

WHY ARE LATIN AMERICANS SO UNHAPPY ABOUT REFORMS?

UGO PANIZZA AND MONICA YAÑEZ*

Inter-American Development Bank

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This paper uses opinion surveys to document discontent with the pro-market reforms implemented by most Latin American countries during the 1990s. The paper also explores four possible sets of explanations for this discontent: (i) a general drift of the populace's political views to the left; (ii) an increase in political activism by those who oppose reforms; (iii) a decline in the people's trust of political actors; and (iv) the economic crisis. The paper's principal finding is that the macroeconomic situation plays an important role in explaining the dissatisfaction with the reform process.

JEL classification codes: P16, O54

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I. Introduction

There is by now a large body of literature that describes and discusses the discontent with the pro-market reforms commonly referred to as the "Washington Consensus" (Williamson, 1990), and often associated with the process of "Globalization" (for a survey, see Lora and Panizza, 2003; and Stiglitz, 2002). The objective of this paper is to use opinion polls to document Latin Americans' increasing discontent with those reforms and to explore

* Ugo Panizza (corresponding author) and Monica Yañez: Research Department, Inter-American Development Bank, 1300 New York Ave., NW, Washington, DC 20577, USA. Tel (202) 623-1000; E-mail: ugop@iadb.org and monicay@iadb.org. We would like to thank Eduardo Lora, Jorge Streb, and three anonymous referees for very helpful comments, and John Smith and Tim Duffy for expert editing. The views expressed in this paper are the authors' and do not necessarily reflect those of the Inter-American Development Bank. The usual caveats apply.

possible explanations for this trend. We evaluate four possible explanations for this dissatisfaction. The first focuses on a change in political orientation. The second focuses on a change in political activism on the part of those who oppose reforms. The third focuses on trust in political actors. The fourth focuses on the economic situation. There is also an important set of explanations for discontent with reforms that we do not consider in this paper. This set of explanations focuses on the role of cognitive biases in the formation of public opinion. An interesting paper by Pernice and Sturzenegger (2003) studies the case of Argentina and uses cognitive bias (especially confirmatory and self-serving biases) to explain rejection of reforms.

The paper is organized as follows. Section II describes some indicators aimed at measuring support for pro-market reforms and describes their evolution over time. It also describes the demographics of those who support and oppose reforms. Section III explores possible explanations for discontent with the reform process. Section IV concludes.

II. What Do Latin Americans Think of Reforms?

The purpose of this section is to gauge the attitude of Latin Americans toward pro-market reforms. In order to do so, we use individual-level data from the *Latinobarómetro* annual surveys. This data set covers 17 Latin American countries over a period of 7 years (1996-2003) and consists of an average of 1,200 respondents per country-year.¹ A *Latinobarómetro* survey was conducted in 1995, but we have excluded it because it covers a smaller set of countries. Data for the 2002 survey were not made available to us and hence are not included in the analysis. National polling firms in each individual country conduct the surveys, so the sampling method from country to country varies slightly. However, in most cases the selection includes some quotas to ensure representation across gender, socio-economic status, and age.

Although the *Latinobarómetro* data offer an unprecedented wealth of information, some problems with the survey do exist. The first is that the

¹ The surveyed countries are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Paraguay, Uruguay, and Venezuela.

Latinobarómetro survey initially focused exclusively on the urban population. While most of the recent surveys have national coverage and samples representing the whole population, in Chile, Colombia and Paraguay the coverage is only urban (the urban populations are 70 percent, 51 percent, and 30 percent of the total population). Second, until 2002, the surveys were conducted using only the country's official language (Spanish or Portuguese); consequently, were not representative of the attitudes of those portions of the indigenous population that are not fluent in the official language. Moreover, there is some evidence that, at least in the early years, the pool of survey respondents over-represented individuals with relatively high levels of education (Gaviria, Panizza, and Seddon, 2004). Finally, the survey does not ask directly about pro-market reforms. Therefore, while it would be most desirable to have a set of variables that directly measure Latin Americans' opinion toward pro-market reforms, we must use the available variables to build several indicators to serve as a reasonable proxy. The reader should keep in mind that some of our variables better proxy opinions toward reforms while others better proxy opinions toward market economy.²

Our preferred variable is PRIVAT (available for 1998, 2000, 2001, and 2003) which takes value one if the respondent thinks that the privatization process benefited the country and zero otherwise. Among our variables, this is probably the most accurate measure of opinion of one type of reform that was prevalent in most Latin American countries. A second set of variables measures the general attitude toward the market economy. MARKET (available for 1998 and 2000) takes value one if the respondent thinks that a market economy is good for the country and zero otherwise. PRICES (available for 1998, 2000, and 2001) takes a value of one if the respondent thinks that prices should be set by the market and zero if prices should be decided by some central authority. PRIVPROD (available for 1998 and 2001) takes a value of one if the respondent thinks that productive activity should be left to the private sector and zero otherwise. It should be clear that MARKET, PRICES and PRIVPROD are direct measures of the public's attitude toward a market economy. They can be used as a proxy for Latin Americans' position

² Table A1 provides the detailed information about the questions used to build the variables.

toward reforms only by assuming that the main aim of the structural reform process was liberalizing the economy. We do not find such an assumption unrealistic. In fact, five of the ten original points in Williamson's (1990) "Washington Consensus" focused on expanding the role of the market economy.

The third set of indicators deals with attitudes towards international trade and foreign direct investment. LACINT (available for 1996, 1997, 1998, and 2001) is a dichotomous variable that takes a value of one if the respondent holds a favorable view of economic integration in Latin America and a value of zero if the respondent is against the integration process. This is probably the most problematic variable. As individuals who are against economic reforms and free trade in general might still favor Latin American integration, it is a very imperfect proxy of attitudes toward free trade (which, ideally, is what we want to measure). In fact, Table A2 in the Appendix shows a very low correlation of LACINT with most of the other variables used in this paper.³ Therefore, all results concerning LACINT should be interpreted with some caution.

FDI takes value one if the respondent thinks that foreign direct investment is beneficial for the country and zero if foreign direct investment is harmful. We think that FDI is a good measure of at least one aspect of the reforms process (i.e., opening the economy to foreign investors). The main problem with this variable is that it is only available for one year (1998), thus it is impossible to track its evolution over time.

Table 1 summarizes the average values of the five variables mentioned above. The most striking number is the large drop in support for privatization (FDI has no time variation). In 1998, more than 50 percent of Latin Americans thought that privatization was beneficial for their country. This percentage dropped to 31 percent in 2001 and to 25 percent in 2003. We observe a similar trend for MARKET. In 1998, 77 percent of Latin Americans thought that a market economy was good for the country. In 2000, the percentage supporting

³ We would like to thank an anonymous referee for pointing this out and suggesting that "Latin American integration is throughout the Region a value cherished by all kinds of leftists and nationalists who oppose economic reforms."

a market economy dropped to 67 percent.⁴ Support for private production and market prices also dropped, but by a smaller amount, and there was no change in support for economic integration in Latin America. Table A2 in the Appendix shows that the correlation between these variables, while positive and statistically significant, is rather low, which indicates that the different questions do in fact capture different aspects of attitudes toward pro-market reforms.

It is worth mentioning that, while over the period that goes from 1985 to 1995 most Latin American countries implemented extensive pro-market reforms, the reform process has not been homogenous across countries and across types of reforms (Lora and Panizza, 2003; and Lora and Olivera, 2004a,b). Although these considerations suggest that it may be misleading to talk of Latin America as a homogenous entity, it is worth mentioning that the

Table 1. What Do Latin Americans Think of Pro-Market Reforms?

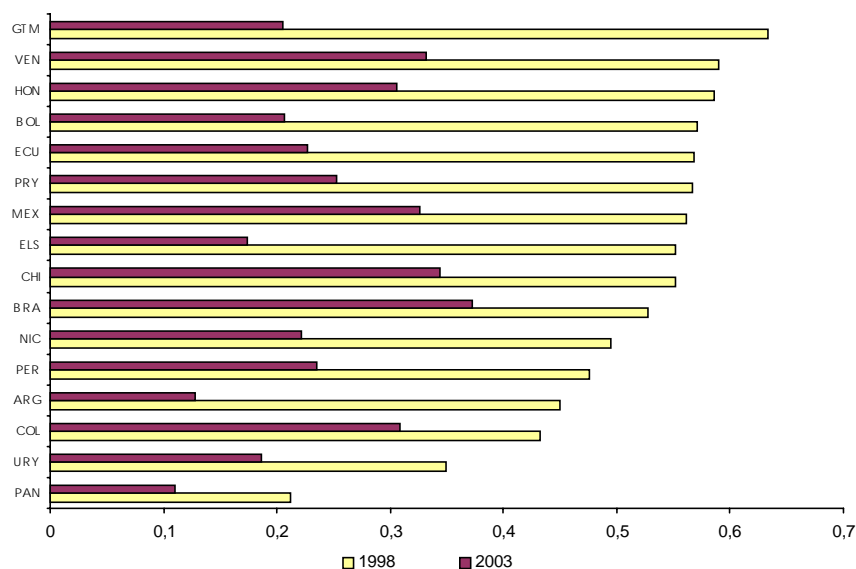
	LACINT	FDI	PRIVAT	MARKET	PRICES	PRIVPROD
1996	0.74	---	---	---	---	---
1997	0.87	---	---	---	---	---
1998	0.88	0.77	0.52	0.77	0.63	0.56
2000	---	---	0.38	0.67	0.57	---
2001	0.84	---	0.31	---	0.59	0.50
2003	---	---	0.25	---	---	---

Note: The values reported in the table measure the share of respondents that support Latin American economic integration, FDI, privatization, market economy, price liberalization and private production.

⁴ Unfortunately, a change in the questionnaire made it impossible to look at the behavior of this question in 2003. The surveys from 1998 and 2000 asked: "Do you think that a market economy is good for the country?" For the year 2003, the question was: "Are you satisfied with the functioning of the market economy?" Only 18 percent of respondents gave an affirmative answer to this question. Notice that the evolution of the various indicators is not driven by the extreme behavior of Argentina. We obtain similar results even after dropping Argentina from the sample. For instance, support for privatization would go from 52 percent (in 1998) to 26 percent (in 2003).

drop in support for privatization was general. As Figure 1 shows, in ten out of sixteen countries in 1998, more than 50 percent of survey respondents supported privatization. In 2003, there was no country in which a majority of the population supported privatization. Support for privatization in 2003 ranged from 37 percent (in Brazil) to just above 10 percent (in Argentina and Panama). Argentina, Bolivia, Ecuador, El Salvador, Guatemala, and Paraguay are the countries where support for privatization dropped by the largest amount.

Figure 1. Support for Privatization*



Note: *Share of respondents who think that privatizations have been beneficial for the country.

Before attempting to explain the drop in support for pro-market reforms and the market economy, it is interesting to look at the demographics of those who support and oppose reforms. We do so by running a set of regressions in which the dependent variables are the different indicators used to measure attitude toward reforms and the explanatory variables include a set of demographic and socio-economic variables that include respondents' age, sex, education, wealth, socioeconomic status and happiness/optimism (Table 2). To make the results more intuitive, regressions were estimated using a linear

Table 2. Attitude Toward Reforms by Socioeconomic Characteristics

	(1)	(2)	(3)	(4)	(5)	(6)
	LACINT	FDI	PRIVAT	MARKET	PRICES	PRIVPROD
HAPPY	12.047 (5.02)***	18.066 (2.60)**	32.227 (9.75)***	22.978 (4.55)***	15.570 (4.17)***	7.591 (1.78)*
AGE	0.085 (0.89)	0.128 (0.65)	-0.194 (2.02)*	-0.008 (0.09)	0.017 (0.15)	0.472 (3.19)***
AGE2	-0.000 (0.33)	-0.001 (0.56)	0.002 (1.59)	0.001 (0.58)	0.000 (0.37)	-0.004 (2.72)**
SEX	-1.201 (3.00)***	-5.366 (4.10)***	-1.615 (3.10)***	-1.667 (3.75)***	-3.899 (4.92)***	-4.091 (4.56)***
quintile==2	1.745 (2.34)**	3.128 (1.98)*	-1.314 (2.06)*	-1.457 (1.24)	-0.333 (0.36)	-0.612 (0.59)
quintile==3	3.256 (5.18)***	4.328 (2.59)**	-0.978 (0.97)	0.945 (0.62)	1.682 (1.83)*	0.307 (0.20)
quintile==4	3.452 (3.99)***	7.502 (3.10)***	-0.632 (0.71)	0.346 (0.26)	2.464 (2.91)**	1.574 (1.07)
quintile==5	4.023 (4.54)***	10.291 (5.64)***	2.568 (2.11)*	2.676 (1.80)*	4.810 (3.30)***	5.039 (2.62)**
EDUCA==2	1.622 (1.38)	1.651 (0.62)	-2.560 (1.88)*	2.562 (0.98)	1.971 (1.49)	-0.395 (0.19)
EDUCA==3	3.283 (2.61)**	4.896 (2.04)*	-3.529 (2.12)*	2.351 (1.17)	2.036 (1.16)	-1.427 (0.58)
EDUCA==4	4.625 (3.57)***	6.024 (2.90)**	-4.666 (2.92)**	3.392 (1.63)	2.234 (1.83)*	-1.359 (0.64)
EDUCA==5	5.295 (3.74)***	8.026 (3.63)***	-3.546 (1.92)*	3.708 (1.41)	3.116 (2.20)**	-1.920 (0.72)
EDUCA==6	7.644 (6.21)***	8.956 (3.57)***	-2.772 (1.51)	1.274 (0.48)	2.244 (1.21)	-2.201 (0.87)
EDUCA==7	7.289 (5.26)***	10.921 (4.40)***	0.526 (0.25)	2.726 (1.08)	3.343 (1.77)*	1.145 (0.47)
SOC_EC==1	1.027 (1.00)	1.598 (0.75)	-1.437 (1.08)	-0.557 (0.32)	-1.786 (1.49)	-0.006 (0.00)

Table 2. (Continued) Attitude Toward Reforms By Socioeconomic Characteristics

	(1) LACINT	(2) FDI	(3) PRIVAT	(4) MARKET	(5) PRICES	(6) PRIVPROD
SOC_EC==2	1.949 (1.54)	0.400 (0.19)	-1.437 (1.22)	1.381 (0.62)	-1.375 (1.23)	-2.004 (0.94)
SOC_EC==3	3.021 (2.11)*	-0.655 (0.22)	-0.712 (0.53)	2.295 (0.92)	-0.626 (0.47)	-1.447 (0.71)
SOC_EC==4	3.555 (1.98)*	2.571 (0.87)	2.049 (1.28)	3.191 (0.88)	1.673 (1.27)	2.366 (1.03)
Constant	69.614 (25.04)***	47.351 (7.23)***	37.726 (12.97)***	49.178 (11.45)***	58.990 (20.75)***	40.082 (7.89)***
Observations	55080	11508	60721	26207	44110	28010
R-squared	0.07	0.07	0.09	0.05	0.04	0.04

Notes: All the equations are estimated using a linear probability model and include country-year fixed effects and country-year clustered standard errors. Robust t statistics in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%. Education is proxied with 7 dummies variables: 1 indicates illiterate, 2 indicates some primary, 3 indicates completed primary, 4 indicates some secondary, 5 indicates completed secondary, 6 indicates some university, and 7 indicates completed university. Illiterate is the excluded dummy. The wealth quintiles (quintile) were built as the principal component of several indicators of asset ownership. The variable measuring happiness/optimism (HAPPY) was built as the principal component of three questions focusing on whether the respondent is satisfied with his/her life and on how he/she evaluates his/her current and future economic situation. The SEX variable takes value 0 for men and value 1 for women. More details are provided in Table A1.

probability model.⁵ All regressions include country-fixed effects and country-specific time effects, and the standard errors are clustered by country-year.

In all cases, we find that men tend to be more supportive of pro-market reforms than women. The difference ranges from one percentage point in the case of LACINT to five percentage points in the case of FDI. The estimations

⁵ Probit estimations (available upon request) yield similar results.

suggest that there is a positive correlation between happiness/optimism (as measured by the variable HAPPY) and support for reform and free markets. Quantitatively, the effect of happiness is very important. An individual who claims to be very happy (HAPPY = 1) is between 8 and 32 percentage points more likely to support reforms than an individual who claims to be very unhappy (HAPPY = 0). In the case of privatization, a one standard deviation increase in happiness (equivalent to 0.16 points in the happiness index) is associated to a 5.15 percentage point increase in support for privatization. No other respondent-specific variable has a quantitatively similar effect on support for reform.

We also find that support for economic integration (measured by LACINT and FDI) increases with wealth and education. The effect of education is particularly strong for LACINT and FDI.⁶ In the case of PRIVAT, we find that wealth is rarely statistically significant and that individuals with intermediate levels of education are strongly opposed to privatization. The coefficient of education in the PRIVAT variable is almost always negative; the only exception is for individuals who have completed university. Education is positively correlated with MARKET and PRICES and negatively correlated with PRIVPROD, but the coefficients are rarely statistically significant. Wealth, instead, is positively correlated with these variables. In particular, the regressions indicate that individuals belonging to the top quintile of the wealth distribution show a strong support for the market economy, liberalized prices, and private production.

Finally, the regressions also include a variable measuring the respondent's socio-economic status (SOC_EC measures socio-economic status as judged by the interviewer, a higher value indicates higher socio-economic status). This variable is never statistically significant.

⁶This is an interesting finding, because, according to standard trade theory, it is the relatively abundant factor of production (unskilled labor, in the case of Latin America) that is likely to receive the greatest benefit from economic integration. However, it bears repeating that LACINT might be a poor proxy for the public's overall attitude towards free trade. An alternative explanation is that, in the case of Latin America, skilled workers (rather than unskilled) benefited more from trade and capital account liberalization (we would like to thank an anonymous referee for pointing this out).

III. Reasons for the Discontent

The purpose of this section is to analyze possible explanations of the discontent with the reform process. While there is extensive literature studying the factors that drive the reform process and reform reversals, most of the models emphasized in this literature are based on the behavior of political parties and interest groups. To the best of our knowledge, there is no formal model to analyze a sudden opinion change among the majority of a country's residents. Therefore, rather than basing our analysis on a formal model, we list a series of hypotheses which are often put forward in policy circles and analyze whether any of these hypotheses can explain the trends documented in the previous section. In particular, we analyze four possible explanations: (i) an overall movement of the population's politics to the left; (ii) an increase in political activism among reform opponents; (iii) a decline in the public's trust of political actors; and (iv) the economic crisis.

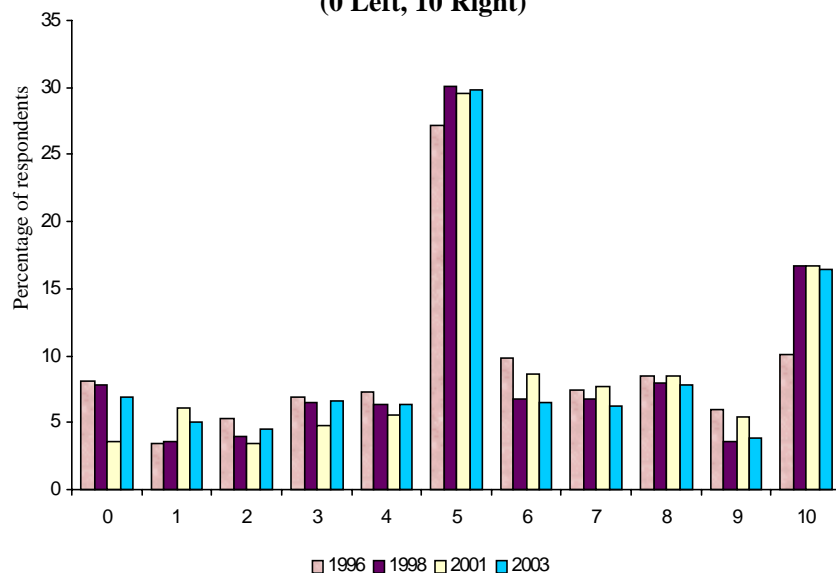
A. Have Latin Americans Moved to the Left?

One possible cause for the decrease in support for pro-market reforms might be a general movement of the Latin American population toward the political left. This could be part of a global trend generated by the end of the Reagan-Thatcher era and the beginning of a worldwide movement toward the left following, with a lag, the leadership of Bill Clinton and Tony Blair.

Latinobarómetro permits the investigation of this hypothesis because it includes a question about the respondents' political orientation. The question asks: "On a scale of 0 to 10, how right wing are you?" with 0 being the farthest left and 10 the farthest right. Figure 2 shows the average values for all Latin American countries included in *Latinobarómetro* for 1996, 1998, 2001, and 2003. Each bar presents the share of respondents that declared themselves in a given position on the political scale in a given year. The data suggest that there has been no net change in political orientation which, if anything, shows a small movement to the right.

If we focus on the behavior of extremists (left-wing extremists are defined as those that chose values 0 or 1, and right-wing extremists are defined as those who chose 9 or 10), we find that most Central American and Andean

**Figure 2. Political Orientation in Latin America
(0 Left, 10 Right)**



countries are characterized by a large share of right-wing extremists. Nicaragua, Panama, Venezuela, and Brazil are the most polarized countries, with a significant segment of the population defining themselves as either right-wing or left-wing extremist.⁷ At the same time, Argentina, Bolivia, and Chile are the countries with the smallest share of extremists. While these cross-country differences could be due to the fact that the definition of being right-wing is country-specific,⁸ what is most important for our purposes is the relative stability of political opinion, which provides prima facie evidence that Latin Americans have not moved toward the political left.

To further probe the hypothesis that changes in political attitude drive changes in attitudes for economic reforms, we augment the regressions of Table 2 with a variable that measures political orientation (Table 3). To this purpose, we generated four dummies measuring political orientation. The

⁷ Detailed results are available upon request.

⁸ Alesina and Glaeser (2004) discuss the reasons behind Europeans and Americans' differing attitudes towards redistribution. Their work suggests that individuals who classify themselves as liberal (i.e., left wing) in the U.S. have views on redistribution that would classify them as centrist in most European countries.

first (LEFT) takes value one for left-wing extremists (i.e. those who answered 0 or 1); the second (CENLEFT) takes value one for those who are left-center (answered 2, 3, or 4); the third (CENRIGHT) takes value one for those who are right-center (answered 6, 7, or 8); and the fourth (RIGHT) takes value one for right-wing extremists (answered 9 or 10). CENTER is the excluded

Table 3. Attitude Toward Reforms By Socioeconomic Characteristics and Political Preferences

	(1)	(2)	(3)	(4)	(5)	(6)
	LACINT	FDI	PRIVAT	MARKET	PRICES	PRIVPROD
LEFT	-3.825 (2.51)**	-2.790 (2.05)*	-3.915 (1.69)	-3.653 (2.09)*	-4.748 (3.10)***	-3.994 (1.63)
CEN_LEFT	-1.217 (1.44)	-3.867 (2.60)**	-2.663 (1.31)	-4.101 (2.57)**	-1.725 (1.11)	-1.263 (0.54)
CEN_RIGHT	-0.467 (0.78)	1.034 (0.72)	5.061 (2.57)**	3.538 (3.15)***	3.304 (3.05)***	3.737 (1.33)
RIGHT	-1.879 (2.02)*	-3.701 (2.23)**	2.477 (1.07)	2.149 (1.38)	-0.002 (0.00)	-3.584 (1.20)
CL_EL	3.693 (2.98)***	6.895 (3.43)***	5.200 (3.09)***	2.991 (2.38)**	4.277 (3.40)***	3.373 (1.43)
CONN	0.803 (1.63)	-0.065 (0.09)	0.233 (0.31)	1.581 (3.58)***	1.013 (1.36)	3.575 (3.09)***
CORR	3.892 (3.41)***	3.282 (2.52)**	-1.853 (1.07)	0.560 (0.46)	-1.863 (2.46)**	-3.033 (2.40)**
Constant	65.933 (16.23)***	34.269 (4.64)***	8.428 (1.24)	44.335 (8.71)***	55.448 (10.34)***	46.529 (4.49)***
Observations	19,046	8,145	20,512	19,381	20,294	8,257
R-squared	0.05	0.08	0.09	0.05	0.05	0.05

Notes: All the equations are estimated using a linear probability model and include country-year fixed effects and country-year clustered standard errors. The regressions also include all the controls included in Table 2. The coefficients of these variables are not reported to save space. Robust t statistics in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%.

dummy and is the variable against which the coefficient of the previous variables should be compared.⁹

Column 1 shows that support for Latin American integration reaches a maximum at the center of the political spectrum. Columns 2, 3, 4, and 5 show that in the cases of FDI, PRIVAT, MARKET, and PRICES, support is maximized among center-right individuals. In all cases individuals on the left support reforms less than individuals in the center of the political spectrum (the coefficient for LEFT is always negative and is statistically significant in 4 out of 6 regressions).

To quantify the possible impact of political preference on support for reforms, consider column 3 of Table 3 and assume that in the initial period, 100 percent of the population belongs to the center right group and in the final period, 100 percent of the population belongs to the extreme left. Such a massive and clearly unrealistic switch in political preferences could explain a 9 percentage point drop in support for privatization, or about one-third of the observed drop. While this is a sizable shift in support for privatization, we were able to obtain such a number only by making a very strong assumption about the switch in political preferences. However, we have already documented that, in the period under observation, there was no switch in political orientation and clearly no movement toward the left. This leads us to conclude that there is no evidence to link the dissatisfaction with reforms to a change in political orientation among the population.

The regressions of Table 3 also control for three variables that test whether the respondent feels that: (i) elections are clean (CL_EL); (ii) success in life is due to hard work rather than connections (CONN); and (iii) corruption is an important problem (CORR). We find a positive correlation between the perceived fairness of the political system and support for reform. Those who think that elections are clean are between 3 and 7 percentage points more likely to be in favor of economic integration, privatization and the free market. This is an important finding because it may mean that a clean and well-functioning democratic system could make the reform process more

⁹A previous version of the paper included 10 dummies measuring all possible answers to the question, "How right wing are you?" A referee suggested that reducing the number of dummies would increase the readability of the results.

sustainable. This finding is not surprising, there is a long literature going back to the work of Douglass North that has emphasized the link between the quality of institutions and economic growth (recent empirical tests of this hypothesis include Knack and Keefer, 1995; Acemoglu et al., 2000; and Rodrik et al., 2002; for a contrarian view, see Glaeser et al., 2004).¹⁰ We also find that those who think that hard work is more important than connections tend to be more supportive of free market and private production. However, this variable is not statistically significant in the equations for LACINT, FDI, PRIVAT, and PRICES.

Interestingly, we find that those who regard corruption as a serious problem are more supportive of economic openness (they support economic integration and think that FDI is beneficial for the country) and less supportive of price liberalization and private production (they are also less supportive of privatization, but the coefficient is not statistically significant). One possible interpretation for the first result (positive correlation between perception of corruption and economic openness) is that survey respondents may believe that increasing openness will help reduce corruption. This is in line with the findings of Ades and Di Tella (1999).¹¹ A possible interpretation for the second result (negative correlation between perception of corruption and support for liberalized prices, private production, and privatization) is that those who believe corruption is a serious problem may be more skeptical of free markets because they suspect powerful interest groups would capture all the benefits of economic liberalization.

There is also the possibility that, in the respondent's mind, the perception of corruption proxies for some other factor. For instance, Di Tella and MacCulloch (2004) suggest that those who express typically left-wing positions also tend to report more corruption. A possible interpretation of this finding is that respondents might confuse corruption with what they deem to be social injustice. If this were the case, the answer to the corruption question might

¹⁰ However, this could also mean that those who benefit from reforms are the same as those who benefit from an electoral system that does not work well, but that, in their opinion, is fair and clean.

¹¹ Clearly, this is no more than one possible interpretation, which we are unable to test formally.

proxy for individual political orientation. However, because the regressions control for political orientation, we believe that the correlation between perception of corruption and support for market reforms is additional to the correlation between political orientation and support for reforms.

B. Those Who Oppose Reforms Have Become More Vocal

Another possible explanation for the rejection of reforms could be that, following the worldwide resonance of anti-globalization protests during the Seattle WTO meetings and events like the World Social Forum, opponents of pro-market reforms have promoted their cause more vocally and effectively. This hypothesis would require: (i) a correlation between support (or opposition to) for reform and participation in political or protest activities, and (ii) a change in the level of participation in political or protest activities.

We start by checking for differences in political participation between supporters of and opponents of reforms. We find that those who support reforms are more interested in politics than those who oppose reforms (but the correlation is rather weak). Next, we check whether interest in politics has changed during the period under observation and find no evidence in support of this hypothesis. In particular, we find that interest in politics has remained constant over the 1996-2003 period.

Next, we move beyond pure interest in politics and build an index of support for violent political activities.¹² We find that those who oppose reforms are between 1 and 2.5 percentage points (corresponding to a 10 percent difference) more likely to support violent political activities.¹³ While this finding lends support to the idea that reform opponents tend to “make more noise,” we find no evidence that support for violent political activities has increased over time. Therefore, the correlation between support for violent political activities and opposition to reforms cannot explain the current rejection of reforms.

¹² The index ranges from 0 to 1 and is built as the principal component of a set of questions that ask whether the individual has ever participated or would participate in violent demonstrations, occupations, lootings, etc.

¹³ Results available upon request.

C. Trust in Public Institutions and Political Parties Has Declined

Another possible explanation for Latin American discontent toward reforms is a decline in trust of political parties and/or the elites that promoted the reform process. Economic development scholars reckon that political parties may be important in the reform process because of their programmatic orientation and because they may facilitate the process of aggregating disparate views in order to arrive at compromises that allow for the adoption of reforms (Boix and Posner, 1998; Corrales, 2002; and Graham et al., 1999). Moreover, political parties may also play an important role in the sustainability of reforms because they can shield the reforms from interest group pressures. Reforms are therefore more susceptible to losing the support of public opinion in countries where confidence in political parties is low.

Of course, if we were to find any support for this hypothesis, then we would have the difficult task of explaining why trust in political parties has decreased over time. It is nonetheless interesting to look at whether there is a relationship between support for reforms and trust in political parties. We measure trust in and identification with political parties by using two different variables. The first, CONFIPP (available for 1996, 1997, 1998, 2000, 2001, and 2003) measures the level of trust in political parties, taking a value of 4 if the respondent has a great deal of trust in political parties and 1 if the respondent does not trust political parties. The second, IDENTPP (available for 1996, 1997, and 2003) measures respondents' identification with political parties, with values ranging from 1 if the respondent feels little or no identification with political parties to 4 if the respondent feels very identified with political parties.

The first two columns of Table 4 summarize the data and show a small decline in trust in political parties and identification with political parties. The first four columns of Table 5 show that there is a strong and positive correlation between support for reforms and trust in political parties.¹⁴ The results indicate that an individual who fully trusts political parties is 1.4

¹⁴ In Table 5 we include one trust or confidence variable at a time to give these variables the maximum chance to explain the phenomenon at hand. We do not report regressions using IDENTPP and TR_CON because the results are even less significant.

Table 4. Trust in Political Parties, the Congress, and the President

	CONFIPP ^a	IDENTPP ^a	TR_CON ^b	TR_PRES ^b
1996	1.87	1.66	2.96	2.96
1997	2.04	1.75	2.78	2.70
1998	1.84	---	2.98	2.77
2000	1.77	---	3.01	2.75
2001	1.78	---	3.08	2.96
2003	1.50	1.55	3.32	3.01

Notes: ^a a higher value means more trust; ^b a higher value means less trust.

percentage points more likely to support a market economy than an individual who does not trust political parties (and 5 percentage points more likely to support privatization). However, when we multiply the coefficient obtained in column 4 (5.07) with the maximum change in trust of political parties (2.04 - 1.50 = 0.54), we obtain a value of 2.7 percentage points. This indicates that changes in support for political parties can only explain a minuscule share of the change in support for privatization (which dropped by almost 30 percentage points).

The last two columns of Table 4 look at the evolution of trust in the national congress (TR_CON) and the president (TR_PRES). As in the case of support for political parties, we find that support for the president and the congress has declined slightly, but not by an amount sufficient to explain fully the decline in support of reforms. The last four columns of Table 5 show that those who trust the president tend to be more supportive of the market economy. However, even if we focus on the regression with the highest coefficient (column 8, -6.03) and multiply this coefficient with the largest observed change in support for the president (0.31, from 1997 to 2003), we obtain 1.9. This implies that change in support for the president can explain a 2 percent drop in support for the privatization. Again, this indicates that the fact that people who trust the president tend to be more supportive of reforms does not help to explain the discontentment with those reforms.

Table 5. Confidence, Identification with Political Parties and Support for Reforms

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	LACINT	MARKET	PRICES	PRIVAT	LACINT	MARKET	PRICES	PRIVAT
CONFIPP	1.255 (3.03) ^{***}	1.363 (2.51) ^{**}	1.966 (4.36) ^{***}	5.073 (9.48) ^{***}				
TR_PRES					-2.750 (5.64) ^{***}	-4.268 (5.30) ^{**}	-3.060 (5.65) ^{***}	-6.036 (8.06) ^{***}
Constant	74.617 (31.73) ^{***}	62.172 (17.35) ^{***}	76.643 (29.64) ^{***}	17.417 (9.42) ^{***}	85.358 (32.51) ^{***}	74.969 (17.65) ^{***}	90.268 (26.09) ^{***}	38.191 (13.76) ^{***}
Obs.	53,813	25,519	43,115	59,507	54,007	25,625	43,274	59,667
R-squared	0.07	0.04	0.04	0.09	0.07	0.05	0.05	0.10

Notes: All the equations are estimated using a linear probability model and include country-year fixed effects and country-year clustered standard errors. The regressions also include all the controls in Table 2. The coefficients of these variables are not reported to save space. Robust t statistics in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%.

D. Is it the Economy?

The final possible explanation can be summarized by the famous slogan: “It’s the economy, stupid!”

Table 6 shows the recent behavior of four macroeconomic variables: (i) the output gap (computed as the log deviation of actual GDP from trend GDP);¹⁵ (ii) the unemployment rate; (iii) adjusted inflation (computed as $1 - \frac{1}{1 + inflation}$); and (iv) the depth of economic crisis (obtained by multiplying the output gap by minus one and setting economic expansion equal to zero). Table 6 shows that the macroeconomic situation deteriorated on all fronts with the exception of inflation. The output gap went from positive to negative in 2002 (Argentina, with an output gap of around -14 percent, played an important role in determining this outcome), average unemployment increased by 3 percentage points, and economic crises became deeper and more prevalent.

Table 7 looks at how macroeconomic variables affect opinion toward reforms. Our main focus is on the relationship between macroeconomic

Table 6. Macroeconomic Variables

	GDP GAP		Unemployment		Inflation		Depth of crisis	
	Average	SD	Average	SD	Average	SD	Average	SD
1994	2.04	1.99	7.49	2.68	0.27	0.27	0.07	0.17
1995	1.21	2.99	8.62	3.98	0.17	0.11	0.70	1.62
1996	1.37	2.42	9.64	4.10	0.15	0.11	0.46	1.08
1997	3.16	2.76	8.97	3.60	0.12	0.09	0.14	0.43
1999	0.37	3.27	10.38	4.45	0.08	0.09	1.26	1.84
2000	0.44	2.59	10.02	4.64	0.09	0.11	0.83	1.44
2002	-3.35	5.04	10.76	4.25	0.07	0.06	3.90	4.27

¹⁵ Trend GDP is calculated by applying a Hodrick-Prescott filter to real GDP (in local currency) for the 1980-2002 period.

variables and support for privatization, but we also test whether our results are robust to using support for the market economy. The choice of PRIVAT as our main dependent variable seems natural because this is the variable that best maps one specific aspect of structural reforms. MARKET is also an interesting variable because it measures the general attitude toward the market economy and hence captures the ultimate objective of the Washington Consensus reforms. We do not use FDI because it does not have time variation and do not use LACINT because, as mentioned in section II, this is a very imprecise measure of support for free trade.¹⁶

Besides the standard set of control variables used in Table 2 (except education; including education does not affect the results), we now include three of the macroeconomic variables of Table 6 lagged one year.¹⁷ Most coefficients are statistically significant and have the expected sign (positive for output gap and negative for other variables). Inflation enters the regression with a positive sign (statistically significant when unemployment, inflation and output gap are entered in the same regression). We do not have any clear explanation for this result but it is worth mentioning that there is no clear link between pro-market reforms and inflation and hence we do not have a prior on the correlation between inflation and support for reform.

Interestingly, unemployment is not statistically significant when all the macro variables are entered in the same regression.¹⁸ Besides being statistically significant, our results suggest that macroeconomic variables play an important

¹⁶ Results for PRICES and PRIVPROD are not reported for conciseness. They are similar (although weaker) to those for PRIVAT and MARKET.

¹⁷ Depth of crisis yields results similar to unemployment. We use lagged values because the *Latinobarómetro* surveys are collected in the middle of the year and the macroeconomic variables measure yearly flows or averages. For example, in order to explain support for reforms in June 2001 we think that it is more appropriate to use GDP growth over the January 2000-January 2001 period rather than GDP growth over the January 2001-January 2002 period. All the regressions are estimated using country fixed effects and by clustering the standard errors in order to control for the fact that macroeconomic variables have no within country-year variation.

¹⁸ One possible explanation for this could be the fact that official unemployment rates do not provide a clear indication of the problem in countries characterized by large informal sectors.

Table 7. Macroeconomic Factors and Support for Reforms

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	PRIVAT	PRIVAT	PRIVAT	PRIVAT	MARKET	MARKET	MARKET	MARKET
AGE	-0.000 (0.82)	-0.000 (0.57)	-0.000 (0.80)	-0.000 (0.52)	0.000 (1.19)	0.000 (1.31)	0.000 (1.19)	0.000 (1.31)
SEX	-0.014 (2.57)**	-0.015 (2.61)***	-0.014 (2.57)**	-0.015 (2.60)***	-0.011 (2.14)**	-0.011 (1.97)**	-0.011 (2.18)**	-0.011 (1.98)**
quintile==2	-0.018 (2.23)**	-0.011 (1.59)	-0.018 (2.21)**	-0.010 (1.54)	-0.011 (0.96)	-0.004 (0.37)	-0.010 (0.92)	-0.004 (0.36)
quintile==3	-0.014 (1.41)	-0.006 (0.66)	-0.016 (1.56)	-0.004 (0.45)	0.018 (1.24)	0.023 (1.55)	0.018 (1.26)	0.024 (1.59)
quintile==4	-0.004 (0.40)	0.006 (0.71)	-0.005 (0.47)	0.007 (0.84)	0.016 (1.30)	0.024 (1.86)*	0.017 (1.31)	0.024 (1.87)*
quintile==5	0.041 (2.69)***	0.052 (3.71)***	0.038 (2.55)**	0.055 (4.07)***	0.035 (2.16)**	0.044 (2.49)**	0.036 (2.19)**	0.044 (2.52)**
HAPPY	0.396 (8.02)***	0.378 (6.64)***	0.414 (8.16)***	0.361 (7.02)***	0.212 (4.03)***	0.230 (3.93)***	0.223 (4.45)***	0.235 (4.08)***
Output gap	0.011 (4.89)***			0.013 (2.63)***	0.008 (2.14)**			-0.002 (0.27)

Table 7. (Continued) Macroeconomic Factors and Support for Reforms

	(1) PRIVAT	(2) PRIVAT	(3) PRIVAT	(4) PRIVAT	(5) MARKET	(6) MARKET	(7) MARKET	(8) MARKET
Unemployment		-0.020 (2.72)***		0.001 (0.08)		-0.014 (2.96)***		-0.015 (1.57)
Inflation			0.370 (1.24)	0.536 (3.85)***			0.669 (1.62)	0.389 (1.31)
Constant	0.170 (4.90)***	0.375 (4.13)***	0.129 (2.73)***	0.119 (0.88)	0.576 (16.44)***	0.702 (11.57)***	0.515 (9.45)***	0.670 (5.18)***
Observations	64,986	57,927	64,986	57,927	30,395	26,795	30,395	26,795
R-squared	0.06	0.05	0.05	0.06	0.04	0.04	0.04	0.04

Notes: All the equations are estimated using a linear probability model and include country fixed effects and country-year clustered standard errors. Robust t statistics in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%.

role in explaining attitude towards reforms. Let us look, for instance, at the relationship between the output gap and the support for privatization (which, during the 1998-2003 period, went from 52 to 25 percent). Average output gap was 3 percent in 1997 and -3 percent in 2002 (a change of 6 percentage points). By multiplying 6 by the estimated coefficient (0.011), we obtain 0.066 (6.6 percent), which is close to one-third of the total drop in support for reforms.

The case of Argentina is a striking example of the importance of macroeconomic factors. In Argentina, the output gap went from 7 percent in 1997 to -14 percent in 2002. By itself, this explains a drop in support for privatization equivalent to 23 percentage points, which is about 80 percent of the observed drop in support for privatization in Argentina (which fell from 45 to 13 percent). While Argentina fits our story perfectly, it is important to point out that the results of Table 7 are not driven by the behavior of Argentina. If we re-estimate the equations of Table 7 by either dropping all observations for Argentina or by just dropping Argentina for 2003, we obtain identical results.

Our findings contrast slightly with those of Pernice and Sturzenegger (2003). Although they find that high unemployment was a reason for the decline in support for pro-market reforms (a finding that is consistent with our thesis that the rejection of reforms was linked to a decrease in the level of economic security), they find that support for reforms was already declining while growth was still high. A possible explanation for this finding is that income distribution did not improve during the period of high economic growth (it actually deteriorated, see Cabrol et al., 2003), and that for some Argentinians the economic boom was accompanied by an increase of economic insecurity (this is consistent with the high level of the unemployment rate). In fact, Gasparini and Sosa Escudero (2001) find that there is a class of welfare functions that indicate that in Argentina social welfare deteriorated over the 1994-1998 period.

IV. Conclusions

In this paper, we use data from opinion polls to document discontent with pro-market reforms among Latin Americans and explore four possible explanations for this discontent. We find support for the simplest and most

intuitive explanation: the backlash against reforms is mostly explained by the recent collapse in economic activity. There are several possible interpretations of our result.

A first interpretation is that what matters is the difference between expectations and actual outcome. Policymakers may have made the mistake of overselling the reforms by promising too much, and the disillusionment with reforms documented in this paper could be due to unmet expectations. While we have no way to control for the role of expectations, a recent study shows that rejection of pro-market reforms is also prevalent in some fast-growing Eastern European countries and argues that this rejection might be due to excessive expectations.¹⁹ If we project this situation onto Latin America, it is easy to understand the strong rejection of reforms once the economic indicators turned out to be negative, rather than less positive than expected.

A second interpretation has to do with the fact that the current economic crisis happened after a period of intense reforms (Lora and Panizza, 2003) and those who now oppose reforms might believe that there is a causal relationship between the reform process and the economic crisis. If this were the case, the finding that rejection of reforms is due primarily to poor economic outcomes carries a number of different implications, depending on the causes of the recent economic crisis. If the crisis were indeed due to the fact that the reform process increased volatility and contributed to economic instability (as some reform opponents think), then those who oppose reforms are right and the change in opinion registered by the survey is a healthy phenomenon, in which citizens rejected something that did not work. However, if the crisis were mostly due to external shocks and international contagion (Calvo, 2002), then those who oppose reforms would make the mistake of giving a causal interpretation to a spurious correlation. There is, in fact, some evidence that this may be the case. Birdsall and de la Torre (2001) suggest that, while not fully successful, the process of structural reforms played a positive role in limiting the damaging effect of the large external shock that hit Latin America in the late 1990s.

A final interpretation has to do with the perceived fairness of the capitalist system. Di Tella and MacCulloch (2004) find that residents of poor countries tend to be less pro-market than residents of industrial countries and argue

¹⁹ See *The Economist*, "Never Had It So Good," September 11, 2003.

that this is due to the presence of widespread corruption that reduces the perceived fairness of the capitalist system. If one assumes that the economic crisis amplified the anti-capitalist bias that characterizes most developing countries, then our results are fully in line with the findings of Di Tella and MacCulloch (2004).²⁰

Appendix

Table A1. Definitions of Variables

Variable	Question	Scale
PRIVAT	Has the privatization of public sector companies been beneficial for the country?	1 = agree 0 = disagree
MARKET	Are you satisfied, more than satisfied, not very satisfied or unsatisfied with the functioning of the market economy?	1 = satisfied 0 = not satisfied
PRICES	Should the free market determine the price of products?	1 = yes 0 = no
PRIVPROD	Should the state leave productive activities to the private sector?	1 = yes 0 = no
LACINT	Are you in favor or opposed to the economic integration of the Latin American countries?	1 = favor 0 = oppose
FDI	Do you think that FDI is, in general, beneficial or harmful for the country's economic development?	1 = beneficial 0 = harmful
IDENTPP	How do you feel about political parties: very close, quite close, only sympathetic, not close to any political party?	1 = not close 2 = only sympathetic 3 = quite close 4 = very close

²⁰ However, while we find that those who think that corruption is a serious problem tend to be more critical of pro-market reforms, we do not find any evidence for the idea that perception of corruption has increased during the economic crisis.

Table A1. (Continued) Definitions of Variables

Variable	Question	Scale
CONFIPP	How much confidence do you have in each of these institutions: church, police, television, political parties, judiciary system, national congress and armed forces?	1 = none 2 = few 3 = some 4 = a lot
TR_CON	Would you say you have a lot, some, few or no confidence in the National Congress/Parliament?	1 = a lot 2 = some 3 = few 4 = none
TR_PRES	Would you say you have a lot, some, few or no confidence in the President?	1 = a lot 2 = some 3 = few 4 = none
RIGHTWING	On a political scale, where 0 is left and 10 is right, where would you be located?	0 = left 10 = right
CORR	Thinking about the problem of corruption today, would you say it's a very serious, serious, not very serious or not serious problem?	1 = very serious 0 = not serious
CONN	Do you think that connections are more important than hard work?	2 = definitely, 1 = yes, 0 = no
CL_EL	In general, do you think that elections in this country are clean or fraudulent?	1 = clean 0 = fraudulent
HAPPY	HAPPY was created as the principal component of three questions: In general, would you say you are satisfied with your life? 1 = very satisfied, 4 = not satisfied; how would you, in general, qualify your and your family's present economic situation? 1 = very good 5 = very bad; in the next 12 months, do you think that your and your family's economic situation will be much better, better, the same, worse or much worse? 1 = much better, 5 = much worse.	1 = happy 0 = unhappy

Table A2. Correlation Matrix

	LACINT	FDI	PRIVAT	MARKET	PRICES	PRIVPRO	IDENTPP	CONFIPP
LACINT	1							
FDI	0.1893 (0.00)	1						
PRIVAT	0.0500 (0.00)	0.1386 (0.00)	1					
MARKET	0.0881 (0.00)	0.1515 (0.00)	0.2655 (0.00)	1				
PRICES	0.0621 (0.00)	0.0768 (0.00)	0.2267 (0.00)	0.3727 (0.00)	1			
PRIVPROD	0.0516 (0.00)	0.1342 (0.00)	0.3067 (0.00)	0.1868 (0.00)	0.2733 (0.00)	1		
IDENTPP	0.0228 (0.00)	N/A ---	0.0342 (0.00)	N/A ---	N/A ---	N/A ---	1	
CONFIPP	0.0186 (0.00)	0.0036 (0.66)	0.1185 (0.00)	0.0181 (0.00)	0.0281 (0.00)	0.0398 (0.00)	0.2607 (0.00)	1

Note: p-values in parentheses.

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