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WHEN FAILURE BECOMES SUCCESS: CLASS AND THE DEBATE OVER STABILIZATION AND ADJUSTMENT

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ABSTRACT

This paper criticizes the current debate over stabilization and adjustment and develops an alternative, class-analytic approach. First, the respective theories and policy recommendations of neoclassical and structuralist economists are analyzed. Then, the paper considers the recent experiences of Argentina, Brazil, and Peru where orthodox and heterodox policies have been attempted and declared failures. Finally, it is shown that those failures with respect to employment, inflation, and the balance of payments become successes to the extent that they involve increasing exploitation and otherwise strengthening the class aspects of capitalism.

RESUMEN

Este ensayo critica el debate actual sobre la estabilización y el ajuste y desarrolla una alternativa, una investigación analítica de clase. Primero, se analizan las respectivas recomendaciones teóricas y políticas de economistas neoclásicos y estructuralistas. Después, el ensayo considera las recientes experiencias de Argentina, Brasil y Perú, donde las políticas ortodoxas y heterodoxas han sido intentadas y declaradas como un fracaso. Por último, se muestra que estos fracasos con respecto al empleo, la inflación y la balanza de pagos se han convertido en éxitos al grado que implican una creciente explotación y en general el fortalecimiento de los aspectos de clase del capitalismo.

"It is said that two out of three stabilizations fail."[1]
"'Success' and 'failure' are relative notions."[2]

I. INTRODUCTION

What *have* we learned from stabilization and adjustment in developing countries (Dornbusch 1982)? Both orthodox and heterodox policy packages have been put to the test in recent years and, according to many economists, they have failed. However, these failures have not led to the abandonment either of the policies or of the theories that gave shape to the policies. Instead, the debate over stabilization and adjustment continues to move within the strict limits set by neoclassical and structuralist economists.

This debate is consistent with the tradition of standard development economics. Neoclassical and structuralist economic theories determine the parameters of debate, and when the policies of one theory are said to have failed, economists and policymakers turn to the policies advocated by the other theory. In this sense, the current debate over stabilization and adjustment does not represent a break from but instead is part and parcel of a longer and more general debate between neoclassical and structuralist economists over economic development in the postwar period.[3]

Economists and policymakers of both schools continue to discuss the relative merits of their respective development theories and policies. While there has been a shift in focus from long-run growth to shorter run stabilization and adjustment (Arida 1986), the outer bounds of the debate are still set by neoclassical and structuralist economic theories. In recent years, developing countries have practiced a variety of orthodox and heterodox stabilization and adjustment policies, connected in turn to neoclassical and structuralist theories. And, as in the past, both sets of policies are seen as failures; many observers acknowledge that the developing world continues to suffer widespread unemployment, inflation, and balance of payments difficulties as policymakers move back and forth between orthodox and heterodox policy packages.

What, then, have we learned? There is a curious anomaly in the commitment on the part of development economists to existing theories and policies even when they appear, on their own terms, to have failed. However, what if these failures turn out to have been successes—not

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1 Bruno et al. (1988, viii).
2 Taylor (1988, 148).
3 See Arndt (1987) for a more detailed discussion of the debate among development economists in the postwar period.

with respect to employment, price stability, and the balance of payments, variables on which both neoclassical and structuralist economists choose to focus their attention, but in terms of increasing exploitation, which generally falls to Marxists to point out? The standard policies may not have been able to achieve internal and external balance, but they may have strengthened the class dimensions of capitalism. Thus, while failures from a neoclassical or structuralist perspective, both orthodox and heterodox stabilization and adjustment policies can be considered successful from the perspective of a third theory which focuses on class.

Theoretically, this means that a failure as seen by one theory may be a success when viewed in terms of another, and vice versa. The criteria for success and failure would then be internal to each theory. The implication for development *policy* is that the “failed” development policies of neoclassical and structuralist theories—and the continued oscillation between their different failed policy packages—may combine to increase exploitation and, in general, to promote the successful development of the class aspects of capitalism.

The remainder of this paper explores these ideas with respect to the ongoing debate over stabilization and adjustment. The theoretical contributions and policy recommendations of neoclassical and structuralist economists are reviewed in section II. There, the two theories are connected to their respective “humanist” and “structuralist” underpinnings. It is also shown that both theories tend to place the class aspects of stabilization and adjustment beyond the sights of the present debate. Section III looks at the recent experience of three countries—Argentina, Brazil, and Peru—where first orthodox and then heterodox policies have been carried out. By most accounts (both neoclassical and structuralist) those policies have failed. In section IV, an alternative theoretical approach is employed and the opposite conclusion is reached: instead of failures, *both* orthodox and heterodox policies can be seen as successes in terms of promoting capitalist class processes. The conclusion suggests that the so-called failures of recent stabilization and adjustment policies are part of the successful development of capitalist class processes in Argentina, Brazil, Peru, and the rest of Latin America in the postwar period.

II. SUCCESS ACCORDING TO NEOCLASSICAL AND STRUCTURALIST THEORIES

Stabilization and adjustment typically refer to those macroeconomic policies designed to solve internal and external disequilibria—such as unemployment, accelerating inflation, and balance of payments deficits—in the face of what are considered to be “shocks” to an economy, that is, unforeseen events such as a decline in export earnings (or, conversely, a foreign exchange bonanza), an increase in external debt payments, financial panics, and the like. While most traditional economists concur on the need to stabilize and adjust the domestic economy after such shocks, they disagree on what the “appropriate” set of policies should be (Fishlow 1981). Some economists advocate tighter monetary policy, lowering government deficits, and liberalizing internal and external trade and capital markets; other economists dismiss this market-oriented, orthodox policy package and, instead, argue for increased controls over markets.

These different recipes for success derive, in large part, from the use of different economic theories. Both neoclassical and structuralist economists agree that success entails moving the economy to a position of low unemployment, price stability, and balance of payments equilibrium. However, they disagree about the appropriate policies to achieve such success. Although development specialists are familiar with many of the elements of the debate between neoclassical and structuralist economists, it is useful to review briefly their respective theoretical approaches and policy recommendations. The focus here is on an especially important but less familiar aspect of that debate, namely, that the differences between neoclassical and structuralist theories and policies are explained by their otherwise different theoretical starting points: individual human nature for the neoclassicals; given economic and social structures for the structuralists. This means that their different approaches to stabilization and adjustment are ultimately grounded in a debate that pits humanism against structuralism. It also means that they both tend to ignore the important class implications of their theories and policies.

(a) Neoclassical theory

The starting point for the present debate lies in the theoretical underpinnings of so-called orthodox stabilization and adjustment policies.[4] As is well known, according to neoclassical development economists the need for such policies is based on the persistence of unsustainable internal and external disequilibria. These problems are, in turn, caused by a series of imperfections that prevent internal and external markets from clearing. For example, accelerating inflation is said to be caused by excess aggregate demand that can often be traced back to government decisions to increase current expenditures beyond the level of revenues. Similarly, balance of payments difficulties are tied to, among other things, overvalued exchange rates and the existence of exchange controls. In both cases, the problem is caused by an unwarranted government (or other) intervention that keeps markets from clearing and therefore gives improper market signals to individual economic agents. Without such microeconomic imperfections, macroeconomic imbalances cannot arise—or, if they do emerge (e.g., as the result of an

[4] The neoclassical theory presented here is synthesized from a variety of sources, including Polack (1957), the essays in International Monetary Fund (1977), Beenstock (1980), Balassa (1982), and Khan and Knight (1981; 1982); it is variously referred to in the literature as new classical, the monetary approach to the balance of payments, global monetarism, and rational expectations.

unanticipated shock), stability will reappear as soon as the appropriate individual decisions are taken and market adjustments are made.

How, then, can a situation arise at which the price level is too high and/or a balance of payments deficit exists? *Transitory* disequilibria may appear if one of the underlying determinants of the model changes—as a result of an internal or external shock, e.g., an unanticipated increase in import prices or a severe drought—and markets have not yet had time to adjust. Once the appropriate adjustments have been made, however, the disequilibria disappear and macroeconomic stability is once again established.

If internal and external balance is automatically restored by individual decisions, *persistent* disequilibria can only be explained by the existence of barriers to the carrying out of such decisions, that is, market imperfections. Thus, for example, if a government decides to manage the exchange rate "float" by not allowing the full depreciation necessary to eliminate a balance of payments deficit, the resulting overvaluation will prevent domestic factors of production from shifting in the requisite proportions from nontradables to the production of import substitutes and exports. This obstacle will be further complicated by other possible market imperfections such as downwardly rigid wages, trade barriers, capital controls, a government decision to overexpand the money supply to satisfy the demand for real cash balances, and so on. In this sense, maintaining such imperfections can be thought of as quite irrational, since they prevent a country from achieving what it would otherwise be able to achieve, namely, the maximum wealth for its citizens.

The orthodox set of policy measures advocated by neoclassical economists to solve such persistent disequilibria is equally well known: balancing the fiscal budget, real wage adjustments, exchange rate depreciation (either by devaluing the overvalued currency or by instituting flexible exchange rates), external trade and exchange liberalization, and the like. All of these policies are designed to eliminate the obstacles that prevent individuals from making the appropriate adjustments and to bring government actions in line with the results of allowing markets to operate freely. In other words, in the face of macroeconomic imbalances, policymakers have two choices: (a) do nothing, and let individuals make the appropriate microeconomic decisions; or (b) if market imperfections exist and/or if there is government mismanagement of policy, dismantle market barriers and restrict the government to its role in maintaining free markets and other minimal guarantees of engaging in individual economic activity. Success is indicated when, on the basis of individual decisions, the economy reaches a point of full employment, price stability, and balance of payments equilibrium.

This formula for success can be explained by the neoclassical economists' use of human nature as the ultimate determinant of the economy. They base their argument on the idea that there is a macroeconomic equilibrium position (of full employment, price stability, and balance of payments equilibrium), consistent with resource endowments, technology, and individual choice, which individuals will find if allowed to make rational decisions in microeconomic markets. Consumers, producers, and owners of factor endowments will both keep the economy at that full equilibrium and, in the aftermath of a shock, return the economy to that point. Individuals, not government policy, will stabilize and adjust the economy.

The neoclassical economists' celebration of market-oriented stabilization and adjustment is grounded, then, in a humanist logic according to which all economic structures can be reduced to individual choice. Macroeconomic results are determined within microeconomic markets, and market behaviors are reflections of (constrained) individual choices. These choices are, in turn, tied to the given preferences and expectations of individual human beings. For example, according to neoclassical economists, the balance of payments is determined by individuals' decisions concerning their willingness to hold stocks of money or interest-bearing assets. Once the individually desired targets are reached, there is no need to adjust their balances any further and external payments equilibrium is restored. The results of all other markets can be similarly reduced to individual decisions. In this sense, the exogenous rational maximizing behavior of individual economic agents—human nature—is considered to be the irreducible essence of the macroeconomy.[5]

(b) Structuralist theory

Structuralist economists criticize the neoclassical story and the implied policy of little or no state intervention.[6] They argue, instead, that markets are inherently imperfect stabilizers and that, if left to themselves (i.e., without state intervention), they will *not* be successful in restoring internal and external balance.

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5 James (1984) is a good introduction to the reductionism of humanist or individualist theories. The humanist orientation of neoclassical microeconomics has been part of that tradition from the beginning. More recent are the various attempts to construct a humanist microfoundation for macroeconomics. Pissarides (1989, 3) is one representative example of this trend:

> I believe that the only way we can make progress is to think in terms of small, internally consistent, equilibrium models. In these models there are decisions that we generally represent by supply and demand functions. But to derive these functions we need to specify very carefully the constraints facing the agents and their objective functions. Within these constraints, agents maximize their objectives and the variables of interest are equilibrium outcomes...The central part of the research strategy in macro is the correct specification of preferences and constraints.

Note, however, that humanist modes of explanation are not the sole province of neoclassical economic theory. Radical economics has also flirted with various forms of humanism; see Resnick and Wolff (forthcoming).

6 The various contributions to the structuralist story have been synthesized and further developed by Taylor (1983; 1988; 1989).

Structuralist criticisms of orthodox stabilization and adjustment policies of the sort indicated above are by now widely known.[7] They fall under three main categories: (1) orthodox policies are stagflationary, that is, they cause short-term recessions and often provoke more, not less, inflation; (2) such policies sacrifice long-term growth for short-term stability; and (3) they redistribute income from poor to rich and lead to an increased concentration of assets.

These criticisms are based on an alternative, structuralist macroeconomic story in which non-neoclassical economic and social structures play a significant role. For example, structuralist economists argue that prices, instead of being determined by supply and demand equilibria in competitive markets, are the result of markup pricing behavior by individual firms. In addition, the various components of the pricing equations are either determined institutionally (e.g., wages) or not perfectly substitutable (e.g., labor and capital-output, or domestic and imported input-output, coefficients).[8]

A typical situation in a structuralist world is where the economy is at less than full employment, the price level (or the rate of inflation) is unacceptably high, and the balance of payments is in deficit. Because of the prevailing economic and social structures, there is no automatic market adjustment in these circumstances: wages can remain at their current level even in the presence of significant unemployment; prices need not fall, even if output is below capacity; and the balance of payments deficit can persist, at least until foreign exchange reserves are exhausted. This contrasts sharply with the automatic tendency to move toward full equilibrium posited by neoclassical economists.

Based on this alternative model, structuralists tell a different story both of the effects of orthodox policies and of the kinds of policies that should be adopted in their place. As mentioned above, neoclassical economists often advocate exchange-rate depreciation as a way of correcting a balance of payments deficit. From the structuralist perspective, such a policy is doomed to failure: not only may it not lower the current account deficit (except over the long run, when trade structures become less inelastic, and only in conjunction with other, e.g., industrial policies); it will probably also cause both increased inflation and recession.

Not surprisingly, this model also leads to an alternative, so-called heterodox policy package. Whereas neoclassical economists focus on free markets, structuralists argue that market imperfections are inherent in real-world conditions and that development policy must contend with them—not magically dispose of them as in the neoclassical story. Thus, structuralist

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[7] These criticisms have been elaborated by, among others, Cooper (1971), Krugman and Taylor (1978), Bruno (1979), Taylor (1981), Diaz-Alejandro (1981), Buffie (1984), and Van Wijnbergen (1986).

[8] Other non-neoclassical elements in structuralist theorizing include rigid trade elasticities, a minimal level of investment determined by "animal spirits," complementarity between public and private investment, and economically consequential uncertainty on the part of different groups of economic actors.

economists advocate increased controls over (imperfect) markets: to solve the structural problems inherent in inertial inflation, they favor incomes policies; to overcome sectoral complementarities and trade inelasticities, industrial policies; to orient microeconomic investment decisions in the face of uncertainty, capital controls; to surmount the decline in lending and increased debt service payments, external debt relief; and to eliminate unemployment, an increase in government expenditures. From the structuralist perspective, these policies, and not unregulated markets, can ultimately lead to success in combatting unemployment, inflation, and balance of payments difficulties.

This alternative approach to success of structuralist development economics can be explained by a structuralist methodology that is as deterministic as its neoclassical counterpart. However, the direction of determination used by neoclassical economists is reversed: structuralists consider individual economic behaviors to be determined by a set of given economic and social structures. In this sense, reference to the "structuralism"—the antihumanism—of structuralist economic theory might be confusing, but that term is probably even more appropriate than many believe.[9]

According to structuralist economists, the macro relationships of an economy are determined not by individual decisions but by a set of "key forces" (Taylor 1983, 6), which governs production, financing, and other economic activities. These economic and social structures include oligopolistic industries (which give rise to markup pricing behavior), institutionally determined wages (tied, in turn, to the existence of surplus labor and/or capital-labor conflict), fixed coefficient production functions, "animal spirits" and uncertainty, and incomplete or poorly articulated credit and transport systems. Given these structures, individuals are prevented from generating full employment, price stability, and external payments balance. Instead the macroeconomy may reach an equilibrium at which one or more or any combination of these conditions will not be satisfied. Starting with these structures, structuralist economists argue that the free operation of markets will only generate more unemployment, inflation, and balance of

[9] To be clear, it is this antihumanism, and not the direct application of the so-called structuralist linguistic model, that serves as the structuralist basis of structuralist development economics. "Structuralism" is generally associated with a method of analysis tied to the linguistics of Ferdinand de Saussure and widely employed in anthropology, literary criticism, and cultural studies (see Pettit 1975). My argument is not, however, that structuralist economists such as Taylor are attempting to investigate a "sign system" in the economy in the way that structuralist linguistics treats language. Structuralist economics is related to the more general critique of humanism announced by Michel Foucault and Claude Lévi-Strauss in the 1960s and developed by the structuralist movement of the 1970s according to which social structures are viewed as constitutive of human subjectivity. This can be compared to the humanist thesis that whatever structures exist are ultimately accountable to the activity of given individual human subjects.

For more detailed discussions of the structuralist movement in social theory, see Soper (1986) and Glucksmann (1974). Other methodological treatments of the so-called new structuralist macroeconomics are Jameson (1986) and Arndt (1985).

payments difficulties. Markets are therefore a problem, not a solution. Instead, structuralists contend that success lies with another structure: government policies and controls. The government is needed to coordinate and guide individual choices to the point where full equilibrium is reached. The market behavior of individuals is thus determined by the irreducible structures—institutions, power relationships, and so on—of the society in question.

(c) The middle position

There is, of course, a third approach which combines elements of both neoclassical and structuralist stories.[10] In effect, it serves to reinforce the two poles of the debate—individuals and structures, free markets and government controls.

Like the structuralists, the economists of the middle position observe the possibility of less-than-full employment equilibrium and balance of payments deficits in the absence of government intervention. However, like their fully neoclassical counterparts, they argue that violating the "fundamentals" of markets will ultimately prevent the macroeconomy from reaching a sustainable full equilibrium. Depending on the time and place, the advocates of this middle position move back and forth between neoclassical markets and structuralist government interventions. It would seem that their sights are set on a perfectly neoclassical world in which internal and external balance could be maintained by individuals operating through free markets, but that they cannot quite imagine the immediate elimination of all market imperfections. Thus, they appear to believe in a kind of managed transition from a short-run structuralist world to a long-run neoclassical one.

Those who occupy this middle position argue, for example, that both excess aggregate demand and high wages are sources of inflation (and, therefore, in the long run, excess government spending and labor market imperfections should be eliminated), but that lowering both would, in the short run, introduce such high economic and social costs that it is necessary to create a "breathing space" through incomes policies and other government programs. There is room, then, for discretionary macroeconomic policies, but also an important role for individual decisions within microeconomic markets.

This middle position is thus based on an ever-changing compromise between humanism and structuralism. At times, the tendency to reduce all economic phenomena to human nature is apparent; at other times, given economic and social structures play a significant role. At present, this middle ground is caught between the neoclassical resurgence in development economics and the widespread criticisms of the neoclassical-inspired stabilization packages of recent years.

10 This middle position includes, among others, Dornbusch (1980), Porter and Ranney (1982), Islam (1984), and Foxley (1987).

(d) An alternative

Notwithstanding their differences concerning the necessity for and the nature of appropriate policies, neoclassical and structuralist economists can and do find room for agreement on at least two counts. First, they agree that the problem of stabilization and adjustment is inherent in nature. For the neoclassicals, the problem derives from human nature: stabilization and adjustment are automatic if economic agents are allowed to act in free markets; they require government intervention to dismantle market imperfections if such obstacles prevent the rational decisions of individuals from producing the desired result. Structuralists, on the other hand, reduce the problem to a set of naturally existing economic and social structures: the rigidities and other "imperfect" features of an economy prevent the automatic achievement of full equilibrium. The presence of such structures requires government intervention in order for society to achieve the desired macroeconomic objectives. Second, they agree that the relevant criteria for success of stabilization and adjustment programs are internal and external balance, that is, low unemployment, price stability, and balance of payments equilibrium. This means that, notwithstanding their different explanations of why such programs fail (or succeed), they share a definition of what constitutes failure (and success). Ultimately, this shared conception of the objectives of and the criteria for evaluating stabilization and adjustment programs is what allows neoclassical and structuralists to agree on the limits of the present debate.

The implications of each of these two areas of agreement are far-reaching. First, since both neoclassical and structuralist economists presume an ultimately determining factor or essence to which all economic behavior can be reduced, they leave no room to extend the analysis further—to investigate the conditions that, in turn, produce the individuals and structures of their respective theories of stabilization and adjustment. One alternative to this debate between competing essences (and their related policies) is to use a "nonessentialist" theory in which microeconomic individuals and macroeconomic structures each participate in constituting the other. Elaborating such a posthumanist/poststructuralist—what has come to be called a postmodern[11]—approach would also involve analyzing the mutual constitution of, on the one hand, individuals and structures and, on the other hand, all the other social processes that exist at any point time. As such, each individual or structure would be considered as both the product of and, in turn, as a constitutive component of the ever-changing ensemble of economic, political, and cultural processes that make up a society. Neither would be given to the analysis and therefore neither could function as the essence to which all other events and relationships could be reduced. In particular, neither could serve as *the* given determinant of the need for and the

[11] Postmodern alternatives to both humanism and structuralism have existed for at least twenty years in such diverse areas as literary criticism, cultural studies, architecture, and philosophy. The discussion of postmodernism is now being extended to economics; see, e.g., Amariglio (1990) and Ruccio and Wolff (1989).

effects of stabilization and adjustment policies. This is not the middle position discussed above in which alternative essences are mixed but an approach in which no elements—neither individuals nor structures—are taken as given.

The second point—the fact that both groups of economists agree that the relevant criteria for success consist of the level of employment, inflation, and the balance of payments—leads to theories of stabilization and adjustment in which macroeconomic changes within capitalism are seemingly unrelated to the existence of exploitation. Neoclassical and structuralist economists tend to focus on three nonclass aspects of capitalism to the exclusion of all else, especially the class processes that, in part, make up a capitalist society. Therefore, neither group sees how the existence and reproduction of capitalist classes are related to the problem of stabilization and adjustment.

This tendency to "forget about" class is reinforced by the humanist and structuralist terms of the debate. The reduction of employment, prices, and the balance of payments to given individuals or structures means that class can be effectively displaced from the center of analysis. Class either does not exist in those theories or it is defined in a manner that rules out any consideration of the processes in and through which surplus labor is performed/appropriated and then distributed/received. In particular (for the purposes of this essay), neoclassical and structuralist economists tend to ignore the capitalist class processes of extracting and distributing surplus value. Classes, if they play a role at all (e.g., as in some structuralist accounts), merely designate groups of individuals who can claim distinct flows of money income (with their respective wage, profit, consumption, savings, etc. characteristics).[12]

This relative neglect of class within *both* neoclassical and structuralist theories serves as the basis of policy prescriptions that, although aimed at producing full employment, price stability and balance of payments equilibrium, may—and often do—have class effects that increase exploitation and, in general, strengthen the class aspects of capitalism. This may occur whether or not the original objectives are achieved. If, in fact, they are not, nonclass failures become class successes.

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[12] See Resnick and Wolff (1987, chap. 3) for a discussion of the differences between a class analysis based on surplus labor and other definitions of class.

III. FAILURE IN ARGENTINA, BRAZIL, AND PERU

The implications of the nonclass neoclassical-structuralist debate on stabilization and adjustment can be seen in the recent experiences of Argentina, Brazil, and Peru. These countries have served as a kind of economic laboratory for economists of both schools (and, of course, the middle position) during the past fifteen years. Both orthodox and heterodox policy packages (and combinations thereof) have been applied in order to solve the macroeconomic disequilibria associated with inherited domestic policies and the turmoil within the world economy. In all three cases, the policy prescriptions of neoclassical and structuralist economists (and of advocates of the middle position) have been attempted and eventually declared failures.

TABLE 1

Stabilization and Adjustment Policies, 1970s-1980s

Argentina	ORTHODOX (1976-83)	MIDDLE POSITION (1983-85)	HETERODOX (1985-86)
Brazil	MIDDLE POSITION (1974-79)	ORTHODOX (1979-85)	HETERODOX (1986-87)
Peru	ORTHODOX (1975-80)	ORTHODOX (1980-85)	HETERODOX (1985-86)

The approximate chronology of table 1 indicates the changing nature of policies in the three countries under different governments and economic advisors. For example, various combinations of orthodox and middle-position stabilization and adjustment policies were used in Argentina, Brazil, and Peru from the first oil price shock in the early 1970s to the mid-1980s. Then, in 1985 or 1986, the governments of all three countries enacted heterodox policy packages.

(a) Argentina

The most orthodox case among the three belonged to Argentina which, along with Chile and Uruguay during the same period, formed part of what came to be known as the Latin American experiments in neoconservative economics.[13] Under the guidance of Economy Minister

[13] Foxley (1983). For more detailed analyses of the Argentine case, from a variety of theoretical perspectives, see Canitrot (1981), Wogart (1983), Heymann (1986), Epstein (1987), Frenkel (1987), and Manzetti and Dell'Aquila (1988).

Martínez de Hoz during the Videla military regime (1976-81), Argentina entered into an agreement with the International Monetary Fund (IMF) and began a full-scale neoclassical policy program: external trade and capital market liberalization (including significantly lower tariff barriers and export taxes); devaluation of the nominal exchange rate through preannounced adjustments (the so-called *tablita*); elimination of domestic subsidies; the raising of public sector prices and domestic interest rates; and the privatization of public enterprises. These reforms were designed to create a relative price structure that would provide the “correct” signals both to lower inflation and to direct domestic and foreign factors of production into the areas consistent with Argentina’s international comparative advantage. The Martínez de Hoz New Political Economy was followed by similarly orthodox packages under subsequent ministers and military governments through 1983.

TABLE 2

Argentina
Selected Macroeconomic Data

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
INFLATION [a]	182.3	443.2	176.1	175.5	159.5	100.8	104.5	164.8	343.8	626.7	672.1	90.1	131.3
GDP GROWTH [b]	--	-5.3	5.6	-5.3	11.1	1.5	-6.7	-5.0	2.9	2.5	-4.4	5.4	1.8
CURRENT ACCOUNT BALANCE [c]	-3.2	1.2	2.2	2.8	-0.5	-3.1	-3.8	-4.1	-3.8	-3.2	-1.4	-3.6	na
URBAN REAL MINIMUM WAGE [d]	na	-48.2	-4.1	-18.8	13.7	17.3	-4.8	1.8	41.1	26.0	-32.5	-5.1	9.6

[a] Consumer price index, percent change over previous year
[b] GDP at constant prices, percent change over previous year
[c] As percentage of GDP
[d] Percent variation from previous year

SOURCES: International Monetary Fund (1988), Economic Commission for Latin America and the Caribbean (1986; 1987; 1989)

Argentine attempts to stabilize and adjust on the basis of freeing up markets and allowing individuals to take the lead were initially successful (see table 2): the rate of inflation was lowered (from 443.2 percent in 1976 to less than 150 percent on average for 1977-81); real output grew (by 12.9 percent for 1977-80); and a current account surplus was generated (until the end of

1979). These improvements were accompanied, however, by an increase in external debt (from $6.5 billion in 1976 to $14.4 billion in 1981) and capital flight; an eventual deterioration in the current account balance (a deficit that reached 3.8 percent of GDP in 1981); and a decline in real wages (especially during 1976-78). The continued application of orthodox policies finally led to a steep recession in 1981-82: most of the real output growth during the preceding four years was reversed during half that time.

With the economy mired in recession, and the military forced to relinquish control to the civilian Alfonsín, Argentina entered a middle position phase of "gradual adjustment" in late 1983. The new civilian economic team instituted price controls with full indexation, increased social welfare expenditures, and agreed to large wage increases. The result was that the preceding declines in real output and real wages and the growth in the current account deficit were all reversed. Less than one year after assuming power, though, Alfonsín signed a stand-by agreement with the IMF that was similar in content to the conditions agreed to in 1976 by the military government. By 1985, the growth of real wages had turned around once again (a decline of 32.5 percent compared to a 26 percent gain in 1984), real output fell by 4.4 percent, and annual inflation soared to more than 600 percent.

Finally, in June 1985, the Alfonsín government unveiled its heterodox Austral Plan. The rationale of the plan was that previous stabilization and adjustment programs did not conform to the structural problems of the Argentine economy, particularly the inertial quality of inflation, and that government controls were necessary to bring the economy back to full equilibrium. Preceded by a series of price adjustments (e.g., devaluation of the foreign exchange rate and an increase in tariffs and public sector prices), the new plan consisted of an immediate price-wage freeze (the so-called heterodox shock); deindexation of all contracts and their conversion to a new currency (the austral); and a series of reforms aimed at reducing the fiscal deficit. The initial results, from mid-1985 to mid-1986, were dramatic: inflation slowed to less than 100 percent; real output grew (although GDP fell for 1985 as a whole); and a trade surplus led to an improvement in the current account (from -3.2 percent of GDP in 1984 to -1.4 percent in 1985). Inflationary pressures were never eliminated, however, and the continuing wage freeze, more strictly enforced than the price freeze, led to a sharp drop in real wages. After various phases of the original plan and the "australito" of early 1987, inflation accelerated, external deficits increased, and output growth began to slow. By mid-1989, the failure of heterodox attempts to control the adjustment path back to stability was finally publicly acknowledged in the early transfer of power to Menem, the opposition Peronist candidate in the presidential elections.

(b) Brazil

Brazil followed a different path to the implementation (and eventual failure) of its own heterodox plan in the mid-1980s.[14] By 1974, after ten years of harsh military rule, the military government of General Geisel began a five-year program of stabilization and adjustment best characterized as a middle position between orthodox and heterodox. The program included large government investments (in such sectors as energy, mining, and heavy industry), liberal price controls (which allowed the adjustment of prices based on increased costs) and wage increases, import controls and export subsidies, and encouragement of external borrowing.

TABLE 3

Brazil
Selected Macroeconomic Data

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
INFLATION[a]	29.0	42.0	43.7	38.7	52.7	82.8	105.6	97.8	142.1	197.0	226.9	145.2	229.7
GDP GROWTH[b]	4.2	9.8	4.6	4.8	7.2	9.1	-3.3	0.9	-2.5	5.7	8.3	8.2	3.7
CURRENT ACCOUNT BALANCE[c]	-5.7	-4.3	-2.9	-3.5	-4.7	-5.3	-4.4	-6.1	-3.3	--	-0.1	-1.7	-1.5
URBAN REAL MINIMUM WAGE[d]	na	na	n a	na	-0.2	2.6	6.1	0.7	-10.2	-8.8	1.7	4.4	-0.4

[a] Consumer price index, percent change over previous year
[b] GDP at constant prices, percent change over previous year
[c] As percentage of GDP
[d] Percent variation from previous year

SOURCES: International Monetary Fund (1988), Economic Commission for Latin America and the Caribbean (1986; 1987; 1989)

This combination of government controls and market activity produced moderate levels of both inflation (approximately 45 percent on average for 1976-79) and real wage growth (3.5 percent for average wages and salaries during the same period); it also maintained uneven but relatively high rates of output growth (between 4.6 and 9.8 percent per annum for 1976-80). These positive macroeconomic developments were accompanied, however, by equally negative trends, especially in the foreign sector—in external debt (which grew from $23.4 billion in 1976 to $46.1

[14] The Brazilian experience has been discussed in more detail by Wells (1979), Bacha (1986), Tyler (1986), Baer (1987), Bresser Pereira (1987), and Modiano (1988).

billion at the end of 1979) and in current account deficits (which, notwithstanding strong export growth, reached 4.7 percent of GDP in 1979).

In the wake of the second oil price shock, Brazilian macroeconomic policy took an abrupt orthodox turn. First at the end of 1979 and then again in 1980, the Figueiredo administration opted to decrease government control and let individuals adjust and stabilize the Brazilian economy through market activity. Beginning with a maxi-devaluation of the foreign exchange rate in December 1979, Brazil enacted a number of orthodox reforms—including additional mini-devaluations, decreases in public sector expenditures (especially investments) and a slowdown in the rate of growth of credit to the private sector, decontrol of interest rates, and limited upward wage adjustments—culminating in the signing of an agreement with the IMF in the wake of the Mexican external debt default in 1982. The effect of these measures was the deepest recession in recent Brazilian history: output declined by almost 5 percent during 1981-83 and real wage increases, which were at first maintained, nose-dived in 1983 (provoking widespread riots in that year). While the recession did eliminate the current account deficit, it failed to keep the domestic rate of inflation in check: it more than doubled between 1980 (82.8 percent) and 1984 (197 percent).

As in Argentina, the combination of the transfer of presidential power from the military to a civilian government and the widely perceived failure of existing macroeconomic policies prepared the conditions for a third attempt at stabilization and adjustment. Even more so than its heterodox precursor in Argentina, the Brazilian Cruzado Plan announced by President Sarney in February 1986 was designed as an attack on inertial inflation. The main theoretical idea was that Brazilian contracts were heavily indexed, and that such indexation created a structure that transferred past inflation to the present. Therefore, it was necessary to control this form of structural inflation—through general price and partial wage freezes, the prohibition of indexed contracts of less than one year, the deindexation of financial instruments (especially treasury bonds), and the introduction of a new currency. The initial results were as swift and dramatic as in Argentina: inflation slowed (from 226.9 percent in 1985 to 145.2 percent in 1986), output growth was maintained (8.3 and 8.2 percent, respectively, for two years), and real wages increased. Still, current account deficits reemerged and, with the eventual acceleration of inflation and the continued necessity to service the external debt, the failure of the Brazilian attempt at heterodox stabilization and adjustment was gradually acknowledged. By late 1987, orthodox market reforms were once again promoted as the only macroeconomic solution.

(c) Peru

Peru followed still a third succession of stabilization and adjustment programs during the 1970s and 1980s.[15] The palace coup in 1975 that transferred power within the military government from Velasco to Morales Bermúdez was accompanied by a typically orthodox approach to macroeconomic policy. In this case, the drain on foreign reserves caused by persistent current account deficits initially provoked the turn to a market-based stabilization and adjustment program. The series of devaluations of the foreign exchange rate initiated in late 1975 and the negotiations with the IMF during 1976 and 1977 were supplemented by other orthodox measures: monetary restraint; more favorable treatment of foreign investment; the sale of some state enterprises; a relaxing of price controls; and attempts to lower the fiscal deficit by increasing taxes and eliminating subsidies.

TABLE 4

Peru
Selected Macroeconomic Data

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
INFLATION[a]	23.6	33.5	38.1	57.8	66.7	59.2	75.4	64.4	111.2	110.2	163.4	77.9	85.8
GDP GROWTH[b]	2.4	3.3	-0.3	-1.7	4.3	2.9	3.0	0.9	-12.0	4.8	1.6	9.0	7.3
CURRENT ACCOUNT BALANCE[c]	-11.3	-8.7	-7.3	-1.8	5.3	0.6	-8.6	-7.9	-5.4	-1.3	0.9	-1.2	-1.6
URBAN REAL MINIMUM WAGE[d]	na	na	-12.2	-23.2	11.7	27.5	-15.8	-7.6	2.4	-22.7	-12.6	3.7	1.4

[a] Consumer price index, percent change over previous year
[b] GDP at constant prices, percent change over previous year
[c] As percentage of GDP
[d] Percent variation from previous year

SOURCES: International Monetary Fund (1988), Economic Commission for Latin America and the Caribbean (1986; 1987; 1989)

[15] Further sources of information on the Peruvian case include Thorp (1979), Beckerman (1987), and Ugarteche (1988).

The net results of these austerity measures were felt during the course of 1977-78: the data in table 4 indicate the extent to which the orthodox program reduced real GDP and real wages; they also show that price adjustments led to an acceleration in the rate of inflation and that the current account balance gradually improved (especially in 1978 and thereafter, owing, at least in part, to an external terms of trade improvement). These conditions provoked a wave of strikes and demonstrations, including the first general strike in twenty years. By 1979, however, economic growth had resumed.

The transfer of power to the civilian Popular Action Party candidate Belaúnde in 1980 involved an extension of, rather than a departure from, the orthodox path charted by the military. The new government was committed to a program of market liberalization, including the removal of external trade barriers, an increase in domestic interest rates, and the freeing up of all domestic prices. These new orthodox policies provoked further inflation and a decline in real wages during 1981; they also reversed the current account position from surplus to deficit. An extension of these measures under agreement with the IMF, together with a series of natural disasters, finally sent the Peruvian economy into a deep recession in 1983 (when real output declined by 12 percent) and to the brink of hyperinflation (as the annual rate of price increases reached three digits), while real wages began a downward spiral that lasted through the 1985 presidential elections.

The third phase of Peruvian stabilization and adjustment policy was the heterodox plan announced in July by Belaúnde's successor as president, APRA's García. The so-called Inti Plan was designed more to reactivate the Peruvian economy than as an anti-inflation shock; it involved the introduction of a new currency, a price freeze and an increase in wages, tax cuts and subsidies to specific sectors, a lowering of interest rates, the introduction of multiple exchange rates, an increase in agricultural credit, and the announcement of a cap on external debt servicing. These measures did, however, have the dual effect of halving the inflation rate (from 163.4 percent in 1985 to 77.9 percent in 1986) and of boosting output (by 8 percent in 1986). Still, the current account position worsened and inflationary pressures eventually resumed. The last gasp of the Peruvian heterodox program took the form of García's announcement of his government's intention to nationalize the country's banking system in mid-1987. Since then, internal and external instability have returned and the government has chosen to apply increasingly orthodox austerity measures.

IV. WHEN FAILURE BECOMES SUCCESS

It is not surprising that, based on the experiences of Argentina, Brazil, and Peru, both orthodox and heterodox stabilization and adjustment packages (and the policies of the middle position) have been considered failures by neoclassical and structuralist economists and policymakers. Still, the explanations of failure are different according to the two groups. Neoclassical economists argue, for example, that heterodox programs ultimately fail because they place controls on markets that prevent individuals from reaching full equilibrium (e.g., Blejer and Liviatan 1987). Structuralist economists, on the other hand, conclude that orthodox policies fail because they rely too much on individual decision-making within free markets and do not recognize the existence of macroeconomic structures that undermine automatic adjustment (e.g., Singer 1989). Not surprisingly, both groups invoke their respective essences to discuss their own as well as alternative policy packages. The neoclassical explanation of the failure of orthodox neoclassical programs is based on governments' macroeconomic mismanagement of otherwise successful microeconomic reforms (e.g., Corbo and de Melo 1985), while structuralists contend that the failure of their heterodox programs can be explained by the continued existence of distributional conflict and the constraints imposed by the current political situation (e.g., Taylor 1988).[16]

The respective failures of both policy packages often lead to an oscillation between them: when orthodox policies are perceived to have failed, there is a call for more heterodox policies, and the perceived failure of structuralist heterodox policies tends to produce a movement in the direction of neoclassical orthodoxy.[17] In general, because neoclassical and structuralist theories dominate the debate over stabilization and adjustment (not to mention the theoretical training of the economic teams and international agencies that participate in the formulation of policy), their respective policies—and the oscillation between them—tend to define the limits of that debate.

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[16] And, of course, there is always the middle position: orthodox policies are too harsh (because they attempt to eliminate all government controls) and heterodox policies violate too many market fundamentals (because they are not accompanied by the necessary freeing up of markets); see, e.g., Baer et al. 1989.

[17] To be clear, this movement from one to the other does not follow a regular or predetermined pattern. Instead, it may be seen as a result of the following dynamic: as each set of policies is enacted, and the conditions under which it is applied change—in part, because of the policies themselves—there is a case for another policy package. For example, one of the usual consequences of orthodox policies is, as structuralists note, to redistribute income. This may, in turn, lower the demand for nontradeables (even if, as neoclassicals would claim, it raises national income). Thus, firms engaged in nontradeable goods production may, along with wage-earners and other groups, press for incomes policies that moderate or reverse the change in income distribution. An analogous turn towards orthodox policies has occurred in recent years as the initial successes with heterodox policies have given way to significant macroeconomic instability.

However, the claim that both sets of policies have failed may well be premature—at least from the perspective of the alternative, class-theoretic approach mentioned above. Instead, neoclassical and structuralist policies may be seen as successes once their effects on the rate of exploitation and other class features of capitalism are taken into account. Each policy package, in its own way and under different circumstances, may participate in strengthening important conditions within which surplus value is appropriated from the direct producers. Thus, what may be a failure from the standpoint of achieving full employment, price stability, and balance of payments equilibrium can be considered successful in terms of promoting the widening and deepening of capitalist class processes.

Four examples serve to demonstrate the point that the nonclass macroeconomic failures, as they are defined and analyzed by neoclassical and structuralist economists, can be viewed as class successes, when the focus of theoretical attention is shifted to the class consequences of stabilization and adjustment policies.

(a) Income distribution

A redistribution of income, among sectors but especially from poor to rich, is generally acknowledged to be one of the failures of stabilization and adjustment policies. These distributional effects are noted not only in the three cases discussed in the previous section but also in the general literature on stabilization and adjustment (e.g., Demery and Addison 1987; Streeten 1987). Although such changes in the distribution of income are complex (in the sense that they can involve many different kinds of income), they often include a decline in real wages.[18] This lowering of real wages may, in turn, contribute to an increase in exploitation and, therefore, to a strengthening of the class aspects of capitalism.

Declining real wages mean that, in the first instance, the gross profits of capitalist enterprises rise. Then, if the lower real wages persist over time, there is an increase in the amount of surplus value extracted by capitalists. These results can be explained by using the class analysis of Marxian value theory. The initial decline in real wages means that the market price of labor power falls below the value of labor power; capitalists are able to purchase the laborers' ability to work for a wage that is less than the value of the customary standard of living of wage-earners. Thus, capitalists receive a revenue in addition to the surplus value extracted from the laborers. This, of course, leads to an increase in the capitalists' rate of profit, an immediate class success created by the decline in real wages.[19]

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[18] This is certainly true of orthodox policies, as the three cases of Argentina, Brazil, and Peru confirm. However, the Argentine example demonstrates that declining real wages can also be a consequence of heterodox incomes policies.

[19] To see this, consider the following example: if capitalists pay a wage equal to the value of labor power, i.e., $W = V = eq$ (where W is the wage or the price of labor power, V the value of labor

If this situation continues for any length of time, then the customary standard of living of wage-earners can be expected to decrease, that is, the value of labor power will fall to the lower market price. This means that the amount of surplus value appropriated within capitalist enterprises increases. Another index of capitalist success—the rate of exploitation—rises as a result.[20] In both cases, then, what is considered a failure in terms of maintaining workers' real living standards may be successful when viewed from the perspective of strengthening capitalist class processes.[21]

(b) Exchange rates

The impact of stabilization and adjustment programs on foreign exchange rates can also be analyzed in a different light if we focus on the class dimensions of the problem.[22] Overvalued exchange rates are widely considered to be a failure because they undermine international competitiveness and exacerbate balance of payments difficulties. However, this nonclass failure

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power or the customary standard of living of the sellers of labor power, e the vector of per unit exchange-values of the commodities that make up the value of labor power bundle, and q the vector of use-values in that bundle), then, in traditional Marxian terminology, the capitalists appropriate an amount of surplus value (S) equal to the difference between V and the total amount of value created by the laborers (the so-called value of labor). The capitalists' value rate of profit can be expressed in familiar terms as $r = S/(C + V)$ (where C is the value of the raw materials and means of production, i.e., constant capital).

If the real wage falls (while the customary standard of living remains the same), capitalists are able to purchase the commodity labor power at less than its value, i.e., $W_1 < V = eq$; laborers are, in effect, paying a subsidy to the capitalists (equal to the difference between W_1 and V) in order to be hired. The capitalists are now able to appropriate the original S and, in addition, the revenue associated with purchasing labor power at less than its value ($R_1 = V - W_1$). The new profit rate is then $r_1 = (S + R_1)/(C + V) > r$.

[20] This second effect can be simply illustrated as follows: capitalists now purchase the commodity labor power at the lower value of labor power ($V_1 = eq = W_1$). If the laborers create as much total value as before, the amount of surplus value (S_1) and the rate of exploitation (S_1/V_1) increase.

[21] Nothing in this analysis should suggest that lowering real wages is a uniform class success. The Marxian notions of contradiction and uneven development preclude such an approach. For example, the fall in real wages can be expected to lower the demand for wage goods, thereby creating a "realization" problem for the capitalist producers of those commodities. It is therefore possible for workers to join together with the affected capitalists and others (e.g., politicians who fear widespread strike activity, etc.) in order to demand higher real wages. However, this turnabout in policy can also be a class success to the extent that workers can now purchase capitalist wage goods and solve the realization problem. In addition, if the wage increase is accompanied by an increase in productivity, it is possible for the rate of exploitation to rise. In terms of the value theory of n. 19 (as Marx explains in some detail in volume 1 of *Capital*), if the fall in e occasioned by the change in productivity is proportionately more than the rise in q, V will decrease and the rate of exploitation will increase.

[22] Note that, if the real exchange-rate is defined (as in, e.g., Dornbusch 1988) as the ratio of wages to the nominal exchange-rate, the traditional (neoclassical or structuralist) economist's notion of an overvalued exchange-rate is equivalent to a rise in real wages, i.e., the opposite of the first example of failure defined by declining real wages.

with respect to maintaining an equilibrium price of foreign exchange can often be accompanied by a success in class-analytic terms.

Overvalued exchange rates can contribute to the further development of capitalist class processes to the extent that they lead to a cheapening of the imported elements of constant capital. In the case of imports of both raw materials and means of production, the lowering of import prices contributes directly to decreasing the constant portion of the capital advanced by capitalist enterprises in order to engage in commodity production. Thus, overvalued exchange rates increase the profit rates of capitalists who use imported inputs.[23]

The impact of overvalued exchange rates on variable capital can also contribute to class successes. The cheapening of imported commodities (or, similarly, of commodities produced with imported inputs) that enter into the determination of the value of labor power means that the amount of money capitalists need to advance in order to gain access to the commodity labor power decreases. As the value of labor power falls (assuming nothing else has changed), the rate of exploitation rises. We are then back to the previous case of a decline in real wages.

Thus, overvalued exchange rates can contribute to the strengthening of the capitalist class process of extracting surplus value through cheapening imports of either the elements of constant capital or variable capital.[24] Once again, what is often perceived to be a failure of stabilization and adjustment policies with respect to one aspect of capitalism—in this case, the price of foreign exchange—can be termed a success when the focus is shifted to the class dimensions of capitalism.

(c) Inflation

Another perceived failure of existing stabilization and adjustment policies is continued inflation—or, as in the cases of Argentina, Brazil, and Peru, the emergence of hyperinflation. In what sense can inflation contribute to the strengthening of capitalist class processes? The existence of generalized price increases means, of course, that capitalist producers are successful at raising prices and are thus able to create a source of revenues in addition to the value of their commodities. From the perspective of Marxian value theory, inflation indicates just

[23] This result is straightforward: the cheapening of the elements of C leads to an increase in the value profit rate $r = S/(C + V)$.

[24] Again, I am not claiming that overvalued exchange rates represent a uniform class success. Capitalists can also be hurt by overvalued exchange rates; this is especially true for exporters and for those who must distribute part of the appropriated surplus value in the form of bribes and other payments in order to gain access to rationed foreign exchange. In such cases, capitalists can be expected to support government policies to lower the exchange rate. A devaluation may itself contribute to a class success to the extent that it leads to more commodity sales for exporting capitalists and eliminates foreign exchange rationing.

this positive deviation of prices from values and therefore the ability of capitalists to protect their position as capitalists.

Not surprisingly, additional class effects occur when there are differential rates of price increase included within a rise in the general price level. If real wages fall—as is the case in many inflationary situations, even under various wage indexation schemes—then we return to the results of our first example: the price and, eventually, the value of labor power decrease and the rates of profit and exploitation move in the opposite direction. Capitalist profits are also affected by other real price changes. This is the case, for example, with interest rates. If real interest rates fall, capitalists are required to distribute less of the appropriated surplus value in the form of interest payments in order to gain access to money capital, one of the conditions of existence of capitalists' ability to continue to extract surplus value. Similar results follow from changes in tax rates, the salaries of managers, rental rates, and so on which fall below the rate of price increases by capitalists. All of these real price changes affect the portions of surplus value capitalists are required to transfer to those who provide some of the important conditions of existence of the capitalist extraction of surplus value.[25]

This examination of the class dimensions of inflationary situations which are either downplayed or ignored by both neoclassical and structuralist approaches to stabilization and adjustment indicates that inflation is not necessarily a sign of failure. Instead, there are various ways in which inflation can contribute to the successful development of capitalist class processes.[26]

(d) Government deficits

A fourth failure attributed to stabilization and adjustment policies is the continued existence of government budget deficits. Once again, a class analysis of fiscal deficits leads to a quite different conclusion.

It is useful to consider two different dimensions of typical state activities that are often tied to fiscal deficits: state-owned enterprises and current government expenditures. First, from a class perspective, public enterprises that produce capitalist commodities—whether electricity, oil,

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[25] This analysis is an extension of Marx's treatment in volume 3 of *Capital* of the various distributions of surplus value made by capitalists to landlords, financial capitalists, and others in order to secure some of the conditions of existence of their continued appropriation of surplus value; see Resnick and Wolff (1987) for a more detailed discussion of these "subsumed class" transfers of surplus value.

[26] To be clear, the continued existence of inflation can also undermine capitalist class processes. This may be the case, for example, when some capitalists are able to increase the prices of their commodities at a slower rate than the producers of the elements of constant capital (thereby decreasing their rate of profit), or when the managers of capitalist enterprises have to devote increasing resources to finding and manipulating money substitutes instead of providing the conditions for the appropriation of surplus value. In such cases, capitalists may call for heterodox price controls or other, more orthodox measures to lower the rate of inflation.

or transportation—are capitalist enterprises.[27] Thus, maintaining or increasing the revenues to these state capitalist enterprises allows them to increase their expenditures on the conditions that maintain or increase the amount of surplus value appropriated from state workers. The capitalist process of appropriating surplus value is thereby strengthened *within* the state.

Running fiscal deficits can also contribute to the strengthening of capitalist class processes *outside* the state. This is true for a wide variety of government programs. Maintaining or increasing expenditures on these programs provide some of the cultural, political, and economic conditions whereby nonstate or private capitalists can continue to appropriate surplus value. For example, public education disseminates ideas and provides skills that contribute to the training of laborers capable of producing surplus value. The state also passes laws and maintains administrative and judicial bureaucracies that, among other things, protect the rights of capitalists to purchase the labor power of workers and sell the commodities produced by those workers. Finally, capitalist states provide some of the economic conditions—from creating money to building infrastructure—that affect the ability of private sector capitalists to appropriate surplus value. Fiscal deficits thus allow the state to maintain or increase its participation in activities that reproduce the existence of capitalist class processes outside the state.[28]

These examples indicate that the state may be actively involved in shaping the existence of capitalist class processes both inside and outside the state. In this sense, the inability to control fiscal deficits may actually strengthen the capitalist class process of appropriating surplus value.[29]

In general, the four cases considered here demonstrate that focusing exclusively on the failure of stabilization and adjustment policies with respect to nonclass aspects of capitalism such as real wages, exchange rates, inflation, and fiscal deficits hides from view the extent to which

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[27] They may differ from capitalist enterprises in the private sector in many ways: in terms of property ownership; the procedures for appointing managers; the access to funds other than current revenues; etc. However, if the state enterprises are sites where the process of appropriating surplus value takes place, they are no less capitalist than capitalist commodity-producing enterprises that exist outside the state. For a more detailed discussion of state capitalist enterprises, see Ruccio (1987).

[28] Another government program that is often considered to be a major factor in maintaining high fiscal deficits is subsidies on consumer goods. Space limitations prevent a detailed class analysis of subsidies. However, the terms of such an analysis are given by the previous discussion of a decline in real wages: First, consumer subsidies have the effect of keeping the price of wage goods below their value. Workers' real standard of living is increased (they can purchase use-values in addition to those included in the value of labor power), while capitalists continue to pay a wage equal to the existing value of labor power. Then, if capitalists succeed in reducing the value of labor power, workers are left with a standard of living after the subsidies equivalent to their presubsidy position and the rate of exploitation rises.

[29] Once again, I should note that policies that restrict the role of the state may also contribute to the strengthening of capitalist class processes. For example, selling state-owned enterprises and cutting government programs may be class successes to the extent that they involve laying off state employees, thus creating downward pressure on real wages.

such failures may be successful in terms of increasing exploitation and promoting the class aspects of capitalism.

V. CONCLUSION

The fact that the nonclass failures of some development theories may become class successes when viewed from the perspective of another theoretical framework suggests that adhering to the limits of the theoretical debate between neoclassical and structuralist economists and to the oscillation between orthodox and heterodox stabilization and adjustment policies may itself condition the growth and development of capitalist class processes where these theories and policies are practiced. It also means that what are often seen as development failures may, in fact, be part of a more general process of the successful emergence and strengthening of capitalist class processes in Latin America and the rest of the developing world.

This conclusions stands in sharp contrast to recent pronouncements that class analyses and Marxian theory are irrelevant for discussing contemporary development issues. In order to confront this challenge, it is necessary to consider briefly two additional issues. First, the idea that the development of capitalist class processes has been successful does not mean that it occurs evenly or that all existing capitalists gain as a result. As noted in the four examples above, individual capitalist enterprises or groups of capitalist enterprises (e.g., producers of wage goods in the case of declining real wages or exporters in the case of overvalued exchange-rates) may be weakened and/or cease to exist as a result of policies that otherwise promote the development of the capitalist class process.[30] This is consistent with the Marxian approach to capitalist development. Consider, for example, the case of capitalist competition. The process of extracting surplus value may well be strengthened at the level of society as a whole together with, or as the result of, the concentration and centralization of capital which allows some capitalist enterprises to grow at the expense of others. The important point is that tensions and struggles among different groups of capitalist enterprises—which serve, in turn, as the basis for divergent and conflicting interests on the part of capitalists with respect to specific stabilization and adjustment measures—can and often do occur alongside a general strengthening of the process of capitalist exploitation.

A second caveat to the analysis presented here is that there is no presumption that there is some set of necessary conditions (whether economic, political, or cultural) for the successful development of capitalist class processes. It would be a mistake to conclude that the particular experiences of Argentina, Brazil, and Peru—or of any other group of countries for that

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[30] See, e.g., the discussions in nn. 22, 25, 27, and 30 above.

matter—could be simply generalized or extended to another area of the world. East Asia is a good example. There, the distribution of income, for example, as measured by Gini coefficients, is more equal than in Latin America (Evans 1987). Does this difference mean that capitalist class processes are any more or less developed in Singapore, Taiwan, South Korea, and Hong Kong than in Latin America? Furthermore, does it mean that a class analysis is invalidated by the East Asian experience (an issue recently taken up by Chakravarty 1987)?

In the case of the newly industrializing countries of East Asia, it is their success—not their failure, as in Latin America—that is the subject of debate between neoclassical and structuralist economists. Balassa (1988) and many other neoclassical economists have claimed that East Asian success is based on the existence of free markets. Structuralist economists, e.g, Kim (1985), have criticized this view and responded that state intervention has been the key to success.[31] Again, both schools of thought focus on the nonclass aspects of capitalist development to the exclusion of class. Thus, they tend to ignore key ingredients of class success in East Asia such as the creation of a pool of wage-laborers through land reform, the length of the work-day, and the control of the wage-setting process through the suppression of trade union activity. Furthermore, as shown in the discussion above, a rise in real wages can be—and often is—accompanied by an increase in exploitation. On these terms, the relative success of East Asia during the turmoil of the 1970s and 1980s with respect to some of the nonclass aspects of capitalist development—unemployment, inflation, and balance of payments equilibrium—has been accompanied by success in terms of the widening and deepening of capitalist class processes.

A detailed investigation of the strengthening of the other important economic (not to mention political and cultural) conditions of existence of capitalist exploitation in East Asia throughout the postwar period is beyond the scope of the present article. The point is that such an investigation would also contribute to challenging the limits of the existing development debate along the lines suggested by what we *have* learned here about stabilization and adjustment, namely, that the widely perceived *failure* of stabilization and adjustment policies with respect to some of the nonclass aspects of capitalism in the cases of Argentina, Brazil, and Peru and the much-touted *success* of East Asia on similar criteria are consistent with the class *successes* registered in both groups of countries.

These class successes may, in turn, explain the fact that, while development economists and policymakers cannot agree on why stabilization and adjustment policies have variously failed and succeeded in different parts of the Third World, they are content to remain within the neoclassical and structuralist limits of the present debate.

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[31] And, of course, there is the middle position, e.g., Cline (1982), who argues that the East Asian model cannot work for all developing countries in a slow-growing world economy.

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