
Populism and the Welfare State: Why Some Latin American Countries Produce Cycles Instead of Stability

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Abstract

Populist politics and demand for nationalization are a recurrent phenomenon in many Latin American countries. Compared to the 'European' (welfare) state with its moderate tax-based redistribution, many Latin American countries have cycled between right-wing governments pursuing radical privatization and left-wing governments pursuing nationalization of many sectors. Why do we see these cycles with seemingly little middle ground? This paper argues that the root of this phenomenon lies in a political conflict between the Left and the Right in the absence of a credible commitment device: The Left can only develop welfare-state policies of redistribution with a minimum degree of state capacity such as an effective tax administration; the Right would only help establishing such an administration if they do not fear radical redistribution. With trust lacking between both sides, many Latin American countries end up in a political impasse where the Right shifts to a neoliberal, small state, whereas the Left shifts to a populist nationalization state. To bolster this argument, I construct a simple model of (in-) complete information with two ideal-type political parties. Its key result is that if the (moderate) Right is unsure about the Left's motives it will deviate from its first preference, a strong state. As a consequence, the (moderate) Left also deviates from its preferred tax-based redistribution and the state ends up in an antagonistic equilibrium: the privatization vs. nationalization cycle. Anecdotal historical evidence shows some examples of Latin American countries that became trapped in such an antagonistic constellation which led to cycles instead of stability.

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1 Introduction

“The fundamental political dilemma of an economic system is this: A government strong enough to protect property rights and enforce contracts is also strong enough to confiscate the wealth of its citizen.” Barry Weingast (1995, p. 1)

In some Latin American countries, history since independence seems to rhyme better with cycles than with stability: Civil wars, macroeconomic adjustments and, above all, competing paradigms of statehood. Most Latin American governments shifted from strong developmental states in the 50s and 60s to the (neo-) liberal ideal of a minimal state in the 1980s and 1990s. In the 2000s, the pendulum seemed to swing back to ‘popular’ demands of nationalization and outright protectionism in some countries. From past experience we know that much of these political stimuli were short-lived: voters became disenchanted with these leaders since radical economic populist measures are untenable in the long run (Dornbusch and Edwards 1989) or benefit only minor clienteles and special interest groups (Hirschman 1968). However, the alternative is not a more moderate, European-style welfare state with its tax-based redistribution, but right-wing governments pursuing radical liberalization and privatization, sometimes with equal populist nature (Roberts 1995; Weyland 2002). Why do we see these cycles with seemingly little middle ground?

In this paper I propose an answer in two steps. The first step makes use of Barry Weingast’s insight (see quote above): Governments need a bureaucracy, autonomy and revenues to fulfill functions of law, insurance and the provision of public goods, but the very existence of such a strong state can lead to fears of abuse and excessive redistribution (Acemoglu and Robinson 2005). In turn, without the necessary state capacity for marginal redistribution, the demand for stronger forms of redistribution such as nationalization programs becomes louder. Avoiding this mutual impasse, (ideal-type) European welfare states were built around implicit, long-term cross-class coalitions, but for these cross-class coalitions to exist, they required some form of formal or informal commitment device. For one reason or another, some European states had such devices. The circumstances for many Latin American countries were much less fortunate, a fact that has led to chronic instability and antagonism (Doyle 2014).

Second, in the absence of a commitment device, we see that many right-wing Latin American politicians choose small, neoliberal states over strongly organized insurance states because they fear that future left governments would use a stronger state for excessive redistribution. Without the implicit help of moderate right-wing partners to build a welfare state, left politicians choose another option: short-term populism, and in particular nationalization instead of more long-term, tax-based and gradual redistribution. Nationalization was and is popular among many voters, is easy to start and offers direct gains in terms of patronage. This, however, contradicts the interests of the moderate right, and they divert to radical measures. Hence, some Latin American countries end up in an antagonistic constellation with competing paradigms about statehood. Whoever governs tries to push towards one of the two extremes, no(-zickian) state or full command.

In the following, I will first briefly state the fundamental problem of welfare state creation and relate it to the scholarly literature (first step, Sect. 2). In Sect. 3, I will present a stylized game-theoretic model showing the differences between cycles and stability (second step). Section 4 will illustrate the cyclical dynamics looking at several historical periods in Latin America. In the final section, I will deal with some criticisms about the main argument and sketch some general implications for the literature on welfare states in- and outside of Latin America.

2 Welfare State Capacity in Latin America and Europe Compared

It has often been said that, with some notable exceptions such as Costa Rica, Chile and Uruguay, there is little European-style welfare state in Latin America (Flora and Heidenheimer 1981). There is significantly less government revenues in Latin America than in Europe,¹ somewhat less social spending (ECLAC 2007), with less redistributive impact on post-government income distribution (Lindert et al. 2006; Huber et al. 2006). Rather, many Latin American (welfare) states are famous for serving specific and narrow groups of society,² for being means of clientelistic distribution rather than of broad public goods (Perez Yarahuan 2003;

¹According to IMF governance finance statistics (various years) the average for 18 Latin American countries hovers around 20% for the last 30 years, whereas the respective averages for countries like Germany or Sweden are much higher.

²Reid (2007, p. 190), for instance, mentions the case of the Brazilian state pension of which some 65% go to the richest 20% of contributors. It has to be added, however, that in recent times several welfare states have increased their redistributive policies (e.g. Pribble 2013).

Gough and Wood 2004), and show a lack of sustainability in the long run (Mesa-Lago 1997).

In the past, Latin American welfare states were often linked to left-wing populism. The mobilization of trade unions, the working class and the poor masses for purposes of clientelistic redistribution is—for some, notably economic scholars—inexorably intertwined with the nature of (economic) populism (Dornbusch and Edwards 1989, 1992). Populist leaders choose policies with immediate payoffs over those with a longer horizon, targeted over broad programs, and, in general, unconstrained preferences over policy platforms that anticipate the costs of welfare state programs (Reid 2007; Wantchekon 2003). However, populism is so pervasive that it is not restricted to left governments. Roberts (1995) and Weyland (2001) have argued that populism can also be found in neoliberal governments such as Fujimori in Peru.³ This implies that the problem lies on both sides of the political spectrum, with radical solutions as preferred options. Most importantly, ‘populism’ is not only a common accusation,⁴ but a regular companion of political cycles in Latin America: big swings from radical forms of redistribution such as nationalization to economic liberalism and back.

Though nationalization and privatization are still salient issues in Europe, many advocates of European welfare states resorted to a second, arguably more important strategy: taxation. Where nationalization is redistribution in absolute terms, taxation is usually redistribution at the margin—a tool for gradualist reform instead of revolution. This pronounced difference to Europe has provoked considerable interest in its causes (Haggard and Kaufmann 2008; Mesa-Lago 2000; Segura-Ubiergo 2007). Some authors argue that welfare states in Latin America did not dispose of the necessary class base (Halperín Donghi 1998) to build a tax-based welfare state. Indeed the backbone of many European welfare states, workers in the manufacturing industry, has never reached more than a third of the population and in most cases stayed well below it (Kurtz 2004; Rudra 2007). Most organizations of workers’ interests were therefore bound to represent more insider- than general-interest based politics (Haggard and Kaufmann 2008). However, European scholars are well aware that the logic of industrialism was not everywhere as strong as in Germany or the UK. And even in Germany and the UK, the representatives of workers (communist or social democratic parties)

³On the different notions of populism see Weyland (2001), Mudde (2004), Abts and Rummen (2007) or Canovan (1999).

⁴In the words of Ralf Dahrendorf: “the one’s populism, is the other one’s democracy, and vice versa.” (quoted in Mudde 2004, p. 543).

never received an absolute majority of votes, and hence enough political mobilization to push the welfare state alone (Baldwin 1990).

Other scholars mention the legacies of colonialism, income inequality (Acemoglu and Robinson 2005), the cold war with its US interventions (Haggard and Kaufmann 2008, p. 7; Halperín Donghi 1998) or the influence of the political regime (Brown and Hunter 1999). All these arguments bear some truth, but we also know that some European countries and their offsprings managed to escape the trap and build notable and strong welfare states (Acemoglu and Robinson 2012). Moreover, some Latin American countries such as Uruguay and Chile managed to overcome their problems and built significant levels of (welfare) state capacity (Kurtz 2013).

If these differences make some Latin American welfare-state programs comparatively small, short-term oriented and focused on specific segments of the population, how was it possible in Europe for these broader schemes to build a welfare state as a long-term project? After all, the short-term temptation should be always most urgent for myopic politicians. Many answers have been given to this question. Some welfare-state researchers claim that the political power of trade unions and left parties combined was strong enough to guarantee universalism over clientelism (Korpi 1983), but we have already seen that even in Europe this argument is incomplete. For instance, some European welfare states were more the product of an agrarian, catholic or conservative initiative (van Kersbergen 1995; Manow 2009) than the result of left-labor power.

In general, welfare states were more likely to emerge, where they were the product of cross-class alliances either between farmers and industrial workers (Esping-Andersen 1990), white and blue collar workers (Baldwin 1990), lower and middle classes (Korpi and Palme 1998) or employers and employees (Mares 2001). The emergence of a welfare state, it seems, hinged on the existence of an implicit or explicit cross-class or 'grand' coalition, between moderately left and moderately right forces. There is a good reason for this: For the welfare state to evolve over time, it depends on such an implicit and often informal cross-class alliance. This is so, since the left will rarely be powerful enough to generate a welfare state alone, and it never governs forever.⁵ An ideal-type cross-class alliance will combine left forces with a moderate preference for redistribution, and moderate right forces with preferences for a strongly organized insurance state: both sides can agree (implicitly) that such a state needs revenues. A moderate right will

⁵For example, German Social Democrats never got more than some 40 plus percent of the votes in any federal election since their foundation in 1869.

be interested in some insurance if not redistribution, if it does not need to fear a full radicalization of left demands. At this point, Barry Weingast's concern about a 'strong' state, i.e. a state with the administrative and coercive capacities kicks in: How can a left coalition partner assure that it will not abuse this coercive power in the future? Put in this way, the problem becomes one of trust and credibility. Does the right believe that it will deal with moderately left counterparts? Does the left know it can rely on a moderate instead of a radically liberal right?

In other words, we can think of the implicit cross-class alliance as a super-majoritarian, informal meta-game on the political rules. This meta-game assures that the redistributive game as such is played without extremist solutions. Without such an implicit grand coalition or any other 'commitment device' defining the fundamental political rules of the meta-game, the lower-tiered redistributive game has no frame and can lead to one of the two extremes: total redistribution or no redistribution (Roemer 2001; Acemoglu and Robinson 2005; Greif and Laitin 2004).

Infant European welfare states—some better, some worse—had various forms of commitment and cooperation devices for their cross-class alliance to hold. I can think of at least four different types of such (institutional) devices that overcome mistrust. First, autocratic conservatives such as Bismarck could introduce the welfare state and curtail the risk of excessive redistribution by sheer force (Flora and Heidenheimer 1981; Kemmerling 2009). In a sense, Bismarck was the Nixon which it took to go to China ('social insurance').⁶ A second example is electoral rules. Among others, Iversen et al. (2006) show how proportional electoral systems generate more left leaning governments. Proportional systems also can 'train' parties in engaging in implicit and explicit coalitions and build a reputation of cooperation. A third type of commitment device results from the effects of the cleavage structure. Whereas in Europe cleavages reinforced the generation of a moderate middle class, in other contexts race or religion polarized the societies even more (Alesina et al. 2001; Roemer 2001). The fourth type of commitment device is political culture. Where, for instance, homogeneous societies lead to a higher level of mutual trust and trust in political institutions, the building of cross-class coalitions should also be easier (Rothstein 2001; Putnam 1995).

Returning to Latin America, the origins of welfare states are, in all likelihood, causally complex, i.e. there is no simple and single cause. For a variety of reasons, parts of Latin America seem to have been lacking meta-rules. First, conservative autocrats were never willing to accept a modicum of redistribution,

⁶Even Bismarck himself was very cautious not to introduce instruments such as a personal income tax that might get out of hands, once parliaments had their say on it (Kemmerling 2009, p. 103).

and they rather fought each other in civil wars than other countries (Centeno 1997). Second, party systems and political institutions are notoriously unstable (Kitschelt et al. 2010; Mainwaring and Scully 1995). Even worse, most Latin American political systems are presidential what weakens parties' coordinative functions (Stepan and Skach 1993). Third, high inequality exacerbated pre-existing racial or ethnic cleavages (Acemoglu and Robinson 2005; Boix 2003). Finally, the lack of interpersonal trust and trust in political institutions remains a serious problem of political culture in Latin America (Lagos Cruz-Coke 1997).

With the absence of the (super-majoritarian) middle ground, the pendulum can swing back and forth, and this is what we see often in Latin American political history. In the absence of effective meta-rules, political actors have incentives to switch to short-term orientation, unconstrained preferences or unsustainable policies: all facets of what many experts consider to be 'populist'. Lack of commitment makes it difficult for the players to seek long-term strategies. Economic populism thrives under such circumstances. The next section shows the 'mechanics' of these swings with the help of a highly stylized theoretical model.

3 A Stylized Static Model with Incomplete Information

What are the proximate reasons for such cross-class alliances to break down, in the absence of a strong (external) commitment device? I use a stylized game-theoretic model with four types of political factions, two on the left side, and two on the right side. The model of four political factions is highly stylized, but as broad political movements this configuration is not unreasonable (Coppedge 1998; Kitschelt et al. 2010). The two factions on the left side are always interested in redistribution, but they have to choose between two tools: nationalization of private enterprises (N) and tax-based redistribution (T). The two factions on the right side are always interested in forms of status conservation, but choose between a market solution based on privatization and minimal regulation (P) or a well-organized insurance state (O). The latter requires a big government with considerable tax revenues.⁷ Let's call these faction in the following way: 'communists' (K) preferring N over T; 'social democrats' (S) preferring T over N; neoliberals (L) preferring P over O; and

⁷I call this strategy O to keep it analytically distinct from the left's moderate strategy T, even if both require tax revenues to finance their preferred policy outcomes. The idea is that both types need to invest in revenue collection and state capacity, even if the final aims differ: the left prefers a (redistributive) welfare state, the right an insurance state.

conservatives (C) preferring O over P. Given the fact that the strategies P and N directly contradict each other and are generally more extreme solutions, I will call S and C the two moderate factions, and L and K the two radical factions. Figure 1 summarizes the set-up of the game in a simple matrix.

The payoffs for the involved players depend on two types of data: first the utilities U_j^i , for each type of player i and each strategy pair j , and second the weight of each subtype v and w , where v and w are the weights of the moderates (conservatives and social democrats) relative to the radicals (neoliberals and communists). The weights can be thought of as vote shares or relative strengths, and can range between 0 and 1 for each subtype. The payoffs differ for each subtype of player. To put more structure on this game, I assume the following preference orderings:

$$\begin{aligned}
 \text{S: } & U_{TO}^S > U_{TP}^S > U_{NO}^S > U_{NP}^S \\
 \text{K: } & U_{NO}^K > U_{NP}^K > U_{TO}^K > U_{TP}^K \\
 \text{L: } & U_{TP}^L > U_{NP}^L > U_{TO}^L > U_{NO}^L \\
 \text{C: } & U_{TO}^C > U_{NO}^C > U_{TP}^C > U_{NP}^C
 \end{aligned} \tag{1}$$

The preference orderings are straightforward: On both sides the moderates, S and C, prefer marginal (tax-based) solutions to radical solutions (privatization or nationalization). The radicals, K and L, however, prefer outcomes including their radical strategies (N and P, respectively) over those including the moderate strategy (T and O, respectively) of their own group. The differences of the utilities may depend on many things such as ideology or material interest. I deliberately leave the political economy of these strategies aside and focus on the politics of

		Right	
		P	O
Left	N	$(1-v) U_{NP}^L + v U_{NP}^C$ (1) antagonistic constellation $w U_{NP}^S + (1-w) U_{NP}^K$	$(1-v) U_{NO}^L + v U_{NO}^C$ (3) developmental state $w U_{NO}^S + (1-w) U_{NO}^K$
	T	$(1-v) U_{TP}^L + v U_{TP}^C$ (2) 'Third Way' $w U_{TP}^S + (1-w) U_{TP}^K$	$(1-v) U_{TO}^L + v U_{TO}^C$ (4) welfare state $w U_{TO}^S + (1-w) U_{TO}^K$

Fig. 1 The payoff matrix

the process. Neither does this game know any specific political institutions or types of regimes.

Due to these preference orderings, there is an internal conflict of interests within both political camps, and the overall payoff depends on the numeric differences between the utilities, as well as the weights. The four cells of this matrix in Fig. 1 represent different combinations: (4) or ‘welfare state’ is a grand coalition between a (moderate) Right with an interest in a strong insurance state and a moderate Left with an interest in tax-based redistribution. The specifics of the outcome depend on which side runs the government, but the nature of the game will be one in which a welfare state can flourish. (1) is called ‘antagonistic constellation’ as in this situation the strategies of Left and Right directly clash with each other. This is an equilibrium which is dynamically unstable, since the two sides are proposing contradictory platforms (see below). (2) represents the situation in which the neoliberals and social democrats are dominant, and which leads to some sort of ‘Third Way’.⁸ (3) represents a conservative Right favoring a strong state, and a radical Left favoring nationalization. One can call this constellation the developmental state in which the government aims at pushing state-led growth. All four corner solutions are possible and did indeed happen in Latin America, though with differing degrees (see next section), but it is the antagonistic constellation which is most interesting, as it has the potential for cycles across time.

What determines the outcome? It is easy to see that when $v = w = 0$, the result will be a unique Nash equilibrium (NEQ) at (N, P), the antagonistic constellation. When $v = w = 1$, the outcome will be a NEQ at (T, O), a welfare state based on a cross-class coalition among moderates. Similarly, when $v = 1$ and $w = 0$, the outcome will be a unique (pure-strategy) Nash equilibrium (NEQ) at (N, O), that is a developmental state. Finally, when $v = 0$ and $w = 1$ there is a unique NEQ at (T, P), the ‘Third Way’ solution. For all other cases the outcome depends on the size of v and w . For instance the existence of a welfare-state Nash equilibrium is guaranteed iff:

$$\begin{aligned} \text{Left: } w U_{TO}^S + (1 - w) U_{TO}^K &\geq w U_{NO}^S + (1 - w) U_{NO}^K \\ \text{Right: } (1 - v) U_{TO}^L + v U_{TO}^C &\geq (1 - v) U_{TP}^L + v U_{TP}^C \end{aligned} \quad (2)$$

⁸‘Third Way’ may have a positive, normative interpretation, but I use the concept here mainly as an analytic category (Glyn and Wood 2001).

These inequalities hold for:

$$\begin{aligned} w &\geq \left(U_{NO}^K - U_{TO}^K \right) / \left(U_{TO}^S - U_{NO}^S + U_{NO}^K - U_{TO}^K \right) = w_1, \text{ and} \\ v &\geq \left(U_{TP}^L - U_{TO}^L \right) / \left(U_{TO}^C - U_{TP}^C + U_{TP}^L - U_{TO}^L \right) = v_1. \end{aligned} \quad (3)$$

These inequalities imply that as long as the share of moderates is bigger than the differences in the utilities of the radicals compared to all differences in utilities, the parties will play a welfare-state strategy. Likewise, an antagonistic Nash equilibrium exists iff:

$$\begin{aligned} \text{Left: } w &U_{NP}^S + (1 - w) U_{NP}^K \geq w U_{TP}^S + (1 - w) U_{TP}^K \\ \text{Right: } (1 - v) &U_{NP}^L + v U_{NP}^C \geq (1 - v) U_{NO}^L + v U_{NO}^C \end{aligned} \quad (4)$$

And the inequalities hold for:

$$\begin{aligned} w &\leq \left(U_{NP}^K - U_{TP}^K \right) / \left(U_{TP}^S - U_{NP}^S + U_{NP}^K - U_{TP}^K \right) = w_2, \text{ and} \\ v &\leq \left(U_{NP}^L - U_{NO}^L \right) / \left(U_{NO}^C - U_{NP}^C + U_{NP}^L - U_{NO}^L \right) = v_2 \end{aligned} \quad (5)$$

Again, the inequalities imply that the differences in the payoffs for radicals need to be relatively large for given levels of v and w .

Likewise, a Nash equilibrium in sector 2 ('Third Way') exists, iff $w \geq w_2$ and $v \leq v_1$, and an equilibrium in sector 3 (developmental state) requires $w \leq w_1$ and $v \geq v_2$. Figure 2 visualizes the Nash equilibria as a function of v and w . The welfare-state equilibrium (T, O) lies in the north-east, the development state equilibrium (N, O) in the north-west, the 'Third Way' equilibrium (T, P) in the south-east, and the antagonistic equilibrium (N, P) in the south-west. Depending on the utility structure, w_2 can be larger or smaller than w_1 ; the same holds for v_1 and v_2 . In the upper panel, we find an area with two Nash equilibria (T, O) and (N, P). In the middle panel, for some values v and w , both (N, O) and (T, P) build equilibria. The lower panel of Fig. 2 illustrates that there are also utility structures which can lead to no Nash equilibrium in pure strategies.⁹

An interesting expansion of this model could be that the weights are (in part) private information for each side, left and right, so that the other side can only form expectations about the true levels of v and w . Why could it make sense that only the internal factions know about their true strengths, but not the factions of

⁹A graph with $w_2 < w_1$ and $v_1 < v_2$ looks very similar to the lower panel of Fig. 2.

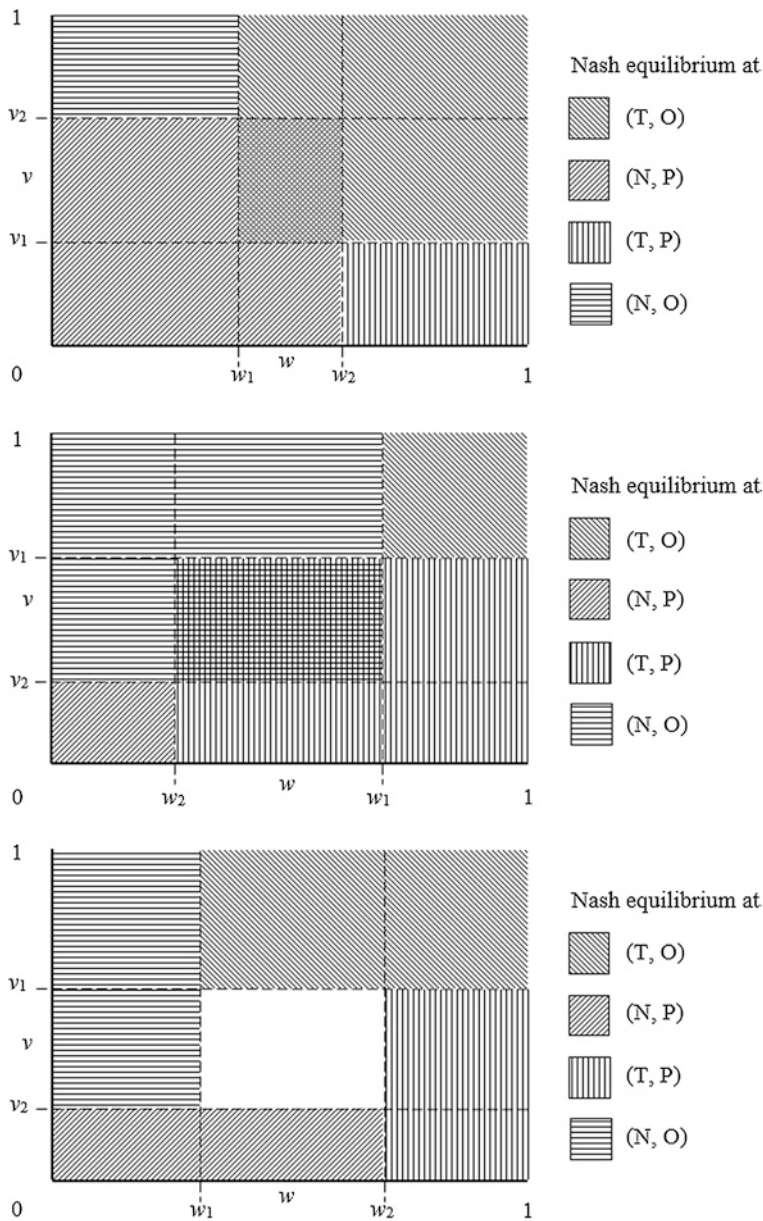


Fig. 2 The four Nash equilibria in pure strategies as functions of v and w

the opposite party? There may be several reasons depending on the type of linkages which prevail between parties and voters. Clientelistic linkages could be easier to observe within similar factions (Kitschelt et al. 2010; Pribble 2013). Also ideological polarization could frame parties into different perceptions of the world, so that it is easier for each side to evaluate their 'own' populists compared to those of the other side. It would be interesting to study the general consequences of such a set-up in more detail. Intuitively speaking, introducing a degree of uncertainty will push the opposite political factions, under certain circumstances, into a more radical stance than in the case of complete public information.

In this case, the game would show that an antagonistic constellation, in the absence of a commitment device, is not only more likely, if the relative payoffs and strength of the moderate strategies are lower, but also if there is higher uncertainty about the motives of the other side. How would a commitment device work in such a model? In this simple set-up, it would reduce uncertainty about the weights in the game. For instance, trust among main political parties would help judging each others' future behavior and more willingly accept temporary political defeats. This would insure that small variations in the perceived relative weights would not push both sides away from the welfare state equilibrium into one of the three other equilibria.

The model is highly stylized and would need further extensions: First, the problem of cycles and the idea of a commitment device could be developed further in a dynamic approach that does justice to the problem of temporal inconsistency and the issue of instability. Such a model would make matters much more complex, and would require a richer political economic structure showing how expectations of agents are based on policies implemented. This model would also be much more complex than the standard formalization (Persson and Tabellini 2002), since it would be symmetric for the two political sides involved, rather than assuming that there is a government opposed to the voters/the private sector. Instead, what I propose here is a static game with the twist of an equilibrium which in itself is highly fragile. One implication, for instance, of an antagonistic equilibrium is that only small changes in voter mobilization might suffice to make for big swings in the political outcome, e.g. from nationalization to privatization.

Finally, the model is loosely inspired by Roemer's (2001) idea of a party-unanimity Nash equilibrium. Roemer himself is critical about the use of mixed equilibria in party competitions, since parties cannot sensibly be thought of 'mixing different strategies'. This is a true concern. Nonetheless, playing the game over time makes 'experimenting' much more likely. If one allows for a more complicated dynamic structure, an interesting extension of the game could lie in different factions and different parties playing signaling games to reveal or conceal their real strength. These could be avenues for further research.

The model also has clear empirical limitations: it only deals with ideal-type party constellations ‘borrowed’ from the European experience. Party systems and cleavages may be much more complicated and fragile in the Latin American context. Moreover, the model does not specify a political regime or political institutions. However, the basic findings of the model should not depend too much on these omissions. Going through the historical evolution of Latin American countries we actually can find iterations of such dynamic instabilities in different sorts and varieties.

4 How Some Countries Ended up in the Wrong Equilibrium

A quip associated with Mark Twain says ‘history does not repeat itself, it rhymes’. In the following, I give some anecdotal evidence on the cyclical instability and the antagonistic constellation throughout Latin American history. The rough narrative shows that though many Latin American countries occasionally ‘experimented’ with other equilibria, sooner or later several countries returned to an antagonistic constellation. We can divide the diachronic exposition of examples into three periods: First, before the break-through of left parties (roughly till the 1930s), there were early experiments with both liberal and developmental states, but the conflicts between liberals and conservatives made these experiments short lived. This fact points to the initial absence of commitment devices. Later, the distrust and uncertainty was exacerbated by the growth of ‘the left’ as a political force. Second, there was a period of developmental experiments (Nash equilibrium (N, O)), especially from the 1930s onwards, but these states never reached the level of a stable welfare state, with broad coverage and a sufficiently large tax base. Instead, the era of developmental state eventually collapsed once right-wing parties became more radical. In a similar vein, the third period, neo-liberal experiments from the 1980s onwards have not always produced stable examples of a small, neoliberal state. In some countries, we see a counter-reaction of left parties putting (re-)nationalization on the agenda again. These countries exhibit the politics of an antagonistic constellation (Nash equilibrium (N, P)).

Some disclaimers are necessary: First, I do not want to say that Latin America does not look differently today as compared to 200 years ago, and neither do I argue that the history of all Latin American countries is essentially the same, even if there are striking parallels (Whitehead 2010). Most notably, Costa Rica and Uruguay have seen extended periods of stability in the last decades. Second, this is not a proper small *N* study which tests a theory. Instead, I use anecdotal

evidence to show that the absence of a commitment device and of stable cross-class alliances created distrust and cycles. This anecdotal evidence also sheds light into some of the context conditions that are frequently highlighted in the literature: wars, regimes and the volatility of world market integration and commodity prices.

4.1 Early Examples of an Antagonistic Constellation (Till 1930s)

The early years set the stage, before left political movements or parties played a visible role. Since the wars of independence, Latin America was engulfed in manifest or latent battles between two political factions, liberals and conservatives. These two factions were essentially elitist factions set apart by non-economic differences such as religion or to political regimes (Williamson 1992). Yet the struggle between liberalization and a minimal state versus a strong ‘positivist’ state played a huge role in these battles (Halperín Donghi 1998). Left movements remained marginal throughout this period, since they could not easily get hold of the large rural population and had little political power at the time. Sokoloff and Engermann (2000, p. 226), for instance, show that electoral participation was still less than 10% of the adult population around 1900. The poor masses were, however, an important tool in the struggle between the two major factions.

In some cases, e.g. Mexico under Porfirio Díaz, conservatives won and established an early version of a developmental state. In other cases, the liberal faction temporarily held the upper hand and liberalized the economies until World War I. In both cases the outcome was often unstable and conflicts remained virulent throughout the period (Safford 1992).¹⁰ Only in very few countries the conflict was pacified. Where peace endured, long-term oriented social policy making indeed was feasible. An example was the Batlle y Ordóñez (1911–1915) government in Uruguay which introduced the eight-hour day and a system of unemployment compensation much earlier than governments in many European countries.

In general, however, the state was weak, with very little tax revenues.¹¹ Unlike in the UK or in other European states, waging war did not trigger a major dynamic in state building via taxation and military expenditure (O’Brien 1988; Tilly 1975).

¹⁰As symbolized in García Márquez’ (1967) book title ‘One hundred years of solitude’.

¹¹See, for instance, Bulmer Thomas (2003, p. 109) who argues that revenues from direct and indirect taxes were ‘pathetically’ low with the exception of the Southern Cone.

A key reason seems to be that war was predominantly an internal affair, with inter-state wars being the exception (Thies 2005).¹² For this reason, governments preferred custom duties and foreign debt to domestic tax revenues (Centeno 1997). This is expectable if governments adopt a short-term perspective. Hence, distrust and open antagonisms in the time of civil wars hampered governments' efforts to build a tax and welfare state.

All in all, this period seems to have planted the seeds for much of the 20th century instabilities. While there were not yet any clear left contenders, for the model of the previous chapter to operate, the civil wars between different factions of the elite have left strong legacies for the periods to come. The unresolved factionalism between different types of conservative elites prepared the ground for left parties to enter and factionalize themselves. This is what the next period is about.

4.2 Developmental Experiments (1930s till 1970s)

The interwar years marked a watershed for the role of the state in Latin America. Cut off from the world market and deeply troubled by the 1929 crisis, more and more Latin American governments started building up the developmental state by regulating the national economy and the foreign exchange. This strategy of import substitution had strong political effects on the creation of rents and patronage (Hirschman 1968). In the absence of underlying state capacities to tax, the period also exhibits classic examples of populism and a heavy use of nationalization. In comparison, moderate forms of redistribution such as income taxation remained weak (Weyland 2002; Hart 2010).

Politically, the balance started to shift to newly established movements that appealed to other segments of the society: the poor, the urban masses, and the middle class of state-dependent employees (Weyland 2002). Right-wing parties had to find a way how to deal with the demands of these new voters. Throughout the period from the 1920s to the 1970s, they oscillated between autocratic repression, such as in Chile 1973, or the intermitted military interventions in Peru and Brazil, and tactical, short-lived cooperation with left parties. Few of these solutions proved to be stable, yet the distrust against these new left, often populist or even socialist parties remained. The fear of communism after the Cuban revolution added much to this fragility (Halperin Donghi 1998).

¹²According to Correlates-of-War data for the 19th century the ratio of civil wars to inter-state wars is roughly 9 to 1 in Latin America, as compared to 2 to 1 in Europe.

Where pro-spending parties governed, their efforts of implementing a European-style welfare state remained often partial. Across the continent, the newly introduced pension and health care systems had nowhere a coverage rate of more than 40% of the adult population, and in most cases much less (Haggard and Kaufmann 2008, p. 5). Coverage usually had a middle-class bias which explains the limited distributive impact of many social security systems until today. Populist governments also frequently abstained from fundamental tax and social-policy reforms, but relied on highly visible ‘charity’ programs for the poor with limited impact such as in the case of Perón in Argentina or Odría in Peru. These anti-poverty programs were suitable for orchestrating clientelistic relationships of politicians and voters. Those governments that pushed social expenditures furthest, such as López Portillo (1976–1982) in Mexico, were also frequently identified as the most corrupt. The welfare and tax state became associated with corrupt and clientelistic practices, and this further curtailed its legitimacy.

Similarly, many governments of this era preferred those short-term oriented macro-economic policies that many economists dub ‘populist’ (Dornbusch and Edwards 1989): debt-financed increments of the public budget, seigniorage, a strong regulation of foreign exchange, and, most importantly, nationalizations. Examples of nationalization included prominent cases, such as the copper industry in Chile from 1955 onwards, or petroleum in Mexico during the government of Lázaro Cardenas. Nationalization was accompanied by heavy subsidies: in Venezuela, the subsidy to petroleum amounted to some 10% of the public budget in 1980 (Reid 2007, p. 164), in Mexico the subsidies to all public enterprises combined rose to some 70% of the public budget (Basurto 1999, p. 85). Compared to these, attempts to increase marginal redistribution often failed (Mahon 2004). Until today, Latin American has remarkably low direct and indirect tax revenues even compared to other middle-income countries (Lieberman 2001; Hart 2010).

Some highly appealing redistributive initiatives failed. In Peru, the military government of Benavides first introduced a social security system in 1936, to respond in a Bismarck-like manner to the threat of the then newly established populist APRA party, only to take these measures back, once the political power was consolidated (Haggard and Kaufman 2008, p. 96). Another example is the highly popular land reform during the Cárdenas government in 1934. Only twelve years later, the new president Miguel Alemán, a member of the same hegemonic party, took back much of the previous reforms deeming them too ‘socialist’ (Basurto 1999, p. 77).

The perhaps strongest example comes from a ‘least-likely’ case, Chile. This country had many structural prerequisites for the creation of a welfare state: a seemingly peaceful political system, a comparatively large working class and a relatively well-functioning state administration. Again the fear of extremism destroyed the implicit

grand coalition between left and right, the moderate socialists and the moderate Christian democrats. The Christian democrats even backed Pinochet's military intervention against Allende's 'Chilean path to socialism'. This military coup took down not only many of the nationalizations of the previous administrations, but also one of the most ambitious attempts in Latin America to create a welfare state.

It is clear that there are obvious differences in the (welfare) state capacity of Latin American countries. Nowadays, Chile is a good example of a strong state with recovering social policies (Pribble 2013). Many of these differences are the results of early bifurcations in the type of center-periphery conflicts and the timing in the mobilization of workers (Kurtz 2013). And yet, the Chilean example follows almost perfectly the cycles in the ideological extremes that the previous section described. The radicalization on the left alarmed even moderately conservative Chileans so much that they buckled under a Pinochet regime which radically swayed into the opposite political direction.

4.3 Neo-Liberal Experiments and Populist Challenges (1980s Onwards)

As is well known, the drastic reforms in Chile would sooner or later diffuse to many other Latin American countries (Meseguer 2004; Brooks 2002). A slight reduction of the oil price in 1982 engulfed the whole region in economic crises, political adjustment and liberal reforms. Sometimes populist governments went out with a bang: Garcia's Peru tried to fight macro-economic imbalances with what liberal economists would think to be the causes of these imbalances: more debt and more inflation (Dornbusch and Edwards 1989). Yet till the 1990s almost all governments began to undertake serious efforts of privatization, deregulation and the opening up of foreign exchange.

The pendulum had swung back to a neoliberal conception of the state, with a minimum involvement in social issues: targeted anti-poverty measures, flat-rate benefits and privatized insurance schemes. The growth of tax revenues was still sluggish, and the governments used the proceeds from privatization and, in some cases, from natural resources such as oil to finance their budgets. Only value-added taxation expanded in the region (Mahon 2004; Hart 2010), but the countries still have much lower tax revenues than most OECD countries.

Some of these new right-wing governments were not immune to (economic) populism. Fujimori in Peru (Roberts 1995), Menem in Argentina (Weyland 2002), and Salinas in Mexico (Basurto 1999) made heavy use of targeted anti-poverty programs to improve their standings in the polls. As before, these governments

did not manage to establish trust in society that would allow for an implicit cross-class coalition. To the contrary, in some cases such as Fujimori's autogolpe, the president used the lack of trust among voters in the political institutions to legitimize his coup (Stein 1999). And even the privatization and liberalization programs, thought to curb clientelism and corruption, proved to be suitable bait for corrupt policy networks (Schamis 1999).

In some cases, social policy programs turned out to be less malleable to clientelistic needs, for instance once the Mexican president Zedillo replaced Salinas' PRONASOL with a conditional-cash transfer program called PROGRESA (Perez Yarahuan 2003; Rawlings and Rubio 2005). But even these programs may face what is called the paradox of redistribution in the welfare state literature (Korpi and Palme 1998): the more you target a program to needy people, the less support and budget you will have for it. Hence, there is little reason to believe that the current period is an easy stepping stone towards more welfare statism and the consolidation of state capacity.

In many countries, there is a conspicuous absence of rebellion against this new wave of liberalism (Kurtz 2004; Baker 2003), but it is obvious that the current status quo is not necessarily a stable one. Public opinion is very much against privatization in many countries,¹³ also because the proceeds of privatization have often not been passed on to consumers (Schamis 1999). New populist challengers have arisen who want to revert to the familiar old-style nationalization platform. Venezuela has been an influential example. Similar demands have come to prominent place in Bolivia, Ecuador and Kirchner's Argentina. Not all of these governments are populist, but most of them focus on nationalization: attempts to re-nationalize production for oil (Bolivia, Venezuela) and pensions or energy (Argentina). It is also true that not all left governments are alike. There are more moderate left-wing governments in Chile and Brazil, but given the right parties' clinging to neoliberalism, the most these pragmatic left-wing government can aspire is some form of Third-Way politics (Glyn and Wood 2001).

Again, it is interesting to note what these examples show. The cyclicity has not stopped, at least not in all in countries. Chile might be a case for gradual forms of political alternation, but, if anything, events in Venezuela go into the opposite direction. Why has Latin America swung between radical solutions, seemingly entrapped in what I called the 'antagonistic constellation' in the previous section?

¹³E.g., Latinobarómetro data for 2005 shows that 70% of people said that privatizations were not beneficial for their countries.

On the level of proximate reasons, it is again the lack of trust between moderate forces on both sides who failed to form cross-class alliances. Chile after Pinochet is an exception here, in as much as the *concertación*, a grand coalition between left and Christian-democratic opposition parties was a viable, if partial solution to the problem. Engendering consensus between these opposition parties has made it easier across time, to return to a more moderate stance on the formation of state capacity and the expansion of social insurance. Uruguay seems to be an even stronger example in which the recurrent cross-class alliances between the main political parties have established a political culture that domesticates new parties. Hence, Frente Amplio, which was often thought to be quite radical in its demands, became relatively moderate once running the government in 2004.

To repeat, these examples are no empirical proof of the dynamics stipulated in the previous section. If anything, the empirical section has exemplified an abductive logic which argues that certain empirical phenomena can be subsumed under a more general law. But the illustrations are nonetheless helpful to show the resilience of the cyclical nature of politics in many of these countries and the factional nature that allows for these rather drastic swings.

5 Conclusion: Latin America and Beyond

This article set out to describe and understand the proximate causes for an antagonistic instability in the realm of economic and social policy making. The argument is based on an implicit comparison with (an ideal-type) Europe where an informal broad cross-class consensus exists: some degree of redistribution is necessary, while the extremes of Nozick or Marx ought to be avoided. This implicit consensus is absent in many Latin American countries. It is difficult in these cases to bring moderates across classes together. Without such a broad cross-class alliance the demands of antagonistic groups directly contradict each other, such as in the case of privatization or nationalization. In this situation, one would expect political cycles to occur. To illustrate this logic, I have first developed a simple game theoretic model and then given some illustrative evidence on elite behavior throughout the course of Latin American history.

This cursory view did not allow digging deeper into the ultimate causes of the problem: the historical legacies of civil wars have set the fragile political stage on which it was hard to build a consensus for more (welfare) state capacity. Also church-state conflicts added tremendously to these early conflicts and arguably had lasting effects in many countries (Lloyd Meacham 1966). Finally, the resource dependence of many countries, tremendously pushed political volatility (Doyle 2014).

Yet, for the mechanics and the normative implications, the proximate causes outlined here might be more influential and the consequences far reaching. First, although I focused on Latin America, the phenomena at stake are by no means exclusively found there. The United States, for instance, seem to be an interesting example where, in a (so far) more peaceful and limited manner, there is no cross-class consensus about the (welfare) state and its capacity. Instead, as ‘Obamacare’ has shown, the public discourse is much more polarized than in European countries, and there are many voters who actually believe that any type of redistribution opens Pandora’s box of socialism. Another example is Italy: For most of its postwar period, its political system was haunted by attempts to isolate a relatively strong communist party. This lurking conflict put the centrist *Democrazia Cristiana* in a very powerful position and led to what has arguably been the most clientelistic welfare state in Europe. More worrisome, Eastern European democracies seem to follow policy cycles (privatization-nationalization) and excessive policy volatilities similar to Latin America (Kemmerling and Makszin forthcoming).

The argument has also severe normative implications. First, some Latin American countries are trapped in an antagonistic constellation, in which the idea of ‘the winner takes it all’ prevails. Given the absence of a(n endogenously capacitated) tax state, elites ‘shop’ around for cheap substitutes, with privatization and nationalization being tempting alternatives. Politicization of this dimension leads to polarization and, at times, violent conflict. The process feeds itself: Politicians distrust each other and have little incentive to divert from their strategy. Second, even where there is tax-based redistribution, it risks being diverted to short-term, clientelistic purposes. In this sense, the small welfare state is neither about classical broad-based redistribution nor large scale social insurance. This makes the welfare inefficient and costly (Sinn 1995; Lindert 2004).

The root cause of this (economic) populism is the lack of an implicit grand coalition which guarantees the rules of the redistribution game. Since neither left nor right actors can sustain long-term strategies such as building a tax and social insurance state unilaterally, they will face strong incentives to revert to such short-term populist policies. Hence, the real problem of Latin America is the lack of a commitment device. Countries need to find mechanisms that guarantee the democratic politics of redistribution, which may differ across countries and legislatures, while at the same time excluding the corner solutions of no or total redistribution. International or regional economic integration may be one option, but this only reduces fears of total redistribution among the political Right.¹⁴ It does

¹⁴This is what, for instance, the literature on multilateral trade liberalization would argue (Mansfield and Milner 1997).

not reduce the Left's fear of radical liberalization. Another commitment device, one for the Left of the political spectrum, seems necessary, maybe in the form of minimum sets of social standards and social safety to accompany open economic regionalism (Scharpf 1997; Boeri et al. 2002).

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