

Interpretations and Strategies

Latin America was in deep crisis in the 1980s. Incomes per capita decreased around 10 percent during the decade. In the 1990s, after a serious effort to stabilize their economies, to promote fiscal adjustment, and to adopt market-oriented reforms, countries have timidly resumed growth, although the problems that gave rise to the crisis are far from being fully solved. In 1994 income for the entire region increased around 3 percent. Since 1991 the average annual rate of growth has been moderate, a little above 3 percent, which means income per capita is at last increasing, but only around 1 percent each year. The last Latin American country to stabilize high inflation was Brazil, in 1994. Inflation, which was around 900 percent for the entire region in 1990, fell to around 16 percent in 1994 if we exclude Brazil. In Brazil inflation remained very high in the first half of 1994 but fell dramatically beginning July 1, when the Real Plan was enacted.

Yet it is too early to say that Latin America has overcome its crisis. Capital is flooding in, depressing the exchange rate and stimulating consumption rather than promoting savings and investments. Wage rates have only recently recovered to 1980 levels. The debt crisis, although no longer a dramatic problem, has not been satisfactorily solved. Manufacturing industries in the countries that liberalized trade and stabilized prices, such as Mexico and Argentina, are facing difficult times—evidence 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 American countries faced serious difficulties in the 1980s. Some, particularly Colombia, did not experience a real crisis. Others fully overcame their crisis, as Chile did. Other countries—particularly Mexico, Costa Rica, and Bolivia—have nearly overcome it. Argentina is a question mark, despite four years of successful stabilization. Brazil underwent substantial economic reforms and only recently stabilized prices. Peru stabilized its economy in 1991 and is engaged in economic reforms. Venezuela, where a radical stabilization plan politically destabilized the country, continues to face difficult times.

Since 1991, when countries in Latin America started showing good results (whereas reform in Eastern Europe proved to be harder than initially

expected), the continent again began to be viewed positively by the First World. Gross domestic product (GDP) for the entire region grew 3.8 percent in 1991. This and the very low interest rates prevailing in the developed countries vis-à-vis the very high rates 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 adjusted. Net transfers of resources, which were extremely negative throughout the 1980s, again turned positive in 1991 and increased further in the following years.¹

The new optimism that swept Washington is based on the assumption that Latin American countries had finally adopted necessary economic reforms, signed debt agreements according to the Brady Plan, stabilized their economies, and returned to economic growth. Yet this optimism does not seem to be well grounded. Countries such as Venezuela and Peru, which in 1991 were viewed as having adopted neoliberal economic reforms and on the way to recovery, face 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 of Mexico and Brazil. In fact, most Latin American countries still face a fiscal crisis.

Given these facts, some questions are obvious. Why was the crisis so profound? Why is the performance Table 1.1 reflects so poor? Why did per capita income in Latin America fall 9.06 percent during the 1980s, and the share of investment in GDP plunge from 23.2 to 15.6 percent in the same period? Why was per capita income in 1991 on the level of that of 1977? Why did inflation, which in 1980 averaged 54.9 percent, climb to 1,185 percent in 1990? Why did some countries escape the crisis and others manage to overcome it? Which interpretations of Latin America are relevant in understanding the crisis and helpful in the development of strategies to defeat it? Are the politicians' populist practices and immoderate state intervention, as is frequently said, sufficient to explain the crisis?

Table 1.1 Macroeconomic Variables, 1980–1992

	1980	1990	1991	1992
GDP growth (individual)	100.0	112.0	116.0	118.8
GDP per capita (individual)	100.0	90.6	92.2	92.7
Investment/GDP (%)	23.2	15.6	–	–
Debt/exports (%)	2.2	2.9	2.9	2.8
Net transfer (US\$ billion)	–	–14.4	8.4	27.4
Inflation (%)	54.9	1,185.0	198.7	410.7

Sources: Economic Commission for Latin America, *Panorama Económico de América Latina*, 1990 and 1991; World Bank, several *World Development Reports*; Inter-American Development Bank, *Economic and Social Progress in Latin America: 1990 Report*.

Otherwise, what is necessary to overcome this crisis? Is it enough to achieve stabilization, to privatize and liberalize, for growth to automatically resume? Could the relative success some of these economies are experiencing be attributed to market-oriented economic reforms and to the dominance of a neoliberal approach to Latin America's problems? Or are the challenges the region faces still immense, requiring a new interpretation of the Latin American crisis and the definition of a new growth strategy? This is what I call the crisis of the state approach, or the social-democratic and pragmatic strategy. Are privatization, trade liberalization, and deregulation only conservative reforms, or can they also be adopted by progressive or moderate-left politicians and policymakers?

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 Latin America's problems: the national-developmental approach, based on import substitution and on active state intervention in the productive sector of the economy.

Two competing approaches presently attempt to define this crisis and offer solutions to it: the neoliberal, or Washington consensus, approach; and the crisis of the state interpretation, or the social-democratic and pragmatic strategy. These approaches agree on some of the causes of the crisis and how to solve it. In particular, both criticize the populism and national developmentalism that long prevailed in Latin America, and they agree that the state grew too much in the region. Yet they have an essentially different view of the basic cause of the crisis and how to remedy it. Whereas the neoliberal approach attributes the crisis only to domestic problems, the crisis of the state approach also emphasizes the role played by the debt crisis; whereas one approach states that the basic cause of the crisis is the excessive strength of a state that grew too much, the other says the basic cause is the increasing weakness of a state that grew in a distorted way and went bankrupt. Both agree that it is necessary to reduce the size of the state, to privatize and liberalize, and to adopt market-oriented reforms, but the objective of the neoliberal approach is to reduce the coordinating role of the state—aiming at the minimal state—whereas the objective of the fiscal approach is to rebuild the state and recover state capacity.

The crisis of the state approach gives a more realistic view of the Latin American crisis. It is less dogmatic with regard to the policies to be followed. It uses the positive aspects of the neoliberal interpretation but is not contaminated by the radical and utopian neoconservatism lying behind neoliberal ideas. Nevertheless, since the neoliberal approach emanates from Washington—the dominant source of foreign political power for the region—actual policy will likely consist of a mixture of both approaches.

And the rhetoric of Latin American elites will be that the Washington consensus is being adopted.

The crisis of the state interpretation is central to this book. Yet in this first chapter I discuss the previous interpretations of Latin America, which serve as a background for the current ideas. In Chapter 2 I discuss the neoliberal and the crisis of the state approaches.

When we think about Latin American economic development, it is useful to refer to interpretations and strategies. For each basic interpretation of the causes of the region's relative underdevelopment, there is a corresponding strategy. Sometimes this strategy is clear, other times it is implicit. Conversely, because interpretations and strategies are ideologically prone, for each leftist approach there is a competing rightist one, and for each nationalist approach there is a competing internationalist approach. For simplicity we can call the union of interpretation and strategy approaches to Latin America.²

The adoption of a historical perspective is important because it illuminates the present. In addition, the remnants of some of these old interpretations—particularly of the national-developmental approach, which is charged with a strong populist content—are still strongly felt in Latin America today. Economic and political approaches are always ideological. They reflect clashes of class interests, which are particularly salient in Latin America where class differences are so accentuated.

The interpretations of Latin America's underdevelopment and their corresponding development strategies can be presented according to historical and ideological criteria. They can be enumerated as follows, with the decades during which they dominated:

- The agrarian destiny or liberal-oligarchic approach (up to 1930), competing with:
- The national-developmental approach, subdivided into the national-bourgeois approach (1930–1964) and the new dependency approach (1970s–mid-1980s)
- The modernizing-authoritarian approach (1964–mid-1970s), also competing with the new dependency approach
- The neoliberal approach (mid-1970s–today), competing with:
- The crisis of the state or social-democratic approach (mid-1980s–today)

These interpretations and development strategies sometimes succeeded and sometimes conflicted with each other. When they dominated, they corresponded to a development-oriented political pact or class coalition (I examine these pacts in Chapter 17).

The liberal-oligarchic interpretation and the corresponding agrarian

destiny strategy ruled until the 1930s. The national-developmental approach, which originated in the left and in the nationalist bourgeoisie, and the corresponding import substitution strategy were dominant in the 1950s, when Getúlio Vargas's populist pact prevailed. After the crisis during the 1960s, national developmentalism assumed a more sophisticated form—the new dependency interpretation—which, in spite of its name, criticized the view that imperialism was a major cause of underdevelopment in Latin America. Yet it underlined the distorting consequences—income concentration and authoritarianism—of the alliance of the United States and the multinational corporations (MNCs) with the local bourgeoisie and the military. It also criticized the populist views that had distorted the national-bourgeois approach. This critique, however, was not strong enough to prevent the reappearance in Brazil of populism, a shadow from the past, in the form of the Democratic Populist Political Pact, which was in force during the transition to democracy from 1977 to 1984 and the first two years of the new democratic government (1985–1986).³ Populism also reappeared in Argentina after the transition to democracy.

The modernizing-authoritarian interpretation was a feature of Brazil's technobureaucratic-capitalist regime from 1964 to 1984. It, too, corresponded to an excluding political pact involving the local bourgeoisie, the bureaucratic middle class, and the MNCs. It rose as a critique of the national-developmental approach yet it favored the import substitution strategy.

From the mid-1970s, when the local bourgeoisie broke its alliance with the military, to 1986, when the Cruzado Plan failed, a populist and democratic political pact involving the bourgeoisie, the democratic salaried middle class, and the workers commanded the Brazilian transition to democracy.

The neoliberal interpretation, a product of the right, began to gain ground in the 1970s when the dominant international ideology was neoliberalism, but it gained strength only after the final collapse of the modernizing-authoritarian pact (1984) and the subsequent inability of the populist democratic pact of the *Diretas Já* to face the emerging problems (1986). The crisis of the state approach—which can also be called pragmatic interpretation, because it rejects any dogmatism and shares East Asian pragmatism; or social democratic, because it also has as its model the European social democracies—began to assert itself among the moderate left after the Cruzado Plan's failure (1986) demonstrated the definitive exhaustion of the national-developmental strategy. At present, it is the real alternative to neoliberalism.

The neoliberal and the crisis of the state interpretations and their respective strategies are internationalist, but the first is based on the assumption of common international interests, whereas the latter is based on the national-interest principle.⁴ The neoliberal and social-democratic interpretations are discussed in Chapter 2.

The old agrarian destiny or liberal-oligarchic interpretation is distinguished from the neoliberal interpretation as follows: (1) the former's liberalism and individualism were more rhetorical than real; (2) its criticism of state intervention was based only on the disadvantages of intervention for the market and not on a pessimistic philosophical denial of the possibility of collective action; (3) its conservatism was based more on authoritarianism and tradition than on a definite identification of modernity with the market; and (4) its development strategy was based on export agriculture rather than on modern industry and a sophisticated and increasingly internationalized financial market.

The agrarian destiny interpretation recognized Brazil's underdevelopment and its economic and cultural dependence on the industrialized countries. It saw Brazil as being in the process of modernization, changing from a traditional society to a modern, capitalist one. This transition should have been based on Brazil's comparative advantages, which resided for the most part in agriculture. Industrialization was rejected because it would be "artificial." The central countries were seen as superior entities whose interests pretty much coincided with those of Brazil. Any kind of nationalism was rejected in the name of an internationalism that believed it was always possible to count on the goodwill of the developed world.

The agrarian destiny approach lost ground beginning in the early 1930s as successful industrialization proved the export agriculture strategy was wrong. The national-developmental approach then became dominant. Conservatives, who had adopted the agrarian destiny approach, slowly began to adhere to the industrializing strategy, particularly to its protectionist and developmentalist aspects. After the 1964 coup d'état this kind of rightist developmentalism—internationalist and modernizing but also protectionist—dominated Brazil. The political regime, which Guillermo O'Donnell called bureaucratic-authoritarian, had a corresponding industrialization strategy—the modernizing-authoritarian economic strategy—which was very similar to the populist nationalist one because it was based on protection of local industry and on active state intervention.

National populism became dominant in Brazil and generally in Latin America in the 1950s, although the situation that gave rise to it—import substitution industrialization—had existed since the 1930s. Populist national developmentalism in Latin America had been formulated mostly by the left, but it was never fully and authentically a left-wing strategy because it was based on the realistic recognition of both the weakness of the left and the unlikelihood of a socialist revolution. This double recognition led to a proposed alliance of workers, technobureaucrats, and industrialists around an industrialization project.

The national-developmental interpretation was essentially nationalistic and moderately in favor of state intervention because it saw the protec-

tion of national industry as essential to growth. It also saw Brazil as an underdeveloped country in transition from mercantile to industrial capitalism, in which infant industry was permanently threatened by imperialist competition from the industrialized countries, which wanted Brazil to remain an exporter of raw materials. Given these threats, Brazil's only alternative was to protect itself and to protect the internal market that had grown during the primary export period, reserving it for national industry. The import substitution industrialization model thus naturally imposed itself. For the country to resign itself to an agrarian vocation would have been suicide, given the unequal trade between producers of primary and industrial products and the tendency toward deterioration in the terms of trade for primary products.

This interpretation and the corresponding development strategy effectively promoted Brazilian industrialization until the 1950s. The approach was essentially but not entirely correct; the notion that the core countries would oppose Brazilian industrialization was disproved by the facts. Beginning in the 1950s MNCs began to play an increasingly important role in Brazil's industrialization, leading to the first schism among those who had taken part in the populist pact: between those who began to admit a positive role for MNCs and those who remained nationalistic.

Import substitution is essentially a transitory strategy for industrialization. It is effective in protecting industry in its infancy. This model of industrialization is limited by the size of a country's internal market because tradable goods are produced below international standards of efficiency and quality. Once this limit has been reached, the model has exhausted itself, and industrialization becomes exclusively dependent on the growth of the internal market, which in turn grows slowly because of low productivity or the lack of competitiveness of the excessively protected industry.

In the early 1960s, when the Brazilian economy went into crisis, the exhaustion of the import substitution model was perceived by the economists who had helped to formulate and justify it but who had also understood its transitory nature. As Celso Furtado (1964:119) noted, "We must recognize [that] the dynamic possibilities of import substitution have been exhausted." The 1964 coup d'état, in great part an outcome of this crisis, was interpreted by many of these authors—myself included—as marking the end of the populist pact and the industrialization model peculiar to it. The authoritarian military regime did in fact represent the end of Getúlio Vargas-style populism because it excluded workers and the left. The new, authoritarian political pact was restricted to civilian and military technobureaucrats and local and international capitalists. But when it came to development strategy, the regime resumed the same national-developmental strategy based on import substitution—that is, on protectionism. Now, how-

ever, it was under the exclusive command of the right and had an internationalist rather than a nationalist character. Protectionism was no longer national, taking on an international character as belief in the goodwill of international partners returned. It was assumed that common interests clearly transcended any conflict of interest between Brazil and other countries.

Yet there was an important modification of strategy. It was recognized that Brazil could and should export industrial goods. Export promotion of manufactured goods received special attention. Emphasis, however, continued to be given to the protection of national industry and to import substitution. The laws preventing the import of goods similar to those produced locally and the complex system of quantitative import control were maintained. Beginning in 1974 with the PND II, an ambitious import substitution program was set up for capital and basic intermediate goods, based on a typically autarkic perspective of the national economy that took for granted the need to “complete” the import substitution process. Through FINEP, the organ that finances Brazilian technology, technological development began to receive the attention it needed. The orientation of technological policy, however, was the same as that of the industrial policy: import substitution aimed at technical proficiency in all sectors rather than seeking international competitiveness in some selected sectors.⁵

In addition to being protectionist, this strategy was strongly interventionist, heavily subsidizing local capital goods and export industries and at the same time reserving a growing share of the intermediate inputs market and energy for state corporations. The state thus continued the strategy introduced in the 1930s, which had been based on protecting and subsidizing local industry and on directly investing in strategic sectors whenever national or multinational capital was not capable of or interested in doing the job.

This curious survival of the protectionist development strategy when it was no longer economically justifiable because it only defended the interests of industrial sectors that were incapable of competing internationally was possible in the 1970s thanks to foreign borrowing. The strategy’s survival was nevertheless clearly artificial and very expensive. In the 1980s this same foreign debt threw Brazil into a deep fiscal crisis that disorganized and paralyzed the state, leading the economy to stagnation and hyperinflation.

The economic crisis of the 1980s led the left and the right, the progressives or social democrats and the conservatives, to reformulate their interpretations. The right had little difficulty. It took advantage of the conservative and neoliberal wave that had gained momentum in the 1970s all over the world as a consequence of the slowdown in the growth rates of the central countries, the crisis of the welfare state, the collapse of the Keynesian consensus, and the fiscal crisis of the state, which had become the major problem in all countries—developed and underdeveloped, capitalist and statist alike. The right rapidly and rhetorically abandoned its

authoritarian interventionist strategy, which it had consolidated following its alliance with the military technobureaucracy in 1964, to adopt a neoliberal stand in defense of the minimal state, deregulation, and opening up the Brazilian economy. In practice, however, a significant segment of the right continued to support protectionism and to benefit from state intervention. In a way, this restored in a different historical context the classical contradiction between rhetoric and practice that, during the entire nineteenth century and the first half of the twentieth, had characterized the Brazilian conservative (free-market) ideology. At that time, what today is called neoliberalism was the banner of the oligarchic landowners.

For the left or progressive sectors, the abandonment of the national-developmental interpretation was and still is painful. The general crisis of the left worldwide was added to the crisis of Latin American national populism, whose industrialization strategy was viewed by the left as part of its way of being. When they came into power in 1985 following the victorious process of redemocratization, the progressive sectors—or at least those sectors that were supposed to be progressive by the mere fact of having opposed the military regime—tried to resume the populist and developmentalist policies that had been successful many years before.

The 1985–1986 economic policy, which ended with the failure of the Cruzado Plan, is an example of a populist economic policy. Populism was not part of the Cruzado Plan as originally conceived; rather, the plan was based on the innovative theory of inertial inflation. Its failure was the result of the disastrous way it was administered.

Economic populism, the economic practice behind the national-developmental approach—including its authoritarian version⁶—can be summarized in a few rules: (1) development should be oriented to the internal market; (2) protection of national industry should continue as the basic industrial strategy; (3) technological development complements the more general policy of import substitution; (4) a policy oriented toward exports is conservative because it concentrates income; (5) a public deficit is justified as long as unemployment and idle capacity exist, so that any fiscal adjustment should be viewed as “orthodox” economic policy; (6) high interest rates are a result of the machinations of finance capital and speculators; (7) nominal wage increases do not cause inflation in Brazil because they always lag behind inflation; (8) real wage increases may not be inflationary, given the high degree of income concentration; (9) state corporations are basically efficient, but they are not more profitable because their prices are artificially depressed; and (10) economic regulation through the state tends to perform better than the market.

These views dominated the democratic opposition’s economic criticism of the military regime. They were adopted by the PMDB and the PFL, the two leading political parties, when they assumed command of the government in 1985. The economic populism that characterized the first two years

of the Sarney administration was the consequence of this economic view, as well as of the optimistic economic hopes that flowered in Brazil with redemocratization.

These populist ideas are deeply entrenched in Brazilian politics. They are found not only in the left-wing parties, such as the PT, and the center-left parties, such as the PDT, the PMDB, and the PSDB, but also in the center-right and right-wing parties, such as the PFL and the PDS, recently renamed Partido Popular Republicano (PPR).⁷ The right, however, only adopted these ideas for opportunistic reasons, whereas many in the left believed and still believe them an essential part of their parties' programs, that left-wing politics necessarily includes these ideas.

Opposed to these ideas are the neoliberal and the social-democratic interpretations, which I examine in Chapter 2. These two interpretations share a common rejection of populism and nationalism, but they diverge on the causes of the crisis and the role of the state in promoting growth and welfare in Latin America.