CHAPTER 8

Central Bank Reform in Comparative Perspective

As noted in chapter 1, regime change is not the only impetus for central bank autonomy in the developing world. There is no question, for example, that the external credibility logic that Maxfield (1997) and others highlight also plays a central role in a number of recent cases. The 1991 Argentine central bank reform, for example, in which the Menem government set up a quasi-currency board that effectively tied the austral to the dollar, would seem to correspond more closely to this latter rationale (Williamson 1995). But without denying the salience of such international pressures, I have suggested that a number of cases may be better explained through the lens of domestic politics and, specifically, the threat of policy change. To develop this argument, I have focused on one class of countries of considerable importance in the developing world: democracies in transition from authoritarian rule.

The previous four chapters explored the dynamic between democratization and institutional change in two such transitional democracies: Chile and Mexico. This chapter supplements these in-depth case studies with an "in comparative perspective" dimension, in which I examine three additional cases of central bank reform under authoritarian rule that are broadly similar to those already examined: South Africa, Pakistan, and South Korea. What renders these cases particularly appealing is that they are drawn from outside Latin America, thereby speaking to the more general nature of the argument at hand. They also include one null case—South Korea—which allows us to explore a fuller range of outcomes on the dependent variable.

This discussion in this chapter is necessarily far from conclusive in terms of the empirical evidence it provides. Rather, it is meant to suggest the plausibility of the argument for addressing a wider range of cases than those contemplated in detail within this book. While the basic contours of my theoretical framework appear to be broadly consistent with the data at hand, there is of course some variation across the individual cases. In the chapter conclusion, I suggest how such variation might lay the groundwork for future comparative work on the politics of central bank reform in a variety of different institutional contexts.

South Africa: Reform from Above

Let us begin with the South African case, which corresponds most closely to our ex ante expectations about central bank reform in the transition from authoritarian rule.

Our story begins in the late 1980s, when the apartheid system on which South Africa's authoritarian rule was based began showing signs of increased strain (Price 1991; Sisk 1995; O'Meara 1996; Lotter 1997). Over the course of the decade, antiapartheid political strikes, guerrilla attacks, and school boycotts rose to an unprecedented scale (Price 1991, 194). Many South Africans adopted a strategy of "nonparticipation," joining opposition groups outside the mainstream political parties. Business leaders facing intense economic pressures from white consumer groups and black workers also began pressuring the Botha government for political reform (Lotter 1997, 50–62). Finally, economic boycotts and diplomatic isolation by the international community made it clear that foreign governments had lost patience with apartheid rule (O'Meara 1996, 399). These combined tensions eventually took their toll on the ruling National Party (NP), as splits emerged between those soft-liners who favored black enfranchisement and the hard-liners who opposed allowing the black majority any say in government at all (O'Meara 1996, 374–77; Sisk 1995, 56–70). Even though the NP managed to keep its majority in the 1987 general elections with 52 percent of the vote, it was increasingly clear that the status quo was no longer tenable.

But while the prospect of political participation by South Africa's black majority directly threatened the NP's continued hold on power, it was also worrisome on economic grounds. Over the course of the 1980s—and under decided pressure from the business community (Davies, O'Meara, and Dlamini 1985, 23–31)—the NP had become increasingly committed to a neoliberal economic program rooted in an unfettered market, trade liberalization, and reduced government spending (CEAS 1993; Kentridge 1993). The leaders of the then-outlawed black African National Congress party (ANC) had, in contrast, long advocated an economic model centered around extensive regulation, an expanded public sector, and wide-scale redistribution (ANC 1990; MERG 1993; Michie and Padayachee 1997). The ANC leadership did soften its rhetoric over time and, once elected to office, went on to pursue a much milder set of economic reforms (Habib 1998). Ex ante, however, NP leaders and conservative business groups repeatedly expressed doubts about the ANC's ability to resist pressures for higher wages and welfare transfers from its more radical support base (Kentridge 1993). Indeed, as it became increasingly clear toward the end of the decade that apartheid rule would not last indefinitely, business elites acted on these fears, pressuring

successive NP governments to step up their efforts to privatize the economy (Price 1991, 289).[1]

In 1989, three bombshells hit that would bring these concerns to a climax. In February, and for the first time in decades, an extreme right-wing candidate nearly succeeded in winning the presidential elections over the NP candidate (F. W. De Klerk). This was followed in April by the creation of a left-wing opposition political party calling for nonracial democracy and the rule of law, specifically targeted at garnering electoral support among the NP's predominantly English-speaking middle- and upper-class urban base (O'Meara 1996, 387). But the reality of the NP's deteriorating political position was finally driven home in the legislative elections of September, when the NP made its worst showing in thirty years, garnering only 6 percent of the voting age population. Although it still retained 93 of 166 seats, the ruling party that had dominated South African politics for the better part of a century had lost a majority of white support (Sisk 1995, 81–82). What this legislative defeat brought home was that if De Klerk wanted to prevent the further erosion of support on both the right and the left, a clear launch onto the reform path was needed (Lotter 1997, 75–90). On February 2, 1990, De Klerk made his landmark speech calling for sweeping political reform in South Africa—including the release of jailed ANC leader Nelson Mandela and other political prisoners—thus setting the country on a crash course with democratization.

But while both sides saw a negotiated transfer of power as inevitable as of 1990 (Sisk 1995, 75–82; Herbst 1997–98, 598–603), the question was when it would occur and under what terms. De Klerk made it clear from the beginning that the basic constitutional framework for democracy would have to be negotiated before elections were held (Sisk 1995, 82). A series of protracted negotiations thus ensued between the NP and the ANC, ultimately culminating in the CODESA (Conference for a Democratic South Africa) negotiations of 1993, which formally brought an end to apartheid rule. For our purposes, the significance of these negotiations lay in the myriad ways in which incumbent elites sought to protect white minority interests under the ensuing democratic regime (Herbst 1997–98, 603–607). To this end, the NP placed a number of nonnegotiable demands on the table, including a voting system based on proportional representation, a power-sharing mechanism within executive agencies, a set of powerful regional governments with large bud-

1. Business representatives demonstrated remarkable unanimity in favoring the liberalization of the economy, despite the fact that many firms would not fare well under international competition. Wood (1999, 27) attributes this to the fact that South African firms were increasingly integrated into overarching conglomerates and that individuals held highly diversified wealth through the Johannesburg Stock Exchange, lessening the sorts of sectoral concerns highlighted in chapter 3.

gets, and tenure security for white officials in the public bureaucracy.[2] In turn, the government also sought various protections for its economic model, including the constitutional guarantee of private property and independence for the South African Reserve Bank (Habib 1998, 6).

In fact, the Reserve Bank had already been strengthened considerably in 1989, a date not without significance for our larger political story. Prior to 1989, South Africa's central bank had lacked any real statutory independence (Joubert 1976, 411–15). Over the course of the 1980s, however, it had adopted a highly market-oriented monetary policy, relying heavily on the interest rate as the cornerstone of its anti-inflation efforts (Botha 1997). The 1989 Reserve Bank Act enshrined this commitment in law. Among other things, the act served to prioritize price stability as the institution's primary objective, allowed for greater freedom of action in its day-to-day operations, and formally eliminated a large number of distortionary credit practices (e.g., interest rate ceilings, reserve requirements, and consumer credit controls) (Stals 1993). The 1993 reform did little to change the 1989 legislation but did augment the Reserve Bank's strength in two significant respects. First, while the Reserve Bank's extensive policy-making powers had previously been carried out under the implicit and/or explicit control of the Finance Ministry, the 1993 law authorized the central bank to "exercise its powers and perform its functions independently" (Constitution of the Republic of South Africa, clause 196). Second, the Reserve Bank's commitment to price stability was also elevated to the constitutional level.[3]

The ANC adamantly opposed this legislation, arguing that the Reserve Bank should be placed more firmly under political control to ensure that "monetary policy is determined by and accountable to the democratic gov-

2. An additional provision for minority veto over policy-making was dropped from the list of demands. As Murray (1994, 194) notes, the NP negotiators came to realize that Afrikaner dominance of private enterprise together with an NP-appointed civil service, security establishment, and judiciary would serve as a more effective protection for minority interests than any numerical formula.

3. The reform has generally been viewed as fairly constraining in practice (Stals 1995; Schmulow and Greyling 1996; Maxfield 1997, 68), although its formal/legal underpinnings would appear to lie somewhere between the Mexican and Chilean cases. As noted, the legislation is considerably stronger on those dimensions concerning policy-making powers and central bank objectives. It appears to be less stringent on those provisions governing central bank lending to the executive, which seem somewhat vaguely defined, as well as on the makeup of the central bank board. The latter combines both a mini–governing board of five individuals with five-year renewable terms and a larger nine-person board elected by its shareholders for three-year terms (Reserve Bank of South Africa 1993, Articles 13f and 4). This somewhat unusual structure would seem to reflect the fact that the Reserve Bank is listed on the South African Stock exchange and has some seven hundred shareholders. More research is needed to evaluate its implications of this quasi-public structure for the bank's independent operation and governance.

ernment" (MERG 1993, 261). The ANC was particularly opposed to the preeminent role accorded anti-inflation in the new Constitution, maintaining that the monetary policy should also entail "the expansion of money supply commensurate with real GDP growth, and . . . strengthening the orientation of the financial system toward financing growth and development" (MERG 1993, 263). Such protestations notwithstanding, the ANC was overruled, and autonomy became permanently enshrined in the South African Constitution.

The 1993 South African central bank reform bears a number of similarities to the Chilean case. For starters, the NP's avowedly free-market private sector support base resembles that of Pinochet. The fact that business pressures to prioritize price stability had been present for more than a decade before the reform took place similarly casts doubt on credibility-based reasoning to explain the reform's timing.[4] As in Chile, the outgoing regime was visibly frightened by the more interventionist proclivities of its would-be successor. Finally, the economic content of the transitional negotiations—including central bank reform—was decisively influenced by the interests of the outgoing regime (Herbst 1997–98, 607).

Taken together, these factors add up to yet one more illustration of how conservative authoritarian elites use central bank reform to ward off the populist menace intrinsic to new democracies. The net result is that as the ANC embarked upon its historical ascent to power, it found itself confronted with an independent central bank, not because it wanted one there but because it had no choice.

Pakistan: Reform in the Interim

While South Africa constitutes a fairly clear-cut case of institutional insulation in the wake of a transition from authoritarian rule, a more complicated story unfolds in the case of Pakistan.

Since its inception in 1948, Pakistan's postcolonial state was characterized by periodic bouts of democratic rule followed by sustained periods of military intervention (Burki and Baxter 1991; Dharamdasani 1994; Shafqat 1997). When military rule officially came to an end in 1985, the military

4. It is true that capital flight had provoked some decline in the country's external accounts throughout the 1980s, opening up the possibility that the reform was motivated by the need for international credibility. But such behavior by investors was primarily caused by domestic political instability and the international embargo against apartheid, rather than by some overriding failure on the part of the government to demonstrate its economic credentials (Smit and Mocke 1991, 114).

retained a strong say in politics through two primary avenues. First, it oversaw the creation of the so-called partie military, an informal aggregation of interest groups that would attempt to co-opt the leadership of Pakistan's political parties to protect the military's hegemony and advocate its interests (Shafqat 1997, 191). This strategy was targeted specifically at weakening the hand of the Pakistani People's Party (PPP), whose mass-based mobilization in the early 1970s under then prime minister Zulfikar Ali Bhutto was seen as a direct threat to the interests of the military, business, and the bureaucracy (Waseem 1992, 619). Second, the military also sought to weaken the formal powers of elected representatives through the notorious Eighth Amendment to the Constitution (Waseem 1992). This amendment not only empowered the president to dissolve elected assemblies but also removed the government's ability to appoint top military officials and high court judges.[5] In short, military elites assented to a transition to democracy, but it was only to a protected form of parliamentary rule in which the army was "generally accepted as the final arbiter in any political conflict" (Waseem 1994, 25).

Concurrent with changes in Pakistan's political environment in the mid-1980s were ongoing changes to its economic model. By the late 1980s, years of undisciplined spending by both military- and party-led governments had created a fiscal and monetary crisis marked by high inflation, soaring external debts, and plummeting international reserves (Shafqat 1997, 208–10). In the wake of the failed economic policies of PPP prime minister Benazhir Bhutto (1988–90), incoming prime minister Nawaz Sharif implemented an economic reform package emphasizing privatization, deregulation, and currency reform (Shafqat 1997, 227–47; Reza Nasr 1992, 530–37). Handpicked and groomed by the military as part of their "partie military" strategy, Sharif was the head of the Pakistan Muslim League (PML) party representing new business and industrial elites (SAARC-NGO 1995, 101–2).

But while Sharif's liberalization measures were carried out more swiftly and systematically than those of the Bhutto regime, persistent quarrels with the president, ongoing political unrest, and allegations of corruption led to a military shutdown of the Sharif government in April 1993 (Waseem 1994). In his place, a little known technocrat named Moeen Qureshi who had spent the bulk of his career at the World Bank was named caretaker prime minister pending elections in October. During his three-month stint in power,

5. The 1985 Constitution created a parliamentary system of government with a president (head of state) and a prime minister (head of government). Under this system, the president was elected through an electoral college consisting of members of the Senate and national assembly and members of the provincial assemblies. The prime minister was appointed by the president from among the members of the national assembly.

Qureshi dramatically accelerated the liberalization program begun under Sharif, enacting—among other things—an ordinance to increase the autonomy of the central bank (Waseem 1994, 58–74).[6]

While Pakistan's State National Bank (SNB) had once commanded a great deal of independent influence over monetary policy, over the course of the 1970s and 1980s it had gradually come to serve the interests of the government of the day (Meenai 1984, 162–72). This behavioral lack of autonomy was reinforced in the provisions of the law itself: all central bank governors were appointed for five-year renewable terms; there were no limitations on central bank lending to the executive; and the government had the right to override the central bank on important policy decisions (Mahmood and Shaukat 1995, 177–223). The 1993 reform constituted an abrupt about-face in this state of affairs. Among other things, it made all governor terms nonrenewable, allowed the central bank to recruit staff without federal government clearance, gave the bank new power to control the money supply and to regulate commercial banks, and set limits on the amount of credit that could be extended to the government.[7]

The first question to ask, then, is why the Pakistani government chose to suddenly create a substantially autonomous central bank in 1993, knowing that it would only be in power for three months? The conventional wisdom holds that Qureshi was merely buckling to pressures from international financial institutions, who capitalized upon his long-standing ties to Washington to pressure him to undertake a set of reforms in line with the so-called Washington Consensus (Singh 1994, 206–8).[8] Although we cannot deny that the Pakistani economy was highly vulnerable to the dictates of the international financial community in the early 1990s, a variety of factors cast doubt upon the notion that this was the exclusive motivation at work.

To begin with, while both the World Bank and IMF had outlined a series of "desirable" policy reforms for Pakistan in the early 1990s, they had only set out broad-gauged targets and left the specifics up to individual governments to determine (Shafqat 1997, 249). While a host of economic liberalization measures might have been consistent with these prescriptions, there was no reason to expect that central bank autonomy would necessarily form part of them. Second, if these international considerations were so predominant, then one must also question why the reform was not adopted earlier. The

6. See "Caretakers' Cost-Cutting Campaign: Tribal Confrontation with Bureaucrats," *Pakistan and Gulf Economist,* August 14–20, 1993; "Counting the Costs: The Prime Minister's Economic Package," *Pakistan and Gulf Economist,* August 28–September 3, 1993.

7. See "Legal Autonomy for State Bank: Fixing Limits of Budgetary Support to Government," *Pakistan and Gulf Economist,* October 23–29, 1993, 21–23.

8. See also "Mixed Reaction to Economic Package: Caretakers said to Exceed Mandate," *Pakistan and Gulf Economist,* August 28–September 3, 1993, 12.

World Bank and the IMF had been pressuring successive Pakistani governments to reform their economies since as far back as 1987.[9] More to the point, a former NBP vice-governor had been advocating central bank autonomy as a means of fighting the country's perennial budget deficits since the early 1980s (Meenai 1984, 162–66). In light of such preexisting pressures, and especially given what would appear to be the army's instrumental role in Qureshi's selection (Waseem 1994, 54), the more relevant question would thus seem to be why the military viewed 1993 as a propitious moment for central bank reform.[10]

Here, I would argue that a host of domestic political factors came into play, in particular the fact that the military foresaw the inevitability of democratization in Pakistan and what this might mean for its continued ability to protect its interests. What were those interests? The Pakistani military had always maximized political stability above all else, defining this as a desire to avoid "mass politics" (Waseem 1992, 619). But it had also always been decidedly pro-business, a position stemming from its strong ties to Pakistan's financial-industrial groups (Shafqat 1997, 34–37, 118, 201–8). While it was not clear in mid-1993 who was likely to win the scheduled elections, one of two main contenders was Benazhir Bhutto, whose mass-based PPP had long been viewed as the principal threat on both of these fronts (Waseem 1992, 619).

While Bhutto had distanced herself considerably from her father's socialist legacy, she continued to inspire fear among military and business elites alike, who were wary of what she might do to the economy once elected.[11] Perhaps these fears were best expressed by the interim central bank governor himself, who declared that "the major reason for wanting to increase the autonomy of the bank . . . has been the abnormal monetary expansion of the past three or four years," pointing specifically to rampant inflation under the PPP.[12] As one business editorial noted at the time, "the ordinance to increase the autonomy of the SBP . . . is no doubt an attempt . . . to make doubly sure that, on top of the conditionality package, as much economic power as possible is devolved away from the politicians."[13]

9. See "The New Prime Minister's Financial Handcuffs," *Pakistan and Gulf Economist,* September 11–17, 1993, 34.

10. Technically speaking, Qureshi was chosen through an army-sponsored negotiation between outgoing prime minister Sharif and PPP opposition leader Benazir Bhutto. But while the military did not have any overt constitutional role in such deliberations, it had long been generally accepted in Pakistan that the military was the key player in the formation and dismissal of governments (Waseem 1992, 630).

11. See "Benazir's Primary Concern: Smooth Functioning of the Democratic Process," *Pakistan and Gulf Economist,* October 23–29, 1993, 8.

12. See "SBP Governor Sets Targets for Himself," *Pakistan and Gulf Economist,* August 7–13, 1993, 50–51.

13. See "New Prime Minister's Financial Handcuffs," 56.

In light of its pervasive influence over the country's democratic institutions, the Pakistani military traditionally had not needed to worry very much about the threat of policy change implied by one given political administration or another. But a variety of factors in late 1993 combined to suggest that such controls might no longer be as effective as they once had been. On the one hand, it was becoming increasingly apparent that the "partie military" strategy was not working very well. While Sharif's 1990 victory had originally been seen as a triumph on this front, Sharif quickly distanced himself from the army once in office, which suggested that even handpicked politicians could not be trusted to carry out the military's interests (Waseem 1992, 630). On the other hand, growing domestic pressures for free and fair elections, changing attitudes within the military itself (Waseem 1992, 634), and explicit threats of U.S. economic sanctions (Waseem 1994, 56) made it increasingly difficult to imagine a future that would not be marked by greater democratic freedoms. In light of the PPP's vow to repeal the Eighth Amendment (SSARC-NGO 1995, 99), the military knew that if it was going to move to insulate business interests, this would have to occur before the 1993 elections took place.[14]

A few months after the Pakistani central bank ordinance went into effect, the incoming Bhutto administration amended it to provide the government with one-time authority to nominate the central bank board of directors with a three-year renewable term.[15] While this manifest weakening of the SBP's autonomy would seem to fly in the face of the institutional persistence logic offered in this book, there are a number of mitigating factors to be considered. First, as I point out in chapter 3, there are no guarantees that the authoritarians' institutional creations will necessarily "stick." Rather, they do the best that they can. At least at the time when the law was enacted, the Qureshi government seemed fairly confident about its durability. As one high-ranking government official noted, "given that the reform package is

14. It is true that the army indirectly aided Bhutto's victory in the 1993 elections by helping to depose Nawaz Sharif. This outcome is generally attributed to a temporary armistice between the PPP and the military, during which time Bhutto deliberately sought to provide assurances to the military that she was no longer a threat to its interests (Singh 1994, 210). This does not, however, remove the uncertainty surrounding her policy choices noted earlier. Rather, the army's shifting loyalties would seem to suggest that it had come to realize that it could not trust any politicians to carry out its will. Under such circumstances, its best strategy was to play the two parties off one another, thereby maintaining a divided parliament and precluding the two-thirds majority necessary to repeal the Eighth Amendment. (In fact, the Eighth Amendment was used for the last time to oust Bhutto in November 1996 and was definitively repealed in late 1997.)

15. See "A Minor Rumpus over SBP's Powers," *Pakistan and Gulf Economist,* January 15–21, 1994.

largely backed by the World Bank, the IMF, and the Pakistan Army, there is a high probability that a new elected government will retain [it]."[16] Second, when Bhutto was subsequently criticized for having placed the country's economic credibility in jeopardy, she was quick to emphasize that despite other changes, the bank retained the important power to limit credit to the federal and provincial governments (Maxfield 1997, 66). Her actions thus effectively amounted to a partial—not a full—repeal of the legislation. Finally, it is worth noting that these were only one-time changes, as opposed to a permanent rescinding of the ordinance.

However one chooses to slice it, there is no question that the existence of the central bank ordinance alone was not sufficient to prevent some ex post tampering by subsequent Pakistani administrations. Therefore the 1993 Pakistan central bank reform does not fit the argument advanced in this book with the same precision as other cases we have seen. But even with its multiple complications and intrigues, it is still a case where the timing of the central bank reform cannot be divorced from domestic political events and, in particular, the defensive motivations of a military regime under siege.

South Korea: Failed Reform

The South Korean case provides a window into one variant of the null case contemplated in this book: one where, despite a compelling threat of political change, incumbent authoritarian leaders lack the corresponding economic incentives to undertake central bank reform.

The story of South Korea's transition to democracy really begins in the late 1970s, when an economic crisis of massive proportions rocked the political stability of the military-backed Democratic Justice Party (DJP), which had ruled the country since the early 1960s (Haggard 1994). Not only did the decline in exports, devaluation, and attendant inflation unleash political unrest within the country's working class and middle class, it also galvanized the country's fledgling opposition political parties (Sohn 1989). While the regime was able to survive the crisis by temporarily imposing martial law, the economic instability of the early 1980s had two important consequences. First, the government was forced to embark on a program of stabilization and trade reform that imposed heavy costs on the working class (Y. H. Kim 1994; Woo-Cummings 1997). Second, in taking steps to reform the country's con-

16. See "Counting the Costs," 7; and "Economic Reforms: The Caretakers' Legacy: Will the Bhutto Government Toe the Line?" *Pakistan and Gulf Economist,* October 23–29, 1993, 11.

stitution to allow for the indirect election of the president, the government inadvertently established a focal point for subsequent opposition efforts to secure direct election of the president (Haggard and Kaufman 1995, 94).[17]

But while the DJP was thus able to reassert its control over the political system in the aftermath of the 1980 crisis, it became increasingly apparent that this was not a stable equilibrium. Over time, popular resentment of semimilitary rule, delayed constitutional reform, and the perceived toll of adjustment on workers and the less developed segments of the economy combined to provide newfound momentum for opposition to authoritarian rule (Lee 1990; Han and Park 1993; Kong 1997). Above all, however, the pro-democracy movement constituted a decided effort to break up the cozy relationship that existed between the South Korean government and large industrial conglomerates (*Chaebol*) (Kong 1997, 100). For despite the decidedly export-oriented nature of the Korean development strategy, the state had played a considerable role in guiding the nature and pace of economic development within it (Choi 1993; Haggard and Collins 1994; Woo-Cummings 1997). A strategic interdependence had thus emerged over time between business and government, wherein the government used credit policy to induce big business to invest in selected sectors of the economy in exchange for its political support (Choi 1993, 38–39; Cho 1990, 237).

Popular dissatisfaction stemming from these multiple grievances was brought home in the legislative elections of 1985. While ostensibly held to shore up legitimacy for the DJP, they instead resulted in a stunning upset in which the ruling party won but 35 percent of the vote, despite electoral and campaign laws systematically biased in its favor (Haggard and Collins 1994, 93).[18] Although the DJP was able to maintain a slim legislative majority, its continued refusal to bow to popular demands for direct presidential elections provoked an explosion of political protests, street demonstrations, and clashes with the government, particularly by student and labor groups. While the government initially responded with repression, growing divides within its own ranks together with overt pressures from foreign governments ultimately led DJP presidential candidate Roh Tae-Woo to call for direct elections of the president (Haggard and Kaufman 1995, 93–95). Although a divided opposition enabled the DJP to retain the presidency in 1987, Roh's

17. Prior to 1980, the president was recruited from military institutions of the state (Lee 1995, 39).

18. Until the late 1980s, the electoral system in South Korea was based on a combination of two member districts and a national list that heavily favored the ruling party. The two-member district allowed the government to capture two seats in rural conservative districts where it had majority support and a second seat in urban centers where a divided opposition was represented by a single list. In addition, district boundaries were also drawn to favor conservative and rural voters (Haggard and Kaufman 1995, 123, 233).

pledge to undertake political and constitutional reform was widely seen as the beginning of a protracted transition to democracy that would culminate in 1993 with the election of Korea's first civilian president since 1961 (Kong 1997).

In the wake of the DJP's increasingly tenuous hold on power, incumbent elites were forced to enter into negotiations with a variety of opposition forces in late 1987 to reform the South Korean Constitution.[19] While Roh engaged in a greater degree of bargaining than is typical of most "top down" transitions, the resultant Constitution was nonetheless biased strongly in favor of the interests of ruling elites (Haggard and Kaufman 1995, 96). Not surprisingly, the government focused on protecting its three pillars of support: safeguarding its rural support base, ensuring the institutional integrity of the military, and limiting labor's ability to threaten capital. Thus, for example, electoral laws that favored conservative rural voters based on gerrymandered districts and proportional representation were retained (Haggard and Kaufman 1995, 96, 119).[20] The military was also subjected to very little civilian oversight, enabling it to engage in extensive civilian surveillance and the occasional use of force (Haggard and Kaufman 1995, 114). Finally, broad restrictions on labor militancy allowed the government to limit the formation of competing unions, restrict the role of third parties in resolving labor disputes, and curtail the unions' ability to strike (Haggard and Kaufman 1995, 123).

But even while the regime took a series of steps to strengthen executive control over economic policy (Haggard and Kaufman 1995, 97),[21] the government made no effort to augment the autonomy of the central bank. This is noteworthy, given that throughout the transition, a wide-ranging debate was unfolding simultaneously over whether or not to grant independence to the Korean central bank (Maxfield 1997, 115–19). The original 1950 Bank of Korea Act had actually delegated a fair amount of authority to the bank's seven-member Monetary Board (Ro 1994; Soon 1994). But this autonomy quickly evaporated following the military coup of 1962. In the first round of

19. At this time, there were essentially three main opposition parties: the center-left Peace and Democracy Party led by Kim Dae Jung, the centrist Reunification and Democracy Party of King Young Sam, and the conservative New Democratic Republic Party of Kim Jon Pil. The latter two parties would subsequently form a conservative alliance with the ruling DJP in 1990 under the banner of the Democratic Liberal Party.

20. In the course of these negotiations, the two-member district was replaced by a single-member district, and the share of the total number of seats allocated to the national list was reduced from one-third to one-quarter—both of which responded to opposition party demands. At the time, the government agreed to single-member districts only because it thought that these would divide the opposition, although they proved ultimately to be wrong on this point (Haggard and Kaufman 1995, 96).

21. Note, for example, that while the national assembly could debate an existing budget bill, it had no power to raise expenditures or to authorize changes.

revisions, the number of board members was increased to nine, and the governor himself was appointed by the minister of finance, who in turn presided over the seven remaining members, each of whom represented a distinct sectoral portfolio (Ro 1994; P. J. Kim 1994). In subsequent amendments to the act, the minister of finance was given veto power over all Monetary Board decisions, including the ability to oversee Bank of Korea bookkeeping (Maxfield 1997, 113). Thereafter, while the Bank of Korea's primary duty was to regulate the money supply, this effectively translated into making sure that seignorage revenues were channeled into low-interest loans in keeping with the government's overall industrialization policy (Soon 1994, 141; Woo-Cummings 1997, 62; Maxfield 1994, 561).

By 1987, and consistent with the broader pro-democracy rhetoric at the time, a group of Bank of Korea employees began to champion the cause of an autonomous central bank as a means of severing the historic link between government and big business. While initially more of a populist rebellion in the Bank of Korea's rank and file, the initiative gradually gained the support of its board of directors. Over the course of the next two years, the Ministry of Finance and Bank of Korea heatedly debated issues such as the appropriate level of executive branch veto power over monetary policy and jurisdictional authority for bank regulation (Maxfield 1997, 116) The reform initially received the support of two out of three of the country's opposition political parties, including the center-left Peace and Democracy Party, which viewed autonomy as enhancing checks on centralized political control (Maxfield 1997, 117).[22] But while Roh promised that securing the Bank of Korea's independence would be a priority during his first term, he ultimately used back-door channels to convince both the central bank and the political opposition to back the Finance Ministry's position (Maxfield 1997, 117–18). At the end of the day, authority over monetary policy and financial supervision continued to reside with the Ministry of Finance, and a constitutional change in the central bank's authority was deemed unnecessary (Ro 1994, 147).

In light of the militant strike activity and anti-business rhetoric that characterized South Korea's process of democratization, it is worth asking why the Korean government refused to support the central bank autonomy initiative of 1987–88. While Maxfield argues that government's disinterest can be explained by its lack of a need to shore up credibility with foreign capital (Maxfield 1997, 119), I would argue that a more complete explanation lies in its economic policy preferences and, in particular, the nature of its domestic constituency base. Because of their highly diversified presence within a variety of sectors in the economy, the number of Chaebol-owned firms benefiting

22. The ruling DJP as well as the more conservative New Democratic Republican Party opposed the initiative.

from preferential credit by the end of the 1980s had grown immense (Choi 1993, 39). The government could ill afford to undertake any measure—such as the elimination of credit subsidies—that would strike at the very heart of its political support base (Cho 1990, 237). Even modest attempts at financial liberalization in the 1980s had been limited by business resistance to any restrictions on its continued access to cheap credit (Choi 1993; Haggard and Collins 1994; Woo-Cummings 1997). While it is true that the Roh government did take some symbolic measures to reduce Chaebol domination soon after taking office (Soon 1994), its policies remained decidedly pro-business overall, reflected in its increasingly pro-management stance with respect to labor disputes (Haggard and Kaufman 1995, 232, 238–39).

Finally, a word is also in order on the democrats in this tale. If the Korean government itself lacked a compelling policy interest in establishing an autonomous central bank, such preferences were largely mirrored in its political opponents. Even while the democratization movement was accompanied by a huge upsurge in labor strikes and protests, much of the middle and working classes saw themselves as beneficiaries of import substitution industrialization (ISI) (Haggard and Kaufman 1995, 96, 232). This inherent conservatism in the electorate was reflected in the fact that despite the abundance of opposition parties at the moment of the transition, there was no real programmatic alternative to advocating anything other than the status quo (Kong 1997, 100; Haggard and Kaufman 1995, 230). Even the nominally center-left PDP—which had initially supported the autonomy initiative on purely political grounds—was in fact much more regionally based than ideologically based, and its own rhetoric grew increasingly conservative as the 1990s wore on (Haggard and Kaufman 1995, 138). In short, and in keeping with our idea of the intensity of threat, the outgoing authoritarians had little to fear where major issues of economic policy were concerned.

The South Korean case of nonreform thus corresponds quite closely to our ex ante expectations about the likelihood of central bank autonomy in the transition from authoritarian rule. Where ruling elites are backed by business groups with more decidedly interventionist policy preferences, the demand for central bank reform is not likely to surface. To put it simply, the short-lived movement for central bank reform in South Korea never really got off the ground because it was in no one's interest for it to do so.

Conclusion

This chapter can do no more than establish the plausibility of the argument within the countries at hand. More research is needed to explore the particular nuances of each case. But through this brief foray into comparative work,

I hope to have accomplished two important tasks. First, to demonstrate that there have been a number of significant cases in recent years where the insulation logic of central bank reform advanced in this book seems to have some applicability. Second, to establish a general theoretical baseline upon which future scholars interested in understanding the politics of central bank reform might draw.

In this regard, it is worth speculating upon how one might appropriate the basic theoretical framework developed here and apply it to a democratic political context. One interesting implication of the argument in this regard has to do with the timing of bureaucratic reform. One of the central claims underpinning this book's logic is that because insulation is costly, authoritarian governments ought to wait until it is absolutely clear that they will need to step down from power before delegating authority to an independent agency. The question is how such incentives might vary once we introduce different types of democracies.

I would submit that, like their authoritarian counterparts, reform-minded politicians in political systems with a fixed term in office—such as all presidential democracies—ought to wait until the last possible instant before seeking to entrench their interests. After all, if they attempt to insulate their policy preferences too soon before leaving power, it is only they who stand to lose, as they are the ones who will suffer the related slippage effects, loss of flexibility, and the like. It therefore makes sense for them to delay assuming such costs as long as possible and thus to insulate only at the very end of their terms in office when they can pass these costs along to their successors.

The same is not true for many parliamentary regimes. Because the legislature in such a system is effectively free to fire the prime minister at a moment's notice, reform-minded politicians must always be on guard against the possibility that they may be unexpectedly ousted from power. This is especially true in multiparty parliamentary systems, which—because of the number of and ideological distances between government partners—are prone to votes of no confidence at the slightest provocation. Because the coalitions in such governments tend to be so fragile, a "carpe diem" mentality is thus likely to prevail among reformers, on the principle that if they do not act quickly, they may lose the opportunity for good.

The key factor determining the timing of insulation across different democratic political systems, then, would seem to be the time horizons of elected officials within them. In those systems where incumbent elites can predict with close to 100 percent certainty when they are likely to leave office, they are unlikely to assume the costs of insulation until the very last minute. In those political environments in which one has good reason to expect that one's hold on power may be curtailed inopportunely, governments are much

more likely to be proactive early on. As a general rule, then, the more unstable a government's time horizons, the sooner we are likely to see governments taking measures to reform their bureaucracies (Boylan 2000).

Institutional nuances of this sort are well worth exploring in more detail, and they should also be tested across a wider set of cases. For present purposes, however, I am less concerned with providing definitive answers to such questions than with demonstrating the extent to which the basic contours of the argument can travel across a variety of different institutional contexts. I leave it to future research to probe these interesting—and, as yet, largely unexamined—aspects of comparative institutional design.