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THE POLITICS OF ECONOMIC STABILIZATION IN LATIN AMERICA: Notes Toward a Comparative Analysis of Selected Cases in Argentina, Brazil, Chile, and Mexico

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ABSTRACT

The Politics of Economic Stabilization in Latin America:
Notes Toward a Comparative Analysis of
Selected Cases in Argentina, Brazil, Chile, and Mexico

Inflation has proved to be one of Latin America's most difficult economic problems. This paper offers a comparative analysis of selected examples of anti-inflation policies in four countries: Argentina, Brazil, Chile and Mexico. There is a preliminary discussion of the nature of inflation as a policy problem, and a review of the practical policy options faced by policy makers. There follows a brief overview of five principal phases of stabilization policies, discussing "orthodox" and "gradualist" policies and their varying applications. Discussion then turns to two crucial policy areas: labor relations and the external sector.

Labor relations have proved to be one of the most difficult policy areas. All the stabilization policies have produced a short-run drop in real wage rates, thereby generating labor opposition. The shape and success of that opposition then depends upon a bevy of factors--including the past patterns of labor organization and the structure of the labor market. The second area, the external sector, also presents problems. The reduction of imports and the promotion of exports have required difficult policy decisions, often involving the manipulation of domestic price incentives.

The inevitable need to evaluate "success" and "failure" requires us to look at political as well as economic forces. Three factors are emphasized: the relative "strength" of the government, the fundamental characteristics of the economy, and the prevailing policy climate. A postscript touches on two points not always emphasized in the analysis of stabilization policies. The first is the fact that it is not inflation _per se_ that forces Latin American governments to undertake stabilization, but the lack of foreign exchange. The second is the apparent Latin American willingness to accommodate to inflation, using such devices as indexation.

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This paper is not an attempt at a full-fledged comparative analysis of Latin American economic stabilization programs; rather, it is a preliminary set of notes toward that effort. It should be stressed that my aim is not a comprehensive survey of stabilization policies in post-1945 Latin America, but an exploration of key themes, in selected stabilization attempts in Argentina, Brazil, Mexico, and Chile, with emphasis on the first two.

Background: The Rules of the International Game

A stabilization program is a well-announced economic policy by which a government pledges itself to reduce inflation and correct a disequilibrium in the balance of payments (BOP). Normally, the program is spelled out in detailed goals for the phasing down of inflation--by vigorous use of such instruments as monetary and fiscal policy, exchage-rate policy, and wage policy.

To understand the context of stabilization programs, we must review briefly the features of the post-1945 international economy. In Latin America, inflation *per se* has seldom led to stabilization programs. Rather, it is a deterioration in the balance of payments that forces the government to face up to macroeconomic disequilibria. That relationship is implicit in the Charter of the IMF, where the rules of the game hold that a BOP deficit signals a failure by the country in question to maintain equilibrium in its foreign transactions. A persistent overvaluation of the country's currency thereby subsidizes imports and overprices exports. The only short-run solution: devaluation. That move, it is assumed, will correct the BOP deficit and, *if* price stability is achieved, the BOP will presumably remain in balance. Subsequently, the economy must be geared to the predetermined exchange rate (set by the government in consultation with the IMF). Thus the international economy envisioned in the IMF charter, as interpreted and applied by IMF officials, would be disciplined by a mechanism that the gold standard had promised but never systematically achieved. Implicit was the assumption that equilibrium rates could be determined and maintained indefinitely, given sufficiently strong governments. The deviants, which Latin America was to produce in abundance, would be forced--by policy pledges made in return for drawings on their IMF quotas--to mend their ways.

From 1950 to 1970, these rules were enforced in the international economy for countries which had to turn to the IMF for help. In relations among the industrial countries, the rules seemed to reflect reality. The United States emerged from the Second World War with an overwhelming economic advantage, with the dollar enthroned as the world's reserve currency. That world was not to last long. By 1960, only a decade and a half after the war, signs of competitive weakness in the U.S. economy became unmistakable. One of President Kennedy's first acts in 1961 was to impose quotas on outflows of U.S. private capital. It took another decade before the U.S., faced with a run against the dollar in August 1971, had to devalue. At the same time, President Nixon imposed price and wage controls to indicate America's determination to control inflation. Curiously enough, inflation in the U.S. was very low. Most analysts blamed the U.S. deficit on overseas military expenditures, paid for by sending dollars abroad. In the 1970s, the U.S. economy itself began to look suspect. By the late 1970s, the U.S. government had to admit that domestic inflation <u>was</u> playing an important role in the growing BOP deficits.

Previously, the LDCs had gotten little hearing for their heterodox theories about inflation and BOP disequilibria. With the appearance of persistent inflation in the industrial world, however, orthodoxy suffered a serious reverse. Few observers now seriously believe that zero inflation and permanently fixed exchange rates are viable policy goals in today's world. For our purposes, it is not necessary to decide exactly how far the IMF has restreated from orthodoxy. It is enough to say that until the early 1970s the Fund's attitude toward Latin America--indeed, toward all the developing world--was highly orthodox.

Given that the U.S. closing of the "gold window" and the adoption of floating exchange rates signalled the end of old-fashioned orthodoxy, what were the consequences? First, there has been a flurry of research and analysis of inflation by academics in the U.S. and Western Europe. Ideas once considered heretical are now taken as starting points. The U.S. expansion of the 1960s saw nearly full employment with an inflation rate of 1-2 percent. The double- (and treble-) digit inflation rates of Latin America were messages from a nether world. The experience of the 1970s changed that. Economists and bankers in the U.S. suddenly became interested in "crawling pegs," "monetary correction," and "variable rate loans." The tabu had been broken. The cruel logic, long faced by Latin American nations, began to sink in: absolute price stability, <u>i.e</u>., annual inflation of 2 percent or less, looked unattainable without unbearable dislocation. The "Phillips curve," however shaky its empirical status in the industrial world, has a long recognized counterpart in Latin America. In a word, economists, politicians, and technocrats from the multilateral agencies of the developed world could no longer point a finger at the LDCs for weaknesses supposedly absent in the industrialized economies. The moral fervor that had sustained the

visiting "money doctors" who toured Latin America over the last 50 years--Kemmerer, Niemeyer, Klein-Saks, etc.--has vanished.

Another factor was at work. Orthodox thinking held that inflation had an inner dynamic extremely difficult to control. The cautionary example was Weimar Germany. The classic source was Bresciani-Turroni, whose monograph (English translation, 1937) became gospel in subsequent discussions of inflation among economists of the industrial world. The thesis was simple (even if it was primarily read into Bresciani-Turroni's analysis): tolerance of inflation led inevitably--for essentially political reasons--to an ever-escalating rate, ending in the familiar image of the housewife exchanging a wheelbarrow full of paper money for a handful of groceries.

In fact, this did not happen in post-1945 Latin America. Annual inflation rates did reach 1,000 percent, but it was not the equivalent of Weimar's nightmare, where all money assets were wiped out. Furthermore, the highest Latin American inflation rates have occurred in countries having a long experience with the problem, such as Argentina and Chile. Unlike the citizens of Weimar Germany, these Latin Americans have been well acquainted with the dangers of holding monetary assets. That is not to deny that rapid inflation in Latin America has been economically dislocating and disruptive, but only to say that Weimar-style run-away inflation has not occurred. Economists have discovered a wider world between 2 percent annual price increases and hyper-inflation. This discovery is reflected in the many present-day attempts to look at inflation as a complicated socio-political phenomenon. The examples are many: the Brookings-based project of Lindberg and Maier, the University of Warwick project that produced the Hirsch-Goldthorpe volume, and this Workshop. The change in outlook and assumptions can be seen clearly in the contrast between the book on inflation in Latin America edited by Werner Baer and Isaac Kerstenetzky (1964) and the volume edited by Fred Hirsch and John Goldthorpe (1978).

This paper will concentrate on certain features of stabilization policy--especially in the areas of labor relations and export promotion. A subsequent section includes an attempt to explain some of the more notable successes and failures among our country cases. The prevailing assumptions about the causes of, and cures for, inflation have changed much since the early 1950s, when the first post-1945 stabilization crises hit Latin America. The once-bitter debate between "structuralists" and "monetarists" has long since faded, as events overtook all theory. Is there a monetarist who thinks that a zero rate of price increase can be achieved and maintained in any major contemporary Latin American economy? By the same token, is there a structuralist who doubts that inflation rates of 600-700 percent call for stringent monetary measures?

One important result of the breakdown of the Bretton Woods system has been an expansion in the room for maneuver by inflation-plagued Latin American governments. The grudging retreat from fixed

exchange rates has legitimized the use of flexible rates to buffer an inflating economy. Thus, an inflationary domestic policy--one quite unacceptable by traditional IMF standards--can be pursued despite foreign disapproval as long as its BOP does not force the inflating government to turn for financing to the foreign critics. As we shall see below, post-1967 Brazil has been the Latin American country to benefit most from this increased maneuverability.

Inflation: What Kind of Policy Problem?

Inflation is an economic problem whose roots are so multiple that it has confounded policy makers from medieval monarchs to modern prime ministers. Rising prices are linked to relationships throughout the economy. To reduce the rate of price increase requires a bewildering array of actions, notwithstanding monetarist theory.

Inflation has rarely been chosen as a policy in Latin America. Rather, it has been the by-product of a host of other goals, the most frequent being economic growth and maximum employment. Once significant inflation has set in, the perceptions of its costs and benefits vary widely. The government, for example, may find itself gaining resources ("forced saving," etc.) that the society would never allocate if given an outright choice. Or some actors may have access to credit at negative interest rates, a subsidy they might be denied if discussed (and voted upon?) in a non-inflationary society. Or some social sectors may view with great pleasure the steady erosion of a rentier class that could better protect itself if not choked in the smokescreen of inflation. In all these cases, powerful political actors have discovered the benefits of inflation. They can be expected to drag their feet when it comes to deflationary measures.

Any government set upon reducing inflation soon discovers the overwhelming role played by expectations. In the early stages of inflation the layman can be forgiven for suffering from the "money illusion." Soon, however, even the most humble consumer discovers that his currency lacks a constant value. How can he protect himself? The ideal position is to be a creditor in indexed (or otherwise adjusted) terms and a debtor in fixed (nominal) terms.

The results of these struggles are clear enough: a drastic shrinkage in the financial system, a constant flight from liquid assets, a drying up of long-term investment, innumerable devices by creditors to protect themselves, the narrowing of wage and salary differentials, burgeoning public-sector deficits, a booming black market in hard currencies, and a constant attempt to transfer financial assets to more stable countries.

What happens when a government decides to attack inflation? First, policy makers discover that they are entering a battle for expectations. If, as has been the case in recent Latin America, the public has already gone through a painful learning process, they will be very cautious about any program to reduce inflation. Why? Because the citizen who believes that the government will succeed

in bringing down inflation is thereby willing (assuming he has some control in the matter) to lower his discount rate. If the government fails, that citizen has, by virtue of his credulity, cost himself money. The government must convince its citizens that it will be strong enough to see its program through. "Strong" in the sense that the public believes the policy makers will win the war for expectations. Stabilization is therefore one of the most nerve-wracking of the programs on which any government, especially in an open political system, can embark.

The Range of Policy Options

How can stabilization be achieved? Obviously the strategy and tactics chosen will depend on the policy makers' diagnosis. Let us, for the moment, assume relative agreement on the diagnosis, which calls for a coordinated attack in these key areas: (1) labor relations; (2) fiscal policy; (3) monetary policy; (4) pricing policies; and (5) policies toward the external sector--as reflected in the BOP. Who gains and who loses as the rate of price increase comes down? In theory, it is possible to apply indexation so that the relative shares of the national income, as seen at the chosen point of the first observation, would remain unaltered. In other words, no group or sector would gain or lose--their relative positions would hold constant as the inflation rate declined. Whether this relative structure ought to remain unaltered is, of course, a normative and therefore political question. In theory, it would be possible to devise stabilization policies to achieve almost any desired change in relative shares.

The real world, alas, is different. If total neutralization by indexation during declining inflation is possible, it has never been achieved. Even assuming such neutrality to be government policy, the practical difficulties of coordinating all the variables are enormous. More importantly, stabilizing governments have seldom believed in equality of sacrifice, whatever their rhetoric. Our subsequent analysis will have largely to do with the reaction of social sectors to the differential impacts of anti-inflation programs.

Phases in the Evolution of Stabilization Policies

For purposes of comparison we can schematize the stabilization attempts analyzed here in the following chronology:

Phase I: Early and Mid 1950s: Elected Populists Experiment with Orthodoxy

Argentina: Perón, 1952-55. Populist follows orthodox stabilization, sharply reduces inflation but also produces stagnation. Overthrown in a military coup.

Brazil: Vargas, 1953-54. Populist, toys with orthodox measures, but opts for large wage increase; deposed in 1954.

Chile: Ibañez, 1952-58. Several stabilization attempts, all failures.

Mexico: Ruiz Cortines, 1952-55. Orthodox policy achieves price stability.

Of these five attempts, two were successful by the standards of sharply lowered inflation: Argentina under Perón (whose government, although not belonging to the IMF, carried out the most orthodox stabilization plan in post-1945 Latin America), and Mexico, under the mantle of the PRI and Ruiz Cortines. The attempts in Brazil and Chile were notable failures. In every case except Chile, however, inflation was less than 40 percent per year. These governments were all elected, and sought to mobilize popular support for stabilization in a reasonably open manner. Two of the presidents, Perón and Vargas, could be classified as populists. Both agonized over the unequal burden (falling real wages) which their relatively orthodox stabilization programs created for their societies. Of the two successful cases, only Mexico was to retain price stability for long; the Argentine economy, relatively free of inflation when Perón fell in 1955, was to enter a troubled economic period soon thereafter.

Phase II: The Late 1950s: Two Developmentalists and a Conservative Experiment with Orthodoxy

Argentina: 1958-62. Developmentalist Frondizi adopts modified orthodox policy, faces strong labor resistance. Overthrown in 1962.

Brazil: 1958-59. Developmentalist Kubitschek briefly adopts orthodox policy--repudiates it in 1959 and survives to end of presidency in 1961.

Chile: 1958-62. Conservative Alessandri applies a modified orthodox policy--dropped in 1962 and president survives until end of his term in 1964.

In all three cases, the governments sought to apply the IMF orthodoxy in a more sophisticated and gradualist manner than had been done in Phase I. All failed to produce the conditions necessary for subsequent growth. In Argentina and Brazil, inflation remained far above the stabilization targets. In Chile, the impressive drop in the inflation up to 1961 was not accompanied by the other preconditions (capital inflow, etc.) considered necessary for growth. Inflation then jumped to 44 percent in Alessandri's penultimate year, wiping out the earlier gains. All three governments suffered bitter criticism for having "sold out" to IMF-style orthodoxy. Thus Phase II of the stabilization experiments failed, notwithstanding the efforts of the best developmentalist politicians and technocrats.

Phase III: The Early and Mid 1960s: The Developmentalists Try Again

Argentina: Radical government of Arturo Illia 1962-66. Inflation stabilized at *ca.* 25 percent level but Illia deposed in 1966.

Brazil: Janio Quadros, 1961. Began orthodox policy--resigned after 7 months. João Goulart, 1961-64. Halting adoption of stabilization policies; indecision prevails in 1963-64--deposed by coup in 1964.

Chile: Eduardo Frei, 1964-70. Success in reducing inflation up to 1967--thereafter a moderate increase, relatively institutionalized.

By later standards, two of these three attempts were moderate successes: the 20-30 percent inflation levels in Argentina and Chile. Both were to pass into the hands of governments determined to try radically new experiments--of the right in Argentina and of the left in Chile. Both countries experienced political radicalization to such a degree as to render as hopelessly irrelevant for the future the moderately successful stabilization experiences of the early 1960s. In Brazil, the failure to control inflation was evident to all when João Goulart was driven from the presidency by a civilian-military conspiracy in 1964. Interestingly enough, it was also Brazil--the one of the three which had least success in controlling inflation in the early 1960s--that was to have the greatest success in the later 1960s--institutionalizing a 20-40 percent inflation rate at a level not dissimilar to that of Argentina and Chile in the early 1960s, although, with a more thorough-going transformation of the economy and its policy-making instruments.

Phase IV: The Late 1960s: Bureaucratic-Authoritarians Impose Orthodoxy

Argentina: Ongania, 1966-70. Krieger Vaseña's gradualist policy brings inflation down to 7 percent but arouses labor resistance, and a demoralized government succumbs to another military coup.

Brazil: Castelo Branco, 1964-67. Planning Minister Campos applies orthodox policy, reduces inflation at cost of stagnation.

Chile: [Case of Frei stabilization already discussed]

Here Argentina and Brazil present many similarities. Both economic czars (Roberto Campos and Adalberto Krieger Vaseña) were intelligent and experienced analysts, as well as veteran policy makers. Krieger Vaseña was the more successful; his stabilization program reduced inflation with minimal impact on real wage rates and the growth rate. Campos, on the other hand, presided over a painful deflation which cut the level of general activity and sharply reduced real wage rates. Both programs produced strong protest, especially from labor.

Phase V: The 1970s: Stabilization Strategies Diverge: (1) Military Attacks on Hyper-Inflation; (2) Throw-backs; (3) Institutionalizing Inflation

Argentina: 1973-74. Perón returns to power, faces high inflation. Tries to repeat the price and wage freeze program carried out in 1952-54; attempt proves relatively successful, but in 1974 Perón dies--succeeded by his wife, Isabela, whose government soon loses control of economic policy.

Argentina: 1976ff. Military coup brings to power the Videla government in March when inflation has reached an annual rate of over 1,000 percent; by end of 1978 rate has been reduced to 150 percent.

Chile: 1973ff. Military coup brings to power the Pinochet government in September, when inflation has reached ca. 500 percent. For calendar year 1978, inflation rate was 30 percent.

Brazil: 1968ff. New government (Delfim Neto as Finance Minister) eases credit and gets rapid growth)--average of 10 percent for 1968-73, with inflation averaging about 25 percent; after 1974 rises to 40 percent.

Mexico: 1977ff. New government of López Portillo inherits high inflation rate; two devaluations in 1976 are necessary to reverse severe capital flight. Relatively orthodox stabilization plan launched with success.

The coups of 1973 in Chile and 1976 in Argentina signalled the end of civilian governments whose leaders and technocrats had lost all control over their economies. They had not yet, however, reached the classic hyper-inflation of Weimar Germany or post-World War II Hungary, although they must have been well along that road.

Argentina and Chile could be seen as having parallel experiences: developmentalist governments (Frondizi 1962-66; Frei 1964-70) followed by extreme populist regimes (the two Peróns, 1973-76; Allende, 1970-73). Both had reached inflation rates never before experienced in a major Latin American nation. Both suffered military coups that produced governments more repressive than any in their 20th-century history. The other three stabilization experiences of this era--1973-74 in Argentina, 1977ff in Mexico, and 1968ff in Brazil--do not fit the hyper-inflation pattern. Two were throwbacks: the wage-price freeze by Perón in 1973-74 was a return to his 1952-55 policy; and Mexico's orthodox program starting in 1977 was a repeat of the strategy successfully applied in 1951-54. Both policies were successful in the short run, although Perón had so little time that we can only speculate whether a continuation of the freeze would have brought stagnation, as it did in the 1950s. The Mexican government appears to have duplicated its success of 1952-54, having returned to the

"hard money" model that Echeverría had sabotaged. Finally, the Brazilian case was unique: the government found a growth strategy compatible with institutionalized inflation in the 20-50 percent range. If one were to look only at the inflation and growth rates, Brazil's post-1968 record shows many resemblances to the Kubitschek years (1956-61).

With this overview of principal stabilization phases in mind, we can now look more closely at the problems in carrying out anti-inflation programs.

Key Policy Areas

Stabilization necessarily involves every policy area, since the behavior of prices results from interactions throughout an economy. Five, however, are of special significance: (1) labor relations, including wage policy; (2) fiscal policy; (3) monetary policy; (4) pricing policy; and (5) policy toward the foreign sector--as reflected in the balance of payments. Here we shall look at (1) and (5).

Labor Relations. Every stabilization program must concern itself with wage policy, and, more generally, with the labor-relations system. At the most superficial level, it is a question of how governments can force workers to accept a drop in real wage rates, since that has been the result of every stabilization program. But the policy area has usually been much wider: laws and regulations governing job security, severance pay, labor-union structure, and the entire structure within which relations between employers and employees are conducted.

The outcome of government-labor confrontation depends on a number of factors: (1) The nature of the labor-relations system--does the government, for example, have the power to set wages by edict? Does it have powers to intervene in union procedures, such as election and recall of officers? How does the legal structure affect the bargaining power of employers and employees? (2) What is labor's past experience? To what degree has an autonomous union structure emerged--as measured, for example, by leadership experience in conflicts such as strikes, or by the availability of strike funds, or by the depth of leadership--in case the first-line leaders are arrested or otherwise removed from the scene? Or by the workers' militancy? In short, how strong has labor's past record shown it to be? (3) The nature of the labor market: in crude terms, is there a reserve army of the unemployed waiting beyond the gates? Are mass dismissals possible because of the ready availability of new recruits? To what degree have scarce skills given some workers a strong bargaining hand? (4) The confidence and cohesion of the government and its principal sectors of social support: how far are they prepared to go? Are they ready to repress? Do they see repression as legitimate--for reasons of economic emergency, etc? Or perhaps as the only acceptable development path open to their country?

It is easy to list such factors, but very difficult to give a detailed comparison of country cases. The country in which stabilizing governments have faced least overt labor resistance is Mexico. The 1952-54 period and the post-1976 period demonstrate that. At no time since 1945 has labor been a significant obstacle to the application of orthodox stabilization measures. Why? Labor-market structure is one answer--Mexico has a huge reserve of labor in the countryside, with heavy migration to the cities. Their availability undoubtedly helps to dampen militancy among urban workers. Another answer lies in the great effectiveness of the Mexican political elite's "system" for mixing co-optation and repression, which have been skillfully applied to the labor movement.

In the other three countries, the pattern differs. Brazil is the most comparable to Mexico, since it also has a huge supply of country dwellers streaming to the cities. The Brazilian case is especially interesting because the _same_ labor-relations system has been used to great effect by governments of both the left and right. Until 1964, there had been no major changes in the system created during Getúlio Vargas' authoritarian Estado Novo (1937-45). Before 1964, no Brazilian government pursued stabilization long enough to test fully its mettle against labor resistance, although the latter was probably more important than has been recognized. The 1953 "strike of the 300,000" in São Paulo, for example, must have pushed Vargas toward his decision to grant a huge wage increase in 1954, which effectively scuttled his stabilization program. When Kubitschek abandoned his stabilization effort of 1958-59, on the other hand, labor's resistance was less important than his desire to press on with the _Programa de Metas_. In 1962-64, when João Goulart hesitantly pursued anti-inflation policies, labor mobilization was important, but the variable of government manipulation (encouraging union leaders to defy the government's own measures) makes that period difficult to interpret.

After 1964, however, the picture changed. The new military government in Brazil wanted to change key features of the labor-relations system. They left intact the heart of the system (the CLT, or _Consolidacão das leis do Trabalho_), but went after some of its accoutrements. A principal target was the job security law, which gave a virtual guarantee after ten years of employment. The new government saw that as an important obstacle to labor mobility. They replaced it with a severance pay fund, which made dismissals much easier. 1968 brought a wave of spontaneous strikes in São Paulo and Minas Gerais, and the government, now with Delfim Neto as economic czar, repressed any attempt at independent mobilization of the unions. The unions were run by government yes-men, which the extant legislation made easy, since the federal government had powers to intervene in union elections, finances, etc.

The new government had thus strengthened the hand of the employers and weakened the hand of the workers. The overall strategy was to reduce the unit cost of labor, which the military government's

technocrats thought had risen too far. Real wage rates dropped as a result of the stabilization measures of 1964-67, typical of the pattern throughout Latin America. Then, after 1967, a new military government changed wage policy so that minimum wage rates were adjusted to keep up with inflation. Workers were not, however, allowed to enjoy the profits of rising productivity, which went to the employers. That pattern continued long enough so that policy makers could see clearly the practical results of their policies. In effect, the government said: our growth strategy is based on maximizing profits for the owners of capital (including the government as the largest owner), who will hopefully invest those profits to assure continued growth. Thus the post-1964 Brazilian stabilizers leaned heavily on labor to achieve their anti-inflationary goals _and_ their longer term goal of establishing a refurbished capitalist growth strategy.

The Brazilian economic planners were, in effect, saying that preceding governments had granted powers and benefits to the workers which the economy could not in fact honor. The only solution, therefore, was to take back some of the ground given by weak, misguided, or irresponsible politicians.

The Brazilian strategy had parallels in Argentina, which has seen a long struggle over laws on labor relations. When Perón began his rise in 1943, forging a powerful network of contacts among the labor unions, Argentina had a far less articulated structure of laws and regulations vis-à-vis labor than Brazil (or even than Chile or Mexico). The structure that Perón inherited and transformed was by 1955 totally identified with him personally. Most important was the inter-union CGT, which could produce country-wide labor mobilization quickly and effectively. Upon overthrowing Perón in 1955, the new military government quickly revoked the _ley de asociaciones profesionales_. It is worth noting that this was _not_ a period of stabilization for the Argentine economy. Despite the bitter criticism of Perón for his supposed economic mismanagement, he left Argentina with a low rate of inflation. The assault on the labor laws was a measure to weaken labor for the transitional era in which the trappings of Peronist power were to be dismantled. Ironically, the years of military rule from 1955 to 1958 saw the rate of inflation increase seriously.

It was a new civilian president, Arturo Frondizi, who was forced to launch a stabilization program. Notwithstanding the military government's efforts to cripple the labor unions, Frondizi found them to be his most formidable opponent. Their frequent and effective strike action, especially in key areas such as the railways, undermined the government. Frondizi's honorable and stubborn commitment to constitutional methods precluded the use of repressive measures. If judged by our four factors, Frondizi faced extremely unfavorable odds: (1) the labor unions retained substantial autonomy and were not easily manipulable by the government; (2) there was a high level of worker militancy, especially in key unions, and much experience with strikes; (3) labor supply was relatively tight, especially if a high level of economic activity were to be maintained; (4) Frondizi's government and his principal sources of social support did not enjoy a consensus

on how to deal with labor, and they were not prepared to support repressive measures. In retrospect, Frondizi's stabilization attempt seems one of the most foredoomed in postwar Latin America.

Subsequent Argentine experience confirmed that labor opposition was one of the principal barriers to carrying out stabilization--as those policies were then conceived. The next attempt was that of General Ongania, for whom Adalberto Krieger Vaseña was the economic czar. His stabilization program also ran into labor opposition. But the Ongania regime was aggressively authoritarian. The "Revolution of 1966" was to be a parallel to the "Brazilian Revolution of 1964." From 1966 until 1969, the program, when compared with similar attempts in our sample, had relatively successful results. Inflation was brought down to 7 percent at a modest cost in reduced real wage rates. But labor protest was to prove Krieger Vaseña's undoing, just as it had for Frondizi. The "Cordobazo," although not a straightforward worker protest against economic measures, was enough to expose fissures in the government. Despite its intimidating beginning, the Ongania regime did not enjoy the coherence and strength of support that the far more authoritarian Argentine and Chilean regimes of the 1970s were to gain. Yet it would be misleading to say that the Ongania government fell because of labor opposition to its stabilization policies. The crucial variable may have been the lack of coherence and support from the military, and, by extension, from the social sectors that had apparently wanted a tough military regime.

The next full-fledged stabilization attempt in Argentina came in 1976, when the military removed Perón's widow from the Casa Rosada. Perón himself had attempted a wage and price freeze during his one-year return (1973-74), but he did not live long enough to see it through. The Videla government, brought to power by the coup of March 1976, had the coherence and social support that Ongania lacked. A ruthless repression of the opposition, including militant labor elements, showed that the Videla regime was prepared to impose stabilization at whatever cost. The stakes had risen very high, in part because of the blood feud between the terrorist left and the government's police and military, so that repression of a kind unthinkable in the Frondizi era was virtually taken for granted.

A question remains: why was <u>this</u> military government able to vanquish labor? Was it simply that previous military governments lacked the coherence to stomach the brute repression required? Or was it that the labor-union leadership was weakened by the wave of assassinations that decimated every major union? Whatever the reason, the labor-relations system has not proved a major problem for the Videla stabilization program.

<u>The External Sector</u>. For policy makers who watch the BOP numbers, every government policy is potentially relevant. This obvious fact has led the IMF to require that countries with BOP problems present comprehensive plans for managing their domestic economy so that the BOP deficit will be cured in a specified time.

One vital area of policy action is export promotion. Most of Latin America (except Mexico?) was greatly influenced by an attitude of "export pessimism," which was in part a byproduct of the "ECLA doctrine." Its proponents had argued that Latin America's traditional exports (primary products) would probably continue to suffer from oversupply, which would contribute to a continuing deterioration in the terms of trade. Should they industrialize, these analysts suggested, they would face formidable barriers to selling their manufactured exports in the industrialized world. The result was an implicit (and sometimes explicit) pessimism about the possibility of greatly expanding exports.

Such pessimism in Latin America contrasts sharply with the situation in Asia, where South Korea, Taiwan, and Hong Kong vastly enlarged their exports, to precisely the industrial world that Latin American pessimists had thought least promising. Ironically, these countries were much less prepared to launch export drives than a country such as Argentina, which had a well-developed infrastructure and a skilled work force. In the case of Latin America, the skepticism about export potential seemed reinforced by the belief that an expansion of the domestic market (import-substituting industrialization) might somehow supersede export promotion. This was seldom stated as such; it was, nonetheless, an unmistakable implication of much of the analysis.

If we ask about the politics of export promotion, the most dramatic case is Argentina. There policy makers faced a painful trade-off: the principal export is also a principal wage good--beef. As a result, any incentive to increase beef production raised the local price. Argentina had the further problem that agricultural producers have become skeptical of government-induced price incentives; they have repeatedly refused to make long-term plans based on the projection of newly announced incentives.

There is the further problem that the agricultural producers, who would profit from export incentives, are the social sector which the urban classes--both middle and working--have been taught to view as their enemy. Perón set the pattern by confiscating a part of foreign-exchange earnings from agricultural exports to promote industrialization. The political legacy was the assumption that any policy benefitting the agricultural producers could come only at the expense of the urban sector. Every Argentine stabilization crisis has involved the same dialectic: a BOP deficit which can be cured only by expanding exports and cutting imports. The method: raising the prices of agricultural products while increasing the prices (through devaluation) of imported goods. Domestic consumption drops, the BOP improves, and the external pressure is relieved.

The Chilean case is similar. Far more than Argentina, Brazil, or Mexico, Chile has been limited in export potential by its economic resources. Foreign-exchange earnings have come overwhelmingly from one extractive product: copper. If the Argentine stabilizers face a problem of political polarization in promoting exports, the Chileans

had an even more delicate political problem: the principal export product was owned by foreigners. Any attempt to promote the traditional exports would inevitably benefit a few foreign (U.S.) companies.

In the stabilization attempts of Ibañez (1952-58) and Alessandri (1958-64), the government felt relatively helpless in the face of the wide swings in the world price for copper. It seemed that little could be done in the way of export promotion, since the world demand for copper was beyond the control of Chile (in retrospect one might ask whether an OPEC-like cartel of principal copper producers might have succeeded!). The Frei government (1964-70), which was Chile's most "developmentalist," sought by its "Chileanization" plan to expand the processing of copper in Chile and therefore transfer home some of the down-line earnings. Underlying all of the pre-1970 Chilean stabilization attempts was the political liability that export promotion meant greater profits for foreign companies--which was dramatically the case from the Frei policy. This helps in part to explain why the Congress unanimously approved nationalization of the companies during the Allende government.

The Pinochet government's decision to maintain the nationalization (although with compensation to the U.S. companies) has removed this liability for present and future governments. It should also be noted that the Pinochet regime has pushed hard to diversify Chilean exports, with some success, although primarily from productive capacity idled by the government's severely deflationary policies. This meant that a wider segment of the public stood to gain from export promotion. Because the post-1973 government has been so repressive, however, it would be foolish to attempt any analysis of the public's reaction to stabilization policies, whether in the export sector or elsewhere. In one sense, the Pinochet regime resembles post-1976 Argentina and post-1964 Brazil, in that all three are military authoritarian governments promoting exports--both as short-run stabilization measures and as long-term development. One political legacy of this is bound to be the identification of such policies with repressive governments. Must a democratic government in those countries necessarily abandon export promotion (or downgrade it at least) in favor of greater emphasis on expanding the domestic market? Stated in these terms, the question sounds absurd. Yet that is the implication of much criticism of these regimes' policies. It is the echo of that byproduct of the "ECLA doctrine" of the 1950s: export pessimism.

What of Brazil's experience with external-sector policies during stabilization? Brazil, like Argentina, depended on one or two agricultural exports for the majority of its foreign-exchange earnings until the mid-1960s. For reasons not yet satisfactorily explained, however, coffee-growers in Brazil did not become a target for populist politicians as happened to the estancieros in Argentina. It certainly cannot be explained on the grounds that the coffee-growers got any less favorable treatment. On the contrary, government intervention to help coffee began in 1906 and has continued ever since. Dealing

with the world coffee market played a crucial role in the stabilization efforts of 1953-54 and 1958-59. In neither case, however, did the governments face major public opposition because of their intervention on behalf of the social sector whose welfare was tied to the country's principal export. During Kubitschek's stabilization attempt, the coffee-growers protested that they were being deprived of the full foreign-exchange value of their exports (due to government's "confisco cambial"). In fact, Brazilian coffee production was efficient enough and the government price high enough to give coffee, as compared to other crops, a marginal incentive until 1960. The growers' angry protests may well have served--if not intentionally--to confuse the public. Certainly any newspaper reader at the time would never have known that the growers were still making a profit, despite the confisco cambial. Why was the coffee sector relatively immune to the attacks suffered by the estancieros in Argentina? It may have had to do with their close connections with Brazil's banking-industrial complex, especially in São Paulo.

Of the country cases considered here, Brazil has been the most successful at diversifying and increasing its exports. What have been the political dimensions of this effort, seen within the context of stabilization? None of the pre-1964 attempts lasted long enough--as stabilization programs per se--to yield much evidence for historical comparison. After 1964, however, Brazil succeeded in going from stabilization to sustained growth. The example is instructive, for showing how long it took for new incentives to show results. Farmers in Brazil, as in Argentina, had reason to be suspicious about the staying power of any regime offering new production incentives. In Argentina none has lasted longer than four years. In Brazil it was only after four years that non-coffee exports grew significantly. In part, this was because the government's measures took time to be formulated and applied; but it was also because the producers, both rural and industrial, were cautious in investing in export-oriented capacity.

What were the political preconditions for carrying out this policy? It is not easy to answer this question, since diversified export promotion had never been tried in Brazil. For the sake of historical accuracy, it should be noted that the Brazilian economy of 1964 had far greater export potential than the Brazilian economy of 1953 or 1958. To that extent the post-1964 authoritarian governments were gaining a pay-off from the developmental base created by the previous democratic regimes. The regions benefitting from this increased production were primarily the Center-South (above all, in São Paulo) and certain agricultural regions in the Center-South, South, and West, with some being brought into commercial cultivation for the first time. Conspicuous by their absence were the regions of the North and the Northeast, Brazil's most backward areas. The total effect of government policies--including changes in the tax structure--was to accelerate growth in Brazil's most developed regions. And these policies were carried out in the era of authoritarian and centralized political rule (1968-74). Was there a necessary connection? That question lies at the heart of much of the research in political economy being done for that period, and José Serra and Albert Hirschman

have wisely urged caution in drawing conclusions. We can at least note that those policies did create a major conflict within the Médici government, resulting in the resignation of General Bento Euler from the presidency of SUDENE and General Albuquerque Lima from the Ministry of the Interior. They were protesting against what they saw as the excessive diversion of resources from the country's most poverty-ridden regions. The civilian political leadership of the Northeast, most of whom owed their positions to the military regime, was equally upset. Could such policies have been sustained by an elected government? At a minimum, there can be no doubt that Finance Minister Delfim Neto quickly used the arbitrary legal machinery created by Institutional Act No. 5 to force through his economic measures, among which export promotion was prominent. It should also be noted that export promotion only showed results after the most difficult period of stabilization (1964-67) had finished.

The politics of export promotion in Mexico differ sharply from our other three countries. Mexico's principal foreign exchange earner, tourism, is geared to maintaining low prices for North American visitors. That, in turn, has been part and parcel of the "hard money" policy based on a fixed exchange rate and the free transfer of capital. In the last three decades this policy has run into trouble twice: 1952-54 and 1976. In both cases Mexican inflation had run ahead of the U.S. inflation, putting pressure on the fixed exchange rate. In both cases devaluation, combined with an orthodox stabilization policy, brought the peso back into line and restored price conditions for the continued growth of earnings from tourism, border industry, and agricultural exports--all primarily with the U.S. The winners and losers from export promotion in Mexico are more diffuse than in the other three countries. We can at least note that the principal dollar-earning industries are relatively labor intensive, thereby spreading the benefits of their growth. But the Mexican authoritarian political system has been so skillfully managed that it is extremely difficult to gauge the differential response of social sectors to economic policy.

One feature of the Mexican case is especially intriguing. The "export pessimism" often accompanying the ECLA doctrine seems to have bypassed Mexico. Indeed, Mexico appears to have paid little attention to any of the ECLA-type ideas so influential in the Southern Cone. Although Mexico achieved import-substituting industrialization, it was not accompanied by the BOP policies typical of South America. We might say that export promotion became an unquestioned dictum in Mexico after the early 1950s, which clearly differentiates it from its major Latin American counterparts.

BOP policies have not been restricted to export promotion. Important also are policies toward imports and capital flows. The latter will be considered briefly here. Attitudes toward foreign capital have been considered, both in Latin America and in the North Atlantic financial community, as crucial indicators of government commitments to stabilization. Every government attempted to improve the terms on which direct foreign investment (DFI) operated in their countries. Was this merely an ideological affinity--stabiliziers

being neo-liberals and therefore inclined to increase DFI? Or have they seen such a policy as the price they must pay for getting international cooperation in their fight against inflation?

It is worth noting that the developmentalist stabilizers--Frondizi, Kubitschek, and Frei--had the most ambitious ideas about limitations on DFI. This contrasts with the enthusiastic wooing of DFI by the military stabilizing regimes of post-1964 Brazil, post-1976 Argentina, and post-1973 Chile. All three faced strong protests from domestic business, which felt itself the target of discrimination. The relatively easy terms for the entry of DFI, along with tight monetary policies, resulted in a rising share of business activity going to the foreign firms. It is also a moot question as to how much DFI has helped the BOP in the respective countries. There is evidence that DFI, at least in the short run, can be a minus in the BOP, because of the need for imported inputs, as well as because of their heavy remissions on the service account. One can reasonably doubt whether the pro-DFI policies of these military regimes could have been pursued so continuously by elected governments.

Evaluating Success and Failure

In this section it will become clear why any attempt at comparative analysis of stabilization attemps is so difficult. What are the most important variables? What are the policy outcomes deserving greatest attention? These problems are inherent in any generalizations about social behavior; yet it would be convenient if we had more cases, more carefully controlled, with more comparable data. Given the limitations, three explanatory factors will be explored: (1) the "strength" of the governing regime; (2) the fundamental characteristics of the economy; and (3) the "policy climate."

Government "Strength." The obvious difficulty in defining this factor does not reduce its importance. Stabilizers are bound, by the nature of their task (as defined by the regimes considered here), to arouse powerful opposition. One definition of a government's strength is whether it remains in power as long as intended (easier to define in the case of constitutional regimes). And that can only be determined in retrospect: a government is weak if it falls before its (possibly self-defined) time. Although we run the risk of tautology, let us look farther. The strength of a government committed to stabilization is important because of the "war of expectations" central to any anti-inflation fight. Inflation can only be reduced if the economic actors begin to believe that the rate of price increases is coming down and will continue to do so. Here we should note that high stakes in the war for expectations in hyperinflation have recently coincided with a new military government's belief (as in Chile in 1973ff and in Argentina in 1976ff) that it must repress quickly and at any cost. Generals Pinochet and Videla found that their ruthless attitude toward their political enemies--whom they saw as a major military threat (more real in Argentina than Chile)--had its uses in the war against inflation. The stabilizer must not only be tough, but be seen to be tough. This may be akin

to the "madman theory" that has been used to describe Richard Nixon's Vietnam war policy: the bombing and invasion of Cambodia, as well as the Christmas bombing of North Vietnam, were intended not only to punish the enemy, but to show that the U.S. President was capable of any act. Nixon wanted to be seen as a madman, according to this logic, in order to frighten his enemy into more serious negotiations.

It would not be stretching reason too far to describe the military rulers of Chile after 1973 and Argentina after 1976 as presenting the image of madmen: they recognized no limits to their action. They swept aside constitutional or legal constraints. They, or their agents, did not stop at arresting, or assassinating, even clergy. Their declaration of war on inflation was merely another area where they promised ruthless action. They did win credibility, if only out of fear. It would be dangerous to suggest too simple a causality here. After all, the run-away inflation of Weimar was halted by a democratically elected government. But we cannot avoid noting that the only two cases of hyper-inflation considered here did precede the two most repressive governments. What were the alternative scenarios for the Chile of 1973 and the Argentina of 1976? It is surely difficult to imagine any Latin American government successfully attacking inflation rates of 500 percent-plus unless they enjoyed emergency powers.

Space limitations prevent an analysis of the "strength" of each of the stabilizing governments. One further comparison, between the Ongania regime of 1966-70 and the Costa e Silva government of 1967-69, is worth comment here. The two stabilization programs bore many similarities, as has been explored with great insight by Guillermo O'Donnell. Yet they suffered very different outcomes. When the Brazilian government faced spontaneous labor resistance that had begun in Minas Gerais and spread to the industrial heartland of São Paulo in 1968, it decided to repress, whatever the cost. That government went on, after Costa e Silva's death in 1969, to pursue an economic strategy that left no room for independent labor-union activity.

In Argentina, on the other hand, spontaneous labor resistance in Córdoba in 1969, initially met with force (and some deaths from Army bullets), proved sufficient to trigger the disintegration of the Ongania government. Why did Argentine officers lose their nerve in a situation similar to one in Brazil where their counterparts did not? Why did the Argentine officers think they had lost their legitimacy and the Brazilian officers not? One way of describing this is to say that the Argentines lacked the "strength," as defined by coherence and self-perception of legitimacy, to push on--qualities the Brazilians did display.

Another Argentine-Brazilian comparison deserves brief mention: the presidencies of Frondizi and Kubitschek. The Frondizi government committed itself to an IMF-sanctioned stabilization program, which included a huge devaluation and a sharp reduction of redundant labor on the state-owned railways. Frondizi also, however, attempted to carry out a "developmentalist" industrialization program. He had begun with a working understanding with part of the Peronist movement, which soon eroded. Labor protest was crucial in diluting

the stabilization effort, which soon foundered. Peronist electoral victories sparked a military coup and Frondizi's experiment came to an end. One result was to identify any "developmentalist" policy with obeisance to the IMF. This reinforced the polarization in economic policy debates: the neo-liberals could point to Frondizi's failures as the inevitable result of an ill-conceived industrialization; the radical nationalists could point to his failure as proof that orthodox anti-inflationary measures and the wooing of DFI were bound to alienate the social support (mixture of middle and working class) for the "developmentalist" model. In sum, the political appeal of developmentalism was seriously tarnished.

Kubitschek, on the other hand, escaped that fate. Like Frondizi, he had an ambitious industrialization program; he was also forced to try stabilization. Since Kubitschek started his presidency in more favorable economic circumstances, he was able to make progress on his Programa de metas before inflation became a major problem. He looked as if he would adopt an orthodox anti-inflation program like that of Frondizi (and that of Chile under Ibañez). In the end, however, the Brazilian President rejected the IMF's conditions. A full-scale attack on the BOP crisis was left to later governments, and Kubitschek saw his industrialization and infrastructural projects through to completion. The Brazilian developmentalist drive gained a nationalist hue--it had been pursued despite the structures of the U.S. government and the IMF and World Bank. The legacy of the Kubitschek presidency was a consensus on the need to maintain a national development process, thus avoiding the severe fragmenting of public opinion which eroded the support for developmentalism in Argentina. One might argue that Kubitschek had to reject orthodox stabilization in order to preserve his political support. Was that option open to Frondizi? Could he have chosen not to adopt IMF orthodoxy? It is a question well worth study, because the traumatic failure of the Frondizi government looms ever larger in the recent history of Argentina.

Fundamental Characteristics of the Economy. A bevy of factors could be discussed here. One is the long-term trend of the economy. Since 1945, for example, the Brazilian and Mexican economies have proved more dynamic than those of Argentina or Chile. This may merely reflect differing resources, including geographical location, although Argentina throws doubt on that as a general explanation. For one thing, the economies of Brazil and Mexico have been more responsive to market signals. Both countries managed to expand exports, thanks in part to skillful manipulation of relative costs. That helps explain their greater success in achieving growth between stabilization attempts.

Turning to Argentina, we might say that, from a long-run standpoint, Argentine governments have found it too easy to achieve short-term stabilization, if measured by the BOP. As Diaz Alejandro has shown, the elasticities have been such that a modest drop in the level of activity will sharply decrease imports, while a modest diversion of beef and grains (by means of higher prices or outright allocation) to export will sharply increase foreign-exchange earnings. The political costs of that policy are high; but it is straightforward to carry out,

and does not require any long-term attempt to change relative prices or restructure the economy, which may be what Argentina needed to resume sustained growth.

If we were to look more deeply at all these economies, many other factors would vie for our attention: the size and efficiency of the public sector; the quality and supply of domestic entrepreneurs; the relative vulnerability to exogenous shocks (from concentration of commercial and financial relationships, etc.); the size and sophistication of the financial system; the efficiency of the economic decision-making apparatus, to name some of the more obvious. Another seldom-discussed factor deserves attention: the availability and quality of statistical data.

It is self-evident but worth repeating that the identification of economic problems depends, at least in part, upon hard statistics. Unemployment is a clear case. In Brazil, for example, the government collects no reliable data on unemployment. Few developing countries do (Chile would appear to be an exception). This is due, in part, to the fact that most LDCs lack unemployment compensation and government-run employment offices, which are the institutional structure for collecting unemployment figures in the industrial democracies. Policy makers in LDCs, therefore, need not worry that newly announced unemployment data might suddenly provoke a wave of opposition to current policies, a common fate in the U.S. or Western Europe.

Income-distribution data offer another example. Until the late 1970s, such statistics were non-existent or extremely partial. With improved and increasingly frequent census surveys, however, that has changed radically. The 1970 Brazilian census, for example, in conjunction with the 1960 census, made possible the first systematic check on income-distribution trends. The result was an intense debate over what <u>ought</u> to be government policy and what past policies had (or had not) done. Before publication of the 1970 data, the distributive question had been difficult to discuss; after that publication, no one could avoid discussing it.

BOP data, on the other hand, have been more or less readily available throughout Latin America in this century. The quality of the data has improved greatly in recent decades, with foreign-trade statistics published on a month-to-month, and sometimes week-to-week basis. Also readily available--although not always published--have been the black market rates for foreign exchange, which offer a continuing fix on something approaching the free equilibrium exchange rate. Governments have thus been forced to pay continuous attention to the foreign sector. Not only have the data been readily available, but the public has become oriented to following closely their changes. If we remember that it is the BOP problem that forces governments to adopt stabilization programs, and that numbers indicating success or failure on that front are so omnipresent, we can understand why stabilizing regimes might respond more quickly to

signals in the external sector than those in the domestic economy. No less important, it is the BOP indicators which most interest the foreign creditors.

The Policy Climate. This is another important but difficult-to-discuss area. Any close observer of Argentine and Brazilian economic policy making since 1945 cannot fail to note the contrasting intellectual climates in which debate has taken place. On a superficial level, we can establish parallels between developmentalist, radical/nationalist, and neo-liberal lines of thought. Upon looking deeper, however, we note that the gulf between adherents of classical liberalism and developmentalism was much deeper in Argentina than in Brazil. This became very evident in the late 1960s, when the rigidity of Krieger Vasena contrasted with the pragmatism of Delfim Neto. Why was this so? In part because Argentina had profited so greatly from liberal policies in the past. In 1914 Argentina was a more prosperous society than most of southern Europe; its prosperity had come from exporting beef and cereals in return for finished goods from the industrial world. Even in the 1930s, the Argentine economy performed relatively well. Brazilian neo-liberals, on the other hand, entered the post-1945 world on the defensive. The authoritarian Estado Nôvo (1937-45) had greatly increased state intervention in the economy, and the coffee-growers were aware that since the first decade of the century, they had depended on government purchases of surplus coffee to assure success for the country's cartelistic maneuvers in the world market. In Brazil, therefore, pure liberalism was far weaker among the business and technocratic circles than in Argentina. One result in Brazil was to ease transition toward eclectic policies (such as those of post-1964, or certainly post-1967 Brazil) while Argentina oscillated between the extremes of rigid orthodoxy and ill-coordinated populism.

Mexico offers an interesting contrast. Developmentalism never took hold in Mexico. Except for the later Echeverría years, orthodoxy has carried the day since the early 1950s. Why? One frequent explanation is that Mexico is an "open" economy, by virtue of the long, unguarded border with the U.S. Therefore, allegedly, it does not have the option of pursuing a "closed" or "semi-closed" development strategy. But this line of reasoning is suspect. It is not an open border that facilitates capital flight, but the financial system and policies. Just as President Somoza can readily deposit and withdraw funds from his New Orleans bank accounts, so Mexicans can make free transactions with their Texas banks. It could be argued that smuggling from and into Mexico is no more significant, perhaps less so, than for many economies of South America. The fact is that Mexican policy makers have maintained a strong consensus in favor of a "hard money" policy. The range of debate--reflecting the policy climate--has been far narrower than in our other three countries. The explanation must in part have to do with the co-opting, authoritarian political system, but the question deserves further study.

Returning to the Brazilian case, why has the policy climate there been conducive to the institutionalization of inflation? That, after all, has been the result of the extensive indexing instituted since

the late 1960s. To restate the question, why have Argentine stabilizers, including Perón in 1952-55, showed such fetishism for nominalism? Why have they continued to believe in the possibility of zero inflation? The Mexicans could be forgiven that belief, since they attained it (at least--inflation not significantly greater than that of the U.S.) from the mid-1950s until the late 1970s. The Chilean stabilizers would seem closest to the Brazilian pattern, since their experience with inflation was even longer and more painful. But the development of Chilean policy-thinking in this area was interrupted by the Allende presidency, whose colossal (and much provoked) economic mismanagement helped legitimize a ruthless military regime, which dedicated itself to zero-rate inflation, at whatever cost. What was interrupted in Chile in 1970 was, from our comparative perspective, a creative experiment with indexing-type devices, including mini-devaluations. Chile was robbed of the possibility--had the political opportunity presented itself--to continue in the direction of a growth strategy with institutionalized inflation.

<u>Postscript</u>

The fragmented nature of the foregoing analysis precludes any conclusions based on systematic comparison. Instead, I offer a few observations and questions.

1) The immediate issue for stabilizing regimes has been <u>not</u> the rate of inflation, but the shortage of foreign exchange. It is BOP crises that force governments into anti-inflation programs. Three of our four countries have had long experience with inflation and have discovered ways to adapt, for better or for worse, from the standpoint of resource allocation. A government which can overcome its BOP deficit can afford to make its own pact with the devil of inflation. The prime example is Brazil. That country's institutionalization of inflation, especially after 1967, probably would never have gained the blessing of the IMF, if Brazil had needed its credit approval at that time. But by then Brazil had improved its BOP far enough (largely through import drops caused by stabilization-induced recessions), so it needed no approval for its heterodox financial policies. Furthermore, the adoption of mini-devaluations gave a powerful instrument for continuing to cushion the gap between domestic inflation and that of Brazil's principal trading partners.

2) We need to examine more carefully why governments and societies prefer not to strive for zero inflation. A long-standing explanation is that, at least in the short run, governments stand to gain by an "inflation tax," resulting from tax payers rising into higher brackets under a progressive tax structure. There is also the familiar "forcing savings" explanation, which assumes heavy public-sector investment. Too seldom investigated is the complex question of expectations. Who stands to lose most from declining prices? In our analysis we need to move beyond the familiar argument that inflation is a debtor's paradise. These Latin American cases offer an exceptional opportunity to explore the complicated web created by any society's struggle with inflation.

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This paper was written while travelling abroad and therefore lacks footnotes. Many of the themes discussed in the paper have been considered in greater detail in several of my previous publications: (1) "The Politics of Economic Stabilization in Postwar Latin America," in James Malloy, ed., *Authoritarianism and Corporatism in Latin America* (Pittsburgh, 1976), 149-190; (2) "The Years Between the Harvests: The Economies of the Castelo Branco Presidency, 1964-1967," *Luso Brazilian Review*, Vol. 15, No. 2 (Winter 1978), 153-177; (3) "The Economic Dimensions of Populism in Argentina and Brazil: A Case Study in Comparative Public Policy," *The New Scholar*, Spring 1979; (4) "Workers and Soldiers: Urban Labor Movements and Elite Responses in Twentieth-Century Latin America," in Virginia Bernhard, ed., *Popular Challenges and Elite Responses in Latin America, 1850-1930* (title tentative), to be published by the University of Texas Press, 1979.