 1996 the monetary policy council was formed by its president, Roberto Zahler (DC), Pablo Piñera (DC), Jorge Marshall (PPD), María Elena Ovalle (independent) and former vice-president of the bank during the dictatorship Alfonso Serrano.

of employment and growth in order to avoid what they saw as a fatal policy mistake (*El Mercurio* 1999). The idea did not prosper amidst criticism and lack of political support.

The idea, however, resurfaced in 2006 in the context of the negotiation surrounding the Law on Fiscal Responsibility (see below). Together with limits to public expenditure, this law established a fund to re-capitalize the Central bank as it still held an important passive due the bailouts of the 1982-3 crisis and the sterilization maneuvers intended to prevent ER appreciation in the 1990s. In exchange for supporting the law, a group of congressmen from the Socialist party proposed to change the charter of the Central bank (*Estrategia* 2006b). Two changes were demanded: one to its objectives, incorporating those of economic growth, employment and competitiveness, and one to its accountability, changing the requirement to "inform" the congress to that of "report" (*dar cuenta*), under the idea to make it closer to the US Federal Reserve. According to a first-hand participant, the initiative was closely related to the need to change ER policy, and counted with support from a handful of business associations in the tradable sector (competitive and non-competitive) suffering from ER appreciation.[221] The attempt failed miserably. The reforms did not entice the cooperation of the Ministry of Finance, nor of the more moderate Christian Democrats in the governing coalition, least so of the Central bank officials who lobbied against the law (*Estrategia* 2006a; *Estrategia* 2006c). In the end, the first indication –to change the bank's goals- was declared outright unconstitutional, whereas the second –to increase accountability- was rejected in the Senate.[222]

The second source of constitutionalized monetarism was the implementation in 2006 of a structural balance policy under the "Fiscal responsibility Law" (Fazio and Parada 2010, 123–33). The law was designed to institutionalize the 1990s informal commitment to maintain fiscal accounts under equilibrium, and the formulation coined during the Lagos administration that fiscal expenditure should follow an anti-cyclical character and aim for a long-term 1% surplus. While the first was zealously pursued during the 1990s, the pro-cyclical nature of public expenditure in a context of fast economic growth activated demands to further bind public expenditure at the end of the 1990s (cf. De Gregorio, Tokman, and Valdés 2005). In 1999 the fiscal balance was deficitarian for the first time

[221] Among them, ASOEX (exporters of primary products) and ASEXMA (exporters of manufactures). Chile, Interview 9.
[222] See República De Chile Diario De Sesiones Del Senado Publicación Oficial Legislatura 354ª Sesión 36ª Ordinaria, miércoles 19 de julio de 2006

in 13 years, putting pressure on the government of socialist Lagos –who took office in 2000- to quickly bring it back in check. Lagos' economic team designed a fiscal rule that would become later the Law on Fiscal Responsibility. According to it, an advisory board would set every year the parameters of long-term fiscal income and define the spending figure compatible with this trend. All excess revenue would be deposited in two funds to be invested abroad: the FEES (social-economic stabilization fund) and the FRP (pension reserve fund). Furthermore, a self-imposed 1% fiscal surplus target was added, meaning that the government could only spend between the 1% surplus and the projected structural income (Escobar 2013, 286).[223]

The new fiscal policy rule later on transformed into law allowed president Lagos both to show commitment to fiscal restraint, as well as to maintain –although not increase- the level of public expenditure during the crisis years. The administration of socialist Michelle Bachelet obliged to the new fiscal law and maintained the 1% fiscal rule, despite resistance of *Concertación* parties in congress. To her favor, the context of high foreign exchange inflows –due to the boom in commodity prices- and excessive exchange rate appreciation –which led analysts to warn the risk of *dutch* disease- made the management of foreign exchange critical. In this scenario, the maintenance of foreign exchange revenues as external savings in the FEES and FRP funds helped ease the pressure on the ER, albeit producing strong criticism on the conservatism of fiscal policy.

In sum, *constitutionalized monetarism* seems to have worked in the case of central bank independence in order to prevent a change to a more embedded ER regime attempted by the *Concertación* during the 1990s. Despite the attempts made by a *Concertación*-led central bank to include a competitiveness goal in the exchange rate regime, the conflict between the price stability mandate of the bank and the competitiveness goal was solved in favor of the former once they started to openly collide. Failure to do so could have implied accusation and removal of members of the bank's council. Discontent with the action of the bank, members of the Socialist party unsuccessfully tried to change the bank's charter. Here, it was *opposition blockade* (high quorums to change the law, as well as legislative initiative restricted to the executive) which prevented a change. There was therefore a combination between *constitutionalized monetarism* and *opposition blockade*.

[223] This 1% surplus was destined to re-capitalize the Central Bank.

In the case of the fiscal rule, however, implementation under socialist Lagos due to a perceived need to signal a commitment with fiscal austerity does not strictly fall in the domains of *constitutionalized monetarism*. In fact, the rule was not designed as a way to constrain the future government, which eventually was also a *Concertación* government. Moreover, the upcoming *Concertación* government ratified the rule rather than tried to eliminate it. In this sense, the adoption of the fiscal rule seems to confirm the hypothesis that the lack of a business support base for an alternative social bloc was a significant factor explaining the resilience of neoliberalism in Chile. In fact, socialist Lagos was particularly attacked by the business community before and after taking office (see chapter 3). In a context of economic crisis, high unemployment and declining presidential approval, by committing to fiscal austerity -among other things- Lagos sought to win the favor of the domestic business elite led by the financial and competitive sectors. Now, the fiscal rule did constrain public spending in the future, making it necessary to find additional sources of funding to finance the more progressive industrial policy plans of a sector of the *Concertación*. The need to bargain this additional funding with the right in Congress (the tax on copper sales) indeed limited the possibilities of a more embedded industrial policy (see chapter 3).

b) Estonia: the "virtuous circle" of neoliberal institutions

Strict institutionalization through central bank independence and fiscal rules has been a characteristic of Estonian neoliberalism. Both were introduced early on in the transition from communism as part of the ideological commitment of the Estonian elite with neoliberalism. In the context of an already reduced base for the constitution of alternative social blocs (given the extent of *support creation* and *opposition blockade* analyzed in chapters 6 and 7), central bank independence and fiscal rules have further diminished the possibilities of such groups when they have managed to arrive to power positions - especially in the case of center-left parties in government. The role of the Currency Board in binding the whole Estonian developmental regime into a neoliberal trajectory cannot be overstated. Chances to affect the exchange rate have been practically closed by it and its strict institutionalization in the constitution has prevented any modification of the currency board itself. A surrounding set of policies and institutions have also constrained the room of maneuver for fiscal policy, reinforcing the operation of the currency board and restricting the possibility to use industrial policy. Apart from a brief moment during 1997-8, there have not been government coalitions in Estonia without the staunch defender of the currency board, the neoliberal Reform Party. It is therefore difficult to assess the individual causal role of *constitutionalized monetarism*. There is evidence, however, that the need to maintain the currency board has been used as a discourse justifying internal adjustment processes and austerity measures.

The choice of a currency board to rule monetary and exchange rate policies dates back to the fight for autonomy and the independence from the Soviet Union. Prospects for monetary reform to introduce Estonia's own currency were first elaborated in the context of the struggle to gain economic autonomy from the Soviet Union in the late 1980s and became serious matter when Estonia severed economic ties with Russia in mid-1991. In a scenario characterized by economic turmoil in the ruble zone, shortage of currency, hyperinflation, and emergence of alternative payment devices (checkbooks, local currencies), and given the lack of experience with running a Central Bank in more than fifty years, Estonian authorities viewed the necessity that the new currency and the respective monetary policy environment had two characteristics: simplicity and credibility (Kukk 2007; see Laar 2002, 118–9; Sörg and Vensel 2000, 114). Siim Kallas, governor of the Bank of Estonia and considered the father of the currency reform, was fond of a monetary arrangement that could mimic the transparency and simplicity of the gold standard. He was also positively influenced by the experience of monetary stability with a gold standard in interwar Estonia (Knöbl, Sutt, and Zavoiceo 2002, 6–7).

Now, the establishment of a strict monetary environment least so a Currency Board and an independent central bank were by no means an obvious alternative. A special committee set up by PM Tiit Vähi at the beginning of 1992 to accelerate currency reform worked in a project that implied an active central bank and the need to borrow large external funds to sustain currency convertibility (Knöbl, Sutt, and Zavoiceo 2002, 11). The Bank of Estonia under the lead of governor Kallas remained working in parallel its own concept of monetary reform. This conception was backed by a mission of foreign experts that came to Estonia in the middle of the preparations for currency reform. The experts had previously advised the governments of Poland and Slovenia favoring exchange rate pegs as nominal anchors. They suggested the idea of a currency board to Kallas, who rapidly embraced it given the coincidences with his own preferences. This served Kallas to win the initiative and in April 1992 it was announced as the chosen mechanism for the currency reform of june 1992. According to a close participant, the decision to limit credit to government -as well as to commercial banks- was crucial in the choice of the currency board over other possible arrangements (Kukk 2007, 18). After hesitating and advising against it at first, the IMF came to endorse the proposal and helped in the preparations.[224]

In may 1992 the Estonian congress (Supreme Council) rapidly passed the necessary laws to make the currency board see the light in june. These established the currency peg (8EEK=1DM) as well as the provisions for changing it, and the related institutional arrangements. In concrete, only the parliament can change the peg; the BOE was banned from extending credit to the government and its assets had to be kept strictly separated from the state budget. Additionally, the parliament passed in 1993 a law making a balanced budget an obligation (Laar 2002, 181). To be sure, as Kukk emphasizes, the "[e]stonian monetary system does not completely rule out an independent monetary policy, *but the monetary policy decisions taken by Bank of Estonia can be only restrictive, not expansive*" (Kukk 2007, 18 itallics added). Two such instruments are in central bank's hands: allowing a temporary +-3% fluctuation of the ER peg and tightening reserve requirements of banks in order to constrain liquidity. In practice, only the latter has been used.

Support for the currency board was facilitated by a stringent economic situation in 1992 that required quick action, as well as the connections between the currency reform and the national cause. According to Kukk in those years "own currency and national independence were synonyms" (Kukk 2007, 20; see also Knöbl, Sutt, and Zavoiceo 2002, 21). This intimate relation also permitted to separate the economic effects of the introduction of the currency board, namely a tight contraction of economic activity in 1992 and 1993 and a number of company banruptcies, from active opposition to it. As former PM Mart Laar recalls "[t]he enthusiasm with their 'own' money helped people live through all the difficulties and the unpopular decisions following the currency reform" (Laar 2002, 125).

[224] Skepticism on the IMF part was due to the belief that it was unrealistic that Estonia would meet the harsh fiscal and monetary policy requirements of the currency board (see Knöbl, Sutt, and Zavoiceo 2002, 8; 12; also Laar 2002, 117). It also feared that the Estonian example of monetary independence would be followed in other soviet republics provoking major turmoil and a final blow to an unstable Soviet zone (Laar 2002, 114).

This context favored support from the political elite and limited the understanding of what were the full consequences of such arrangements. In effect, Laar himself recognizes that:

> "[t]he fact that politicians who outwardly supported the currency board were at the same time sure that after monetary reform the central bank or government would continue to deliver 'cheap credits' to inefficient factories and collective farms indicates that many politicians probably never understood exactly what they had supported" (2002, 122).

This understanding came to be realized gradually when the effects of the currency board as well as the room of maneuver it left to economic authorities started to become apparent. The first such moment was an acute banking crisis triggered by the dissolution of the Soviet Union, when the currency board was just being introduced.[225] The crisis exploded at the end of 1992 when Russian banks froze foreign exchange deposits of Estonian banks, creating a strong credit contraction and a chain of failures. Prime Minister Laar and Bank of Estonia governor Kallas announced very quickly that no bail-outs would be provided, not even to the state companies under stress (Fleming, Chu, and Bakker 1996, 14; 20). In spite of the relatively small size of the domestic banking sector, and the possibility of -limited- bailouts in the currency board law, the economic authorities rejected any bailout that would impair the ongoing disinflation process as well as the hardly fought balanced budget (Laar 2002, 179–81; 187–8). Most importantly, they stressed the need to set a precedent not to encourage future risk-taking actions (Laar 2002, 185; also Fleming, Chu, and Bakker 1996, 14; 20). The coincidence of this crisis with the process of independence limited the critiques to the mechanism. In fact, as some banks were suspected to have ties with Russian mafias, the authorities could resort to nationalist sentiments to justify their actions (Laar 2002, 188; 191–2).

Timid expressions of discontent with the currency board started to appear during the KMÜ-Reform Party government. Members of the senior government alliance (the center-left Coalition and Country People's Union, KMÜ) criticized them under different grounds, some people even expressing the desirability of modifications. The coalition

[225] Before political independence and following the Soviet Law on Economic Independence (1989) private banks mushroomed. They exploited the existing loose supervisory rules of the pre- and post-independence times to generate fast private gains, rapidly engaging in excessive lending, high interest rates and corporate practices that "bordered illegality" (OECD 2000a, 105–7; see Fleming, Chu, and Bakker 1996, 29).

had promised increases in subsidies to farmers and improvements in social policy, and did not approve of the principle of a balance budget. In this context, while members of the populist Country People's Union proposed to merge Central Bank reserves with those of the Treasury in order to allow higher public spending, members of the Coalition Party advanced the idea to change the staffing procedures of the Bank of Estonia in order to appoint more responsive officials (*Baltic News Service* 1995a; *Baltic News Service* 1997b). PM Vähi joined the critiques, although in a more cautious tone (*Baltic News Service* 1995d; *Baltic News Service* 1997a). These critiques became more real as the turmoil of the Asian/Russian crisis in 1997-8 spread rumors of a possible devaluation. MPs from the center-left Center Party consulted central bank officials for the possibilities of devaluation and what were the potential mechanisms (*Baltic News Service* 1998d). Experts proposed the possibility of leaving the currency board after the crisis had passed. Pautola and Backe (1998, 98), for example, suggested the possibility to flexibilize the currencuy board through a gradual move away from full coverage of the monetary base - i.e. increasing room of maneuver for monetary policy-, and establish a new exchange rate regime, either using ER bands as envisaged in the EMU accession process or move to a fully floating system.

Central Bank authorities as well as the Reform Party in parliament were strong to defend the currency board and criticize these ideas. More importantly, they remained confident that the currency board was institutionalized enough to make changes extremely difficult. Interestingly, the limits to change the currency board lied not only in the need to count with congressional approval. As Kallas himself explained, a hypothetical parliamentary discussion for changing it would take several weeks, requiring the currency board to stop money circulation altogether through that period in order to prevent speculation (*Baltic News Service* 1995f). In this sense, the very way the currency board worked made it difficult to take the decision of a change.

In this context, the response of the authorities was to strengthen the currency board mechanism and the institutions reinforcing it. With the advice of the IMF, the government announced the creation of a Stabilisation Reserve Fund (SRF) were fiscal surpluses would be deposited in order to reduce domestic demand, and thus attenuating the pro-cyclical effects of the currency board (OECD 2000a, 96–9; Bank of Estonia 1999, 14). The SRF was used to withdraw liquidity from banks by transferring public savings abroad and to sterilize money proceeding from some large privatizations. In march 1999 the balance of the SRF amounted to 3.5% of that year's projected GDP (OECD 2000a, 99).

The context of EMU accession and the arrival to government of center-left forces in 2005 reactivated the debate on the current monetary and fiscal policy framework. First, the rural People's Union (former Country People's Party) proposed to have a referendum to decide on EMU accession (*Baltic News Service* 2005a). Given the extent of euroscepticism in the population -particularly with regards to EMU-, the chances for a NO vote to prevail were not small (cf. Feldmann 2008, 252). The demand however, proved short-lived among widespread rejection by other political parties and fierce opposition by officials from the Bank of Estonia (*Baltic News Service* 2005b). More importantly, these maneuvers were more a strategy by center-left-cum-populist parties to win the vote of a fairly eurosceptical electorate rather than a critique of the price-stability culture or the currency board itself (Mikkel and Kasekamp 2008; Feldmann 2006b; 2008). In fact, direct challenges to the currency board framework have been largely absent even in the context of the 2007-8 crisis. Then, the possibility of devaluation was rejected by the whole political spectrum, including center-left parties.

The government configuration of 2005 also brought demands of increasing spending into the coalition's agreement, spurting debates on fiscal policy. The tight balance budget laws enshrined in the Constitution, led the People's Union to propose the utilization of the excess revenue saved in the Reserve Fund for spending purposes (*Baltic News Service* 2005c). This idea sank with not enough support in parliament. Debates on fiscal policy resurfaced amidst the 2007-8 crisis. As argued in chapter 5, the right wing government in office saw in the dramatic downturn of economic activity the possibility to meet the criteria for the long-wanted EMU accession. This entailed supporting the disinflationary adjustment process led by the currency board, and the necessary austerity measures to maintain the balanced budget. Against the criticism from center-left parties in congress, in 2009 -the hardest hit year when economic activity sank by 13.8%-, successive austerity packages capped some 10% of planned expenditure (Raudla and Kattel 2011, 171). As discussed in chapter 5, one conspicuous victim of these caps was the development of the past years in terms of greater embeddedness of industrial policy. The ability of Estonian authorities to keep the public deficit in track, and the disinflation process associated with the crisis response were crucial in making Estonia fit for EMU accession in 2011.

In sum, the implementation of a currency board in Estonia was made possible by the political context of the early independence days. Reasons behind it were as much practical (no experience with activities of a central bank, lack of currency reserves) as they were political (constraining room of maneuver for monetary and fiscal policy). While this framework has received very few criticisms, in those moments were it has, its strict institutionalization has prevented more serious attempts at changing it, as was the case in the proximity to the Asian/Russian crisis. More importantly, the currency board has provided an umbrella over the rest of economic policy, and has justified decisions in terms of fiscal policy. The commitment to maintain the fiscal policy rule during crisis episodes appears as crucially tied to the maintainance of the currency board. Although it is not possible to test whether the currency board actually constrained the room of maneuver of governments with more interventionist policy orientations, it is safe to say that the maintainance of the currency board –and more broadly, of a price-stability economic policy goal- has provided an anchor for political discourse and justified policy decisions that have supported the resilience of neoliberalism in Estonia.

II. The perils of institutionalization: on rooms of maneuver and power relations

a) Argentina: do the ties really bind?

Argentina introduced both central bank independence and fiscal rules during the 1990s, but neither managed to prevent the departure from neoliberalism in the 2000s. While the currency board and the independent central bank managed to tightly bind policymaking for more than a decade, its enactment by president Menem in 1991 had more to do with showing commitment to market reforms, than to the intention to tie the next government's hands. And even when the De la Rua government did receive these arrangements as a "straitjacket", they did not prevent an ultimate exit. Similarly, fiscal policy rules were never really considered as actually binding and governments periodically curbed them. The case of Argentina shows therefore, that even the most stringent institutionalization does not preclude a substantial challenge against neoliberalism when the right actors pull it together.

Up to 1990 the Central Bank of the Argentine Republic (BCRA) constituted a typical post-war keynesian central bank which had to balance the objectives of economic development and high employment with that of monetary stability, and was subject to political authority from the government who nominated its authorities and determined the direction of the Bank's monetary, exchange and financial policy (see García 1990, 67; 70). The possibility to use credit from the Central Bank to finance fiscal deficits was seen in the context of the 1989-1990 hyperinflation as one of the main reasons for the inflationary spiral, as well as the detrimental state of the Bank's accounts and patrimony –the so-called quasi-fiscal deficit. This, in turn, was interpreted as one of the main reasons why the numerous stabilization programs of the last few years had failed (see Starr 1997, 90–1).[226]

When assuming office the neoliberal Menem government proposed to change the Central Bank's mandate narrowing it to the sole objective of safeguarding monetary stability and strengthening its autonomy (García 1990). The exchange rate stabilization program known as the "Convertibility Plan" which introduced a currency board arrangement in march 1991 included such change to the BCRA law. The new regulations implied not only the fixation by law of the 1-1 parity between the peso and the US dollar, full convertibility of the peso to foreign exchange and the obligation to maintain 100% coverage of the monetary base with foreign reserves. It also included a series of regulations institutionalizing Central Bank independence. The law sharply restricted the BCRA's ability to finance fiscal deficits and took the already restricted decisions on monetary policy away from the Ministry of Economy. In turn, a Central Bank council of ten members plus its president was created, subject to the nomination by the president of the Republic and approval by the Senate. Council members including its president would serve for six years, with the need of a special congressional commission and accusations of not fulfilling the bank's mandate in order to remove them.

One important difference from a pure currency board, the BCRA was allowed to freely set the limits to reserve requirements for banks and to back up to 20% -later expanded to 30%- of the monetary base with public bonds. While these two provisions have been mentioned as actually easing the constraints of a classical currency board, *de jure* giving the possibility to conduct monetary policy as well as to finance fiscal deficits, other

[226] For the stabilization programs of the 1980s and early 1990s, see Chapters 2 and 3.

authors have highlighted that in practice they actually set a limit to the ability of the government to take up debt in order to finance its deficit (Bonvecchi 2002; see Starr 1997, 88–9).

Analysts of the Menem administration stress that the Convertibility law was strictly necessary to signal the commitment with neoliberalism of a government that was a constant suspect of possible policy backlashes (e.g. Starr 1997; Acuña, Galiani, and Tommasi 2007; Frenkel and Rapetti 2010; M. Pastor and Wise 2001; Heredia 2011). As Spiller and Tommasi acknowledge (2008, 74) in the context of past stabilization failures and lack of confidence in the authorities, "credibility can be temporarily achieved only through very rigid mechanisms" and this is exactly what was done with the Convertibility law and the related regulations. In this sense, the convertibility law became the essential anchor of the renewed Argentine neoliberalism and its supporting social bloc (see Chapter 3). The creators of the Convertibility law saw the possibility of a future flexibilization of the mechanism once confidence in the new government was established (Heredia 2011, n. 15). Contrariwise, the more orthodox Chicago Boy advisors of the president advocated the need to strengthen it (Cherny 2009, 117–8; 122). In ant case, when Minister of Economy Cavallo flirted with the idea of changing the ER parity from USD to a basket of currencies, financial markets reacted with a swift run on the Argentine peso. This made clear that the faith of the neoliberal developmental regime depended crucially on the maintenance of the currency board (Starr 1997, 95; Frenkel and Rapetti 2010, 31–2).

The ability of the currency board to withstand the Tequila crisis in 1995-6 and quickly restore growth and capital inflows –despite the huge cost in terms of unemployment and poverty, and the need of sizable IMF loans to face liquidity constrains- helped to confirm these commitments (Starr 1997; see M. Pastor and Wise 1999). The business community at large backed the permanence of Menem in the presidency as the only one capable of steering the boat through rough waters (see chapter 4). The quick control of the chronic high inflation and the years of high growth that followed the implementation of the currency board, were enough signs that the crisis had an external origin and that the current arrangements could still deliver once the crisis passed (Novaro 2009, 476–7).

The real challenge to central bank independence and the continuity of the currency board scheme came with the 1999 elections and the assumption of the center-left Alianza coalition. The new minister of economy José Luis Machinea had been critical of the currency board, but saw no possible escape due to its strict institutionalization:

> "that is one of the problems that convertibility clearly had; that it was a trap and we had thrown the key to the bottom of the sea. And I think that is exactly what you should not do in economic policy".[227]

In fact, the law-like institutionalization of the currency board needing a majority in parliament that the government was far from having precluded any change. Additionally, even if a temporary majority was achieved, any change would have to pass the dictamination of the pro-Menem Supreme Court able to reverse legislation (Cherny 2009, 210–3).

Wary of the problems of the currency board, the inability to easily change it, and also the risks of an exit in the context of domestic and international economic turmoil, the authorities opted for a "wait and see" option trying to gain time through half-way measures to maintain the mechanism and waiting for the storm to pass to try and introduce any change. Minister of Economy Machinea recalls that in conversations with domestic and foreign analysts as well as business actors, everyone thought that the US dollar would eventually depreciate, commodity prices would go up, and Brazil would devalue, all conditions that would have significantly alleviated the external constraints facing Argentina.[228] In fact the government rejected the option of strengthening even more the policy framework through a dollarization, hoping that the improved external scenario would soon materialize. Dollarization had already been discussed and proposed by Menem to the IMF and enjoyed the support of the neoliberal bloc (Cherny 2009, 123; Novaro 2009, 546–7; Castellani and Schorr 2004, 69–71). Menem went as far as to create a special secretariat in charge of developing a series of political texts about the benefits of dollarization. According to one government member however, this implied the definitive closing of all alternatives:

[227] Argentina, Interview 8.
[228] These were not empty predictions as they materialized a few years later, when the Argentine crisis had already unraveled.

> "we were already in there with convertibility. Now, to put the country, dollarize, and close any future possibility I thought was just *too much*. At least there had to be an open door"[229].

In spite of the straitjacket provided by the currency board framework, as economic conditions hardened, around 2001 an alternative bloc started to emerge proposing changes (see chapter 3). First it was the non-competitive sector which despite the huge arrear of debt denominated in foreign currency, proposed the need to exit the mechanism; second, without explicitly saying it, the labor movement and the increase in social protest showed that the population would not withstand the internal deflation process that the currency board entailed. In this sense, the issue of neoliberal continuity turned from an institutional problem to a political one. The slow but effective formation of an alternative social bloc with strong societal actors calling for the demise of neoliberalism – epitomized in an exit from the Convertibility law- ultimately set the limits of the *constitutionalized monetarism* mechanism.

In the scenario of economic crisis and the emergence of a social bloc backing an exit from the price stability framework, Argentine presidents used their prerogatives to overhaul the institutions that held together Argentine neoliberalism. Already during 2001 President De la Rua had complained about the lack of responsiveness of the Central Bank to help with the crisis, and used his decree powers to reform the Bank's organic law making it possible for the president to remove the bank's governor, then in the hands of Chicago-Boy Pedro Pou. The decree also directly established the monetary policy measures that the authority sought, i.e. a reduction in reserve requirements in order to inject liquidity to the economy (Bonvecchi 2002; Novaro 2009, 594). Furthermore, he used decree powers once more to change the parity from peso-dollar to a relation between dollar and euro in an –unsuccessful- attempt to depreciate the Argentine peso (Novaro 2009, 594). In january 2002, interim president Eduardo Duhalde managed to get Congress pass a Public Emergency Law eliminating the 1-1 parity and the currency board. It is true that these steps were taken only in the context of acute emergency that the Argentine crisis triggered in 2001 and 2002. This notwithstanding, they do show the possibility of exiting a strict institutional mechanism if the right societal supports are in

[229] Argentina, Interview 8.

place. One former Central bank governor and Ministry of Economy during the Menem administration expressed his frustrations with this situation in the following terms:

> "If someone proposes today something similar [to a currency board] I would say there is not such a thing like an institution that cannot be destroyed by the incumbent government".[230]

The new authorities did not change the independence of the Central Bank nor its objective around price stability. However, the more progressive governments that followed the crisis (interim Duhalde and especially Kirchner and Fernández) established a radically different relation between the formally independent Central Bank and the political authorities. The strategy was to staff the Central Bank with loyal collaborators. Now, without the necessary votes in parliament, center-left governments used a peculiar strategy: in order to avoid negotiation they bypassed the Senate which was in charge of approving the president's nominations for the monetary council, and nominated instead interim governors and members of the council which could be done by presidential decree.[231] Thereby, the government maintained the ability to fulfill the vacant posts at discretion and change them whenever deemed necessary, without the necessary approval by the Senate requiring a political negotiation, and avoiding introducing council members for the full constitutional period. This was in fact the expedient used with three of four Central Bank governors between 2002 and 2004.[232] Reasons for the changes were the policy differences with the Ministry of Economy with regards to bank bailouts, debt-renegotiation with the IMF, and the exchange rate regime (see Lavagna 2011).[233] After the ousting of Martín Redrado as governor of the BCRA in 2010[234], half of the decision posts at the Central Bank including its president, vice-president and the Supervisory board of financial institutions were occupied by interim members. Using these expedients, the government de facto came to have prominence in the definition of monetary and exchange rate policy. According to one Central Bank executive:

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[230] Argentina, Interview 15.

[231] The possibility had been introduced in 1999 before the government of De la Rua took office. The regulation authorized the government to unilaterally nominate temporary members while the Senate finished to nominate titular members.

[232] Roque Maccarone (January 2002), Aldo Pignanelli (November 2002) and Alfonso-Prat-Gay (September 2004). Mario Bléjer voluntarily resigned (April 2002) but because of deep disagreements with the Minister of Economy (Lavagna 2011).

[233] Argentina, Interview 11.

[234] Redrado was removed by a decree given his rejection to capitalize the Treasury in order for the government to pay debt due in 2010. The Supreme Court declared the decree invalid and he returned to office, but resigned anyways given the pressures from the executive.

> “in practice, we work today with a monetary policy that is totally passive and that convalidates the policy decisions that emanate from the executive, especially from the Treasury”[235].

Projects to change the Central Bank law altogether were presented by the Kirchner government in 2007. The idea was to incorporate the objectives of employment and support of economic activity in the Bank’s charter, and increase coordination with government authorities (Blanco 2007). The change was finally achieved in 2012 under the presidency of Cristina Fernández. According to one newspaper the law implied in practice “to return to the Central Bank its historical role of promotion of productive credit, accompanying the policies formulated by the government” (Zaiat 2012).

Argentina also flirted with the idea of establishing a fiscal rule. This was done during the Menem presidency, only a few months before the De la Rua government took office as a way to constraint the room of maneuver of the new government. The Law on Fiscal Responsibility set a ceiling for public deficit starting with the level of 1999 and declining gradually until achieving "zero deficit" in 2005. Most significantly, the outgoing Menem administration elaborated a budget for the entrant De la Rua administration under these premises, including reductions in public employment and social policy funds (Novaro 2009, 565). The new authorities were forced to abide given the critical economic situation inherited and the need to show commitment to fiscal restraint in order to maintain capital inflows alive –as well as the IMF rediscount line (Novaro 2009, 565; Bonvecchi 2002). The limits were nevertheless repeatedly violated and even ignored in the context of the 2001 crisis and the further developments in the Argentine economy.

The Law on fiscal responsibility also created the Anti-cyclical fiscal fund (Fondo Anti-Cíclico Fiscal) to save fiscal revenue for countercyclical policy.[236] It set minimum floors for the contribution of Treasury resources to the fund (1% in 2000, 1,5% in 2001 and 2% from 2002) until de fund build up to 3% of GDP. Resources accumulated could be use in cases of downturn of the economic cycle (with a maximum withdrawal of 50% of the fund) and to pay external debt in the case the fund exceeded 3% of GDP. Resources could be invested in foreign exchange and central bank instruments. The fund, however, was suspended during the duration of the crisis. In 2005, the Kirchner administration re-

[235] Argentina, Interview 11.

[236] Ley 25.152, infoLEG database, Centro de Documentación e Información, Ministry of Economy. http://infoleg.mecon.gov.ar/infolegInternet/anexos/60000-64999/60039/texact.htm

floated the idea. The purpose was to deposit excess fiscal surpluses and help withdraw foreign exchange from the market in the context of a strong inflow of foreign exchange and high economic activity. This was supposed to help reinforce the ER policy of maintaining a high and stable ER, as well as to control an already high figure of public expenditure in the context of increasing inflationary pressures (see chapter 3). The Fund, however, was ephemeral and in practice died with the resignation of its proponent Minister of Economy Lavagna in late 2005. In fact, despite announcements by the government that the Fund was in full operation and that it accumulated several thousand USD, journalists found that it had actually been deposited in a special account of the Treasury were, far from taken away, the resources were made fully available to cover current expenses (Donovan 2009).

b) *Poland: neoliberal institutions under permanent assault*

As in Argentina, the institutionalization of price stability has been contentious in Poland. Significant advances in the formalization of central bank independence were achieved with the negotiations surrounding the 1997 Constitution. In the paper, the National Bank of Poland (NBP) became one of the most independent in the world. Polish authorities have also tried to institutionalize fiscal austerity, through fiscal spending and deficit rules. In practice, however, these measures have remained contested and have been subject to explicit attempts to curb their original purpose. Central Bank independence has been an outcome more of who has been in charge of leading monetary policy, than of the arrangements themselves. In fact, both before and after the 1997 Constitution, central bank independence and the autonomy of its policymaking was under heavy fire by center-left and populist parties. Before the 1997 constitution, center-left parties in government managed to bargain and affect central bank policy decisions. After 1997, center-left and especially populist parties have politicized the nomination of members to the monetary policy council as a way to influence the bank's decisions. This became more patent during the PiS government. In the case of fiscal rules, even center-right governments have shown that despite strict institutionalization, the ability to interpret rules allows for creative ways of circumventing them. This record of contention notwithstanding, the institutionalization of central bank independence was crucial to bring the Polish developmental regime back toward neoliberalism. In fact, Central bank independence was key to maintain price stability as the main policy goal during the dominance of center-left and populist parties in the 2000s.

The first law on Central Bank independence was passed by the communist government in early 1989. The banking act transformed the communist monobank into a modern Central Bank, establishing a two-tier banking system composed of a set of commercial banks -state-owned banks to be privatized- plus the Polish National Bank (NBP) as a lender of last resort. Epstein (2002, 7) claims this law already included important independence measures, and was influenced by strict advice from external actors, for example, the USAID. However, independence in this early stage was actually not high by international standards. In fact, international measures of central bank independence placed Poland together with the laggards in East-Central Europe and in the group of countries performing way worse in terms of economic reforms such as Albania, Croatia, Macedonia, Ukraine and Uzbekistan (Cukierman, Miller, and Neyapti 2002, 242). In these years the NBP had among its goals to cooperate with the government in formulating the country’s economic policy. Moreover, it was the government and the lower-chamber (Sejm) who were in charge of formulating monetary policy, while the NBP only had to implement it (Leszczyńska 2011, 58–9). Even the 1992 law accompanying the so-called Small Constitution, which was said to increase the bank's independence, maintained several measures of government decision and interference on monetary policy. The law, for example, kept alive avenues to finance budget expenditures (Leszczyńska 2011, 60). According to one account, the say of the NBP on monetary policy was rather symbolic as it was de facto set by the finance minister in the draft budget (Leszczyńska 2011, 61).

However, the concentration of power in the hands of central bank governor made it possible for a neoliberal-oriented governor to wield significant power. Once policy guidelines were passed by the Sejm and introduced in the budget, the NBP governor was perceived to be relatively free to set interest and exchange rates (Kowalczyk 1995). In 1992 president Wałęsa nominated Hanna Gronkiewicz-Waltz as NBP governor. While not particularly neoliberal at the beginning, Gronkiewicz-Waltz quickly developed more hawkish orientations and tried to use monetary policy to combat inflation (R. A. Epstein 2008, 55–6). This led to quarrels over the role of monetary policy, interest rates and exchange rates in particular, during the center-left SLD/PSL government. Given that the government still enjoyed ample powers with respect to the definition of these policies, it was able to bargain with NBP governor and impose its policy preferences (see chapter 4). In 1995, the SLD/PSL government announced a law to modify decision-making arrangements within the central bank. The idea was to dilute the authority of the NBP governor and politicize the NBP decisions by introducing a monetary policy council staffed by the government, the Sejm, and the banking industry -by then still overwhelmingly in the hands of the state (*Polish News Bulletin* 1996). The law also reinforced the principle that the NBP should cooperate with the economic and social policies set by the government. The neoliberal parties in parliament (especially the Freedom Union -UW-) and NBP officials presented the opposite legislation piece strengthening the bank's independence and exclusive focus on price stability.

The debate about the NBP law got enmeshed with the broader discussions around the new Constitution, which strengthened the position of the neoliberals. In fact, despite enjoying enough votes in parliament to pass the Constitution on its own, the center-left SLD and PSL parties were forced to negotiate with the strong parliamentary and extra-parliamentary post-Solidarity opposition threatening to boycott the referendum on the new constitution if they were not included significantly in the process (Millard 2000, 50; Howard and Brzezinski 1998, 149; Osiatyński 1997, 66). Neoliberals were also heavily supported by international financial institutions in the elaboration of the bill proposal, as well as in the preparation to defend it publicly (R. A. Epstein 2008, 57–8). Although no conditionality was attached, the European Commission made sure to clarify it was the neoliberal's version of the bill the one which conformed better to EU legislation, and therefore, the one securing a more steady accession process (see R. A. Epstein 2008, 58).

The result of the negotiations was very close to the bill supported by the neoliberals (R. A. Epstein 2008, 57–8). In fact, after the 1997 law the NBP became the most independent central bank in East-Central Europe and one of the more independent in the world (see Cukierman, Miller, and Neyapti 2002). The neoliberal UW agreed to include the monetary council proposed by the SLD/PSL in exchange for a strengthening of the independence of the NBP and its exclusive fixation on price stability.[237] Independence was accepted by the center-left SLD/PSL as an anticipation of EU accession (Zubek 2006, 201); they expected, however, that the influence over the monetary council would be enough to upset an NBP too much centered on price stability. Conversely, for the UW

[237] Poland, Interview 6.

the introduction of the council was a fair price to pay to strengthen the bank's independence (*Polish News Bulletin* 1998).

The new Monetary Policy Council was to be composed of nine members proposed in equal proportions by the president, the Sejm and the Senate. The president was also to elect a 10th member, the chairman, with a decisive vote in the event of ties. The new NBP law included a ban on state borrowing from central bank, put the NBP in charge of both developing and implementing monetary policy, and included an exclusive objective on monetary stability. The law created a second administrative organ, the NBP board, in charge of implementing the monetary policy set by the council as well as preparing technical material for decision-making. It included two deputy governors who can attend council meetings and have a right of voice, but not vote. They are nominated by the NBP governor with approval of the President of the Republic and the prime minister. The NBP president has a relative ample room for changing the organization of this board and assign competences.

The first monetary council was elected in 1997 by a right-wing dominated parliament and senate, securing for it a rather "hawkish" composition (cf. *Polish News Bulletin* 2003). This was further reinforced with the election of Leszek Balcerowicz to chair the board when the period of Gronkiewicz-Walt came to an end in 2000. Soon, the SLD/PSL bloc realized the results of the negotiation had not been well calculated. One participant in the negotiations expresses "[w]e had the monetary council but the result was not very exciting".[238]

The two consecutive governments that followed the right-wing AWS/UW, tried to alter the central bank law. The common idea was to politicize its decision making structure reducing its excessive independence, and to force a closer cooperation with the government in pursuit of wider economic policy objectives. In 2002, the center-left SLD-UP/PSL government sent a bill to congress to include in the NBP mandate the goals of fighting unemployment and promoting economic growth. Proponents wanted to affect the bank's restrictive interest rate policy, as well as the overvalued ER (R. A. Epstein 2002, 14–5). The proposal added six new members to the NBP's Monetary Policy Council and proposed to go back to the situation in the early 1990s when it was the

[238] Poland, Interview 6.

government and the Sejm to develop monetary policy, and the NBP only to execute it (*Polish News Bulletin* 2002b).

However, the constitutional character of the NBP law made it difficult to change. As the interested actors acknowledged, while the two-thirds support in congress for constitutional changes was not ready available, any change through ordinary law would probably be ruled unconstitutional by the Constitutional Court (Zubek 2006, 202–3). There are indications, moreover, that both the IMF and the EU commission strongly opposed any such moves (Zubek 2006, 203). This had a crucial impact inside the SLD, the senior party in the governing coalition and main responsible to carry the EU accession period, which ended dropping its support for the bill (see Zubek 2006, 203; R. A. Epstein 2008).

The 2005-7 period witnessed a renewed and fiercer assault on central bank independence. A Self-Defense/PiS sponsored law was sent in 2006 proposing again to reduce the independence of the NBP through altering its decision making organs, giving authority over monetary policy to the government, and introducing among its objectives those of employment and growth (Maciejewicz 2006b; Maciejewicz 2006a). While Self-Defense was strongly in favor of eliminating the monetary policy council *tout court*, after realizing they didn't have the votes to pass the high constitutional threshold it proposed allowing an easier removal of council members and of the NBP governor. This produced fierce criticism by the EU Commission. Allegations that the law did not comply with EU legislation helped defeat it in parliament.

As a second strategy, the coalition vowed to change the NBP from the inside, i.e. use available resources to staff NBP with allies. The occasion presented itself when NBP governor Balcerowicz ended his term in office in 2007. After several months of delay, PiS leader and president of the Republic Lech Kaczynski nominated to the post not an economics professor nor a financial specialist, but a close collaborator, generating widespread criticism in financial and business circles (*Polish News Bulletin* 2007b).[239] The appointment of Sławomir Skzrypek was explicitly understood as a way to overcome the problems with the proposed central bank law. As the vice-president of the populist

[239] The new governor Sławomir Skzrypek had worked under Kaczynski's orders at the National Audit Office, and the Warsaw City Hall, and had been appointed by him to the management board of the state-owned Pekao bank.

Self-Defense acknowledged, "if president Skrzypek will take care of the economy, as he said during the parliamentary oath, then maybe a change in the law will not be necessary”[240] (Grochal and Baj 2007).

Skrzypek proved loyal to the government, even if this did not necessarily pay in terms of policy outcomes. During the PiS-led government, Skzrypek was the only council member that always voted against interest rate hikes (see *Polish News Bulletin* 2008a). Most significantly, Szrypek tried to increase his influence by way of controlling the NBP organs at its disposition (*Polish News Bulletin* 2008b). He forced the resignation of the two deputies at the NBP board, and put new loyal collaborators under control of the analytical departments in charge of producing technical documents to back the decisions of the monetary policy council. A true battle behind the scenes broke away between chairman Skzrypek and the rest of the monetary policy council about constitutional duties and the capacity of the chairman to enact such changes. Members of the council complained that the new staff was intentionally providing information leading to interest rate cuts as governor Skzrypek wanted. Skzrypek even set up a parallel Academic Council to furnish him with high quality scientific advice in order to countervail the opinions of the monetary policy council. Despite the woes and warnings that the NBP was losing credibility as well as its international standing, Skrzypek's attempts did not manage to substantially change the policy direction of the NBP. On the contrary, they antagonized the other monetary policy council members, who often voted against Skrzypek's preferences (see *Polish News Bulletin* 2008a).

In the case of fiscal policy, Poland made several attempts at institutionalizing conservative fiscal spending rules. The 1997 constitution already incorporated a 60% limit on public debt, anticipating again the need of future compliance with the Maastricht criteria. This was also part of the negotiations between the center-left parties with majority in parliament and the right-wing opposition. The ceiling was the price to pay in exchange of the left parties will to introduce explicit economic rights into the constitution (Howard and Brzezinski 1998, 151).[241] According to one participant, the negotiation was again seen as highly beneficial for the left: "In this time, the relation of the public debt to

[240] "Jeśli prezes Skrzypek będzie dbał o gospodarkę tak, jak powiedział w sejmowej przysiędze, to może zmiana ustawy nie będzie potrzebna".
[241] The right to social security, which was retained from the 1992 Small Constitution, had served in the past as the basis for decisions by the constitutional tribunal limiting cuts in social benefits (see Osiatyński 1997, 75). Another participant, suggest that the inclusion of social rights into the constitution came at the expense of introducing central bank independence. See Bugaj (2014).

the GDP was some 38%, so 60% it seemed practically inaccessible. So it was generally accepted"[242].

The public finance act of 1998 specified two further thresholds, at 50%, and 55%. Each threshold included increasing spending limitations in order to avoid reaching the 60%. Above 60%, the government is banned from borrowing, which means public finance has to be in balance or surplus (Rutkowski 2007, 3). Two further attempts to limit public spending took place during the SLD-UP/PSL and the PiS/LPR/Self-Defense governments in the context of pre- and post-EU accession and the obligation to meet the Maastricht criteria. The first implemented the Belka rule, which proposed that real expenditure could not grow more than 1% annually. The second proposed the so-called "fiscal anchor", a 4-year nominal ceiling on public deficit of PLN 30 billion.

All these efforts have been unfruitful to bind public spending. The latter two deficit rules have been too weakly institutionalized to be effectively binding (see Rutkowski 2007). While the first was dismissed by lack of political will, the second was subject to “creative accounting” transferring expenditures from one year to the other, and from central government institutions to independent agencies not covered by the rule. Even the debt ceilings enshrined in the constitution have proven to be subject to interpretation. In 2010-2011, the center-right PO/PSL government crossed the 60% boundary, which would have triggered according to the constitution the immediate obligation to balance the budget for the upcoming year. However, the government managed to bring the figure down using two strategies. First, it lobbied the NBP to get the transfer of a higher amount of its annual profit to the treasury (*Country Report Select* 2010).[243] Second, it changed the definition of public debt excluding from its calculus the highly deficitarian social security funds, thus improving the debt record.[244] With these two moves the government managed to avoid the 60% threshold and its consequences in terms of austerity.

[242] Poland, Interview 6.
[243] Poland, Interview 8.
[244] This had been a large dispute with the ECOFIN. See Zubek (2006, 212).

III. Conclusion

This chapter has shown that central bank independence and fiscal rules have been part of neoliberal projects affecting the resilience of neoliberalism in one way or another in all these countries. However, strictly speaking not all these are cases of *constitutionalized monetarism* as a mechanism of *neoliberal resilience* i.e. wherewith opponents to neoliberalism found institutional limitations to change existing neoliberal policies[245].

The motives to implement central bank independence and fiscal rules have differed. Central bank independence has been implemented in two cases (Chile and Poland) as a way to bind the hands of future governments, in one case (Argentina) to show commitment to a neoliberal policy regime and in another (Estonia) as a mix between pragmatic considerations and ideological convincement. In the case of fiscal rules, they were adopted in one case to bind the hands of future governments (Argentina), in two cases to show commitment to a neoliberal policy regime (Chile and Poland), and in the last case out of ideological commitment (Estonia).

Chile and Estonia show a strong commitment to central bank independence as well as fiscal spending rules. A closer analysis at the relation of these two sources of *constitutionalized monetarism* shows, however, that often their impact on neoliberal resilience has been mediated by the other two mechanisms analyzed in chapters 6 and 7: *creation of supporters* and *opposition blockade*. In the case of Estonia, for example, no substantial opposition has been mounted against the currency board. At the same time, the push for stronger industrial policy has been restricted to the post EU-accession episode. In this sense, constitutionalized monetarism served rather as a reinforcement of the commitment to price stability in exchange rate and industrial policy, and as a stop sign for political parties wanting to increase public spending. In fact, no business sector or political party has voiced a substantive opposition to the maintenance of the currency board. Additionally, although the need to balance the budget was used as a justification to cut the incipient industrial policy developments in the late 2000s, lack of political as

[245] Of course, it remains an empirical question whether future governments trying to change neoliberal policies, especially in Chile and Estonia, will find in central bank independence and fiscal rules a crucial limitation to their prospects. In the case of Estonia, EU and EMU accession permitted if not a definitive lock, an even higher degree of constrain to possible changes.

well as business support for them appear as the ultimate causes for their gradual retrenchment (see also chapter 5).

In the case of Chile, *constitutionalized monetarism* seems to have been effective in the case of central bank independence. This was so when the more progressive *Concertación* factions attempted to use existing institutional instruments to set an exchange rate framework consistent with export promotion in the early 1990s. As I showed, Central bank independence limited the prospects of this strategy and contributed to tighten neoliberal monetary policy and exchange rate alternatives when the strategy started to openly conflict with price stability. Fiscal rules, however, have not been devised as a strategy to bind future policy alternatives, but rather to show the commitment of center-left governments to a neoliberal developmental regime, and therefore as a way to entice the cooperation of business sectors. It has nevertheless, affected the possibility to use a more active industrial policy as it has required proponents to find new financial resources. As in Estonia, retrenchment of these developments during the center-right Piñera administration is a sign that the ultimate cause of neoliberal resilience in industrial policy in Chile was the lack of political and business support.

It is possible, however, that the sole existence of central bank independence and fiscal rules limited the availability of policy alternatives and their proposal by interested parties and business sectors. There is some indicative evidence pointing to this. For example, in the second half of the 1990s Estonian right-wing parties as well as Central bank officials were active in showing the legislative limitations to change the currency board as a way to dispel the possibility of any change in the context of rumors of devaluation. A similar thing happened in Chile, where the center-left *Concertación* declined any attempt to change Central Bank independence at the beginning of democratization knowing they did not have enough votes in parliament. Moreover, when they did attempt it many years afterwards, they were defeated clamorously.

The cases of Argentina and Poland shed some light on the issue and indicate that *constitutionalized monetarism* acted as a mechanism of neoliberal resilience in only a handful of situations -at the most- and should be understood as contributing to it rather than as its cause. While in Argentina the constitution of an alternative social bloc -and the circumstances of the 2001 crisis that surrounded it- limited the effect of both the independent central bank and of fiscal rules, in Poland, central bank has been under permanent threat and contestation, while fiscal rules have been subject to "creative" interpretation therefore curbing their impact.

In Argentina, Central bank independence was sought as a way to show commitment to neoliberalism by a government suspect of its real reformist intentions. Fiscal rules, on the other hand, were established by an outgoing neoliberal government to bind the future center-left political coalition assuming office. Neither of the two, however, were enough to secure the resilience of neoliberalism in the long run. In the case of the currency board, while it effectively constrained the room of maneuver in the short run and was even considered to act as a "straitjacket" on economic policy, it lasted as long as an alternative social bloc emerged demanding its elimination -not without painful consequences. Fiscal rules, on the other hand, were de facto violated without significant effects. Additionally, despite the formal maintenance of central bank independence until 2012, governments wanting to interfere with the central bank policies used diverse ways to do so without breaking the law.

A similar -although much milder- effect can be observed in Poland. There, central bank independence was achieved through a mix of showing commitment to reform (in the context of EU accession) and as an ideological device. It quickly became, however, object of fierce attacks by center-left and populist parties. While strict institutionalization of its independence made the NBP an important factor preventing a backlash against the renewed neoliberal project of the late 1990s-2000s, it also became the target of political infighting altering its functioning in one way or another (e.g. significant political pressure to adopt certain policy decisions, outright assaults on its decision-making structures and competences). In the case of fiscal rules, they were assumed only half-heartedly as a commitment to fiscal retrenchment in the context of pre- and post-EU accession. They have been subject to contingent interpretations by incumbent governments, allowing them to maneuver around them and minimize their potential effect. In this sense, institutional arrangements depended ultimately not on their own endogenous operation as rules of the game, but on the political compromises that sustained them and made them possible in the first place.

CONCLUSIONS

I opened this dissertation with a passage making an analogy between the ability of General Augusto Pinochet to maintain the grip of political power in Chile despite the many challenges he had to withstand, and the history of neoliberalism in Latin America and Eastern Europe. The puzzle was to understand how neoliberalism remains the "institutionalized framework of state policies" (Connell and Dados 2014, 123) for long time periods despite successive challenges in the context of economic and political turning points. Empirically, I tried to solve this puzzle by looking at the continuities and changes in two policy domains, exchange rates (ER) and industrial policy (IP) in a comparative framework. I compared the factors (interests and institutions) that made countries with a seemingly equally radical commitment to neoliberal reform diverge over time putting some of them in a trajectory of neoliberal resilience, and others in a qualitatively different or alternative developmental path.

I have long discussed the empirical results of each chapter in the respective conclusion sections. For the closure of this dissertation I would like to review these results only briefly, as a way to wrap up the major empirical findings and their theoretical consequences. More significantly, I would like to think beyond these specific findings and explore their implications for broader topics in comparative political economy. One issue I take point with is that of the meaning of the trajectories of the studied countries and their developmental regimes in the long term. What do these trajectories tell us about neoliberalism? How to make sense of the commonalities and divergences that these trajectories present? In what respects can they be seen as rather variations of the same developmental problem? Finally I try to extract the conclusions of this dissertation and place them in the current debates about democratic capitalism and its future. In the context of the ongoing Eurocrisis, these reflections seem both a proper closure for this study and a necessary opening for a future research agenda.

I. On the political economy of neoliberal resilience

a) Dominant social blocs and neoliberal developmental regimes

The first aim of this dissertation was to find the societal actors that have formed social blocs supporting neoliberal developmental regimes over time. I analyzed political (right and left) and economic (business and labor) actors, and the sectoral (financial, competitive, non-competitive, public utilities) as well as ownership structure (domestic and foreign) of the business actor. Neoliberal social blocs were held together through a variety of links from structural dependence, to partisanship, and strategic contingent alliances.

All countries here studied present a high growing financial sector controlling a significant share of domestic value added, as well as right-wing parties that are active and influent in domestic policymaking. Even in the cases where right-wing parties were weak (e.g. Argentina in 1990-2001) they were able to strike strategic compromises with centrist parties allowing them to have an influence in policymaking way beyond their share of vote; and even in the cases where right-wing parties were united through cleavages other than the socioeconomic one (e.g. in Poland in 1989-1993 and 1997-2001), neoliberal policies have remained at the top of their concerns.

Now, this short summary shows a somewhat striking result. If financial sector and right wing parties have been present throughout the cases and periods of neoliberalism, they constitute a necessary but not a sufficient condition for neoliberal resilience. If the financial sector and right-wing parties are present whenever neoliberal reforms are attempted, what is the decisive actor(s) making neoliberalism resilient or not? This dissertation shows that it is not the analysis of the usual suspects –the financial sector and the political right - which allows us understanding the coalitional bases of neoliberal resilience, but that of the sectors not expected to lend support to neoliberalism and the conditions under which they do so. The key to neoliberal resilience is therefore to be found in the conditions under which certain business sectors and political actors opposing neoliberalism –or at least not pursuing it wholeheartedly- have been co-opted into neoliberal dominant blocs and have given their acquiescence to the maintenance of neoliberal developmental regimes. This should come as no surprise, since the very foundations of neoliberal capitalism rests on conditions such as deep economic liberalization at the national and transnational level which have altered the balance of power decisively towards business against labor, towards finance against industry, and towards traditionally right-wing policies against left-wing ones in development politics. However, the usual emphasis is put on financialization and its carriers, overlooking therefore to what extent are other sectors and actors involved.

As this dissertation shows, the non-competitive business sector has been the more likely actor trying to find alternative alliances to pursue a non-neoliberal developmental regime. One coalitional possibility was provided by the competitive business sector, when both tolerated the combination of trade openness with selective state support, and an exchange rate regime providing both stability and competitiveness (e.g. Poland in 1994-7, Argentina in 2002-07). Another coalitional possibility was provided by left-wing governments. This combination generally implied a more empowered labor actor and entailed policy concessions, even though explicit support was not always granted (e.g. Argentina in 1983-89). Yet another coalitional possibility provided by the Eastern European context, was that of nationalist right-wing parties who tried to pursue state policies with nationalist flavor (Poland 2005-7).

The ability of the center-left to present itself as a coalitional ally for an alternative social bloc has been severely affected, either by pressing economic conditions (Argentina 1990-2001) or the inability to find a business ally (Chile 1990-2009; Estonia 2005-07). In both instances, the center-left plans of a more embedded developmental regime were significantly watered down (Chile), reversed (Estonia) or changed for an active support of neoliberalism (Argentina). The accommodating stance of the center-left has also weakened labor demands, breaking the historical social-democratic link between the two. This breakup of the social-democratic link has contributed to neoliberal resilience in the cases were the business non-competitive sector was also weak (Chile 1990-2009). The cases of neoliberal discontinuity show, however, that relatively powerful labor unions were able to forge alliances with the non-competitive sector in order to press for a more embedded developmental regime. The result has been a slowdown of reform efforts and a partial re-embeddedness of the developmental regime (Poland 1994-1997) or the achievement of significant policy concessions (e.g. industrial policy programs for industrial reconversion, temporal or permanent trade protection for selected sectors) in the context of an overall neoliberal regime (Argentina 1990-2001). Finally, the combination of non-competitive sector, labor, and center-left governments has provided the deepest departures from neoliberalism (Argentina 1983-1989; Argentina 2002-2007)

The non-competitive sector appears therefore as crucial in generating a demand for embedded policy regimes, and thereby, establishing alliances with either labor or the left or both. The non-competitive sector, however, has been weakened by several factors, and thereby the demand for a more embedded developmental regime has also weakened. One such factor is the inflow of external capital. Because foreign companies constitute established and competitive firms, they tend not to demand the type of embedded ER and IP that domestic non-competitive business do. Large inflows of external capital to this sector decrease the demand for embedded regimes, constituting therefore a significant source of neoliberal resilience (Estonia 1994-2013). Another source of weakness for the non-competitive sector stems from the alienation of state assets in the sector to individual actors with a strong ideological commitment to neoliberalism (e.g. Chile 1982-1989).

Conversely, the competitive sector appears as a pivotal actor, being able to provide support to either a neoliberal bloc (Chile 1973-1982; 1983-1989), or an alternative bloc (Argentina 2002-2007). As the case of Chile attests, enduring support from the powerful competitive sector for a neoliberal developmental regime and the rejection of a more progressive alliance with the left and labor was crucial to seal the commitment of capital with neoliberalism. In the case of Poland, in turn, the support of the competitive sector (with a large state-owned segment) for a prospective alliance with the non-competitive sector, the center-left (and labor) was significant to prevent the consolidation of orthodox neoliberalism in the mid-1990s. In Argentina (2002-2007) the support of the sector was not explicit, but its dynamism was crucial to sustain the alternative social bloc as it depended on redistribution through taxes on exports. While in Poland significant state ownership in the sector (and a privatization process favoring mainly insiders) appears as a condition maintaining the demand for more embedded exchange rates and industrial policies, in Argentina, the sector was favored by outstanding international price conditions (commodity boom) and domestic policies (competitive ER, low tariffs). The

Argentine competitive sector turned against the Kirchner government once these conditions started to recede.

Now, this shows a sort of developmental quandary that is involved in the dynamic of neoliberal resilience but has broader implications for the stability of alternative developmental regimes. Under what conditions can competitive sectors be systematically attracted into an alliance with actors seeking a more embedded developmental regime? Or alternatively, to what extent can alternative blocs be sustained without the concourse of competitive sectors? How to boost the domestic non-competitive sector without the help of a neoliberal-oriented foreign capital? The possibility of breaking neoliberal resilience in Chile and Estonia seems to lie in the answer to these questions.

b) Mechanisms of neoliberal resilience: what and how they work

Throughout this dissertation I have hold that economic and political turning points can alter the balance of power within and outside the dominant bloc, weakening advocates of neoliberalism and strengthening contesters. The second aim of this dissertation was therefore to find the mechanisms that are responsible for the resilience over time of neoliberal coalitions and the developmental regimes they sustain. I found that neoliberal dominant blocs manage to perpetuate themselves in power thanks to structural and institutional mechanisms that either strengthen their power resources (*support creation*), weaken those of actors likely to contest neoliberalism (*opposition blockade*) or close policy alternatives altogether (*constitutionalized monetarism*). I also found that these mechanisms can have several specific sources which I have analyzed in detail in section II: privatization for *support creation*; electoral blockade, increase of veto powers, labor market institutions and lustration (in the case of Eastern Europe) for *opposition blockade*; central bank independence and fiscal rules for *constitutionalized monetarism*.

Support creation through privatization alters economic structures increasing the power resources of broad categories of business, particular sectors or individual companies actually or potentially supporting neoliberal developmental regimes e.g. foreign capital (Estonia), the financial and competitive sectors (Chile), or the very individuals who enacted market reforms (Chile). Privatization has therefore been crucial to strengthen the business support base of neoliberal social blocs in the cases of neoliberal resilience. Chile highlights how privatization strengthened the core of the neoliberal bloc with different business sectors at different times, thereby constituting an ample and strong multi-sector neoliberal business front. In Estonia privatization served to sign a compromise with the transnationalization of the Estonian economy, and as an invitation for external capital to play a crucial role in its future development. Most interesting is the effect that *support creation* had in what I called the "silencing" of the demand for a more embedded developmental regime, especially for industrial policy. In the case of Chile, this occurred because the biggest state-owned companies in the non-competitive sector were alienated to the very technocrats that carried market reforms during the dictatorship; in Estonia, this occurred because starting with privatization –but not restricted to it- external capital represented a significant and increasing share of the non-competitive sector.

Argentina and Poland show the failure of this mechanism. In Argentina, privatization was used to entice support for neoliberal reforms from a strong non-competitive sector. The outcome was, however, only short-term support conditional on the performance of the sector under neoliberalism. In the long term, however, it served to increase the power resources of a sector that was quick to support alternative social blocs when neoliberal regimes stopped to deliver. In Poland, privatization was heavily delayed and favored insiders, who held preferences for continued state intervention. During the 2000s it helped produce a broader base in support for neoliberalism, especially through external capital to the financial and the competitive sectors. However, the polish state maintained crucial stakes in all sectors, especially the non-competitive one, constituting the target for attempts at re-constituting an alternative bloc.

Opposition blockade alters democratic institutions in order to decrease the representation of those actors opposing neoliberalism or block them through the discretionary use of veto capacities. The design of exclusionary political institutions appears to be the more directly strategic of all mechanisms as the cases of Chile and Estonia attest. There, specific political groups were identified and targeted for *blockade*. In Chile the mechanism worked at the level of political representation i.e. constraining the ability of left-wing parties to enter parliament, while in Estonia it worked at the level of constituencies i.e. removing voting rights from the electorate that was more prone to vote for left-leaning political alternatives. Both were highly successful owing to the specific context in which they were implemented (democratization in Chile, transition from communism in Estonia), but also due to the possibility to actually identify these groups.

Argentina and Poland advanced almost exclusively in strengthening the veto power of specific institutional players that became the bulwark of neoliberalism. The failure of this source of *opposition blockade* appears connected with the fact that it did not produce an institutionalization of *opposition blockade* per se, but a sort of personalization of it. Neoliberalism in Argentina and Poland depended on the ability of presidents Carlos Menem and Lech Wałęsa to maintain the insulation of technocratic policymakers. The democratic bases of the office they occupied, however, made them susceptible of being removed by popular vote, as was eventually the case. As new incumbents of a different political sign assumed office, they quickly deactivated *opposition blockade* or used its provisions for their own purposes.

With regards to labor, it is important to highlight that all countries included in this study –perhaps with the only exception of Argentina- are cases of a weak organized labor actor. Chile and Estonia, however, are examples of the establishment of labor market institutions that not only severely reduced labor power but prevented the participation of labor in the policy process altogether. Argentina, the opposite case, is an example of how an empowered organized labor actor could not only alter neoliberal policies and exact concessions, but negotiate the very terms of labor reform in relatively beneficial terms. In this sense, while Poland is a story of declining labor power due to adverse labor market institutions and the fragmentation of labor (competing union federations, public/private segmentation of labor market), the influence in policymaking is closer to the Argentine story thanks to the maintenance of certain corporatist negotiation structures. This was especially the case in the early and mid-1990s, and might be the case in the future thanks to a revitalization of union activity using these favorable institutional structures in the last years.

Neoliberal dominant blocs manage to defend neoliberal developmental regimes even when they are not in power, through a strict institutionalization of its premises. The institutionalization of neoliberal policy regimes, i.e. converting costumes into procedures, procedures into laws, ordinary laws into constitutional laws, etc. makes institutional changes and alternative interpretations more difficult. It is a common understanding in comparative political economy literature that greater institutionalization is a synonym of greater coordination capacities, and therefore, of non-liberal variants of capitalism. However, when the continuity of orthodox neoliberalism is the case, this relation is reversed. Stricter institutionalization makes resilient neoliberal regimes possible, while shallower institutionalization or no institutionalization at all make discontinuities more likely (cf. Flores-Macías 2012). With respect to monetary policy, the greater the institutionalization of anti-inflationary goals as main concerns of central banks, monetary autonomy through central bank independence, etc. the lower is the ability of monetary authorities to engage in heterodox monetary policy including heterodox exchange rate policy. In the case of fiscal policy, the more institutionalized are government expenditure procedures such as fiscal spending rules, sovereign funds to save budget surpluses, etc. the more constrained is the ability of governments to use fiscal spending (tax schemes, transfers) to support specific economic sectors (industrial policy).

I have tried to distinguish which mechanism has been more consequential for each case, taking into consideration that all have contributed to neoliberal resilience in one way or the other. On a comparative basis, neoliberal resilience in Chile appears to be closely connected with *support creation*. Not only was privatization directed to the specific segments that led neoliberal developmental regimes at different times; the mechanism worked at crucial turning points when this support was required. The continued dominance of center-left governments after democratization, and their inability to actually pursue a more embedded developmental regime despite what had been otherwise stated, seems in this context to be crucially affected by the inability of the left to find a business support base. Looking at the Argentine trajectory of failed neoliberal projects where the strength of the non-competitive sector was crucial, this seems a plausible explanation. In the case of Estonia, given the small size of the non-competitive sector it is difficult that this sector could have successfully tried to prevent the consolidation of neoliberalism as it did in Poland. In this case, *opposition blockade* appears as the key mechanism. *Opposition blockade* has been responsible not only for leaving between 40% and 10% of the population without voting rights, it has also affected the prospective formation of parties representing that excluded population. As a result, not only there is no demand for a more embedded developmental regime, there is also no significant supply of political actors representing that view.

With respect to *constitutionalized monetarism*, it seems from the analysis that the respect for institutions and the due following of their rules depends crucially on the existing power balances. In this sense, as the comparison between Chile and Argentina suggests, *constitutionalized monetarism* worked in Chile because of the existence of an established dominant neoliberal bloc, as it did not work in Argentina because there was not a generalized political commitment to neoliberalism in the first place. The case of Poland, in an intermediate position between *constitutionalized monetarism* and attempts to curb it by changing the interpretation of the rules, seems to confirm this. In fact, Poland has been portrayed as a country where opposing forces (neoliberal and alternative) have been in a constant search of a hegemonic project, and yet cannot assert an enduring balance.

c) *Institutional continuity and change in neoliberal political economies*

In the theory chapter I took position in the debate about institutional continuity and change in historical institutionalist perspectives, arguing that neither path dependency nor gradual institutional change theories offer a satisfactory solution for the problem of neoliberal resilience. The theoretical foundations of this dissertation rested on two premises: the resilience of neoliberal developmental regimes depends on the group of societal actors that support them, and on mechanisms that sustain their power positions. These premises highlight two relations that have been central throughout the analysis: the relation between interests and institutions, and the relation between different institutional levels.

Unlike what theories of path-dependence suggest, neoliberal resilience does not rely on an increasing-returns dynamic but on the constant effort of the interested actors to sustain their preferred policy alternatives and developmental regimes. Unlike theories of gradual institutional change, I state that resilience is one important outcome of the struggles between different societal actors to change existing institutions. In this context, change is not always transformative change, but can also be a symptom of resilience.

A closer look at the relationship between interests and institutions, and more specifically at the type of social blocs that defend particular institutional regimes allows building bridges between different theories of institutional change. For example Levitsky and Murillo (2013) have argued that non-advanced political economies do not conform either to a path dependency, nor to gradual institutional change logic because of the weakness of institutional regimes, as well as the ability of political actors to renovate them. They view, in this sense, a third variant they call "serial displacement" whereby institutional regimes are periodically overhauled following the preferences of changing political coalitions. The present study shows that the way dominant social blocs are established generates distinctive patterns of institutional resilience and change, each of them potentially corresponding to different theories of institutional change. For example, when dominant social blocs are well entrenched as in the cases of Estonia and Chile, developmental regimes show patterns of incremental change whereby existing institutions respond to different turning points with adaptive modifications. Another situation is developed when neoliberal dominant social blocs face opposition from another relatively well established alternative bloc, or where no set of actors manages to assemble an enduring dominant social bloc (e.g. in Poland). In this case, developmental regimes may show patterns of gradual institutional change. As opposing actors manage to alter the functioning of existing institutions through layering, conversion, drift, etc., these patterns of change become transformative in time. Finally, when no social bloc manages to impose hegemony and dominance is fought at every turning point (as in Argentina), institutions may reflect patterns of change such as serial displacement, where dominant social blocs and their institutional hegemonic projects follow each other periodically crisis after crisis.

These reflections bring to a more substantial conclusion on the relation between institutions and interests. The study of patterns of institutional change does not only require the identification of mechanisms and modes of institutional change. It is also crucial to distinguish the coalitional bases that underpin different patterns of change, and what these patterns mean in terms of resilience, gradual transformation and/or serial overhaul.

Conversely, this study shows that struggles over institutional change are not fought on an individual "target" institution but comprise the ensemble of the institutional matrix on a certain policy domain and those related to it. Societal actors take into account policies or institutions with functional equivalences, balance their benefits and losses through the negotiation of compensation, and support alternative institutions in a strategic way expecting to offset the distributional outcomes of supporting those that may hurt their interests. These games are played not only at the level of economic institutions, but also on other institutional levels, most notably, that of political institutions. In other words, the very institutions that constitute the bases of the policy process are -to different degrees and depending on the situation- up for grabs and constitute the target of –sometimes highly elaborated- political strategies. These strategies constitute the basis of the mechanisms I have identified here as crucially contributing to the resilience of neoliberalism.

These dynamics are all the more visible and consequential in non-advanced political economies, but seem to be on the rise in the context of the decreasing capacity of advanced democracies to respond to their citizens demands (see below).

II. Neoliberal resilience, commonalities of neoliberalism and varieties of contestation

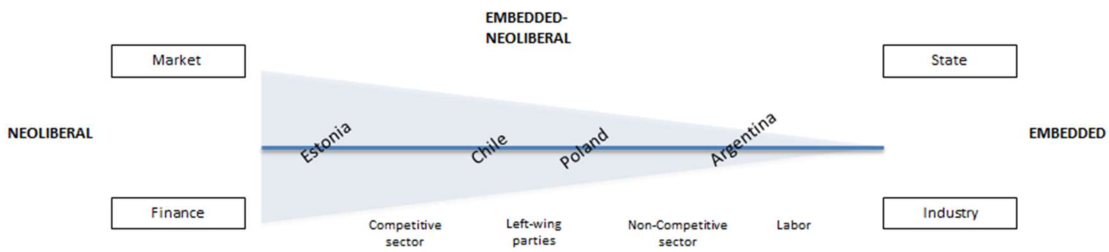
Throughout this dissertation the narrative has followed the point of view of the "winners" and "losers" of market reforms and the research strategy sought to contrast cases of neoliberal continuity with cases of neoliberal discontinuity. The parameters for assessing continuity and discontinuity were set in Chapter 1 in relation to exchange rates (ER) and industrial policy (IP) alternatives. I classified cases showing "discontinuity" when either ER or IP fell into the embedded regimes. The methodological strategy was to contrast two cases of continuity with two cases of discontinuity to asses in a comparative framework to what degree the hypothesized factors (dominant social blocs and mechanisms of resilience) were actually responsible for the resilience of neoliberal developmental regimes.

Now this empirical strategy has its shortcomings. Countries are not independent of each other. In fact they are often aware of developments in other countries and take them as point of reference. Most importantly, they do not necessarily lend themselves to a clear classification into continuity or discontinuity. Is not Chile a case of discontinuity given the transformation of the dominant social bloc and the progressive move of the developmental regime toward the embedded-neoliberal side? Is not Poland a case of resilience given the underlying continuities of economic policy during left and right governments and the weakening of labor?

I try here to put the conclusions of this dissertation under a different prism, not that of a clear distinction between neoliberal and non-neoliberal political economies, but that of distinct trajectories combining dominant social blocs and mechanisms of resilience in different ways.[246] This way of seeing the results of this study lends to a more dynamic understanding of the commonalities and variegations reflected in the trajectories of the four countries under study.

I start with coalitions and policy goals underlying neoliberal projects, and the idea that neoliberalism is plastic and can be modified and codified in different ways without losing its fundamentals: a belief in market over state in terms of policy alternatives (although using state capacity to bring 'market confirming' outcomes), and the power of finance over industry. In this context, the trajectories of the countries here studied might be seen as variations of the same topic: different combinations of market/state and finance/industry, where the dominance of finance and of markets is common to all of them, but the incorporation of different other actors and policy orientations generate a variegation of regimes. The countries here studied can therefore be arranged on a continuum from more finance/market to more industry/state using these considerations (see figure 71): from more-market confirming and finance-led Estonia, to less market-confirming and finance -led Argentina, groing though Chile and Poland somewhere in the middle.

Figure 71:
Commonalities of neoliberalism



Source: Prepared by the author.

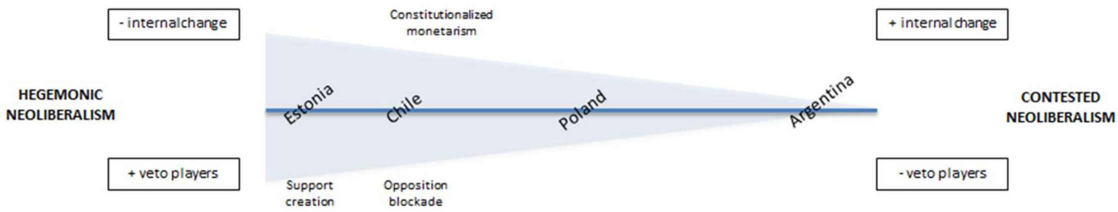
Over these commonalities, the strength of different other actors including their policy goals offer variegations. Where the competitive sector was strong, it tilted developmental regimes toward business-friendly state interventions; where the left was in power, it tilted developmental regimes a little more toward state-oriented policies (Chile); where the non-competitive sector was stronger, it tried to forge alternative coalitions (Poland); were

[246] I take inspiration for this exercise from Thelen (2012).

labor was stronger, the non-competitive sector could make cross-class cleavages and tilt the market/state relation toward more embedded developmental regimes, providing the farthest departure (Argentina).

A different perspective arises if one takes as a focal point the mechanisms of neoliberal resilience instead of the coalitions. Mechanisms of neoliberal resilience determine different patterns of continuity, but more fundamentally, allow different patterns of contestation, for example, allowing for internal institutional change or diminishing veto players. One may therefore arrange countries in a continuum from more contestation (contested neoliberalism) to less contestation (hegemonic neoliberalism) according to the operation of the different mechanisms (see figure 72). On one end we have Estonia, were entrenched *support creation* and *opposition blockade*, coupled with *constitutionalized monetarism* left little to no spaces for open contestation by the non-competitive sector, the left, or labor. On the other extreme is Argentina, where *support creation* strengthened rather than weakened the power of the non-competitive sector, *opposition blockade* strengthened rather than weakened the power of alternative political parties and labor, and because of this, *constitutionalized monetarism* had only a temporary validity. In between we find the cases of Chile and Poland. In Chile (towards the hegemonic neoliberalism end) *support creation* produced a wide business coalition, weakening non-competitive sectors; tight *opposition blockade* foreclosed the possibility of a re-composition of left and labor despite democratization; and *constitutionalized monetarism* helped to tighten the policy room of maneuver. Conversely, in Poland (at a similar distance from hegemonic and contested neoliberalism) *support creation* blocked neoliberal business sectors during the 1990s, but benefitted them at the end of the decade; *opposition blockade* was not able to reduce political opposition (left) but did have a partial effect on labor (especially toward the end of the 1990s), and *constitutionalized monetarism* fixed neoliberal policy alternatives but with opposing political actors trying to circumvent them.

Figure 72:
Varieties of contestation



Source: Prepared by the author

III. Neoliberal resilience and the future of democratic capitalism

The relation between capitalism and democracy is changing globally. The advancement of the logic of the market over the logic of citizens' rights has broken the social compact between the two, thus eroding the functioning of institutions crucial to democratic capitalism such as political parties and their responsiveness to citizens' demands (see Streeck 2011). The study of neoliberal resilience over thirty years and in two quite different world regions allows going beyond the specific contributions of this dissertation in terms of the political and institutional factors affecting neoliberal resilience. Some of the topics here raised actually travel beyond the context of non-advanced political economies, and shed light more generally on the relationship between capitalism and democracy under the particular context set by neoliberalism. The experience of the political economies here studied can thus be seen as a building block for the study of a more overarching, and currently pressing dilemma, namely that about the future of democratic capitalism as we know it.

This dissertation has shown that neoliberal capitalism erodes liberal democracy. This confirms other scattered but consistent observations about the same relationship. In an early critique of the transition literature, Béla Geskovits (1998) pointed that the effect of neoliberal reforms on democracy was the emergence of a "low-level equilibrium" characterized by "low-performing, institutionally mixed market economies and incomplete, elitist, and exclusionary democracies with a weak citizenship component" (Greskovits 1998, 184). Ian Bruff has lately observed that neoliberalism not only leads to lower forms of democracy but imply the outright introduction of authoritarian elements.

Taking inspiration from the trajectory of neoliberalism in Great Britain, he coined the concept of “authoritarian neoliberalism” to refer to the “reconfiguring of state and institutional power in an attempt to insulate certain policies and institutional practices from social and political dissent" (Bruff 2014, 115). Authoritarian neoliberalism, stems from a constitutionalization of the logic of markets that displaces political rights, thus leaving political institutions nominally democratic but vacated from their representative functions (Bruff 2014, 116). Similar logics have been found in the context of the European Union (see Schmidt and Thatcher 2013, 418). Is this perhaps the future of contemporary capitalist democracies?

Latin America and Eastern Europe are crucial to think about this. These regions were not involved in the “buying time” process observed by Streeck (2014). Already thirty years ago, they were subject to an experiment recalibrating the relationship between capitalism and democracy with neoliberalism as its subtract. These were indeed the regions were the neoliberal experiment went the furthest, because of the “laboratory conditions” set by military rule in the South and the crumbling of state socialism in the East. The expectation, in this context, was that market reforms and democratization were intricately linked. Even Milton Friedman justified his involvement –and that of his ideas- in the Chilean dictatorship by resorting to his belief that free markets would eventually undermine political centralization and control, and would become the building block of liberal democracy (Friedman 2000). This relation was generalized with the observation in Eastern Europe that those countries that advanced the further in market reforms did so by extending democratic rights and tightening political competition in parallel. Other authors later on found that the consolidation of democracy and market reforms have depended on the extension of welfare rights to those “losers” of reform (E. Silva 2009; see also Vanhuysse 2006). The belief was then, that even though neoliberalism might lead to exclusion at the beginning, its consolidation over time depends on broader processes of social incorporation and democratization (Fish and Choudhry 2007).

This dissertation shows the opposite picture. The establishment of orthodox neoliberalism in Latin America and Eastern Europe has not only required the insulation of reformers from societal pressures, but the breakup of democratic institutions *tout-court*. Furthermore, the consolidation of neoliberalism over time has depended on exclusionary politics and the institutionalization of lower forms of democratic rule. State resources have been depleted and allocated –often with few checks- to business actors strongly committed to the maintenance of neoliberal policies and authoritarian policymaking styles. While crony capitalism theses and rent-seeking theories once criticized the close relationship between failed statist developmental strategies and domestic bourgeoisies, I have shown that the picture does not change much under the widely recommended privatization processes led by neoliberal reformers. In the more extreme cases, national states may have given up forever the control over crucial resources and industries to foreign interests or domestic capitalists more interested in extracting rents than advancing a country's development prospects. Conversely, political opposition has been silenced by explicit constitutional mechanisms like exclusionary electoral systems and liberal labor market institutions. The ability of those worse-off to voice their discontent and use either electoral mechanisms or protest to produce political turnover and policy change –two ways by which liberal democracies were seen as superior political systems- has been foregone. In exchange, the new generations of voters remain apathical and withdraw from the public to the private arena where they can enjoy consumption and consume lifestyles. And as if this wasn't enough, crucial policy decisions have been gradually placed outside the realm of democratic politics, depriving people not only of their voice, but also of the instruments to meaningfully affect their lives. I showed that these processes are not led by abstract categories of societal actors or forces, but reflect the specific power and hegemonic predominance of certain business sectors over others, and certain political actors over others. In concrete, I highlighted the pivotal role of competitive sectors in providing support for a financial-led neoliberalism, and the importance of breaking the historical alliance between the left and labor.

Although we are just starting to understand the limits of the relationship between capitalism and democracy under neoliberal developmental regimes, this should not come as an absolute surprise. Researching regime change in XIX century Central America, James Mahoney (2001) already found that radical liberalism led not to the establishment and constitutionalization of political rights, but the opposite, to the most repressive political systems. Similarly, in a review of the principles sustaining liberal political doctrines, Domenico Losurdo found that exclusion is at the roots of liberalism (Amable 2014, 814). Accordingly the resort to liberal principles often led to justify measures such as the right to kill slaves, the right to apply the death penalty to those who steal (even if only for subsistence), or putting children at work.

The consequences of the 2007-8 financial crisis and the turn of the Eurocrisis have put once again to the fore the relation between capitalism and democracy, the needs of the markets versus the needs of the people. A crude response has been the elaboration of the idea of austerity as a justification to impose market logics on seemingly democratic states. If anything, the latest discussions on the Greek bailout program and the developments of the Syriza government in Greece serve to highlight how crucial these questions will be for the years to come.

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ANNEX 1

Data

In this Annex a present details related to the management of quantitative data on this study. Table A1.1 shows a summary of indicators, sources and their utilization. As a general rule, when two or more data sources were available, priority was given to within case comparability (i.e. longer series for the country, but not comparable with other countries). As a second criterion, when availability allowed it, priority was given to cross case comparability (i.e. sources where two countries were present). Unless otherwise stated, all current prices were transformed into constant values using GDP deflators. In the case of economic sectors, sectoral deflators were used when available. In the case of value added data and the construction of production profiles, I left outside the calculus those years of crisis showing negative growth.

Table A1.1
Data, indicators, sources

Indicator	Coverage	Source	Classification	Notes
Value added	Eastern Europe	OECD/ single countries	ISIC rev.3	Data starting from 2007 taken from domestic national accounts publications
Value added (big divisions)	Latin America	ECLAC	ISIC rev.3	Original data is not chained and each country has different base years. Data was chained by the author using the recommendations contained in Hexeberg (2000).
Manufacturing value added	Argentina	ECLAC	ISIC rev. 1	Used until 1982. Agreggated by author into ISIC Rev.3 from 3-digit classification
		UNIDO	ISIC rev.3	Used from 1984
	Chile	UNIDO	ISIC rev.3	Used until 1994
		Central Bank of Chile	ISIC rev.3	Used from 1996 Data comes aggregated from the source. This explains the coarse aggregations presented in the respective tables.
FDI	Latin America	ECLAC	ISIC rev.3	FDI stocks not available (only flows)
	Eastern Europe	wiiw	NACE Rev.1/Rev.2	Data starting from 2007 corresponds to NACE Rev.2. Data is presented in accordance with the ISIC Rev.3 classification using coarse correspondence between sectors (2-digit). Aggregated by the author.

Union density	Chile, Estonia, Poland	ICTWSS database	--	--
	Argentina	ILO	--	Data comes from different ILO official publications
Public expenditure	Argentina	Ministry of Economy	COFOG/ IMF	Functional classification= Central government (Economic affairs expenditure) Economic classification= Non-financial public sector (Total expenditure)
	Chile	Budget Directorate	COFOG	Used from 1990 Functional classification=Central government (Economic affairs expenditure)
		ECLAC	IMF	Used from 1990 Economic classification= General government (Total expenditure)
		Jofre et. al. (1998)	IMF/ other	Used until 1990 Functional classification=Central government (Economic affairs expenditure) Economic classification= Central government (Total expenditure). Constructs functional classification out of spending by ministries.
	Eastern Europe	Statistical yearbooks	COFOG	Functional classification= Public budgets (Economic affairs expenditure)
		EBRD	Other	Economic classification= EBRD (Total expenditure)
Exchange rate	Latin America and Eastern Europe	Carmen Reinhardt's database on exchange rate arrangements/ single countries	IMF de facto classification (1998)	I divide floating regimes in the IMF classification into free float and managed float, to respect the price stability orientation of the first and the competitiveness orientation of the latter (see Frenkel and Rapetti 2010)
Revealed comparative advantage (RCA)	Latin America and Eastern Europe	WITS	ISIC Rev.2	Data is presented in accordance with the ISIC Rev.3 classification

ANNEX 2

Analysis of Revealed Comparative Advantages (RCA)

The following table shows an analysis of the competitiveness of different tradable sectors based on Revealed Comparative Advantages (RCA). The Balassa index of RCA, or derivations thereof, has been widely used in the analysis of trade specialization patterns (Bekerman and Dulcich 2013; see especially Durán Lima and Álvarez 2011) and also to understand sectorla specialization in varieties of capitalism approaches (M. R. Schneider and Paunescu 2012). The index takes the share of one product in the export basket of a country relative to the share of that product in the export basket of a trade partner, in this case the world. An index of more than 1 shows that the country has revealed comparative advantages in the respective product. While RCA typically involves analyses of specific products, in concordance with this research I make the analysis for economic sectors. The formula used to calculate the index is the following,

$$\text{Balassa index of RCA} = Xij \quad /XTj \quad Xi\,w/XTw$$

where X is exports, XT total exports, i is a particular sector, j a particular country, and w the world.

The following tables (A2.1 to A2.4) present the values of the RCA index for Argentina, Chile, Estonia and Poland, presenting the mean value for each of the periods analyzed in this dissertation. Sectors are organized according the ISIC Rev. 3 classification, although data came from ISIC Rev. 2 at the 3-digit level which offered a longer time frame for the analysis. Data came from the WITS (World Integrated Trade Solution) database. The indexes presented in the following tables correspond to period averages. I considered *competitive*, those *sectors that show an RCA index above one for at least two consecutive* *periods*. Tables A2.5 to A2.8 offer a summary of competitive and non-competitive sectors for each country/period based on the RCA analysis.

Table A2.1:
Argentina, Sectoral RCA 1980-2010

ISIC Rev.2 code	Sector	1983-1989	1990-2001	2002-2007
1	Agriculture, forestry & fishing	6.15	5.75	5.98
2	Mining	0.10	1.27	1.29
31	Food&Beverages	3.75	4.86	5.89
32	Textiles	1.22	0.98	0.69
33-34	Wood, paper	0.26	0.42	0.64
351-352	Chemicals	0.60	0.65	0.69
353-354	Petroleum+fuels	0.95	1.70	1.76
355-356	Rubber+plastics	0.26	0.36	0.46
36	Non-metallic minerals	0.30	0.37	0.32
37	Basic metals	1.22	0.83	0.77
381	Fabricated metals	0.24	0.26	0.23
382	Machinery&equipment	0.21	0.24	0.25
383-385	Electrical appliances	0.07	0.09	0.07
384	Transport equipment	0.16	0.51	0.60
39	Furniture&other	0.02	0.20	0.17
41	Other	0.03	0.67	1.06

Table A2.2:
Chile, Sectoral RCA 1980-2010

ISIC Rev.2 code	Classification	1983-1989	1990-1999	2000-2010
1	Agriculture, forestry & fishing	2.27	3.99	4.17
2	Mining	2.04	2.49	2.07
31	Food&Beverages	1.76	1.96	1.73
32	Textiles	0.05	0.20	0.19
33-34	Wood, paper	2.02	2.46	2.93
351-352	Chemicals	0.30	0.41	0.45
353-354	Petroleum+fuels	0.13	0.14	0.44
355-356	Rubber+plastics	0.14	0.34	0.35
36	Non-metallic minerals	0.15	0.18	0.19
37	Basic metals	7.12	6.33	5.84
381	Fabricated metals	0.10	0.19	0.19
382	Machinery&equipment	0.02	0.05	0.07
383-385	Electrical appliances	0.01	0.02	0.04
384	Transport equipment	0.05	0.09	0.11
39	Furniture&other	0.03	0.18	0.13
41	Other	0.00	0.00	0.00

Table A2.3:
Estonia, Sectoral RCA 1995-2013

	1989-1994	1995-1998	1999-2007	2009-2013
1	Agriculture & fishing	1.08	1.32	1.04
	Forestry	15.71	17.53	11.95
2	Mining	0.19	0.10	0.07
31	Food&Beverages	2.11	1.34	1.34
32	Textiles	1.91	1.53	0.94
33-34	Wood, paper	2.39	3.72	4.11
351-352	Chemicals	0.92	0.58	0.49
353-354	Petroleum+fuels	2.11	1.60	2.88
355-356	Rubber+plastics	0.86	1.19	1.71
36	Non-metallic minerals	1.60	1.35	1.72
37	Basic metals	0.43	0.68	0.50
381	Fabricated metals	1.43	1.62	1.72
382	Machinery&equipment	0.43	0.33	0.55
383-385	Electrical appliances	0.61	1.32	0.84
384	Transport equipment	0.55	0.44	0.77
39	Furniture&other	1.41	1.65	1.76
41	Other	7.08	3.81	10.68

Table A2.4:
Poland, Sectoral RCA 1995-2013

	1989-1994	1995-1998	1999-2007	2009-2013
1	Agriculture, forestry & fishing	0.76	0.72	0.74
2	Mining	1.24	0.35	0.08
31	Food&Beverages	1.56	1.50	1.65
32	Textiles	1.49	1.07	0.69
33-34	Wood, paper	1.46	1.96	1.96
351-352	Chemicals	0.81	0.63	0.67
353-354	Petroleum+fuels	0.41	0.41	0.27
355-356	Rubber+plastics	1.17	1.87	2.19
36	Non-metallic minerals	2.09	2.02	1.77
37	Basic metals	2.22	1.38	1.01
381	Fabricated metals	1.92	2.25	1.90
382	Machinery&equipment	0.40	0.53	0.83
383-385	Electrical appliances	0.46	0.72	0.95
384	Transport equipment	0.75	1.38	1.81
39	Furniture&other	2.02	2.23	1.89
41	Other	3.05	2.83	1.63

Table A2.5:
Argentina, Competitive sectors 1970-2010

	1976-1982[247]	1983-1989	1990-2001	2002-2007
1	Food&Beverages	Food&Beverages	Food&Beverages	Food&Beverages
2	Agriculture, forestry & fishing	Agriculture, forestry & fishing	Agriculture, forestry & fishing	Agriculture, forestry & fishing
3	Textiles	Textiles	Petroleum+fuels	Petroleum+fuels
4			Mining	Mining

Table A2.6:
Chile, Competitive sectors 1970-2010

	1973-1982	1983-1989	1990-1999	2000-2010
1	Basic metals	Basic metals	Basic metals	Basic metals
2	Agriculture, forestry & fishing	Agriculture, forestry & fishing	Agriculture, forestry & fishing	Agriculture, forestry & fishing
3	Wood, paper	Wood, paper	Wood, paper	Wood, paper
4	Food&Beverages	Food&Beverages	Food&Beverages	Food&Beverages
5	Mining	Mining	Mining	Mining

Table A2.7:
Estonia, Competitive sectors 1995-2013

	1995-1998	1999-2007	2008-2013
1	Agriculture, forestry & fishing	Agriculture, forestry & fishing	Agriculture, forestry & fishing
2	Food&Beverages	Food&Beverages	Food&Beverages
3	Textiles	Textiles	Textiles
4	Wood&Paper	Wood&Paper	Wood&Paper
5	Petroleum+fuels	Petroleum+fuels	Petroleum+fuels
6	Non-metallic minerals	Non-metallic minerals	Non-metallic minerals
7	Fabricated minerals	Fabricated minerals	Fabricated minerals
8	Furniture&other	Furniture&other	Furniture&other
9		Rubber and plastics	Rubber and plastics
10		Electric&electronic appliances	Electric&electronic appliances

[247] ISIC Rev. 2 doesn't cover the 1970s, which is a problem specific to Argentina and Chile. To determine competitive sectors in these countries I deducted sectoral comparative advantages comparing the behavior of product indexes in preceding and subsequent periods (tables A2.9 and A2.10) as well as product export concentration (tables A2.11 and A2.12). The result is that leading products by RCA and export concentration in the 1970s period were the same as for the 1980s period, with the exception of the textiles sector in Argentina. The RCA index for textile products decreases markedly from 1970s to 1980s, as do their share in top exports. However, despite this fall, the sectoral RCA index is 1.22 in 1980s, and products such as textile fibres and leather manufactures remain among the top export products. Therefore, I consider the textile sector to be competitive in 1976-1982 and 1983-1989 periods.

Table A2.8:
Poland, Competitive sectors 1995-2013

	1995-1998	1999-2007	2008-2013
1	Food&Beverages	Food&Beverages	Food&Beverages
2	Wood&Paper	Wood&Paper	Wood&Paper
3	Rubber and plastics	Rubber and plastics	Rubber and plastics
4	Non-metallic minerals	Non-metallic minerals	Non-metallic minerals
5	Basic metals	Basic metals	Basic metals
6	Fabricated minerals	Fabricated minerals	Fabricated minerals
7	Furniture&other	Furniture&other	Furniture&other
8	Textiles	Textiles	Transport&equipment
9		Transport&equipment	

Table A2.9:
Argentina, Product RCA 1960-1989

Code	Classification	1962-1975	1976-1983	1984-1989
1	Meat and meat preparations	13.6	9.9	6.1
4	Cereals and cereal preparations	9.1	10.9	9.5
42	Fixed vegetable oils and fats	8.5	11.6	24.0
8	Feed. Stuff for animals excl. Unmilled cereals	8.4	8.9	19.7
21	Hides, skins and fur skins, undressed	6.8	1.6	0.4
61	Leather, lthr. Manufs., n.e.s & dressed fur skins	4.2	11.9	10.5
0	Live animals	3.5	0.5	0.2
26	Textile fibres, not manufactured, and waste	3.3	4.5	3.1
41	Animal oils and fats	3.1	3.4	1.9
6	Sugar, sugar preparations and honey	2.5	3.5	2.9
5	Fruit and vegetables	2.2	3.4	2.9
53	Dyeing, tanning and colouring materials	1.7	1.5	1.1
43	Animal and vegetable oils and fats, processed	1.6	1.0	0.7
29	Crude animal and vegetable materials, n.e.s	1.3	0.8	0.4
12	Tobacco and tobacco manufactures	0.7	1.0	1.3
3	Fish and fish preparations	0.3	2.5	3.0
67	Iron and steel	0.3	0.6	1.6
94	Animals, n.e.s., incl. Zoo animals, dogs and cats	0.2	0.6	1.2
22	Oil seeds, oil nuts and oil kernels	0.0	9.7	14.7
52	Crude chemicals from coal, petroleum and gas	0.0	0.3	1.9

Table A2.10:
Chile, Product RCA 1960-1989

Code	Classification	1962-1973	1974-1983	1984-1989
68	Non ferrous metals	14.4	12.0	11.2
51	Chemical elements and compounds	10.4	24.3	25.7
28	Metalliferous ores and metal scrap	6.1	9.2	14.2
41	Animal oils and fats	4.6	5.7	3.3
27	Crude fertilizers and crude minerals, n.e.s	3.7	2.4	2.0
8	Feed. Stuff for animals excl. Unmilled cereals	2.6	7.3	13.0
58	Plastic materials, etc.	2.4	10.5	2.2
64	Paper, paperboard and manufactures thereof	1.8	3.1	2.8
25	Pulp and paper	1.2	7.3	8.2
5	Fruit and vegetables	1.0	3.5	6.9
56	Fertilizers, manufactured	0.8	1.3	0.7
3	Fish and fish preparations	0.8	2.4	4.5
29	Crude animal and vegetable materials, n.e.s	0.7	1.8	2.2
24	Wood, lumber and cork	0.4	2.7	3.7
96	Coin, other than gold coin, not legal tender	0.0	2.4	0.0

Table A2.11:
Argentina, Main export products[a] and export concentration, 1965-2010

	1965-1975			1976-1983			1984-1989			1992-2001			2002-2010		
Rank	*Code [b]*	*Product*	*% of exports*	*Code [b]*	*Product*	*% of exports*	*Code[b]*	*Product*	*% of exports*	*Code[c]*	*Product*	*% of exports*	*Code[c]*	*Product*	*% of exports*
1	04	Cereals and cereal preparations	30.1	04	Cereals and cereal preparations	26.6	04	Cereals and cereal preparations	17.8	04	Cereals and cereal preparations	10.9	08	Animal feed ex unml cer.	11.6
2	01	Meat and meat preparations	23.1	01	Meat and meat preparations	11.7	08	Feed. Stuff for animals excl. Unmilled cereals	11.8	33	Petroleum and products	10.9	33	Petroleum and products	10.5
3	26	Textile fibres, not manufactured, and waste	6.2	22	Oil seeds, oil nuts and oil kernels	6.0	42	Fixed vegetable oils and fats	9.9	08	Animal feed ex unml cer.	9.2	04	Cereals and cereal preparations	8.4
4	08	Feed. Stuff for animals excl. Unmilled cereals	5.8	08	Feed. Stuff for animals excl. Unmilled cereals	5.8	22	Oil seeds, oil nuts and oil kernels	7.3	42	Fixed vegetable oils and fats	8.4	42	Fixed vegetable oils and fats	8.3
5	05	Fruit and vegetables	4.6	42	Fixed vegetable oils and fats	5.4	01	Meat and meat preparations	6.7	78	Road vehicles	6.9	78	Road vehicles	8.1
6	42	Fixed vegetable oils and fats	4.0	05	Fruit and vegetables	5.1	67	Iron and steel	5.6	05	Fruit and vegetables	4.7	22	Oil seeds, oil nuts and oil kernels	5.8
7	71	Machinery, other than electric	3.0	26	Textile fibres, not manufactured, and waste	4.6	61	Leather, lthr. Manufs., n.e.s & dressed fur skins	4.5	22	Oil seeds, oil nuts and oil kernels	4.4	05	Fruit and vegetables	3.9
8	21	Hides, skins and fur skins, undressed	2.7	61	Leather, lthr. Manufs., n.e.s & dressed fur skins	4.3	05	Fruit and vegetables	4.3	01	Meat and meat preparations	4.3	67	Iron and steel	3.3
9				71	Machinery, other than electric	3.5	71	Machinery, other than electric	3.3	03	Fish and fish preparations	4.1	01	Meat and meat preparations	3.2
10				33	Petroleum and products	3.0	33	Petroleum and petroleum products	3.2	61	Leather, lthr. Manufs., n.e.s & dressed fur skins	3.9	34	Gas, natural and manufactured	2.5
11				67	Iron and steel	2.7	51	Chemical elements and compounds	2.9	67	Iron and steel	3.3			
12				06	Sugar, sugar preparations and honey	2.6	03	Fish and fish preparations	2.8						
13				73	Transport equipment	2.5	26	Textile fibres, not manufactured, and waste	2.7						

[a] Products representing more than 2.5% of total exports; [b] SITC Rev. 1; [c] SITC Rev. 3

Table A2.12:
Chile, Main export products[a] and export concentration, 1965-2010

	1965-1975			1976-1983			1984-1989			1992-2001			2002-2010		
Rank	*Code [b]*	*Product*	*% of exports*	*Code [b]*	*Product*	*% of exports*	*Code[b]*	*Product*	*% of exports*	*Code[c]*	*Product*	*% of exports*	*Code[c]*	*Product*	*% of exports*
1	68	Non ferrous metals	71.6	68	Non ferrous metals	61.8	68	Non ferrous metals	42.3	68	Non-ferrous metals	31.5	68	Non-ferrous metals	31.7
2	28	Metalliferous ores and metal scrap	13.2	28	Metalliferous ores and metal scrap	11.2	28	Metalliferous ores and metal scrap	16.5	28	Metal ores/metal scrap	13.3	28	Metal ores/metal scrap	20.9
3	27	Crude fertilizers and crude minerals, n.e.s	3.3	05	Fruit and vegetables	3.8	05	Fruit and vegetables	8.9	05	Fruit and vegetables	10.1	05	Fruit and vegetables	7.8
4	05	Fruit and vegetables	2.2	25	Pulp and paper	3.4	08	Feed. Stuff for animals excl. Unmilled cereals	7.8	03	Fish and fish preparations	7.2	03	Fish and fish preparations	6.5
5	08	Feed. Stuff for animals excl. Unmilled cereals	1.9	08	Feed. Stuff for animals excl. Unmilled cereals	3.2	25	Pulp and paper	4.8	25	Pulp and waste paper	5.1	25	Pulp and paper	4.0
6	64	Paper, paperboard and manufactures thereof	1.0	24	Wood, lumber and cork	2.0	03	Fish and fish preparations	3.2	24	Cork and wood	4.3	24	Cork and waste wood	2.8
7	26	Textile fibres, not manufactured, and waste	0.9	51	Chemical elements and compounds	1.8	24	Wood, lumber and cork	2.9	08	Animal feed ex unml cer.	4.0	11	Beverages	2.6
8	51	Chemical elements and compounds	0.8	27	Crude fertilizers and crude minerals, n.e.s	1.5	51	Chemical elements and compounds	1.5	97	Gold non-monetary ex ore	2.6	52	Crude chemicals from coal, petroleum and gas	1.9
9	25	Pulp and paper	0.6	64	Paper, paperboard and manufactures thereof	1.5	64	Paper, paperboard and manufactures thereof	1.4	11	Beverages	1.9	33	Petroleum and petroleum products	1.7
10	03	Fish and fish preparations	0.6	03	Fish and fish preparations	1.2	33	Petroleum and petroleum products	1.2	52	Crude chemicals from coal, petroleum and gas	1.8	63	Cork/wood manufactures	1.5

[a] Top ten export products; [b] SITC Rev. 1; [c] SITC Rev. 3

ANNEX 3

Interviews

Argentina

1. Political Science Professor. Interview by the author (Buenos Aires 01/11/2012).
2. Political Economy Scholar. Interview by the author (Buenos Aires 29/10/2012).
3. Political Economy Scholar. Interview by the author (Buenos Aires 06/11/2012).
4. Labor Union leader (CGT/UOM). Interview by the author (Buenos Aires 05/11/2012).
5. Advisor to Ministry of Economy (1980s). Interview by the author (Buenos Aires 13/11/2012).
6. Economic Sociology Scholar. Interview by the author (Skype, 28/02/2013).
7. Labor Union leader (FAECyS). Interview by the author (Buenos Aires 05/11/2012).
8. Policymaker Ministry of Economy/Central Bank (1980s/2000s). Interview by the author (Buenos Aires 30/01/2013).
9. Development Economics Professor. Interview by the author (Buenos Aires 07/11/2012).
10. Policymaker Ministry of Economy (1980s/2000s). Interview by the author (Buenos Aires 15/11/2012).
11. Policymaker Ministry of Economy/Central Bank (2000s). Interview by the author (Buenos Aires 20/11/2012).
12. Economic Journalist at local newspaper. Interview by the author (Buenos Aires 22/11/12)
13. Juan José Llach, Advisor to Ministry of Economy (1991-94). Interview by Archivo de Historia Oral (AHO), 2 sessions.
14. José Alfredo Martínez de Hoz, Minister of Economy (1976-1981). Interview by Archivo de Historia Oral (AHO), 3 sessions
15. Roque Fernández, Minister of Economy (1996-1999). Interview by Archivo de Historia Oral (AHO), 2 sessions.
16. Juan Vital Sourrouille, Minister of Economy (1985-1989). Interview by Archivo de Historia Oral (AHO), 3 sessions.

Chile

1. Political Sociology Scholar. Interview by the author (Santiago 16/10/2012).
2. Policymaker Central Bank (1990s). Interview by the author (Santiago 18/10/2012).
3. Policymaker Central Bank (1990s). Interview by the author (Santiago 24/10/2012).
4. Policymaker Ministry of Work (1990s-2000s). Interview by the author (Santiago 17/01/2013).
5. Development Economics Professor. Interview by the author (Santiago 25/01/2013)
6. Policymaker Ministry of Economy (1990s). Interview by the author (Santiago 11/01/2013).
7. Director Right-wing think tank. Interview by the author (Santiago 07/01/2013
8. Policymaker Central Bank (2000s). Interview by the author (Santiago 27/11/2012).
9. Policymaker Ministry of Economy/Member of Parliament (1990s/2000s). Interview by the author (Santiago 28/01/2013)
10. President Business Association (2000s)/ Board director. Interview by the author (Santiago 26/10/2012)
11. CEO Business Association (2000s)/Board director. Interview by the author (Santiago 08/01/2013).
12. Policymaker Ministry of Economy/Central Bank (1990s). Interview by the author (Santiago 12/06/2014)
13. Policymaker Ministry of Economy/Ministry of Finance (1980s). Interview by the author (Santiago 13/06/2014).

Estonia

1. Policymaker Central Bank (2000s). Interview by the author (Tallinn 11/11/2013).

2. Development Economics Professor. Interview by the author (Tallinn 13/11/2013).

3. Political Sociology Professor. Interview by the author (Tallinn 13/11/2013).

4. Policymaker, Ministry of Economy (1990s)/Development Fund. Interview by the author (Tallinn 14/11/2013).

5. Political Science Professor. Interview by the author (Tartu 03/12/2013).

6. Policymaker Ministry of Trade (1990s). Interview by the author (Tartu 03/12/2013).

7. Industrial Relations Scholar. Interview by the author (Tallinn 06/12/2013).

8. Advisor to Prime Minister (1990s/2000s). Interview by the author (Tallinn 09/12/2013).

9. Policymaker Central Bank (2000s). Interview by the author (Tallinn 10/12/2013).

10. Advisor to Minister of Economy (1990s). Interview by the author (Tallinn 11/12/2013).

11. Policymaker, Development Fund (2000s). Personal communication (18/01/2014).

Poland

1. Industrial Relations Researcher, Interview by the author (Warsaw 07/10/2013)

2. Policymaker Ministry of Work and Social Affairs (1990s/2000s). Interview by the author (Warsaw 09/10/2013 and 09/01/2014).

3. Policymaker Ministry of Economy (1990s/2000s). Interview by the author (Cracow 24/10/2013).

4. Advisor to Prime Minister (1990s). Interview by the author (Warsaw 30/10/2013).

5. Policymaker Ministry of Finance (1990s). Interview by the author (Warsaw 30/10/2013).

6. Policymaker Ministry of Finance (1990s)/Member of Parliament (1990s/2000s). Interview by the author (Warsaw 01/01/2014).

7. Industrial Relations Professor, Interview by the author (Warsaw 08/01/2014).

8. Policymaker Central Bank (2010s). Interview by the author (Warsaw 09/01/2014).

9. Professor of Economics and Finance. Interview by the author (Warsaw 13/01/2014).

10. Policymaker Ministry of Economy (1990s). Interview by the author (Warsaw 15/01/2014).