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THE POLITICAL ECONOMY OF LATIN AMERICAN DEVELOPMENT: SEVEN EXERCISES IN RETROSPECTION

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In revisiting Latin America to gather impressions for the present paper, I soon convinced myself that the most conspicuous characteristic of the region's recent experience is diversity and that the most interesting stories to be told are about specific, often contrasting, experiences of individual countries. So, except for the first and last sections, I shall not deal here with Latin America in overall terms; rather, I shall present a series of loosely connected and necessarily brief "exercises" in comparative political economy. Not surprisingly, primary attention will be given to the four countries I visited this time: Brazil, Argentina, Chile, and Mexico. My endeavor will be throughout to gain some perspective on current or recent issues by tying them into events and discussions of earlier decades.

LES TRENTE GLORIEUSES IN LATIN AMERICA?

As is well known, the Latin American economies were hit quite hard during the early 1980s. The sharp cyclical downturn of 1981/82 in the United States and in the rest of the advanced industrial countries combined with the outbreak of the international debt crisis in 1982 and a fall in raw material prices to force sharp reductions in imports, public expenditures, and private investment in all of Latin America. Incomes fell everywhere and unemployment rose to unprecedented levels in the more industrialized countries, such as Brazil, Argentina and Mexico, none of which had provisions for unemployment compensation. After actual drops in total output in 1982 and 1983, uneven recoveries occurred in 1984 and 1985 with the result that in terms of total output the Continent is only now back where it was in 1981. Given the continued growth in population, per capita incomes are down about 10% from what they were then.

This serious setback in the development of the Continent had a curious counterpart: preceding decades were for the first time perceived as a long, almost golden age of uninterrupted, steady forward movement. Just as, according to Hegel, we begin to understand an era only as the curtain is rung down on it ("the owl of Minerva spreads its wings only with the falling of dusk"), so can we apparently bring ourselves to acknowledge the positive features of a period only as we enter into a subsequent one, whose troubles we now wish to underline by painting a strong contrast with what came before. This is probably a fairly general human trait: in France, the expression "les trente glorieuses" (the glorious thirty-year period) referring to the unprecedented spurt of growth and modernization of the postwar decades, was coined in 1979 by Jean Fourastié; it seems likely that the formula owes much of its success to the fact that the French, like other economically advanced countries, were then entering a new time of troubles, and were *now* ready to proclaim that everything had been going well--just up to yesterday.[1] But this trait, this reluctance to celebrate or even acknowledge progress while it unfolds before our eyes so that one makes the celebration coincide with the lamentation about its passing, has been particularly marked in Latin America. It should in fact have come as a major revelation to most readers of current reports about Latin America that that Continent too may have had its *trente glorieuses*--and perhaps a few more.

Why the conspiracy of silence about the good news as long as it was still coming? For some good reasons, of course. The information about economic growth, advancing per capita incomes, strides in industrialization and rise of the middle classes, was thoroughly intertwined in Latin America with contrasting trends and perceptions: there arose a new awareness of social tensions and injustice, long existing mass poverty became urbanized and therefore more visible, economic imbalances between city and countryside, as well as between advanced and backward regions, widened and the performance of the state in dealing with these negative side effects of economic growth was far from satisfactory. Most important perhaps, and in marked contrast to the steady consolidation of democracy in Western Europe during this period, Latin America, with the almost unique exception of Mexico, experienced serious political upheavals throughout the 30-40 year period, with its midpoint being marked by a major and influential "accident," the overthrow of democracy in Brazil by the military coup of 1964. Finally, there is of course the tactically inspired tendency to underline the negative so as to present the Continent as a long-victimized claimant upon the international economic and financial system. Small wonder, then, that Latin America's *trente glorieuses* have not found a prophet.

I do not aspire to that role. But now that the progress of Latin America from 1945 to 1980 is no longer a carefully guarded secret, it is useful to record briefly its economic and social dimensions.

In those thirty-five years the total population of Latin America has increased rapidly, from 155 million to 388 million people.[2] The average annual rate of increase over this thirty-five-year period works out at 2.7%. From 1950 to 1981 the gross domestic product of the area in real terms quintupled; it rose fairly steadily throughout these thirty-one years, the average annual rate being 5.5%, so that per capita incomes increased at about the same rate (2.7%) as the population, from 420 to 960 U.S. dollars (at constant 1970 prices). While *annual* incomes rose in this fashion, life spans lengthened considerably--life expectancy rose from the low fifties to the middle sixties--so that *lifetime* incomes expanded much more than is indicated by the per capita income statistics (which are on a per annum basis).

A major change in the social structure of Latin America is the relative decline of the rural population, in line with the historical experience of the more advanced economies. The transfer of people out of agriculture has been exceptionally rapid during the past thirty-five years. In 1950, in countries like Brazil, Mexico, and Colombia about 60% of the labor force was occupied in agriculture. Today this percentage has come down to less than 30%. In Brazil and some other countries, the absolute number of people in agriculture is no longer increasing. In counterpart, as a result of massive rural-to-urban migration, Latin American cities, from Lima to Caracas and from São Paulo to Mexico City, have become huge, often highly polluted conurbations with a large proportion of the urban population living in self-built, often rudimentary homes with uncertain titles and inadequate, though improving, access to public utilities, particularly transportation, water, and sewerage.

Nevertheless, massive urbanization has probably been the major force behind considerable advances in health and education since the fifties. The already noted increase in life expectancy is largely a reflection of improved survival chances for the newborn during the first years of life. Infant mortality has declined sharply and steadily; in the early fifties it stood at the distressing level of around 130 per 1000 live births in the countries of the tropical zone: in most of these the figure is now down to around 50, although in Brazil and Peru the rates are still much higher (70 and 98). Illiteracy has similarly receded: outside of the Southern Cone where all such social indicators have long exhibited much more advanced levels, a 50% rate was the rule around 1950; it now stands at less than half this level. School enrollment rates have risen correspondingly: primary school attendance is now close to universal, although this statistic may not be particularly meaningful. Greater confidence can be placed in figures showing real movement at the secondary and higher levels: in countries like Brazil, Colombia, and Mexico, the enrollment rate in high schools has risen from around 10% in 1950 to some 50% today while at the university level the progression for the same countries is from 2-3% in the fifties to about 12-15% today: the educational pyramid is apparently growing and flattening out at the same time.

To give a more complete picture of advances in social welfare and of its current state one would have to cite many more figures, from per capita caloric consumption to the equipment of dwellings and households with basic utilities such as water and sewage as well as data on the diffusion of consumer durables such as refrigerators, telephones, automobiles, and radios and televisions. Some of these data (calories, water and sewer connections) are in poor shape; others--those relative to the diffusion of automobiles, telephones, and refrigerators--testify to the rise of a substantial middle class enjoying these amenities; in the case of yet others--radios and, increasingly, televisions--diffusion has become so nearly universal that, oddly, their possession is no longer useful as a measure of economic status and attainment.

Instead of looking at the new possessions people are able to acquire, it may be more meaningful to focus on what they increasingly decide to do without: the traditional family with a large number of children. Outside of Argentina and Uruguay, where small families have long been common, birth rates throughout Latin America stood at the very high level of around 45 per thousand in the early fifties; these rates declined rapidly in the sixties and seventies and now stand at around 30 per thousand in all the larger tropical countries and are still falling. Sample surveys show that the percentage of married women using contraception varies from 40% to 55% in these countries (in Western Europe and North America, this figure lies between 70% and 80%); this means that the practice extends considerably beyond the middle class. Comparable figures for earlier years are not available, but there is no doubt that diffusion of birth control to so wide a sector of the population is quite new.

Whether or not we dare speak of *les trente glorieuses* in Latin America, the statistical evidence indicates that the region has two major accomplishments to its credit over the last three or four decades:

> 1) It has accommodated an enormous increase in numbers of people while improving their average living standards and increasing their life expectancies.
>
> 2) Countering the many prophecies of demographic disaster based on projections of population growth at the very high rates of the fifties, the region has decisively brought underway the "demographic transition" which will permit the achievement of

> much more moderate (or zero) population growth, even though at permanently higher levels of population density.

A third achievement is implicit in the data that have been cited: no matter what happened to distribution, some improvement is taking place in the position of the poorest sectors of the population for they are obviously the ones that are primarily benefited by the decline in infant mortality and illiteracy. Moreover, there is evidence that these sorts of advances in social welfare are no longer rigidly tied to the ups and downs of the economy. Thus, during the recent years of recession and stagnation, infant mortality appears to have continued its downward trend, and the same is probably true for illiteracy, as school enrollment rates continue to rise, and for the birth rate.

Several reasons can be given for these welcome developments. Declines in infant mortality, in illiteracy and in the birth rate depend more on the diffusion of knowledge and of new cultural practices and attitudes than on the rise and *fall* of income. That at the least a ratchet effect is in operation here becomes evident when we consider the decision to use birth control: in many cases it may have been induced by the inter-related complex of rising incomes, urbanization, greater literacy and the spread of specific knowledge about contraception, but once acquired this knowledge is not going to be erased, nor will the decision to use contraception be reversed by a temporary fall in income--rather, in this case, to the contrary. Similarly, certain sanitary and dietary practices in childrearing that are important in saving infants' lives, are unlikely to be discarded once they have been learned and adopted. Also, new knowledge and better practice in medicine and public health, including immunization, make for advances that are largely independent of economic conditions; a good recent example is the introduction and wide (usually free) distribution in many countries of oral rehydration kits which counteract the often fatal dehydration consequent upon diarrhea in small children. With regard to education, an important factor in school attendance and, hence, of literacy is simply the determination of the parents to send the children to school: again, this determination, once acquired for whatever reasons (including economic ones), is not likely to be reversed as a result of subsequent economic setbacks, except in the most severe circumstances; also, such determination will communicate itself to other parents of similar socio-economic strata, as a result more of cultural diffusion than of economic improvement.

Public policy plays an important part in these matters. Retrenchment in current operating costs will of course take place as an economic downturn leads to budget cuts, but to the extent that the provision of education, health, and transportation services depends on prior capital expenditures (schools, hospitals, and other health facilities, roads, subways, etc.), the effect of economic reverses on the availability of such services is likely to be dampened.

There are therefore several reasons why, at a certain level of development, we may expect a measure of disjunction between economic and social indicators, with the latter doing rather better than the former, particularly during temporary economic downturns. Such a disjunction was noted for the United States by the sociologist Christopher Jencks in his article "The Hidden Prosperity of the 1970s."[3] According to the conventional wisdom which was based on economic data, things fell apart during that decade; "inflation accelerated, unemployment rose, productivity stagnated," and real family income which had risen by over 30% in both the '50s and '60s remained virtually unchanged (p. 37). But Jencks shows in considerable detail that more direct and detailed measures of material well-being relating to health, housing, transportation, and food consumption "often showed marked improvement, and some showed as much improvement during the 1970s as during the supposedly more affluent 1950s and 1960s" (p. 38).

Such findings are unexpected. Greater reliance on "social indicators" relating to health, education, etc., was widely advocated in the 1960s because of a spreading suspicion of, and disbelief in, the then optimistic message of the economic indicators. It was thought in particular that the per capita income series, with its relentless advance, hid from view all kinds of less happy aspects of social reality, from uneven distribution and ecological depredation to spreading crime. It is therefore a piece of disconcerting, though obviously welcome, news that at least some of the social indicators now paint a somewhat rosier picture of changes in our society than the economic ones.

A similar story may be in the making for Latin America. With respect to infant mortality, the severance of a close tie to economic performance was noted in two recent studies on Brazil and Chile, commissioned by UNICEF, on the impact of the recent world recession on children.[4] None of this means, of course, that the recession, with its unemployment and dislocation, has not been a most cruel experience for large groups of people. But it is conceivable that, at some level of development, considerable economic discomfort and deprivation no longer carry such extreme penalties as infant mortality and illiteracy while groups that are not directly injured by the recession continue advancing, due to some inertial spread of education and knowledge. A disjunction of social and economic indicators should not come as too much of a surprise. After all, substantial advances in health and literacy have long been characteristic of Cuba and other "socialist" countries even though their economic performance has been far from brilliant.

If, then, Latin America's economic and social performance over the past decades shows a number of strong points, why is the current mood of many pronouncements about the Continent's prospects so gloomy? One reason is no doubt that, with the possible exception of Brazil, countries have not yet decisively emerged from the recent recession--with Mexico and probably also Venezuela and Ecuador being in fact hit with another downturn this year because of the drop in petroleum prices. Another reason for pessimism is the large debt overhang whose service mortgages a substantial portion of any expansion in exports that would be achieved as recovery and growth resume. Yet the despondency of many contemporary observers seems to me to be rooted principally in the realm of ideas. The present scene, so it is often said, lacks in the feeling, so strong in the thirties and forties, that all kinds of daring and exciting new directions of economic and social policy were to be explored. This nostalgic backward glance is often complemented by another mournful observation: that the paths then taken, just as others that opened up later, have all ended in utter failure, from the "developmentalism" of the fifties to the monetarist experiments (in the Southern Cone) of the seventies. Put side by side, these two disheartening statements actually permit a rather more cheerful conclusion: perhaps it is a good thing that not so many brave new directions are beckoning today!

Some of the younger economists and policy-makers in Latin America are in fact acting as though they agreed with this point. They are not talking nearly as much as their elders did about wholly new directions or solutions, while they are actually coming forward with a number of original ideas and practices, to be noted later in this paper. I shall set the stage for this brighter side by first reviewing some of the more unhappy economic policy experiences of the recent past.

INDUSTRIALIZATION AND DEINDUSTRIALIZATION: ARGENTINA AND CHILE

Latin America has always been a heterogeneous assemblage of economies and polities but, depending on the specific period under study, this characteristic has been more or less pronounced. The specific nature of dissimilarity has also shifted. Up to the Second World War the principal dividing line, from the point of view of economic and social development, had been between the fertile, temperate-climate countries of the Rio de la Plata region, Argentina and Uruguay, to which Chile was sometimes added, and the others which, in addition to lying predominantly in the tropics, contained (to compound their misfortune, so it was widely thought) large numbers of people of African, native

Indian and mestizo origin. It was one of the enormous merits of Raúl Prebisch that, transcending his own privileged status as a citizen of "advanced" Argentina, he launched a campaign for the economic progress of all of Latin America by emphasizing certain shared characteristics: being on the periphery of the world economic system and being relegated to the role of suppliers of raw materials and foodstuffs. Emancipation from this condition was to be accomplished largely by industrialization, a task that was proposed as though it were universally manageable, requiring only capital, entrepreneurship, and promotion or protection by the state, as though, in other words, climate, race, and specific natural resources did not greatly matter. And this contention was proven to be right; in fact, over the last forty years, the tropical countries as a group have substantially out-performed the temperate ones in Latin America and, since they were originally much poorer, a movement toward greater inter-country equality has thus taken place.

Nevertheless, industrialization itself has given rise to fresh inequalities and disparities. A new division, that has become more marked with the years, is that between the larger and the smaller countries, size being measured by population. Because of the importance of the domestic market in the course of industrialization, particularly the import-substituting kind, the industry of the larger Latin American countries was bound to develop more vigorously in the larger than in the less populous countries. This is the primary reason why the economic weight of the two largest countries, Mexico and Brazil, has increased considerably: their share in the total national income of the Continent has increased from less than two-fifths of the total (38.7%) in 1950 to more than three-fifths (61.3%) in 1981, while their share of the total population remained steady at about one-half of the total.

The urge to industrialize, rooted in the depression and war experiences of the thirties and forties, seized all but the smallest and poorest Latin American countries during the fifties and sixties. But in the next decade, what had been a unifying characteristic turned strangely into its opposite and now became a factor accentuating diversity. It was not just as in earlier years that the tempo of industrialization differed substantially among different countries: there was a real parting of the ways. Some countries experienced *de*industrialization while Brazil, already the most advanced industrial country of the group, entered upon an entirely new stage of industrial development. The contrast is sufficiently stark to warrant a closer look.

Elsewhere I have written about the dual attack that was mounted against the industrialization drive, starting in the sixties.[5] From the Latin American Left, industrialization was variously criticized for being "unintegrated" or "truncated," for increasing "dependency," or for catering (through its products) primarily to the upper and middle classes. At the opposite end of the spectrum, the international neo-classical establishment castigated "inward-oriented" industrial development for causing misallocation of resources, balance-of-payments problems, and "rent-seeking." Neither criticism was wholly without foundations, but in the ideologically charged debates of the time it was not asked whether the assorted problems of import-substituting industrialization were conceivably *growing pains* which might be overcome in due course by adroit, incremental policy making, rather than the result of *sins* that had to be expiated and eliminated root-and-branch through a wholesale change of course. That the growing-pains hypothesis is not without merit was actually demonstrated by some country experiences in whose course a gradual transition was managed from exclusive reliance on the domestic market to substantial exports of manufactures by means of various devices, such as crawling pegs for currency devaluation, progressive reduction in protection, and policies of export promotion.[6] But the root-and-branch school won decisively in those countries--Argentina and Chile--where, in the seventies, military regimes of the Radical Right came to power with the determination to extirpate a large variety of miscreant behavior, from subversion to misallocation: considering that these regimes resolved to exile, imprison, or "disappear" thousands of citizens in the name of National Security, it is easily understood that they had no intellectual or sentimental qualms about eliminating hundreds of industrial firms for the sake of the Law of Comparative Advantage--even though, in the process, tens and even hundreds of thousands of workers would lose their livelihood.

In this manner, industrialization was put into reverse gear in Chile after 1973, with industrial employment falling from 555,000 persons in 1973 to a low of 378,000 during the depression year of 1983; a modest recovery has brought this figure back to 449,000 in 1985. At this point, therefore, one out of every five persons employed in industry thirteen years ago has lost his or her job. In Argentina, industrial growth has also given way to sharp decline during the military regime that started in 1976 and came to an end in 1983. In a short number of years the industrial labor force has shrunk by over 10%, from 1,525,000 workers in 1974 to 1,360,000 in 1985.

Such overall figures do not tell the whole story as some industries were much more affected than others. Among those that were liquidated as a result of tariff cuts and similar measures, there were of course some highly protected, blatantly inefficient operations (e.g., certain car assemblies in Chile). But the most damaging and wholly undeserved adverse impact on domestic industry did not come from the reduction in tariff protection, but from two related aspects of the monetarist policies that were pursued, particularly after 1978, in both Argentina and Chile: the more important was the over-valuation of the domestic currency, which was intended as an anti-inflationary device. It did not prove very effective in this task, but handed an artificial cost advantage to a wide range of imports. Among the industries that were heavily injured were not only traditional consumer goods manufactures such as textiles and shoes, but certain technologically advanced durables--such as color televisions in Argentina--that had made a promising beginning and had been developing their own design, characteristics, and networks of local suppliers and services.[7]

In addition, the monetary experiment that was being pursued led to high domestic interest rates which squeezed the smaller domestic concerns while making borrowing abroad at considerably lower rates highly attractive for the larger ones. Under these conditions, the larger, well-connected, often resource-based industries (chemical, petrochemical, pulp and paper, etc.) fared for a while much better than smaller, purely domestic industrial firms. Eventually of course, as the exchange rate had to be drastically devalued in the early eighties and as foreign interest rates soared in turn, the cost of the foreign loans became intolerable for those who had contracted them. But like the private banks and finance companies which had often acted as intermediaries, the larger firms were not allowed to fail--rather the governments stepped in with guarantees and various salvage operations. The result was ironic: governments whose economic mission had been widely advertised to be privatization of the economy and the restoration of free markets ended up owning or controlling the country's banking system as well as many of its larger enterprises. In Chile, this happened as many industrialists and bankers became disillusioned with the Pinochet regime; but at this point they found that the cost of any opposition or dissent had risen steeply as the result of the newly acquired, overwhelming *economic* power of the State.

Few will deny that the deindustrialization experience in Chile and Argentina was a most unhappy chapter in Latin American economic history. As often happens with such aberrations, its perversity is almost incomprehensible in retrospect. In trying to under - stand it, holding forth on the failure of monetarist orthodoxy or on the dangers of granting dictatorial power to ideologues, be they of the free-market variety, is not quite enough. For comparative purposes, it is useful to look at the special circumstances prevailing in international finance during the mid-and late seventies. This was of course the period when huge sums of "petrodollars" were being "expertly" recycled by the commercial banks of the United States, Western Europe, and Japan. Suddenly there seemed to be a virtually unlimited supply of foreign exchange not only for the petroleum exporters, but for the importers as well--in fact, for every country that could convince the bankers that it was bankable. And the banks, with their swollen deposits, were only too willing to be convinced; in fact they took to "marketing" their petrodollars with all the energy and aggressiveness at their command.[8]

Only under these circumstances was it possible for Chile and Argentina to *sustain* the overvaluation of their currencies and the resulting large deficits in their balances of payments, on both current and capital account, during a prolonged period. In this sense, therefore, the Chilean and Argentinian policy makers were rather less autonomous than they were thought to be by both themselves and their critics. Rather than as sovereign shapers of their own misfortune, they should probably be viewed as having fallen pitifully into a trap that was set for them by the international financial system.

DESUBSTITUTION OF IMPORTS AND A CURIOUS CONVERGENCE: MEXICO

Looking at matters in this way contributes to an understanding of another major calamitous experience of the recent past whose consequences are still very much with us: the Mexican oil boom and its aftermath. As is well known, Mexico's economic development proceeded at a remarkably steady pace during the postwar decades, more or less until the mid-seventies. Political stability, assured by a regime in which a single party was predominant but not wholly immune from criticism, was similarly impressive, as a measure of pluralism and flexibility was provided by the regular six-yearly presidential succession and as each new President seemed to see it as his task to correct whatever right- or left-wing leanings had been shown by his predecessor. Then came petroleum--

and, with it, in short order, an end to steady growth as well as much concern about the viability of the political system.

After a long period of stagnant and low production from old wells, large-scale discoveries of petroleum were made in Mexico in the late sixties and early seventies. Marketing abroad on a substantial scale started in 1975. Production increased rapidly until an output of 2.3 million barrels a day was reached in 1981, making Mexico a major producer and exporter. By 1980 petroleum had become the country's dominant export item, accounting for two-thirds of total exports, and a substantial contributor to the budget (taxes paid by PEMEX, the state monopoly, brought in one-quarter of total revenue).

A sudden export boom of this sort will normally lead to the accumulation of considerable foreign exchange by the freshly wealthy country, which is unable in the short run to develop a demand for imports matching the rise in exports. This was the experience of many oil-rich Middle Eastern countries after the 1973 rise in petroleum prices which led to the need to "recycle" their petrodollars in the first place. What was remarkable from the beginning about the Mexican story is that the country's imports never fell behind the rapidly growing petroleum exports. Initially this seemed to testify to the ability of the Mexican policy makers to push the tempo of the country's economic development so as to take full advantage of its new opportunities. But soon the growth of imports *exceeded* that of exports by ever wider and increasingly worrisome margins. It also became clear that the process was anything but planned. While Mexico did not experience deindustrialization, at least not during the late seventies, it went through a related process that has been termed "import *de*substitution"[9]: in contrast to earlier development experience, imports came to account for an increasingly important portion of total domestic supply, for consumer, capital, and intermediate goods alike.

It all was the result of a familiar sequence: imports rose rapidly as domestic prices rose and the government refused either to devalue or to restrict imports through administrative controls. Eventually, as the public began to perceive that the overvaluation of the currency could not last, massive capital flight also took place, as in Argentina. Once again, both excess imports and capital flight were made possible by the lending policies of the international banking system, which were particularly generous in the case of Mexico whose oil wealth was thought to offer solid guaranties of repayment. There is no need to retell in detail the outcome: the debt crisis and temporary moratorium of 1982, the headlong devaluations, the painful negotiations with foreign creditors and the International Monetary Fund, the cutbacks in public spending, and the recession in the economy which found it difficult to regain its buoyancy and was hit again, three years later, first by the earthquake of 1985 and then by the precipitous fall in oil prices in the early part of this year.

The comparison of the Mexican story with that of Argentina and Chile raises some intriguing questions. In all three cases the readiness of the international banks to finance balance of payments deficits played an important facilitating role for the surprisingly similar policies that were pursued. These policies consisted in maintaining overvalued exchange rates that gave a boost to imports, penalized exports, and led to speculative capital outflows. But the ideologies that underlay these policies could not have been more different. In Mexico, during the last years of the López Portillo regime (1976-82), considerable influence was held by a group of economists and officials who, with the help of "neo-Keynesian" advisers from Cambridge (England), prepared an ambitious plan for pushing the country's industrialization.[10] Hoping to take advantage of Mexico's oil bonanza for the purpose of accelerating the country's development, they advocated strong quantitative import, exchange and investment controls so that priority would be assured for their projects. They were not successful in having these policies adopted, but together with other, very differently motivated actors they effectively opposed devaluation for a long time, probably because they felt that the pressures deriving from overvaluation would force a decision in favor of the policy course they favored.

The doctrines and preferences of the policy makers in Chile and Argentina, whose teachers and advisers hail from Chicago, were of course all set against selective administrative controls and in favor of general monetary policy instruments and were thus the exact opposite of those of the Mexicans with their Cambridge confederates. Yet, they also supported overvalued exchange rates and also for far too long. This convergence on (wrongheaded) praxis of the two irreconcilable doctrines into which economists like to array themselves is surely remarkable. One cannot quite resist the thought that in both Mexico and the Southern Cone policy makers were fundamentally swayed by some craving to take advantage of the unprecedented opportunities to borrow that were opening up in the seventies and were bending whatever ideologies were at hand to satisfy that appetite. On this interpretation, the principal contribution of ideology was not the choice of policy, but the stubbornness with which policy makers of very distinct persuasions persisted in their errors!

"FORCED-MARCH INDUSTRIALIZATION": BRAZIL

Fortunately the Latin American scene is diverse enough to provide relief from the dispiriting stories reviewed up to now. While Argentina and Chile deindustrialized and Mexico "desubstituted," Brazil, already the Continent's major industrial power, vigorously consolidated and extended its leadership. The paradox about Latin American economic development in the period of high petroleum prices (1973-85) is indeed the striking contrast between the serious economic setbacks suffered by newly oil-rich Mexico and the notable strides made by oil-poor and oil-hungry Brazil. There are here all the elements of a fine, if puzzling, moral tale: it looks as though to lack petroleum is a blessing in disguise while to be abundantly supplied with it is an even more cunningly camouflaged curse. But to leave matters at that is not quite enough for the social scientist who is legitimately curious about the basic components of the Brazilian success story.

First of all, there is perhaps need for a brief explanation why Brazil is a success story--the announcement may come as a surprise to those who are merely aware of one frequently repeated statistic: Brazil, with its $100 billion plus debt, is Latin America's biggest debtor (followed at close range by Mexico). It is also true that the interest payments on this debt amount to a heavy burden, taking about one out of every three dollars earned by current exports. But the dollar amount of the debt must be viewed in relation to the size of the country's economy and the interest payments in relation to the remarkable turnaround in its external accounts over the past few years. Since 1983, a very large export surplus has been achieved, due in about equal parts to a vigorous expansion in exports, mostly of manufactures, and to a deep cut in imports which has not interfered with a strong revival of domestic economic activity. In contrast to Argentina and Mexico, only a quite small part of Brazil's debt is the counterpart of domestic capital flight; borrowing mainly served to build up large-scale industrial and other projects in the seventies. Brazil did experience a sharp recession in 1981-83, but growth was resumed in 1984 as a result of a developing export boom; in 1985 the growth rate rose to 8% and employment rebounded. In March of this year, a novel method, to be discussed shortly, was used to bring inflation under control while growth continued at a high level. Brazil is currently meeting the interest payments on its foreign debt and is not relying on assistance or advice from the International Monetary Fund. Finally, in the midst of these economic developments, the country made the difficult transition from 20-year-old military rule to a civilian "New Republic."

In a recent book <u>A economia brasileira em marcha forçada</u>,[11] Antônio Barros de Castro proposes an explanation, which I find convincing, for the recent successes of

Brazil's economy. His principal argument is that the improvement in Brazil's balance of payments and its simultaneous rapid recovery from recession cannot be adequately explained by a routine market reaction to the "maxidevaluation" of 1983. Rather, it must be credited to a peculiarly fortunate (and fortuitous) conjunction of market and plan: the devaluation came on top of the maturing, in the late '70s and early '80s, of a large number of industrial projects that were undertaken as part of the so-called "Second National Development Plan" elaborated by the Geisel Administration (1973-79) at the beginning of its term. This new departure in industrial policy was decided upon in 1974 against the backdrop of the first oil shock (1973) which dealt a heavy blow to Brazil, given its dependence on imported oil and on the automobile as a means of transportation. The prudent course might have been then to apply restrictive economic policies so as to rein in imports. Instead Geisel and his economic advisers decided to push industrial investments away from the automobile and consumer durables of the "miracle" years (1968-73) and into the sectors which represent the ultimate stage of import-substituting industrialization and which so far had remained hardest to crack for Latin America's industrializers: intermediate inputs, specially of the chemical and metallurgical industries, and capital goods. Given the increase in petroleum prices, it was possible to take this course only by incurring large balance of payments deficits, that is, by borrowing. But this turned out to be a feasible option, in view of the petrodollars that became available in large amounts. The major investments were often joint ventures of the State and private capital, both domestic and foreign, and the stimulus and the credit facilities of the National Development Bank (BNDE) with their subsidized interest rates, played an essential role. During the subsequent Figueiredo Administration (1979-1985) economic policy became much more hesitant and even erratic as well as subject to pressures from the International Monetary Fund, but as the large industrial projects of the Second Plan were already underway, they were continued willy-nilly.

It would be instructive to compare the Brazilian and Mexican attempts, in the seventies, to reach for the "ultimate" stage of import-substituting industrialization. I venture the following, obviously stylized, formulation: the Brazilians did successfully, without any foreign advisers, what the Mexican economic planners with their Cambridge advisers planned on, but were unable to accomplish, in part because they started too late in the decade and in part because their planned investments were crowded out by the vast surge of consumer goods imports caused by the overvalued peso. The Brazilian story, as told by Antônio Castro, sounds quite straightforward. Yet it could be formulated only now, I think, because at an earlier stage, that is, before the military had actually relinquished political power, no progressive social scientist would have spoken so positively of them and their policies. Once again, it was possible to acknowledge the achievements of a period only after it had safely passed.[12] Actually the Geisel Administration must of course also be credited with a major accomplishment in the political domain: to have stopped institutionalized torture and to have brought underway and pursued the political opening or "distension" that eventually permitted a return to elections and civilian rule.

At this point it is almost impossible not to return to a debate that raged some ten years ago about the connection between authoritarian regimes and stages of industrial development in Latin America. It was started by Guillermo O'Donnell's imaginative proposition that the "difficult" advanced stage of import-substituting industrialization, the one that consists of the manufacturing of intermediate industrial materials and of capital goods, brings with it a number of political problems which undermine populist or democratic governments in Latin America. Hence the suggestion that there is some correspondence between this stage and the establishment of authoritarian political forms. Brazil, with its advanced industrial structure, is obviously a critical testing ground for this a priori not implausible hypothesis. As José Serra had already pointed out in 1977, however, it was disconfirmed on various counts by the Brazilian data.[13] With Castro's analysis it is now tempting to go farther and to explore the *inverse* hypothesis: is there some reason to think that there was some organic connection between the industrial development policy of the Geisel government and the gradual dismantling of repressive authoritarianism that was then set in motion? Or was the simultaneity of the two policies totally fortuitous? I doubt very much the existence of any direct causal link in one direction or the other. But there is one characteristic that is shared by the two tasks which were undertaken by that enterprising Administration: they both required a great deal of delicate steering (of economy and polity, respectively) as well as much confidence that, with the proper quantity and quality of such steering from above, the country was assured of a brilliant and truly modern destiny--the old positivist faith. In this sense, the two tasks that were shouldered by the Geisel Administration can be said to have had a common wellspring.

FROM IMPORT-SUBSTITUTION TO IMPORT-PREEMPTION: THE BRAZILIAN COMPUTER INDUSTRY (OR: BREAKING THE SHACKLES OF THE PRODUCT CYCLE)

Industrialization in Latin America has long followed the path of progressive import substitution. Impelled by the backward linkage dynamic, the last stage of the process was to be, as just discussed, the substitution of domestic production for imports in the field of intermediate inputs and capital goods. Many writers (often intent on criticizing accomplishments to date) have presented advances into this area as essential to the establishment of an "integrated" industrial structure, as the Mecca that would bring release from all kinds of ills affecting the industrialization effort, from fragmentation to "dependency." The fascination with this ultimate, redeeming stage may have kept people from noting that it is not really the *nec plus ultra* of industrialization. Apart from completing the import-substituting sequence, a newly industrializing country may at some point make a clean break with the whole process, dispensing with the services rendered by imports in mapping and developing its own market. This has happened routinely in the competition among advanced industrial nations. It is in fact the earmark of a country reaching industrial maturity that it will more and more frequently *short-circuit* the import-substituting sequence. This can come about either spontaneously, as when a country achieves a position of entrepreneurial and technological leadership, or as a result of deliberate public policy: a government decides that the domestic manufacture of some new product currently produced abroad but not yet imported in large volume should be encouraged and temporarily reserves in one way or another the country's domestic market for the local industry that is to be called into being. Such a policy resembles, but goes one step beyond, the familiar protectionism that is meant to foster the substitution of imports by domestic production: it may be called *import-preempting industrialization.*

Without bothering to create this concept, the Brazilians stumbled on the policy in connection with the computer industry in the course of the last ten years. After considerable preparation by technical experts and policy makers, the first overt step was taken in June 1977 when the government refused IBM and other transnational corporations permission to manufacture mini-computers in Brazil and the policy was solemnly reaffirmed in 1984 when a law defining a "national policy for informatics" was approved by a large majority in the Brazilian Congress. The basic policy embodied in the law has become known as "Reserva de Mercado" or market reservation: for a period of eight years the domestic market is to be set aside for domestic firms in certain products of the computer industry, primarily mini- and micro-computers. After a slow and difficult start, the Brazilian industry, specially in the micro-computer field, appears to have done well. As in the leading producer countries, it has experienced rapid growth and falling costs, has developed indigenous innovation capacity, and has become an important source of employment.

Several excellent studies are already available on this newest chapter in the industrialization of late-coming countries, primarily by political scientists and political sociologists attracted to it by the light it promises to shed on the policy-making process and on the character of the state.[14] I can therefore limit myself to some broad remarks on the political economy of the phenomenon which is what I have already started to do by inserting it into the spectrum of industrialization policies as "import-preempting industrialization." The Brazilian case suggests the conditions under which this variety of industrial policy is likely to recommend itself to the policy makers of an industrializing country:

> 1) In the first place, of course, the country must be assured of a strong potential domestic market for the products of the new industry; on the supply side, it must be fairly advanced in industrial engineering and in the capacity to "clone" imported prototypes.
>
> 2) It helps considerably if, as happened in Brazil, a strong case can be made by the national defense establishment that it has a special interest in the industry and in its domestic development.
>
> 3) Considering that the policy is likely to be resorted to only in a few fairly exceptional instances, it is likely to be restricted to those "epochal" industries that have a special aura of heralding a new industrial era.
>
> 4) Finally, the case for the policy of market reservation or import preemption will seem especially compelling when in its absence transnational corporations equipped with the ability to create "consumer addiction" are likely to take over the domestic market; for in this case the likelihood is that, once established, they will never be dislodged by domestic producers. Import prevention can be viewed as a riposte of the industrializing country to certain practices and products of industrial leaders that are likely to set up impediments to later import substitution.

This point supplies one economic justification of the new policy. Its more basic defense (against the accusation of uneconomic use of resources) rests of course on the classic infant industry argument. The traditional counter-argument, namely that the protection is usually retained long after the infant should have grown up, does not apply in the present case: the extreme form of protection--exclusion of the foreign product--

that has been granted to the Brazilian industry has as its counterpart the finite period of eight years during which the exclusion is scheduled to last; domestic producers are given notice that they had better "grow up" by 1992. One argument that is often made against the Brazilian policy is that it is wasteful and stupid to want to "reinvent the wheel." But it dissolves upon a bit of reflection. Again, the infant analogy is useful. Humans have to reinvent a great many things--from learning how to walk to the proper use of language--and this intensive practice in reinvention and re-creation is surely a necessary, though not sufficient, condition for the subsequent generation of genuine creativity. The problem in industrial research and development is not to minimize reinvention, but how to achieve the best possible balance, for the purpose of maximizing creativity, between reinvention and taking advantage of the existing stock of knowledge.[15]

A final point must be made about the wider significance of Brazil's decision to build up its own computer industry. Latin Americans had of course long justified their industrialization policies on the ground that, if they were to adhere closely to the Law of Comparative Advantage with its static framework, they would be underdeveloped forever. Responding in part to this charge, and to the realities of worldwide industrialization, some of the more enlightened economists of the West (or North) visualized a new international division of labor in manufactures that took account of *dynamic* comparative advantage: it was embodied in what Raymond Vernon called the "product cycle" in a famous article.[16] In the course of the product cycle, new products would be invented, manufactured, and perfected first in the most advanced industrial countries whence they would be exported to the rest of the world. Eventually, however, the technology for any given new product line settles down and the new products become standardized, at which point the industry becomes footloose and can often be profitably started in, and perhaps even be largely captured by, newly industrializing countries with their cheaper labor. According to this construct, the less developed countries are no longer permanently relegated to the task of producing primary products for world markets; they are now entitled to industrialize, yet they are once again assigned a somewhat lowly role, as they are supposed to stay at a respectful distance behind the advanced countries which alone are the ones to blaze new industrial trails. The significance of the Brazilian computer policy is now becoming clear: coming some thirty years after Prebisch's call against the "outdated schema of international division of labor," it can be seen as a second-generation rebellion against a new schema that would again pretend to confine the major industrializing country of Latin America, this time according to alleged rules of dynamic, rather than static, comparative advantage.[17]

The question whether Brazil's daring bid for participation in industrial leadership can be successful, must remain open for a while. The difficulties of competing in the world of high technology are no doubt formidable. But, aside from such obvious benefits as training in innovation, it appears that there can also be unexpected advantages in breaking into an industry when it is in its early, rather than in its "settled down," stage. According to Peter Evans, the Brazilian buildup of domestic capacity in mini-computers took advantage of the concentration of United States firms on first developing the product and their own domestic market. In the middle and late '70s they were simply not ready for expansion overseas; moreover the more advanced product development was then taking place in a number of smaller U.S. firms that had neither international subsidiaries nor export ambitions. As a result, the buildup of the Brazilian computer industry and the policy of "market reservation" did not arouse a great deal of concern and opposition during the crucial formative stage.[18] More recently all this changed considerably and the Brazilian policy has become the subject of a trade dispute between the two countries. It may be useful for the United States side to be aware of the considerable symbolic significance which, as my remarks here have attempted to convey, the Brazilians are likely to attach to their accomplishments.

THE "HETERODOX SHOCK" THERAPY TO FIGHT INFLATION: ARGENTINA AND BRAZIL

Observers of Latin American politics have lately taken to a quite useful term: they talk a great deal about the *new spaces* that are being opened up, constructed, or occupied by actors on the political scene, even occasionally under authoritarian regimes, through all kinds of new social movements and initiatives. The term suggests a widening of the range and repertoire of politics as well as the possibility of stepping outside of existing power relations, ideologies, institutions. This is exactly what happened with the recent dramatic moves to bring inflation under control that have been made by Argentina's *Plan Austral* in June 1985 and by Brazil's *Plan Cruzado* in March 1986.

In discussing these new experiments in monetary policy, I shall give primary emphasis to political and sociological aspects. But some of the basic economic facts need to be briefly laid out.

In both Argentina and Brazil inflation had been running at or close to three-digit levels for some years, since 1975 in Argentina and since 1980 in Brazil, Argentina's inflation rate being in general two or three times higher than Brazil's. To have inflation proceed at such levels for so long without an acceleration to hyperinflation is unusual. It means that both countries were equipped with elaborate mechanisms for indexing wages, salaries, exchange rates, interest rates, etc., which contributed mightily to making inflation both tolerable and self-perpetuating. In both countries, fiscal deficits initially played an important role in contributing to the inflation, but as price rises continued at high levels for a number of years, it could be argued that the deficit, or a very large part of it, was as much an effect as a cause of inflation.

In 1981, the United States economy went into recession, international interest rates rose sharply and net international lending came to a full stop in 1982 with the Mexican moratorium. As a result, the Brazilian and Argentinian economies came under strong pressures to contract so as to adjust their balances of payments. In the course of the ensuing recession, deep import cuts were achieved, helped along by some sharp devaluations. All the while, however, inflation continued unabated, indeed it accelerated. Under the conditions it is easy to understand why the customary advice of the International Monetary Fund to fight the inflation by contracting the economy even further met with enormous resistance. In the fifties and sixties, a group of Latin American economists had proposed a "structuralist" alternative to the "monetarist" analysis and prescriptions of the International Monetary Fund. The structuralists made a distinction between "fundamental" inflationary pressures arising from domestic social structures (such as antiquated land tenure systems) or from certain features of the international division of labor, on the one hand, and the more surface "propagation" phenomena such as the wage-price spiral, on the other. Whatever the merits of this distinction when inflation was in the lower portion of the two-digit range, as was the case in the fifties in the more inflation-prone Latin American countries, it lost plausibility and usefulness once inflation accelerated to the three-digit range--it became obvious that the "propagation mechanisms" had taken off on their own and had themselves turned into the "fundamental" factors that were driving the inflation. They were now dubbed "*inertial* inflation" and desperately needed to be attended to.

Increasingly faced by the threat of hyperinflation, the Argentinian and Brazilian policy-makers were in a quandary. Disliking the IMF paradigm and left without a serviceable counter-paradigm of their own, they looked for a new *policy space.* They were fortunate in being assisted by a group of economists who, drawing on a wide variety of insights (from the sociological theory of inflation to rational expectations) and being endowed with considerable theoretical acumen and practical imagination of their own, had conceived of a novel formula designed to bring inflation under control: the "heterodox shock" treatment of inflation which was first used in Argentina in 1985 and was then applied again, with a few improvements and under rather more favorable circumstances, at the beginning of 1986 in Brazil.[19]

Here is a very brief outline of the principal elements of the two reform plans:[20]

> 1) The old currency is replaced by a new one (one unit of the latter = 1000 units of the former);
>
> 2) Prices and wages are temporarily frozen;
>
> 3) Indexation of wages, salaries, monetary instruments, etc., is abolished.
>
> 4) With the return to price stability, which could be expected to improve the fiscal position on several counts, and with the help of additional austerity moves, the governments will cut their borrowing from the Central Bank--in Argentina the government pledged to give it up entirely.
>
> 5) Pre-reform contracts involving payments at future dates are assumed to have made provision for expected inflation and their terms are changed by applying to future payments in the new currency a conversion table (*tabela*) which establishes a series of equivalences between the new and the old currency depending on maturity, in line with an official estimate of expected inflation under the old and new regimes.

The principal objective of these measures was to break inflationary expectations and to contain any recessionary impact by not relying exclusively on changes in the monetary aggregates. A very important role was to be played by price and wage controls and this was the principal "heterodox" aspect of the plan, while the *tabela* was its major technical innovation. To a considerable extent, the success of the reform was thought to rest on the hoped for replacement by a new "social contract" or by "social concertation" of the tug-of-war for income shares among different social groups that had long fueled the inflation. It was this tug-of-war, institutionalized as it was through widespread indexation, that was thought to be responsible for the ever larger inertial component of the inflation during its accelerating phase.

The two reforms have already made monetary history. During its early months Brazil's *Plan Cruzado* has done remarkably well in bringing inflation down to quite low levels. In Argentina prices have recently begun again to rise at rates of 4-5% per month.

But then Argentina has been even more inflation-prone than Brazil in recent decades, and its powerful unions have political ties to the Peronists who are in opposition to the Alfonsín Government. Under the circumstances, it was quite an achievement to have brought down inflation from about 25% per month before the reform to present levels.

The remarkable parallels between the Brazilian and Argentinian reforms have several explanations. For one, both countries experienced, at approximately the same time, three-digit inflation and the threat of its getting wholly out of control. More significantly, ideas about the "heterodox shock" had been worked out in intensive, often joint discussions among a group of prominent Argentinian and Brazilian economists who, having both strong democratic convictions and new technical proposals to offer, were given influential policy or advisory positions in both countries when the inflation took a turn for the worse in 1985-86. But a third common condition of the two countries is the most interesting: both countries had just recently reinstalled civilian government after a long spell of military rule. At the time of the reforms the new governments had held power for some eighteen months in Argentina and for almost a year in Brazil; in both countries inflation had worsened during those periods, causing the new governments to lose prestige and appeal.

Actually both phases--the worsening of inflation and the subsequent successful reform move--through which the fledgling democracies of Argentina and Brazil passed can be seen as conditioned by the politics of the post-authoritarian situation. When a civilian, democratic government first comes into power after a long period of repressive military rule, it is normal for various, newly active groups of the reborn civil society--particularly the long-repressed trade unions--to stake substantial claims for higher incomes. The initial impulse of those to whom the demands are addressed is to grant at least some of them, be it for the sake of social peace or out of a sense of obligation to undo past oppression and injustice. New inflationary and balance-of-payments pressures are of course likely to result from the granting of such demands. As I have pointed out elsewhere, inflation can nevertheless be a useful mechanism in this situation: it permits newly emerging or reemerging social groups to flex their muscles, with inflation acting as a providential safety valve for accumulated social pressures.[21] This works only *up to a point*, however, with the tolerance for additional inflation varying from one case to another. For example, in post-Franco Spain the tolerance for an acceleration of inflation was probably much greater than in post-authoritarian Argentina and Brazil: in these two countries the inflation was already delicately perched at a high, triple-digit level when the civilian governments took over, so that the acceleration of the inflation risked a plunge into hyperinflation with obvious dangers for the prestige and survival of the new democratic regimes.

It does not take much imagination to visualize a simple and dismal cyclical sequence: replacement of a military regime by a civilian democratic government--renewed combativeness of social groups--granting of new demands--worsening inflation --disrepute and crisis of the civilian regime--return of the military. But fortunately the relations between the return to democratic governance and inflation are more complex, as has precisely been demonstrated by the new monetary reforms of Argentina and Brazil. To be sure, new democratic governments, specially when they take over from greatly detested or despised authoritarian regimes, will have to cope with a new burst of combativeness of social groups. But at the same time they can call upon a special reserve of good will and trust, which stands to their credit as a result of the political liberties and human rights they have restored or established. It is this considerable asset of the new Argentinian and Brazilian governments that was a basic factor in the success of the monetary reforms; for if the inflationary tug-of-war, in which the various social groups have engaged so intensively for so long, is suddenly to be replaced by cooperation and willingness to believe in the success of the new policy, there must be some basic trust in the State which enunciates the new program. This trust is conditioned less on the program itself, however technically excellent it may be, than on the promise a government embodies and on the mission with which it has been entrusted.[22]

This special asset of trust and hope can therefore serve as a counterbalance to the tendency toward stronger inflationary pressures that also comes in the wake of political change toward a more humane and more open as well as toward a more openly contentious society. Of course, there can be no question of any mechanical balance--only of two forces working in opposite directions, at different times, and with varying strength. Also, while the pressures toward inflation are only too obvious, the ability to call forth "from the vasty deep" the spirits of trust and solidarity can never be taken for granted (as Hotspur reminds us). Indeed, in both the Argentinian and Brazilian cases, the reforms were enacted with much trepidation as a last resort by governments which were fast losing their grip and which were the first to be surprised by the enthusiastic response and cooperation of the public.

This was so particularly in Brazil where President Sarney, in announcing the reform, had made the daring but, as it turned out, highly effective move of asking each citizen to be a "auditor (*fiscal*) of the President" in checking on prices posted in stores and supermarkets and in enforcing the price freeze. This was perhaps the most heterodox component of the reform, and one which had not even occurred to the economists responsible for the *Plan Cruzado*; for, according to one of my informants, this invitation to a direct participation of the individual citizen in the "war on inflation" was added by the President himself to the speech that had been prepared for him by his technical advisers. The response to the invitation was substantial in the major cities during the first days after the reform: many citizens inspected supermarkets with their price lists and, having located some infractions, called upon police to help them close the delinquent stores--all of this being duly televised for presentation at prime time. In this manner, the war on inflation became an exercise in populist politics--a marvelous metamorphosis from the anti-inflationary prescriptions of the IMF which had long been denounced as "imperialist plots against the people!"

FINAL OBSERVATIONS ON IDEOLOGY AND DEBT

More than twenty years ago, I published a short article on Inter-American relations with the title "Out of Phase."[23] Intellectual fashions in thinking on development, I tried to show, tended to go through changes in the United States that were matched, only in the opposite direction, by shifts occurring at about the same time in the mood of Latin America, the result being an "orgy of misinterpretation and misunderstanding." I was writing about the concrete experience of the five-year period that lay just behind us then, without any attempt to argue that this mismatch has a necessary or permanent character. But looking at the current scene and noting that my title applies more than ever I almost wonder whether I might have stumbled on some sort of law.

In the earlier paper I talked about contrasting switches from one set of beliefs to another; this time I am concerned with a more fundamental, if less easily defined, shift: from total confidence in the existence of a fundamental solution of social and economic problems to a more questioning, pragmatic attitude; from ideological certainty to more open-ended, eclectic, skeptical inquiry. Latin Americans have of course long been criticized in the North for the ideological rigidity with which they are supposed to approach many issues. And in the field of economic policy, where discussion often proceeds along ideological lines as the consequence of a long history of antagonistic debate in the North, it is probably true that many Latin Americans have tended to take "ideological" positions (of both Left and Right) on such matters as planning, the market mechanism, foreign investment, inflation, the government's role in economic development, and so on.

But recently there have been signs of substantial change in this picture, largely as a result of bitter experience. In the aftermath of the repressive authoritarian regimes that came to power in the sixties and seventies, many Latin Americans did more than rally to a politics which accommodates a range of opinions each of which is firmly held. They were sufficiently shaken in their certainties to wish to engage in open-ended dialogue and deliberation, ready to discover something new about their *own* opinions and values.[24] In Argentina, perhaps the most conflict-ridden Latin American society over the past fifty years, the idea of social "concertation," a process involving much give and take on the part of various social groups, has achieved considerable prestige; and I was told that nobody would today proudly give the name *Intransigente* to a political party--even though a minor party with that name (dating, as might be expected, from the sixties) still is functioning. At the same time, the spectacular miscarriage of ideology-driven economic policies (again of both Left and Right) has given rise to a new experimental spirit among Latin American economists, intellectuals, and policy makers. This spirit, with its just noted readiness to draw on a wide variety of insights, was strongly evident in the monetary reforms enacted in Argentina and Brazil.

It will now have become clear what I mean by being "out of phase." Just as many influential Latin Americans are in a post-ideological mood, with considerable mistrust toward any system of thought that pretends to have all the answers to the complex problems faced by their societies, they are confronted, particularly in the area of economic policy, with relentlessly ideological positions taken up by the current government of their principal trading partner, foreign investor, and creditor. This is of course not the first time that the United States, or multinational institutions strongly influenced by the United States, have convinced themselves that they possess the key to progress and development for all those wayward, hence backward, foreign countries. In the fifties, the World Bank attempted to condition its lending on countries' establishing some form of overall economic planning.[25] In the sixties, with the Alliance for Progress, Latin American countries were strongly advised to institute land and fiscal reforms--the latter then meaning stiffer taxes for the rich. But never have Latin Americans been lectured and admonished as insistently as in recent years, this time along very different lines, on the virtues of free markets, of privatization, and of private foreign investment, and on the perils of state guidance and intervention, of excessive taxation, not to mention planning. Such lectures, moreover, now have a captive audience of top Latin American economic policy makers who must make frequent trips to Washington to renegotiate and reschedule the heavy debt burdens most of their countries have accumulated during the seventies.

Ideological preachings of this sort are vastly counter-productive. Besides raising concern among Latin Americans for the sovereignty and dignity of their countries, they now evoke protests to the effect that the world is far too complex a place to be set right by the mechanical application everywhere of some identical and simplistic formula. Ironically, Latin Americans are now returning against their would-be preceptors from the United States the conservative critique of Edmund Burke, with its emphasis on "circumstances" and its refusal to "give praise or blame to anything which relates to human actions, and human concerns, on a simple view of the object, as it stands stripped of every relation, in all the nakedness and solitude of meta-physical abstraction."[26] By pretending to export its free-market credo as a universal remedy, the Reagan Administration is inadvertently cutting itself off from any kind of rapport with the new leadership of the emergent Latin American democracies.

The failure of meaningful dialogue or communication between the United States and Latin America is particularly evident--and dangerous--in connection with the just mentioned topic of the debt. This is a very large subject on which almost everything has been said, yet I feel that, in closing, I must come forward with a short statement. My emphasis will be, precisely, on the way in which contrasting perceptions and ideologies contribute to complicating the problem.

As Senator Bradley has recently noted in a forceful and constructive speech, the debt accumulation of the seventies which came to an abrupt halt in 1982 and is now known as the "debt problem" has turned into a disaster.[27] But it is a man-made disaster, so presumably man can unmake it. The question is then: what keeps debtors and creditors from dealing decisively with this problem that has festered for over four years?[28] One reason is that creditors and debtors, or North Americans and Latin Americans, have very different ideas on where the principal responsibility for the debt accumulation belongs. North Americans have generally behaved as though the responsibility were exclusively the borrowers'. They seem to hold to what has been called the "wallflower theory of finance" according to which banks never take the initiative of a loan and wait to be asked by the would-be borrower, who therefore must shoulder the primary responsibility for the transaction and for everything that might go wrong with it.[29] This conception is of course contrary to the most elementary notion of economics which teaches that any deal involving two or more parties is ordinarily made on the basis of anticipated *mutual* benefit so that there is no reason to expect one of the parties to be wholly passive. Moreover, it is well known (and has been nicely documented in a now famous confessional article of a former American banking official[30]) that commercial banks engaged during the seventies--as they had done in the twenties and as British banks had also done at various times during the preceding century--in vigorous "loan pushing," sometimes even going to the point of using whatever diplomatic leverage they could bring to bear on "recalcitrant" countries, such as Colombia.

So the "wallflower" theory is not tenable. One might oppose to it an alternative metaphor according to which the Latin American borrowers were the ones to have been courted by the lenders and led down the garden path--at the end of which they were administered the "Volcker shock" of steeply rising interest rates.[31] Some Latin Americans tend to see the story more or less in this light, but most would probably agree that responsibility was *joint* and shared. One of the difficulties in forming a debtors' cartel has been precisely that some Latin American countries fell so much more readily into the debt trap than others.

As was noted in earlier sections, the governments of Chile, Argentina, and Mexico allowed or caused their currencies to be overvalued for prolonged periods in the late seventies and early eighties, thus providing strong incentives for overimporting and capital flight, both of which activities led to, and were facilitated by, intensive borrowing. On the other hand, there is at least one major Latin American country, Colombia, that managed to hold down its foreign indebtedness to a moderate level simply because it maintained centralized and somewhat restrictive control over foreign borrowing, public as well as private.

Mexico is an instructive case of particularly poor joint performance of a borrower and the international banking system, principally that of the United States. Here was a country that had discovered and developed large sources of petroleum at a time of very favorable prices for this commodity. Now development-minded economists had long advised countries with a sudden export "bonanza" of this sort to tax the ensuing new income flows so as to prevent the resulting foreign exchange earnings from being wholly spent on imports of consumer goods.[32] Such taxes were to finance investment or would simply ensure the accumulation of foreign exchange to serve as a cushion against a reversal in fortunes. What happened in Mexico was the exact opposite of this policy. Not only did the country fail to accumulate a portion of the newly earned foreign exchange, but it borrowed large amounts of funds *on top of* the "bonanza" export proceeds. And a good part of these funds were "dissipated"--as the phrase went not so long ago when investment planning stood in high repute--in imports of consumer goods and capital flight.

Yet the responsibility for these events is as much that of the international banking community as that of the Mexican private and public decision makers. A few years ago, before the debt crisis, the banks were often congratulated for the agility and smoothness with which, in the seventies, they channeled funds from Middle Eastern *petroleum exporters* to the petroleum importers whose balances of payments were hard hit by the sudden price increases. But the cases of Mexico, Nigeria and others demonstrate that the banks lent with even greater abandon to those petroleum exporters that were busy developing, against all rules of prudence, a capacity to absorb foreign funds over and above their swollen export receipts. The international banks appear to have been instantly charmed by those poor countries which, unlike so many of the other under-developed areas, could boast of so solid an asset, of unquestioned security, as petroleum in the ground--their desire to make clients out of such countries was simply overwhelming. In this way they contributed, as much as the borrowing countries' policy makers, to turning the bonanza into a disaster.

The Latin American perception, then, is that there is no good reason for their being lectured at so unilaterally. And they are similarly unreceptive to the *message* of the lectures, with their unqualified praise for the free market and their condemnation of the state. For one thing, the authoritarian rulers of Southern Cone countries have intensively and unsuccessfully experimented during the seventies with policies inspired by free-market doctrines so that these experiments are now associated in the minds of demo-cratic Latin Americans with both ruthless military regimes and pitiful failure.[33] Moreover, if all the heavy Latin American debtors have had to pass through the painful contraction of the recent period, this was precisely because of the untrammeled operation of the international free market in loanable funds in the years prior to the debt crisis of 1982. It is indeed remarkable how, after almost thirty years of orderly and productive capital transfers organized under the auspices of governments and multinational institutions, such as the World Bank and the Inter-American Development Bank, the suddenly unleashed energies of free enterprise in international finance have managed to produce international economic havoc in less than a decade.

Here are some specific reasons for the current *desencuentro* (failure of encounter) among North and Latin Americans. But the more basic obstacle to a useful dialogue between the two parties is that strange switch: North Americans, so proud not long ago of their pragmatism, have taken an ideological turn while Latin Americans have become skeptical of their former sets of certainties and "solutions" and are naturally exasperated by the neophytes from the North who pretend to teach them yet another set.

ENDNOTES

1 Jean Fourastié, Les Trente glorieuses: ou la révolution invisible de 1946 à 1975, Paris: Fayard, 1979.

2 Excludes the Caribbean except for the Dominican Republic and Haiti. All statistical data in the following pages are taken from ECLA's 1984 Statistical Yearbook for Latin America, supplemented in some cases by figures from its data bank, and from the World Development Report 1986 of the World Bank.

3 The Public Interest, no. 77, Fall 1984, pp. 37-61.

4 Roberto Macedo, "Brazilian Children and the Economic Crisis: Evidence from the State of São Paulo" and Alejandro Foxley and Dagmar Raczynski, "Vulnerable Groups in Recessionary Situations: the Case of Children and the Young in Chile," in The Impact of World Recession on Children, eds. R. Jolly and G. A. Cornia, Oxford: Pergamon, 1984, pp. 42-43 and 63-64. In subsequent unpublished research papers, Macedo and Raczynski (jointly with Ricardo Ffrench-Davis) have documented evidence of increased infant mortality, worsening nutrition and health conditions, and declining school attendance during the recession years. But these data relate specifically to the areas that were most directly hit by the industrial unemployment consequent upon the recession, that is, to the cities of São Paulo and Santiago. It therefore remains to be seen whether these sectional findings will be borne out by the national averages. Also, as Macedo notes, it is possible that the 1984 increase in infant mortality in São Paulo, coming after a long decline, was due primarily to a measles epidemic.

5 "The Rise and Decline of Development Economics," in Essays in Trespassing, New York: Cambridge University Press, 1981; "Linkages in Economic Development," in Rival Views of Market Society and Other Recent Essays, New York: Viking, 1986.

6 Simón Teitel and Francisco E. Thoumi, "From Import Substitution to Exports: The Manufacturing Exports Experience of Argentina and Brazil," Economic Development and Cultural Change, 34 (April 1986), 455-90. On Colombia as an example, see my "The Turn to Authoritarianism in Latin America and the Search for its Economic Determinants," in Essays in Trespassing, New York: Cambridge University Press, 1981, p. 115.

7 For an interesting case study see Hugo Nochteff, Desindustrialización y retroceso tecnológico en Argentina, 1976-1982: La industria electrónica de consumo, Buenos Aires: GEL-FLACSO, 1984.

8 See below, "Final Observations on Ideology and Debt."

9 René Villareal, La contrarevolución monetarista, Mexico City: Océano, 1984, pp. 429-434.

10 Plan Nacional de Desarrollo Industrial, 1979-1982, Secretaría de Patrimonio y Fomento Industrial, March 1979.

11 Rio de Janeiro: Paz e Terra 1985. The book is co-authored with Francisco Eduardo Pires de Souza, but I am drawing here on Chapter One, which is by Castro.

12 Even that must have been by no means easy, for it amounted in effect to the breaking of some sort of code. It is worth recalling that, in spite of the authoritarian character of the

Brazilian military regime, many published commentaries on its economic policies came from opponents of the regime, were unfailingly critical, and won plaudits for that reason. Castro addresses himself at length to certain, almost ritualized critiques of import-substituting industrialization, namely that it leads to "strangulation" through newly enhanced needs for imports or that it caters only to the needs of a narrow middle class; he explains patiently and incisively how these critiques are not applicable to the kind of industries that were given priority in the seventies. He also discusses earlier polemical commentaries of other Brazilian economists--such as Carlos Lessa, Maria Conceção Tavares and Edmar Bacha--with the intent, as I read him, to affirm that a more differentiated view of the past economic policies of the various military regimes is now in order. Albert Fishlow seems to me to miss this thrust of Castro's argument in his otherwise valuable critical comments. See his "A Tale of Two Presidents: The Political Economy of Brazilian Adjustment to the Oil Shocks," Working Papers in Economics, University of California, Berkeley, Feb. 1986, pp. 49-51.

13 "Three Mistaken Theses Regarding the Connection between Industrialization and Authoritarian Regimes," in David Collier, ed., The New Authoritarianism in Latin America, Princeton: Princeton University Press, 1979.

14 Peter B. Evans, "State, Capital, and the Transformation of Dependence: the Brazilian Computer Case," World Development, 14 (July 1986), 791-808; Emanuel Adler, "Ideological 'Guerillas' and the Quest for Technological Autonomy: Brazil's Domestic Computer Industry," International Organization, 40 (Summer 1986), 673-705; Fábio Stefano Erber, "The Development of the 'Electronics Complex' and Government Policies in Brazil," World Development, 13 (March 1985), 293-310; Simon Schwartzman, "High Technology vs. Self-Reliance: Brazil Enters the Computer Age," Center for International Studies, M.I.T., 1985.

15 For an argument along such lines, see Richard Nelson, "Uncertainty, Learning, and the Economics of Parallel Research and Development Efforts," Review of Economics and Statistics, 43 (November 1961) 351-64.

16"International Investment and International Trade in the Product Cycle," Quarterly Journal of Economics, 80 (May 1966), 190-207; see also the survey by R. D. Norton, "Industrial Policy and American Renewal," Journal of Economic Literature, 24 (March 1986), 1-40.

17 The words in quotes are from The Economic Development of Latin America and Its Principal Problems, Economic Commission for Latin America, 1950. This document, which I have called the "ECLA manifesto," was authored but not signed by Prebisch.

18 Evans, op. cit., pp. 796-800.

19 The term is probably Francisco Lopes's whose book with this title was published shortly after the Brazilian reform move. See his O Choque heterodoxo: combate inflação e reforma monetária, Rio de Janeiro, Campus, 1986. Other important contributors to the discussion are: Pérsio Arida, Edmar Bacha, Luiz Carlos Bresser Pereira, and André Lara Resende in Brazil, and Adolfo Canitrot, Roberto Frenkel and Daniel Heymann in Argentina.

20 A similar plan was applied in Israel in July 1985. See the article by Michael Bruno in Persio Arida, ed., Inflação Zero, Rio de Janeiro: Paz e Terra, 1986.

21 See "The Social and Political Matrix of Inflation: Elaborations on the Latin American Experience," in Essays in Trespassing, pp. 201-202.

22 The ideas of the preceding paragraph took shape during a conference on Latin American inflation held in Caracas in March 1986, primarily in a discussion of René Cortázar's paper on the problems of inflation that a new democratic Chile would have to face. The papers and discussions will be published in Pensamiento Iberoamericano, no. 9, 1986, the journal which sponsored the conference.

23 In Encounter, special issue on Latin America, Sept. 1965, pp. 21-23.

24 See my "Notes on the Consolidation of Democracy in Latin America," in Rival Views of Market Society.

25 I almost lost my advisory job in Colombia because I refused to push hard in this direction. See my "A Dissenter's Confession: Revisiting The Strategy of Economic Development," in G. Meier and D. Seers, eds., Pioneers in Development, New York: Oxford University Press, 1984.

26 Reflections on the Revolution in France (1790), Chicago: Regnery, 1955, p. 18. For some remarks criticizing current United States policy along such Burkian lines, see Alejandro Foxley, "El problema de la deuda externa visto desde América Latina," Colección Estudios CIEPLAN 18, December 1985, 59-61.

27 "A Proposal for Third World Debt Management," June 29, 1986. U.S. Senate, Office of Senator Bill Bradley.

28 Guillermo O'Donnell asks a similar question, restricted to the Latin American debtors, in his article "Why Don't Our Countries Do the Obvious?" CEPAL Review, no. 27, December 1985, pp. 27-34.

29 William Darity, Jr., "Loan Pushing: Doctrine and Theory," International Finance Discussion Paper, Federal Reserve Board, Washington, D.C., 1985; Robert Devlin, "The Structure and Performance of International Banking during the 1970s and its Impact on the Crisis of Latin America," Working Paper # 90, Kellogg Institute, University of Notre Dame; Lance Taylor, "The Theory and Practice of Developing Country Debt: An Informal Guide for the Perplexed," Journal of Development Planning, United Nations, No. 16 (1985), pp. 204-205.

30 S. C. Gwynne, "Adventures in the Loan Trade," Harper's, no. 267 (1983), pp. 22-26.

31 Lance Taylor, op. cit., p. 212.

32 See, e.g., Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries, Oxford: Blackwell, 1953, pp. 98-103.

33 Alejandro Foxley, op. cit.