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Shrinking the State: Neoliberal Economists and Social Spending in Latin America

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Abstract: The reduction of the size of the welfare state is one of the defining elements of the wave of policy reform that swept Latin America in the 1980s and 1990s. What accounts for this dramatic policy change? To explain this trend toward shrinking the state, I develop a meaning-oriented explanation, though one which also takes into account the importance of uncertainty. Building on the literature on epistemic communities and “normative isomorphism,” I argue one important, though often neglected, mechanism shaping these policy decisions was the formation of a coherent team of neoliberal economists. These neoliberal economists carried ideas that fixed particular meanings to material trends that in turn legitimated shrinking the state. More specifically, utilizing a new dataset that codes the professional characteristics of Latin American policymakers, I find from analyzing a sample of fourteen countries from 1972 to 1997 that neoliberal interpretations of rising public sector burdens helped shape the trend toward state shrinking. Significantly, I also find that without the presence of such interpretations a rising public sector debt burden does not result in significant state shrinking.

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The reduction of the size of the welfare state is one of the defining elements of the wave of policy reform that swept Latin America in the 1980s and 1990s (Huber 1996; Inter-American Development Bank 1990; Mesa-Lago 1994:12). This trend toward state shrinking begs the question: What accounts for this dramatic change in the size of the welfare state in these countries? Moreover, what explains variation in a government's commitment to social spending?

In the literature on the welfare state in developing countries, two general explanations have emerged. One explanation attributes welfare state retrenchment in Latin America to constraints imposed by markets (Stallings 1992:41-48).² In this view, the poor economic conditions that Latin American governments faced in the 1980s left policymakers with little choice but to reduce social spending. Another explanation, rooted in pluralist models of decision-making, contends that domestic interests and democratic institutions helped to shape social spending policy (Kaufman and Segura-Ubierno 2001; Rudra 2002; Rudra and Haggard 2001).

Despite the important contributions they make, these arguments are not entirely persuasive. The market constraints explanation fails to recognize that material trends are socially mediated and that actors must rely on ideas to provide such trends with meaning. Even a material downturn affecting a number of countries more or less identically, like that which occurred in Latin America during the 1980s, can still be imbued with different meanings. The pluralist logic underpinning domestic-level explanations also limits our understanding of policy choices in Latin America. Evidence from a number of studies suggests that policymakers are not always responsive to interest group pressures (Haggard and Kaufman 1989, 1992a; Nelson 1988; Bates and Krueger 1993:455; Stallings and Brock 1993:99; Grindle and Thoumi 1993:141; Frieden 1991:157, 158). Moreover, these studies

² The logic of this view is also consistent with what Garrett (2001) labels the "efficiency view" of globalization.

also find that interest groups are often uncertain as to where their interests lie, leaving significant scope for policymakers to develop their preferences free of interest group pressures (Haggard and Webb 1993; Bates and Krueger 1993:456; Hall 1997:197). Existing explanations thus overlook the importance of meaning and uncertainty – two critical factors that point to the need to examine processes of social construction (Abdelal, Blyth, and Parsons, this volume).

A key task for those investigating processes of social construction is to locate the possible sources of policymaker preferences and scope conditions under which these preferences are likely to be implemented into policy. To uncover one vital source of the content of social spending preferences of Latin American policymakers, I develop a meaning-oriented account, though which also emphasizes the importance of uncertainty. Extending my earlier arguments (2007a; 2007b) about capital account policy, I argue that welfare state retrenchment in Latin America was driven in part by the influence of economists advocating neoliberal ideas prescribing reductions in social spending.

These neoliberal ideas argued for welfare state retrenchment in both an indirect and direct sense. In an indirect sense, neoliberal ideas diagnosed excessive government intervention as a leading cause of the economic difficulties Latin America faced, thus legitimating welfare state retrenchment as an appropriate means of adjustment. Welfare state retrenchment was thus in part an indirect by-product of budgetary policy prescriptions aimed at reducing overall government spending. Neoliberal ideas also prioritized welfare state retrenchment in a direct sense. Here neoliberal advocates recommended state shrinking as a means to remove distortions and inefficiencies introduced by large welfare states in the context of trade and capital market integration.

The constructivist literature on “epistemic communities” (Adler and Haas 1992; Haas 1992a) and the organizational sociology literature on “normative isomorphism” (Dimaggio

and Powell 1983) give us some insight into the role that influential carriers of ideas may play in shaping policy decisions. These literatures suggest that the ideas shared by neoliberal economists can influence policy by fixing particular meanings to material trends – such as rising trade and capital market integration – that legitimate welfare state retrenchment. When these economists successfully insert these meanings into the policymaking process – via negotiation and persuasion – social spending is likely to be reduced.

But constructivists and organizational sociologists pay little attention to the scope conditions under which shared ideas are likely to be inserted into the policymaking process and thus affect policy outcomes. Extending my earlier arguments about capital account policy, I build on the constructivist and organizational sociology literatures, arguing that the formation of a coherent policymaking team is one important factor that shapes the impact of shared ideas on policy. By producing nearly consistent advice from like-minded policymakers and by enhancing the autonomy of these policymakers from interest group pressures, coherence increases the likelihood that neoliberal economists can implement their shared ideas into policy. When these economists form a coherent policymaking team, state shrinking is more likely to occur.

The influence of these neoliberal economists on social spending policy can thus be usefully conceptualized as involving a two-stage process in which (1) a consensus develops amongst these economists as to what policies are possible, desirable, legitimate, and appropriate in a given context, and (2) the acquisition and exercise of bureaucratic power by these economists engenders policy changes consistent with their shared ideas. While the first stage is driven by processes emphasized by constructivists and sociologists, the second stage is shaped by conditions highlighted by historical institutionalists and models of bureaucratic politics.

In addition to the theoretical and empirical contributions this article seeks to make, it also advances constructivist research methodology, what one source labels an important “missing link” (Adler 2002:109). Most constructivists devote little, if any, attention to assessing the importance of shared ideas relative to factors suggested by alternative theories. Constructivists thus often point to the influence of advocates of various ideas but usually do so without a proper assessment of their relative effect on policy. If constructivists are to argue that scholars from different theoretical and ontological points of departure should engage more actively with constructivism, then constructivists also must be more attentive to the factors and explanations suggested by these scholars.

This chapter seeks to address these issues in a systematic and rigorous manner. Utilizing a new data set that codes the professional training characteristics of Latin American policymakers, I employ quantitative analysis of fourteen Latin American economies from 1972 to 1997 to assess the relative impact of neoliberal economists on social spending policy. I also use qualitative methods to provide case illustrations that supplement the quantitative results. To preview the results, I find that neoliberal meanings fixed to the economic difficulties Latin America faced – in particular, rising public sector debt burdens – helped shape the trend toward state shrinking. Significantly, I also find that without the presence of such meanings a rising public sector debt burden did not result in significant state shrinking. Overall, these results underscore the importance of being attentive to the manner in which shared ideas give meaning to particular material trends and policy options (see also Bukovansky this volume; Weaver this volume).

The rest of this paper proceeds as follows. I begin by surveying the existing literature and identifying some inadequacies in these accounts. The second section then develops a meaning-oriented explanation, though one which also takes into account the importance of uncertainty. I then sketch how this theory can be tested empirically by discussing sample,

data, and methodology. The next section examines the results of the quantitative analysis and explores social spending decisions in some Latin American countries to illustrate the results. Finally, I conclude by discussing the implications of these results.

EXISTING EXPLANATIONS OF SOCIAL SPENDING IN LATIN AMERICA

Generally speaking, two broad explanations have emerged to account for social spending decisions in Latin America. One prominent explanation, emphasizing market forces, holds that welfare state retrenchment in Latin America resulted mainly from inexorable market constraints accompanying the 1980s debt crisis (Stallings 1992:41-48). In this view, the evaporation of lending from foreign banks, the rise of interest payments, and the deteriorating terms of trade undermined the ability of Latin American governments to continue with their debt-financed policies. Governments thus had little choice but to pursue neoliberal social welfare models so as to meet their debt service commitments.

This line of argument usefully elucidates some crucial reasons why Latin American governments might have embraced neoliberal social welfare models. However, it overemphasizes the constraining force of markets and overlooks the critical importance of how material trends can be imbued with different meanings by various policymakers. Whereas some governments pursued neoliberal models in the face of the economic constraints of the 1980s, others developed more social democratic models, which suggests that the full range of policy possibilities is broader than the market constraints argument envisions (Huber 1996). These empirical anomalies arise from the implicit assumption of this argument that deteriorating material trends provide a self-evident and necessitarian meaning to policymakers.

Constructivists, however, maintain that material trends are indeterminate in specifying a government's policy preferences. Policymakers must fix meanings to material trends and rely on these meanings – which are often subject to debate – to arrive at the “appropriate”

course of action. Policy choices can thus be viewed as a function of the way policymakers understand material conditions and what type of policy response these understandings legitimate. The process of fixing meanings also features prominently in studies of the comparative political economy of policy reform. As Stephan Haggard and Robert Kaufman (1992a:22-23, emphasis added) observe:

The effort to explain policy preferences by reference to economic conditions...yields some insights, but...[such] explanations must often rely in the last instance on the way ideology shapes elites cognitions and values...[T]here can be no question that a growing perception of the limits of state intervention has conditioned the way elites interpreted the economic crises of the 1980s and the kinds of policy options necessary to remedy them.³

Indeed, not all policymakers responded to comparable economics conditions in a similar fashion. While there was general acceptance among Latin American policymakers that some new policy measures were needed, as Evelyne Huber notes (1996:161, 164), the specific social welfare model chosen “reflected the different governments’ visions of an appropriate model of the relationship between state and market.” How governments come to define this appropriate model thus constitutes an important empirical question that cannot be answered solely with reference to material trends.

Another prominent explanation of welfare retrenchment in Latin America – underpinned by a pluralist logic – focuses on how the strength and organization of domestic interests and the nature of domestic institutions shape policy decisions.⁴ For proponents of this view, interest group pressures drive changes in social spending (Kaufman and Segura-Ubiergo 2001; Rudra 2002; Rudra and Haggard 2001). These arguments, however, are not fully convincing. In particular, they tend to overemphasize the role of societal actors and underemphasize the degree of uncertainty these actors may have about their own interests.

Societal actors often play a less central role in the policymaking process than this view depicts (Haggard and Kaufman 1989, 1992a; Nelson 1988; Bates and Krueger

³ See also Nelson (1990a:325-326) and Haggard and Webb (1993).

⁴ This logic also implicitly underpins the “compensation view” of globalization that Garrett (2001) identifies.

1993:455; Stallings and Brock 1991:99; Grindle and Thoumi 1993:141; Frieden 1991:157, 158). As Haggard and Kaufman (1992a:36) note: “In the final analysis, it is entirely possible that neither interest-based explanations nor institutional ones will be entirely satisfactory for explaining how societies cope with the challenges of policy reform.” Haggard and Kaufman (1992a:36) therefore suggest that we turn our attention to “the formation of elite preferences, ideas, and ideology...[as] potentially important explanatory variables” – a central concern for constructivist political economists. Because societal groups are often uncertain about their interests (Haggard and Webb 1993; Hall 1997:197), researchers must look elsewhere for the source of policymaker preferences. As Robert Bates and Anne Krueger (1993:456) conclude: “In such situations, advocates of particular economic theories or of ideological conceptions of how economies work can acquire influence.” The next section examines how such advocates might implement their views into policy once they acquire influence.

A MEANING-ORIENTED EXPLANATION

After a period of some neglect, some constructivist political economists (Chwieroth 2007b, 2010), as well as a number of “ideas” scholars working in comparative political economy (Biglaiser 2002a; Teichman 2001), have rediscovered the critical role that epistemic communities can play in shaping policy decisions. As originally defined by Peter Haas (1992a:3), an epistemic community comprises “a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area.” By acquiring positions in relevant bureaucracies, these experts are able to influence policy by framing how decision-makers think of a particular policymaking context, by setting regulatory standards, and by diffusing their shared normative beliefs about “appropriate policy” (Adler and Haas 1992:375-385; Haas 1992a:30). Without the support of these technocrats it is often said that policy reforms

across a range of countries would have, in all likelihood, been seriously hindered and less comprehensive in scope.

Organizational sociologists describe a similar process as “normative isomorphism” (DiMaggio and Powell 1983). In seeking to explain the spread of particular practices, these scholars often focus on the influence of like-minded professionals across various organizational contexts who draw on shared beliefs associated with their common professional training to form judgments about “appropriate policy” (Babb 2001). Practices are said to diffuse when like-minded professionals staffing these various organizations are able to implement their shared beliefs into policy.

To summarize, policy decisions can often be shaped by committed and influential carriers of particular beliefs. The influence of what Haas (1992a:27) calls “cognitive baggage handlers” can be understood as a two-stage process in which (1) a consensus develops among a group of actors as to what policies are possible, desirable, legitimate, and appropriate in a given context, and (2) the acquisition and exercise of bureaucratic authority and power by these actors results in policy practices consistent with their shared beliefs.

Content

If carriers of particular beliefs about social spending shaped the trend toward state shrinking in Latin America, then the first stage of the aforementioned process suggests that we should consider the content of the normative consensus shared by these carriers. The economics profession is often a vital source of shared beliefs about “appropriate” economic policy (Chwieroth 2007b, 2010). Amongst Latin American economists, two broad schools of can be identified (Foxley 1983; Kahler 1990; Biglaiser 2002b).

Neoliberalism and its alternatives. One school of thought, structuralism, advocates government intervention and controls over the economy. Another school of thought, neoliberalism, espouses the virtues of minimalist government and free markets.

As their name suggests, structuralists locate the fundamental cause of economic problems in the “structures” of the world economy and various national economies. Focusing on the structure of the world economy, one influential structuralist argument claims that the world is divided into an industrial center of developed countries and a primary-product periphery of developing countries. In this structure, developing countries export products that experience declining terms of trade, low elasticity of demand, and extreme price variability. Structuralists therefore tend to express varying degrees of “export pessimism” and thus traditionally advocate varying forms of import-substitution industrialization (Prebisch 1950, 1984). Because structuralists typically attribute the economic problems that developing countries face to the vagaries and failures of unfettered markets, and because they tend to prioritize growth and equity over price stability and efficiency, they are less likely to view cuts in government spending in general, and social spending in particular, as necessary to alleviate an economic downturn or crisis. In the structuralist view, maintaining, even increasing, existing levels of social spending therefore often takes precedence over seeking to make or reschedule debt repayments.

The subject of inflation, a recurring phenomenon in Latin America, has also been of great interest to structuralists (Arndt 1985; Sunkel 1960). Inflation, according to structuralists, results from the national economic structures of developing countries, which are typically characterized by low factor mobility, market segmentation, and disequilibria between sectoral demands and supplies. As a result of these characteristics, when growth proceeds supply-side rigidities produce an inadequate supply response to increased levels of demand, resulting in a bottleneck and thus inflationary pressures. Structuralists point to insufficient productive capacity and domestic savings, shortages of foreign exchange and intermediate inputs, and rigidity in the government’s tax and expenditure structure as the principal bottlenecks that can give rise to inflationary pressures.

In addition to policies such as wage and price controls and tax and land reform, this diagnosis of inflation also lends legitimacy to public sector expansion. Two bottlenecks in particular – insufficient productive capacity and income inequality - are often targeted with public expenditure. In this line of argument, public expenditure is utilized as the basis for sustaining productivity increases and income redistribution in poorer segments of the economy.

Neoliberalism offers an alternative perspective on social spending, advocating for its reduction in both an indirect and direct sense. Within the economics profession, many leading proponents of this view are associated with New Classical economics. New Classical economics - a set of understandings ranging along a continuum from monetarism to Rational Expectations theory – locates the problems economies face in government intervention and the solution to these problems in shrinking the state and unleashing market forces. New Classical are broadly united by the belief that government intervention in general and government spending in particular is ineffective in the long run and often proves counterproductive. These arguments against government intervention prescribe welfare state retrenchment in an indirect sense.

Monetarists, for instance, claim that government attempts to stimulate the economy fail to affect real variables in the long run and serve only to increase inflation (Friedman 1968). With policy tools unable to influence the trade-off between unemployment and inflation, and with inflation increasing with each stimulus, monetarists prescribe the abandonment of attempts to control market outcomes in the long run through government policy. Rational Expectations theorists (Muth 1961; Lucas 1972; Sargent 1973) claim that market agents use “all available information” to form their expectations about economic conditions. Therefore, if a government is committed to spending, then market agents will be

able to anticipate its impact on wages and prices, thereby nullifying the effect of any government stimulus on real variables and serving only to heighten inflationary pressures.

Public choice theorists also espouse beliefs that inform the neoliberal school of thought. Using concepts and models such as “the political business cycle” and “rent-seeking,” public choice theorists hold that inflation is the consequence of deliberate actions by governments, particularly those in democratic countries. Assuming politicians seek to remain in office, public choice theorists argue that governments will provide goods to their constituents (i.e. high levels of social transfers and spending) to maximize votes. Inflation is then a natural consequence of governments seeking to prime the pump prior to election cycles (Nordhaus 1975; MacRae 1977). Moreover, because market expectations adjust to a new higher equilibrium rate of inflation after each stimulus, public choice theorists argue that later attempts to deflate the economy will prove futile. Monetarists, Rational Expectations theorists, and public choice theorists thus share the view that government intervention tends to be ineffective and often ends up being counterproductive.

Neoliberals also warn against excessive social spending in the context of trade and capital market integration. In this view, large welfare states lessen market discipline and crowd out private investment due to higher interest rates when financed via borrowing or distort investment decisions when financed via taxation. These effects can in turn reduce the efficiency gains from greater market integration. Since neoliberals link government spending to inflationary pressures, at best capital markets can be expected to place an interest rate premium on economies with a large welfare state and at worst engage in massive flight until policies are altered. Far from seeing these effects as harmful, neoliberals typically represent these market forces as imposing a valuable “discipline” on otherwise profligate governments. These arguments thus prescribe reducing social spending in a direct sense.

In contrast to structuralists, because neoliberals typically attribute the economic problems that developing countries face to “government failures,” and because they tend to prioritize price stability and efficiency over growth and equity, they are more likely to view cuts in government spending in general, and social spending in particular, as necessary to alleviate an economic downturn or crisis. In the neoliberal view, reducing social expenditure in order to make or reschedule debt payments therefore often takes precedence over poverty reduction and redistributing market allocations of wealth and risk.

In addition to structuralism and neoliberalism, populist governments in Latin American tend to implement another set of policies (Dornbusch and Edwards 1991). The objective of such governments is to increase the real income of urban groups while pursuing a program of reform designed to relieve bottlenecks. These populist governments uniformly reject the claim that deficit spending is inflationary; arguing that mobilization of unused spare capacity, declining costs, and price controls can be used to stimulate demand and lower inflation. As a result, populist governments typically combine support for real wage increases with rapid monetary and fiscal expansion.

Coherence

The content of the beliefs shared by influential carriers is thus critical for understanding their influence on policy, as it specifies which policy choices are possible, desirable, legitimate, and appropriate. Constructivists and organizational sociologists suggest that if these influential carriers can acquire and exercise authority and power in relevant bureaucracies then there are likely to be policy changes consistent with their views. Yet these perspectives devote little attention to the conditions that facilitate the implementation of these shared beliefs into policy (Yee 1996:86).

It is here that the second stage of the process begins. In the second stage advocates of particular beliefs must convince the chief of government (COG) of the desirability of their

preferred policy choice. From their positions in the bureaucracy, these advocates can influence the policymaking process due to the authoritativeness they derive from their credentials and professional training. Their standing as experts or well-respected professionals enhances their credibility as transmitters of ostensibly objective knowledge about “appropriate” policy and thus their ability to convince the COG of the desirability of the policies they advocate.

As I argue elsewhere (Chwieroth 2007b), one key factor shaping the capacity of influential carriers of beliefs to implement their prescriptions into policy is the extent to which they form a coherent economic team sharing a unified sense about the possibility, desirability, legitimacy, and appropriateness of a particular policy choice. The importance of coherence also features in the work of historical institutionalists (Skocpol 1985:9-14; Hall 1993:290-291) and in earlier research on the political economy of policy reform (Nelson 1990a:347, 1990c; Haggard and Williamson 1994:594).

A coherent policymaking team is one that is characterized by a preponderance of like-minded actors in key bureaucratic positions. Coherence can enhance the capacity of these actors to implement their shared beliefs into policy for two reasons. First, consistent advice across a range of sources often facilitates the success of actors in persuading others to adopt their proposals (Checkel 2001). Coherence – which would result in nearly consistent advice to a COG from members of the policymaking team – thus helps facilitate the implementation of ideas into policy. Without coherence, differences among policymakers afford the COG the opportunity to rely on those policymakers whose ideas are compatible with their own and who can be used to legitimate the COG’s pre-existing policy preferences or to enhance the COG’s domestic power base (Levy 1994:301). But in the absence of competing ideas to guide policy, a coherent team is more likely to be in a position to convince the COG that their advice is “correct” and to leave little room for alternative policies.

Coherence can also increase the insulation of policymakers from societal demands, thereby enhancing the political viability of a particular set of beliefs. A coherent policymaking team – armed with a set of ideas to guide policy – is likely to be in a stronger position to resist societal demands than a heterogeneous team. A shared set of ideas will guide policymakers as to what constitutes the appropriate policy course. Still, even in the absence of such guidance, these ideas at least provide a means for policymakers to resist some societal demands while accepting others as appropriate. By shielding the decision-making process from societal demands, the insulation that coherence provides can also help facilitate the ability of carriers of particular beliefs to convince the COG to support their prescriptions.

The influence of advocates of particular beliefs thus depends on both the content of the shared beliefs (Stage One) and the coherence of the policymaking team (Stage Two). While the content of shared beliefs defines the boundaries of “appropriate” policy practice, it is the coherence of the policymaking team that provides influential carriers of these beliefs with the capacity to implement them into policy.

TESTING THE ARGUMENT⁵

Constructivists working across a wide range of issue areas have shown empirically that ideas often have a decisive effect on political outcomes. Unfortunately, most constructivists pay sparse attention to assessing the relative importance of such factors, what Craig Parsons’ (2002) labels the “how much” problem. Postmodern constructivists confront this problem by denying it. These constructivists reject the notion of an objective context that can be assessed and measured, privileging interpretation rather than hypothesis testing as the goal of research.

⁵ For a fuller exposition of the arguments made in this section, see Chwieroth (2007a).

Although conventional constructivists use fairly standard research methods to address ideas, these researchers have relied almost exclusively on qualitative methods to deal with the “how much” problem. This methodological strategy is puzzling as the social ontology underpinning constructivism in no way restricts the choice of methods to the qualitative variety (Wendt 1999:33-40, 2000:171-172; Finnemore and Sikkink 2001:395). Here some critics may object that the use of quantitative methods is antithetical to the constructivist tradition on the interrelated grounds that constructivists should ask constitutive rather than causal questions (Wendt 1999), and that ideas can only be captured via an interpretive approach (Ruggie 1998).

Yet quantitative methods do enable constructivists to ask constitutive questions. The structuralist and neoliberal beliefs I discussed earlier “make possible (or impossible)” in constitutive terms certain policy practices that would otherwise not be. For instance, neoliberal beliefs cast the use of government intervention and spending to stir growth as “impossible” in the long run and as only leading to inflation. By contrast, structuralist understandings view the use of government intervention and spending to combat inflation as effective and certainly within the realm of “possibility.” It also should be noted that the search for correlations using quantitative methods is simply a more elaborate variant of the kind of search for empirical “correspondence” in which even postmodernists engage in seeking to match texts to identity (Wendt 2000:171-172). Thus, rather than being antithetical to constructivism, the use of quantitative methods helps to extend, broaden, improve, and refine it in a valuable fashion.

More specifically, quantitative methods offer constructivists at least two benefits that offset the weaknesses of research designs that rely exclusively on qualitative methods. One advantage quantitative methods offer is the ability to assess formally what might be called the bias-efficiency trade-off (King et al. 1994:66-71, 97; Collier et al. 2004). To gauge “how

much” ideas matter, existing methodological advice by constructivists recommends using a version of the method of difference (Parsons 2002:48-50). Though useful in some circumstances, this strategy tends to overemphasize the importance of providing unbiased estimates of the effect of ideas at the expense of offering efficient estimates of their effect. In urging researchers to ensure actors “face identical material constraints” to minimize the possibility of a biased inference, existing methodological advice can inadvertently lead researchers to include irrelevant control variables, thereby introducing inefficiency and lessening the degree of certainty one can have about the inferences drawn from a single study. This conundrum is what I earlier referred to as the bias-efficiency trade-off. Whereas evaluating the bias-efficiency trade-off using qualitative methods is quite difficult, quantitative methods offer a means to better assess this trade-off through various statistics, such as the mean square error.

Quantitative methods also offer to constructivists the advantage of helping to overcome objections by skeptics about the importance of beliefs for a particular outcome.⁶ By controlling for other variables included in the model specification - which presumably encompasses all relevant variables opposing theories suggest - and specifying the effect of varying a single variable, quantitative methods can provide a means to assess the relative importance of beliefs net of other factors. Quantitative methods thus offer precise estimates of how much beliefs matter through the parameter estimates, thus making it easier for constructivists and scholars from different theoretical and ontological points of departure to engage more actively with one another.⁷

SAMPLE

⁶ For a concise statement of the skeptics’ view, see Jacobsen (1995:285).

⁷ It would seem that the disciplinary success of sociological institutionalists and economic sociologists is to some extent due to this empirical strategy.

The sample used to test the argument comprises annual data from fourteen Latin American economies from 1972 to 1997.⁸ Data sources appear in Appendix 1.

DATA

Dependent variable: Social spending in this analysis encompasses total government spending on social security, health care, and education. These expenditures in turn are captured as a proportion of gross domestic product (GDP) [SEGDP].

Independent variable: A quantitative constructivist approach to understanding state shrinking in Latin America faces the daunting task of measuring neoliberal beliefs. To capture these beliefs I focus on the importance of professional training and rely on an approach I develop elsewhere (Chwieroth 2007a). This approach demonstrates that an individual's professional training characteristics can serve as a useful proxy for the beliefs that individual shares. Professional training shapes an individual's preferences by promoting, both implicitly and explicitly, a particular set of causal and normative beliefs. These causal and normative beliefs provide a lens through which actors develop shared diagnoses about the problems economies face and the appropriate solutions to them. Common professional training can thus be an importance reason why individuals carry similar "cognitive baggage."

As noted, in the economics profession many of the leading proponents of restraining social spending are associated with New Classical economics. Therefore, in accordance with the approach I develop elsewhere - which relies on qualitative research that documents cultures that tended to prevail in various economic departments as well as publication frequency in the *Journal of Political Economy* - I identify the University of Chicago, Stanford University, and Columbia University as being the most likely institutions to instill

⁸ The countries are Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Paraguay, Peru, Uruguay, and Venezuela. Colombia, Cuba, Haiti, Honduras, Nicaragua, and Panama were excluded because of missing or noncomparable data.

neoliberal beliefs about social spending in their students.⁹ I then use the presence of training at one of these academic departments as a proxy for the neoliberal beliefs that individuals are likely share as a result of their common training. The logic being that professional training at economic departments with particular empirically documented normative commitments tends to lead individuals trained in these departments to adopt similar beliefs.¹⁰ These individuals then act as carriers of these beliefs.

The earlier theoretical discussion suggests that the key individuals in question are those that comprise a country's economic policymaking team. Ideally, one would examine the entire decision-making tree of all relevant bureaucracies of each country in the sample and code the professional training characteristics of these individuals. This approach, however, is not possible, as the type of information needed is not available. Alternatively, we can focus on the cabinet level economic policymakers in each country and code their professional training characteristics. Since these data are available, that is the approach I adopt. The data on professional training characteristics of these policymakers were found in Proquest's *Digital Dissertations* database.

In this study I limit my analysis to two critical policymakers: the finance minister and the head of the central bank. Although other cabinet level policymakers are often involved in

⁹ The *Journal of Political Economy* (*JPE*) is the most prominent journal for publishing articles associated with the views of New Classical Economics. Chicago, Stanford, and Columbia economists were the most frequent publishers in *JPE* from 1968 – 1985. The year 1968 was selected as the starting point because it represents the beginning of the ascendancy of monetarist understandings in the economics profession (Friedman 1968, see also Lucas 1981). The year 1985 was selected as the end point because it is the point at which New Keynesians were able to increasingly call into question New Classical understandings (Mankiw and Romer 1991; see also Widmaier 2003:68-69). See also Ramos (1986:6-7, fn 5), which describes Stanford and Columbia as part of the “greater Chicago” consensus, and Colander (2005) and Colander and Klamer (1987), which provide evidence from surveys of economics graduate students that show that the responses of Chicago, Stanford, and Columbia students tend to cluster around similar belief positions.

¹⁰ It is also possible that individuals trained in other leading American economic departments during this time found themselves exposed to ideas about shrinking the state. During this period, some observers note that American graduate education in economics had generally tilted in a direction that prescribed limiting state intervention in the economy (Pinera 1994:227; Biglaiser 2002b:276). However, the conviction these other departments held toward New Classical understandings was likely not as strong as in the departments identified. See, for instance, Colander (2005) and Colander and Klamer (1987) who find that Harvard, MIT, and Yale graduate students tend to agree more with the proposition that “fiscal policy can be an effective stabilizer” than graduate students from Chicago, Stanford, and Columbia.

decisions about social spending, an examination of the reform experiences in a number of Latin American countries reveals that decisions about social spending were often the exclusive domain of the finance minister and the head of the central bank. Indeed, in several cases, there is evidence that the finance minister and the head of the central bank purposively and successfully excluded the heads of “the spending ministries” when the COG was considering decisions about social spending (Stallings and Brock 1993:87; Grindle and Thuomi 1993:138-139, 145; Nelson 1990b:186-187). I aggregate the scores for finance minister and head of the central bank and compute the proportion of these policymakers with “New Classical training” (where 1 = trained at “New Classical academic department,” 0 = otherwise) to produce the variable labeled neoliberal team [NLT]. This variable ranges from 0 to 100, with higher values indicating more neoliberals and thus greater coherence.

At the heart of my argument is the notion that the effect of economic conditions on social spending depends on how the policymaking team *interprets* these conditions and what type of policy response this interpretation prescribes. The primary independent variables are thus the interactive effects of selected indicators of economic conditions and the NLT variable. In particular I focus on: gross capital flows as a proportion of GDP [KFLOW], trade flows as a proportion of GDP [TRADE], public sector debt as a proportion of GDP [DBTGDP], reserves as a proportion of monthly imports [RESM], and inflation [INFL]. I take the natural log of each of these variables because each is positively skewed. I then combine them with NLT in order to assess the extent to which interpretations of material conditions, rather than material conditions per se, shape policy responses.

For each of these variables except RESM, if the interactive effects are negative, then it can be suggested that neoliberal interpretations of increased capital and trade exposure, public sector debt, and inflation result in weaker government welfare commitments. For RESM, if the interactive effect is positive, then it suggests that neoliberal interpretations of

balance of payments difficulties, which prioritize demand compression, result in less social spending. It should also be noted that the results for the variable NLT are of little importance to the analysis. By itself, this variable indicates the influence of carriers of neoliberal beliefs when the economic indicators cited earlier equal zero, a highly implausible situation that does not exist in the sample.¹¹

Control variables: A standard set of control variables from the literature on social spending in developing countries is included to isolate the effect of neoliberal beliefs and to check for other influences. Social spending is also often found to be shaped by the number of young and elderly dependents [DEPEND], the presence of a populist government [POP], democracy [DEM], and the presence of program with the International Monetary Fund [IMF] (Brown and Hunter 1999; Esping-Andersen 1990; Tang 1996; Rodrik 1998; Kaufman and Segura-Ubiergo 2001; Stallings 1992:55-58; Garrett 2001; Rudra 2002; Rudra and Haggard 2001).

Finally, I also take into account time effects. Two decade dummies are used to account for the important differences in the world economy over the course of the time period under investigation. The first decade dummy covers 1973 to 1981, the years when many Latin American countries were able to borrow quite extensively from international capital markets. The second decade dummy extends from 1982 to 1990, the years of the debt crisis marked by economic recession, structural adjustment, and difficulties tapping international capital markets.

METHODS

Several diagnostic measures are used to confront the issues of temporal dependence, unmeasured heterogeneity, and heteroskedasticity that typically characterize the time-series-cross-sectional data that this study employs. Regrettably, there is no panacea to deal with these issues and thus I subject the results to sensitivity analysis across estimation methods.

¹¹ See Braumoeller (2004).

A lagged dependent variable (LDV) is included in the analysis to account for temporal dependence. A LDV eliminates all temporal dependence in the model, suggesting it is superior to alternative error correction specifications (Beck and Katz 1995).¹² Country-specific fixed effects are sometimes recommended as means to deal with unmeasured heterogeneity. Yet fixed effects will suppress the explanatory power of time-invariant or “slow moving” variables. In such cases, the loss in terms of inference on important variables may outweigh the gains of minimizing bias. A LDV can also often make fixed effects less relevant, further suggesting that fixed effects should not be included (Beck and Katz 2001).

However, diagnostic tests using the Bayesian information criterion reveal that LDV models with fixed effects outperform those models without them. Omitting fixed effects also may not be advisable if the correlation between the regressors and the unmeasured heterogeneity is sufficiently large, which it is found to be. Analytically, fixed effects are also preferable since they permit an analysis of *changes* in social spending, which are presumably more influenced by the processes highlighted in this study than *levels* of social spending. I therefore estimate models a model with a LDV and fixed effects, as well as panel-corrected standard errors (PCSEs) in order to account for heteroskedasticity.

Still, there is a complication that arises if one seeks to account for temporal dependence with a LDV and heterogeneity with fixed effects, as the former is correlated with the latter and hence the error term. Although this correlation will produce biased and inconsistent parameter estimates, the bias declines as the time-series lengthens (Wilson and Butler 2007:107). Moreover, recent Monte Carlo analysis suggests that the bias is usually quite small in data sets used by political scientists and that it is generally confined to estimates for the effect of the LDV, which is of little substantive interest in this study (Wilson

¹² A Lagrange multiplier test revealed this to be the case. Additionally, there are also substantive reasons to include a LDV in the model, as social spending policy is likely to be path-dependent.

and Butler 2007:108). Nonetheless, as a robustness check I did use alternative estimation procedures, such as a model using a LDV, fixed effects, and robust standard errors (Kristensen and Wawro 2006) and one using a dynamic panel estimator with robust standard errors (Arellano and Bond 1991; Wawro 2002), but they did not alter the results. Due to its relative simplicity and ease of interpretation, I present the results from the model using PCSEs.

EMPIRICAL RESULTS AND DISCUSSION

Table 1 contains the estimates from model. Column 1 presents the “baseline model,” which contains the control variables and the uninteracted indicators of select economic conditions. Columns 2-6 then add separately each of the interactive terms as well as the NLT variable. The interactive terms could not be added simultaneously to the model due to problems of multicollinearity.

[TABLE 1 ABOUT HERE]

As expected, the results in column 1 from the baseline model reveal that rising public sector debt tended to constrain social spending policy. A one percent increase in public sector debt is found to decrease SEGP by .45 percent. The effect of a rising public sector debt burden is found to be influential in addition to the significant decadal effect associated with the 1980s debt crisis. None of the remaining variables are found to be significant.

Interestingly, the introduction of the interactive effects in columns 2 – 3 and columns 5 – 6 fails to overturn or modify the conclusions reached from the baseline model. While the interactive effects for RESM and TRADE have the expected sign, the interactive effects for KFLOW and INFL do not. None of these results are individually or jointly significant, however. Yet column 4 does present some rather interesting findings.

In particular, the interactive effect for DBTGBP is negative and significant, while the uninteracted effect for DBTGDP, though negative, is insignificant. Moreover, the interactive

effect and its constituent elements are jointly significant. Contrary to those who assert the primacy of market constraints, this result, which is in addition to the 1980s decadal effect, suggests that rising public sector debt burdens do not possess a necessitarian logic. Policymakers must rely on their beliefs to interpret this trend and arrive upon an appropriate course of action. The negative coefficient on the interactive effect suggests that state shrinking by Latin American governments is due in part to the ability of influential carriers of neoliberal beliefs to convince COGs, via negotiation and persuasion, that their interpretation of economic conditions is “correct” and that the policy response these interpretations legitimate is the “appropriate” course of action. In the view of these neoliberals, a rising public sector debt burden necessitates cut backs in spending in order to meet or reschedule debt repayments. It is not that these actors are unaware of the growth and equity implications of such actions, but rather that they give greater consideration to the benefits of behaving as “responsible debtors.” Consistent with earlier arguments, the results indicate that neoliberal policymaking teams have a substantively different impact on policy choices than policymaking teams staffed with individuals informed by alternative perspectives. The evidence also suggests that as the policymaking team becomes more coherent the capability of neoliberals to implement their beliefs into policy increases.

[INSERT FIGURE 1 HERE]

To better understand the nature of this interaction effect, I use the results from column 4 to present in Figure 1 the conditional effect of public sector debt burdens on social spending policy in Latin America. This figure enables us to observe the effect of a rising public sector debt burden on social spending as the policymaking team becomes increasingly neoliberal and coherent. The evidence strongly suggests that the negative effect of rising public sector burdens depends on the interpretations of policymakers and that this effect exhibits increasing returns as the policymaking team becomes increasing neoliberal.

When no neoliberals are present in the policymaking team, a one percent increase in the public sector burden fails to produce a statistically significant policy change. This finding suggests that governments staffed with non-neoliberals tend to be reluctant to reduce social spending even when faced with a rising public sector debt burden. This is in marked contrast to governments staffed with neoliberals. Figure 1 reveals that a one percent increase in DBTGDP with an intermediate level of neoliberals present in the policymaking team results in a statistically significant reduction of 1.06 percent in SEGDP. The statistically significant negative effect of a one percent increase in DBTGDP on social spending then increases further, to 1.85 percent, with a high number of neoliberals present. The varying effect of DBTGDP across policymaking teams characterized by different belief systems is quite striking. Indeed, while a one standard deviation increase in DBTGDP (24.15 percent) with no neoliberals present results in an estimated 6.4 percent reduction in SEGDP, the same increase in DBTGDP with a high number of neoliberals present is estimated to result in a 44.64 percent reduction in SEGDP. These results thus underscore the importance of investigating the beliefs that policymakers share in order to understand how they tend to respond to varying material conditions.

The reforms implemented in Chile during the Pinochet regime best illustrate the influence on social spending policy that neoliberal interpretations of material conditions and a coherent policymaking team can have.¹³ When military forces seized power on September 11, 1973, they faced an economy experiencing hyperinflation, a rising debt burden, and serious fiscal and balance-of-payments imbalances. Initially, the military agreed to share power among the four service chiefs. In the early 1970s, these service chiefs as well as other senior officers in Chilean military generally opposed neoliberal policies (Frieden 1991:156-157). Augusto Pinochet – the commander of the army and a member of the military junta –

¹³ Other cases of attempts by neoliberal economists to reform social spending include Argentina [1976 – 1980, 1991 – 1997] and Brazil [1980 – 1983]. On these additional cases, see Lal and Maxfield (1993), Huber (1996:172-175), and Ramos (1986).

had repudiated market-oriented policies and wanted to continue to protect the economy. Another member of the junta - Gustavo Leigh, the commander of the air force - favored Keynesian ideas (Biglaiser 2002a:68, 95).

Though the military regime was largely opposed to neoliberal policies, it also had little idea about what alternative policies might be implemented (Stallings and Brock 1993:81). The first economic team, notable for its ideological heterogeneity, was not prepared to adopt strict neoliberal policies (Arriagada 1988:7; Biglaiser 2002a:95). The first ten months of the military regime [October 1973 – July 1974] were therefore characterized by internal struggles over what direction policy should take. As a result, policy reforms aimed at stabilizing the economy tended to be delayed, piecemeal, and incoherent (Stallings and Brock 1993:87; Huber 1996:165). Chile's debt position also deteriorated rapidly, with public sector increasing from around 17 percent of GDP in 1973 to nearly 52 percent by 1975, a level exceeded in Latin America prior to the 1980s debt crisis only by Bolivia.

During this time a group of economists who served in subsecretarial and advisory positions – known as the “Chicago Boys” because of their links to the University of Chicago economics department¹⁴ – actively sought to persuade Pinochet, who had worked diligently to secure and consolidate power within the military government, of the desirability of neoliberal reforms. The coherence of this group of neoliberal economists seems to have been a critical factor in accounting for their ability to persuade Pinochet to support their views. As Judith Teichman (2001:72) notes, that the neoliberal economists “were united, more numerous than other bureaucratic factions in the state, and had a policy solution backed up by

¹⁴ Not all members of this group were educated at the University of Chicago economics department, with many having been trained at the Catholic University of Santiago where a number of members of the Chicago faculty served as visiting professors and a number of University of Chicago-trained Chilean doctoral students returned to teach (Valdes 1995). Other members of the “Chicago Boys” group received their training in departments that formed part of the “greater Chicago” consensus, such as Stanford and Columbia. The “Chicago Boys,” however, is the commonly used label for this group of economists and thus I use it as well.

detailed studies were all no doubt important factors in their ability to persuade Pinochet that [neoliberal] reform was necessary.”

In July 1974, several key changes were made in the policymaking team. The most important changes came with the promotion of Columbia-trained economist Jorge Caus and Chicago-trained economist Sergio de Castro to head the finance ministry and economy ministry, respectively. Caus and de Castro also brought with them a number of other Chicago-trained economists. Over the next few years, despite some personnel changes, economists trained at the University of Chicago and other economic departments instilling neoliberal ideas came to dominate nearly all levels of economic policymaking.

With the formation of a coherent policymaking team, the government embarked on an economic program that sought to restructure the Chilean economy according to neoliberal prescriptions.¹⁵ Radical market-oriented reforms were introduced across virtually all sectors of the Chilean economy. Public sector debt was also brought under control, declining as a proportion of GDP to less than 14 percent by 1981.

As part of their efforts to manage and reduce Chile’s debt burden, the neoliberal economists implemented drastic reductions in social expenditures such that by 1979 per capita social spending was only 83 percent of the level achieved in 1970 under the previous socialist government (Huber 1996:165). The neoliberal economists – as part of Pinochet’s seven modernizations – also embarked on a series of reforms in the areas of social security, health, and education.¹⁶ As Alejandro Foxley (1983:104) observes, in line with neoliberal prescriptions, “the intended direction of economic reforms were then to decentralize public institutions, leave as many of these activities as possible to the private sector, let market decision making operate, and, in a general way, guarantee freedom of choice to individuals concerning the provision and access to basic social services.”

¹⁵ For a discussion of the full range of neoliberal policies implemented, see Foxley (1983), Ramos (1986), Edwards and Edwards (1987), and Valdes (1995).

¹⁶ Labor, regional decentralization, agriculture, and justice comprised the other four modernizations.

In 1980, the Chicago Boys instituted the first private social security system in the world (Mesa-Lago 1989:105-142; 1994:115-132; Huber 1996:165-167). As Barbara Stallings and Philip Brock (1993:113) note, “Hayekian considerations on social insurance systems heavily influenced the [design of] the 1980 Social Security Law.”¹⁷ Education and health reforms also followed similar principles of transferring responsibility from the government to the private sector. The government partially privatized the education and health system and only guaranteed the provision of free minimum services to the very poor (Foxley 1983:108; Huber 1996:167).

In line with theoretical expectations, the coherence of the Chilean policymaking team greatly facilitated the efforts of the Chicago Boys in two important ways. One way was by enhancing the ability of the Chicago Boys to persuade military leaders of the desirability of neoliberal policies. Jose Pinera (1994:226), the chief architect of the social security reforms, notes that when one of the leaders of the Chilean military was asked why the military had heeded the advice of the neoliberal economists as opposed to other groups he responded: “Because you agreed with each other and gave us simple answers to our questions. Pinera (1994:226) goes on to state:

[The neoliberal economists] constituted a team that could work together to get things done without becoming mired in endless debate and infighting. The fact that this team of like-minded and similarly trained economists was available to take the reins of policy during this crucial period in Chile’s history is, I believe, the principal reason Chile was able to launch and sustain its ultimately successful economic reforms.

Another way the coherent team strengthened the neoliberal economists’ reform efforts was by helping to insulate the policymaking from societal demands. As Pinera (1994:226) notes, “Without the cohesiveness and single-mindedness that only a team can provide, any attempt at comprehensive reform...is sure to fall prey to factionalism and special interest politics.” Jeffrey Frieden (1991:157) also finds the coherence of the Chilean policymaking

¹⁷ Friedrich Hayek was, of course, one of the early pioneers of neoliberal beliefs. Stallings and Brock (1993:118-119) cite a passage from Hayek’s *The Road to Serfdom* that they claim, “expresses well the economic team’s belief with regard to state insurance policies.” See also Stallings and Brock (1993:83).

team to have been a crucial factor, noting, “Under the orthodox [neoliberal] team, economic policy was made by economists who ignored sectoral demands.” Indeed, Frieden (1991:158) – a proponent of pluralist view – concedes, “There is little evidence that policy was made with sector-specific targets in mind.”¹⁸

In addition to cases such as Chile, it is also worth considering cases such as Peru from 1985 – 1989 under the leadership of Alan Garcia.¹⁹ Cases such as Peru help to illustrate why governments informed by alternative perspectives may arrive at different policy courses when faced with rising public sector debt burdens than those governments informed by neoliberalism. In particular, such cases demonstrate how structuralist and populist-minded policymakers may interpret the constraints that rising public debt burdens place on social spending to be less severe than neoliberal policymakers.

Replacing a government that had pursued one of the region’s most committed neoliberal reform strategies of the period, Garcia inherited an economy that had experienced balance-of-payments and public sector debt difficulties for much of the 1980s. Reversing his predecessor’s neoliberal agenda, Garcia turned to structuralist economists from the Centro de Estudios para el Desarrollo y la Participacion (CEDEP), a research institute in Lima, to design his economic program (Stallings 1990:142-143, 146; Pastor and Wise 1992:96). In addition to appealing to Garcia’s center-left political platform and populist electoral promises, the coherence of the structuralist policymaking team likely helped ensure support from Garcia. As Stallings (1990:143) notes, “it [the economic program] did not...have to compete with alternative programs.”²⁰

¹⁸ See also Stallings and Brock (1993:99).

¹⁹ Other cases of “heterodox” economic programs pursued by populist governments or by governments staffed with structuralist economists include Argentina [1973 – 1976, 1981 - 1989], Brazil [1986 - 1989], and Mexico [1970 – 1982]. On these additional cases, see Kaufman (1990), Haggard and Kaufman (1992b), Dornbusch and Edwards (1991), and Lal and Maxfield (1993).

²⁰ See also Pastor and Wise (1992:105).

In line with structuralist interpretations, the economists working for Garcia understood Peru's balance of payments problems as resulting not from excess demand but rather from long-term supply and price constraints for exports, high import propensities, and capital flight (Pastor and Wise 1992:96, 100-102; Lago 1991:270-273). Although the structuralists viewed neoliberal prescriptions for demand compression as likely to reduce imports temporarily, they also saw expenditure reducing measures as likely to trigger a recession that would stimulate capital flight and thus worsen the payments imbalances (Thorp 1987). In direct opposition to neoliberal prescriptions, the Peruvian model aimed for demand-led growth. Consumption and government expenditures were promoted to reactivate the economy through the use of idle capacity. External imbalances would then be brought back into long-run equilibrium by import substitution and export promotion.

To deal with the foreign exchange constraint and to provide the space to reactivate the economy, Garcia famously declared that no more than 10 percent of exports would be devoted to interest payments on debt.²¹ In contrast to their neoliberal predecessors, Garcia and his structuralist policymakers sought to refuse to permit growth to be constrained by the world economy in general and debt service obligations in particular. By partially relieving Peru from such constraints, the government sought, as Rosemary Thorp observes (1987:164), "to pursue a healthier combination of growth and equity" than their predecessors had achieved.

As leading members of Garcia's policymaking team noted:

"It is necessary to spend, even at the costs of a fiscal deficit, because if the deficit is the result of transferring public resources to consumption of the poor so they can demand more products and firms are able to reduce unitary costs, this deficit will not create inflationary pressures, but all the contrary...This constitutes our major departure with respect to the previous strategy of demand restraint" (Peruvian policymaking team cited in Lago 1991:271)

²¹ In reality, though the Garcia government did decrease debt service payments as a proportion of exports from levels inherited from its predecessor, it nonetheless failed to meet its 10 percent target until 1988. Even then the result came about mostly due to an inability to pay rather than a conscious strategy, see Pastor and Wise (1992:99).

This statement contrasts sharply with statements made by members of the previous government just two years earlier. One finance minister from that government indicated its general neoliberal approach to policymaking by bluntly stating, “Don’t fool yourselves into thinking that I am here to reactivate the economy...It is impossible to reduce inflation if wages continue high, if sales continue high, and if public works continue full steam ahead” (Stallings 1990:133).

Policymakers in Garcia’s government believed that government spending would not only serve to relieve Peru’s balance of payments and inflationary problems, but also would help improve the country’s severely unequal distribution of income, which had been worsened by a sharp decline in real wages during the first half of the 1980s. Large increases in public sector wages, some of which translated into increases in social spending, were implemented with the goal of reactivating demand and improving social equity. Although Garcia’s policies achieved some initial success, this proved short-lived. Ultimately, his policies failed to solve Peru’s economic problems. In 1988, opposition to his economic policies from within his own political party resulted in the replacement of Garcia’s structuralist confidants with more orthodox economists. Predictably, the result was implementation of a half-hearted neoliberal stabilization package.²²

IMPLICATIONS

The findings of this paper have important implications for three important areas of research. One area is the debate over the efficiency versus compensation logic of market imperatives in developing countries (Rodrik 1998; Garrett 2001; Kaufman and Segura-Ubiergo 2001; Rudra 2001). This analysis highlights an important “pathway to constructivism” by providing evidence that market imperatives actually contain no self-evident or necessitarian logic (Abdelal, Blyth, and Parsons, this volume). Rather market

²² Interestingly, Garcia was re-elected president of Peru in 2006 and has since pursued more orthodox policies, though the logic underpinning these policies bear little resemblance to the arguments elaborated by New Classicals.

imperatives – like all other material trends – are socially constructed and therefore must be imbued with meaning by policymakers whose shared beliefs shape their understandings of such processes and legitimate certain policy responses. Future research in this area should devote more attention to understanding how particular beliefs about market imperatives and the trade-offs between growth and price stability on the one hand, and equity and efficiency on the other, rise to prominence across various settings.

A second area of research is the debate between pluralist and institutionalist theories of policymaking. The findings in this chapter suggest that coherence is one key factor that can help insulate the policymaking process from societal demands. Under such conditions, the pluralist approach is silent as to where the preferences of policymakers may originate. Institutional approaches also often generate poor predictions of policymaker preferences on social spending. The argument that this paper offers thus complements these theories by highlighting one critical route – advocacy by influential carriers of particular beliefs - through which preferences may emerge. In doing so, this paper also speaks to the literature on policy diffusion by bringing into sharper focus the role that economists often play in spreading policy practices.²³

Finally, this research also speaks to the issue of welfare state retrenchment in developing countries. Although a number of studies focusing on OECD countries show, as Geoffrey Garrett (1998) indicates, that “citizens still have a real choice to make about how to govern the market,” it still remains unclear as to whether such optimism is warranted for developing countries. This analysis shows that there are important normative and ideational underpinnings for decisions about social spending in the current era of globalization. To the extent that norms and ideas about social spending matter for policy, this research shows that fears about the demise of the welfare state in developing countries may be overstated.

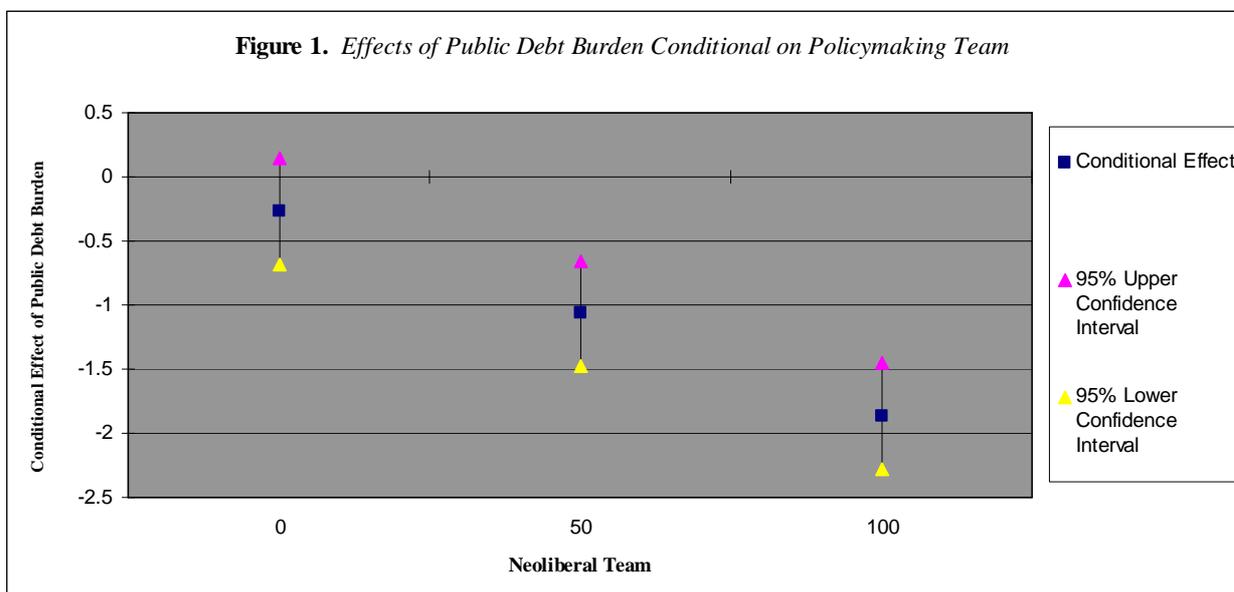
²³ For a review of the literature on policy diffusion, see Simmons, Garrett, and Dobbin (2006).

Moreover, it suggests that welfare state retrenchment is not an inevitable, irreversible and “natural” part of globalization. Rather, such a process is a contingent outcome stemming from a set of social constructed understandings that are reversible. Certainly, in the early years of this century the rise of leftist and social democratic governments, the demise of the “Washington Consensus,” and the accompanying expansion of social welfare commitments across much of Latin America suggests the enduring importance of the way contrasting norms and ideas about the role of government can inform the policymaking process.

Table 1. *Covariates of Social Spending as Proportion of GDP in Latin America, 1972 - 1997*

<i>Variable</i>	(1)	(2)	(3)	(4)	(5)	(6)
KFLOW	-.067 (.125)	-.053 (.131)	-.053 (.125)	-.067 (.125)	-.054 (.128)	-.039 (.128)
TRADE	-.231 (.389)	-.242 (.388)	-.208 (.400)	-.197 (.395)	-.246 (.390)	-.216 (.404)
DBTGDP	-.446** (.206)	-.487** (.198)	-.509** (.201)	-.265^ (.211)	-.489** (.199)	-.489** (.202)
RESM	-.012 (.191)	-.007 (.189)	.038 (.187)	.012 (.188)	.032 (.205)	.058 (.185)
INFL	-.101 (.079)	-.029 (.083)	-.023 (.078)	-.051 (.078)	-.041 (.080)	-.069 (.092)
DEPEND	.012 (.016)	.012 (.016)	.015 (.015)	.022 (.016)	.015 (.015)	.016 (.016)
POP	-.088 (.241)	-.118 (.244)	-.158 (.252)	-.158 (.242)	-.134 (.244)	-.140 (.243)
DEM	.029 (.022)	.032 (.022)	.037 (.023)	.032 (.022)	.035 (.022)	.037 (.024)
IMF	.076 (.186)	.112 (.185)	.114 (.185)	.205 (.192)	.113 (.188)	.111 (.185)
NLT		.0009 (.013)	.035 (.037)	.059**^ (.025)	.010 (.010)	.013 (.008)
NLT*KFLOW		.005 (.006)				
NLT*TRADE			-.007 (.010)			
NLT*DBTGDP				-.016**^ (.008)		
NLT*RESM					.0007 (.007)	
NLT*INFL						.001 (.003)
1973 - 1981 Decade	-.469 (.351)	-.484 (.349)	-.512 (.351)	-.458 (.360)	-.512 (.351)	-.516 (.351)
1982 - 1990 Decade	-.536** (.234)	-.495** (.234)	-.469** (.235)	-.543** (.234)	-.485** (.231)	-.469** (.237)
LDV	.751** (.074)	.748** (.073)	.745** (.074)	.764** (.074)	.748** (.074)	.749** (.074)
Constant	3.19 (2.82)	3.50 (2.92)	3.09 (2.82)	1.79 (2.93)	3.11 (2.83)	2.74 (3.03)
R-Squared	.951	.952	.952	.953	.952	.952
N	241	241	241	241	241	241

Panel-corrected standard errors in parentheses: ** p < .05; ^ jointly significant p < .05



Appendix 1. Data Sources

<i>Variable</i>	<i>Source</i>
SEGDP	IMF Government Finance Statistics
NLT	Discussed in text
KFLOW, TRADE, DBTGDP, RESM, INFL, DEPEND	World Bank World Development Indicators
POP	Kaufman and Segura (2001)
DEM	POLITY IV
IMF	Vreeland (2003)

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