DEMOCRATIZATION AND ECONOMIC REFORM

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**Abstract** Are democratization and economic reform in tension with each other, or are they mutually supportive processes? A survey of new democracies in Latin America, Southern Europe, and the postsocialist world suggests that the answer varies by region. In the postsocialist cases, the relationship is positive and robust; in the other two regions, the relationship is negligible. Region, however, cannot serve as the explanation. Instead, what emerge as critical—and what happen to vary by region—are three factors that shape the relationship between democratization and economic reform: the timing of democratization, the agenda of transformation, and variations in governing mandates.

**GLOBAL TRENDS**

The last several decades of the twentieth century witnessed two global trends. The first was the decline of authoritarian politics and the subsequent rise of new democratic regimes (for reviews, see Remmer 1995, Geddes 1999, Bunce 2000a). This process began in Southern Europe with the collapse of the Salazar dictatorship in 1974 and the death of Franco a year later. Both Portugal and Spain thereupon began a transition to democracy—albeit through contrasting approaches. In short order, one country after another in South and Central America followed suit; Mexico officially joined her neighbors in 2000, completing arguably one of the longest transitions on record with the first victory of an opposition party in the presidential elections—which leaves Cuba the only holdout against the regional trend. Similar developments took place in Southeast Asia and East Asia, though the largest country spanning the two regions—China—managed to maintain rule by its Communist Party. Perhaps the most surprising entry into the democratic column was Eastern Europe and the Soviet Union. In 1989–1991, the hegemony of the Communist Party ended throughout the region. In many cases, what followed was the rapid introduction of democratic politics—or, at least, liberalized orders. Indeed, of the 27 countries that now make up this region as a consequence of the dissolution of the Soviet, Yugoslav, and Czechoslovak states, only two have
Bunce failed to hold multiple competitive elections during the first postsocialist decade (Dawisha & Deets 1999).

Many of these new democracies are fragile and may well prove fleeting. Moreover, evidence has accumulated that a sizeable number of these new democracies are seriously flawed in their design and especially their functioning (O’Donnell 1994, Karl 1995, Bunce 1999a). However, this does not detract from one inescapable conclusion. Mass publics today have a greater chance than they have ever had of living in a democratic order. The third wave of democratization, therefore, has demonstrated unprecedented geographical reach (Huntington 1991).

The other global trend has been the spread of capitalism. As Marx argued, capitalism is by nature restless. Moreover, it has always had a voracious geographical appetite. However, the contemporary era is distinguished by two developments. First, although scholars have asserted for a century that capitalism is a global phenomenon, it is only in the past decade that capitalism has achieved genuine global hegemony. This is largely because the alternative to capitalism, state socialism, has withered away—either because of sustained market reforms, as in China, or because of the collapse of communist party hegemony, as in east-central Europe and significant portions of the former Soviet Union. Second, debates continue about whether the forms and practices of capitalism are converging (Garrett 1998, Soskice 1999, Iversen & Pontusson 2000). However, what is not debatable is that the 1980s and the 1990s witnessed a growing consensus (now beginning to unravel) around two arguments: that there is one path to sustained economic growth and that certain policies are always preferable, irrespective of economic context. The policies in question have been termed the Washington consensus (Williamson 1990), which Grzegorz Kolodko, the former Finance Minister of Poland, has succinctly summarized as “liberalize as much as you can, privatize as fast as you can, and be tough in fiscal and monetary measures” (quoted in Interview 1998:2; also see Przeworski 1992, Kahler 1990, Stiglitz 2000).

That democratization and neoliberal economic reforms are global trends is a noncontroversial claim. Also indisputable is the argument that these two developments seem to be related (Centeno 1994). Indeed, how could they be otherwise, given the economic consequences of these reforms, the importance of the economy to the public, and the importance of public support to elected officials? What is in considerable contention is how they relate to each other. In particular, are democratization and economic reform in tension with each other or are they compatible? This article reviews the literature that bears on this question. First, I briefly discuss the terrain of this study, core concepts, and key considerations in the analysis of democratization and economic reform. I then lay out the case for conflict between these two processes, followed by the opposite case suggesting their complementarity. The paper closes by arguing that the cross-national evidence in support of conflict is limited. However, there is some support for the argument that democratization and economic reform are compatible and mutually supportive. Even more interesting is that both the form and the strength of this relationship seem to vary by region, reflecting cross-regional variations in the authoritarian past, the agenda...
of reform, and the payoffs attached to different approaches to democratization and economic reform.

CASES AND CONCEPTS

The focus of the discussion that follows is democratization, not democracy. Thus, of interest are those cases where democracy is relatively new, that is, under construction with its future uncertain (O’Donnell et al 1986, Dahl 1998). I ignore established democracies and their economic reforms—for example, Thatcherism in the United Kingdom.

Because of both the high correlation between economic development and democratic sustainability (Londregan & Poole 1996, Przeworski et al 1996, Przeworski & Limongi 1997) and global patterns in the rise of new democracies, the concern with democratization means that this review concentrates on a large group of middle- and lower-income countries. Precisely because this group is so large and relevant analyses of it are so numerous, I limit the discussion to studies of three regions: Latin America, Southern Europe, and the postsocialist world. This gives us more than 50 cases; good cross-regional reach; and considerable variance in the forms, speed, and consequences of economic reforms, as well as the origins, the design, and the practices of democratic governance. To provide one example, in the Freedom House measures of democracy (scores ranging from one to four, with one being full provision of civil liberties and political rights), the average score for Latin America is 2.5 and the average score for the postsocialist region is 3.7 (Comparative Survey 1997).

Democracy

Before discussing democratization, it is necessary to clarify what is meant by democracy. There are nearly as many definitions as there are democracies (for a sampling, see Lipset 1959; Dahl 1971, 1998; Przeworski 1991, 1995; Schmitter & Karl 1991). The experiences of democratization over the past 25 years suggest that a precise definition providing analytical leverage is one that treats democracy as a regime combining three characteristics: freedom, uncertain results, and certain procedures (Bunce 1991, 2000a). This definition, by the way, works as well for capitalism, especially given recent recognition of the role of the state in capitalist economies—a role that was forgotten in the emphasis on state “subtraction” but that received due recognition in studies of capitalism that predate the consensus around neoliberal policies (see Popov 1999, Schamis 2000; earlier, Polanyi 1957, North 1990).

Each of these three aspects of democracy implies certain preconditions. They need to be spelled out, primarily because, in the West, they are easy to take for granted since they have been long in place and produce, as a result, predictable and largely desirable outcomes—whereas they are only partially in evidence in many new democracies, with the consequence of producing unexpected and often
suboptimal dynamics (see especially Moser 1999). Put simply, having the basic forms of democracy does not necessarily mean having the foundations, and the quality of democracy—and perhaps its sustainability—is often short-changed.

Let us turn, first, to freedom, or whether members of the political community have the full array of civil liberties and political rights. The key questions here include not only the provision of rights and liberties but also how the political community is defined; that is, whether liberties and rights are available, irrespective of social status, national identification, gender, and the like. Next, we must examine whether political results are in fact uncertain. This outcome rests on many prior considerations—most obviously whether politics is competitive, but also whether competition is institutionalized through political parties that offer ideological choice and have the incentives and capacity to connect government and governed; whether elections are regularly held, free and fair, and select those elites who actually shape public policy; and whether governing mandates are provisional. When combined, all these factors determine whether politicians operating within an order called democracy actually have the incentives and the capacity to be fully accountable to the electorate. The final aspect of our definition of democracy, procedural certainty, refers to rule of law; the control of elected officials over the bureaucracy; and a legal and administrative order that is hegemonic and transparent, commands compliance, and is consistent in its operation across time, circumstances, and space (see O’Donnell 1993, Holmes 1997). Stepan put it succinctly: “No usable state, no democracy” (Russia on the Brink 1998:17).

This definition of democracy has several important implications concerning the relationship between democratization and economic reform. One is that competition is a necessary, but by no means sufficient, condition for democracy. Another is that the three-part definition—freedom, uncertainty of results, and certainty of procedure—presents these characteristics in descending order of frequency and ease of attainment among new democracies. Finally, this definition highlights some problems common to new democracies: poorly institutionalized party systems, unaccountable political leaders who have concentrated their powers, and legal systems that fail to extract compliance and to be fair, consistent, and binding.

For these reasons, most analysts agree that new democracies are both thin and fragile. This is understood to be particularly the case in the postsocialist world, given the unparalleled penetration and despotism of state socialism [to borrow from Mann (1993)] and the fact that democracy there is entirely new, not recycled from the past (as it is in Latin America and Southern Europe).

Economic Reform

The other part of the equation is economic reform. At the very minimum, the term economic reform—more precisely, market reforms or neoliberal reforms—refers to all policies that promote marketization, privatization, and free trade. This usually includes the following: macroeconomic stabilization (primarily to deal with inflation and budgetary imbalances), microeconomic liberalization (facilitation of
private firms, elimination of price controls, withdrawal of subsidies, expansion of foreign trade, and changes in currency convertibility), and institutional reforms, most notably privatization of state-owned firms and changes in the tax, banking, and capital market systems and their legal foundations. Not surprisingly, economic reforms, as a result, usually decrease growth in the short term (Blanchard et al. 1991, Clague et al. 1997). This is because “stabilization entails a reduction in demand, structural reforms engender closings of inefficient firms, and privatization temporarily disorganizes the economy” (Pereira et al. 1993:2).

It is essential to recognize the limitations of “economic reform” as the umbrella term for ongoing policy changes in diverse regions. In Latin America and Southern Europe, we observe the liberalization of an existing capitalist economy; in the postsocialist setting, we observe a capitalist economy being constructed, not just from scratch (which gives the misleading impression of a tabula rasa), but with state socialism—capitalism’s opposite in principles and operation—as the point of departure. The obvious contrast here is between reform, as we usually understand the term, and revolution—as three Eastern European finance ministers have taken great pains to point out (Balcerowicz 1995, Blejer & Coricelli 1995, Kolodko 1999). Although there are some rough similarities between import-substitution industrialization in Latin America and state socialism, most notably with respect to protectionism, rentseeking, authoritarian politics, and poor economic performance (especially during the 1980s), they should not detract from key differences between these two sets of economies—for example, state intervention versus state ownership, markets (albeit imperfect) versus state planning, money as the indicator of purchasing power versus political power as the currency of favor, unemployment versus the labor hunger of enterprises, considerable social inequalities versus limited inequalities, and, finally, economies based on consumer sovereignty versus economies based on “shortage” (Hirschman 1968, 1987; Winiecki 1990; Kornai 1992).

If the point of departure is different, then so necessarily is the process of economic reform. Put simply, revising existing economic institutions, though complicated no doubt by coalitions formed around import substitution (but see Schamis 1999), is a far less daunting task than inventing—quickly—the institutions of a market economy (Poznanski 1996, Kolodko 1999). Just as important is the contrast between a capitalist economy that evolved over time through trial and error, and capitalism imposed as a doctrine—indeed, even in the absence of its principal agent, the bourgeoisie (Murrell 1992, Przeworski 1995:viii, Poznanski 1996, Eyal et al. 1998). These contrasts account for one important contrast between the “south” and the “east,” namely the far more dramatic recessionary effects of economic reform (whether measured in terms of size or duration) in the postsocialist world (Bunce 1999b, Popov 1999; for comparison, Remmer 1991). Indeed, these economic downturns are without historical precedent (Greskovits 1998). For example, the Russian economy today is half the size it was at the beginning of the transition, and Russia’s economic performance is not, by any means, the worst in the region (Popov 2000).
There is an ongoing debate in political science about what constitutes the most successful reform strategy, i.e. one that returns the economy, after a brief recessionary period, to sustained growth. Although everyone agrees that macroeconomic stabilization is critical and that liberalization of trade and prices is essential, economists now disagree on five issues. One is whether reforms should proceed slowly or quickly (Murrell 1993, Roland 1994, Balcerowicz 1995, Aslund et al 1996). This assumes, of course, the political capacity to choose—an assumption that political scientists and some economists find hard to swallow (Appel 1999, Shlaifer & Treisman 2000). Another is how reforms should be sequenced. A third is the emphasis that should be placed on institutional reforms, the appropriate timing of those reforms, and which ones are judged optimal (Sachs 1993, Murrell 1996, Poznanski 1996, Gray & Hendley 1997, Sachs & Pistor 1997, Kolodko 1999; on privatization in particular, see Appel 1997).

Sometimes overlooked in these discussions are the ways in which economic reforms necessarily re-form the state as well—for example, with respect to the “hardening” of both budgets and property rights, changes in the banking system and in institutions governing foreign trade, and, more generally, the provision of a stable business environment (Gaidar 1995, Schamis 2000). One result is that “neither ‘state retreat’ nor ‘state shrinking’ capture the deeper institutional effects of marketization” (Schamis 2000:193). The state, in short, does not only withdraw; it also facilitates. Market-oriented incentives complement market-oriented laws and institutions (Gray & Hendley 1997:143).

Economists, as well as political scientists, also disagree about whether and to what extent policy makers should soften the distributional consequences of these reforms, given considerations of equity and the very practical matters of demand suppression, political stability, and maintenance of the reform coalition (Milanovic 1992, Pereira et al 1993, Przeworski 1993, Kolodko 1998, Pinto et al 1999). A key issue here is whether reforms should be modified in their consequences by providing some shelter for those groups most adversely affected. Although such policies violate the goals of eliminating subsidies and reducing the noise that obscures market signals, such policies are desirable for reasons of both justice and political feasibility. The problem, however, is that many economies undergoing market reforms lack the institutional capacity to target appropriate sectors of the population—in the Latin American cases, because of limited development in social policy institutions, and in the postsocialist setting, because social policy institutions were not designed to deal with such issues as poverty and unemployment. What these systems often do have, however, is the capacity to curry to well-positioned rentseekers, who support these reforms because of their political privileges in the past and calculations about expected gains in the future (Schamis 2000). But even these considerations may fall under the category of political feasibility, or choices between one set of opportunity costs and another (Shlaifer & Treisman 2000).

The final, more fundamental issue is whether in fact policies matter all that much, or whether the key determinant of economic responses to reform is the point of departure, including such factors as state capacity and trade distortions...
This leads to yet another fundamental question. Is the particular setting of economic reform—or what could be called the legacies of the past—so critical that reform must be tailor-made to specific conditions and not treated as a ready-to-wear proposition (Hendley 1997, Ledeneva 1998, Woodruff 2000)? This argument has received considerable support in recent years in analyses of both the Russian disaster and policy responses to the August 1998 economic crisis in that country and elsewhere (Sapir 1999, Stiglitz 2000, Thornhill 2000).

TENSIONS BETWEEN DEMOCRATIZATION AND ECONOMIC REFORM

Those who believe democratization and economic reform are essentially in tension base their case on two sets of arguments. The first emphasizes the inherent tensions between the logic of democracy and the logic of economic reform. As long been argued, there are conflicts between markets—which, unfettered, produce sizeable socioeconomic inequalities—and democracy, which rests on political equality (Lindblom 1977, Dahl 1992). This conflict can also be formulated as the domain of rights versus the domain of dollars (Okun 1982). To put it a third way, democracy can empower distributive coalitions, which in turn undermine economic growth (Olson 1981; but see the mixed evidence for this proposition in Remmer 1990, Putnam 1993). In the setting of democracy and economic reform, the tensions flow from one source in particular: the politics of accountability versus the kind of politics presumed necessary for economic reform. Accountable politics implies that politicians need to win votes; that publics reward politicians who produce benefits and punish those who do not; that mass political preferences vary, as do the preferences of politicians; and that policy making is sensitive to the diverse interests of the electorate and the diverse interests of politicians, and is therefore a matter of repeated rounds of compromises at the margins of the status quo. Also implied are short-term horizons on the part of publics and their representatives.

As analysts have noted, economic reform has a very different set of preconditions. Economic reforms undermine economic performance in the short term (at best), and are, as a result, unpopular—whether individuals respond simply to their own economic situations or take a sociotropic perspective and react to the performance of the economy as a whole. For this reason and because the future success of economic reforms is merely an article of faith, politicians’ consideration of such reforms is fraught with conflict. Indeed, nothing is more conflictual in democratic politics than debates about redistributive policies. What economic reform requires, therefore, seems to be precisely what democracy cannot deliver—on the one hand, publics either unconcerned about short-term economic outcomes or content to anticipate long-term, but as yet unknown, benefits; and, on the other, politicians insulated from voters, consensual in their ideologies, and capable of adopting long-term perspectives (see Kaufman 1986, Haggard & Kaufman 1992a–c, Pereira et al 1993, Haggard & Kaufman 1995).
Even if we assume for the moment that economic reform is introduced, we still see tensions. Publics can rebel in reaction to economic stress (Walton & Seddon 1994). This, in turn, can lead elites to either defect from democratic politics or, if they stay the democratic course, compromise the economic reforms midstream, often resulting in unusually poor economic performance—which then generates, not surprisingly, even more political conflict. At the same time, economic reforms can undermine the state and produce considerable corruption, while more generally mortgaging rule of law (Holmes 1997, EBRD 1999; Orenstein 1998, Rose-Ackerman 1999). This, in turn, increases the costs of doing business, deters foreign investment, and undermines both the efficiency of economic reform and the quality of democracy. Under a corrupt order, a gap grows between public and elite gains from the so-called reforms—accompanied, not surprisingly, by falling public support of these reforms (Kullberg & Zimmerman 1999). The stage is then set for the politics of partial reform, wherein rentseekers join their economic gains with enhanced political privileges and use them to block both a return to the past and further progress on either democratization or economic reform (Hellman 1998). They reap benefits from the political and economic gap between a fully expressed and well-functioning order and the reality of a rentseeker’s paradise, and they want that gap to remain.

All these scenarios seem particularly relevant to conditions prevalent in new democracies (Stallings 1989, Pereira et al 1993, Haggard & Kaufman 1995). Two premises (both debatable) are crucial: that these democracies are fragile and that economic reforms are costly, especially in the short term. In new democracies, publics are unusually fickle, and political parties are both fickle and limited in their institutional development and their capacity to structure public opinion (but see Tworzecki 1996, Kitschelt et al 1999 on east-central Europe, and Przeworski et al 1999). This means, for example, that publics may be unusually sensitive to their economic experiences and less constrained by party attachments in reacting to those experiences. It also means that politicians have strong incentives to play to these sentiments, particularly given the unusually low barriers to the entry of new parties and new political candidates, if not the formation of new or nostalgic social movements. Indeed, in the face of economic decline and the uncertainties of regime transition, deficits in civil society and social capital provide a fertile environment for the rise of populist movements—as specialists on Latin America, east-central Europe, and Russia have noted (Roberts 1995, Knight 1998, Tismaneanu 1998, Weyland 1998, Shenfield 2000). All these arguments appear in accounts of democratic breakdown during, say, the interwar period—though the impact of either economics or variations in social capital on democratic breakdown is far from settled (see Berman 1997, 1998; Bermeo 1998; Hanson & Kopstein 1997).

At the same time, many authoritarian regimes had registered poor economic performance prior to their departure—though the role of the economy in causing transitions to democracy is in some question (Remmer 1990, 1991; Bunce 1999c; O’Donnell et al 1996). The legacy of economic problems is either the failure to adopt economic reforms, or, if they are adopted, the onset of substantial political
instability in their wake. Political instability does not only jeopardize nascent democracies (as we saw with shock therapy in Bolivia, Peru, and Argentina); it also has economic effects counter to the practices and goals of economic reform. As Haggard & Kaufman (1992c:277) have suggested, “Political instability shortens the time horizon of politicians and can provide recurrent incentives to inflate, over-value the currency, and borrow.” Capital flight is also encouraged (Frieden 1991).

Other conditions present in new democracies point in the same direction. One is the cultural legacy of the authoritarian past, which means in practice that elites are easily tempted to suspend democratic rules and publics are poorly situated to stop them. Another is the overall weakness of democratic institutions, which makes coalitions in support of economic reform hard to establish and, if forming, hard to sustain. Weak institutions also make implementation very difficult.

These considerations could lead to any of three conclusions. First, democratization and economic reform are incompatible (also see Bienen & Herbst 1996 for the African case). Second, for economic reforms to be successful, at least the early stages require insulation of decision makers from external pressures (Haggard & Kaufman 1992a, 1995; Sachs 1993). A third possibility is that successful reform requires sequencing, i.e. democratic governance should be consolidated first and economic reforms introduced thereafter (Maravall 1993; but see Yashar 1997). In that way, democracy is secure and the political and institutional capacity for economic reforms is in place. This is, of course, not always possible—for example, when the economy is in serious macroeconomic imbalance or when international institutions lack the resources and the commitment to “float” new democracies with serious economic problems. In Spain, the desirability of sequencing was joined by unusual capacity to pursue that strategy. However, it must be noted that Spain was in many respects singular. Most new democracies have far more severe economic problems; they cannot rely on, say, the European Union or the German Social Democrats to provide support, and each is one of many standing in line for it (Story & Pollack 1991).

COMPATIBILITY OF DEMOCRATIZATION AND ECONOMIC REFORM

The case for complementarity between democratization and economic reform proceeds from one observation. Just as all socialist economies (defined as central planning and state ownership of the means of production) have been combined with authoritarian regimes (Nove 1980), so all democracies today, as in the past, feature capitalist economies—though capitalism has, admittedly, been flexible in its choices of political regime partners, as we know from the history of Latin America and contemporary China since the introduction of the Deng reforms in 1978. However, even these examples highlight one larger point. The more liberalized the economy, the more probable democratic governance and, in less politically open settings, the greater the political pressures pushing for competition and civil liberties.
The explanation for this follows from several arguments. First, capitalism disperses resources that undermine authoritarian governance. Second, capitalism generates competition among descending and ascending political groups, which can then unravel the coalitions supporting authoritarian politics—except where collusion between new and old dominant groups is facilitated by the agrarian structure or where control over the agrarian order collapses and revolution results (Moore 1966). A third argument focuses on dynamics within state socialist systems in particular. When these systems introduced economic reforms, they were usually in response to declining economic performance, growing ideological disputes within the elite stratum, and/or public protests. Because these systems were fused and centralized political economies and because their problems indicated a weakening of control at the top within the party-state and between the party-state and society, economic reforms tended to both reflect and contribute to liberalization of politics. For that reason, there was a high correlation between economic reform and more open politics during the communist era in both the Soviet Union and Eastern Europe (as they were then termed). Indeed, this was even the case for China during the 1980s.

Perhaps the most persuasive explanation, however, lies with underlying principles rather than political struggles. I refer not simply to the notions of individual liberty and autonomy from the state that figure so prominently in conservative inquiries into political economy. Rather, I refer to two dimensions of politics and economics. One is whether outcomes are certain or uncertain (i.e. monopoly versus competition). The other is less familiar, but just as critical: whether procedures are certain or uncertain (i.e. capricious rule of individuals versus rule of law). If we array these characteristics on a two-by-two table and focus on both political and economic regimes, we find that capitalism and democracy occupy the same quadrant (Bunce 1991). Both combine uncertain outcomes with certain procedures. Indeed, what makes competition produce efficient outcomes is precisely secure property rights and (more generally) well-specified, transparent, and consistent rules of the economic game—just as what makes democracy effective is secure votes, free, fair, and regular elections, and (more generally) well-specified, transparent, and consistent rules of the political game. Another way to think about this relationship is to recognize that, in the absence of certain procedures, the incentives to play the game decline, as do the benefits derived from competition. Yet another way to put this is that capitalism and democracy each strike a balance between order and disorder, and each reaps benefits from the balance the other establishes.

Central to this comparison is the role of the state in both democratization and economic reform. The state is crucial to both projects, and it is precisely because of that fact that economic reform and democratization can be judged complementary processes. As Schamis concluded in his comparative study of economic reform and the state in Latin America, Great Britain, and east-central Europe:

the market and democracy are, in fact, mutually reinforcing, not so much because economic freedom and political freedom go together, or because there are no command economies.... Marketization contributes to democracy because, by strengthening property rights, reorganizing revenue collection
systems, and centralizing administrative and coercive resources, market reform experiments are potentially conducive to significant increases in stateness. Even if the concentration of power in the executive may make democracy sub-optimal in the short run, in the long run, however, it generates the conditions under which a democratic political order can thrive. (Schamis 2000:208)

These arguments for a positive relationship between democratization and economic reform are supported by other considerations that target some specifics of the relationship. Przeworski (1993) has argued that, although there are necessarily potential tensions between the two, there are also more subtle ways in which they can support one another. In particular, if publics are included in the reform process, there will be dual salutary effects. New democracies will function as real democracies (an investment in both their quality and sustainability), and the likelihood of sustained reforms will increase, given enhanced legitimacy and prospects for implementation. Both consequences flow from the fact that such reforms, shaped in a more democratic context, will be more sensitive to public concerns and therefore more likely to elicit the cooperation of the public.

A second supportive argument questions the evidence for polarization among parties and publics in response to economic downturns and/or the imposition of economic reforms—in Latin America, interwar Europe, and even in postsocialist Europe (Remmer 1990, Berman 1998, Bermeo 1998, Weyland 1998, Dmitriev 1999). Indeed, in the postsocialist context, one can note a positive relationship between commitment to sustained economic reforms and a narrowing of the political spectrum.

The case for the linkage between economic reforms and political instability in new democracies has also come into question. Economic performance does not relate well to political protest (Ekiert & Kubik 2000); the very provision of the right to vote in competitive elections can function as a mechanism for venting frustration and thereby stabilizing democracy (Greskovits 1998); and economic concerns do not figure as prominently as we might assume in the determination of voting preferences (Colton 1995, Powers & Cox 1997). This final point implies that at least some new democracies may benefit from their very newness, in the sense that publics value their newly won freedoms and vote, at least initially, on the basis of values more than interests (Rychard 1991). In this sense, the frailty of new democracies, so emphasized in the literature, may be questioned (Remmer 1990, Bunce 2000b).

Let us conclude by providing several other pieces to this puzzle. One is the positive relationship between dispersion of executive powers and progress on economic reforms in the postsocialist world (Hellman 1996, Stark & Bruszt 1998). The other asks us to rethink our understanding of public responses to dissatisfaction with the economy. As the Latin American and postsocialist cases suggest, governments that introduce economic reforms often lose political support (see Remmer 1990; Bunce 1999a,c). As a result, both the number of elections held and the rate of governmental turnover tend to be very high. However, we must remember that
(a) one measure of democratic consolidation is peaceful turnover in governing parties, and (b) governmental turnover is not the same thing as political instability, particularly when ideological differences among parties are limited and when the design of electoral systems and other institutions, along with patterns in electoral results, encourage the formation of capable governments.

Several conclusions, diametrically opposed to those offered in the earlier section, follow from these arguments. Democratization and economic reform are compatible processes. Indeed, one can argue from the above evidence that each may further the agenda of the other; that is, that their combination contributes to both the introduction and continuation of market reforms, on the one hand, and the consolidation of democracy, on the other. In this way, the widely recognized coincidence between democracy and capitalism in the West may very well apply to situations where democracy is new and the capitalist economy is either being introduced or liberalized.

WHO IS RIGHT?

There are compelling reasons—theoretical and empirical, contemporary and historical—to argue that democratization and economic reform are compatible processes, and yet to argue with equal vigor that these two dynamics of change are in considerable tension with each other. The question then becomes, which interpretation is right? The evidence points to a surprising answer. In Latin America and Southern Europe, the relationship is mixed, tending toward the positive direction, in the postsocialist context, it is robust and positive (DeMelo et al 1996; Bunce 2000a; Fish 1998; H Kwon, unpublished paper). These conclusions seem to hold, moreover, when a variety of controls are introduced [though some concerns have been raised with respect to geographical-cultural considerations and patterns exhibited in time-series versus cross-sectional data (see Kopstein & Reilly 1999, Barnes & Kurtz 2000)]. Thus, we can conclude, at least on the basis of studies dealing directly with the relationship between democratization and economic reform, that there is little support for the notion of tradeoffs; that these two arenas of change are not necessarily interactive, at least in a patterned way (though this conclusion may change when additional mediating factors are introduced); that democratization and economic reform can be mutually supportive; and, finally, that this variant on the relationship is most evident in the postsocialist setting.

These conclusions are surprising for several reasons, as already noted. One is that the arguments suggesting incompatibility between democratization and economic reform were quite persuasive. Moreover, for Latin America and Southern Europe in particular, they were backed up by references to specific cases. The other is that several characteristics of the postsocialist region would seem to make its regimes less, not more, likely to demonstrate a positive correlation between democratization and economic reform. I refer to the supposed precariousness of
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new democracies, on the one hand, and, on the other, the necessarily radical character of economic reforms in that context and their dramatic recessionary effects. One would expect politicians to be unusually resistant to reforms, especially where democratization provides accountability; they should resist reforms that can only come about through the suspension of democratic procedures and those that generate conflicts too great for nascent democratic institutions to manage.

How, then, can we interpret the regional effects in these data? We can begin by noting that geographical location cannot constitute an explanation. Region, after all, is merely a summary term for other variables (see King 1996). Equally unsatisfactory would be substituting differences in the authoritarian past for “place” and leaving the matter at that.

The problem is twofold. First, although state socialism and Latin American/Southern European forms of authoritarianism differed from each other, as already noted in the discussion of economic revolution versus reform, there were also considerable variations within these two versions of authoritarian politics. For example, while state socialism did have certain homogenizing effects as a result of its common origins in the Soviet experience (which even extended to socialist Yugoslavia, despite the early rebellion against the Soviet model), state socialism nonetheless produced quite variable economic and political trends in its last several decades. At the same time, few specialists would be comfortable with an argument that treated bureaucratic authoritarianism, for example, as applicable to all of Latin America and Southern Europe. Indeed, these differences, plus a desire to return to the past as a causal agent and to gain analytical leverage, particularly with respect to issues surrounding the consolidation of democracy, have led some specialists in these regions to explore variations in authoritarian rule in order to account for variations in democratic politics (see Geddes 1999). This leads to a straightforward conclusion. The impact of the authoritarian past can serve only as the beginning, not the end, of the discussion (Greskovits & Schamis 1999, Bunce 2000a).

Finally, there is a methodological consideration. As Przeworski & Teune (1970) argued, the goal of comparative inquiry should be to substitute place names with variables.

The trick, therefore, is to translate what appears to be a regional effect into mediating variables. I see three as crucial. The first is the size of the electoral mandate in the first democratic election; the second is whether the government is liberal; and the third is whether the policy agenda joins democratization and economic reform. In the postsocialist world, three combinations materialized: large victories by the opposition forces, with strong commitment to both democratization and economic reform (as in, say, the Czech Republic, Slovenia, and the Baltic states); large mandates, but for the communists, with no commitment to either democratization or economic reform (Belarus and virtually all of Central Asia, minus the Kyrgyz Republic); and, finally, limited mandates, with communists either winning or sharing power with the opposition forces and a government divided in its commitments to both democratization and economic reform (e.g. Russia, Ukraine, Bulgaria, and Romania). In the first instance, democratization
and economic reform were highly compatible; in the second, both were rejected; and in the third, both were compromised.

In Latin America and Southern Europe, however, these contrasts were not clear. Mandates tended to be small; winners tended to combine opposition forces with the old guard (who were rightest); and commitment to democratization and economic reform was quite variable, reflecting in part the first two considerations. In these contexts, as a result, a patterned relationship between democratization and economic reform failed to materialize. There were tradeoffs in some cases and complementarities in others.

These generalizations require us to take a step backward and compare the transitional context in the “south” (Latin America and Southern Europe) versus the “east” (the postsocialist region). One key difference was in the timing of transition. Because the south was at the beginning of the third wave and because its states had experienced fragile and transitory democratic governance, there was considerable uncertainty surrounding the most recent movement from authoritarian to democratic rule. Indeed, this is a theme in virtually all studies of these transitions (O’Donnell et al 1986, Hamann 1997). This is also why pact making between authoritarian and opposition elites is viewed with such favor (Karl 1990, Higley & Gunther 1992). Pacting reduces uncertainty by limiting the speed of change, demobilizing publics, and giving authoritarian elites a stake in the new order. Pacting is viewed, in short, as a mechanism for establishing a rough consensus through compromise and thereby enhancing both intra-elite cooperation and popular compliance. For these reasons, moreover, pacting is also seen as advantageous for economic reform.

Not only have they created the political space necessary to adopt drastic policy measures, pacts have also inhibited popular participation in policy formation processes, thereby offering guarantees of economic policy continuity and limited socialist redistribution to propertied elites who have historically mounted the major challenges to democracy in the region. (Remmer 1991:794; see also Zimmerman & Saalfeld 1988)

The more general point, however, is the importance of what I term bridging—blurring the line between the old and the new order. By using this term, we can include a second characteristic common to most successful cases of democratization in the south: continuity in bureaucratic personnel (with the state off the reform agenda), and even in governing officials, as a consequence of the victory of rightest parties in founding elections (see Fishman 1990). Because of pactinging and continuity in personnel, however, bridging has a dual face. It secures democracy and makes economic reform possible, but at the same time it limits reforms in both politics and economics. Thus, the search for consensus and stability in the context of these regime transitions both expanded and constrained political and economic choices. This was especially true given the context of continuing uncertainty and often fragmented party systems (Haggard & Kaufman 1995).
The postsocialist world presents a different context for transformation, largely because of when these transitions began and their specific legacies of the past. By 1989, democratization had become a global process, having spread even to Africa and Asia. Many of the earliest cases, moreover, had demonstrated that new democracies could survive and prosper. At the same time, state socialism had created in some countries a popular consensus around democratization, if only because democracy represented the polar opposite of the authoritarian regime—that is, to use my earlier language, uncertain outcomes and certain procedures. This can be seen, for example, in variations during the socialist era in episodes of popular protest and reform socialism. Also important for some of these countries during the socialist era was a marriage between liberalism and nationalism—a fusion between opposition to communism, national identities, and liberal political ideologies. This was most obvious in the case of Poland, the leader of the events of 1989 (see Bunce 1999c). Two other factors further reduced uncertainty in some of these countries where this consensus was in place: the existence of international institutions supporting human rights, democratization, and economic reform (which were particularly influential in east-central Europe, the eastward boundary of the European Union); and the outcome of the founding elections. It is important to recognize that the best predictor of both democratization and economic reform in the postsocialist region seems to be whether the opposition forces registered a decisive victory in the first competitive election (Bunce 1994, Fish 1998). This occurred when national, indeed nationalist, fronts emerged from the wreckage of communism, commanded widespread popular support, and embraced liberal ideology.

What I am suggesting, therefore, is that breakage, not bridging, was the strategy that proved more successful in the east. In judging success, I refer to indicators of both (a) the vitality and durability of democracy and (b) commitment to sustained economic reforms. Success through breakage occurred largely because conditions in the timing and content of transformation made the extreme situation possible: more certainty, considerable intra-elite and public consensus, and less authoritarian “drag” on policy making, all of which reflected large governing mandates enjoyed by liberal opposition parties. In certain ways, then, the end of state socialism created for some countries the optimal conditions for democratization and economic reform—what Balcerowicz (1995) terms “extraordinary politics”—and what is recognized more generally as the power of large mandates to translate, if ideology is willing, into innovative policies, economic and otherwise. It is also interesting to note in this regard the familiar argument, applied primarily to East Asia, regarding the importance of elite consensus for robust economic performance (Sapir 1999).

However, this leaves one question—why economic reform and not just democratization was central to regime priorities when mandates were large in the post-socialist context. This introduces a final contrast: the content of the government’s policy agenda. In the south, many economies had already undergone some reforms prior to democratization (this was the case for Hungary as well). Moreover, the economic pressures to pursue market reforms, though present in the south, were less compelling than in the east, given contrasts in both macroeconomic imbalances
at the time of transition and the more fundamental contrast, noted above, between economic reforms and an economic revolution. Finally, if economic necessity was variable, so was political feasibility. The existence of a capitalist economy and prior episodes of democratization had left well-defined and diverse interests in place. As a result, the management of economic reform as a political process was difficult and rested on a variety of considerations specific to each case. The diversity of interests, joined with thin mandates, the uncertain nature of these transitions, and the inclusiveness of pacting, coupled with heightened fears where pacting did not materialize, muddied the relationship between democratization and economic reform.

In the postsocialist context, however, the ideological spectrum of the government ranged from fully liberal to fully illiberal. If we focus on the first variant, we can see why democratization and economic reform were joined. This was not just a matter of belief or the empowerment derived from mandate. It was also judged a political necessity. State socialism had fused politics and economics and created, in the process, a conjoined economic and political monopoly. To end that system and to build a new one required a single tactic: fullscale and rapid deregulation of both the polity and the economy. Without a two-front war, both battles would be lost. The empirical evidence has borne out this assumption.

Before we leave this question of mandates and policy agenda and their impact on the relationship between democratization and economic reform, we need to recognize two further points. First, much has been made of the destructive consequences of nationalism, especially for democratization but also for economic reforms. This argument has been applied, in particular, to the postsocialist world. However, this interpretation ignores conditions—in a minority of cases, to be sure—where national identities are well-formed and congruent with state boundaries; where nationalism is closely tied to a liberal project; and where nationalism played a key role in ending authoritarian rule. Under these conditions, nationalism is an asset, not only for democracy but also for economic reform. This is because nationalism lengthens the time horizons of publics as well as leaders (see Abdelal 1999). This was precisely what happened, for example, in Poland, an old state, and in the new states of Slovenia, Lithuania, Estonia, and Latvia.

The second point is that this discussion of governing mandates and ideological commitments implies the explanatory power of the authoritarian past. In many studies, particularly of postsocialist transitions, the power of the past is often treated as a general condition, shaping every aspect of the transformation; it is often assumed to mean obstacles to democratization and economic reform; and it is often used to support arguments about the considerable difficulties of comparing postsocialist countries with other countries having a different authoritarian lineage. The claim made here, however, is different. All I am suggesting is that the authoritarian past seems to affect the relationship between democratization and economic reform, and, depending on developments during state socialism, the past can enable or constrain the new political and economic order. Finally, differences between state socialism and authoritarianism in Latin America do not call into question either the logic or the benefits of comparing these two regions (Bunce 2000b, Greskovits 2000).
CONCLUSIONS

The rapid expansion of democratic regimes around the world has produced a lively debate concerning their prospects for survival and consolidation. This issue assumes particular importance in the face of another global trend, the introduction of market reforms. The question then becomes whether the two processes are complementary. Is there, in brief, a positive or a negative correlation between democratization and economic reform?

Three conclusions follow from this survey of theoretical arguments and empirical studies of democratization and economic reform in three regions, namely Latin America, Southern Europe, and the postsocialist area. First, both interpretations have considerable merit, given their theoretical foundations and supportive studies that target elements of this relationship. One can argue with some confidence that democratization and economic reform will be highly interactive, and that the form of this interaction will suggest either compatibility or tradeoffs between the two. Second, empirical studies that directly address this question leave us with two answers, depending upon the region considered. In Latin America and Southern Europe, the relationship between democratization and economic reform is weak. There is no clear pattern suggesting a predictable interaction, either positive or negative. However, in the postsocialist region, the relationship is both positive and robust. Thus, the more democratic the regime, the greater its propensity to introduce and sustain economic reforms. Conversely, less democracy combines with less economic reform; at the extreme, continuation of authoritarian rule is associated with the absence of economic reform. Region has powerful effects; democratization can coexist quite happily with economic reforms; and the case for a clear tradeoff between the two, though no doubt relevant to individual cases (as we see, for instance, in Argentina or Peru), has little support once we expand the number of cases—within or across regions.

The regional effect should be understood not as a question of geography but rather as indicative of intervening factors. Three were highlighted above: whether democratically elected governments have sizeable mandates, whether the government is liberal, and whether the policy agenda is committed to deepening democracy and reforming the economy. Capacity, commitment, and policy content, therefore, are critical. Together, they help account for variations between the east and the south. This, in turn, gives greater precision to the argument that the authoritarian past is important in shaping the politics and economics that follow.

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