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Trend or Anomaly? Structural Adjustment Policies and the New Latin American Left

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Spring 2007

**Title: Trend or Anomaly? Structural Adjustment
Policies and the New Latin American Left**

Author: Natalia Espejo

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Trend or Anomaly?
Structural Adjustment Policies and the New Latin American Left

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Abstract: This paper explores Latin America's history of neoliberalism as it affects the rise of left leaning governments in the region. By looking specifically at Argentina, Venezuela, Bolivia, and Brazil, I argue that the failure of structural adjustment policies creates a space in which leftist executives can democratically attain power. This represents an ideological departure from what has been a sustained period of conservatism in Latin America. Moreover, by considering patterns of institutional weakness, my research also explains the moderate to radical variation that characterizes the new Latin American left.

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Chapter 1

Introduction

The 1998 election of Hugo Chávez in Venezuela was the first in a series of presidential victories for left-leaning Latin American leaders. Leftist candidates subsequently gained executive power in Brazil, Argentina and Bolivia, highlighting a striking regional trend. The new wave of liberalism is not consistent throughout the four cases, as evidenced by the radical tendencies of Hugo Chávez and Evo Morales and the more moderately leftist agendas of Lula da Silva, and Nestor Kirchner. This paper attempts to understand the new Latin American left by focusing on two questions: first, why are Latin American voters electing leftist leaders now? Second, what factors caused voters to opt for radical leftists in some countries and moderate leftists in others?

I argue that Latin America's leftward trend is fueled predominantly by the perceived and actual failure of neoliberal economic policies. To understand why some voters prefer moderate and others radical leaders, I propose looking at the state of democratic consolidation during periods of structural adjustment (I use the concept of institutional weakness to explore this further).¹ The methods used to implement structural adjustment policies also influence voter's electoral preferences. I suggest that countries are more likely to choose a moderate course if neoliberal policies reached a point of institutionalization and systematization as in the cases of Argentina

¹ In particular, the relationship between institutional weakness and political participation explains how voters mobilized across to four cases. The inclusiveness or exclusivity of electoral structures, as well as institutional preferences for established moderate conservative or liberal traditions distinguishes the cases from one another. The strength of Brazil and Argentina electoral infrastructure ultimately kept radical contenders out of the political process (see Chapter 3), while the weakness of their Bolivian and Venezuelan counterparts paved the way for the election of radical leftists like Chávez and Morales (see Chapter 4).

and Brazil, while the opposite is true in countries like Venezuela and Bolivia where reforms were implemented as ad hoc responses to pervasive economic and nationalistic crises.

Chávez and Kirchner, for example, have certainly developed radically different styles of governing, despite the similar circumstances that contributed to the eventual election of both men. Additionally, the crisis that paved the way for Chávez's election in 1998 was substantially less severe, than the 2001 economic collapse that ultimately ushered in the Kirchner era in Argentina. Thus, it becomes clear that moments of economic crisis alone do not account for recent leftist trends in Latin America.

The political consequences of neoliberal policies reflect the extent to which market-based reforms are an embedded part of democratic institutions in some countries, and external apolitical impositions in others. Structural adjustment policies caused serious crises throughout the continent several times during the late 1990s; perhaps the collapse of the Argentine economy in 2001 remains as most the memorable example of neoliberalism's failure. However, in Brazil and Argentina, existing governance institutions survived periods of instability and legacies of neoliberalism remained, while in Bolivia and Venezuela extended periods of crisis created a space for the emergence of new governance paradigms that differ greatly from those espoused by their predecessors.

The presidencies of Lula, Kirchner, Morales, and Chávez span a collective ten-year period, which complicates potential comparisons. The leaders have all been in power for distinct periods of time, and as a result their popularity, efficacy, and legacies reflect different stages of their respective political tenures. The truth of the

matter is that Argentina, Brazil, Venezuela, and Bolivia are four different countries, with distinct political histories, diverse local and national economies, and independent-minded electorates.

However, structural adjustment policies and more holistically, neoliberalism represent a shared pan-American experience, as do widespread poverty, unemployment, and other manifestations of structural violence (Chase 2002). The correlative relationship that exists between the continent's development problems and the presence of neoliberalism lies at the center of the mobilization efforts that contributed to the election of Kirchner, Lula, Chávez, and Morales.

The countries' differences function as a useful starting point for understanding the rise of and fall of neoliberalism in the region. As Douglas et al. explain "attempts to force diverse countries with divergent political, social, and cultural legacies into a single economic model are bound to result in disappointment as the true believers of the Washington Consensus found when they applied policies that they perceived had worked so well in Chile...in places like Mexico, Peru, Venezuela, and Argentina" (Douglas et al. 2006, 1). Clearly, the authors of structural adjustment in Latin America failed to consider potential variations as they liberalized markets across the continent; however the ill-conceived economic reforms produced a series of reactions that provide significant ground for comparison, which yield important insight about broader democratization trends in Latin America. Understanding, the rebirth of the Latin American left in all of its possible incarnations is absolutely essential to any comparative effort that considers the continent's democratic institutions.

Institutional Weakness

In general, most comparative studies of Latin American politics follow an institutionalist approach. This method considers questions related to institutional choice and reform (Shugart 1992); more specifically, institutionalists focus on the development or destruction of political institutions and as a consequence ignore qualitative questions about the efficacy and shortcomings of existing democratic structures (Levitsky and Murillo 2005).

Steven Levitsky and Victoria Murillo use the case of Argentina, to develop the concept of *institutional weakness*, as they explain the relationship between institutions and democratic development. Their text inquires about the resilience of existing democratic structures in Argentina, given the presence of extensive political and economic crises (2005). *Institutional weakness* describes the somewhat contradictory interaction between weak and robust democratic structures that emerge under a single governance model. Additionally, despite the concept's negative connotation, Levitsky maintains that it is ultimately the adaptability of weak democratic structures that ensures their survival during moments of political and economic crisis (Levitsky 2005).

While Levitsky and Murillo's text is about a specific project related to democratic consolidation, the authors do establish a correlative relationship between *institutional weakness* in Argentina and the development and subsequent institutionalization of structural adjustment policies; specifically, their research suggests that "political factors such as public opinion, coalition-building, and institutions...[can] facilitate market reforms under democracy" (Levitsky and Murillo

2005, 5). This observation describes the main reason for why neoliberal reforms retained some level of credibility in Argentina and Brazil and failed completely in Bolivia and Venezuela, as weak governing institutions survived moments of crisis in the case of former, and collapsed almost completely in the case of the latter. I will discuss this relationship in greater detail in chapters 3 and 4.

Levitsky and Murillo argue that *institutional strength*:

“may be conceptualized along two dimension: (1) *enforcement*, or the degree to which the rules that exist on paper are complied with in practice; and (2) *stability*, or the degree to which rules survive minor fluctuations in the distribution of power and preferences, such that actors develop shared expectations based on past behavior.” (Levitsky and Murillo 2005, 2-3)

Levitsky, Murillo, and the other authors of the anthology explore a broad set of democratic institutions to support the *institutional weakness* argument. Specifically they consider the operation of elections, political participation, and party structures since the election of Menem, as they relate to the above-mentioned enforcement and stability concepts (Levitsky and Murillo 2005).

Moreover because “Latin American political institutions, like those throughout the world, are characterized by a mix of stability and fluidity, enforcement and evasion, and formality and informality” (Levitsky and Murillo 2005, 3) the concept of institutional weakness functions as useful litmus for testing democratic consolidation. Additionally, I argue, that the varying strength of democratic institutions accounts for the different responses to neoliberalism in Latin America, despite the almost universal dimension of structural adjustment experiments in the region. My project extends the institutional weakness argument to Brazil, Venezuela and Bolivia. While all three countries implemented structural adjustment policies in the interest of curbing inflationary crises, the methods of implementation varied

across the four cases, which explains the institutional consequences of neoliberalism as they are manifested in the presidencies of Morales and Chávez and Lula da Silva, and Kirchner.

This text attempts to accomplish two objectives: first, it seeks to highlight the rather discordant implications of structural adjustment policies in Latin America. Chapter two addresses this in detail, as it describes the history of neoliberalism in Latin American countries by focusing on Chile, Mexico, and Peru, in addition to the four countries that are the objects of this study. Second, this paper also establishes a correlative relationship between the failure of structural adjustment policies and the rise of left-leaning governments. Chapter 3 describes the cases of Brazil and Argentina, and the moderate agendas of their recently elected leftist leaders, while Chapter 4 focuses on the Venezuelan and Bolivian cases and their radically anti-neoliberal political agendas. The failure of neoliberalism emerges as an overarching theme throughout this project.

Table 1 highlights the relationship between institutional weakness and the implementation of structural adjustment policies and its contemporary political implications. Invariably, neoliberalism fails in all four cases, as evidenced by ongoing problems related to inflation, extreme poverty, and inequality. However, the political consequences of this failure vary across the four countries.

Table 1 The effects of structural adjustment on politics and institutions as mediated by institutional weakness

	Type of Institutional Weakness	Patterns of Institutional Strength	Implementation of Structural Adjustment Policy	Political Fallout	Democratic Institutions Transformed
Brazil	Moderate: Federalist legacy restricts executive power, while increasing local autonomy	Strong party system, fair elections legitimate existing government apparatus	Controlled via presidential decrees; had initial electoral support	Moderate; PT leftist candidate elected, but enacts a moderate agenda	No
Argentina	Moderate: Party system exists but lacks solid identity	Peronist tradition, stable electoral process provide stability during times of crisis	Systematic and moderately authoritarian; all branches of government participated	Moderate: Kirchner=critical of U.S., but orthodox reforms remain	No
Venezuela	High: PF collapse destroys democratic institutions	Established rules fail completely, legitimacy loss invites the success of formerly excluded political actors	Ad hoc, non-systematic, and in response to immediate crisis	Radical: Chávez elected, constitution rewritten, petroleum nationalized	Yes
Bolivia	High: Inchoate electorate interests produce a political crisis	Democratic structures fail, absent culture of political parties=> no institutional strength	Ad hoc, externally imposed, and unpopular	Radical: Morales elected, natural gas nationalized	Yes

Chapter 2

The History of Neoliberalism in Latin America Revisited

Neoliberalism has indelibly marked Latin America's economic and political landscape. In response to inflationary crises, most Latin American leaders have at some point during the last thirty years implemented neoliberal reforms to promote export-oriented growth and fiscal responsibility (Massey et al. 2006), as evidenced originally by the Pinochet dictatorship in Chile, and more recently, Menem's ignominious fall from grace in Argentina.

Until the late 1970's, most Latin American countries pursued economic growth via the import substitution model (ISI), which heavily favors *protectionism*² in the interest of encouraging domestic economic growth. From 1945 until 1975, the ISI model proved to be relatively affective, as it provided Latin American countries with much needed economic growth. In fact, the revenues generated by domestic industries allowed many Latin American metropolises to develop and thrive. Despite enjoying success early on, the ISI model failed to address, and actually worsened, the legacy of inequality it had inherited from its colonial and neocolonial predecessors. Moreover, the model eventually became insolvent as its dependence on government spending produced hyperinflationary crises throughout most of Latin America (Massey et al. 2006).

The ISI crisis, and its political consequences paved the way for Latin America's neoliberal transformation, which emerged not as an endogenous response

² This concept refers to government practices that protect domestic industries by strictly regulating exports and subsidizing "home-grown" corporations. Additionally, protectionist government might invest in infrastructure that facilitates the cultivation and emergence domestically-based markets (See Massey et al 2006).

to an acute economic crisis, but rather as an imported model for growth that privileges the rights of foreign investment over the development or protection (however marginal) of domestic industries. Douglas Massey (2006) explains “with encouragement, if not outright pressure, from the U.S. Treasury and multilateral lenders based in Washington D.C., nations throughout Latin America...began to dismantle the state-apparatus of ISI...”(1). John Williamson coined the term the Washington Consensus in reference to “the lowest common denominator of policy advice being addressed by Washington-based institutions to Latin American countries as of 1989” (Williamson 2000, 1). At its inception, the Washington Consensus consisted of nine policy propositions³, which relevant parties, had identified as useful areas of focus for developing Latin American economies (Williamson, 2002).

The following section chronologically explores the history of neoliberalism in Latin America, by focusing on Chile, Bolivia, Mexico, Venezuela, Argentina, Peru, and Brazil. The cases provide important information about the structural adjustment problem in Latin American, as the countries’ individual experiences evidence the multitude of ways in which neoliberalism affected the region’s economic development.

I do not purport to resolve all debates concerning development and neoliberalism in Latin America. However, the juxtaposed neoliberal histories of the following seven countries provide a broad, yet contextualized, explanation of

³ The list consisted of the following nine items: “fiscal discipline, a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure, tax reform (to lower marginal rates and broaden the tax base), interest rate liberalization, trade liberalization, liberalization of inflows of foreign direct investment, privatization, deregulation (to abolish barriers to entry and exit), and secure property rights (Williamson, 2000)

structural adjustment policies and their impact on Latin American politics and society. The purpose of the following section is to problematically explain Latin America's neoliberal story.

Chile was the first Latin American country to implement structural adjustment policies, and did so relatively out of its own accord, which is particularly apparent given the absence of a regional trend (Roberts and Araujo 1997). Additionally, the initial success of liberalization in Chile justified the continent-wide expansion of neoliberalism as a viable development model (Massey et al p. 2). By contrast, Mexico's debt crisis and looming economic collapse more or less forced political leaders to implement austerity. Finally, the Peruvian case highlights the relationship between times of crisis, economic reform, and democratic authoritarianism. The specific consequences of neoliberalism in Argentina, Brazil, Venezuela, and Bolivia, will be explored at length in Chapter's three and four, but the combined history of those countries and the Chilean, Mexican, and Peruvian cases provides important insight into the at-times mind-boggling puzzle that is the Latin American neoliberal experiment.

Latin America's history of structural adjustment begins in Chile, with the military coup that put Augusto Pinochet in power. Perhaps now remembered as one of South America's most infamous dictators, Pinochet is also responsible for instituting a series of austere economic reforms aimed at addressing problems in the Chilean economy. In the years leading up to the military coup "Chile's socialist party, implemented reforms that all but "destroyed the policy coalition that had supported import-substitution industrialization in democratic Chile" (Silva 1993, 535). To

clarify, the problem of how to best grow had been plaguing policy debates in Chile long before Salvador Allende was elected in 1971.⁴

Eduardo Silva credits elites with the transformation of the Chilean economy. In the interest of legitimizing their power, military leaders awarded top civilian positions to members of Chile's elite class, which established a mutually beneficial relationship between the country's young capitalists and the dictatorial leadership (Silva 1993). This partnership produced a remarkably comprehensive structural adjustment package, which privatized social security and healthcare in addition to creating an independent central bank (Roberts and Araujo 1997).

Structural adjustment in Chile occurred in three stages, all of which favored decentralization but to varying degrees (Sheahan 1997). The first and most economically liberal, provided large returns in the short-term, but ultimately culminated in country's 1984 depression (Sheahan 1997). The policy changes that followed made minor adjustments to the traditional neoliberal model in an attempt to institute safeguards against pervasive inequality, unemployment, and poverty, by empowering the government to intervene when the necessary stimuli for production and employment were absent (Sheahan 1997). Still, policies that favored devaluation and privatization remained the norm, as Chile made the transition to democracy in 1990 (Sheahan 1997).

The decentralization of Chile's economy contributed to the depoliticization of the country's civil society (Roberts and Araujo 1997). The privatization of the pension system in particular diffused the potential for political organization, as

⁴ Salvador Allende was Chile's first socialist President. He was elected in 1970, and then removed from power through a military coup in 1973.

Chilean citizens had no vested interest in the government's all but non-existent welfare programs. The systematic processes of privatization and deregulation that were carried out by Chile's economic leaders in combination with subversive repression of the dictatorship, allowed for a relatively stable period of economic adjustment in Chile, the consequences of which included an extended period of growth (Crisp and Kelly 1999). However, Chile remained as one of the most unequal countries in Latin America, as fiscal austerity produced massive increases in poverty and unemployment, while severely cutting the wages of those who were fortunate enough to retain employment (Sheahan 1997).

As democratic leaders took political control in Chile, they maintained the market-oriented development model of their military predecessors, but focused also on developing the country's social welfare system. They implemented intensive social policies in the interest of not only the poor, but also Chile's battered laboring class (Sheahan 1997). Additionally, the democratic leadership moved to make the country's taxes more progressive so that they would no longer disproportionately favor private interests at the expense of social welfare (Sheahan 1997).

In any study of structural adjustment, Chile is inarguably the most important starting point. The small Andean country has not only endured structural adjustment policies for the better part of three decades, but has also experimented with the imported development model. Thus, Chile, as a single case, provides a comprehensive context for understanding neoliberalism's history in Latin America.

The living conditions that characterized Bolivia in the time leading up to the 1984 economic crisis, created a situation in which members of the electorate

considered structural adjustment as not only a viable, but also necessary policy option (Weyland 1998). Unlike the Chilean case, which depended on the neutralization of potentially dissenting perspectives, structural adjustment policies in Bolivia easily acquired popular support. As a result, Bolivia's Planning Minister Gonzalo Sanchez de Lozada introduced a structural adjustment package aimed at resolving the country's persistent economic and political crisis in 1986, and secured support for his Presidential candidacy seven years later. Bolivia, like Chile, experienced positive economic returns in the short-term, but at the expense of equitable wealth distribution, and public services (Sanabria 1999).

Popular unrest increased in Bolivia, as the country's neoliberal project continued throughout the nineties. In 1995, miners demonstrated their contempt for Lozada's failed reforms in a general strike that was ultimately violently settled by the country's military (Petras 1997). The Bolivian case highlights two interesting characteristics of structural adjustment policies in Latin America. First, under the right circumstances, structural adjustment can emerge as a popular policy option despite its inherently unequal tendencies. Second, neoliberalism's initial success does not necessarily rule out the possibility for popular unrest; to clarify, in the absence of long-term returns, the electorate will mobilize (if they are able) in protest of failed structural adjustment policies.

Like Chile and Bolivia's, Mexico's first structural adjustment experiment proved to be a surprising success in the short-term, at least as far as traditional indicators of economic development are concerned. In an attempt to address persistent inflationary problems, "Mexico followed an adjustment program centering

on strict monetary and fiscal restraint, tight wage controls that forced wages down, and aggressive devaluation” (Sheahan 1997, 20). However, as Mexico tried to combine liberalization with currency appreciation, its neoliberal experiment followed in the steps of Chile’s first period of structural adjustment (Sheahan 1997).

Despite the country’s remarkable growth in 1993, the 1994 peso crisis in Mexico marked the emergence of yet another neoliberal mess in Latin America, (Roberts and Araujo 1997). The 1987 reforms successfully curbed inflation, and further emphasized the importance of export-led growth and therefore attracted more foreign investment. However, the absence of internal controls and Mexico’s increased dependence on foreign aid, contributed to the devaluation crisis, which was further exacerbated by the country’s prematurely liberalized private sector (Davis and Bartilow 2002). Furthermore, excessive and careless lending produced an economically untenable situation, which fostered political unrest and a distribution crisis so severe, that it affected all sectors of Mexico’s civil society. Consequently, the execution of structural adjustment policies in Mexico also produced inequality and unemployment. However, because the Mexican government decided against laying off public sector employees, the country remained less unequal than its Chilean counterpart (Sheahan 1997).

For a better part of the 20th Century, the consistently lucrative global petroleum market had made Venezuela one of the most developed countries in Latin America, while encouraging a sustained period of political stability. The 1970’s oil shocks unsettled the traditionally stable Venezuela economy, as the sudden decline in oil prices immediately limited the extent to which the government could successfully

follow through on its welfare policies, which not only destroyed the one source of the state's legitimacy, but also sent Venezuela into a massive inflationary crisis (Hellinger 2003). These events contributed to the *caracazo* in 1989, in which individuals took to the streets of Venezuela's capital city in protest of President Carlos Andrés Pérez's *paquete* (a series of structural adjustments that proposed widespread privatization and increased fiscal austerity). Resulting in over 3000 deaths, the *caracazo* marks the unpopular genesis of neoliberalism in Venezuela. Pérez's reforms not only betrayed Venezuela's tradition of petro-nationalism (because he privatized the oil industry), but also "exacerbated structural and macroeconomic imbalances in the economy and had a critical impact on living standards which had already witnessed substantive deterioration (Buxton 2003, 113).

The consequences of Pérez's reforms worsened under the leadership of his successor Rafael Caldera, who ignored growing opposition to structural adjustment policies, and embraced the "neoliberal 'Venezuela Agenda'" (Ellner 2003, 16), despite increasing inequality, poverty and unemployment (Ellner 2003). The Venezuelan case demonstrates how structural adjustment policies affect relatively stable democracies.

Carlos Menem became the President of Argentina in 1989. After inheriting a battered economy from his heterodox⁵ predecessor Raul Alfonsín. Menem, like Carlos Salinas⁶ in Mexico, faced a country that was in the middle of a hyperinflationary crisis that had caused living standards to decline and foreign capital

⁵ Heterodox in this context refers to economic reforms that deviate from traditional models of market-based growth, and instead look to domestic industries for potential development. Alfonsín sought to address problems in the Argentine economy by focusing on domestic markets.

⁶ Carlos Salinas was the Mexican president who developed and oversaw the implementation of the country's structural adjustment reforms (See Davis and Bartilow 2002)

to disappear (Roberts and Araujo 1997). The peronist was elected on an ambiguously populist platform, but proceeded to implement a series of economic reforms that represented a radical shift from the country's tradition of labor-based politics, an act that surprisingly earned popular support because it successfully and expediently addressed Argentina's hyperinflationary crisis (Levitsky and Murillo 2005). Menem used this popularity to liberalize trade, eliminate price controls, and privatize "Argentina's state-owned companies" (Levitsky and Murillo 2005, 28). He also "reduced the central government's role in the provision of social welfare by privatizing and decentralizing important [state] responsibilities" (Levitsky and Murillo 2005, 28).

Menem's radical reforms had several negative economic and political consequences. First, the Convertibility Law, which enjoyed popular support early on because it allowed Argentines to accumulate wealth in dollars, completely restricted the extent to which policymakers could intervene in the event of an economic crisis (Levitsky and Murillo, 2005) because the country's currency was pegged to the dollar, the value of which Argentine lawmakers had absolutely no control over. This proved to be especially damning at the start of Argentina's 1999 inflationary crisis. Second, the accumulation of public debt put many of Argentina's governing institutions (local and federal) in a precarious position following the ultimate failure of dollarization. Additionally "the Menem reforms generated large-scale social exclusion and growing inequality that shrunk the traditionally large Argentine middle class" (Levitsky and Murillo 2005, 31). By December of 2001, Argentina again found itself in the midst of a widespread political crisis (Levitsky 2003). The Argentine

economy headed quickly towards collapse, as De la Rúa⁷ failed to effectively address the economic disaster he inherited from his predecessor; his eventual resignation was followed by an almost comical game of presidential ‘hot potato’ as a series of leaders paraded in and out of office (Helmke 2005), until congress finally selected Eduardo Duhalde to act as interim President in mid-January of 2002 (Levitsky and Murillo 2005).

Import protection lasted longer in Peru than in other Latin American countries. As a result, the small Andean country was in a state of economic and political chaos, as the 1990 election approached, worsened by the mounting threat of terrorism (Sheahan 1997). The election of Alberto Fujimori marked the beginning of a new economic era for Peru. Following the massive fiscal irresponsibility that characterized the first García administration, Fujimori’s austerity introduced stability to the Peruvian economy. However, President Fujimori did not look for support from the masses, as he planned his economic agenda. After running a populist campaign on issues ranging from poverty to terrorism, Fujimori entered into opaque economic relationships with Wall Street’s Japanese equivalent. Peru’s neoliberal period differs from many of its Latin American counterparts, because it was influenced by non-economic interests related to security and more specifically the Shining Path⁸. Beyond that, Fujimori’s administration relied on extra-democratic practices to secure its legitimacy as evidenced by rather consistent electoral fraud, the 1992 auto-coup (Mauceri 1995), and his eventual exile and resignation in 2000. The state of crisis that

⁷ De la Rúa was popularly elected in 1999, and succeeded *Carlos Menem* as president of Argentina (See Helmke 2005)

⁸ The Shining Path is the Maoist guerrilla organization responsible to initiating almost 13 years of violent internal conflict in Peru (See Mauceri 1995).

Fujimori inherited from his populist predecessor allowed him to act autocratically in the interests of security. Fujimori used the rising threat of terrorism to legitimate his rule. The consequences of this were two-fold; the dissolved congress posed no threat to Fujimori's developing political agenda and the fear of terrorism clouded the public's perception of other non-terrorism related issues (Mauceri 1995).

Brazil implemented structural adjustment, shortly after its return to democracy in 1985. The elected President Tancredo de Almeida Neves died before assuming office, and was promptly succeeded by the ultimately corrupt Jose Sarney, who governed Brazil until its new constitution was implemented in 1988. The country was also at serious risk of defaulting on its international loans, as an intense economic crisis accompanied its transition to democracy (Mainwaring 1995). In 1989, Fernando de Collor de Mello became Brazil's third post-dictatorship president and promptly implemented a series of economic reforms that closely adhered to the principles enshrined in the Washington Consensus. Specifically, his privatization of the steel industry (Montero 1998) began the process of economic liberalization that would continue for the rest of the nineties and into the 21st Century. In 1992, in the midst of corruption allegations, de Mello "was forced from office" (Montero 1998, 29). Itamar Franco, de Mello's vice-president, served the remainder of his term. Franco's most notable accomplishment as president was undoubtedly his appointment of Fernando Henrique Cardoso, who in his capacity as Minister of the Treasury developed and oversaw the implementation of the *Plano Real*; a set a liberalization policies that aimed to curb inflation and encourage export-oriented growth.

Cardoso's *Plano Real*, like Chile, Mexico, and Peru's liberalization efforts experienced a sustained period of success after it was first implemented. Permanently high interest rates attracted foreign investment, which contributed to the overvaluation of the *real*. Moreover, the overvalued currency when combined with other liberalization efforts eliminated domestic sources of inflation, which, naturally, stabilized the Brazilian economy (Rollenger-Mollo and Saad Filho 2004). Immediately following the reforms, wages in Brazil increased by about 15 percent, marking an unprecedented economic improvement. This success ultimately led to Cardoso's election in 1994, and reelection in 1998 (Rollenger-Mollo and Saad Filho 2004).

The *Plano Real's* dependence on foreign capital made its economic returns unpredictable. As Rollemberg Mollo and Saad-Filho explain, the "structural shift in the balance of payments [that occurred after liberalization] created a recurring need for external finance...[the inflow of which] contributed to a substantial increase in external debt and its foreign currency commitments...(Rollenger-Mollo and Saad Filho 2004, 3) Consequently, Brazilian leaders were forced to maintain high interests rates, which restricted the extent to which the *real* could stabilize. Additionally:

"Foreign capital flows had to be sterilized in order to contain the expansion of the monetary base. The rapidly rising stock of the domestic public debt and its spiraling costs perpetuated the need for high interest rates, in order to preserve monetary stability. Finally, high interest rates depressed investment and growth, and constrained the expansion of tax revenues. Funding the state budget under these adverse circumstances required steep increases in tax rates and the imposition of new indirect taxes. To put it bluntly, the state budget was turned into a pump to transfer income from the taxpayers to the holders of public securities, via the financial system. These transfers now exceed *ten per cent* of GDP. This exercise is wholly regressive in distributive terms, and it has contributed to the stagnation of the economy, the deterioration of the distribution of income, and the shift of economic and political power towards the financial system" (Rollenger-Mollo and Saad Filho 2004, 2),

The *Plano Real* successfully decreased inflation, but Brazilian taxpayers and state beneficiaries incurred the costs of sustaining an economy capable of attracting direct foreign investment. The conflicting relationship between foreign investment and domestic budgeting proved to be such a problem that Brazil entered a debt crisis in 1999, which further accelerated capitalist gains at the cost of welfare programs and equal wealth distribution (Rollenger-Mollo and Saad Filho 2004).

The seven cases clearly illustrate the negatively correlative relationship between structural adjustment policies and equally distributed economic growth. The Washington Consensus succeeded in its attempts to temper and manage hyperinflationary crises throughout Latin America. However, it failed to address the root causes of inflation that are sustained by unequal trade partnerships and unpredictable rates of foreign investment. Moreover, structural adjustment policies have ultimately done nothing to address the extreme poverty and unemployment that still characterize most Latin American countries.

Additionally, the relationship between democracy and structural adjustment is consistently throughout the seven cases. Obviously, the Chilean case most clearly demonstrates the extreme consequences of structural adjustment under authoritarian rule. However, the leaders of Peru, Brazil, and Argentina also exploited moments of economic and political crisis to justify extensive uses of executive power, often with surprising amounts of popular support. In Bolivia, massive economic crises successfully made structural adjustment policies popular in the short-term, which allowed for their continued implementation despite eventual shifts in public opinion. The Mexican case demonstrates how international forces can influence national

interests, as the country's neoliberal project was almost entirely imposed by the United States (who had an especially vested interest in Mexico's policy of trade liberalization) and the IMF (Sheahan 1997). The case of Venezuela differs from the above six because its comparatively successful democratic history made the electorate expect successful reform and emphatically reject liberalization.

Neoliberalism affected Latin American countries in different stages. The above analysis, though not exhaustive, highlights important regional trends that necessarily inform contemporary discussions about structural adjustment policies in Latin America and their implications for democracy. The next two chapters further consider the affect of structural adjustment, as it specifically relates to the rise of left-leaning governments. I have isolated the cases of Brazil, Argentina, Venezuela, and Bolivia, for several reasons. First, the countries approached structural adjustment in different ways, and in distinct contexts. While inflationary crises had a decisive impact on the development of structural adjustment policies across the four cases, the democratic (or authoritarian) implementation of austerity reflects the countries' specific history of institutional weakness.

I selected the above countries because of their substantive differences, in an attempt to understand their surprisingly similar political behavior. The four cases are linked by a rejection of neoliberalism and the electoral victories of left-leaning leaders, but still differ from one another in their selection of post-neoliberal governance models, as evidenced by Lula and Kirchner's moderate agendas and the more radical inclinations of Chávez and Morales. The remainder of this text explores the democratic histories of Brazil, Argentina, Venezuela, and Bolivia in search of a

political explanation for the countries' recent left-leaning political transformation, in the context of course, of the continent-wide legacy of structural adjustment.

Chapter 3

Structural Adjustment Policies and Moderate Leftist Presidencies:

The Case of Argentina and Brazil

Despite their different colonial histories, Brazil and Argentina have a great deal in common. The countries share a border and a dictatorial past. Additionally, during the early part of Brazil and Argentina's new democratic eras, elected leaders decided to implement *structural adjustment* policies with the intention of encouraging rapid economic growth and prosperous international relationships.

The following chapter explores the economic and political history of Brazil and Argentina. Specifically, the analysis focuses on the development of the countries' democratic institutions and their affect on the implementation of structural adjustment, particularly as it relates to recent politically leftist trends in both countries. In particular, this chapter attempts to evidence the connection between established democratic institutions and the election of politically moderate post-neoliberal leaders in Brazil and Argentina.

Brazil

Democratic Institutions and Structural Adjustment

Throughout Brazil's history, political and economic power has traditionally been concentrated in the office of the President. David Fleischer explains that "until 1945, most reforms were almost totally the initiative of the executive branch, with very little input from the Congress" (2004, 116). To address the corruption problems that plagued Brazil's implementation of import substitution, the 1946 Constitution institutionalized a set of check and balances in the interest of restricting the extensive

power of the executive. However, when Congress proved to be a functional deterrent to Presidential action in the mid-sixties, then President Geisel simply dissolved it, amended the Constitution, and effectively nullified any of its oversight powers.⁹ The historically conflictual relationship between congress and the executive in Brazil highlights a pattern of institutional weakness.

As a consequence of failed import-substitution, Brazil, like many of its Latin American counterparts, experienced an extended period of economic stagnation. By the early sixties, the left-leaning government of Joao Goulart had done almost nothing to address the country's persistent inflation problems. The resulting economic crisis produced an extended period of social and political instability, which paved the way for military rule.

The 1964 coup reformed the inflation prone ISI model by developing a state-controlled process of decentralization. For the next twenty-one years Brazil was run by a series of military dictatorships, and while its economy prospered, rights including freedom of press and association fell by the wayside as *junta* leaders looked for ways to legitimate their rule (Markoff and Baretta 1990).

The failure of established rules of governance in practice and across a chronological spectrum evidence Brazil's institutionalized democratic deficit. While articulating the anti-democratic tendencies of a military regime may seem like an obvious and fruitless project, the relationship between the military and Brazil's remaining democratic institutions ultimately set the stage for the country's contemporary economic and political reforms.

⁹ A 1967 amendment reduced the majority requirement in Congress, which rendered the opposition parties functionally irrelevant, as it allowed the pro-regime government Alianca de Renovacao to rubber-stamp all presidential decrees (Fleischer, 2004)

Fleischer maintains that:

“The twenty-one years of military rule produced frequent and profound reforms: on the political system at every turn; in the area of federalism and decentralization by empowering local government through federal revenue sharing; on the tax system; on the expansion of public enterprises and “indirect” administration of new federal agencies; and on the participation of military officers as managers in command positions in direct and indirect public administration (Fleischer 2004).

The above passage suggests, almost ironically, that Brazil’s military leaders played a central role in the development of the country’s democratic institutions. Despite its eventual codification in the 1988 Constitution, the military is responsible for establishing Brazil’s tradition of federalism. The institutional continuity that characterized the 1988 transfer of power provided a stable foundation for the implementation of Cardoso’s comprehensive structural adjustment package, and also highlights the beginning of Brazil’s tradition of institutional strength (See Table 1).

On the economic front, Tavares de Almeida explains that “during [the] twenty years of military rule (1964-1984) especially in 1970s, the expansion of public firms gained momentum” (2004, 57), in Brazil. Moreover:

“growth was spurred by an institutional framework that promoted the concentration of resources and decision-making capacity at the federal level and, simultaneously, freed the so-called mixed economy enterprise from government controls, endowing them with great autonomy to make decisions concerning investment and prices (2004, 57).

The military started the process of decentralization that was later pursued by Cardoso. Moreover, the dictatorship’s policy of centralized deregulation established a close relationship between the executive and Brazil’s capitalist class, which served as an important foundation for the *Plano Real*. These relationships facilitated Cardoso’s liberalization efforts without disrupting the democratic tradition established by the 1988 Constitution.

The 1988 Constitution favored a devolutionary model of governance, which economically and politically empowered Brazil’s many districts, regardless of their geographic size or population. Consequently, leaders like Cardoso found themselves

restricted by a divided Congress that lacked party cohesion, however, the military's legacy of autocracy allowed him to use the office the executive to implement austerity (Spanakos 2004).

The most recent Brazilian constitution reflects the country's history of institutional weakness, as it takes steps to restrict potential abuses of executive power, which effectually avoids the negative consequences of democratic deficits, but serves an insignificant transformative function. Because the political reforms do little to strengthen the credibility and *robustness* of existing federal democratic institutions, Cardoso's reform remains as an executive legacy, and is in fact, less representative of a comprehensive institutional economic shift. Additionally, the 1988 Constitution in its attempt to address a pervasive democratic crisis ultimately restricted the extent to which the executive could use institutions (weak or strong) to support his economic reforms. The consequences of this are two-fold: first, in his executive capacity Cardoso had the ability to implement structural adjustment despite divisive congressional cleavages. Second, the divided congress prevented his reforms from reaching a point of consolidation like their Argentine counterpart.

The Political Consequences of Structural Adjustment

Following the 1999 debt crisis¹⁰, the Brazilian government instituted a set of policies aimed at stabilizing the *real*. The goal was to control inflation and exchange rate stability, while slightly reducing interest rates, with the hope of restoring policy credibility (Rollenger-Mollo and Saad Filho 2004). The reforms tried to use foreign capital to foment "an economic recovery based on import substitution and the

¹⁰ The direct causes and consequences of the 1999 debt crisis were discussed in Chapter 2.

expansion of manufacturing and agricultural exports (Rollenger-Mollo and Saad Filho 2004, 5).

Cardoso's modified plan was only somewhat successful, as it managed to moderately control inflation given the restrictions of indexation,¹¹ which the government had reintroduced after the original installation of the *Plano Real* to address issues related to wealth distribution. Furthermore, employment and income distribution also suffered the consequences of extended austerity. Rollemberg Mollo and Saad-Filho explain: "low economic growth rates over an extended period, necessarily affect the level of employment. [Since neoliberal reforms were introduced] the unemployment rate has increased substantially, especially in the six largest metropolitan areas (Rollenger-Mollo and Saad Filho 2004, 5). Additionally, Sao Paulo in particular, experienced an extended period of de-industrialization, which predictably, negatively affected the city's employment rate. Moreover, in addition to increasing unemployment, structural adjustment policies actually worsened the income distribution problem left behind by the country's tradition of import substitution (Rollemberg Mollo and Saad-Filho 2004).

When Luis Inacio Lula da Silva, entered the presidential race in 2001, Brazil's political and economic environment was ripe for reform. Following the debt crisis, Cardoso's policies had accomplished almost nothing. As a result, inflation, unequal distribution, and poverty, emerged as potential voters' top priorities. The failure of structural adjustment translated into popular mobilization against the established economic model. However, the masses did not extend their criticism to the malleable

¹¹ Indexation is a method of controlling the income-redistributing effects of inflation.

political infrastructure that had facilitated the implementation of structural adjustment in the first place.

When Lula emerged as a top presidential candidate in 2001, voters were more concerned with his economic agenda, than any other political issue. Because of his relationship with the Workers Party (PT), and Brazil's landless movement (MST), Lula's candidacy represented the potential for the creation of a new Brazilian economic model. Lula's campaign gained momentum as:

“The failure of neoliberalism to overcome economic stagnation was widely recognized, the government was highly unpopular, and it was generally agreed that the social tensions in the country were becoming intolerable. The neoliberal camp was politically fractured. No presidential candidate was willing to defend the government's record, and Cardoso's supporters gradually deserted him (Rollenger-Mollo and Saad Filho 2004, 5).

What is most important about Lula's election is the fact that it represents a collective victory against neoliberalism. The consequences of his actual policies depart, greatly, from the ideals espoused during his campaign. However, the failure of neoliberalism remains as the launching pad for Lula's election.

Before officially assuming the office of the President, Lula faced pressure from lending institutions, including but not limited to the IMF. Interested parties preemptively threatened to sever economic relationships with Brazil, if Lula in any way departed from the economic agreements that had been put in place by his predecessors. Lula agreed to respect the policies originally introduced by the *Plano Real* if elected. This act did little to weaken his support from the left (he remained still as the most progressive candidate), and in fact, increased his popularity among center-right voters, who had vested interests in the Brazil's existing economic infrastructure (Rollenger-Mollo and Saad Filho 2004)

Since assuming the office of the Presidency in June of 2003, Lula has pursued a fairly consistent neoliberal agenda. As a result, problems related to poverty, inflation, and underemployment have remained as relative constants throughout his tenure. Additionally, social programs have been “emasculated by the severity of [his] fiscal constraint (Rollenger-Mollo and Saad Filho 2004, 5)

Upon first glance, Lula seems to have completely betrayed not only his presidential promises, but also his historical commitment to workers rights, landless movements, and more generally, the underserved. However, his acts as President reflect a rather collaborative approach to governance that seeks to reconcile capitalist and union interests.¹² Moreover, Stanley Gacek argues that Lula has managed to encourage fiscal responsibility, while increasing broader cooperation between the various parts of Brazil’s civil society. More specifically, as president Lula has incorporated union leaders into the state-apparatus to ensure that workers interests are considered, as the country’s economic policy is developed (Gacek 2004). These reforms reflect two realities: first, Lula’s established political and economic agenda reflects an acceptance of Brazil’s existing institutions and second, the new President’s political strategy is one of inclusion instead of transformation. To clarify, the Brazilian electorate bifurcated political and economic issues during the 2001 election, and voted in the interest of economic security, without considering broader projects of political transformation, as in the to be discussed Bolivia and Venezuelan cases.

In conclusion, there are two ways in which Lula’s Presidency can be interpreted. The first and rather shallow explanation identifies the current President as

¹² There are many sectors of Brazil’s civil society with divergent political interests; I selected the two groups above for the contrast because they best reflect Lula’s attempt to resolve the historic conflict that has permeated the relationship between foreign investors and capitalist interests.

a willing participant and beneficiary of neoliberal reform, who has not only rejected his traditional loyalties to labor groups, but has in fact acted against his supporters' interests.¹³ The second, and certainly more nuanced observation considers the context in which Lula assumed power. Lula's governing approach is pragmatic in its consideration of the global markets, which directly affect not only the country's economy, but also Brazil's general standing within the global community. Also, unlike Chávez, who can exploit Venezuela's lucrative oil industry for economic gain and international credibility, Lula in particular, and Brazil in general, rely on their interaction with global economic powers like the United States.

The fact that the current President of Brazil has attempted to incorporate labor issues into broader discussions related to the global economy underscores Lula's commitment to his original electoral base. Lula's decision to maintain Brazil's neoliberal model may contradict his original campaign promises, but his support of labor has been consistent. His political methodology has certainly adjusted to the economic reality he inherited from the Cardoso administration, but even in his acceptance of neoliberalism Lula remains aware of the potential dangers of extended austerity, while necessarily recognizing the importance of fiscal responsibility, particularly in a country that is prone to inflation and governance crises (Gacek, 2004). Whether or not Lula's pragmatism is effective is a completely different question, but his election remains as a testament to the failure of neoliberalism in Brazil. Moreover, even his incrementalist approach to reform, represents a departure from the consequence-blind austerity of the Cardoso Administration.

¹³ This phenomenon has occurred more than once in Latin America's history and is evidenced most recently by the presidencies of Menem in Argentina and Fujimori in Peru (See Chapter 2).

Finally, his incorporation of labor interests into the state apparatus, though seemingly insignificant, functions as the starting point for future reform. By making minor changes to existing institutions Lula is successfully maintaining stability (which is essential for institutional strength) while making the government more inclusive. This incrementalist approach to reform secures the sustainability of future political changes, as it both affects change without risking legitimacy. Additionally, his focus on existing institutions ensures that Lula's political legacy will last beyond his presidency

Argentina

Democratic Institutions and Structural Adjustment

After he was elected in 1946, Juan Perón instituted reforms that “expanded that state’s role in the economy, nationalized key economy sectors such as railroads and telephones, taxed agricultural exports...improved...working conditions, and extended a variety of new social benefits” (Levitsky and Murillo 2005). As a result, labor unions became an integral part of the Argentine political apparatus. The politicization of labor is unique to the Argentina case; the processes of centralization in Brazil actually served to neutralize (Font 2004) new political actors whereas in Argentina unions emerged and powerful sites of political activity (Levitsky and Murillo 2005). However, leaders of both countries implemented ISI models to facilitate rapid economic growth, which were partially responsible for creating the economic conditions that paved the way for neoliberalism and institutional weakness.

By eviscerating the country’s democratic institutions, Perón also set the stage for Argentina’s first democratic crisis. In Perón’s quest for legitimacy, “government

opponents were harassed, jailed, and exiled; additionally public employees were forced to join the Peronist party; press freedom was curtailed, and post-1946 elections were marred by intimidation and abuse of state resources” (Levitsky and Murillo 2005, 24). The populist leader also packed the Supreme Court with Peronist sympathizers (an act that Carlos Menem would later emulate). Consequently, Argentina’s modern political infrastructure emerges as an unstable and arbitrary product of circumstance.

Despite his authoritarian inclinations, Perón enjoyed a great deal of popularity because he emphasized public services and labor rights in his politics, which translated into his substantial tenure (Roberts and Araujo 1997). However, his anti-democratic practices paved the way for the 1976 Coup (Levitsky and Murillo 2005). In addition to sponsoring the massive period of repression now known as the ‘Dirty war’, a project that would have been significantly more difficult to implement in the presence of robust democratic institutions, the military leadership also attempted to stabilize the broken¹⁴ Argentine economy by opening formerly protected industries to foreign investment (Levitsky and Murillo 2005) The application of austerity during a time of civil crisis proved to be ultimately unproductive, which culminated in the regime’s collapse, after its embarrassing loss to British in the Falklands War (Levitsky and Murillo 2005).

Nevertheless, institutional weakness was instrumental to the process of economic liberalization, as it empowered military leaders to prematurely remove presidents and Supreme Court justices from power.¹⁵ The overarching trend of instability also

¹⁴ Under Perón’s rule, state-run industries acquired massive debt. The Argentine government also proved to be economically ineffective as it fractionalized the electorate and incurred large debts in the interest of sustaining insolvent domestic industries (Roberts and Araujo 2003).

¹⁵ This allowed the military to make autarkic decisions about the state of Argentine (political or economic) affairs, without the risk of potential oversight.

facilitated the implementation of minor structural adjustments¹⁶, as it allowed military leaders to sell their reforms as necessary stabilization efforts, in the midst emerging political and economic crises.

Raul Alfonsín inherited a battered economy from his military predecessors. After assuming power, the country's first democratically elected President since Juan Perón implemented a series of heterodox reforms which failed, "amid severe distributional conflict among union, industrialists, and agro exporters" (Levitsky and Murillo 2005, 26) to remedy the economic malaise that characterized post-junta Argentina. As mentioned in Chapter 2, Alfonsín's inability to deliver successful economic reform resulted in the election of the peronist and populist, Carlos Menem in 1989.

During his time as President, Menem reaped the benefits of a heavily partisan congress, which favored peronist politics. Additionally, the congressional majority was not the only 'external'¹⁷ body that functioned in a legitimating capacity during Menem's presidential tenure. In an attempt to secure support for his economic agenda the leader also made a series of political concessions to governors, industrialists, and union leaders in most of Argentina's politically important provinces (Levitsky and Murillo 2005) Menem's ability to single-handedly alter the country's political landscape strongly reflects the presence of *institutional weakness* (see Table 1). To clarify, despite the

¹⁶ For the most part, military leaders retained Perón's economic model, but the political and economic situation in Argentina was so unstable during the Dirty War that even minor liberal adjustments severely traumatized the country's already weak domestic industries (Roberts and Araujo 2003).

¹⁷ Despite the fact that the branches of government are supposed to function independently of one another, Menem packed the Supreme Court with sympathetic judges during his first few years in power, which provided him with decisive majorities in every federal democratic institution (Levitsky and Murillo 2005, p. 32-33)

existence of localized governance structures, the overarching power¹⁸ of the executive not only highlights Menem's effectiveness as a leader, but also the *weakness* of Argentina's democratic institutions. More specifically, Menem's political legacy is less about coalition building, and more about existing democratic deficits that facilitated his many autocratic acts as President of Argentina.

The relative strength of the peronist party during Menem's tenure appears at first as a sign of *institutional strength*. However, the party's history significantly follows the pattern described by Levitsky. Despite the longevity of the peronist legacy in Argentina, parties that bear the name do so in mostly a symbolic capacity. Peronism in Argentina reflects an idealized collective memory that politicians have successfully appropriated for the sake of political gain (Levitsky and Murillo 2005, 32-33). The peronist party, as it was originally conceived, no longer exists, and its ongoing prevalence is hardly reflective of a robust party system. All potentially significant political parties in Argentina are in some way linked to Peron's legacy, making many of the major political contenders indistinguishable from one another (Levitsky, 2005). Additionally, the continued dominance of peronism in Argentina reflects an institutionalized political imbalance that favors the executive, as evidenced by the inherent historical homage made to a President who relaxed or removed all potential oversight structures during Argentina's early democratic history (Levitsky 2005). His strategy of pandering to special interests lived on, which limited the extent to which democratic institutions could develop while securing support for intrinsically anti-democratic practices.

¹⁸ The success of Menem's reforms required consensus, which he often gained by encroaching "on legislative and judicial power. The shenanigans included the widespread use of executive decrees... and the political appointment of federal judges"(Levitsky and Murillo 2005, 30-31).

Menem's use of this legacy when combined with his initial success secured his popularity for the better part of a decade. He resigned in 1999, partially because of his declining popularity due to growing problems related to wealth distribution and reemerging inflation, and also because of widespread allegations of internalized corruption. A series of political and economic problems plagued Argentina in the years that followed Menem's resignation. The Alianza's¹⁹ Fernando De la Rúa inherited Menem's economic crisis, and implemented more austerity to combat the emerging economic disaster. He made serious cuts in government spending, but was ultimately unsuccessful in his attempts to ameliorate the ailing Argentine economy, a situation that was made worse by rumors of corruption that emerged near the end of his presidency (Helmke 2005)

Given the similarities that characterized neoliberal projects throughout Latin America, it is not surprising that the long-term implication of structural adjustment in Argentina greatly resemble the consequences suffered by the general public in Brazil. Menem's famed economic restructuring produced a hyperinflationary crisis, increased unemployment, and growing distribution problems.

The Political Consequences of Structural Adjustment

As mentioned in Chapter 2, Eduardo Duhalde was finally chosen by congress to act as interim president in January of 2002, and remained as the country's chief executive until Nestor Kirchner was elected in 2003 (Helmke, 2005)

Despite only winning 22 percent of the vote:

¹⁹ The Alianza was created in 1997 when the FREPASO (The Alliances for Jobs, Justice, and Education) and the UCR (Radical Civil Union) joined forces in opposition to the then dominant peronist party (the PJ) (Levitsky and Murillo 2005).

“President Kirchner quickly established his authority by launching a set of bold reform initiatives. The new government restructured the military and police hierarchies, shook up several state agencies long linked to corruption, pushed successfully for the removal-via impeachment and resignation-of leading Menemist-era Supreme Court justices, and established mechanisms to ensure a more transparent and consensual judicial nomination process” (Helmke 2005, 155-156)

Kirchner’s immediate reforms addressed many of Argentina’s institutional weakness issues, as they sought to reestablish a robust and transparent system of governance. His commitment to checks and balances alone represents a radical departure from Menem’s autocratic and ultimately corrupt approach to governance.

Many of Kirchner’s reforms differed greatly from the dominant paradigm that governed Argentina during most of the 1990s. However, the one constant remains in his commitment to democracy, and more particularly democratic consolidation. Given the destructive nature of Menem’s presidency, Argentines could have easily elected a leader with equally anti-democratic tendencies, especially when one considers the circumstances under which Kirchner ultimately assumed power. However, despite the crisis, weak governing institutions proved to be effective in the short-term, as evidenced by the congressional appointment of Duhalde, and surprisingly susceptible to progressive reform in the long-term, as demonstrated by Kirchner’s early presidency. Surprisingly, Argentines separated Menem’s corrupt acts as President, from the integrity of the country’s inarguably battered democratic institutions, which left the door open for future reform.

After he assumed power, the new president also implemented a more protectionist agenda than his Brazilian counterpart. Despite mounting pressure from the beneficiaries of the Menem reforms, Kirchner “distanced his government from the economic policies of the 1990s” (Levitsky and Murillo 2005, 43). Specifically he “adopted a harder line in negotiation with international creditors and began to revise several post-privatization

concessions and regulatory arrangements that were deemed harmful for consumers” (Levitsky and Murillo 2005, 43).

Shortly after assuming office, President Kirchner vowed to pay off the foreign debt. He also maintained that the country should only be responsible for paying 25 percent of the debt’s face value (Espinoza and Riley 2004). Kirchner’s criticism of structural adjustment has been constant, along with his refusal to bow to pressures from the United States and international lending institutions on the subject of how Argentina should best grow. The Argentine President has gone as far as to blame the International Monetary Fund for the 2001 economic crisis, and has implemented a process of economic restructuring that sets stricter standards for international investors, while forcing them to forgive loans that Argentina defaulted on after the crisis (Espinoza and Riley 2004).

Some argue that “Kirchner’s daring, if not radical, new views on restructuring the economy seem to be paying off” (Espinoza and Riley 2004). Former lenders are adjusting their existing investments to accommodate the president’s reform, which contradicts widely held notions about the natural relationship between investors and host-countries.²⁰ Despite, assuming an anti-IMF stance, Kirchner is not bowing to internal pressure for more progressive economic reform. In particular, the President has taken a harsh stance against the *piqueteros*²¹ who have continued their protest against structural adjustment despite Kirchner’s economically conservative reforms. Consequently, the President’s

²⁰ Conventional wisdom in Latin America suggests that investors will gravitate towards countries with the most favorable investment conditions. While regulation is still inconsistent with the realization of optimal economic returns, the Kirchner reforms seem to indicate that there are possible permutations to the traditional lender/borrower relationship in Latin America (Espinoza and Riley 2004).

²¹ The *piqueteros* are “community-based organizations of the unemployed [who] appeared as the main opposing force to the deflationary policies pursued by the Alianza” (Etchemendy 2005, 84).

current economic policy straddles the line between the neoliberal approach of his corrupt predecessor and Alfonsín's protectionism.

Kirchner's agenda thus represent a staunch departure from the orthodoxy and heterodoxy that characterized the presidencies of his predecessors. Kirchner's approach to reform slightly resembles Menem's, as he too has concentrated a great deal of power in the executive, in addition to ruling largely by presidential decree (Levitsky and Murillo 2005). However, even Kirchner's autocracy is transparent, as it attempts to distance Argentina's democratic institutions from their corrupt past. Moreover, Kirchner's relationship with outside lenders and Argentine consumers reflects a more nationalistic approach to democratic governance, which puts the president of Argentina closer to the left side of the political spectrum than his Brazilian counterpart.

A Comparison

The Brazilian and Argentine cases are similar for several reasons. First, the original implementation of structural adjustment policies occurred under legitimate and popular presidents. Because they successfully addressed Brazil and Argentina's hyperinflationary crises, both Cardoso and Menem enjoyed support early in their presidencies, as evidenced by their re-election. The countries also have a failed "neoliberal" experiment in common, as problems like inflation, poverty, and inequality persisted long after austerity was implemented, despite initial economic improvements. The final and perhaps most important similarity between the two cases is less about their executives and more about their electorates. In Brazil and Argentina moments of economic crisis did not produce substantial structural shifts. To clarify, while both countries' elected leftist critics of structural adjustment, overarching concerns about

Brazil and Argentina's political infrastructure in general did not emerge as relevant election themes. Both executives, and Kirchner in particular, took steps to address representation problems in the existing government bureaucracy, but ultimately democratic institution remained unchanged in both Brazil and Argentina.

The *institutional weakness* originally caused by Perón, and later exploited by Menem is inarguably worse than the democratic deficit that characterized post-junta Brazil. While both countries' legacies of authoritarianism invariably affected their neoliberal projects, Menem was more successful in his abuse of Argentina's institutions. Consequently, he was able to achieve sustained economic reform as evidenced by the almost immediate implementation of his dollarization policy. By contrast, Cardoso acted in a restricted capacity due to the check and balances instituted by the 1988 Constitution. The result is that Brazil suffered less in long-term, as the relative strength of its institutions forced the powerful executive to act with some moderation. In Argentina, Menem's extensive and unchecked power produced greater benefits in the short-term, but a massive crisis in the long-term.

This reasoning also explains the variation in Lula and Kirchner's economic agendas. More specifically, it is the spectacular failure of neoliberalism in Argentina that justifies the latter's almost aggressive anti-structural adjustment position (Espinoza and Riley 2004). The 1999 debt crisis though serious, lacked the political 'punch' of its 2001 Argentine equivalent, which allowed international lenders to retain some, albeit battered, legitimacy.

Chapter 4

Radical Leftists and Structural Adjustment Policies:

The Venezuelan and Bolivian Cases

Venezuela and Bolivia are two radically different countries. One experienced a sustained period of democracy; the other has been in a relatively consistent state of crisis since 1952. However, both are highly unequal resource rich nations that have in the last fifteen years experienced a series of political and economic transformations.

This chapter explores the historical antecedents of the now notorious Chavista regime in Venezuela, and Evo Morales' younger presidency in Bolivia. Like their Brazilian and Argentine counterparts, Venezuela and Bolivia experienced periods of structural adjustment in response to pervasive inflationary crises. However, the systematic implementation of austerity that characterized neoliberal reforms in the southern cone was noticeably absent in the Venezuela and Bolivia. Structural adjustment policies in both countries were developed as *ad hoc* responses to immediate economic crises. Additionally, the authors of austerity in the Southern Cone were popular and structurally powerful, while proponents of structural adjustment in Venezuela and Bolivia garnered short-lived (if any) support and often ruled without a mandate.

Venezuela

Democratic Institutions and Structural Adjustment

As mentioned in Chapter 2, Venezuela has the distinction of being one of the few Latin American countries capable of boasting a history of sustained democracy, a characteristic that upon first glance would seem to contradict the *institutional weakness* argument. However, despite the country's fifty-year democratic tenure, Venezuela's

governing institutions share many similarities with their weaker Latin American counterparts.

During the 1960's, the country's leaders began an institution-building project, which attempted to replace the country's inherited colonial model of governance (Lombardi 2003) Venezuela then experienced a period of relative stability until the 1970's oil shocks, as mentioned in the introduction. As oil prices fell, the government became insolvent, causing its massive bureaucracy to quickly disintegrate. Unfortunately, existing democratic structures so heavily depended on Venezuela's lucrative petroleum industry that the Pact of *Punto Fijo*²² (PF) was unable to absorb the political unrest that emerged during the oil crisis. The constitutionally protected two-party system failed (Buxton 2003).

The Venezuelan case differs from the Brazilian and Argentine examples insofar as its democratic deficit is less attributable to instances of overextended executive power. However, *institutional weakness* nevertheless appears as a dominant variable. The economic consequences of the oil shocks in fact prove that Venezuela's governing institutions functioned merely in regulatory and dispensatory capacity even during periods of 'democratic success', a reality that rendered them functionally useless in a world of declining oil prices. Venezuela's susceptibility to external shocks highlights an institutionalized democratic deficit, which made the 1989 *caracazo* an inevitability (Buxton 2003).

²² The pact of Punto Fijo "was an attempt by elites to prevent a repetition of the coup of 1948...[and was not only inclusionary but also exclusionary...]"(Hellinger 2003, 29), as it barred the communist party from political participation. The pact legally divided political power between Venezuela's center-left (Accion Democratica) and center-right parties (Comite de Organization Politica Electoral Independiente).

According to Julia Buxton the reforms that followed the 1989 crisis ultimately paved the way for Chávez's presidency. Specifically, the complete failure of the two party system created a situation in which "Venezuelans viewed their political parties and system as unrepresentative"(Buxton 2003, 113). After the *caracazo*, Venezuela's political infrastructure suffered a severe credibility crisis, which restricted the extent to which Carlos Andres Perez might have effectively implemented economic reforms (Buxton 2003).

In 1989, President Perez instituted a series of orthodox policies in response to Venezuela's oil shock induced political and economic crisis (Buxton 2003). The implementation of structural adjustment policies in Venezuela differs from Brazil and Argentina's similar projects in two significant ways. First of all, the author's of the neoliberal reform represented the current failed political system. Unlike Menem and Cardoso, who offered hope in a time of crisis, Perez acted on behalf of the insolvent two party system which further damaged his already suffering credibility. Second, Perez betrayed the democratic tradition that had garnered previous Venezuelan executives legitimacy (Buxton 2003).

To clarify, the Punto Fijo system was built on Venezuela's nationalistic petroleum industry; by privatizing it, Perez effectively dissolved the country's one source of democratic cohesion (Buxton 2003). By contrast, his Brazilian and Argentine counterparts used existing institutions to develop systems of support for their neoliberal reforms. Perez's betrayal of Venezuela's petro-nationalism dissolved whatever remaining credibility the PF pact had left after the 1989 crisis (Buxton 2003). Moreover, his reforms "exacerbated structural and macroeconomic imbalances in the economy and had a critical

impact on living standards, which had already witnessed a substantive deterioration” (Buxton 2003, 114). The immediate consequences of Perez’s reforms worsened under the leadership of his successor Rafael Caldera; considering these circumstances, particularly in the context of poverty levels reaching 66.7 percent (Buxton 2003) Chávez’s populist rise to power seems hardly surprising. Additionally, unlike Menem and Cardoso who experienced marginal gains in the short-term, structural adjustment policies did nothing to address the economic and subsequent political crises in Venezuela that originated with the 1970’s oil shocks.

The Political Consequences of Structural Adjustment

Hugo Chávez’s 1998 election occurred after a series of government failures. The charismatic leader who is now an almost iconic figure in anti-imperial discourses, came to power as Venezuela’s democratic institutions were falling apart. A constant critic of liberalized trade and U.S. hegemony, Chávez has achieved a shocking level of global notoriety. He assumed the office of the presidency under difficult, to put it euphemistically, economic and political circumstances. Decades of internalized corruption and the 1980’s oil crisis put Venezuela in an almost ungovernable situation. After his election in 1998, Hugo Chávez nationalized the petroleum industry, and introduced a centralized model of governance that transformed the infrastructure of Venezuelan politics; his continued tenure further evidences Chávez’s ongoing popularity (Roberts, 2003).

Chávez won the 1998 election by a significant margin; he captured 56.0 percent of the vote (Hellinger 2003). His election during a time of economic crisis seems immediately counterintuitive when one considers that the former military leader

attempted to overthrow the Venezuelan government in 1992. How he managed to gain democratic legitimacy is the question that thus emerges (Canache 2002).

Chávez enjoyed a great deal of public support following the 1992 coup (Maya 2003). After it failed, people rallied in the streets and demanded Chávez's release from prison. The public uprising reached such a level of intensity that the Venezuelan government had no choice but to release the author of the failed coup. His popularity waned in the years that followed, but the credibility he gained during his first attempt at the presidency would ultimately serve as a useful foundation for his eventual democratic election in 1998. Moreover, the "coup attempt deepened the crisis of legitimacy, [in Venezuela] demonstrating that neoliberal policies had produced a fracture within the bloc of social and political forces that sustained the [PF] regime" (Maya 2003, 79). Chávez exploited existing institutional deficits to create a favorable situation for his eventual electoral victory, which demonstrates that his success is positively correlated with Venezuela's democratic crisis that began in the late eighties and worsened throughout the nineties. The complete failure of the PF was essential to Chávez's success, because his politics did not fit within the established paradigm that governed Venezuela for the better part of the 20th Century. Table 1 highlights the relationship between the PF's failure and Chávez's ultimate election.

Chávez and other dissident members of the Venezuelan military created the MBR (Movimiento Bolivariano Revolucionario) in 1989, a clandestine organization that sought to address the gap that characterized relations between civilians, the military, and the state apparatus (Hellinger 2003). The MBR became a public organization shortly after the 1992 coup, with the stated goal of establishing a constitutional assembly that would

function as a site for peaceful revolutionary change. During this time period, the living conditions of most Venezuelans continued to deteriorate. Furthermore, external debt also remained a burden, as the country's leaders scurried to enforce austerity in what had become a predominantly corporate economy. Chávez's popularity increased, as Venezuelan leaders ran out of programs to cut.

During the early and mid 1990s the MBR encouraged voter-abstention in regional and national elections, as a way of demonstrating dissatisfaction with the established order (Hellinger 2003). The MBR shifted its agenda in 1996, by opting to participate in the 1998 elections. The MBR's strategy thus became one of electoral mobilization, which again seems to contradict the organization's military background. However, despite the seemingly inherent contradiction, the MBR's decision to engage with the democratic process, ultimately worked to its advantage. As a prominent member of the MBR, Chávez explained the organization's sudden shift in rather pragmatic terms, asserting that after exhaustive polling, the 'people' had demonstrated their support for the MBR's electoral participation. Thus, Chávez ironically, after authoring the 1992 coup, used a rather explicit model of popular democracy to establish the MBR as a viable political force (Canache 2002).

Chávez founded the MVR (Movimiento V Revolucionario) in preparation for his campaign in 1998 with judicial reform and economic restructuring at the top of his agenda. Despite Chávez's decision to take his chances with democracy, the actions of the Venezuelan electorate remain unexplained. How a failed authoritarian democratically assumed Venezuela's highest office is at the very least confusing, and at most unexplainably counterintuitive (Canache 2002).

However, if one considers the state of democracy in Venezuela in the time leading up to Chávez's election, a democratic permutation becomes an increasingly possible reality. Following the collapse of the PF pact, Venezuelans became understandably ambivalent towards democracy, as the country's failure to pass the test of the 1980s oil shocks seriously undermined the country's long-held democratic tradition. Thus, the electorate's preference for representative democracy with authoritarian undertones, even in the context of extreme political polarization and economic inequality, is more easily understood (Canache 2002). By electing Chávez, Venezuelans maintained their commitment to democracy, while recognizing the need for substantial and in some cases militant political reform.

Unlike Argentina, Brazil, and Bolivia, Venezuela never experienced a sustained period of dictatorial rule, which means that repressive despotism is absent from the country's collective memory. This made the country less sensitive about the possibility of electing a former military leader, despite his failed coup attempt in 1992 (Canache 2002).

According to Steve Ellner, Hugo Chávez "is the first elected Latin American leader, since Alan Garcia to defy the hegemonic powers of the 'the new world order'" (Ellner 2002, 26-71). Unlike his predecessors, who eventually bowed to external pressures and instituted neoliberal reforms, Chávez has remained steadfast not only in his commitment to nationalizing formerly private industries, but also in his criticism of the United State's foreign policy.²³

²³ After his election, Chávez used referendums to override a series of congressional barriers to presidential action, which led to the drafting of the 1999 Constitution. Additionally, the new "Bolivarian Constitution" then paved the way for the congressional reconfiguration, which (after the 2000 megaelection) granted Chávez's party a decisive majority in the new unicameral congress (Hellinger 2003).

The role of the U.S. in general and the Bush Administration in particular is yet another variable that must be considered in any analysis of the Chávez presidency, and that ultimately sets it apart from the above discussed cases. As Ellner explains, “Chávez’s discourses, which stresses globalization’s unequal distribution of wealth, underpins specific policies and actions that are adverse to the ‘new world order’”(Ellner 2002, 90). Chávez’s use of the phrase “the multipolar world” is perhaps the most succinct descriptor of his foreign policy strategy. While many leaders in the developed world dismiss his rhetoric as the rants of a populist megalomaniac, the phrase extends beyond its obvious rhetorical purpose (Ellner 2002).

Besides discursively challenging the United States’ superpower status, Chávez has also used Venezuela’s OPEC²⁴ membership to fix oil prices. By negotiating with every OPEC country including Libya and Iraq, Chávez has established himself as an international force. The geopolitical consequences of these acts are difficult to dismiss, especially when considering Chávez’s relationships with known “rogue states”. Chávez’s strategic use of Venezuela’s oil wealth has turned the crisis-prone country of the nineties into an autonomous and internationally relevant political force, despite ongoing problems related to poverty and wealth distribution (Ellner 2002).

The need to protect Venezuela, and to a degree Latin America, from external intervention, economic or otherwise heavily influences Hugo Chávez’s ideology. His integration of the military into Venezuela’s political sphere reflects his commitment to defending the country’s sovereignty. However, Chávez’s regulatory measures would be

²⁴ The Organization of Oil Exporting Countries, in which Chávez assumed a prominent leadership role shortly after his election. Additionally, the Caracas Declaration in September of 2000, further politicized OPEC negotiations, as the organization developed a position on development and debt reduction (Hellinger 2002).

unnecessary without an external threat to Venezuela. Thus, his increasingly unconditional power heavily depends on the presence of an identifiable enemy, a role that the United States has been more than happy to play. Politics and economics consequently become fused in Chávez's governance model, as all of his policies aim to reject and offer alternatives to globalization or as it is ironically called in Chavista circles "neocolonialism"(Ellner 2002).

The United States' addition of Venezuela to the axis of evil further evidences the effectiveness of Hugo Chávez's political approach. Venezuela will continue to be an important international actor (despite its status as underdeveloped), as long as the United States recognizes what I will tentatively refer to as Chávez's dangerous ideological agenda. Washington's inflammatory characterizations of Venezuela, though not necessarily unprovoked, have the unintended consequence of legitimizing Hugo Chávez's cause. However, this variable does not function independently from economic factors. The country's petroleum wealth certainly serves as Chávez's international bargaining chip, which seems to imply that any fluctuation in oil-demand or in Venezuela's reserves might negatively affect Chávez's growing global influence.

The failure of neoliberalism alone does not account for Chávez's initial and ongoing success. In no way, does my argument attempt to define the intricacies of the Chavista regime as byproducts of structural adjustment. However, the conditions that ultimately paved the way for the Chávez-led transformation of Venezuela are undoubtedly connected to the political and economic crises that emerged after the oil shocks. Moreover, the United States' ongoing support of structural adjustment policies,

fuels the anti-American and radically leftist political aspirations of the Venezuelan President and his loyal followers.

The Chávez reforms have completely transformed the Venezuelan state, which sets this case part from its Argentine and Brazilian counterparts. However, if Chávez is removed from the equation the institutional viability of his political agenda becomes suspect, as its success depends heavily on his delegative authority; this characteristic also emerges in the Bolivian case. Thus, institutional weakness and strength will continue to play a decisive role in Venezuelan politics, as the Chávez reforms undergo the test of time.

Bolivia

Democratic Institutions and Structural Adjustment

The process of democratic development in Bolivia resembles the crisis-laden history of most of its Latin American counterparts. In 1952, miners and a broad coalition of middle-class sectors seized power after a sustained period of elite-rule. In attempt to resolve Bolivia's history of political corruption and economic underdevelopment, the country's nationalist leaders developed a plan of action that included a series of state-building measures. The reforms sought to increase the effectiveness and legitimacy of Bolivia's governing infrastructure (Sanabria 1999). Immediate policy changes supported increased centralization; specifically, the new government, nationalized Bolivia's lucrative tin mining industry. Unfortunately, the absence of democratic consolidation and

effective government policy particularly on issues related to economic growth, “culminated in the MNR’s overthrow in 1964” (Gamarra 1991, 8)²⁵

The leaders of the revolution aspired to unite members of Bolivia’s diverse and divided economic sectors, but failed to develop an apparatus capable of reconciling the functionally opposite interests of the country’s electorate. In addition, the existing democratic structures were too weak to handle the ambitious and centralized economic agenda of Bolivia’s new governing class, as Gamarra explains “the failure of the revolution and the subsequent military regimes...led to the deepening of cleavages...”(Gamarra 1991, 9) which restricted the extent to which established institutions could attain legitimacy.

In a description of Bolivia’s democratic history, Eduardo Gamarra explains that the governing infrastructure that emerged during the time that followed the revolution did not sufficiently consider the country’s ethnic and economic diversity. As a result, the presence of an electoral democracy failed to reach a point of consolidation. To clarify, Bolivia never experience a sustained period of democracy even in the midst of electoral activity, as the country’s democratic processes were supported by a weak, unstable, and self-defeating political infrastructure. For example, when the military regime opened elections in 1978, nearly 70 parties registered candidates, demonstrating either massive political disorganization or the presence of interests so inchoate that a country of less than six million inhabitants required a more than extensive multiparty system (Gamarra 1991). Additionally, the 1952 Constitution, which had already been revised by several military leaders, underwent an extended period of revision before it was finally officially

²⁵ The MNR (Movimiento Nacionalista Revolucionario) organized and executed the 1952 Revolution, which instituted a centralized model of governance, in addition to promoting state-led growth; the party was removed from power by a military coup in 1964 (Gamarra, 1991)

reinstated in 1982 (Gamarra 1991). Consequently, *institutional weakness* is also a dominant factor in Bolivia's democratic development, as specifically evidenced by the presence of a weak and ineffective party system (See Table 1).

In the time leading up to its first round of neoliberal reform, Bolivia suffered from more than an extended case of *institutional weakness*. In fact, the country was in the midst of a burgeoning democratic crisis, by the time austerity was finally implemented. At first, the Bolivian case seems to depart from Levitsky's argument concerning the progress of democratic development in spite and in many cases without the consideration of *institutional weakness*. However, the fact that structural adjustment policies were ultimately implemented democratically suggests that the country's weak institutions allowed for a level of flexibility during its period of economic crisis.

Historically, structural adjustment policies have lacked electoral support as massive political and economic restructuring, often occurs at the expense of popular welfare programs (Weyland 1998). In the time leading up to the 1984 economic crisis, members of the Bolivian electorate started to consider neoliberalism as a viable policy option. Problems related to inflation and political corruption provided the necessary foundation for the country's economic transformation. Moreover, as the state failed to provide jobs and services, the benefits of nationalization became increasingly obsolete. Existing policy failures further popularized structural adjustment, as the possibility of reform (no matter how austere) provided Bolivian's with the sense that a 'looming' economic collapse might be avoided (Weyland 1998).

Kurt Weyland posits that under the right circumstances, voters are willing to suffer the consequences of rapid economic liberalization, given the risk of positive

returns. The Bolivian case evidences Weyland's claim; the electorate became more willing to accept structural adjustment policies, as the country fell further into crisis. The prospects for structural adjustment in Bolivia improved shortly after the government of Hernan Siles Suazo "proved unable to combat the country's economic problems" (Weyland 1998, 548). Moreover "the imminent economic collapse and the complete lack of governability forced the president to call elections 1 year ahead of schedule." (Weyland 1998, 548). The convergent governance and economic crises ultimately ushered in Bolivia's first series of neoliberal reforms, which likens the case to most of its Latin American counterparts.

As mentioned in Chapter 2, Bolivia's Planning Minister de Lozada introduced austerity to Bolivia in 1986; his reforms, much like those of Cardoso and Menem, successfully decreased inflation in the short term. However, as is often the case in Latin America, the benefits of Bolivia's structural adjustment program were unequally distributed, ultimately proving "that neoliberalism has primarily favored capital interests and not wage laborers, petty commodity producers, or peasants-those at the bottom of the socioeconomic hierarchy" (Sanabria 1998, 538). Throughout most of the nineties, Bolivia's economic infrastructure remained constant. While the presidents elected after Lozada represented, at least in spirit, a broad ideological spectrum, the policy of privatization remained the same. As a consequence, the Bolivian electorate, became increasingly polarized, which caused yet another political crisis leading eventually to the election of Evo Morales, which will be discussed in greater detail later.

Beginning in 1989, the Bolivian government instituted a series of democratic reforms aimed at strengthening the country's political institutions (Ames et al. 2004). In

1994, the Constitution was further amended to consider Bolivia's multi-ethnic and -lingual population, replacing previous language about a unified and homogenous electorate. The Constitutional reforms continued for the better part of the 1990s, as steps were taken to include members of Bolivia's large indigenous population. Furthermore, the judicial system also experienced a period of extended review and subsequent reform as evidenced by the creation of several oversight structures like the Office of the Ombudsman²⁶, and Independent Prosecutor's office, the Constitutional Tribunal, and the Judicial Council (Ames et al. 2004).

Despite the various democratic reforms that occurred during the 1990's, Bolivia's economic infrastructure remained constant. The presidents elected in time that followed the country's period of economic adjustment represented a wide ideological spectrum, at least in spirit. However, the ongoing policy of privatization remained the same, despite increasing opposition from the electorate, causing yet another political crisis that led to the eventual election of Evo Morales. The institutional reforms of the 1990s succeeded in making Bolivia's institutions more inclusive, at least in spirit. However, by addressing the inequalities that had permeated Bolivian civil society for the better part of the 20th Century, leaders, despite their corrupt tendencies, empowered a part of the electorate that had traditionally silenced, which in the context of weak institutions provided the appropriate conditions for more radical reform.

The Political Consequences of Structural Adjustment

Harry Sanabria explains that "Bolivian neoliberalism has generated the political and economic conditions for increased capital accumulation by unifying dominant

²⁶ The ombudsman (Defensor del Pueblo) is a externally funded oversight structure that exists to secure government accountability (Ames et al. 2004).

capitalist sectors, consolidating a state faced with acute social and class conflict, and enhancing its ability to confront recalcitrant workers and peasants (Sanabria 1999, 536). However, unlike the Brazilian and Argentine neoliberal revolutions, Bolivia's structural adjustment policies failed immediately and consistently when it came to garnering legitimacy for the democratic institutions that facilitated their implementation (Sanabria 1999) While Bolivia's neoliberal project was partially successful in neutralizing the political potential of formerly powerful mining unions, it was noticeably less effective in its efforts to thwart the organizing capabilities of the country's sizeable agricultural sector (Sanabria 1999). Thus, Bolivia's neoliberal era had the unintended consequence of empowering the country's peasantry.

Fiscal austerity, by definition mandates the control of wages as well as the reversal of labor benefits. Thus, many members of Bolivia's laboring class lost their jobs, or endured pay cuts during the country's period of structural adjustment. Bolivia's agricultural sector also suffered after Lozada's New Economic Policy (NPE) was enforced, due to the loss of essential government subsidies (Sanabria 1999). As state-benefits and incentives were rolled back to make space for foreign investment, and corporatization, Bolivia's working class and agricultural sector vocally resisted the institutionalization of structural adjustment policies (Sanabria 1999).

The IMF-endorsed development model's success in Bolivia mirrors its effects on the Brazilian and Argentine economies, as it encouraged increased production and efficiency, while discouraging excessive (or rather any) government spending, and while data gathered shortly after the reforms were implemented, suggests that Bolivia's lucrative mining industry experienced increased productivity after it was privatized, the

economic reforms did not even marginally improve the Bolivian economy overall, as it remained in a state of economic crisis after the reforms were implemented (Sanabria 1999).

Perhaps the most notable success of structural adjustment in Bolivia is its unintended empowerment of indigenous political parties. Ironically, it was the formerly mentioned President Lozada who supported decentralization efforts that ultimately extended political rights to Bolivia's indigenous populations (Sanabria 1999). That this occurred during a period of structural adjustment seems to be a coincidence, considering the long-term consequences of neoliberalism in the region.

The growing influence of indigenous groups in Bolivia in the midst of its neoliberal era became first apparent in 2002, when Evo Morales, then a relatively unknown labor activist finished second in the national elections (Van Cott 2005). Four years later, Bolivia elected the openly socialist Aymara to the country's highest office.

The indigenous peoples variable separates Bolivia from the other three cases. While left-leaning activism in Bolivia is certainly reflective of the country's failed neoliberal experiment, the transformation of indigenous politics in the region reflects an endogenous and transhistorical shift, as indigenous leaders have "sought to represent a...majority that previously had been incorporated in a subordinate manner through patron-client relations (Van Cott 2005, 1995). The subordination of indigenous groups continued throughout Lozada's economic reforms, however his commitment to political decentralization, allowed previously irrelevant political parties to make significant gains, as evidenced by the surprising congressional victories of Evo Morales' Movimiento al Socialismo (MAS) during the 2002 elections (Van Cott 2005).

It is too early to know the impact of Morales' Presidency. However, his election is significant not only because it extended the pink tide to another Latin American country. Morales, as the country's first indigenous President, represents the collective interests of Bolivia's working classes, and traditionally marginalized indigenous population. The Bolivian state, even during its most nationalist moments, has existed as the product of colonialism, while maintaining a tradition of subordinating the interests of indigenous population to those of a small and elite capitalist class. Thus, the fusion of economic and cultural factors that characterize the Morales Presidency, presents a unique historical moment, of which the consequences remain to be seen.

Morales' recent policy changes largely resemble those implemented by his neighbor to the north, and suggest that a greater political transformation lies in Bolivia's future. Since assuming office, Morales has announced his plans to rewrite the constitution, nationalized Bolivia's largest telecommunications company and natural gas industry, in addition to persistently criticizing the United States for its ongoing imperialism (CNN.com 2007) A recent associated press article explains that "the revolution Morales leads was sparked by violent protests in 2000 against U.S.-based Bechtel Corp. for raising rates after taking over the public water utility in Cochabamba, unleashing a deep frustration with Bolivia's failed privatization experiments of the 1990s" (CNN.com 2007, 1). While I disagree with the article's oversimplification of Bolivia's tumultuous history, as the ill-implementation of the 1990s reforms is rooted in the country's long-held tradition of race-based exclusion, the article correctly identifies failed privatization as an important impetus for Bolivia's left-leaning political transformation.

A Comparison

The Chávez and indigenous peoples variables complicate the task of correctly assessing the relationship between structural adjustment policies and the election of radical leftists in Venezuela and Bolivia. Additionally, the magnitude of Bolivia's political crisis did not match that of the party-system collapse that fomented Chávez's infamous rise to power in Venezuela. Moreover, the democratic reforms of the 1990s, on first glance, would seem to push Bolivia into the same category as its Argentine and Brazilian counterparts.

However, Bolivia's history of democratic failure, and the intensity of the 1989 Venezuelan political crisis overcome country-specific variations. To clarify, the fact remains that democratization efforts failed consistently throughout Bolivia's history regardless of the Lozada's reforms, which explains the electorate's endorsement of an alternative and inclusive governance model in 2005. Similarly, the complete collapse of a formerly solvent political system partially explains why Venezuelan's were willing to elect Chávez in 1998. Both cases demonstrate the electorate's complete loss of faith in established democratic institutions, which distinguishes Venezuela and Bolivia from Brazil and Argentina.

Conclusion

Structural adjustment has permanently affected Latin America's history. My intention with this project is to draw connections between neoliberalism and recent trends in Latin America politics, especially since disciplinary divides often suggest that the two ought to be considered separately. The findings outlined herein indicate that there is indeed a rather intimate connection between structural adjustment policies and recent trends in Latin American democratization.

Brazil, Argentina, Bolivia, and Venezuela are remarkably different nations, with rich cultures and complex colonial histories. However, they have all been irreversibly affected by the implementation of structural adjustment policies. In the case of the first two countries, neoliberal reforms tested institutions, ultimately proving the strength of existing democratic structures. In Bolivia and Venezuela, however, the economic crises caused by structural adjustment policies snowballed into extensive political fragmentation and polarization, ultimately culminating in the complete transformation of the countries' governing institutions.

Throughout the four cases political liberalism emerges as an overarching theme that is characterized on one side, by moderate reforms to existing economic and political structures, and on the other, by radical socialist movements couched in severe anti-imperial discourse. There are leadership variations that my model does not take into consideration. The decisions made by Lula and Chávez, for example, differ greatly, despite both leaders' leftist inclinations. Therefore, it cannot be said that structural adjustment policies are responsible for the political consequences of Chávez's regime in Venezuela and neoliberalism's continuity in Brazil. However, a relationship does remain

between the contexts in which both Lula and Chavez assumed power, and the perceived and actual failure of structural adjustment. The same can be said for Morales and Kirchner; the failure of neoliberalism shaped the contours of their economic policies, but country-specific circumstances ultimately influenced the extent to which each of the presidents pursued political and economic reform.

Moreover, the rejection of democratic institutions in the Bolivian and Venezuelan cases does not necessarily imply the presence of a region-wide movement away from democracy as an ideal governance model. Both Chávez and Morales were popularly elected and have maintained their countries' judicial and legislative institutions (at least in some capacity) since assuming power. However, their governance paradigms represent a strict departure from that of their predecessors, while the political agendas of Lula and Kirchner despite including politically liberal causes do not function in a structurally transformative capacity.

Ultimately, it is the relationship between democratic institutions and electorates that determines whether or not the former survives the consequences of structural adjustment. In the case of Brazil and Argentina, voters did not associate the failure of structural adjustment with the countries' established governing models; this did not necessarily stop the electorate from blaming Cardoso and Menem for 1999 and 2001 economic crises. However, the consequences of neoliberalism did not cause voters to question their fundamental commitment to Brazil and Argentina's democratic institutions. Whereas, in Venezuela and Bolivia, economic and political crises occurred in pairs causing voters to feel both destitute and politically disenfranchised; it is this

distinction that explains that moderate to radical variation that emerges throughout the four cases.

Consequently, countries with weak, but adaptable and moderately stable democratic institutions are more likely to survive economic crises, than states with inflexible and weak or strong democratic governing structures. While the effects of structural adjustment are universal, as evidenced by ongoing trends of unemployment, inequality, and extreme poverty throughout Latin America, its impact on democratization varies according to country-specific political traditions. In Venezuela, the failure of a successful, but inflexible political model resulted in its complete dissolution. While in Bolivia, the overarching underperformance of most democratization efforts, also caused the electorate to prefer an alternative political paradigm. The moderate failure and success rates of Brazil and Argentina's democratic institutions, by contrast, ensured their survival through times of political and economic crisis

This thesis complements Levitsky and Murillo's work by focusing on institutional weakness in the context of structural adjustment. Specifically, by considering the relationship between economic reforms and democratic consolidation this paper extends the comparative scope of Levitsky and Murillo's model in way that facilitates broader cross-country comparisons.

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