The Crisis of the State Approach to Latin America

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There was a deep crisis in Latin America in the 1980s. Incomes per capita went down around 10 per cent in the decade. In the 1990s most countries are starting to resume growth, although the problems that gave rise to the crisis are far from having been fully solved. The great Latin American country that still has not been able to stabilize is Brazil. In 1992 income for the whole region increased 2.4 percent, but if one excludes Brazil, the other Latin American and Caribbean countries grew 4.3 percent.

Inflation, on the other hand, that was around 900 percent for the whole region in 1990, fell to 20 percent in 1992 if one excludes Brazil, where inflation reached 1130 percent that year. Yet, it is too early to say that the region, except Brazil, has overcome the crisis. Investment rates, wage rates, and consumption standards have not yet recovered the 1980 levels. The debt crisis was not satisfactorily solved. Manufacturing industries in the countries that liberalized trade and stabilized prices, as it is the case of Mexico and Argentina, are facing difficult times, evidencing that an industrialization strategy to replace the exhausted import substitution one is still to be found. In most countries the fiscal crisis of the state, although less acute, remains a major problem.

All Latin Countries faced serious difficulties in the 1980s. Some, particularly Colombia, did not experience a real crisis. Others fully overcame it, as was the case of Chile. Other countries, particularly Mexico, Costa Rica, Bolivia and Venezuela are
near to overcoming it. Argentina is a question mark, in spite of two years of successful stabilization. Brazil and Peru are still immersed in the crisis. Since 1991, as some countries in Latin America were presenting good results, while reform in Eastern Europe proved to be more difficult than initially expected, the Latin American countries started again to be viewed in a positive way in the First World. GDP for the whole region grew 3 percent in 1991. This and the very low interest rates prevailing in the developed countries vis-a-vis the very high ones in Latin America, triggered large capital flows not only to Mexico and Chile, but also to Venezuela, Brazil and Argentina, whose economies were far from being adjusted. Net transfers of resources, that were extremely negative throughout the 1980s, turned again positive in 1991 and still more in 1992. This new optimism, that became dominant in Washington, was based on the assumption that Latin American countries had finally adopted the necessary economic reforms, signed debt agreements according to the Brady Plan, stabilized their economies and were back to economic growth. Yet, this optimism does not seem to be well grounded. Countries like Venezuela and Peru, that in 1991 were viewed as having adopted the neo-liberal economic reforms and were on the way to recovery, faced serious political troubles. In Peru a new authoritarian government was established in 1992. Argentina’s stabilization remains based on a serious overvaluation of the peso. To a lesser extent the same is true to Mexico. Actually most Latin American countries still face a fiscal crisis.

Given these facts, some questions are obvious. Why was the crisis so profound? Why the performance that Table 1.1 reflects so bad? Why did income per capita in Latin America fall 8.1 percent in the 1980s and the share of investment in GDP plunge from 23.2 to 16.0 percent in the same period? Why was income per capita in 1991 on the level of 1977? Why did inflation, which in 1980 averaged 54.9 percent, climb to 1186.0 percent in 1990? Why did some countries escape while others still managed to overcome it? Which interpretations of Latin America are relevant to understand the crisis and are helpful in the development of strategies to overcome it?
Are the politicians’ populists practices and an immoderate state intervention, as it is frequently said, sufficient to explain the crisis?

Otherwise, what is necessary in order to overcome this crisis? Is it enough to achieve stabilization, to privatize and to liberalize, for growth to automatically be resumed? Could the relative success which some of that economies are experiencing be attributed only to a neo-liberal approach, or the neo-conservative beliefs were adopted in a very partial way, while a new interpretation of Latin America and a correspondent development strategy are gradually being defined – something that I wish to call “the state crisis approach” or “social-democratic approach”? Privatization, trade liberalization, deregulation are just conservative reforms, or they can also be adopted by progressive or left-winger politicians and policy makers?

The Latin American crisis was triggered by the debt crisis. Its basic cause was the fiscal crisis of the state: the fact that the state went bankrupt, lost its credit, and was immobilized. A complementary cause was the exhaustion of a formerly successful development strategy and a corresponding interpretation of the Latin American problems: the “national-developmentalist” approach, based on import substitution and active state intervention in the productive sector of the economy.

Two competing approaches try presently to define this crisis and offer solutions to it; on the one hand, the neo-liberal or “Washington consensus” approach and, on the other hand, the fiscal crisis or social democratic approach. These approaches share several points on the causes of the crisis and how to solve it. In particular, both are critical of populism and “national-developmentalism” that prevailed for long in Latin America, and agree on the stand that the state grew too much in Latin America. Yet they have an essentially different view of the basic cause of the crisis and how to remedy it. While the neo-liberal approach states that the basic cause is the excessive strength of a state that grew too much, the fiscal-crisis approach says that the basic
cause is the increasing weakness of a state that went bankrupt. Both agree that it is necessary to reduce the state, to privatize and liberalize, to adopt market oriented reforms, but the objective of the neo-liberal approach is to reduce the coordinative role of the state, whereas the objective of the fiscal approach is to recover it. The fiscal-crisis approach presents a more realistic view of the Latin American crisis, it is less dogmatic with regard to the policies to be followed. It uses the positives aspects of the neo-liberal interpretation, but it does not let itself to be contaminated by the radical neo-conservatism which is behind neo-liberal ideas. Nevertheless, since the neo-liberal approach emanates from Washington - the dominant source of foreign political power for the region - actual policy will most likely consist of a mixture of both approaches. And the rhetoric of Latin American elites will be that the Washington consensus is being adopted.

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<th>Table 1.1: Macroeconomic variables in the 1980s</th>
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<td>GDP Growth (ind.)</td>
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<td>Investment/GDP</td>
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1. The Previous Interpretations
While the Latin American countries were developing - between the 1930s and the 1970s - the competing interpretations about the region’s development at the time tried
to answer why these countries were backward, underdeveloped. These interpretations did not provide an answer to the causes of stagnation and crisis for the simple reason that these countries were exhibiting high rates of growth then.

Three basic theories or interpretations of underdevelopment competed with each other: the “imperialism theory” spoused by radical Marxists, the reformist “new dependency theory” and the conservative “modernization theory”. The second interpretation was consistent to Latin American structuralism, as developed by Prebisch, Furtado and others, while the third had a neo-classical root. Both were consistent with “development economics” - a branch of economics that had as main contributors Rosenstein Rodan, Lewis, Nurkse, Prebisch, Hirschman and Gershenkron. In spite of the theoretical and ideological debate, however, these countries developed according to a single - and successful - economic strategy: the import substitution, inward oriented, state led, strategy of industrialization. Two alternative political views accompanied this strategy: a populist-technobureaucratic and an authoritarian-technobureaucratic one. The first leaned on the left, the second, on the right. Democratic rhetoric was shared by almost everybody, including the authoritarians. The exception in this matter was limited to the radicals of the left and the right - small minorities. Capitalism was not challenged except by the radical left. The import substitution, state led, strategy was rhetorically opposed by the conservatives and by Washington, but, in practice, businessmen and governments always supported it as long as it was successful. In Washington the American government and the multilateral agencies, as well as businesses and the commercial banks, mildly criticized the import substitution strategy, but in practice supported and financed it. The World Bank, up to the end of the 1970s was devoted to development economics and to an industrializing strategy not far from “national-developmentalism”.

The Crisis

Yet, the import substitution strategy had exhausted its potentialities by the 1960s. Its life span was artificially extended in the 1970s due to the availability of foreign capital. But real prices were increasingly dissociated from market clearing prices due to the distortions involved in the state intervention process. As subsidies to private enterprises and less often to consumption were maintained long after they had lost their original justification, the inefficient allocation of resources was aggravated. The state paid the account. Public savings, that were high in the 1970s, began to disappear. In the early 1980s a growing public external debt, that financed increasing public deficits, turned into a fiscal crisis of the state.¹

The Latin American crisis that exploded at the time and has lasted ever since was, essentially, the consequence of two decisions made in the early 1970s: on the Latin American side, the decision to persist in a growth strategy and in a mode of state intervention (the import substitution) that no longer worked; on the part of creditor countries side, the decision to finance this strategy, thus assuring it an artificial survival.

These two decisions, in a first moment, increased the indebtedness of the countries; in a second, led the state in each Latin American country to bankruptcy, to a fiscal crisis, as the foreign debt increased and was nationalized, as the increase in the interest burden plus renewed populist policies augmented the public deficit and reduced public savings, as the public debt soared and public credit evaporated. Initially the foreign debt was not dominantly public. In the 1970s state borrowing represented about 50

¹ One of the first economists to study the crisis of the state was Rogério F. Werneck. He published in the 1980s several papers, that were put together in a book (1987). Probably the first political scientist to study the crisis of the state was José Luiz Fiori (1984), in his Ph. d. dissertation “ “, that I only recently read. My first attempt to analyse this crisis was in a paper on the changing pattern of financing investment in Brazil (1987), that corresponds to Chapter 5 of this book. This is my earliest paper published in this book. It was updated to be published now.
percent of the debt. In the early 1980s, however, it was nationalized, as private firms paid their debt in local currency to their respective central banks, usually at an overvalued local currency exchange rate. This practice, besides shifting to the state the foreign debt, represented a subsidy to the private sector and an inducement to deficit expending in this manner financed. Foreign savings were used by Latin American governments, particularly by Brazil, to finance heavy import substitution projects, and also to finance consumption (economic populism). By the mid-1980s, when the process of transmuting the foreign debt into state debt had ended, around 90 percent of the debt had turned into state responsibility. The private sector remained the one able to generate a foreign surplus, but now only the state was supposed to pay the foreign debt. The nationalization of the foreign debt was a perverse form of financing public deficits and spurring the fiscal crisis. In the 1970s public deficit was financed primarily by foreign borrowing; in the first half of the 1980s, by private firms that paid their debt (usually in privileged conditions) in local currency to the state which in turn did not have enough foreign currency to pay the banks. In the late 1980s, countries were either able to drastically reduce their public deficit, reducing wages and internal consumption, as was the case of Chile and Mexico, or they deepened in their fiscal crisis, as happened to most other Latin American countries.

Practically all Latin American countries were committed to tight fiscal adjustment policies. But the fiscal deficit was too high, its interest component related to the public debt was already too heavy, so that they were not able to adequately adjust their economies. Besides, the possibility of transmuting the old foreign debt into government debt offered an easy way to finance current deficits. Thus, foreign borrowing, that in the 1970s backed the state-led import substitution strategy and fiscal indiscipline, continued to have an indirect negative effect on public finances in the first half of the 1980s, as the nationalization of the debt fostered fiscal indiscipline, and set the foundations of a deep fiscal crisis.
2. The fiscal crisis concept

James O’Connor (1973) introduced the concept of fiscal crisis of the state, explaining this crisis by the increasing difficulty of the state to cope with the growing demands of several sectors of the economy and corresponding social groups. The concept that I am using here is based on those ideas. The expression “fiscal crisis of the state” is redundant itself since all fiscal crisis is related to the state. But in 1987, when this crisis became manifest to me, I decided to use it to better understand the Latin-American crisis, because in this manner it becomes clear the central role of the state for that crisis. We could also refer to a “financial crisis of the state”, since all fiscal crises have as outcome an increasing difficulty of the state to finance itself.²

In the 1980s, the fiscal crisis of the state had five ingredients in Latin America: (1) a budget deficit, (2) negative or very small public savings, (3) an excessive foreign and domestic debt, (4) poor creditworthiness of the state, expressed in the lack of confidence in the national money and in the short term maturity of the domestic debt (the Brazilian overnight market for Treasury bonds)³ and (5) a lack of credibility of the government.⁴

² I was Finance Minister of Brazil in 1987. At that time the crisis was viewed as a liquidity or “conjunctural” crisis, not as a structural crisis of the state’s finances. My experience as Finance Minister nursed the diagnoses of the Latin American crisis as a fiscal crisis of the state. For an account of this period see Bresser-Pereira (1988e, 1993a, 1994).

³ The state in Brazil is internally financed by the “overnight market”. Everyday, economic agents transform their deposit accounts in the banks into loans to the state with one day maturity. In this way, financial assets are indexed and protected from inflation, whereas the state is financed with a bond that is quasi-money. The Collor Plan I (March, 1990) was an attempt to cope with this problem (see Chapter 9).

⁴ It is important to distinguish lack of credit-worthiness of the state from lack of credibility of the government. A state without credit is an institutions economic agents feel insecure do make loans, a government without credibility is a government which does keep its word, making economic agents feel insecure about economic policy. Main stream economics - the one that is taught in best universities - usually mix up these two categories.
Public deficit and insufficient if not negative public savings are, to use an economist’s jargon, a flow characteristics of the fiscal crisis, while the size of public debt—be it internal or external—is a stock property. Actually, the lack of public credit is the fundamental feature of a fiscal crisis of the state. A country may have a high public deficit and also a high public debt, but the state needs not lose credit and the government its credibility. This is the present case of the United States and Italy, where in spite of the deficit and the public debt, there is no fiscal crisis, or the one that prevails is much milder than those existing in Latin America. The loss of credit by the state - its inability to finance itself except through seignorage (money creation) - is the quintessential characteristic of fiscal crises. When the loss of credit by the state becomes absolute, or, in other words, when the fiscal crisis becomes acute and out of control, the State loses its capacity of stand its money and hyperinflation will be the more likely outcome.

Most characteristics of the fiscal crisis are self-explanatory. Yet I believe that it is important to stress the issue of insufficiency of public savings. The fundamental flow characteristic of a fiscal crisis is not budget deficit, but negative public saving. Particularly in a developing country, this factor has a strategic role. Negative public savings tend to be a direct cause of low investment rates and the stagnation of per capita incomes.
Public savings, $S_G$, are equal to current revenue, $T$, less current expenditure, $C_G$, where interests are included.\(^5\)

\[ S_G = T - C_G. \]

Public savings represent a different concept from public deficit, $D_G$, that is equal to current state revenue less all expenditures including investments, $I_G$, and corresponds to the increase in the public debt:

\[ D_G = T - C_G - I_G. \]

Given these definitions, and not considering real seigniorage, public investments are financed either by public savings or by public deficit:

\[ I_G = S_G + D_G. \]

These distinctions are important. They are part of the standard national accounts system but with a shortcoming: state-owned enterprises are excluded from the calculation of public savings. Yet, few economists include public savings among their tools.\(^6\) Under the fiscal and monetary adjustment approach adopted by the IMF, the stabilization literature refers almost exclusively to the public deficit. I believe, however, that to analyze the economy of any country, public savings are a concept at least as important as the concept of public deficit.

Public savings become a particularly important tool if we adopt a broad concept of public investment. According to this concept, public investments cover, not only, (1) investment proper, which includes (1.1) investments in projects in which the private

\(^5\) We could exclude from current revenue and expenditure the state owned enterprises. In such a case the simplest way to consider their savings (or dissavings) is to add to the identity the profits (savings) or deduct the losses (dissavings).

\(^6\) I have no knowledge of any study of public savings in Latin American countries. As for Brazil, the information exists but, as everywhere, it excludes the state-owned enterprises. An economist who used the public savings concept in a pioneering way was Rogério Wernack (1987) in his study of the economy of the Brazilian state.
sector has not shown interest (usually infrastructure), (1.2) social investments (education, health) and (1.3) investments in security (police, prisons); but also, (2) the free public expenditures—"free" because they are not committed to the public officers salaries nor to the current state services —, which improve the country competitiveness, that include (2.1) subsidies or incentives to private investment (agricultural and industrial policy), and (2.2) expenditures on technological development to be provided for the private sector.

When public savings are near zero, the state will have only one alternative to invest: to finance investment through public deficit. However, if the objective is to reduce public deficit – an intrinsic part of any program to resolve a fiscal crisis – a likely outcome will be a cut in public investments and the consequent reduction of GDP growth. Thus, with zero public savings, if the state invests, its indebtedness will be increasing and its credit-worthiness further diminishing; if the public deficit is eliminated, investment will be cut. If public savings are negative, the state will have a deficit even if public investments are zero. The deficit will finance current expenditures, most of it typically interest on loans. In any event, the state will be paralysed, unable to formulate and implement policies that promote growth. And this paralysis, more than anything else, reveals the relation between fiscal crises and economic stagnation.

3. The Washington Interpretation of the Crisis

When the Latin American crisis broke out, the creditor countries’ interpretation for its causes and remedies underwent two phases. In a first one, between 1982 and 1984, the crisis was minimized, viewed just as a liquidity crisis. In a second one, starting around 1985, the crisis started to be taken more seriously. Besides fiscal and balance of
payments adjustment, “structural”, market oriented reforms were viewed as essential. The Washington consensus was at last emerging, pushed by a conservative, neo-liberal wave, that was taking place in the First World since the mid 1970s.

In the Washington consensus, the crisis was admitted, but in a limited way. Its causes were defined: fiscal indiscipline (or economic populism), resulting in public deficit; and excessive state intervention, particularly through state-owned enterprises, trade restrictions and several types of subsidies to investment and consumption. The remedies were listed: fiscal adjustment, aimed at eliminating the public deficit; structural or market oriented reforms (particularly trade liberalization and privatization) aimed at deregulating and reducing the state apparatus; and limited debt reduction (the Brady Plan, 1989).

The debt crisis was not viewed as the single most important cause of the crisis. The internal causes received much more attention. When the Brady Plan was formulated, in February 1989, most analysis demonstrated that it was in the right direction but that the debt reduction it implied was insufficient. The burden of adjustment and reforms would fall almost exclusive on the shoulders of the debtor countries. Yet, soon after Mexico signed the first debt agreement according to the Plan, capital flows increased and Mexico started to present increasingly better economic results. Immediately a spurious correlation between the Brady agreement and these capital flows was established. Hot money was going to the region not because Latin America had solved its problems and was back to growth, but because it was being attracted by high interest rates, that are a perverse consequence of the lack of confidence provoked by the debt crisis. Yet, Washington and the banks convinced themselves that the debt

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7 It is curious to observe how this expression “structural” was coopted by neoliberalism. In the 1950s and 1960s it was used by structuralist, national-developmentalistists, that asked for “structural reforms”: agrarian reform and progressive tax reform were the more popular. In the 1980s “structural reforms” meant market oriented reforms of the state.
crisis had been solved. The motivation for an effective solution vanished. Since 1990 the standard catch phrase in Washington, that is essential to the neo-liberal approach, has been “the debt crisis was grossly overestimated”.

Fanelli, Frenkel and Rozenwurcel (1990: 1), in their critique of the Washington consensus, observed that the Latin American crisis did not originate in the weaknesses of the import substitution strategy but rather in the dynamics of the adjustment to the external shock that took place in the beginning of the 1980s. In fact, the principal constraints to growth today originate in the long-lasting features of the external and fiscal imbalances induced by the debt crisis that has still not reversed after ten years of adjustment.

The three Argentinean economists underestimated the exhaustion of the import substitution strategy, but their definition of the origins and nature of the crisis is an excellent example of the crisis of the state approach.

Secondly, the political origins of this crisis are not primarily due to economic populism, as it is usually thought in Washington. Populist economic policies undoubtedly played a role, but populism has always existed in Latin America and, before the 1980s, it did not represent an obstacle to reasonable price stability and growth. The new historical fact that led the Latin American economies to a fiscal crisis never experienced before, was a non-populist decision taken in the 1970s,

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8 See Chapter 6, where I discuss the perverse character of the present capital flows to Latin America and the vanishing motivation to effectively solve the debt crisis.

9 On the fiscal character of the crisis, see also Jeffrey Sachs (1987), Bresser-Pereira (Chapters 4, 5 and 6 of this book), Fanelli and Frenkel (1989), and Reisen and Trotsenburg (1988).

mostly by the military regimes, to underwrite an enormous foreign debt, and, subsequently, to turn it into a state responsibility. Populism is blamed by the neo-liberal approach for something that was not primarily its fault (Bresser-Pereira and Dall’Acqua, 1991; Cardoso and Helwege, 1990). It was not by chance that the only country in Latin America which presented satisfactory rates of growth in the 1980s was the one that previously did not run up a large foreign debt, Colombia.

The inability to finance the state by taxes, particularly income taxes, is an essential feature of the Latin American countries that endure a fiscal crisis. Wealthy people do not pay their fair share in taxes in Latin America. The tax burden tends to be systematically low, not only when compared with developed countries, but also with Asian countries with about the same level of development (Kagami, 1989). Tax systems tend systematically to be regressive in Latin America, as they are mostly based on indirect taxes.

The state in Latin America was originally financed by export taxes. In the second period, when rents from primary products exports had been reduced, state investments were financed by indirect taxes, by specific taxes matching expenditures in a given sectors,\(^\text{11}\) by the reinvestment of profits of monopolist state-owned enterprises,\(^\text{12}\) and by security funds, that, by definition tend to present a surplus in the first years after they were created. When, in the 1970s, for several reasons these sources of revenue for the state had been exhausted or had shown to be insufficient, foreign debt proved

\(^{11}\) Examples: oil tax to finance road construction and oil prospection, electric energy tax to finance power generating plants.

\(^{12}\) In Brazil most of the investments in the oil industry by Petrobrás and in the telecommunications industry by Telebrás were financed by internal profits.
an easy alternative to finance the state. With the suspension of this source of financing, inflationary tax increased its role in financing the state.\textsuperscript{13}\ The normal way of financing the state - taxes, particularly income taxes - was never the normal way in Latin America. As Przeworski observes:

“the crucial question is whether the particular state is capable, politically and administratively, of collecting tax revenue from those who can afford it: in several Latin American countries, Argentina notably, the state is so bankrupt that the only way it can survive day-to-day is by borrowing money from those who could be taxpayers” (1990: 20-21).

This feature could be attributed to populism, but I would rather identify it with the authoritarian, limitedly democratic character of the Latin American capitalist state, which entails a subjection of the state to the rich.

The fact that governments in Latin America usually tax insufficiently while incurring budget deficits, initially financed by borrowing and later by an inflationary tax, may have a third explanation besides populism and authoritarian rule. Some authors, involved in a “new political economy,” relate this phenomenon to political instability and political polarization. The perspective of political alternance (instability) and the highly conflicting social systems (polarization) existing in Latin America as a consequence of an extremely uneven distribution of income induce governments to incur deficits today that will be paid in the future by another government probably representing others interest groups. (Alesina and Tabellini, 1988; Alesina and Edwards, 1989; Edwards and Tabellini, 1990).

The Washington Consensus was defined by John Williamson (1990), and immediately identified with neo-liberal ideas. As a matter of fact, it is a milder form of neo-liberalism, since the Washington bureaucrats that formulate it lack the dogmatism

\textsuperscript{13} The average income tax in Latin America was, in 1988, only 23 percent of the total government revenues. And this figure is inflated due to the oil producers, like Ecuador and Mexico (Cheibub, 1991).
that characterizes neo-liberal or neo-conservative ideas. Neo-liberals, for instance, aim at the minimum state, while Washington, even in its more conservative phase, in the late 1980s, when the consensus was formulated, always attributed a positive role to the state in social expenditures (education and health) and in infrastructure investments. Williamson himself is not a neo-liberal, but a classical liberal.\textsuperscript{14} On the other hand, since the Democratic Party won the presidential elections in 1992, the neo-liberal wave clearly receded in Washington.

This milder form Washington consensus assumes, in comparison with neo-liberal ideas, plus the changes that took place since it was formed in the late 1980s, has led some people to ask if there is really a difference between it and the crisis of the state approach. There is. First, because we are not considering the intentions of A or B, but the statements, as they were made by the leading figures in Washington. Second, because we are not taking into consideration the changes that occurred since then. These changes are a fact, that show that the soon after the consensus was formed it began to break-up, but a fact that does not eliminate the basic neo-liberal origin of the original consensus.\textsuperscript{15}

4. The Fiscal-Crisis Approach

The Washington consensus views itself as the only alternative to the import substitution strategy and to the “national-developmentalist” interpretation of Latin America. It is not so. New facts demand new approaches. The national-developmentalist approach may be considered the generic designation of two interpretations of Latin America: the national-bourgeois and the new-dependency

\textsuperscript{14} Williamson’s qualifications of the Washington consensus, in his paper “Democracy and the ‘Washington Consensus’” (1993) is a good demonstration of this fact.

\textsuperscript{15} As I observed to John Williamson, he identified, not invented the Washington consensus. But once he did that, he lost control of its creature, that started to have an independent life. He may continue to specify what he understand by the consensus, as he did in his 1993 paper, but the consensus itself is (or was) another thing.
interpretations. The national-bourgeois approach, that Prebisch (1949) formulates in Santiago do Chile, as executive director of ECLA (Economic Commission for Latin America of the United Nations) was the first paradigmatic moment of self-interpretaion of the Latin American development. Celso Furtado (1950) will be the Brazilian pioneer of this vision of the Latin American development. The new dependency theory, that found its first comprehensive analysis in Cardoso and Faletto (1969), was a second paradigmatic moment of interpretation of Latin America. It prevailed in the 1970s, after the Latin American economic crisis of the 1960s. The two approaches were closely connected. They lost capacity to explain Latin American development as the 1980s’ crisis broke up.\(^{16}\) The neo-liberal critique emerged and prospered in the void left by the crisis of the two previous interpretations. But, as all ideological interpretations, it soon showed to be dogmatic and not realistic. A new synthesis is on the way, as the 1980s’ crisis is being overcome. It may be the third paradigmatic moment of interpretation of Latin American development, once it is in fact resumed. I propose to call it the crisis of the state or the social democratic approach.

The crisis of the state approach, whose immediate origins are in the new dependency theory, represent a step forward in the direction towards more market oriented and market-state coordinated reforms. It acknowledges that there is a populist, fiscal indiscipline problem, that the public deficit is a major problem, but adds that the problem is more serious than merely a problem of fiscal indiscipline. Actually, most of Latin-American countries face a fiscal crisis.

\(^{16}\) On the loss of interest on the dependency theory in the 1980s, exactly in the moment that foreign influence increased extraordinarily in Latin America, see Stallings (1991).
The fiscal crisis approach defines the fiscal crisis as being consequence not only of the public deficit, but also of the excessive public debt, negative public savings, and, as a consequence of the lack of credit of the state (incapacity to finance itself, except through seignorage), lack of credibility of government and immobilization of the government. It acknowledges that the state has become too big, that state-owned enterprises tend to be inefficient, and that regulation was distorted, protecting special interests of bureaucrats and industries, that national-developmentalism became distorted by populism. Thus, it supports market oriented reforms, particularly outward oriented, export led industrialization. But it does not confuse market oriented with market coordinated reforms. The economy must be strongly marked oriented, that is, it must be as competitive as possible, inwardly and outwardly. Economic coordination, nevertheless, must be mixed. It concerns to the market the basic role of resources allocation, but the state, after being reformed and fiscally adjusted, must assume new and important coordinating functions not only in the social realm, but also in the fields of technology and international trade, beyond remaining the main responsible for infrastructure investments.

It is essential to the fiscal-crisis approach the idea that the crisis is consequence of a state that is too weak rather than of a state that is too strong. The crisis is not a consequence of a state that grew too big and too strong, but of a state that has turned too big and too weak, and is unable to carry out its own specific functions and to complement the market as it should. The state has been weakened and immobilized by the fiscal crisis, that was the outcome of disordered and distorted growth of the state apparatus. The objective of structural reforms should not be to reach the “minimum state”, but to strengthen the state and to define a new strategy of development, consistent with new and limited forms of state intervention. Giving the cyclical and ever changing character of state intervention (Bresser-Pereira, 1988a), the new sectors where the state will have to invest in, besides the social one and infrastructure, will be high technology and environment.
The assumption that it is enough to stabilize and to reduce state intervention for growth to follow is false. While liberalizing reforms do foster market coordination and improve resource allocation, making the economic system more efficient is not enough for growth. If growth is to resume, it is necessary to combat the fiscal crisis, to recover the public savings capacity and to define a new strategy of development. The national developmentalist approach have stressed the role of the State, but, supposing to be following a “Keynesian” view, they have accepted and even advocated chronic public deficits. This populist view is contradictory in itself. Their sponsors have weakened the state they have intended make stronger. Public saving is the difference between current State revenue and its current expenditures. State may only be strong and able to take a strategical role in the development process, if it is able to finance its investments and its social and economic policies with public saving instead of incurring in increasing debts.

The crisis of the state or social democratic approach assigns the Latin American economic difficulties to the debt problem as much as to economic populism.  

17 It is not as easy as in the case of the Washington approach to define the sponsors of what I am calling, for lack of another established name, the “fiscal-crisis” or social democratic” approach: “fiscal crisis” to underline the basic cause of the Latin American crisis, “pragmatic” to disallow any kind of dogmatism, social-democratic, to underline its distance from neo-liberal and conservative as well as from nationalist and populist views. As direct predecessors of the present essay I should cite Sachs (1987), Dornbusch (1990) and Fanelli, Frenkel and Rozenwurcel (1990) and the chapters in this book were I previously discussed the fiscal crisis, the cyclical character of state intervention and the new role of the state. Here, I will quote several economists not only in Latin America and Asia, but also in the U.S. and Europe, who share the basic tenets of this approach. Only among the economists quoted in this chapter I would indicate as sharing the views of the fiscal crisis of pragmatic approach: Adolfo Canitrot, Albert Hirschman, Alice Amsden, André Lara Resende, Barbara Stallings, Edmar Bacha, Collin Bradford Jr., Eliana Cardoso, Felipe Passos, Fernando Fajnzylber, Gene Grossman, Guillermo Rozenwurcel, Jeffrey Sachs, José Maria Fanelli, Joseph Ramos, Maria Conceição Tavares, Michael Bruno, Miguel Kiguel, Mitsuhiro Kagami, Nora Lustig, Paul Beckerman., Paul Krugman, Pedro Malan, Pêrsio Arida, Roberto Frenkel, Rogério Werneck, Rudiger Dornbusch, Sebastian Edwards, Werner Baer and Yoshiaki Nakano.
had as a consequence a fiscal crisis of the state, that expressed itself in high rates of inflation. As prices and wages tend to be informally indexed, this high inflation has often a chronic or inertial character. In Brazil this was particularly true. In the light of this approach, stabilization programs, besides adopting orthodox fiscal and monetary policies, should include incomes policies and reduce the outstanding public debt. Once stabilization is achieved, market-oriented reforms should ensue, but the state that emerges from these reforms, while smaller and reorganized, should have not only a political and a welfare but also an economic role as well, particularly in the area of targeted industrial policy oriented to export promotion.  

Although the fiscal-crisis or social democratic approach has as its antecedent the national-developmentalist and the dependency approaches, that were dominant throughout the 1970s, it differs somewhat from them. The major difference in relation to the national-developmentalist approach lies in the fact that this interpretation took the causes of underdevelopment to be “structural” and directly related to imperialism, whereas the social democratic approach assumes that they are to some extent “strategic” and have major domestic origins. To the crisis of the state approach, underdevelopment does not have a fatality character, nor can be explained mainly by imperialistic exploitation; it can be overcome since correct domestic strategies are adopted, particularly since a fiscally sound state align itself with the private sector and define together a development strategy. Second, the social-democratic approach criticizes the populism that often distorted national-developmentalist. As the previous approaches, the crisis of the state interpretation denies the thesis of the

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18 The literature on the theory of inertial inflation is already large. It is an essential part of the crisis of the state approach, as it represents the more important theoretical critique from Latin America to conventional economic theory that the Washington consensus adopts. On the subject, see Passos (1972), Bresser-Pereira and Nakano (1983), Arida and Resende (1984), Baer (1987), Dornbusch, Sturzenegger and Wolf (1990). Chapters 9 and 10 of this book are good examples of applications of the Theory.
minimum state. It is also concerned with the importance of international variables, that manifested themselves in the 1980s through the debt crisis and the protectionist policies of the developed countries. It is critical of the standard diagnoses and recipes that ignore the specificities of Latin American countries.

Since the onset of the debt crisis, the adjustment programs sponsored by Washington called for balancing budgets through both current expenditure and investment reductions. The alternative to eliminating the budget deficit through an increase in taxes and a reduction of the public debt received less attention.¹⁹ In practical terms, balance of payment and price adjustments are regarded as so important that the quality of fiscal adjustment is not taken into account. A fiscal adjustment that hurts investments is considered as good as one that cuts current expenditures. Expenditure cuts are treated as superior to tax increases, ignoring that expenditure cuts will usually be regressive while tax increases can be a tool of income distribution.²⁰ Debt reduction is systematically left aside as a last resource. And the idea that the recovery of public savings is an essential part of reforms is usually disregarded.

In contrast, the fiscal-crisis approach starts from the hypothesis that growth does not automatically resume after stabilization, either because stabilization is achieved at the cost of public investment or because reform does not tackle the public savings question. This approach asserts that growth will only be resumed if stabilization and market-oriented reforms are complemented with the recovery of the public savings

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¹⁹ This is not consensual in Washington. Recently, the World Bank has been stressing the importance of increasing taxes to balance the budget and also to finance antipoverty programs that would make fiscal adjustment and structural reforms compatible with democracy. IMF is increasingly worried how to achieve stabilization with growth. See particularly Vito Tanzi’s paper (1989) in the IMF book edited by Mario Blejer and Ke-young Chu, *Fiscal Policy Stabilization and Growth in Developing Countries* (1989).

²⁰ This critique is originally due to Sachs (1987).
capacity and with policies that define a new strategic role for the state. For the fiscal crisis means not only that the state has no credit, being unable to finance its activities, but also that it has lost the capacity to invest and push forward long-run policies oriented to industrial, agricultural and technological development. Once the fiscal crisis is overcome, public savings will have to be restored in order to finance a growth program.\(^{21}\)

The neo-liberal approach assumes that private savings and investments will substitute for public investment. True, historically this has been the trend of the investments in manufacturing and infrastructure. The state performed a decisive role in Germany and in Japan at the end of the nineteenth century, directly investing in the productive sector. Yet, since the beginning of this century this role did not cease to be reduced and transformed. In those countries, however, the state continues to play a fundamental role on the social field and on promoting economic development through industrial and trade policy. The privatization process that started in the 1980s represents a second historical wave of substitution of private for state ownership. It is being induced not only by ideological, but also, if not mainly, by fiscal reasons. It is a form of overcoming the fiscal crisis of the state. Selling state-owned enterprises the state achieves - or should achieve - the reduction of its debt with the private sector.

As it happens in the developed countries, the state in the developing ones will continue to play a fundamental role in the social field and in development promotion. According to the crisis of the state or social-democratic interpretation, the state in

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\(^{21}\) There is, obviously, an alternative: to finance growth with foreign savings, particularly with foreign direct investment. This is in part the route presently being followed by Mexico. Foreign investment and capital repatriation permitted Mexico to overcome stagnation and start economic recovery.
Latin America will have to perform a supplementary but nevertheless strategic role in coordinating the economy and promoting economic growth, analogous what happened at Japan and what has been happening at East and Southeast Asia. These regions, where development has been extraordinary, have a fiscally balanced states, that use public saving in order to promote development.

The social democratic approach supports trade liberalization, but not as a magic formula. As Collin Bradford Jr. (1991: 88) observes, the recent literature on development strategies presents two alternatives to achieving international competitiveness: (1) “structural reform of the national economy for domestic competitiveness which results in dynamic growth and an increased supply of exports” or (2) “trade policy reform for international competitiveness which allows the economy to respond to external demand”. The last alternative is characteristic of the Washington approach. Its representatives enumerate several “prerequisites for a successful outward-oriented strategy” (Krueger, 1985) but it is quite clear that the essential pre-requisite in their view is to liberalize trade and open the economy. The first alternative is preferable in the light of the social democratic approach. While trade liberalization alone may be an appropriate strategy for small countries like Singapore, Hong Kong, or Uruguay, for the large countries of Latin America, trade liberalization should be just one ingredient in a development strategy encompassing public savings, investments in education and in technology as well as export promotion. The import substitution strategy is over, having exhausted its potential a long time ago. This strategy does not assure international competitiveness. But it makes little sense to believe that it is enough for the state to stabilize, to liberalize trade and to promote public education for growth to resume automatically. In the words of Bradford Jr.: The export-led growth [neoliberal] idea is based on the notion that if conditions are right, exports will occur, but the theory does not specify the agents of dynamic export growth beyond The efficiency gains form the static allocative effects of getting prices

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22 It is present, for instance, in Fajnzylber (1990).
right. The growth-led export [pragmatic] idea is based on a richer range of elements which activate the growth process. These focus on knowledge generation process both domestically through education, training, literacy, R&D support and the like as well as the crucial absorption of technologies from abroad through open economic policies (1991: 93; brackets are mine).

The social democratic approach should not be viewed as a rejection but as an alternative to the Washington consensus with which it shares many views. Both are opposed to the “national-populist” posture that still exists in Latin America, although with progressively less credibility and support. The social democratic approach accepts the need for reducing the size of the state, which grew exorbitantly in the last 50 years, and agrees that this expansion generated serious distortions, since the state tended to be captured by the special interests of rent-seekers. It emphasizes, however, that the crisis of the Latin American state is due to the fiscal crisis, that weakened the state, and to the fact that the form of state intervention – import substitution strategy of industrialization – is exhausted. It does not accept the neo-liberal axiom that says: “since state failures are worse than market failures, the solution is to reduce to a minimum state intervention.” Actually, state failures depend on its own growth cyclical movement. When it is dominated by the interests of special groups and it becomes a fiscal crisis victim, its failures will be overbearing. In this moment, market oriented reforms will be nothing but required reforms of the state. Once achieved that reform, which is similar to a business enterprise’s restructuration, public policies will recover efficiency and effectiveness, and the state will be able once more to play a complementary but strategic role in the coordination of the economy.

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23 The populist and nationalist approach shuns off any type of adjustment, proposes that fiscal deficits and higher wages are functional in invigorating aggregate demand and growth, denies that state intervention was too high and that the protectionist import substitution strategy is exhausted. The number of proponents of these ideas in Latin America was drastically reduced in recent years. The correspondent practices, however, continue to be widespread.
Hence, market oriented reforms are not monopoly of neo-conservatism. A social democratic approach will support them, provided they are not radical or dogmatic, aiming at an unrealistic minimal state. It stresses, however, that the neo-liberal assessment of the causes of the crisis is incomplete and partially mistaken, when, for instance, it confuses a deep fiscal crisis with a voluntaristic conception of fiscal “indiscipline”, when it underplays the role of the debt crisis, when it ignores that besides mutual there are conflicting interests between Latin America and the First World, when it ignores that besides mutual there are conflicting interests between Latin America and the developed countries.

According to the social democratic approach, The Latin American crisis can be explained by the cumulative distortions provoked by years of populism and “national-developmentalism”, by the excessive and distorted growth of the state, by the burden of the foreign debt, by the exhaustion of the import substitution strategy and by the basic consequence of all these accumulated trends: the financial crisis of the state – a crisis that immobilizes the state, transforming it into an obstacle rather than an effective agent of growth.

The concept of the fiscal crisis of the state should be clearly distinguished from mere fiscal laxity or budget deficit. The fiscal crisis is a structural phenomenon, rather than a short-run, circumstantial one. Persistent public deficits certainly engender a fiscal crisis, but once the deficits are eliminated, the country confronts a more serious problem: potential public savings are being used to pay interests on domestic and foreign debt instead of being used do promote growth.
Figure 1.1: Four Approaches

Fiscal Discipline

<table>
<thead>
<tr>
<th>Market-State Coordination</th>
<th>Low</th>
<th>High</th>
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<tbody>
<tr>
<td>Mixed</td>
<td>Populist</td>
<td>Social-democratic</td>
</tr>
<tr>
<td>Market</td>
<td>Reaganomics</td>
<td>Neo-liberal</td>
</tr>
</tbody>
</table>

A two-entry matrix (Figure 1.1) will help to summarize the differences between the social-democratic or crisis of the state approach, the neo-liberal or orthodox approach and the populist version of the national-developmentalist approaches. At one side we have fiscal discipline (low and high), at the other market-state coordination (mixed and market). The first cell, starting from the right upper corner, (fiscal indiscipline – mixed coordination) corresponds to the populist national-developmentalist approach. The second cell (high fiscal discipline mixed coordination) corresponds to the social-democratic approach, as it is typical of the European social democracy. It also could be called East-Asian approach, since fiscal discipline and state intervention have been the cornerstones of Japanese, Korean and Taywanese economic policy. The difference between the social-democratic and the East-Asian approach is that the first accentuates the income distribution role of the state, while the second does not. The third cell (high fiscal discipline - exclusive market coordination) corresponds to the

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24 Japan, Korea and Taywan states did not have to be particularly concerned with income distribution, because the reforms imposed by the United States in these countries after World War II, particularly agrarian and tax reform coupled with the high educational levels already existing, provided the basis for a reasonably fair income distribution.
neoliberal approach or orthodox economic views. Finally, the forth cell (fiscal indiscipline - exclusive market coordination) corresponds to populist neo-conservatism whose best example was actual “reaganomics” - the economic policies that characterized the Reagan administration in the United States (1980-1988). There is no example of this kind of approach in Latin America.

5. Eight Countries
Having this general framework in mind, let us examine the eight larger countries in Latin America (see Table 1.2). Two have been developing very well for some time already: Chile and Colombia. Colombia never underwent a real fiscal crisis nor high rates of inflation. Chile was able to solve its fiscal crisis and to stabilize in the 1970s, adopting orthodox, costly and inefficient, but eventually effective, economic policies. Colombia did not undertake modernizing or liberalizing economic reforms, Chile did, but even Chile did not privatize the copper mines. Both countries show large public savings. One country - Mexico - adopted a stern fiscal adjustment program since 1985, implemented bold economic reforms since 1987, liberalizing and privatizing its economy, and stabilized its inflation in December 1987, when prices and wages were frozen and the government mediated a social agreement - the “Pacto de Solidariedad Social” - between the businesses and the workers. Mexico did not actually solve its debt crisis, as the negotiation of its foreign debt according to the Brady Plan, produced a limited reduction of the debt (around 15 percent). The internal fiscal effort, however, was enormous. The heterodox shock of December 1987 was well prepared, well negotiated, and well implemented. And the structural reforms were radical. This internal effort, the perspective that Mexico will be part of the North American Free Trade Association (NAFTA), plus an increasing flow of foreign investments, created positive expectations in relation to Mexico, Since 1991 Mexico has started to grow again, but at modest rates, not compatible with the high levels of foreign investments.
A sign that its fiscal crisis was not completely overcome is the heavy burden that the payments of interests on the public debt represent to Mexico.

**Table 1.2: Latin America: Per capita GDP growth and inflation in the 1980s. Selected countries**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>-2.1</td>
<td>-5.6</td>
<td>-1.8</td>
<td>468.6</td>
<td>4923.8</td>
<td>1344.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.2</td>
<td>1.2</td>
<td>-5.9</td>
<td>489.9</td>
<td>2337.6</td>
<td>1585.2</td>
</tr>
<tr>
<td>Bolivia</td>
<td>-1.8</td>
<td>-0.1</td>
<td>-0.2</td>
<td>192.8</td>
<td>16.6</td>
<td>18.0</td>
</tr>
<tr>
<td>Chile</td>
<td>4.4</td>
<td>8.0</td>
<td>0.3</td>
<td>19.8</td>
<td>21.4</td>
<td>27.3</td>
</tr>
<tr>
<td>Colombia</td>
<td>2.7</td>
<td>1.5</td>
<td>2.1</td>
<td>24.5</td>
<td>26.1</td>
<td>32.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>-1.3</td>
<td>0.9</td>
<td>1.7</td>
<td>73.8</td>
<td>19.7</td>
<td>29.9</td>
</tr>
<tr>
<td>Peru</td>
<td>-2.6</td>
<td>-13.2</td>
<td>-6.8</td>
<td>443.2</td>
<td>2775.8</td>
<td>7649.7</td>
</tr>
<tr>
<td>Venezuela</td>
<td>-1.1</td>
<td>-10.1</td>
<td>3.2</td>
<td>32.5</td>
<td>81.0</td>
<td>36.5</td>
</tr>
</tbody>
</table>


The five other countries are still fighting with their fiscal crisis. Bolivia’s inflation was stabilized in 1985, the economy remained stagnant for some time, but recently has been growing again. Venezuela and Peru adopted radical economic reforms in 1991, but were caught in serious political crisis in the next year. In Peru, in 1992, the democratic regime broke down, and the newly elected President assumed dictatorial powers. In Venezuela, President Andrés Perez and his orthodox economic reforms were under serious attack from all sectors of society. In Argentina, that, like Bolivia, Peru and Brazil, experienced hyperinflation, an exchange rate shock (the adoption of the exchange rate as a nominal anchor) in April 1991 - the Cavallo Plan - plus strong
fiscal adjustment and economic reforms, allowed the economy to stabilize and resume growth. The overvaluation of the peso, however, presents a threat to the program.

It is useful to appoint that the governments of the Latin-American countries, mainly Chile and Colombia that have been presenting positive economic outcomes, are far from following all the neo-liberal recipes. The Chile copper mines are still state-owned. Public savings in Chile are around 10 percent of GDP. Colombia executed few liberalizing reforms. Mexico was stabilized in consequence of a heterodox shock and still firmly controls the prices of monopolistic sectors. In all that countries the state, that is slowly being restored, plays a central role.

Finally Brazil has been for long trying to implement fiscal adjustment and economic reforms. Early in 1990 a frontal attack on inflation was undertaken - the Collor Plan I -, but failed. In 1992, an orthodox and gradualist economic program monitored by IMF pushed the real interest rates to around 4 percent a month and led the economy into deep recession, without, nevertheless, achieving to reduce inflation. It only kept the inflation rate stable a little above 20 percent a month. At the end of the year, the president, who was being charged with corruption charges, was impeached. The new president, Mr. Itamar Franco, did not show, until the moment this text was being written (March 1994), capacity to face the chronic or inertial inflation, that is already over 30 percent a month.  

6. Frontal Attack or Gradualism

The two approaches to The Latin American crisis - a neo-liberal strategy and the social-democratic one - are compatible with two alternatives strategies to stabilize and

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25 Yet, a new stabilization plan, led by finance minister Fernando Henrique Cardoso, was under way. This plan, that will be analysed in the end of chapter 9, has for the first time since the Collor Plan (1990), the possibility of defeating inflation, that presently runs at 40 percent a month.
reform: a frontal attack on the fiscal crisis and on the inflation, or a gradual confidence building strategy. Both strategies involve fiscal discipline, balance of payments equilibrium, and market-oriented economic reforms, particularly trade liberalization and privatization. Both are concerned with eliminating subsidies and administrative controls, getting the prices right, stimulating internal and foreign competition, assuring an efficient resource allocation, reducing the size of the state.

On the other hand, depending on the seriousness of the fiscal crisis, a frontal attack strategy or a gradual confidence-building one will be recommended. If the fiscal crisis turned into hyperinflation, if the state was in practical terms destroyed, the only alternative would be a risky frontal attack on the fiscal crisis. If the economic situation did not deteriorate so much, a gradual confidence-building strategy would be feasible.

By frontal attack I mean: (1) canceling internal public debt through monetary reform; and (2) reducing foreign public debt unilaterally or quasi-unilaterally to levels consistent with balance of payments and fiscal constraints. All countries that face hyperinflation have to adopt some combination of these two measures. The problem with this strategy is that it is risky. If it fails, the ensuing situation will be worse. That is why a gradual confidence-building strategy will be usually used if there is some room for it.

Bolivia, Peru and Argentina, where fiscal crisis was worse, achieving the hyperinflation climax, did not have other alternative except frontal attack. Brazil tried a frontal attack strategy in 1990, but failed. The classical case of a confidence-building strategy was Mexico, although in Mexico the inflation was also eliminated by a shock. However, in Mexico, like in Venezuela, the public debt was not cancelled, and the fiscal adjustment was based on expenditure reduction and wage reduction rather than on tax increases. A conventional Brady Plan was signed in August 1989, six months after the plan was announced by the United States’ Secretary of the
Treasury. Public savings recovery however was very limited Market-oriented structural reforms were fully undertaken. In other words, the costs of adjustment and of overcoming the fiscal crisis were imposed on the workers and the middle class. Local and foreign creditors were exempted from substantial debt reduction, and local wealthy people, exonerated from paying higher taxes. As a trade off, confidence among investors was restored. Foreign investment and repatriation of capital started to take place.

The realistic alternative for Latin America lies somewhere in between a frontal attack and a confidence-building strategy. Actually, what is necessary is a pragmatic and dynamic strategy that recognizes: (1) the weight of the fiscal crisis; (2) the need for market-oriented structural reforms and fiscal discipline; (3) the necessity of internal and foreign public debt reduction; (4) the hegemonic (and conservative) character of the United States in Latin America; (5) the conflicting views of the Latin American elites, that see de fiscal crisis but resist to tackle it through fiscal discipline and debt reduction, including foreign debt reduction, given its strong ties with the U.S.; (6) the conflicting views of the elites in The U.S., except the creditor banks, that know that the debt cannot be paid and that transference of real resources damage export possibilities of the U.S. to Latin America, but insist on keeping the initiative (and the limits) of debt forgiveness.

I personally believe that the national interests of the Latin American countries and of the United States have much in common. I am quite aware that the United States is much more relevant to Latin America than Latin America to the United States, but I am sure that many opportunities are open to the United States and to each one of the Latin American countries if they are able to understand each other and manage their differences in a productive way. While the economic hegemony of the United States was not limited to Latin America, but extended itself all over the world, the possibilities of cooperation between the United States and Latin America were limited. At the moment, however, it seem that this global hegemony has been lost to
Japan and Europe, and new possibilities of international alliances have emerged as a result (see Chapter 14).

Conflicts between the United States and more broadly between the First World and Latin America may have, on some occasions a real or factual basis. The debt crisis was one paradigmatic case. Disputes on property rights may be another. But in most cases the national interest of the Latin American countries and the First World coincide. Yet, in many cases ideological viewpoints, conflicting approaches to the problems and the solutions to the Latin American crisis becloud the mutual interests. The conflicting approaches I just analysed constitute a case in point. In practical terms the crisis of the state approach to the origins of the crisis and social-democratic or East-Asian approach to solve it are preferred by the Latin American countries, while the First World, that in practice does not apply the neo-liberal approach, uses it rhetorically as a standard recipe to Latin American problems. Yet, if growth is indeed resumed in Latin America in the 1990s, it will be the social democratic approach, based on the European and the East-Asian experience, rather than the Washington consensus that will prevail.
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