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ABSTRACT

This article examines the World Bank's role in the market policy reform experiences of Mexico and Argentina. It argues that while reform was driven by domestic elites, the bank played an important role, providing technical advice and financial support and helping to spread market reform ideas. The nature of the bank's involvement, however, differed substantially in the two countries because of their distinct political arrangements, histories, and geopolitical positions in regard to the United States. In the recent era of second-generation reforms, the World Bank's involvement in compensatory policy development has become more focused, although still more intense in Argentina than in Mexico. This involvement has important implications for the quality of democracy, insofar as the 1990s market reforms were formulated by insulated international policy networks unaccountable to the public. Recently, the bank has declared its commitment to involve civil society in its lending policies, a move that may have important implications for democratic development.

Two themes that have occupied scholars on Latin America since the mid-1980s are democratization and market reform. Work on Latin American democracy has shifted from an earlier interest in transitions from military rule to a consideration of the quality of Latin American democracy—which has involved such features as public accountability and the independence and strength of civil society.[1] The struggle for democracy has been enormously complicated by the parallel process of market reform, which mainly involves trade liberalization, privatization, and deregulation. It is through these policy changes that Latin American countries have tried to find a place in the new global order. Generally, these reforms were carried out in the context of tough negotiations with major multilateral lending institutions, the International Monetary Fund (IMF) and the World Bank; and loans were made conditional on market-liberalizing (structural adjustment) policy reforms.

The issues of market reform and democracy became linked in scholarly debates in a number of ways. Those who saw market reform as favorable to democracy argued that market reform contributes to democracy by reducing rent seeking and corrupt behavior by bureaucratic agencies and trade unions (Williamson 1994, 13; Hausman 1994, 174) and by setting the stage for future economic growth (Remmer 1995, 115). More recently, however, a number of observers have argued that market reform's failure to reduce inequality and provide sustained prosperity for all will erode democratic legitimacy and contribute to political unrest that will, in turn, undermine prosperity over the long term (Borón 1998, 46; Oxhorn and Ducatenzeiler 1999, 27).

Much of the market reform literature, furthermore, has emphasized the role of highly trained technocrats, individuals with graduate degrees in such subjects as economics and public administration from prestigious U.S. universities, as the major driving force behind these policy changes. It is widely agreed that technocrats were involved in a policy reform process that was highly exclusionary, often overriding democratic institutions such as national congresses (Haggard and Webb 1994; Haggard and Kaufman 1995; Conaghan and Malloy 1994). Concern also arose about the democratic implications of the secretive way that first-generation reforms (trade liberalization, privatization, and deregulation) were negotiated with multilateral lending institutions and, more recently, about the impact on democratic practices of multilateral consultation of civil society organizations over reforms affecting social issues (Casaburi et al. 2000).

While there is a broad consensus that policy reform could not go forward unless domestic political and economic conditions were ripe, the role of multilateral lending institutions in the Latin American reform process is also widely recognized. In some cases, direct supervision was an essential part of propelling reform forward (Morales 1996, 11). Considering, however, that explicit policy conditionality generally failed to induce countries to carry out policies they opposed (Killick 1995, 121; Remmer 1986), the imposition of reforms through policy-based loans may not have been the most important way multilaterals contributed to policy reforms. Policy "influence," although acknowledged as a concept that is slippery and hard to measure, may have been important nonetheless (Nelson 1990, 27).

Some observers suggest that ongoing discussions and negotiations over many years may have been an important avenue for these international organizations to influence policy change (Ikenberry 1990, 103; Kahler 1991, 123; Nelson 1992, 314). In this way, the professional staffs of multilateral lending agencies can be seen as participants in "epistemic communities," international networks of professionals who either advise or staff such organizations. These individuals share a "common causal model" and are committed to translating that truth into public policy by persuading political decisionmakers (Haas 1990, 41–42).

The truth to be conveyed has been, in this case, the efficacy of state streamlining and greater reliance on the market. Those who see policy reform as involving a process of policy persuasion (involving ideas rather than interests) use the term *social learning* to describe the enterprise by which experts in a particular policy field transfer new policy ideas (Heclo 1974, 312; Hall 1993). Defined as “a deliberate attempt to adjust goals and techniques of policy in response to past experiences and new information,” social learning is “social” because it involves learning by policymakers doing it on society’s behalf (Hall 1993, 276, 278). In its most radical form, it can represent the transfer of an entirely new interpretative framework, or a new policy paradigm. We see this process occurring in Latin American policy reform.

The notion of social learning as a stimulus or support for policy change, however, cannot be considered separately from client country domestic political conditions and arrangements. New information is assimilated in response to past experiences and in particular contexts. Domestic conditions, power relations, and institutional structures are absolutely key in patterning the nature and extent of such influence. Moreover, multilateral lending institutions and Latin American countries operate in a larger international political context: they have distinct relations with the hegemonic political power, the United States, a country that has also played a determinant role in the policies and practices of multilateral lending institutions.

This article examines the role of the World Bank in the market policy reform experiences of Mexico and Argentina. It argues that while reform was driven by domestic elites, the World Bank played an important role in policy reform, providing technical advice and financial support and contributing in important ways to the spread of the new market reform policy paradigm. The bank’s role differed substantially in the two cases, however, a consequence of the distinct economic conditions and political and social structures of the two countries and of their different geopolitical importance to the United States. While the Mexican technocratic elite used the bank to drive forward market reform in accordance with its policy preferences, the bank was much more intimately involved in the reform process in Argentina and was able to exercise considerably greater direct influence, especially during the initial years of reform. In both cases, domestic and multilateral deliberations took place in highly personalistic policy networks, which excluded democratic deliberative institutions (congresses) and precluded public accountability.

As Mexico and Argentina have moved into what has been referred to as the second generation of market reforms, bank involvement continues to be considerably more intense in Argentina than in Mexico, largely a consequence of the distinct political histories and circumstances of the two countries.[2] The bank’s current commitment to involve civil society in its lending policies has important implications for the democratic development of these two countries and others in the region.

The International Context and Policy-Based Lending

The 1982 international debt crisis was instrumental in setting the stage for the policy changes to come over the next two decades. It immediately thrust the top finance officials of highly indebted Latin American countries into negotiations with the IMF for loans based on standby and extended fund facility agreements, and with the World Bank for structural adjustment loans and sectoral adjustment loans (SALs and SECALs). The Baker Plan, announced by the U.S. Secretary of the Treasury James Baker in 1985, gave impetus to those negotiations and to structural adjustment lending, as it set aside US$20 billion for the highest debtors over the following three years in exchange for economic reforms, including trade liberalization, the liberalization of investment regimes, and privatization. In 1986, the bank's adjustment lending to Latin America tripled, to US$2 billion, representing about 40 percent of the bank's loan commitments to the region that year (Kapur et al. 1997, 630).

Mexico cut a deal under Baker, as did Argentina. But in a few short years, as a consequence of the commercial banks' reluctance to engage in new lending, the Baker Plan had run out of steam. In 1989, the Brady Plan, announced by the new U.S. Treasury Secretary, Nicolas Brady, called for debt relief in exchange for market reforms and coincided with an upsurge in reform in the region. In providing for debt relief, Brady offered an enormous incentive to policy reform by insisting that such reform be well under way before an agreement could be reached. Indeed, the Brady conception of structural adjustment and the commitment of its designers to market reform had become, by the late 1980s, far deeper than ever. In the area of privatization, for example, Brady moved into the promotion of privatization in core areas, such as petroleum and minerals (Ramamurti 1992, 164).

The Brady Plan's insistence on prior commitment to a market reform agenda signaled the recognition that success in policy reform would only be possible with government "ownership" of reform; that is, governments would themselves have to be fully committed to a reform agenda for it to take hold. For the IMF and the World Bank, "policy dialogue" with the officials of client countries was the means by which commitment to reform could be engendered and sustained. But the bank had considerably greater leeway in the development of the sort of ongoing dialogue that could push client countries toward reform than did the fund. Bank officials deal with a much wider array of government officials, and therefore often have the opportunity to gain access to a broader range of channels through which they can influence the direction of policy. While IMF negotiations occur in situations of extreme crisis, when agreements must be arrived at quickly and confrontation is more likely, the bank's negotiations are lower-profile and less intense, because partial agreement can be arrived at and the consequences of not reaching any agreement are less severe. Hence, bank officials are in a much better position to develop close and collaborative relationships with client country officials (Interviews, two senior LAC officials, one middle-ranking official; Stern 1983, 100–4).

Important changes within the bank, however, and particularly within the Latin American and Caribbean Section (LAC), were necessary before market reform in Latin America would be carried forward with a new style of "policy dialogue." In general, the bank, through the 1960s and into the early 1970s, was characterized by a fairly prostatist attitude: it supported protection for infant industries and economic planning and lent heavily to state-owned enterprises (Kapur et al. 1997, 450–51; Babai 1988, 259). But while the energy crisis of 1973–74 triggered a firmer commitment to trade liberalization and a growing abandonment of support for public enterprises in the bank generally (Fortín 1988, 310; Kapur et al. 1997, 483), prostatist attitudes lingered in the LAC section. It was not until the 1982 economic crisis and consequent attitudinal and organizational changes in the LAC section that an important role for the bank in Latin American policy reform became possible.

The LAC's failure to foresee correctly the Mexican crisis of 1982 led to a major shake-up of the section, which resulted in a clearing out of prostatists and the emergence of a consensus on the importance and necessity of policy reform in Latin America (Interviews, two senior LAC officials). Change in the leadership of the LAC section further altered its traditional modus operandi and set the stage for a highly successful form of "policy dialogue." In 1985, the replacement of David Knox by Shahid Husain as vice president of LAC resulted in a move away from an arm's-length formalism in the relationship between LAC officials and officials of its client countries to one in which senior and middle-level LAC officials would cultivate relationships of trust, even friendship, between themselves and the officials of Latin American countries.[3] As a consequence, from the mid-1980s on, LAC officials were probably unique even for the bank's freewheeling culture: not only were they committed to policy reform, but they spoke the language of their client countries, had a strong esprit de corps, and developed strong attachments to the personalities and countries they were dealing with.

The years following the shake-up of the LAC section, moreover, saw considerable continuity in officials working there. A number of participants held positions throughout the 1985–95 period: Vice President Shahid Husain, Rainer B. Steckhan, Paul M. Meo, Pieter P. Bottlelier, Peter R. Scherer, Myrna Alexander, Hans Binswanger, Ricardo Halperin (World Bank Group 1995). This continuity gave LAC officials both the time and the opportunity to develop relationships of trust with the officials of client countries.

The rapid expansion of negotiations from 1985 on and the pursuit by LAC bank officials of "policy dialogue" established the conditions for the emergence of international policy networks, policy development groups composed of domestic and World Bank officials whose discussions became a crucial component of the market reform process.[4] During first-stage market reform, usually the nucleus of the international policy network was composed of anywhere from 3 or 4 to 15 people. Latin American-LAC policy networks were informal and fluid; they were often (though not necessarily) composed of individuals with similar educational backgrounds, particularly individuals with graduate degrees in economics; and members of the network generally agreed on a particular policy goal, if not a market reform agenda. By far the most important feature of these networks, however, was that they were bound by personal relationships of trust and sometimes friendship. Face-to-face contact, in a context of developing personal trust, was the process by which market reform policy ideas and the language of market reform were transferred, strengthened, and sustained.[5]

At the same time, however, these networks contained an inherent tension, because although officials shared a common policy commitment (market reform), they answered to distinct institutional and contextual pressures. While client country officials had to answer to political pressures at home, World Bank officials did not, and were therefore more inclined to press on with politically risky reforms. Bank officials did have career concerns, however, and as a consequence, avoided directions that might raise criticism from senior levels of the bank, a concern that would have implications for how hard they would press for reform. But in general, bank LAC region officials wanted to keep conflict to a minimum, because this would ensure that dialogue and access would be ongoing. Their strategy was to have policy proposals ready should political or other obstacles diminish and to push on with those reforms where there was the least resistance. While senior LAC officials were the key bank actors in this process, especially at the beginning, over time, middle-level officials became very actively involved as well.

International policy networks during the first phase of reform were generally closed and resistant to outside penetration and influence. Indeed, networks resisted penetration even from important intrastate actors, such as senior officials in those ministries wishing a more gradual process of policy reform. By the mid-1990s, however, pressure was growing for greater public participation in international lending programs. Throughout the 1980s, nongovernmental organizations proliferated in Latin American countries in response to the dislocation occasioned by mega-infrastructural projects and the decline in state and trade union involvement in social welfare activities. While criticism of the bank's lending practices came from many quarters, NGOs were especially critical of what they viewed to be the negative social impact of structural adjustment, and demanded that the bank involve civil society in its lending programs (Nelson 1997, 24).

This pressure was key in the bank's move to a more participatory policy process, a process that was under way by the mid-1990s. The bank's 2000 World Development Report, *World Bank Development Report, 2000/2001, Attacking Poverty*, sets forth its major ideas on the subject. It identifies poverty reduction as the bank's major concern and civil society involvement in the design and monitoring of reforms as an essential part of the process (World Bank 2000a, 8–9).

It is important to note, however, the limitations of the bank's new thrust toward public involvement in policy development. While consultation is most prevalent in projects involving population resettlement and indigenous lands and is increasingly sought after in social sector programs (Nelson 1997, 43), openness and public scrutiny of structural adjustment programs has not occurred. At the same time, the closed nature of international policy networks has also been challenged on the domestic political front. In 1997, in both Mexico and Argentina, midterm elections saw governments that had carried out market-liberalizing reforms lose control of their respective congresses. These reversals were followed by the electoral defeats of the governments themselves (Carlos Menem and the Peronist Party in Argentina and the PRI's presidential candidate, Francisco Labastida, in Mexico). In each case, resistance to further market reform measures has grown, along with public concern for social issues (Starr 1999, 50; Teichman 2001, 154, 122).

From 1982 on, circumstances forced Mexico and Argentina, along with other countries of the region, to avail themselves of the various lending facilities provided by the IMF and the World Bank. Both countries' ongoing negotiations with the World Bank from the early 1980s on set the stage for the emergence of international policy networks. The bank provided a Special Action Program loan to Mexico in 1983 for export development and, between 1984 and 1991, provided a variety of SECALs in such areas as agriculture, trade, export promotion, and privatization, in addition to numerous project loans.

From 1992 on, the pace of lending continued but moved more heavily into lending for environmental projects, health, education, social protection, and agriculture, particularly projects dealing with marginal areas and indigenous peoples. Similarly, between 1983 and 1988, the bank increased its structural adjustment lending to Argentina for export promotion and for state reform while continuing to make a variety of project loans. Indeed, by 1988, the bank had stepped in to replace the

IMF in Argentina. After withdrawing from Argentina briefly, the bank resumed lending in 1990, and has been closely and intensely involved in Argentina ever since. Here, too, while lending for public sector restructuring during the initial years of market reform dominated, the bank has moved increasingly into lending for health, education, and social protection.

The facility with which the bank could influence and guide the process of reform was closely linked to domestic political factors and processes. Institutions, defined broadly as the entire framework—informal, formal, written, and unwritten—in which human activity occurs, determine human choices and economic outcomes. As such, institutions play a major role in determining the extent and manner in which ideas will affect policy change (North 1990, 4, 111). A voluminous literature has explored the links between the adoption of market reform policies and domestic institutional arrangements. One-party-dominant regimes, for example, have been identified as being in one of the best positions to insulate technocratic decisionmakers and to manage (control) the political fallout of market reform; while new democracies, facing fierce redistributive pressures, are in the worst position to carry through such reforms (Haggard and Kaufman 1995, 14, 152; Cavarozzi et al. 1994; 18; Bresser Pereira 1993, 52–55).

The key impact of a profound economic crisis in discrediting the old economic model and in engendering public support for reforms has also been broadly acknowledged (Haggard and Kaufman 1995, 159; Morales 1996, 18; Bresser Pereira, 57). In addition, party systems appear to be relevant: a highly fragmented system is not conducive to reform, while a two-party system is more likely to make change possible (Haggard and Kaufman 1992; Nelson 1992, 123). The relative power of organized interest groups may also be key in determining what aspects of reform go forward and how quickly (Nelson 1990, 21). In the two countries analyzed here, such political circumstances and institutional arrangements would prove crucial in patterning the nature, extent, success, and reach of international policy networks.

Mexico: Using the Bank to Drive Reform

Mexico's first phase of reform (1985–94) occurred in the authoritarian context of a one-party-dominant regime, a regime that was firmly in the hands of a tightly knit group of technocratic market reformers (Centeno 1997; Teichman 1995). For more than 70 years, until its defeat in 2000, Mexico was ruled by the Institutional Revolutionary Party (PRI). Highly effective mechanisms of corporatist control involved the incorporation of national worker, peasant, and popular organizations in the PRI, while clientelist networks ensured the loyalty of a wide spectrum of sectoral leaders, politicians, government officials, and party activists.

While the breakdown of this system can be traced to the student strike and massacre of 1968, a rapid acceleration of the process began with the administration of President Carlos Salinas de Gortari (1989–94), who, faced with rising political opposition to his policy reforms, implemented a variety of political reforms geared to making the electoral system fairer and more competitive. But PRI dominance and the corporatist-clientelist system of political control remained, until the mid-1990s, effective in containing opposition to market reform measures. Through its control of the PRI, the technocratic elite retained full control of the policymaking process, and was able to carry through trade liberalization and privatization without substantial interference from the congress.[6]

Clientelism, in the form of social investment funds, associated through the media directly with the person of the president, was key in dissuading worker and peasant organizations from blocking reforms the way they would in Argentina between 1985 and 1989. At the same time, Mexico's long years of political stability had produced a large and relatively stable state bureaucracy, with large enclaves (especially in the Finance Ministry and Central Bank) of highly trained officials. It was only with the 1995 peso crisis that the unraveling of the traditional political system became readily apparent; under President Ernesto Zedillo (1995–2000), trade unions and Congress blocked privatization in the energy sector and demanded greater emphasis on social policy.

Mexico's technocratic policy elite (the president and his closest cabinet collaborators) became the interlocutors between their country and bank officials. Their exclusionary form of decisionmaking was reflected in the nature of Mexican-World Bank discussions and in the kind of influence the bank would be allowed to exert on the Mexican reform process. Their control of the Mexican state and politics determined whom the bank would dialogue with. At least initially, their control of Mexican politics also controlled what issues would be open to dialogue. Mexico's enormous geopolitical importance to the United States, moreover, gave Mexican technocrats the clout to resist reforms they opposed and to recruit the bank to help them drive forward those reforms they favored. Within the limitations defined by Mexico's policymakers, however, the bank's role was not a passive one. Bank officials sought out and strengthened the hand of the radical market reformers and contributed to the spread of market reform policy ideas in the Mexican bureaucracy. The bank provided funding and technical support, which was especially important in the privatization process.

Although market reform was initiated under President Miguel de la Madrid (1983–88), the leading figure among Mexico's radical reformers was his successor, Carlos Salinas. Salinas's closest collaborators included

Francisco Gil Díaz, Ernesto Zedillo, Pedro Aspe, Jaime Serra Puche, and José Cordoba (Heredia 1996; Teichman 1995). When Salinas assumed the presidency, these individuals, forming a homogeneous super-elite and sharing educational and career experiences, took over the most important administrative positions and propelled the market reform process forward in an exclusionary and authoritarian manner.[7] Although trade liberalization was virtually complete by 1988 (Banco de México 1993, 202), once Salinas became president, privatization moved into the politically sensitive areas of telecommunications, airlines, mining and steel, and banks. Foreign investment was deregulated, and initial steps were taken to liberalize the agricultural sector.

By far the most important and controversial agricultural reform involved the reform of Article 27 of the Constitution. With the objective of stimulating investment and export competitiveness in agriculture, this reform declared the end of land redistribution and gave communal farmers (*ejiditarios*) the legal right to hold title to land and therefore the right to sell or rent it or to form joint ventures with agribusiness, whether foreign or domestic. Finally, the North American Free Trade Agreement (NAFTA) required that foreign capital be allowed into the electricity sector and stipulated the gradual opening up of the finance and agricultural sectors.

The World Bank was involved in almost all aspects of this reform agenda. Indeed, the full extent of the bank's involvement cannot be gleaned by just a perusal of its loans to Mexico because discussions with Mexican officials occurred in all policy areas, including many in which the bank had no intention of making loans. This broadening of policy discussion was a major achievement for the bank because, before the mid-1980s, Mexico had sought to confine the bank's involvement to certain sectors (mainly infrastructure) and had rebuffed bank policy advice (Interview, senior LAC official; OED 1994). The 1982 debt crisis opened an opportunity for more extensive policy discussions. Then-senior vice president of operations for the bank, Ernest Stern, a strong advocate of market reform, offered bank support for Mexico's economic recovery with a reform package that included trade liberalization, measures to bring about greater efficiency in public enterprises, and improved transparency in the financial sector (Interview, senior LAC official). Meanwhile, LAC officials, who by this time had reached a consensus on the need for reform, especially trade liberalization, began to seek out like-minded Mexican officials and quickly made contact with and cultivated leading radical technocratic reformers (Interviews, two senior LAC officials).[8]

Although the Mexican government had not reached a consensus on trade liberalization, the radical reformers were able to extend an invitation to the bank to send a trade policy mission. Discussions over trade liberalization between bank and Mexican government officials during

1983–84 were acrimonious, however, because at this time trade liberalization resisters in SECOFI, the Ministry of Trade and Industrial Development, had not yet been defeated. The 1983 export development loan therefore did not, much to the bank's disappointment, call for a generalized trade liberalization program. But it did help to place the discussion of policy reform on the Mexican government agenda and set the stage for the emergence of the first Mexican LAC policy network on trade liberalization (Interviews, two senior LAC officials).

Economic deterioration, in the form of a drop in petroleum prices in 1985, further increased the bank's opportunity to become involved Mexico's policy reform. As the deteriorating economic scenario demonstrated that drastic policy changes were in order, resisters to trade liberalization within the Mexican state lost influence, and the radical reform group gained ground. The first World Bank-Mexican policy network, on trade liberalization, emerged as the bank took on the role of supporting and strengthening the arguments of the radical reform group. A bank-financed trade policy seminar, held to coincide with the government's announcement of trade liberalization measures in July 1985, supported the spread of market liberalizing ideas, helping to secure adherents in the state and the private sector. At the same time, Mexican technocrats used bank studies on trade reform to help defeat those resisting reform in the state (Interviews, two senior bank officials and a senior Mexican government official).

Over the following five years, LAC officials strove to build loyalty and trust with Mexican officials. The bank's role in the debt issue was probably the most important factor in engendering those ties. Mexican officials were grateful for the bank's contribution to debt negotiations and restructuring, especially for the cofinancing and guarantees it provided, which stimulated international financial flows (OED 1994, 51; interview, senior LAC official). The bank not only played an important role in providing advice to Mexico in its negotiations with the commercial banks but also intervened to strengthen Mexico's negotiating hand.[9] The bank provided advice on the design and formulation of options for debt and debt service reduction for Mexico's Brady deal, and its projections of Mexico's financial needs lent decisive support to Mexico's case in negotiations with the commercial banks (OED 1994, xv). The policy network on the debt issue involved high-level officials of the bank and the Mexican government and the top technical advisers of each, with one particularly trusted bank official on call to the Mexican government. Most of the analytical work was carried out jointly by World Bank and Mexican officials (Interview, senior LAC official).

Despite this success in building trust, however, LAC officials learned to operate with considerable caution when dealing with Mexican officials. The Mexicans, moreover, maintained the upper hand in determining where the bank would be allowed to exercise influence. Particularly during the Salinas years, features of Mexican policy networks reflected the concentration of power in the Mexican state and the country's geopolitical importance to the United States. Generally, dialogue with bank officials involved, especially in the first instance, the highest level of Mexican government and LAC bank officials. Bank officials did not have access to public enterprise officials or, for a number of years, to sectoral or middle-level Mexican officials, and were explicitly prohibited from initiating contacts with Mexican officials without authorization from the Finance Ministry.[10] Only when policy reform was well under way, after the early 1990s, did discussions go forward in such policy areas as petroleum, the financial sector, and social issues such as health and poverty reduction.

Mexico's geopolitical importance was reflected in the way Mexican officials used their country's relationship with the United States to pressure high-level World Bank authorities to censor opinion and pressures coming from LAC that they saw as inimical to their goals. This reality was reinforced early in the market reform process and was key in determining LAC officials' behavior thereafter. Angered at what they viewed to be too much pressure on the trade liberalization issue, Mexican authorities complained to the chairman of the Federal Reserve Board, Paul Volcker, who took the matter up with the U.S. treasury secretary and top World Bank officials. The consequence: the LAC division was reprimanded for pushing too hard (Interviews, senior LAC official).[11] But there had been earlier evidence of Mexico's clout. In 1980, a junior official in the bank wrote a minority report critical of Mexico's rapid petroleum export strategy—a strategy the Mexicans were loath to abandon at the time—predicting that the public expenditure expansion, financed by debt and money creation, would almost inevitably lead to crisis. The report was attacked by the Mexican official who was, at the time, a director-general in the Ministry of Budget and Planning, Carlos Salinas; and the Mexicans used their influence with the United States and upper levels of the bank to attempt to have the bank official fired (Urzúa 1997, 74; interview, two middle-level LAC officials).

The consequence of such experiences was that bank officials were unlikely to make policy demands that they feared might antagonize Mexican officials (Interviews, three senior LAC officials). This had implications for Mexico's ability to resist reforms its policy elite opposed. Bank officials also had to tread carefully on the issue of policy conditionality. Mexican officials were, initially at least, strongly averse to the attachment of explicit conditionality to loans. LAC officials developed a strategy for dealing with Mexico that involved ongoing dialogue and informal understandings (OED 1994, xiii; interview, senior LAC official). It is therefore particularly difficult to measure the extent of bank involvement in the country's policy reforms.

Nevertheless, similar educational backgrounds (graduate degrees in economics) and personal ties (the same universities) between some bank officials and the Mexican technocrats helped facilitate the ongoing dialogue and the eventually close working relationship (Interviews, two LAC officials). Hence, once Salinas, the principal figure among the radical reform technocrats, was designated PRI presidential candidate in 1987, relations between Mexico and the bank became closer, and policy networks proliferated. In 1988, as Salinas campaigned for the presidency, Finance Minister Pedro Aspe, his technical team, and top-level bank LAC officials worked out the general lines of the program for the rapidly accelerating reform process that would characterize the Salinas years. The Ministry of Finance was the principal point of contact for both bank lending and policy dialogue during most of the Salinas administration, although networks also developed with officials in the Central Bank, the Office of the Presidency, the Ministry of Trade, and occasionally with sectoral ministries, such as the Ministry of Agriculture. Once reform was well under way, Mexican authorities began to request the inclusion of conditions in loan agreements in order to consolidate policy reforms—to ensure that groups in the government that opposed such changes could not tamper with them (Interviews, two senior LAC officials).

While much of the policy dialogue that occurred between the World Bank and Mexico would result in loans, discussion also took place in a wide array of policy areas. Indeed, most bank informants believed that informal discussions on policy areas not leading to bank loans nonetheless offered opportunities to influence policy. Joint bank-Mexican government studies were produced on such topics as public sector investment, deregulation of foreign investment, the financial sector, the industrial sector, transportation, public enterprise reform, privatization (telephone, fertilizers, steel, electricity), and agriculture. These reports were frequently used to bolster arguments against intrastate reform resisters, who argued for a slower, more gradual reform process (Interviews, senior Mexican and LAC officials).

In the area of privatizations, technical support was widely acknowledged by both Mexican and World Bank officials as particularly important. The bank provided studies on the international experience of public enterprise restructuring and privatization (Interviews, senior Mexican and LAC officials). Bank studies and joint bank-Mexican studies formed the basis for further dialogue with the bank and propelled the process forward as reforms were evaluated and new areas for reform identified. The bank tended not to lend for reforms, such as for the tool road program (OED 2001, 7), in which it perceived extensive corruption; but it nevertheless continued dialogue.

Bank-Mexican discussion on agricultural reform is an example of the role of an international policy network (and the role of the bank side of such a network) in helping to build consensus for reform. In 1985–86, the bank began tentative discussions with Mexican technocrats (those in the Finance Ministry) on the need for reform in agriculture. Initial, more formal discussions, however, which involved the key radical reformers, Zedillo, Serra Puche, and Aspe, did not really get under way until Salinas took over the presidency (Interview, senior bank official).

Mexican government officials saw the *ejido* system as the most important obstacle to greater agricultural productivity. Although eager to get reform off the ground, they faced resistance from their own agricultural bureaucracy; that is, from bureaucrats in the ministry below the subsecretary level. While the radical reform technocrats wanted the *ejido* eliminated, many in the agricultural bureaucracy resisted any attempt to tamper with the institution, fearing that even lifting the restrictions on the transfer of *ejido* land or allowing *ejido* members to decide on the tenure regime under which they would operate would trigger the widespread selloff of lands and the pauperization of *ejido* members.

Bank experts, on the other hand, focused less on reform of this communal form of land tenure (indeed, there is evidence of support for it from some bank officials; see, for example, Heath 1992).[12] The official bank position favored owner-operated family farms as the best means to ensure equity and efficiency; property titling would increase owners' incentives while providing collateral for further investment (Deininger and Binswanger 1999, 249). At the same time, the bank had come to recognize that efficiency losses under communal landholding arrangements were more modest than originally assumed (Deininger and Binswanger 1999, 258). While bank officials did favor alterations in *ejido* arrangements in order to make private titling possible, they preferred that Mexican policymakers focus on improvements in areas such as health, education, and technical support, and on removing state interference in the agricultural pricing system. They also wanted inefficient public enterprises and marketing boards eliminated (Interview, senior bank and middle-level officials).

It was in this context that discussions between the bank and Mexican finance and agriculture officials got under way in 1989–90. Over the next three or four years, the Mexican government sent about ten groups of Agriculture Ministry officials (with about ten people per group) to Washington for discussions with the bank's agricultural specialists. One of the most important purposes of this dialogue, from the perspective of Mexico's radical reformers, was for the bank's agricultural specialists to help them convince these Mexican agricultural bureaucrats that altering the *ejido* regime would not actually lead to increased poverty and outmigration.[13] At the same time, however, bank dialogue with the radical reform technocrats involved pressure to place policy priorities elsewhere and to move away from their strong anti-ejidal position.

The bank weighed in on the side of *ejido* reform, although not the drastic type espoused by the radical reformers. Admittedly, it is difficult to measure the extent of the bank's impact on this issue. It was certainly integrally involved in this intrastate debate and, through helping to moderate the radical reformers while assuaging the fears of the skeptics, it probably contributed to the buildup of sufficient intrastate consensus to allow reform of the *ejido* to go forward. The Mexicans, according to bank officials, insisted on the insertion of agricultural reforms as conditions in loan agreements, a measure they believed would consolidate the changes.[14] But even in agriculture, where bank and Mexican officials had different policy concerns, informants spoke of the development of a relationship of "trust" between bank officials and Mexican officials.

Mexican officials' selective use of bank policy advice and their ability to force LAC officials to back off from policy reforms continued to be an important feature of bank-Mexico relations despite the close working relationships that developed. The Mexicans resisted bank officials' advice that the financial sector be opened up to foreign investment (Interviews, senior Mexican official, two senior LAC officials). Their resistance to bank policy recommendations was particularly evident in their reaction to the bank's assessment of the Mexican economic situation just before the peso crisis. A 1993 World Bank report argued that unless Mexico continued on the road of structural reform, including opening the energy and finance sectors to foreign capital investment, and unless it changed its exchange rate policy, it would face an economic crisis. Mexican officials strongly disagreed with the report, and succeeded in suppressing its wider dissemination in the bank (Interview, LAC official).[15]

Mexican officials did not move on these bank policy recommendations, and the 1995 peso crisis was, as a consequence, probably more devastating than it might otherwise have been. The immediate impact of the 1995 crisis was a lessening of bank policy influence as the United States became the key external actor in Mexico's economic recovery. Discussions on the Mexican rescue package between Mexican officials and the U.S. Treasury reportedly involved pressure for a variety of policy reforms in areas such as illegal immigration and foreign capital participation in the state petroleum company (Ramírez de la O. 1996).

The World Bank lent heavily to support the failed Mexican banking system through funding for FOBAPROA (Bank Fund for the Protection of Savings) (Urzúa 1997, 103, 109). FOBAPROA was a private bank rescue effort established by the government and supported by the Mexican policy elite in which the World Bank had little policy input and about which it maintained a considerable decree of skepticism (Interview, senior LAC official). Disagreement between Mexican and World Bank officials over this issue was an important factor in the erosion of trust between Mexican officials and their bank counterparts between 1995 and 1997, as was bank staff turnover in some sectors (OED 2001, 12, 24). By 1997, however, once bank personnel working on Mexico had stabilized, good working relationships apparently resumed in such areas as pension reform, decentralization, health, education, support for small and medium-sized businesses and farmers, environment, and poverty alleviation.

Policy dialogue on poverty, which had traditionally been closed to the bank, began to open up under Salinas but continued more fully under his successor. Santiago Levy, the architect of the most important antipoverty program under Zedillo, had worked on a contract basis for the World Bank before joining the Zedillo administration in the Ministry of Finance. While at the bank, he had produced a report titled *Poverty Alleviation in Mexico* (World Bank 1991), which became the basis for the PROGRESA program. This program, which called for the targeting of extreme poverty, was opposed by the then–Mexican minister of social development, Francisco Rojas, and criticized by career bureaucrats in the Ministry of Social Development who favored a more generalized approach. President Zedillo, however, was reportedly impressed by the report, eventually choosing it over other proposals (Interviews, one senior-level and two middle-level officials). The bank funded a pilot project for PROGRESA in 1992. But while informal discussions between the bank and Mexican officials continued on this program, the bank did not lend explicitly for it.[16]

The decentralization dialogue, begun in the 1990s, went more slowly, partly because domestic pressure for decentralization had also been coming from opposition state governments, which the PRI regime did not wish to see strengthened. By the end of 1999, however, there was movement on the issue (Interview, senior government official; OED 2001, 13). Until then, decentralization had been problematic: increased funding was allocated to state governments for distribution to municipalities, but funds were earmarked for specific purposes, giving municipalities little latitude to establish their own priorities or programs.

Meanwhile, the bank began to take an active role in building up support for decentralization, so as to have key interlocutors in place. In the last years of the Zedillo administration, the bank provided contracts to disaffected government technocrats, some of whom became involved in bank-supported decentralization projects, such as the improvement of state-level administrative capacity.[17] But the bank also kept discussions going on privatization in the energy sector, especially electricity, an area where political opposition effectively blocked reform; and it kept the country's fiscal situation in the forefront of dialogue, providing analytical and advisory services and pressing for tax reform (Interview, senior LAC official).

Although the number of policy areas discussed by the bank and Mexican officials continued to expand under President Zedillo and the bank was interacting with a larger number of government officials and even former officials, policy network discussions excluded members of Congress, opposition parties, opponents in the state bureaucracy, and most civil society organizations. Although civil society organizations have had an impact on bank policy since the mid-1990s in Mexico, that impact has been largely uninvited—a consequence of fierce resistance to specific bank projects (Fernández de Villegas and Adelson 2000, 476). In the realm of policy reform, the first significant participation occurred in health policy, involving a bank loan in 1998; but that participation, too, was largely uninvited, and important pertinent documents still were not made available to Congress and civil society organizations. Despite the move to electoral democracy, moreover, old corporatist-clientelist arrangements continued to survive in rural areas, civil society organizations participated little in bank programs, and the government continued to use programs in a clientelistic way (Fernández de Villegas and Adelson 2000, 483, 488).

The bank continued its involvement with the Mexican administration of President Vicente Fox, providing a set of "Policy Notes" for the incoming Fox administration, later published as *Mexico: A Comprehensive Development Agenda* (World Bank 2001). Today the bank's priority for Mexico is poverty reduction, to be achieved through the maintenance of macroeconomic indicators; and productivity increases, along with a variety of targeted programs and expanded coverage of basic ones. In Mexico, as elsewhere, the bank claims to be seeking to abandon the closed policy networks of the past. But openness is confined to compensatory programs, particularly poverty alleviation. According to the bank, moreover, many in the Mexican government still oppose bringing nongovernmental actors into the bank-Mexican dialogue, while civil societal and political groups are suspicious or hostile toward the bank (OED 2001, 26).[18]

Argentina: The World Bank Drives Reform

The World Bank's greater involvement in Argentina's reform experience was the product of a number of intersecting factors, including the timing of economic reform, closely following a transition from authoritarian rule; the depth of Argentina's economic crisis; and the changing position of U.S. administrations concerning how much pressure should be brought to bear on Argentine policymakers to carry out reform. In sharp contrast to the Mexican case, Argentina's political history was one of instability; persistent cycles of democracy and military rule culminated in the brutally repressive military dictatorship of 1976–82. Unlike the Mexican case, moreover, Argentina's labor movement was never contained by corporatist-clientelist mechanisms of political control, and it reemerged as an independent and powerful actor with the transition to democracy. Labor's demands for improvements in wages reflected the more general rapid rise in public expectations characteristic of new democracies.

Market reform therefore made little headway during the first civilian government of Raul Alfonsín (1983–89). This delay in adjustment, combined with the sharp increase in government expenditure occasioned by attempts to meet public expectations, led to the onset of extreme crisis in the form of two hyperinflationary episodes in 1989 and 1990 (Bresser Pereira 1993, 52–53). It was the depth of that economic crisis, however, that neutralized opposition to reform (Gerchunoff and Torre 1996, 749). It also gave the regime the ability to concentrate political power and liberally to open channels of discussion with the bank. In addition, the country's history of chronic political instability had left it with a much weaker state bureaucracy and no cadre of highly trained technocrats, as Mexico had (Teichman 1997, 33–34). This situation created greater reliance on World Bank technical support once market reform was begun in 1989. The bank's proactive role in Argentine policy reform was reflected in the greater incursion of international policy networks into the Argentine state and society. Lacking the tight authoritarian control of Mexican market reformers and their geopolitical clout with the United States, Argentine policymakers lacked the ability to confine bank officials to specific policy areas, or strongly to resist policy advice—nor did they want to after 1989. They usually enthusiastically accepted (and even recruited) the bank's help in bringing recalcitrant resisters to support reform.

Probably no other country carried out market reform as rapidly as did Argentina under President Carlos Menem (1989–99). It was during this period that international policy networks proliferated rapidly. Yet those networks originated in the Alfonsín regime; ongoing policy discussion with bank officials during those years played an important part in convincing Argentine policymakers that market reform was efficacious. It was during that period that policy reform was placed on the policy agenda. In the face of mounting inflation and sharp resistance from creditors, by 1985 the administration had developed the Austral Plan, a heterodox stabilization plan involving wage and price freezes and reduction of the fiscal deficit. The Austral Plan called for the restructuring of public enterprises and trade liberalization. When this economic plan failed, however, further proposals for trade liberalization and public sector restructuring were put forward, culminating in the announcement of the sale of 40 percent of the shares of the state telephone company (ENTEL) and the airline, Aerolíneas Argentinas.[19] None of the various economic programs implemented by President Alfonsín, ending with the Primavera Plan in late 1988 (calling for, among other things, privatization and a revised fiscal deficit target), managed to reform or stabilize the Argentine economy. They all crumbled in the face of trade union and business opposition (Peralta-Ramos 1992, 114–16; Smith 1992, 25–38).

Once Carlos Menem took power, policy reform proceeded rapidly. Two omnibus laws passed in 1989, the Law for the Reform of the State and the Economic Emergency Law, provided the legal framework for the radical reform to come, allowing the president to bypass Congress and institute many of the early reform measures through presidential decree. Unlike Mexico's, the Argentine privatization drive did not shy away from sacrosanct public companies: the state-owned telephone, electric, airline, railway, petroleum, steel, and military defense companies were all privatized by 1994. Tariff rates were consistently reduced; and by 1991, most quantitative controls on imports had been removed. The Convertibility Plan, introduced by Economy Minister Domingo Cavallo in 1991, tied the peso to the dollar, backed fully by Central Bank reserves. In 1996, the executive obtained additional emergency powers for its "second reform of the state," a proposal that foresaw the elimination and merging of government departments and agencies, accelerated privatization, and a tax increase in order to remedy the fiscal deficit. The social security system was reformed and, by 1998, three pieces of legislation had taken some steps toward labor flexibilization.[20] Measures were initiated to improve the fiscal situation of the provinces and to privatize provincially owned banks and services.

The key actors among the domestic policy elite who propelled first-stage policy reform were Menem himself and two of his closest collaborators (who, at different times, became his minister of economy), Erman González and Domingo Cavallo. Unlike the Mexican case, here important nontechnocratic actors steered the market reform process, particularly at the beginning. In its initial and most difficult period, 1989–91, the most important figure was González, a *político* who served as minister of economy from 1990 to 1991, minister of defense from 1991 to 1993, and later minister of labor.[21] As minister of defense, González led the very difficult negotiations with the military, thereby playing an essential role in securing the privatization of the various military equipment and material companies.[22]

Although Cavallo had played an important role in developing official policy behind the scenes, it was only with his appointment as economy minister in early 1991 that the Argentine reform process began to include the substantial participation of domestic technocrats. Cavallo, who held a doctorate in economics from Harvard, brought with him a highly qualified economic team, many from the Fundación Mediterránea, a think tank with a history of close and friendly relations with the

World Bank.[23] Cavallo himself had a long history with the bank, having acted in a consulting capacity on many occasions. This personal relationship, combined with Argentina's relatively smaller technocratic capacity compared to that of Mexico, contributed to the depth of the bank's role.

Despite the formal concentration of power in the hands of the minister of economy and the use (and threatened use) of presidential decree power (Teichman 1997, 46–47), Argentina's radical reformers never achieved the policy isolation and authoritarian decisionmaking capacity obtained by Mexican technocrats during the Salinas years. Once the trauma of hyperinflation began to wear off (after about 1991), the legislature and the trade unions were able to alter government bills on privatization, health care reform, and social security reforms (Llanos 2001; Acuña and Tuozzo 2000, 446). The Peronist Party lacked the control of the labor movement that characterized the PRI during the Salinas years; and while deeply divided, labor resistance was continuous and effective in blocking reforms to the labor code (Acuña and Tuozzo 2000, 438).

In addition, there was stiff resistance to reform in the Argentine cabinet. The minister of social action, the defense minister, and the secretary-general of the presidency challenged accelerated reform of the state, demanding a more gradual process and an end to continued cutbacks in government expenditures, especially because of their negative social implications (*Latin American Weekly Report* 1991). The labor minister opposed the economic minister on the issue of imposing labor reform on the labor movement (Etchemendy and Palermo 1998, 585). Indeed, Cavallo's departure from the Economy Ministry in 1996 was no doubt linked to these conflicts.[24]

The World Bank's policy role in Argentina began with its involvement with the Austral Plan and continued throughout the Alfonsín years. During this time, bank officials made a strong pitch for trade liberalization and public enterprise reform. It was with the bank's participation in the formulation of the Primavera Plan, however, that the relationship between Argentina and the bank solidified, and a very intense and close relationship developed into the 1990s. The key event propelling this involvement occurred in 1988 with the IMF's refusal to grant a standby loan to Argentina because of the nation's repeated failure to meet performance criteria. The World Bank stepped in and lent Argentina US$1.25 billion. Interviews overwhelmingly revealed the key role of the United States in the bank's decision to lend.[25] Facing an election year in 1988, senior U.S. officials were anxious to avoid a confrontation with a major debtor, and therefore were eager to prop up Argentina, and pressed the bank to lend. The result was to stimulate an ongoing relationship with the bank that would become even closer in the years to come. In the words of one senior LAC official, "the World Bank was never as involved so closely in policy as it was in the Argentine case, particularly in trade policy, public sector reform, and privatization."

Indeed, the Primavera Plan, the final economic program of the Alfonsín administration, was largely a bank initiative, and was developed over several months of detailed and intense discussions between high-level bank officials and Argentine officials. This first international policy network was a fairly loose and often conflictive one, lacking the high degree of trust and the close personal relations of later networks. Bank officials used this opportunity to push for full-scale reform, including public enterprise restructuring, privatization, labor flexibilization, and tariff policy reform (Interviews, Argentine and LAC senior officials). Given the country's dire economic situation at the time and its desperate need for funds, Argentine officials were warming to the idea of radical reforms, especially privatization. By strongly backing reform, the bank encouraged Argentine officials to initiate reforms they saw as necessary but feared to try because of the anticipated political fallout (Interviews, two senior Argentine government officials). Bank demands, moreover, became a useful political tool: in their defense of reforms such as trade liberalization to the private sector, Argentine officials diverted blame from themselves by claiming that Argentina had no choice but to implement the bank's policy demands (Interviews, senior Argentine and LAC officials).

By 1989, however, the pressure on Argentina from multilateral lending institutions and the United States became much more direct—a situation that never developed in the Mexican case. By this time, U.S. willingness to support Argentine recalcitrance had worn thin, while the bank's position had hardened. In April 1988, Argentina ceased to make interest payments to foreign banks, and arrears built up throughout that year. The incoming Bush administration no longer felt any need to support Argentina in its conflicts with the IMF. By early 1989, the bank had suspended disbursements on its loans, and the IMF said it would consider a new standby loan only after the Argentine national election, scheduled for May 1989.

The Argentine economic situation spiraled downward. As dollars were massively withdrawn from the banking system, the country's reserves plummeted, and the inflation rate exceeded 4,000 percent, reaching its highest point in June 1989. Public order disintegrated as mobs rioted and the government declared a state of emergency (Smith 1992, 39). The trauma of hyperinflation opened the door to more intensive World Bank participation in policy reform. Throughout 1989, the bank's continued efforts to press its case for reform included a meeting with Carlos Menem's brother Eduardo to gage Menem's receptiveness to reform and an offer to brief Menem's team should he win the election (Interview, senior LAC official).

The depth of the economic and fiscal crisis also opened the way for direct and explicit pressure by the bank for policy reform. Now the bank called on Argentina to demonstrate a firm commitment to structural reform in order to gain the confidence of international creditors, which was especially important given Argentina's less-than-glowing record in policy reform. All government officials interviewed stressed that the first privatizations Menem carried out (ENTEL and Aerolíneas Argentinas) were explicitly in response to this pressure.[26] Bank officials demanded that Argentina make this gesture. The IMF conditioned the conclusion of the 1989 standby agreement on a public deficit target of 1 percent of GDP, a monumental task and one that Argentine officials believed could be met only by divesting loss-prone public companies (Interviews, two senior Argentine officials).[27]

At the end of 1989, the new Menem administration invited the bank to become involved in a thorough reform program.[28] A top-level discussion involving senior LAC officials, President Menem, soon-to-be-appointed economy minister González, and then–foreign minister Cavallo took place, and a reform program involving trade liberalization, the privatization of all public companies, and the establishment of currency board was worked out. As in the Mexican case, in the following years, international policy networks developed in a wide variety of areas, including those where loans were not forthcoming.[29]

Policy networks ran the gamut, from top-level macropolicy formulation to trade policy, labor reform, social security, and public sector restructuring and privatization. Two of the key features of this process were the fluidity and informality with which officials in the bank and the Argentine state maintained ongoing contacts, generally without a great deal of regard to formal rank—very much unlike the Mexican case. Middle-rank bank officers, for example, appear to have had easy access to the Argentine economy minister, and even to the president. Another distinguishing feature of these networks is that they were not initially technocratic. Indeed, it was precisely the relative absence of highly trained technocrats that made the bank's role in providing technical support so important (Interviews, senior LAC and Argentine officials).

Relationships of trust between LAC officials, including desk officers and sectoral specialists, and Argentine officials developed in the context of ongoing policy dialogue, often in the form of informal discussions on a broad range of reform issues. The extent to which the bank could actually affect policy change, however, depended mightily on the strength of domestic political opposition, particularly opposition from labor. In those areas where labor had a strong vested interest, reforms occurred slowly or were blocked.

International policy networks engaged in public enterprise reform contributed in important ways to the spread and acceptance of market reform ideas, especially the necessity of restructuring public enterprises and, later, the need for privatization. By 1987, intense discussions on public enterprise reform were already under way. Bank officials took a much more activist approach in pushing for reform than in the Mexican case, often encouraged to do so by higher-level Argentine officials (Interviews, LAC middle-level official, senior Argentine official). Bank officials moved freely within the Argentine state, lobbying public enterprise managers and trade union leaders. The bank funded studies on public enterprise price policies, restructuring, and privatization. Bank officials organized conferences to bring both state enterprise managers and trade union leaders into contact with outside experts on public enterprise reform.

The bank also brought in and paid for outside consultants to help carry out restructuring in specific public firms. These consultants, along with bank officials, played an important role in convincing public enterprise managers of the need for substantial change. While many of these reformist collaborators were forced out in the face of bureaucratic and trade union resistance in the public enterprise, the legacy was a positive attitude toward public sector reform among the senior executives of many public enterprises (Interviews, two middle-level LAC officers, one senior LAC official).

Initially, bank officials focused on public enterprise restructuring. But with the repeated failure to reform public enterprises sufficiently, both bank and Argentine officials came to the conclusion that only drastic action, in the form of privatization, would solve the problem (Interviews, two middle-level LAC officials; senior Argentine official). In politically difficult privatization cases, restructuring was pursued until political resistance could be overcome. Restructuring of public enterprises, then, was an essential part of the spread of the ideas favoring state streamlining and, eventually, privatization; as such, it helped strengthen policy resolve and break down political resistance to privatization, sometimes in very practical ways. In one case, a bank official's promise to a trade union that the bank would provide funding for severance pay was important in inducing trade union support for restructuring and eventually for privatization.[30]

With Domingo Cavallo heading the Economy Ministry between 1991 and 1996, international policy networks assumed the more technocratic character of the Mexican experience, with members sharing both educational experience and policy goals. The relationship between the World Bank and Argentina prospered, partly as a consequence of Domingo Cavallo's long relationship with the bank. Cavallo had worked as a consultant for the bank for many years, and had developed a close and cordial relationship with senior bank and LAC officials (Interviews, senior Argentine official; two senior LAC officials).

Cavallo's successor as economy minister was Roque Fernández, with a doctorate in economics from the University of Chicago. He drew his technocratic team of advisers, many also with Chicago graduate degrees, from another of Argentina's think tanks, the Center for Macroeconomic Studies (CEMA) (*Latin American Weekly Report* 1996).[31] Bank informants stressed the trust that existed between Argentine Economy Ministry officials, particularly Cavallo and Fernández, and them because of their similar educational training and work experience with the bank and the IMF. In the words of one bank official, "Argentine Economy officials are well known to us; we speak the same language, and there are no basic differences in our views." International technocratic networks did not maintain an exclusive hold on the policy process, however; they faced stiff challenges from within the cabinet, from Congress, and from labor.

Although consultation of civil society in other Latin American client countries is gaining ground, the bank claims that the process has gone farther in Argentina than in any other country (World Bank 2000b). There, civil society participation in bank programs first occurred in 1993 with PROMIN, the Mother and Infant Nutrition Program. NGOs were involved only in implementating the program, however (Acuña and Tuozzo 2000, 450). NGO involvement in bank programs can be problematic; for example, the representative credentials of those NGOs that do participate in bank-funded Argentine social programs have been questioned (Tussie et al. 1997, 77). As in Mexico, civil society participation was largely uninvited, viewed as destructive rather than positive; and it occurred in compensatory rather than structural adjustment programs.

Recently, the bank has attempted to involve civil society groups in its compensatory, especially poverty, programs. In 1999, the bank carried out a survey of 1,200 poor households in 29 cities, based on a series of open-ended questions that attempted to identify how society defined poverty, the perceived changes in the last five years, and the roles of institutions in reducing poverty. It also used focus group discussions to add further depth. In March 2000, the bank met with more than 400 civil society leaders of NGOs, trade unions, community-based organizations, academia, research centers, and religious groups in five forums held across the country.[32] In addition, it surveyed the views of some 70 government officials. The International Finance Corporation, the bank's private sector lending affiliate, consulted with the Argentine private sector (World Bank 2000c, 20). The bank, moreover, has promised to respond to civil society participants about how, or whether, it incorporated their suggestions (World Bank 2000c, 29).

While the bank's primary concern remains Argentina's fiscal situation, as in the Mexican case, it has decided to focus more selectively on other policy areas. As in Mexico, its latest country strategy report has selected poverty, particularly policies to aid the most vulnerable, as the key focus area (World Bank 2000c, 36–38).

The World Bank's involvement in policy reform in Argentina has been, and continues to be, considerably greater than it has been in Mexico. Operating in a less authoritarian, more plural political environment, LAC officials had considerably greater leeway in penetrating the state and spreading market reform ideas. The extreme nature of Argentine economic difficulties from late 1988 on opened the way for direct policy pressure, while the lack of technical capacity encouraged the incoming Menem administration to rely heavily on the bank. Unlike their Mexican counterparts, Argentine reformers generally did not stop the bank from dialoguing with intra- and extrastate groups, and they sometimes used the bank as a handy excuse for their pursuit of unpopular measures (Interviews, three senior Argentine officials).[33] At the same time, Argentina's lesser geopolitical importance meant that LAC officials would not be inhibited from pressing reform by the threats or potential threat of reprimand by senior bank officials. The United States, while initially sympathetic to Argentine resistance to reform, had changed its tune by 1989 and could not be enlisted to slow down LAC's drive for reform in particular policy areas, as had occurred in the Mexican case. But there were clear limits to the bank's influence, largely revolving around domestic political opposition.

Conclusions

This article has argued that the market reformers of Latin America have not acted alone in carrying out the momentous policy reform changes of the past decade or more. They have had important support from World Bank officials operating in international policy networks. Networks of bank and client country officials, bound by personal relations of trust and even friendship and with shared policy goals, have helped to spread market reform ideas, guided the development of most of the major reform programs, and provided essential technical and financial support. The bank, in providing this support, played a key role in strengthening the hand of market reformers in relation to their detractors both inside and outside the state.

The two cases analyzed here, however, reveal important differences in the nature of their policy networks. Distinct institutional arrangements and different geopolitical positions determined how international policy networks would operate. In a liberalizing, single-party-dominant regime, Mexico's technocratic policy elite controlled bank officials' access to the Mexican state and defined the policy areas in which the bank could become involved. Mexican policymakers used the World Bank to build support for the reforms they wished to realize, and tried to use bank conditionality to thwart future attempts to dismantle those reforms. Because of Mexico's special geopolitical situation, Mexican officials were able to force LAC officials to back off from reforms they did not favor, such as in the energy and finance sectors. Mexico's special relationship with the United States gave Mexican officials special weight with the bank, mitigating the pressure for change and allowing the Mexicans to pursue a slower-paced program.

The bank's influence on the Argentine reform process, on the other hand, was much more pervasive. Bank officials had access to virtually all areas of the Argentine state and to organized groups, such as trade unions. Unlike Mexico, where authoritarian structures remained largely intact during the heyday of market reform, Argentina's policy reform was carried out after the transition to electoral democracy had been completed. That transition, following a period of brutal military rule, raised public expectations and delayed policy reform. The delay rendered the economic crisis, when it hit, much deeper than it would otherwise have been. But the trauma of hyperinflation swept away support for the old economic model and ensured the implantation of the new market reform policy ideas, opening the way for the bank to play an integral and essential role in Argentina's market reform experience. Because Argentina's importance to the United States was less than Mexico's, in the end the U.S. attitude toward Argentina helped to propel reform forward.

The discussion and development of policy that occurred in international policy networks was not subject to domestic public scrutiny; nor could the bank officials involved in such policy development be held accountable. While bank involvement in policy development has not been directly coercive, it has unquestionably increased the strength of market reformers in the state by providing them with intellectual and technical support, financial resources, and help in spreading market reform ideas. Meanwhile, opposing intra- and extrastate actors have lacked a voice in the process. Opponents to PROGRESA in Mexico's Social Development Ministry, for example, were not given the opportunity to enter policy development discussions; and certainly, peasant organizations in southern Mexico were not given the opportunity to enter discussions of agricultural reforms, including reform of the *ejido*.[34] The bank resisted the involvement of the Argentine labor movement in changes directly affecting its interests (Acuña and Tuozzo 2000, 445). It is likely that involvement of congresses and interest groups in policy reforms would have slowed down the process of change or made the reforms different in important respects. Such reforms certainly would have had a higher degree of public "ownership."

The process of structural adjustment with which international policy networks have been so intimately involved was corrosive to democratic practices insofar as bank positions, policies, and the debates that occurred in international policy networks were not shared with congresses and the civil society of client countries. With the failure of market reforms to bring sustained prosperity to all, opposition groups in client countries have gained ground, and voices critical of past policies and practices now have more weight. The World Bank's recent commitment to civil society consultations appears to recognize the importance of public involvement in policy development, but has some serious limitations; consultation is confined largely to compensatory policies (social policies) and to infrastructural projects that affect populations and the environment. The bank does not proffer public involvement in structural adjustment programs. Indeed, it does not view public involvement in policy development as an important end in itself; instead, its move in this direction is motivated largely by a desire to improve the efficacy of policy outcome (Nelson 1997, 47).

The Argentine case points to other difficulties. The bank is selective in the social groups it deems appropriate to consult. Clearly, NGOs are strongly favored, while participation by trade unions, perhaps the strongest adversary of bank programs, is regarded as detrimental. More important, democratizing the policy process means the involvement of elected representatives in public policy decisions. The bank's public consultation initiatives do not address this issue. Indeed, it could be argued that the bank, in directly consulting civil society, is assuming the rightful place of democratic government, the function of which is to attempt fairly to aggregate competing societal interests and to be held accountable for its performance. This is a role that most Latin American governments have not performed well (as evidenced by the process by which first-stage reforms were carried out). It is one that must first be learned and then practiced for democracy to prosper.

Notes

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1. Examples of the former include O'Donnell and Schmitter 1986; and Seligson 1989. See Linz and Stepan 1996, 3–11; Lowenthal and Domínguez 1996, 5, for the latter.

2. Generally, second-stage reform is seen as including such policies as the privatization of companies remaining in state hands; regulatory reforms, especially those governing monopolies; and measures to combat poverty and improve governance, including the reduction and elimination of corruption and decentralization (Pastor and Wise 1999; Naim 1994).

3. Virtually all LAC officials interviewed stressed this important change in LAC strategy, which came with the change in leadership. Interviews, Mexico City, 1999.

4. The term *policy network*, originating in work on British and U.S. politics, does not include international actors, as the present study does (see Marsh and Rhodes 1992). While technocrats are important, often predominant actors in these networks, the involvement of nontechnocrats distinguishes this study's use of the concept of a policy network from an "epistemic community" (Haas 1990) or an "economic knowledge network" ("living social communities of like-minded professionals"; Hira 1998, 13).

5. This argument that personal relationships, particularly of trust, were key aspects of market reform policy networks springs from repeated assertions that this was the case, as well as from often-repeated references to interaction at social gatherings outside the office environment (including the development of social relationships among wives). In addition, the relationships between bank officials and Mexican and Argentine officials were, it was widely admitted, qualitatively different from those between bank officials and Chilean government officials, with whom there was policy dialogue but little personal trust or admiration—a consequence of the bank's participation in structural adjustment during the Pinochet years (Teichman 2001, 87).

6. Under Salinas, the PRI held a clear majority in the lower house, ending up with 260 seats out of 500 in the Chamber of Deputies after the 1988 national election and 290 seats in the 1991 midterm elections. It maintained overwhelming dominance in the Senate, with 31 of 32 seats. With the notable exception of the bank privatization, divestitures of state companies had only to receive a simple majority in Congress. In addition, Salinas appointed loyal supporters to head the PRI, who purged the party of dissident elements.

7. The career backgrounds of this technocratic elite were in the finance sector; they were young (in their early forties) and had graduate degrees from major U.S. universities. Serra Puche and Zedillo hold graduate decrees in economics from Yale; Aspe holds the Ph.D. in economics from MIT, while Salinas earned a Ph.D. in public administration from Harvard and Córdoba an incomplete Ph.D. from Stanford.

8. During the de la Madrid years, most radical technocratic reformers were serving in a variety of influential, although initially not cabinet-level positions. Gil Díaz was deputy director of economic research in the Central Bank; Zedillo worked with him and later replaced Aspe as subsecretary of planning and budget (one level below ministerial rank) when Aspe moved on to take over the Planning and Budget Ministry. Serra Puche was subsecretary of revenue in the Finance Ministry. Córdoba was director of economic and social policy in the Ministry of Budget and Planning. Salinas was minister of budget and planning from 1985 to 1987.

9. During the negotiations for Mexico's Brady deal, President Salinas complained to a senior World Bank official about the difficulties his administration was having with the commercial banks. The bank official took up the problem with top officials of the bank, who went to President George H. W. Bush. Bush, in turn, put pressure on the commercial banks to soften their position (Interview, senior LAC official, Mexico City, 1999).

10. One LAC official who had failed to obtain Finance Ministry authorization related that he had been forced to cancel an appointment with an official in the state petroleum company, PEMEX, when a Finance Ministry official found out.

11. The official who reported this event claims he was close to losing his job.

12. Although Heath was a World Bank official, this article expresses his personal views on the topic, not the official bank position.

13. Bank officials believed that granting *ejido* members the opportunity for private ownership would give them a strong incentive to stay on the land. Not only did the *ejido* reform not result in the large-scale sale of *ejido* lands, but land titling has been slow. *Ejido* members, moreover, even if they proceed with titling, are likely to continue working their land as usual (Cornelius and Mhyre 1998, 12; Cornelius 1998, 237). Bank officials saw this as a vindication of their position. Interview, senior LAC official.

14. According to one bank informant, the Mexicans wanted the reform of the *ejido* included as a condition in a bank agricultural loan. The bank refused, apparently because the enormous political sensitivity of the issue and because it did not see the *ejido* as the root of the country's agricultural difficulties.

15. Indeed, the bank official who wrote the report was told by Mexican officials (some of whom were friends from university days) to burn it. Interview, senior LAC official.

16. According to the bank, Mexican government officials rejected bank lending for PROGRESA for fear of the negative political repercussions of high-profile bank involvement in such a politically sensitive area (OED 2001, 26). This seems to be a reasonable explanation, given past Mexican predisposition to keep the bank out of what are considered politically sensitive policy areas. It should be noted that because funding for PROGRESA came from the Social, Health, and Education ministries, the bank's funding of other health and educational programs meant that it contributed indirectly to PROGRESA by freeing up ministry funds for that program.

17. In late 1999, senior government levels were taking a greater interest in decentralization. The Ministry of Finance brought back one official who had ceased consulting for it a few years earlier and had gone to work for the World Bank out of frustration at the government's failure to move substantively on the issue. Another frustrated technocrat had set up his own consulting company, which was receiving World Bank funds to prepare state governments for decentralization (Interview, two middle-level Mexican officials).

18. The Mexican government, on the other hand, asserts that the bank fails to recognize that government openness to NGOs has made major advances in recent years (OED 2001, 55).

19. Considerable progress was made in trade liberalization under Alfonsín: by late 1988 the number of products subject to prohibition or quantitative restrictions had been reduced from 4,000 to 3,000, and the average tariff rate reduced from 51 percent to 36 percent (de la Balze 1995, 115).

20. Labor flexibilization refers to changes in the norms governing labor relations, with the objective of increasing investment and international competitiveness. In practice, it involves reduction in the cost of labor.

21. González was part of what has been described as the "anti-elite," politicians who constituted the majority of Menem's cabinet when market reform got under way. These were politicians with roots in the interior provinces and without links to established interests in Buenos Aires, who were accustomed to a patrimonial leadership heavily dependent on personal loyalty (Sidicaro 1995, 125).

22. Agreement from the military was achieved through negotiations carried out by commissions composed of government officials, military representatives, and private consultants, set up to oversee the privatizations (Interview, senior Argentine official).

23. The bank sent some of its most distinguished market reform proponents to Fundación meetings, while Fundación economists presented papers to World Bank officials (N'haux 1993, 248, 267).

24. The precise reason for his departure is not clear. Congress deeply resented Cavallo's attempt to get a tax reform passed by presidential decree, followed by his failure to make himself available for questioning. One version suggests that Cavallo's departure was the price Menem agreed to pay to get legislators to pass a backlog of bills (*Latin American Weekly Report* 1996).

25. It is also true that some World Bank officials believed that Argentina could not possibly meet the IMF's rigid targets and were therefore not predisposed to tie bank programs to such requirements (Interviews, two senior LAC officials).

26. Another interpretation points to inflation and fiscal reduction as the motives behind these privatizations (Gerchunoff and Torre 2000, 739).

27. In 1989, the public deficit as a percentage of GDP stood at 16.1 percent (World Bank 1993, 7).

28. There has been considerable speculation as to why Menem adopted a rapid market reform program following an electoral campaign that had been critical of such reforms. One explanation maintains that Menem's policy conversion came as a consequence of conversations with government officials during a trip to Europe with Cavallo just a few days after entering the race for his party's presidential candidacy. Others claim that Menem could not be described as having "converted" to market reform because he lacked political principles in the first place. Interviews, three senior government officials.

29. The World Bank refused to lend if it felt that Argentine officials were unlikely to take measures to ensure a modicum of transparency in reform. The Aerolíneas Argentinas and the highway privatizations were two such cases (Interview, two senior LAC officials).

30. Actually, the bank official in question was not authorized to make such a specific promise. But given that bank loans are fungible, he went ahead, knowing that this promise was necessary to bring the trade union on side and trusting that Argentine officials would honor the deal.

31. Despite the growing tension between President Menem and Cavallo, the latter's economic policies were never in question. When Cavallo left the Economy Ministry, Menem steadfastly defended Cavallo's economic policies and underlined that his new appointee, Fernández, would continue them.

32. The bank notes that those exchanges revealed "some deep differences in perception and approach between the bank and some participants" (World Bank 2000b).

33. At the same time, a few bank officials suggested that there were important "cultural" differences in the two countries that help account for the degree of penetration in the Argentine case as opposed to the more restricted access of the bank in Mexico; the Mexicans were viewed as being more predisposed to hierarchy. Interviews, two senior LAC officials.

34. Although many *ejiditarios* apparently welcomed or were not adverse to reform, the reform of Article 27 of the constitution had an adverse psychological impact in southern Mexico, especially Chiapas. It has been suggested that reform of the *ejido* had a critical psychological impact in that it ended hope for further land redistribution and destroyed the image of the state as protector of peasant rights, thereby contributing to support for insurgent movements (Bailón 1994, 19; Serrano 1997, 80).

INTERVIEWS

Much of the data for this paper comes from in-depth, open-ended interviews with World Bank and country officials. Because interview subjects were guaranteed confidentiality to encourage candor, informants are not identified by name; and identifying features, such as official position, have been disguised or excluded.

World Bank

Washington, April 1998. Total 15 interviews.

Senior Latin American and Caribbean Section (LAC) officials: vice presidents, division chiefs, senior and lead economists, and lead sectoral specialists.

Middle-ranking LAC officials.

Country economists (desk officers), resident representatives.

Argentina

Buenos Aires, March 1995. Total 17.

Ministers and senior and middle-level officials, Peronist and Radical governments.

Government agencies included the Ministry of Economy, Central Bank, Ministry of Interior, and Ministry of Labor.

Mexico

Mexico City, February–April 1991, December 1999. Total 27.

Cabinet ministers (secretaries), senior and middle-level officials, Salinas and Zedillo governments.

Agencies included the Ministry of Finance; Ministry of Industry, Mines, and Public Enterprises; Ministry of Commerce and Industrial Development; Ministry of Social Development; and the state petroleum company, PEMEX.

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