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What accounts for the surprisingly widespread popular approval that painful neoliberal reforms elicited in several Latin American countries? This article compares the explanatory power of two rival hypotheses, which draw on conventional rational choice and psychological decision theory. The compensation hypothesis claims that governments can engineer support for costly reforms by compensating the losers through targeted social benefits. The rescue hypothesis questions this claim and maintains that draconian adjustment only finds support if it promises to revert a deep crisis and avert further losses. Data from Argentina, Bolivia, Brazil, Mexico, Peru, and Venezuela suggest that the rescue hypothesis accounts much better for the initial endorsement of neoliberal shock programs immediately after their enactment. When these shock programs bring about economic stabilization and recovery, targeted social benefits help consolidate support for neoliberalism, which a statistical analysis of the impact of social spending on voting in Argentina's and Peru's presidential elections of 1995 reveals.

## SWALLOWING THE BITTER PILL

### Sources of Popular Support for Neoliberal Reform in Latin America

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#### THE PROBLEM AND ITS SIGNIFICANCE

The biggest surprise in Latin American politics during the past decade has been the strong popular support that tough neoliberal reforms have elicited in several countries. In the short run, these draconian changes imposed considerable costs on broad sectors of society, especially through massive devaluations, raises in public utility prices, cuts in subsidies, reductions in social spending, and dismissals of public officials. Nevertheless, Carlos Menem in

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Argentina (1989 to the present), Víctor Paz Estenssoro in Bolivia (1985-1989), Alberto Fujimori in Peru (1990 to the present), and, for some time, Fernando Collor de Mello in Brazil (1990-1992) found widespread approval for their economic shock programs. Initially, 55% to 80% of poll respondents endorsed these costly and risky changes. This strong backing allowed these presidents to limit opposition from vested interests and push ahead with their reforms.

Popular approval of tough neoliberal measures challenged the received wisdom. Many scholars had expected these drastic measures to arouse fierce resistance (cf. Walton & Ragin, 1990). In this view, only authoritarian regimes—such as the Pinochet dictatorship in Chile—could control dissent and carry out market-oriented restructuring (Foxley, 1983, pp. 16, 102). The unwillingness of fledgling democracies in Argentina, Brazil, and Peru to run the political risk of imposing serious adjustment during the 1980s seemed to corroborate this conclusion. Yet, contrary to these widely held expectations, Presidents Menem, Paz, Fujimori, and Collor received considerable backing for their shock programs. Menem and Fujimori even secured democratic reelection in 1995.

What accounts for this striking popular acceptance of costly reforms? Few scholars have confronted this puzzle (Remmer, 1995).<sup>1</sup> Although many authors have explored the reasons that led chief executives to enact bold shock programs in fragile democracies (Acuña & Smith 1994; Haggard & Kaufman, 1995, ch. 6; Williamson, 1994), the surprisingly widespread approval of these measures in some countries has gone largely unexplained. The fact that President Carlos Andrés Pérez (1989-1993) aroused strong opposition when enacting a similar shock program in Venezuela heightens the puzzle. Under what conditions do many citizens endorse painful reforms? When do they reject such measures?

This article compares the explanatory power of two different conjectures, which I label the *compensation hypothesis* and the *rescue hypothesis*. The former argues that governments can muster support for tough neoliberal reforms by distributing compensatory gains through targeted social programs.<sup>2</sup> By contrast, the rescue hypothesis claims that such benefits cannot neutralize the immediate losses caused by drastic adjustment measures. Rather, costly reforms only find approval if they promise to end deep crises such as hyperinflation, which imposed large losses on most people. As explained below,

1. Acuña and Smith's (1994, pp. 29-41) and Blake's (1994) interesting arguments focus on people's capacity for collective action rather than on their underlying attitude toward neoliberal reform—that is, the issue of approval versus rejection analyzed in this article.

2. For recent country analyses that investigate this claim, see Bruhn (1996), Moreno (1996), and Roberts and Arce (1998).

these competing hypotheses rest on different theoretical foundations, namely conventional rational choice assumptions versus psychological decision theory.<sup>3</sup>

The analysis below finds the rescue hypothesis more persuasive. Neoliberal shock programs receive strong immediate approval only in countries that suffer from hyperinflationary crises; this approval prevails despite the absence of substantial compensation programs. But once the crisis passes, targeted benefits solidify support for market-oriented reforms. Thus, while in the initiation phase, only the hope of saving the country from grave problems makes many people endorse tough neoliberal reform; in the consolidation phase, compensatory programs reinforce this backing.

### THE COMPENSATION HYPOTHESIS

Some of the few extant explanations for widespread approval of painful reforms emphasize the distribution of targeted benefits to compensate the victims of structural adjustment (Angell & Graham, 1995; Cornelius, Craig, & Fox, 1994, pp. 9-18; Graham, 1994; Haggard & Webb, 1994, pp. 23-25; Waterbury, 1993, pp. 197-208). To alleviate the costs of market-oriented reform, several governments have instituted social emergency programs targeted at the poor. Making many people (at least initially) worse off by unleashing the invisible hand of the market, these governments have tried to neutralize some of the losses with the visible hand of the state. The beneficiaries of emergency programs are expected to support the government and counterbalance the opposition of groups that have suffered especially large losses.<sup>4</sup> According to several scholars, targeted benefits are therefore crucial for making structural adjustment politically viable. "Measures of social sector reform, both immediate in terms of *poverty alleviation measures* [*italics added*], and long-term in the form of credible policies for more effective welfare systems, *are necessary for the initial acceptance of macroeconomic reform* [*italics added*]" (Angell & Graham, 1995, p. 192; see also Cornelius et al., 1994, pp. 9-18; Graham, 1994; Waterbury, 1993, pp. 197-208). The more resources that compensation programs distribute, the stronger should

3. My study questions an hypothesis embodying conventional rational choice assumptions and not rational choice in general. Modifications of these conventional assumptions may well permit the incorporation of my findings into a more general rational choice framework (Levy, 1997, pp. 106-108).

4. The biggest losers of neoliberal reforms (in relative terms) are often the middle and urban working classes and not the poor (Graham, 1994, ch. 1; Nelson, 1992, pp. 227-231). Because the former are better organized and more influential in the arena of interest politics than are the poor, governments have some incentive to target social emergency programs at these better-off sectors.

be the support they create for neoliberalism. But financial limitations make it unlikely that social emergency measures are ever sufficient for guaranteeing popular backing for structural adjustment.

The pervasiveness of clientelism in Third World politics makes this compensation hypothesis particularly plausible. Targeted benefit programs provide resources that politicians can distribute in return for electoral support. Whereas neoliberal reform limits pork by reducing state interventionism, social emergency programs generate new patronage. If these new resources are targeted to poor sectors, they may buy more votes for the government than economic reforms endanger by imposing an especially heavy burden on the middle and organized working class. Antipoverty programs rationalize clientelism by focusing patronage on poor sectors that can be won over with limited resources. At least in the electoral arena, social emergency programs can thus neutralize the political cost of neoliberal reform for the government.

This compensation hypothesis rests on an assumption that adherents to rational choice have clarified best: Targeted, divisible benefits are particularly effective instruments for obtaining support (Bates, 1981, ch. 7). The selective character of social emergency programs gives the government discretion over resource allocation, which can be tied to political conditions. Politicians can use these "selective incentives" (Olson, 1971, pp. 133-134) to attract support. By contrast, people cannot be excluded from collective benefits provided to the whole country, such as the reduction of runaway inflation. As a result, such national public goods are less useful for garnering support. Therefore, governments prefer programs that distribute particularistic benefits more than those that guarantee universalistic rights or provide national collective goods (Ames, 1987; Bates, 1981, ch. 6, 7; see Roberts, 1995, p. 91). Rational choice assumptions thus supply a systematic foundation for the compensation hypothesis.

### THE RESCUE HYPOTHESIS

The compensation hypothesis claims that politically provided gains can nullify immediate losses stemming from drastic adjustment. Underlying this claim is the assumption that gains and losses have, in principle, equal weight for people.<sup>5</sup> However, this symmetry premise is questionable. Psychological

5. Social emergency programs explicitly seek to outbalance losses stemming from adjustment (Campero, 1990, pp. 42, 51; Comisión Presidencial, 1989, pp. 1, 8; Hurtado Miller, 1990, pp. 9-10). Although the poor are not the main victims of adjustment in relative terms, they

decision theories have found a clear asymmetry between gains and losses, stemming from a marked aversion to losses among most people. Experimental subjects regularly weigh losses more heavily than objectively equivalent gains. For instance, most people are more upset about losing \$10 than they would enjoy winning this amount (Kahneman, Knetsch, & Thaler, 1990; Kahneman & Tversky, 1979, pp. 275-287; Payne, Bettman, & Johnson, 1992, pp. 96-97, 122).

Based on this finding of loss aversion, psychological decision theorists criticize conventional rational choice approaches, such as expected utility theory (Machina, 1987; Tversky & Kahneman, 1986). Whereas these traditional rational choice theories treat gains and losses as equivalent and therefore focus on an individual's final position of wealth, psychological decision theorists demonstrate that people treat gains and losses differently.<sup>6</sup> They assess gains and losses in relation to a reference point, often the status quo. In fact, as a result of loss aversion, people tend to accommodate losses much less rapidly than gains. Whereas most people quickly raise their reference points after receiving gains, they refuse to lower it after suffering losses. Experimental subjects tend to make great efforts to defend their "deserved" position against threats and to recuperate it after experiencing losses. When things are going well, by contrast, most people pursue further gains with less zeal. They proceed with great caution when facing prospects of gains but run considerable risks when confronting the threat of losses. Indeed, most people reject a sure loss of moderate magnitude and prefer instead a lottery that holds the promise of avoiding any loss—but also the risk of a huge loss. Thus, loss aversion leads most people to risk acceptance in the domain of losses and risk aversion in the domain of gains.

The asymmetrical response to gains and losses found in psychological experiments casts doubt on the claim that targeted benefits can neutralize the initial costs of neoliberal reform. Because people overvalue the losses they suffer, targeted benefits are unlikely to restore the status quo ante, which citizens embrace as their deserved position. The compensation hypothesis and the conventional rational choice assumptions underlying it are therefore questionable.

What accounts for the surprisingly widespread (yet not uniform) approval of stabilization programs? The common tendency toward loss aversion magnifies this puzzle. Yet, it also suggests an answer: Costly neoliberal measures

do suffer immediate absolute losses, which social emergency programs try to outweigh. These programs thus embody the logic of individual compensation and the underlying symmetry assumption.

6. In principle, it may be possible to incorporate these behavioral anomalies into a more general rational choice framework (Levy, 1997, pp. 107-108).

are acceptable only if they can potentially recuperate large past losses and avert imminent further losses. Draconian adjustment may elicit strong support only if it holds out the hope of ending a deep crisis that has hurt most people and that threatens them with further deterioration. The promise of averting and reverting losses—rather than the gains stressed by the compensation hypothesis—is the crucial reason for popular endorsement of painful reforms. Thus, neoliberal programs should find much higher support in countries suffering from deep crises, such as hyperinflation, than in nations with better economic prospects.<sup>7</sup> Such crises are both necessary and sufficient conditions for drastic adjustment to find widespread acceptance.

This rescue hypothesis embodies people's tendency toward risk acceptance in the domain of losses, which psychological experiments consistently find. Embracing untested shock programs was, in fact, highly risky. The economic success and political viability of neoliberal reforms that Latin American democracies had never enacted before was quite uncertain. These draconian measures could easily fail and greatly worsen an already difficult situation—but they nevertheless found widespread support in several instances. Whereas psychological decision theories systematically account for this risk acceptance in the domain of losses, conventional rational choice approaches either postulate general risk aversion or make ad hoc assumptions on risk propensity.<sup>8</sup> In this way, the rescue hypothesis embodies the logic of psychological decision theories and diverges from conventional rational choice assumptions.

## RESEARCH PURPOSE AND DESIGN

Which one of these competing hypotheses encounters stronger empirical support? Addressing this question not only sheds light on the surprising political viability of neoliberal reform under democracy but also advances the debate between conventional rational choice and psychological decision theories, which has attracted growing attention in political science (Farnham, 1992; Levy, 1997; Quattrone & Tversky, 1988; Stein & Pauly, 1993; Weyland, 1996). The following analysis provides a preliminary assessment of hypotheses derived from these rival approaches. For this plausibility probe, I

7. This is similar to Weyland (1996, pp. 190-191). Many authors claim that crisis conditions facilitate the adoption of tough reforms. Psychological decision theory provides a convincing microfoundation for this common insight.

8. Such ad hoc assumptions underlie Drazen and Grilli's (1993) and Przeworski's (1991, pp. 162-180) rational choice explanations of the contributions of crises to drastic neoliberal reform. For critiques, see Navarro (1995, p. 450) and Weyland (1997, pp. 3-4).

concentrate on Latin American countries that share many economic, political, and cultural background characteristics yet differ in the independent variables stressed by the compensation hypothesis (the size of social emergency programs) and the rescue hypothesis (the depth of the crisis preceding neoliberal reform).

Four of the cases under examination—Argentina, Bolivia, Brazil, and Peru—suffered profound hyperinflationary crises. Among these nations, Bolivia instituted a substantial compensation program soon after enacting neoliberal reform. By contrast, Venezuela did not experience hyperinflation before initiating drastic structural adjustment in 1989, but the government very quickly created a well-funded social emergency program. Finally, Mexico under the government of Ernesto Zedillo Ponce de León (1994 to the present) provides the only extant case of (a new round of) structural adjustment being implemented when a voluminous social compensation program was already in place. Thus, the six cases examined in this article represent the different combinations of conditions stressed by the compensation and rescue hypotheses fairly well.

## COMPENSATION PROGRAMS

Are “poverty alleviation measures . . . necessary for the initial acceptance of macroeconomic reform” (Angell & Graham, 1995, p. 192)? To assess the compensation hypothesis, this section compares social emergency measures in Argentina, Bolivia, Brazil, Mexico, Peru, and Venezuela. Remarkably, several of these countries instituted only meager compensation programs when enacting structural adjustment. Carlos Menem and Alberto Fujimori barely cushioned the tough economic reforms they decreed, Fernando Collor failed to create any social emergency program, and Víctor Paz Estenssoro waited for 16 months before instituting compensation measures. In comparative terms, the governments of Carlos Andrés Pérez in Venezuela and Ernesto Zedillo in Mexico spent the most resources on poverty alleviation, and they did so while or immediately after enacting tough austerity measures.

For years, the Menem government did not enact a significant social emergency program (Eduardo Amadeo, Secretary for Social Development, personal communication, March 21, 1995). Although the president did seek to soften the impact of his neoliberal reform plan—because Argentina’s deep economic crisis had unleashed considerable social unrest in 1989—his compensation measures were actually quite limited. The main benefit program, a food stamp scheme, only amounted to approximately U.S.\$150 million in 1989 and U.S.\$75 million in 1990 (Midré, 1992, pp. 367-370). In addition,



the implementation of these emergency measures was marred by tremendous inefficiency and blatant fraud (Repetto, 1994, p. 140). Compensation programs therefore did little, if anything, to alleviate poverty, and they soon ceased to exist.

The government of Alberto Fujimori undertook even more modest poverty alleviation measures during its first 3 years in office. The president made surprisingly little effort to cushion the tremendous social cost of the harsh adjustment he imposed (Figueroa, 1995, pp. 386-387; Kruse, 1992, pp. 40-43). Certainly, the demands of austerity and the effort to resume external debt service limited the resources that Fujimori could commit to social programs. However, the government did not even use the cheap loans that international financial institutions offered for social emergency measures. The main reason was political: Reliance on foreign funds would have subjected Fujimori to high standards of transparency and hindered the use of poverty alleviation measures for purposes of political patronage (Graham, 1994, pp. 106-112). Thus, not resource constraints as such but political calculations were decisive for the president's long refusal to enact noteworthy social emergency measures.

During his brief administration, which was cut short by his impeachment for corruption in September 1992, Fernando Collor did not enact any significant compensation measures. He failed to distribute material benefits to the poor—the “shirtless ones,” whose interests he had promised to advance in the election campaign of 1989 (“Adeus às Bases,” 1991). Even long-standing social institutions, such as the welfare agency headed by Collor's wife, engaged more in corruption and patronage spending than in poverty alleviation. Only in the second half of 1991 did the president, besieged by political difficulties, take more initiative on the social front. But the integrated education project that he sought to enact at the national level never got off the ground and did not make a dent in Brazil's tremendous social problems.

Bolivia's Víctor Paz Estenssoro instituted a more substantial compensation program—but only 16 months after imposing a drastic stabilization plan in August 1985. This *Fondo Social de Emergencia* (FSE) provided temporary employment for displaced workers and basic social services for the urban and rural poor (Campero, 1990, pp. 50-51; Graham, 1994, pp. 57-63). Rather than implementing programs with its own staff, the FSE selectively granted funds for projects proposed and executed by poor local communities. Until April 1990, this demand-driven fund disbursed U.S.\$181 million (Jorgensen, Grosh, & Schacter, 1992, p. 1) and benefited about 1.2 out of 6.4 million Bolivians directly or indirectly (Graham, 1994, p. 60).

By contrast to the meager funding or late institution of social emergency programs in Argentina, Bolivia, Brazil, and Peru, Venezuela's Carlos Andrés Pérez and Mexico's Ernesto Zedillo undertook more substantial compensa-

tion measures more quickly. After his structural adjustment plan prompted large-scale riots in February 1989, President Pérez tried to buy support by introducing several new social programs (Comisión Presidencial, 1989; Consejo Nacional para Supervisión y Seguimiento de los Programas Sociales del Ejecutivo Nacional [CONASSEPS], 1994). Spending increased from U.S.\$146 million in 1989 to U.S.\$457 million in 1990 and a respectable U.S.\$935 million in 1991 (Angell & Graham, 1995, p. 213; Márquez, 1995, pp. 414-424). Certainly, as in Argentina, Peru, and Brazil, these social emergency measures were marred by bureaucratic resistance and clientelist interference (Angell & Graham, 1995, p. 214; Naím, 1993, pp. 79-82; Navarro, 1994, pp. 16-20). But Pérez spent more resources per capita on poverty alleviation than did Menem—and especially more than Fujimori or Collor.

President Zedillo could count on the well-funded *Programa Nacional de Solidaridad* (PRONASOL) instituted by his predecessor Carlos Salinas de Gortari (1988-1994) to cushion the social impact of the drastic adjustment measures he imposed in response to the peso crisis of December 1994. During Salinas' *sexenio*, PRONASOL had disbursed a total of U.S.\$16 billion for a wide variety of projects proposed by groups of urban and rural poor, ranging from educational programs to the construction of sports facilities (Cornelius et al., 1994). While planning to overhaul PRONASOL, President Zedillo funded it at nearly the 1994 level, allocating U.S.\$1.746 billion in 1995 (Dresser, 1995).

Based on these findings, the compensation hypothesis—*ceteris paribus*—expects initial popular acceptance of neoliberal reform to be low in Argentina and Peru, even lower in Brazil and Bolivia, and yet much higher in Mexico and Venezuela.

## THE SEVERITY OF CRISES

How do these countries score on the factor stressed by the rescue hypothesis, namely the severity of the crisis facing the reform initiators?<sup>9</sup> Hyperinflation (inflation exceeding 50% per month) is the most important threat because it quickly imposes enormous costs on large numbers of people. The speed of this deterioration prevents people from lowering their reference point. Thus, hyperinflation puts a majority of citizens in the domain of losses. Opinion polls regularly confirm that skyrocketing inflation outweighs any other problem among people's concerns (e.g., Apoyo, 1990b, p. 35; Mora y Araujo, 1989, p. 8). At the time governments adopted tough neoliberal meas-

9. The following two sections draw on Weyland (1996, pp. 192-199).

ures, Argentina, Peru, Brazil, and Bolivia were experiencing incipient or full-scale hyperinflation, which severely disrupted their economies. By contrast, Mexico's and Venezuela's economic problems remained far below the level of a profound hyperinflationary crisis.

During the 1980s, Argentina had suffered from persistent inflation, meager investment, and low growth. The Austral Plan, a heterodox stabilization program adopted in 1985, alleviated the difficulties temporarily but did not bring a definite solution. The economy deteriorated rapidly in 1988, and hyperinflation erupted in early 1989 (Smith, 1990, pp. 25-29). Monthly price increases reached 33.4% in April of that year and skyrocketed to 114.5% in June. Hyperinflation impoverished many people, impeded investment and growth, and triggered social unrest and looting. Thus, Argentines faced a severe crisis in mid-1989.

Peru's situation was even worse in 1990 as hyperinflation was undermining the economy and powerful guerrilla movements were attacking the government. The nationalist programs of the military regime (1968-1980) and the limited neoliberal reforms of the government of Fernando Belaúnde (1980-1985) had caused considerable economic problems. In response, President Alan García (1985-1990) enacted an heterodox stabilization plan, which brought 2 years of boom but then unleashed a tremendous crisis. The government's limited stabilization measures proved unsuccessful, and inflation spiraled out of control, reaching 37.3% per month in April 1990 and 63.2% in July. Furthermore, a brutal guerrilla movement had spread among large parts of the country, prompting an equally brutal response from the military. Thus, President Fujimori took office in July 1990 in the midst of a profound crisis.<sup>10</sup>

Hyperinflation also afflicted Brazil in March 1990 when President Collor assumed office. The governments of the 1980s had undertaken numerous orthodox and heterodox efforts to control price rises without any lasting success. In the late 1980s, the administration of José Sarney (1985-1990) lost control over inflation, which rose to 44.3% per month in November 1989 and 71.7% in February 1990. Even the widespread readjustment of wages and pensions for past inflation failed to eliminate a good part of the losses caused by rapidly rising prices. Thus, in early 1990, Brazilians also faced severe economic challenges.

In 1984 to 1985, Bolivia suffered the worst bout of hyperinflation in Latin American history. Taking office after 4 years of severe political instability, the government of Hernán Siles Suazo (1982-1985) proved unable to combat the country's economic problems, which were exacerbated by mounting debt

10. On Fujimori's rise, see Cameron (1994, ch. 7) and Roberts (1995, pp. 92-96).

(Morales, 1987, pp. S179-S190). Six stabilization plans failed due to pent-up demands from various social groups and ever fiercer opposition from the peak union *Central Obrera Boliviana* (COB). In 1984, price rises spun out of control; they reached an annualized rate of 60,000% from May to August of 1985. The imminent economic collapse and the complete lack of governability forced the president to call elections 1 year ahead of schedule. Thus, in mid-1985, Bolivia seemed headed toward a catastrophe.

By contrast to these cases of hyperinflation, Venezuela's manifest economic difficulties were less serious. Indeed, the government had deliberately hidden a looming crisis from the population. Certainly, the country had suffered during the 1980s from low growth and spreading poverty. Yet, the government of Jaime Lusinchi (1984-1989) had avoided adjustment and artificially suppressed strong inflationary pressures with price controls. Therefore, price rises reached only 28.1% during all of 1987 and 29.5% in 1988—compared to monthly rates above 50% in Argentina, Bolivia, Brazil, and Peru. Thus, the population did not face sudden deterioration and was unaware of the serious difficulties awaiting the new government that took office in February 1989. Incoming president Carlos Andrés Pérez, however, felt compelled to rectify the enormous disequilibria afflicting Venezuela, as indicated by a fiscal deficit of 9.4% of the gross domestic product (GDP) in 1988.

Similarly, incoming President Ernesto Zedillo faced grave economic difficulties that the outgoing administration, headed by Carlos Salinas, had deliberately hidden from the public. After the debt crisis of 1982 and the painful stabilization measures instituted by President Miguel de la Madrid (1982-1988), the Salinas government had achieved price stability and renewed economic growth (Carstens & Schwartz, 1996; Lustig, 1992). However, for political reasons, such as the presidential election of 1994, Salinas' team did not correct mounting problems, especially the overvalued exchange rate and the substantial current account deficit. Instead, it used huge sums of short-term foreign capital to cover up this unsustainable situation (Naím, 1995). Most Mexicans were therefore unaware of the time bomb awaiting the Zedillo administration. Forced to devalue shortly after taking office, the new government shattered investor confidence, and the resulting capital flight required severe adjustment measures.

Thus, many Argentines, Peruvians, Brazilians, and Bolivians had suffered great sudden losses and feared significant further deterioration, whereas Venezuelans and Mexicans did not confront an open crisis. As a result, a clear majority of opinion poll respondents in Argentina, Brazil, and Peru complained about a recent decline in their well-being, and many feared further losses (Apoyo, 1990a, pp. 41-42; IDESP, 1989, pp. 21, 45; Mora y Araujo, 1989, p. 8). In Venezuela and Mexico, by contrast, a majority reported recent

gains or no loss and had similarly optimistic or neutral expectations for the future (Buendía, 1995, pp. 5-6; Coppedge, 1994, p. 49; Domínguez & McCann, 1996, p. 202; Templeton, 1995, pp. 81-82). Considering these differences, the rescue hypothesis expects neoliberal adjustment programs to find much more widespread endorsement in Argentina, Peru, Brazil, and Bolivia than in Venezuela and Mexico. Thus, its expectations are diametrically opposed to those of the compensation hypothesis.

### ENDORSEMENT VERSUS REJECTION OF NEOLIBERAL ADJUSTMENT

In which of these countries did tough market reforms elicit widespread initial approval? Opinion poll data yield the best indication of popular endorsement or rejection during the weeks immediately following the stabilization program.<sup>11</sup> Where surveys are unavailable, as in the Bolivian case, the extent of popular protest allows for some tentative inferences. According to these criteria, costly stabilization plans received very high immediate support in Argentina (1989) and Brazil (1990) and strong approval in Peru (1990) and Bolivia (1985) but encountered widespread opposition in Venezuela (1989) and Mexico (1995).

Large numbers of Argentines supported President Menem's costly adjustment efforts even before they attained lasting success. In subsequent weeks and months, 72% to 77% of Greater Buenos Aires residents endorsed the stabilization plan of July 1989, and 85% to 89% approved of the president's performance (Mora y Araujo, 1990, p. 4). Widespread popular backing helped Menem contain resistance to his painful measures from opposition parties and trade unions. This strong support is remarkable because Argentines suffered considerable losses. Business had drastically raised prices in anticipation of Menem's stabilization plan. The structural reforms the government announced, such as the privatization of public enterprises, also threatened important sectors. Thus, Menem's first economic program entailed considerable costs and risks (McGuire, 1994, pp. 4-5; Powers, 1995, pp. 95-102). Nevertheless, it found overwhelming support because it promised to recuperate the large losses caused by hyperinflation and avert imminent further losses. Although citizen approval of President Menem and his economic

11. The use of individual responses to opinion polls avoids the aggregation problem, which psychological decision theories have not yet resolved. So far, these theories lack a systematic treatment of strategic interaction, that is, an equivalent to game theory (Levy, 1997, pp. 102-104).

policies diminished with the deteriorating conjuncture of 1990 and early 1991, it recuperated with new stabilization efforts and remained positive from mid-1991 on.<sup>12</sup> Indeed, the Menem government won the gubernatorial and parliamentary elections of 1991 and 1993 and the general elections of 1995.

President Fujimori's adjustment plan of August 1990, which raised the price of basic necessities by up to 3,000%, had a brutal impact on the already low living standard of many Peruvians. Nevertheless, the plan won approval from 50% to 60% of opinion poll respondents in subsequent weeks, whereas rejection reached only 25% to 30% (Apoyo, 1991, pp. 3, 16, 17). The president himself, who had blatantly betrayed his campaign promises to avoid a neoliberal shock, achieved a 57% approval rating (against 19% disapproval) in October 1990 (IMASEN, 1990, p. 14-E). Thus, Fujimori won widespread initial approval for his costly and risky measures because they promised to recover prior losses and avert further deterioration stemming from hyperinflation. With the deep recession of 1991, citizen endorsement of the president and his economic policies fell considerably. But popular approval recuperated with Fujimori's most daring step—his coup of April 1992—and the slow recovery from Peru's deep economic and political crisis. Based on his enormous popularity, which hovered around 60% to 70% after mid-1992,<sup>13</sup> Fujimori won the Constituent Assembly elections of 1992, the constitutional plebiscite of 1993, and the general elections of 1995.<sup>14</sup>

President Collor's audacious, costly stabilization plan of March 1990 also received massive endorsement in the beginning. By raising taxes, decreeing austerity measures, and confiscating all financial assets that exceeded low thresholds (e.g., equivalent to U.S.\$1,300 for savings accounts), this program created tremendous hardship for many individuals and paralyzed the economy, reducing wages and threatening to cause large-scale unemployment. Despite these risks and costs, popular approval of Collor's bold effort to end hyperinflation rose from 58% to between 71% and 81% during the first few weeks (Datafolha, 1990; Instituto Brasileiro de Opinião Pública e Estatística [IBOPE], 1990, p. 13). Yet, this widespread support eroded faster in Brazil than in Argentina and Peru. One reason was probably that comprehensive indexation reduced the costs of hyperinflation. Because many people had incurred less drastic costs and foresaw lower losses than in Argentina and Peru, they were probably more reluctant to accept great sacrifices. As Collor's popularity declined and he made powerful enemies with his imperious

12. Unpublished data was provided by Centro de Estudios Unión para la Nueva Mayoría (Buenos Aires) in March 1995.

13. For Fujimori's political use of polls, see Conaghan (1995).

14. Fujimori and Menem also used and fueled popular aversion to established politicians to discredit their opponents.

decision-making style,<sup>15</sup> he increasingly lost political clout and was unable to prevent his impeachment on corruption charges.<sup>16</sup>

The lack of survey data makes it more difficult to assess the popular reaction to President Paz Estenssoro's shock program, which included tough budget cuts, substantial price hikes, and wage freezes. The peak union COB immediately called a general strike to force a retraction of these painful measures. But the walkout remained limited and was about to fizzle out when the government imposed a state of siege to break the labor movement. "The weary middle classes . . . support[ed] Paz's austerity programme. Equally decisive in [the COB's] defeat was the lack of peasant support for the strike" ("Strike Likely to Fizzle Out," 1985, p. 11). Thus, the available evidence suggests that there was "an explicit or implicit consensus in favor of harsh macroeconomic measures" (Pastor, 1992, pp. 92; cf. Gamarra, 1994, p. 110). With the recession resulting from adjustment, this backing diminished in subsequent years, as indicated by the defeat of the governing *Movimiento Nacionalista Revolucionario* (MNR) in the municipal elections of 1987. As the Bolivian economy stagnated in the late 1980s, the MNR candidate and main architect of the adjustment program, Gonzalo Sánchez de Lozada, won a lower vote share in the presidential election of 1989 than Paz Estenssoro had garnered in 1985 (but this result—given the growing fragmentation of the party system—constituted a plurality). Only the early 1990s saw sustained economic growth, and Sánchez de Lozada indeed won the presidential election of 1993 with 36.2% of the vote, which was a strong result for Bolivia.

The four cases of hyperinflation thus shared an important experience: Tough adjustment programs found considerable—sometimes massive—initial support. The most plausible explanation for this striking finding is that these programs, although carrying great risks, promised to end incipient hyperinflation and thus recuperate sizable past losses and avert high future costs.

By contrast, a majority of Venezuelans and Mexicans rejected stabilization measures enacted by their governments in the absence of hyperinflation. Most Venezuelans did not anticipate the grave economic crisis that incoming president Carlos Andrés Pérez foresaw. They therefore disapproved of the costly adjustment program that Pérez enacted by slashing consumer subsi-

15. The weakness of Brazil's parties (Ames, 1995; Mainwaring, 1992-1993; Power, 1991)—although facilitating Collor's meteoric rise—also made it difficult for the president to find reliable support in parliament.

16. Brazil's *Plano Real* of July 1994 did not impose drastic, visible costs on large numbers of people but benefited them by ending incipient hyperinflation. Therefore, the strong popular support that it elicited despite the absence of targeted social measures does not provide clear evidence for or against any of the two rival hypotheses.

dies, lifting price controls, cutting public spending, and devaluing the currency by 170%. In subsequent weeks, only 29% of Venezuelans endorsed this reform package; 53% rejected it (Consultores, 1989, p. 31). Unprecedented for Venezuela, large-scale riots erupted, taking at least 300 lives. Thereafter, "popular support for the government" remained at "dangerously low levels" (Templeton, 1995, p. 84), and the president was impeached on corruption charges in mid-1993 (Coppedge, 1994, pp. 49-51). Even the social emergency measures that the Pérez government quickly instituted failed to revert this rejection.

Similar to the Venezuelan case, few Mexicans had an inkling of the problems that made the Mexican economy ever more vulnerable in 1994. The government's adjustment measures—both the botched devaluation of December 1994 and the drastic stabilization plans of early 1995—therefore came as a great surprise. As a result, 52% of poll respondents disapproved of President Zedillo's handling of the economy in March 1995, whereas only 17% endorsed it (Foreign Broadcast Information Service–Latin America [FBIS-LAT], 1995). The president's popularity rating was clearly negative from mid-1995 through mid-1996 (e.g., 35% endorsement vs. 57% rejection in June 1996) (FBIS-LAT, 1997). The substantial resources disbursed by PRONASOL failed to make painful stabilization acceptable. Only with the economic recovery of 1996 did support for Zedillo improve. In March 1997, the president won the first positive net rating in 2 years, with 54% approval versus 39% disapproval (FBIS-LAT, 1997). Thus, in the absence of open hyperinflationary crises, most people do not accept painful programs as a necessary evil designed to recuperate large past losses and avert further deterioration.

In the cases under investigation, the pattern of popular approval and disapproval of tough market-oriented reform is fully in line with the rescue hypothesis yet diverges from the compensation hypothesis (see Table 1). The enormous costs of hyperinflation made many people swallow the bitter pill of adjustment, even without social compensation. In the absence of hyperinflation, by contrast, President Pérez's and President Zedillo's significant poverty alleviation programs could not make citizens accept austerity and restructuring. Certainly, the compensation hypothesis cannot be completely dismissed; targeted benefits may strengthen popular support for neoliberalism to some—albeit limited—extent. The rejection of Pérez's and Zedillo's stabilization plans could have been even stronger had their governments not instituted targeted social programs.<sup>17</sup> The rescue hypothesis, however, ac-

17. Opinion polls from Venezuela suggest, however, that this effect was very weak indeed. When asked whether President Pérez's early compensatory measures had helped them, 60% to 69% of respondents said "little" or "not at all" (Consultores, 1989, pp. 29-30).



Table 1  
*Assessment of the Compensation and Rescue Hypotheses*

	Argentina	Brazil	Peru	Bolivia	Venezuela	Mexico
Targeted benefits per capita in first 2 years of government (in dollars)	7.03	>1	11.36	3.80	30.15	39.46
Inflation in year before adjustment (in percentages)	1,470	3,014	6,238	24,000	29.5	7
Initial net support for adjustment (in percentages)	+64-69	+63-73	+22-31	Clearly positive	-24	-35

Question wording

Argentina: "¿Cómo cree Ud. que el nuevo gobierno está manejándose hasta ahora en los siguientes temas? Plan antiinflacionario."

Brazil: "O plano econômico do governo Collor completou três meses. Na sua opinião, esse plano é bom ou ruim para o país?" and "De uma maneira geral o(a) Sr(a) aprova ou desaprova o Plano Econômico do Presidente Collor?"

Peru: "En general, ¿diría Ud. que aprueba o desaprueba el programa de estabilización en ejecución?"

Venezuela: "¿Usted piensa que el gobierno de Carlos Andrés Pérez debe seguir aplicando el paquete de medidas económicas que inició en febrero para crear nuevo modelo económico en el país, o Usted cree que debe modificarlo para seguir con el modelo económico que teníamos antes?"

Mexico: "How do you rate the performance of the Ernesto Zedillo administration in terms of: Handling of economy?" (translated by FBIS-LAT, 1995).

*Source:* For targeted benefits, Dresser (1995, p. 14); Figueroa (1995, p. 386); Jorgensen et al. (1992, p. 3), Grosh, and Schacter (1992); Márquez (1995, pp. 414-424); and Midr (1992, pp. 367-370). For inflation, Weyland (1996, 192, 197) and Jorgensen et al. (1992, p. 3). For popular approval and rejection, Apoyo (1991, pp. 3, 16, 17); Consultores 21 (1989, p. 31); Datafolha (1990); FBIS-LAT (1995); IBOPE (1990, p. 13); Mora y Araujo (1990, p. 4); Pastor (1992, pp. 92, 100); and "Strike Likely to Fizzle Out (1985).

counts much better for initial popular approval and rejection of drastic economic change than its rival. Even if social emergency programs buy some support, the uncertain promise to recover past losses and avert further deterioration weighs much heavier. As the experiences of Argentina, Bolivia, Brazil, and Peru suggest, it is doubtful that "poverty alleviation measures . . . are necessary for the initial acceptance of macroeconomic reform" (Angell & Graham, 1995, p. 192). As the Mexican and Venezuelan cases show, compensation programs are certainly not sufficient for guaranteeing support for neoliberalism.

The variation across these cases also casts doubt on several alternative hypotheses.<sup>18</sup> First, the immediate rejection of President Pérez's and President Zedillo's stabilization programs suggests—by way of contrast—that the “honeymoon effect” (Williamson & Haggard, 1994, pp. 571-572) was not decisive for popular approval of President Menem's, Fujimori's, Collor's, and Paz's shock plans. Second, Pérez's program did not arouse widespread opposition for lack of credible commitment by the government, as scholars following Rodrik (1989) might claim. Large numbers of citizens rejected this shock program because they saw it as too drastic rather than as too hesitant (Consultores, 1989, pp. 30-32). The president's persistence in enacting this program despite the riots exacerbated opposition rather than allayed it. Third, the massive discontent with Pérez's adjustment plan suggests that the depth of the structural problems of the established state-interventionist development model were not decisive for the acceptance of neoliberal reform. Venezuela's oil-dependent rentier model had clearly failed, as the economic stagnation of the 1980s shows. Brazil had a significantly better performance with 2.9% average annual growth from 1980 to 1988 against Venezuela's 0.9% (World Bank, 1990, p. 181). Nevertheless, Collor's shock plan found much stronger support than did Pérez's adjustment measures. Fourth, social learning cannot account for the different popular response to shock programs in Venezuela versus Argentina, Bolivia, Brazil, and Peru. It is unlikely that a crucial swing in Latin American public opinion—from rejection to endorsement of neoliberalism—occurred in the 5 months between the announcement of Pérez's and Menem's stabilization plans.<sup>19</sup> Indeed, the riots in Caracas, which were well publicized throughout Latin America, should have encouraged opposition to drastic adjustment in Argentina, Brazil, and Peru, but there was widespread approval. Fifth, the Peruvian case, in particular, casts doubt on the argument that neoliberal reforms—by ending deep crises—produce substantial immediate benefits that outweigh their distributional costs and, for this reason, elicit widespread endorsement (Rodrik, 1994, pp. 78-82).<sup>20</sup>

18. The Mexican and Venezuelan cases also confirm that the compensation and rescue hypotheses are rival—not complementary—conjectures. Even in the absence of a hyperinflationary crisis, targeted benefit programs are not crucial for making tough reforms politically acceptable.

19. Menem's and Paz's turn to neoliberalism, which found substantial popular support, also occurred (long) before the fall of the Berlin Wall and the collapse of communism. In general, Turner and Elordi (1995) find a high degree of continuity in Latin Americans' attitudes concerning development models and their underlying principles in the 1980s and early 1990s.

20. For criticism, see Stokes (1996, pp. 502-503). There is also an internal tension in Rodrik's (1994) argument, which claims that the government can induce people to accept not only immediate stabilization designed to end a deep crisis but also structural reforms, “which were by and large only incidental” (p. 64) but which created disproportionate costs for some sec-

Fujimori's shock program received strong support, although it quickly caused a severe recession and pushed large numbers of people deeper into poverty ("Perú 1994," 1994, p. 12). The depth of the initial crisis has a stronger impact on citizens' response to market-oriented reform than did the immediate outcomes of adjustment. Finally, the cases of Menem and Fujimori show that electoral mandates cannot account for the acceptance of drastic adjustment plans. Menem and particularly Fujimori had campaigned on antineoliberal platforms but initiated tough market reforms on taking office. Despite this betrayal of their campaign pledges, their shock programs found widespread support. In sum, the rescue hypothesis seems more convincing than the compensation hypothesis and other rival explanations.

### THE POLITICAL PAYOFF OF SOCIAL EMERGENCY PROGRAMS

The preceding analysis suggests that social emergency programs are neither necessary nor sufficient for the initial acceptance of painful reforms; the hope to eliminate drastic losses looms much larger. Is support for neoliberalism therefore likely to be temporary? Will structural adjustment become ever less bearable as the crisis eases, memories of hyperinflation fade, and economic recovery begins, as Acuña and Smith (1994, pp. 37-41) suggest? Or can social emergency programs visibly spread the benefits of recovery and thus solidify popular acceptance of neoliberalism? Although targeted benefits are not effective in compensating for losses, do they elicit support when people face prospects of gains?

Where governments managed to control hyperinflation, such as in Argentina and Peru, they eliminated huge income losses for many citizens. After the hardships of stabilization eased, growth resumed in both countries and poverty fell,<sup>21</sup> and more and more people entered the domain of gains (Apoyo, 1995, p. 42; IMASEN, 1994a,b, p. 17; Mora y Araujo, 1995, pp. 12, 14). In this setting of recovery, targeted benefits strengthen support for the government. Although such programs cannot easily compensate for losses, they do elicit support when people face prospects of gains. Under these circumstances, psychological decision theories yield similar expectations as ra-

tors. Why would rational actors endorse this whole package? Why would they not accept only adjustment but reject structural reforms that impose particularly high costs on them? In seeking to resolve this "mystifying" issue, Rodrik (1994, p. 82) invokes arguments on the "framing" of decisions that diverge from his rational-actor premises.

21. For Peru, see "Perú 1994" (1994, p. 12). Poverty in Greater Buenos Aires fell from its high point in October 1989 (47.4% of all residents) to 21.6% in October 1991 and 16.1% in May 1994.

tional choice approaches: In the domain of gains, people can be influenced by the provision of benefits—although they attach less weight to these benefits than to objectively equivalent losses. Put more firmly into the domain of gains by poverty alleviation measures, citizens turn more risk averse, refrain from challenging the initiators of neoliberal reform, and discount the promises of the opposition.

Maintaining electoral support was the primary motive for President Fujimori's belated decision to institute social emergency programs. After neglecting compensation measures for 2 years, Fujimori changed course when he faced electoral contests after his coup of April 1992. From mid-1992 on, the president finally enacted significant antipoverty programs. Indeed, after he almost lost the constitutional plebiscite of October 1993, which would allow for his reelection, he targeted expenditures to areas where his support had diminished in preceding years (Graham & Kane, 1998, pp. 85-90; Roberts, 1995, pp. 103-108). For these political purposes, Fujimori raised the project budget of the social compensation fund, *Fondo Nacional de Compensación y Desarrollo Social* (FONCODES), from U.S.\$ 14 million in 1991 to U.S.\$ 121 million in 1992, U.S.\$ 204 million in 1993, and a projected U.S.\$ 220 million in 1995 (FONCODES, 1994, p. 15, 1995b, p. 6). The president also embarked on a school-building spree, which allowed him to bask in support by attending numerous inauguration ceremonies. Funding decisions for FONCODES and the school-building program *Instituto Nacional de Infraestructura Educativa y de Salud* (INFES) were highly centralized and heavily politicized. Resources were directed to areas where the government expected the highest electoral payoff. International agencies that provided financial aid had only limited success in focusing these programs on poverty alleviation and in reducing their political misuse.<sup>22</sup>

The available data suggest that FONCODES and INFES indeed strengthened popular support for the government and contributed to Fujimori's reelection in April 1995. As the main reason for their endorsement, 28.9% of his backers among the poorest Lima residents mentioned his "public works" or his "support for education" (IMASEN, 1994b, p. 11; cf. Apoyo, 1994, p. 9). A comparison of the 1993 plebiscite and the 1995 presidential contest confirms the electoral payoff of social emergency programs. In areas that received high FONCODES expenditures, votes for Fujimori rose to a disproportionate extent (Roberts & Arce, 1998, pp. 233-236).

The regression analysis reported in Table 2 finds a similar result for INFES activities, whose impact is measured by the percentage of the population in each province that benefited from the distribution of educational material

22. Confidential author interviews in Lima, Peru, in February 1995 and August 1996.

Table 2  
*The Political Effect of INFES Activities in Peru*

	Model 1: Vote for Fujimori in 1995		Model 2: Vote Increase for Fujimori, 1993 to 1995	
	Beta	Significant <i>t</i>	Beta	Significant <i>t</i>
INFES beneficiaries	.33	.04	.38	.01
Poverty index	.57	.00	.58	.00
Economic growth in 1993 and 1994	.30	.05	.31	.03
"Yes" vote in 1993	.68	.00		
Adjusted $R^2$		.42		.47
<i>N</i>		24		24
<i>F</i>	5.20	.01	7.73	.00

*Note:* INFES = Instituto Nacional de Infraestructura Educativa y de Salud. *p* values for coefficient estimates are based on one-tailed tests of significance.

in 1994 (INFES, 1995, p. 30).<sup>23</sup> As control factors, I used the yes vote in the constitutional plebiscite of 1993, which was widely seen as a referendum on Fujimori's performance; poverty, as measured by the government's poverty index (FONCODES, 1995a, p. 28); and economic growth in each province during 1993 and 1994 (from Cuánto, Lima, as reported in Roberts & Arce, 1998, p. 235). INFES activity proves to be a significant predictor of Fujimori's vote in 1995. If the increase in Fujimori's vote from the constitutional plebiscite of 1993 to the presidential election of 1995 is used as the dependent variable (following Roberts & Arce 1998), INFES activity becomes highly significant.

Thus, when Peru's tremendous crisis eased, the government successfully used targeted social programs to reinforce popular backing, combating the diminution of support revealed in the constitutional plebiscite of 1993. These programs alone, however, were not decisive; Fujimori's successful attack on hyperinflation, the economic recovery his government achieved, and

23. School construction, which benefited a much smaller number of people—mostly in Lima and some coastal provinces—was not a significant predictor of Fujimori's vote. But more disaggregated data—especially for Lima, which houses about one third of all Peruvians—may well yield a different result. INFES built schools mainly in poorer neighborhoods, which did vote disproportionately for Fujimori.

his defeat of powerful guerrilla movements—that is, his successful rescue efforts—were also critical for the president's triumph in 1995.

The Menem government also instituted social emergency measures, although later than did Fujimori. Because destitution diminished greatly with the end of hyperinflation and the economic boom of 1991 to 1994 in Argentina (Ministerio de Economía, 1996, p. 60), the government saw antipoverty programs as a lesser priority. Only to prepare his reelection in May 1995 did Menem promise a major attack on poverty. For this political purpose, the government announced a comprehensive social plan in early 1995, raised funding for targeted compensation measures to U.S.\$1.773 billion in 1994, and planned a further increase to U.S.\$2.795 billion in 1995 (Menem, 1995, pp. 22-23, 27-29; Secretaría de Desarrollo Social, 1995a, pp. 9-10).<sup>24</sup> Although the Mexican crisis and the resulting recession in Argentina necessitated drastic budget cuts (E. Amadeo, personal communication, March 21, 1995), this targeted social spending did contribute to President Menem's reelection, as the following regression analysis shows.

Menem's vote share in the 1995 presidential contest at the provincial level (from Szusterman, 1996, p. 110) served as the dependent variable. The independent variable of central interest was targeted social spending budgeted for 1995—the only year for which provincial-level data are available (from Secretaría de Desarrollo Social, 1995a, p. 14). Similar to the Peruvian case, the control factors were poverty, measured as the percentage of the population with “unsatisfied basic needs” (computed from Secretaría de Desarrollo Social, 1995b, p. 35), and the Peronist Party's vote share in the Constituent Assembly elections of April 1994 (Centro de Estudios Unión para la Nueva Mayoría, 1994).<sup>25</sup> Given the strength of party loyalty in Argentina, I considered affiliation with the Peronist Party (from Centro de Estudios Unión para la Nueva Mayoría, 1993, p. 28) as an additional control factor. As Table 3 shows, targeted social spending had a significant impact on Menem's vote share, regardless of whether party loyalty is included as a control variable.<sup>26</sup> Thus, social programs instituted during a phase of economic recovery strengthened support for President Menem.<sup>27</sup>

24. Regional patronage funds also boosted Menem's political support (Gibson & Calvo, 1997, pp. 10-24).

25. Unfortunately, data on recent economic growth at the provincial level is not available.

26. If the parliamentary elections of late 1993 (from Cabrera & Murillo, 1994, p. 154) are used as a baseline, social spending budgeted for 1995 also proves a significant predictor of Menem's vote in 1995 ( $p = .02$ ), with unsatisfied basic needs as a control factor. But if party affiliation is added to the equation, none of the independent variables remain significant. Even in this case, however, social spending has the highest  $t$  value (with  $p = .07$ , one-tailed test of significance).

27. In the 1995 election, Menem continued to win clearly disproportional support among poorer, less educated sectors of the population (Gervasoni, 1997, pp. 16-19; Ostiguy, 1997, pp. 22-26).

Table 3  
*The Political Effect of Social Spending in Argentina*

	Model 1		Model 2	
	Beta	Significant <i>t</i>	Beta	Significant <i>t</i>
Targeted social spending	.51	.02	.51	.03
Vote for PJ in 1994	.47	.01	.47	.02
Unsatisfied basic needs	-.22	.16	-.22	.19
Affiliation with PJ			-.01	.49
Adjusted <i>R</i> <sup>2</sup>		.43		.40
<i>N</i>		24		24
<i>F</i>	6.89	.00	4.91	.01

Note: PJ = Partido Justica Lista (Peronist Party). *p* values for coefficient estimates are based on one-tailed tests of significance.

Provincial governments, which administer two thirds of Argentina's social expenditures, also increased their targeted spending. Buenos Aires province, which houses one third of all Argentines, instituted the largest social program. Since 1992, governor Eduardo Duhalde has used U.S.\$ 600 million per year to finance a wide variety of public works.<sup>28</sup> This patronage has strengthened support for Duhalde as well as Menem. The national government was keenly aware of the electoral weight of the well-greased Duhalde machine, which therefore escaped unscathed from the budget cuts of 1995. In the presidential election, Menem indeed won a disproportionate share of votes in Duhalde's bailiwicks ("Menem Backers Suggest Third Term," 1995, p. 6).

In a setting of persistent economic stagnation, by contrast, Bolivia's *Fondo Social de Emergencia* (FSE) did not seem to boost electoral support for the government in a significant way. In the late 1980s, economic growth in the country was anemic (on average 2.8% per year from 1987 to 1989) (Gamarra, 1994, p. 104) and barely kept pace with population growth. The government deliberately sought to use FSE resources to strengthen its electoral backing in the presidential election of May 1989 (Graham, 1994, pp. 63-67). The FSE commanded substantial funds, approving new projects worth U.S.\$ 78.4 million in 1988 (Jorgensen et al., 1992, p. 3). Nevertheless, the available evidence suggests that this patronage spending did not enhance

28. See Prévôt Schapira, 1996, pp. 89-91; "Tres Años de Obras," 1994, pp. 5-15.

Table 4  
*The Political Effect of Social Investment in Bolivia*

	Model 1: Vote for MNR in 1989		Model 2: Vote Difference for MNR, 1985 to 1989	
	Beta	Significant <i>t</i>	Beta	Significant <i>t</i>
Social investment per capita 1988	.01	.45	-.48	.12
Poverty head count ratio	-.06	.22	-.09	.41
MNR vote in 1985	.97	.00		
Adjusted $R^2$		.95		-.02
<i>N</i>		9		9
<i>F</i>	60.13	.00	.89	.46

*Note:* MNR = Movimiento Nacionalista Revolucionario. Given the minuscule *N*, the findings of these regression analyses must be interpreted with caution. *p* values for coefficient estimates are based on one-tailed tests of significance.

support for the incumbent MNR and its standard-bearer Gonzalo Sánchez de Lozada, the principal designer of the 1985 shock plan. As Table 4 shows,<sup>29</sup> targeted social spending does not help account for the MNR vote in 1989 or the difference between the party's results in 1989 and 1985 (computed from Müller & Asociados, 1990, p. 82). This analysis used "social investment" per capita in 1988—the only available data for targeted social spending by province (from Müller & Asociados, 1994, p. 333)—as the main independent variable. The poverty headcount ratio per province (from Müller & Asociados, 1994, p. 321) and the MNR vote in 1985 served as control factors. Different permutations of independent variables confirm the null findings reported in Table 4.<sup>30</sup>

Thus, in times of recovery, targeted benefits reinforce popular backing for the initiators of neoliberal programs, as the cases of Argentina and Peru

29. Given the minuscule *N*, these findings have to be interpreted with caution. But Graham's cross-tabulation (1994, pp. 69-72) yields similar results.

30. These equations included per capita social investment in 1989, the sum of the 1988 and 1989 figures, the MNR's vote share in the municipal election of 1987, and the difference in the MNR's vote in 1989 compared to 1987; they all yielded insignificant results.

31. During Mexico's economic recovery in the early 1990s, PRONASOL also strengthened electoral backing for the PRI (Davis & Coleman, 1994, pp. 359-366; Molinar Horcasitas & Weldon, 1994; Molinatti, 1997, p. 21; Moreno, 1996, pp. 159-165; Villarreal, 1995, pp. 33-34). Contrary results in Bruhn (1996, pp. 160-172).



show.<sup>31</sup> As countries emerge from profound crises and resume growth, social emergency measures visibly spread these gains to large numbers of voters. By placing people more firmly in the domain of gains, they induce citizens to make the risk-averse choice of accepting the incumbent reform initiator rather than giving the opposition a try. Because antipoverty measures can reinforce gains, they seem important for the consolidation of market-oriented reform. But because social emergency programs cannot compensate for losses, they cannot make the initiation of adjustment politically viable. In a deep crisis, during the recession caused by neoliberal adjustment, or in times of persistent stagnation, these programs do not significantly strengthen popular support for neoliberalism, as the Bolivian case seems to confirm.

## CONCLUSION

This study suggests that contrary to claims in the literature, social compensation programs are neither necessary nor sufficient for making the initial adoption of neoliberal shock programs politically viable.<sup>32</sup> Gains—even if distributed in a visible, politically targeted fashion—cannot easily compensate for the losses resulting from adjustment as the Venezuelan and Mexican cases demonstrate. The hope to revert large losses caused by hyperinflation seems far more crucial for generating support for market-oriented reforms as the experiences of Argentina, Bolivia, Brazil, and Peru suggest. Many people are willing to shoulder sacrifices only if they hold the—uncertain—promise of eliminating and forestalling much greater damage, even at considerable risk.

These findings have important theoretical implications. Because targeted benefits are unlikely to compensate for losses, the symmetrical view of gains and losses that underlies conventional rational choice approaches appears doubtful.<sup>33</sup> Rather, most people seem to attach far greater importance to losses than to gains as psychological decision theories have found. Therefore, losses are acceptable only if they appear as necessary to avert even greater losses. The results of this plausibility probe thus suggest that psychological decision theories are valid outside the laboratory and that they have important ramifications for political life. Therefore, scholars should draw on these psychological insights and assess their capacity to explain political phenomena.

32. Bruhn (1996) also questions important aspects of the compensation hypothesis.

33. As mentioned in footnote 3, this finding calls into question a specific assumption of conventional rational choice arguments and not the rational choice approach as such.

My findings also have practical implications. The compensation hypothesis suggests that governments can shape popular responses to adjustment; it emphasizes statecraft. By contrast, the rescue hypothesis stresses opportunities and constraints that are largely given, especially the political opening provided by a deep crisis.<sup>34</sup> Governments cannot easily engineer a crisis to gain the opportunity for enacting painful reforms. Thus, the corroboration of the rescue hypothesis in this study implies that governments have less influence over popular reactions to draconian measures than the compensation hypothesis claims.

Thus, the political viability of neoliberal shock programs depends on pre-existing conditions. Only in countries that suffer from deep crises, especially hyperinflation, is a majority of citizens likely to endorse drastic adjustment. Targeted benefit schemes can strengthen popular support for neoliberalism only after economic recovery has mitigated the initial costs of adjustment. Yet, when these conditions prevail and when leaders take advantage of the limited opportunities they face, market-oriented reform is indeed compatible with democracy.

34. For similar insights from a different theoretical perspective, see Drazen and Grilli (1993).

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