Partisanship amidst Convergence

The Politics of Labor Reform in Latin America

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The increasing internationalization of the world economy has eroded the regulatory capacity of national governments. Countries have to compete to attract capital.[1] Nowhere is this competition more apparent than in capital-scarce less developed countries.[2] Competition took root in Latin America between 1985 and 1998, when most countries adopted structural reforms as a generalized response to international economic pressures.[3] In the mid 1980s the failure of traditional policies to attract capital inflows to cover fiscal deficits and debt services exposed the crisis of the previous developmental strategies and facilitated the emergence of a new policy consensus around economic liberalization and state retrenchment. Led by Mexico, most countries in the region opened their economies and shrank their states between 1985 and 1998, when, due to international financial crises, capital flows declined regardless of policy signals.

The reform process in Latin America moved consistently toward increasing liberalization across an array of policy areas.[4] Among the reasons why Latin American governments, conservative and populist alike, implemented structural reforms were the shortage of capital and fiscal and macroeconomic imbalances. Under harsh macroeconomic conditions, multilateral organizations, creditors, and investors, aided by domestic technocrats sharing their economic ideas, became more influential in providing incentives for policy convergence.[5]

However, partisan policymaking did not disappear. Political parties continued to adopt sectoral policies with concentrated effects on traditional supporters to keep their backing. Labor-linked parties used labor market regulation to keep labor supporters despite the regional convergence toward labor deregulation.[6]

Market reforms included trade liberalization, deregulation of capital flows, and privatization of state-owned enterprises. All these policies generated pressure on labor costs, which had been previously passed on to consumers, thereby straining labor regulations. Because most of the Spanish and Portuguese speaking countries of the region reformed their labor laws during this period, economic pressures seemed to erode government regulatory capacity in this policy area regardless of partisanship.[7] However, partisanship still exercised influence on policymaking in the area of labor regulations.

The regulation of labor markets includes both individual and collective labor law. Individual labor law involves the rights of individual workers, such as work conditions, work time, compensation, type of contract, and job security. Collective labor law regulates collective bargaining, collective disputes (for example strikes), and labor organizing. The evolution of individual and collective labor law has three possible outcomes: no reform (keeping the prior regulations), deregulatory reforms (decreasing workers' protection and providing more discretion to management to make labor markets more flexible), and regulatory reforms (increasing workers' rights and decreasing management discretion, thus making labor markets more rigid). Deregulatory reforms predominated in the modification of individual labor law, which has a direct effect on labor costs. There are, however, instances of regulatory reforms of individual labor law despite economic pressures toward deregulation. What explains them?

Partisanship and political uncertainty create conditions for regulatory reform of individual labor legislation despite the regional convergence toward deregulation. Latin American labor-linked parties abandoned their traditional populist policy preferences in favor of structural reforms.[8] This policy switch generated political uncertainty about the support of their traditional constituencies, whose backing was based on the opposite policies. Because labor-linked parties want to avoid alienating businesses whose confidence they are trying to win with their promarket policies, they prefer the status quo on labor regulation.[9] However, when incumbent labor-linked parties both felt more uncertain and needed labor loyalty, they tried to keep the support of their labor allies, who were being hurt by market-oriented policies, without risking their appeal to median voters, who are crucial for electoral survival. Regulatory labor reforms are useful in keeping labor support because their impact is concentrated on labor constituencies and does not affect the preferences of the median voter, thereby reducing the electoral cost for incumbents.[10] Moreover, because legal reforms are difficult to overturn in presidential systems, these institutional changes can have long-lasting consequences on the labor markets.[11]

Policy Convergence and Labor Reform in Latin America

This analysis compares all cases of labor reform between 1985 and 1998 in the Spanish and Portuguese speaking countries of Latin America.[12] Labor reforms in Latin America were gradual, and they targeted both individual and collective labor law. Table 1 presents all cases of reform per administration, either deregulatory or regulatory, indicating whether they involved individual or collective labor law. Table 1 illustrates the predominance of deregulatory reform of individual labor law and regulatory reform of collective labor law, which is consistent with economic pressures because the former has a more direct impact on labor costs than the latter.[13]

Table 1 Individual and Collective Labor Law Reform

Country	Administration	Affiliated Labor Confed	Individual law	Collective law
Argentina	1st Menem (1989-95)	YES	Deregulatory	Deregulatory
	2nd Menem (1995-00)	YES	Regulatory	Regulatory
Brazil	2nd Cardoso(1998-03)	NO	Deregulatory	None
Chile	Alwyin (1990-94)	YES	Regulatory	Regulatory
Colombia	Gaviria (1990-94)	NO	Deregulatory	Regulatory
Costa Rica	Calderón Fournier (1990-94)	NO	None	Regulatory
Dominican Rep	Balaguer (1991-96)	NO	None	Regulatory
Ecuador	Borja (1988-92)	NO	Deregulatory	Deregulatory
El Salvador	Calderón Sol (1994-99)	NO	Regulatory	Regulatory
Guatemala	Serrano Elías (1991-93)	NO	Deregulatory	Regulatory
	Arzú (1995-99)	NO	None	Deregulatory
Nicaragua	Ortega (1984-90)	YES	Regulatory	Regulatory
	Chamorro (1990-96)	NO	Deregulatory	Deregulatory
	Chamorro(1990-96)	NO	Regulatory	Regulatory
Panama	Pérez Balladares (1994-99)	YES	Deregulatory	Regulatory
Paraguay	Wasmosy (1993-98)	YES	None	Regulatory
Peru	1st Fujimori (1990-95)	NO	Deregulatory	None
	2nd Fujimori (1995-00)	NO	Deregulatory	Deregulatory
Venezuela	Pérez (1989-93)	YES	Regulatory	Regulatory
	Caldera (1994-98)	NO	Deregulatory	None
Totals			10 Deregulatory 6 Regulatory	5 Deregulatory 12 Regulatory

Source: elaborated by the author (see endnote 12)

The effect of economic pressures is visible not only on deregulatory reforms of individual labor law, but also on the choice of legal clauses to be modified. The immediate pressure of trade competition on labor costs usually involves increasing wage flexibility (to reduce pay levels) and external flexibility (to decrease the cost of firing and hiring). By contrast, reforms related to changes in production flexibility and work organization to incorporate the rapid adaptation of new technologies require deregulation in different areas. In particular, they require increased temporal flexibility on work time and work cycles and functional flexibility to allow for jobs involving multiple tasks. Therefore, if short-term economic pressures prevailed over long-term changes in production strategies, there should be a predominance of reforms involving wage and external flexibility during this period. Of the ten deregulatory reforms to individual labor law, nine increased wage and external flexibility, while only two involved temporary flexibility. Thus, immediate economic pressures were particularly important in labor deregulation.

In short, economic pressure for policy convergence toward deregulation was stronger for individual than for collective labor law. This effect makes regulatory reforms most remarkable and highlights the need to focus on political incentives to explain their occurrence against economic pressures.

Partisan Links and Policy Type under Political Uncertainty

What conditions generate political incentives to pass regulatory reforms to individual labor legislation against the pressure for labor deregulation? First, policy effects are crucial. Partisanship is more likely to exercise an influence on policymaking when policy effects are concentrated on an organized group allied politically with the government. Labor regulation concentrates its effect on workers in the formal sectors and spreads its impact across all of them, thereby facilitating common preferences and unified policy pressures. Yet at the same time its effect is opaque for the median voter whose preferences are crucial on election day.[14] Thus, this reform involves high stakes for organized constituencies but has a relatively low electoral cost for the government.

Second, labor-linked parties shifted their traditional policies from populism to neoliberalism in a desperate attempt for political survival amid macroeconomic instability. This policy switch generates uncertainty for politicians because voters are harsher in their evaluations of policymakers who are not doing what they were originally elected to do.[15] Yet uncertainty is even higher regarding traditional constituencies whose backing was based on the previous policies of labor-linked parties. As uncertainty rises, politicians care about keeping their traditional labor allies if the latter can provide not just marginal votes but also political resources and activists that are crucial in retaining and recovering electoral support. Additionally, politicians' concern about labor support increases when other political parties appeal to their labor constituencies. In a context of political uncertainty in which traditional labor allies may be tempted to leave the government coalition, politicians need a policy to signal their own allegiance to their labor constituencies without risking the support of the median voter.[16] Labor reform provides a useful signal because it concentrates its effect on these constituencies rather than on the median voter.

In sum, when governing labor-linked politicians face increasing political uncertainty and are concerned about losing labor support, individual labor reform is more likely due to the scope of its concentrated effect on labor constituencies. Because the concentrated effects of labor reform are used to compensate losers in the process of economic liberalization, they are different from the distribution of concentrated rents captured by the winning coalitions of market reforms.[17] Their rents often have high social costs, for instance, through their impact on budgets and aggregate prices. Moreover, they eventually become visible to the median voter, whereas the compensations to losers have more concentrated effects and are often ignored by the median voter.

Alternative Explanations for Labor Reforms

What influence does partisanship have on individual labor law reform in Latin America? Statistical evidence demonstrates the influence of partisan links in explaining individual labor law regulation, even when controlling for economic pressures and other institutional variables that should affect the process of labor reform.

Policy preferences in the OECD have been derived from their distributive impact on class-based constituencies.[18] Although populist parties constructed around charismatic leaders and lacking well-defined ideologies predominated in Latin America, even these parties built constituencies based on the distributive effects of their policies.[19] Policy benefits to political constituencies reinforced partisan affinities, which in the case of organized labor were institutionalized in explicit alliances with political parties. Since the mid 1980s, however, the regional convergence toward market-oriented policies seems to have finished partisan policymaking. Yet studies show that partisan links still influence the interaction between labor unions and labor-linked parties under market reforms.[20] To measure whether party links have an effect on labor reforms, I have created a dummy variable, which takes the value of 1 in the presence of a national labor confederation allied to the governing party before the inauguration of the reformist president considered, and 0 otherwise.

Individual labor reform can also result from economic pressures provoked by trade competition, factor endowment, and prior labor market rigidity. Due to their prior protectionism, Latin American countries exposed to trade competition and fast trade liberalization suffered strong pressures to reduce labor costs. Because existing labor legislation affects both labor cost and labor mobility from the uncompetitive to the competitive sectors, pressures on labor costs also vary across countries depending on the rigidity of their previous labor laws.[21] Additionally, because factor endowments affect competitive advantages, countries that are labor abundant rather than capital abundant are more susceptible to pressures on their labor costs. Hence the pressure for labor deregulation should be stronger when trade liberalization is faster, the country more open, labor more abundant, and its prior labor legislation more rigid.

Different measures test these effects. I test for the effects of trade liberalization by using the difference in Lora's trade liberalization index, which ranges from 0 (lowest) to 1 (highest), between the start and the end of an administration.[22] I used exports plus imports as a percentage of GDP for trade openness.[23] Because more labor-abundant countries should have higher pressures to deregulate individual labor law, I test the abundance of labor as measured by the capital-labor ratio, with higher capital-labor ratios in more labor scarce countries.[24] To measure the effect of prior labor market institutions, I use Lora's labor market liberalization index, which ranges from 0 (lowest) to 1 (highest), lagged to the last year of the prior administration. This measure provides an indicator of institutionally defined labor costs because it is a composite of different regulations that affect the degree of labor market flexibility.[25] Countries with higher labor costs, that is, lower values on the labor liberalization index, should be under stronger pressures to deregulate.

Ideas also contribute to transform economic pressures into policy solutions. The failure of heterodox policies to deal with the consequences of the debt crisis pushed Latin American governments to take the risk of implementing structural reforms.[26] The neoclassical economic perspective that inspires these policies promotes the need to reduce rigidities in the labor market in order to improve its efficiency and calls for labor market deregulation.[27] I use Lora's general reform index, which includes a variety of policy areas and ranges between 0 (lowest) and 1 (highest), to measure reform pace as a proxy for promarket intentions because I lack more direct measurements.[28]

Stallings and Peres and Weyland argue that the pace of structural reforms in Latin America is related to the severity of macroeconomic conditions.[29] Indeed, the latter even argues that these conditions shape public acceptance of radical market reforms, which increases with recessions and higher inflation. Hence I also measure the effect of GDP growth and inflation with the expectation that growth will have a negative effect and inflation a positive effect on labor deregulation and other market reforms.[30]

The predominance of the status quo (most administrations did not reform labor laws) underscores the difficulties of reforming labor policy in any direction. While reforms that contradict economic pressures for labor deregulation are puzzling, it is also necessary to control for the effect of factors that may hinder the reform process, such as labor resistance and divided government.

Cortázar, Lustig, and Sabot emphasize labor resistance by "insiders" to explain the predominance of the status quo.[31] Madrid argues that the intensity of labor preferences, based on the number of workers affected and the severity of the policy effect, along with labor strength, explains why labor unions were more successful in obstructing labor reform than other market reforms in Argentina and Mexico.[32] Thus, the rate of unionization as a percentage of wage earners measures the organizational strength of labor unions, which represent workers in the formal sector, and should be negatively related to any labor deregulation that threatens their acquired rights.[33] By contrast, measures of unemployment do not capture as well the exposure of workers in the formal sector because they can either become unemployed or move to the informal sector, which employs almost half of the labor force.[34]

Finally, because legal reforms are unusual and hard to overturn in presidential systems, they reflect some particular institutional constellation, which makes it difficult to differentiate the absence of reform from its failure. When reforms are attempted, institutional factors affect the ability of administrations to execute any reform by establishing veto points where reforms can stall.[35] In particular, divided governments—when the president's party does not control congress—are likely to affect the approval of legal reforms, either regulatory or deregulatory. Divided governments are measured here with a dummy variable, which equals 1 when the party of the president does not control congress and 0 otherwise.[36]

Notwithstanding economic pressures, legal reforms are unusual and are unlikely to be adopted more than once during a presidential administration. Moreover, some labor reforms passed during the same administration involve more than one legal change, thus risking overestimation by counting laws instead of overarching reforms. Therefore, the appropriate unit of analysis is the presidential administration, because

it avoids overestimation of the number of reforms when several laws are involved, while capturing the singularity of the reform opportunity.[37]

Four different models tested the effects produced by these independent and control variables on the dependent variable labor reform. Labor reform has three ordinal values: 3=deregulatory reform, 2=no reform, 1=regulatory reform, using an ordered logit procedure for all the presidential administrations in the Spanish and Portuguese countries of the region between 1985 and 1998 (N=68). Table 2 presents the four models. The first tests the effect of economic factors (trade, labor endowment, previous labor rigidity, growth, and inflation), and the second focuses on political variables (ideas, union strength, partisanship, divided government, as well as growth and inflation, which affect the incentives for market reforms in general). The final two models include the pressure for trade liberalization, the effect of growth and inflation, and partisanship, while controlling for union strength and divided government. The difference between these two models is that one includes and the other excludes the lagged labor liberalization index.[38]

All four models provide similar results. The variable party links is statistically significant. It has the expected negative sign in all models and is robust to changing measures of trade liberalization index (variation within the administration or average), labor rigidity (average or lagged to the year prior to the start of the administration), and divided government (dummy or governing party share of seats). This finding suggests that ties with labor reduce the incentives of governments for individual labor deregulation, even when controlling for economic pressures and political constraints. Indeed, the probability of labor regulation is three times as high as the probability of labor deregulation when the government is labor-linked, holding other variables at their means in the last model.[39]

The rest of the variables are not significant but have the expected sign, except for

Table 2 Individual Labor Law Deregulation in Latin America, 1985–98

	Model 1	Model 2	Model 3	Model 4
Trade liberalization (Δ in administration)	3.42 (4.09)		3.32 (4.54)	3.55 (4.67)
Trade openness	-01 (.016)			
K-L ratio	-.00001(.00002)			
Labor liberalization (lagged)	1.70 (1.09)		1.64 (1.29)	
Growth	-.23 (.19)	-.379 (.25)	-.36(.17)**	-.35 (.16)**
Inflation	.0003 (.0005)	.0005 (.0006)	.0002 (.0005)	.0002 (.0005)
General reform index		4.55 (3.34)		
Union Density		-.008 (.016)	-.001 (.013)	-.002(.013)
Party links		-1.68 (.73)**	-1.73 (.78)**	-1.73 (.80)**
Divided Government		-.60 (.50)	-.37 (.50)	-.38(.52)
N	60	59	58	58

Note: entries represent ordered logit coefficients with robust standard errors in parentheses.
** significant at the .05 level.

openness and labor liberalization, which have the wrong sign. Trade openness captures conditions that existed prior to policy convergence, such as a primary export economy, while the wrong sign of the lagged labor liberalization index might suggest endogeneity with the dependent variable. All other variables keep their signs and similar coefficients when excluding this last variable. Growth is only significant in the last two models, keeping the expected sign. These findings and the limitations of some of the indicators make it difficult to establish a definitive conclusion about alternative explanations for labor reform.

Thus, the empirical evidence presented here supports the hypothesis that partisan links, defined as institutional links between national labor confederations and political parties, influence labor reform. Although the statistical analysis shows that labor-linked administrations are more likely to regulate individual labor legislation, it is insufficient to illustrate under what conditions these administrations are more likely to undertake these reforms rather than keep the status quo.

Labor Regulation, Labor-Linked Parties, and Electoral Needs

Chile, Venezuela, and Argentina illustrate the incentives generated by political uncertainty to pass labor reforms that contradict the regional trend toward labor deregulation. During most of the twentieth century Latin American labor laws followed a social protection model; the state mediated between labor and capital and protected individual workers with regulations that guaranteed job security.[40] These protective labor regulations benefited workers in the formal sector, who made up approximately half of the urban work force and were most likely to be unionized. Additionally, state intervention has traditionally been high and civil society weak in Latin America. Organized labor has made alliances with political elites and received benefits for union members through labor legislation in return for electoral loyalty.[41] As a result, at times of political uncertainty and concern about labor allegiances, labor-linked governments are more likely to resort to labor regulation to keep the support of labor allies.

Economic pressures can not explain labor reforms in Argentina, Chile, and Venezuela because these countries had different levels of trade liberalization, labor costs, and rates of unionization before the reforms. Chile had the lowest labor costs of the three, and Venezuela the highest. By contrast, Chile scores the highest in Lora's trade liberalization index and Venezuela the lowest, with Argentina in an intermediate position on both indicators. Argentina had the highest rates of unionization, followed by Venezuela and Chile. In spite of these differences, all three countries reformed individual labor regulation. In all three the governing labor-linked parties faced political uncertainty and had reasons to be concerned about labor loyalty. These countries illustrate the causal mechanisms behind regulatory reforms to individual labor law.

Chile The military government of General Augusto Pinochet passed a labor law in 1979 with the aim of reducing labor costs and weakening the labor movement, which had supported the left-wing administration he deposed in 1973. Pinochet's labor law increased labor flexibility by curtailing labor organization and collective bargaining, reducing firing costs, and allowing the hiring of strikebreakers. Organized labor, which was politically tied to the Christian Democratic, Socialist, and Communist parties, mobilized against Pinochet's rule and in favor of democratization.[42] When democracy returned in 1989, Patricio Aylwin, the presidential candidate of a center-left coalition led by the Christian Democratic and Socialist parties, the *Concertación*, won the first democratic elections. He was inaugurated in 1990. The main labor confederation, the Unitary Workers' Confederation (CUT), then led by a Christian Democratic union leader, supported the new democratic administration.

Once in power, the *Concertación* ignored its prior criticism of Pinochet's promarket policies and implemented similar economic policies, while increasing social expenditures.[43] Whereas their move reassured the business sector, it was not clear how their traditional labor constituencies would react to the policy shift. Political uncertainty was heightened because party identities were not yet consolidated. Self-identification of voters with the left and center-left continued, and labor constituencies seemed to strengthen after seventeen years of an antilabor military rule.[44] Indeed, unionization grew from 10.5 percent in 1987 to 15.4 percent in 1991.[45] The CUT's main demand was labor reform.[46]

The government coalition acted as a supraparty entity in tripartite negotiations with both business and the CUT between 1990 and 1993. These negotiations elaborated the labor bills that would be introduced to an opposition-controlled senate. Indeed, fear of alienating business and divided government brought the government into careful negotiations with the right-wing parties—especially *Renovación Nacional*—and business associations opposing the reform.[47] Aylwin's labor minister, René Cortázar, explained that labor reform was a priority of the government, and he argued that a majority of those who had a position regarding labor reform by 1990 were in favor.[48] However, the issue was not the main priority of the median voter, and even employment did not rank high as a concern for the general population.[49] Nonetheless, Aylwin's administration engaged in negotiations to pass labor reforms demanded by the CUT, including changes in individual labor law in the form of Laws 19,010 and 19,250.[50]

During Frei's administration, however, the *Concertación* was more secure in its electoral standing because of its overwhelming presidential victory.[51] As political uncertainty receded and the weakness of the labor allies became more obvious, government concern about labor support declined.[52] Hence, although the CUT kept demanding labor reforms, the government did not engage in negotiations with the right-wing parties and businesses to pass its labor bills into laws.[53] The inaction of the *Concertación* strained its relations with organized labor and facilitated the growth of left-wing opposition in the labor movement. In 1998 the Communist party won the presidency of the CUT against *Concertación* union leaders.[54] Moreover, the 1999 presidential election between the Socialist candidate of the *Concertación* and the right-wing coalition appeared to be very close. Thus, the *Concertación* candidate Ricardo Lagos promised labor reform in his campaign, and one month before the election President Eduardo Frei sent a regulatory labor reform bill whose urgency status forced congress to debate it immediately despite business opposition.[55] Although the *Concertación* imposed its majority in the lower chamber, the bill was killed in the senate.[56]

Lagos was tied with his right-wing rival in the first round and won the presidency by only two percent of the vote in the second round. Political uncertainty thus increased for the governing coalition. With business opposition and support of the new Socialist president of the CUT, a *Concertación*-controlled congress passed a labor reform in 2001. The new law strengthened the authority and number of inspectors in the labor directorate to enforce employment regulations, increased protection in individual employment, limited overtime, and reduced the length of a continuous work period and the maximum work week with monitoring by the labor directorate.[57]

In sum, the *Concertación* pushed for labor regulation when it was uncertain about labor's political support. When uncertainty declined, so did efforts to pass further reforms. When political uncertainty increased again during Lagos's electoral campaign and election, the incentives for labor reform reappeared. After the third *Concertación* president was elected by a small margin, a new regulatory labor reform was passed.

Venezuela In 1989 Venezuelan President Carlos Andrés Pérez of the labor-linked Democratic Action (AD) was elected on a populist electoral platform, but after his inauguration he shifted from the traditional policy preferences of his party to promarket reforms. Although the policy switch gained widespread business support, it increased political uncertainty for AD. In spite of Pérez's landslide victory, public opinion hardly backed his new economic program, as shown by surveys and popular riots.[58] Indeed, traditional AD labor constituencies protested the policy shift barely three months after Pérez's inauguration by organizing the first general strike since the democratic transition of 1958. Political uncertainty and the increasing appeal of Causa R in the labor movement made AD politicians concerned about keeping labor support. [59] Hence, when the AD-led Venezuelan Workers' Confederation (CTV) demanded the passage of a labor bill that AD legislators had long prevented from being voted on by congress because COPEI Senator Rafael Caldera had drafted it, AD legislators paid attention to their demands.[60] Indeed, they even assigned the bill "maximum priority" in legislative debates.[61]

The new Venezuelan Organic Labor Law of 1990 included thirty-seven provisions increasing its rigidity or protection, nineteen of which were new.[62] This law was resisted not only by businesses, but also by President Pérez because it contradicted his market-oriented reforms.[63] Yet AD legislators supported it in order to keep their labor allies at a time of growing political uncertainty, even if their vote conflicted with the president's agenda.[64]

As in Chile, the legislature approved the law simultaneously with market-oriented reforms.[65] As in Chile, AD's support for a regulatory reform of individual labor law coincided with an increase in political uncertainty for AD as presidential popularity declined.[66] Yet AD kept labor's loyalty and continued to control the CTV even after the 1993 presidential elections, when it won a quarter of the vote, and after the 1998 election, when the traditional Venezuelan political parties, AD and COPEI, did not nominate presidential candidates to oppose Hugo Chávez. Indeed, it continued to control the CTV even though Chávez passed laws on union elections to weaken its control. The CTV became a leading opponent of Chávez and organized a three-month national strike that failed to depose him in 2003. Paradoxically, labor regulation helped AD keep its labor allies but hindered its adaptation to new constituencies in the growing informal sector, who were instead attracted by Chávez.[67]

Argentina After his inauguration in 1989, Argentine President Carlos Menem made a commitment to market reforms despite the populist past of his party, the Peronist party (PJ). Due to high business distrust and Menem's populist electoral campaign, promarket policies were radical in order to make Menem's intentions credible. These policies provoked the division of the main labor confederation, the PJ-controlled General Confederation of Labor (CGT), between 1989 and 1992 over whether to support or oppose Menem. Yet, despite radical promarket policies in every other policy area, labor reforms advanced very slowly due to the pressure of PJ labor leaders.[68]

PJ labor leaders' influence was responsible for the two year delay and dilution by Peronist legislators of Law 24,013 of 1991, which disappointed business expectations.[69] This deregulatory reform allowed temporary contracts and reduced the severance payments that had been increased by Menem in 1989, but it was so mild that one of the two splinters of the CGT supported it in return for a qualification making the new contract provisions conditional on collective agreements and a law bailing out bankrupted union health funds (Law 24,070). It was followed by Law 24,467 of 1995—restricted to small and medium companies—that extended temporary hiring with lower social security contributions. This second deregulatory reform emerged from tripartite bargaining and was supported by the then unified CGT because the government agreed to make the new contracts conditional on union approval, to bail out union debts, and to suspend the deregulation of union-run health funds.[70]

The internal pressure within the Peronist party, especially in the labor laws committee of the lower chamber, explains why labor deregulation was so mild during Menem's first administration (1989–95).[71] Even this mild deregulation, however, occurred after political uncertainty created by the policy shift for the Peronist party had receded due to the success of the currency board in vanquishing hyperinflation. The increase in Menem's popularity to 70 percent in 1991 helped the PJ win the legislative elections of that year and Menem himself to be reelected after a constitutional reform in 1995.[72]

Although Menem was able to recraft the PJ coalition to include the informal sector through clientelism, by 1997 both Menem's popularity and Peronist electoral strength had eroded, allowing the opposition to win the legislative elections of that year.[73] Electoral decline and the growth of center-left Frepaso (Front for a Country with Solidarity) that could attract labor support and indeed had links with a small labor central and was starting to flirt with a faction of the official CGT increased political uncertainty and the fear of labor exit. In response to growing political uncertainty, Menem sent a regulatory reform, previously negotiated with the CGT, to congress. Because the Frepaso and UCR opposed the reform by preventing a legislative quorum, both Menem and Humberto Roggero, chief of the PJ legislative bloc, asked Claudio Sebastiani, who was both a PJ legislator and the president of the main business association opposing the bill, to provide the quorum needed to pass Law 25,013.[74]

Law 25,013 abolished most exceptions from severance payments and payroll taxes and reduced the probation period in labor contracts to only one year. Hence, as in Chile and Venezuela, political uncertainty and concerns about labor support prompted the Peronist government to please their labor allies by passing regulatory labor reform. As in Venezuela, the PJ kept its predominance in the labor movement, and, although it could not avert defeat in the 1999 presidential election, it came back to power in the following presidential election.[75]

Summary Chile, Venezuela, and Argentina illustrate the ways in which political uncertainty and partisanship generated conditions that brought about regulatory reforms in individual labor legislation even in the context of strong economic pressures for deregulation. Madrid's analysis of labor reforms in Argentina and Mexico focuses on labor strength to resist deregulation.[76] Yet Valenzuela argues that traditional measures, such as the rate of unionization, are insufficient to capture labor strength in Latin America.[77] Labor influence can be measured not just by unionization, but also by partisan alliances and political circumstances.

In all three countries, labor-linked parties supported regulatory reform of individual labor law under conditions created by political uncertainty and concern about labor support. Although labor demands regarding regulatory reform were put forward by the national labor confederations in all three countries, they were channeled through a political party and its legislators in Venezuela, direct bargaining with the executive in Chile, and combined legislative influence and negotiation with the executive in Argentina. In all three, though, partisan links and political uncertainty for the incumbent provided the opportunity for labor's demands to become regulatory reforms. By contrast, non-labor-linked parties have few incentives to promote regulatory labor reforms. In Chile Pinochet's 1979 labor reform was drastically deregulatory. In Argentina the administration that replaced the PJ in 1999 passed a deregulatory labor reform opposed by PJ legislators and labor unions, which was annulled by the following Peronist administration in 2004 based on a corruption scandal over its approval.

Labor laws concentrate their effect on labor unions' constituencies and have low electoral relevance for the median voter, thereby reducing any electoral effect. Thus, the electoral consequences of labor influence are not necessarily significant for the labor-linked political parties, precisely because the median voter is not concerned about these policies. Because of the decreasing electoral influence of labor unions in media-led campaigns and the growth of informal sectors, labor-linked parties need to reach beyond organized labor and into new constituencies for electoral success.[78] Yet this declining electoral influence makes regulatory labor reforms all the more important, because they will institutionally affect employment relations in the formal sector until a new reform is passed. Hence the institutional effect will persist due to the difficulties inherent in implementing labor reform despite eroding labor electoral strength.

Conclusion: Labor Reforms in Comparative Perspective

Market reforms to confront international economic pressures pose dramatic changes for labor-linked parties. These parties have incentives to use labor regulation to keep labor support when facing political uncertainty because it allows them to insulate the median voter from partisan policymaking. This concentrated effect makes it a great candidate for partisan policymaking amid regional policy convergence.

Other sectoral policies can also serve to sustain the support of organized groups allied with governing parties. Various social policies concentrate their effect on organized groups with ties to governing parties. Social security affects pensioners, who are sometimes organized and politically aligned, and formal workers. Higher education reforms concentrate on university students, usually organized and politically affiliated, while changes in the education curricula concern the church, which has relations with clerical parties. Thus, further testing on other policy areas will show the scope of this argument beyond labor regulation.

These findings expand upon other studies that illustrate partisan policymaking in Latin America despite policy convergence.[79] They are empirically bound by the studied period, when Latin American governments with labor constituencies implemented market reforms and faced the political uncertainty that made them concerned about the loyalty of traditional constituencies. The concentrated effect of these reforms permitted a clear distribution of their impact while insulating the median voter. After market reforms are implemented and new coalitions are crafted, the marginal value of organized labor declines, but the institutional effects of labor reforms remain. These findings are important in understanding the political economy of market reforms in Latin America. It is important to differentiate policies according to their effect, especially on organized groups allied with the governing party. Further research should explore the policy domains that are subject to partisan policy preferences and the conditions under which partisan preferences are more likely to emerge in policymaking. If market reforms are not only technical but also political processes, it is worth exploring the patterns of preference formation of policymakers, including those derived from long-term ties with constituencies.

NOTES

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1. Beth Simmons, "The Internationalization of Capital," in Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens, *Continuity and Change in Contemporary Capitalism* (Cambridge: Cambridge University Press, 1999).

2. Layna Mosley, *Global Capital and National Governments* (Cambridge: Cambridge University Press, 2003), shows that investors' policy pressures on developing countries are broader than on developed countries.

3. Karen Remmer, "The Politics of Economic Policy and Performance in Latin America," *Journal of Public Policy*, 22 (2002), 29–59; Juan Carlos Torre, *El proceso político de las reformas económicas en América Latina* (Buenos Aires: Paidós, 1998).

4. Eduardo Lora, "Structural Reforms in Latin America: What Has Been Reformed and How to Measure It" (Washington, D.C.: Inter-American Development Bank, 2001); Barbara Stallings and Wilson Peres, *Crecimiento, Empleo y Equidad: El impacto de las reformas economicas en America Latina y el Caribe* (Santiago: Fondo de Cultura Economica and CEPAL, 2000).

5. Mosley, ch. 3.; Judith Teichman, *The Politics of Freeing Markets in Latin America* (Chapel Hill: University of North Carolina Press, 2001); Ben Ross Schneider, "The Material Bases of Technocracy: Investor Confidence and Neoliberalism in Latin America," in Miguel Centeno and Patricio Silva, eds., *The Politics of Expertise in Latin America* (New York: St. Martin's Press, 1998).

6. Labor-linked parties are defined as those that have an institutional relationship with a national labor confederation.

7. Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Nicaragua, Panama, Paraguay, Peru, and Venezuela reformed their labor laws, whereas Bolivia, Cuba, Honduras, Mexico, and Uruguay did not. María Luz Vega Ruiz, *La Reforma Laboral en America Latina* (Lima: ILO, 2000).

8. Susan Stokes, *Mandates and Democracy: Neoliberalism by Surprise in Latin America* (Cambridge: Cambridge University Press, 2001).

9. Labor-linked parties have to implement very drastic market reforms to win the credibility of business sectors about their commitment to these policies. Alex Cukierman and Mariano Tommasi, "When Does It Take a Nixon to Go to China?," *American Economic Review*, 88 (March 1998), 180–97.

10. Karen Remmer, "Elections and Economics in Contemporary Latin America," in Carol Wise and Riordan Roett, eds., *Post-Stabilization Politics in Latin America* (Washington, D.C.: Brookings Institution Press, 2003), shows that growth and inflation were the main concern of voters during the studied period. Labor reforms, however, have no clear effect on inflation, growth, or even unemployment. Marshall suggests no effect of labor deregulation on employment, while Edwards and Lustig, Weller, and Pages and Heckman find no clear effect even when the latter increase their sample to OECD and Latin American countries. Adriana Marshall, "Weakening Employment Protection in Latin America: Incentive to Employment Creation or to Increasing Instability," *International Contributions to Labour Studies*, 6 (1996), 29–48; Sebastian Edwards and Nora Lustig, "Introduction," in Sebastian Edwards and Nora Lustig, eds., *Labor Markets in Latin America* (Washington, D.C.: Brookings Institution Press, 1997); Jurgen Weller, *Reformas económicas, crecimiento y empleo* (Santiago: Fondo de Cultura Económica and CEPAL, 2000); James Heckman and Carmen Pagés, "Introduction," in James Heckman and Carmen Pagés, eds., *Law and Employment: Lessons from Latin America and the Caribbean* (Chicago: University of Chicago Press, forthcoming).

11. Matthew S. Shugart and Stephan Haggard, "Institutions and Public Policy in Presidential Systems," in Stephan Haggard and Matthew McCubbins, eds., *President, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2001).

12. The source of labor reforms was the ILO Natlex database and Vega Ruiz. Each reform is compared with the original labor laws. The few cases of constitutional reform and presidential decrees were excluded because the governing party does not necessarily influence constitutional conventions or executive decrees, due to variance on legislative powers to overturn them across the region. By contrast, legal reforms involve the support of partisan legislators.

13. The predominance of regulatory reform on collective labor legislation results from two mechanisms: partisan alliances with labor-linked governments in South America and transnational alliances using the threat of U.S. trade sanctions in Central America and the Spanish Caribbean. M. Victoria Murillo and Andrew Schrank, "With a Little Help from My Friends: Partisan Politics, Transnational Alliances and Labor Rights in Latin America" (unpublished manuscript, 2004).

14. Steward Wood, "Labor Market Regimes under Threat? Sources of Continuity in Germany, Britain and Sweden," in Paul Pierson, ed., *The New Politics of the Welfare State* (Oxford: Oxford University Press, 2001).

15. Stokes, p. 87.

16. Remmer, "The Politics of Economic Policy," p. 40.

17. Joel Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions," *World Politics*, 50 (January 1998), 203–34, Hector Schamis, *Re-Forming the State: The Politics of Privatization in Latin America and Europe* (Ann Arbor: University of Michigan Press, 2002).

18. Douglas A. Hibbs, Jr., "Political Parties and Macroeconomic Policy," *American Political Science Review*, 71 (1977), 1467–87, shows different partisan preferences on inflation and unemployment. Boix and Garrett argue that partisan preferences produce different supply-side policies, with left-wing parties expending more than right-wing parties to provide public goods, such as education and infrastructure. Carles Boix, *Political Parties, Growth, and Equality* (Cambridge: Cambridge University Press, 1998); Geoffrey Garrett, *Partisan Politics in the Globalized Economy* (Cambridge: Cambridge University Press, 1998).

19. Robert R. Kaufman and Alex Segura-Ubiergo, "Globalization, Domestic Politics, and Social Spending in Latin America: A Time-Series Cross-Section Analysis, 1973–97," *World Politics*, 53 (July 2001), 553–87.

20. Katrina Burgess, "Loyalty Dilemmas and Market Reform: Party-Union Alliances under Stress in Mexico, Spain and Venezuela," *World Politics*, 52 (October 1999), 105–34; Maria Victoria Murillo, *Labor Unions, Partisan Coalitions and Market Reforms in Latin America* (Cambridge: Cambridge University Press, 2001).

21. Jessica Seddon and Romain Wacziarg, "Trade Liberalization and Intersectoral Labor Movements," *Journal of International Economics* (forthcoming).

22. Lora, p. 4.

23. *World Development Indicators* (Washington, D.C.: The World Bank, 2003)

24. Easterly and Levine aggregate capital-labor ratios are measured using capital stock in constant 1985 international dollars. Pushan Dutt and Devashish Mitra, http://www.ualberta.ca/ECONOMICS/dm/dm.htm.

25. The four indicators are regulations on hiring, cost of firing, overtime payment, and social security contributions. Lora, p. 29.

26. Kurt Weyland, *The Politics of Market Reform in Fragile Democracies* (Princeton: Princeton University Press, 2002).

27. Weller, ch. 2. See John Pencavel, "The Legal Framework for Collective Bargaining in Developing Economies;" and Alejandra Cox Edwards, "Labor Markets Regulation in Latin America: An Overview," in Edwards and Lustig, eds., on labor market rigidities created by labor unions and labor laws in Latin America.

28. These are trade, financial, tax, privatization, and labor policies. Lora, p. 28.

29. Stallings and Perez, ch. 3.; Weyland, ch. 3.

30. *World Development Indicators*. Using unemployment rate instead of growth does not change the results.

31. René Cortázar, Nora Lustig, and Richard Sabot, "Economic Policy and Labor Market Dynamics," in Nancy Birdsall, Carol Graham, and Richard Sabot, eds., *Beyond Trade Offs: Market Reform and Equitable Growth in Latin America* (Washington, D.C.: Brookings Institution Press, 1998).

32. Raúl Madrid, "Labouring against Neoliberalism: Unions and Patterns of Reform in Latin America," *Journal of Latin American Studies*, 35 (2003), 53–88.

33. *World Employment Report* (Geneva: International Labour Office, 1998).

34. The informal sector was 44.4 percent of urban employment in Latin America and the Caribbean in 1990, and 48 percent in 1998. International Labor Organization, *Panorama Laboral, Statitiscal Appendix* (Lima: ILO, 1999).

35. Gary Cox and Matthew McCubbins, "The Institutional Determinants of Economic Policy Outcomes," in Haggard and McCubbins, eds.

36. José Cheibub, "Minority Governments, Deadlock Situations, and the Survival of Presidential Democracies," *Comparative Political Studies* (forthcoming); and the Political Database of the Americas, http://www.georgetown.edu/pdba/Elecdata/elecdata.html. I have also used the share of seats of the governing party without affecting the results, but the difference between 50 and 51 percent is more significant than between 20 and 49 percent or between 51 and 90 percent due to majority voting, thereby making the dummy variable a better measurement.

37. In Nicaragua Chamorro's administration passed regulatory and deregulatory labor reforms. The value used in the quantitative analysis is obtained by comparing the labor law at the end of her administration with the one prior to her inauguration.

38. The models cluster observations across countries because unobserved country-level variables may affect the probability of labor deregulation. The cluster assumes that errors for one country are unrelated to the errors for every other country (that is, there is no spatial correlation). All the independent variables have been averaged per administration, except for trade liberalization and labor liberalization. Using trade openness instead of trade liberalization in the last models does not change the signs or statistical significance of the coefficients, nor does the exclusion of growth, inflation, or both alter the results in any of the models. Some variables have missing values that reduce the number of observations when they are included in the model; for instance, Lora's indexes lack information for Panama.

39. If the government is labor-linked, the conditional probability of regulation is 0.115, and of deregulation, 0.038, holding other variables in the last model at their means.

40. Arturo Bronstein, "Societal Change and Industrial Relations in Latin America: Trends and Prospects," *International Labour Review*, 134 (1995), 167.

41. Ruth Berins Collier and David Collier. *Shaping the Political Arena* (Princeton: Princeton University Press, 1991).

42. Patricio Frías, *El movimiento sindical en la lucha por la democracia* (Santiago: PET, 1989).

43. In 1990 President Aylwin stated that Chile was committed to a market economy in which the private sector would be the main engine of development and the state would collaborate by focusing on social services such as health, education, and housing. Cited by Patricio Frías, "Perspectivas de redefinición de la acción sindical," *Economía y Trabajo en Chile: Informe Anual 1992–93* (Santiago: PET, 1993), p. 104.

44. According to Siavelis, party identities were not consolidated after the first election due to limits on labels to parties of the left. Moreover, whereas the *Concertación* received 51 percent of the vote in 1989, public opinion polls by the Centro de Estudios Públicos show an increase in the self-identification with the left between 1991 and December 1993, when it peaked at 37 percent. Peter Siavelis, *The President and Congress in Postauthoritarian Chile* (University Park: Pennsylvania State University Press, 2000), pp. 47, 104.

45. Patricio Frías, "El sindicalismo y su crisis en la perspectiva de la vinculación entre la política y la economía," *Economía y Trabajo en Chile, Informe Anual No. 7* (Santiago: PET, 1997–1998), p. 104. The number of strikes also peaked around this period, with 247 yearly strikes in 1992 and 46,215 strikers in 1991. Volker Frank, "The Labor Movement in Chile, 1990–2000," Working Paper No. 398 (Notre Dame: Kellogg Institute, University of Notre Dame, June 2002), p. 15.

46. CUT's president Manuel Bustos said in a 1990 interview: "Regarding union demands from the CUT, the most important one was the reform of the labor law, which had been promised by the Concertación." Cited by Jorge Rojas Hernández, "Desafíos estructurales del movimiento sindical chileno en el proceso de transición a la democracia," in Fernando Echeverría and Jorge Rojas, eds., *Añoranzas, sueños y realidades* (Santiago: Editorial Sur, 1992), p. 242.

47. Louise Haagh, "The Emperor's New Clothes: Labor Reform and Social Democratization in Chile," *Studies in Comparative International Development*, 37 (Spring 2002), 95–97.

48. René Cortázar, *Política Laboral en el Chile Democrático* (Santiago: Dolmen, 1993), p. 51. Frank, p. 27, argues that the labor reform was the second item on the agenda of the first *Concertación* administration after the tax reform.

49. In national surveys of urban areas by the Centro de Estudios Públicos, the main concern of the population during Aylwin's administration was delinquency. The concern with unemployment declined from 12 to 8 percent during his tenure.

50. Law 19,010 banned firing without cause, increased severance payment for unjust dismissal and severance payment in general, and fostered job protection for union leaders. Law 19,250 limited the worktime for certain categories of workers and established minimum pay for all types of workers, responsibilities for subcontractors, new rules regarding vacations and sanctions for breaking the labor law.

51. The *Concertación* increased its share of the vote from 55 to 58 percent and augmented its difference with the right-wing candidates, despite the consolidation of the right-wing coalition by almost 20 percent.

52. Not only did unionization decline, but CUT demonstrations were also not well attended. Frank, p. 35.

53. Haag, p.105; Frank, p. 25.

54. Frank, p. 29.

55. Business associations cited electoral intentions and complained that the executive repeatedly denied its intentions. See www.quepasa.cl/revista/1494.

56. The vote was twice tied in the senate thanks to the twenty-three senators who responded to the right-wing parties or were appointed under Pinochet. Under senate rules, these results assured no consideration of the bill for at least a year. Maria Lorena Cook, *The Politics of Labor Law Reform in Latin America* (unpublished manuscript, 2004).

57. Ibid.

58. According to Weyland, p. 129, after Pérez enacted his policies only 25.6 percent of Venezuelans endorsed his plan, whereas 52 percent regarded the austerity measures as unnecessary. Presidential popularity declined from 70 to 46 percent. Urban riots of an unprecedented scale, which caused hundreds of deaths, occurred barely eleven days after Pérez announced his reforms.

59. Causa R influence grew in union and local elections during Pérez's administration. Murillo, *Labor Unions, Partisan Coalitions*, pp. 66–72.

60. The CTV kept pressing for the labor reform until its approval and used it as a centerpiece of its May 1, 1990, demonstration. Murillo, *Labor Unions, Partisan Coalitions*, p. 70. AD union leaders worked with AD legislators to pass of the law. Interviews with AD-affiliated CTV leaders Zerpa Mirabal and Beltrán Vallejo, Caracas, 1994.

61. Based on interviews with legislators, Javier Corrales, *Presidents without Parties* (University Park: Pennsylvania State University Press, 2002), p. 132, reports: "Although baptized as the Caldera Law...it could

just as well have been called the Adeco Law because AD legislators did everything possible to facilitate its approval. Since the Lusinchi years, Caldera had been trying to get this bill passed. Yet AD legislators always kept it dormant. But in 1989, AD legislators began to work with Caldera to resuscitate the bill. AD labor leaders even collaborated in drafting it....The president of the Senate, David Morales Bello (AD), decided to give the bill 'maximum priority' over other legislative matters and even authorized its approval with only one debate."

62. Oscar Hernández Alvarez and Napoleón Goizueta Herrera in Hernández Alvarez, *La reforma laboral en América Latina* (Caracas: 1995), as cited by Arturo Bronstein, "Labour Law Reform in Latin America: Between State Protection and Flexibility," *International Labour Review*, 136 (1997), 24–25.

63. Pérez called the law populist because it increased labor market rigidity but did not veto it. Interview, Oripoto, 1996.

64. Additionally, AD labor leaders strongly influenced party leadership selection through the party's labor bureau, generating incentives for party leaders to keep their loyalty. Burgess, p. 130.

65. This was one of two reform-adverse bills passed by the Venezuelan congress in 1990. The same year, congress approved twelve reform-supportive bills. Corrales, p. 133.

66. AD electoral support fell from almost 40 percent in 1989 to around 30 percent in the 1992 elections. Corrales, p. 30.

67. Kenneth Roberts, "Party System Collapse amid Market Restructuring," in Wise and Roett, eds.

68. Congress passed only eight of more than twenty bills on labor flexibility sent by the administration between 1989 and 1995. Sebastián Etchemendy and Vicente Palermo, "Conflicto y concertación: Gobierno, Congreso y organizaciones de interés en la reforma laboral del primer gobierno de Menem (1989–95)," *Desarrollo Económico*, 37 (January-March 1998), 559–90. Yet it passed nine out of ten privatization bills, and the executive decreed the defeated one. Mariana Llanos, "Understanding Presidential Power in Argentina: A Study of the Policy of Privatization in the 1990s," *Journal of Latin American Studies*, 33 (2001), 67–99.

69. Etchemendy and Palermo, p. 569.

70. CGT Secretary General Antonio Cassia said that the confederation signed the agreements to have their concerns included in the law and argued that union pressures brought the government to include collective bargaining agreement as a condition for establishing the new contracts. Interview, Buenos Aires, 1995.

71. Etchemendy and Palermo, p. 546; Murillo, *Labor Unions, Partisan Coalitions*, pp. 146–48.

72. Menem's approval rate grew to over 70 percent in 1991 and remained above 50 percent in 1995. Weyland, p. 126.

73. Menem's approval rate dropped to less than 30 percent by the end of 1996. Ibid. p. 126.

74. Although Sebastiani voted against the reform after providing a quorum, he was forced to resign the presidency of the main business association. "Aprobaron la reforma laboral," *La Nación*, Sept. 3, 1998; "El PJ consiguió quórum en Diputados y convirtió en ley la reforma laboral," *Clarín*, Sept. 3, 1998.

75. The PJ could resort to labor resources and activists when it was out of power, whereas Menem himself ran again in the 2003 elections.

76. Madrid, p. 66.

77. J. Samuel Valenzuela, "Recasting State-Union Relations in Latin America," in Colin I. Bradford, ed., *Redefining the State in Latin America* (Paris: OECD, 1994), p. 138.

78. Katrina Burgess and Steven Levitsky, "Explaining Populist Party Adaptation in Latin America: Environmental and Organizational Determinants of Party Change in Argentina, Mexico, Peru and Venezuela," *Comparative Political Studies*, 36 (October 2003), 881–911.

79. Remmer provides evidence of partisan effects on fiscal policies. Sarah Brooks, "The Political Economy of Capital Account Liberalization in Latin America: A Transitional Cost Approach" (unpublished manuscript, January 2003), shows partisan effects on capital account liberalization. See Maria Victoria Murillo, "Political Bias in Policy Convergence," *World Politics*, 54 (July 2002), 462–93, for privatization policies.