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SOCIAL DISARTICULATION IN LATIN AMERICAN HISTORY

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Abstract

This paper examines the interaction between economic policies and alternating democratic and authoritarian forms of government in the context of Latin American history, especially that of the Southern Cone. The author claims that redemocratization is doomed to failure in the long run unless it is accompanied by an economic model which translates productivity gains into wage gains, thus reconciling growth with equity. The only style of development capable of achieving this in the present circumstances is social articulation: a growth path which is led by the production of wage goods and by the creation of effective demand for the domestic absorption of these wage goods, with trade controlled in such a way that it contributes to the articulation process.

Resumen

Este ensayo examina la interacción entre políticas económicas y las alternancias entre gobiernos democráticos y autoritarios en el contexto de la historia de América Latina, especialmente aquélla del Cono Sur. El autor afirma que la democratización está condenada a fracasar a largo plazo al menos que esté acompañada por un modelo económico que traduzca los aumentos productivos en aumentos salariales, reconciliando así el crecimiento con la equidad. El único modelo de desarrollo capaz de alcanzar esto en las circunstancias presentes es la articulación social: un camino de crecimiento dirigido por la producción de productos de consumo básico y por la creación de una demanda efectiva para la absorción doméstica de estos productos de consumo básico con un comercio controlado de tal manera que contribuya al proceso de la articulación.

Introduction

The history of many Latin American countries, and particularly those of the Southern Cone, has been characterized by an oscillation between democratic and authoritarian forms of government. Frequent changes of democratic regimes have led to economic destablization and to political delegitimation resulting in the emergence of military regimes. While often able to engineer spectacular economic growth, military regimes have also run into economic and legitimation crises, allowing the return of constitutional forms of government. There is, as a result of these oscillations, an active debate among Latin American social scientists on the causes of both the failure of democracy and the exit from military regimes. Explanatory factors for both transitions have proved to be extremely weak. A systematic study of the rise of authoritarian regimes has failed to establish any stable association between economic and political factors (Collier,1979). And the current analyses by social scientists of the process of redemocratization have focused almost exclusively on political factors: the delegitimation and repression by the military, the softening of ideological positions, and the formation of broad democratic class alliances (Garreton; Cavarozzi).

The thesis of this paper is that the cause for the long-run instability of democratic regimes originates in the failure of establishing an economic model able to translate productivity gains into wage gains and, hence, of reconciling growth with equity. Authoritarian forms of government are the political expression of patterns of growth that feed on cheap labor and on growing inequality in the distribution of income. The implication of this thesis is that redemocratization as a political process without a corresponding redefinition of the economic model implemented and of the class distribution of the benefits from growth is at best a temporary phenomenon. Countries to which this proposition applies most urgently are Argentina, Brazil, and Chile which are all at political turning points between military and democratic regimes. In all cases, the stablization of recently established or soon expected democratic regimes requires the urgent redefinition of the economic models to be implemented relative to the models that have led to the destablization of democracy in the past or that were implemented under military surveillance. Without falling into the trap of presuming a linear determination of the economic by the political, I am arguing here that a broad correspondence needs to be established between the two levels in order for participatory forms of government to be given a chance of stability.

In the current context of international economic crises and exhaustion of the economic models followed in the past, such as import substitution industrialization (ISI) and neoliberal export-led growth, new styles of development need to be defined and implemented. The crisis, in spite of its devastating social costs, thus can be seen as creating new opportunities for economic and political redefinition. What remains to be determined is a style of development that is consistent with the current international export pessimism, that is able to tie productivity gains in the sphere of production to real wage increases in the sphere of circulation in spite of structural unemployment, and that provides at least the objective (i.e., the necessary if not sufficient) basis for stable democratic forms of government.

My thesis is that the only style of development able to achieve these results in the current conjuncture is what I call "social articulation:" namely, a growth path which is led by the production of wage goods and by the creation of effective demand for the domestic absorption of these wage goods, with trade serving as a handmaiden of articulation. To argue the case for this style of development, I will show that failure to establish social articulation has been at the basis of the incapacity of democratic governments to remain in power in the Southern Cone countries and that its opposite, "social disarticulation," has been the style of development implemented by authoritarian regimes.

To defend this thesis, I will proceed in four stages. First, I will outline a theoretical framework useful to characterize and to analyze alternative styles of development. This will be used to establish the contrasted logic of accumulation under social articulation and disarticulation. Second, I will look at the different development theories that have been elaborated in or for Latin America in order to show how each theory conceptualizes, implicitly or explicitly, the question of social articulation and what type of programs it recommends in order to achieve social articulation. Third, I will review archetypical historical experiences of styles of development in particular countries and time periods in relation to the question of articulation and political regime. The purpose of this will be to understand the underlying causes of the reported failures to create social articulation as well as the contradictions of social disarticulation leading to the exit from this style of development. Finally, I will make some comments on a strategy of transition to social articulation based on the Latin American theoretical and historical experience.

1. A Framework for the Analyses of Styles of Development

A useful framework for the characterization of alternative styles of development can be derived from the work of Kalecki. According to him, the fundamental macroeconomic relationship that characterizes all economic systems is the necessary balance between expansion of the production capacity and expansion of the consumption capacity. Failure to maintain this balance will lead to crises of either underconsumption or inflation. In terms of styles of development, the central issue is that expansion of the production capacity can be obtained on the basis of several alternative economic sectors, while expansion of the consumption capacity can occur by creating effective demand in alternative geographical and social class locations.

Looking first at the production capacity of the economic system, let me call the "key sector of economic growth" that general production sector which has the highest gross rate of capital formation--i.e., that which is favored by new investments and that which consequently should have the highest rate of growth (de Janvry and Sadoulet, 1983). There are several alternative choices apparent immediately, each of which will correspond to a different style of development: key sectors can be directed at the production of exportables, luxury goods, or wage goods. The expansion of the production capacity of each of these alternative key growth sectors must correspond (following Kalecki's necessary relation) to expansion of the consumption capacity for the type of commodities they produce. This defines the geographical and social location of effective demand creation. It will be the international market if the key growth sectors produce exportables; the upper income classes, where income is derived from profit and rent and redistribution of part of these under the forms of salaries and transfers to numerous "subsumed" classes, if the key sector produces luxuries; and the working class if the key sectors produce wage goods. Note that the definition of luxury versus wage goods is, thus, not physical but economic or, more broadly, social: the same commodity, such as automobiles, for instance, can be a wage good in one country and a luxury good in another according to the level of wage income. This is precisely the drama of the current internationalization of consumption patterns: commodities which appear the same in a physical sense imply in countries at different levels of wage income, a completely different social logic in terms of Kalecki's necessary relation and the social location of effective demand creation.

Using this framework, we can identify three contrasted styles of development in terms of the choice of key growth sectors and of the geographical/ social location of effective demand. These are export-led, luxury-led, and wage goods-led growth patterns. The first two are "socially disarticulated" in the sense that the necessary Kaleckian relation between production and consumption does not imply a relation between profits (the investment of which is the source of expansion of the production capacity) and wages. Consequently, accelerated disarticulated growth will tend to feed on cheap labor; and this type of development will be characterized by growth with increasing inequality in the distribution of income and usually repressive forms of government to contain wage demands in spite of eventually rapid productivity growth.

A wage goods-led development pattern, by contrast, will be "socially articulated" in the sense that the necessary Kaleckian relation implies a balance between profits and wages and, hence, between growth and equity. While all types of inequities can still exist under social articulation, such as labor market segmentation, sex discrimination, racism, corruption, etc., this style of development at least contains an objective logic for equitable growth and for participatory forms of government. While the conflictive claims of capital and labor in the division of the social surplus between profits and wages prevent the smooth meeting of Kalecki's balance at every point in time, and thus results in cycles and crises, that balance remains an inescapable macroeconomic requirement for the long-run growth path.

In practice, both articulated and disarticulated growth patterns tend to coexist in a given country, with one pattern dominating the other at a particular point in time. For one thing, a disarticulated growth path always implies the presence of articulation since the wages paid in the luxury and export sectors create an effective demand for wage goods. With surplus labor and fixed wages, the wage-goods sector expands under the pull of effective demand resulting from employment creation in the luxury and export sectors as well as in the wage-goods sectors to satisfy the demand for workers in the other two sectors (de Janvry, 1981).

More importantly, articulated and disarticulated patterns will coexist in a hierarchical fashion because they correspond to two patterns of class alliances with divergent economic logics. The first includes the wage-goods-producing bourgeoisie and organized labor; the second, the luxury and export-producing bourgeoisies usually closely associated with foreign capital. As will be seen, much of the political instability in Latin America can be understood as the struggle between these two alliances for control over the state. Repeated failures at establishing social articulation reflect, in particular, the political incapacity of the "articulated alliance" to displace lastingly the "disarticulated alliance" from its historical hegemonic control of the state.

A word of caution is relevant here about the relationship between the economic and the political. I am not presuming a linear determination of the economic over the political but only establishing a broad correspondence, supported by both theory and history, between a pattern of accumulation (articulated or disarticulated) and a form of government (participatory or authoritarian). Enacting this correspondence can begin at the level of either the economic or the political. In the context of the current Latin American discourse on redemocratization, the point of this paper is that democracy without articulation is bound to be another of these ephemeral illusions that have marked the political history of that continent. Not that either could not hold without the other in the short run. But to think of a return to democracy as political scientists often do in terms of a shift in the pattern of class alliances without addressing the question of the key sector of economic growth and of the social and geographical location of effective demand can only be a myopic exercise in social delusion.

Using this framework for the analysis of styles of development, we can now look at the evolution of thought in development theory and ask how the different schools of thought that have prevailed in Latin America, explicitly and implicitly, have endorsed different styles of development.

2. Theories of Underdevelopment and Styles of Development

To contrast theories of development and to reveal the styles of development that each endorses we must analyze them at two levels: at the level of positive economics, we need to identify what is the theory of growth or stagnation and what is the theory of income and poverty that it contains. At the level of normative economics, we need to identify what is the growth strategy and what is the anti-poverty approach which it proposes.

In order to classify development theories, it is useful to begin from the great split in economic thought which originated with Adam Smith (Figure 1). His theory of the "wealth of nations" contains both a vision of harmony in the operation of the free market and a vision of exploitation in his understanding of the labor theory of value. Harmony and exploitation as guiding principles of economic relations were to be at the basis of the great division between the Marshallian tradition of the neoclassics and Keynes on the one hand, who rescued the principle of harmony (Pareto optimality, comparative advantage, and factor rewards according to their marginal products), and Marx and the structuralists on the other hand, who adopted the principle of exploitation (class conflicts, surplus generation and extraction, contradictions, and dialectics). In development economics this division gave rise to three grand schools of thought: modernization theory deriving from the principle of harmony and laissez-faire, the theories of imperialism and neostructuralism deriving from the principle of exploitation, and the theory of developmentalism (desarrollismo) that rejected both the possibility of laissez faire and the invevitablity of exploitation.

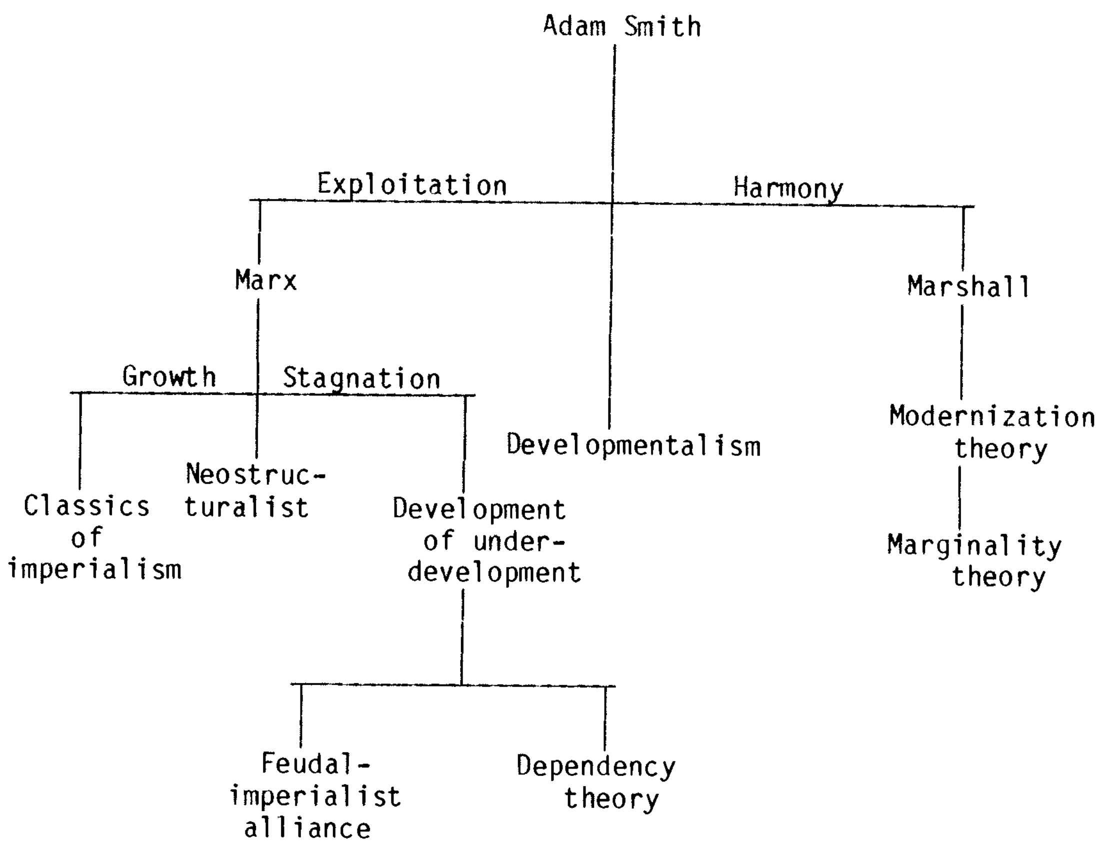

Figure 1: Genealogical Tree of Development Theories

Without entering into details, modernization theory and the interpretation it offers of growth and stagnation can be characterized by the following familiar snapshots: a vision of the linearity of history and of "normal patterns of growth" that can be decomposed into a succession of stages (Chenery and Syrquin, 1975; Kuznets, 1966; and Rostow, 1960); the existence of distortions relative to the norm of perfect competition as the cause of backwardness (Johnson, 1967); accumulation in the framework of socially articulated dualism (Jorgenson, 1969); traditional culture as a cause of low productivity (Schultz, 1964) and the key role of the diffusion of innovations, particularly technological, in the process of modernization (Rodgers, 1962); and specialization and trade according to comparative advantages resulting in a source of mutual benefits (Johnson, 1967). The theory of poverty is that of marginality: some individuals and regions have remained at the margin of integration in the market and in the other institutions of society. In a normative sense, the growth strategy that modernization theory advocates is that of liberalism: the promotion of technological change and human capital formation, a state that is passive in the marketplace, and the Chicago boys' triple motto: "Get those prices right, balance the budget, and open up!" The strategy to combat excessive forms of poverty, which could prove destabilizing to the existing social order, is that of social integration: acting from above to give access to the poor to the institutions of society.

From a liberal standpoint, ISI is severely criticized. Since a neoclassical world is assumed to prevail distortions can be only antigrowth and self-defeating in the long run. And since countries are seen to end up with forms of state consistent with the chosen style of development, interventionism and distortions lead to centralization of the political system and nonparticipatory forms of government (North, 1979).

Developmentalism begins with the premise that Third World countries have structural characteristics that invalidate the assumption of modernization theory. Thus, a distinct theory of growth and stagnation is necessary--one that recognizes the existence of surplus labor and of socially disarticulated patterns of accumulation (Lewis, 1958) as well as of latent investment opportunities that can be activated by state intervention (Hirschman, 1981). Beyond recognizing the existence of an untapped employment creating growth potential and the fact that growth itself is a major force in the emergence of new social classes, developmentalism does not contain a theory of poverty. This failure, as we shall see, proved to be a serious limitation to successful implementation of developmentalist policies. In a normative sense, developmentalism advocates a growth strategy based on ISI promoted by active state intervention in the marketplace. Protectionism and subsidies, including overvaluation of the exchange rate to tax the primary export sector and subsidize imported capital goods, are to be used to create incentives to mobilize idle domestic resources and stimulate infant industries. Public investments are to be directed where linkages and big-push effects can be maximized. In terms of poverty, wages are expected to rise and the distribution of income is expected to improve once the "Lewis turning point" has been reached, i.e., once capital accumulation in industry has created enough employment to eliminate surplus labor. Via labor market effects, the Lewis turning point is to be a stage of transition from socially disarticulated to socially articulated growth since, once wages rise, industry finds an expanding market in the consumption of wage goods. In waiting for the Lewis turning point, however, the implicit developmentalist motto is "wait and repress (if needed)." As the emergence of military regimes with maturing developmentalist experiments has shown, this motto was unfortunately all too correct.

For the developmentalists, the liberal mode is seen to be tautological as it assumes the answer: it postulates that structural change, in some way, has already occurred and that the structural features of the Third World today are the same as those that prevail in the advanced countries. Social articulation, in particular, presumably has been achieved. Thus, structural change is not an issue in the liberal model while it is one for the developmentalists. Yet, the developmentalists see the need for structural change but not for structural reforms. For them, change will occur as a by-product of growth itself, creating new social classes, undermining old privileges and the abuses of oligarchic and populist power, and establishing the basis for democratic forms of government. Articulation will be the product of growth. It is only the theories of development that derive from the concept of exploitation which will highlight the need for programs for structural change, by either reform or revolution, to establish social articulation.

There are basically four schools of thought in development economics that derive from the concept of exploitation. They can be contrasted in terms of the "law of uneven development" each portrays, i.e., accelerated growth or stagnation of the periphery relative to the center.

1. The classics of imperialism (Luxemburg, 1972; Lenin, 1973; and Bukharin, 1973) with a vision of the catching-up of the colonial relative to the advanced countries under the revolutionary transformation of capitalist expansion on a world scale.
2. The school of the development of underdevelopment which inverted the vision of the classics into one where capitalist expansion is a factor of underdevelopment and stagnation. This school, in turn, contains two contrasted versions:

a. That of the "feudal-imperialist alliance" that attributes stagnation to the permanence of feudal remnants associated with foreign capital, the extraction of an absolute instead of relative surplus value, and stifled partial transitions to capitalism (Kay, 1975; Weeks, 1977).

b. That of dependency theory which, by contrast, sees capitalism everywhere in Latin America, ever since the beginning of colonial times, by defining it in the sphere of circulation and blames it for stagnation and poverty (Frank, 1969).

3. The neostructuralist school which looks at the possibility of eventual rapid growth in the Third World under conditions of "associated dependent development" and social disarticulation but with a tendency toward increasing inequality in the distribution of income and great instability over time (Cardoso, 1973; Marini, 1972).

For the sake of brevity, let me look here only at the styles of development advocated by dependency theory and neostructuralism--two schools of thought which are, of course, far from being internally unified.

Dependency theory is a theory of stagnation that looks at international surplus extraction between periphery and center as a cause of underdevelopment. Surplus is extracted via unequal exchange in trade (Prebisch, 1959; Emmanuel, 1972), via repatriation of profits by multinational corporations (Baran, 1957; Hymer, 1972; and Magdoff, 1969), via international labor migrations (Roemer, 1981), and via payment of interest on debt. There is no distinct theory of poverty which is seen to result directly from stagnation. The normative vision of styles of development falls into two categories--reformist and revolutionary. The reformists, basically represented by the Economic Commission for Latin America (Furtado, 1970; Sunkel, 1969), advocate selective delinking from the world economy to reject the international price system and an active role of the state in promoting reforms to enlarge the domestic market for wage goods, with land reforms and wage concessions as the key redistributive measures. While the style of growth advocated is one of social articulation by reform, this model is never fully spelled out, and reformist dependency theory ends up being more effective in denouncing obstacles than in providing a blueprint for development. This is even more clear in the revolutionary branch of dependency theory epitomized by Frank: capitalism is defined as production of commodities for profit and, thus, is seen omnipresent in Latin America since colonial times and held responsible for underdevelopment. A new style of development must emerge through a revolutionary transition to socialism with Guevara's "foco theory" as the strategy for change. But the postrevolutionary style of development is left unspecified.

The neostructuralist school emerges from the failure of dependency theory to explain the "economic miracles" that transformed many Latin American countries beginning in the mid-1960s. Luxury goods-led and export-led industrialization resulted in eventual rapid growth rates but with increasing inequalities in the distribution of income and great instability over time. The theories of growth and inequality that emerge are those of associated dependent development (Cardoso, 1973) and disarticulation (Marini, 1972). The theory of poverty is based on functional dualism and the articulation of modes of production between capitalists and peasants and artisans. The normative proposition is for styles of growth that are wage goods-led. Both liberalism and full-scale ISI are rejected: trade is to be made a handmaiden of articulated growth instead of a source of disarticulated accumulation. Social articulation will be obtained by profound redistributive reforms and by social incorporation of the popular sectors to allow them to engage in active defense of their economic interests at the level of the state.

In summary, we see that the question of social articulation has been central (if generally more implicit than explicit) to the Latin American debate on theories of underdevelopment and styles of growth. The neoliberals implicitly assume that social articulation has already been achieved and that growth should be export-led. The developmentalists argue that articulation will result from domestic market-oriented industrialization which, given the existing highly unequal distribution of income, implies a luxury-led pattern of growth as the engine of articulation. For both neoliberals and developmentalists, growth (even if it is to be obtained by very different routes) is seen as the instrument of development and the acceleration of growth the main policy implication. By contrast, the reformist dependentistas and the neostructuralists argue for social articulation as a result of reforms: control of the state over investment, and hence, over the choice of key growth sectors and income redistribution by land reforms and wage concessions to create the effective demand for wage goods. While the debate on theories of underdevelopment and styles of growth is yet to be resolved, the current crisis of development economics is nothing but the failure of theory to produce the anticipated results: the liberal model, which has been managed by the unholy alliance of the Chicago boys and the military, has lost credibility with the massive economic crises of the Southern Cone economies; developmentalism has failed to produce social change via growth, with industrialization resulting in sharply rising inequalities and authoritarian regimes instead of creating the basis for democratic forms of government; dependency theory, as a theory of stagnation, has failed to account for the economic miracles in many countries; and neostructuralism has yet to put forward a fully defined alternative to both ISI and export-led growth that can provide guidelines for a transition toward social articulation in the current context of global economic recession.

Thus, theory provides us with two approaches to the simultaneous achievement of growth and equity: articulation by growth and articulation by reform or revolution.

Articulation by growth is presumed to occur as a result of the tightening of the labor market through accelerated employment creation in the modern sector as a product of growth. In this case, the choice of the key growth sector is irrelevant: exports, luxuries, and wage goods will be preferred according to their respective capacities of sustaining rapid growth. If either of the first two is chosen, growth will be socially disarticulated and cheap labor will be the engine of growth until the Lewis turning point has been reached. This is the received doctrine of growth with equity via trickle-down effects. The strategy can fail, however: industrial growth may create insufficient employment to eliminate surplus labor due to the use of capital-intensive technology imported from the advanced countries; the rate of population growth may remain too high as poverty creates the logic for large families; and the rate of productive investment of capital income may be too low even if the share of capital in the industrial product is high. Since these conditions are characteristic of most Third World countries it is no wonder that the developmentalist's dream rarely materialized and served to justify, instead, poverty as an engine of growth.

Articulation by reform or revolution has been attempted following three alternative courses of action.

First, the redistribution of assets in private property in order to create, at the limit, the populist (Jeffersonian) vision of petty-bourgeois society where all households are simultaneously capitalists and workers. If social differentiation can be held in check, equitable growth should result. This is what Adelman advocates in her program of "redistribution before growth." To some extent, this is the basis on which equitable growth has been achieved in Taiwan and South Korea after extensive programs of redistributive land reforms, rural development to buttress the family farm with protective institutions, and human capital formation.

Second, the socialization of the economic surplus and the planning of its allocation between investment and personal incomes. If the emergence of sharp class distinctions based on control of the state apparatus or on unequal positions in the division of labor can be held in check, personal incomes can be egalitarian. With ups and downs, this is the long-run course that China has attempted to follow.

Third, the establishment of wage goods as the key growth sector. Even under conditions of surplus labor, the Kaleckian balance between production and consumption implies that wages must rise as per capita industrial production increases with constant factor shares. Achieving this structural condition requires the necessary reforms to gain control over investment in order to establish wage goods as the key growth sector, control over trade to tailor export performance to the capital goods and intermediate product import needs of the wage goods sectors, and control over the distribution of income to create an effective demand for wage goods commensurate with increasing per capita production. The experience of Latin America depicts that conceptualizing the economics of social articulation is a complex matter specific to each particular country and time period. In spite of several attempts, such a transition has never been successfully completed on that continent.

3. Styles of Growth in Latin American History

In reviewing the rich experiences of the attempts at alternative styles of development in Latin America, the thesis I want to defend is that they have all equally failed, either wittingly or unwittingly, in establishing social articulation. As a result, growth has been ephemeral and has resulted in a deepening of income inequalities, especially when growth has boomed.

There is a great deal of heterogeneity in styles of development across countries so that it is not possible to set time periods for the whole of Latin American history by stages that correspond to styles of development. What can be done, instead, is to analyze particular countries in particular time periods as archetypes of five styles of development that have occurred there since the 1930s: they are liberalism, populism, developmentalism, transition to socialism, and neoliberalism. I will characterize the experience of each of these archetypical styles of development by using five criteria:

1. choice of key sectors of economic growth;
2. social and geographical location of the market and the purpose of trade;
3. class structure and the form of government;
4. growth performance; and
5. social performance, especially changes in the distribution of income.

The first two criteria identify the style of development with respect to the articulation-disarticulation feature. Key to the third is how the articulated and disarticulated class alliances are posited relative to the state and what is the nature of their conflicts and power relations. The last two criteria characterize the growth and development outcomes of the period and the economic and social contradictions of its style of development.

Liberal Period: Argentina, 1860-1930

This period started with the victory of the free traders in 1860 and continued up to the Great Depression of 1930 when growth, based on integration in the international division of labor, came to a grinding halt with collapse of the world market. The key growth sectors were beef and grain production for export to the European markets, particularly to food-deficit England. Imports were principally luxury consumption goods of industrial origin and capital goods for investment in the agro-exporting sectors (railroads, godowns, and agroindustries). The dominant class alliance included a small group of cattlemen, financiers, and exporters, giving evidence of control of the state by the disarticulated alliance. The state itself was managed according to the principles of liberal democracy but with participation largely restricted to the members of the dominant class alliance.

The growth performance was strong (averaging an annual growth rate of 4.9 percent between 1850 and 1928) but also unstable, with phases of growth and stagnation amplifying the growth cycles of the industrialized economies. The level of prosperity reached on that basis was spectacular: in 1929, Argentina's GNP per capita was 40 percent of that of the United States compared with 20 percent in 1977. However, the benefits of that growth were largely concentrated in the hands of the upper classes able to enjoy European-style consumption patterns. The high degree of concentration in landownership both allowed 5 percent of the active population in agriculture to capture 70 percent of the gross income derived from agricultural production (Ferrer, 1967) and kept marginalized immigrants from access to land, forcing them to work as tenant farmers or as workers with wages held low by pervasive unemployment even in periods of economic prosperity. In addition, inflation and weak urban and rural labor organizations led to a steady worsening in real wages and in the distribution of income. This export-led pattern of disarticulated growth had as the principal contradiction a strong external dependency, which conditioned the stability of growth, and worsened social inequalities.

Populism: Argentina Under Peron, 1946-1955

Following a meteoric political career that began with the military coup of 1943, Peron was elected President in 1946 with a program that marked the explicit rejection of the socially disarticulated, export-led style of development that Argentina had followed from the victory of the free traders in the 1860s to the Great Depression of 1929. Peron's program was oriented, instead, toward national independence, industrialization, and the redistribution of income. To acquire and conserve power he relied upon the support of organized labor which Peron himself had helped win political recognition and economic advantages during the period when he served as Labor Minister for the military government. Few leaders have influenced the political life of Argentina as deeply as Peron; and political alignments today are still defined in relation to what is presumed to be Peronist ideology.

The thesis I will defend here is that Peronism was a highly contradictory regime in that it attempted to promote social articulation by reform through ISI in wage goods while preserving the social structure of disarticulation in the agroexporting sector and, thus, also inducing ISI in luxury goods production. The result was an open contradiction in economic policy between the needs of the articulated and disarticulated alliances resulting in stop/go cycles. In the final analysis, Peronism failed to resolve the distributional conflict between the two alliances and to submit the external sector, controlled by the disarticulated alliance, to the needs of articulated growth resulting in economic destablization and military intervention in favor of the disarticulated alliance.

Peronist populism was a late response to the hardships and humiliation that the Great Depression had brought to Argentina (Diaz-Alejandro, 1970). The economic crisis transformed the rural masses and the growing urban population into potentially explosive forces that the traditional parties were unable to organize. It is in this context that Peron launched his nationalistic program based on ISI, creation of a nationalized industrial sector, and income redistribution in favor of urban and rural workers, domestic industrialists, and bureaucrats and against rural landlords and foreign investors. This shift in policy orientation deeply affected the balance of power between urban and rural interests. There is, in fact, no country where the linkage between import substitution and urban sectors on the one hand, and pro-trade policies and rural interests on the other, is more sharply established. The result was a clear opposition of interests between articulated and disarticulated alliances. This opposition was the key contradiction in the Peronist attempt at achieving social articulation. Failure to resolve this opposition was to be the source of economic and political destablization of the populist experiment in Argentina.

A number of reforms were implemented in order to stimulate investments and gain some control over them. The Central Bank was nationalized to allow public control over private deposits and investments, and several infrastructure services (railways and utilities) were purchased from foreign owners. Credit increased sharply with the industrial bank raising its participation in all industrial loans from 22 percent in 1946 to 78 percent in 1949. Import prohibitions and high tariffs discriminated differentially in favor of or against specific productive activities. Some industries, such as heavy intermediate products, suffered from negative effective protection. Meanwhile, light manufacturing was highly protected. The highest effective tariffs approaching 400 percent were designed to protect wage goods such as textiles, clothing and shoes, and food and beverages. Overvaluation of the peso by an average of 82 percent, relative to its value in the free market between 1946 and 1955, subsidized imports of capital goods and taxed agricultural exports. To cope with the drain on foreign exchange that this created, a clientelistic system of foreign exchange licensing was created.

The result was successful import substitution in wage goods where the percentage of imported value in GDP plus imports was 80 percent less in 1950-1954 than it was in 1937-1939. It was 52 percent in durable goods but much less successful in intermediate and capital goods with a reduction of only 41 percent. The key sector of economic growth thus became light industries oriented to the domestic market for both wage goods and luxury goods. The annual rate of growth of manufacturing was truly spectacular during the initial three years of Peron's regime. Beyond that, growth in manufacturing started to falter, reaching an average of 5.1 percent for the period 1946-1955. Agriculture, by contrast, only grew at 2.3 percent. This was due to a combination of cheap food policies implemented through government monopoly over exports via the state's trading organizations (IAPI), overvalued exchange rates without tariff protection of agriculture, and direct control over agricultural prices below the rate of inflation. These policies were meant to extract a surplus from agriculture via the terms of trade in order to support industrialization. External factors also worked against Argentine agriculture. The country's special relations with the Marshall Plan came to an abrupt end in 1948 when European and U.S. agricultural sectors recovered from World War II. This resulted in agricultural stagnation, a falling share of Argentine agricultural exports in world trade (from 43 percent to 20 percent in corn and from 35 percent to 19 percent in meat between 1945-1949 and 1950-1954), and strong opposition of the rural interests to Peron's rule.

On the side of effective demand, the domestic demand for luxuries existed through Peron's failure to address the question of landownership, in spite of a highly unequal land distribution, and through the income created in the agroexport activities. Peron's income policy was thus concentrated on the creation of domestic effective demand for the protected industrial wage goods. This occurred through favorable wage policies, income transfers through the institutions of a welfare state, and price controls over food terms.

Peron institutionalized collective bargaining and gave the loyal General Confederation of Workers (CGT) strong participation in the design of economic policy. As Table 1 shows, the share of wages and salaries in GNP increased from 37 percent in 1945-1946 to 44 percent in 1953-1955, and the share of Social Security contributions increased from 3 percent to 7 percent. While real per capita GNP increased by 3.6 percent between 1946 and 1955, real wage rates increased by 45.5 percent (Diaz-Alejandro, 1970). Even though there are no data on changes in the distribution of income during this period, the evolution of the share of wages and salaries indicates a sharp improvement in the distribution of income between 1946 and 1949 followed by unchanged inequality between 1949 and 1955.

TABLE 1

ARGENTINA: REAL WAGES AND GROSS NATIONAL PRODUCT, 1943-1955

Year	Per capita GNP	Real wage rates	Shares in GNP: Wages and salaries	Shares in GNP: Social Security contributions
	1943 = 100			
1943	100	100	36.8	1.6
1944	108	111		
1945	101	106	37.0	3.0
1946	112	112		
1947	131	140		
1948	130	173	40.6	4.8
1949	116	181		
1950	113	173		
1951	114	161	43.7	5.8
1952	103	143		
1953	103	154		
1954	111	165	43.7	7.1
1955	116	163		

Source: C. Diaz-Alejandro (1970).

In promoting simultaneously articulated and disarticulated growth and in failing to resolve the distributional conflicts between the corresponding two class alliances, Peron's economic program was bound to be highly contradictory. The growth performance became increasingly unstable due to recurrent balance-of-payment and inflationary crises, creating repeated stop/go cycles.

Balance-of-payment problems originated, in part, with the politically effective but economically costly programs of nationalization of foreign investments and repatriation of the foreign debt, resulting in a depletion of gold holdings by 89 percent between 1945 and 1948. But the basic source of difficulties with the balance of payments was on the one hand, the rise of import demand to satisfy a process of ISI that neglected deepening toward capital goods and on the other hand, severe discrimination against agricultural exports.

Imports increased by 97 percent in 1946 and 76 percent in 1947, resulting for the first time in a negative balance of trade during that year. With a large agricultural export potential, Argentina has the ability of rapidly rebuilding its balance-of-trade equilibrium through stabilization policies. This was done for the first time in 1948 and had to be repeated in 1950 and 1953, each time at an amplified scale, resulting in alternating cycles of industrial growth and agricultural export growth.

After the first two years of Peron's rule and after international reserves had been initially depleted, inflation began to rise, reaching 52 percent in 1951. The increase in the price level was the result of expansionary policies and sharp increases in real wages that went up by 21 percent annually during the first three years of Peron's regime (Table 1).

By 1952, inflation and trade deficits forced Peron to apply a strong stabilization program that, among other measures, required both freezing real wages for two years and restructuring the export sector. Peron relied on his charisma and control over organized labor to be successful with the first. The second required rebuilding the profit margin of farm producers by offering them prices higher than world market levels. Domestically, agricultural prices increased by 29 percent more than inflation in 1951 and 1952. Also, greater controls on imports and public expenditures were imposed.

Peron's stabilization measures were relatively successful as GNP grew at an annual average of 6 percent between 1953 and 1955, agricultural production by 11 percent, and manufacturing by 7 percent. By contrast, construction was totally stagnant due to reductions in both credits and public investments. Inflation was contained and positive trade balances restored. Yet, economic success was obtained at the cost of sacrificing articulation to the demands of the disarticulated alliance. Only a proudly overvalued peso, protection of the workers' gains in prior periods, and the basis of what never became a fully developed corporatist state remained from the glorious years.

Early ISI under populism thus resulted in an open clash between articulated and disarticulated alliances which Peron did not have the political power to resolve, particularly by questioning the structure of landownership. This resulted in a failed attempt at social articulation by reform as trade could not be subjected to the requirements of industry, resulting in balance-of-payment crises, and wage increases could not be tailored to productivity gains, resulting in inflationary crises.

What the experience of populism shows is that gaining control over investment to redefine the key growth sectors and over the distribution of income to create effective demand for these factors was necessary but not sufficient. Failure to deal with landlord power and, hence, to submit the external sector to the needs of articulated growth led to economic destabilization and eventually to military intervention in favor of the disarticulated alliance.

Developmentalism: Brazil Under the Military, 1964-1979

Brazil between 1964 and 1979 provides a typical example of the desarrollista vision of expected articulation by growth and of the failure for this to happen in spite of eventually spectacular growth rates. As a result, Brazil became the archetype of authoritarian luxury-led social disarticulation and of the economic and social limits of this style of development. For almost 15 years (1965 to 1980), the average annual rate of GDP growth was 8.5 percent making Brazil the fourth fastest growing country (Knight and Moran, 1981). This growth performance was reached by a modernization strategy based on the production of durable goods with up-to-date technology thanks to favorable policies toward imports and foreign investment (subsidized import credits and overvalued exchange rates) and to the massive penetration of multinational companies. In 1972, for instance, foreign capital owned an average of 51 percent of the assets of the largest 300 manufacturing companies, reaching 78 percent in electrical machinery and appliances, 82 percent in transportation and cars, and 100 percent in rubber (Evans, 1979).

The Brazilian "miracle" started to fade away after 1974, not so much as a consequence of the negative impact of rising energy prices, as the "official" economists usually claim, but of the internal contradictions of the model. Market saturation for luxury consumption foods, in spite of increasing inequality in the distribution of income and attempts by government policies to stimulate demand, and mounting external debt associated with policies to stimulate the import of capital goods, led to both stagnation and delegitimation of the military regime.

At the political level, the Brazilian miracle took place under the leadership of civilian technocrats and the military, with a domestic bourgeoisie--both articulated and disarticulated--that was co-opted by sharing in the spoils of rapid growth (Faucher, 1981). The military was not brought to power in order to protect investments toward the capital goods sectors in an attempt at deepening ISI beyond its "easy" phase. Deepening had already advanced considerably before the coup. As Table 2 shows, the share of imports in consumer durables had been rapidly reduced between 1949 and 1965 but so had with a lag the share of imports in capital goods that declined from 64 percent to 8 percent. This "difficult" phase of ISI was prompted by stagnation of the export sector, that only grew at the annual rate of 0.85 percent between 1947-1948 and 1961-1962, making it impossible to sustain a sufficiently fast growth of capital goods imports (Serra, 1979). Military intervention was induced by an economic and social crisis brought about by the exhaustion of ISI on a joint articulated-disarticulated basis (as in Argentina under Peron) and the need to overcome an underconsumption crisis by concentrating the distribution of income and providing financing to upper income consumers in order to promote luxury-led disarticulation as the engine of growth. At the political level, populist demagoguery, social unrest, and the encouragement of the U.S. government and foreign investors, allied with the Brazilian industrial and commercial elite distressed by record inflation, pushed the military to end the Goulart government in March of 1964 (Wynia, 1978).

TABLE 2

BRAZIL: SHARE OF IMPORTS IN TOTAL SUPPLY, 1949, 1955, 1962, AND 1965

Year	Capital goods	Intermediate goods	Consumer goods	
			Durable	Nondurable
	percent			
1949	63.7	25.9	64.5	3.7
1955	43.2	17.9	10.0	2.2
1962	12.9	8.9	2.4	1.1
1965	8.2	6.3	1.6	1.2

Source: Serra (1979).

Key Sectors of Economic Growth

Among the different strategies to overcome the underconsumption crisis, the Costello-Branco government chose the one that not only politically but also economically seemed the most attractive from a technocratic-military point of view. Horizontal expansion of the market would have required a major income redistribution (articulation via reform) which was not appealing to the new government nor to the class alliance of which it had become the instrument. A further deepening of the import substitution strategy would have required a shift away from durables to intermediate and capital goods, and a consequent short-run decline in income due to problems of economies of scale and maturation of investments. The luxury durable goods sector was, thus, the logical choice to carry on another spurt of rapid growth but under the economic and social conditions implied by social disarticulation. Creating these conditions required a severe stabilization program to discipline workers' demands, reduce the rate of inflation, create a climate of confidence to attract international investment, and give a new role to government in economic activity.

After three years of stabilization programs the rate of inflation was reduced from 78 percent in 1963 to 28 percent in 1967, foreign capital and intermediate goods began to flow into the country, taxes were significantly reduced, and real wages fell. Annual growth rates of industry averaged 13 percent between 1967 and 1973. Growth was, however, unequal among sectors of industry. During the first phase of disarticulated growth (1966-1969), growth occurred mainly in the production of consumer durable goods while the capital goods sector stagnated (Table 3). This was not due to the incapacity to produce modern capital goods or to existing excess capacity but, as Serra explains, "the fact is that in response to the pressures from, and the advantages associated with external sources of financing, and because of the preferences of multinational corporations and of the desire to maximize the rates of short-term growth, economic policy began to discriminate against the industries that produced machinery and equipment, granting fiscal incentives only for the purchase of imported capital goods.... Between 1966 and 1969, capital goods imports grew by 20.5 percent annually, while domestic production rose only 7.1 percent." By the same token, both intermediate and nondurable consumer goods had poor performances. The overall result of this policy was to increase the share of imports from 6.8 percent in 1965 to 17.1 percent in 1979. As we shall see, this constituted one of the weakest economic aspects of the Brazilian miracle.

TABLE 3

BRAZIL: ANNUAL RATE OF GROWTH OF MANUFACTURING BY MAJOR USER GROUPS

Period	Capital goods	Intermediate goods	Consumer goods: Durable	Consumer goods: Nondurable
1959-1965	9.4	5.4	8.3	5.1
1966-1969	7.1	10.2	21.0	7.8
1969-1973	22.5	15.5	22.0	12.3
1973-1980	7.4	8.3	9.3	4.4

Sources: For 1959-1965 to 1969-1973, see Serra (1979); for 1973-1980, see Serra (1982).

Only after 1971 did the military government, then under the leadership of General Medici, realize that an excessive dependency on foreign capital and intermediate goods was a brake to the overall sectoral articulation of the economy and an unsustainable drain on its balance of payments situation. This government tried to simultaneously maintain fast growth in the production of consumer durable goods and to induce, through a number of incentives, the production of capital and intermediate goods. At the same time, the state began a grandiose program of public works (stadiums, trans-Amazonian highway, etc.) that created the effective demand for the expansion of those sectors.

During the period 1969-1973, consumer durable goods production, which continued under the control of private (mainly foreign) capital, grew at a record 22 percent a year. Significant improvements also occurred in the production of capital and intermediate goods. Nevertheless, the lack of sectoral articulation between the national production of capital and intermediate goods and the production of consumer durable goods, which relied mainly on imported inputs, made the proportion of imports in total supply and in the supply of capital goods increase.

The high performance levels of the Brazilian economy could not have been possible without strong state intervention in supporting the accumulation process, both through incentives to the production of consumer durables (mainly the automobile industry) and capital and intermediate goods and through direct involvement in the production of those goods and services that the private sector did not consider profitable and in public works.

By 1974 the growth model was in deep crisis. Inflation, deficits in the balance of payments, and increasing inequality in the distribution of income were threatening both continued growth and social stability.

Social and Geographical Location of Effective Demand

On the demand side, the Brazilian economy based its growth process on a fast increase of exports, especially of industrial products and a diversified set of agricultural commodities, and on the rising consumption level of the upper strata of Brazilian society.

Brazil's income distribution in the 1960s was already tremendously unequal. While the wealthiest 10 percent of the Brazilian people received 40 percent of the national income, the poorest 50 percent only received 18 percent (Table 4).

TABLE 4

BRAZIL: INCOME DISTRIBUTION, 1960, 1970, AND 1980

	Population deciles	Income shares 1960	Income shares 1970	Income shares 1980
		percent		
Poorest	10	1.2	1.2	1.2
	10	2.3	2.1	2.0
	10	3.4	3.0	3.0
	10	4.7	3.8	3.6
	10	6.2	5.0	4.4
	10	7.7	6.2	5.6
	10	9.4	7.2	7.2
	10	10.9	10.0	9.9
	10	14.7	15.2	15.4
Wealthiest	10	39.7	46.5	47.9
Gini coeffients				
Fox		.50	.54	
Denslow-Tyler			.57	.59

Sources: Fox (1982) and Denslow and Tyler (1983).

Since then, the situation has deteriorated for most of the population. The wealthiest 10 percent of the population has increased its share to 68 percent of total income. Meanwhile, the poorest 80 percent has lost its share of national income except for the poorest 10 percent that has kept constant its meager share.

The stabilization program, launched by the military government, had as an essential element the reduction in real wages. Minimum wages, as well as the actual wage index, fell in real terms (Table 5). The distribution of income among wage earners also worsened. After 1969 when wages began to rise the wages of the lowest paid workers increased by 10 percent between 1969 and 1974 while those of highly paid workers increased by 50 percent (Tavares and Souza, 1981).

TABLE 5

BRAZIL: WAGE AND MINIMUM WAGE INDEXES, 1960-1974
(1960 = 100)

Year	Wage Index[a]	Minimum wage index (Rio de Janeiro)
1960	100	100
1961	105	115
1962	105	96
1963	107	89
1964	103	89
1965	98	82
1966	92	76
1967	89	73
1968	92	74
1969	94	71
1970	95	70
1971	98	69
1972	102	71
1973	98	68
1974	107	69

[a]Wage index is based on data of 18 labor unions.

As Table 6 shows, real salary increases were also far below productivity gains indicating a growing proportion of production for which no market was being created out of wages. Effective demand for these productivity gains had to be created through concentration in the distribution of income following the logic of disarticulated growth.

TABLE 6

AVERAGE WAGE INDEX AND PRODUCTIVITY, 1970-1974
(1970 = 100)

Year	Average wage index	Productivity (per capita GNP)
1970	100.0	100.0
1971	103.2	109.3
1972	107.4	118.5
1973	112.7	131.8
1974	112.7	140.8

Source: Bresser (1983).

The socially disarticulated nature of the Brazilian model is clearly evident by looking at the social distribution of consumption. In 1975, the upper 22 percent of households in the distribution of income consumed 61 percent of the electrical appliances and 94 percent of the cars which were the key sectors of economic growth.

Effective demand for the key growth sector also expanded rapidly in the export market. The growth of manufacturing exports was spectacular averaging in current dollar terms an annual rate of 39 percent between 1964 and 1974 (Serra, 1979). The share of primary commodities in total export earnings fell from 75 percent to 42 percent between 1970 and 1980, while that of industrial products increased from 24 percent to 57 percent with transportation equipment, machinery, and electrical products as the most important items (United Nations, Economic Survey for Latin America, 1980). This brilliant performance of manufacturing exports was due to several factors. One was the policy of export incentives that the new regime created; another was the containment of inflation that fell from 87 percent in 1964 to 17 percent in 1972 and the policy of minidevaluations that began in 1968; in addition, exceptionally favorable conditions of external demand prevailed during the period 1968-1973; and finally, the sharp reduction in real wages increased the competiveness of Brazilian exports.

Yet, it is interesting that exports never represented a significant fraction of total demand for industry. On average between 1965 and 1975, the share of exports in industrial production was only 2.3 percent. Brazilian growth was clearly not export-led and effective demand for industry had to be created out of demand from the domestic upper income levels.

Contradictions of Luxury-Led Disarticulation

The Brazilian growth model performed well during the 1967-1979 period. Without active opposition, which was severely repressed by the successive military governments, Brazilian technocrats were able to implement a policy in which the real consumption of the masses was sharply reduced, public services were limited and managed according to pure "efficiency" rules (Dos Santos, 1980), income was accumulated by a small proportion of thé population, and investments--both national and foreign--substantially increased. The key growth sector was the production of luxury consumption goods and effective demand was correspondingly being created in the upper social strata.

This pattern of accumulation entered into crisis in 1974. Since then, the high rate of industrial investment that was characteristic of the Brazilian miracle practically disappeared, falling from an annual growth rate of 26.5 percent during the period of 1967-1973 to only .1 percent during the period 1973-1980. Similarly, as we have shown in Table 3, the growth rates of all sectors of industry decreased dramatically. Inflationary tendencies, a consequence of both the increase in oil prices and the subsidy policies of the State which tried to protect the demand for consumer durables, reappeared reaching a rate of 60 percent for the 1974-1981 period in contrast to 19.5 percent during 1967-1973. The external market shrank because of the international recession, and the internal market for consumer durables concentrated in the upper classes was saturated.

Inflation in Brazil cannot be fully explained by the struggle among classes for the appropriation of surplus given the severe repression of labor demands. Bresser (1983) argues that inflation has been the consequence of the capitalist class attempting to increase, or at least maintain, its rate of profit during the downward phase of the economic cycle.

This argument is supported by two observations. One is the oligopolistic character of the Brazilian economy. Price increases were higher in the oligopolistic sectors than in the competitive one. For example, in 1981, with an annual inflation rate for the February-July period of 105 percent, competetive sectors increased their prices by an average of 60 percent, while oligopolistic sectors increased their prices by 170 percent. The other is the set of state policies enacted to boost aggregate demand. The Brazilian economy is highly subsidized: subsidies are granted to industrial exports, durable goods consumption, capital goods production and imports, etc. As a consequence, an economy that in 1974 was working close to its growth potential had to end up with strong inflationary pressures. In addition, the state was involved in managing at a loss those necessary economic activities that were not profitable enough for private capital. Dos Santos (1980) refers to the case of electrical energy production which was passed over to the state at the initiative of the very multinational companies which controlled it and after they had received a juicy compensation.

The salary increases that the successive governments had to grant to keep a minimum social order contributed to the explosive inflation rate that occured after 1974. For instance, between 1974 and 1979, with a 21 percent increase of productivity, real salaries grew by 37 percent (Bresser, 1983).

One element of the Brazilian miracle was the rapid expansion of industrial exports. But the production of modern consumer durables needs a large share of imported capital and intermediate goods. As we saw, the share of capital goods imports in total industrial supply grew from 15 percent in 1965 to 28 percent in 1974 (Serra, 1979). Exports were increasingly unable to balance the national requirement for imported industrial inputs.

External debt increased by almost fourfold during the 1969-1973 boom period. The Brazilian government was financing its industrial growth by reverting to easily accessible international credit. External debt growth was largely independent from the increase in oil prices. Before developmentalism, the balance of trade was positive so that it helped to keep under control the traditional deficits in the balance of services; since 1970, by contrast, trade deficits were systematic.

As Bresser (1983) explains, since 1973 Brazil has passed through several phases that have been contradictory to both the international and the national situations. The attempts at supporting the production of capital and intermediate goods without affecting the master line of the Brazilian miracle resulted in 1977 in an accumulated debt of 32 billion dollars and the interest on this debt was higher than 2 billion dollars. This situation has worsened since 1979 when interest rates increased. By 1981, Brazil had a gross international debt of 61 billion dollars, and it paid 9 billion dollars (or 39 percent of the value of its exports) in interest. As Bresser (1983) states, "between 1970 and 1976 Brazil's debt increased to increase accumulation and consumption; between 1978 and 1980 it increased to keep consumption levels; since 1981 Brazil's debt is to pay the interest on the debt."

The Brazilian accumulation pattern, however, was not exclusively an economic issue but also a social one. Its striking characteristic is not only the choice of luxury goods as the key growth sector but also its corresponding social policies in order to create the appropriate incentives to invest and the pattern of effective demand. Brazil's growth both reinforced and was fed by a deliberate policy of concentrating and increasing the consumption capacity in a few hands. In spite of this, a new underconsumption crisis (this time in luxury goods) could not be postponed forever. As Serra argued, "the inflection in the cycle was not a consequence of either demand patterns from the side of aggregate investment or of import supply restrictions. Problems sprang from the side of demand for durable and nondurable goods consumption" (Serra, 1982).

Table 4 shows the extremely unequal income distribution and its deterioration over time since 1960. As a CEPAL report on poverty published in 1979 showed, Brazil is the third Latin American country in terms of absolute poverty with 49 percent of its families living below the poverty line (Iglesias, 1979). As growth slowed and inflation eroded wages, the regressive and exclusionary pattern of disarticulated growth could only lead to deligitimation of the military regime revealing the social limits of disarticulated growth with large masses of surplus labor. Luxury-led industrialization gave the short-lived illusion that social articulation could be achieved by rapid growth and without facing up to the issue of redistributive reforms.

Transition to Socialism: Chile Under Allende, 1970-1973

Leading a broad coalition between the working class and the petty bourgeoisie, Allende came to power in Chile in November, 1970. The Popular Unity (UP) program stated as a goal of its rule the replacement of the existing social order to initiate the construction of socialism. In doing so, two objectives were central: (1) to gradually socialize the key means of production and (2) to create social articulation by increasing the consumption capacity of the masses, especially the working class and the middle sectors. The first objective was essential if the state was to redefine the key sectors of economic growth. The second was both economically necessary for social articulation, and politically needed, since the "peaceful road to socialism" required gaining the majority of the popular vote and neutralizing the reactions of the upper class and foreign interests.

Allende's regime was all but homogeneous. A period of rapid growth and idyllic political performance during 1971 was followed by a period of economic chaos, political conflagration, and internal and external boycotts and aggression that put a bloody end to both the UP government and Allende's life on September 11, 1973. Both periods were directly related since independent of the external factors and the purposeful manipulation of economic failures by the opposition serious contradictions existed in the accumulation model the UP tried to implement.

Rise of the Popular Unity

The last years of Frei's regime were characterized by a deep economic and social crisis. Inflation rose from 22 percent in 1967 to 35 percent in 1970. Restrictive policies aimed at controlling inflation and the traditional pre-electoral investment contraction resulted in economic stagnation as well as an increasing level of unemployment (from 5.5 percent in December 1969 to 7 percent six months later) and social unrest. Multiple protests, not only by the traditional producers' associations but also by such unexpected sectors as the judicial system and the military created among Chileans a widespread feeling of lack of power.

Nevertheless, as Bitar points out, the level of economic deterioration was only relative. Inflation was not at an unmanageable level nor was unemployment very high. The trade balance was highly favorable, and international reserves were bountiful as a consequence of the high copper prices during the Vietnam War. Idle capacity was high: 63 percent in the capital goods and consumer durables sector, 78 percent in the traditional mass consumption goods industry, and 86 percent in the intermediate goods industry, with an overall average for manufacturing equal to 75 percent (de Vylder, 1976). In such circumstances, Allende found a declining economy in process but with enough possibilities to address a new growth strategy.

Allende's program was not merely directed at economic recovery but also at replacing the current economic structure "ending the power of national and foreign monopoly capitalists and large owners in order to initiate the construction of socialism" (Stallings, 1978). This program implied an immediate threat not only to the national and foreign bourgeoisies with interests in Chile but also to the American political interests in the region. On September 16, 1970, Kissinger declared: "We must not deceive ourselves with the rise of Allende to power, thinking that this will not create massive problems for us and the democratic and pro-North American forces in Latin America and, in the end, for the whole Western hemisphere" (Bitar, 1979). From that time on, a number of actions were initiated or supported by the United States to destabilize the Chilean economy.

To be successful Allende had to be able to reactivate the economy and manage it in favor of those social sectors that had granted their support to the UP. Using Allende's words, "the political model towards socialism that my government is applying requires that the socioeconomic revolution take place simultaneously with an uninterrupted economic expansion" (de Vylder, 1976). The opposition, however, symptomizing the interests of the disarticulated alliance, was interested in just the contrary; that is, in demonstrating that socialism and anarchy were synonymous and, consequently, isolating the UP. It is therefore valid to contend that the economy was simultaneously a "backdrop and a battlefield for political struggle" (Ramos, 1979).

Chile was structured as a mixed economy with three sectors: (1) entirely controlled by the state (local plants of multinational companies except those providing essential goods and services, mineral resources, and banking and foreign trade); (2) mixed public-private enterprises where the state was dependent on the private sector's supply of technology; and (3) small private firms involved in retail sales. In agriculture, the UP stopped expropriating all farms larger than the equivalent of eighty irrigated hectares, using the Land Reform Law passed by the Christian Democracy. The National Worker's Confederation participated not only in the management of firms but also in the planning commission (ODEPLAN) and a number of other government bodies. As Ramos observed, the process of structural transformation was a complex one since planning failed to dominate, guide, and globalize the economic performance of the Chilean economy and was excessively influenced by immediate economic pressures.

An Attempt at Articulation by Reform

To assess the three years of UP government is complicated not only by the number of reforms the government attempted to implement in a short period of time, but also by the uneven performance of the economy in these three years. While 1971 was a record year for many socioeconomic variables, 1972 was the beginning of a process of decline that reached chaotic proportions in 1973. Economic goals explicitly spelled out included (1) redefinition of the key sectors of economic growth from luxury goods to basic consumer items; (2) guarantees of employment for all Chileans of working age at adequate salaries; (3) liberation of Chile from subordination to foreign capital by expropriating some firms and setting conditions for the operation of others; (4) rapid economic growth; (5) development of exports and new markets, reduction of technological dependency, and the ending of devaluations; and (6) control of inflation and rationalization of commerce and distribution (Stallings, 1978). All these goals, as well as the necessity of incorporating the middle class into the political process, relied on four conditions: sustained economic growth to satisfy the foreseeable expansion of working and middle class demands; efficient performance of the public sector so that it could not only control the overall economy but also accumulate enough surplus to finance the expansion of public works and employment creation; increased exports to pay for capital and consumer goods imports; and sustained agricultural output to avoid an increase in food imports. As Wynia (1978) emphasizes, the overall model was plagued by hazards. The failure of any of these conditions could cause the program to fall apart with inflation, trade deficits, bottlenecks and shortages, and finally delegitimation.

During the first year, a program to "solve the immediate problems of the large majority" was launched (Ramos, 1979). It consisted of a Keynesian type program of short-term demand reactivation through real income expansion, increased public expenditures, and easy monetary policy. In early 1971, several laws were passed attempting to increase not only the participation of wages and salaries in total national income but, also, redistribute them in favor of the poorest segments of society. The law contained three essential points: to restore the purchasing power of all Chileans, except the highest paid, to the level of January, 1970; to give additional salary increases to the lowest paid workers; and to begin a process of standardization and leveling of all social benefits. The official policy of favoring salary increases and supporting workers in negotiating salary increases made average income per employed worker increase by 55 percent as against the 40 to 45 percent envisaged by the government and the 1970 inflation of 35 percent (de Vylder, 1976; Table 7). The participation in GNP of payments by producers to individuals grew from 72 percent in 1970 to 78 percent in 1971 (Mamalakis, 1978). This redistributive process lasted during all of Allende's period so that the Gini coefficient decreased from .55 in 1970 to .47 in 1972 (Stallings, 1978).

TABLE 7

CHILE: REAL WAGE AND SALARIES, 1970-1973

Year		Index (1969 = 100)	Percentage Change
1970	June	112.8	
	April	113.4	.5
	July	114.6	1.0
	October	116.0	1.2
1971	June	126.1	8.7
	April	144.9	14.5
	July	148.9	3.1
	October	151.3	1.6
1972	June	153.9	1.7
	April	146.3	- 4.9
	July	147.6	.9
	October	137.9	- 6.6
1973	June	149.9	8.7
	April	137.0	- 8.6
	July	124.0	- 9.5
	October	59.1	- 52.3

Source: Based upon data from International Bank for Reconstruction and Development (1980), p. 577.

In order to prevent the monetary gains of the working class from being offset by inflation, the government reinforced the existing system of price controls. The assumption of the Chilean government was that the profit squeeze, created by its price stabilization policies, would be compensated by an increase in production as a consequence of the expanding demand capacity of the economy.

Total government expenditures, including spending by public institutions and public enterprises, increased by almost 80 percent in current prices (de Vylder, 1976). Special attention was given to those projects that could reduce unemployment and address social needs. In this fashion, construction was a priority sector: 71,000 new units were begun by the public sector alone in 1971 in contrast with a total (public and private) of 23,700 in 1970. Simultaneously, monetary policy supported the overall economic program. Low interest rates and easy credit made the amount of liquidity in private hands grow from 11 percent of GDP in 1970 to 17 percent in 1971. The most relevant difference with the Frei period, however, was the marked shift in credit distribution away from the private and toward the public sector, as the share of the latter in total credit created by the banking system increased from 23 percent in 1970 to 60 percent in 1971.

With substantial increases in both population purchasing power and means of payment for firms, the government was able to mobilize the underused productive resources and increase supply. The result was an economic boom in 1971. Taking advantage of the existing industrial idle capacity, the reserve labor force (the unemployment rate in Greater Santiago was 8.3 percent in December, 1970), the large reserves of foreign exchange (442 million U.S. dollars at the end of 1970--enough to pay for 44 percent of total import demand in that year), and the large stock of consumer goods, GNP grew by an impressive 7.7 percent, unemployment dramatically decreased to 3.8 percent, and the rate of inflation was reduced by 20 percent from a rate of 33 percent in 1970.

Indeed, it seemed that the impossible had been achieved and that reactivation had occurred without inflation. But the mass demand-led reactivation had created huge disequilibria: social articulation had been achieved on the side of effective demand without a corresponding capacity in mobilizing new investments to expand the key sectors of economic growth. Consumer expenditure grew more rapidly than did GNP so that this gap had to be filled using the already existing stocks, increasing imports, and financing imports against existing reserves. The rapid growth of public expenditures was not matched by a parallel increase in government revenues: while government income decreased by 1.5 percent, expenditure grew by 31.9 percent. Expansionary policy had to be financed through treasury indebtedness given the systematic rejection by the opposition-controlled Congress of passing any tax reform proposed by the Executive Branch. This Congressional opposition proved to be highly detrimental to Allende's program since it prevented financing the improvements in living standards of the masses and the creation of effective demand for wage goods through income transfers from the wealthier.

Another weak point of the Allende model was the foreign sector. Copper prices fell and so did export revenues. The total value of imports did not grow significantly, but the composition of imports changed. Capital goods imports declined dramatically while that of consumer goods (especially foodstuffs) increased. Between 1970 and 1972, the share of consumer goods in total imports increased from 24 to 43 percent and that of food from 13 to 31 percent, while the share of capital goods declined from 29 to 15 percent. This foreign sector behavior was the consequence of the increasing consumption capacity of the Chilean population and the use of the exchange rate as an anti-inflationary instrument. Contrary to the earlier administration, which followed a policy of mini devaluations of the currency to adjust the balance of payments--but, also, contributed to a certain degree of inflation--the UP began a policy of fixed exchange rates in order to protect the consumption capacity of Chileans via both price stability and the absence of shortages.

Lessons for the Transition to Social Articulation

The success of Allende's strategy of articulation by reform depended upon its ability of adjusting the production capacity to expansion of the consumption capacity. During the first year of the regime, production could be expanded using the existing excess capacity and through heavy public investments. Nonetheless, even though public investment increased by 7 percent, total investment decreased substantially as private investment declined by 68 percent during that year, representing only 20 percent of total investment in contrast to 43 percent the previous year (Stallings, 1978). Total investment, consequently, declined by 24 percent in 1971 and again by 45 percent in 1972.

The Chilean model of transition to articulation was, thus, consumption led. As Foxley and Munoz (1976) demonstrated, this development strategy was erroneous in the sense that a redistribution of income from the wealthier to the poorer sectors could only be possible if consumption and investment were kept in balance, a relationship that we attributed to Kalecki in characterizing styles of development at the beginning of this paper. In the Chilean case, this could be possible only through greater participation of the public sector in the overall economic surplus. If income were redistributed in favor of the groups with a higher propensity to consume and if no new investment were to compensate for this, consumption would grow faster than production so that inflationary tendencies and/or imports and/or deficits would have to grow.

By the middle of December, 1971 the Millas-Matos team launched a program of "stabilization at a higher level." It consisted mainly in permitting drastic once-and-for-all price increases, hoping to reestablish the equilibrium between supply and demand for those commodities in short supply. But pressures over prices were too strong, and equilibrium was impossible to reach except through politically unacceptable reduction in the consumption capacity of the masses. The stabilization program was, thus, doomed to fail as it could not address the roots of the problem.

In an attempt to correct the distortions that the policy of fixed exchange rates created in the foreign exchange market, the government adopted in December, 1971 a policy of multiple exchange rates. The structure of exchange rates was oriented toward discriminating against imports of luxury consumption goods and at maintaining subsidies to the import of wage goods. Between 1970 and 1973, the exchange rate for food and fuel increased from 12 to 20 while that for luxury consumption goods increased from 12 to 240. Yet, these measures failed to reduce the deficit in the balance of payments which kept on growing through the period.

By 1973, the UP government was in deep political and economic crisis. On the one hand, the opposition was sufficiently organized to exploit to its advantage the uneasiness of a middle class threatened by real or provoked bottlenecks and scarcities while, on the other hand, the parties of the UP were divided among themselves as to how to confront the crisis. Meanwhile, the economy was at rock bottom. The austerity measures that the government applied in 1973, including a reduction in real wages and salaries, came too late to top the inflationary spiral. State finances were exhausted, and the international credit of Chile had vanished.

Both internal contradictions and external pressures were thus to blame for the downfall of Allende's attempt at articulation by reform. From the point of view of extracting lessons for a theory of the transition to social articulation, it is essential to keep in mind that both investment in the key sectors of economic growth and effective demand creation have to be managed simultaneously. If, as was the case in Chile, the domestic and international private investors react to the redistributive measures by boycotting investment, the public sector has to overcome this deficiency by gaining greater control over investment--in particular, by redistributing income not only from the upper to the lower classes but, also, by increasing the participation of the public sector in the redistributed surplus.

Neoliberalism: Chile Under Pinochet, 1973-1984

Following the liberal doctrines of the Chicago boys, the military regime that seized power through the coup of September, 1974 set out to reorganize the ideological and the economic context of Chile to stage a return to the model of export-led social disarticulation that had prevailed until the 1930s. For that purpose, the first three years of the regime consisted of an attempt to stabilize the economy and to erase the prevailing socialist ideology and institutions. To reduce the rate of inflation that had reached 606 percent in 1973 aggregate demand was drastically curtailed. Real wages fell by 35 percent between 1972 and 1975, and the share of wages in national income was reduced from 54 percent to 34 percent (Table 8). Prices were freed for virtually all items, and the peso was devalued by 230 percent. The fiscal deficit was reduced from 23 percent of GDP in 1973 to 3 percent in 1975. In spite of this, inflation was still 343 percent in 1975, and it took until 1978 for it to fall to 37 percent. To dismantle the remnants of socialist ideology, the opposition parties were banned and many of their leaders were exiled or eliminated. The union movement was depoliticized and severely restricted in its legal rights. Union activity was confined to the level of the firm, and the duration of strikes was limited to 60 days after which workers had to accept the employers' conditions or lose their jobs. The school and media were used to actively promote a new ideology of individualism, consumerism, and social submissiveness.

TABLE 8

CHILE: SOCIAL INDICATORS, 1970-1982
(1970 = 100)

Year	Remunerations			Per capita government social expenditure	Unemployment rate	Per capita GDP
	Wages	Pensions	Family allowances			
1970	100.0	100.0	100.0	100.0	5.7	100.0
1971	122.7	141.7	135.1	128.1	8.8	105.8
1972	96.1	95.5	105.6	105.6	3.1	104.0
1973	80.4	55.3	49.0	b	4.8	98.6
1974	65.0	59.3	69.5	91.8	9.2	97.9
1975	62.9	52.0	67.1	75.0	16.5	83.8
1976	64.9	56.3	61.8	71.2	20.2	85.3
1977	71.4	60.9	57.6	78.8	18.6	92.1
1978	76.0	67.0	56.0	79.0	17.9	98.0
1979	82.3	75.9	54.2	82.8	17.3	104.4
1980	89.3	82.8	54.4		17.2	110.3
1981	97.3		54.0		15.6	114.2
1982	96.4[c]		52.9[c]		27.0[c]	97.1[c]

[a]Includes workers in the Plan of Minimum Employment.

[b]Blanks indicate data not available.

[c]Preliminary.

Source: Cortazar (1982).

The economy then was fully and rapidly opened to international competition following the principles of the shock treatment. Tariffs, which had averaged 94 percent in 1973, were brought down to a uniform rate of 10 percent by 1979. Incentives were given to inflows of foreign capital. And foreign loans could come in freely, allowing bankers to capture the large differential between international and domestic interest rates, the latter having climbed from 49 percent at the beginning of 1975 to 178 percent at the end of the same year.

With stabilization and the opening up of the economy actively pursued, the third item on the policy agenda was the privatization of the economy. Two-thirds of the land that had been expropriated under the Land Reform Law was either returned to their former owners or auctioned off to the public. The remaining third, which had been organized in cooperatives, was distributed to private family farms with the right of selling and accumulating land. By 1979, about half of these farms had been sold by the original beneficiaries. The commercial lands of the Mapuche Indians were largely enclosed and privatized based on the current pattern of usufruct. More important from a macroeconomic standpoint, the government sold 437 of the 507 state enterprises at prices which were extremely low in the context of the 1975-76 recession. This allowed a few economic groups (Vial, Cruzat) to acquire a large number of firms and to consolidate enormous economic power. Privatization of the land and industry thus led to rapid concentration in all sectors of the economy. A further aspect of the privatization of the economy was the reduction in size of the government sector. Government expenditures as a share of GNP fell from 41 percent in 1970 to 34 percent in 1979 (Cortazar, 1982). This led to a decline in the level of social expenditures per capita of 17 percent (Table 8).

Under protection of a severely authoritarian military regime, the bureaucrats trained in the principles of liberal economics were able to induce what appeared as a definitive take-off between 1977 and 1980. The average annual growth rate in real GDP during these years was 8.5 percent, while the rate of inflation declined to 31 percent. In agriculture, the sectors able to grow rapidly were those with international comparative advantages, especially fruits and forest products. Manufacturing grew at the annual rate of 8 percent. Yet, a closer look at sectoral rates of growth indicates the artificial nature of this boom. Expansion was largely based on an increase in external debt and investment remained depressed. The high growth rate sectors were financial services (21 percent annual growth), commerce (17 percent) and construction (14 percent) indicating the speculative nature of expansion and its bias towards nontradeable goods. In spite of rapid growth, the rate of unemployment remained at an average of 18 percent, indicating the structural incapacity of the neoliberal model to absorb surplus labor. The share of employment in the informal sector of the economy increased from 26 percent in 1970 to 29 percent in 1980 (Garcia and Wells, 1983). With opportunities for urban migration limited by unemployment, the peasant sector expanded rapidly as a refuge alternative and a reservoir of poverty. Between 1965 and 1979, the number of farms under twenty hectares of irrigated land increased by no less than 50 percent (Jarvis, 1981). The distribution of income also grew sharply more unequal following the logic of social disarticulation. Between 1969 and 1978, the real income of the poorest 60 percent of the population decreased by 18 percent. Absolute poverty increased as well with 59 percent of the population below the poverty line in 1979 compared to 35 percent in 1968.

In 1979, the Chicago boys were at the peak of their economic power, and they set out to attack the one remaining variable which required adjustment: reducing the rate of inflation from 38 percent down to that of the dollar. To do so, they adopted the dramatic measure of pegging the peso to the dollar at a "forever" fixed exchange rate, following the theory of the monetary approach to the balance of payments. While this was effective in bringing inflation down to zero in 1982 through a massive contraction of economy activities, the fact that this did not occur immediately led to an overvaluation of the peso by nearly 100 percent in 1982. Rapid capital inflows, induced by high interest rate differentials, allowed the financing of the growing current account deficit and thus the peso did not have to be devalued for a full three years. The results were devastating to the Chilean economy. Imports increased rapidly and depressed the production of tradeables, bankrupting large segments of industry constructed painstakingly over 50 years of import substitution industrialization. The articulated alliance was thus given a death blow by the bureaucrats of liberalism. The rapid inflow of foreign funds through debt created monetary expansion which encouraged the production of nontradeables. Land speculation, financial services, commercial activities, luxury imports, and construction became the key sectors of economic growth. By contrast, agriculture, manufacturing, and mining were stagnant.

By the end of 1982, the disaster was fully apparent. The rate of growth of real GDP in 1982 had fallen by 15 percent. Real income per capita had declined by 4 percent relative to 1970 and per capita industrial production by 25 percent. Inflation was back at 30 percent (Edwards, 1982). The foreign debt was the highest in Latin America on a per capita basis amounting to 80 percent of the GNP and its service absorbing 80 percent of the value of export earnings. Most of the large financial groups had been bankrupted by the incapacity of many businesses and individuals to pay their debts in a context of recession, rising interest rates, and devaluation (about half of the domestic debt was held in dollar terms). The government had to nationalize these financial institutions with the result that it now controls virtually the whole financial sector and most of the real sector of the economy as well.

The social costs were devastating. Unemployment had reached 33 percent (including people receiving the miserable wage of 1 U.S. dollar per day as part of the Plan of Minimum Employment). The share of wages in total income had dropped by 15 percent between 1974 and 1982 (Cortazar, 1982). Pensions and family allowances had fallen by 35 percent and 40 percent, respectively, relative to 1970 (Table 8). In Santiago, the level of consumption by the 20 percent poorest households declined by 31 percent and that of the poorest 60 percent by 19 percent between 1969 and 1978. By contrast, the consumption level of the wealthiest 20 percent increased by 2,072 percent (Cortazar, 1982). The distribution of wealth and income had worsened, and absolute poverty increased for the poor relative to 20 years before. Food dependency in wheat had increased from 30 percent in 1973 to 63 percent in 1982. And devaluation of the peso by more than 100 percent in one year following June, 1982 was pushing upward the level of food prices, squeezing further the consumption levels of the poor.

Economic collapse resurrected political activity, this time directed against the military regime. Opposition intitially took the form of a broad democratic alliance dominated by the Christian Democracy. Yet, the failure of negotiating concessions with the military is leading to a weakening of this center alliance and to increasing polarization of the opposition, paving the way toward the escalation of violence in the face of stubborn resistance of Pinochet's one-man rule.

The lesson is clear in terms of social disarticulation. By returning to the liberal model of export-led social disarticulation that prevailed in Latin America before the Great Depression, Chile (and other Southern Cone countries) demonstrated, once more, the lack of long-run viability and the high social costs of this style of growth in spite of its theoretical attractiveness in the textbooks of orthodox economic teaching.

4. Conclusion

Political and economic instability in Latin America can usefully be analyzed in terms of the contradictions of disarticulated growth and the struggles between articulated and disarticulated alliances in repeated attempts at social articulation. While articulation by growth has proved to be illusory, articulation by reform has failed to be properly achieved either due to lack of adequate conceptualization of the necessary reforms involved or to lack of sufficient political power to carry through these reforms. We have studied in some detail the experiences of Argentina, Brazil, and Chile with articulation by growth or by reform. Other relevant Latin American experiences also should be analyzed, in particular the attempts at articulation in Peru in 1968 and Ecuador in 1972 as well as the Cuban and Nicaraguan models.

In terms of strategies of transition to social articulation, the historical experiences we have studied reveal how much more difficult it is to gain control over investment and trade in order to redefine and expand the key sectors of economic growth than it is to create the necessary expansion of domestic effective demand for wage goods. In the latter, both the Peronist and the Popular Unity regimes became successful too rapidly. The implication is the need to postpone satisfying popular pressure for increased consumption of wage goods until productivity gains in the production of these goods have been firmly obtained. Increasing wage goods consumption on the basis of the mobilization of excess capacity alone is an invitation to subsequent destabilization. Neglecting the key role of the external sector in providing access to the raw materials and capital goods for the wage-goods industries as well as in importing those wage goods for which the country does not have natural comparative advantages is also a sure path to destabilization.

The transition to social articulation thus requires enough political power to postpone popular demands for increased consumption of wage goods until permitted by appropriate gains in productivity and to curtail the entrenched habits for internationalized consumption patterns in the upper classes. The hard task of this transition is to use the power of the state to redirect investment and to submit trade to the needs of articulation. However arduous the task, there seem to be few alternatives to this approach if stable and equitable styles of development are at last to be part of Latin America's future.

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