THE POLITICAL ECONOMY OF LATIN AMERICAN DEVELOPMENT: Seven Exercises in Retrospection*

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

I. LES TRENTE GLORIEUSES IN LATIN AMERICA?

As is well known, Latin American economies were hit quite hard during the early 1980s. The sharp cyclical downturn of 1981–82 in the United States and in the other advanced industrial countries combined with the outbreak of the international debt crisis in 1982 and a fall in raw material prices to force sharp reductions in imports, public expenditures, and private investment in all of Latin America. Incomes fell everywhere, and unemployment rose to unprecedented levels in the more industrialized countries such as Brazil, Argentina, and Mexico,

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none of which had provisions for unemployment compensation. Following actual drops in total output in 1982 and 1983, uneven recoveries occurred in 1984 and 1985, with the result that the continent's total output has only now regained its 1981 level. Given the continued growth in population, per capita incomes are down about 10 percent from what they were then.

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

Why the conspiracy of silence about the good news as long as it was still coming? For some good reasons, of course. The information about economic growth, advancing per capita incomes, strides in industrialization and the rise of the middle classes was thoroughly intertwined in Latin America with contrasting trends and perceptions: a new awareness arose of social tensions and injustice; longstanding mass poverty became urbanized and therefore more visible; economic imbalances between city and countryside, as well as between advanced and backward regions, widened; and the performance of the state in dealing with these negative side effects of economic growth was far from satisfactory. Most important perhaps, and in marked contrast to the steady consolidation of democracy in Western Europe during this period, Latin America (with the almost lone exception of Mexico) experienced serious political upheavals throughout this period of thirty to forty years, its midpoint being marked by a major and influential "acci-

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dent"—the overthrow of democracy in Brazil by the military coup of 1964. Finally, one must mention the tactically inspired tendency to underline the negative so as to present the continent as a long-victimized claimant upon the international economic and financial system. Small wonder, then, that Latin America's trente glorieuses have not found a prophet.

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

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

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

Nevertheless, massive urbanization has probably been the major force behind considerable advances in health and education since the fifties. The increase in life expectancy largely reflects improved survival chances for the newborn during the first years of life. Infant mortality has declined sharply and steadily. In the early fifties, it stood at the distressing level of 130 per 1000 live births in the tropical countries; in most of these countries, the figure has fallen to around 50, although in Brazil and Peru the rates are still much higher (70 and 98, respectively). Illiteracy has similarly receded. Outside the Southern Cone (where all

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such social indicators have long exhibited much more advanced levels), the 50 percent rate that was the rule around 1950 has fallen by more than half. School enrollment rates have risen correspondingly: primary school attendance is now close to universal, although this statistic may not be particularly meaningful. Greater confidence can be placed in figures showing real movement at the secondary and higher levels. In Brazil, Colombia, and Mexico, the enrollment rate in high schools has risen from 10 percent in 1950 to 50 percent today, while university enrollment in these countries has risen from 2–3 percent in the fifties to 12–15 percent today. Thus the educational pyramid is apparently growing and flattening out at the same time.

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

Instead of looking at the new possessions Latin Americans are able to acquire, it may be more meaningful to focus on what they increasingly decide to do without—the traditional family with a large number of children. Outside Argentina and Uruguay (where small families have long been common), birthrates throughout Latin America stood at the steep level of around 45 per thousand in the early fifties but declined rapidly in the sixties and seventies and now stand at around 30 per thousand in all the larger tropical countries. Sample surveys show that the percentage of married women using contraception varies from 40 percent to 55 percent in these countries (compared with 70 to 80 percent in Western Europe and North America), indicating that the practice extends considerably beyond the middle class. Although comparable figures for earlier years are not available, the diffusion of birth control to so wide a sector of the population is undoubtedly quite new.

Whether or not we dare speak of les trente glorieuses in Latin America, the statistical evidence indicates that the region deserves credit for two major accomplishments over the last three or four decades. First, it has accommodated an enormous increase in population while improving their average living standards and increasing their life expectancies. Second, countering the many prophecies of demographic

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disaster based on projections of population growth at the alarming rates of the fifties, the region has decisively launched the "demographic transition" that will permit achieving much more moderate population growth, although at permanently higher levels of population density.

A third achievement is implicit in the data cited: no matter what has happened to distribution, some improvement has taken place in the position of the poorest sectors of the population because they are obviously the primary beneficiaries of the decline in infant mortality and illiteracy. In addition, some of these basic advances in social welfare may no longer be rigidly tied to the ups and downs of the economy. Thus, during the recent years of recession and stagnation, infant mortality appears to have continued its downward trend in most of Latin America, and the same is probably true for illiteracy and almost certainly for the birthrate.

Several reasons can be given for expecting such developments. In the first place, even though the loss of employment and the decline in income during recessions will cause severe economic deprivation, they no longer necessarily exact such extreme penalties as infant deaths and illiteracy, once incomes reach a certain level. At such a level, moreover, a ratchet effect is likely to come into operation. This effect is evident when we consider the decision to use birth control. In many cases, it is induced by the interrelated complex of rising incomes, urbanization, greater literacy, and the spread of specific knowledge about contraception. But once acquired, this knowledge is not going to be erased, nor will the decision to use contraception be reversed by a temporary fall in income—rather, in this case, to the contrary. The diffusion of knowledge and the irreversible adoption of new cultural practices and attitudes may also be more important than the rise and fall of income for the behavior of other "social indicators." Certain sanitary and dietary practices in childrearing that are important in saving infants' lives are unlikely to be discarded, once they have been adopted. New knowledge and better practice in medicine and public health, including immunization, make for advances that are largely independent of economic conditions. A good recent example is the wide (and usually free) distribution in many countries of oral rehydration kits that counteract the often-fatal dehydration accompanying diarrhea in small children.

Even with regard to education, an important determinant of school attendance (and literacy) is simply the determination of parents to send their children to school. Again, this determination, once acquired for whatever reasons (including economic ones), is not likely to be reversed as a result of subsequent economic setbacks, except in the most severe circumstances. Also, such determination will communicate itself to other parents of similar socioeconomic strata, more as a result of cultural diffusion than of economic improvement.

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

At a certain level of development, therefore, we may expect a measure of disjunction between economic and social indicators, with the latter doing rather better than the former during temporary economic downturns. Such a disjunction was noted in the United States by sociologist Christopher Jencks in his article "The Hidden Prosperity of the 1970s."[3] According to the conventional wisdom based on economic data, things fell apart during that decade: "inflation accelerated, unemployment rose, productivity stagnated"; and real family income, which had risen by over 30 percent in both the fifties and sixties, remained virtually unchanged.[4] But Jencks shows in considerable detail that more direct and detailed measures of material well-being relating to health, housing, transportation, and food consumption "often showed marked improvement, and some showed as much improvement during the 1970s as during the supposedly more affluent 1950s and 1960s."[5]

Such findings are unexpected. Greater reliance on "social indicators" relating to health and education was widely advocated in the sixties because of a spreading disbelief in the current optimistic message of the economic indicators. Many suspected that the per capita income series, with its relentless advance, hid from view all kinds of less happy aspects of social reality, from uneven distribution and ecological depredation to spreading crime. It is therefore noteworthy that at least some of the social indicators now paint a somewhat more cheerful picture of changes in U.S. society than the economic indicators suggest.

Because of the lag in publishing social statistics, it is difficult to say at this point whether a similar story has been in the making in Latin America during the recent recession. On the one hand, national data on infant mortality and illiteracy have initially continued their downward movement in many countries. On the other hand, more recent research has turned up evidence of increases in infant mortality in São Paulo and of worsening nutrition and health conditions for children in Santiago. It remains to be seen whether these findings, which relate to the areas hit most directly by industrial unemployment, will be confirmed by nationwide data.[6]

In any event, Latin America's economic and social performance over the past decades reveals a number of strong points. Why, then, is the current mood of many pronouncements about the continent's prospects so gloomy? One reason is no doubt that countries other than

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Brazil have not yet emerged decisively from the recession—indeed, Mexico and probably Venezuela and Ecuador will have been hit with yet another downturn in 1986 because of the drop in petroleum prices. Another reason for pessimism is the large debt overhang, whose service mortgages a substantial portion of any expansion in exports achievable as recovery and growth resume. Yet the despondency of many contemporary observers seems to me to be rooted principally in the realm of ideas. The present scene, it is often said, lacks the feeling, so strong in the thirties and forties, that all kinds of daring new directions in economic and social policy invite exploration. This nostalgic glance backward is often accompanied by the mournful observation that the paths then taken, like others that opened up subsequently, have all ended in utter failure, from the "developmentalism" of the fifties to the monetarist experiments in the Southern Cone of the seventies. Put side by side, these two disheartening observations may actually permit a rather more cheerful conclusion: perhaps it is a good thing that not so many brave new directions are beckoning today.

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

II. INDUSTRIALIZATION AND DEINDUSTRIALIZATION IN ARGENTINA AND CHILE

Latin America has always been a heterogeneous assemblage of economies and polities, but this characteristic has been more or less pronounced in various periods. The specifics of the dissimilarities have also shifted. Up to the Second World War, the principal dividing line from the point of view of economic and social development lay between the fertile, temperate countries of the Río de la Plata region (Argentina and Uruguay, to which Chile was sometimes added) and the others, which were predominantly tropical and (to compound their misfortune, so it was widely thought) contained large numbers of persons of African, Indian, and mestizo origin. It was one of the enormous merits of Raúl Prebisch that, transcending his own privileged status as a citizen of "advanced" Argentina, he launched a campaign for the economic progress of all of Latin America by emphasizing a shared characteristic: remaining on the periphery of the world economic system as a result of having been relegated to the role of supplier of raw materials and foodstuffs. Emancipation from this condition was supposed to be accom-

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plished largely through industrialization, a task proposed as though it were universally manageable, requiring only capital, entrepreneurship, and promotion or protection by the state—as though climate, race, and specific natural resources did not greatly matter. This contention was proved to be right. Over the last forty years, the tropical countries as a group have substantially outperformed the temperate ones in Latin America, and because they were originally much poorer, a movement toward greater intercountry equality has thus taken place.

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

The urge to industrialize, rooted in the depression and war experiences of the thirties and forties, seized all but the smallest and poorest Latin American countries during the fifties and sixties. But in the seventies, what had been a unifying characteristic turned strangely into a factor accentuating diversity. It was not just like the earlier years, when the tempo of industrialization differed substantially among different countries. A real parting of the ways occurred: some countries experienced deindustrialization, while Brazil (already the most industrially advanced country of the group) entered an entirely new stage of industrial development. The contrast is sufficiently stark to warrant a closer look.

Elsewhere I have written about the dual attack that was mounted against the industrialization drive, starting in the sixties.[7] From the Latin American left, industrialization was variously criticized for being "unintegrated" or "truncated," for increasing "dependency," or for catering (through its products) primarily to the upper and middle classes. At the opposite end of the spectrum, the international neoclassical establishment castigated "inward-oriented" industrial development for causing misallocation of resources, balance-of-payments problems, and "rent-seeking." Neither criticism entirely lacked foundations, but in the ideologically charged debates of the time, no one asked whether the assorted problems of import-substituting industrialization were conceivably growing pains that might be overcome in due course by adroit, incremental policy-making, rather than being the result of sins that had

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to be expiated and eliminated roots-and-branch through a wholesale change of course. The merit of the growing-pains hypothesis was actually demonstrated by experiences in some countries where a gradual transition was managed from exclusive reliance on the domestic market to substantial exports of manufactures by means of various devices, such as crawling pegs for currency devaluation, progressive reduction in protection, and policies of promoting exports.[8] But the roots-and-branch school won decisively in those countries (Argentina and Chile) where, in the seventies, military regimes of the radical right came to power determined to extirpate a variety of miscreant behavior, from subversion to misallocation. Considering that these regimes resolved to exile, imprison, or "disappear" thousands of citizens in the name of national security, it is easily understood that they had no qualms about eliminating hundreds of industrial firms for the sake of the "law of comparative advantage"—even though hundreds of thousands of workers would lose their livelihood in the process.

In this manner, industrialization was shifted into reverse gear in Chile after 1973, where industrial employment fell from 555,000 persons in 1973 to a low of 378,000 during the depression year of 1983; since then, a modest recovery has raised this figure back to 449,000 in 1985. At this point, one of every five persons employed in industry thirteen years ago has lost his or her job. In Argentina, industrial growth also gave way to sharp decline during the military regime that ruled from 1976 to 1983. In a few years, the industrial labor force shrank by over 10 percent, from 1,525,000 workers in 1974 to 1,360,000 in 1985.

But overall figures do not tell the whole story because some industries were much more affected than others. Among those liquidated as a result of tariff cuts and similar measures were some highly protected, blatantly inefficient operations, such as certain car assemblies in Chile. The most damaging and wholly undeserved adverse impact on domestic industry, however, did not come from the reduction in tariff protection but from two related aspects of the monetarist policies pursued, particularly after 1978, in Argentina and Chile. The more important factor was the overvaluation of the domestic currency, which was intended as an anti-inflationary device. Although it did not prove very effective at this task, it handed an artificial cost advantage to a wide range of imports. Among the industries heavily injured were not only traditional consumer goods manufactures (such as textiles and shoes) but certain technologically advanced durables (such as color television sets in Argentina) that had made a promising beginning and were developing their own design, characteristics, and networks of local suppliers and service.[9]

In addition, the monetary experiment being pursued led to high domestic interest rates, which squeezed the smaller domestic concerns

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while making borrowing abroad at considerably lower rates highly attractive for the larger firms. Under these conditions, the larger, well-connected industries (which were often resource-based industries like chemicals, petrochemicals, and pulp and paper) fared much better for a while than did smaller, purely domestic industrial firms. Eventually, as the exchange rate had to be drastically devalued in the early eighties and as foreign interest rates soared in turn, the cost of the foreign loans became intolerable for those who had contracted them. But like the private banks and finance companies that had often acted as intermediaries, the larger firms were not allowed to fail. Instead, the governments stepped in with guarantees and various salvage operations, with an ironic result: governments that had widely proclaimed that their economic mission was to privatize the economy and restore free markets ended up owning or controlling the country's banking system as well as many of its larger enterprises. In Chile, this process occurred as many industrialists and bankers became disillusioned with the Pinochet regime. But at this point, they found that the cost of any dissent had risen steeply as the result of the newly acquired, overwhelming economic power of the state.

Few will deny that the deindustrialization experience in Chile and Argentina was a most unhappy chapter in Latin American economic history. As often happens with such aberrations, its perversity is almost incomprehensible in retrospect. In trying to comprehend it, holding forth on the failure of monetarist orthodoxy or on the dangers of granting dictatorial power to ideologues, be they of the free-market variety, is not quite enough. For comparative purposes, it is useful to look at the special circumstances prevailing in international finance during the middle and late seventies. During this period, huge sums of "petrodollars" were being "expertly" recycled by commercial banks in the United States, Western Europe, and Japan. Suddenly there seemed to be a virtually unlimited supply of foreign exchange not only for the petroleum exporters but for the importers as well—for every country that could convince the bankers that it was bankable. The banks, with their swollen deposits, were only too willing to be convinced. In fact, they took to "marketing" their petrodollars with all the aggressiveness at their command.[10]

Only under these circumstances was it possible for Chile and Argentina to sustain the overvaluation of their currencies and the resulting large deficits in their balances of payments, on both current and capital accounts, over a prolonged period. In this sense, therefore, the Chilean and Argentine policymakers were rather less autonomous than they and their critics had believed. Rather than being sovereign shapers of their own misfortune, they should probably be viewed as having

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fallen pitifully into a trap set for them by the international financial system.

III. DESUBSTITUTION OF IMPORTS AND A CURIOUS CONVERGENCE IN MEXICO

Looking at matters in this way helps in understanding another calamitous experience of the recent past whose consequences are still very much with us—the Mexican oil boom and its aftermath. As is well known, Mexico's economic development proceeded at a remarkably steady pace during the postwar decades, more or less until the mid-seventies. Political stability, assured by a regime in which a single party predominated but was not wholly immune from criticism, was similarly impressive, as a measure of pluralism and flexibility was provided by the six-year presidential succession cycle and each new president endeavored to correct whatever right- or left-wing leanings had been shown by his predecessor. Then came petroleum—and with it, in short order, an end to steady growth and much concern about the viability of the Mexican political system.

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

A sudden export boom of this kind normally leads to the accumulation of considerable foreign exchange by the freshly wealthy country, which is unable in the short run to develop a demand for imports matching the rise in exports. This pattern was the experience of many oil-rich Middle Eastern countries after the 1973 rise in petroleum prices and led to the need to "recycle" their petrodollars in the first place. What was remarkable about the Mexican story from the beginning was that the country's imports never fell behind the rapidly growing petroleum exports. Initially, this trend seemed to testify to the ability of the Mexican policymakers to push the tempo of the country's economic development so as to take full advantage of its new opportunities. But soon the growth of imports exceeded that of exports by increasingly worrisome margins. It also became clear that the process was anything but planned. Although Mexico did not experience deindustrialization, at least not during the late seventies, it went through a related process that has been termed *import desubstitution*: in contrast with earlier devel-

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opment experience, imports came to account for an increasingly important portion of total domestic supply, for consumer, capital, and intermediate goods alike.[11]

This process resulted from a familiar sequence: imports soared as domestic prices rose and the government refused either to devalue or to restrict imports through administrative controls. Eventually, as the public began to perceive that the overvaluation of the currency could not last, massive capital flight also took place, as in Argentina. Once again, both excess imports and capital flight were made possible by the international banking system. Private lending was particularly generous in the case of Mexico, whose oil wealth was thought to offer solid guarantees of repayment. There is no need to detail the outcome: the debt crisis and temporary moratorium of 1982, the headlong devaluations, the painful negotiations with foreign creditors and the International Monetary Fund, the cutbacks in public spending, and the recession in an economy that found it difficult to regain its buoyancy and was hit again, three years later, by the earthquake of 1985 and the precipitous drop in oil prices in early 1986.

Comparing the Mexican story with those of Argentina and Chile raises some intriguing questions. In all three cases, the readiness of the international banks to finance balance-of-payments deficits facilitated the surprisingly similar policies that were pursued. These policies consisted in maintaining overvalued exchange rates that boosted imports, penalized exports, and led to speculative capital outflows. But the ideologies that underlay these policies could not have been more different. In Mexico during the last years of López Portillo (1976–1982), considerable influence was held by a group of economists and officials who, with the help of "neo-Keynesian" advisers from Cambridge (England), prepared an ambitious plan for pushing the country's industrialization.[12] Hoping to use Mexico's oil bonanza to accelerate the country's development, they advocated strong quantitative import, exchange, and investment controls so that priority would be assured for their projects. Although they were not successful in getting these policies adopted, they (and other differently motivated actors) effectively opposed devaluation for a long time, probably because they believed that the pressures deriving from overvaluation would force a decision imposing the policy course they favored.

The doctrines and preferences of policymakers in Chile and Argentina, whose teachers and advisers hailed from Chicago, were all set against selective administrative controls and in favor of general monetary policy instruments—the exact opposite of those of the Mexicans and their Cambridge confederates. Yet the Chilean and Argentine policymakers also supported overvalued exchange rates, and far too long. This convergence on (wrongheaded) praxis by the two irreconcilable

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doctrines into which economists like to array themselves is surely remarkable. One cannot quite resist the thought that in both Mexico and the Southern Cone, policymakers were fundamentally swayed by some craving to take advantage of the unprecedented borrowing opportunities opening up in the seventies and bent whatever ideologies were at hand to satisfy that appetite. According to this interpretation, the principal contribution of ideology was not the choice of policy but the stubbornness with which policymakers of divergent persuasions persisted in their errors.

IV. "FORCED-MARCH INDUSTRIALIZATION" IN BRAZIL

Fortunately, the Latin American scene is diverse enough to provide relief from the dispiriting stories reviewed up to this point. While Argentina and Chile deindustrialized and Mexico "desubstituted," Brazil vigorously consolidated and extended its leadership as the continent's major industrial power.The paradox of Latin American economic development in the period of high petroleum prices (1973–1985) indeed lies in the striking contrast between the serious economic setbacks suffered by newly oil-rich Mexico and the notable strides made by oil-poor and oil-hungry Brazil. Here are all the elements of a fine, if puzzling, moral tale: it appears that lacking petroleum is a blessing in disguise while being abundantly supplied with it is an even more cunningly camouflaged curse. But to leave matters at that is not quite enough for social scientists who are legitimately curious about the components of the Brazilian success story.

First of all, it may be necessary to explain briefly why Brazil should be considered a success story. This announcement may surprise those who are aware of only one often-repeated statistic: Brazil, with its one-hundred-billion-dollar debt, is Latin America's biggest debtor (followed closely by Mexico). The interest payments on this debt amount are truly burdensome, absorbing about one out of every three dollars earned by current exports. But the dollar amount of the debt must be viewed in relation to the size of the country's economy and the interest payments in relation to the turnaround in its external accounts over the past few years. Since 1983 a very large export surplus has been achieved, due about equally to vigorous expansion in exports (mostly of manufactures) and deep cuts in imports that have not interfered with a strong revival of domestic economic activity. In contrast to Argentina and Mexico, only a small part of Brazil's debt is the counterpart of domestic capital flight; borrowing served mainly to build up large-scale industrial and other projects in the seventies. Brazil did experience a sharp recession in 1981–1983, but growth was resumed in 1984 as a result of a developing export boom. In 1985 the growth rate rose to 8

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percent, and employment rebounded. In March of 1986, a novel method was employed to bring inflation under control while growth continued at a high level. Finally, in the midst of these economic developments, the country made the difficult transition from twenty years of military rule to a civilian "New Republic."

In his recent book, *A Economia Brasileira em Marcha Forçada*, Antônio Barros de Castro offers a convincing explanation for the recent performance of Brazil's economy.[13] He argues that the improvement in Brazil's balance of payments and its simultaneous rapid recovery from recession cannot be explained adequately by a routine market reaction to the "maxidevaluation" of 1983. Rather, it must be credited to a peculiarly fortunate (and fortuitous) conjunction of market and plan: the devaluation came on top of the maturing, in the late seventies and early eighties, of numerous industrial projects that had been undertaken as part of the so-called "Second National Development Plan" elaborated by the Geisel administration early in its term (1973–1979).

This new departure in industrial policy was decided upon after the first oil shock in 1973, which had dealt Brazil a heavy blow, given its dependence on imported oil and automobile transportation. The prudent course might have been to apply restrictive economic policies so as to rein in imports. Instead, Geisel and his economic advisers decided to push industrial investments away from the automobile and consumer durables of the "miracle" years (1968–1973) and into the sectors that represent the ultimate stage of import-substituting industrialization and that had remained the hardest to crack for Latin America's industrializers: intermediate inputs, especially in chemical and metallurgical industries, and capital goods. Given the increase in petroleum prices, this course could be followed only by incurring large balance-of-payments deficits, that is, by borrowing. But this approach turned out to be a feasible option because of the petrodollars that became available in large amounts. The major investments were often joint ventures of the state and private capital, both domestic and foreign; and the stimulus and the credit facilities of the Banco Nacional de Desenvolvimento Econômico e Social (BNDES), with their subsidized interest rates, played an essential role. During the subsequent Figueiredo administration (1979–1985), economic policy became much more hesitant and even erratic as well as subject to pressures from the International Monetary Fund. But because the large industrial projects of the Second Plan were already underway, they were continued willy-nilly.

It would be instructive to compare the Brazilian and Mexican attempts in the seventies to reach for the "ultimate" stage of import-substituting industrialization. I venture the following obviously stylized formulation: the Brazilians did successfully, without any foreign advisers, what the Mexican economic planners with their Cambridge advis-

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ers planned on but were unable to accomplish, in part because they started too late in the decade and in part because their planned investments were crowded out by the vast surge of consumer goods imports caused by the overvalued peso.

The Brazilian story, as told by Antônio Castro, sounds quite straightforward. Yet it could be formulated only now, I think, because at an earlier stage, before the military had actually relinquished political power, no progressive social scientist would have spoken so positively of them and their policies. Once again, it was possible to acknowledge the achievements of a period only after it had safely passed.* Actually, the Geisel administration must also be credited with the major political accomplishment of stopping institutionalized torture and fostering the political opening or *distensão* that eventually permitted a return to elections and civilian rule.

At this point, it is almost impossible to avoid returning to a debate that raged some ten years ago about the connection between authoritarian regimes and stages of industrial development in Latin America. It was started by Guillermo O'Donnell's imaginative proposition that the "difficult" advanced stage of import-substituting industrialization (manufacturing intermediate industrial materials and capital goods) brings with it a number of political problems that undermine populist or democratic governments in Latin America. Hence the suggestion that some correspondence exists between this stage and the establishment of authoritarian political forms. Brazil, with its advanced industrial structure, is obviously a critical testing ground for this hypothesis, which seems a priori not implausible. As José Serra had pointed out in 1977, however, it was disconfirmed on various counts by the Brazilian data.[15] With Castro's analysis, it is now tempting to go further and explore the inverse hypothesis: is there reason to think that some organic connection existed between the industrial development policy of the Geisel government and the gradual dismantling of repressive authoritarianism that was set in motion at that time? Or was the simultaneity of the two policies totally fortuitous? I doubt very much

*Even that acknowledgement must have been by no means easy, for it effectively amounted to breaking some sort of code. It is worth recalling that, in spite of the authoritarian character of the Brazilian military regime, many published commentaries on its economic policies came from opponents of the regime who were unfailingly critical and won plaudits for that reason. Castro addresses himself at length to certain almost ritualized critiques of import-substituting industrialization, namely that it leads to "strangulation" through newly enhanced needs for imports or that it caters only to the needs of a narrow middle class. He explains incisively how these critiques are not applicable to the kind of industries that were given priority in the seventies. Castro also discusses earlier polemical commentaries of other Brazilian economists—such as Carlos Lessa, Maria Conceição Tavares and Edmar Bacha—with the intent (as I read him) to affirm that a more differentiated view of the past economic policies of the various military regimes is now in order.[14]

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the existence of any direct causal link in one direction or the other. But one characteristic is shared by the two tasks undertaken by that enterprising administration: both required a great deal of delicate steering (of economy and polity, respectively) as well as much confidence that, with the proper kind of such steering from above, the country was assured of a brilliant modern destiny—the old positivist faith. In this sense, the two tasks that were shouldered by the Geisel administration can be said to have shared a common wellspring.

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

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

Without bothering to formulate this concept, the Brazilians have stumbled onto the policy in connection with the computer industry over the last ten years. After considerable preparation by technical ex-

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perts and policymakers, the first overt step was taken in June 1977, when the government refused to allow IBM and other transnational corporations to manufacture minicomputers in Brazil. The policy was solemnly reaffirmed in 1984, when a law defining a "national policy for *informática*" was approved by a large majority in the Brazilian congress. The basic policy embodied in the law has become known as the Reserva de Mercado (or market reservation): for eight years, the domestic market is to be set aside for domestic firms manufacturing certain products in the computer industry, primarily mini- and microcomputers. After a difficult start, the Brazilian industry appears to have done well, especially in the microcomputer field. As in the leading producer countries, it has experienced rapid growth and falling costs, developed endogenous innovation capacity, and become an important source of employment.

Several excellent studies are already available on this newest chapter in the industrialization of late-coming countries, primarily by political scientists and political sociologists attracted by the light it promises to shed on the policy-making process and on the character of the state.[16] I will therefore limit myself to some further broad remarks on the political economy of the phenomenon.

The Brazilian case suggests the conditions under which this variety of industrial policy is likely to recommend itself to the policymakers of an industrializing country. In the first place, the country must be assured of a strong potential domestic market for the products of the new industry; on the supply side, the country must be fairly advanced in industrial engineering and in the capacity to "clone" imported prototypes. Second, it helps considerably if, as happened in Brazil, the national defense establishment can make a strong case for having a special interest in the industry's domestic development. Third, considering that the policy is likely to be resorted to only in a few exceptional instances, it will probably be restricted to those "epochal" industries that have a special aura of heralding a new industrial era. Finally, the case for the policy of market reservation or import preemption will seem especially compelling when in the absence of such a policy, transnational corporations equipped to create "consumer addiction" are poised to take over the domestic market, never to be dislodged by domestic producers once established. Import prevention can be viewed as a riposte by the industrializing country to certain practices and products of industrial leaders that are likely to create impediments to later import substitution.

This point supplies one economic justification of the new policy. Its more basic defense (against the accusation of uneconomic use of resources) rests on the classic infant-industry argument. The traditional counterargument, namely that protection is usually retained long after

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the infant should have grown up, does not apply in the present case. The extreme form of protection that has been granted to the Brazilian industry (exclusion of the foreign product) has a counterpart in the finite period of eight years during which the exclusion is scheduled to last: domestic producers have been given notice that they had better "grow up" by 1992.

One argument often raised against the Brazilian policy is that it is wasteful and stupid to want to "reinvent the wheel." But this objection dissolves on a bit of reflection. Again, the infant analogy is useful. Humans have to reinvent a great many things—from learning how to walk to the proper use of language—and this intensive practice in reinvention and re-creation is surely a necessary, although not sufficient, condition for the subsequent generation of genuine creativity. The problem in industrial research and development is not how to minimize reinvention but how to achieve the best possible balance between reinvention and taking advantage of the existing stock of knowledge for the purpose of accelerating both industrialization and creativity.[17]

A final point must be made about the wider significance of Brazil's decision to build up its own computer industry. Latin Americans have long justified their industrialization policies on the grounds that if they were to adhere closely to the "law of comparative advantage" with its static framework, they would remain underdeveloped forever. Responding in part to this charge and to the realities of worldwide industrialization, some of the more enlightened economists of the West (or North) visualized a new international division of labor in manufactures that took account of dynamic comparative advantage; it was embodied in what Raymond Vernon called the "product cycle."[18] In the course of this cycle, new products would be invented, manufactured, and perfected first in the most advanced industrial countries, whence they would be exported to the rest of the world. Eventually, however, the technology for any given new product line settles down and the new products become standardized, at which point the industry becomes footloose and can often be profitably started in, perhaps even be largely captured by, newly industrializing countries with their cheaper labor. According to this construct, the less-developed countries are no longer permanently relegated to the task of producing primary products for world markets. They are now entitled to industrialize but are once again assigned a somewhat lowly role, as they are supposed to follow at a respectful distance behind the advanced countries, which are the only ones to blaze new industrial trails. The significance of the Brazilian computer policy is now becoming clear: coming some thirty years after Prebisch's call against the "outdated schema of international division of labor," it can be seen as a second-generation rebellion against a new schema that would again attempt to confine the major industrializing

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country of Latin America, this time according to alleged rules of dynamic, rather than static, comparative advantage.[19]

The question of whether Brazil's daring bid for participation in industrial leadership can succeed must remain open for some time. The difficulties of competing in the world of high technology are no doubt formidable. But aside from such obvious benefits as training in innovation, it appears that unexpected advantages can accompany breaking into an industry when it is in its early, rather than its "settled down," stage. According to Peter Evans, the Brazilian buildup of domestic capacity in minicomputers took advantage of U.S. firms' concentration on first developing the product and their own domestic market. In the middle and late seventies, U.S. companies were simply not ready for expansion overseas; moreover, the more advanced product development occurred in a number of smaller U.S. firms having neither international subsidiaries nor export ambitions. As a result, the buildup of the Brazilian computer industry and the policy of "market reservation" did not arouse much opposition during the crucial formative stage.[20] More recently, this situation has changed considerably, as the Brazilian policy has become the subject of a trade dispute between the two countries. It may be useful for the U.S. side to be aware of the considerable symbolic significance that the Brazilians are likely to attach to their accomplishments in this area.

VI. THE "HETERODOX SHOCK" THERAPY FOR FIGHTING INFLATION IN ARGENTINA AND BRAZIL

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

In discussing these new experiments in monetary policy, I shall give primary emphasis to political and sociological aspects. But some of the basic economic facts need to be laid out briefly. In both Argentina and Brazil, inflation had been running at or close to three-digit levels for some years (since 1975 in Argentina and 1980 in Brazil, with Argentina's inflation rate generally two or three times higher). For inflation to persist at such levels without accelerating to hyperinflation is unusual. It indicates that both countries were equipped with elaborate mecha-

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nisms for indexing wages, salaries, exchange rates, and interest rates that contributed mightily to making inflation both tolerable and self-perpetuating. In both countries, fiscal deficits initially played an important role in contributing to inflation, but as prices continued to soar for a number of years, it could be argued that the deficit, or a large part of it, was as much an effect as a cause of inflation.

In 1981 the U.S. economy went into recession, and international interest rates rose sharply; in 1982 net international lending came to a full stop with the Mexican moratorium. As a result, the Brazilian and Argentine economies came under strong pressures to contract in order to adjust their balances of payments. In the course of the ensuing recession, deep import cuts were achieved, aided by some sharp devaluations. All the while, however, inflation continued unabated—indeed, it accelerated. Under these conditions, it is easy to understand why the customary advice of the International Monetary Fund to fight inflation by contracting the economy even further met with enormous resistance.

In the fifties and sixties, a group of Latin American economists had proposed a "structuralist" alternative to the "monetarist" analysis and prescriptions of the IMF. The structuralists distinguished between "fundamental" inflationary pressures arising from domestic social structures (such as antiquated land tenure systems) or certain features of the international division of labor, on the one hand, and the more surface "propagation" phenomena (such as the wage-price spiral), on the other. Whatever the merits of this distinction when inflation was in the lower portion of the two-digit range (as was the case in the fifties in the more inflation-prone Latin American countries), it lost plausibility once inflation accelerated to the three-digit range. At that point, it became obvious that the "propagation mechanisms" had taken off on their own and had themselves turned into the "fundamental" factors that were driving inflation. They were now dubbed "inertial inflation" and desperately needed to be addressed.

Increasingly faced by the threat of hyperinflation, Argentine and Brazilian policymakers were in a quandary. Disliking the IMF paradigm and left without a serviceable counterparadigm of their own, they sought a new policy space. They were fortunate in being assisted by a group of economists who, drawing on a wide variety of insights (from the sociological theory of inflation to rational expectations) and possessing considerable theoretical acumen and practical imagination of their own, had conceived of a novel formula for bringing inflation under control: the "heterodox shock" treatment of inflation that was used first in 1985 in Argentina and was applied again at the beginning of 1986 in Brazil.[21]

The two reform plans share a number of basic features.[22] First, the old currency is replaced by a new one (one unit of the latter equals

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one thousand units of the former). Second, prices and wages are temporarily frozen. Third, indexation of wages, salaries, and monetary instruments is abolished. Fourth, with the return to price stability (which should improve the fiscal position on several counts) and with the help of additional austerity moves, the government will cut its borrowing from the central bank (the Argentine government pledged to give it up entirely). Fifth, prereform contracts involving payments at future dates are assumed to have made provision for expected inflation, and their terms are changed by applying to future payments in the new currency a conversion table (*tabela*) that establishes a series of equivalences between the new and the old currency (depending on maturity), in line with an official estimate of expected inflation under the old and new regimes.

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

In both Argentina and Brazil, the reforms were successful in stopping the inflation—for a while. In Argentina prices began to rise again at some 5 percent per month in the middle of 1986 (as against 25 percent before the reform), and in Brazil the Cruzado plan experienced a serious breakdown in November of the same year. But even the limited success that was achieved calls for some comments.

The Brazilian and Argentine reforms have several points in common. For one, both countries experienced, at about the same time, three-digit inflation that threatened to get wholly out of control. More significantly, ideas about the "heterodox shock" had been worked out in intensive, often joint discussions among a group of prominent Argentine and Brazilian economists who, having strong democratic convictions and new technical proposals to offer, were given influential policy or advisory positions in both countries when the inflation took a turn for the worse in 1985–86. A third common condition is the most interesting: both countries had only recently reinstalled civilian governments after long spells of military rule. At the time of the reforms, the new governments had held power for some eighteen months in Argentina and for almost a year in Brazil; in both countries, inflation had

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worsened during those periods, causing the new governments to lose prestige and appeal.

Actually, both phases experienced by the fledgling democracies of Argentina and Brazil—the worsening of inflation and the subsequent successful reform move—can be seen as conditioned by the politics of the postauthoritarian situation. When a civilian democratic government first comes into power after a long period of repressive military rule, it is normal for various, newly active groups of the reborn civil society—particularly the long-repressed trade unions—to stake substantial claims for higher incomes. The initial impulse of those to whom the demands are addressed is to grant at least some of them, be it for the sake of social peace or out of a sense of obligation to undo past oppression and injustice. New inflationary and balance-of-payments pressures are likely to result from granting such demands. As I have pointed out elsewhere, inflation can nevertheless be a useful mechanism in this situation because it permits newly emerging or reemerging social groups to flex their muscles, while inflation acts as a providential safety valve for accumulated social pressures.[23] This mechanism works only up to a point, however, with the tolerance for additional inflation varying from one case to another. For example, in Spain after Franco, the tolerance for accelerating inflation was probably much greater than in postauthoritarian Argentina and Brazil, where inflation had already reached triple-digit levels by the time civilian governments took over. Thus, accelerating inflation risked a plunge into hyperinflation, with obvious dangers for the prestige and survival of the new democratic regimes.

It does not take much imagination to visualize a simple and dismal cyclical sequence: replacement of a military regime by a civilian democratic government, renewed combativeness of social groups, granting of new demands, worsening inflation, disrepute and then crisis in the civilian regime, return of the military. Fortunately, however, the relations between the return to democratic governance and inflation are more complex, as has been demonstrated by the new monetary reforms in Argentina and Brazil. To be sure, new democratic governments, especially when they take over from detested authoritarian regimes, have to cope with a new burst of combativeness of social groups. But at the same time, the new governments can call upon a special reserve of goodwill and trust as a result of the political liberties and human rights that they have restored or established. This considerable asset of the new Argentine and Brazilian governments was a basic factor in the initial success of the monetary reforms, for if the inflationary tug-of-war, in which the various social groups have engaged for so long, is suddenly to be replaced by cooperation and willingness to believe in the success of the new policy, some basic trust must exist in the

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government that is enunciating the new program. This trust is conditioned less by the program itself, however technically excellent it may be, than by the promise the government embodies and by the mission with which it has been entrusted.[24]

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

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

VII. FINAL OBSERVATIONS ON IDEOLOGY AND DEBT

More than twenty years ago, I published a short article on inter-American relations entitled "Out of Phase."[25] Intellectual fashions in thinking on development, I tried to show, tended to go through changes in the United States that were matched by shifts in the opposite direction occurring at about the same time in the mood of Latin America, the result being an "orgy of misinterpretation and misunderstanding." I was writing about the five-year period up to 1965, without attempting to argue that this mismatch had a necessary or permanent character. But looking at the current scene and noting that my title

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applies more than ever, I almost wonder whether I might have stumbled onto some sort of law.

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

But signs of substantial change in this picture have recently appeared, largely as a result of bitter experience. In the aftermath of the repressive authoritarian regimes that came to power in the sixties and seventies, many Latin Americans did more than rally to a politics accommodating a range of opinions, each one firmly held. They were sufficiently shaken in their certainties to wish to engage in open-ended dialogue and deliberation, ready to discover something new about their own opinions and values.[26] In Argentina, perhaps the most conflict-ridden Latin American society over the past fifty years, the idea of "social concertation," a process involving much give and take on the part of various social groups, has achieved considerable prestige. I was told that no one today would proudly bestow the name *intransigente* upon a political party, even though a minor party with that name (dating, as might be expected, from the sixties) is still functioning. At the same time, the spectacular miscarriage of ideology-driven economic policies (of the left and the right) has given rise to a new experimental spirit among Latin American economists, intellectuals, and policymakers. This spirit, with its readiness to draw on a wide variety of insights, was strongly evident in the monetary reforms enacted in Argentina and Brazil.

It will now have become clear what I mean by being "out of phase." Precisely when many influential Latin Americans are in a post-ideological mood, mistrusting any system of thought that pretends to have all the answers to the complex problems faced by their societies, they are confronted, particularly in the area of economic policy, with relentlessly ideological positions assumed by the current government of their principal trading partner, foreign investor, and creditor. This is not the first time that the United States or multinational institutions

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strongly influenced by the United States have convinced themselves that they possess the key to progress and development for all those wayward, hence backward, foreign countries. In the fifties, the World Bank attempted to condition its lending on countries' establishing some form of overall economic planning.* In the sixties, the Alliance for Progress strongly encouraged Latin American countries to institute land and fiscal reforms—the latter then meaning stiffer taxes for the rich. But never have Latin Americans been lectured and admonished as insistently as in recent years, this time along very different lines—on the virtues of free markets, privatization, and private foreign investment, and on the perils of state guidance and intervention as well as excessive taxation, not to mention planning. Moreover, such lectures now claim a captive audience of top Latin American economic policymakers who must make frequent trips to Washington to renegotiate and reschedule the heavy debt burdens that most of their countries have accumulated during the seventies.

Ideological preachings of this sort are vastly counterproductive. Besides raising concern among Latin Americans for the sovereignty and dignity of their countries, they now evoke protests that the world is far too complex to be set right by mechanically applying everywhere one identical and simplistic formula. Ironically, Latin Americans are now turning against their would-be North American preceptors Edmund Burke's conservative critique, which emphasizes "circumstances" and refuses to "give praise or blame to anything which relates to human actions, and human concerns, on a simple view of the object, as it stands stripped of every relation, in all the nakedness and solitude of meta-physical abstraction."[28] By attempting to export its free-market credo as a universal remedy, the Reagan administration is inadvertently cutting itself off from any kind of rapport with the new leadership of the emergent Latin American democracies.

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

As Senator Bill Bradley recently noted in a forceful and constructive speech, the debt accumulation of the seventies, which came to an abrupt halt in 1982 and is now known as the "debt problem," has turned into a disaster.[29] But it is a man-made disaster, so presumably

*I almost lost my advisory job in Colombia because I refused to push hard in this direction.[27]

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man can unmake it. The question is, then, what keeps debtors and creditors from dealing decisively with this problem that has festered for over four years?[30] One reason is that creditors and debtors, or North Americans and Latin Americans, have very different ideas on where the principal responsibility for the debt accumulation belongs. North Americans have generally behaved as though the responsibility were exclusively that of the borrowers. They seem to hold to what has been called the "wallflower theory of finance," according to which banks never take the initiative of offering loans but wait to be asked by the would-be borrower, who therefore must shoulder the primary responsibility for the transaction and for everything that might go wrong with it.[31] This conception is contrary to the most elementary notion of economics, which teaches that any deal involving two or more parties is ordinarily made on the basis of anticipated mutual benefit, so that there is no reason to expect one of the parties to be wholly passive. Moreover, it is well known (and has been nicely documented in a confessional article by a former American banking official[32]) that U.S. commercial banks engaged during the seventies—as they did in the twenties and as British banks did at various times during the preceding century—in vigorous "loan pushing," sometimes even using whatever diplomatic leverage they could bring to bear on "recalcitrant" countries, such as Colombia.

So the wallflower theory is not tenable. One might oppose it with an alternative metaphor according to which the Latin Americans were the ones courted by the lenders and led down the garden path—at the end of which they were administered the "Volcker shock" of steeply rising interest rates.[33] Some Latin Americans tend to see the story more or less in this light, but most would probably agree that responsibility was shared. One of the difficulties in forming a debtors' cartel has been precisely that some Latin American countries fell so much more readily into the debt trap than others.

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

Mexico is an instructive case of particularly poor joint performance by the borrower and the international banking system. Here was a country that had discovered and developed large sources of petroleum at a time of highly favorable prices for this commodity. Develop-

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ment-minded economists had long advised countries with a sudden export "bonanza" of this kind to tax the new income flows so as to prevent the resulting foreign exchange earnings from being spent entirely on imports of consumer goods.[34] Such taxes were to finance investment or simply to ensure the accumulation of foreign exchange to serve as a cushion against a reversal in fortunes. What was enacted in Mexico was the exact opposite of this advice. Not only did the country fail to accumulate a portion of the newly earned foreign exchange, but it borrowed large amounts of funds on top of the bonanza export proceeds. A good part of these funds were "dissipated" (as the phrase went not so long ago when investment planning stood in high repute) in imports of consumer goods and capital flight.

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

The Latin American perception is, then, that no good reason exists for their being lectured unilaterally. They are similarly unreceptive to the message of the lectures—unqualified praise for the free market and condemnation of the state. For one thing, the authoritarian rulers of Southern Cone countries have intensively and unsuccessfully experimented during the seventies with policies inspired by free-market doctrines, and these experiments are now associated in the minds of democratic Latin Americans with both ruthless military regimes and pitiful failure.[35] Moreover, the recent painful contraction of the Latin American economies was brought about precisely by the untrammeled operation of the international free market in loanable funds in the years prior to the debt crisis of 1982. It is indeed remarkable, after almost thirty years of orderly and productive capital transfers organized under the auspices of governments and multinational institutions like the World Bank and the Inter-American Development Bank, that the sud-

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denly unleashed energies of free enterprise in international finance have managed to produce international economic havoc in less than a decade.

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

NOTES

1. Jean Fourastié, *Les Trente glorieuses: ou la révolution invisible de 1946 à 1975* (Paris: Fayard, 1979).
2. This figure excludes the Caribbean except for the Dominican Republic and Haiti. All statistical data in the following pages are taken from ECLA's *1984 Statistical Yearbook for Latin America*, supplemented in some cases by figures from its data bank and the *World Development Report 1986* of the World Bank.
3. Christopher Jencks, "The Hidden Prosperity of the 1970s," *The Public Interest*, no. 77 (Fall 1984):37–61.
4. Ibid., 37.
5. Ibid., 38.
6. With respect to infant mortality, a 1984 UNICEF study reports continuing drops in infant morality in Brazil and Chile up to 1982. See Roberto Macedo, "Brazilian Children and the Economic Crisis: Evidence from the State of São Paulo"; and Alejandro Foxley and Dagmar Raczynski, "Vulnerable Groups in Recessionary Situations: The Case of Children and the Young in Chile," in *The Impact of World Recession on Children*, edited by R. Jolly and G. A. Cornia (Oxford: Pergamon, 1984), 42–43 and 57–64. The deterioration of the health situation has been reported in subsequent unpublished papers by the same researchers. Macedo notes that the 1984 increase in infant mortality in São Paulo, coming after a long decline, may have been largely due to a measles epidemic.
7. "The Rise and Decline of Development Economics," in my *Essays in Trespassing* (New York: Cambridge University Press, 1981); and "Linkages in Economic Development," in my *Rival Views of Market Society and Other Recent Essays* (New York: Viking, 1986).
8. Simón Teitel and Francisco E. Thoumi, "From Import Substitution to Exports: The Manufacturing Exports Experience of Argentina and Brazil," *Economic Development and Cultural Change* 34 (Apr. 1986):455–90. On Colombia as an example, see my article, "The Turn to Authoritarianism in Latin America and the Search for Its Economic Determinants," in *Essays in Trespassing*, 115.
9. For an interesting case study, see Hugo Nochteff, *Desindustrialización y retroceso tecnológico en Argentina, 1976–1982: la industria electrónica de consumo* (Buenos Aires: GEL-FLACSO, 1984).
10. See Section VII of this article.
11. René Villareal, *La contrarrevolución monetarista* (Mexico City: Océano, 1984), 429–34.
12. *Plan nacional de desarrollo industrial, 1979–1982* (Mexico City: Secretaría de Patrimonio y Fomento Industrial, 1979.
13. Antônio Barros de Castro, *A Economia Brasileira em Marcha Forçada* (Rio de Janeiro: Paz e Terra, 1985). The book was coauthored with Francisco Eduardo Pires de Souza, but I am drawing here on Castro's first chapter.
14. Albert Fishlow seems to me to miss this thrust of Castro's argument in his otherwise valuable critical comments. See Fishlow, *A Tale of Two Presidents: The Political Economy*

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of Brazilian Adjustment to the Oil Shocks, Working Papers in Economics (Berkeley: University of California, 1986), 49–51.

15. "Three Mistaken Theses regarding the Connection between Industrialization and Authoritarian Regimes," in *The New Authoritarianism in Latin America*, edited by David Collier (Princeton: Princeton University Press, 1979).
16. Peter B. Evans, "State, Capital, and the Transformation of Dependence: The Brazilian Computer Case," *World Development* 14 (July 1986):791–808; Emanuel Adler, "Ideological 'Guerillas' and the Quest for Technological Autonomy: Brazil's Domestic Computer Industry," *International Organization* 40 (Summer 1986):673–705; Fábio Stefano Erber, "The Development of the 'Electronics Complex' and Government Policies in Brazil," *World Development* 13 (Mar. 1985):293–310; and Simon Schwartzman, *High Technology vs. Self-Reliance: Brazil Enters the Computer Age* (Cambridge, Mass.: Center for International Studies, Massachusetts Institute of Technology, 1985).
17. For an argument along such lines, see Richard Nelson, "Uncertainty, Learning, and the Economics of Parallel Research and Development Efforts," *Review of Economics and Statistics* 43 (Nov. 1961):351–64.
18. "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics* 80 (May 1966):190–207; see also the survey by R. D. Norton, "Industrial Policy and American Renewal," *Journal of Economic Literature* 24 (Mar. 1986):1–40.
19. The words in quotes are from *The Economic Development of Latin America and Its Principal Problems* (New York: United Nations Economic Commission for Latin America, 1950). This document, which I have called the "ECLA manifesto," was authored, but not signed, by Prebisch.
20. Evans, "State, Capital, and the Transformation of Dependence," 796–800.
21. The term *heterodox shock* probably belongs to Francisco Lopes, whose book with this title was published shortly after the Brazilian reform move. See *O Choque Heterodoxo: Combate à Inflação e Reforma Monetária* (Rio de Janeiro: Campus, 1986). Other important contributors to the discussion are Pérsio Arida, Edmar Bacha, Luiz Carlos Bresser Pereira, and André Lara Resende in Brazil; and Adolfo Canitrot, Roberto Frenkel, and Daniel Heymann in Argentina.
22. A similar plan was applied in Israel in July 1985. See the article by Michael Bruno in *Inflação Zero*, edited by Pérsio Arida (Rio de Janeiro: Paz e Terra, 1986).
23. See "The Social and Political Matrix of Inflation: Elaborations on the Latin American Experience," in *Essays in Trespassing*, 201–2.
24. The ideas of the preceding paragraph took shape during a conference on Latin American inflation held in Caracas in March 1986, primarily in a discussion of René Cortázar's paper on the problems of inflation that a new democratic Chile would have to face. The papers and discussions were published in *Pensamiento Iberoamericano* 9 (1986), the journal that sponsored the conference.
25. Albert O. Hirschman, "Out of Phase," *Encounter*, special issue on Latin America (Sept. 1965):21–23.
26. See my "Notes on the Consolidation of Democracy in Latin America," in *Rival Views of Market Society*.
27. See Albert O. Hirschman, "A Dissenter's Confession: Revisiting *The Strategy of Economic Development*," in *Pioneers in Development*, edited by G. Meier and D. Seers (New York: Oxford University Press, 1984), 90–91.
28. Edmund Burke, *Reflections on the Revolution in France* (1790; reprint, Chicago: Regnery, 1955), 18. For some remarks criticizing current U.S. policy along such Burkean lines, see Alejandro Foxley, "El problema de la deuda externa visto desde América Latina," *Colección Estudios CIEPLAN* 18 (Dec. 1985):59–61.
29. "A Proposal for Third World Debt Management," 29 June 1986, U.S. Senate, Office of Senator Bill Bradley.
30. Guillermo O'Donnell asks a similar question, restricted to the Latin American debtors, in his article "Why Don't Our Countries Do the Obvious?" See *CEPAL Review* 27 (Dec. 1985):27–34.
31. William Darity, Jr., "Did the Commercial Banks Push Loans on the LDCs?" in *World*

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Debt Crisis: International Lending on Trial, edited by Michael Claudon (Cambridge, Mass: Ballinger, 1986), 199–225; Robert Devlin, *The Structure and Performance of International Banking during the 1970s and Its Impact on the Crisis of Latin America*, Kellogg Institute Working Paper no. 90 (Notre Dame, Ind.: University of Notre Dame, 1987); and Lance Taylor, "The Theory and Practice of Developing Country Debt: An Informal Guide for the Perplexed," *UN Journal of Development Planning* 16 (1985):204–5.

32. S. C. Gwynne, "Adventures in the Loan Trade," *Harper's Magazine* 267, no. 1600 (Sept. 1983):22–26.
33. Lance Taylor, "Theory and Practice of Developing Country Debt," 212.
34. For example, see Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries* (Oxford: Blackwell, 1953):98–103.
35. Alejandro Foxley, "El problema de la deuda."

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