

# The Difference that Democracy Makes?

## Two Phases of Economic Reform in Chile and New Zealand

One of the perennial concerns held by students of comparative political sociology is the relationship between economic and political development. In the process of investigating this relationship, two separate, although not entirely unrelated, general observations have been made. The first is that certain levels of economic development are more likely to lead to democratic outcomes in a particular national case. This line of enquiry ranges from early modernization theory, to neo-modernization theory, to more recent, statistically sophisticated analyses that tend to produce more nuanced conclusions about the democracy-development relationship (Przeworski et al 2000; Boix 2003). The second line of enquiry proposes relationships between certain economic development strategies and particular national political regime types. Sometimes explicitly presented as critiques of modernization and neo-modernization theory (Rueschemeyer, Stephens and Stephens 1992), this latter field of study includes everything from analyses of bureaucratic-authoritarianism; the historical connection between populism and import-substitution-industrialization strategies; the arguably authoritarian nature of many developmental states; and both older and newer iterations of rentier state theory (O'Donnell 1973; Chaudry 1997; Ross 2001; Kohli 2004). Something important to note here, however, is that as rich and varied as this latter literature might be, the connection between certain economic development strategies and particular *authoritarian* regime types is generally the focus of study.<sup>1</sup>

What about the relationship between different economic development strategies and

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<sup>1</sup> We acknowledge an extensive, generally quantitative, and somewhat separate literature on the impact of democracy on both social spending in general and specific arenas of public policy. See for instance Ames (1987), Sloan and Tedin (1987), Brown and Hunter (1999), Lake and Baum (2001). Our interest, however, is different not only in that we seek to compare a more recently democratized country (Chile) with a long-standing democracy (New Zealand) on a qualitative basis, but also because our interest is not primarily in the basic human development and distributional *outcomes* generally associated with this literature. We are specifically concerned with shifts in national development *strategies* under democracy or following democratization.

specific phases of *democratic* development? Do market-oriented structural adjustment projects, for instance, tend to take place within the context of democratic deepening, in which interest group participation in policy-making is expanded, or are they more easily carried out if interest group participation in policy-making is restricted? Does a full-scale regime change need to take place in order for us to observe such a connection, or are there more subtle transformations of political institutions and culture that occur within long-established political democracies that accompany major overhauls in economic development strategies, such as a shift from agro-export to service sector-led growth? Is democracy in general or a specific type of democracy in particular conducive or indeed required by the shift to “knowledge-based” developmental strategies that have captured the imaginations of policy-makers in recent years? This article investigates some of these issues by highlighting the relation between two different phases of market-oriented structural adjustment and transformations of political institutions in two apparently very different national contexts: Chile, which began a market-oriented shift in 1973 under clearly authoritarian circumstances, and New Zealand, which began a parallel project under formally democratic conditions in 1984.

These two cases are particularly ripe for comparison because (a) they arguably represent the most radically market-oriented reform projects of the late twentieth century in the authoritarian and democratic worlds respectively;<sup>2</sup> (b) they share similar insertions in the world economy, both being increasingly oriented toward niche export industries and value-added agricultural production; and (c) since the mid-1990s have both embarked on what we term “Phase Two” of their market-oriented reform programs, aimed not only at softening the market-led reform strategy around the edges through social policy development, but also at meeting the new policy challenges faced by comparatively highly developed countries in the early twenty-first century. In both cases, this has involved an emphasis shift from comparative advantage in primary good exports to “competitive

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<sup>2</sup> There is also good evidence that the two countries learnt substantially from each other, especially in the earliest phases of their structural adjustment projects, primarily through business linkages. A number of New Zealand companies invested in Chile as early as the 1980s. This instance of “policy diffusion”, however, is outside the scope of this analysis.

advantage” in primary good derivatives and value added manufacturing and services (Porter 1990). In both countries, simply rolling back the state in favor of the market has been replaced by a more nuanced approach in which a mixture of market and state-led mechanisms aims at promoting a high-wage, high-skill, technology intensive strategy in pursuit of the latter goal.<sup>3</sup>

This article proposes a relationship between the shift to “Phase Two” market-oriented reform and the transformation of national politics in general. The Chilean and New Zealand cases are used to flesh out these theoretical insights, rather than rigorously test the theoretical proposals outlined below. Phase One of Chile’s economic reform program was implemented under harshly authoritarian conditions, while Phase Two has been accompanied by redemocratization. In New Zealand, Phase One was implemented under formally democratic conditions, but in a manner that by-passed as many channels of horizontal as well as vertical lines of accountability as possible. Phase Two of New Zealand’s economic reform program has been accompanied by shifts within its democratic institutions to include electoral and party system change. While we are agnostic about which direction the causal arrow connecting economic and political transformation in both countries points, since we seek primarily to highlight a possible relationship between the two rather than argue that one necessarily leads to the other, we offer strong theoretical reasons why economic and political changes are inter-related in each national case.

This article applies our general theoretical framework to the Chilean and New Zealand cases over two phases of economic reform, involving two layers of policies designed to support labor market development. More specifically, the analysis pays particular attention to labor relations and education policy, two important arenas of state activity that involve a number of different policy actors, and proceeds in four sections. The first section outlines our theoretical framework, explaining in some detail why we believe that the second

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<sup>3</sup> We adopt the term “Phase One of economic reform” not only in order to distinguish it from Phase Two, in which constructing the knowledge economy becomes a central policy goal, but also in order to avoid some of the ideological baggage associated with the concept of “neoliberalism”, often referred to in Latin America as the “Washington Consensus” (Williamson 1990) and in New Zealand as the policies of the “New Right”. The idea that the age of “neoliberalism” is over, and in the process of being replaced by something else, is reflected in Taylor (1999) and Hershberg and Rosen (2006).

phase of market-oriented structural adjustment projects has different political requirements from the first. Section two overviews the two phases of economic reform undertaken in Chile and New Zealand in general terms, detailing the extraordinary depth of market-oriented reform during Phase One and pinpointing the shift to Phase Two in the mid-1990s in both national cases. Also, in general terms, it locates the transformations in political institutions and culture that have accompanied these shifts, amounting to democratization in the Chilean case and democratic deepening, at least in some respects, in New Zealand. Sections three and four analyze the extent to which shifts in both economic development strategy and national politics are reflected in changing policy objectives across the labor relations and education policy fields. The final section thus rounds out the discussion by considering the extent to which public policy reflects the “authoritarian legacies” of the first phase of the structural adjustment project in both cases.

### **Two Phases of Market-Oriented Reform: Political and Policy Underpinnings**

Our argument begins with the premise that most developed countries, to include Chile and New Zealand, have at the very least acknowledged that successful post-industrial development requires moving beyond purely “neo-liberal” policy prescriptions. In order to conceptualize the development challenges of the early twenty-first century, the concept of the “knowledge” economy has been increasingly adopted by high-income countries, albeit with enormous variations in design and success. More specifically, such a knowledge-based strategy means paying increased attention to policy arenas that are important for the development of an increasingly skilled workforce (OECD 1996; Rodrigues 2003; Powell and Snellman 2004; Hearn and Rooney 2008). We believe not only that this constitutes a shift to an entirely new phase of economic reform for the countries that fully embrace it, but that certain changes in political institutions and culture are often required in order for such a strategy to be successfully adopted.

On a practical level, developing new policy strategies in such arenas involves increased consultation between, collaboration with, and incorporation of “knowledgable” (or at least interested) stakeholders on the part of the state. Whereas, for example, the privatization

of second-level education through the introduction of a voucher system (a classic neoclassical policy prescription in the field), does not require the co-operation of individual teachers and the organizations that represent them, the introduction of a radically new technology curriculum certainly does. Our chief theoretical observation is thus that Phase One of the shift to a post-industrial development strategy, involving an unleashing of market mechanisms, statutory deregulation, privatization of state assets, financial market opening, reduction of tariff barriers among other measures, tends to require a hardening of democracy, or in some circumstances, its abandonment. On the other hand, the second phase of policy reform, associated with offsetting the social costs of the first phase and involving labor market development and other measures associated with attempting to construct the knowledge economy, requires the reintegration of interest groups that might have originally been shut out of negotiating the structural adjustment project. This is generally associated with a shift to democracy where it was previously lacking, or within the functioning of democracy where national democratic institutions previously exist.

In policy terms, the shift to a high-wage, high-skilled, knowledge economy requires states to create a multi-layered labor market support structure. Arenas of state activity crucial for the construction of a “high end” labor market range from industrial policy (through which states emphasize specific economic sectors for development); the industrial relations system; labor market programs which ease citizens out of the welfare and education systems into work; education and training at all levels; research and development; immigration (especially in order to attract foreign talent); credit and small business policy; to policies for work-life balance. This article focuses on just two of these policy arenas. Labor relations is arguably the “core” or one of the “first layers” of any labor market support system, influencing the degree of labor market flexibilization and wage growth and dispersion among other important variables. Education policy forms part of the outer or “second layer” of a state’s labor market support structure, and its importance to the creation of a knowledge economy should be fairly obvious.

During Phase One of a state’s market-oriented shift, we would expect concerns about labor market efficiency and flexibility to be at the forefront of its industrial relations policies. In countries in which there was a (real or perceived) surge of labor movement mobilization

immediately prior to the market-oriented shift, the impulse toward decentralization was even more extreme. As we will detail below, both Chile and New Zealand fit this pattern: the periods between 1970-73 in Chile and from 1975-84 in New Zealand were marked by heightened labor conflict in the context of (though not necessarily caused by) economic crisis. In such situations, policy-makers sought to break the apparently previously privileged position of labor unions, both as economic and political actors, although as our case study discussions will underline, the extent to which they could do so depended in part on the extent to which political institutions constrained this process. In Chile, there were no institutional restrictions following the 1973 coup, so the power of trade unions could be undercut violently and completely. In New Zealand, political actors were somewhat more constrained by the potential for labor conflict and social mobilization against specific policy proposals in a democratic context, so that industrial relations in particular was approached at least initially more cautiously than was the case in other policy arenas. However, by 1991, labor legislation in New Zealand more or less paralleled Chilean labor law, with unions increasingly marginalized both in the workplace and in the political sphere.

During second-phase market-oriented reform processes, in which the development of a high-wage, high-skill labor market in order to compete internationally becomes the main goal, we would expect labor relations to remain decentralized. Flexibility is still regarded as the central component of economic development, especially for small open economies competing in the international marketplace on the basis of niche primary goods and value added industrial development. However, especially if the first phase of industrial relations reform focused on the removal of both collective and individual workers' rights, as was the case in both Chile and New Zealand, radical decentralization may actually cause problems for labor market development during this second phase. This is because while it was sometimes possible for very highly skilled workers to maintain or even better wages and working conditions under programs of extreme labor market decentralization, the bottom end of the labor market was likely to do very badly. Instead of creating a large pool of skilled workers on which local and international businesses could draw on, radical decentralization created not only rising unemployment and increased wage inequality, but also a large sector of unskilled or low-skilled workers laboring under precarious working

conditions for low wages.

Furthermore, labor productivity is a special concern of policy-makers during the Second Phase. The suppression of wage growth and the debasement of working conditions, coupled with restrictions on industrial action, may have created a situation of latent industrial relations conflict and a general sense that worker and employer interests are opposed. This lack of cooperation and compromise can seriously erode productivity. Under these circumstances, the reintroduction of some labor rights is not only desirable for those who wish to “soften” the market-driven project, but is also a structural requirement. Reforms might include the reintroduction of some collective labor rights, but policies are much more likely to privilege enterprise or shop-level unions rather than a return to industry or occupation-wide bargaining. Special attention may also be given to the expansion of individual labor rights. These might not be exercised as extensively by workers at the lower end of the labor market, but will be utilized by highly skilled workers and thus may also help attract local as well as foreign talent to technology-intensive, knowledge-based sectors.

With respect to education policy, our focus here is limited to primary and secondary education, since these are widely considered to be the most important arenas of state activity for the purposes of raising overall education standards. During Phase One, decentralization and the removal of trade union influence over education policy and its implementation are again key government concerns. This may be reflected in moves toward “debureaucratization”: education policy is no longer to be negotiated between teachers’ professional organizations and the government, but are to be made at the local level. According to neoclassical logic, decentralization of this sort was supposed to increase efficiency by avoiding interest group “capture of the state” and better matching policy delivery with “market” needs, but also by cutting costs. Reducing the financial impact on the state (and stimulating the private sector) was one of the motives behind Chile’s voucher system as well as New Zealand’s push for the “bulk-funding” of schools.

The problem with combining decentralization and privatization with a reduction in the availability of public funds is that it skews overall resources devoted to education toward children from wealthier families, since they are more likely to access the private system, and away from the already educationally disadvantaged. This was the general pattern

experienced in Chile and New Zealand until at least the mid-1990s, which saw increased school stratification across both national cases. Phase Two of a market-oriented reform projects thus requires some of these inequalities to be addressed. Again, this is not for the simple purpose of making the market seem kinder, but also because creating large pockets of under-educated and socially excluded future workers is the antithesis of what the knowledge economy requires. Two overlapping concerns are thus paramount during this second phase: increasing access and participation across all sectors of society, and increasing education quality. This may mean redirecting or targeting resources toward especially underprivileged sectors of society. In the Chilean case, this includes the urban working poor, but also the rural sector that was particularly disadvantaged by dictatorship-era education policies. In New Zealand, this includes sizeable Maori and Pacific Island minorities that tend to concentrate in the lower socio-economic strata of society. Increasingly quality usually involves not only the establishment of new institutions and processes for quality assurance, but also an overhaul of the national curriculum. With specific reference to the requirements of the knowledge economy, introducing technology and modernizing teaching and assessment methods are of major importance to second-phase reforms.

The difficulty of carrying out market-oriented reform projects under conditions of democracy is well recognized by political scientists. This is captured in the literature on “dual transitions”, which acknowledges the special challenges faced by democratizing or newly democratic regimes with respect to market-oriented reform; the citizenry’s hopes that democracy will deliver increased living standards or greater equality need to be suppressed, at least in the short to medium term (Przeworski 1991; Bresser Pereira, Maravall and Przeworski 1993; Haggard and Kaufman 1995). In such circumstances, the temptation is to resort to authoritarian methods, which led to a hollowing out of democracy in many regions during the 1990s (O’Donnell 1994), or at the very least, an argument that policy-making should be handed over to those who “know best”, involving as little participation from interest groups as possible (Crisp 1998; Stokes 2001). These insights are central to our understanding of Phase One of the Chilean and New Zealand reform process. For its part, Chile provides a good example of what many regard as the “correct” sequencing



of economic and political reform, in which the former precedes the latter rather than vice-versa or any attempt to do both at the same time. Chile not only provides a counter-point to most of its immediate neighbors in this respect, but mirrors the sequencing of political and economic change adopted in South Korea and Taiwan. As an established mature democracy, New Zealand was unlikely to follow this exact pattern during the 1980s and 1990s. We argue, however, and as our case study analyses will further illustrate, that New Zealand provides a democratic variation of the Chilean model.

What the existing literature is much less clear about is the potential contributions of democracy, or the deepening of democracy, to what we have termed Phase Two of market-oriented economic reform. To make the connections noted above a little more explicit, it is important to contrast the substantive and qualitative difference between the types of reforms that were seemingly required in the first phase of structural adjustment with those of Phase Two. Since Phase One often required the removal of certain rights and privileges in economic terms, it also required the removal of certain rights and privileges in political terms. As noted above, this is explicitly expressed in the public choice literature and by “neoliberal” policy activists as the need to prevent interest group capture of the state, since this inevitably leads to rent-seeking and market “distortions” (Buchanan and Tullock 1962). By contrast, Phase Two is the creative phase of the shift to a knowledge economy underpinned by market reform. Policy-makers at this stage are interested in constructing something, whether this be “good faith bargaining” in the labor relations arena or new curricula in the education sector, rather than simply taking something away or “rolling back” the state. Our argument is that this is necessarily connected to the increased participation of interest groups and stakeholders, not only in policy development, but also in policy implementation. The participation, consultation, and incorporation of interest groups matters since these groups are, in essence, experts in their field. They may not provide the complete range of expertise required for policy development, but without the advice of stakeholders, policies may have negative unintended consequences, and without their co-operation, implementation may either suffer or fail to occur at all. In the field of industrial relations, representatives of organized labor and business are equally important, and with respect to the latter, special effort must be made so that the interests of small local

businesses in particular are not overridden by the interests of large firms and international investors. In regard to education policy, teachers' unions are clearly important actors, but so are parent's organizations, local government in some circumstances, as well as independent lobby groups and think-tanks.

## **Connecting Political and Economic Change**

### *Chile 1973-2009*

The overthrow of Chilean democracy in 1973 was the culmination of increasingly sharp political arguments about the orientation of the Chilean state and the policies associated with it (Valenzuela 1978). Salvador Allende's election in 1970 precipitated open conflict between the Chilean Right and Left that resulted in government paralysis and violence in the streets. The September 11 coup resolved the issue in favor of markets and limited state involvement in production and redistribution, to include education, health and welfare. Given the scale of popular mobilization during the Allende government, the re-orientation of the economy required drastic limitation of interest group participation, particularly since the shift to market-driven logics would necessarily involve the dismantling of the Chilean welfare state, the loosening of regulations on capital, and the privatization of state assets. That entailed jobs losses and reduction of state-provided benefits to well-organized social interests, particularly organized labor. As a result, the means to achieve the limitation of interest group voice were both physical and legal; beyond the state terror meted out to opposition groups by the Pinochet regime, the legal framework governing interest group intermediation was completely re-written (Constable and Valenzuela 1991). Once the initial "purgative" phase (1973-1975) of the dictatorship was accomplished, attention turned to reconstituting public notions of popular entitlements, rights and obligations through both institutional and ideological means.

The Pinochet regime embarked on the second phase (1975-1979) of its re-foundational project by destroying the state capitalist foundation that had sustained Chilean society since the 1930s. This structural reform project involved "shock therapy": complete

market-oriented macroeconomic policy change governed by monetarist principles. Under the blanket of authoritarian security laws that outlawed unions, strikes and demonstrations, the financial market was deregulated, collective bargaining was abolished, the national currency devalued, and import tariffs dropped. Minimum wage regulations were voided and existing collective contracts were cancelled. State enterprises were subject to auction and nationalized sectors of the economy such as copper, fisheries, and forestry opened to foreign direct investment. State pension, insurance and social security programs were privatized and agricultural production (which had been largely nationalized under Allende) returned to private hands, both foreign and domestic (Foxley 1986; Edwards and Edwards 1987). Once the structural bases of the new economy were in place, the regime turned to its project of institutional reform, beginning with a constitutional overhaul.

The hallmarks of the 1980 Constitution were twofold: a pronounced bias in favor of conservative parties (and an outlawing of “Marxist” parties), most evident in the appointment of “Senators for Life” to fill a third of the seats in the Senate; gerrymandered over-representation of rural districts in both upper and lower houses; and military oversight of and autonomy from civilian political leaders. Among other features, the Constitution grants the military fifteen percent of pre-tax copper export revenues and complete discretion over its budget. It prevented the president from promoting or removing military commanders, allowed for minimal civilian presence on the National Security Council (NSC), and permitted military influence in Supreme Court and Senatorial appointments. The objective was to leave insurmountable authoritarian legacies that would constrain the policy choice of post-authoritarian governments for at least one generation. From then on, the regime embarked on a process of political liberalization leading to a 1988 referendum on whether Pinochet should remain as civilian president after his scheduled retirement date that year. When that referendum was rejected, elections were held in 1989 under largely transparent circumstances. Pinochet’s conservative heir-designate, Hernan Bucchi, was defeated, and a center-left coalition led by Christian Democrat Patricio Aylwin was installed in 1990. In response, Pinochet extended his tenure as armed forces (FACH) commander in chief for another ten years.

Unlike other countries with strong pre-authoritarian traditions (such as Uruguay), the

Constitutional reforms undertaken by the *Concertación por la Democracia* government did not restore the 1925 Constitution that had been superseded by the 1980 version. Instead, the 1980 version was altered in 1990 to “soften” some of its more authoritarian components, including reducing the presidential term from eight to six years (later reduced to four by the 2005 Constitutional reform, which also eliminated appointed Senators and “Senators for Life,” increased civilian participation and diminished military prerogatives in the NSC, gave the president the right to replace military commanders, and removed military influence in judicial and congressional appointments). As part of the negotiations preceding the restoration of democracy, a number of individual rights were restored and political parties outlawed by the military regime had their political rights returned, but a number of collective rights (such as strikes in “strategic industries”) remained proscribed and broad security powers continued to be vested in a largely autonomous military. The reason for the use of the authoritarian 1980 Constitution is that at the time of the early 1990s reforms, the military and its civilian allies retained *de facto* veto power over the *Concertación* government’s policy-making (Siavelis and Valenzuela 1996; Portales 2000).

The reminders of this were not subtle: Pinochet remained as head of the FACH until his retirement in 1998, then automatically became a Senator for Life. The FACH staged unauthorized military mobilizations throughout Aylwin’s tenure, most often during disputes with the civilian leadership about prosecution of human rights violators during the previous regime (prosecution of the intellectual and material authors of systematic human rights violations did not proceed until after Pinochet retired). Although a civilian-led Ministry of Defense formally took control of military security policy, the FACH retained a considerable degree of authority on security issues, both internal and external (Aguero 1998). Hence the first post-authoritarian governments led by Aylwin (1990-1994) and Christian Democrat Eduardo Frei (1994-2000) took very cautious approaches to both institutional and public policy reform. Above all things, *Concertación* leaders understood that they could not, politically or policy-wise, attempt to significantly alter the market-driven macroeconomic model. To do so would invite another coup, and given that the Chilean economic elite were even more powerful and closely connected to the military hierarchy after 1990 than they were in 1973, there was no doubt that they were capable of doing so. The process of

democratic consolidation was therefore constrained, slow and incremental, and looked more at areas in which elite consensus was easiest to achieve such as poverty alleviation rather than serious political-economic reform (Garretón 2003). The importance of the Constitutional reform process for the larger institutional framework is that the *Concertación* approach to constitutional reform signaled its overall approach to the issue of democratic deepening: slow, incremental and working from the margins to the core.<sup>4</sup>

One area that did see significant change was the country's overall industrial development strategy. By the mid-1990s the opening of the Chilean economy was virtually complete— along with New Zealand, Chile is considered to have one of the least protected economies in the world. The entrepreneurial elite, encouraged by the dictatorship's economic reforms, had begun to diversify out of primary goods and resource extractive enterprise and into value added derivatives and technology-intensive manufacturing and services. The rationale was that as an export platform, Chile could not afford to remain dependent on traditional areas of growth, and needed to broaden its productive base to accommodate the requirements of global competition and allow domestic producers to compete more favorably with foreign investors. The *Concertación* governments accepted this premise and provided fiscal incentives to new value-added sectors, particularly those of domestic origin (del Sol and Kogan 2007).

The result was that policy change under the democratic regime served to deepen the political economy, now governed in accordance with "small state" principles shaped by public choice theory. The major thrust was a decentralization of fiscal authority and devolution of political power to municipalities, coupled with a move to extend the structural reforms of the 1970s and 1980s by increasing value-added manufacturing and services while ameliorating some of the harsher strictures on labor force choice in the market place. The purpose was, on one hand, to reduce the financial obligation and control of the central government over local affairs and business, while making the latter more responsive to the particular needs of constituents and consumers (OECD 1996). With regards to political reform, change was minimal until the advent of the Ricardo Lagos administration of

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<sup>4</sup> Constitutional modifications were made in 1990, 1991, 1994, 1997, 1999, 2000, 2001, 2003, 2005, 2007, 2008 and 2009.

2000-2006 (see Funk 2006 for details), and then (as with human rights prosecutions) was as much a product of Pinochet's declining influence behind the scenes due to his poor health, prolonged (1998-2000) house arrest in London and subsequent implication in corruption scandals, as it was due to Lagos's political acumen. Once Pinochet died and Michelle Bachelet was elected in 2006, the incremental process of political reform continued, including another 2009 Constitutional reform that, among other things, recognized indigenous rights and made voting registration voluntary.

## *New Zealand 1984-2008*

The Fourth Labour Government came to power in 1984 as a result of a hastily called election, resulting from a deepening economic crisis and potential government collapse. During the 1970s, New Zealand economic policy had been driven by Prime Minister and Finance Minister Robert Muldoon and his refusal to liberalize any sectors of the economy. The country was essentially statist and protectionist, despite being heavily dependent on agro-exports and more especially its colonial trade relationship with Britain, and many of the country's troubles in the 1970s are traced to the United Kingdom's entry into the European Economic Community in 1973. A rapid reversal of such development strategies began after Muldoon's center-right National Party lost heavily to Labour and the new government embarked on arguably the most radical market-oriented reform program in the democratic world. The neoclassical blueprint, emphasizing market efficiency, decentralization, privatization, monetarism, and citizens as "consumers" was applied to as many policy areas as possible within a relatively short period of time. Early moves included the floating of the exchange rate, the removal of state subsidies in agriculture, and a little later, the privatization and/or restructuring of many state-owned enterprises along profit-driven lines. After being re-elected by a reduced majority in 1987, the government gave education, and to a lesser extent, healthcare and labor relations, the same treatment. Given the specific institutional context in which these changes took place, Labour went further and farther with its reform program than similar efforts in Australia, and even the United Kingdom under Thatcher and the United States under Reagan, across many policy arenas.

Much of this overall direction, as well as the specific details of the reform program, was dictated by Treasury advice (New Zealand Treasury 1984 and 1987; Goldfinch 2000). However, the ability of the Labour Government to implement many of these proposals in their entirety was facilitated by the lack of "veto-points" in New Zealand's political system (Castles, Gerritsen and Vowles 1996; Tsebelis 2002). New Zealand, at least until 1996, could be considered to have the most pure form of Westminster parliamentary government in the world (Palmer 1987; Lijphart 1994). It was a unitary state with weak local government, had a two-party system elected by majoritarian means, no upper house of

parliament, and traditions of both strict party discipline and collective cabinet responsibility. This allowed not only the government to push through reforms without much resistance from National, but also for a few individuals in Cabinet to dominate policy-making. In particular, Finance Minister Roger Douglas became a convert to the market-oriented reform agenda, and made alliances with similarly inclined ministers and the at least tacit support of Prime Minister David Lange (Easton 1997: 73-84). This institutional framework was underscored by deliberate efforts to by-pass parliamentary debate and interest group consultation where possible, referred to by Douglas as his “blitzkrieg” approach (Douglas 1993).

This manner of making policy, as well as its general direction, was intensified under the National Government elected in 1990. Whereas Labour, a nominally center-left party, had been somewhat constrained by its support base in the extent to which it could scale back social policy, deregulate the labor market, and privatize public services, National was not. Despite neglecting to inform the electorate of its intentions in its election manifesto of that year, National’s term in government is remembered for its radical decentralization of labor relations, discussed below, the restructuring of the public health system along profit-making lines, and substantial cuts in social welfare benefits. Referred to widely as an era of “broken promises” in New Zealand politics, it was of little surprise that citizens opted, by binding referendum, to fundamentally change the electoral system in 1993 (Vowles 1995; Nagel 1998). An overall proportional system designed to allow minor parties representation and encourage the formation of coalitions, Mixed Member Proportional (MMP) after the German model, delivered its first coalition government in 1996. The nationalist, populist, and mildly socially conservative New Zealand First party won around thirteen percent of votes, and with seventeen parliamentary seats, formed a government with the National Party. While this first coalition government was hampered by scandal and the eventual disintegration of New Zealand First, the breaks had clearly been put on the reform process. Increases in healthcare spending and an end to restructuring in this policy arena are particularly notable here.

A more ambitious reform agenda was embarked on by the Fifth Labour Government, in power either in formal coalition or as a minority government between 1999 and 2008. An



internal war had been fought within the party during the early 1990s, resulting in the breakaway of its most market-oriented faction and the eventual dominance of a centrist bloc led by Prime Minister Helen Clark, who was clearly inspired in the government's early years by Tony Blair's "Third Wayism". Working within a generally liberalized, and in fact aggressively free trade-oriented policy framework, significant reforms during Labour's first two terms included the passage of the Employment Relations Act, which restored a number of individual and collective labor rights and is discussed fully below; the Working for Families package, aimed at assisting lower-paid working families; the creation of Kiwibank and a number of associated measures aimed at boosting the national savings rate; a "closing the gaps" agenda designed to enhance Maori and Pacific Island economic and social integration; attention to regional development policy through the creation of the Ministry for Social Development; and a restructuring of the public health system away from the profit-driven agenda. While Labour lost the 2008 election to National and its coalition partners, at the time of writing, National shows little sign of wishing either to overturn most of these policies or to return to the radically market-oriented agenda of the early 1990s. Even if certain elements of the coalition government, especially the right-wing ACT Party that includes members of the Fourth Labour government would like to resurrect this reform program, they are constrained by the fact of MMP and the interests of its other formal coalition partner, the Maori Party. This illustrates that the policy shift that began in 1996 is not a simply a matter of a shift to the political left: the policy requirements associated with Phase Two of New Zealand's market-oriented reform program demand increased political consensus, which has been channeled through new democratic institutions.

## **Labor Relations**

### *Chile*

The core of contemporary Chilean labor relations originates in the Pinochet regime's labor code, the 1979 *Plan Laboral*. Its purpose was to achieve increased labor market flexibility, defined at the time as a loosening of hiring, firing, and bargaining requirements

imposed on employers so that industrial relations could be governed by employment market supply and demand rather than the collective strength of employees. To that objective was added a political motive: disruption and atomization of the organized working class as a collective actor. The *Plan Laboral* ensured state control of labor market conditions, such as union representation and occupational health and safety issues, while legally forcing the decentralization of wage-setting at the lowest common denominator— individual contracts preferably, but allowing the proliferation of non-union bargaining agents at the shop level if not (Barrera 1995). This was achieved by reducing the number of workers required to form a union to ten percent of the shop workforce (or eight members, depending on the size of the shop), while allowing the use of nonunion bargaining agents and individual contracts. The purpose was to reduce union power while simultaneously exploiting favorable unemployment figures (reaching 30 percent by 1982) in order to fragment the labor movement and reconfigure the labor market along employer-favorable lines. Union membership thus dropped from pre-coup highs of 30 percent of the workforce to just 10 percent by 1983 (Frias 1993). The *Plan Laboral* also restricted strikes to wage issues at the shop or factory level, with a maximum period of 60 days, but allowed lockouts, dismissal of strikers, and hiring of replacement workers. It granted employers a wide range of discretionary powers in employment and circumscribed the scope of negotiable issues workers could address. This was abetted by prohibitions on union-party links and union federations and confederations (Barrett 2001; Buchanan and Nicholls 2003).

After the restoration of democracy, labor legislation reform proceeded cautiously. The key reforms were the limited restoration of collective rights (such as legal restoration of labor confederations and industry-wide union collective bargaining in 1991 and recognition of public sector unions in 1994) along with a shift in emphasis towards individual labor rights guaranteed by the state. In the 1994 Labor Code reforms, regulations governing dismissals and the amount of severance pay were modified in favor of workers, the 60 day limit on strikes was repealed, and occupational health and safety regulations tightened. Beyond that, the reforms undertaken by the first two *Concertación* administrations had little effect on industrial relations. Under the 1994 Labor Code, employers could still fire employees for unspecified “necessities of the firm.” Strikes in areas of “public utility” or which were

injurious to the health, economy or security of the nation were outlawed by Article 19 of the 1980 Constitution, as were non-economic strikes (OIT 1994). Replacement workers can still be hired during strikes, employees are permitted to resume work during the course of the strike, and strikes are declared over if 50 percent of the workers returned to the job. The limitation on organized labor's collective voice was made apparent by the failure of tripartite concertation. In spite of a much-vaunted "Model Agreement" for tripartite negotiation signed by the recently restored labor confederation, the Aylwin government, and the business peak association in 1990, little was ever agreed upon other than minimum wage increases and subsidies to indigent workers. By 1994 tripartite initiatives were largely symbolic and non-binding, with the sectoral actors reverting to the bilateral negotiations on specific policy and material issues. Thereafter no serious attempts were made to reincorporate organized labor into national level policy discussions (Epstein 1993; Buchanan 2008).

In spite of ongoing limitations on collective voice, extension of individual labor rights continued during the Socialist-led administrations of Ricardo Lagos (2000-2006) and Michelle Bachelet (2006-2010). The 2001 Labor Code reform bill, which was modified more than 100 times in Congress before passage by a slim margin, saw increased Labor Directorate health and safety inspection duties; increased protections for individual workers with regards to involuntary dismissals unrelated to performance issues or strikes; a raised minimum wage and tightened gender wage equality; and anti-child labor provisions. Reforms were also made to expand and speed up the work of Labor Tribunals handling individual worker complaints and to extend the general provisions of individual labor rights to agricultural, subcontracted, and part-time labor (Frank 2002; Posner 2008). Beyond the incremental extension of individual labor rights along with the collective restrictions inherited from the *Plan Laboral*, the *Concertación* governments upheld the pre-1973 labor administration framework. This ensured that the state remained the ultimate determiner of labor movement fortunes, as it retained considerable powers of recognition, sanction and fiscal oversight along with its mediation and inspection duties (Buchanan 2008).

The atomization of Chilean labor and decentralization of wage-bargaining is firmly rooted. Organized labor amounts to approximately ten percent of the working population

of 5.5 million, of which most are located in the public sector and thereby significantly restricted in terms of their ability to engage in labor service withdrawals. There are over 16,000 bargaining agents authorized to engage wage negotiations, and issues of occupational health and safety, retraining, severance pay and other non-wage issues remain the subject of legal requirements or state-employer negotiations rather than of collective bargaining between workers and employers. Although legal, union federations and confederations have minimal impact on working lives other than as marginal political players influencing the parliamentary bloc within the *Concertación* (Barrett 2001). What did change in the labor market during the decade and a half after the restoration of democratic rule was the move from a development strategy based on comparative advantage to one based on competitive advantage. It was this structural imperative, one that was driven by business interest as much if not more than state policy, that pushed labor relations reform in a distinctive way. *Concertación* labor reforms continued the thrust of the *Plan Laboral* in limiting union collective strength as an economic agent as well as a political force. This is facilitated by the fact that *Concertación* electoral fortunes no longer centrally rest on union support, since the structural weakness of organized labor, its ideological factionalization, and the proliferation of bargaining agents and individual contracts, eroded working class solidarity and its political expression through unions and their Party allies. Most Chilean workers no longer identify themselves as members of a class, but instead as individual consumers, voters and purveyors of labor (Winn, 2004).

Post-2000 Labor Code reforms recognize the labor market impact of the shift to an increasingly “knowledge-based” value-added economy. The push to increase the skilled labor component in the workforce as part of the shift to value-added and technology-oriented manufacturing and services is reflected in the emphasis on expanding individual labor rights, which are believed to promote skilled labor mobility towards the most efficient producers under conditions of high demand/low supply. This is a “deepening” of the notion of labor flexibility away from its original demand side towards the supply side of the labor market. Finally, the move to expand gender wage equality and child labor laws reaffirms the individualist core of the labor relations system, aligns Chilean law with International Labor Organization standards, and indirectly encourages more skilled

(male) adult participation in the workforce.

### *New Zealand*

From 1894 until 1987, labor relations in New Zealand were governed by the Industrial Conciliation and Arbitration Act. Under the arbitration system, unions were organized along occupational lines and required to register with the state, entailing extensive oversight over their organization and activities. Industrial disputes were referred to the Court of Arbitration, and an “award” would be made. This created a highly legalistic, comparatively conflictual, and moderately centralized variation on the neo-corporatist model (Sutch 1966; Nicholls 2002). Market-oriented reformers during the 1980s viewed this system as unnecessarily rigid, but given the traditionally tight relationship between the Labour Party and the union movement, the Fourth Labour Government approached this policy area much more cautiously than it did others. The Labour Relations Act (1987) and parallel legislation applied to the public sector in 1988 can thus be viewed as an exercise in compromise: it retained the arbitration system and the registration of unions as the sole possible representatives of employee interests, but encouraged the devolution of bargaining down to the shop level.

The National Government of 1990-96 did not face the same kind of political constraints as Labour. In fact, pressure to move in a much more radical direction, especially on the part of New Zealand’s Business Roundtable, was felt heavily by the incoming government. The result was the 1991 Employment Contracts Act (ECA), one of the most controversial pieces of legislation in New Zealand political history, yet easily passed due to the lack of institutional breaks on policy-making. The ECA mirrored Chile’s *Plan Laboral* in many respects, yet went further in the extent to which the state’s role in regulating and overseeing labor relations was minimized. The stated aim of the ECA was to “place the responsibility for negotiation where it belongs”, meaning employers and individual workers (Birch 1990). This was achieved by removing any legal reference to or recognition of trade unions whatsoever, making union membership voluntary, and requiring unions to compete with other “bargaining agents” for the right to be recognized by

employers. Collective contracts were possible, but the bias of the legislation was clearly in favor of individual contracts (Dannin 1997; Geare 2001). Strikes were severely circumscribed under the ECA, becoming only possible when related to the negotiation of a collective contract, and union access to the workplace for the purposes of recruitment was limited, contravening the International Labour Organization's Conventions 87 and 98 on collective labor rights.<sup>5</sup>

The impact of the ECA on New Zealand's union movement was immediate and profound. In May of 1991, before the Act came into effect, the country had a union density rate of 41.5 percent. By December of that year, this had dropped to 35.4 percent, reaching an all-time low in 1999 at 17 percent (Crawford, Harbridge and Hince 1987 and 1999). More importantly, for the purposes of this article, is the type of labor market that developed under the ECA. While overall real wages first dropped, then steadily increased under the ECA from the mid-1990s, increased wage dispersion was evident. Wages and working conditions for unskilled and semi-skilled workers are universally regarded to have deteriorated under the ECA. Survey data collected four years after the new legislation found thirty percent of workers in the service industry had experienced a decline in take-home pay (Harbridge and Street 1995). Far from "individual" contract negotiations taking place, the tendency was for such workers to have contract details dictated to them, or work without an employment contract at all (Harbridge 1993; Ballard 1995; Dannin 1997). Furthermore, the period between 1990 and 1994 experienced the lowest growth rate since the 1970s, low labor productivity, and a surge in unemployment from an average rate of 5.9 percent between 1985 and 1989, to an average of 12.8 percent.<sup>6</sup>

In general, as noted above, the pace of market-oriented reform slowed down after New Zealand's shift to MMP and the advent of coalition government in 1996. In the industrial relations arena, attempts to erode holiday entitlements in particular were prevented by National's coalition partner, New Zealand First, or by public opinion in general.

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<sup>5</sup> The ILO upheld a 1993 complaint filed by the New Zealand Council of Trade Unions stating that Convention Nos. 87 and 98 on the right to organize and bargain collectively had been contravened by the ECA.

<sup>6</sup> All data is calculated from Statistics New Zealand, PC INFOS timeseries database, as reported in Dalziel and Lattimore (2001).

In 1999, Labour campaigned on a promise of overturning the ECA, and made industrial relations law reform a priority once elected. The stated intentions of the reform's architects were not only to restore "balance" and "fairness" in labor relations, but also to address the country's flagging productivity rate. In the words of new Minister of Labour Margaret Wilson, the ECA had been fundamental "in constructing a low waged, low skilled labour market, with small groups of high paid and high skilled employees" (Wilson, 2001: 8). While the Employment Relations Act 2000 (ERA), restored some collective rights, the provisions of the Act that have received most attention have been the requirement that contract negotiations take place in "good faith" on one hand, and the extension of individual labor rights on the other. With respect to collective rights, unions regained the right to be sole bargaining agents, although employers could still negotiate "standard" individual contracts with non-union members, and greater access to workplaces for the purposes of recruitment were awarded (Boxall 2001: 33). The concept of "good faith bargaining" was initially a contentious one, with major concerns about how this would be interpreted by the courts even though what constituted "good faith" had been laid down in a binding but non-regulatory code (Hughes, 2001). These provisions largely center on the sharing of information between parties during the contract negotiation process, and the requirement that neither party act to undermine the other. Many of the individual labor rights laid down by the ERA concern the process for addressing "grievances", especially cases of dismissal and redundancy. Employment disputes were to be referred to mediation before parties resort to formal legal processes, and reinstatement (rather than damages) is the preferred remedy for dismissal.

What the ERA did not do is recentralize bargaining to any extent, reflecting the view that labor market flexibility is central to the functioning of a small and increasingly liberalized economy (Boxall 2001: 37). While the effects of the ERA are difficult to isolate, the period between 2000 and 2008 witnessed a rise in union membership, although nothing close to the membership rates of the 1980s, employment growth and a corresponding reduction in the unemployment rate, and significant overall wage increases (mainly due to increases in the minimum wage, which were judged to be both necessarily and affordable given the development of a much tighter labor market). Furthermore, the more

consultative style of government ushered in by MMP, and the re-emergence of a “modernized” labor movement as a result of its experience under the ECA, encouraged a greater degree of tri-partite policy negotiation after 2000.

## **Education Policy**

### *Chile*

The adoption of the *Plan Laboral* was soon followed by a series of major and radical forms to education administration in Chile. This 1980 policy package was framed by three distinct, though inter-related, rationales. First, teacher unions had been relatively empowered during the 1960s and early 1970s, an era which saw a significant expansion in educational participation. The military regime clearly wanted to break that power permanently, and after the initial purgative phase had done its work, it turned to institutional means for doing so. Second, education policy is an arena of state activity in which neoclassical economics has very clear prescriptions: market mechanisms, preferably some sort of voucher system, are always preferable to centralized delivery on the part of the state, which had largely been responsible for education provision in Chile up to that point. Third, the regime wanted to cut public spending (Cox and Lemaitre 1999). The 1980 reforms, which remained intact until redemocratization occurred, were thus based on principles of decentralization and privatization. The management of schools was devolved to the municipal level, the administrators of which were military appointees, and a voucher system was introduced. This “voucher” is not literal in the Chilean case, since subsidies are paid directly to schools rather than to parents, but the principle is the same, since funding is allocated per student and public and private schools compete on an equal basis for this funding. Undercutting the influence of the National Teachers’ Union was achieved through the disestablishment of national wage bargaining, where individual wage packages were to be negotiated at the municipal level (Schiefelbein and Schiefelbein 2000).

The new system rapidly intensified the stratification of the school system by income level and class. While a private school sector had existed in Chile prior to 1980, fees were



very high and thus enrolment was reserved for the socio-economic elite. This pattern continued after 1980 since the law stipulated that private schools might only receive the voucher subsidy if they did not charge additional fees, but a whole new sector of “private-voucher” schools was also established to compete with the public sector. In 1981, 78 percent of enrolled students attended public schools; by 1999 this had dropped to 54 percent, with 37 percent of students enrolling in “private-voucher” schools (Torche 2005: 323). Since private schools of all kinds could set their own entrance criteria, while public schools were mandated to take any and all students, the middle class flocked to the private sector, while students from poorer areas attended local municipal schools. Another additional problem for the market-driven model was the lack of any genuine “competition” in rural areas, since these were mostly covered by the public sector only. This pattern of school, and thus social, stratification was enhanced by the drive to cut state expenditure. During the 1980s, the real value of the voucher declined by forty percent (Patrinos 2000: 71), further starving public schools of funds as they lost their middle class students and possibility of private donations. In 1985 state spending made up 80 percent of total expenditure on school-level education, but by 1990, this had dropped to 68 percent (Carnoy, 1998: 317). The general consensus is that the democratic regime inherited a generally underfunded and low-quality education system, even if participation rates remained high by Latin American standards. Despite the problems caused by the voucher system, there was little political will to reverse the 1980 reforms or recentralize the system in order to combat the twin problems of equity and quality. This was made difficult by the outgoing authoritarian regime in any case, since it passed legislation codifying the *Ley Orgánica Constitucional de Educación* precisely one day before the democratic government took office (Matear 2007: 104).

In a recent report to the OECD, the Chilean government points to three basic sets of reforms that have been phased in since 1990 in an attempt to enhance equity, but more especially quality across the education system, within the confines set by the decentralized administrative framework (OECD 2004: 32-33). Between 1990 and 1995, infrastructure development, and increased funding, especially for the purposes of introducing computing and internet resources into all schools, was the priority. In order to inject extra cash into

the system, the value of the voucher was increased substantially, while a 1993 reform allowed both public and private-voucher schools to request a “voluntary fee” in order to top up state funds. By 1998, this new policy had been taken up by 42 percent of private-voucher schools but only 10 percent of public schools (Arenas 2004: 386). A number of programs targeted at poorer and rural schools, including the Program to Improve Educational Quality and Equity (MECE) and the Improvement of Education in Poor Zones (P-900) program, represented further attempts to address some of the inequalities in the system (Merin 2001: 82-85). Overall, total expenditure on education increased from 3.8 percent in 1990 to 7.4 percent of GNP in 2003 (OECD 2004: 11). Reforms during the early 1990s also tried to address quality issues by re-establishing occupation-wide wage bargaining for teachers, implementing a common wage structure, and overall improving working conditions and wages.<sup>7</sup>

By the mid-1990s, however, more comprehensive quality-oriented reforms were being formulated. This second phase of post-democratic education reform was spearheaded by the 1994 National Commission for the Modernization of Education, headed by President Frei. Policy initiatives launched under the rubric of the subsequent *Reforma Educativa* included continued funding increases, and comprehensive curriculum reform at both primary and secondary level, interestingly enough including further decentralization guided by the idea

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<sup>7</sup> For one of the very few works on the relationship between teacher unions and new democratic governments in Latin America see Murillo (1999).

that schools could better match content to local needs. Significantly for the purpose of this article, it has been argued that post-1994 reforms were driven by the fact that “Chilean employers believed that functionally illiterate workers constrained their possibility to compete in a global market” (Schiefelbein and Schiefelbein 2000: 413). Major changes in the structure and delivery of the education system included the introduction of full-day classes, replacing the traditional two-shift system; increasing compulsory education from eight to twelve years; and the postponement of tracking secondary school students into academic and technical streams from fourteen to sixteen years of age. Since 2000, constituting the “third phase” of education reform, initiatives have focused on more specific and more intense quality-raising measures, including further modernization of teacher training and specific programs aimed at improving standards in mathematics and science in particular.

Reform programs since the early 1990s, it can be argued, have significantly increased the quality of education policy delivery in Chile. Chilean schools now operate more like those of other highly developed countries in terms of teaching methods adopted and the availability and use of technology and other resources. Yet despite significant increases in funding and targeting of some of these measures toward the public and rural sectors, inequality remains the greatest ongoing concern with regard to the Chilean education system. While the stratification that tends to occur under nation-wide (as opposed to targeted or means-tested) voucher schemes has received much attention in both the international and Chile-specific literature (Parry 1996; Gauri 1998; Kubal 2006), the inability of the democratic regime to fully address the equity issue within the basic administrative structure is not lost on ordinary Chileans. Most notably, a series of protests broke out in the streets of Santiago and other major cities during the first half of 2006. Students demanded, among other things, no less than a repeal of the *Ley Orgánica Constitucional de Educación*, and an end to the “municipalization” of public school administration (González, Cornejo and Sánchez 2007). While the students did not by any stretch achieve this goal, the conflict did initiate a negotiation process with the Bachelet government over more minor aspects of education reform.



## *New Zealand*

Paralleling developments in the industrial relations field, the Fourth Labour Government turned its attention more fully to social policy during its second term in government (1987-1990). During the government's first term, education policy formulation had been subject to the traditional process of consultation between the state and the education sector (MacPherson 1989: 31; McKenzie, 2004). However, this all changed after Labour's victory in the 1987 election. Pressures for a radical rethink of education policy had been mounting over the course of the previous decade, with a number of policy actors, including the Treasury and State Services Commission, opposition party members, as well as non-state actors such as the Business Roundtable, advocating decentralization. The logic behind the push for decentralization has been well documented and echoes Chilean attempts to undercut (if not completely remove) teacher union influence from education policy design and school administration. Explicitly adopting the rhetoric of public choice theory, discussion documents produced at the time emphasized the vulnerability of New Zealand's traditionally centralized education administration to "provider capture". In order to increase "efficiency", "market responsiveness", and "client satisfaction", education administration would have to be devolved to as low a level as possible (MacPherson 1989; Olssen 1996; Gordon and Whitty 1997). Such beliefs were reflected in the government's 1988 report on the education system, generally referred to as Picot Report after Brian Picot, a private sector businessman and government committee chair. Most of the recommendations of the Picot Report were then taken up in Labour's 1988 White Paper, *Tomorrow's Schools*, and the subsequent 1988 Education Reform Act. Chief amongst these recommendations was the replacement of Regional School Boards with school-level Boards of Trustees, the latter which would include increased community representation. This represents a relatively extreme form of decentralization; devolution more often means transferring central power to the local government level, or in the Chilean case, the municipal level (Winkler and Gershberg 2000: 5-8).

The teacher unions, quite rightly, saw the shift to decentralization as an attack on their political influence, even if some "progressive" elements within the Labour Party and

the education sector had reasons for supporting decentralization other than those outlined in the Picot Report, including a desire to respond better to the special needs of the Maori community (Grace 1991). However, conflict between the government and teachers, the vast majority of whom were union members, deepened much further with the election of the 1990-96 National Government. As with the case of the Employment Contracts Act discussed above, National was as not as constrained as Labour when it came to the social policy arena, broadly construed. In the case of education policy specifically, National pushed, or in some respects attempted to push through, an even more radical decentralization agenda. During the 1990s, National introduced several reforms aimed at increasing competition between schools and, however minimally, stimulating the growth of the country's tiny private school sector. Along these lines, a 1991 package of reforms abolished "zoning", New Zealand's traditional way of ensuring that children can attend their local schools, so that schools could "compete" for the best students. Enrolment scheme design was to be determined by each individual school (Beavan, 2003: 115-116). While Chilean-style voucher schemes were often floated in public policy circles, National's main attempt in this direction was represented by a 1995 pilot scheme to subsidize the enrolment of low-income children in private schools (Barrington 1996). By far the most controversial policy development during the 1990s, however, was the introduction of "bulk-funding". Initiated under the Fourth Labour Government but implemented by National, bulk-funding refers to the lump-sum payment of annual grants to individual schools to cover both operational costs and teachers' salaries. It was the inclusion of salaries as part of the bulk-funding scheme which was clearly objected to most strongly on the part of teachers' unions. In 1995, this scheme became optional, rather than compulsory as originally intended, for all schools. By 1999, 31 percent of schools had opted for bulk funding, largely because the government offered extra cash incentives for those that chose to do so (Sullivan 2000: 104).

Since the decentralization of school administration, as in Chile, took place in the context of budget constraint, education reforms carried out in New Zealand during the period between 1988 and 1996 had some clearly distinguishable legacies. While some schools operated quite successfully under the bulk-funding arrangements, the removal of

zoning, combined with the fact that many schools located in lower socio-economic areas were simply not equipped to deal with the requirements of self-management, meant that increased educational and social stratification was experienced. While the New Zealand school system is not nearly as stratified as the Chilean one, middle class flight to schools that were coping better under the new arrangements, and the ghettoization of schools located in poorer areas is broadly judged to have taken place (Gordon 1995; Beavan 2003; Thrupp 2007). The problem of “low decile” schools, as such poor and often dysfunctional schools are euphemistically referred to in the New Zealand context, was the major motivation behind a halt and moderate reversal of the decentralization process carried out after the election of the Fifth Labour Government in 1999. Part of Labour’s new approach was to target large amounts of funding to schools in poorer areas, but the new government also reintroduced zoning and implemented a number of measures that suppressed the further growth of the private sector (Thrupp 2001). A reconceptualization of the role of the Education Review Office (ERO), the main quality control mechanism in existence, was also part of a strategy to address the problem of low-decile schools. Established in 1989, the ERO was designed with “new public management” principles in mind: a fervent belief in the dangers of “provider capture” dictated the ERO’s “emphasis on ‘external’ rather than ‘friendly’ inspection” (Thrupp 1998: 195). This resulted in a number of school boards located in low-socioeconomic areas being removed and replaced by external managers. Toward the end of the 1990s, however, the role of the ERO changed to one that offered advice and support to troubled schools rather than simply punishment.

School-level education policy since 2000 has been dominated by an emphasis on curriculum change and development. This parallels developments in Chile, but is also clearly in line with our expectations about education policy during the second phase of market-oriented reform. In fact, the National Certificate of Educational Achievement (NECA), the cornerstone of these new developments, has self-consciously been couched in terms of the need for New Zealand to meet the demands of the “knowledge economy” (Ministry of Education 1994; Gilbert 2005; Hipkins 2005). The NCEA, as part of a larger National Qualifications Framework, represents a shift away from “norms based” assessment, based on external nation-wide exams and an expectation that fifty percent of the cohort

fails, to “standards-based” assessment, in which students work toward clearly outlined national standards in specific subjects at their own pace. This rather radical overhaul in curriculum and assessment had in fact been lobbied for on the part of teachers’ organizations since the 1970s (Alison 2008). However, when it came to designing and implementing such a program in the early 1990s, the political climate was not conducive to constructive negotiation between teachers and the state. Instead, the implementation of the NCEA was an especially long, drawn-out, and conflictual process, with concerns about an inevitable increase in teachers’ workloads not adequately taken into account, and underpinned by the already very sharp conflict over the introduction of bulk funding (Hall, 1998; Lee and Lee 2001: 14; Dobric 2006). A more consultative approach arguably eased the transition to the new system after 2000, beginning with the Minister of Education’s announcement that there would be a one-year postponement of the NCEA’s implementation (Lee and Lee 2001: 23; Alison, 2008: 132).

### *Conclusions and Possibilities for Further Research*

Our case study analyses, in light of the theoretical framework outlined above, suggest an interesting set of tensions between Phase One and Phase Two market-oriented reform programs. Phase Two cannot take place without being preceded by Phase One, for both political and policy reasons. Politically, radical market-oriented reform requires that the interests of a number of societal groups be “overridden”. In Chile this was achieved first by violent, then by structural, institutional and legal means. In New Zealand, the exclusion of most interest groups and public opinion at large was pursued as far as possible within the confines of the democratic system. On the policy front, Phase Two must be preceded by Phase One, since liberalization and flexibilization are still central to the creation of a high-skilled, high-wage, “knowledge economy” that is associated with Phase Two. Yet because the political and policy requirements of Phase Two are different from those of Phase One in many respects, the transition between the two phases is often a difficult one. On one hand, this is because the incorporation of stakeholders, consultation of interest groups, and co-operation in policy implementation that we associate with Phase Two must



be constructed almost from scratch in situations where such processes of incorporation, consultation, and incorporation were deliberately destroyed. On the other hand, the social stratification and, in particular, marginalization of a relatively large sector of society that was often the unfortunate consequence of radical market-oriented reform when and where it was applied, is unhelpful to the development of the knowledge economy. Economic development during this second phase must thus often struggle with the policy, as well the political, consequences of the first phase of economic reform.

In a sense, then, both Chile and New Zealand, during the 1990s in particular, were working under debased thresholds of democratic participation in policy-making as well as grappling with the negative consequences of market-oriented reform. During the redemocratization phase, intensifying after 2000, Chile shifted from having absolutely zero interest group and public consultation, incorporation, and government responsiveness, to having minimalist to moderate levels of consultation, incorporation, and responsiveness. At approximately the same time, New Zealand transited from a minimalist to moderate to levels depending on the specific policy area in question. Due to the extreme form that Phase One of economic reform took in both countries, again in both political and policy terms, both countries arguably represent cases of mixed success when it comes to the embracement of a knowledge-based economic development strategy. In Chile, this is the case across both the labor relations and education policy arenas, while in New Zealand this is most clearly reflected in the case of education policy.

With respect to labor relations, the contemporary Chilean system has the following characteristics: restrictions on labor's collective rights allows for employer flexibility when addressing organized labor above the shop floor, whereas expanded employee individual rights under conditions of skilled labor market tightness allow the latter to have more control over the supply of their labor services whether they are organized or not. That is because in decentralized labor markets in export-oriented economies undergoing a shift in emphasis from unskilled to skilled labor production, such as Chile, ongoing restrictions of labor's collective power may not, in fact, restrict individual labor choice in skilled sectors of the economy in which labor demand is high and labor supply is low. This pattern is not unique. Chilean emphasis on "deepening" labor market flexibility in the move from

comparative to competitive export-led advantage falls in line with what Mosley (2008:30) has observed in Costa Rica: "Limited collective labor rights may not detract from protections of individual rights and working conditions, particularly if industrial upgrading occurs and skilled labor becomes better able to bargain with employers." But the picture remains mixed: lack of collective voice in economic and political decision-making does not necessarily hinder skilled labor opportunity, but it continues to impede improvements in material conditions for unskilled laborers in Chile as well as make them more dependent on the state for those improvements. This emphasis on individual rights and what we might term "high quality" flexibility at the top end of the labor market is also true of the New Zealand case. Yet while New Zealand did not by any degree return to its pre-1987 centralized system of wage bargaining, it went further than Chile after 2000 in restoring collective labor rights and paying attention to the interests of the bottom end of the labor market through the introduction of "good faith" bargaining. While those on the political left criticize the post-2000 legal framework as promoting "low quality" labor market flexibilization, the fact of the matter is that wages and working conditions for unskilled and semi-skilled workers have improved over the past decade. The same cannot necessarily be said for Chilean workers.

In the education policy arena, while the details of their respective reform programs during the 1980s were quite different, with Chile adopting a voucher and "municipalization" program while New Zealand devolved decision-making to the lowest level possible, individual schools, the central thrust was the same. Decentralization was adopted not only because reformers were convinced that this was the best way for schools to respond to "consumer" needs, and not simply to break the power of teacher unions, even if that undoubtedly provided a major motive behind reform, but in order to cut state spending. Enhanced by the fact that decentralization programs took place within the context of budget constraint, quite spectacularly so in the Chilean case, both sets of reforms led to increased school and social stratification. The creation of a tier of barely-functioning public schools occurred in both countries as a result. While New Zealand continued this general direction into the mid-1990s, both countries eventually made addressing the problem of school stratification a priority during the second phase of market-oriented reform. Since it was not possible to reverse the trend toward the privatization of education in Chile, democratic

reformers had to be satisfied by targeting some resources toward public schools and increasing the quality of teaching overall. Deep social divisions remain clearly reflected in the school system, however, and school stratification remains an ongoing political issue. While New Zealand has also targeted funding to poorer schools in recent years, the ghettoization of “low decile” schools is still considered a major policy problem.

As an exercise in theory-building, with the Chilean and New Zealand cases used to illustrate our main theoretical insights, this article has not sought to rigorously test any central hypotheses. We do however suggest two central lines of enquiry if such a test was to take place. First, we have highlighted a relationship between changes in political institutions and the shift to the second phase of structural reform, specifically aimed at constructing the knowledge economy. While we have given good reasons why we believe political and policy requirements to be linked across each of the two phases of reform, we have not speculated as to any causal relationship between the two. Did political reform lead to the kind of policy developments we associate with second-phase economic reform, or did the required economic development path somehow dictate political change? Further empirical research might test which is the case by investigating the intentions of policy-makers, and political reformers, at the time.

Second, we acknowledge that Chile and New Zealand represent extreme cases of both radical market-oriented reform and the exclusion of interest groups during the first phase of the economic shift in the authoritarian and democratic worlds respectively. This may bring into question the extent to which our theories and conclusions are generalizable. While we realize that many countries followed much more negotiated paths to economic reform than was the case in either Chile or New Zealand, our concentration on the policy requirements of the knowledge economy, and our discussion of the impact that the legacies of the first phase can have on Phase Two, offers insights of relevance to these cases of less market-oriented or more “heterodox” paths to reform. In short, while more moderate market-oriented development reformers were often criticized for failing to apply the “correct” path during the first phase of economic reform, such countries might be better positioned with respect to formulating and implementing the second phase of economic reform. To this end, we offer potential contrasting cases such as Australia, Ireland, and Uruguay, along with both

Spain and Portugal as potential contrasts to the Chilean and New Zealand cases.

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