# Contents

*List of Tables*  
vi

*List of Figures*  
viii

*Preface*  
x

1. Neoliberalism, Democracy and Economic Policy in Latin America  
Alfredo Saad-Filho, Francesca Iannini and Elizabeth Jean Molinari  
1

2. Assessing the Economic Policies of President Lula da Silva in Brazil: Has Fear Defeated Hope?  
Philip Arestis, Luiz Fernando de Paula and Fernando Ferrari-Filho  
36

3. Chile Between Neo-liberalism and Equitable Growth  
Ricardo Ffrench-Davis  
70

4. A Case of Disruptive International Financial Integration: Argentina in the Late Twentieth and Early Twenty-First Centuries  
Mario Damill and Roberto Frenkel  
108

5. Recent Political Economy in Venezuela  
Carolina Pagliacci and Jorge Portillo  
147

6. Does Political Stability Matter?: The Economic Impact of Political Unrest in Ecuador  
Guillaume Long and Danilo Iglori  
195

*Index*  
234
1

Neoliberalism, Democracy and Economic Policy in Latin America

Alfredo Saad-Filho, Francesca Iannini and Elizabeth Jean Molinari
Department of Development Studies SOAS, University of London

Abstract

This chapter reviews the economic, social and political changes associated with the transition from import-substituting industrialization (ISI) to neoliberalism in Argentina and Brazil. It shows that, despite the significant differences in the economic performance of their ISI regimes, and the distinct social compositions and political forms associated with that system of accumulation, the transitions to neoliberalism in Argentina and Brazil have commonalities across several levels. This chapter explores three of these levels: the role of inflation stabilization, the relationship between the democratic transition and the economic transition to neoliberalism, and the tensions and displacements which currently limit the new liberal system of accumulation in both countries.

Keywords: Latin America, Brazil, Argentina, Democracy, Neoliberalism.

JEL Classification: O11, O54.

1.1 Introduction

The political economy of Latin America has changed significantly over the course of the last generation. Three important changes are especially evident. Firstly, the political system of a growing number of countries has become remarkably open as well as generally stable for more than twenty years. In the past, most countries were relatively closed as well as being politically unstable, undergoing sharp swings between relatively pluralistic and socially inclusive phases and harsh authoritarian rule. Secondly, their economies have been transformed. Between the early 1930s and the mid- to late 1970s, several Latin
American countries significantly expanded their manufacturing capacity through a strategy of import-substituting industrialization (ISI). Today, however, most countries have become relatively low-growth economies firmly tied to the neoliberal world order, and a significant degree of deindustrialization has been observed in the recent past. Most institutions associated with ISI have been dismantled, and their social structures and occupational patterns have been, correspondingly, transformed in a neoliberal direction. Thirdly, Latin America was, for several decades, typically a high inflation region. Today, high inflation has been eliminated almost everywhere.

These systemic shifts have been explained in different ways. Mainstream economists usually claim that ISI is an intrinsically inefficient accumulation strategy, which was imposed by populist administrations currying favour with minority constituencies at the expense of the general good (and at the expense of faster long-term growth; see Bresser-Pereira, 1991 and Dornbusch and Edwards, 1991). ‘Populist’ developmental states ran large fiscal deficits due to excessive welfare expenditures, ill-considered subsidy schemes, corruption, unrealistic wages in the public sector and the reckless expansion of deficit-prone state-owned enterprises (SOEs). Neoliberal economic reforms were essential, and they were implemented when the political circumstances permitted. This interpretation sees no relationship between the political transition to democracy and the economic transition to neoliberalism. The former is understood to depend on the balance of forces in society, and the latter on the (belated) realization that ‘There Is No Alternative’ to neoliberalism. Finally, these economists claim that the disappointing economic performance of most Latin American countries in the recent period has been due primarily to remaining economic rigidities (especially in the labour market), regulatory uncertainty, and external turbulence. In contrast, structuralist economists and dependentistas generally argue that poor economic performance, under both ISI and neoliberalism, is due primarily to the inefficiency of market processes in these countries, distributive conflicts and external transfers, especially following the debt crisis (see, for example, Fanelli, 2003 and Palma, 1998). More recently, trade and capital account liberalization are also considered to have contributed to the drainage of domestic resources, and added to the fragility of the balance of payments in both countries.

This chapter offers an alternative interpretation of the recent changes in the political economy of Latin America through a close examination of the cases of Argentina and Brazil. This interpretation is based on the relationship between the economic transition from ISI to neoliberalism, and the political transition from military rule to democracy in both countries. The chapter has six sections. This introduction is the first. The second briefly surveys the period of rapid growth under ISI in Argentina and Brazil and its exhaustion in the early 1980s. The third reviews the economic and political strategies of the military regimes in both countries, and their processes of transitions to democracy. The fourth examines the political economy of the democratic regimes
in Argentina and Brazil. The fifth considers the relationship between inflation stabilization and the neoliberal transition. The sixth concludes this chapter with a brief examination of the limitations and potential fragilities of the new liberal consensus (the hegemonic combination between neoliberal economic policies with political democracy) in Argentina and Brazil.

1.2 The political economy of rapid growth

ISI is an accumulation strategy that focuses on the expansion of the share of manufacturing industry in GDP, with a view to using captive domestic markets and the available resources to replace imports, generate employment, internalize new (‘modern’) technologies and cultural values, and alleviate structural pressures on the balance of payments (see Bruton, 1998; Hirschman, 1968).

Urbanization and manufacturing sector development through ISI are, to some extent, the spontaneous outcome of rising incomes and economic diversification under primary export-led growth. A tight balance of payments constraint (usually under a fixed exchange rate regime) can accelerate moves towards ISI, for example, through the reduction of import capacity because of declining terms of trade, crop failures or the unavailability of imports as a result of foreign wars. Alternatively, ISI can also be stimulated by the imposition of tariff barriers by local governments, with a view to insulating the domestic market to favour local producers (which may be either national or foreign-based). Although the two world wars and the 1929 crisis played an important role in the success of ISI in Latin America, adverse external shocks are insufficient conditions for manufacturing growth. For example, these shocks can provide incentives for the expansion of output only when spare manufacturing capacity is already available. Such outcomes depend on a preceding period of export growth (or, alternatively, foreign loans or foreign investment). Sizable domestic markets also create incentives for the domestic production of manufactured goods, a factor that explains why ISI was normally more successful in large economies than in small ones.

Experience shows that a successful process of ISI requires not only activist trade policies but also extensive government direction in the allocation of resources, along with other modalities of intervention in the markets for inputs and labour power, and the provision of finance and infrastructure. Incentives are normally required by transnational companies, domestic firms and SOEs to produce manufactured goods locally, and the impact of any incentives is maximized when they are supported by expansionary macroeconomic policies. The deployment of these interventionist policies was normally part of a deliberate strategy to diversify the economy and reduce its vulnerability to external shocks, which were perceived to represent an inherent weakness of the primary-export-led model (see Thorp, 1992).

The development of domestic manufacturing capacity under ISI generally follows a sequence of increasingly complex economic activities (see Tables 1.1
and 1.2 and Figure 1.1). Domestic manufacturing production usually starts from the internalization of the production of non-durable consumer goods (cigarettes, beverages, cotton textiles, shoes, petrol, kerosene, and so on). The expansion of these industries is often followed by the production of consumer durables (e.g., household appliances and automobile assembly), as well as intermediate goods (auto parts, simple chemical and pharmaceutical products, cement, and so on). In Argentina and Brazil, the process of import substitution went further, to include the production of basic inputs and capital goods (steel, industrial machinery and electric motors, heavy and chemical industries, and large infrastructural projects). In Brazil, domestic production eventually included technologically complex goods like electronic machinery, turbines for hydroelectric dams, shipbuilding and aircraft design and assembly.

### Table 1.1 Argentina: domestic industrial output, selected sectors, 1950–69 (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodstuffs and beverages</td>
<td>24.6</td>
<td>22.5</td>
<td>20.4</td>
<td>18.8</td>
</tr>
<tr>
<td>Textiles and leather</td>
<td>23.4</td>
<td>19.9</td>
<td>15.2</td>
<td>13.4</td>
</tr>
<tr>
<td>Chemicals</td>
<td>13.0</td>
<td>14.1</td>
<td>15.9</td>
<td>17.5</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>17.0</td>
<td>21.9</td>
<td>28.5</td>
<td>30.0</td>
</tr>
<tr>
<td>Other</td>
<td>22.0</td>
<td>21.6</td>
<td>20.0</td>
<td>20.3</td>
</tr>
</tbody>
</table>


### Table 1.2 Brazil: distribution of value added in manufacturing industry, 1919–59

<table>
<thead>
<tr>
<th>Product</th>
<th>1919</th>
<th>1939</th>
<th>1949</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods</td>
<td>80.2</td>
<td>69.7</td>
<td>61.9</td>
<td>46.6</td>
</tr>
<tr>
<td>Textiles</td>
<td>24.4</td>
<td>22.0</td>
<td>19.7</td>
<td>12.0</td>
</tr>
<tr>
<td>Clothing</td>
<td>7.3</td>
<td>4.8</td>
<td>4.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Food</td>
<td>32.9</td>
<td>23.6</td>
<td>20.6</td>
<td>16.4</td>
</tr>
<tr>
<td>Other</td>
<td>15.6</td>
<td>19.3</td>
<td>17.3</td>
<td>14.6</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>1.8</td>
<td>2.5</td>
<td>2.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Intermediate goods</td>
<td>16.5</td>
<td>22.9</td>
<td>30.4</td>
<td>37.3</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>3.8</td>
<td>7.6</td>
<td>9.4</td>
<td>11.8</td>
</tr>
<tr>
<td>Non-metallic minerals</td>
<td>2.8</td>
<td>4.3</td>
<td>6.5</td>
<td>6.1</td>
</tr>
<tr>
<td>Chemical</td>
<td>0.8</td>
<td>4.2</td>
<td>4.7</td>
<td>8.3</td>
</tr>
<tr>
<td>Wood</td>
<td>5.7</td>
<td>3.2</td>
<td>4.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Other</td>
<td>3.4</td>
<td>3.6</td>
<td>5.6</td>
<td>7.9</td>
</tr>
<tr>
<td>Capital goods</td>
<td>1.5</td>
<td>4.9</td>
<td>5.2</td>
<td>11.1</td>
</tr>
<tr>
<td>Mechanical</td>
<td>0.1</td>
<td>1.3</td>
<td>2.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Electrical</td>
<td>0.0</td>
<td>0.3</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>1.4</td>
<td>3.3</td>
<td>2.2</td>
<td>6.7</td>
</tr>
</tbody>
</table>

In both countries, under mature ISI, a ‘macroeconomic division of labour’ was established in which domestic capital tended to produce non-durable consumer goods and capital goods, while transnational companies normally produced durable consumer goods. State-owned enterprises provided subsidized infrastructure and basic goods and services, and state-owned banks supplied long-term credit for industrial development.

Politically, ISI in Argentina and Brazil was based essentially on a corporatist and populist model institutionalized, respectively, by General Juan D. Perón and Getúlio D. Vargas. Although their policies were often heavily authoritarian, these administrations also contributed to the enlargement and institutionalization of the civil and political rights of the working class, and transformed the industrial workers, in particular, into a political as well as economic agent.

In Argentina, Perón’s perception of the potentially revolutionary character of the working class, coupled with its importance within the Peronist alliance, led to the 1949 reform of the Constitution, which was overtly inspired by the distributive ideal of ‘social justice’. These reforms introduced relatively sophisticated social policies and a welfare state in the country, aiming to co-opt the urban working class to support the accumulation strategy sponsored by the Argentine state (Weisman, 1987).

Similarly in Brazil, Vargas governed as a dictator after 1938. During this period he reformed labour law (closely following Mussolini’s Carta del Lavoro), supported the organization of hundreds of trade unions, and introduced a rudimentary form of social provision for the urban workers and civil servants (Skidmore, 1973).

The uneasy coexistence between populism, nationalism and statism under ISI was primarily due to the intense conflicts of interest within the elite (for
example, between agrarian and urban interests, between manufacturing capital and finance, and so on), and between the elite and other social groups, especially the marginalized but increasingly militant workers, and the urban middle classes. Stripped of their rich complexity, these conflicts essentially centred around the extent to which resources should be transferred away from the primary export sector, and where they should be allocated – for example, towards urban industry, infrastructure or welfare provision (and, within these alternatives, which sub-sectors, regions or groups should benefit most).

It was widely accepted that, in order to achieve developmental objectives (synthesized in the goal of industrialization), extensive state intervention was required at several levels. Economic interventionism was supported, and not infrequently disguised, by a nationalist ideology according to which the ‘nation as a whole’ would progress only through industrialization. In this developmentalist discourse, lack of industrialization was associated with backwardness and the political and economic power of the traditional landed elites, to be overcome through state action towards economic ‘progress’. The relationship between nationalism, statism and developmentalism tended to become especially evident when private capital lacked the capacity or interest to invest in strategic areas such as oil, steel, electricity generation or transport links. In cases such as these, provision would often depend on extensive state intervention, either through the nationalization of the industry and its development through a state monopoly, or through the offer of subsidies or other incentives for private capital to address these supply constraints. The resolution of the conflicts of interest associated with the expansion of production in these key areas was never unproblematic. Conflicting popular demands, state initiatives and sectoral pressures were played out in the media, in educational and research institutions, in state institutions and on the streets, sometimes violently, and the outcomes were contingent on timing, circumstances and the constellation of forces mobilized on each side.2

The precise form of the relationship between nationalism, mass pressures and state economic interventionism depended to a large extent on the social and political relationships within the elite. They include, especially, the degree of elite consensus around developmentalist policy strategies and the capacity and interest of the state to impose developmental outcomes without the mobilization of the urban masses, particularly the emerging middle and working classes. Strong political currents took shape in this period in close association with the interests at stake in the process of industrialization. In Argentina, the Justicialist (Perónist) party was formed in 1945, and it remained closely associated at least in political mythology with ISI until the late 1980s. In Brazil, Vargas founded two political parties in 1945 as part of his effort to build a wide support base for his developmentalist policies: the Brazilian Labour Party (a left-wing organization based primarily on the organized workers) and the Social Democratic Party (a centre-left party with extensive links to the landed elite and the urban middle classes).
The intense conflicts around state ideology and priorities during this period, and around the form of implementation of the state's developmental goals, made resource allocation through fiscal policy a highly complex and contentious issue. The frequent conflation between economic and political objectives (for example, economic growth or the consolidation of political support for narrow interest groups), and between short-term and long-term initiatives (for example, social welfare or infrastructure provision) made the choice of state priorities very difficult, thus fuelling social conflicts and inflation. The growing paralysis of the state institutions, rising levels of social strife, the radicalization of the political parties associated with Perón and Vargas (which was partly a reflection of the growing influence of the far left), and the deterioration of the macroeconomic indicators in both countries contributed to the collapse of democracy in Argentina in 1966 and, more dramatically, in 1976, and in Brazil after 1964. In both countries, these military coups were a response to a hegemonic impasse (O'Donnell, 1982), which appeared as a 'a static equilibrium . . . [in which] no group, neither the conservatives nor the progressives, has the strength for victory, and [in which] the conservative group needs a master' (Gramsci, 1971, p. 451). Military intervention cut through the existing social divisions, and imposed national solutions which differed greatly in character.

1.3 From militarism to democracy

This section shows that the collapse of militarism in Argentina and Brazil was triggered by its loss of legitimacy, owing to a combination of two factors. On the one hand, a profound economic crisis, which the military regimes were unable to address. Indicators of the crisis included the accumulation of foreign (and domestic public) debt, the stagnation of incomes and economic growth, the rise of working-class struggles and, especially, high inflation, which synthesized the underlying economic tensions. On the other hand, a deep political crisis brought about by the rise of a democratic mass movement which could not be repressed. Political contestation to military rule encompassed a wide range of modalities of mass struggle, among them criticisms of widespread corruption, economic mismanagement and lack of democracy and accountability in the political system, trade union activity, and mass mobilization for economic and political democracy. At this stage, a significant change took place within the elites in both countries: for the first time since, at least, the late 1920s, a consensus developed around political democracy. This elite consensus was the outcome of external pressures as well as domestic developments, and it facilitated the democratic transition in Argentina and Brazil because it defused the potential conflicts that may have arisen around the change of political regime.

1.3.1 The bumpy Argentine road to new liberalism . . .

The military coup of March 1976 unleashed in Argentina a wide-ranging Proceso de Reorganización Nacional (process of national reorganization). The Proceso
included an attempt to eliminate the radical left through the targeted killing of thousands of militants, to dismantle the organized working class, and to reform society in order to transform the country into a bastion of ‘Western Christian values’. The economic programme of the dictatorship was inspired by monetarism, which seemed to offer a tool for dismantling ISI and for introducing a new system of accumulation based on primary product exports and services, supported by closer integration with the world economy through financial, trade and capital account liberalization. It was expected that the ‘market’ would operate as the main disciplining mechanism in the economic sphere (supported by military power where necessary) against both inefficient entrepreneurs and the ‘undisciplined’ working class which had been created under ISI (see Smith, 1989; Schvarzer, 1981). The privatization programme, for example, afforded contractors a wide variety of benefits such as markets, tax advantages, guaranteed payments and easy credit from the state-owned Banco de la Nación, creating powerful (foreign and local) interests which, years later, would play a central role in the promotion and implementation of neoliberal policies.

After six years of military rule, the junta’s objective of rapid growth with macroeconomic stability resulted, instead, in a deep economic and financial crisis, accelerating inflation and profound economic uncertainty (Díaz-Alejandro, 1985; see Figure 1.1 and Table 1.3). This outcome was exacerbated by the asymmetric impact of the recession across the economy. Whilst the liberalization of markets caused a 26 per cent decline in manufacturing output between 1975 and 1980 (Smith, 1985), a small group of large national firms, linked principally to the agrarian sector, profited enormously by establishing oligopolistic control over large swathes of the Argentine economy. In the meantime, after years of state terror, persecutions and drastic declines in real wages, the working class gradually rediscovered its political voice (Tedesco, 1999). Testament to this were the 621 strikes in the period 1980–81, compared to only 417 in the four preceding years (Munck, 1985, p. 67).

In its troubled twilight, the military government confronted a reinvigorated and renewed civil society expressing demands not only for political democracy, but also for an economic strategy favouring broader national interests, including employment generation and the reduction of external economic vulnerability. In an attempt to regain legitimacy by appealing to nationalistic feelings, the military regime gambled everything on the invasion of the Falkland (Malvinas) Islands in April 1982. The ensuing defeat not only demoralized the military regime politically; it also isolated the country from its erstwhile allies. By the end of 1982, with the external debt having reached US$40 billion, Argentina was on the verge of insolvency (Smith, 1991). The transfer of power to civilians had become inevitable, and it was completed in October 1983, when Raúl Alfonsín (leader of the urban middle class Unión Cívica Radical) became Argentina’s new democratically elected president.

The transition to democracy was carried out in the context of a structurally weakened popular sector, the result of both deindustrialization and repression,
weak political parties and powerful interest groups. One of the political implications of the military regime’s destructive industrial policy was the terminal decline of the industrial working class, as well as the weakening of the small and medium-sized enterprises, which were the other main component of the political alliance supporting ISI. For example, approximately 30 per cent of worker-hours were lost through unemployment across the manufacturing sector between 1976 and 1981, largely as a result of market liberalization, the overvaluation of the currency and the inability of domestic industry to compete with cheaper imports (Peralta-Ramos and Weisman, 1987).

It is often claimed that the above conditions were unfavourable to the establishment of a stable democratic regime (see, for example, Peralta-Ramos and Waisman, 1987). However, experience has shown that this interpretation is incorrect. It would be more accurate to argue that the structural weakening of the working class and its urban allies supported the emerging consensus for political democracy. The democratic transition legitimized the Argentine state, while the elite’s political control over the transition was facilitated by the profound disarticulation of the working class brought about by the military regime. These developments helped to defuse the potential conflicts around the political transition, and to secure the reproduction of the inequality and social exclusion engineered by the military regime, which became its lasting legacy. In other words, the long-term significance of the democratic transition lies in the fact that it facilitated the reproduction of the unequal social

### Table 1.3 Inflation, GDP deflator (% per annum)

<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>6</td>
<td>17</td>
<td>388</td>
<td>651</td>
</tr>
<tr>
<td>1971</td>
<td>31</td>
<td>20</td>
<td>1989</td>
<td>3,058</td>
</tr>
<tr>
<td>1972</td>
<td>64</td>
<td>19</td>
<td>1990</td>
<td>2,077</td>
</tr>
<tr>
<td>1973</td>
<td>66</td>
<td>23</td>
<td>1991</td>
<td>133</td>
</tr>
<tr>
<td>1974</td>
<td>31</td>
<td>35</td>
<td>1992</td>
<td>12</td>
</tr>
<tr>
<td>1975</td>
<td>198</td>
<td>34</td>
<td>1993</td>
<td>1,997</td>
</tr>
<tr>
<td>1976</td>
<td>438</td>
<td>48</td>
<td>1994</td>
<td>3,239</td>
</tr>
<tr>
<td>1977</td>
<td>159</td>
<td>46</td>
<td>1995</td>
<td>3</td>
</tr>
<tr>
<td>1978</td>
<td>161</td>
<td>41</td>
<td>1996</td>
<td>0</td>
</tr>
<tr>
<td>1979</td>
<td>147</td>
<td>56</td>
<td>1997</td>
<td>0</td>
</tr>
<tr>
<td>1980</td>
<td>91</td>
<td>87</td>
<td>1998</td>
<td>0</td>
</tr>
<tr>
<td>1981</td>
<td>106</td>
<td>107</td>
<td>1999</td>
<td>0</td>
</tr>
<tr>
<td>1982</td>
<td>208</td>
<td>105</td>
<td>2000</td>
<td>1</td>
</tr>
<tr>
<td>1983</td>
<td>382</td>
<td>140</td>
<td>2001</td>
<td>1</td>
</tr>
<tr>
<td>1984</td>
<td>607</td>
<td>213</td>
<td>2002</td>
<td>31</td>
</tr>
<tr>
<td>1985</td>
<td>626</td>
<td>232</td>
<td>2003</td>
<td>11</td>
</tr>
<tr>
<td>1986</td>
<td>74</td>
<td>145</td>
<td>2004</td>
<td>9</td>
</tr>
<tr>
<td>1987</td>
<td>127</td>
<td>204</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: World Development Indicators.*
relations imposed by the Proceso. The election of President Alfonsín drew on the enthusiasm and democratic expectations of the vast majority of the population, who were encouraged by utopian assertions such as ‘con la democracia se come, se cura y se educa’ (’with democracy we eat, we cure and we educate’, quoted in Mainwaring, 1995, p. 122). Alfonsín, however, did little to challenge the social and economic legacy of military rule.

The scope for radical social and economic transformation was severely restricted by Alfonsín’s inheritance of an economy on the verge of collapse (see Table 1.3 and Figures 1.1 and 1.2, and Azpiazu, 1998, Canitrot and Sigal, 1995 and Carranza, 1997). Capital flight had reached an estimated US$22.4 billion, nearly half the foreign debt stock (Dornbusch, 1989, p. 8). Initially, the government implemented expansionary policies that seemed more in tune with a revitalized process of ISI than with the new economic constraints facing Argentina, especially its foreign debt commitments and depleted industrial base (see Basualdo, 2001; Tedesco, 1999, p. 89). These included an attempt to relaunch a national development project, by which the government sought to resolve the economic crisis through a concertación nacional (national consensus) including the government, business leaders and trade unions. An effort to stabilize the rate of inflation (which exceeded 600 per cent in 1984) through the implementation of heterodox measures collapsed (see below), partly owing to pressure from the Perónist trade unions. Unsurprisingly, the promised 5 per cent annual GDP growth rate also failed to materialize. Instead, the economy contracted 7.2 per cent between 1983 and 1985. Heterodox measures were abandoned in 1987, with a profoundly damaging effect on the government’s credibility. Between 1986 and 1988 real wages declined by 18.4 per cent in the private sector and 15.1 per cent in the public sector (Tedesco, 1999, p. 150). By the end of

![Figure 1.2 Total external debt/GDP ratio (%)](image_url)

*Source: World Development Indicators.*
his presidency, Alfonsín faced food riots, the distrust of the bourgeoisie and the withdrawal of support from both the IMF and the World Bank.

The loss of legitimacy of the Alfonsín administration compromised the stability of democracy. Under conditions of hyperinflation and impending economic collapse, a new consensus emerged among the Argentine elite. Workers' struggles for economic participation were interpreted as a visceral rejection of economic liberalism, which was widely identified with the military regime. In this context, Alfonsín's hesitant economic record reinforced a growing sense that harsh neoliberal reforms – under a democratic political system – were needed to overcome the economic impasse and to reinstate capital's hegemony and profitability, while restoring social discipline.

1.3.2 . . . and the smoother Brazilian road

The defining feature of the Brazilian military regime, in power between 1964 and 1985, was its attempt to preserve social exclusion through a combination of economic growth and varying levels of political repression. The power of the regime declined gradually after 1974, due both to the political exhaustion of the government’s heavy-handed approach towards dissent, and the economic exhaustion of the regime’s ‘growth miracle’. The country's foreign debt started escalating rapidly after the first oil shock, inflation simultaneously rose towards 40 per cent, and it reached 100 per cent in the early years of the next decade. The second oil shock, in 1979–80, triggered a deep economic crisis and the first GDP contraction since 1929. The economy stopped responding to the government’s policies, and the military regime slowly ran out of options.

Democracy in Brazil did not emerge on the ruins of the institutions left behind by the dictatorship, as was the case in Argentina. Instead, the military commanders of the regime, allied with the country’s conservative elites, were also the political commanders of the transition (see Markoff and Baretta, 1990, p. 431 and Weffort, 1989, p. 339). The Brazilian democratic movement emerged gradually in the mid-1970s. On the economic arena, large-scale industrial action, centred primarily in the manufacturing poles established under ISI and in the lower ranks of the civil service, extracted from the military regime higher wages and improved economic conditions for the workers. At the same time, censorship was abolished, the campaign for political amnesty achieved success, and the exiles returned. Finally, in 1983–84 elite and popular organizations and political parties staged a gigantic campaign for direct presidential elections. The campaign saw over ten million people take to the streets across the country, with a clear set of democratic demands that showed the desire for political reforms and extensive socioeconomic change (Alves, 1988, p. 51).

The economic crisis of the 1980s, the exhaustion of the military regime and the growth of the democratic movement and the political left triggered a historically significant political shift in the country. Elite concern over the potential radicalization of society and, especially, the escalation of demands
for economic and political democracy (or the redistribution of economic and political power) led key political leaders to initiate negotiations with the military for a managed transfer of power. Elite attitudes shifted towards democracy because of a conviction, in the first instance, that the rise of the democratic movement could not be easily contained by force, and that any attempt to do so could be severely destabilizing. In addition to this, a majority among the elite realized that, although political democracy would dilute their political power, democracy could be compatible with the reproduction of the elite’s economic power. Finally, the elite increasingly rejected ‘excessive’ state intervention in the economy, which was perceived to be associated with the military regime. Their desire for economic liberalization and – in some quarters – the creation of an internal mass market, would benefit from the political reintegration of the formal sector workers, which required a democratic transformation of society (Markoff and Baretta, 1990, p. 429).

This strategy was successful. A constitutional amendment for the direct election of the president was narrowly defeated in Congress in April 1984, and a national consensus was formed in support of the moderate governor Tancredo Neves. Neves was duly elected president by a large majority in the dictatorship’s own electoral college. The mass demonstrations for democracy, that had been disbanded, were briefly revived in support of Neves’s candidacy. Unfortunately Tancredo Neves fell ill only hours before his inauguration, and died without taking office. Vice-president-elect José Sarney, until recently a key supporter of the military regime, became president of Brazil. Sarney’s administration convened a Constituent Assembly in 1986, and direct presidential elections only took place in 1989.

The absence in the early years of the new democracy of comprehensive economic policies to reduce Brazil’s massive socioeconomic inequalities reveals the unwillingness of the elite consensus in charge of the ‘New Republic’ towards any redistribution of resources that might have compromised the basic structures of governance or altered the concentration of wealth in the country. Brazil has some of the highest levels of inequality in the world. In 2002, it was estimated that the income of the poorest 20 per cent of the population would have to be multiplied by 33 to reach the income of the richest 20 per cent. By comparison, in the US it would have to be multiplied ‘only’ by a factor of 8 (Rose, 2006, p. 280). In the lead-up to the transition, popular organizations were conceded the opportunity to make proposals directly to the new Constituent Assembly. Two significant economic proposals were made concerning land reform and labour reforms to implement a 40-hour week and greater job security. The Assembly unsurprisingly rejected these proposals (Alves, 1988, p. 50). Their rejection was a stark illustration of where the lines were drawn for democratic accountability in the new regime.

The exclusion of significant alternative voices from meaningful participation in the democratic settlement and the dampening of their influence upon the democratic political institutions was achieved in two ways: directly,
through (often implicit) threats of a return of military rule should social protests become too vociferous; and indirectly, through the economic pressures generated by the long-lasting economic crisis which, since the late 1970s, had resulted in declining growth rates and increasingly unmanageable levels of inflation (see Table 1.3 and Figure 1.1).

The substance of the elite pact that hijacked the democratic movement and sidelined the political left was very simple. In exchange for political freedom, the redistribution of economic power was ruled out. This shift was supported by the changes in the composition of the elite which had taken place since the mid-1970s. These changes were due to the transformations of the economy brought about both by the extended period of growth under the military, and by the crippling crisis of the 1970s and 1980s. The new elite included a younger and more outward-looking cohort of financiers and industrial leaders, and a more entrepreneurial brand of landowners.

The political transition established the most democratic and stable regime in the history of the Brazilian Republic. For more than twenty years there has been no press censorship, no political parties or movements of any significance have been declared illegal, and civil rights are formally guaranteed to a greater extent than in many ‘old’ democracies. For the first time since the late nineteenth century the military no longer interfere systematically in the political sphere, while the political influence of the Catholic Church has been drastically curtailed. Finally, right-wing ideology has been utterly demoralized, and no influential organization claims to be either ‘conservative’ or on the ‘right’ (however right-wing their policies and practices may be). The stability of democracy can be explained not only by domestic political developments. It is also due to the fact that the greater political legitimacy of the democratic state can make it less permeable to popular pressure, and reduce the influence of the majority over state policy (see section 4).

The democratic transition satisfied most of the ‘political’ demands of the left, but only by disconnecting them from the ‘economic’ demands of the majority. Civil rights, free elections and political pluralism were achieved, but economic redistribution, the nationalization of strategically important firms and the non-payment of the foreign debt, for example, that were an inseparable part of the programme of the left, were never seriously considered by the centrist coalition in power. Matters would become even worse in the late 1980s, as the Brazilian elite gradually convinced itself that only a neoliberal economic strategy would permit the recovery of growth, the reproduction of the existing patterns of inequality, and the preservation of democracy (Saad-Filho and Morais, 2002). The Brazilian left was derailed by the democratic transition. Rather than continuing to lead mass campaigns for the radical transformation of the economy and society, the left was compelled to submit to the electoral calendar and operate within the ‘bourgeois’ institutions that it had previously denounced. Implementation of left-wing policies now required a democratic mandate that could be obtained only if the left-wing
parties submitted themselves to the conventional logic of campaign finance, coalition-building, piecemeal reforms, endless negotiations with a myriad of interest groups and the imperatives of ‘efficiency’ and ‘delivery’ in local government. These limitations have tempered the left’s enthusiasm for direct action and confrontations with the state.

1.4 The political economy of democracy

The minimalist (formal or procedural) definition of democracy associated with Schumpeter (1976) and Dahl (1971) is typified in the political regime that took shape in both Argentina and Brazil. Procedural democracy includes the protection of basic civil and political rights (freedoms of speech, of the press and of political organization, the franchise for a large section of the population, and so on), free elections for the legislature and the executive, civilian government and civilian control over the armed forces. Whilst the political freedoms granted were unquestionably significant, the democratic ‘wave’ (Huntington, 1993, p. 3) that swept across Latin America during the 1980s did not significantly transform the region’s social and economic structures (Borón, 2006).

The scope of democracy has been limited to the political sphere, and identified with elementary civil rights and unfree competition in the political market, where government positions can, essentially, be purchased with cash. In Argentina and Brazil, citizens are regularly bombarded with propaganda and crude spin-doctoring, invited to cast their votes, and then go home. They are not supposed to influence policy-making or participate in policy implementation other than through compliance with the decisions of their elected representatives. This political arrangement – dubbed ‘democracy lite’ (see Markoff, 1997) – has greatly limited citizen input into the formulation and implementation of economic policy. This is clearly demonstrated by the recent election, in both countries, of politicians professing a critique of neoliberalism but who, in government, replicate (with minor variations) the economic policies which they had previously vowed to abandon – Carlos Menem and Néstor Kirchner in Argentina, and Luís Inácio Lula da Silva in Brazil are clear examples.

The relationship between political democracy and neoliberal economic policies in Argentina and Brazil is both functional and historical. As a political form, procedural democracy can be associated with any system of accumulation. Put differently, in the abstract political democracy has no intrinsic economic content and, therefore, no specific class content either, and democratic regimes can be associated with a wide variety of political coalitions. In this sense, political democracy is similar to nationalism, which also lacks a necessary correspondence with other political or economic forms.

The democratic transitions in Argentina and Brazil were exemplars in this respect. The class content of these transitions was initially heavily contested. The early mobilizations for democracy had a strongly left-wing flavour, and brought together demands for political as well as economic democracy.
However, when the transition was eventually accomplished it had acquired a centrist character with strong elite influence being preserved in the public administration. Eventually, with the neoliberal transition the influence of the poor majority on the political system declined even further, and demands for economic democracy (rather than simply public welfare programmes) retreated from every dimension of public discourse.

This transformation in the social content of democracy is symptomatic of a political transition which, in both countries, was the product of contradictory pressures: on the one hand, for political freedom and the democratization of economic power and, on the other hand, for the renewal of elite domination. In Argentina and Brazil, the democratic transition was successful because of the mass mobilization against the dictatorship, but it was completed through a strategic deal in which political freedom was exchanged for the continuing concentration of economic power, and military repression was replaced by new modes of political hegemony.

This strategic shift was grounded on domestic contingencies, but it was also due to the realization by the elite, in Argentina and Brazil, that dictatorships are fundamentally unreliable. They can successfully deploy extreme brutality in order to exterminate revolutionary movements and keep the country aligned with the West, but dictatorships also control the institutional tools permitting the mobilization, by non-market means, of vast resources for their own ends. These can include corruption or otherwise undesirable goals, as well as developmental objectives. In the case of the latter, even though state-led developmental strategies often fail dramatically, they can also succeed, as was shown by the examples of China, Taiwan, South Korea and the Soviet Union (in spite of the significant differences between these cases). Furthermore, little can be done institutionally to rein in or counterbalance the preferences of the top layers of the regime.

Dictatorships also tend to face large and cohesive opposition movements, often unified as a condition of survival, and which can become dangerously attached to a left-wing agenda. These opposition movements tend to harbour a ‘grand’ alternative vision for society, including political democracy and the redistribution of income and wealth. Political resistance and the potential growth of the opposition can limit the ability of the dictatorships to impose the repression required in order to implement neoliberal economic policies, unless the regime uses terrorist methods, as was the case in Argentina, Chile and Uruguay in the 1970s. In contrast, political democracy is convenient for the elite because the elaboration and implementation of economic policy in democratic societies requires a degree of consensus that stimulates (and requires) accommodation and political compromises, and which fosters the growth (and, frequently, the simultaneous fragmentation) of centrist political forces. For these reasons democratic societies tend to be politically fractured even when the political arena is dominated by large centrist parties – which are often little more than unwieldy coalitions or political fronts. These political
formations are normally unable to offer consistent alternatives to the influence of the moneyed interests over the state. At the same time, resistance against neoliberal policies in democratic societies also tends to be fragmented, because all social movements tend to be fractured. In other words, democracy favours the multiplication of sectoral interest groups with narrow horizons and no ‘grand’ vision for the society.

Finally, elite groups in both countries acknowledged that the rise of the democratic movement could not be contained by force. Instead, it was preferable to accommodate it in order to preserve the stability of the power relations in society; otherwise, the political crisis could degenerate into a crisis of economic and social relations, in which the reproduction of the elite could be thrown into question. The elites in Argentina and Brazil became gradually convinced that, although democracy would inevitably disperse their political power by admitting new actors and pressure groups into the political scene, it would also encourage the continuing concentration of economic power. Democracy thus became an appealing political system to those in power only when they were confident that the interests they considered vital could be insulated from democratic accountability. This is because a democratic state would be able to implement policies in the interests of the economically powerful minority with little risk of loss of legitimacy. The paradox of democracy in Argentina and Brazil consists precisely in this: the enhanced legitimacy of the democratic regime, due to its inclusionary political rights, permits the deployment of repressive forces (institutional, political and military) that can ignore the interests of the majority and impose exclusionary economic policies more easily than most dictatorships. In these circumstances, the democratic state tends to become hostile towards the majority, precisely when conventional political theory indicates that it should be more responsive to pressures from below. In fact, after several decades of attempting to subvert democratic governments and shore up dictatorships across the globe, the US government and most local elites in poorer countries have realized that democratic states can follow diktats from Washington and impose policies inimical to economic democracy and the general populace more easily and reliably than most dictatorships.

The disjuncture between political and economic democracy is predicated on the separation between the economic and political spheres in capitalist societies (Wood, 1981). This separation allows the allocation of economic resources to be controlled not through the jurisdiction of the state, but by the forces of competition. Given this basic separation, the universal civil and political rights granted under liberal democracy cannot be considered, in and of themselves, as tools of empowerment that can transform society, since civic equality does not directly affect class inequality. This separation permits the relocation of issues that are at the heart of the substantive interpretation of democracy which is shared by the majority – such as material welfare and distribution of resources – from the political to the economic sphere. This can
lead to elections in which voting is restricted to inconsequential matters, which often hinge on irrelevant personality differences or pointless ‘scandals’ which are pumped up by the press with tedious regularity. Furthermore, the traditional notions of individual rights and freedoms drawing on Adam Smith’s invisible hand and von Hayek’s theories of social organization atomize society by disempowering and undermining the institutions geared to the protection of collective goods and rights. The market becomes, according to the orthodoxy, deeply intertwined with the idea of democracy, the achievement of human freedom and the efficient allocation of resources (Friedman, 1962). The subordination of democratic values to the imperatives of accumulation is, therefore, constitutive of the hegemonic notion of liberal democracy, while the potential breadth of democracy in Argentina and Brazil has been drastically limited by the exclusionary social relations in these countries (Borón, 2006, p. 32).

Since a large number of collective institutions, such as trade unions, state-owned enterprises and developmental state agencies were set up under ISI, their disarticulation or extinction was not only part of a ‘democratic’ celebration of the virtues of individualism, but a process of regeneration of elite hegemony through ‘freeing’ the market from the remnants of the old system of accumulation. The restoration of formal institutions of democracy – such as competitive elections and citizens’ political rights – was evidently an important achievement for the popular sectors. However, the construction of neoliberalism in Argentina and Brazil would have been impossible without a hegemonic discourse that reduced democracy to a mere formality, and turned it into a political regime that aims at ‘freeing’ society of politics by attacking the perceived hyper-politicization of the ‘state-centred matrix’ built under ISI. The latter is blamed for the old, inefficient and inflation-prone system displaced by new liberalism (see Cavarozzi, 1994, p. 128; and Galafassi, 2004).

1.5 Inflation stabilization and the neoliberal transition

In Argentina and Brazil, the transition towards neoliberalism was completed under the guise of orthodox inflation stabilization programmes. Ostensibly in order to eliminate high inflation, these stabilization programmes imposed a set of long-run policy changes that dismantled the remnants of ISI and completed the economic transition to neoliberalism. It soon became clear that democratic regimes were able to impose unpopular economic policies which, in many cases, were beyond the political capability of the preceding military regimes. This modality of economic transition was the outcome of a new elite consensus which gradually emerged in the mid- and late 1980s, around the necessity of neoliberal economic policies in order to improve economic performance, stabilize the democratic regime, and secure the compatibility between political democracy and the continuing reproduction of social
inequality. This consensus captured the state by democratic means through the presidential elections of Carlos Menem and Fernando Collor, in 1989.

1.5.1 The slide towards hyperinflation

The Latin American crisis of the early 1980s was triggered by the combination between the slowdown in the international economy which accompanied the disintegration of the Bretton Woods System, and the intrinsic limitations of ISI in the region. The onset of the crisis was postponed by the rapid accumulation of foreign debt, which was facilitated by the new international financial architecture emerging since the mid-1960s. The crisis finally erupted when the US imposed punitively high interest rates on borrowers around the world, as part of its own neoliberal transition (see Campbell, 2005; Duménil and Lévy, 2005; Harvey, 2005, 2006; and Panitch and Gindin, 2004, 2005).

The effects of the debt crisis in Latin America were nothing short of devastating. In 1972, the total foreign debt of the region was US$31.3 billion, and it exceeded 33 per cent of GDP only in Nicaragua, Peru and Bolivia.9 In the late 1980s, the debt reached US$430 billion, and it exceeded 33 per cent of GDP in every single country in the region. The growth of the debt stock and higher international interest rates inflated interest payments from around 1 per cent of GDP, in 1972, to an average of 5.4 per cent of GDP in 1983. The Latin American foreign debt reached US$750 billion at the turn of the millennium, and interest payments still exceed 2.5 per cent of GDP almost everywhere. In almost every country in the region, economic growth stalled, wages plummeted and inflation skyrocketed in the wake of the debt crisis.

The debt crisis was closely associated with rising inflation. Among the causes of inflation were deep distributive conflicts which reflected both the limitations of ISI (see section 1.2) and pressures emerging from recent international developments. In particular, rising transfers amid the debt crisis led to lower (and occasionally negative) GDP growth rates, and reduced the scope for accommodating the conflicting income demands of different social groups. A second important factor was the nationalization of the private foreign debt that occurred across the region. In order to service this debt, governments needed to purchase large quantities of hard currency from the private sector. These purchases were partly monetized (and potentially directly inflationary) and partly sterilized (which increased the costs of servicing the domestic public debt, in parallel with the growth of the external debt service). The ensuing fiscal crises triggered another round of inflation or, alternatively, reinforced the depressive tendencies of the economy. Finally, in this unstable environment, domestic firms tended to increase their degree of indexation, linking prices either to the dollar (especially in Argentina) or to the rate of inflation or the value of public sector bonds (in Brazil). Indexation makes inflation rigid downwards for three reasons. First, it means that firms and workers have adopted simple pricing rules which perpetuate past inflation by simply projecting it into the future. Secondly, in order to protect their profits firms often
increased their mark-up when inflation was rising, or was expected to rise. Thirdly, indexation made the economy prone to step-wise increases in inflation after adverse supply shocks (Amadeo, 1994).

The acceleration of inflation created a tendency for the reduction of the intervals between price and wage increases. This had a clearly regressive distributive effect, because some agents were better able than others to protect their real income. Moreover, it has been abundantly shown in the literature that the shorter the adjustment period the higher the rate of inertial inflation, the more rigid it becomes, and the more sensitive it is to adverse shocks. In the early and mid-1980s, the Argentine and Brazilian economies became increasingly disorganized as inflation rose steadily. This disorganization introduced substantial uncertainty into economic calculation which, in all likelihood, contributed to the decline in the savings and investment rates in both economies (see below).

Inertial inflation sharply increased the cost of contractionary monetary and fiscal policies, because higher interest rates or lower government expenditures tended to have little effect on firms’ pricing strategies or workers’ wage demands. Attempts at inflation stabilization during this period went through three stages. First, orthodox monetary policies (in Argentina, this phase lasted between 1982 and mid-1985 and, in Brazil, between 1981 and early 1986). However, these contractionary policies could lead to higher prices rather than lower, if firms tried to maintain their gross profits in spite of their declining sales and higher financial costs. Second, the ‘heterodox shocks’ (in Argentina, between 1985 and 1987 and, in Brazil, between 1986 and 1987). By the mid-1980s, it was generally accepted in Argentina and Brazil that conventional fiscal and monetary policies were ineffective against inertial inflation, and that disinflation would require the co-ordinated de-indexation of prices and wages (see Dornbusch 1993; Dornbusch and Simonsen, 1983). Most economists realized that, in a highly indexed economy, demand restrictions would be of limited value in controlling inflation. Furthermore, when inflation stabilizes at the three-digit level, demand control cannot eliminate inflation without considerable costs in terms of higher unemployment, lost output, and political conflict. Since it was difficult to reduce inflation gradually, the obvious alternative was to look for a strategy of rapid transition to a low-inflation regime, in which de-indexation would necessarily play a prominent role (Saad-Filho and Mollo, 2002).

This strategy, as it evolved in Argentina and Brazil, included three key elements: an unanticipated freeze of prices and wages at their average real level for the previous period, e.g., one year; the abolition of indexation through a compulsory change in the existing contracts; and a currency change, to eliminate the surplus zeroes in the devalued money and, more importantly, to validate the changes in contracts being imposed by the government.

The heterodox shocks were initially highly successful. This is hardly surprising, since inflation will necessarily tend to zero as long as the price and wage
freeze can be sustained. However, it was impossible to devise a strategy to exit the price freeze in an orderly manner, and to sustain the low inflation regime over time. This was largely for two reasons. First, the imposition of a sudden price freeze transforms short-term imbalances in relative prices, which are created daily by inflation, into permanent differences. The freeze prevents the correction of the short-term imbalances in the relative price system (for example, between those prices frozen at their peak in dollar terms, if they had been raised the day before the shock, and those frozen at the bottom, if they were due to change the day after the shock). While tolerable for a limited period, these imbalances led, over time, to the withdrawal from the market of artificially cheap products. Some of these products would be reintroduced later at higher prices, under new names or with cosmetic changes entitling them to be called ‘new’, in which case they would be exempt from the freeze. The price freeze was also unsustainable in the case of seasonal goods, especially agricultural products and meat, in which case supply oscillations can trigger substantial fluctuations in prices.10 In addition to this, import difficulties because of trade restrictions or the scarcity of hard currency helped the companies operating in the domestic market to bypass the price ceilings imposed by the government. The heterodox shocks, and the continuing disputes for income under these circumstances, led to arbitrary shifts in economic returns, the breakdown of supply chains, bankruptcies, illegal trading, economic disorganization and, eventually, the collapse of the stabilization programmes.

The second reason for the instability of the heterodox shocks is related to the relative ease with which wages can be frozen at their average real level. All that is required for this is a willing accountant armed with a nominal wage series and a table of price indices. Yet the same strategy was not feasible for the market price of commodities. In the end, wages were frozen at their average, while prices were frozen at their peak, leading to workers’ complaints that real wages were being compressed in the transition to the new regime. Consequently, real wages in Argentina and Brazil tended to decline between the mid-1980s and the mid-1990s both because of inflation, and because of the heterodox stabilization programmes. At a deeper level, however, the failure of the heterodox shocks was due to their inability to address the causes of inflation (primarily distributive conflicts, external shocks and inconsistent monetary and fiscal policies) while focusing, instead, on its propagation mechanism (indexation) (Saad-Filho and Mollo, 2002).

The failure of the heterodox programmes in both countries contributed to the disorganization of relative prices, increased inflationary expectations and, at the same time, reduced the social tolerance to high inflation in Argentina and Brazil. The failure of these programmes also sharpened the tensions associated with high inflation, especially the distributive conflicts involving key worker categories, employers and the state. In Argentina, these conflicts triggered a process of hyperinflation, and the extensive dollarization of the economy.
In Brazil, conflicts were less pronounced, inflation increased more slowly, and the government followed an effective policy of permanently high interest rates and high liquidity of central bank and Treasury securities. They provided a liquid store of value (in effect, a parallel currency) which contained the flight from currency into commodities (hyperinflation) or into other reserve assets (dollarization). However, this was an unreliable policy strategy against potentially runaway inflation, and it had sharply negative distributive implications.

1.5.2 Inflation stabilization and the neoliberal transition

The intensity and persistence of high inflation and the economic crisis in Argentina and Brazil made it relatively easy to accept that the system of accumulation based on ISI had collapsed, and should be replaced by neoliberalism. This viewpoint was stridently promoted by the US government, the IMF and the World Bank and also by important sections of the local elites.

The combination between external pressures and domestic tensions, including the economic crisis and the failure of the heterodox stabilization programmes, eroded the influence of the (then dominant) structuralist school and reinforced the notion that the so-called ‘national project’ centred on ISI was exhausted beyond repair. This claim was doubly misleading. On the one hand, ISI was socially unfair, intrinsically limited and structurally fragile (as was shown in section 1.2), but the crisis of the 1980s was only partly due to its shortcomings: it was also partly imposed by external developments. On the other hand, neoliberalism has been unable either to address most failings of ISI, or to match the growth performance of the previous period.

Argentine inflation approached 5,000 per cent in mid-1989. At this stage, it ceased to be primarily an expression of a distributive conflict between forces of equal strength. Instead, it became a mechanism through which the country’s economic elite sought to impose their control over economic resources and the political system (see Acuña and Smith, 1994; Bonnet, 2006). The hyperinflation had a drastic effect on the distribution of income. Although inequality had increased steadily since the mid-1970s, the hyperinflation triggered a significant transfer of income from labour to capital, with large increases in poverty and inequality. Indeed, while sections of the elite were speculating on the foreign exchange market, real wages were depreciating by the hour (falling 37 per cent below their 1980 level by the end of the decade, see Altimir, Beccaria and Gonzalez Rosada, 2002). Looting became widespread, even under strong repression. The lasting consequence of hyperinflation was the submission of a traumatized working class, which accepted, or even welcomed, neoliberal reforms which imposed new mechanisms of social subordination under the guise of inflation stabilization measures.

Argentina’s economic situation obviously required significant policy changes, which gave President Menem the legitimacy required for a volte-face on his electoral promises of a salariazo (massive increase in salaries) and a productive revolution. However, crucial to Menem’s ability to introduce neoliberal
economic policies through an inflation stabilization programme was not only the legitimacy conferred by democracy, but also his Peronist party's historical ties with the organized working class and the popular sector. Labour-based parties can have a comparative advantage in implementing policies that might result in the deterioration of the living conditions of their own constituencies because, as representatives of the popular sector, they enjoy their trust (Murillo, 2000).

It was not until the 1991 convertibility plan that the full extent of neoliberal reforms, and the consequent reconfiguration of class relations, were imposed in Argentina. The plan included a legally binding exchange rate of 1:1 between the peso and the US dollar, free convertibility between these currencies, extensive deregulation of the economy, fiscal reforms, trade liberalization, flexibilization of the labour market, centralization of the pension contributions with the state (instead of the trade unions), and the profound reform of the pension system. The convertibility plan signalled not only the adoption of orthodox stabilization measures, but the deepening of market-oriented reforms originally attempted by the military regime, of which minister of the economy Domingo Cavallo was a member.11 Crucially, in the context of a new mode of insertion in the world economy, convertibility meant that the state lost the ability to use exchange rates in order to rectify imbalances between domestic and world prices through competitive devaluations. This implied that Argentina's competitiveness on the world market, which heavily influences the profitability of investment and the level and composition of the foreign capital inflows, became dependent primarily on changes in nominal wages and labour productivity. Convertibility created a continuous downward pressure on wages and a simultaneous pressure for the intensification of labour, which was supported by the labour market reforms and the rising unemployment rate in the country.

Brazil's real plan, imposed in 1994, was also not simply an inflation stabilization programme. It included policies which consolidated the neoliberal transition in the country, among them financial, trade and capital account liberalization, the privatization or closure of state-owned productive and financial enterprises, fiscal and labour market reforms, de-indexation, the overvaluation of the currency, and the closure of several state agencies and departments. These policies were not entirely new. For example, privatizations and trade, capital account and financial liberalization were introduced in the early 1990s, and the systematic reduction of state policy-making capacity started in the 1980s. The real plan was innovative only in so far as it deployed these policies methodically, as part of an ambitious attempt to eliminate two foes of the neoliberal order simultaneously – high inflation and the relics of a presumably exhausted process of ISI.

The new policy regime lifted real wages by 15 per cent in dollar terms in the mid-1990s. This wage increase, the accelerated liberalization of imports, and the resumption of credit transformed the possibilities of consumption.
The country was transfixed by the appearance of previously unavailable consumer goods, at affordable prices, and available on credit. Import liberalization and inflation stabilization ensured F.H. Cardoso’s presidential election in 1994, and his re-election in 1998. Cardoso presented his government as the harbinger of ‘modernization’ and the standard-bearer of the ‘new globalised economy’.

The examples of Argentina and Brazil indicate that one of the peculiarities of the neoliberal transition in these countries is that it was often justified obliquely, by reference to the imperatives of inflation control. The reforms were, correspondingly, often disguised as ‘technical’ anti-inflationary measures. This conflation was facilitated by the specific form of the collapse of the previous system of accumulation, in which fiscal, financial and industrial crises often surfaced through runaway inflation. The imperative of inflation stabilization blurred the extent and the long-term consequences of the neoliberal transition. Unable to win the battle of ideas, and suffering from a persistent legitimacy deficit in societies where the neoliberal reforms were rightly perceived to be intrinsically undemocratic, the neoliberal elite consensus found it necessary to conceal its agenda in order to impose its policy preferences more easily.

In Argentina and Brazil, financial, trade and capital account liberalization, the wholesale privatization or closure of state-owned productive and financial firms, and profound fiscal and labour market reforms along neoliberal lines were imposed allegedly because they were essential for short-term macroeconomic stabilization and the resumption of economic growth. At the same time, most remaining institutions that had provided industrial policy co-ordination under ISI were dismantled, and regulations constraining foreign investment were abandoned.

Five policies played key roles in inflation control as well as in the neoliberal transition in Argentina and Brazil. First, import liberalization. ISI requires strong import restrictions in order to give local firms (including TNCs operating in the country) control of the domestic market. However, firms protected from foreign competition tend to have market power. They enjoy more freedom to raise prices, and more flexibility to accommodate wage demands, which increases the economy’s vulnerability to cost-push inflation. Trade liberalization helps to control inflation because foreign competition limits the prices that domestic firms can charge. It also limits the workers’ wage demands, since pay increases could make local firms uncompetitive. At a further remove, neoliberals claim that trade liberalization forces local firms to compete against ‘best practice’ foreign producers, which should help to increase productivity across the economy. Finally, unsuccessful local producers will close down, and their capital and labour will presumably be deployed more productively elsewhere.

Secondly, exchange rate overvaluation. Overvaluation artificially reduces the local currency price of imports, enhancing the impact of trade liberalization on inflation and competitiveness. The combination between trade liberalization,
currency overvaluation, high domestic interest rates and capital account liberalization was a fail-safe strategy to reduce inflation and lock in the neoliberal reforms simultaneously. Cheap imports were allowed in, while high interest rates, foreign loans, mass privatizations and TNC takeovers of domestic firms brought the foreign capital that paid for these imports. Inflation tumbled while consumers gorged on flashy automobiles, computers and DVDs, and happily splashed out on artificially cheap foreign holidays. Although the combination of import liberalization and exchange rate overvaluation is highly effective against inflation, and can be very popular with consumers, it can have a devastating impact on the balance of payments and on local industry and employment.

Argentine imports shot up from US$6.8 billion to US$19.3 billion between 1990 and 1992, and Brazilian imports increased from US$28.0 billion to US$63.3 billion between 1992 and 1995. Consumer goods imports increased from US$242 million to US$5.0 billion in Argentina between 1985 and 1998; during the same period, they increased from US$606 million to US$8.2 billion in Brazil. The foreign travel deficit increased, in that interval, from US$671 million to US$4.2 billion in Argentina, and from US$441 million to US$5.7 billion in Brazil (see Figures 1.3 and 1.4).

Cheap imports harmed local industry. In Argentina and Brazil, the proportion of manufacturing value added on GDP reached, respectively, 31 and 29 per cent in 1989. By 2001, these ratios had declined to 17 and 14 per cent. Industrial sector employment also fell, especially in Argentina, where it declined from 33 to 25 per cent of the labour force between 1991 and 1996. In Brazil, more than one million industrial jobs were lost between 1989 and 1997. During the neoliberal era open unemployment increased, on average, from 6 to 20 per cent of the workforce in Argentina, and from 4 to 10 in Brazil (see Figures 1.5 and 1.6; this excludes underemployment and informal employment, which may reach 70 per cent of the labour force in Argentina, and 50 per cent in Brazil).

Thirdly, domestic financial liberalization. It was expected that the deregulation of the financial sector would help to raise savings and the availability of funds for investment. In fact, quite the opposite happened, and both savings and investment rates declined. In Argentina, savings fell from 22 to 17 per cent of GDP in ten years after 1989, while in Brazil they fell from 25 to 20 per cent of GDP in the early years of the neoliberal reforms, and declined further, to only 15 per cent of GDP, towards the end of the real plan. In Argentina, investment fell from over 25 per cent to less than 15 per cent of GDP and, in Brazil, it declined from 20–25 per cent of GDP to 15–20 per cent after the reforms (see Figures 1.7 and 1.8).

Fourthly, fiscal reforms (especially tax increases and expenditure cuts), in order to address the government budget deficits that plagued both countries and were allegedly the main cause of high inflation. These reforms were largely successful, and led to budget balances or even primary fiscal surpluses.
However, the cost of servicing the public debt increased sharply because of the high level of the domestic interest rates, which have squeezed non-financial expenditures from the government budget in both countries.

Finally, liberalization of the capital account of the balance of payments. This measure was supposedly essential to attract foreign savings and modern technology, but there was much more to it, as was shown above. Capital account liberalization played an essential role in financing the disequilibria created by neoliberalism, and supporting the reorganization of the productive base in both countries.
The neoliberal reforms failed to resolve the shortcomings of ISI (explained in section 1.2), and they created new economic problems. They did not relieve the foreign exchange constraint, and increased the dependence of Argentina and Brazil on volatile foreign capital inflows. In both countries, the current account of the balance of payments was initially in equilibrium, but it later shifted to a deficit of 4 per cent of GDP. The financial reforms reduced the availability of savings and did nothing to improve the allocation of investment funds.

Figure 1.5 Argentina: unemployment (U, % labour force), manufacturing value added (MVA, % GDP), employment in industry (EII, % total employment)
Source: World Development Indicators.

Figure 1.6 Brazil: unemployment (U, % labour force), manufacturing value added (MVA, % GDP), employment in industry (EII, % total employment)
Source: World Development Indicators.
Fiscal fragility resurfaced almost immediately because of the weight of interest payments on the government budget and the sluggishness of tax revenues due to the economic slowdown. Finally, economic co-ordination suffered from the dismantling of specialist state institutions, the hollowing out of the industrial chains built during ISI and the reduction in the local content of manufacturing production. Wages and profits declined because of competing imports, the rising share of interest in the national income, and the difficulty in developing new competitive industries. Structural unemployment mounted.
In sum, the neoliberal reforms destabilized the balance of payments and the productive system of both countries. Neoliberalism discarded import substitution and promoted, instead, ‘production substitution’ financed by foreign capital.

Between, 1981 and 2000, Argentina’s average annual economic growth rate was only 1.6 per cent, and Brazil’s 2.1 per cent (cf. the much higher rates under ISI in Figure 1.1). Even considering only the 1990s, long after the debt crisis, the comparison bodes ill for neoliberalism. Argentina grew 4.5 per cent per annum and Brazil 2.7 per cent. These economies were also rocked by severe crises: Argentina in 1995 and 1998–2002, and Brazil in 1999.

1.5.3 The new liberal consensus

The new liberal consensus includes both a hegemonic political settlement (procedural democracy) and a hegemonic set of economic policies and relations (neoliberalism). New liberalism has become the mode of existence of capitalism in Argentina and Brazil – a new system of accumulation – with a specific material basis which corresponds to a particular social structure and given relationships between domestic capital, foreign capital and the state.

It was shown in sections 1.3 and 1.4 that, in the 1980s, the Argentine and Brazilian elites became convinced that economic dynamism could be restored, while securing the existing patterns of social and economic exclusion, only by embracing political democracy, neoliberal economic policies and ‘globalization’. Achieving these outcomes required the deployment of state power to impose a new system of accumulation. New liberalism has four defining features: neoliberal economic policies, the microeconomic integration of domestic capital into transnational circuits (the denationalization of firms and their restructuring as part of rival international value chains), the decisive role of financial interests in the formulation of economic policy, and political democracy. These are explained in more detail in what follows.

First, the neoliberal policy reforms, inspired by the (post-)Washington Consensus, dismantled the production structures established during ISI and the social structures and patterns of employment that corresponded to them. The policy reforms led to the privatization of the most productive and financial SOEs, and promoted the alliance between foreign and domestic capital at firm level and the denationalization of industry and infrastructure (see section 1.4).

Secondly, the transnationalization of production and finance (‘globalization’) which was, to a large extent, a process of international integration at firm level that restructured the ‘national’ systems of production at a higher level of productivity, and integrated local elites internationally. This was achieved through import liberalization, the denationalization of production and the specialization of Brazilian and (what remains of) Argentine manufacturing industry towards the production of a narrower range of relatively unsophisticated goods. They have eroded the manufacturing base of both countries, and made their economies structurally more dependent on foreign
The outcome has been a shift of their productive base away from the long-term requirements of national accumulation, towards the servicing of the short-term imperatives of global accumulation. Thirdly, the transfer of state capacity to allocate resources intertemporally (the balance between investment and consumption), intersectorally (the distribution of investment, employment and output) and internationally towards an increasingly integrated and US-led financial sector. In doing so, new liberalism facilitated a gigantic transfer of resources to the local rich and, globally, to the United States (Harvey, 2005; Panitch and Gindin, 2005). The restructuring of state capacities has left the Argentine and Brazilian states profoundly depleted in the areas of economic planning, control and policy implementation. In contrast, state capacities in monetary policy implementation, financial sector regulation and security have been extended significantly. Moreover, the financial sector reforms embedded private sector interests in the policy-making process through the decisive role of finance in the pricing of government securities, the determination of interest rates and the financing of the public sector. The reforms also increased the role of the private financial institutions in the foreign exchange market and, therefore, in the country’s relations with the rest of the world.

Through these policies and processes, the neoliberal policy reforms have contributed to the disorganization and increased exploitation of workers in both countries, and to a significant shift in power away from the majority regardless (and, to some extent, because) of the simultaneous stabilization of democracy. Rather than relying on military force, the new liberal consensus has disciplined the working class through contractionary fiscal and monetary policies, higher unemployment and labour turnover, personal debt, and the permanent threat of inflationary or balance of payments crises should the distributive conflicts get out of hand.

Fourthly, at the political level, democracy has become established as the political form of neoliberalism in Argentina and Brazil. In these countries, the neoliberal transition and the democratic transition were mutually reinforcing and, eventually, became mutually constituting. They were associated with a shift in the mechanisms of social domination towards a combination of democracy and neoliberalism, which contributed to social fragmentation and the dismantling of the resistance movements which had emerged during the dictatorship. The symbiosis between neoliberalism and procedural democracy operates at three levels. First, the neoliberal economic transition was achieved through, and validated by, democratic means (see section 1.4). Secondly, neoliberal policies support the democratic regime because they fragment the working class through unemployment, faster labour turnover, the repression of trade union activity, the curtailment of the social wage and the entitlement systems that benefited the working class, and the rise of economic insecurity. Under neoliberalism, the repression of working-class activity becomes primarily ‘economic’ rather than ‘political’ as was the case under the dictatorship. Thirdly,
democracy is the optimum political regime for neoliberalism because it offers guarantees of stability and predictability of the ‘rules of the game’, which makes it more easily controlled by the moneyed interests.

1.6 Summary and conclusions

The new liberal compact is stable in Argentina and Brazil because the economic reforms are self-reinforcing, and they preclude the implementation of alternative economic policies. They also disorganize the working class and other potential sources of opposition to this system of accumulation, including the trade unions, left social movements and political parties. Finally, neoliberalism fosters forms of behaviour that reproduce this system of accumulation at the economic level, and that support the evacuation of democracy at the political level. This reduces drastically the scope for institutional challenges to the new liberal hegemony. In this sense, the disappointing macroeconomic performance in Argentina and Brazil under neoliberalism is a tolerable cost for the economic elites, and it offers no significant internal (economic) incentive for the abandonment of this system of accumulation.

Although the neoliberal reforms have helped to address some of the shortcomings of ISI, especially the propensity to high inflation, they have left unresolved other deficiencies of the previous model, especially the extreme concentration of income and wealth (which undermines the legitimacy of elite rule), the weakness of the domestic financial system, and the insufficiencies of the national system of innovation. Neoliberalism has also failed to create sufficient quality jobs, and contributed decisively to the hollowing out of the manufacturing base in Argentina and Brazil. The democratic reforms, in turn, have established the rule of law and respect for civil rights in several areas of social life (although their implementation remains heavily contingent on circumstances of place and time). However, democracy has been heavily curtailed by the evacuation of meaningful economic debate. The claim that ‘There Is No Alternative’ to neoliberalism has become entrenched through the institutional structure of the state, and the revealed preference of the electorate for an alternative system of accumulation in both countries has been largely irrelevant.

Neoliberal reforms delivered short-term macroeconomic stability and growth in Argentina and Brazil because they were ‘credible’ by definition (since they did what was demanded by the moneyed interests), and credibility brings rewards in the form of foreign capital flows and easier refinancing of the domestic public debt. Foreign capital flows financed the growth of investment and consumption, in a virtuous circle that lasted several years. However, the reforms destabilized the productive system and the balance of payments in both countries. Financial liberalization raised interest rates and created financial fragility, and it did not reduce the cost of loans or the availability of credit for domestic firms. High interest rates stimulated the accumulation of foreign debt for investment and speculation, because foreign
finance was much cheaper than domestic credit. Consequently, the debt of the private non-financial sector increased rapidly. Debt-financed consumption and cheap imports contributed to euphoria and the impression of the success of neoliberalism, especially in 1991–94 and 1996–98 in Argentina, and between 1994 and 1997 in Brazil. The foreign capital inflows supported the overvaluation of the currency and reduced the competitiveness of domestic industry, much of which was wiped out during the 1990s. The currency overvaluation prevented the reduction of the domestic interest rates, because foreign capital flows were needed to finance the trade deficit. However, these high interest rates increased the cost of the domestic debt service, generated fiscal deficits and increased the financial fragility of the private sector. Neoliberal policies also led to wage and industrial profit compression because of competing imports, the rising share of interest in the national income, the loss of industrial competitiveness, rising unemployment and the growing fiscal deficit.

In spite of these disappointing outcomes, the new liberal consensus is largely immune to internal challenges. In particular, economic underperformance is insufficient to trigger a shift in the system of accumulation, because unemployment and bankruptcies weaken the capacity of the domestic working class and the urban middle sectors to demand alternatives. Underperformance also compels the domestic producers to shift their capital to more profitable ventures, which are invariably more closely connected with the interests of finance. Only the loss of political legitimacy can trigger a successful challenge to new liberalism.

In spite of its basic stability, the neoliberal project suffers from two severe inconsistencies which may offer scope for a political challenge. First, there is a basic tension in new liberalism between the deployment of a politically democratic and inclusive political system to enforce exclusionary economic policies. These policies demand a state hostile to the majority, even though a democratic state is supposedly responsive to majority pressure. This tension has played an important role in the election of several left-wing governments in Latin America and elsewhere, and it continues to exist, even though success in the implementation of alternatives has been limited. Second, the neoliberal reforms have failed to address important shortcomings of ISI, and the combination between the unresolved weaknesses of ISI and the flaws of neoliberalism has entrenched the economic underperformance of Argentina and Brazil.

Transcending neoliberalism in these countries will require both economic and political changes that can be carried out only through the construction of an alternative system of accumulation. This project will require dismantling systematically the material basis of neoliberalism, initially through a set of pro-poor and democratic economic policy initiatives, which will support a shift to a model of development that can generate more equal distributions of income, wealth and power, and higher levels of material welfare. This is a fundamental condition for democracy. These alternative policies should be based on a specific set of controls on capital flows, supported by co-ordinated trade, financial and industrial policies and the expansion of
non-revenue-generating social programmes financed through a non-regressive increase in taxation and the reallocation of government spending. These policy measures must be supported by a politically re-articulated working class, as one of the main levers for its own economic recomposition. The difficulty is that this virtuous circle cannot be wished into being. Its elements cannot be addressed purely academically, or through the organization of another political party, or simply through alliances between the existing political forces. The construction of a new economic, social and political model will require mass mobilizations that are sufficiently strong not only to demand change from governments, or even changes of government, but to embed popular organizations within the state, while preserving their political integrity, mass roots and accountability to the vast majority of the population. The construction of this new wave of popular movements is the most important challenge for the Argentine and Brazilian left during the next decade.

Notes

1 We are grateful to Alison Ayers and Lecio Morais for their helpful and stimulating comments to this chapter. The usual disclaimers apply.

2 Typical examples included Perón’s nationalization of transport and infrastructure facilities in the immediate postwar era, and the foundation of Petrobras, the Brazilian state oil monopoly, in 1953.

3 The elite includes the large and medium-sized capitalists, especially financiers, industrial capitalists (based mainly in the Buenos Aires–Rosario region in Argentina, and in the São Paulo–Rio de Janeiro region in Brazil), large exporters and traders, the media, landowners and local political chiefs, their intellectual and political proxies and top civil servants. These fractions of the elite are unrelated to the contrast between domestic and foreign capital, or the conflict between industrial and financial interests.

4 In this chapter, ‘consensus’ refers to a substantial measure of agreement on strategic political projects among social groups which, by virtue of their institutional power and political influence, can implement these projects through the institutions of the state. This concept is related to the Gramscian notion of hegemony. Neither of them presumes unanimity.

5 The system of accumulation is determined by the economic, political and institutional structures that typify the process of capital accumulation in a specific region, during a particular historical period. This is a relatively concrete concept, with no direct relationship with more abstract concepts such as mode of regulation (in, for example, Aglietta, 1979).

6 Rochon and Mitchell conducted regular surveys on democratic values and desires among Brazilians between 1972 and 1982. During the democratic transition, they note that the ‘[m]iddle classes were more concerned with the creation of civilian institutions, and less concerned about universal suffrage, whereas [the] working classes and [the] youth were more concerned with universal suffrage and political change, [rather] than with civilian governmental institutions. . . [A]mong the Brazilian public there is a sharp distinction between support for the institutions of
liberal democracy and belief in the empowerment of the public’ (Rochon and Mitchell, 1989: 316–17).

7 The political retreat of the Catholic Church has been partly compensated by the growing influence of a myriad of evangelical sects but, on the whole, overtly religious values are less influential than at any time since Brazil’s independence in 1822.

8 ‘The ultimate goal of American foreign policy will be to use power, alone if necessary, to extend free-market democracy around the globe’ (Lawrence J. Korb, US assistant secretary of defence, 1981–85, cited in Canadian Dimension, Nov–Dec. 2005, 8).

9 Data in this paragraph are derived from the World Development Indicators.

10 These fluctuations can be tempered by imports or inventory sales, but these complications will be ignored here.

11 For Cavallo and Cottani (1997, p. 17), the convertibility plan was a ‘smashing success, . . . it stopped hyperinflation without producing a recession and without causing [a] regressive income redistribution’.

12 For example, the neoliberal reforms led to the ‘tertiarization’ of Argentina’s economy (Basualdo, 2000, p. 217). The profitability of the services sector increased 33 per cent between 1991 and 1998, largely as a result of the privatizations carried out during this period (Schorr, 2002, p. 18; see also Azpiazú, 1998 and Schvarzer, 1998).

References


Index

Acción Democratica (AD) 160–1
agrarian sector 6, 75, 171, 230
Ake, C. 199
Alarcón, Fabián 202
Alfonsín, Raúl 10–11
American depositary receipts (ADRs) 92, 94, 105
Argentina 1, 3, 4, 7–11, 14, 15, 16, 17, 19, 20, 23, 25–6, 27, 28, 29, 30, 32, 74, 86, 108–46, 207
balance of payments 127–8
budget deficits 116–17
capital account liberalization 112
capital inflow 10
capital inflows 129
‘Convertibility Law’ 46, 74
convertibility regime 108, 110
country risk premium 115, 132
crisis 108, 109, 117
currency board regime 131
currency crisis 111–12
current account deficit 115
debt default 108
debt ratios 120, 121
debt restructuring 139–40
democratic regime 9–10
economic growth 28, 141
economic recovery 133–4, 135, 136–7
exchange rate policy 114–15, 119–20, 122, 134–5, 141, 142
exports 119, 136
financial globalization 108, 110–17, 117–22, 141
financial liberalization 24, 118
fiscal policies 108, 120, 126, 139–40
Fiscal Responsibility Law 131
foreign debt 108, 109, 118–19, 128–9
foreign exchange controls 118
foreign reserves 129
GDP 118–19, 122, 125, 133, 136, 138–9
government bonds 139–40
growth 108
imports 24, 136–7
inflation 108, 120
interest rates 117, 126–7
macroeconomic performance 127–33, 133–42
macroeconomic policy 141
macroeconomic stability 108
military regime 7–9
PPP exchange rate 122, 125
private sector 120, 125, 130
public sector debt 108, 116–17, 124–5, 127, 131, 133
risk premium 125, 130, 132
social security reforms 123
stabilization programmes 120
trade surplus 137
Asian crisis 72, 80, 84, 85, 92, 98, 105, 116, 123, 131
authoritarianism 1
see also under individual countries
Aylwin, Patricio 72, 78, 80–1
banking 93, 95–6
banking regulation 93, 95–6
banks 95, 96, 97
see also under individual countries
Bolivia 18, 206
Borja Cevallos, Rodrigo 201
Brady Plan 110, 122
Brazil 1, 4, 11–14, 15, 16, 17, 19, 20, 23, 25–6, 27, 28, 29, 30, 32, 36–69, 110, 117, 207, 215
animal spirits 60
capital inflows 49
capital outflows 37, 47, 49
consumer price index (IPCA) 49, 57, 59, 64, 65
democratic movement 11–12, 13
disinflation 43
economic growth 28, 36, 49, 52, 63
economic growth regime 63
economic policies 36, 37, 51–6, 58–9
economy 36
‘employer of last resort’ (ELR) policy 62
Index 235

exchange rate 37, 42, 43, 47, 48, 49, 52–3, 58, 63
FDI 61
financial liberalization 24
financial markets 38
fiscal surplus 56
full employment 59, 60, 62, 63
GDP 52, 53–4, 55, 58, 60
imports 24
inflation 39, 43, 56, 57, 58
inflation targeting 37, 40, 41–2, 43, 47, 49, 59
interest rates 42, 47, 48, 49, 50
international economic integration 50–1
macroeconomic policy 37, 41, 45–51
macroeconomic indicators 53
military regime 11–12
monetary policy 39, 41, 42–5, 60–1
national consumer price index (IPCA) 49–50
National Monetary Council (CMN) 44, 47
neoliberalism 57–8
‘New Consensus Macroeconomics’ (NCM) 39–42, 46, 52
National Monetary Council 49–50
political alliances 37
price index 50
public debt 48, 60
public sector accounts 51–2
real plan 21, 46,
risk premium 54
Selic 44–5
tax burden 51
trade surplus 46, 52–3, 57, 61
unemployment 36, 37
Brazilian Central Bank (BCB) 44–5, 47, 50, 51, 54, 55, 59, 64, 65
Brazilian Development Bank (BNDES) 55
Brazilian Institute of Geography and Statistics (IBGE) 54, 55
Bucaram Ortiz, Abdalá 201, 205, 214, 215, 217, 221, 231
Caldera, Rafael 161
capital account 70
see also individual countries
capital account liberalization 23, 25
capital flows 30, 31, 38, 99, 203
see also individual countries
capital stock 154–5
Cardoso, F.H. 23, 37, 51–2, 56, 63
Carter Center 167
Catholic Church 33
Central Bank of Chile 95
Chávez, Hugo 147–9, 155, 159, 161–2, 163–4, 166, 167–8, 182, 184, 185, 188
Chavismo 167–8
Chavista 162, 164
Chile 70–107, 117
adjustment programme 85–7
authoritarianism 74, 76
banking regulations 93, 95–6, 97, 98, 99
banking supervision 95–6
bankruptcies 75, 77
business sector 76
capacity utilization 76
capital account 70, 75
capital inflows 83, 91, 92, 93–4, 96–7, 99, 100
capital surges 91–2
Central Bank 82, 84, 85, 95, 98, 99
copper 78, 82, 93
copper buffer fund (CBF) 89
counter-cyclical policies 70, 86, 97, 102
debt crisis 78
demand-reducing policies 74
deregulation 72
dictatorship 76
economic activity 73
economic policy 71
economic development 199–200
economic growth 71–2, 76–7, 78–80
economic outcomes 71
economic policy 70, 75
educational reforms 87–8, 101–2
equality 70
exchange rate 74, 75, 76, 77, 85, 87, 93, 99
exchange rate policy 87, 93, 94–5, 99, 102
exports 90, 103
external borrowing 75
external shock 80–1, 88
financial liberalizations 71
fiscal policy 86
fiscal reform 83–4, 86
foreign debt 71, 75
Chile (Continued)
foreign direct investment (FDI) 83, 89, 94, 96
GDP 71–2, 73, 74, 75, 76, 78, 79–80, 82, 83–4, 85–6, 87, 88–9, 90, 91, 93, 96, 97
heterodox policies 70
imports 72, 73
income distribution 81–2, 100–3
indexation 73
inflation 73, 74, 75
interest rates 82, 91
labour rights 71, 73
labour reforms 81
labour training 102
labour unions 75
liberalization 71, 73, 77
financial 75, 76
import 72, 76
trade 76
macroeconomic imbalances 101
macroeconomic stability 81, 96–8
macroeconomics 70, 74, 76, 81
Macroeconomics for Development 70, 90–100
manufacturing 76
monetary stabilization 76
neo-liberalism 70, 72–8, 89
orthodox policies
output gap 74, 87–8
political discontent 75
poverty 70, 81–2, 100–3
price corrections 77
privatizations 71, 72
recovery 88–9
reforms 70
‘reforms to the reforms’ 71, 103
risk premium 92
small and medium-sized enterprises
(SMEs) 103
social reforms 71, 87
tax 73, 81, 86, 96
tax reform 73, 81
trade balance 73
trade liberalization 77
unemployment 102
women 102
China 57
civil society
see individual countries
clientelism 184–5, 186
Collor, Fernando 17, 37
Colombia 199, 206
Conaghan and Espinal (1990) 230
Concertación de Partidos por la Democracia
(Democratic Concertation) 78, 90
COPEI 161
Corporación Nacional del Cobre
(CODELCO) 82, 88, 88, 89
Correa, Rafael 217, 219, 220–1
corruption 221–2
Costa Rica 206
CTV 163, 164
Cuba 208
currency risk premium 115–16
current account
see under individual countries
debt
public 2, 7, 8, 10, 11, 18, 25, 28–9, 30–1, 45, 48, 49–51, 56–7, 59, 60, 64, 78, 108, 116, 117, 121, 122–7, 131–2, 134, 141, 143
default 108
see also under individual countries
debt crisis 2, 18
see also debt, foreign
De La Rua, President 131
democracy 1, 2–3, 7, 11–14, 14–17, 29, 31, 63, 70, 78, 79–80, 91, 102, 103, 196, 200, 201, 208, 230
dependentistas 2
devaluation
see under individual countries
development 185–6, 195
disease 188
dollarization 204
Dominican Republic 207
Durán Ballén, Sixto 201, 214, 221
economic development 199–200
see under individual countries
economic growth 3–7, 23, 62, 63, 206–12
see also under individual countries
economic performance 226–30
economic policy 1
economic reforms
  see individual countries
Ecuador 144, 195–233
  2005 uprising 225
agricultural sector 212
caciquismo 223
capital flight 203
corruption 221–2
  coups 195, 203–4, 225–6, 228
decentralization 223
deregulation 109
economic behaviour 196
economic collapse 197, 202–3
economic development 197, 198–200
economic growth 37, 75–6, 198, 206, 208–9
economic indicators 195
economic instability 196
economic performance 226–30
economic policies 212–14
economic reforms 197
elite rivalries 215
Emerging Markets Bond Index (EMBI) 220–1
EnCana 219
exports 210–12
exchange rate 214
financial crisis 209
foreign direct investment 212, 217–19
GDP 207, 208–9, 210, 229
inflation 229
institutional rules 223, 225–6
investor confidence 214–17
liberalization 212
military coup 203–4
natural disasters 208–9
non-predatory economic policies 198, 221
oil 209, 212, 216–17
political alliances 205
political economy 195
political instability 195, 198, 199–200, 203, 206–12, 226–30
political stability 195, 196, 197, 198–9, 206–7, 231
political unrest 203
poverty 226–7
predatory governments 200, 220
privatization 204
rule of law 197
state 198
street protests 202
sucretización 212, 213
terms of trade 210, 212
Ecuadorian Indigenous Confederation (CONAIE) 203–4
education
  see under individual countries
elites 16
El Niño 201, 202, 208–9
emerging countries markets 36
emerging economies (EEs) 90, 97
employer of last resort (ELR) 62
entrepreneurs
  animal spirits 59
  European Union 60
  exchange rate 47–8, 61, 63, 87, 108, 109, 110, 114, 134–5
  see also under individual countries
Febres Cordero, León 201, 204, 213
Federal Reserve (US) 44, 60, 95, 127
Federation of Industry and Commerce (FEDECAMARAS) 157
financial globalization 108, 109, 141
  see also under individual countries
financial liberalization 24, 30
fiscal policy 40, 140
  see also individual countries
fiscal reforms 24–5
  see also individual countries
Free Trade Area of the Americas (FTAA) 59, 61
Frei, Alessandro 72, 78, 79, 80
full employment 59, 60, 62, 63
GDP 3, 18, 26, 52–4, 55, 56, 63, 71, 72, 77, 78
  see also entries under individual countries
general equilibrium theory 195
globalization 149, 168, 169
government bonds 115
Gutierrez, Lucio 196, 204, 214, 231
Haiti 207
Hobbes, Thomas 223, 224
Hodrick–Prescott filter 44
Human Development Index (HDI) 186
Hurtado, Osvaldo 201, 212
hyperinflation 17, 18–21, 101

IMF 11, 21, 37, 38, 110, 113, 125, 134–6, 141, 214, 215, 216, 219
import liberalization 23, 24
import-substituting industrialization (ISI) 1, 2–3, 4, 17, 21, 27, 31
imports 24, 25
income elasticity 67
indexation 18–19, 45
industrialization 6
inflation 1, 17, 19–20, 21, 36, 38–40, 41, 42–3, 47, 50–1, 108
see also hyperinflation; individual countries
inflation stabilization 21–3
inflation targeting 40, 41, 59, 74–5
see also under individual countries
institutional political instability (IPI) 197, 200
institutional political stability (IPS) 199
Inter-American Development Bank 225
interest rates 30–1, 45, 112, 115
international financial institutions (IFIs) 136
Isaacs (1991) 230

Keynes, John Maynard 63
Kingdon, J. 192
Kirchner, President 136
Korea 80, 86, 92

labour markets 2, 5, 21–2, 39, 62, 88, 102
see also individual countries
labour organizations 5, 6
labour reforms 12, 22–3, 71, 172, 181, 212–13, 214, 230
labour rights 73, 75, 77, 87
Lagos, Ricardo 80
latifundios 172
Latin America 1–35, 97, 109, 206
see also individual countries
legitimacy
political 31
Ley Resorte 164

Lipset, Seymour M. 197–8
Lockean State of Nature 223–5, 231
Lula da Silva, Luís Inácio 36–69
see also Brazil

macroeconomic stability 37, 63, 81, 83, 93
Mahuad, Jamil 202
manufacturing industries 3, 4
Menem, Carlos 21
Mercosur 61
Mexico 47, 86, 92, 110, 113, 117, 206
crisis 83, 110, 117
militarism 2, 7–14
military regimes 2, 7–9
see also under individual countries
Mill, John Stuart 195
monetary policies 19, 37, 41, 42–5, 58–9
see also individual countries
multinational companies 153

NAIRU (non-accelerating inflation rate of unemployment) 39–40
nationalization 6
see also under individual countries
neoliberalism 1, 2, 17, 18, 21–8, 31, 36, 51–3, 58, 70, 72–5, 169
new liberal consensus 28–30
Nicaragua 18
Noboa, Gustavo 216, 221, 231

oil 147
nationalization 148, 153
oil prices 147
oil rent 147, 148, 168
Operational Services Agreements (OSA) 158, 159, 188
Organization for Economic Cooperation and Development (OECD) 200
Organization of Petroleum Exporting Countries (OPEC) 110, 154, 155
Oxy 219–20

Palacio, Alfredo 217, 219–20
Paris Club 216
Partido dos Trabalhadores (PT)
(Workers’ Party – Brazil) 37
Perón, Juan 5, 7, 32
Perónism 5
Peru 18, 207, 210
Cenepa Conflict 210
Petroleos de Venezuela, S.A. (PDVSA) 153–4, 157, 158, 159, 164, 171, 188
Pinochet, General 71, 76, 90, 101
Plan Bolívar 2000 (PB-2000) 168–9, 184–5
Political Economy 1, 14–17, 195
political elites
see under individual countries
political instability (PI) 198, 199–200, 206, 226–8
see also institutional political instability (IPI)
political legitimacy 31
political stability (PS) 196, 198–9
poverty 100–3
see also under individual countries
price stability 39
principal–agent model 196
productivity 22, 28, 77, 83, 95, 149, 185–6
Punto Fijo Pact 159, 160, 168
purchasing power parity (PPP) 118
real effective exchange rate (REER) 64–5
real exchange rate (RER) 59, 64, 83
reforms
see under economic reforms
rent seeking 182–6
see also under individual countries
royalty tax rates 158
Russia 47, 125
crisis 125, 128, 131
savings 19, 24, 25–7, 61, 82, 86, 89–90, 95, 97, 139, 141
Say’s Law 39
schooling 101–2
Smith, Adam 17
social capital 188
social investment 186
social policies
see under individual countries
social programmes 32, 150, 168–72, 172–82
see also individual countries
social welfare 7
see also under individual countries
Southeast Asia 143
Southern Cone 112–13
see also Argentina; Chile
stabilization programmes 17
state monopoly 6
state-owned enterprises (SOEs) 2, 5
Strategic Association Agreements (SAA) 158, 159
supply shocks 19
Taiwan 80
taxation 32
Taylor rules 43, 44
Tequila crisis 90, 92, 93, 98, 123, 129, 210
see also Mexico
Thailand 128
Thirlwall’s law 67
trade 56–7
trade liberalization 23–4, 46, 76–7, 114
trade unions 30
transnational corporations (TNCs) 24
unemployment 9, 19, 22, 24, 26, 27, 31, 36, 39, 47, 53–4, 62, 71, 74, 79, 87, 88, 90, 101–2, 133, 135
United Nations Development Program (UNDP) 221
United States of America 29, 110, 112
University of Chicago 113
Unremunerated Reserve Requirement (URR) 94, 95, 99
urbanization 5, 6
Uruguay 110, 206, 207
Vargas, Getúlio 5, 7
Venezuela 110, 147–94, 207
1922 Petroleum Law 150
1943 Hydrocarbons Law 150
1999 Constitution 150
1999 Natural Gas Law 156
2001 Hydrocarbons Law 157, 158
anti-party discourse 148
clientelism 147, 150, 184–5, 186
Constituent Assembly 162–3
development 185–6
disease 188
electoral objectives 149
Fifth Republic 249, 160, 160, 161, 162–7
foreign ownership 157, 158, 159
health indicators 188
Venezuela (Continued)
housing 180
job-training programmes 172,
173–9, 181
joint ventures 157–8
labour market policies 181
military coup 157
National Assembly 164, 185
non-cooperative political structure
149
oil bargaining game 147, 150–5,
155–9
oil industry, capital stock 154–5
oil industry, exports 156–7
oil industry, foreign companies
157–8, 159
oil industry, nationalization 150,
153, 154
oil industry, taxes on 154–6
oil market 147
oil production 158, 169, 185
oil rents 147, 148, 183, 185
oil strike 152, 157, 164, 166
oil taxation 150, 158
political dynamics 150, 159–68
political elite 148
political events 149, 150
poverty rate 186, 187, 188
presidential referendum 165–6
rent seeking 182–8
social goods 182, 183
social policies 172, 185
social programmes 147, 149, 150,
168–72, 172–80, 182
state appropriation 150
state-owned enterprises 150
Supreme Court 163
von Hayek, Friedrich 17
wage freeze 19
wage policies 19
Washington Consensus 46, 64, 70,
113, 213, 214, 217
wealth, distribution 37
working class 32, 81
working-class activity 29
World Bank 11, 21, 219, 221
World Trade Organization (WTO) 59