

# Civil Society, State Capacity, and the Conflicting 'Logics' of Economic and Political Change

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This study focuses on the crucial role played by civil society and state capacity in the determination of the outcome of the economic and political transformations under way in most of Latin America. It makes two claims. The first is that the clash between the conflicting 'logics' behind economic and political liberalization has been prevented, so far, by the operation of inhibiting factors, some of which are likely to lose their effectiveness in the long run. When that happens, the outcome of the transformation will depend, to a large extent, on the strength of civil society and the capacity of the state. The second claim is that economic liberalization and the consolidation of democracy are affecting civil society and state capacity in complex ways. Even if these two factors can sustain the continuation of the double transformation, the outcome is likely to be an intensification of the dualization of society and polity. The discussion will be mainly theoretical, with empirical reference to the most industrialized countries of South America, those of the Southern Cone.<sup>1</sup>

Too often, civil society is left undefined in the literature on transitions. Frequently, it is vaguely understood as the realm of social life outside the state, or sometimes, more specifically, as the network of social movements in a society, or as a property of social intercourse (i.e., one that is civilized).<sup>2</sup> I think civil society is best conceptualized as a slice of society, the other slices being the economy, political institutions, and the family and community structure (neighborhoods and other non-associational groups, informal networks). Its core is the web of voluntary associations of all kinds which

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stands between the economy and the family/community structure, on the one hand, and the state, on the other. The relationship between civil society and the state is best understood based on two dimensions: autonomy and capacity for self-regulation. Both are relative, of course: even in the most democratic of societies, the autonomy of private associations is limited by institutions, the state in particular, and the self-regulation of conflict among representative associations is always constrained by the legal, administrative, and political framework within which they operate.

Civil society is 'strong' when the web of voluntary associations is dense, the associations in question are highly autonomous from the state, and the web has a high capacity for self-regulation through bargaining among its units. A strong civil society requires not only Tocqueville's "art of association," but the institutionalization of the "art of negotiation" as well. This situation differs from three others, in which civil society is not present, or it is very weak: the case in which autonomous groups do not exist (either because the society is atomized, or because of repression), the instance in which they exist, but are controlled by the state (the state corporatist pattern), and the condition in which institutional mechanisms are too weak to manage the conflict among them (the praetorian case).

As for state capacity, it refers basically to the effectiveness with which policies are made and implemented.<sup>3</sup> State capacity is, of course, independent of political regime; both democratic and authoritarian regimes vary in terms of the effectiveness of their states. Low effectiveness may be due to factors such as the sheer incompetence of the staff in the state apparatus, its lack of adequate material resources, the inadequacy of the laws or rules within which it works, corruption, or insufficient autonomy vis à vis elites and other strategic groups in the society.

The political consequences of a weak state capacity would vary according to the extent of the state's control of the society and the strength of civil society. Obviously, the larger the scope of the state, the more devastating the consequences of its ineffectiveness: an incapable state may bring havoc to a Manchesterian capitalist society, but it would be lethal to a socialist one. If we restrict the discussion to the liberal democratic model in a contemporary capitalist society, in which the state has limited functions, the consequences of weak state capacity would depend on the strength of civil society. When civil society is strong, nothing will save defense, security, or justice from state incompetence, but society may still manage large areas of education, health, and social security with a minimum of effectiveness. In the case of a weak civil society, on the other hand, an incompetent state would contribute to the erosion of the social order. This process might have adverse and even –in the

extreme instance—fatal consequences, not only for democracy but also for the nation-state itself.

The range of possible outcomes in such a situation would vary according to the type of weak civil society that exists. When society is atomized or fused with the state through corporatist mechanisms, possible outcomes would range from a 'vicious' type of privatization of state functions (which should be distinguished from the 'virtuous' type discussed above, in the case of a strong civil society), carried out on the basis of mechanisms that could range from clientelism, corruption, and even organized crime, to outright despotism. In the "praetorian" instance of weak civil society, a state with limited capabilities would facilitate a dynamics leading to mass praetorianism, and eventually to the intense level of polarization that might trigger demobilizing forms of authoritarianism à la Southern Cone in the 1970s. In extreme situations, the confluence of either of these varieties of weak civil society with a low-capacity state might even trigger scenarios in which the very unity of the nation-state is called into question.

The strength of civil society and the capacity of the state are central factors in all the socio-political processes involved in the economic and political transformations I am discussing, including the decay of the economic and political institutions that characterized the Old Regimes (autarkic capitalism in the economy and, in the recent past, authoritarian regimes in the polity), the modalities of the transitions away from these regimes, and the characteristics of the economic and political transformation under way.

In what follows, I will discuss briefly the contradictory social 'logics' that guide the economic and political transformations in question, and present hypotheses for the explanation of the fact that these principles have not, so far, clashed. Afterwards, I will examine the current state of, and prospects for, civil society and state capacity in the region.

### **The conflicting 'logics' of change and the inhibiting factors**

Industrialized countries in South America have been undergoing large-scale economic liberalization in the context of recently established democracies.<sup>4</sup> Economic and political liberalization are each governed by an opposing social logic, a fact that might hinder one or both of these two processes.<sup>5</sup>

The potential for a clash between these contradictory 'logics' depends, to a considerable extent, on the sequence in which economic and political liberalization has taken place, but it exists in all cases. There are three possible sequences between economic and political liberalization. The first corresponds to the case in which privatization, deregulation, and the opening up of the economy have preceded democratization. Chile is an example. A



second pattern is the one in which the sequence is reversed, for instance in Venezuela. Finally, the most frequent situation is the one in which economic liberalization and democratic consolidation have taken place more or less at the same time. Argentina and Brazil are cases in point. I will argue here that this sequence is the least favorable, for in it the potential for conflict between the reasoning governing each of the two processes is the highest. Let us see the 'logics' in question.

Privatization, deregulation, and the opening up of the economy are instances of the logic of differentiation. These processes increase the differentiation of the society, in both the vertical and the horizontal senses: polarization between the affluent and the deprived widens, and so does the gulf between 'winners' and 'losers' within each social class, and also between sectors of the economy and regions of the country. Both upward and downward mobility intensify. The Marxist image of affluence and misery growing at the same time in different poles of the society is eminently applicable to this situation. Competitive sectors, or those shielded from foreign competition (e.g., producers or providers of non-tradeable goods such as many services) expand, while the least competitive branches of the economy, or those most dependent on the consumption of strata negatively affected by economic liberalization, contract. Regions that house the expanding sectors are likely to thrive, while those that have specialized in activities that now appear non-viable will turn into rust belts, or their agrarian equivalents.

On the other hand, the consolidation of democracy is governed by the logic of mobilization. In the environment of a recently established democracy, the activation and organization of groups hurt by the liberalization of the economy is facilitated by two factors. First, democracy allows for, and induces, mass political participation. Moreover, in the new conditions, the potential costs of mass political action are much lower than what was usually the case under the pre-existing repressive regimes. Secondly, a young democracy induces political entrepreneurship: access to the political elite is now open to those who represent social and political constituencies. Activists and militants rush to service already mobilized groups, and they try to form and mobilize potential power bases. Economic liberalization is an ideal environment for group formation, for it presents competing political entrepreneurs with inventories of grievances that easily translate into political agendas. Before continuing, I would like to emphasize that I am referring here to propensities generated by the institutional context; as I will argue below, this context also generates factors that inhibit mobilization. However, this logic is latent, and susceptible to activation when inhibitors fail. My provisional conclusion is that, from below and from above, institutional

factors are conducive to the articulation of movements of resistance to economic liberalization.

These two 'logics' have the potential for inhibiting each other, and consequently for blocking or derailing economic liberalization, the consolidation of democracy, or both. This is why the simultaneous pattern is less favorable than either of the other two: in the Chilean sequence, the political effects of the social dislocation produced by economic liberalization were contained by an authoritarian regime; in the Venezuelan pattern, the social order undergoing disarticulation could draw, at least for some time, from the capital of legitimacy accumulated by democratic institutions over several decades. In any case, the potential for collision between the 'logics' remains in the three sequences.

And yet 'the great transformation' in economic and political institutions continues. There have been substantial conflicts partially attributable to them (in the Southern Cone, highway picketing and food riots in Argentina; elsewhere, the Chiapas uprising and the turmoil in Venezuela, both of which have other important institutional causes as well), but, thus far, no blockage or breakdown has occurred as a consequence of the interaction between these processes. My argument is that the clash between the opposing 'logics' has been avoided, so far, because of the operation of three 'cushions', or moderating factors— structural, institutional, and cognitive-ideological—, that have inhibited political mobilization.

The structural cushion consists simply of the fact that economic liberalization itself weakens and destroys the power bases of the coalitions supporting the Old Regime (entrepreneurs and unions, and in some cases managers and workers in the public sector), and in general of all the groups hurt by trade liberalization, privatization, and deregulation. These processes of economic transformation generate insecurity and economic deprivation, and thus discontent. However, impoverishment and marginalization also reduce these groups' capacity for organization and mobilization in defense of their interests.

The relationship between impoverishment, or growing insecurity, and capacity for mobilization varies according to the intensity of the threat. Three levels can be distinguished in this regard. The first corresponds to the case in which there is a perception of substantial danger. Workers, business groups, and middle classes facing threats to their standard of living or economic security will usually be able to deploy the power resources under their control (numbers, organization, wealth) whenever the threat in question is intense, but its materialization is not perceived as inevitable. A second level is the situation in which the threat is extremely intense, and its materialization appears to be not only inevitable, but also imminent. In such a case,



mobilization capacity may be inhibited by two factors. The first –and for all groups– is the fact that people start focusing their energy and attention on survival, and on the search for individual exit options (an inadequately theorized decisional deterrent of revolt and revolution, whose consequences have been major in modern history). Secondly, and specifically for the case of the working class, the deterrent effect of the formation of a large labor reserve army, a usual development in a situation of this sort.

Third, there is the stage in which individuals have already been expelled from their regular positions in the working or middle classes. In this case, their capacity for collective action is very limited, again for two reasons: one, psychological, and the other, structural. The first is the sheer demoralization that usually follows downward mobility. The second has to do with the fact that people in this situation, except in company towns and similar settings, are likely to weaken or sever ties among themselves, and with their class of origin. Lower classes in this condition are characterized by political apathy, punctuated by quite infrequent, highly inorganic (though not usually spontaneous), and very short-lived outbursts of activity, sometimes violent.

The second cushion listed above is the institutional: new institutions inhibit mobilization, either indirectly, by legitimating economic liberalization, or directly, by blocking the activation of some of the groups hurt by privatization, deregulation, or the opening-up of the economy.

New or recently reformulated institutional mechanisms are a central aspect of economic and political liberalization, and some have a legitimating potential. In the economic sphere, this is obviously the case with the privatization of pensions, for instance, or the establishment of a safety net for the poorest strata. Advocates of economic liberalization could claim that the new pension policy, in addition to strengthening the capital markets, converts citizens into stakeholders; and that the new safety net alleviates some of the most extreme negative consequences of the collapse of the Old Regime (and, perhaps, of the instauration of the new). These mechanisms might endow with legitimacy the whole transformation process, which is widely perceived as an indivisible package. But changes in economic institutions may also block collective action. The flexibilization of labor markets is the most conspicuous case: it reduces trade union strength, as well as workers' job security.

On the other hand, in the political sphere, the reestablishment of competitive politics, even where democracy is limited, inefficient, and ridden with corruption, has had a legitimizing effect, not only on political institutions, but on economic policies and institutions as well. Constitutional and legal reform, which has been extensive in many of the societies undergoing the transitions, has also contributed to the legitimation of the new political regime and, indirectly, of its economic policies.

Finally, there is a cognitive-ideological cushion. The sources of this factor are both external and internal. The exogenous ones are the international demonstration effects: economic nationalists and leftists have been affected by the collapse of Communism and by the apparent success of the Thatcher-Reagan economic policies in the 1970s and 1980s. The endogenous factor is the process of political learning experienced by state, political, economic and cultural elites. This learning was triggered by the experience of the economic and political consequences of the Old Regime.

In Argentina, Chile, and Uruguay, the institutions of autarkic capitalism, which appeared so promising when they were established during the Depression and the War, led to modern societies and stagnated economies in the 1960s and 1970s. This explosive mixture triggered, in the 1970s, truly revolutionary situations, and highly repressive military regimes as their aftermath.<sup>6</sup> It is as a consequence of these experiences that strategic elites reached the conclusion that autarkic capitalism was simply not viable. The case of Brazil is interesting, for in this country, due to the sheer size of its internal market and the state's greater capacity to steer the economy, the long-term economic consequences of autarkic capitalism were not yet evident when it embarked on large-scale economic liberalization. In this instance, political learning and international demonstration effects fused, for the elites interpreted the evolution of Argentina and Chile as writing on the wall: if the long-term effects of autarkic capitalism in these countries had been stagnation and illegitimacy, the same would surely happen in Brazil.<sup>7</sup>

Everywhere, the cumulative effect of these cognitive processes has been not only the abandonment of autarkic capitalism, but also the acceptance of the liberal model. In some cases, this acceptance took the form of active support (sometimes as a result of surprising conversions, as was also the case in Central and Eastern Europe), while in others it was the product of the ideological paralysis caused by the exhaustion of alternatives. More or less at the same time, state socialism and autarkic capitalism, two forms of neomercantilism,<sup>8</sup> had failed and open-market capitalism, apparently triumphant, was the only option left. One may speculate that this conversion to the radical alternative, both in South America and in Eastern Europe, was due to the simultaneity of the demise of autarkic capitalism and state socialism. If one of these regimes had still appeared viable when the other was collapsing, it makes sense to hypothesize that substantial segments of the strategic elites in the latter regime would have oriented themselves toward the kindred neomercantilist alternative.



### **The weakening of inhibiting factors**

My impression is that the efficacy of two of the inhibiting factors, the institutional and the cognitive-ideological, is likely to decrease as time goes by. The structural cushion will continue dualizing the society and blocking the mobilization of those hurt by economic liberalization, but the effectiveness of the other two factors will become contingent on the perception by different social groups that the reforms under way are in their interest. It is true that this perception depends, in the last instance, on economic performance: if the open economy does well, social expenditure could expand, and the institutions of the mature welfare state could be established. This would reinforce the notion that "there is light at the end of the tunnel," and thus strengthen the existing consensus. On the other hand, if economic performance is unsatisfactory, social inequality would increase, the welfare state would remain rudimentary, and consensus on the continuation of economic reform would eventually erode.

However, social behavior is not a reaction to the facts themselves, but to the interpretation of these facts. For this reason, the future of the double transformation will be a function not only of economic performance, but also of the strength of civil society and the capacity of the state. There are two reasons for this. First, the successful institutionalization of an open-market capitalist economy and a stable and effective liberal democracy require both a relatively strong civil society and a satisfactory level of state capacity. Secondly, these factors could compensate, during the transformation process, for the negative consequences of the possible erosion of the institutional and ideological cushions. Only a strong civil society would have the capability to prevent either mass apathy or mass praetorianism, institutionalize consociational patterns of bargaining, and develop a long-term horizon for interest satisfaction, within which consensus on the continuation of economic reform and the distribution of its costs could be processed. And the performance of basic state functions, including those connected with social policy, in a way that the most important social forces would consider acceptable, presupposes a state with a reasonable level of competence.

None of the relatively industrialized Latin American countries looks like an East Asian 'tiger', even though Chile approaches that model in several respects, but the countries in the region vary in terms of the size of their competitive or easily convertible sectors, their location in relation to export markets, their endowment of natural resources with favorable market prospects, and their stock of human capital. For this reason, the outlook for economic growth is variable. In the rest of the article, I will focus on the other two determinants, the strength of civil society and the capacity of the



state. The vigor of these factors is in general more limited than in Western Europe, the best performers in Central Europe, and the New Industrial Countries of East Asia, but there are differences in this regard among the countries under consideration.

In focusing on the need for these two factors, I am not making a functionalist argument, in the sense that they would be 'pre-requisites' for (and their absence an 'obstacle' to) the institutionalization of capitalist democracy. I do not see the strength of civil society and the capacity of the state as attributes, but as variables of varying intensity. A functioning liberal democracy does not 'require' high levels of either, but it would not operate very effectively, or in a legitimate manner, without adequate ones. For example, it is difficult to conceive of a strong liberal democracy, most of whose population is either apathetic and marginal to politics, or is involved in associations controlled by the state, or participates in organizations that engage in the acute social conflict that Samuel Huntington has called "mass praetorianism." The same goes for a state not capable of extracting from the society a substantial amount of revenue through taxation, or of imparting justice or managing public health, education, and social security with a minimum of effectiveness.

### **Civil society and state capacity in the current period**

In South America today, there are significant differences between countries: civil society seems to be stronger in Argentina than in Peru, and state capacity higher in Chile than in Argentina.<sup>9</sup> However, some common features can be discerned, especially as far as the Southern Cone is concerned.

The typical situation with respect to the state is that it contracts, and at the same time it sheds, wherever they exist, the corporatist mechanisms with which it controlled labor and other segments of society. However, governmental effectiveness remains questionable in most policy areas. Understanding changes in civil society is more complicated,<sup>10</sup> for it is stronger in some senses and weaker in others, in comparison with the autarkic capitalist period. On the one hand, civil society has less capacity than was the case in previous democratic or semi-democratic stages to resist attacks from the state (see labor's inability to confront neo-liberal economic policies); on the other hand, some of its sectors are more autonomous vis à vis the state, and show a greater ability for self-regulation. Two indicators of this are the consensus among substantial segments of the elites (economic, political, and in some cases trade union) over the desirability of a shift to open-market capitalism, and the fact that, since the reestablishment of democracy, most forms of social conflict have been managed within institutional channels.

The weakness of civil society in relation to previous democratic or semi-democratic periods can be understood on the basis of two factors. The first is the changes in the social structure produced by the crisis of autarkic capitalism and the beginnings of economic liberalization, in many of the countries, under authoritarian rule. The second factor is, for labor and the Left, the effects of repression suffered under the military regimes.

For the manufacturers, the slowdown and stagnation under autarkic capitalism, in almost all countries, led to a crisis of the sectors most dependent on mass consumption. And economic liberalization weakened the sectors most threatened by foreign competition, while strengthening the most competitive ones. Labor was weakened directly by the deindustrialization that followed the crisis of autarkic capitalism and the beginnings of economic liberalization, and by repression, but the most important factor has been the change in the social environment within which unions operate: as poverty, job insecurity, and outright unemployment grew around the labor force with stable jobs, its mobilizing potential plummeted.

On the other hand, the new maturity of civil society, again in relation to previous democratic periods, is the result of the cognitive processes discussed above: the political learning produced by the experience of the economic and political crises in which autarkic capitalism floundered, and the international demonstration effects. The collapse of Communism and the etatist and nationalist ideologies that also circulated in the region (from doctrinaire corporatism and right-wing nationalism to the CEPAL Doctrine and dependency theory) have contributed to this maturity. However, this was not because the presence of these ideologies would inherently lead to intense confrontation among social forces –see the strength of civil society in Italy and France, which had large and disciplined Communist Parties and labor movements controlled by these parties during the Cold War. Mass praetorianism in the 1960s and 1970s owed less to the presence of radical ideologies as such than to the long-term structural consequences of autarkic capitalism mentioned above: stagnation in the economy and ‘modernization’ in the society –i.e., the processes of industrialization, urbanization, and growth of education that generated large working and middle classes, the intelligentsia included.<sup>11</sup> These ideologies, and the powerful demonstration effect of the Cuban Revolution, were intervening factors rather than the direct causes of the intense social and political conflict of that period. They provided a framework, the prism through which middle and working classes interpreted the self-limited nature of autarkic capitalist development.

In any case, the collapse of these ideologies left ideologically oriented actors disarmed and without frameworks for understanding the new state of affairs. Many reoriented themselves toward formulations that were socialdemocratic



or even liberal (in the Latin American and continental sense of the term), a fact that contributed to the disappearance of the fear of revolution that had been in the past a dominant factor in the political action of the elites.

The consequences of the economic transformation on civil society are complex. On the one hand, this transformation produces the social dislocation discussed above; on the other, it solidifies autonomous associations in some areas of social life (vertically and horizontally, among the class segments and regions that are the 'winners' in the process of economic differentiation), and it decreases the penetration of the society by the state. These processes may contribute to the generation of a system of bargaining and peaceful conflict-resolution among interest groups –i.e., to the enhancement of societal self-regulation. This is, as we have seen above, what the nebulous formula "a strong civil society," so popular among students of transitions, actually means: the existence of strong networks of autonomous associations, which represent interests as well as values, and which limit the power of the state because of their ability to manage social processes through interaction within institutional channels.<sup>12</sup>

As for the strengthening of state capacity, it should be clear that an open-market economy and an efficient democracy presuppose a state not only smaller, but also stronger than the one that existed under autarkic capitalism. It would be smaller not only in the sense that it would encompass a more limited proportion of the labor force, or produce a more modest share of the GDP, but also because its ability to regulate the society and control its organizations would be drastically reduced. But it would also be stronger vis à vis the society, for it would have enhanced capabilities, in comparison, again, with the autarkic capitalist state, to extract resources through taxation, administer justice, and manage defense, health, education, and social security in a more effective manner.

The current period represents an inflection point in the relationship between state and society. The danger is that the social dislocation produced by economic liberalization could either increase the atomization of the society and lead to mass anomie, or facilitate "praetorian" mobilization. The first outcome would entail a deterioration of the already modest quality of the new democracies, while the second would lead to disturbances ('social explosions', such as those that occurred in Argentina and Venezuela in the early 1990s), something that might trigger the autonomization of the armed forces and, in extreme situations, set in motion a process that could culminate in authoritarian regimes, with or without a constitutional façade.<sup>13</sup> Neither of these extreme scenarios appears, so far, in the horizon of the societies of the Southern Cone.



## **Prospects for civil society and state capacity**

The strength of civil society and state capacity differ in terms of their amenability to agency, and to governmental intervention in particular. While political or governmental action might lead to an improvement of state capacity, the strength of civil society is primarily a function of the broader social institutions and of the culture of the society. This differential susceptibility to agency is due, in part, to the fact that the improvement of state capacity and the strengthening of civil society imply contrary changes in the relation of power between state and society. The increase of state capacity often entails a higher concentration of some kinds of state power, for this is a condition for greater autonomy and managerial effectiveness. On the other hand, the strengthening of civil society involves not only a relatively low level of centralization of social power, but also an enhancement of the self-regulatory capacity of these autonomous social actors, and thus a reduction of the jurisdiction of the state.

The argument above does not imply, of course, that civil society is impervious to institutional design. The difference is one of degree, not of kind. Just as institutional design may enhance state capacity (e.g., by professionalizing the higher civil service, streamlining its procedures, reducing the state functions to the 'basic' ones, generating incentives for compliance with the law, etc.), it may also contribute to strengthening autonomous associations and increasing their capacity for self-regulation: this is what happens, for instance, when state and religion are effectively separated, or when corporatist mechanisms for the regulation of labor relations are replaced by collective bargaining procedures that minimize governmental involvement.

## **Economic liberalization, democratic consolidation, and civil society**

Let us look now, in a more detailed manner, at the effects of economic liberalization on civil society in the institutional context of a recently established democracy. As I argued above, some aspects of this complex transformation strengthen civil society, while others weaken it.

The positive effects include, on the one hand, the removal of constraints on the operation of interest group organizations and, on the other, the generation of incentives for the strengthening of civil society. The removal of constraints is effected in basically two ways. First, the reduction or disappearance of obstacles to group organization due to the dismantling of the repressive apparatus of the authoritarian state. Secondly, the relaxation or

elimination of 'positive' corporatist controls (co-optation mechanisms) over interest groups and other voluntary organizations.

On the side of incentives, the economic and political transformation contributes to strengthening civil society also in two ways. First, democratic institutions nurture the associations and movements that make up civil society, for they promote group formation and impel political and interest group entrepreneurs to develop and represent specific constituencies, as we have seen. Second, the functioning of an open-market economy requires periodic bargaining over wages, conditions of employment, and prices, in response to changing market conditions. For this reason, it is conducive to the emergence and consolidation of a bargaining culture among interest groups, and to the gradual institutionalization of non-zero sum conflicts among them. This facilitates the spread of mechanisms for the management of social conflict that do not involve the state as a decision maker (a situation that is compatible, of course, with a governmental role as a regulator or last-instance adjudicator). This is the institutional environment in which societal self-regulation is likely to grow.

However, we also know that economic liberalization and democratization also weaken civil society. They do so in two different ways. First, economic liberalization keeps producing economic and social fragmentation, as pointed out above. What I called the logic of differentiation continues operating, and its cumulative effect is likely to be the advancement of social dualization. To a greater extent than in past democratic and semi-democratic periods, society bisects into a 'civic' pole, characterized by strong associations and capacity for self-regulation, and a 'disorganized' or marginalized one, with a low level of autonomous group organization and a low capacity for sustained mobilization, a description that fits one of the 'weak' civil society cases discussed above. The ensuing forms of political action would be citizenship, in the first case, and either apathy, perhaps punctuated by short-lived mobilization, or subordinate participation, in the second.

Secondly, democracy facilitates the development of protest groups and movements, but its main effect in this regard is likely to be the reinforcement of dualization. Marginalized strata and regions have lower rates of political participation and fewer resources that could be converted into political influence. Political parties and government agencies will be more likely to interact with, and engage, the civic segment. Therefore, democracy will turn into a game whose strongest and most permanent players will be the organizations and groups within this pole. Parties and governments may build constituencies within marginalized groups and regions, of course, and these constituencies may jump to the center of the political stage in some situations (especially when they display non-institutionalized forms of



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behavior). However, the relationships between them and the government and parties are likely to be clientelistic or state-corporatist, and thus not conducive to the strengthening of civil society. Thus, 'neo-populism' as a formula for the relationship between the state and part of the society (this partiality being what distinguishes it from classic populism) still has a future in Latin America.

The overall effect of simultaneous economic liberalization and consolidation of democracy, therefore, is the segmentation of society into an organized and autonomous sector that looks very much like a strong civil society, and a disorganized or dependent one, susceptible to political marginality or subordination to the state. A partition of this type has always existed in the Southern Cone (much less so in Uruguay and Argentina than in Chile and, especially, Brazil), but it is now intensifying, and it will intensify further as economic liberalization advances. This gulf can be found in all democracies, and Ralf Dahrendorf has argued that the cleavage between the 'organized' and the 'disorganized' sectors is becoming the central one in advanced capitalist countries.<sup>14</sup> However, in these richer and more internationally competitive societies, the size of the civic segment is much larger than in the poorer and 'emerging' countries, in the midst of the process of transformation.

In some countries, the spatial organization of the economy into cores and peripheries is likely to lead to a situation in which the civic and disorganized fragments are territorially based, more or less as in the Italy described by Robert D. Putnam.<sup>15</sup> In other cases, 'strong' and 'weak' kinds of civil society, 'Northern' and 'Southern' types of social structure, would be adjacent to each other and interpenetrate, more or less like the pattern that exists in many large metropolitan areas in the United States. However, the proportions would be reversed in these societies: there would be civic spots in a background of marginality and state corporatism.

In the first of these cases, the accumulation of territorial cleavages and social fracture could lead to a deepening of dualism, and in some instances to intense regional polarization. This might produce either the emergence of centrifugal political movements in the 'rich' regions, as in Italy, or the breakdown of public order in the 'poor' ones, as in Mexico. Naturally, this polarization will be more likely whenever the economic and social segmentation is also correlated with cultural or ethnic differences, be they real or imagined, or with distinct historical trajectories. Several South American countries, including Argentina and Brazil, have a substantial potential for developing inducements to political entrepreneurship along these lines.

In the second case, that of interpenetration, the prospect would be the



decay of democracy and its transformation into a mere façade, for the exclusionary and clientelistic pattern of the relationship between state and society, characteristic of the 'weak' civil society situation, would end up submerging the autonomous and pluralistic participatory model prevalent in the segments with a strong associational life.

### **Economic liberalization, democratic consolidation, and state capacity**

As was the case with civil society, state capacity is also enhanced in some respects, and weakened in others, by economic liberalization and the consolidation of democracy. Two of the positive consequences stem from economic liberalization, and a third one from democratization. Economic liberalization may strengthen state capacity in two ways. In the first place, privatization, deregulation, and the opening up of the economy reduce the functions of the state, and this may allow the state to concentrate its organizational and human resources on the functions that remain: security and defense, the administration of justice, public health, education, and social security. Secondly, economic liberalization weakens or eliminates rentistic segments of the capitalist class and their labor counterparts, and this puts an end to the colonization of the state by distributional coalitions.<sup>16</sup>

Finally, democracy promotes state capacity by channeling demands—in most countries and most of the time—toward the basic functions of government: protection of law and order, promotion of employment, macroeconomic equilibrium. Therefore, the fulfillment of these core functions becomes critical, something that might contribute to an improvement in governmental effectiveness. Nothing concentrates politicians' minds more than the threat of non-re-election due to poor performance, and in open-market capitalist societies the standard for the evaluation of politicians by the electorate is their performance in these areas. Management of the economy, in particular, remains paramount, and the state is likely to focus its resources in that area, in order to maintain "business confidence" and therefore enhance the likelihood of politicians' re-election.<sup>17</sup>

On the other hand, economic liberalization and democratization may also have consequences that hamper the growth of state capacity. Economic liberalization does not, by itself, reduce state capacity as such, but its social effects, discussed above, increase the need for effective governmental action in some areas (social policy, in particular), and this is likely to increase the gap between actual and expected outcomes of state action. The consequence would be the reduction of perceived state effectiveness, and thus the legitimacy of the state, among people in the marginal or disorganized sector

in particular, even if their demand-making capacity is very limited. This would increase their apathy or alienation.

As for the effect of the new democratic institutions on state capacity, the selective institutionalization of incentives for an improvement of effectiveness, discussed above, has its downside. It might also mean that the functions most critical for reducing social segmentation will not be considered central by state managers. Stewardship of the economy (especially the levels of inflation and unemployment) and maintenance of law and order (the physical security of the citizens, in particular) are likely to become more central criteria for the evaluation of politicians by the electorate than performance in areas such as health or education. For this reason, state failure in the fulfillment of these other functions is less likely to produce intense and generalized social demands, and in turn create a sense of urgency among politicians and government officials.

This is due to the operation of two mechanisms. The first is the contradiction between individual and collective interests, and it applies mainly to taxation. More effective taxation is perceived by most taxpayers to be against their interests, and this is especially the case among the groups with a greater capacity for organization and mobilization. Therefore, they are not likely to demand greater efficiency in this area. People who pay little or no taxes, on the other hand, would objectively benefit from more effective tax collection, and an improvement of governmental efficiency in this particular field would not cost them much individually, but these are also the people with a lesser ability to mobilize and organize. In fact, even taxpayers for whom efficient taxation would entail a major cost are likely to profit from its expected consequences for areas such as public health or education, but costs for these taxpayers would be direct and immediate, while gains would in most cases be indirect and mediate, so they are likely to focus their attention mainly on costs.

The second mechanism is a typical collective action problem, and it applies to health, education, and social security. Most citizens are aware of the existence of serious deficiencies in the management of these areas by the state, and improvement of state performance would obviously be in their interest. However, issues of this nature are seen as more distant, less urgent than the ones having to do with economic or physical security, and therefore they are less likely to trigger intense and generalized mobilization.

Thus, the overall effect of economic liberalization and democracy on state capacity is also complex: the great transformation may increase the autonomy of the state, but it may also focus its energies on macroeconomic policy and maintenance of law and order, to the detriment of education, health, or social policy. These effects are likely to interact with those that I pointed out above

in connection with civil society. Social demands are not likely to induce this partially effective state to focus its energies on policies aimed at diminishing the segmentation of society, and the balance of societal demands might lead to policies whose unintended consequence is the widening of the gap between the civic and disorganized segments of society. Again, processes of this sort are also at work in advanced capitalist countries, but the effects are less intense in these societies because their internal differentiation is less, their civil societies are stronger, and their states are more effective than is the case in the new South American democracies.

### **The new political cycle in the Southern cone**

To conclude, many things have changed, but the deep structure remains. Even if the workings of civil society and the effectiveness of the state can prevent the clash between the logic of differentiation and the logic of mobilization, the outlook is for the persistence, in the socio-political sphere, of the dual or combined pattern of development that most Latin American societies have experienced in the socio-economic sphere throughout most of their history.<sup>18</sup>

However, this is a contingent outcome, rather than the ineluctable consequence of structural determination. There is no reason to think that social and political segmentation is 'necessary', or that it will be permanent. Assuming that the strength of civil society and state capacity are strong enough for the double transformation to continue until the economy has found its new place in the international division of labor, the interplay of these two factors and economic performance will eventually determine the extent to which civil society and autonomous democratic participation broaden and thicken.

In any case, this would be a long process. A new political cycle is starting in the Southern Cone, the third since the Depression and World War II. The first was that of etatist democracy, whose institutional forms were populist-corporatist in Argentina and Brazil, and pluralist in Chile and Uruguay. The relationship between state and society in this period was dominated by the dynamics of incorporation and praetorianism. The second was, in all the countries in the area, the authoritarian cycle, whose political dynamics was that of demobilization and exclusion. The cycle that is opening now is that of mass liberal democracy, and its politics will be governed by the dynamics of association and autonomy. Unlike the previous cycles, this one is not grounded on inherently self-limiting institutions (economic, in the first case, and political, in the second). However, it allows for the institutionalization of very different kinds of polity.



## NOTES

1. At the beginning of the 1990s, the industrial share of GDP was 31 percent in Argentina, 38 percent in Brazil, 36 percent in Chile (1985), and 32 percent in Uruguay. Industry comprised 28 percent of the labor force in Argentina, also 28 percent in Brazil, 29 percent in Chile, and 29 percent in Uruguay (1980-1985). Sources: World Bank, *Trends in Developing Economies 1995* (Washington: The World Bank, 1995), and World Bank, *Social Indicators of Development 1995* (Baltimore: Johns Hopkins University Press, 1995).
2. For useful discussions of civil society in the contemporary transitions debate, see Larry J. Diamond, "Rethinking Civil Society: Toward Democratic Consolidation," *Journal of Democracy* 5 (1994), 3: 4-17; Ernest Gellner, "Civil Society in Historical Context," *International Social Science Journal* 43 (1991), 3: 495-510; idem, *Conditions of Liberty. Civil Society and its Rivals* (London: Hamish Hamilton, 1994); John A. Hall, "In Search of Civil Society," in idem, ed., *Civil Society: Theory, History, Comparison* (Cambridge: Polity Press, 1995); and Krishan Kumar, "Civil Society: An Inquiry into the Usefulness of an Historical Term," *British Journal of Sociology* 44 (1993), 3: 375-395. For the theoretical, intellectual, and ideological background of the concept, see, in addition, Jean L. Cohen and Andrew Arato, *Civil Society and Political Theory* (Cambridge: MIT Press, 1992); John Keane, ed., *Civil Society and the State* (London: Verso, 1988); and Adam B. Seligman, *The Idea of Civil Society* (New York: Free Press, 1992).
3. On state capability, see the discussion in R. Kent Weaver and Bert A. Rockman, "Assessing the Effects of Institutions," in R. Kent Weaver and Bert A. Rockman, eds., *Do Institutions Matter? Government Capabilities in the United States and Abroad* (Washington, D.C.: The Brookings Institution, 1993). See, also, Harry Eckstein, *The Evaluation of Political Performance: Problems and Dimensions* (Beverly Hills: Sage, 1971); Peter B. Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995); Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985); and Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992).
4. For overviews of different aspects of this process, see Rudiger Dornbusch and Sebastian Edwards, eds., *Macroeconomic Populism in Latin America* (Chicago: University of Chicago Press, 1991); Sebastian Edwards, *Crisis and Reform in Latin America* (New York: Oxford University Press, 1995); William Glade, *Privatization of Public Enterprises in Latin America* (San Francisco: Institute for Contemporary Studies, 1991); and Barry Levine, ed., *El desafío neoliberal: El fin del tercermundismo en América Latina* (Bogotá: Grupo Editorial Norma, 1992).
5. The following section is based on the discussion in Arend Lijphart and Carlos H. Waisman, *Institutional Design in New Democracies: Eastern Europe and Latin America* (Boulder: Westview Press, 1996), Ch. 13; Carlos H. Waisman, "The Political Dynamics of Economic Reform in Latin America," in Harry Costin and Hector Vanolli, eds., *Economic Reform in Latin America* (New York: Harcourt Brace, 1997); and Carlos H. Waisman, "El fin del neomercantilismo: Argentina y Chile como casos paradigmáticos," to be published in a book edited by Torcuato Di Tella. For analyses of the interaction between economic and political liberalization, see Luiz C. Bresser Pereira, José M. Maravall, and Adam Przeworski, *Economic Reforms in New Democracies: A Social-democratic Approach* (New York: Cambridge University Press, 1993); Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995); Arend Lijphart and Carlos H. Waisman, eds., *Institutional Design in New Democracies*; and Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (New York: Cambridge University Press, 1991).

6. See my argument on autarkic capitalism and its economic and political consequences in Carlos H. Waisman, "Capitalism, the Market, and Democracy," *American Behavioral Scientist* 35 (1992), 4/5: 500-516, reprinted in Larry Diamond and Gary Marks, eds., *Democracy in Comparative Perspective. Essays in Honor of Seymour Martin Lipset* (Newbury Park: Sage, 1992); and in Waisman, "El fin del neomercantilismo."
7. This was a contested process. See Juares Brandão Lopes, "Obstacles to Economic Reform in Brazil," in Lijphart and Waisman, eds., *Institutional Design*.
8. Both autarkic capitalism and state socialism could be called neomercantilist, because they shared two central characteristics pointed out by Jacob Viner in his classic treatment of the subject: high levels of statization and regulation of the domestic economy, and relative isolation vis à vis the world capitalist economy. Both values were higher, of course, under state socialism. See Jacob Viner, *The Long View and the Short: Studies in Economic Theory and Policy* (Glencoe: Free Press, 1958), p. 286.
9. For the comparison between Argentina and Chile, see Waisman, "El fin del neomercantilismo."
10. For a discussion of the background of civil society in Latin America and its current state, see Philip Oxhorn, "From Controlled Inclusion to Coerced Marginalization: The Struggle for Civil Society in Latin America," in Hall, ed., *Civil Society*.
11. Around 1960, the proportion of the labor force in manufacturing was 26 percent in Argentina, 22 percent in Chile, and 21 percent in Uruguay. (As a comparison: the corresponding figure for the United States and France was 30 percent.) Brazil's was much smaller than those of its neighbors: 11 percent. The size of the intelligentsia can be gauged from enrollments in higher education: around 1965, there were 10.9 students per thousand inhabitants in Argentina, and the figures were 5 for Chile, and 6.1 for Uruguay. (The figure for France was 10.4, for West Germany, 6.3, and for Britain, 4.9.) Brazil, again, had a much lower figure than other Southern Cone countries: 1.9 students per thousand. Source: Charles L. Taylor and Michael C. Hudson, *World Handbook of Political and Social Indicators*, second edition (New Haven: Yale University Press, 1972).
12. On the linkages behind the correlation between civil society and democracy, see the discussion in Gellner, *Conditions of Liberty*. For empirical analyses, see Victor M. Pérez-Díaz, *The Return of Civil Society: The Emergence of Democratic Spain* (Cambridge: Harvard University Press, 1993); and Robert D. Putnam, *Making Democracy Work. Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993).
13. Regimes that, nevertheless, would not likely be fascist or neo-fascist, as predicted for Eastern Europe and regions of the 'Third World' by Zbigniew Brzezinski and Ken Jowitt. See Zbigniew Brzezinski, *Out of Control: Global Turmoil on the Eve of the 21st Century* (New York: Macmillan, 1993), and Ken Jowitt, *New World Disorder* (Berkeley: University of California Press, 1992). The reason is that the current world situation is radically different from that in the interwar period, during which fascist and semi-fascist movements and regimes appeared. For a discussion of these differences, see Carlos H. Waisman, "La década del 90 vs. el período de entreguerra: el mundo actual y las perspectivas del radicalismo de derecha," in Carlos Escudé and Beatriz Gurevich, *El genocidio ante la historia y la naturaleza humana* (Buenos Aires: GEL, 1994).
14. See Ralf Dahrendorf, *The Modern Social Conflict: An Essay on the Politics of Liberty* (Berkeley: University of California Press, 1988).
15. Putnam, *Making Democracy Work*.
16. On distributional coalitions and their effects, see Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).
17. On 'business confidence' and politicians' strategies, see Fred Block, *Revising State Theory* (Philadelphia: Temple University Press, 1987). On politicians' self-interest in the great transformation in Latin America and Eastern Europe, see Barbara Geddes, "Initiation of



New Democratic Institutions in Eastern Europe and Latin America," in Lijphart and Waisman, eds., *Institutional Design*.

18. Argentina and Uruguay were much less 'dualized' than the other societies in the Southern Cone, or in Latin America in general. For the Argentine case, see the discussion in Carlos H. Waisman, *Reversal of Development in Argentina* (Princeton: Princeton University Press), Ch. 3-4; idem, "Argentina: Autarkic Industrialization and Illegitimacy," in Larry Diamond, Seymour Martin Lipset and Juan Linz, comps., *Democracy in Developing Countries. Latin America* (Boulder: Lynne Rienner, 1989); and Carlos H. Waisman, "Counterrevolution and Structural Change: The Case of Argentina," *International Political Science Review* 10 (1990), 2: 159-174. Could it be that these outlying countries are now 'normalizing'?