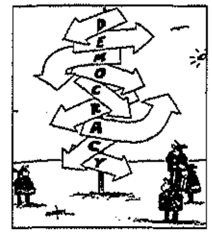
business organization and participation in policy makes clear that these outcomes could in fact be objects of policy. At a minimum, strengthening incentives for collective action should be one of the important externalities that policymakers consider when evaluating policy alternatives.

CHAPTER 9



Labor Organizations and Their Role in the Era of Political and Economic Reform

M. Victoria Murillo and Andrew Schrank

Latin America's free-market revolution has been diverted—if not necessarily derailed—by a combination of "reform fatigue" and electoral competition (Sandbrook et al., 2006, p. 76). Left-leaning candidates have taken power in Argentina, Brazil, Chile, Ecuador, and Uruguay. Bolivia and Venezuela are governed by self-styled opponents of "savage capitalism."[1] And even moderate leaders are calling for heterodox alternatives to the erstwhile Washington Consensus. "You have to design policies based on growth and stability that can produce social welfare," argues President Leonel Fernández of the Dominican Republic. "And you have to have mechanisms of social solidarity that are additional to the market. That means looking at the European model that is based not just on the free market but on policies that take into account these social factors."[2]

Observers part company, however, over the likely consequences of the ongoing backlash against free-market reform. While some North American pundits and policymakers predict a return to the "bad old days" of inflation, austerity, and crisis,[3] and therefore decry the growth of "radical populism" in Latin America (LeoGrande, 2005), their critics

[1] See David Lynch, "Anger over Free-Market Reforms Fuels Leftward Swing in Latin America," *USA Today*, February 9, 2006, p. 1B.

[2] See Leonel Fernández, "We Shouldn't Get Ideological about Latin America's Problems," *FT.com*, March 10, 2006.

[3] Brian Kelly, "The Legacy of a Liberator Named Bolivar," *U.S. News and World Report*, May 15, 2006, pp. 10–11.

draw a distinction between the admittedly populist presidents of the Andean countries and their allegedly social democratic neighbors to the south.[4]

Who is correct? Does the rise of the democratic left presage the dawn of Latin American social democracy or a return to the bygone era of stop–go macroeconomic policymaking and crisis? The answers are anything but obvious, but they will almost certainly be determined at least in part by the strategies and tactics of organized labor. After all, the labor movement continues to play a dual role in the region's policymaking process. Unions and their members defend their traditional rights and privileges through industrial action (such as collective bargaining, strikes, and slowdowns) and political activity (through lobbying, lawsuits, and mass mobilization). At the same time, they offer their public- and private-sector interlocutors a potentially powerful ally in the pursuit of more encompassing and enduring intertemporal agreements. A substantial and growing body of social scientific literature therefore portrays the potential for a "positive class compromise" (Wright, 2000) as a contingent product of the nature and degree of working class organization.[5]

The Nature and Growth of Organized Labor in Latin America: Structural Factors

Organized labor is simultaneously a producer and product of the policymaking process. Unions and their members have not only defended and taken advantage of policies like regulation, protection, and the nationalization of industry—not to mention the public provision of a

[4] Michael Shifter, 2005. "Don't Buy Those Latin American Labels," *Los Angeles Times*, December 24, 2005, p. A28. Indira Lakshmanan, "A Growing Fight for Power on Latin American Left," *Boston Globe*, June 4, 2006, p. A6. See also Castañeda (2006); Sandbrook et al. (2006); Valenzuela (2006).

[5] Erik Wright (2000, p. 958) defines a "positive class compromise" as "a non-zero-sum game between workers and capitalists, a game in which both parties can improve their position through various forms of active, mutual cooperation." Wright posits a reverse-J-curve relationship between working class associational power and the realization of capitalist class interests. Employer interests are maximized by an atomized and disorganized working class. They decline with the growth of working class organization and political power. And they begin to rise again—albeit to a second-best level from the employer's perspective—when working class organization begins to have a positive impact on capitalist class interest by facilitating solutions to collective action problems in the realms of demand management, macroeconomic policymaking, training and skill formation, technology policy, and the like. See Calmfors and Driffill (1988) and Scarpetta and Tressel (2002) for empirical models that are broadly consistent with Wright's claim.

variety of social services—but have also resisted and suffered under the weight of their rollback and removal. A general equilibrium approach to the policymaking process is therefore particularly well-suited to the study of Latin American labor.

This discussion begins to formulate and deploy a general equilibrium approach by distinguishing two crucial determinants of organized labor's role in the policymaking process: goals and resources.

> Determinant 1. Organized labor's principal *goals* are material. Union members delegate authority to union leaders who, at least in principle, trade credible commitments regarding the actions and behavior of their members (labor peace, productivity targets, voting behavior, and the like) for a variety of material concessions (wages, benefits, and social services).

> Determinant 2. Organized labor's principal resources are human. Union members not only exercise de facto control over key aspects of production and distribution in market economies but simultaneously constitute a well-organized voting bloc capable of rewarding and punishing politicians in electoral democracies. Labor unions therefore aggregate and defend the material and political interests of their members through industrial action and political activity.

Latin American employers have traditionally been hostile to collective action on the shop floor. The region's workers have therefore been particularly fond of electoral strategies (Hawkins, 1967; Roberts, 2002). For example, Latin American unions made explicit bargains with labor-backed parties like the Argentine Partido Justicialista (PJ), the Mexican Partido Revolucionario Institucional (PRI), Peru's Alianza Popular Revolucionaria Americana (APRA), and Venezuela's Acción Democrática (AD) in the middle of the twentieth century. Labor-backed parties have responded to electoral imperatives and the relatively small size of the salaried labor force by appealing to peasant, middle, informal, and formal working class elements in various combinations, and have therefore been labeled "catch-all" parties by their observers and critics alike (Hawkins, 1967; Dix, 1989). However, they have almost invariably relied upon *core* constituencies of unions and their members, and have therefore incorporated labor through a complicated array of "inducements," like official recognition, monopolies of representation, compulsory membership, and "constraints" on union autonomy (Collier and Collier, 1979, 1991).[6]

The postwar era of import-substituting industrialization—and *étatisme*[7] more generally—constitutes the high water mark for the alliance of party and union in Latin America. Labor-backed parties deployed tariffs, quotas, and a host of regulatory devices designed to guarantee electoral majorities in the short run and to foster industrial development in the long run. Labor unions therefore gained members and influence in a wide array of protected and state-owned (or publicly subsidized) enterprises.

Nevertheless, Latin American unions continued to bear the scars of their mid-twentieth century origins well into the subsequent era of debt, dictatorship, crisis, and adjustment. Take, for example, the geography and demography of labor organization. Unions have traditionally been more encompassing and influential in the larger political economies of Mexico and South America, where political and economic imperatives conspired to foster aggressive industrial development efforts in the era of the Great Depression, than in their smaller and less consistently democratic neighbors, where policymakers faced "neither the temptation nor the opportunity to engage in large-scale import-substitution" (Seers, 1982, p. 86; see also Bronstein, 1997, p. 7; Frundt, 2002, p. 19)—a pattern that flies in the face of the pronounced *positive* relationship between openness and union density found in the advanced industrial countries (Ingham, 1974; Cameron, 1978; Katzenstein, 1985).[8]

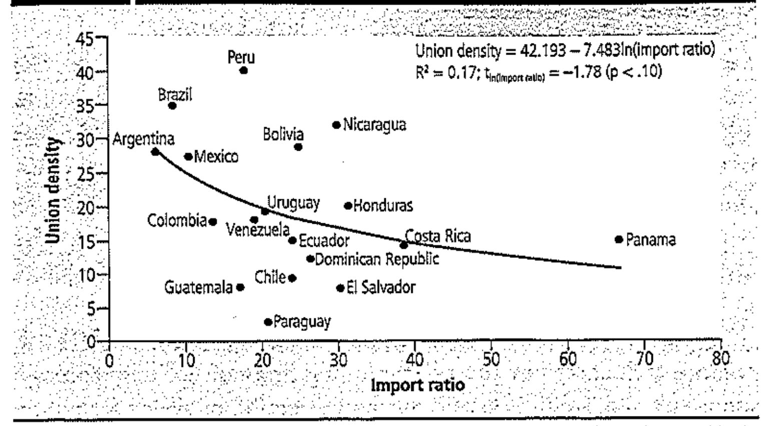
Figure 9.1 plots the relationship between openness (the ratio of imports to GDP) and union density in 18 Latin American countries at the dawn of the region's debt crisis. Trade exposure is relatively low and union affiliation is relatively high in traditionally labor-mobilizing

[6] By way of contrast, the business associations discussed by Schneider (2004) generally lacked official partisan ties and their members therefore exercised political influence through personal linkages and economic influence.

[7] "*Étatisme*" refers to an effort to give the state a more prominent role in the production and distribution of goods and services.

[8] According to Murillo (2000, p. 144), the "West European version of corporatism assumes open economies and societal corporatism. The Latin American version assumes closed economies and puts greater emphasis on the use of state institutions to control labor organization."

FIGURE 9.1 Openness and Unionization in Latin America, 1981–85



Source: Authors' calculations based on data from World Bank (2005) and Blanchflower (2006, Table 2).
Note: The import ratio is the average ratio of imports to gross domestic product between 1981 and 1985 (World Bank, 2005). Union density is the estimated percentage of union members in the workforce as a whole between 1981 and 1985 (Blanchflower, 2006).

political economies like Argentina, Brazil, Mexico, and Peru, where party–union linkages had fostered intensive industrial development efforts in potentially expansive domestic markets in the middle of the century. The relationship is reversed in traditionally elitist or exclusionary polities like the Dominican Republic, El Salvador, and Paraguay, where neither industrial development nor democratization had kept pace and labor had been drawn not toward populist parties like the PJ and AD but toward movements of the radical or revolutionary left (Frundt, 2002). The principal exceptions to the rule are Bolivia and Nicaragua—where unions gained members and influence by defending and taking advantage of more thoroughgoing social (or national) revolutions in the 1950s and 1970s, respectively (Nash, 1979; Stahler-Sholk, 1995).[9]

[9] The Federation of Mineworkers of Bolivia (Federación Sindical de Trabajadores Mineros de Bolivia, or FSTMB) constituted the traditional backbone of the Bolivian labor movement. "After the historical 1952 revolution," according to Harry Sanabria (2000, p. 60), "the FSTMB, whose phalanxes of armed miners were crucial for the revolution's success, came to wield enormous influence on the labor and political scene." Nicaraguan unions reaped the rewards of revolution a quarter of a century later. According to Richard Stahler-Sholk (1995, p. 79), the number of union members rose from 11 percent to 56 percent of the salaried labor force in the immediate aftermath of the Sandinista victory.

Crisis and Adjustment in the Late Twentieth Century: Organizational Variables

Labor's willingness and ability to influence the policymaking process are circumscribed by the organizational structure of the labor movement, as well as its relative size. Organizational factors include the *centralization* of unions (the number and nature of peak associations[10]), *collective bargaining* (at the local, firm, or industry level), and the nature and degree of *partisan competition* for labor's support. Table 9.1 includes the value of each variable for Latin America's traditionally inclusionary regimes in the 1980s.

The first two variables impinge on organized labor's ability to exercise influence over the policymaking process, not only through industrial and political action during the period of policy formation but also through the regulation of union or member behavior during the period of policy implementation. Only *encompassing* organizations with the authority to negotiate and enforce *nationwide* agreements can avoid free-riding by their members and challenges from rival unions (see Levitsky and Way, 1998, p. 183) and thereby make credible—and at least potentially public-regarding—intertemporal agreements with public and private-sector officials (Calmfors and Driffill, 1988; Wright, 2000; Scarpetta and Tressel, 2002). By way of contrast, the third variable influences organized labor's policy preferences and political options. Leadership competition from insurgent or opposition parties raises the cost and reduces the benefit of loyalty to traditional party allies, for insurgents not only disdain and discredit "blind" loyalty but simultaneously give union leaders an exit option (Burgess, 1998b).

Organizational variables are particularly salient at the implementation stage of the policymaking process—when key actors are tempted to defect from their formal commitments or informal bargains. Take the case of price stabilization. While workers reap the rewards of price stability, and therefore tend to embrace anti-inflationary measures in theory, they pay a high price for wage restraint, and therefore tend to undermine stabilization in practice. Thus, Ian Roxborough (1992, p. 645) portrays the

[10] Peak associations are organizations of organizations (or umbrella groups) that attempt to aggregate the interests of their affiliates and members. A highly centralized peak labor association would therefore count most of the country's unions and union members as affiliates or members.

TABLE 9.1 Union Organizational Structure in the 1980s

Country	Union centralization (no. of peak associations)	Collective bargaining: Dominant level	Partisan competition: Incumbents at risk?
Argentina	Single	Industry	No
Brazil	Multiple	Local	Yes
Chile	Single	Firm	Yes
Colombia	Multiple	Firm/Craft	Yes
Mexico	Dominant	Industry/Local	No
Peru	Multiple	Firm	Yes
Uruguay	Single	Industry	No
Venezuela	Dominant	Local/Industry	Yes

Source: McGuire (1997, p. 268) and authors.

whole problem of inertial inflation as the Prisoner's Dilemma. "Unions will be 'suckers' if they agree to wage controls in a context where prices continue to rise; employers will be 'suckers' if they operate price controls in a situation where a tight labour market (or government intervention) enables unions to push up real wages so rapidly that profit margins are threatened." And the "suboptimal stable solution" of persistent inflation is therefore a common feature of Latin American history.

Policymakers can pursue price stability by either effacing or embracing organized labor. While military rulers pursued the repressive option in Brazil and the Southern Cone in the 1970s, according to the late Dudley Seers (1982, p. 83), they found that radical parties and trade unions did not "cease to be important, especially at the factory level," in their traditional industrial redoubts. In Brazil and Argentina, therefore, prices continued to double almost every year throughout the latter part of the decade.

They continued to accelerate into the 1980s, when democratically elected governments adopted, but could not enforce, anti-inflationary social pacts like the *Austral* and *Cruzado* plans (Roxborough, 1992). According to Roxborough (1992, p. 646), the plans foundered on the shoals of organizational factors like "divisions within both labour and business, the lack of trust between actors, generalised attempts to be 'free riders,' the technocratic orientations of the Argentine and Brazilian governments, and the confrontational strategies pursued by important segments of the labour movements in each country."

By way of contrast, Mexico avoided hyperinflationary episodes in the 1970s and adopted a relatively successful anti-inflationary pact when prices nonetheless began to rise in the 1980s. What differentiated Mexico's *Pacto de Estabilidad y Crecimiento Económico* (PECE) from either the *Austral* or *Cruzado* plans? According to Roxborough, Mexican trade unions and business associations "played an important role in policing the pact and in restraining their more impatient members." After all, Mexico not only featured "a relatively high level of unionization" by Latin American standards, but also played host to more powerful and encompassing labor and business associations than either Brazil or Argentina. "Mexican unions are well organized in a peak organization (the Congreso del Trabajo) with approximately 90% of all unions and union members," Roxborough concludes, and the country's employers are "well organised in a number of peak associations" as well (Roxborough 1992, p. 659; see also Schneider, 2004a, on business associations more generally).

In short, the PRI's more or less successful effort to combat inflation presupposed robust ties to encompassing associations of powerful member unions. By way of contrast, Argentina's Confederación General de Trabajo (CGT) had no authority over individual member unions, little capacity to prevent free riding, and an alliance with the opposition PJ that gave it an incentive to undercut—rather than support—anti-inflationary measures adopted by the governing Radical Party.[11] Finally, Brazil's Central Única dos Trabalhadores (CUT)—one of two rival peak associations—had long-standing ties to the principal opposition party and therefore had an incentive to defect rather than cooperate.[12]

Partisan alliances between encompassing union confederations and policymakers do not necessarily guarantee intertemporal agreement, however, for union behavior is also likely to be circumscribed by the nature and degree of competition for labor's political support. Take the case of Venezuela. While unions and labor leaders have traditionally been affiliated with the Confederación de Trabajadores de Venezuela

[11] The CGT called more than a dozen general strikes against the Alfonsín administration during the 1980s.

[12] Some might trace Mexico's relative anti-inflationary success to authoritarian rule. A substantial body of literature documents the persistence of genuine bargaining between the PRI and the CTM unions, however, and Roxborough discounts the idea that the unions were mere "puppets" of the state (Roxborough, 1992, p. 619). Furthermore, Mexico outperformed Argentina and Brazil on macroeconomic criteria during their respective authoritarian interludes as well (see, for example, Seers, 1982, p. 84).

(CTV), and have therefore been linked to AD, they confronted leadership competition from left-wing parties like the Causa R and the Movimiento Electoral del Pueblo in the early 1990s, and therefore demonstrated their independence and refusal to "sell out" by opposing their traditional ally's stabilization and reform measures—for better or for worse (Burgess, 1998a; Murillo, 2000).

Conflict and Compensation in the Reform Era: Policy Scope and Impact

The free-market reforms that followed hard on the heels of macroeconomic stabilization threatened organized labor in myriad ways. Economic liberalization and market opening placed the solvency of protected firms and the jobs of their unionized workers at risk. Privatization and fiscal austerity threatened public-sector employment and nonwage subsidies, as well. Efforts to deregulate labor markets promised to erode union influence throughout the economy and polity. Unemployment and the rollback of the social safety net raised the cost of job loss and lowered labor's bargaining power. And the intensification of international competition militated against improvements in wages, benefits, and working conditions more generally (Bronstein, 1997).

Unions have certainly suffered under the weight of crisis and reform. Organized labor's share of the Latin American labor force apparently declined from an average of 25 percent in the early 1980s to an average of 16.3 percent by the mid-1990s (IDB, 2003, p. 233). Wages, benefits, and working conditions have suffered as well—albeit less uniformly.

Organized labor's reactions to the reforms in question varied by issue area as well as by country, however, and they therefore deserve closer scrutiny. Economic policy reforms vary along two relevant dimensions: the *scope* and the *intensity* of their impact on unions and their members (see Table 9.2).

Labor unions have neither the will nor the ability to resist low-intensity reforms like tax reform or sectoral deregulation. They may voice their opposition, but they will save their limited resources for more important battles—especially during times of crisis.[13]

[13] Organized labor is by no means the sole arbiter of reform's advance, however, and low-intensity reforms may therefore face powerful sources of opposition and support outside the

TABLE 9.2 A Typology of Economic Reforms and Union Responses

	Scope of impact	
Intensity of impact	Broad	Narrow
High	Rollback (labor law reform)	Compensation (privatization, social sector reform)
Low	Tacit acceptance (tax reform)	Tacit acceptance (telecommunications or energy deregulation)

Source: Adapted from Madrid (2003a, p. 62).

Labor Law Reform: Rollback

Labor unions respond to crisis by devoting their limited resources to campaigns that are broad in scope—that affect all or most of their members—and intense in impact. Labor law reform constitutes the archetypal example (Madrid, 2003a). Labor market flexibility is a threat not only to the wages, benefits, and working conditions of individual union members but to the very survival of the labor movement itself. And Latin American unions therefore redoubled their efforts to combat the deregulation of their markets in the late 1980s and 1990s.

The results of their efforts are by now clear. "Over the past 15 to 20 years there have been some attempts to reform labour laws," according to Simeon Djankov of the World Bank. "They have either been reversed completely or even further inflexibilities created."[14]

The labor market arguably constitutes the Achilles' heel of the liberal model—and the Waterloo of the Washington Consensus (Lora and Panizza, 2003, p. 128; Pagés, 2004, p. 67; Singh et al., 2005, pp. 17–18). While market reforms in the areas of trade, investment, and public procurement and ownership are designed and expected to engender the efficient reallocation of human as well as physical resources, and therefore all but *presuppose* the *deregulation* of the labor market, they threaten labor's traditional rights and privileges, and therefore

labor movement. Lora and Panizza (2003, p. 127) suggest that reform's advance has been greatest in trade and finance, moderate in taxation and privatization, and nonexistent or even negative in the labor market.

[14] Djankov, quoted in Richard Lapper, "Cutting the Ties that Bind," *Financial Times*, March 29, 2004, p. 2.

tend to *provoke* efforts to *reregulate* the labor market (Murillo, 2005; Murillo and Schrank, 2005). The point is not merely that unions aggregate their interests and resources to block the deregulation of the labor market *pace* (Madrid, 2003a), but that they push for *new* labor market regulations in order to offset or provide counter threats to their interests in *other* policy domains. Thus the "double movement" between "economic liberalism" and "social protection," christened by Karl Polanyi in the middle of the twentieth century, is alive and well in Latin America today—for better or for worse (Polanyi, 1944, p. 132; see also Piore and Schrank, 2006).

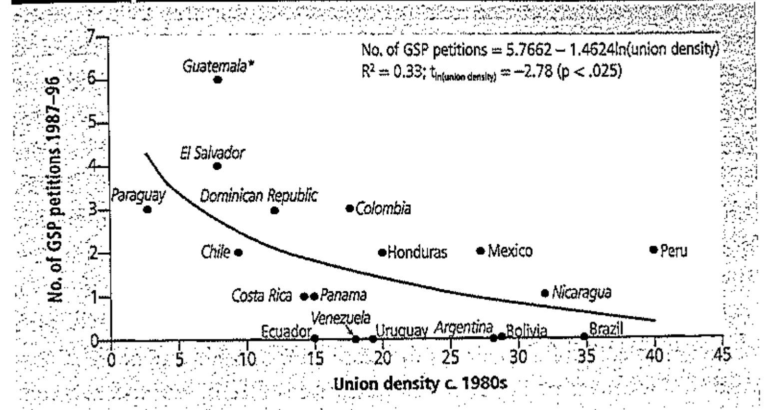
This study further examined the seemingly paradoxical growth of labor market regulation during the era of free-market reform (1985–2000) by disaggregating Latin American labor laws into their individual and collective components. The former regulate wages, benefits, and working conditions. The latter regulate organization, collective bargaining, and the right to strike. While 10 of 16 reforms to individual labor law rolled back preexisting regulations, and thereby increased labor market flexibility, 13 of 18 reforms to collective labor law added new regulations, and thereby undercut flexibility (Murillo, 2005; Murillo and Schrank, 2005). The reform pattern is consistent with this chapter's interpretation of union strategy, for collective labor law not only affects all unionized workers but provides the very foundation of their organizational existence, whereas individual labor law affects all workers regardless of their associational status and is therefore less central to union leaders.

The ability of organized labor to extract concessions in the realm of collective labor law is puzzling, however, for the free-market reforms adopted in the 1990s not only placed enormous pressure on labor costs, and thereby militated against the empowerment of organized labor in theory, but also provoked mass layoffs in the heavily unionized manufacturing and public sectors, and thereby militated against the empowerment of organized labor in practice. Why, then, did policymakers grant labor's demands? Union influence over the policymaking process in regard to collective labor law presupposed support from two different allies—labor-backed parties at home, and labor-backed policymakers overseas—in two different political and economic contexts. While labor-backed parties adopted relatively union-friendly labor reforms in traditionally *inclusionary* polities like Argentina and Venezuela, and thereby compensated their core constituents for liberal reforms in other issue areas, labor-backed policymakers in the United States conditioned preferential access to their own market on the recognition and defense of core labor standards in traditionally *exclusionary* polities like El Salvador and the Dominican Republic, and thereby appeased their own core constituencies (organized labor, human rights activists) at a time of unprecedented import penetration (Murillo and Schrank, 2005). The former trajectory is more common in the traditionally labor-mobilizing polities of South America, where import-substituting industrialization fostered the growth of labor-backed parties in the postwar era. The latter is the norm in the traditionally exclusionary environs of Central America, where more vulnerable unions decided to compensate for their impotence at home by searching for alliance partners overseas.

North American labor and human rights activists constituted all but ideal allies. After all, the U.S. Trade and Tariff Act of 1984 not only forces recipients of "better than most-favored nation" access to the U.S. market to take steps toward the defense of core labor standards, but also allows interested parties like labor and human rights activists to petition the United States Trade Representative (USTR) to review their records, evaluate their laws, and eventually even withdraw their access to the Generalized System of Preferences (GSP) for noncompliance. North American labor and human rights groups therefore petitioned the USTR on behalf of their Latin American associates throughout the late 1980s and 1990s (Frundt, 1998; Anner, 2002; Murillo and Schrank, 2005).

The petitioning process transforms the principal axis of the debate over labor law reform in the exporting country from *class* to *sector*. After all, the prospect of labor law reform typically pits workers, who are armed with their votes, the occasional lawsuit, and the threat of mass mobilization and strike (M.L. Cook, 2002, p. 16), against employers, who are armed with campaign contributions, lobbyists, and the implicit or explicit threat of an investment strike of their own (Barrett, 2001, p. 597). By tying market access to labor law reform, however, the USTR gives employers in the tradable sector an incentive to betray their class for their sector—that is, to defect from the latent capitalist coalition and to join forces with workers and activists in support of regulations that will in all likelihood burden employers in the nontradable sector as well.

FIGURE 9.2 Sources of Collective Labor Law Reform, Domestic and Transnational Alliances



Source: The number of GSP petitions is from CBO (1997); union density is from Blanchflower (2006); and collective labor law reforms (italicized countries) are from Murillo and Schrank (2005, p. 975).
Note: Guatemala adopted a union-friendly labor law reform in the early 1990s but subsequently deregulated. Argentina deregulated and later reregulated. Nicaragua regulated, deregulated, and later reregulated again. The scatterplot is included for ease of presentation. A more statistically satisfying multivariate negative binomial model yields consistent results and is available from the authors upon request. Neither Chile, Mexico, nor Nicaragua is currently party to the GSP; however, all Latin American countries, including Chile, Mexico, and Nicaragua, were party to the system in the late twentieth century.

Figure 9.2 plots the number of GSP petitions filed per country between 1987 and 1996 by the level of union density in the early 1980s. The names of countries that reformed their collective labor laws in a union-friendly direction appear in italics. The data suggest that domestic and transnational alliances are for the most part substitutes rather than complements. While labor-backed parties adopted precautionary or compensatory reforms in traditional union strongholds like Argentina and Venezuela, transnational alliances achieved similar ends through trade conditionality in traditionally exclusionary environments like Paraguay, the Dominican Republic, and Central America.[15]

[15] The principal exceptions—Chile and Nicaragua—are rendered difficult to classify as either inclusionary or exclusionary due to their radically shifting political fortunes over the course of the past quarter of a century. Chile is a traditionally inclusionary polity with an unprecedented authoritarian interlude. Nicaragua is a traditionally exclusionary polity forever changed by a decade of socialist rule. Domestic and transnational alliances may therefore have proven complementary in one or both countries.

The results are neither trivial nor cosmetic. After all, the PJ not only centralized collective bargaining but reaffirmed union monopolies of representation and control over social services in Argentina (Etchemendy, 2001; M.L. Cook, 2002; Murillo, 2005; Murillo and Schrank, 2005; Etchemendy and Collier, 2007). AD made broadly similar concessions to the CTV in Venezuela (Burgess, 1998a; M.L. Cook, 1998; Murillo, 2005). The Concertación tempered the most liberal aspects of the military-era labor law in Chile (Pulido, 2001; Murillo, 2005). And Central American and Caribbean policymakers not only traded their traditionally repressive labor laws for preferential access to the U.S. market but redoubled their notoriously lax enforcement efforts as well. For example, the Guatemalans and Salvadorans doubled the size of their respective enforcement divisions in the 1990s and early 2000s. And the Dominicans not only tripled the size of their own enforcement division but adopted new hiring criteria—including legal credentials and competitive examinations—and employment guarantees, as well (Piore and Schrank, 2006; Schrank, 2009).

The reforms underway in Central America and the Caribbean are by no means uncontroversial. The International Labour Organization (ILO) acknowledges a number of "pending" issues, including limits to freedom of association (ILO, 2003, p. 3; see also ILO, 2004). And the ILO's approach to international standard setting is controversial, in any event (Caraway, 2006). But the laws on the books today are—by almost any metric—more favorable to organized labor than their predecessors. The average Central American country has ratified 50 percent more ILO conventions today than a quarter of a century ago (ILO, 2006).[16] The subregion actually outperforms the rest of Latin America on the ILO's newly established "intentions and commitments index" (ILO, 2002, pp. 57–58, Table 1b). And proponents of international labor standards tend not only to praise the "new and improved labor codes" (Douglas, Ferguson, and Klett, 2004, p. 298) on their merits but to acknowledge their all but revolutionary nature as well.

[16] Nancy Chau and Ravi Kanbur demonstrate that ILO ratifications are systematically related to a number of exogenous variables and are, among other things, "an indicator of higher domestic standards" (see Chau and Kanbur, 2002, p. 22).

Privatization and Trade Liberalization: Compensation

Massive resistance and rollback are neither likely nor necessary in the face of reforms that are narrower in scope and correspondingly asymmetrical in impact. On the one hand, unions find it hard to muster widespread support for campaigns against asymmetrical or divisive reforms like privatization and trade liberalization. Unions that are unlikely to be affected by the reforms are neither willing to devote their scarce resources to altruistic or ideologically motivated campaigns nor able to ensure that their efforts will be rewarded by reciprocal "tit for tat" behavior down the road. On the other hand, policymakers tend to purchase union support for narrow reforms with compensatory measures and side-payments. "Where reforms only affect a few unions," writes Raúl Madrid (2003a, p. 63), "it is much easier to compensate the losers, which can mitigate their opposition to reform. Compensation may involve rewarding the leaders of the unions with government posts or providing the unions with some sort of financial compensation (such as a stake in the privatized enterprise), which can typically only be doled out to a limited number of unions or union leaders."

There are many examples of such compromises/negotiations (Oxhorn, 2005). President Carlos Menem derailed opposition to the privatization of petroleum, railroads, and public utilities in Argentina by giving Peronist labor leaders lucrative positions in his government (Levitsky and Way, 1998, p. 177; Manzetti, 1999, pp. 96–97; Madrid, 2003a, pp. 72–73). The PRI pursued broadly similar tactics in Mexico (Brachet-Márquez, 1992, p. 108; Macleod, 1998, p. 33). And Brazilian policymakers continue to offer dissident union leaders jobs and contracts in their country's insatiable—but not necessarily ineffective—labor bureaucracy (Houtzager, 2001, p. 20; Damiani, 2003, pp. 102–04). "Given the precariousness of the labor market in Brazil," writes Thomas Skidmore, "these relatively well-paid positions have great appeal to all but the most dedicated political activists" (Skidmore, 2004, p. 141).

Government jobs are not simply payoffs to individual labor leaders, however, but are a form of "social linkage" (Levitsky and Way, 1998, p. 177) that *facilitates* financial compensation. For example, the PJ not only staffed the Argentine labor ministry and national health administration agency with loyal labor leaders but used their presence to negotiate important "material exchanges" (Levitsky and Way, 1998, p. 177), including a bailout of union debts, the preservation of labor's virtual monopoly over the provision of health insurance, and union participation in the newly created market for worker's compensation (Murillo, 2000; Etchemendy, 2001; M.L. Cook, 2002).[17]

Financial compensation is a particularly prominent feature of privatization, however, and tends to accrue to party-affiliated unions with de facto—if not necessarily de jure—monopolies of representation in their respective public-sector activities (Murillo, 2001). While powerful unions of public employees offer their partisan allies a potential threat (defection) as well as a political opportunity (loyalty), and are therefore able to demand compensation for their support, their decentralized or divided counterparts offer allied policymakers little more than aggravation, and are therefore unable to demand comparable concessions. Take, for example, the case of privatization in Venezuela. President Carlos Andrés Pérez offered the cohesive and combative employees of the state telecommunications monopoly an ownership stake in their prospective private employer—as well as representation on the board of directors and a variety of contract and employment guarantees—but ran roughshod over objections to the private provision of education emanating from fragmented unions of ideologically heterogeneous teachers (Murillo, 2001).[18]

Nor is Venezuela unique. Argentina and Mexico not only offered their own telecommunications workers broadly similar concessions in the run-up to privatization in the 1990s, but compensated their electrical workers and their encompassing organizations as well (Murillo, 2001). A similar dynamic emerged when labor-backed policymakers pursued trade reform and entered regional integration initiatives. For example,

[17] The "government jobs for political loyalty" strategy may well *depend* upon the concomitant compensation of the rank-and-file, rather than its repression or exclusion. According to Karen Remmer, the labor leaders who challenged the Pinochet regime in the late 1970s included traditional moderates who had been appointed to a variety of government posts in the immediate aftermath of the coup, only to defect from the military regime following the "application of controls to the trade union movement as a whole" in the mid-1970s. "As the implications of these controls became clearer, both in response to the elaboration of the government's political plans and the functioning of its economic policies," she concludes, "the junta's base of trade union support disintegrated" (Remmer, 1980, p. 291). See Kurtz (1999) for a broader account of the junta's rightward drift and corresponding alienation of moderate elements in the trade unions and the Christian Democratic Party.

[18] A sectoral account of the divergent outcomes is gainsaid by the fact that the PRI compensated the well-organized Mexican teachers for broadly similar reforms (Murillo, 2001).

Argentina and Venezuela offered encompassing unions of automobile workers a variety of compensatory measures, including a commitment to human resource development, input into personnel decisions, and supplementary tariffs and quotas (Murillo, 2001; Etchemendy, 2001). Labor unions have been relentless advocates of antidumping and countervailing duties throughout the region (Guasch and Rajapatriana, 1998). And Marcelo Olarreaga and his colleagues find that deviations from liberal tariff regimes are associated with a proxy for labor union influence in both Mexico and the Southern Cone (Olarreaga and Isidro Soloaga, 1998, p. 314; de Melo, Grether, and Olarreaga, 1999, p. 19).

Murillo (2001) traces concessions to two different union strategies—*restraint* and *militancy*—and offers a bivariate explanation of their occurrence and consequences. The first variable, partisan competition for labor's political support, affects the likelihood and degree of union militancy. While labor leaders are ideologically and instrumentally connected to their partisan allies, and therefore tend to exercise restraint when their partisan loyalties go unchallenged, they are ultimately committed to their own survival, and therefore tend to embrace militancy when their alliances and authority are threatened by dissident factions from rival parties. The second variable, interunion competition for members, affects the payoff to restraint and militancy. While encompassing unions have much to offer their traditional party allies, and are therefore able to extract meaningful concessions regardless of whether they pursue restraint or militancy, their fragmented counterparts have decidedly less influence, and are therefore unable to extract comparable concessions (see Table 9.3).

Murillo's framework offers a compelling explanation of the nature of economic adjustment under labor-backed parties in the 1980s and

TABLE 9.3 Union Strategies and Outcomes

		Partisan competition for labor leadership	
		One-party monopoly	*Multiparty competition*
Interunion competition for members	*Monopoly/ Encompassing unions*	Cooperation (effective restraint)	Opposition (effective militancy)
	Competition/ Competitive unions	Subordination (ineffective restraint)	Resistance (ineffective militancy)

Source: Adapted from Murillo (2000, p. 153).

1990s. While powerful leaders of encompassing unions are paid handsomely for their loyalty in normal times, and therefore tend to exercise restraint where possible, they are threatened by rank-and-file defection to more radical parties and tendencies in times of crisis, and therefore tend to adopt militant postures. According to Murillo, Venezuelan telecommunications workers responded to left-wing appeals by abandoning restraint for militancy in the early 1990s. Argentine militants dispelled a dissident faction of telecommunications workers in Buenos Aires and moved in the opposite direction (from militancy to restraint) over the same period. Mexican telecommunications workers practiced loyalty to the PRI in the face of market reform throughout the period. However, labor-backed policymakers offer their more encompassing union allies concessions regardless of whether they are pursuing restraint or militancy. The key to compensation is therefore the degree of union concentration or fragmentation rather than the intensity of partisan competition for labor's support (Murillo, 2001).[19]

Nevertheless, Murillo's model of compensation is designed to account for market reforms undertaken by populist or labor-backed parties—that is, a "Nixon-goes-to-China" scenario (Cukierman and Tommasi, 1998)—and therefore leaves a number of questions unanswered. Do elite-based or center-right parties compensate unions for costly free-market reforms? And, if so, how and why? While the dynamics of compensation are likely to differ in the absence of labor–party linkages, the extant literature is all but silent on the question of how. This study

[19] Argentina and Mexico evince a wide array of compensatory strategies. Some unions used their influence in the executive and legislative branches of the Argentine government, and the occasional show of force, to derail labor law reform, modify health care reform, and mitigate the more threatening aspects of pension reform (Etchemendy, 2001; Murillo, 2001; Madrid, 2003a). Other Argentine unions adapted to privatization and deregulation by negotiating employee stock ownership agreements, union buyouts of privatized assets, and potentially lucrative positions in the provision of private pension funds, workplace accident insurance, and health care. Finally, a third group reinvented itself by breaking with the PJ entirely, denouncing corporatism, and establishing a new Congress of Argentine Workers (Murillo, 1997a). A similar pattern can be observed in Mexico. The more traditional PRI unions used their political influence to derail labor law reform and the proposed overhaul of the public housing system. By way of contrast, the so-called "new" unions, including teachers and telephone workers, modernized and participated in privatization and provision of social services on favorable terms. Finally, the more independent unions that had emerged in the 1970s continued to denounce free-market reform *and* corporatism. In both countries, therefore, the proposed labor law reform would link anti-corporatist unions and employers to no avail (Murillo, 1997b, 2001).

therefore offers—but does not systematically test or defend—a "divide-and-conquer" hypothesis as a first step toward formulating an answer. The hypothesis departs from the distinct goals of mass- and elite-based parties vis-à-vis organized labor. While labor-backed parties need to defend their working class allies (and alliances) from the high cost of adjustment, and therefore view compensation as a form of cement, their center-right rivals need to prevent their working class enemies from impeding costly adjustment, and therefore view compensation as a potential solvent—that is, a wedge that will divide an otherwise threatening opposition. Thus, Brazilian officials defused the appeals of militant union leaders who opposed privatization by offering their rank-and-file constituents shares in firms like Usiminas and Embraer on particularly attractive terms (Montero, 1998). And the Chamorro government used a similar divide-and-conquer strategy to neutralize Sandinista opposition to privatization in Nicaragua (Prevost, 1996, pp. 312–14).

The point is most assuredly not that cooptation and fragmentation are easy or that policymakers always achieve their goals. Unions have not only extracted concessions from their political representatives, but have at times waylaid their plans entirely. For example, Uruguayan workers and their allies blocked the privatization of their state-owned telecommunications monopoly in a nationwide referendum in the early 1990s.[20] Unions in Ecuador used industrial action to achieve broadly similar ends a decade later.[21] And Mexican oil workers continue to resist "any measures perceived to be back door privatization" of PEMEX.[22]

Public service providers are particularly adept at exercising influence over the policymaking process—and their influence arguably grows *after* policy adoption. Take, for example, the case of medical professionals like doctors and nurses. The services they provide are not only essential but nontradable; that is, they are largely insulated from international competition. Their "positional power," or disruptive potential, is therefore

[20] Nathaniel Nash, "Uruguayans Still Resisting Call to Modernize Economy," *New York Times*, February 28, 1993, p. A21.

[21] Nicholas Moss, "Three Strikes in Ecuador's Privatisation Series," *Financial Times*, June 14, 2002, p. 3.

[22] Richard Lapper, "Change Is Needed but Far from Easy at PEMEX: Unless Reforms are Imposed on the State Oil Monopoly the Country Could Rely on Imports by 2015," *Financial Times*, December 13, 2005, p. 2.

enormous (Perrone, Wright, and Griffin, 1984, p. 414; see also Eckstein, 2004, p. 14). Nor are Latin American service providers unique. On the contrary, Geoff Garrett and Christopher Way found that public-sector workers who are insulated from international competition were less likely to exercise wage restraint in the developed market economies, as well (Garrett and Way, 1995).

Medical professionals have used their positional power to combat privatization and spending cuts throughout the region. In fact, Julio Savino of the Pan American Health Organization has identified more than 100 nationwide strikes of health service providers in more than a dozen different Latin American countries since 2003, and has traced their origins to privatization, austerity, and salary disputes (Scavino, 2005). Salvadoran doctors and nurses have been among the most vocal, as well as the most persistent, critics of privatization and austerity,[23] but they are not alone. Medical professionals have made repeated appeals for higher salaries, better resources, more stable career paths, and an end to contracting out in countries like Bolivia, Peru, the Dominican Republic, Honduras, and Nicaragua. Policymakers have responded to their appeals by raising their salaries, abandoning (or at times postponing) privatization, creating new institutions for interest intermediation, and in a number of important cases stepping down.

Striking medical professionals are by no means omnipotent; policymakers have also responded with threats, dismissals, and outright repression.[24] But Scavino (2005, esp. pp. 7–8) notes that doctors have irreplaceable skills and a high degree of legitimacy among the general public and therefore tend to achieve their goals with surprising frequency. Nor are they alone. A substantial and growing body of research suggests that skilled public sector professionals are at the forefront of Latin America's new protest movements—and generally command a good deal of public support (Eckstein, 2004). Thus, the locus of organizational and oppositional activity appears to have moved from the private sector to the public sector over time.

[23] Catherine Elton, "Working Class in El Salvador Fighting Medical Privatization," *Houston Chronicle*, March 9, 2003, p. A32.

[24] Lucía Navas and Haydée Brenes, "MINSA alista despidos." *El Nuevo Diario* (Managua), January 23, 2006. Available online at http://impreso.elnuevodiario.com.ni/2006/01/23/nacionales/10944.

Conclusion

Organized labor has played and will continue to play an important part in the Latin American policymaking process. While unions and their members have suffered enormously under the combined weight of austerity and adjustment, and are therefore at their low ebb in terms of membership and influence on the proverbial shop floor, they are neither dead nor particularly docile—their relatively "low level of strike activity" notwithstanding (Kurtz, 2004, p. 276). On the contrary, Susan Eckstein holds that private-sector strikes have been rendered "risky and ineffective" (Eckstein, 2004, p. 28) by globalization and that unions have therefore redoubled their efforts to pursue their goals in the political arena. Organized labor not only formed the backbones of the movements that brought presidents like Lula, Néstor (and later Cristina Fernández de) Kirchner, and Evo Morales to power but also played a key part in the impeachment or ouster of their predecessors (including Fernando Collor de Mello, Gonzalo Sánchez de Lozada, and Carlos Mesa). And Kathryn Hochstetler (2006) finds that unions have been at the forefront of successful as well as unsuccessful movements to depose democratically elected presidents throughout Latin America over the past quarter of a century.

Latin American unions have a number of valuable assets at their disposal and continue to use their assets to defend the interests of their members. They command the loyalty of millions of individual workers and their families. They take advantage of alliances with political parties, social movements, and their fellow trade unionists at home and abroad. They control strategic activities in their respective public and, to an admittedly lesser degree, private sectors. They are certainly no more likely to disappear now than 30 years ago—when they survived not only the debt crisis and austerity but the imprisonment, torture, and systematic murder of their leaders.

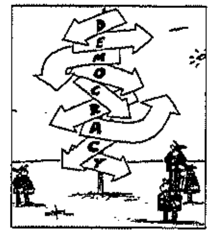
The question, therefore, is not whether but how workers and their representative organizations will influence the region's political process in the years to come. Will they embrace (and be embraced by) formal institutions and arrangements? Or will they be condemned to outsider status and drawn toward extra-parliamentary activity? While North American officials are at best ambivalent and at worst pessimistic about the current state of affairs, and are particularly exercised by the apparent rebirth of the Latin American left, their cynicism is not entirely warranted.

After all, European labor relations are marked by a vibrant and by no means threatening tradition of democratic corporatism. Latin American industrial relations bear the scars of corporatism—both democratic and authoritarian—as well. A number of the compromises and concessions that marked the free-market reform era arguably served to underscore, rather than undermine, the region's corporatist tendencies. Financial compensation has transformed tens of thousands of workers into stock owners and stakeholders in some of the region's largest firms (see Kikeri, 1998, p. 22). Unions have engaged in tripartite negotiations over wages, prices, reforms, and working conditions (Bronstein, 1995). Labor ministries have adopted a "tutelary" Franco-Iberian approach to labor market regulation and law enforcement (Piore and Schrank, 2006; Pires, 2008; Schrank, 2009). And vocational education and training institutions have not only grown in size and scope throughout the region but have made successful—if modest—efforts to mimic the German "dual system" of workforce development as well (Gallart, 2001; Galhardi, 2002).

The point is most assuredly not that Latin America is beginning to look like Western Europe. Nothing could be further from the truth. The aforementioned examples are limited in scope as well as significance. They are matched—and perhaps even outnumbered—by anti-corporatist or liberal counterexamples. And Latin American labor unions continue to lose members, money, and influence at an alarming rate.

The point is simply that Latin America's deepest tendencies are corporatist rather than liberal; that corporatist institutions are not obviously inferior to liberal ones from the standpoint of growth and distribution; and that policymakers who are interested in forging durable intertemporal agreements capable of generating sustainable long-run development should at the very least consider embracing and improving, rather than eliminating, Latin American corporatism. After all, European history offers at least some reason to believe that corporatist institutions can be improved over time. Latin American history offers little reason to believe that they can be eliminated over time—and no reason at all to believe that their elimination would constitute or give birth to an improvement in living standards in any event.

CHAPTER 10



The Latin American News Media and the Policymaking Process

Sallie Hughes

Latin American policy studies typically do not explore the role of the news media as participants or even influential outsiders in the policymaking process. If mentioned at all, the press usually appears as a passive intermediary in a two-step process linking elite messages and mass opinion. Media are conceptualized as conduits for elite information without direct consideration of how news media messages are constructed or what influences they might have on policymakers, the policy process, or public opinion about policy options (Moreno, 1996; Armijo and Faucher, 2002; Heredia and Schneider, 2003; Hochstetler, 2003; Wampler, 2004).[1]

Armijo and Faucher, for example, refer to news media as an "elite-controlled resource" (2002, p. 20). Heredia and Schneider speak of the need "to package" unpopular reforms within popular proposals (2003, pp. 7, 8), but do not explore under what conditions media may unwrap those packages for public display. Several authors advise reformers to control how policy is framed in political discussions and public perceptions, without analyzing how to convince the media to reflect such framing (Bresser-Pereira, 2003; Panizza, 2004).

On the other hand, regional media analysts approach the media and policy nexus by analyzing the rise (and sometimes decline) of

[1] An exception is Cortázar Velarde (2002), as well as studies of media influence in communications policymaking including Hughes (2009), Hughes and Prado (forthcoming), and Sosa Plata and Gómez García (2008). Johnson's forthcoming article, "The Media's Dual Role: 'Watchdog' and Guardian of their Own Interests," is an important addition to these studies.