

Democracy and Economic Policy: Elective Affinities and Circumstantial Conjunctures

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Summary. — The paper first reviews four alternative theoretical standpoints on the relationship between democracy and markets. None are unambiguously confirmed by experience, although the collapse of communism tends to disconfirm the fourth.

Second, therefore, the paper seeks to disaggregate the categories — in particular it distinguishes between a variety of economic policy tasks that arise in different historical settings. It also distinguishes between variants of democracy and of authoritarianism. This procedure clarifies the contrasts between, for example, Japanese, and German and US versions of market democracy.

Finally, such contrasting experiences highlight the significance of uncertainty and contingency, and therefore also choice, and even leadership. But such discretionality will be confined within well-defined patterns of structural constraints.

1. INTRODUCTION

The relationship between form and content is a classic theme of both literature and politics. It is through the forms of political institutions that all policy contents must pass. We are thus led to wonder how one may influence the other: how the substance of policy shapes the institutional forms which adopt and administer it, and how the institutional forms themselves shape the adoption and implementation of policy.

The link between democracy and markets is a massive subset of this form/content problem. Recent events have renewed old debates and brought out new ones: the collapse of the Soviet model, arguments over the proper strategy for the new transition problem (from communism to capitalism), rapid growth in East Asia including communist China, economic liberalization processes in Latin America, changes in political regimes around the world — here we have dramatic cases to explore, situations where the debates over policy are inextricably intertwined with debates over institutions of politics and markets. Does economic growth require democracy (in order to prevent rent-seeking by those who control the state), or on the contrary, is democracy a threat to solid economic policy (because of populist raids on efficiency)? Is authoritarianism inimical to economic efficiency (because of the aforementioned rent-seeking), or

is it, on the contrary, able to defend efficiency from populist attacks?

These questions can be explored in the following manner. First we can follow a deductive approach, to see whether the theories of markets and democracy each have requirements for the other. Second, we can be inductive, to see what historical and contemporary conjunctures have wrought in these relationships. These two steps will permit a third, an evaluation of the constraints and freedoms allowed to contemporary policy makers.

2. DEMOCRACY AND MARKETS: THE DEDUCTIVE APPROACH

Is there any “necessary” connection between political institutions and economic institutions — in this case, between democracy and markets? By necessary one means a logical connection between the two, either positive (that they need each other) or negative (that they conflict with

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each other). On this question, theorists disagree.¹

We may explore four possible relationships among these two variables: markets require democracy; markets require authoritarianism; democracy requires markets; democracy requires centralized planning and public ownership. Each pairing has a theory to explain the mechanism of causality.

(a) *Theory one: Markets require democracy*

Markets involve competition among independent units. Separate decision makers need the freedom to make their own evaluation of costs. Political power can interfere with the allocative efficiency of markets. Concentrated political power provides office holders with irresistible temptations of rent-seeking or the distortion of market mechanisms for other purposes, such as glory, social leveling, or foreign adventures. Constitutional government provides stronger protection against arbitrary power than does authoritarian government. It does so through regularized procedures, the rule of law and the dispersal of power among competitors. Democracy reinforces constitutional procedures.

(b) *Theory two: Markets require authoritarianism*

Markets work best when no forces constrain competition. Politics threaten competition by using state power to apply criteria other than market determined efficiency. Democracies are vulnerable to populist pressures which distort markets through taxes and regulations: welfare and transfer payments, labor power in factories, inspections, pork barrel and the like. The stronger versions of these theories speak openly of the need to contain labor demands in order to allow capital accumulation. The weaker ones worry about distortion.

Note that both theories one and two seek to shield markets from political and other interference. They differ in the source of the threat and the solution: for theory one, the threat comes from arbitrary rulers and the solution lies in the institutional procedures of democratic constitutionalism; for theory two, the threat comes from democratic pressures and the solution lies in insulating rulers from such pressure. Institutional solutions are thus prescribed by each theory to solve an expected attack on good policy.

(c) *Theory three: Democracy requires markets*

Democracy can function only if society has plural centers of power. As markets require competition, so does democracy. If all forms of power are concentrated, political competition is impossible. Economic power includes media, transportation, publications and other vehicles crucial to effective political organization. If the economy is highly concentrated, or in the hands of a single power, political competition becomes impossible. Thus the logic of competitive politics makes necessary the existence of competitive markets.

(d) *Theory four: Democracy requires centralized planning and public ownership*

Democracy does indeed require the dispersal of power. Private control of the economy leads, argue some theorists, to high concentrations of power, as the owners of capital have far greater resources for political action than do other branches of the economy. The policy is thus run for the interests of these few, at the cost of the rest. Only democratization of the economy through public ownership can lead to democratization of the polity. Moreover, for some, public ownership also requires central planning.

Note that theories three and four agree that democracy requires the dispersal of power among plural centers. They disagree on what it takes to achieve dispersal: widespread private ownership and effective markets for theory three, public ownership and planning for theory four.

3. PRACTICE AND THEORY IN DEMOCRACY AND MARKETS

So rich is human capability, we find examples which both confirm and disconfirm all the theories.

(a) *Theory one: Markets require democracies*

The strong version of this statement is surely disconfirmed. Many authoritarian regimes run very dynamic market economies. From the late 1980s on the China of Deng Tiao Ping ranked among the world's most dynamic economies. So were the economies of Taiwan, South Korea, and Singapore during periods of decidedly nonconstitutional and nondemocratic political forms. Japan, Germany and many other countries have

experienced rapid growth during non constitutionalist periods.

Conversely, it seems surely confirmed that extreme authoritarianism in politics is inimical to efficient economic performance. The massive intrusion of politics into economic life under Stalin and Mao suffocated independent action. Certain goals could be attained when resources were poured into them (massive investment projects such as dams or steel mills). But when incentives disappeared, these economies stagnated badly.

Some relaxation of central control is needed for markets. The party or central authorities must allow a degree of local autonomy, in order to create a market. But "some degree" may be very far from constitutional democracy. It is possible to restrict political freedom quite severely and still allow considerable scope for independent economic action.

On this point, we are at present experiencing a global analytic battle with momentous policy implications. This involves the opposing prescriptions for the liberalization of highly planned economies: on one side, the "big bang" approach being urged upon and used in Eastern Europe and the former USSR; on the other side, incremental experimentation being used by China, and more loosely, by some other East Asian countries in earlier periods. The "big bang" theory argues that the former planned economies must simultaneously adopt complete marketization of the economy and political democracy. Democratization destroys the power of the old *nomenklatura* able to bloc real reform. Rapid market reform (both price liberalization and property privatization) is the only way to achieve efficiency without waste and delay.²

The gradualist approach argues that substantial economic improvement can be attained by proceeding piecemeal and without political liberalization. The efficiency comes from incremental learning. Indeed, as my UCSD colleagues argue, there is an important theoretical base to this: so complex is the economy, that assessing prices accurately has to be disaggregated and carried out incrementally. The big bang approach has impossible information requirements. You need to know everything about prices right away. If it were possible to do that, then planning would be possible! The information requirements of big bang are similar to the information requirements of planning, and thus the complaints about the latter apply as well to the former.³ The Chinese rulers counseled the Soviets to put economic reform first. They allowed very limited political liberalization: enough to allow farmers the ability to plan their household economies without politi-

cal dictates, to have prices float in some products, to permit local leaders some leeway in planning public expenditures, and to insulate manager/owners from political direction of their economic enterprises. Thus they put at least some limits on the role of politics in markets.

But politically they have been resolutely against pluralist, constitutionalist politics. The monopoly of the party has been preserved. Dissent is sharply contained. In addition, the economy continues to thrive. The link between political and economic liberalization was sorely tested with Tien An Mien. Would the Chinese leadership be so threatened by the political challenge that it would see the economic reform process as too menacing? So far, the Chinese Communist leadership has maintained the division between political control and economic reform.

Other examples from East Asia confirm this separability. Economic take-off occurred under authoritarian political forms in South Korea, Taiwan, and Singapore. In those countries, leaders pursued strong developmentally oriented strategies, inhibiting consumption, limiting labor costs, rewarding savings and investment, encouraging exports. These governments rewarded the learning of manufacturing for world markets. Concentrated political power was used to enforce growth promoting policies and to block pressure for the use of that power for other purposes.⁴

(b) *Theory two: Markets require authoritarianism*

The preceding discussion may tempt a conclusion not only that efficient markets do not require democracy, but that the contrary is affirmed, that markets do best under authoritarian regimes. The developmental bureaucratic authoritarianisms of East Asia revitalize this concept (which, began as a contemplation of the Latin American experience). In the Latin American case, it was developed to account for the political requirements of import substitution. In the East Asian case it is used to handle export substitution.

There are plenty of examples from around the world to prevent this conclusion. The rubric authoritarian contains many, many predatory regimes, certainly more than there are developmental authoritarian ones. Marcos in the Philippines, the military rulers of Burma, Somoza in Nicaragua, Amin in Uganda — the world abounds with examples of predatory regimes, squeezing economies for the benefits of a narrow elite, killing the goose rather than feeding it to

grow bigger eggs. Unlike the Soviet models (North Korea, North Vietnam, Cuba), the predatory regimes allow some decentralization of economic life through private property and markets. But the level of intervention is quite high. It is used to extract rents. Authoritarianism prevents protest, challenge, and diffusion, and limits to the predatory behavior.

Indeed, in many theoretical traditions, the predatory regimes are easier to explain. Choice theory generally assumes narrow maximization of interests. Most leaders have short discount rates; they enrich themselves, not their countries. Rent-seeking is expected. Just why and under what conditions authoritarian leaders have long discount rates and work to expand the national pie is less clear. Much work is under way on just this problem. There are conditions that facilitate authoritarian growth promotion and conditions which do not, and there are causes that produce the conditions and causes which do not, and so on. Much work is being done on this and many ideas abound.⁵ The existence of both types of authoritarianism precludes a tight conclusion about the relationship between form and content concerning markets and authoritarianism.

Do democracies help or hinder economic efficiency? As with the authoritarianism variable, we can find examples of both. The constitutional democracies of Western Europe and North America provide a strong positive relationship between democratic form and efficient content. The small social democratic states of Europe provide an interesting set of examples: high levels of social spending produce both social peace and investment in human health and well-being which provide the willingness to support investment and adaptation to world market forces.⁶

Other examples push in the opposite direction. In Latin America, Europe, and, some have argued, in the US democracy has opened the economy to populist pressures, favoring short-term consumption over the cycle of savings-investment-income which make for long-term growth.

As with the authoritarianism cases, we find that democracy as a unified rubric does not tell us enough to predict policy content consequences. There are "virtuous" and "corrupt" forms of each. Much thought is being given to specifying the conditions that account for one or the other.

(c) *Theory three: Does democracy require markets?*

The cases of the Stalinist model does suggest

that some amount of economic decentralization is indeed necessary for there to be political pluralism. So long as the media, newsprint, transportation and the like were in the hands of the KGB, political competition was impossible. So long as the state could declare entrepreneurship as corruption, independent action was impossible.

But there seems still to be a lot of room for state action in the economy without destroying the foundations for political democracy. The social democracies of Europe confirm this point.

(d) *Theory four: Does democracy require public ownership and planning?*

The argument here is over the connection between resources for political action and resources in the private sector. The logic of a capitalist democracy certainly means that control of private resources translates into political leverage. This leverage can be directly on elections and lobbying (money and energy for campaigning) or indirectly on political leaders through influence on the conditions of life: the ability to strike, either by workers or investors has a great effect on the policy behavior of politicians. Mitterrand led the French Socialists away from more economic statism in the early 1980s when it was clear that this would drive away investment.

The concern to equalize political power that arises from the effects of private maldistribution of power is what gives rise to the economic democracy movement. For much of the last 150 years, that movement divided sharply into statist (who require centralization and public ownership) and participatory advocates (who want local control in factories and communities). The disasters of the Soviet model have, at least for a time, gravely weakened the statists.

4. FORM AND CONTENT IN MARKETS AND POLITICS

This confrontation of deductive arguments with specific cases requires a reformulation of the problem. Democracies and markets coexist well sometimes, badly at others; markets and authoritarianisms coexist well sometimes, badly at others. It is possible to conclude that there is no relationship. But this would lead to the implausible rejection of the notion that form and content do indeed effect each other.

Instead, we may move further into each category to seek reformulations and specifica-

tions. A concept essential to classical Greek political thought may be helpful here: the notion that for each item in a typology there exists virtuous and corrupt versions. Greek political theory posited a typology of political forms (see Table 1) based on two dimensions: the number who participated in ruling — the one, the few and the many; and on the content of their rule, for whose good. For each form by number, there was a virtuous and a corrupt version. The virtuous version of each ruled for the general welfare, the corrupt version for the partial or limited welfare.

This approach is useful for our problem for we have noted a similar phenomenon in examining markets and political forms. There are virtuous and corrupt forms of democracy and of authoritarianism; and there are virtuous and corrupt forms of markets. The possible combinations of these are too great here to work out all elements, but we can explore some of them.

The categories of Greek political theory provide also a way of thinking about a modern classic on these themes, Schumpeter's *Socialism, Capitalism and Democracy*.⁷ Writing in a period when the alternatives were posed starkly, as sharply opposing opposites allowing no intermingling, Schumpeter, like the Greeks, stressed contingency, conditionality and intermixture. Socialism and democracy are compatible under specified conditions, rather demanding ones at that. Socialism must contain constitutionalist procedures "by means of a competitive struggle for the people's vote."⁸ At the same time, the civil service requires insulation from excessive "interference by politicians, or for that matter by fusing citizens' committees or by their workmen."⁹ Society itself, citizens and interest groups, requires an ethos of democratic self-control, and the "vast majority of the people in all classes are resolved to abide by the rules of the democratic game and . . . are substantially agreed on the fundamentals of their institutional structure."¹⁰ Thus, for Schumpeter, political culture, institutions, economic organization, and social structure all weigh upon the actual operation of any specific mingling of economic and

political forms, shaping whether, in the categories of an earlier period, these will produce corrupt or virtuous polities. Schumpeter and his classical predecessors demand the disaggregation of policy content and political forms so that their relationship can be more fully explored.

If we take the label "markets" we see that it is too broad for our purposes. Markets differ in many features. There is not "a" market, such that all forms must conform to its exigencies. Rather there are many market situations, with many "tasks" to accomplish. The "tasks" of the market differ along such dimensions as technology, natural resources, foreign competition, education levels and so on. Rostow and many other development theorists modeled development as unilinear, whereby all countries go through the same sequence or cycle, filling a set of functional requirements. Gerschenkron, by contrast, pioneered the idea of alternative development trajectories, depending on situational context. The challenges of *start-up* industrialization, with no competitors, new technology and no models, differs strongly from the challenges of *catch-up industrialization*, which had advantages of being able to shorten the learning curve by adapting existing technologies and observing the models of predecessors, but had the disadvantages of competition with those same predecessors. The political corollary of unilinear vs. contextual alternatives can be found by contrasting Karl Deutsch with Barrington Moore. Deutsch sought to link political institutions with stages of development. Moore saw alternative patterns of political trajectories handling similar developmental challenges. An analogy may be seen with human psychology; ego stage theory puts all individuals through the same sequence of development; and a family dynamics/context model notes that birth order and other contextual variables mean each child within the same family actually experiences a different environment.¹¹

To get better leverage on the relationship between form and content, we need then to have more differentiated models of the various tasks which confront institutions: the tasks of economic policy and the political requirements and opportunities that are posed in each situation. First, we can make some brief remarks on economic tasks. Gerschenkron's start-up model of little competition and low barriers to entry is a stylized account of English development in the 18th century; the catch-up model of stiff competition and heavy capital requirements is a stylized account of Germany in the late 19th century.

Many other policy challenges, or tasks, can be noted, with a few examples.

(a) The rationalization and modernization

Table 1. *Classic Typology of political forms*

	Content:	
	For the general good	For partial good
Number:		
One	Dictator	Despot
Few	Aristocracy	Oligarchy
Many	Democracy	Mob rule

of mature industrial economies following the introduction of new technologies and modes of industrial organization: Europe in the interwar years in contrast to United States; the United States in the late 20th century in contrast to Japan;

(b) rebuilding after wartime devastation: Japan and Germany after WWII, with some frequently noted opportunities to leap ahead of the winners by introducing new technology and processes;

(c) industrialization with plentiful natural resources, as in Latin America and North America, in sharp contrast to the challenges of industrialization with few natural resources, as in Korea, Taiwan, and Japan;

(d) economic stabilization challenges: Germany after the hyper inflation of 1923 is a spectacularly famous example, with analogies to several Latin American experiences and, potentially, Russia in the early 1990s;

(e) strategic reorientation of development strategies: Mexico in the late 1980s and early 1990s is a major example of recasting development strategies from import substitution and statist protectionism toward export orientation and privatization, with other examples such as Chile;

(f) transition from Bolshevik command economies to market economies; the former USSR and Eastern Europe in the 1990s, with a contrast to the Chinese model of the 1980s and 1990s.

The specificity of each of these policy challenges for each country is surely affected by environmental conditions. The quantity of natural resources, already mentioned, is one example. Others include the level of education and human resource skills, foreign aid, geo-political pressures or opportunities, preexisting social and economic structures, cultural resources or obstacles and so on.

On the political side, we need to develop keener distinctions among political forms within the notions of democracy and authoritarianism. Among the most important of these are the patterns of bureaucracy and civil service. Some countries have very strong traditions and institutionalized forms of civil service, with high degrees of training, autonomy, honesty, prestige. Countries without such a bureaucratic apparatus are not able to try types of taxation or regulation.¹² Another element has to do with political cleavages: economic policy is not the only issue dimension in public life. Other issues may greatly complicate the way economic options are understood: ethnic and religious cleavages, for example. A third area has to do with

political institutions: presidentialism, parliamentarism, party systems and voting rules, federalism, and bureaucratic structure noted above.

With these more nuanced understandings of economic policy options and political forms, we are likely to be able to develop more complex combinations or bundles of the policy content/political form mixtures. A few examples may help bring out some of these combinations.

In probing the various patterns of successful, or unsuccessful, economic policy, we note the importance of both macroeconomic elements and microeconomic ones. Macro policy speaks of the right mix among savings, investment, delayed consumption, interest rates, money supply and so on. Countries differ on how they combine these variables: the American model has been demand driven in recent decades; the Japanese and German approach has been to favor investment over consumption. American economic problems are held by the macro approach to be the not-unsurprising consequence of low saving and low investment. The problems of Latin America and the former Soviet countries are seen as the result of the failure to create stable macroeconomic regimes.

The microeconomic view calls attention to a different set of variables. These have to do with the institutions that comprise the economic system within and across countries: patterns of ownership, contracting, competition, firm structure, labor relations, finance, and all the regulatory regimes that influence these elements. Where the classic macro prescription for the economy is "getting prices right," the micro formulation could be, as McMillan put it, "getting institutions right."¹³ We may note strikingly different patterns among countries. In comparing company structures, Dore contrasts the community model of Japan with the contract law model of the Anglo-American tradition.¹⁴ The contract law model stresses the individuality and the autonomy of individual units, the constant auction method. The factors of production are constantly in bid. Collusion is dangerous. Blind bidding works best between manufacturers and subcontractors, between labor and employers, between banks and firms, between investors and firms, and so on. In this regulatory approach, anti-trust is crucial. So is the separation of banks from management. Conflict of interest is greatly feared.

The Japanese model is quite different. Subcontractors and manufacturers share information. Long-term stability of quality performance is rewarded over short-term price reduction. Coordination is encouraged through crossownership, rotation of leadership, job stability. Networks

interlink banks with many different types of enterprise. Company stocks circulate little. Conflict of interest is seen as natural and is not opposed.

In comparative terms, it is the Anglo-American model which seems the outlier. The so-called Japanese model has many counterparts. It used to be called the continental model, particularly in its German and French versions. German banking, cartels, and interlocking directorates always created a far more structured business system than the US and UK examples.¹⁵ The difference between the German and Japanese case is the role of labor. In Japan, it is politically weak. In Germany, it has been relatively strong in the postwar years. In Japan that weakness is seen in a weak consumer movement, and a poorly developed social welfare net. In Germany, social services are very high, unions have representation in governing boards, and are influential in government policy making.¹⁶

The micro regime has a substantial effect on macro options. Germany and Japan are both able to receive from their populations support for the investment oriented virtuous cycle: high savings, high investment, consumption following productivity. In Germany, inflation is kept very low, and almost as low in Japan. In both countries, unemployment is anathema — which makes one wonder who has the weaker labor movement: militant England where workers can and do strike, but where the incomes deteriorate as a whole, or Japan where labor is passive, but kept at work? The German and Japanese micro patterns encourage social stability.

There is certainly, then, a very strong link between institutional form and policy content here, in that the microeconomic regulatory regime shapes both what macro policies can be pursued, and the politics of policy pursuit.

The micro structures interact with politics in another way. They not only influence incentives to decision makers, they are themselves the outputs of political processes. If the United States has a vigorous anti-trust policy system, and the separation of banks from investment, this is the result of specific political battles which can be dated and traced; for example, the Sherman Anti-Trust Act of 1890, the Glass-Steagall Act of 1934. These in turn may express certain features of American institutional forms — institutional fragmentation of the separation of powers and federalism give more voice to populist critiques of the concentration of power. The United States once had its cartels, trusts and *keiretsu*. These were politically stopped and broken up.

We see from these examples the interaction of micro policy, macro policy and political pro-

cesses. Certain macro policies are likely to have both specific micro needs and political requirements. Our typology of markets needs to incorporate these differences; these types can then be linked more carefully to political forms.

5. CONTINGENCY AND CHOICE

In the first part of this essay, we probed the relationship between democracy and markets. Next, we examined the benefits of further disaggregation. There are certainly some patterns to be found: some relationships do seem to run across more than one country and case. But there seems also to be much variance, contingency, uncertainty. We confront here some epistemological problems in determining the status of what we can find. As social scientists, we seek patterns, causes. The specific, the unique, the contingent — these cut against the search for patterns by a covering law model, though not necessarily against reasoning from ideal types. I doubt that we can escape contingency altogether, as there are too many variables at work. My geophysics colleague Gordon MacDonald suggest that science can do no better than 10 days in predicting the weather, so complex is that system.¹⁷ Why should we think we can do substantially better with even more variables and fewer events? But systematic work can be done with the weather and so can we with contingency.

In the drive to find patterns, social scientists dealing with policy are led in many cases to eliminate the role of discretion, hence of leadership. Both political sociology and the new institutionalism see policy makers as driven by the circumstances of their position: social pressures to the former, institutionally shaped incentives to the latter. In doing so they provide a key link to the explanation of policy: the mechanism that links form to content, the specific means that link political forms to policy outputs. Yet, a price is paid.

Political sociology follows a chain of reasoning something like this: groups have preferences which they express through political action to obtain desired policies; governments must gratify group pressures in order to stay in office; thus government policy expresses group interest. There are some very clear and standard complaints about that line of reasoning. First, group interests should not be taken for granted. Groups may be crosspressured and have divergent goals. Reality may be so confusing that groups have trouble identifying clear lines of action that link means and ends. Second, the expression of preference is powerfully refracted by the institu-

tional mechanisms that aggregate preferences into the selection of decision-making officials and the processes which shape decisions. Different institutional mechanisms produce different results out of identical bases of preferences.

These are reasonable complaints and they give rise to important work on the definition of preferences, and their origins; and institutions and the way they shape outcomes. The definition of preferences takes us in the direction of cognition, perception, ideology and the forces which shape these. The concern with institutions takes us toward an analysis of aggregation mechanisms. The analytic strategy of the institutionalists is that preferences do not by themselves determine outcomes, since the mechanism for aggregating preferences itself influences the outcome. Different institutions can produce different decisions on the same set of preferences. Decision makers respond to the incentives defined by their institutional context, which refracts the socially based preference. Note that the institutionalist argument still requires a model of society, from which the preferences come. The instability of preference aggregation creates the problem of resolution: how to translate that instability into a stable equilibrium. Institutionalists seek in institutions the elimination of the instability — a proper statement of institutional patterns will do for us what the interest group theorists used to say a proper statement of interest group preferences would do for us: determine outcomes. In the interest group model, the politician was just the register of group preferences. In the institutionalist model, the politician is the register of institutional incentives that refract societal preferences and pressures.

While powerful, this line of reasoning is not wholly satisfying. Just as there is no perfect account of preferences, there is no perfect statement of institutions. There is always uncertainty. There is always some give, in varying amounts, in the interaction of preferences, institutions, choices, and outcomes. Where there is uncertainty, there is leeway, discretion, and judgment.

Neither argument, from political sociology nor from institutions, eliminates the problem of discretion, choice, and contingency. In complex societies, with large number of actors, interests, constituencies, and so on, there are many uncertainties. Social actors will have trouble making the ends-means calculations to determine policy preference and the right political strategy to get it. Decision makers will have trouble making the right calculation among alternatives in figuring out just which course optimizes his or her goals.

With uncertainty we must therefore come to a role for discretion, hence for leadership. There is an element of choice. There are ways of redefining situations, of seeing opportunities, and taking them. In Argentina, Menem's economic policies are not easily predicted by knowing the electoral sociology of his support. In Brazil, Collor de Mello's sharp economic coup upon taking office is also not easily predictable by knowing his electoral coalition. Salinas's moves with the Mexican economy are certainly facilitated by the institutional position of the PRI, but they are not predicted by it; he might just as easily have been expected to continue a system of special access and rewards, rather than shaking it up. Gorbachev's efforts at perestroika and glasnost surely ran contrary to the institutional incentives of the party. Bismarck was known as the "white revolutionary" because his policy moves challenged the preferences of his major constituents and then shook up the institutional position from which he derived his power. Mitterrand switched the gears of French economic policy in the early 1980s, despite the strong resistance of his Socialist constituents.

Policy contents and political form have often been linked by conjunctural circumstances. In mid-19th century Britain, the battles for political reform (the suffrage and other elements of the constitution) resonated strongly with the battles over economic policy (repeal of the Corn Laws, Poor Law Reform, etc.). The two moves of liberalization interacted in reality, if not necessarily in logic. A few decades later in Germany, political authoritarianism mobilized tariff protection as an ally; the two reinforced each other in historical reality, though not in logical necessity. In each case the effects were momentous, showing again the importance of path dependence. There were affinities between political content and policy form in the two cases, but not necessity.¹⁸

So, the effort of political sociology and political institutionalism to eliminate discretion is futile. Political entrepreneurship matters, as do circumstances. Does that mean anything goes, can political entrepreneurs do just anything? No, and here is where we can find the patterns. Leaders may choose among options, indeed they may invent them. But every choice has its constraint. Any policy move requires support from society, from state officials, from private citizens. Any economic policy move involves support by workers, investors, buyers. Entrepreneurs can recombine elements. They cannot invent a wholly different "social physics."

The elements of choice seem larger to the analyst *post hoc* than to policy makers at the

time. We may see that a different ideological prism may have redefined the options, and thus conclude that ideology mattered. But if the alternative ideology was not so easily available, or if critical interest groups disliked that alternative, then this analytic possibility does not exist much in practice.

In predicting the weather of politics, however difficult, what we are likely to come up with are patterns of alternative constraint systems, rather than determined outcomes. We may be able to make statements such as these: If a resource-poor country with high educational skills, strong ethnic unity, and a sense of external threat seeks to industrialize, it may be able to make constructive use of highly centralized authority; under these specified conditions, it may avoid the corrupt form of despotism — a way of formalizing the descriptions of Japan, Korea, Taiwan. If a

country seeks to follow a constitutional democratic route, a variety of other conditions will have to be met: a culture of bargaining and accommodation, plentiful opportunities from the world economy and geopolitics, institutional capabilities — a way of formalizing the descriptions of Sweden, Norway, Denmark, Belgium and the Netherlands.¹⁹

We are thus likely to have statements of requisites which can be met in different ways, clusters of attributes which may stick together, which history may conjoin, but which analytically are detachable and combinable in other ways. The form/content cluster is path dependent: momentous consequences flow from contingent events which might have gone the other way. We may thus clarify the conditions likely to encourage or inhibit virtuous or corrupt rule, but not the certainty of them.

NOTES

1. Among the many explorations of the interaction of politics and economic policy we may note two with particularly useful information: Lindblom (1977), and Schumpeter (1950). Perez Diaz (1987) explores the features of civil society (culture, institutions, social structure) that democracies require. Kurth (1979) uses the famous phrase from Weber "elective affinities" to note these linkages between political form and economic content.

2. The big bang argument is based on analogy to postwar Germany; there, the destruction of controls led initially to hardship then to a vigorous growth. But the infrastructure of a market economy was already in place with clear rules of ownership and plenty of entrepreneurial experience. For exploration of the Chinese experience, see McMillan and Naughton (1992).

3. McMillan and Naughton (1992).

4. See Cheng and Krause (1991) and Krause (1991). Krause makes a strong point on timing: learning industrial catch-up can be done in a 30-year time period; learning democracy may take much longer.

5. Evans (1990); Dornbusch and Edwards (1990); Haggard and Kaufman (1992).

6. Katzenstein (1985).

7. Schumpeter (1950).

8. Schumpeter (1950), p. 269.

9. Schumpeter (1950), p. 299.

10. Schumpeter (1950), p. 301.

11. Gerschenkron (1962); Moore (1966); Hirschman (1979) and (1958); O'Donnell (1973); Deutsch (1966); Rostow (1971); Huntington (1968).

12. On the role of state capacity in shaping economic policies, see Johnson (1982); Evans, Ruschemeyer and Skocpol (1985); Zysman (1983); Wade (1990); Haggard (1990); Deyo (1987). This is a complex debate, as it involves both the role of politics (elections, parties, legislatures, interest groups, social classes, leaders) and the role of autonomous state institutions (such as the military, and the bureaucracy). On the role of party politics, the electoral law, "side payments" to interest groups and campaign finance, see Rosenbluth (1992); Ramseyer and Rosenbluth (1993); McCubbins and Rosenbluth (1992).

13. John McMillan, oral communication, February 1992. See McMillan and Naughton (1992) and McMillan (1991).

14. Dore (1987). See essay by Kitchelt (1991). There is a rapidly growing literature on these issues in "information rich" economic environments. See Womack (1990); Piore and Sabel (1984).

15. Gerschenkron (1962); Zysman (1983).

16. Pempel (1982).

17. Gordon MacDonald, oral communication, February, 1992.

18. Gourevitch (1986); Scharpf (1991).

19. On these European cases, see Katzenstein (1985); Cheng and Haggard (1987).

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