Due to historical, economic, cultural and political differences among its countries - it is difficult to describe Latin America as if it was a homogeneous unit. However, despite its internal specific issues, the main aspects of its colonization, independence process, slavery, and origin and consolidation of the National States were highly conditioned by the characteristics of its economic and political insertion in the World during the colonial period.

During the First Industrial Revolution period, its main metropolises (Portugal and Spain) were no longer worldwide strengths. And since its independence, Latin America has been always subordinated to the interests of the British imperialism, and later, to the North American one.\textsuperscript{2} Up to 1914, the British capital was dominant, concentrated on trade, finances, infrastructures and public debt. The North American one, although comparatively reduced, was concentrated on productive sectors - basically on mining - where it had applied 2/3 of its investments. Its productive applications were 9 times larger than the British one, generating a precocious denationalization, or the external control on some productive segments in the Latin American countries. That insertion form explains the growth of the trade attested in the area: in 1914 the USA were responsible for 10% of Latin American exports, increasing to 38% in 1929.

On the other hand, the North American imperialism was, since the beginning of the century, gradually surpassing the British one: In 1914, the US capitals (loans and investments), represented 10% of total foreign capital applied in Latin America. In 1929 it reached 38%, with even larger presence in the mining countries. At the end of the last

\textsuperscript{1} This text is a summarized version of the initial chapter of my book ("Sovereignty and Economic Policies in Latin America" -Soberania e Política Econômica na América Latina, Editora Unesp-Unicamp, São Paulo, 2000) which contains other 8 chapters studying the specific cases of Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Peru and Venezuela. The original Portuguese version was translated to English by Newton Cano. Ther are new version in spanish, in editec@ltcr.ac.cr
century its applications in Latin America totaled US$ 0.3 billion, raising to 2.4 billion in 1919 and to US$ 5.4 billion in 1929. However, as a consequence of the crisis, the capital outflow from Latin America was generalized: from the total amount of more than US$ 5 billion in 1929, it dropped to 3.8 billion in 1940; the outflow also impaired the direct investments, which had its amount reduced from US$ 2.6 billion in 1929 to US$ 1.6 billion in 1940.3

In spite of the specific aspects of each country, we can propose in this paper a same general period for the Latin America international insertion, despite the fact that our research and most of the presented information refers to the cases of Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

This article has two main objectives. The first one is to discuss the hypothesis that in the period 1929-1979 some Latin America countries had a larger degree of sovereignty in the conduction of its economic policies towards "development".4 However, from 1979 on, the USA, followed by other developed countries, retook the offensive actions through the "Washington Consensus", centered in the dominance of the international finance. This fact reduced our sovereignty strongly and imposed us - with the acceptance of our local Elite - the liberal-conservative5 resurrection.

The second objective is to explain how, beginning from the “debt crisis”, the coordination conducted by the American hegemony (and supported by a significant part of the Latin American national Elite), has been inducing the adoption of economic policies highly subordinated to their interests. The internal support, inside Latin America, was not uniform, neither in the time, nor in the countries, since the beginning of its pioneer experience in Chile in 1973 and in Argentina in 1975. However, during the 1980s a

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4 The sense of that exceptionality does not collide with the used by Cardoso of Mello (1997), for the period from the immediate Post War II to the beginning of the 1970s, called the “Golden Age”, which is known for its great and long expansion and economic diversification in the USA and, soon after, the same occurred in Japan and in Western Europe, which resulted in some positive effects to the underdeveloped countries.
5 On that "against-revolution liberal-conservative" see, for the Brazilian case: Cardoso de Mello (1997) and on Colombia: Giraldo G. (1995).
growing convergence of these policies can be clearly noticed. It is observed in all Latin America: a) a fiscal and financial weaknesses process and lower capacity of the National State arbitrating its own economic policies; b) increasing power of some new emergent economic groups, tied up to the international finance; c) the political weaknesses of the traditional class associations and finally d) the consolidation of a new international technocracy that nowadays has been conducting together the economic policy with a common liberal commitment in the whole region.

1 - 1929-1979: a long exceptional period.

The “crisis of 29” constituted a rupture in the accumulation pattern (the primary exporter). The depth of the crisis and its long duration no longer allowed the “back to the past”, that is, the maintenance of the old consumption and investment patterns, and the passive adjustments to face the depression. In the countries where the Elite and the State - pressed or not by a central Economy - did not have an active attitude in defense of the national Economy, the result was a larger income depression as well as in level of employment, and, in some cases, a regression of its own productive diversification attained before the crisis.⁶

During the period 1929-1937, in spite of the depth of the depression and of the enormous international capital outflow, Latin American countries were able to count on larger degrees of freedom in external terms. The central economies were depressed, the trade and the international finances were dismantled, without any possibility of an “anti-imperialist” articulation among its players.⁷

In general, most of Latin American countries had introduced in that period a level of industrial changes. The smaller countries practically did not overpass its industrial

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⁶ On the developed countries economic policies during the depression, see: Bleaney (1985) and Kindleberger (1973).
⁷ On the Latin American coutries economic policies during the period, see the classic works of Seers (1962 - A and B), Diaz A. (1980) and Maddison (1988), that describes a summarized and interesting comparison between the actions developed by the Latin American countries and the Asian countries during the crises of 1929 and of 1973.
activities based on simple improvements of agriculture or industrial goods, while the larger countries succeeded in consolidating the installation of other end-consumer good industrial sectors such as textile, footwear, clothes and furniture, besides a chemical and an incipient metalworking and construction material industries. Few countries had managed to implement the cement and metallurgy sectors. Obviously, as larger and diversified the country's industrial park was, the best were the conditions to internalize the benefits of a defensive policy of the Economy.

Analyzing the inflationary processes and the Latin American industrialization starting from the "crisis of 1929 ", Seers separated the examined countries in two groups: the first, represented by 11 countries (Venezuela, Ecuador, the 6 Central American, Cuba, Haiti and the Dominican Republic) that, differently from the other (Mexico and the other South American countries, excepted Bolivia and Paraguay, which were not discussed in the work), did not implemented wider economic policies against the depression ("crisis of 1929") in defense of its national productive sectors.

Thus, the measures practiced by the first group were null or modest if compared with the policies applied by the second one that soon devaluated their exchange rates strongly, suspended the payment of the foreign debt service, instituted drastic exchange controls and increased its import duties. Only when there were already several years elapsed from the depression that the countries of the first group started introducing this type of policy in order to protect their own industries.\(^8\)

The international disarrangement, when inhibiting the introduction of aggressive export policies, worsened our balance of payments. This induced (or forced) the countries of the second group to a more daring position in terms of international agreements, of an intelligent exchange rate and international payment management, which allowed not only the prioritization and selection of certain imports but also, for some times, the practice of moratorium.

\(^8\) That delay in the institution of defensive policies of the income and employment is a consequence of several factors related to the delay of the productive park of these countries, to the structures of external trade strongly harnessed to the USA and to its financial link to the dollar ("standard gold-dollar"), being subordinated by the USA in the "dollar region", following the North American price policies, which disabled or hindered them to devaluate their own currencies. See Seers (1962 A and B).
The need of tariff readjustments, in many cases stimulated not only the necessary protectionism, but it also brought some rationalization to the system. On the other hand, as the tributary system was based both on import and export taxes - only due to a fiscal objective - the reduction of imports "broke" financially the State, which was obliged from then on to change its tributary structure, becoming more centered in taxes on production, sales, or consumption, although as so regressive as before. The defense measures to the Economy and the new handling of the economic policy were also generating the learning of a future local "planning" bureaucracy and of an increasing State intervention in the Economy, in contrast with the (until then) dominant liberal State.

Although the Second World War has imposed us countless sacrifices, the period 1937-1945 permitted amplification and a certain improvement of that process, increasing the national perception regarding the real possibility of progresses in the industrialization process. Even before recovering from the depression, the central countries became increasingly involved, direct or indirectly, in the war, "leaving" us more independent to implement our internal policies.

From this second period on, it was clearer the perception of the "new era". The local light industry had been already consolidated in some countries and almost all the medium and big ones already built some more developed industrial segments, such as the chemical and the metalworking ones. Due to the irregular external demand, we were induced to diversify our internal sources of supply and to produce not only spare parts but also machinery and equipment that were not produced locally yet. The metallurgy and chemical industries moved forward, sometimes benefiting from the leading support of the central Economies, given their objectives of creating logistic bases in Latin America in order to complement the war effort. Therefore, we had 15 years of economic expansion and diversification.

Together with the industrial progress, our countries had a precocious urbanization process and both industries and cities incorporated large amounts of workers, who started to constitute an important political support to the industrialization process. However, the old public administration establishment, the tributary and financial systems
just had few “adaptations”, maintaining in the future the problems, with strong economic but mainly political repercussion.

Our old concerns returned in the period 1945-1955. During this period, the imperialism felt seriously threatened by the consolidation of the Soviet Union and by the socialist conquests in the Center and Eastern Europe. In 1949, the victory of Mao Tse Tung in China and the Korea War (1951-52) affected even more the relationships between the east and the west. Beginning in 1946-47, the development of those facts would result in the Cold War, changing deeply the North American attitudes towards Latin America. The USA started to foment and support repressive actions against the nationalism and the progressive political forces. It is a period with important ruptures and discontinuities; of political-military strokes in order to “recuperate the democracy”.

However, those were the same facts that made the USA change its previously established policy of annihilation of Japan and Germany: Already at the end of 1946, the measures towards both the countries were radically changed, and they were incorporated in the agenda of reconstructing Western Europe (and from then on, Japan). The US government noticed, quickly, that if they did not provided Germany and Japan with the necessary economic and political support, these countries would be changed into a dangerous and permanent geopolitical threat.

The external pressures had certain internal back up in Latin America, not granting to the State the necessary reforms or in the several attempts of instituting orthodox economic policies. However, the "turn to the past" was an illusion. Not only the turn to the political past, but mainly to the economic one, when our “agricultural vocation” was unquestionable; when the industrialization was tolerated, but not stimulated; when intervention, exchange and trade control should be substituted by the liberal model before 1929, or, at least, by a regime that did not face the North American interests.⁹

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⁹ On the debate of the 1950s in Brazil, see: Gudin (1953), Prebisch (1953) and IPEA (1978). This debate describes the two sides of the subject: the liberal, that appeals for the "agricultural vocation, the inefficiency of the industrialization and the bad interference of the planning" and the developing, which postulated the industrialization and the need of the state intervention in the market.
As well explained by Furtado, the conservative policies, internal and external, could not succeed as, between the crisis and the beginning of the 1950s, our share in the worldwide exports had dropped while our GDP had duplicated. Thus, it was impossible to recompose the coefficient of imports of 1929.\textsuperscript{10} Therefore, it was impossible to liberalize imports without having a previous exchange value generating capacity.

As a result of the problem mentioned above (mainly between the 1930s and the 1950s), several nationalist leaderships and "industrializers" faced those internal and external pressures in many Latin American countries, such as Perón in Argentina, Paz Estensoro in Bolivia, Vargas in Brazil, Ibañez in Chile, Cárdenas in Mexico, Alvarado in 1968 in Peru and Caldera in 1971 in Venezuela. The American pressures in the 1950s increased: in the beginning, for its need to unify Latin America around itself, due to the conflict in Korea; at the end, because, as far as the Marshall Plan had been consolidated, the USA became increasingly interested in opening the protected Latin American markets.

On the other hand, the liberal pressures, not only they meant a "rupture" to the process, but also sharpened the internal resistance. We moved forward to the industrialization, as far as it was possible. The State supplied the weakness of the national private capital and the indifference of the foreign capital: it implemented petroleum, steel, basic chemical products, infrastructure, banks, transport, energy and telecommunications.\textsuperscript{11} Even more: on that moment the fight for industrialization in Latin America started to constitute increasingly the main purpose in all the countries.

Progressive, in terms, since the urbanization and industrialization were the main aspects of the reduction (until the beginning of the 1960s) of the social tensions generated by the growing rural exodus in the region. However, on one hand, it represented, for the migrant, the opportunity to obtain better employment, on the other, it meant the attempt of fleeing from the complete social abandonment rural life. For the Elite, this also

\textsuperscript{10} Furtado (1961), chapter 34.

\textsuperscript{11} A detailed analysis of that industrialization process can be seen in CEPAL (1965) and Furtado (1969).
avoided, in a permanent way, the discussion about the agrarian reform and the social exclusion.\textsuperscript{12}

The years from 1955 to 1973 represented the peak and the exhaustion of one of the longest periods of exceptional growth and structural changes in the developed countries, with the assimilation of the "American industrial system" in Western Europe and in Japan. Already in the beginning of the 1960s, the USA gave evidences of having overcome its long expansion cycle; decrease of its growth rate, weaknesses of its external trade and of its fiscal bills, while Europe and Japan started reaching their peak period.

These two contradictory movements contributed to accelerate the foreign expansion of productive and financial capitals: in a first moment, American branches expanded foreign direct investments to the rest of the World (mainly in Europe) and soon after, European and Japanese capitals did the same. We had a period of about 15 years in which central countries were highly interested in expanding its positions in certain parts of the periphery too, to whom those investments were very important to continue their industrialization processes, now with the implementation of the sectors of larger complexity, such as transport material, equipment, electric apparels, petrochemical, etc.

On the other hand, the US financial and commercial unbalance\textsuperscript{13}, its external help to Europe and Japan and the flows of its foreign investments generated the initial movement of accentuated accumulation of financial surpluses and of credits in dollars, mainly in Europe, creating the European market of dollars, the beginning of a extraordinary "snowballing effect" in the constitution of the international financial system.\textsuperscript{14}

\textsuperscript{12} The other way, not less important in quantitative terms, was the expansion of the "agricultural border", when this was possible. Mexico was an exception, with the extensive program of agrarian reform implemented by Cárdenas.

\textsuperscript{13} It is important to remember that the USA, besides its specific economic problems, was involved in delicate internal and external situations during that whole period, related to the "survival" of its worldwide hegemonic power. One of the few economists who insisted all the time on the continuity of the American hegemony is Maria da Conceição Tavares (1985).

\textsuperscript{14} On the crisis and the current international financial system see Belluzzo (1997) and Panty (1997).
Meanwhile in Latin America the Public Administration had been suffering from a new reformulation, with the improvement of administration techniques, planning and projects, improvement of the instruments of economic policy etc. However, the increasing difficulties and obstacles to the continuity of the industrialization process resulted in growing internal political tensions. From these tensions surged the political fights for the "Basic Reforms" (Agrarian, Urban, Regional, Tributary, Financial, Administrative, Judiciary and Political) which many times resulted in repression and military strokes, such as the one that, being supported by the USA, deposed the democratic government in Chile.

During the years 1973-1979, the industrialization process moved forward in an unequal way and more slowly. Neither in Chile, that had suffered the military stroke in 1973; nor in Argentina, also victim of a military stroke in 1975 and in Peru, beginning from 1975, bringing radical changes in its economic policies. In the other countries the process between 1974 and 1979 was done in a decelerated way, and the Economy (of all the researched countries) suffered from high inflation and increasing deficits in the current account of their balance of payments.¹⁵

Let us look at some data that illustrate the general tendencies described in the last paragraphs: Latin American GDP had annual average growth of 5.5% in the 1960s and of 5.6% during the 1970s, but our share in the World trade dropped from 7.7% in 1960 to 5.5% in 1970 and 1980, in spite of our exports had grown 3.6 times more than the GDP, during the 1970s. Moreover, the export structure already recorded a more significant presence of manufactured goods, mostly in the main countries.

In the general balance of the 1970s, the main Latin American countries - excepted the previous observations - took advantage of the two international crises (the productive and the financial) through the coming of higher amounts of foreign direct investments and, mainly, external debt availability. In the beginning of the 1970s Latin America started resorting broadly to external debts.

¹⁵ CEPAL esteems that, between 1977 and 1981 the Latin American deficit in the current account as percentage of GDP was of 4.3%. CHeld y Szalachman (1997).
Discounted the wastes (and the corruption), the external debt was able to support part of the national projects (agriculture, petroleum, basic input, heavy industry, infrastructures, etc.), changing the productive structures of several countries, as well as its export structure, with a growing share of industrialized goods. Brazil was the country that the external opportunities were best used during that moment, and it succeeded in developing the most integrated industry among Latin American countries.

However, the inflationary aggravation, the structural deficit of the balance of payments and the higher external debt services (interests and amortization) in relation to the reserves of dollars or to the amount of exports evidenced a high structural unbalance and, consequently, the possibility of a crisis with enormous proportions.

2 - Economic Restructuring and Adjustment in the Periphery

2.1 - The adjustments in Latin American countries during the eighties

The high growth rates of Latin American GDP in the 1960s and in the beginning of the following decade, in spite of the wider foreign debt, pressed increasingly the balance of payments (with the additional pressure given by the oil shocks towards the net importer countries), the public accounts and the national financial systems. Moreover, from 1973-75 on, a worsening of the inflationary process was also noticed.

From the middle of 1978 on, due to the raise of the interest rates in the USA, to the higher inflation and to several currency devaluations, a lot of Latin American companies and private banks that had resorted to dollar-indexed foreign debts and had liquidity in its national currencies, paid off its debts in foreign currencies, giving local currencies to its governments, which assumed those foreign debts indexed to the dollar. In some countries where the local States did not assume the private sectors’ external debts, resulted in the bankruptcy of many companies and financial institutions. This process of
transferring the private foreign debts to the state was named "nationalization of the foreign debt".\textsuperscript{16}

When the interest rates strongly raised between 1979 and 1982, the financial bankruptcies of the States were inevitable: Poland, Mexico, Argentina and Brazil were the most outstanding cases. The mechanisms of "nationalization of the foreign debt" described above had, as a counterpart, a sharp increase of the internal public debt (mainly in the Brazilian case) creating a new problem: given the risk and the low credibility of the State, the national debt was negotiated with high interest rates and daily effective expiry periods embedded, practically converted into cash. Moreover, the raise of public debt increased even more the public expenses, now with higher amount of interests and monetary indexations to the national creditors. Therefore, it has been created a "double connection" between these two debts (foreign and public), contributing to increase even more the speculative pressures to inflation.\textsuperscript{17} Even to the countries that had not expanded much its public debt, the economic recession caused significant reductions of the tributary revenues, also worsening, in that way, the public deficit.

In the eighties, as a consequence of the restructuring in the central countries, a concern is noticed regarding the international financial system protection, which resulted in a pressure towards Latin American countries to pay, at least, part of the interests related to the debts taken in the previous years. The international banking system cut the external credit to Latin America and the USA authorities, noticing that it would be impossible to the debtors to execute even partially the debt service, conceded some "emergency loans" (the most significant to Mexico) with terms not superior than one year. Additionally, some official help were granted too, monitored by the IMF. Actually its main objective was to induce strong reduction of the economic activity level in those

\textsuperscript{16} This did not happen in all the Latin American countries and, where it happened, it did not have the same intensity. Obviously, where that type of transaction did not occur (or represented a small fraction of the private foreign indebtedness), the bankruptcy of many private institutions (financial or not) which had dollar indexed debts, was much more intense.

\textsuperscript{17} In the case of the countries where the foreign debt was nationalized but the export revenues came mainly from private exporting companies, an internal debt growth was observed too, due to the internal unbalance resulted from the external unbalance.
countries in order to allow them to generate trade balance surpluses and therefore, have the enough amount of dollars to pay part of their external debt.

It is important to mention that a different path was taken by the Asian Tigers (Korea, Taiwan, Hong Kong and Singapore). Those countries, together with Japan, were very important geopolitical supports to the US policies that not only opened its market to the Asian products but also induced a strong cooperation between them and Japan. During the restructuring period (1983-89), while external credit was cut to Latin America, it was maintained to the Asian Tigers. The share of the Tigers in the international foreign investment flow oscillated between 10% during 1981-85 (totaling US$ 5 billion) and 9% during 1986-90 (US$ 14 Billion) while the Latin American one reduced sharply from 12% to only 5% (US$ 8 Billion to US$ 6 Billion) along the same period. In addition, as a consequence of the Yen valuation in 1985, Japanese productive investments in the Tigers were stimulated, resulting in a high degree of productive and commercial interdependence among the Asian countries.

Let us see the main “negotiated” points to Latin America, constituting the adjustments during the eighties.

i - Fiscal policies: radical reductions of the average expenses (mainly in wages, social expenses and several subsidies) and of the public investment; there were little changes, however, in the tributary structure.

ii - Monetary policies: drastic contraction of the money expansion, of the internal credit and raise of the real interest rates;

iii - Wage policies: contraction of wage increases and reduction of the real wage;

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18 This summary was extracted from the excellent text written by Medeiros (1997). Ugarteche (1997) made an interesting and detailed comparison between the Asian and Latin American industrialization.


20 When the labour costs in that area grew, eliminating that advantage, the investments (of the Tigers and Japan) moved to the “new Tigers” (the “geeses” Thailand, Indonesia, Philippines and Malaysia), contributing to enlarge even more the economic relationships in this area (Medeiros, 1997).

21 It is important to mention that this process had a different period in Chile: it started with the liberal adjustment program in 1973 and other adjustments in 1982 and 1985. The exam of those adjustments in Latin America can be seen in Ground ((1984), Massad y Zahler (1984), Tokman (1984) and Rebolledo S. (1994).
iv - Exchange and foreign trade policies: local currency devaluations, export promotion and restrictions to imports.

It is not difficult to understand the sense of each policy: i, ii and iii would have had the purpose of reducing the consumption and investment (public and private) levels, which also meant decreasing the demand for imports; ii and iii would have had positive effects against the inflationary process; iii would have generated specific effects on cost reduction in the comparison “exchange rate/wages”; iv would have performed in the reversion of the trade deficit.

Let us see some of its results.

The initial recession caused an annual average GDP growth rate of 0.6% between 1980 and 1985 and, during the “recovery period” (1985-1990), it rose to a low growth rate of 1.9% p.a., while the gross investment rate dropped, along the decade, from 27.6% to 18.8% p.a. Therefore, the employment level and the fiscal revenue could not have been better than they had.

Along the first period, Latin American imports were reduced to an annual average of 8.1% but exports had a weak performance (annual growth of 0.8%), since our currency was valued and indexed to the dollar, as a result of the international crisis, the index of average prices of our main commodities fell by 20% in nominal terms (30%, if we exclude petroleum).

Between 1985 and 1990, however, Latin American imports grew again (by 9.7% annually), stimulated by the dollar devaluation, due to some programs of trade stimulation and to the beginning of the renegotiations of the foreign debt. Although the oil prices had fallen by 30% (nominal) between 1985 and 1990, exports grew by 5.8% p.a. along the same period (maintaining its surplus position in the trade balance), thanks to the improvement of other prices (13% nominal increase) and to the diversification of the export structure in the main countries, with the inclusion of some new industrialized commodities, spare parts, vehicles and chemical products. However, Latin American share in the world exports continued dropping, from 5.5% in 1980 to 3.9% in 1990.
The good performance of the trade balance, however, was not enough to avoid the enormous outflow of resources: between 1980 and 1990 the net transfer of Latin American resources summed of US$ 198.3 billion, whereas the amount of the debt jumped from US$ 166.6 billion in 1979 to 443.0 billion in 1990.

The anti-inflationary policies had an opposite effect than the expected. The annual average inflation increased from 84.4% p.a. between 1980 and 1984 to 229.8% p.a. between 1984 and 1989, with some countries started suffering from hyperinflation processes. The high interest rates and the exchange devaluations contributed to increase costs and prices; the expansion of the public debt overcame broadly the restriction imposed by the conventional monetary policy; the monetary correction mechanism used to restore the previous inflation, bringing new inflationary expectations to the future.

With the fiscal weaknesses, the financial help (and in many cases the foreign debt nationalization) to private institutions, the high number of subsidies and incentives to the private sectors, the “Developing National State” gradually lost its effectiveness and its power of “referee” of the public and private interests. We must remember that, from the end of the 1970s on, the restriction of voluntary foreign credits forced the government (central and local) and mainly the state-owned companies to take external resources with the purpose of financing the countries' balance of payments, usually disconnected to their specific business strategies (in the case of the public companies). As a result, the fiscal and financial weaknesses extended to all government levels.

During the eighties, most of the government’s economists, from University to the private sectors no longer discussed the long run strategies but just the conjuncture, the interest rate, the prices, the exchange rate and the wage problems. However, unfortunately, the consequences were deeper than the described above. The urban unemployment rate rose from 6.7% in 1980 to 8.3% in 1985 and its reduction to 6.2% in 1990 had much more to due with the higher underemployment level (whose rate increased from 40% to 52%) than to the net increase of official employment. Between 1980 and 1990, the salary policies reduced the wages by 33% in the case of the minimum wage, by 13% in the industrial, 14% in the civil construction and 28% in the rural areas. As a
consequence of this process, the worsening of the income distribution was enormous and the number of the poor increased from 136 million to 197 million and the indigent from 62 million to 92 million along the same period.22

2.2 - The adjustments in the nineties

Finished the restructuring process in the central countries (although incomplete) the transnational companies needed to restructure their systems in the periphery. However, they would have to confront with the sovereign National States, which could impair its objectives. However, they counted on a strong powerful structure, supported by its own National States or Blocks, such as the European Economic Community. On the other hand, not only the companies but mainly the creditor banks needed to renegotiate the debt with the Latin American debtors. This process had already been done through the renegotiations of the foreign debt and some liberalization in the financial system introduced in some countries.

To fully reach its objectives, the central countries imposed to the indebted countries the neoliberal policies, transferring to the periphery a group of institutional, productive, commercial and financial changes that had already been introduced in their own countries, resulting, concisely, in the decrease of the National State's size, privatizations, deregulation, and trade opening.23

The ideological speech used for introducing these changes was based on the argument that it was time for us to be modernized, being equaled to the first World. For that, the periphery needed this group of reforms, need to expose its national producers to a more competitive environment so that they would become more efficient, productive and therefore, competitive. They also explained that it was an unavoidable and a necessary task, which could not be postponed due to the increasing and fast globalization of the

23 On the effects of the restructuring and the neoliberal policies in the underdeveloped countries, see Tavares and Fiori (1993) and Cano (1995).
international markets. In other words, the imperialism "worked" hard again in the defense of its own interests, dissimulated as a new "modernity".\textsuperscript{24}

The “inevitability” of that globalization constituted a (false) political support to many governments and to the Elite, who accepted (and took advantages of) those new rules. We will examine now, based on the international political and economic scenario, the main adjustments in Latin America during the nineties.

\textit{Adjustments and structural reforms}

By 1989-90 the international situation had changed again: in one side, the implosion of the socialist World, to strong downward economic activity in the main developed countries and the substantial reduction of the interest rates; in the other, the need to complete the foreign debts renegotiations, the transnational company restructuring program in the periphery, the search of an external market for the new American export surpluses and, since its Economy had not engendered a firm and continuous process of productive accumulation (to the opposite, it returned to the recession), it was necessary, again, to "find a use" for the idle capital, given the weak investment perspectives in the developed countries.

Therefore, it was still necessary to arrange all the conditions in the periphery:

- to conclude the foreign debt renegotiations, in order to better equilibrate the creditors' situation and to facilitate us a new re-indebtedness period;

- to extinguish the chronic inflation, to give better stability and smaller risk to the foreign capital;

- to introduce the neoliberal reforms, mainly to open the markets of goods, services and capitals and give more flexibility to the work/capital relationship.

\textsuperscript{24} On the forms of its current performance, see: Cano (1996).
The reforms and the adjustments did not occurred at the same degree in all the countries. For example, Chile introduced them very early, between 1973 and 1979, having failed it by 1981-83, like Argentina, which had also made its neoliberal attempt between 1976 and 1979. The "debt crisis" postponed those and other intents. Partial reforms, such as the financial and the debt renegotiations, already begun, in several countries, before 1990. However, it is from 1989-1990 on that most of Latin American countries intensified their reform processes and adjustments. Let us examine the two main groups in which those policies were arranged.

The programs of stabilization presented, apparently, great similarity with the previous ones: wage contraction measures; monetary and credit restriction and high interest rates; fiscal adjustments in order to eliminate the public deficit (both average expense and investment reductions). In its essence, however, it is possible to verify the differences: the exchange policy, instead of devaluating the exchange rate to stimulate exports (like the previous) now it was based on the opposite strategy; local currency valuations in order to stimulate imports. The reduction of the public expenses, actually, aimed at mainly accommodating the subsequent growing amount of interests related both to the internal and foreign debts.

The anti-inflationary policies were completed by the liberalization of the foreign trade, with the accentuated decrease of administrative, tariff and non-tariff barriers, reducing doubly the cost of imports (through the valuated exchange rate and the lower import duties) and, therefore, pressing the national similar product prices down (for tradeable goods). Thus, most of the new adjustments released any type of price freezing or control.

At this time, the adjustments did not aim to restrict the internal demand in order to produce export surpluses as happened before. Its main purpose was more complex. The public demand was reduced mainly to accommodate the purpose of decreasing the size and of the bargaining power of the national State with the increase of interest payments on the public debt; the salary policy aimed to decrease the pressures on public and private operating costs; the brutal elevation of the internal interest rates, was not so much to restrict the private investment but to attract the foreign capital, extremely
necessary to finance the enormous increase of imports of goods and services (tourism) and the foreign debt service, as established in the renegotiation agreements.

The neoliberal policies promised not only economic stability, but also growth. However, for growth, other "modernizing" measures were necessary, in order to bring more efficiency to the public and the private sectors.

Let us see that group of complementory reforms.\textsuperscript{25}

The commercial and exchange reforms were the ones that more generalized and earlier begun to be introduced: since 1973 and 1976, respectively, in Chile and Argentina; in 1985 in Mexico and Bolivia, and from 1988 on, in the remaining Latin American countries. These policies consisted of drastic reductions of imports (and exports), tariffs and barriers, simplifications of the tariff systems, liberalization and unification of the exchange markets, with administered fixed-exchange rates or with reduced oscillations through the “exchange band”.\textsuperscript{26}

Although the tariff reduction has been accentuated, some countries introduced (in their laws or through international agreements) protectionist mechanisms to the agricultural sector, such as Chile, Mexico and Argentina (the last one towards the sugar cane). During more severe crisis (Chile and Argentina 1981-83, Venezuela in 1994, Argentina and Mexico 1995, Brazil in 1995-1996, for example) the trade liberalization suffered suspensions or temporary setbacks.

The financial reforms had also started (beginning in 1985 in Uruguay, in 1988 in Brazil, Costa Rica and Paraguay and in 1989-90 in the remaining countries). They consisted basically of bringing to the Latin America markets the main modifications happened in the international financial market; reformulate internal institutions (Central Bank, financial institutions, stock exchanges, etc), aiming at facilitating internal and external financial transactions; liberalize the interest rates, reduce the subsidized credit and, mainly,


\textsuperscript{26} From 1991 on, Argentina has been constituting the more radical case of fixed-exchange rate in Latin America.
promote the internationalization of the national financial system. Only after several bankruptcies occurred in each crisis, the reforms included, lately, reinforced measures and improved controls. As percentage of GDP, the recent crises costed much more in terms of government resources allocated to help those institutions: In Brazil, Bolivia and Paraguay, they costed around 5%, in Mexico around 10%, reaching 13% in Venezuela.

From 1990 on, the other reforms, in spite of being introduced previously in some countries, were generalized in Latin America. The tributary reforms were mostly related to the fiscal simplification, reduction of problems related to the external trade and decrease of direct taxes on companies and people. It is clear the intention to decrease the level of taxes in order to attract foreign direct and portfolio investments and maintain the regressive tax structure.

One of the most important factors of the transnational company restructuring process was the liberalization to foreign capital inflow. Moreover, besides the financial reforms, additional measures were created, such as the Laws of Patents, Laws about the Intellectual Property and several Agreements of Warranty of Investments, the elimination (total or partial) of restrictions to investment allocation, and others, which were signed by several countries. The exceptions were Chile and Colombia, which created some controls on the movements of those capitals. More recently, the USA proposed the Multilateral Agreement of Investments, to be submitted to OECD in April of 1998. This agreement will mean, to the countries that assign it, the abdication of any control on foreign investments, granting the companies that accomplish this investment absolute and privileged rights, non intervention in its purposes and, worse than the above described, juridical support given by the institutions of the investor country.27

Regarding the reform of the Public Administration, the proposals had the privatization as its main objectives, end of the public monopolies, fiscal and services decentralization, deregulation, change, merge or elimination of public organs, employee dismissals and decrease of employment rights and benefits. The speech reinforced the argument of search of higher efficiency, transferring to the private market several public services.

However, this reform might be the most complex among all, whose effects have just been partially noticed yet.

The patrimonial reform of the State through privatization grew after 1989. However, its goals were reduced, for basically two reasons: 1) strategic, such as the case of the Chilean copper, which was only privatized partially since it is responsible for 50% of the country's exchange value and for being an important source of revenues to the State; or 2) political-institutional, such as the case of the Mexican petroleum, for demanding constitutional reform and later due to the unstable political conditions in 1994. Up to now, the more radical reforms of the State were carried out in Argentina. The access to the public assets has also been allowed through concessions for exploration of public services, such as mail, airports, highways, railways, telecommunications, etc. An area of growing interest has been the banking and financial institutions, mainly during this stormy period of financial crises since 1994.

One of the serious problems that resulted in the privatizations concerns the regulations that should have been done previously to regulate those privatized monopolies. The rules in general, came "too late" since they were often established after the privatization process and frequently suffered strong economic and political influence from the new owners. Those transactions, on the other hand, constituted important mechanisms of patrimonial gain (variable, from country to country) to the private investor, since the state-owned companies were bought for foreign debt titles, devaluated in the international market, usually accepted with its nominal value (or with some discount), providing considerable gains for the buyer.

On the other hand, those patrimonial transfers (via privatization) are contradictory to the ideological speech that the State needs those resources to liquidate its debts. Frequently, the State has been increasing tariffs and public prices of those companies, before selling them, guaranteeing the potential of larger future profits. In addition, a lot of privatizations and concessions worsened the quality of the services and some privatized companies had to be reincorporated to the public sector (such as the Mexican highways).
Between 1990 and 1997, the amount attained by privatizations reached, on the average, a little less than 1% of the GDP of the period, being much lower than the amount of interests related to the public debt (internal and foreign) paid along the same period. The fact above mentioned denies the argument that relates the sale of public assets with the “solution” of lessening the amount of the public debt (interests and principal). On the other hand, privatizations represent nowadays an important share of the foreign direct investment, having reached, between 1988 and 1995, 45%, 80% and 31% in Argentina, Peru and Venezuela, respectively. During the period 1990-1997, privatizations and concessions reached in Latin America the amount of US$ 97.2 billion.28

At last we will analyze the most important reforms related to the labour market. The Welfare State reform has already been completed in seven countries and it is in process in the other six. It is based on the argument that the previous systems became unfeasible, recording growing deficits, impairing the public budget and increasing the uncertainty about the capacity of paying the beneficiaries for a long period. These reforms also comprehend the recent policies (or alterations) occurred in the Social Security.

Thus, the proposals (regarding the pensions and benefits) gradually changed the Welfare system from a “partition system” to another based on the capitalization of individual accounts (Chile) or a mixed system (Argentina and Colombia, for example). Evidently, among its objectives, we can verify the “homogenization” of benefits and criteria, besides its privatization, although monitored by the State.

In spite of the legion of enthusiasts for the individual capitalization, this system has a high degree of complexity and risk embedded. For its success, it is necessary a sustained economic growth in order to allow the companies in which the pension fund invested, to attain satisfactory profitability in the long run. Moreover, the public titles acquired by the pension funds must record good liquidity and profitability. However, this two conditions are not enough, since this system also requires an increasing number of

new permanent employees, which is contradictory with the current changes attested in the labour market, with increasing number of temporary workers.

On the other hand, for the worker, at the end of its contributive period, having a pension with the same amount of its contribution wage, this wage will necessarily have to grow in real terms along the contribution period. However, these conditions are not on the Latin American horizon, which has been recording modest growth, high unemployment rates, and suffering from growing precariousness and increasing number of peripheral workers, besides the reduction of the real wages. The relatively short experience in Chile does not allow definitive conclusions. The results changed completely if we compare those years of high profitability of the Fund (periods of high growth and of high private profitability) with the “bad” years (crisis, recession, etc.) when, as in the public systems - voluminous deficits were observed. 29

The reforms of the labour relations have as foundation the lowering of labour costs through reductions in working hours together with wage reductions, decrease of taxes on labour and of dismissal costs (the one that was accomplished in the largest number of countries), break of stability, higher flexibility in the labour market and legalization of temporary contracts. These reforms practically begun in 1990 (except for Chile, where they started in 1981) and few countries accomplished it. In fact, those changes did not result in an increase of the employment but in a worsening of the labour conditions, attested by smaller wages, losses of labour rights historically won and decrease of the working period.

29 The work of Uthoff (1995) shows through data and simulations, the objective and unequivocal need of the success of those conditions. Its simulations, considering the more than proportional increase of the older than 65 years in the Latin American age structure and the high underemployment level in the labour market (55% in 1993) suggest the need of an annual increase of the real average wage by 1.5% and an increase of the official employment by 1.7% p.a (resulting in an income growth of 3.3% p.a.) in order to allow the current partition system to maintain the constant relation pension versus contribution rate. The exam of the Latin America reality denies this possibility. On the other hand, his analysis about the Chilean system of capitalization shows that if the pension fund maintains a net annual profitability below 5% it is practically unable to pay a pension equal to its real income. The problem is that a net capitalization income growing by 5% annually in real terms for 35 years is something very difficult to foresee in Latin America.
**MAIN RESULTS**

The stabilization policies, if examined through the impacts on inflation, were successful. The End-consumer prices reached annual average growth of 364% in 1988, jumping to 1,680% in 1990 and, from then on, started to drop to 758% in 1993, 26% in 1995, and estimated by 11% p.a. during 1997 and 1998, having increased, in this last year, in most of the countries. It was decisive, for the inflation decrease, the success of the Argentinean (1991) and Brazilian (1994) stabilization programs. However, most of the current stabilization processes have been suffering from the "trap" exchange rate valuations. The success of these policies has been threatened due to the crises of balance of payments and speculative attacks. This strong implicit instability can appear, as it happened in the most recent cases of Mexico (1995-97), Venezuela (1993-96 and 1997-98) and Ecuador (1995-98), bringing back the high inflation in its recent crises.³⁰

The core mechanisms of those policies were (and many of them continue to be) intensely based on:

- high real interest rates, highly above the international rates. After a short reduction between 1991 and 1994, the crises caused a new increase in 1994, 1997 and 1998;

- drastic control of the payment means expansion and of the credit. However, the great increase of foreign capital inflow caused a significant growth of the real liquidity, impelling the private credit and, on the other hand, annulling substantial part of the restrictive monetary policy effects;

- valued exchange rate: considering the average 1987-90 = 100, in 1998, the effective real exchange rate (for export) dropped to 51 in Peru, to 56 in Brazil, 68 in Argentina, 74

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³⁰ It is relatively extensive the bibliography that refers to the Latin American crisis, its processes, manifestations and mainly on the macroeconomic instability resulting from its policies of adjustment and reforms. Among the ones that I examined, I mention: Damil, Fanelli y Frenkel (1996), Frenkel (1995), French-Davis (1997) and Tavares (1993) whose text although centered in the case of Brazil, it also examines the Argentinean, Chilean and Mexican cases.
in Colombia, 85 in Chile and to 84 in Mexico (thanks to the devaluation of 1995, as a result of the crisis).\footnote{Uthoff, French-Davis y Titelman (1997), p.51, for 1986-1995: 1997 (average jan-sep.) it was linked with the data of CEPAL, Balance... (1997).}

- fiscal budget: few countries increased the revenues in proportion to GDP and several cut public expenses (manly in personnel, social expenses and investments), resulting in accentuated decrease of the deficit. The public deficit in the first years of the 1990s decreased strongly compared to the observed during the eighties. However, from 1994-95 on, from 19 countries that informed its accounts, 12 had its deficits increased again, Chile had its superavit decreased and Brazil, among the main countries, is the country that recorded the largest deficit.

The conjugated effect of these measures reached its objectives: the high interest rates succeeded in attracting the foreign capital and the valued exchange stimulated imports strongly, controlling the internal prices.

Those policies, as we have already seen, reduced our share in the worldwide GDP and in the exports. On the other hand, with the economic opening, our share in the worldwide imports, which was of 5.5% in 1980 and had dropped to 4.5% in 1990, rose to 5% in 1996. Between 1990 and 1998, as a consequence of the crises (in some countries –resulting in the reduction of the internal demand) and improvement of export prices (in almost every country), the amount of exports grew by an annual average rate of 9.3%. However, imports increased by 14.6% p.a. and the trade balance sign was radically altered practically in the whole area. The main reason for the reversion in the Latin America trade balance was the enormous increase of its imports from the USA, which jumped from US$ 35 billion in 1987 to US$ 107 billion in 1995.

Obviously the "cheap exchange rate" together with the largest amount of imports also contributed to increase the deficit on services: tourism, freights, insurance services, remittance of profits and foreign debt services (interests), which, since the last debt renegotiation, had to be fully paid. It is also preoccupying the increasing remittance of profits on exports of goods and services, from 4.1% in 1991 to 7.5% in 1998, exactly in
the moment that the coming of immense foreign investments was announced. The main difference is that the foreign investment used to be remitted only when the horizon was unstable and reinvest whenever it was clear and promising.

However, although the average relation *interests of the foreign debt on exports of goods and services* had lowered from 21.6% in 1991 to 14.4% in 1997, in Argentina, Brazil, Nicaragua and Peru, it has been maintained at around 25%. The same happens with the relation *profit remittance on exports of goods and services*: the average dropped but, in Argentina, Brazil, Chile and Colombia it has maintained between 8.3% and 13%.32

Thus, the current account deficit raised from US$ 9 billion in 1989 to US$ 47.7 billion in 1994, causing a deep bankruptcy in Mexico, which participated with 62% of that amount, and disturbance in Argentina (responsible for about 20% of the same amount). In 1995 and 1996, due to the temporary economic stagnation in Mexico and Argentina and to the exchange rate valuation of the Brazilian Real (which represents a devaluation of the Argentinean Peso) the deficit in the current account reduced to US$ 32.2 and 35.5 billion, respectively. However, during this period, another country “broke” - Brazil, whose current account reduced, from a surplus of US$ 1.6 billion in 1989 to a deficit of 18.0 Billion in 1995, 24.3 in 1996 and 32.5 billion in 1998.

Therefore, the economic "improvement" in Latin America during 1995-96 is deceiving, because it is a result of the following algebraic sum: 1) the drastic and temporary reduction of the Argentinean and Mexican deficits due to its internal crises, 2) the brutal increase of the Brazilian deficit and 3) the superavit of Venezuela, caused by a serious internal crisis too. In 1997 and 1998, however, as a consequence of the dynamics of the current economic model, these deficits repeated: In US$ billion, respectively, the Argentinean achieved 9.5 and 12.2, the Chilean, 4.1 and 5.2; the Mexican 7.4 and 15.5, and the Brazilian 33.5 and 32.5, contributing to the increase of the deficit account of the seven researched Latin American countries from 28.3 billion in 1995, to 58.9 in 1997 and 77.2 billion in 1998, attesting a much more serious situation than the one in 1994.

32 Cepal, Balance... (1997).
On the other hand, the increase of our trade between 1990 and 1998 needs to be better detailed: during the period, Latin American exports increased by 104% but Mexican exports grew by 188% (as effect of the crisis of 1994-95 and of the “approval” of the USA). However, imports in the group grew by 197% and in Mexico by 199%. Therefore, if we exclude Mexico of this general computation, the situation of the remaining countries, on the average, is still worse, because their exports grew much less than the amount of imports. Considering only the manufactured good exports, the Mexican exports grew almost twice the increase verified in the remaining countries.

It is unnecessary to say that when we observed the relation “of risk” (defined by the amount of debt over the amount of exports) and verified a “substantial” improvement in Latin America, we have to separate Mexico from the Latin American average: in Mexico, this relation reduced from 2.5x in 1993 to 1.3x in 1998. However, for the average of the others, it is much higher; 3.9x and 3.3x, respectively. We will examine later the effects of the economic opening on the agriculture and the industry.

The exam of the trade in Mercosur shows high and growing figures, with 24.7% of its total sales being directed to its own market. However, that institution suffers from several serious problems for the continuity of its integration. The existent structural heterogeneity among its current (and futures) members (regarding production, income, fiscal structure, wages, etc.) does not allow a type of integration similar to a “common market”, as its members intended to attribute it. Its “hurried” defenders not even realized yet the deep diversity that exists, in terms of agricultural competitiveness, among tropical countries and of temperate climate, for example. Let us remember that Economic European Community has been trying to complete its integration for more than 40 years and it still has quite serious problems too.

However, Mercosur implementation (1990) happened in a complicated moment for its two main partners: Argentina was beginning its stabilization program, that would culminate with the fixing of its exchange rate and its subsequent valuation, and Brazil would still continue for more four years, with its chronic inflation and its policy of periodic exchange devaluations. This resulted to Brazil elevated trade balance surpluses between 1991 and 1994. However, in that year, Brazil adopted the policy of exchange
valuation, changing the relative prices between the two national currencies, which reverted those surplus balances. Therefore, from 1995 on, the Brazilian trade balances achieved the same absolute amount, but the opposite sign. This fact softened the serious Argentinean exchange problem (due to its over-valued Peso). However, this problem became again evident, after the Brazilian currency devaluation in January, 1999, attesting the high unreality and instability of that policy.

The result of the liberal policies towards the foreign capital helped to revert the previous situation. The net capital inflow (not deduced the remittances of interests and profits) that, during the period 1977-81 represented 5.3% of GDP (dropping to 1.3% in 1983-89), was of 2.6% in 1990-91, increasing to 4.3% in 1992-94 and, due to the crises of 1994-95, it dropped to a little above 3%. If we exclude from those figures the entrances of non-autonomous capitals, the remaining net flow would be of -1.9% (net outflow) in 1983-90, inflow of 3.2% in 1991-94, dropping to 1.6% in 1995 (several crises) and increasing to 3.6% in 1996.33

The bet of the current adjustments consisted of these mechanisms: the incentive and dependence, during "some years", on strong capital inflows in order to finance the rhombus of the current account and of the foreign debt amortizations. That bet, however, suffers from at least two serious problems: 1) the volatility of the capital flows and 2) the cyclical movement in the developed countries. The first has to do with the "reactions" that the short run capital presents due to variations in the local versus international real interest rates, of the internal crises in the countries where it migrates and of its fast movement in the international financial market - due to several deregulations - in search of the easier and faster gain.

The second problem refers to the cyclical periods in the central countries; during the prosperous periods, the interest rates, the accumulation, and the amount of investments grow; however, during the recessive periods, the interest rates and accumulation reduces, and the investment migrates, as happened from 1990 on. Therefore, it is

33 CEPAL, Studio... (1997) and Held y Szalachman (1997).
difficult to bet on something that we do not have any control.\textsuperscript{34} However, there are other problems, quite serious too, such as the scarce or any control related to the capital application in the portfolio, to the sector in that the capital is willing to invest, its main objectives during the long run and its effects to the local production, trade and employment structures.

During 1977-81 for example, 75\% of the high net inflow was represented by long term loans, but from then on, this type started to decrease. The foreign direct investments always had a less unstable, but much modest share: less than 20\% during the same period, when they represented 0.9\% of GDP, and not very less than 25\% in 1992-94, (totaling around 1\% of the GDP): along this period they oscillated between 0.7\% and 1\% of GDP, reaching about 2\% in 1996 and around 2.5\% in 1997.

However, great part of these investments was linked to transactions with foreign debt, privatizations and private transfer of properties. However, it did not contribute considerably to the increase of the country’s production capacity. When allocated in productive sectors, it altered, during this current period, its structure: before, it prevailed in the industry; nowadays, in the public and financial services. It is important to mention that the investments in the non-exporter sectors are the ones responsible for the larger net profit remittances. The great exception has been Mexico, for its entrance in the NAFTA, receiving investments predominantly in the industry, and countries endowed with mineral resources, which have been receiving important investments in the mining and oil sectors.

The other significant changes occurred in the portfolio investments, becoming major from 1990 on: During 1991-94, it represented about 70\% of the autonomous capital inflow, having fled in the crisis of 1995 and reappearing in 1996 (accounting for 54\% of total inflow this last year). The largest share of that capital type, volatile by nature, has as main consequence the larger instability to the Latin American finance markets.

\textsuperscript{34} Nowadays, the exception in Latin America are the existent regulations in Chile and in Colombia, that imposed some controls, but they are not immune to the process. Held y Szalachman (1997). Brazil, recently, also introduced small restrictions, softened in the crisis of 1998.
An aspect that is related directly to the effects of the restructuring process on 1) the foreign trade (enlarging imports), 2) the production (deseestructuring productive segments) and 3) the employment level, deserves a special comment. If we compare our “decisions” nowadays related with the entrance of foreign investments, with the ones that we took during the time of the policy of the “conscious substitution of imports”, the difference is significant. Before, the project was analyzed under the point of view of its positive cumulative effects (direct and indirect) in several sectors and areas of the Economy, such as employment, balance of payments, use of input and of national equipment, tax generation, etc. Nowadays, what we see as a result of those investments is a complete absence of those positive effects.

On the other hand, what is noticed when the investments are analyzed carefully, is, on the opposite, the generation of negative effects: they require much more imported inputs and capital goods than before (in the installation and during its whole useful life), impairing the existent national production sectors. Together with the restructuring, they cause higher levels of unemployment and, if the investment is new, the number of new employment is minimum. In addition, a great part of the taxes that they will generate, the State will return them as incentives and benefits for the investment.

Let us see some of the main alterations in the investment and in the production.

The coefficient of gross investment, in spite of the high deficits in the current account (the “external saving”) and of the external financing, grew only slightly: from the level of 7.6% of GDP attained in 1980, it had been maintained at 19% during the eighties, increasing to 20% in 1991-93, to 21.5% in 1994-95, and dropping again to 20.7% in 1996. Among the main countries, only Chile and Colombia were exceptions of this tendency, recording higher rates of gross investments than the ones attained in 1980.

The main reasons for this weak performance are: the high internal interest rates that most of the countries has; the own dynamics of the current economic model, which is structurally importer, causing enormous growth of imports (of all the types) competing with great advantages against the national products; the drastic reduction of the public investment, which decreases its stimulating effects towards the private investment; the
dynamics of economic growth, higher in services (with smaller capital demand) than in the industry.

Therefore, since the model is strongly based on imports (for both the restructuring program and the inflation control), and the investment is modest, the growth is dependent on the expansion of consumption. To support this condition, the external financing grew, and the bank system increased largely the credit transactions to the private sector. Between 1989 and 1995, in the countries that had the highest capital inflows (Argentina, Chile, Ecuador, Mexico, Paraguay and Peru), the credit to the private sector more than doubled as percentage of the average GDP. It is unnecessary to notice that this alters the structure of the foreign indebtedness, increasing the share resorted by the private sector (banks, companies and families) and, as a consequence, increasing seriously the risk of larger financial bankruptcies during the crises and even as a result of the exchange devaluations.

On the other hand, comparing the periods of 1983-89 with 1992-94 for those same countries, the expenses in consumption raised, on average, by 2.6 percentile points of the average GDP, while the imports grew by 2.9 (the ones related to consumption by 2.2) and the capital inflows increased by 4.7 percentile points. Examining the saving and the gross investment during this period, a reduction of the national saving was verified, which was not compensated by the higher external saving and by the fall of the investment rate. In other words, during almost all these years, in most of the countries, the consumption pushed the economic growth rates more than the investment did.\(^{35}\)

Examining the gross investment in terms of its two great components (construction and machinery & equipment), it is only very recently that the growth rates of the investment in machinery have been overcoming the one in construction, which still maintains the highest proportion in many of our countries. However, those data have nowadays a great analytic complexity, since, due to the deep alterations in the relative prices, the series record different results, if considered the constant or current prices. In real terms, several countries did not recover, in 1995, the amount of the constructions of 1980

(Brazil, Uruguay, Venezuela, and others) and this fact can cause “positive” changes in the structure of the investment, with more than proportional increases of expenses in machinery and equipment. In other words, the series of the investment in constant prices recorded “higher” amounts than if it is accounted by the current price method. It is important to mention that in the countries in which the proportion of the State investment was very big - such as in Brazil - and that reduced its expenses in that sector, the construction was reduced strongly, in physical terms. On the other hand, the careful exam in those two investment types describes, for the average in Latin America, a small growth in machinery and equipment, above the growth occurred in the construction sector. Regarding the total fixed investment, as we have already seen, its rate raised slightly in the nineties, but it kept a lot below the one attained during the 1980s.

Between 1981 and 1990, Latin American GDP grew at an annual average rate of 0.9% and, between 1990 and 1997 at 3.3% p.a. However, the growth was not uniform during the period: 3.3% p.a. in 1991-92, 4.8% in 1993-94, dropping to 1.8% p.a. in 1995-96 and raising to 3.7% in 1998. Comparing the countries, the exam of the annual data describes that, between 1990 and 1998, each country suffered from at least two crises or strong economic stagnation: Argentina and Chile, two; Brazil, Colombia and Mexico, three; Peru and Venezuela, five.

Interpreting the data, we can say that the model adopted in the nineties allowed the economic growth (in several cases, with high growth rates), up to the point that its possibilities tolerate, the internal ones (inflation, fiscal crisis, political crisis) or external: speculation attacks, difficulties of foreign macroeconomic financing, fall of international prices for certain strategic products, such as Copper (in Chile) or Petroleum (in Colombia, Mexico and Venezuela). The "solution" is always a recession, or at least a strong growth stagnation, in most of the cases, with worsening of the social conditions, unemployment and larger indebtedness.

In terms of GDP per inhabitant, our average annual growth rate, between 1981 and 1990 was of -1.1% and, between 1990-1998, it grew by 1.7% p.a. and we only overcame the growth rate of 1980 in 1997. In 1998 however, the GDP of Peru and Venezuela were respectively 9% and 27% smaller than the one attained in 1980.
Let us examine, briefly, the main results in the productive sectors.

During the 1980s, the agricultural grew individually not very more than the GDP (2% versus 1.1%), not only due to the weak performance recorded by the industrial sector but also to the problems that affected its internal and foreign demand: the drastic fall of the export prices, the World crisis and the weak internal demand, both in the input and in the end-consumer good segments. Between 1980 and 1994, the availability of nutrients to the population, in the seven researched countries, suffered caloric and proteinic reduction between 4% and 10% in Argentina, Mexico and Venezuela, and similar positive variations in the remaining countries.\(^{36}\)

Between 1989 and 1997 the agriculture grew by an annual average rate of 2.6% (a little above the population growth of 1.7% p.a.), thanks 1) to the expansion of exports, benefited not only by the partial recovery (after 1993, but with some decreases in 1996) 2) to increase of some external prices but also by the removal of some taxes on exports, and 3) to increase of the internal demand of inputs (despite the fact that this sector has had low growth during the period) and of end consumer goods. However, the stabilization policies and the economic opening caused significant decreases in the real internal prices, reducing the internal consumption and, consequently, the sector's real income. That moderate growth - in spite of being above the industrial one, was enough to maintain its share in the GDP: of 8.1% in 1980, and around 8.9% between 1985 and 1996, contradicting the historical tendency of our economic development.

Financing difficulties, cut of subsidies, high interest rates and valued exchange rate were the main obstacles to a larger economic growth, only partially compensated by the external prices, the growth of the demand, the tributary reduction and the cheapening of imported inputs, mainly in the most modern and competitive agriculture. However, the commercial opening and the valued exchange rates stimulated strongly the imports of agricultural products (processed or not). The data of FAO show that, between 1987 and 1994, the amount of imports (with higher prices and larger volume) increased by 137%.

\(^{36}\) FAO (1996).
This policy stagnated or reduced (in all the countries) the production of several goods: wheat, cotton and dairy products were the most affected, but also corn, rice, oleaginous, sugar and meat (beef and pork) whose productions suffered from falls or stagnation. Obviously, these effects varied from country to country, according with each specific conditions. The agriculture trade balance (processed or not) of each researched country recorded the following results: a) Mexico became deficient, and its deficit in 1994 was almost six times larger than the one recorded in 1985, year of the beginning of its economic opening; b) Peru became deficient; c) Venezuela had its deficit increased considerably; d) Argentina and Brazil had their surpluses reduced e) Colombia had its surplus a little decreased; f) and Chile, due to its specific economic policy, begun recording trade surpluses in its agriculture trade balance.

The new policies has been also causing other serious changes, mainly in the sectors internationally competitive: strong reduction of the cultivation of the less competitive products, search of cheaper or more productive lands, changing the production and employment conditions in the regions, introduction of intensive technological in the input and machinery segments, resulting in larger unemployment and decrease of land use due to the higher productivity, causing a big reduction in the price of the land.

Although the efficiency and competitiveness improvements are positive, they also aggravate the unemployment problem, the demands of new public infrastructures (for the new agriculture areas) and, notably, the trade balance. Between 1987-90 and 1994, for Argentina, Brazil and Mexico, while exports of those products grew by around 40% in these countries, their imports increased by 368%, 163% and 106% respectively, reducing the previous capability that this sector always had of financing the trade deficit of other economic sectors. 37

The total industry sector (mining, construction and transformation) grew by 2.8% p.a. (a little below GDP) between 1989 and 1997. The best growth performance was attained by the mining (5.1% p.a.) and the construction (3.1% p.a.). The transformation industry, which practically stagnated in the 1980s (recording an average annual growth rate of

37 For a wider discussion see: Gómez-Oliver (1997).
0.1%), grew by only 2.3% p.a., being seriously affected not only by the several crises during the period but mainly, by the “avalanche” of industrialized imports.

The accumulation, since 1980, of that weak performance resulted in a decrease of the industry share in GDP, dropping from 37.7% (1980) to 34.6% in 1997. The transformation industry share fell from 28.8% to 24.7%, attesting the regressive characteristics of the implemented economic model. The most affected countries were Argentina and Brazil, where the shares of their transformation industry of GDP decreased from 29% to 24.6% and from 31% to 22.7% respectively. The Mexican industry, largely transformed into a division of the North American industrial production, was the one that lost less (from 22% to 20%).

The drastic and abrupt tariff lowering and the irresponsible exchange rate valuation caused an enormous increase of imported goods of every type: the middle class and the Elite, avid in recuperating their consumption pattern reduced in the eighties; managers that needed to import parts of equipment (or Technology) to survive in the “new competitive atmosphere”, and the transnational companies, which, in the restructuring process of its plants, radically modified the origin of its equipment and inputs, denationalizing even more the local industry.

The technocrats of the opening, in the industrialized countries of the region, “forgot” that the last significant period of productive investments in expansion and renewal occurred between 1970 and 1980 and it was centered fundamentally in the basic input sector, where in fact we already have some natural competitive advantages. After the debt crisis and soon after the economic opening, those segments no longer were able to stimulate the export amounts. However, the opening came and "found" an obsolete local capital goods sector, suffering from heavy losses and reduction of its productive capacity, as a result of the increased imports.38

Total imports (agricultural and industrial) at current prices, increased by 167% between 1989 and 1996, imports of intermediary goods, by 165%, of capital goods by 228% and
of end-consumer goods by 258%. The passengers' vehicles grew by 6.4 times! Therefore, the argument that the imports would have as a basic objective the modernization of the productive capacity and increase of the country's competitiveness was not quite true.

Examining the industrial structure of the three more industrialized countries, we verified the following: Argentina, which, between 1980 and 1990, had its manufactured exports increasing from 23% to 29% of its total industrialized good production, succeeded in increasing it to 30% in 1996, thanks to the Mercosur and to the Brazilian valued exchange rate; Brazil increased them from 37% to 52% during the same period, reaching 53% in 1996; In Mexico, which had increased from 2% to 43%, thanks to its incorporation to the North American productive process through the NAFTA and to the brutal recession of 1995, it reaches, in 1996, 77%. However, this was the only case, as we can see!

The industrial trade balance changed completely during this period. Between 1990 and 1994, from the countries here researched (the seven larger), only Brazil and Venezuela (deficit until the beginning of the crisis of 1994) recorded surpluses in this account (even so decreasing). Colombia recorded a deficit of US$ 7.0 billion in 1994, Argentina of 10.1 and Mexico of US$ 23.7 billion were the "leaders". The industrial export coefficient (exports/production amount) of Latin America increased from 8.6% in 1980 to 12.7% in 1990 and to 21.7% in 1993, while the import coefficient (during the same period) reduced from 14.1% to 13.1% and then raising quickly to 29.4%. However, the data for Latin America are obsolete, since in the period 1994-1997, while Latin American GDP increased by 15%, its imports grew by 55% and Brazil was the country that recorded the largest growth (17% in GDP and 63% in the imports), certainly having its average industrial import coefficient considerably grown.

38 The exceptions were Argentina and Brazil, that until then used to develop industrial policies partially directed to these sectors. However, with the crisis of the State, these policies were abandoned by the end of the eighties.

39 On the recent importance of the transnational companies to the process in Argentina, Brazil, Chile and Mexico see: Bielschowsky and Stumpo (1995). The figures were calculated by the authors from the Program PADI-CEPAL.
Using the little information that we have, and despite the lack of more reliable data, it is possible to anticipate the following conclusions on the consequences of the long period of structural changes happened in the industrial productive structure in the researched countries:

- the investments in basic inputs (mainly cellulose for paper, metallurgy, metalworking of non ferrous and energy) that begun in the 1970s and matured in the 1980s, allowed the "survival" of these segments in its main countries, and they grew, basically, through exports;

- the largest expansion and diversification of the Latin American chemical industry was consolidated between the end of the seventies and the beginning of the eighties. Obviously, this process had a larger importance in the three main countries, where the most complex chemical segments grew and diversified. After the economic opening policies in the nineties, we can notice a reduction or strong stagnation in the most complex industrial segments (Argentina, Colombia and Peru) and in the simplest too (Mexico and Venezuela);

- the only case of structural progress evidenced in the light sectors (food, beverages and tobacco) is the Chilean, whose military government and local Elite opted, in the 1970s, for the “neo primary-export strategy”, based on the intense use of its natural resources. There, the importance of those industries raised from 16.8% of the total transformation industry in 1970, to 26.6% in 1980 and to 29.6% in 1994, perhaps an unusual case in the industrialization History;

- the metal-mechanic industries were also developed during the same period, in the same countries. However, the economic opening policies (since the seventies) explains its failures and setbacks. The most dynamic segments in the nineties are transport material (passengers' automobiles), restricted to Argentina, Brazil and Mexico, and electronic products. This structure supposedly results in a more advanced productive structure, stimulated by the consumption of the classes of higher income level and not by the productive accumulation. In addition, the opening policies stagnated or reduced
the share of capital good production in practically all the countries; the same was observed in the industry of electronic apparels.

Concisely, the industrial progress of the larger complex sectors (basic inputs, basic chemical, petrochemical and capital goods), is an "inheritance" of the period when the government dared to make economic and industrial policies. The current economic "advance" is a result of a passive adjustment, of the private transnational group decisions and of the euphoric consumption.40

Let us examine the service sector that comprehends two segments: the one of basic services (water, electricity, gas, communications, transport and storage), and the other services (trade, finances, rents, public services, education, health, etc.). The first currently represents about 9% of GDP and the second 49%.

Between 1980 and 1989, the service sector grew by 1.8% p.a. (the basic ones by 3.5% and the other services by 1.6%) following the weak growth attained by the remaining sectors. During the period 1989-1997, the average growth rate was of 2.8% (close to the GDP). In this period, the spread of the computer Technology and the largest volume of production and business (trade and imports) stimulated a more intensive use of the existent infrastructure, generating an annual growth of 4.8% in the basic services (energy, water, transports and communications).

The other services suffered from a violent reduction in the volume of financial transactions, as a result of the stabilization policy and of the cuts of public expenses. Even so, this sector grew by 2.5% p.a. thanks to the expansion of imports and trade in general, as well as to the growing outsourcing of services in the agricultural and in the industry sectors, besides the deterioration of working conditions, and higher unemployment, that stimulated the expansion of several personal services.

40 The calculated data were the one of PADI-CEPAL. Among the bibliography on the recent transformations in Latin American industry see: Bielschowsky and Stumpo (1995); Chudnovsky y López (1997); Katz (1996); Katz and others (1997) and Bercovich y Katz (1997), some of them used in the chapters related with the countries researched in this article.
The employment and social conditions were severely worsened. Between 1980 and 1990, Latin American average rate of urban unemployment reduced from 6.2% to 5.9%. In 1998 it reached 7.9%. Among the countries, the highest unemployment rate was observed in Argentina (7.5% in 1990, 17.5% in 1995 and 13.5% in 1998) and although the Mexican is one of the lowest (due to methodological problems), it doubled from 2.7% to 5.5% in 1996, dropping to 3.4% in 1998, which is explained by the higher flexibility of the labour market and increase of the number of peripheral workers. In Chile, given its high GDP growth rates, the unemployment rate reduced from 9.2% to 6.2% in 1993. However, due to the economic stagnation, the unemployment grew to 7.4% in 1995, been maintained at 6.8% in 1998.

The indicators of employment quality (volume and income) worsened or were maintained in practically all the countries: these indicators (not pondered) pointed to decreases of about 10% in 1990 to 15% in 1996, regarding the working hours, while it was maintained high, concerning the income (about 20%). Indicators related to the stability and protection to the worker also attest serious aggravation. On the other hand, the worsening of the labour market increased, together with the underemployment rate growing from 40% in 1980 to 52% in 1990 and to 56% in 1995, compensating part of the employment decrease in the public sector and in the big companies.\footnote{Data in: CEPAL, Studio...(1997) and (1997 THE), and Abramo (1997).}

The urban real minimum wage, among the main countries, had overcome the levels of 1990 (except for Mexico, Peru and Venezuela) but, in relation to the levels of 1980, they were incredibly reduced: considering 1980 = 100, in 1997 they decreased to 88 in Brazil, to 75 in Argentina, 43 in Venezuela, 28 in Mexico and to 26 in Peru. Chile was a rare exception since it presented a higher wage level (119). Regarding the real average wage, in 1998, it was 23% lower the one of 1980 in Argentina and in Mexico, and 66% lower in Peru. Chile, again, was the exception, recording higher levels (34%) than in 1980, followed by Brazil (10% to 20%). In Venezuela, the real average wage in 1997 was 30% lower than in 1990.\footnote{In the Chilean case, the economic restructuring resulted, in relation to the period 1974-1983, in great increase of employment and wages. As it is known, in times of larger unemployment rates, with}
Between 1990 and 1994, although the poverty and the indigence of the urban population have decreased, from 36% and 13%, to 34% and 12% respectively, they kept a lot above the levels of 1980 (25% and 9%). Among the rural population, the situation is even worse: the poverty dropped, between 1990 and 1994, from 56% to 55% and the poverty level was maintained at 33%; however, in comparison with 1980, both indicators worsened. Between 1990 and 1994, the number of poor, in millions of people, increased in the urban zones by 14.6 and of indigent, by 6.5.\textsuperscript{43}

Although we can attest a larger growth of GDP, recoveries or partial gains of wages and positive effects (although immediate) as a consequence of some stabilization policies, the income distribution for the 40% poorer of the population (although recording some improvement in the nineties) still remains worse than in the eighties in five of the seven examined countries and it has improved only in Chile and in Colombia.\textsuperscript{44}

This scenario of employment and income, when linked to the worsening of the social public services (health and education, mainly) is the counterpart of the deep social deterioration that we have today.\textsuperscript{45} It is the main cause of violence, traffic, prostitution and corruption that nowadays practically reaches the whole urban space and part of the rural areas in Latin America. Although varying from country to country, these problems (crime, insecurity and injustice) can be noticed in all of them.

3 - Final notes

It is not intended here to take “definitive” conclusions on Latin America directions, but only to reinforce some important subjects that affect the whole Latin American group.

i - the sustainability of the model is impossible, since its main determinant is the flow of foreign capital, which would have to be permanent and growing. The lessons from the predominance of smaller qualified workers (as it has been happening in Brazil), the average wage can raise without causing any change in the wages of the employed ones.

\textsuperscript{43} CEPAL (1997 A).

\textsuperscript{44} CEPAL1997 A).

\textsuperscript{45} On the subject of the social public expenses and the deterioration of the standard of living see the extensive work of Soares (1998).
1920s and the recent crises of 1994-95, 1997, 1998 and 1999 evidenced that impossibility. The annual rates of GDP of the main countries, between 1989 and 1998, confirm the weakness and the discontinuity of the growth. In Argentina, the growth rate was high in 1991-94 and 1997, modest in 1996 and low in 1995 and 1998 due to its strong recession; in Brazil, high in 1994, modest in 4 years and low or negatives in 5; in Mexico they were high in 1990 and 1996 - and 1997, modest in 5 years and low in other 2, with strong recession; in Peru and in Venezuela, high in 4 years and negative or low in most of the other 6; in Colombia, high in 1994-95, modest in 5 years and low in 3. Chile had a better performance: 7 years with growth rates above 5% and 2 with low.

ii - exactly in the periods of the growth return, the repeated increase of imports restores the deficit in the current account, making unfeasible, in the medium run, the continuity of the economic expansion. However, the official economists insist on "not seeing" this consequence;\(^46\)

iii - In the recent past, the economists, in the stabilization policies, used processes that mostly consisted of "hiding" the inflation, through reduced indexations, price freezing and other measures. Nowadays, they reinvented the exchange rate valuation, which impels upward the interest rates, increases the financial costs, inhibits the productive investment, changes violently the structure of relative prices and strengthens the financial speculation. Unless the structural problems and the foreign and national debts are solved and the inflationary memory has a course of enough time to destroy it\(^47\), there is no solution except the partial destruction of the private wealth accumulated in that process. Otherwise, the repressed inflation will appear again. However, to any exchange crisis, the currency devaluation becomes crucial, resulting in an inflationary process again;

\(^{46}\) See for example, the critics and warnings of French-Davis (1997) and Tavares (1993) on Mexico, Chile and Argentina, done in 1992. Right now, in 1997, official economists of several Latin American countries foresaw growth rates around of 5% for 1998, improvement of the fiscal deficits, of the current account and of inflation, but the reality was stronger than its ideas.

\(^{47}\) For example, the long and pronounced deterioration of the legal minimum wage in almost all the countries of the area is no longer fully debated, despite the fact that it is known how to calculate the dimension of its long period corrosion. The full retrieval of its losses could cause such impact that even the left leaderships and labour unions no longer demand it.
iv - Some naive economists - even of the left - judge that the problem of the foreign debt is solved, after the recent renegotiations and the enormous capital inflows. However, the foreign debt (in US$ billion) increased from 420 in 1989 to 698 in 1998, and major part of the new debt was resorted by the private sector. This fact increases the instability and the risk, since the exchange devaluations will “break” a lot of companies and finance institutions;

v - We also must consider the destination of the foreign direct investments that during the past years moved from the productive sector to the easy gain of privatizations, to the opportune purchases of national companies and to the service sector, where we can notice the growing internationalization of the national financial systems. Allocated in non-tradeable sectors, they also tend to generate growing flow of profit remittance.

vi - The privatization of public companies and the concession of public services to the private sector is part of the neoliberal policies, that uses arguments partially valid, such as the fiscal subject and the productive efficiency.\(^{48}\) It is true that they represented, between 1990 and 1997, about 1% of the average GDP of every year, but its solution is partial, since the deficits come back, as a consequence of other very well known reasons. The fiscal argument cannot be sustained, mainly in the case of the state-owned companies that even the highly profitable ones were privatized too. One of the absurdities of the new theories has been the connection of the financing of profitable state-owned companies with the increase of the deficit.

In addition, the public function of the state-owned companies is frequently misunderstood and, for a lot of times, they had an important role in the anti-inflation policies, having its prices forcibly controlled, which impaired its profitability. Either it is taken into account the fact that the purchase price of those assets has been lowered incredibly, increasing artificially its profit rate. On the other hand, after selling them, the State loses the control of part of the investment and also of the industrial policies.

\(^{48}\) These reflections appeared from the reading and analysis of the different countries. Among the analysts about that process, Azpiazu (1995) offers a relevant critic to the Argentinean case, which have been used for these notes.
Moreover, even the regulations have been made with certain delay or with great
deficiency and the regulators rarely have political power to monitor them. Concerning the
argument of the increase of competition, it is enough to examine the Latin American
countries and verify new private oligopolies, powerful local economic groups, which is
strongly linked to the international banking;

vii - The Consumption and Investment are the main indicators of the Economy, being the
Fixed Gross Internal Investment its main growth determinant. However, as it has already
been described, the consumption grew in the nineties, so much as or more than the
investment, because this has been inhibited due to the very high interest rates and to
the uncertainty and economic instability. Strongly depressed in the eighties, the
consumption, after the local exchange rate valuation, recorded very high growth rates.
However, as we know, the GDP growth, mainly determined by higher consumption, has
a "short life".

viii - That increase of imports, as well as of consumption goods as of inputs, have been
destructuring our local productive sectors (agricultural and industrial), impairing seriously
the value-added generation and mainly the employment. The biggest problem is that,
before a relentless exchange crisis that imposes a strong reduction of imports, the
reversion of that destruction is problematic, worsening even more the crisis, due to the
difficulty in re-substituting those imports.

ix - The defenders of the model divulge the improvement of the income distribution in the
poorest fraction of the population. However, that improvement results from the price
stabilization, which is a kind of "once for all" improvement, and not of structural
corrective nature. Moreover, the model (deregulating and liberalizing the capital)
benefited speculators and enlarged even more the class of the "renters".

x - On the other hand, the continuity of the reforms will drive National States to an even
smaller degree of intervention in the Economy, when it actually becomes more
necessary, for the change of the economic policy. This, however, will certainly demand a
difficult and complex internal and external political arrangement, with necessary
turnovers in the directing segments of the Economy, of the Politics and of the State.
Last, as the new model is highly sensitive to the international flotation, its future will be conditioned by the evolution of the international conjuncture, and any reversion of this will find the State unprepared to offer a more immediate positive answer. The current conjuncture is not the most favorable, if characterized by the stagnation of the World economic growth and that can unchain (mainly in Asia) a succession of new exchange devaluations capable of bringing negative impacts on the trade balance of the Latin countries.

Finally, a brief exam of the differences in the "economic strategies" of the main Latin American countries suggests that they can have different results:

**Chile**, perhaps the most different case, opted for growing based on its natural resources, with debatable and difficult future perspectives, face the problem of exhaustion of resources and of competition with other countries, since several Chilean capitalists have been acquiring lands in other countries, such as in Peru and in Argentina, where they can produce the same goods that they make in Chile;

**Mexico** developed its industry, however, it has been converting it (already in advanced phase) in a complementary industry to the North American Economy, being increasingly dependent on the dynamics and larger determinations from that country. Despite the success of the expansion of its exports after the crisis of 1995, Mexico did not escape from the perverse dynamics of the model, having enormous deficits in its current account again, and continuing to suffer from the consequences of the international crisis;

**Argentina** became tied to the fix-exchange rate, and it has been fighting today to find a miraculous solution that can save it from the exchange devaluation occurred in Brazil. However, it decreed a maximum limit (1%) for its fiscal deficit and it discusses, at the moment, the "dolarization" of its currency, opportunely expandable to Brazil;

**Brazil** followed the Mexican and the Argentinean policies towards the "exchange disaster", that does not have a real solution, whose palliative is composed by an abrupt devaluation, recession, renegotiation of the debt and new loans, resulting in financial bankruptcies, new increases of the foreign and public debts, and worsening of the
political and social conditions, that is already very complex and without a perspective of solution in the short-mid run;

**Colombia** constituted an important difference in relation to the other countries: the structure of its indebtedness (both in the short and medium run), its low inflation and the larger stability of its growth, would allow different types of economic policies and reforms. However, it “copied” them and its social situation became even more problematic;

**Venezuela**, given its small agricultural and industrial productive basis, also opted for its natural resources, in the case, the petroleum. However, as it is known, it is not with natural resources that a country will reach the first World, that it will be competitive, and capable of developing its Economy. Even worse, petroleum in Venezuela is responsible for 70% to 80% of its net exports and tax revenues, around 20% of GDP and for only 2% of the employment. Primary product susceptible to great flotation, it is the “Oasis” or the “Hell” of the Economy: If its prices raises (or if the exported amount increases), the fiscal revenue grows, as well as the public expenses and the investments, but it could also bring violent exchange valuation; in the downward prices, the exchange and fiscal revenues reduces, but the desire (and the need) of importing is often maintained, and the public expenses must be cut: the result is inevitable inflation and recession. This is the "paradox of the petroleum";

In **Peru**, primary products represent 86% of its exports, and its agricultural and industrial base are precarious. Despite the currency stability, the largest economic growths attained with the opening and during Fujimori’s period, the underemployment increased to 76% in the metropolitan area of Lima, and the real wage fell by 60%, in comparison with 1980.
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