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University of Sussex

**The Political Economy of Permanent
Underachievement**

A critique of neoliberalism and
neodevelopmentalism in Argentina and Brazil.

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Submitted for the degree of Doctor of Philosophy

January 2018

I hereby declare that this thesis has not been submitted, either in the same or different form to this or any other University for a degree.

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Submitted for the degree of Doctor of Philosophy

The Political Economy of Permanent Underachievement:

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Summary

In Argentina and Brazil, the future never seems to arrive. Over the last three decades, successive waves of neoliberal and neodevelopmentalist reforms invariably ended in disappointment. The most relevant question defying the contemporary Brazilian and Argentinian political economy literature is why, despite being repeatedly predicted in economic programs and promised in political discourses, catch-up development never materialises? Neoliberal and neodevelopmentalist authors offer apparently contradictory answers to that question. For the former, economic underachievement is a result of insufficient or ill-conceived pro-market reforms. For the latter, it is a consequence of the lack of state-led national development projects. In this thesis, I challenge both mainstream narratives. I claim that the roots of Brazilian and Argentinian permanent underachievement are intrinsically related to the fragilities of neoliberal and neodevelopmentalist development strategies, which result in inherently inconsistent policies. Although representing themselves as complete opposites, both sides actually share two problematic premises: a narrow view of development, understood as capitalist catch-up, and a simplified opposition between state and market. My critique starts from a radical reappraisal of the very concept of development, informed by Leon Trotsky's idea of uneven and combined development and its contemporary interpretations. Defining development as the dynamic outcome of the interplay between class disputes and international pressures and opportunities, I argue that the shortcomings of the neoliberal and neodevelopmentalist reforms were determined by the specific responses given by dominant class alliances in the face of successive international crises. The argument is advanced through four in-depth case studies of the state reforms carried out in Brazil and Argentina since the 1990s, with particular attention to macroeconomic and foreign policies. By breaking the oligopoly of narratives about Brazilian and Argentinian development shared by neoliberals and neodevelopmentalists, I aim to contribute to the rise of alternative strategies of development from below.

Keywords: Neoliberalism; Neodevelopmentalism; Uneven and combined development; Argentina; Brazil.

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The Political Economy of Permanent Underachievement

A critique of neoliberalism and neodevelopmentalism in Argentina and Brazil.

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List of abbreviations

Ar\$ – Argentinian Pesos.

BRICS – Brazil, Russia, India, China, and South Africa.

CNA – Confederação Nacional da Agricultura [National Confederation of Agriculture of Brazil]

CNI – Confederação Nacional da Indústria [National Confederation of Industries of Brazil].

ECLAC – United Nations Economic Commission for Latin America and the Caribbean.

FIESP – Federação das Industrias do Estado de São Paulo [São Paulo State Industrial Federation].

FLACSO – Faculdade Latinoamericana de Ciências Sociais [Latin American Social Sciences University].

FTAA – Free Trade Agreement of the Americas.

GDP – Gross Domestic Product.

IBGE – Instituto Brasileiro de Geografia Estatística [Brazilian Institute of Statistical Geography].

ILO – International Labour Organisation.

INDEC – Instituto Nacional de Estadísticas y Censos de la República Argentina [National Institute of Statistics and Census of the Argentine Republic].

IOF – Imposto Sobre Operações Financeiras [Tax on Financial Operations].

IPI – Imposto Sobre Produtos Industrializados [Tax on Industrialised Goods].

IRPF – Imposto de Renda Sobre Pessoa Física [Income Tax of Individual Taxpayers].

ISI – Import Substitution Industrialisation

MERCOSUR – Mercado Comum do Sul [Common Market of the South].

NAFTA – North America Free Trade Agreement.

NATO – North Atlantic Treaty Organisation.

OECD – Organisation for Economic Cooperation and Development.

PAC – Programa de Aceleração do Crescimento [Growth Acceleration Program].

PCO – Partido da Causa Operária [Party of the Workers' Cause].

PFL – Partido da Frente Liberal [Liberal Front Party].

PJ – Partido Justicialista (Peronista) [Justicialist Party (Peronist)].

PMDB – Partido da Mobilização Democrática Brasileira [Brazilian Democratic Mobilisation Party].

PND – Programa Nacional de Desestatização [National Privatisation Program].

PPB – Partido Progressista Brasileiro [Brazilian Progressive Party].

PPP – Purchase Power Parity.

PSDB – Partido da Social Democracia Brasileira [Party of Brazilian Social Democracy].

PSTU – Partido Socialista dos Trabalhadores Unificado [United Socialist Workers' Party].

PT – Partido dos Trabalhadores [Worker's Party].

R\$ – Brazilian Reais.

UCR – Union Civica Radical [Radical Civil Union].

U&CD – Uneven and Combined Development.

UERJ – Universidade do Estado do Rio de Janeiro [Rio de Janeiro State University].

UNASUR – União das Nações da América do Sul [South American Union of Nations].

UNDP – United Nations Development Program.

UNCTAD – United Nations Conference on Trade and Development.

US – United States of America.

US\$ – United States Dollars.

WTO – World Trade Organisation.

At this crucial moment, economic independence means, to this government, the defeat of stagnation, the victory of production, the triumph of development.

Carlos Menem

Brazil will not always be a developing country. Its destiny is to be a developed and fair country.

Dilma Rousseff

Our utopias are to be enjoyed and admired: they are made of our concerns and they tell us about our now, about our pre-utopian selves. They are to be interpreted. And so are those of our enemies.

China Miéville

The philosophers have only interpreted the world, in various ways. The point, however, is to change it.

Karl Marx

Introduction – The political economy of permanent underachievement.

The spectre of a capitalist crisis is haunting Brazil and Argentina – yet again. Across both countries, its well-known effects are very visible. In the short distance between Avenida Ipiranga and the Municipal Theatre, at core of Sao Paulo, tens of thousands of jobless people wander every day, looking for work. In the industrial belts around Buenos Aires, factories are progressively reducing their capacity, cutting down shifts, dismissing workers, and closing their doors. In Rio de Janeiro, one of Brazil's most prestigious universities – the State University of Rio de Janeiro (UERJ), with more than 25 thousand students – does not have enough money to start the academic year. The austerity measures imposed by the state government hit the university hard – as well as the provision of many other public services.

The impact of walking on the streets and seeing with one's own eyes the renewed face of poverty can hardly be captured in numbers. Claudio Katz mentions the 'sudden generation of 1.4 million new poor people' (2016, 1) in the first 90 days of Argentina's new federal administration. Indeed, immediately after taking office, in December 2015, President Mauricio Macri announced a harsh structural adjustment package, including the revision of subsidies on public tariffs. The cost of essential household services such as electricity, water and gas increased by percentages varying from 400% to 1800% (Katz 2016, 1). Equivalent hikes put small stores and industries under pressure. Largely influenced by that, as well as by a sharp devaluation of the Argentinian Peso, the inflation rate in 2016 reached 40%. At the same time, overall economic activity contracted by 2.3%, affecting particularly the industrial sector. The Argentinian statistics institute reported 15 months of continuous contraction of industrial activity between February 2016 and April 2017 (INDEC 2017b, 3). Per capita GDP was estimated in US\$ 18.479 in 2016, basically the same value as 2008, and 3.3% less than in 2015.¹ In the second semester of 2016, 32.2% of the Argentinians were considered poor, while 6.3% suffered from extreme poverty (INDEC 2017a, 3).

Yet, the extent and the depth of the actual crisis in Argentina fades when compared with the situation in Brazil, where the crisis is not only economic, but also largely political

¹ Constant 2001 international \$, PPP (World Bank 2017).

and institutional. The laudatory political economy literature celebrating the rise of Brazil to a global power status aged much faster than anyone could have predicted. It started with Goldman Sach's famous BRICS' report, which predicted an average GDP growth of 7.5% over the ten years following 2001, putting Brazil side by side with Russia, India and China as new countries that should be taken into account for the designing of global economic governance structures (O'Neill 2001). After that, a number of authors embarked on a short-lived Brazil Mania. Brainard and Martinez-Diaz (2009) optimistically evaluate the chances of Brazil becoming an 'economic superpower' in the foreseeable future. James Davidson was so convinced that 'Brazil is the new America' that he finishes his book recommending his readers to 'secure a foothold in Brazil for yourself and your family. Obtain a Brazilian residence, or even a Brazilian passport, to assure that you will always be welcome in the country of the future' (2011, 308). More critical approaches, as suggested by Nederveen Pieterse and Cardoso (2014), recognise potential social problems related to Brazil's 'emergence', but take for granted that the emergence was happening indeed.

Contrasting with the widespread optimism of just a couple of years ago, instead of taking off to become a world 'economic superpower', Brazil slid to what seems to be the worst economic crisis in its modern history. After stagnating in 2014, GDP contracted by 3.8% in 2015 and 3.6% in 2016. In per capita terms, GDP contracted by almost 10% between 2014 and 2016, putting it back to the levels of 2010 (World Bank 2017). Following the ILO methodology, the World Bank estimates that youth unemployment reached 24.6% in 2016, while the national statistics institute estimates overall unemployment in the second quarter of 2017 in 13%, rising to 15.8% in the Northeast region (IBGE 2017, 7). More importantly, a very questionable impeachment was moved against President Rousseff, immediately denounced by a number of authors as a 'parliamentary coup' (Singer et al. 2016). In the media process of discrediting President Rousseff and her party, a Pandora's Box of corruption allegations and shady relations between politicians and some of Brazilian biggest corporations was opened, affecting the whole Brazilian political system. How the current crisis will end is still impossible to tell. The only thing certain is that the grandiose development perspectives of a couple of years ago have failed to materialise.

It is not the first time that Brazil or Argentina have woken up from dreams of joining the first world and have had to face the bitter reality of unemployment, poverty and political turmoil. Fifteen years ago, the cycle of neoliberal reforms ended up in

similar, if not worse disappointment. After adopting many of the Washington Consensus' prescriptions in the hope of attracting a wave of foreign investments and surfing in the soaring tide of 'globalisation', sustained economic growth failed to materialise, unemployment surged and very unpopular neoliberal administrations were ousted from office. Then the epicentre of the crisis was Argentina. In the last weeks of 2001, the country descended into a state of ungovernability, with banks closed, the streets taken by protesters and the incumbent president fleeing the government palace in a helicopter.

Why does the future never seem to arrive to Brazil and Argentina? Why are the big development promises contained in the politicians' discourses – independent of their ideological colour – never fulfilled? Why do successive waves of state reforms fail to produce the expected results?

In this thesis, I will argue that the mismatch between high expectations and bitter reality over the last twenty five years is not merely the result of ill-conceived or poorly implemented economic policies. Nor is it a lifeless reflex of the cycles of global capitalism. Brazilian and Argentinian perceived permanent underachievement have deeper roots. These roots, I claim, are to be found in the two mainstream development strategies that dominate the political economy debate in Brazil and Argentina: neoliberalism and neodevelopmentalism.

Although they superficially appear as opposites, neoliberalism and neodevelopmentalism actually share two problematic theoretical presuppositions. Firstly, they are based on similarly idealised views of development as capitalist catch-up. Secondly, they rely on the artificial division between states and markets. It is true that neoliberals and neodevelopmentalists recognise that neither states nor markets can be totally suppressed. Nevertheless, neoliberals place great emphasis on the putative powers of free markets to promote best allocation of scarce resources, while neodevelopmentalists insist that a national-interest oriented state is crucial in taming market forces, correcting market failures and promoting development.

Because the 'free market' or the 'national-interest driven state' are never fully materialised, neoliberalism and neodevelopmentalism take the form of mutually excluding market and state utopias. As such, they produce discourses and policies that are intrinsically incomplete, inasmuch as the work of freeing markets or building the capabilities of the state for national-interest interventions is infinite. As a consequence, their repeated failures in achieving catch-up development can always be justified by excessive or insufficient state control over markets.

Neoliberalism and neodevelopmentalism are thus considered here as development strategies, i.e., discourses about how to achieve development, involving catch-up promises, concrete policy suggestions, and retrospective narratives about the results of the policies effectively implemented. To these development strategies correspond different class alliances, which may change across space and time. My research on Brazil and Argentina has shown that the neoliberal development strategy tends to be favoured by the financial fractions of the ruling class and international capital, while neodevelopmentalism tends to be favoured by the fraction of the ruling class linked to the domestic market, in association with some fractions of the working class. These class alignments are justified by the fact that policies favouring the first group are more consistent with the market utopia, while the second group is better contemplated by policies derived from the state utopia.

This thesis is a critique of both neoliberalism and neodevelopmentalism. From a theoretical standpoint, the critique here proposed systematically calls into question the underlying presuppositions of neoliberalism and neodevelopmentalism. From an empirical standpoint, the critique unveils the contradictions of the neoliberal and neodevelopmentalist political discourses, and uncovers the conflicting social interests behind the implementation of key public policies in Argentina and Brazil. Finally, going beyond neoliberalism and neodevelopmentalism, I suggest an alternative political economy narrative of the neoliberal and neodevelopmentalist cycles in both countries since 1990.

The theoretical starting point of my critique is a radical redefinition of the very concept of development. The conception of development at the core of both neoliberalism and neodevelopmentalism is simple: to develop is to follow the path of global north countries. This involves increasing productivity and consumption levels so as to converge to those seen in ‘developed’ countries. Accordingly, Brazil and Argentina – or any ‘underdeveloped’ country, for that matter – can become developed by adopting the right set of policies. At that point, neoliberals and neodevelopmentalist split paths, for the policies they suggest stem from their respective competing market and state utopias.

Contrary to that, based on Leon Trotsky’s concept of uneven and combined development, and building on the contemporary literature that has recently expanded its meaning, I define development as the material transformations that emerge from the interplay between international relations and class disputes. Development, therefore, can take many different forms, convergence with global north consumption and production

standards being but a rare one. This redefinition of what development is – and what to expect from development – allows me to ask questions beyond the reach of the neoliberal and neodevelopmentalist literatures. Instead of inquiring as to why catch-up development fails to materialise and proposing yet another set of state-led or market-friendly policies to finally fix Brazilian and Argentinian perceived underdevelopment, I examine how international pressures and opportunities were appropriated by conflicting classes and class fractions, resulting in differentiated social gains and losses. This theoretical perspective makes it possible to explain what neoliberals and neodevelopmentalists see as constant policy errors as something much more complex. For the reforms adopted in Brazil and in Argentina over the last twenty five years may not have resulted in catching-up with global north countries, but they certainly resulted in some kind of development. Understanding development as an uneven and combined process of material transformation, I am able to specify what kind of development actually resulted from the neoliberal and neodevelopmentalist reforms, identify its international conditionings and show who benefited from it.

The twofold – theoretical and empirical – critique of neoliberalism and neodevelopmentalism here proposed is advanced in three steps. In part one (chapters 1 and 2) I further define what I am calling neoliberalism and neodevelopmentalism, through an engagement with representative authors of both traditions. In my literature selection, I have privileged contemporary Brazilian and Argentinian writers, particularly those that have taken important roles in public administration during the period under analysis. I clearly show how they rely on an idealised view of development as catching-up, as well as on market or state utopias.

After that, in chapter 2, I define an alternative theoretical perspective. The chapter starts by engaging with the post-development literature's calls for the abandoning of the concept of development altogether. Against that, I argue that some understanding of development is paramount to make sense of material changes, and inform struggles for a better life. The concept of uneven and combined development, I claim, can do exactly that. I then place that concept in the historical materialist tradition, as an attempt by Trotsky to fill in an important theoretical gap left by Karl Marx, namely the lack of a consistent definition of development. The contemporary literature that expands Trotsky's original ideas is analysed, as well as some of its most important critiques. Finally, I address the still largely unexplored potential of the concept of uneven and combined development for contemporary political economy analysis. Here, drawing on insights

from classical Latin American political economy, particularly Celso Furtado, I define some mid-range concepts consistent with the uneven and combined character of development, further specifying concrete forms taken by the interplay between international pressures and opportunities and class struggle in peripheral countries.

Part 2 (chapters 3 and 4) and part 3 (chapters 5 and 6) form the empirical core of this thesis. Their overarching aim is the critique of concrete manifestations of neoliberalism and neodevelopmentalism in Brazil and Argentina. In chapter 3, I take a closer look at the neoliberal reforms in Argentina in the 1990s; in chapter 4, my focus is on Brazil and the neoliberal policies implemented by Presidents Collor and Cardoso. In chapter 5, I turn to the neodevelopmentalist policies of Presidents Lula and Rousseff in Brazil; finally, in chapter 6, I return to Argentina to analyse the neodevelopmentalist reforms of Presidents Nestor and Cristina Kirchner.

The structure and the argumentative strategy followed in the empirical chapters are similar. Each chapter starts with an analysis of the political discourse. Particular attention is given to the representation of ‘development’, and to how the state or the market utopia is mobilised to justify public policies. After that, two sets of policies are analysed: macroeconomic management policies and foreign policies. I chose to focus on these two areas because they are crucial in determining the differentiated social outcomes of development and the responses to international pressures and opportunities. The last section of each chapter reviews the answers offered by neoliberal and neodevelopmentalist authors for the perceived developmental shortcomings of each period. Finally, building on the contemporary Brazilian and Argentinian Marxist literature, I use the concept of uneven and combined development and the mid-range concepts defined in chapter 2 to challenge the neoliberal and neodevelopmentalist narratives, and propose a more nuanced picture of recent social and productive transformations in both countries.

At the end of parts 2 and 3, in an effort at synthesis, I bring together the results of the previous chapters in short comparative conclusions. Indeed, because of the coincidence of timespans between the neoliberal (1989-2002) and the neodevelopmentalist (2003-2015) cycles in Brazil and Argentina, interesting parallels can be traced. The juxtaposition of cases reveals how different responses were possible in the face of similar external shocks, represented by international crises. Nevertheless, because this research is based on only two interacting cases, with no control case, my comparative notes do not aim at universal claims. Rather, following the spirit of Philip McMichael’s

‘incorporated comparisons’, my ‘goal is not to develop invariant hypothesis (...), but to give substance to a historical process (a whole) through comparison of its parts’ (1990, 386).

Beyond ‘incorporated comparisons’, mixed methods are employed to approach the empirical data used in this research. In the first section of each empirical chapter, I analyse speeches, statements, press interviews and political propaganda in order to establish the aims of neoliberal and neodevelopmentalist policies. In the policy analysis sections, besides the secondary literature, I use official reports from the Brazilian and Argentinian governments, as well as macroeconomic data from the World Bank and the ECLAC online databases. An effort was made to use comparable data for both countries. Finally, the empirical material is complemented by fourteen original interviews with relevant analysts and policy makers in Brazil and Argentina.

The contribution I am seeking to make in this thesis can be described as theoretical and political. Theoretically, I modestly add a distinctive perspective and suggest new mid-range concepts to the contemporary literature on uneven and combined development, particularly in the fields of development studies and political economy. After Adam Morton’s recent study on Mexico (2013), this is the only other lengthy research to explore the potentiality of the contemporary formulation of the concept of uneven and combined development in relation to Latin American political economy, and the first to do so focusing on a relatively short time span (1989-2016). I also see the theoretical points raised here as a contribution to the renewal of the dependency theory tradition and Latin American historical materialism at large. From a political perspective, I would like to see the critique carried out in this thesis as an invitation for the Brazilian and Argentinian left to dare and think beyond neoliberalism and neodevelopmentalism. For too long, the horizons of the political economy debates in both countries – and for that matter in most of Latin America – have been limited by these two mainstream perspectives. By challenging neoliberalism and neodevelopmentalism, I wish to contribute to the emergence of new and radical development perspectives.

Part 1 – Neoliberalism, Neodevelopmentalism and Beyond

Introduction

For the observer of contemporary Brazilian and Argentinian political economy, it may appear as if there are no alternatives to neoliberalism and neodevelopmentalism. The sharp opposition between the two mainstream development strategies leaves no room for other options. Criticising one side places the analyst necessarily on the competing field.

In the following two chapters, I explain why neoliberalism and neodevelopmentalism can present themselves as polar opposites, emptying of meaning any other competing development strategy. Furthermore, I use the concept of uneven and combined development to challenge the view of development that is at the very core of both perspectives. After exposing the fragile theoretical underpinnings of both neoliberalism and neodevelopmentalism, I move one step further in order to define the theoretical toolkit employed in the empirical chapters of this thesis. In short, the two chapters that follow aim at creating the theoretical space for the empirical critique of neoliberalism and neodevelopmentalism attempted in the substantial part of this thesis.

My claim is that the divide between neoliberalism and neodevelopmentalism is premised on the false dichotomy between states and markets, complemented by a shared narrow view of development as catching-up with the global north. This dichotomy is an expression of mutually excluding state and market utopias. While neoliberals believe that free and self-regulated markets are conducive to development, neodevelopmentalists believe that the state can stand above class interests, neutralise external shocks and tame market forces in order to lead the nation towards development.

The contemporary Brazilian and Argentinian expressions of neoliberalism and neodevelopmentalism are, therefore, here defined as utopic development strategies. Because the perfectly free market never fully materialises, neoliberal writers can always claim for the deepening of market friendly policies. Conversely, as the purely national-interest driven state is also never realised, neodevelopmentalists can always claim for the strengthening of state capabilities. Furthermore, the failures of the policies recommended by neoliberal and neodevelopmentalist in bringing about the idealised view of development at the centre of both perspectives can always be attributed to excessive or insufficient state control over the markets. For that reason not only neoliberal and

neodevelopmentalist authors offer necessarily misguided policies, but they also produce circular narratives about the social and productive changes brought about by the state reforms carried out in Brazil and in Argentina.

By highlighting the utopic character of the neoliberal and neodevelopmentalist strategies, I am not implying that utopias are necessarily evil and should be dismissed. In fact, the alternative here proposed is deeply rooted in the historical materialist tradition, which is arguably also based on a utopia, namely that of social emancipation. The problem, therefore, is not with utopias *per se*, but with capitalist utopias and the use privileged social groups make of them. As recently put by China Miéville in his introduction to the new edition of Thomas More's *Utopia*, 'Utopias are necessary. But not only are they insufficient: they can, in some iterations, be part of the ideology of the system, the bad totality that organises us (...) and condemns millions to peonage on garbage scree' (Miéville 2016, 16).

The neoliberal and the neodevelopmentalist strategies belong exactly to that kind of utopia. By promising a capitalist development that never arrives, they justify policies involving concrete sacrifices for the working class and other subordinated groups. At the same time, while the theoretical difference between neoliberalism and neodevelopmentalism is nothing but an illusion, the fact that they are used by different class alliances under the leadership of different fractions of the ruling class makes for real political differences. While the market utopia is particularly useful for the defence of the interests of the financial fraction of the ruling class and its international partners, the state utopia is a traditional banner of the productive fractions of Brazilian and Argentinian ruling classes, dependent on the internal market and government subsidies.

After engaging with representative texts of Latin American neoliberalism and neodevelopmentalism and exposing their problematic theoretical foundations in chapter 1, I start the effort of building a theoretical alternative in chapter 2. This is done through a redefinition of the very concept of development following Trotsky's insights and the contemporary literature on uneven and combined development. Development is thus defined as the changes in productive and social structure brought about by the constant interaction between international pressures and opportunities and class struggle.

Finally, a contribution to the emerging literature on the political economy of uneven and combined development is suggested, by the framing of mid-range concepts capable of capturing particular expressions of unevenness and combination over the short run. These concepts will be instrumental for the alternative narrative of the neoliberal and

neodevelopmentalist reforms implemented in Brazil and Argentina that follows in Parts 2 and 3 of this thesis. By taking development as an uneven and combined process of transformation, I am able to move beyond the mainstream neoliberal and neodevelopmentalist narratives, explain particular policy choices and uncover the socially differentiated results of the reforms.

Chapter 1 – Development through the prism of neoliberalism and neodevelopmentalism

In this chapter I claim that neoliberalism and neodevelopmentalism rest on similarly fragile theoretical bases. Although they appear in the contemporary political debate across Latin America as polar opposites, this opposition is premised on a simplifying divide between the market and the state. Accordingly, neoliberalism is defined as the development strategy premised on the market utopia, while neodevelopmentalism is the development strategy that arises from the state utopia. In both cases, it is supposed that individual countries can overcome the condition of backwardness by undertaking a series of market-friendly or state-led policies. Development, taken as capitalist catching-up, is thus portrayed as the undisputed national goal of underdeveloped countries.

Both perspectives understate the role of class conflicts and ignore the uneven social consequences of development. Furthermore, neodevelopmentalist and neoliberal authors fail to organically co-relate international pressures and opportunities and sociological analysis. The complex interplay between class struggle in developing societies and international relations is never explored. As a consequence, neoliberal and neodevelopmentalist authors suggest intrinsically inconsistent policy agendas, which cannot be fully applied in the real world. At the same time, the shortcomings of the policies effectively adopted can always be circularly attributed to excessive or insufficient state intervention in the market. In short, neoliberalism and neodevelopmentalism can only offer a circular political economy of permanent underachievement, coming from and resulting in never-ending reforms, that are never capable of delivering what they promise.

The common theoretical fragilities of neoliberalism and neodevelopmentalism are revealed through a literature review of some of the most representative works of each perspective. In the selection of the texts, I privileged those authors that played important roles in the Brazilian and Argentinian recent administrations, including ambassadors, senior political advisors, finance ministers and central bank governors.

1.1 – Neoliberalism as a development strategy premised on the market utopia

Neoliberalism is a slippery concept.² A precise definition is never fully proposed by those who are commonly seen as its intellectual fathers. For instance, the words ‘neoliberalism’ and ‘neoliberal’ are entirely absent from classics normally associated with the neoliberal political economy, such as *The Road to Serfdom*, by F. Hayek, and *Capitalism and Freedom*, by M. Friedman. Both authors, as well as L. Von Mises, define themselves more commonly as ‘liberals’ and identify their respective doctrines in broader, less specific terms as ‘liberalism’ (Friedman 2002, 5) or ‘individualism’ (Hayek 2001, 32).

The contemporary literature that actually uses the concept is overwhelmingly critical of neoliberalism, attaching to it a wealth of meanings. Ben Fine and Alfredo Saad-Filho, for instance, identify four ‘ways’ in which neoliberalism may be understood: (a) ‘as a set of economic and political ideas’; (b) ‘as a set of policies, institutions and practices’; (c) ‘as a class offensive against the workers and the poor’, and (d) ‘as the current phase, stage or mode of existence of capitalism’ (2017, 686). Critical articles, handbooks and readers on neoliberalism multiply (Saad-Filho and Johnston 2005; Springer, Birch, and MacLeavy 2016; Eagleton-Pierce 2016), amplifying the cacophony around the concept.

Although incorporating some of its insights, this thesis is not primarily intended as a contribution to the contemporary debate on the nature of neoliberalism. Instead of pinpointing some specific shortcoming of the critical literature on neoliberalism and proposing yet another way of understanding the concept, my critique aims at the Latin American neoliberal literature itself. I claim that this literature, best represented by Williamson (1990, 1993, 2004), Fraga (1994; 2004; Fraga, Goldfajn, and Minella 2003), Franco (1995, 1998), Cavallo (1995; 2005; Cavallo and Mondino 1995; Cavallo and Cottani 1997); Rodriguez (1995); Giambiagi (Pinheiro, Giambiagi, and Moreira 2001; Averbug and Giambiagi 2000; Giambiagi and Schwartzman 2014); Mansueto, Lisboa, and Pessoa (2015) – among others – has two crucial flaws. First, it cannot offer consistent

² The difficulties of assigning an exact meaning to that concept are almost universally recognized. See, for instance Wacquant (2012, 68) and Brenner, Peck, and Theodore (2010, 183). The term ‘neoliberalism’ is said to have been used for the first time in the Colloque Walter Lippmann, an international congress of liberal thinkers held in Paris in 1938. Originally identified with the German economist Alexander Rüstow, the purpose of renovating ‘traditional liberalism’ apparently never commanded a consensus among the participants at the congress (Mirowski and Plehwe 2009, 49).

policy prescriptions to promote catch-up development, its declared goal. Second, it cannot explain why actually adopted economic policies fail to produce catch-up development.

In the Latin American political economy literature, neoliberalism takes, therefore, the concrete form of a development strategy – i.e. a policy-oriented discourse about development. The neoliberal literature represents development as catching-up with global north countries. Furthermore, it offers policy prescriptions on how to achieve development, and at the same time evaluate adopted policies. As such, the main rival of neoliberalism in Latin America, as in the rest of the global south, are competing development strategies, such as developmentalism (Connell and Dados 2014, 122).

The specificity of the neoliberal development strategy – the distinctive trace that separates it from the developmentalist tradition – is the supposition that catch-up development can be achieved through the unleashing of ‘market’ forces. This is exactly what I am calling the ‘market utopia’, as opposed to the ‘state utopia’. The ‘international’ in general, and the international market in particular, is perceived as a sphere of opportunities for development, whose negative aspects can always be neutralised. As summarised by Jeffrey Webber in his recent critique of the contemporary mainstream sociological literature on Latin America:

Liberal ideology presents the global capitalist system as an arena of free exchange and the source of potential opportunities for the development of less developed countries. The problems of poverty and inequality are generally framed as originating in exclusion from the market. Human development, the amelioration of problems of poverty and inequality, is possible only through proper integration into the world market (2017, 90-91).

Neoliberal writers believe in a tendency of convergence among nations through international trade, investments and the diffusion of technologies and business practices globally. Free markets are supposed to lead to a world where the productive resources are allocated the most efficiently. Capital, seeking always the best returns, would spread evenly across the globe and activate the comparative advantages of each territory. In a nutshell, neoliberalism appears in the contemporary Latin American political economy literature as a development strategy based on the market utopia.

The characterisation of neoliberal writers’ faith in the developmental powers of the market as utopic is hardly original. Pierre Bourdieu, for instance, defined neoliberalism as a ‘utopia’, converted into a ‘political program’, which nonetheless ‘manages to see itself as the scientific description of reality’ (1998, 94). Similarly, for David Harvey,

We can (...) interpret neoliberalism either as a *utopian* project to realize a theoretical design for the reorganization of international capitalism or as a *political* project to re-establish the conditions for capital accumulation and to restore the power of economic elites (2006, 19).

By stressing the utopic character of Latin American neoliberalism, I do not wish to understate its political dimensions, as suggested by Harvey. Nor am I ruling out the possibility of also interpreting neoliberalism in a larger sense as the contemporary phase of global capitalism, as suggested by Fine and Saad-Filho (2017). Rather, I am highlighting theoretical roots of the shortcomings of Latin American neoliberalism, which can be clearly traced back to the uncritical faith in the virtues of the international market.

As widely recognised in the contemporary critical literature on neoliberalism, which recently incorporated Polanyi's insight that capitalist markets themselves are social creations largely dependent on state intervention (2002),³ the completely free and self-regulated market can never be materialised. Consequently, the policies proposed in the neoliberal literature are never complete, as there is always more work to be done towards market liberalisation. Moreover, individual countries' failure to catch-up with the global north can always be attributed to the necessarily incomplete implementation of the neoliberal program. The market utopia on which the neoliberal development strategy is based, therefore, is not only an innocent faith in a free market that never comes into full existence. It is a convenient excuse, which allows for continued implementation of policies that have uneven distributive consequences, normally resulting in privatisation of gains to fractions of the ruling class and socialisation of losses for the rest of society (see chapter 2).

In order to further specify the distinctive features of the neoliberal development strategy in Latin America and lay bare its fragile theoretical bases, I turn now to the work of some of the most influential neoliberal authors in the region: Williamson (1990; 1993; 2004); Fraga (1994; 2004) and Escudé (1992; 1995; 2009). By closely analysing these texts, it is possible to appreciate the progressive theoretical building of the neoliberal development strategy. The fact that Fraga and Escudé came to play crucial roles in the actual implementation of the policies they advocate in Argentina and Brazil (see chapters

³ For a review and a critique of the 'Polanyian turn' in the literature about neoliberalism see Knafo (2017).

3 and 4) strengthens the argument that their writings offer important clues on how neoliberalism shaped public policies in Latin America.

1.1.1 - Neoliberalism and the Washington Consensus

John Williamson's 'Washington Consensus' is the most famous expression of the neoliberal development strategy in Latin America. In the landmark article 'What Washington Means by Policy Reform', the author sets out 'what would be regarded in Washington as constituting a desirable set of economic policy reforms', in order 'to establish a baseline against which to measure the extent to which various countries have implemented the reforms being urged on them' (1990, 1).

The remarkable easiness with which Williamson claims that Washington 'urges' Latin American countries to undertake reforms reminds us of the historical context of triumphant victory of the US in the cold war, illustrated by the then recent fall of the Berlin Wall. It is also important to bear in mind that most of the Latin American countries were suffering major economic difficulties in the aftermath of the debt crisis, including fiscal deficits and high inflation. Williamson's text was, therefore, a perfect product of its time, a fact later recognized by the author himself (2004, 199).

One of the most notable features of the Washington Consensus is the straightforward way it presents a list of ten policies that should be carried out by Latin American countries. These policies are:

- 1) Eliminating fiscal deficits, or at least reducing them in relation to the GNP. Failure to keep 'fiscal discipline' is not considered as a legitimate political choice, but constitutes 'a lack of political courage or honesty to match public expenditure and the resources available to finance them' (1990, 3).
- 2) Defining public expenditure priorities. In other words, in order to accomplish 'fiscal discipline', countries are asked to cut budgets instead of raising taxes. (1990, 4).
- 3) Reforming the tax system. Taxation must follow the principle that 'the tax base should be broad and the marginal tax rates should be moderate'. The tax system is seen therefore as instrumental to avoid fiscal deficits, not as a means to distribute wealth (1990, 4).

- 4) Providing positive interest rates. Interest rates must be moderately positive in real terms, but at the same time they should be freely determined by the market. In fact, 'one expects market-determined interest rates to be positive but moderate in real terms' (1990, 5).
- 5) Providing 'competitive' exchange rates. The exchange rate is deemed central for the strategy of 'outward-oriented' growth, that is, growths based in the international demand (1990, 5).
- 6) Liberalizing trade, meaning facilitating imports that were previously restricted. This is 'the second element of an outward-oriented economic policy' (1990, 6).
- 7) Facilitating foreign investment, inasmuch as 'a restrictive attitude limiting the entry of foreign direct investment is regarded as foolish'. (1990, 6).
- 8) Privatising state-owned companies. This should be done primarily because 'private industry is managed more efficiently than state enterprises'. (1990, 7).
- 9) Deregulating different areas of the economy. Deregulation 'is generally judged to have been successful within the United States, and it is generally assumed that it could bring similar benefits to other countries' (1990, 7).
- 10) Protecting property rights. They are 'highly insecure in Latin America', in spite of 'their fundamental importance for the satisfactory operation of the capitalist system' (1990, 8).

The market utopia appears very clearly in the ten items of the Washington Consensus. The international market is portrayed as a potential source of investments and demand for Latin American products, hence a major driver of development. The role of the state is basically to let the international market work its magic. At the same time, exactly because premised on the market utopia, the policies in Williamson's list can be potentially applied to an infinite extent. The public budget can always be further squeezed and there will be always be something else to deregulate or privatise.

Perhaps more revealing than the list of policies suggested by Williamson is his attempt to justify them in an article published three years later. In fact, in the original text the author does not provide much argumentation in favour of the policies suggested. In this later article, nevertheless, Williamson goes further and argues that the 'substantial body of economic advice' he summarized in the 'Washington Consensus' is more than a

suggestion from Washington to Latin America, and ‘deserves to be endorsed across the political spectrum’ (1993, 1329).

This set of policies is regarded as standing beyond the democratic political dispute, as it supposedly stems from truly scientific and universal knowledge. Defying it is therefore plainly irrational: ‘I can see no advantage to democracy in having major parties espousing economic nonsense’ (1993, 1330). The author recognizes that, in social sciences, ‘truth is never absolute’, therefore ‘eccentric minorities’ must be tolerated. For the good of democracy and of the economic policy, however, the scope of the political debate should be *de facto* limited within the boundaries of the Washington Consensus (1993, 1331).

The technocratic discourse proposed by Williamson, and later espoused by several Latin America policy-makers, leaves no room for agency of subordinate groups in the definition of development alternatives. A developed society would be the natural result of the diligent implementation of the Washington Consensus. Political resistance to deregulation, privatisation, liberalisation and cutting in public budgets is ruled out as irrational. The uneven aspect of development is not considered. Material losses of the social classes and class-fractions affected by Washington Consensus policies are simply ignored.

In addition to ignoring class conflicts and how they may affect the implementation of development strategies, Williamson also presents a very limited view of the international. While the developmental potentialities of the international market are praised, in line with the market utopia, constraints to development in the form of international crisis are left out of the picture. As clarified in a later text ‘[t]he list focused exclusively on what Latin American countries could do for themselves, not on the world conditions that would give them a reasonable chance of prospering’ (2004, 197). The author admits that this meant that his list was unbalanced ‘especially in the short run’. Nevertheless, according to him, ‘in the long run, countries’ progress is primarily dependent on their own efforts rather than on the international environment’ (2004, 197).

In short, the Washington Consensus can be described as the crudest theoretical expression of the neoliberal development strategy in Latin America. It posits a notion of development as capitalist convergence towards a world formed exclusively by developed capitalist countries. Underdeveloped Latin American countries would become developed over time by the adoption of its supposedly uncontroversial policies. Structural impediments to catch-up development – namely class conflicts in each society as well as

international constraints – are simply ignored. Because the Washington Consensus policies are based on the market utopia, they can never be fully implemented in the real world. Nevertheless, failure to implement those policies and finally catch-up is always regarded as individual countries' fault, never as a theoretical limitation of the model itself.

1.1.2 – Beyond the Washington Consensus, the political economy of the neoliberal development strategy

It is no exaggeration to suggest that, in the 1990, the Washington Consensus became a blueprint for economic policies in Latin America. A measure of its influence is the fact that policy-makers directly implicated in the implementation of the neoliberal development strategy eventually felt obliged to justify deviations from Williamson's model (Cavallo and Cottani 1997).⁴

Among the most enthusiast defenders of the Washington Consensus is Armínio Fraga, the former president of the Central Bank of Brazil (1999-2002) and the leading economist identified with the PSDB (Party of Brazilian Social Democracy). A Princeton trained economist and a very successful private investor who worked for George Soros' investment funds for several years, he explicitly argues in favour of the neoliberal reforms (1994; 2003; 2004), adding a distinctive political economy perspective to Williamson's ideas. According to Fraga, 'the nations of Latin America that were more active in carrying out Washington Consensus reforms also experienced better economic performance', therefore 'rather than seeking to reverse the economic reforms that have been carried out, Latin American nations should be thinking about how to extend and complement the existing reforms' (2004, 90).

Fraga bases his argument on the comparison of aggregate macroeconomic and social data.⁵ He contrasts per capita GDP growth, inflation rates, total factor productivity growth and social indicators in an effort to show a general tendency towards 'progress' in the 1990s. On a country-by-country basis, the author supposedly finds a correlation

⁴ Brenta (2002) convincingly shows how much the economic policies in Brazil and in Argentina in the 1990s derived from the Washington Consensus. The exchange rate policies appear to be the main explicit deviation from the Washington Consensus in Brazil and in Argentina. Interestingly, the same could be said in relation to the neodevelopmentalist strategy, which indicates a structural difficulty in keeping relatively undervalued exchange rates in the long term.

⁵ The countries analyzed by the author are Argentina, Brazil, Colombia, Chile, Mexico, Peru and Venezuela. The seven countries selected represent more than 90% of the region's GDP (Fraga 2004, 90).

between the adoption of the Washington Consensus reforms and the ‘progress’ achieved. Therefore, in conclusion, Fraga claims for the deepening of these reforms (2004, 90).

Although carefully handpicked, the data provided by the author hardly sustains his own argument. The improvement in social indicators in Latin America shows a continuous pattern from the 1970s – associated with demographic transition and urbanization – which obviously cannot be attributed to the Washington Consensus. On the other hand, there is no evidence that the very modest improvement in per capita GDP growth (1.7% in the 1990s, in contrast to -0.6% in the 1980s and 3.8% in the 1970s) celebrated by the author was a direct result of the neoliberal policies. Other causes not mentioned by Fraga may include reduced levels of population growth between 1980 and 1990, in comparison to the period 1970-1980, as well as a more favourable international conjuncture in the 1990s.

More relevant than questioning the fragile numeric arguments made by Fraga is uncovering the broader reasoning behind those arguments and showing how they are based on a narrow view of development associated with the market utopia. According to the neoliberal narrative championed by the author, the ‘development strategy’ adopted by Latin American Countries from the 1950s was ‘exhausted’ by the 1980s (2004, 94). The insistence on this old development strategy – based on industrialisation by substitution of imports (ISI) – supposedly led to the debt crisis after external shocks caused by the elevation of oil prices in the 1970s. Therefore, in the 1990s, ‘something had to be done to re-ignite growth and development in Latin America’, and at this point ‘the set of economic reforms known as “the Washington Consensus” enters the stage’ (2004, 96).

Here the Washington Consensus explicitly appears as a development strategy rival to the traditional developmentalist strategy, confirming the insight by Connell and Dados that, in the global south, neoliberalism is primarily opposed to other development strategies (2014, 122). As clarified by Fraga:

Broadly speaking, the reforms sought to control the plague of inflation, to reduce the incidence of balance of payments crises and to move growth policy away from the closed-economy government-led strategies of the three decades that preceded the 1980s. (2004, 96)

The ‘new’ development strategy proposed by the author rests on the hope of using external demand in order to foster a long term ‘outward-oriented’ economic growth,

instead of insisting on the potential of the domestic market. It is not difficult to identify behind it the faith that the full integration into the global trade flows would be beneficial to developing countries, leading to a world-wide convergence of development levels. Once again, the market utopia is used to justify policy reforms. In due course, underdeveloped Latin American countries would rise to the standards of the developed world, provided their governments do not disturb the markets by curbing international trade and artificially promoting suboptimal allocation of productive factors.

Fraga goes beyond the original argument made by Williamson, and asks why it was so difficult to implement the policies of the Washington Consensus, if they were so beneficial to Latin American countries (2004, 98). This fundamental question leads him to tackle some interesting political economy considerations. In Williamson's texts, the resistance to neoliberal reforms was discarded as irrational, inasmuch as the Washington Consensus supposedly deserved the endorsement of every rational political party (1993, 1329). For Fraga, in contrast, there is an identifiable political enemy to the neoliberal reforms, namely, 'populism'. This concept is defined following Kauffman and Stalling as a 'set of *economic policies* designed to achieve specific political goals' (1991, 16; cited in Fraga 2004, 101). Accordingly, 'populism' subordinates the macroeconomic management to the interests of organized labour and domestically oriented business, in opposition to the interests of the rural oligarchy, foreign enterprises and large domestic industrial elites.

According to Fraga, the populist discourse conveys the illusion that there are no 'trade-offs',⁶ 'while good economic policies often creates a mix of losers and winners, whether real or perceived' (2004, 104). Astonishingly, it is admitted that the neoliberal development strategy (aka 'good economic policies') causes distributive conflicts. As a consequence, 'special interest groups then gang up and obstruct the path of development-friendly reforms' (2004, 104). This resistance to the reforms is only overcome during economic crisis, when the 'demand for populism' diminishes. As an example, the author quotes the case of Chile, as 'it seems likely that memories of the economic fiasco under Allende in the early 1970s were still fresh in the minds of the highly competent group that took over after the military' (2004, 103).

⁶ This resounds with the wisdom expressed in Milton Friedman's famous phrase 'there is no such a thing as a free lunch' (1977), as well as the narrow conception of economics as the science of the best allocation of scarce resources.

Although far more elaborated than Williamson's original ideas, Fraga's argument has some fundamental flaws. Firstly, the faith in the market utopia is constantly reaffirmed. Secondly, the author considers the working class as a special interest group, which is rather problematic, since it constitutes the overwhelming majority of the population. In Argentina, for instance, the trade-union bureaucracy – that is, the fraction of the working class that can indeed be seen as a special interest group – actually *supported* the neoliberal reforms, in direct contradiction to Fraga's argument (see chapter 3). In general, the simplistic social analysis proposed by the author – aware of entrenched interests, but ignoring class struggle – unfairly suggests that only 'populism' represents the interest of specific groups, while his 'good economic policies' were just scientific economic advice.

Fraga also fails to offer a nuanced understanding of international pressures and opportunities, repeating Williamson's belief in the progressive powers of the international market. Although his texts occasionally include some scattered references to the international conjuncture, the relations between national development and international constraints is never fully explored. Thus, much like in Williamsons' Washington Consensus, the combined aspect of development is ignored – as if every individual country could become 'developed' based on their own efforts.

1.1.3 Neoliberalism and Peripheral Realism

The international aspect of the development process is systematically incorporated into the neoliberal development strategy only by Carlos Escudé and his 'Peripheral Realism' (1992; 1995; 2009). The author re-signifies the realist principles in an 'effort to build a theory of foreign policy strategies for states that are peripheral, dependent, vulnerable and essentially little relevant for the vital interests of the great powers' (1992, 18). For Arlene Tickner, Escudé's ideas constitute 'the only exhaustive conceptual endeavour in recent Latin American IR' (2003, 332).

Similarly to Fraga, Escudé is concerned with the justification of a set of public policies undertaken by neoliberal governments in the 1990s (nominally, the Argentinian foreign policy). Again like Fraga, Escudé's main rival is 'populism' (2009, 14), and his argument is entirely built in contrast with the developmentalist foreign policies adopted by Argentina in the four decades before 1989, when President Menem took office.

Finally, it is implied that the Peripheral Realist policies are conducive to development – which is supposedly something achievable in national terms.

Escudé's theoretical argument starts with his affiliation to the 'classical' realist presuppositions extracted from the work of Hans Morgenthau (1948). Therefore, he fully subscribes to the idea that 'the world is a result of the forces inherent to human nature' (Escudé 1995, 146). This leads him to propose that the foreign policy should be conducted 'rationally'.⁷ One expression of the lack of rationality behind Argentinian traditional foreign policy is the 'power politics without power' (1992, 18), meaning that the country behave as if it could participate in the disputes of the great powers, despite its structural weakness. The confrontational foreign policy adopted by Argentina was justified in terms of the 'anthropomorphic fallacy', that is, the equating of the nation with a single individual. Therefore, according to Escudé, concepts such as 'dignity', 'pride' and 'honour' are misleading when used in reference to the nation (1992, 51). The sole purpose of the foreign policy, following his approach, is to maximize the well-being of the individuals that form the population, since the state is nothing more than the sum of the citizens, having no higher form of existence (1992, 51).

The market utopia appears in peripheral realism in a particularly original way. Despite inserting geopolitical concerns into the neoliberal strategy, the state itself is emptied as a privileged driver of development, particularly in peripheral countries. Instead, the foreign policy of a peripheral country must simply aim at neutralising international pressures, through an alliance with the superpower of the time. Necessary geopolitical laws are coupled with market laws. To develop, peripheral countries must invariably accept them. Escudé evokes examples from the ancient world to prove his point that 'ill-understood nationalism is the worst enemy of the peoples both in Modernity as in Antiquity' (2009, 3). This pragmatic, peripheral-realist perspective is supposedly the secret behind the foreign policy of Germany and Japan since their defeat in World War II, as well as Canada and Australia (2009, 3).

Argentina – the author's main case study –, in contrast, has been too antagonistic to the United States in the long term, and therefore suffers marginalization by the superpower, which disturbs its 'progress' (1992, 24). Examples of the policies that displeased

⁷ Specifically, he distinguishes between different kinds of rationalities (citizen-centered, state-centered, elite-centered, etc.), and claims that his approach is citizen-centered because it 'serves the people' (1995, 148). In doing so, Escudé distances himself from the neorealist, accused by him of treating the 'State' as a 'person', and therefore ignoring to whom the foreign policy serves (1995, 148–49).

the superpower include the refusal to subscribe to the Nuclear Non-Proliferation Treaty, the development of a medium-range ballistic missile, the confrontation with the United Kingdom over the *Islas Malvinas*⁸ and the engagement in the Non-Aligned Movement (1992, 29–50). All of these policies were reversed in Menem's administration, following Escudé's advice (see chapter 3).⁹

Despite its theoretical fragilities, stemming from the principles of realism itself – for instance, the quest for trans-historical laws, the reification of 'human nature' and a dubious notion of rationality – peripheral realism adds something extremely important to the neoliberal development strategy, namely its international-geopolitical aspect. The market utopia is broadened and re-signified. Integration into the international market is still perceived as a necessary condition for development, but it does not suffice to accept the market rules. Side by side with market rules, it is also necessary to accept geopolitical rules, which also derive from inescapable features of human nature.

Evidently the policies suggested by peripheral realism are not necessarily restricted to the neoliberal development strategy. In different historic contexts, they can be coupled with other development strategies. Nevertheless, the reliance on methodological individualism and the rational choice postulates, as well as the scepticism towards the developmental powers of peripheral states, makes peripheral realism a perfect international relations theory match to neoliberalism. As I show in detail in chapters 3 and 4, peripheral realism and its Brazilian equivalent – 'autonomy by participation' (Fonseca 1998) – give sense and coherence to a foreign policy functional to the interests of the same class-fractions that benefit from the neoliberal reforms. Moreover, it plays a complimentary role in portraying previous development strategies (namely developmentalism) as irrational and failed, as they necessarily implied some level of confrontation with the established powers.

1.2 Neodevelopmentalism as a development strategy premised on the state utopia

As seen in the previous section, authors identified with the neoliberal development strategy build their argument in opposition to the Latin American developmentalist

⁸ Also known as Falkland Islands.

⁹ Escudé was senior political advisor for the Argentinian Minister of Foreign Affairs Guido di Tella.

tradition, which they dismiss as ‘populism’. Conversely, neodevelopmentalist authors return the favour and also define their development strategy in contrast with neoliberalism. Nevertheless, the anti-neoliberal agenda they set up is not a simple return to the developmentalist approach (Bresser-Pereira 2012a, 348). In this section, I argue that despite the updated set of policies suggested by neodevelopmentalists, the state utopia that was at the core of older versions of developmentalism remains central to neodevelopmentalism. Accordingly, the state is perceived as a virtuous institution, standing above class conflicts, and concerned with the national interest. Development is to be achieved through the decisive guidance of the state, which is supposed to tame the market forces and manage international constraints and opportunities.

The original expression of Latin American developmentalism appeared in the aftermath of the 1929 crisis and gained momentum during the Second World War. Originally adopted by nationalist governments in Brazil (under President Vargas), Argentina (under President Perón) and México (under President Cárdenas), and sometimes identified by Gramscian scholars as passive revolutions (Morton 2013, 22), these policies aimed at industrialization, involving decisive state activism. Protection of the internal market by high trade tariffs and subsidies boosted the ISI model. The results of these policies are contested and contradictory (Mariña-Flores 2014, 147), but they clearly changed the productive structures of the biggest countries of the region.

The nationalist industrialization policies of the 1930s and 1940s were posteriorly formalized and theoretically developed in an impressive and original body of economic literature.¹⁰ Deeply rooted in the ideas of John Maynard Keynes (1978), the Latin American developmentalist school effectively denounced the liberal supposition that the full integration into the world market would lead to Latin American development.

The Argentinian economist, former UNCTAD Secretary-General, and the key ECLAC¹¹ thinker Raúl Prebisch pioneered the theoretical argument for the state-induced industrialization of the region, claiming that its primary productive structures were especially vulnerable to the cyclical crisis of the capitalist system. From a purely theoretical standpoint, Prebisch does not question the ‘benefits of the international

¹⁰ See Kay (2010, chap. 2) for an outstanding review.

¹¹ The United Nations Economic Commission for Latin America and the Caribbean (ECLAC), founded in 1948, is the traditional home of Latin American developmentalism. Influential economists and sociologists that have produced works identified with the ECLA are, among others, Celso Furtado; Maria da Conceição Tavares; Osvaldo Sunkel; Aníbal Pinto; Jorge Graciarena and Fernando Fajnzylber. Texts by these and other writers were collected by Bielschowsky in the extensive, two-volume compilation *Cinquenta anos de pensamento na CEPAL [Fifty Years of ECLA Thought]* (2000).

division of labour'. Nevertheless, because in reality technical progress happens unevenly across sectors, and because of Latin American historical lack of capital, free trade would tend to perpetuate backwardness in the region, '[t]hereof the utmost importance of the industrialization process of the new countries.' (Prebisch 2000[1949], 71-72). Just like in the liberal tradition, development is perceived as a process of capitalist convergence at the production and consumption levels of global north – or 'central countries'. The fundamental point of disagreement between developmentalists and liberals concerns the dispute over whether or not the dynamics of the international markets are conducive to development in the periphery.

Recently, the terms 'neodevelopmentalism' or 'new developmentalism' have been incorporated into the academic debates in the fields of Development Studies, International Relations and Political Economy (Sicsú, Paula, and Michel 2005; 2007; Bresser-Pereira 2006; 2012a; 2012b; Bresser-Pereira and Theuer 2012; Féliz 2012; 2014; Katz 2014; Morais and Saad-Filho 2011; Ebenau 2014; Mollo and Fonseca 2013; Boito Jr and Berringer 2014, among others). Normally employed in an effort to conceptualize the economic policies of post-neoliberal, left-of-centre governments in Latin America over the last 15 years, the concept is still subject to much controversy regarding its meaning and extension.

As defined by its contemporary proponents, neodevelopmentalism is a doctrine of catching-up development, which explicitly presupposes the possibility for individual nations to become 'developed' over time by taking the right set of economic policies. In fact, like old versions of developmentalism, neodevelopmentalism does not pose a radical theoretical threat to mainstream marginalist economics. Instead, it reaffirms Prebisch's idea that in reality free markets do not work because of historical conditions, although through decisive state intervention the market's failures can be corrected. Once the state steps in and manages market forces sensibly, peripheral countries can finally develop. In short, the market utopia is replaced by a state utopia. Instead of a faith in the developmental powers of the free market, neodevelopmentalists believe in the powers of the state to rise above classes and generate development for the whole nation.

Claudio Katz rightfully remarks that the differences that neodevelopmentalists claim to have in relation to neoliberals are based on an oversimplification, as at the end of the day 'all of them appeal to a strong presence of the public sector in order to manage the economy (...) what is always at stake is the kind of state intervention in each period, not the existence or the intensity of this presence' (2014, 102). The distinction between

neoliberalism and neodevelopmentalism is particularly tenuous in moments of crisis, when both sides agree on the necessity of saving endangered private capital, particularly banks. Indeed, both development strategies are based on a similar concept of development as capitalist catch-up. As such, their incidental differences are to be seen as simply disagreements on the means, and never on the final end: prompting capital accumulation and raising productive and consumption standards to the levels of global north countries.

At a theoretical level, therefore, the distinction between neoliberalism and neodevelopmentalism rests on the artificial antagonism between state and market capitalist utopias. These utopias, in turn, unfold in very real and consequential political differences, revealed through discourse and policies, as analysed in the empirical chapters of this thesis. Although based on similarly fragile theoretical presuppositions, the development strategies carried out in Menem's, De la Rúa's, Collor's and Cardoso's administrations in the 1990s are substantially different from the development strategies carried out in Lula's, Rousseff's or the Kirchner's administrations one decade later.

The key to understanding the material difference between neoliberalism and neodevelopmentalism must be found in the different class alliances behind each alternative. Discourses and policies drawing on the market utopia are mostly favoured by the international capital and the financial and exporting fraction of Brazilian and Argentinian ruling classes. Alternatively, the state utopia is most easily used to justify discourses and policies advancing the interests of organised labour and the fraction of the ruling class dependent on the internal demand. Neodevelopmentalism, in short, is a development strategy based on the state utopia, used to cement a national alliance between certain fractions of the ruling class and the working class. This understanding of neodevelopmentalism largely follows Ruy Mauro Marini's original usage of the term (1978). Although part of the growing contemporary critical literature on neodevelopmentalism (Castelo 2012; Boito Jr and Berringer 2014; Boito Jr and Saad-Filho 2015; Feliz 2014) adopts a similar understanding of the concept, they seem to ignore its genealogy. Indeed, the term was used for the first time in an internal controversy within dependency theory, opposing Marini and Serra and Cardoso (1978).

In the remainder of this section I further explore the theoretical shortcomings of neodevelopmentalism. First, the forgotten origins of neodevelopmentalism in Cardoso's reformist dependency theory are uncovered and the genealogy of neodevelopmentalism is revealed. Then, I engage with the most outspoken contemporary expression of neodevelopmentalism, which is to be found in Bresser-Pereira's writings and in a

manifesto called ‘Ten Theses on New Developmentalism’. The foreign policy aspect of neodevelopmentalism is discussed through an engagement with the work of Ambassador Samuel Pinheiro Guimarães (2007; 2008a; 2008b), who offers a counterpoint to Carlos Escudé’s peripheral realism.

1.2.1 Reformist dependency theory and the forgotten origins of neodevelopmentalism

Although the concept of neodevelopmentalism has only been consistently incorporated into academic debates in the aftermath of the rise of left-of-centre administrations in Latin America – particularly in Brazil and Argentina – it was first coined by the Marxist dependency theorist Ruy Mauro Marini four decades ago. In an article called ‘The reasons of neodevelopmentalism’, Marini answers the criticism levelled against his revolutionary dependency theory by José Serra and Fernando Henrique Cardoso, and accuses his critics of ‘neodevelopmentalism’ (Marini 1978, 102–3).

The links between Marini’s original formulation and contemporary neodevelopmentalism have been largely missed. Indeed, what appeared in the late 1970s as a grave accusation of capitulation in face of international capital and national elites, now sounds almost like a praise for Cardoso and Serra, considering how much lower they would sink during the 1990s. As remarked by Perry Anderson, ‘[i]n pursuit of office Cardoso had sacrificed not only his early convictions, which were Marxist and socialist, but over time his intellectual standards’ (2016, 19). In fact, Cardoso’s administration can be better described as neoliberal, while full-fledged neodevelopmentalist discourse and policies would appear only in Lula’s administration (see chapter 5). Nevertheless, the first theoretical justifications of neodevelopmentalism can be traced back to Cardoso’s reformist dependency theory. Furthermore, traces of neodevelopmentalism also appear in Cardoso’s first administration program and his early political speeches (see chapter 4). Cardoso’s conversion to neoliberalism was not sudden, therefore. Before fully embracing the market utopia, particularly in his second term as President, he laid out the intellectual basis of neodevelopmentalism.

To uncover the forgotten roots of neodevelopmentalism, it is necessary to revisit the context of its original formulation. Dependency theory appeared in Latin America in the early 1960s as a response to both, modernisation theory and classical Latin American

developmentalism from the ECLAC. Exiled in Chile after the military coups in Brazil (1964) and Argentina (1966), a group of left-wing intellectuals including Vania Bambirra, Theotonio dos Santos, Gunder Frank, Ruy Mauro Marini, José Serra, and Fernando Henrique Cardoso challenged Raúl Prebisch's state-cantered ideas and the developmentalists' theories at large. Although a considerable diversity exists among this first generation of *dependentistas*, all of them recognised that the structural impediments to development in Latin America could not be simply corrected by virtuous state-led policies, premised on progressive class alliances between capital and labour. As famously put by Gunder Frank, the 'present underdevelopment of Latin America is the result of its centuries-long participation in the process of world capitalist development' (1969, 7). Therefore, within global capitalism, Latin America could only experience 'Development of Underdevelopment' (1966).

Cardoso and Faletto's 'Dependency and Development in Latin America' (1979 [1967]) is one of the most nuanced version of dependency theory. The authors place great relevance on historical specificity and focus particularly on the role of the emerging middle classes, which appeared in Latin America in the first three decades of the 20th century, following the initial diversification of merely export-based economies (1979 [1967], 75). Contradicting the idea that capitalist development would be totally impossible in peripheral countries, Cardoso and Faletto claim that state-led processes of industrialization, based on the domestic market formed by these new middle classes, succeeded in reshaping the old, colonial structures of dependency. The dynamism provided by the growing internal market allowed the bigger countries of Latin America – Brazil, Argentina and Mexico – to overcome the condition of simply commodities-export economies, successfully constituting important industrial economies. Nevertheless, dependency was renewed, inasmuch as the dynamics of industrial investments in Latin America were dictated by multinational companies whose decisions were taken in central economies (1979 [1967], 160).

Building on his previous works, Cardoso explicitly rejects Frank's model for its incapacity to explain the capitalist development that actually happened in Latin America after the diversification of export-based economies. In Cardoso's own words, '[t]he idea that there occurs a kind of development of underdevelopment, apart from the play on words, is not helpful' (1972, 89). For the author, given that dependency and development are not intrinsically incompatible, it would be more accurate to conceptualize the

transformation of the economic and social structures in Latin America as a form of ‘dependent capitalist development’ (1972, 89).

Since its original formulation, Cardoso’s concept of ‘dependent capitalist development’ stood on the brink of falling back to the classical developmentalist perspective that capitalist development could potentially be achieved by Latin American countries, if only they adopt a suitable development strategy. Only the ‘dependent’ character of this development, a necessary consequence of the association with foreign capital due to the structural lack of capital in Latin America, differentiated it from the catching-up conceptions of the ECLAC. The thin line between Cardoso’s dependency theory and the developmentalist tradition was finally crossed three decades after the publication of his first texts, when he came to power in Brazil (see chapter 4). The limits he previously identified to associated or ‘dependent’ development were finally erased. In a text published in 1995, Cardoso denies that peripheral countries are doomed to develop in ‘distorted’ ways:

Today we know that it is not true. Countries which were able to manage their economies sensibly to the transformation of modes of production within capitalism, as well as to social issues, have had more favourable trajectories than others. The case of the Asian Tigers is well-known. What remained of ‘determinism’ in the dependency theory, maybe a Marxist trait – and I always criticized determinism – certainly must be fundamentally reformulated. The level of influence of political choice over the economic structure is greater than it appeared to us in the 1960s (1995a, 151).¹²

By abandoning the last ‘Marxist traits’ of his former dependency theory, Cardoso came full circle back to the developmentalist field, from which dependency theory had arisen in the first place. Nevertheless, the conjuncture of the 1990s was substantially different from that of the 1950s and 1960s. The discursive reframing of the developmentalist ideas in the new conjuncture, defined by what Cardoso came to increasingly call ‘globalisation’ (Batista Jr. 1999), marks the final leap from classical developmentalism to neodevelopmentalism. Accordingly, classical themes of the developmentalist tradition – such as the protection of infant industry and ISI – were replaced by a more positive view towards the potentialities of international trade. The key role of international investments – an insight from Cardoso’s ‘dependent capitalist development’ – is fully incorporated into the ‘new development strategy’ he proposes in

¹² Similar claims are made in Cardoso and Font (2001).

his first administration program (2008[1994]). Notwithstanding eventual updates, clearly influenced by the context of the 1990s, Cardoso's first administration program keeps the hallmark of developmentalism, namely the faith in the state capacity to stand above class struggle and direct national development to the benefit of all. The same could also be said about the works of some of Cardoso's close collaborators, including Bresser-Pereira, named Minister of Administration and State Reform under Cardoso's first presidency, between 1995 and 1998.¹³

The neodevelopmentalist seeds already present in Cardoso's concept of 'dependent capitalist development' were denounced by Marini almost two decades before their fruits began to mature. Making the first recorded use of the term 'neodevelopmentalism', Marini strikingly foresees the future degeneration of Cardoso's ideas:

(...) today, the new ideologists of the Brazilian bourgeoisie [Serra and Cardoso] find themselves obliged to retake this tradition [developmentalism] and try to give credibility to a Brazilian capitalist development in an American or European fashion. In a nutshell, we are facing a neodevelopmentalism, still ashamed of itself, but that will soon lose its inhibitions (1978, 102–3).

Against Cardoso and Serra, Marini reaffirmed the structural impediments to capitalist development in Latin America. According to him, Frank's concept of 'development of underdevelopment is impeccable' (Marini 2009a [1973], 111). Cardoso's critiques to that concept are seen as a 'step back', incorporating 'precisions that claim to be theoretical, but in fact are nothing more than semantic' (2009a [1973], 111). Reaffirming his strong scepticism regarding the possibility of capitalist development in dependent countries, and, specifically, in an effort to explain the undeniable process of industrialization of Brazil, Argentina and Mexico, Marini offers a complex historical materialist analysis of production and circulation from the perspective of dependent countries.¹⁴

¹³ See, for instance, Bresser-Pereira, Maravall, and Przeworski (1993); Bresser-Pereira (1997, 1998).

¹⁴ Marini's argument relies on Marx's distinction between relative and absolute surplus value. While the former is based on a reduction of the relative value of labour, by pushing down the value of the working class' consumption goods (i.e. its reproduction cost), the latter is based on an increase in the absolute exploitation of labour, via increasing working hours, or intensification of the work day. In both cases, capitalists extract surplus value, but in the first case the side effect is the creation of a dynamic mass consumption market for the working class, while the latter leads to a continued depression of internal markets in peripheral countries due to low salaries, sometimes below the cost of reproduction of labour itself (super-exploitation). Furthermore, these two forms of surplus extraction complement each other, as the extraction of relative surplus value in central economies requires the continued reduction of the value of consumption goods produced elsewhere (Marini 1978, 2009a, 2009b).

Marini's historical materialist dependency theory very convincingly lays bare the reactionary character of Cardoso's incipient neodevelopmentalism. Nevertheless, exactly because of the lack of a consistent concept of development in the historical materialist tradition – a theoretical gap which has been filled over the last decade (see chapter 2) – he had to fall back to the problematic negation of any possibility of capitalist development for Latin American countries. Meanwhile, despite their theoretical shortcomings, Cardoso's ideas completed their metamorphosis to contemporary forms of developmentalism. Ironically, however, the class alliance that would make possible the translation of neodevelopmentalism into concrete policies would only emerge in Brazil after Cardoso left office (see chapters 4 and 5).

1.2.2 Contemporary expressions of neodevelopmentalism and the 'Ten Theses'.

There are a number of different contemporary expressions of neodevelopmentalism. Economists close to the Brazilian Workers Party (PT) propose a form of social developmentalism, emphasising the role of the state in reducing poverty and inequality (Mercadante 2010; Pochmann 2010; Neri 2010). In Argentina, a new generation of developmentalist economists close to Kirchnerism highlight the importance of industrial policies and 'fine-tuned' economic management in order to bridge the technological gap characteristic of underdevelopment (Kicillof, Nahón, and Costa 2006; Kicillof 2016). The best articulated theoretical expression of neodevelopmentalism is to be found in the recent works of Bresser-Pereira (2012b, 2006; Bresser-Pereira and Theuer 2012), which place great relevance on macroeconomic management, particularly regarding exchange rates. Despite differences of emphasis, all variations of neodevelopmentalism share the state utopia. Even when potentially conflicting social interests are recognised, it is supposed that the state can raise above social classes, neutralise negative international influences and promote development.

The problematic state versus markets dichotomy – from which both the market and the state utopias arise – remains unresolved in the neodevelopmentalist theoretical formulations. Of course, neodevelopmentalists do not argue for the total suppression of the market, just as neoliberals do not claim for the total suppression of the state. Instead, state and market switch places as the main driver of development. In other words, neodevelopmentalists believe that the state can tame and direct the market to the benefit

of all. As explained by Sicsú, de Paula and Michel, neodevelopmentalism is based on Keynesian conceptions of the intrinsic limitations of the free market (2007, 508).¹⁵ Taking into account the market failures, the authors claim for a ‘strong state that fosters the blooming of a strong market’ (2007, 509).

The core tenets of the neodevelopmentalist strategy are unequivocally summarised in a manifesto called ‘Ten Theses on New Developmentalism’ (Ten Theses 2012), subscribed to by a number of leading heterodox economists, including Sicsú; Bresser-Pereira; Davidson; Ha-Joon Chang; Chandrasekhar; Ferrer; O’Connell; Palma; Nakano and Przeworski, among others. Just like the Washington Consensus, which it emulates, the Ten Theses are surprisingly straightforward. The document aims at establishing a ‘national development strategy that middle income countries are today using or should use to promote development and economic catching-up’ (2012, 336). This strategy is based in the following assumptions:

- 1- Development is a ‘structural process’ of ‘capital accumulation’. The main aim of this process is to provide full employment of labour and constant increase in productivity (2012, 336).
- 2- ‘Markets are the major locus’ of the development process. Nevertheless, they should be complemented by the ‘strategic role’ of the state. The state should guarantee that the domestic resources are being channelled to innovative sectors, aiming at promoting ‘international competitiveness’ (2012, 337).
- 3- To generate development, it is necessary to have a ‘development strategy’ that takes advantage of international opportunities, such as ‘economies of scale’ and ‘technological learning’. This strategy must also mitigate challenges such as ‘excessively strong intellectual property regimes’ (2012, 337).
- 4- The demand side of the development process is ‘where the major growth bottleneck unfold[s]’ (2012, 337).
- 5- There is a tendency for salaries to grow less than productivity caused by abundant supply of labour and by the characteristics of labour markets in developing countries. It can be counterbalanced by policies like ‘a legal

¹⁵ Stiglitz and Davidson are also mentioned as major influences. Bresser-Pereira indicates some classical authors as the original inspirers of neodevelopmentalism, including Smith, Marx, Weber, List and Veblen (2010, 102).

minimum wage, cash transfers to the poor, and principally a government guarantee to provide employment at a living wage' (2012, 337).

- 6- The tendency of appreciation of the exchange rate is caused by 'excessive reliance on external savings' and by the 'Dutch disease'. It happens 'in the context of excessively open capital markets and lack of appropriate regulation' (2012, 337).
- 7- The structural cause of the 'Dutch disease' is the export of commodities based on 'natural resources' or on 'ultra-cheap labour'. It creates a disjunction between the 'current account equilibrium exchange rate' and the 'industrial equilibrium exchange rate' (2012, 337).
- 8- Domestic savings must be the main source of investments. Public financial institutions are instrumental to make it happen. Financing investments with foreign savings 'increases domestic indebtedness and reinforces financial instability' (2012, 337).
- 9- Two are the key variables to provide 'the appropriate framework for development': the exchange rate and the fiscal equilibrium. Specifically regarding the second, 'the government must ensure a stable long term relation between the public debt and GDP' (2012, 337).
- 10- Finally, the centrality of full-employment and stability is reaffirmed: 'To achieve long term development, economic policies should pursue full employment as their primary goal, while assuring price and financial stability' (2012, 337).

As with the Washington Consensus, the Ten Theses are excessively schematic and demand further clarification. Nevertheless, behind the list of policies, it is possible to identify a coherent economic reasoning. Starting from the simple idea that development is capitalist catch-up, Bresser-Pereira (2012a, 350) summarises the classical developmentalist problem and asks what is hindering accumulation of capital and investment in developing countries? At this point, the two factors mentioned in item 4 of the Ten Theses come to the forefront, namely the tendency of wages to grow less than overall productivity and a chronic tendency of overvaluation of the exchange rates (2012a, 350).

These tendencies boil down to the 'Dutch disease' argument, which has been repeatedly restated by Bresser-Pereira over the last few years. The author reinterprets

Corden's original model (1984), assuming two equilibrium exchange rates instead of the existence of two sectors in the economy (Bresser-Pereira 2012a, 353). The first, called 'current-equilibrium', tends to be chronically overvalued in relation to the second, the 'industrial-equilibrium' exchange rate, because of the existence of cheap and abundant natural resources (2012a, 354; 2012b, 65). The commodities produced using this extraordinary advantage 'can be exported at a considerably higher exchange rate than is required to make other business enterprises using state-of-the art technology competitive' (2012b, 65). This 'market failure' must therefore be 'neutralised'. The state can do that by, for instance, overtaxing exports (2012a, 354; 2012b, 66), in an effort to bring the exchange rate to the 'industrial-equilibrium'.

Bresser-Pereira reckons that the manipulation of the exchange rate in order to keep it at the 'industrial-equilibrium' level may be unpopular, particularly when it involves significant devaluation. The short term consequences of currency devaluation include relative wage lowering and inflation increase, which renders it politically difficult to adopt (2012a, 355). The only answer the author can offer to this problem is an repeated call to 'national unity' (2006, 10; 2010, 87; 2012a, 363). According to Bresser-Pereira:

A nation involves a basic solidarity among classes when it comes to competing internationally. Businesspeople, workers, state bureaucrats, middle-class professionals and intellectuals may come into conflict, but they know that they share a common fate and that this fate relies on their successful competitive involvement in the world of nation-states. It involves, therefore, a national agreement (2010, 87).

Despite heavily relying on an idealised view of the nation, which goes hand in hand with the state utopia, Bresser-Pereira's neodevelopmentalist theses are evidently more sophisticated than the neoliberal development strategy advanced by Williamson and his followers. The two crucial elements which I claim throughout this thesis are central to the understanding of the development process (see chapter 2) – namely, class conflicts and international relations – are indeed present in the neodevelopmentalist narrative. Nevertheless, the interaction between these spheres is not sufficiently explored.

The international appears as a source of both, constraints to and opportunities for development, mainly via foreign trade. The general assumption is that the neodevelopmentalist policies are conducive to the neutralization of international shocks, and, at the same time, can induce development by boosting exports. There is a fundamental disjunction between the national and the international, with a primacy of the

first over the second. This idea does not essentially differ from Williamson's presupposition that, in the long term, one country's destiny rests upon its autonomous choice of policies (2004, 197). The importance of the international in the development process is therefore at once understated and exaggerated.

It is exaggerated because neodevelopmentalists have unrealistic expectations about the potential of export-led growth. These expectations are based on the universalization of the East Asian experience, which cannot be indefinitely emulated, inasmuch as each and every export is necessarily also an import by some other country. If every single country devalues its currency to promote exports, the combined effect is null. In other words, export-led growth is not a universal 'lesson' that can be learned by every developing country, and was only possible for some East Asian countries in a specific historical conjuncture.

At the same time, the neodevelopmentalist view underestimates the power of the whip of external necessity (see chapter 2), assuming that it can be neutralised by national unity. The agency and the good faith of political elites are largely exaggerated. Putting aside the very questionable idea that a national consensus in the interest of the 'nation' as a whole is possible (and desirable), the fact that international relations influence the distributive disputes in each society is not considered. The presupposition is that if only the different groups forming a society can put their heads together, the 'nation' would successfully compete in the world economy, resulting in gains for all. This sociological view – blind to the inherent opposition between capital and labour – does little to explain why so many nations fail to build lasting progressive class alliances, and, much more importantly, disguises fierce political repression of the working class under the idea of a national consensus. This is illustrated by the fact that the period Bresser-Pereira (2010, 89) mentions as an example of national unity in Brazil around the old developmentalist strategy was in fact characterized by 31 years of dictatorship, intermingled with 19 years of unstable and very limited formal democracy.¹⁶

In a nutshell, the standard theoretical formulation of the neodevelopmentalist ideas, as expressed in the Ten Theses and in Bresser-Pereira's texts, do not successfully integrate class analysis and international relations, largely ignoring the distributive consequences of the international for specific societies. The possibility and desirability

¹⁶ Eloquent examples of the limits of Brazilian liberal democracy in that period were the banning of the Communist Party (except for a brief period in 1945-46) and the prohibition of illiterate people from voting.

of world convergence to the living standards of high income countries are never questioned. Finally, it does not convincingly explain why underdeveloped nations fail to form solid national alliances and effectively adopt the policies suggested. This last point is particularly relevant for the analysis of the neodevelopmentalist policies implemented in Brazil and in Argentina in the 2000s, which came way short of fulfilling the grand promises of development announced in the neodevelopmentalist political speeches (see chapters 5 and 6).

1.2.3 The geopolitics of neodevelopmentalism.

As argued in the previous section, neodevelopmentalism does not convincingly integrate sociological analysis and international relations. On the one hand, the complexities of social relations are oversimplified, and the fundamental opposition of interests between capital and labour is understated. On the other hand, although ‘external’ influences are acknowledged as important, there is a general supposition that, led by a virtuous state, the ‘nation’ can overcome the international constraints and become developed.

There is, nonetheless, one author that explicitly explores the international aspects of the neodevelopmentalist strategy. Ambassador Pinheiro Guimarães (1998; 2000; 2007; 2008a; 2008b), former vice-Minister of External Relations of Brazil (2003-2009), and Minister of Strategic Affairs (2009-2010), couples the neodevelopmentalist strategy with a very interesting realist approach to international relations, deeply rooted in his lifelong experience as a diplomat. In doing so, he offers a counterpoint to Escudé’s peripheral realism, which he severely criticizes (Guimarães 2008a, 268).

According to Guimarães, the contemporary international stage is characterized by a growing multipolarity, after a brief moment of unipolarity following the end of the cold war (2008a, 255). This conjuncture opens up new possibilities for large peripheral countries. For the author, Brazil can become a new world power. For this to happen, Brazilian backwardness must be overcome by ‘gradually’ reducing its internal inequalities, eliminating its ‘external vulnerabilities’ and realizing its economic, military and political potentialities (2008a, 259–62).

The author portrays the international political system as inherently competitive, dismissing with some irony the liberal views suggesting that ‘the end of the competition between the East and the West would result in the end of all conflicts and wars, in the cooperation and fraternity among states and that the globalization would bring growth to all economies and to all sectors in each country’ (2008a, 257). Contrary to that rose view of globalisation, Guimarães identifies a ‘hegemonic macro-structure’ that reinforces the power of central states, while perpetuating the subordinated condition of the states on the periphery. Although the author recognizes the secondary role new actors like large multinational companies, NGOs and International Organizations may play, according to him states remain at the core of the system (2007, 33).

In the model depicted by Guimarães, states are essentially self-interested entities concerned only with the maximization of their power resources. As a consequence, the quest for development must be seen in the context of the competition among states. Therefore, in Guimarães own words:

(...) the foreign policy of a country must have as its primordial goal the defence and the promotion of the national interests, without any illusions regarding the friendship of other states or the supposedly benign tendencies of the international system (2008a, 246).

The origin of the inequalities in the international system can be found in the colonization process, an idea that is captured in the title of Guimarães’ first book, *Quinhentos anos de Periferia* [Five hundred years on the periphery] (2007). Examining the Brazilian case, the author claims that there is a mutual causation between the deep social inequalities and the chronic external vulnerability of the country, which are the sources of its difficulties in overcoming underdevelopment (2008a, 26). Both negative features were inherited from the colonial system, which was designed to perpetuate the subordination of the colony to the metropolis (2008a, 26–29).

Notwithstanding the strength of the ‘hegemonic macro-structure’ that keeps the big peripheral countries like Brazil from fully developing their potentialities, the author reckons that there is still some room for change, inasmuch as the system is dynamic. For Guimarães, the system tends towards the continued concentration of power in the centre, but also in the emerging poles, including China, India and Russia (2008a, 291). The best strategic choice for Brazil would be to establish an independent pole of power in South America, by preventing it from being incorporated into larger economic and political

blocs (such as the NAFTA) and by exerting a ‘non-hegemonic leadership’ in the region (2008a, 299). As Guimarães explains:

[t]his ascension of Brazil to the great power status shall not be considered a utopia, but is a necessary national goal, because failing to realize it would mean the failure to deal with the challenges facing Brazil’ (2008a, 267).

Contrary to Bresser-Pereira’s neodevelopmentalist perspective previously analysed, Guimarães’ account is acutely aware of the international constraints on the development of peripheral countries. These constraints are not only economic, but also geopolitical. As noted by the author, the rise of Brazil as a great power would affect the regional and the world power correlation, with special consequences for the US hegemony over South America (2008a, 265–75). The logical conclusion of Guimarães’ argument is that development is only possible when the national economic policies are followed by a geopolitical strategy that neutralizes the negative pressures the ‘hegemonic macro-structure’ casts over peripheral countries.

Although the actual strategy suggested by Guimarães for Brazil totally differs from the strategy Escudé puts forward for Argentina, in theoretical terms both authors actually agree more than disagree. Both, drawing from a classical realist perspective, view the international system as necessarily competitive, and clearly identify the geopolitical impediments to development of non-hegemonic countries. Development, in both cases, is seen as the process of convergence to the standards of the supposedly ‘developed’ countries, as well as the overcoming of the peripheral condition in geopolitical terms, and the consequent rise to the centre of the international power structures. The disagreement fully appears only when it comes to defining the best means to achieve this end. Guimarães suggests the creation of a defiant South American pole in an increasingly multipolar world, while Escudé insists in the benefits of bandwagoning with the hegemonic power.

As such, and despite the author’s admirable courage in confronting the imperialist interests of the United States, Guimarães argument is subject to the same criticism that applies to every realist model. Willingly or not, the author reifies the role of the states, supposes some form of ahistorical balance of power between nations and relies on the problematic notion of ‘the national interest’. Despite the author’s concern for the social inequalities in Brazil, his calls for the ‘collective action through an efficient state’ (2008a, 265) echoes Bresser-Pereira’s claim for state-led national unity around a development

project. In both cases, the state utopia looms large as a problematic theoretical presupposition.

In fact, even Guimarães' claim for the 'gradual' reduction of social inequalities is subordinated to the imperatives of the geopolitical competition. Internal inequalities are seen as one of the causes of weakness of the Brazilian nation, not as a problem in itself. His theoretical approach, therefore, is instrumental to the construction of the hegemony of the productive fraction of the national bourgeoisie. Exactly as Escudé's Peripheral Realism offered to the Argentinian financial bourgeoisie the perfect match for their neoliberal economic policies, Guimarães geopolitical ideas are totally coherent with the neodevelopmentalist economic policies which benefited in the first place the productive fraction of the Brazilian ruling class (Boito and Berringer 2014).

Another important aspect of Guimarães' ideas relates to the impossibility of universalizing his development strategy. Indeed, differently from other neodevelopmentalist thinkers, the author rightly stresses the relative aspect of the development process (2008a, 25), suggesting that development and underdevelopment mutually constitute each other. Nevertheless, the author seeks to secure a favourable position for Brazil in this unequal and competitive world. By relating the possibilities of development for large peripheral countries to their capacity to become great powers, the author legitimises Brazilian sub-imperialist practices (Fontes 2010), despite his somewhat vague calls for 'non-hegemonic' leadership.

In conclusion, Guimarães' original geopolitical formulations offer an important political complement to the neodevelopmentalist strategy, but do not solve its core theoretical fragilities. In fact, just as Argentinian neoliberalism would involve policies influenced by Escudé's peripheral realism (see chapter 3), Brazilian neodevelopmentalist foreign policy – including the creation of the BRICS, the UNASUR and the strengthening of MERCOSUR – was largely premised on Guimarães' ideas (chapter 6). In both cases, however, the respective neoliberal and neodevelopmentalist foreign policies proved insufficient to prevent the shortcomings of neoliberalism and neodevelopmentalism at large.

1.3 – Swallow this bitter medicine: Neoliberalism, Neodevelopmentalism and the disease metaphor

In this chapter I have reviewed representative texts of the Latin American neoliberal and neodevelopmentalist literature, with special attention to writers who occupied important positions in recent administrations in Brazil and Argentina. As a general conclusion, I claim that both sides rely on mutually exclusive utopias. Neoliberal writers believe that the free market leads to development, while neodevelopmentalist writers believe that the state can stand above class interests, control the market and promote development for all. Both sides rely on an artificial market versus state divide. Furthermore, both sides make repeated appeals to a narrow idea of development, understood as the convergence to the consumption and productive standards of global north countries.

Despite being equally premised on fragile theoretical bases, both neoliberal and neodevelopmentalist writers constantly present their knowledge as scientific and unbiased. The public policies they suggest may involve sacrifices – particularly for the working class and the poorest tiers of society – but they are necessary, if development is to be achieved. This reasoning is captured in the disease metaphor, used by neoliberals and neodevelopmentalists alike.

The disease metaphor appears explicitly, for instance, in Fraga's title: 'Latin America Since 1990s: Rising from the Sickbed' (2004). It is also present in less straightforward ways, as when Williamson suggest that the left must overcome its historical 'antipathy to the market' in order to 'remedy' social inequalities (1993, 1334). Still in the neoliberal side, Franco starts his analysis of the reforms in Brazil by quoting Michael Bruno's comparison between high inflation and fever in a sick body. According to Franco, the reforms implemented in the 1990s tried to reach the deeper causes of the country's disease and not only the symptoms, by emphasizing fiscal austerity (1998, 121–22).

On the neodevelopmentalist side, unsurprisingly the same metaphor is used to exhaustion. One of the most serious threats to development is identified as the 'Dutch disease' (Ten Theses 2012). References to the disastrous consequences of that economic illness appear in almost every single text published by Bresser-Pereira in the last few years (for instance 2006; 2010; 2011; 2012a; 2012b). Kiciloff and his colleagues compare the situation of Argentina in the 1990s with a sick person that does not show symptoms: 'just like it happens in some cases of degenerative diseases, the deterioration is only manifested in the moment of acute crisis, although the patient looks like he is enjoying

perfect health for years, in fact he is dying from the inside' (Kicillof, Nahón, and Costa 2006, 5).

What is implied in the disease metaphor? First, it involves the comparison between a society and a human body. Second, it is suggested that this body can potentially have a normal (healthy) form of existence, but some alien agent (the disease) is harming it. Nevertheless, hopefully there are wise physicians (or economists, for that matter) around, and they happen to have just the right medicine.

This metaphor fits like a glove in neoliberal and neodevelopmentalist narratives. The notion of a unitary body of the nation hides class struggles, while the external causes of the illness illustrates how the international is perceived. Another external agent – the medicine – may be used to restore health, indicating a renewed faith in international opportunities, as long as they are wisely and prudently used. The most interesting idea concealed in the disease metaphor is, however, the suggestion that underdevelopment is not a normal condition, but something that will pass as soon as the right remedy is applied. In short, the patient (the society) must only trust the scientific knowledge of the doctors (or economists) and swallow that medicine, no matter its potential side effects and how bitter it may taste.

The disease metaphor suggests a fundamentally non-relational view of development. After all, there is no impediment to everyone being healthy at the same time. The good health of some cannot be plausibly seen as the cause of the others' disease. Moreover, being healthy is seeing as the incontestable aim of the organism as a whole. There cannot be a fundamental disagreement between feet and head regarding which medicine should be taken. Accordingly, the metaphor implicitly equates the putative neutrality of medical science with the neutrality of economics. The economist stands above society's disputes with his prescriptions to achieve development.

This view of development, present in both the neoliberal and neodevelopmentalist literature, must be challenged. Both neoliberalism and neodevelopmentalism are based on utopias that can never be fully realised. Both reinforce the hegemonic position of different fractions of the ruling class by subordinating the priorities of the working class to national development strategies under the leadership of national elites.

In this chapter, I have exposed the fragile theoretical presuppositions of the two dominant contemporary development strategies in Brazil and Argentina. In addition to offering problematic sets of policies, neoliberal and neodevelopmentalist writers also fail to provide convincing explanations for the fact that their policies never produce the

expected results. Because both the perfect free market and the perfect state never fully materialise, the sacrifices required from the subordinated classes can always be renewed, while the 'cure' for underdevelopment is never completed.

The negative work of criticising these mainstream perspectives does not suffice, however. It is necessary to move one step further and start imagining consistent alternatives to neoliberalism and neodevelopmentalism. To do so, the very concept of development must be radically reframed. The interplay between international pressures and opportunities and class struggle must be fully acknowledged. The agency of subordinated classes in defining its own development perspective must be recovered.

In the next chapter, I claim that the concept of uneven and combined development, in its contemporary formulation, can fill in this theoretical gap and provide a basis for alternative development strategies.

Chapter 2 – Uneven and combined development – a radically perspectived¹⁷ concept of development

Who is to decide who is sick and who is healthy? Who is to identify the countries that are deviating from a normal development trajectory and administer the required therapy?

For neoliberals and neodevelopmentalists, the answer is clear. Enlightened elites – be they academic, bureaucratic or entrepreneurial – are in the privileged position of identifying underdevelopment and directing the country towards development. Neoliberalism and neodevelopmentalism can be seen, therefore, as variants of ‘elite development theory’, in the definition of Ben Selwyn. Subordinated classes are seen as ‘inputs into the development process’ (2016, 784), not as drivers of development or legitimate perspectives in the definition of developmental aims. As suggested in the disease metaphor, the poor are there to be cured.

The contested social meanings of illness and cure are the central subject of the *The Alienist*, by Machado de Assis (2013 [1882]). In this celebrated novel – one of the pioneering works of Brazilian realist literature – Simão Bacamarte, a distinguished medical doctor trained in Europe, returns to his hometown in the countryside of Brazil to apply his scientific knowledge to the putative benefit of the local population.

Dr. Bacamarte takes particular interest in mental health. After convincing the local town council to build a hospice to lock up the mentally ill, he starts his crusade against sickness. One by one, the local people that are not in full command of their mental capacities are incarcerated. When two thirds of the population are under his custody, Dr. Bacamarte makes an astonishing discovery. Actually, it is normal for people not to be perfectly sane. Indeed, pushing his research further, he realises that he was the only person in the whole town that was in full command of his mental capacities. The honest scientific mind of Dr. Bacamarte gives him no other choice: releasing all the people from the cells, he locks up himself in the hospice.

¹⁷ The neologism ‘perspectived’ is used here to highlight the crucial role of competing social perspectives in the definition of development. As it will be argued in this chapter, the concept of uneven and combined development makes it possible to go beyond Eurocentric definitions of development, opening the possibility of imagining many different, and potentially non-converging, development paths.

Unfortunately, most of the economic doctors that adhere to elite development theories seem not to follow Dr. Bacamarte example. Although the world is overwhelmingly composed of so-called ‘underdeveloped’ countries, neoliberal and neodevelopmentalist authors insist on taking ‘developed’ countries as models of sanity. Not converging towards the standards of global north countries is perceived as abnormal. Capitalist development is normalised, i.e., global south countries, representing almost 4/5 of the world’s population, are expected to reproduce the idealised developmental trajectories of a handful of global north nations. As put by a Nobel Prize winner:

The task of less developed countries today is in some ways easier than that which faced Europe and the United States as they industrialized in the nineteenth century: they simply have to catch up, rather than forge into unknown territory (Stiglitz 2007, 30).

The epistemological and political problems with this view of development are many. First, the very notion of stages or known paths towards development defies the historical evidence, as the material transformation undergone by each society is unique. Although general patterns can eventually be found at the cost of overlooking specificities, an enormous gap necessarily remains between concrete policy prescriptions and the general, highly abstract history offered as evidence that these policies indeed work.

Second, by reifying the state as the privileged unity where development levels are to be judged, the social relations within and across states are obfuscated. On the one hand, the differentiated social outcomes of economic growth in global south countries are not taken into account. On the other, the living conditions in ‘advanced’ countries are romanticised, notwithstanding the permanent insecurity and alienation under which subordinated classes and class fractions live in much of the global north – particularly women, immigrants and ethnic minorities.

Third, the dichotomy developed-underdeveloped glorifies the culture and the social values of the perceived ‘developed’ countries while stigmatising the vast majority of humanity. This stigmatisation is crystal clear in the characterisation of more than forty countries as having ‘low human development’ (UNDP 2014, 162). Euphemisms such as ‘under development’, ‘developing’ or ‘emerging’ can barely disguise the entrenched supposition that global north countries are the model to be followed.

Last but not least, extending the consumption standards of ‘developed’ countries to the whole world would mean environmental disaster. The material limits of

development understood as economic growth and increase in consumption standards are now more than evident.

For my purpose in this thesis – the critique of Latin American neoliberalism and neodevelopmentalism – defining a radically different concept of development is paramount. For if the idealised view of development shared by both neoliberals and neodevelopmentalists is kept, the debate is hopelessly reduced to the never-ending endeavour of curing Latin American countries' underdevelopment. Furthermore, neoliberal and neodevelopmentalist historical narratives starting from this view of development can only tell the familiar story of permanent underachievement due to insufficient or excessive state intervention in the market.

The alternative narrative I present in the empirical chapters of this thesis refuses idealisation and focuses on the kind of development that actually happened in Brazil and Argentina over the last 25 years. That development, I claim, was uneven and combined. It was the material result of the interplay between class conflicts and international pressures and opportunities, resulting in uneven gains and losses for different social groups.

In this chapter, I further specify the concept of uneven and combined development and define some key mid-range concepts employed to operationalise it in my political economy analysis of recent Brazilian and Argentinian development. The theoretical toolkit here deployed is derived from the historical materialist tradition, particularly from the work of Karl Marx and León Trotsky. Concepts coming from classical Latin American political economy are also incorporated and resignified. Finally, I am heavily influenced by the recent reframing of the concept of uneven and combined development in the field of International Relations by Justin Rosenberg, Kamran Matin, Alexander Anievas, Kerem Nisancioglu, among others. What follows is an attempt to explore the potentialities of the contemporary formulation of the concept of uneven and combined development in the fields of global political economy and development studies, a theoretical avenue still largely unexplored.¹⁸

The chapter unfolds as follows. First, I engage with the post-development critique of the very concept of development and define why we still need some notion of development. Then, I explore an important gap in the historical materialist tradition, left by Marx's unclear use of the concept of development. Turning to Trotsky, I explain how

¹⁸ For pioneering examples see Selwyn (2011); Morton (2013); Makki (2015) and Bieler and Morton (2014); Germann (2017).

he attempted to fill in this gap with the original formulation of the concept of uneven and combined development. The contribution of the contemporary literature on uneven and combined development is assessed in section 2.3, together with two of the most important critiques. Finally, the potentialities of the concept of uneven and combined development for global political economy analysis are spelt out in section 2.4, where I define a broader understanding of ‘whip of external necessities’, and propose mid-range concepts such as ‘socialisation of losses’ and ‘privatisation of gains’.

2.1 – Why development?

Before moving any further, it is necessary to deal with a pre-emptive critique. Post development writers rightfully identify the problems mentioned in the introduction of this chapter regarding mainstream conceptions of development. Their answer, however, is not an attempt to reframe and reclaim the concept of development, but a rejection of any kind of development – including uneven and combined development (Blaney and Tickner 2017a). Why not follow their bold call for thinking of alternatives to development, instead of development alternatives?

In fact, genealogies of the concept of development have revealed its problematic origins in the modern idea of progress (Escobar 1995; Rist 2002). Post-development authors have convincingly emphasised the epistemological violence involved in the representation of two thirds of humanity as ‘underdeveloped’ (Esteva 1992). For Boaventura de Sousa Santos, Western promises of modernity – among which are ‘progress, and the sharing of progress’ – have been converted ‘into an ideology that legitimizes subordination to Western Imperialism’. This ideology of progress is part of the process of ‘epistemicide’ of non-European cultures, destroying alternative systems of knowledge. Consequently, ‘social groups that use these systems to support their own autonomous paths of development have been humiliated’ (Sousa Santos 2005, xviii).

Yet, the vivid denunciations of the very concept of development coming from the post-development critique seems insufficient to touch the hearts of the editors of the UNDP Annual World Development Report, reduce the expectation around the Millennium Development Goals, stop the constitution of the BRIC’s New Development Bank and convince social movements claiming for variegated forms of development to reframe their positions. At least since US President Truman pledged to foster ‘the improvement and growth of underdeveloped areas’ (1949), development has become a

global obsession. Development institutes, programs, banks and ministries proliferated. Winning an election in Brazil, Argentina, or indeed any other self-perceived ‘underdeveloped’ country is impossible without making repeated promises of development. Myriad public policies are justified in terms of development. Momentous choices are made, directly affecting the lives of millions of people, all in the name of development.

There are two reasons for the resilience of the concept of development, contradicting its declared death (Rahnema and Bawtree 1997). Firstly, a concept of development is needed to make sense of material change. What differentiates a coherent narrative from a random juxtaposition of facts is precisely some idea of development – be it implicit or explicit. Even fierce post-development writers cannot escape the epistemological necessity of organising their narratives as a progressive chain of events, as exemplified by Escobar’s own analysis of the recent rise of the left in Latin America (2010).

Secondly, problematic as it is, the idea of development catalyses the legitimate desire for a better life (Vries 2007). In itself, the aspiration for positive change should not be rejected or repressed. On the contrary, it is a pre-condition for the conscious transformation of productive structures. In other words, the concept of development fills in a real epistemological and political gap. Therefore, it does not suffice to repeal its Eurocentric and stageist formulations, as post-development authors very convincingly do on a theoretical level (Sachs 1992; Escobar 1995; Rist 2002; Ziai 2007). The challenge is to forge a new concept of development, capable of replacing the old, Eurocentric notion of development, in its capacity of organising narratives and informing political struggle for a better life.

Is it possible to imagine such a concept of development? The core idea that it must capture is the notion of radically perspectived material change. For there can be no doubt that material reality is dynamic. Organised social groups can certainly bring about substantial transformation in the relations within and across societies. Positive change is certainly possible. Nevertheless, what counts as positive change? Indeed, what may appear as a positive change from one social perspective can feel very different from another. Bringing to the forefront the multiplicity of legitimate perspectives on development and the necessary interaction between them, the objective materiality of the dichotomy between development/underdevelopment is dissolved into a complex and

interactive reality, filled with potentially contradictory claims for development. In a nutshell, development is what different social groups make of it.

This is the main idea I try to capture with the concept of uneven and combined development. ‘Born in struggle’ – as required in emancipatory epistemologies of the south (Sousa Santos 2014) – Trotsky’s concept of development defied the canonical Marxism of his time, opposed the stageist thesis that a liberal revolution was a necessary pre-condition for the socialist revolution, and finally clashed with the Stalinist doctrine of socialism in a single country. In the process, Trotsky’s idea performed exactly the two tasks required from a concept of development: it provided a better understanding of historical events (the Russian Revolution) and showed new possibilities for struggle from below.

In this thesis, I use the concept of uneven and combined development to make sense of the recent state reforms in Argentina and Brazil. The perspectival view here proposed allows the narrative presented in the following chapters to go beyond the neoliberal and neodevelopmentalist accounts, both of which take the nation as the standard unit of analysis and reduce development to capitalist catch-up. Instead of asking the ever-repeated question about why Brazil and Argentina have yet again failed to ‘develop’ – i.e. catch-up with the global north – the concept of development used here allows for the raising of more sensible questions, such as: what kind of transformations did the productive structures in Brazil and Argentine undergo after the reforms, and which social classes and class fractions benefited from those changes? In other words, instead of seeing permanent underachievement, we can see uneven and combined development and enquire into who benefited from it.

2.2 From Marx to Trotsky – The missing concept of development in historical materialism

In the original writings of Marx, there is no consistent use of the concept of development. Sometimes the author echoes the stageist and methodologically nationalist views of his time, abstracting from European history the model of development for the entire world. However, in other passages, Marx privileges the agency of oppressed classes in concrete historical situations, recognises the uneven dynamics of global capitalist expansion and points towards a concept of development related to human emancipation.

The lack of a consistent concept of development within the historical materialist tradition would lead to political and theoretical problems. Politically, stageist perspectives of development derived from some passages of Marx's work would subordinate the socialist revolution to the pre-existence of a bourgeois revolution, limiting worker's agency in countries where the transition to capitalism was not perceived as complete. Theoretically, historical narratives based on rigid stageist perspectives of development would have problems to make sense of concrete class struggles, as in many cases the national bourgeoisie did not play the role expected from it.

As remarked by Wallerstein, 'like all great thinkers, there was the Marx who was the prisoner of his social location and the Marx, the genius, who could on occasion see from a wider vantage point. The former Marx generalized from British history. The latter Marx is the one who has inspired a critical conceptual framework of social reality' (1974, 393). Accordingly, in several sections of *Capital* volume 1, it is possible to find references to 'stages of development' and 'civilization levels', signs of a stageist and Eurocentric perspective.¹⁹ In the preface to the first German edition of *Capital*, Marx is very clear when alluding to the 'iron laws' of capitalist production: 'the country that is more developed industrially only shows, to the less developed, the image of its own future' (Marx 2010c [1867], 9). Most notably, in a very controversial paragraph from *A Contribution to the Critique of Political Economy*, Marx seems to confirm stageist interpretations of his ideas:

The general conclusion at which I arrived (...) can be summarised as follows. In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the development of their material forces of production. (...) At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production (...). No social formation is ever destroyed before all the productive forces for which it is sufficient have been developed (...). In broad outline, the Asiatic, ancient, feudal and modern bourgeois modes of production may be designated as epochs marking progress in the economic development of society (Marx 2010b [1859], 263–64).

Influenced by the mechanical perspective of history suggested in passages like this, several Marxist writers of the early twentieth century sustained that any socialist revolution should be necessarily preceded by a bourgeois revolution. Given the

¹⁹ See, for instance, Marx's remarks on different needs caused by different 'levels of civilization' when defining the concept of surplus value (2010c [1887], 181).

inexorable logic of development, it would be the historical task of the working class in backward countries to support their respective national bourgeoisies to first bring about their own revolution. Only after this necessary step, would a direct fight for worker's power be possible. Each society would only be ready for socialist revolution when 'all the productive forces' of the capitalist mode of production within it were 'developed'. As summarized by Kautsky:

Marx and Engels acknowledge (...) that a revolution could not be made at will, but only as far as it was the necessary product of determinate conditions, and to the extent that these conditions were lacking, revolution was thus impossible. It is only where the system of capitalist production has achieved a high level of development that economic conditions permit public power to transform the means of production into social property (1909, cited in: Löwy 2010, 1–2).

Many authors identify historical materialism *tout court* with this simplistic notion of development. Citing the same passage from Marx's *Contribution to the Critique of Political Economy* mentioned above, Nisbet criticizes Marxism for its supposedly linear view of history. According to his reading, the very notion of 'revolution', which could indicate a breach in Marx's stageism, is only the most dramatic expression of the idea of evolution, inasmuch as '[an] acceleration of the process, even by an armed revolt, does not show discontinuity' (1969, 178). For Landes, Marx 'saw the British experience as an expression of historical logic' (1998, 236).

Apart from the stageism and methodological nationalism present in some of Marx's writings, his Eurocentric perspective is also commonly criticized by post-colonialist authors. For Edward Said, although Marx often demonstrates identification and empathy with the suffering of the subjugated peoples, a form of 'romantic Orientalism' is still dominant in his account of colonialism. The Eurocentrism of Marx is especially clear when he praises the modernizing role of the British colonial relations:

England has to fulfil a double mission in India: one destructive, the other regenerating—the annihilation of the Asiatic society, and the laying of the material foundations of Western society in Asia (1973, cited in: Said 2007, 154).

In short, many critical interpretations of Marx stress the theoretical limitations of his views on development. More than one hundred and fifty years after Marx wrote his controversial words, it is now evident that capitalism never reaches its stage of full development. Sousa Santos is right in suggesting that left to itself, capitalism can lead

only to more capitalism (2002, 117). Contradictorily, this insight is also partially present in Marx writings, specifically in his definition of capitalism as endless accumulation (Harvey 2010, 259). This indicates that Marx's view on development may be more complex than suggested by partial readings. In the last few years, more generous and perspicacious readers have been willing to explore different interpretations of Marx's ideas on development.

Michael Löwy was one of the first contemporary scholars to recall Trotsky's concept of uneven and combined development and to challenge the view that historical materialism is inherently stageist. The author remarks that in his writings about the political conjuncture in specific countries, such as Spain, Germany and Russia, Marx suggests that in concrete cases the national bourgeoisie may be unable to accomplish the revolutionary task expected from it (2010, 13-24).

In a similar vein, Shanin argues that, if *Capital* volume 1 and the works preceding it can indeed be seen as Eurocentric and stageist, the late Marx had a substantially different view regarding development (1983, 3-6). Analysing Marx's correspondence with Vera Zasulich, including unsent drafts, Shanin highlights the fact that Marx admitted that the 'archaic' Russian rural communities could eventually be the basis for progressive social change in Russia, thus totally subverting the previously expected succession of modes of production.

The historical inevitability of this course [progressive 'expropriation of the agricultural producer'] is therefore *expressly* restricted to *the countries of Western Europe* (...) The analysis in *Capital* therefore provides no reason either for or against the vitality of the Russian commune. But the special study I have made of it (...) has convinced me that the commune is the fulcrum for social regeneration in Russia' (Marx 1881 in: Shanin 1983, 123–124. Emphasis on the original).

This suggests that there would be a specific 'Russian road' towards socialism, an assumption that radically undermines the previously mentioned claim that the socialist revolution would only be possible in the most advanced capitalist countries. As Shanin puts it, 'the consideration of co-existence and mutual dependence of capitalist and non-capitalist (pre-capitalist?) social forms made Marx increasingly accept and consider "uneven development" in all its complexity' (1983, 15).

Supported by an extensive analysis of published and unpublished text by Marx, Lucia Pradella (2013; 2014; 2015) argues that, in Marx's theory of value, development

and underdevelopment are mutually related. The differences in wages, productivity and levels of accumulation, mediated by international trade, would explain the inequalities among nations. According to Pradella (2015, 152), Marini's ideas on the material reproduction of dependency were substantially anticipated in the original texts of Marx.

Another instance of a non-stageist and non-Eurocentric interpretation of Marx's views on development is Selwyn's concept of labour-centred development (2014a; 2014b; 2016a; 2016b). For Selwyn, Marx's theoretical framework, revealing the inherent contradiction between capital and labour, is conducive to the emancipation of the working class through its own organization. From the labour-centred development perspective, which 'derives from the political economy of labour' (Selwyn 2016b, 6), development is thus fundamentally identified with the emancipation of the working class, instead of with the accumulation of capital on a national basis.

Selwyn's reading is especially powerful inasmuch as it concentrates on Marx's core ideas, instead of looking for counter-examples of stageism or Eurocentrism in rather marginal texts. From his interpretation emerge at least two radically distinct concepts of development: the development of capital, which is nothing but endless accumulation taking labour as a simple input, and the development of labour, which is the fulfilment of human creative and productive potentialities. As summarized by Selwyn:

Capitalist development (entailing capital accumulation, industrial diversification and augmentation of state power) (...) 'distort[s] the worker into a fragment' of a person (Marx 1990, 799). In contrast to this miserable existence, Marx argued for the need to create an alternative political economic system organized to achieve maximum collective and individual fulfilment, based on the 'absolute working out of [her] creative potentialities', where 'the free development of each is the condition for the free development of all (Marx and Engels 1967 [1848], 105)' (Selwyn 2014a, 207).

Löwy, Shanin, Pradella and Selwyn, among others, convincingly question stageist and Eurocentric interpretations of Marx's ideas on development, painting a more nuanced picture. At the very least, they show that the historical materialist notion of development is still open to debate. This is because Marx himself had no consistent concept of development throughout his texts, vacillating between radically different uses of that word and allowing for contradictory interpretations. The important challenge facing a historical materialist political economy of development is, of course, not trying to find out what Marx really meant in order to save him from his own polemical statements.

Much more important than engaging in Marxology, is filling this theoretical gap and clearly defining a concept of development that overcomes stageism and Eurocentrism.

The crucial elements needed to define this missing concept of development can be found in Trotsky's works. His critique of mechanical interpretations of Marxism appeared for the first time in the pamphlet *Results and Prospects*, published in the aftermath of the failed 1905 Revolution:

It is possible for the workers to come to power in an economically backward country sooner than in an advanced country. (...) To imagine that the dictatorship of the proletariat is in some way automatically dependent on the technical development and resources of a country is a prejudice of 'economic' materialism simplified to absurdity. This point of view has nothing in common with Marxism (1986 [1906], 63).

And four paragraphs later:

Is it true that, in Russia, the weakness of capitalist liberalism inevitably means the weakness of the labour movement? Is it true, for Russia, that there cannot be an independent labour movement until the bourgeoisie has conquered power? It is sufficient merely to put these questions to see what a hopeless formalism lies concealed beneath the attempt to convert an historically-relative remark of Marx's into a supra-historical axiom (1986 [1906], 64).

These and many other passages of *Results and Prospects* reveal a rejection of stageism and Eurocentrism that could hardly be more striking. For Trotsky, there is no direct causality between the level of 'technical development' and the possibility of a workers' revolution. Furthermore, the particular historical path of one single country is dismissed as a guide for the development of other countries.

These early remarks on development are more political than theoretical. Writing in 1906, the young Trotsky, then 27 years old, could not go much further than suggesting that specific conditions of class formation in each society should be taken into account for the analysis of the possibility of radical social change. The author clearly identifies problems in the stageist interpretations of Marx, but cannot formulate an alternative notion of development yet.²⁰

²⁰ Despite the theoretical limitations of Trotsky's early ideas, Burawoy considers that '[w]riting in 1906, Trotsky not only anticipated the Russian revolution, but the processes whereby it would take place as well as its outcomes' (Burawoy 1989, 787). This leads the author to boldly claim that Trotsky offers an original, progressive contribution to the 'Marxist research program', tackling one fundamental anomaly of Marx's model, constituted by the fact that the first socialist revolution succeeded in a backward country.

According to Löwy (2010, 85), a ‘systematic, coherent and rigorous’ theory on the dynamic of social revolutions in backward countries would appear for the first time only twenty two years later, in Trotsky’s *The permanent revolution* (1986 [1928]). And, I would add, the first lengthy attempt to apply the concept of uneven and combined development to the analysis of a concrete historical case is the *History of the Russian Revolution* (2008 [1932]). In these two seminal books, Trotsky tries to tackle the theoretical and political conundrum he identified many years earlier:

One stage or another of the historical process can prove to be inevitable under certain conditions, although theoretically not inevitable. And conversely, theoretically ‘inevitable’ stages can be compressed to zero by the dynamics of development, especially during revolutions, which have not for nothing been called the locomotives of history (1986 [1928], 241).

Thus, as Trotsky realised, the stageist concept of development derived from the traditional reading of Marx could not perform the two tasks a concept of development is supposed to perform, namely organising and explaining historical change and informing struggles for a better life. After radically undermining the basis of the stageist approach of historical materialism, Trotsky starts the positive effort of rebuilding Marx’s theory of social transformation by systematically introducing a key element that should be taken into account for the historical analysis of the development process. At this point, the ‘international’²¹ comes to the forefront of the analysis:

The socialist revolution begins on the national arena, it unfolds on the international arena, and is completed on the world arena. Thus, the socialist revolution (...) attains completion only in the final victory of the new society on our entire planet. The above-outlined sketch of the development of the world revolution eliminates the question of countries that are ‘mature’ or ‘immature’ for socialism in the spirit of that pedantic, lifeless classification given by the present programme of the Comintern. Insofar as capitalism has created a world market, a world division of labour and world productive forces, it has also prepared the world economy as a whole for socialist transformation. Different countries will go through this process at different tempos (Trotsky 1986 [1928], 279).

²¹ The lack of a consistent concept of development in Marx can be seen as a consequence of the lack of theorisation of ‘the international’ in classical sociology (Rosenberg 2006; Makki 2015). No consistent concept of development is possible without a proper theorisation of international relations, as the inter-societal character of development is missed.

Trotsky seems to realize that the problems of stageism and methodological nationalism are inextricably intertwined. Defining invariable stages of development for any individual country implies theoretically isolating it from its international relations, as if each society necessarily followed a pre-defined parallel line towards development. Implicit here is the notion that societies are in permanent relation with each other, mutually determining the development of their productive structures. Instead of a model that takes states as basic units of analysis and posits development as an autochthone process, it is possible to envisage a complex model, in which development appears as a relational concept. Finally, the best, most synthetic and general expression of this idea – condensed in the formula ‘uneven and combined development’ – appears in the first chapter of the *History of the Russian Revolution*:

The laws of history have nothing in common with pedantic schematism. Unevenness, the most general law of the historic process, reveals itself most sharply and complexly in the destiny of backward countries. Under the whip of external necessity their backward culture is compelled to make leaps. From the universal law of unevenness thus derives another law which, for the lack of a better name, we may call the law of *combined development* – by which we mean a drawing together of separate steps, an amalgam of archaic with more contemporary forms. Without this law, to be taken of course in its whole material content, it is impossible to understand the history of Russia, and indeed of any country of the second, third or tenth cultural class (Trotsky 2008 [1932], 5. Emphasis in the original).

Although chronologically Trotsky coined the concept of permanent revolution before the ‘law’ of uneven and combined development, logically the definition of development as an uneven and combined process of social transformation is exactly what makes possible the permanent revolution. Using Trotsky’s example, it is only because Russia materially combined features of different modes of productions in 1917 that it was possible for the soviets to perform at the same time a democratic and a socialist revolution. In the process of theoretically justifying the possibility of the working class leading a socialist revolution in a ‘backward’ country, and as a theoretical tool for the narration of the successes of the Russian Revolution, Trotsky coined the missing concept of development within the historical materialist tradition. Development appears as the uneven and combined process of social change, i.e., the material transformations brought about by the interaction between societies and the class disputes within and across them.

2.3 Contemporary U&CD and its critiques

Is Trotsky's theoretical innovation – the uncovering of the inherently uneven and combined character of development – sufficient to redefine the concept of development in a way that overcomes stageism and Eurocentrism? Apparently not, one could say. Indeed, in the very same paragraph of the *History of the Russian Revolution* where he challenges linear views of development, Trotsky makes arguably Eurocentric references to 'backward' cultures and the 'cultural class' of countries. The overarching notion of an unfolding Western modernity necessarily spreading across the globe remains unchallenged. Sooner or later – with or without 'leaps' and 'whips of external necessity' – capitalism would end up creating a world after its own image. In the end, Trotsky's 'law' of uneven and combined development would only replace one pre-determined view of history for another – perhaps more complex, but no less deterministic or Eurocentric.

The recent debate on uneven and combined development – coming mainly from the fields of International Relations and International Historical Sociology and still largely unexplored in International Political Economy and Development Studies – allows us to move beyond Trotsky's dated remarks, while retaining his key insight: the necessarily inter-societal character of development. At the core of Trotsky's concept of development lies a crucial element bypassed by classical sociology in general, including historical materialism – 'the international'. It is exactly this element that prompted the contemporary reframing of the concept of uneven and combined development as a 'big idea' capable of grounding the very discipline of International Relations (Rosenberg 2016).

Justin Rosenberg originally introduced the concept of uneven and combined development (U&CD) in the field of International Relations as an alternative to the realist paradigm still dominant in the discipline, the 'old theory which has shown us only an empty, meaningless struggle for power' (Rosenberg 1996, 4). Indeed, one of the previously identified theoretical problems of the mainstream concept of development, namely methodological nationalism, is at the heart of International Relations. The discipline was built precisely on the assumption that states can be taken as coherent units of analysis, and that the interaction between these units follow a different logic from social relations within each state, due to the anarchic character of the international system (Waltz 1979).

The theoretical challenge Rosenberg was trying to tackle was the mutual exclusion of geopolitical-international and sociological-internal analysis. Rosenberg's originality rests neither in the identification of this enduring theoretical divide, nor in his criticism of the reification of states by realism. His approach, contrary to the simple denial of anarchy and the balance of power, promises a way of reconciling geopolitical and social analysis, by identifying a sociological origin of the international.

Assuming 'unevenness' as a general principle of inter-societal differentiation, the relations between societies can be seen as emerging from 'the nature of society itself', that is, 'the international' is considered an aspect of the very existence of societies, and not a supra-societal fact. Rosenberg claims that U&CD is, therefore, capable of overcoming the long-standing divide between internal sociology and international geopolitics, as 'the international' can be organically derived from the fundamental sociological category of 'unevenness'. '[T]he international, quite simply, (...) is nothing other than the highest expression of uneven and combined development. This is its sociological definition' (2006, 328); or, as later rephrased: 'U&CD is therefore the sociological formula of the international as a general abstraction' (2013a, 194).

It cannot pass unnoticed that Rosenberg's reading involves a substantial extension of Trotsky's original concept. In the *History of the Russian Revolution*, uneven and combined development refers to the particular way capitalism penetrates Russian 'backward' society. At most, the original concept can be seen as referring to late capitalist countries in general, which are then supposed to follow unique patterns of development instead of repeating pre-determined steps. Nevertheless, Rosenberg consciously suggests that 'Trotsky's idea entailed an underlying claim — extending far beyond the analysis of capitalist development — about the significance of the international in human history' (2006, 309). Only so, would U&CD serve as the foundation of a sociological definition of the international.

This bold claim attracted from the start a number critiques. Ashman, for instance, argues that in positing U&CD as a transhistoric abstraction, Rosenberg 'loses sight of the "great transformation" brought about by capitalist relations and political forms' (2009, 31). A similar point is made by Davidson, who insists that 'U&CD is produced by the impact of different aspects of the international capitalist system' (2009, 19), therefore it is historically specific. Rioux considers 'the unexplained and unjustified transformation of Trotsky's laws of history into a full-blown theory of U&CD' as an 'unwarranted and highly problematic' move (2014, 27). For the author, a theory of U&CD exists only as a

‘stratospheric abstraction’, which cannot elucidate the concrete dynamics of historical development, generating only self-validating historical narratives (2014, 28-29).

For my purpose in this chapter – the redefinition of the concept of development – the two most interesting and consequential critiques of U&CD are proposed by Teschke (2014) Blaney and Tickner (2017a). The supposed law-like character U&CD was picked upon by Teschke (2014), who takes issue with its conception as a ‘causal and transhistorical IR theory’. According to him, the focus on an overarching logic of development empties agency, rendering U&CD incapable of providing concrete historical explanations. ‘[S]ince the theoretical premises of UCD – development, unevenness, combination – are explicitly evacuated of social agency and socio-historical content, it cannot, despite its stated objective of explaining interactive change over time, account for change, unevenness, and differences’. Because of its lack of specificity and its disregard for agency, uneven and combined development ‘is fundamentally barred from explaining not only social change, but development itself – not to mention non-development and de-development.’ (Teschke 2014, 33).

Another version of essentially the same critique was proposed recently by decolonial authors (Blaney and Tickner 2017a). Instead of taking issue with the law-like or trans-historic character of U&CD, they aimed at the very concept of development that resists at the core of U&CD, perceived as irremediably Eurocentric. For Blaney and Tickner, ‘UCD remains grounded in an ontology of development.’ Exactly because of the centrality of ‘development’, U&CD necessarily fails to effectively account for multiplicity, as ‘development is part of the colonial/capitalist political and economic grammar and knowledge production central to and constitutive of cultural encounters as moments of violence in which alternative ontologies (or worlds) are subordinated or destroyed.’ Hence, U&CD’s explicit negation of a linear logic of development would not be enough: ‘[t]he ladder of development may be tipped a bit, but not brought down’ (2017a, 74).

Although certainly valuable as pre-emptive efforts to avoid the enshrining of U&CD as yet another version of a-historical Western laws of history, these critiques miss the point by at the same time misrepresenting the scope of the concept of uneven and combined development and not taking into account the full consequences of Trotsky’s ideas. Conversely, the contemporary literature on U&CD²² is unpacking the theoretical

²² It is beyond the scope of this thesis to fully review the booming contemporary literature on U&CD, including tens of articles, a number of PhD theses and edited books. Beyond the work of Justin

and political potential of Trotsky's revolutionary concept of development and producing interpretations that can hardly be classified as deterministic or Eurocentric.

To start with, the rigid law-like character of U&CD is not claimed by any contemporary author and has been largely exaggerated by Teschke. In my own view, instead of a necessary causal law, capable of predicting concrete developmental outcomes, uneven and combined development is better understood as a *concept* of development, i.e., a definition of what development is. Of course, concepts can also be seen as 'laws', in the rather limited sense that they rule upon what shall be included under their representation. As such, U&CD can be captured by the following formula: development is always uneven and combined. Or, in other words, material transformation happen in relation to external pressures and opportunities, resulting in differentiated gains and losses within and across societies.

These apparently law-like formulations, however, are purely analytical. They just spell out what was already presupposed under the concept of development. No material prediction can be made solely based on the concept of development, just as no prediction can be made based on any concept on its own. Nevertheless, exploring alternative understandings of key concepts – like development, production or class – helps to craft better historical narratives and to frame political action. The point of a conceptual definition is precisely to shed light on the constitutive parts of the concept under analysis, directing the attention to previously neglected aspects. In this sense, the sentence 'development is uneven and combined' belongs to the same category as E.P. Thomson's claim that 'classes' are 'formed in the process of conflict and struggle' (Wood 1982, 47). They are both general conceptual definitions of what shall be understood as 'classes' or 'development'. Classes are those things that arise from conflict and struggle; development is that thing that arises from unevenness and combination.

Defining development as the outcome of unevenness and combination immediately raises the question about what exactly shall be understood as 'unevenness' and 'combination'. In Trotsky's original usage, unevenness was defined as 'the most general law of the historical process, (2008 [1932], 5). This broad definition notwithstanding, in the *History of the Russian Revolution*, the leading form of unevenness identified by Trotsky was between the 'backwardness' of Russia capitalist development

Rosenberg (2006, 2009, 2010, 2013b, 2013a, 2016; Callinicos and Rosenberg 2008), notable examples are Matin (2013b, 2013a); Anievas (2014); Anievas and Nisancioglu (2013); Anievas and Nişancıoğlu (2015); Anievas and Matin (2016).

and the existence of ‘advanced’ capitalist powers. Relying on ‘levels of development’ – or differences between the ‘cultural class’ of societies – is deeply problematic, as the post-development literature and the critique of U&CD put forward by Blaney and Tickner (2017a) makes abundantly clear. Even if the reference to ‘levels of development’ is considered merely descriptive, the normative implications of fixing the historical experience of a handful of ‘advanced’ societies as the standard against which the achievements of rest of humankind are to be evaluated cannot be easily dismissed. At a more fundamental level, however, unevenness does not have to refer to the coexistence of ‘advanced’ and ‘backward’ societies. As recently shown by Germann (2017), meaningful forms of unevenness can be found in the relations between so-called ‘advanced’ societies as well. In this thesis, in an explicit effort at discharging any normative connotation of the concept of development, unevenness is understood simply as social difference, i.e., the difference between distinct social groups. In this more general sense, unevenness unfolds externally in the multiplicity of societies, and internally as class differentiation.

The second key element of the concept of development is combination. Again here Trotsky’s original formulation seems to be hopelessly limited by a certain Eurocentric gaze. Combined development is defined as the ‘drawing together of separate steps, an amalgam of archaic with more contemporary forms’ (2008 [1932], 5). In this sense, the intriguing combined development seen in late capitalist societies suggests, by contrast, an originally ‘unamalgamated’ or ‘uncombined’ development path – the one supposedly followed by ‘advanced’ countries in their transition to capitalism. It is only in comparison with this idealised original transition to capitalism that late capitalist societies appear as exotic amalgamations between different modes of production and social structures. This is the reason why, according to Trotsky, the ‘law of uneven development’ is particularly relevant for countries of the ‘second, third or tenth cultural class’ (2008 [1932], 5).

The same Eurocentric mentality is reproduced by contemporary authors always keen to highlight the ‘bizarre’ features of global south societies. Chico de Oliveira, a leading sociologist of the University of Sao Paulo, for instance, compares Brazilian capitalist development with a duck-billed platypus, implying that it is an evolutionary mistake (Oliveira 2003). Just like with unevenness, however, it is possible to devise a more fundamental meaning of combination, one that is not tainted by Eurocentrism. In this thesis, combination is simply taken as the complex outcomes of the interaction

between uneven social groups, a process that tends to endlessly reproduce unevenness, instead of erasing it. Social, cultural and productive amalgamations are, therefore, not only to be found in late capitalist countries, but across all societies, since they are in constant interaction.

If development can be defined as the outcome of unevenness and combination, then the concrete historical expressions of development go far beyond the particular form observed in so-called ‘developed’ or ‘advanced’ countries. Here is the exact point where the contemporary extension of Trotsky’s insight potentially dissolves Eurocentric views of development. No wonder uneven and combined development cannot account for ‘non-development’ or ‘de-development’ (Teschke 2014, 33). When uneven and combined development is brought to its full consequences, it becomes clear that there are no such things. The negation of absolute forms of development, defined after European models, logically implies the negation of absolute forms of ‘non-development.’ Instead, a radically perspectived notion of development arises, admitting variegated concrete expressions. The point, therefore, is not formulating causal laws of ‘development’ or ‘underdevelopment’, as if they were unproblematic characteristics of nations. Indeed, this is the trap that prevented Marini’s dependency theory from moving any further (see chapter 1). Taken in its contemporary form, the concept of uneven and combined development makes it possible to overcome the fixed dichotomy developed-underdeveloped, shedding light instead on mixed forms of development.

Since unevenness is inscribed in the very definition of development, not only multiple ways to achieve ‘development’ are possible, but, much more radically, different peoples and social groups can create many alternative ‘developments’. Therefore, Blaney and Tickner underestimate the role of multiplicity in uneven and combined development. U&CD is not about ‘tipping’ the ladder of development (2017a, 74) – rather, it is about imagining multiple, non-converging possible ladders, which are nonetheless in constant interaction with each other.

If the multiple development ladders are represented as an interactive whole, it is possible to have a glimpse into the ‘pluriverse’ evoked by Blaney and Tickner as an alternative to the universe of colonial modernity (2017a, 2017b). As noticed by Rosenberg, the very fact that Blaney and Tickner refer to the pluriverse in the singular – as in ‘a pluriverse’ – indicates that some form of unity is still presupposed over the overwhelming multiplicity of human social existence (2017, 98). Indeed, the ladders of development are multiple, but they are placed in relation to each other, forming a single

picture that can only be intuited through an extraordinary act of imagination. Notwithstanding the fact that we, concrete historical people, with our inevitable positionalities, can never fully access the totality of the pluriverse, imagining it is paramount if any form of translation and fruitful exchange between societies is deemed possible. The concept of uneven and combined development offers exactly this kind of grand imagination, allowing us to grasp ‘the human world as simultaneously multiple and yet – by virtue of its interconnections – making up a single whole’ (Rosenberg 2017, 98).

Inasmuch as all development is uneven and combined, the very rise of capitalist modernity must be understood as an expression of unevenness and combination. The challenge of rewriting the history of the rise of the west from that perspective was recently met by Anievas and Nisancioglu in their landmark book *How the West Came to Rule* (2015). As an alternative to the World-System Analysis of Wallerstein and the Political Marxist thesis of Brenner, the authors reclaim the agency of extra-European sources of the breakthrough of capitalism in Western Europe and the subsequent ‘great divergence’ between the west and the rest of the world. Anievas and Nisancioglu’s book is an outstanding example of how the concept of uneven and combined development can be used to inform historical narratives that empty the clear-cut dichotomy between development and backwardness. As the authors show, the developmental trajectory of each society – both in the centre and on the periphery – can be analysed in terms of their relations with other societies, always resulting in mixed and amalgamated social formations.

2.4 The political economy of uneven and combined development

The rather abstract considerations of the last section, stretching all the way back to the origins of capitalist modernity, may appear to have led us further away from the aim of this chapter, which is defining a theoretical alternative to contemporary Latin American neoliberalism and neodevelopmentalism. As I argued in Chapter 1, neoliberalism and neodevelopmentalism are development strategies, i.e., discourses about development, used to justify and evaluate public policies. Development is seen by neoliberal and neodevelopmentalist writers as capitalist catch-up. The theoretical detour of the last section made it possible to define development in a radically different way. Instead of taking the experience of global north countries as a model to be universally

emulated, these experiences can be seen a unique expression of unevenness and combination. The interaction between societies and class struggle always produce differentiated forms of development. The neoliberal and neodevelopmentalist quest to follow the global north model is, therefore, fundamentally flawed. Consequently, the narratives offered by neoliberal and neodevelopmentalist writers are circular. The persisting non-convergence to global north standards is always represented as a problem or a national illness, that has to be remedied with yet another round of ‘market friendly’ or ‘state led’ reforms.

My claim is that the concept of uneven and combined development, in its extended version, can be fruitfully used to inform better narratives about the recent state reforms in Brazil and in Argentina. Instead of showing a history of permanent underachievement, the concrete changes in productive structures under international pressures and opportunities can be analysed in terms of the differentiated outcomes they produce for different classes and class fractions. Put differently, the concept of uneven and combined development allows us to ask a crucial question, beyond the theoretical reach of neoliberalism and neodevelopmentalism: development for whom? For the productive structures in Brazil and Argentina – and everywhere else, for that matter – are in constant transformation, under the impacts of international pressures and opportunities and class struggle. While neoliberals and neodevelopmentalists ask why these changes did not make Argentina and Brazil more similar to global north countries, we can inquire into who benefited from these changes, within and across national borders.

Nevertheless, exactly because every instance of development is uneven and combined, the concept of uneven and combined development actually captures very little of the historical specificity of each development trajectory. No doubt it offers a better theoretical starting point than Eurocentric or stageist notions of development, but to inform fruitful analysis of concrete developmental outcomes, it requires mid-range concepts that specify the way international pressures and opportunities interact with class struggle.

Still drawing on Trotsky’s *History of the Russian Revolution*, Rosenberg identifies some of the mechanisms through which the combined character of development manifests itself. The first is the ‘whip of external necessity’, meaning the geopolitical competition among political entities, with the stronger ones exerting pressure on the weaker (2013a, 196). The second is the ‘privilege of backwardness’, which, in Trotsky’s words, ‘permits, or rather compels, the adoption of whatever is ready in advance of any specified date,

skipping a whole series of intermediate stages' (2008 [1932], 4). Both mechanisms influence material changes, although they should not be seen as provoking a 'straightforward acceleration of an ultimately unidirectional developmental process' (Rosenberg 2013a, 196). Rather, the effects of the 'whip of external necessity' and the 'privilege of backwardness' are mediated by the specific characteristic of the hegemonic 'political groups' in a given society (2013a, 197). In Trotsky's example quoted by Rosenberg, because of the weakness of the native 'capitalist class' in Russia, industrialization at the beginning of the 20th century had been largely state-induced, which ended up 'reinforcing the existing social structure of Czarism' (2013a, 197).

The 'whip of external necessity' and the 'privilege of backwardness' were originally defined in Trotsky's work as referring to geopolitical competition. A similar use appears in contemporary historical sociological narratives informed by U&CD. In Kamran Matin's *Recasting Iranian Modernity*, for instance, the 'centralised and absolutist character of premodern Iranian states' are explained in terms of the impacts of the 'nomadic whip of external necessity', generating 'an amalgamated nomadic-sedentary state form' (2013a, 20). In Anievas and Nişancioğlu's *How the West Came to Rule* (2015) there are many instances of the operation of the whip of external necessity, one of the most notable being the geopolitical pressure of the Ottoman Empire on European Christendom. Both works rely on a number of subsidiary, mid-range concepts beyond the whip of external necessity and the privilege of backwardness, including 'substitution', 'historical reshuffling' (Matin 2013a, 18), 'advantages' and 'penalties of priority' and 'contradictions of sociological amalgamation' (Anievas and Nişancioğlu 2015, 44). These mid-range concepts employed in historical sociological narratives capture the dynamics of inter-societal interaction over the long-term. Indeed, they are directly derived from Trotsky's narrative of the formation of the Russian state in the first chapter of the *History of the Russian Revolution*, the '*locus classicus*' of the concept of uneven and combined development (Rosenberg 2013b, 583).

For political economy narratives, however, mid-range concepts capable of connecting the general concept of uneven and combined development and specific outcomes are still largely missing. Adam Morton's *Revolution and State in Modern Mexico* – a pioneering lengthy study on political economy of uneven development in Latin America – fills in this gap by coupling uneven development with a Gramscian theoretical framework. For Morton, 'the struggle-driven course of uneven and combined development and modern state formation in Mexico can be best understood as a set of

constructed and contested class practices characteristic of a passive revolution (...). Accordingly, the Mexican passive revolution under the condition of uneven and combined development is defined as a ‘mode of class rule’ that resulted in ‘both a “revolutionary” rupture and a “restoration” of social relations’ (2011, 4).

For the analysis of Brazilian and Argentinian recent state reforms, I also reach beyond Trotsky’s work in order to find operational concepts capable of grasping the changing class dynamics within uneven and combined development. In the relatively short period this thesis focusses on – the 1990s and 2000s – the most important form of international pressures conditioning the development trajectories of Argentina and Brazil were not the threat of wars or foreign invasions, but a series of international crises. This tumultuous period was marked by the Mexican crisis of 1995, the Asian crisis of 1997, the Russian crisis of 1998, the Brazilian crisis of 1999, the Argentinian crisis of 2001, culminating in the great financial crisis of 2008 and the subsequent drop in commodities prices in 2013 and 2014.

From a political economy perspective, the contemporary forms of the ‘whip of external necessity’ repeatedly hitting Brazil and Argentina are, therefore, successive international economic crises. This realisation follows Marini’s insight that ‘the use of political and military violence to exploit weak countries’ becomes increasingly ‘superfluous’ under the conditions of global capitalism. Instead, ‘international exploitation can progressively rest on economic relations’ (2009a, 120). In the absence of military confrontation from abroad, the crucial danger for the reproduction of Brazilian and Argentinian ruling classes came in the form of sharp international capital fluctuations – entailing no less destructive effects, as exemplified by the war-like social catastrophe witnessed in Argentina after the 2001 crisis (see chapters 3 and 5). These crises forced the class fractions in control of Brazilian and Argentinian states to react and advance neoliberal or neodevelopmentalist reforms.²³

The mid-range concepts necessary to connect this specific form of the whip of external necessity and concrete class dynamics can be retrieved from the Latin American political economy tradition. The economist Celso Furtado – Professor at Sorbonne and Cambridge during his exile years – famously defined a mechanism deployed by the state as a reaction to the external pressures on Brazilian pre-industrial economy, culminating in the 1929 crisis: the ‘socialisation of losses’ (Furtado 2005, 166).

²³ A similar argument is suggested by Germann (2017) in relation to the exaggerated austerity policies imposed by German elites as a response to the 2008 international crisis.

During periods of international economic expansion, the high prices of export commodities – in the Brazilian case, coffee – were appropriated by the ruling class as increased profits. The abundance of land and workers prevented any substantive upward pressure on salaries. Conversely, during periods of international economic contraction, which appeared ‘to the dependent economy as a cataclysm, coming from outside’ (2005, 167), the state tried to defend the exporting sector by devaluing the exchange rates and expanding government expenditure. State resources were channelled into buying the surplus coffee production and destroying it in order to try and prevent the prices from falling any further.

The process of correction of external imbalance meant, at the end of the day, a transfer of income from those who paid for imports to those who sold exports. Because imports were paid by the general collectively, the exporting entrepreneurs were actually able to socialise the losses (...) (2005, 166).

The ‘socialisation of losses’ can be defined, therefore, as a defence mechanism used by fractions of ruling classes when hit by the whip of external necessity in the form of international crisis. Using their control of the state, they are able to deflect losses imposed from abroad to the society as a whole, particularly its lower layers. The counterpart of the socialisation of losses is the ‘tendency of income concentration during periods of prosperity’ (2005, 167), which results in the privatisation of gains of international trade for fractions of the ruling class, preventing the general increase in living standards of the working class, even when international prices of export commodities are high.

The analysis of the political economy of Brazilian and Argentinian uneven and combined development presented in the following chapters derives inspiration from Furtado’s economic concepts. Indeed, the international crisis that appeared for Furtado as an externality – or a ‘cataclysm’ – can now be theoretically integrated into a wider analysis of development that explicitly incorporates inter-societal factors. ‘The international’ and the strategies of reproduction of competing classes and class fractions are bridged through socialisation of losses and privatisations of gains. My research shows that the configuration of the class alliance in control of the state at different moments determines the use of institutionalised tools of socialisation of losses or privatisation of gains. These tools typically comprise the exchange rate and fiscal policies, as originally identified by Furtado. Other contemporary examples are monetary and interest rates

policies, the direct appropriation of public property via privatisations, targeted cash transfer programs, as well as official political responses through active or defensive foreign policies.

Furthermore, the rise of neodevelopmentalist administrations in the 2000s – which included important fractions of the working class – brought about two new and complementary outcomes, not foreseen by Furtado. Because his classical study described the mechanisms of reaction of oligarchies in control of the state in face of external pressures and opportunities, he focussed on the socialisation of losses and privatisation of gains, overlooking the possibility of the contrary, namely socialisation of gains and the privatisation of losses. Although to a limited extent, the neodevelopmentalist administrations in Brazil and particularly in Argentina proved that the gains of positive international conjunctures can be effectively socialised through labour-centred policies, while the losses imposed by international crises can be at least partially channelled to historically privileged fractions of the ruling class (see chapters 5 and 6).

One last conceptual clarification is necessary before I can move to the empirical analysis of the political economy of Brazilian and Argentinian uneven and combined development over the last three decades. So far, concepts such as class and class-fractions have been used without a proper definition. Of course, defining what social classes actually are and what are the relations between class, structure and agency is a mammoth challenge, both at theoretical and empirical levels. In this regard, this thesis makes no claim of originality. The class analysis advanced in the empirical chapters relies heavily on contemporary Brazilian and Argentinian sociology, particularly the work of Boito Jr. (2006), André Singer (1999, 2012, 2015), Jesse Souza (2012, 2015, 2016), Eduardo Basualdo (2010, 2011), and Claudio Katz (2014). Although with important nuances, all these writers identify an overarching opposition between the material interest of capital and labour, the pivotal role of urban middle classes, as well as historically determined, specific divisions, or class fractions, within the Brazilian and Argentinian working and ruling classes. In short, instead of proposing a lifeless, abstract notion of class and applying it to my case studies, I chose to follow the contemporary class analysis of leading Brazilian and Argentinian authors. The relative position of each class and class fraction will be defined in the following empirical chapters in reference to concrete historical circumstances.

In conclusion, the principle of unevenness entails development not happening in isolation. Different societies are in permanent relation with each other, mutually

determining their respective developmental paths. Under pressure from external shocks, each nation deals with different whips of external necessity. In the contemporary world, and from the perspective of the global south, the whip of external necessity often comes in the form of international crisis, entailing a shortage of badly needed foreign investments and a drop in commodities export prices. Competing classes and class fractions mobilise institutionalised state tools to profit from internationally favourable circumstances and deflect the impact of the whip of external necessity when the tide turns. The resulting development trajectory is uniquely combined, since it depends on specific class configurations. Although this combination may reveal itself in many forms, one of its most notable material expressions is a particular balance of socialisation or privatisation of losses, as well as a socialisation or privatisation of gains.

Informed by the theoretical toolkit just described, the following empirical chapters show that the neoliberal and the neodevelopmentalist narratives on the recent state reforms in Brazil and in Argentina miss the point by taking deliberate strategies of class reproduction as potentially amendable ‘errors’ of policy. Instead, to make sense of Brazilian and Argentinian uneven and combined development, I uncover how key public policies were used by competing classes and class fractions to advance their interests in the face of international pressures and opportunities.

Conclusion to Part 1 – Beyond Neoliberalism and Neodevelopmentalism

In the first chapter of this thesis, I spelt out the limitations of neoliberalism and neodevelopmentalism. In the second chapter, I defined an alternative political economy perspective, based on the concept of uneven and combined development. Taken together, my main theoretical claim is that when development is understood as the outcome of the interplay between international pressures and opportunities and class struggle, better historical narratives can be framed and new possibilities of struggle from below become visible.

Both neoliberalism and neodevelopmentalism are based on a much more limited understanding of development. For neoliberal and neodevelopmentalist writers, development is the process of capitalist convergence to the standards of global north countries. To achieve this idealised view of development, neoliberalism and neodevelopmentalism take the concrete form of development strategies. Because these strategies are premised on incompatible state and market utopias, neoliberalism and neodevelopmentalism appear on the surface of the political discourse as radically opposed. This opposition, however, is a theoretical mirage, as the borders between state and markets can never be clearly defined.

From an uneven and combined perspective, the real differences between neoliberalism and neodevelopmentalism can be better explained as expressions of the social struggle for the appropriation of key policy tools – such as exchange rates, interest rates, fiscal and monetary policies, and foreign policies. Representing different class alliances, the neoliberal and the neodevelopmentalist fields compete to determine a balance of socialisation of losses and privatisation of gains in the face changing international economic conditions.

By exposing their fragile theoretical bases and the concrete interests they represent, my argument challenges the scientific calibre that neoliberal and neodevelopmentalist writers claim for their own perspectives – paradigmatically revealed in the disease metaphor both sides often use. Instead of seeing underdevelopment as a mysterious disease that can eventually be cured by the administration of wise policies, the theoretical perspective here suggested is much more akin to the findings of Dr. Simão Bacamarte, the ironic character created by Machado de Assis in *The Alienist* (2013). Calling into question the sharp dichotomy between perfectly sane and totally crazy – or

developed and underdeveloped –, the picture here depicted is much more nuanced. The crucial task of the critical political economy analysis of Brazilian and Argentinian development carried out in the following chapters is, therefore, to reveal both countries' mixed forms of development and to uncover the differentiated social gains associated with them.

Part 2 – Neoliberalism and market utopia

Introduction

Neoliberalism has swept Latin America over the last four decades, replacing traditional state-centred development strategies. In Brazil and Argentina, where developmental states played a key role in promoting industrialisation throughout the 20th century, the change was momentous. The social basis of the old national developmentalist strategy broke down under the weight of the debt crisis and accelerating inflation. At the same time, the return of liberal democracy and the end of the Cold War substantially changed the conditions under which protectionist import substitution policies had been implemented.

After the profound political and economic uncertainties of the 1980s, a neoliberal administration rose in Argentina during the winter of 1989. A few months later, the same happened in Brazil. In both cases, inflamed new political discourses reframed old promises of development. Taking advantage of the perceived dynamism of the international market, development was to be achieved not through state-led strategic planning, but through modernising reforms, which were supposed to unleash market forces. New social coalitions were formed, bringing together different fractions of the ruling class and urban middle classes. Legitimised by the prevalent market utopia, a number of neoliberal policies were undertaken during the following decade, including privatisations, monetary reforms, cuts in trade tariffs, and changes in foreign policy strategies.

Nowhere did these reforms go so far as in Argentina. Under the presidency of Carlos Menem, the Argentinian peso was officially pegged to the US. dollar, proud symbols of national developmentalism such as the railway system and the giant oil company YPF were sold to international capital, trade tariffs were slashed and the non-aligned foreign policy was reverted to a declared strategy of alignment with the US. In Brazil, similar, if less radical policies were implemented. ‘The Vargas era is over’, President Cardoso declared to the press, while sanctioning a new law facilitating privatisation of public services (Folha de S.Paulo 1995).

The actual results of the neoliberal reforms adopted in the 1990s ranged from disappointing in Brazil to catastrophic in Argentina. In the first case, instead of a period of sustained economic expansion and social mobility, the reforms produced sluggish growth rates, increasing public debt, high unemployment and social inequality. In the second case, the Argentinian crisis of 2001 marked the lowest point of neoliberalism for the whole region. Historically the richest country in Latin America, Argentina witnessed an explosion of poverty, unemployment and social inequality, as well as the dismantling of its industrial economy.

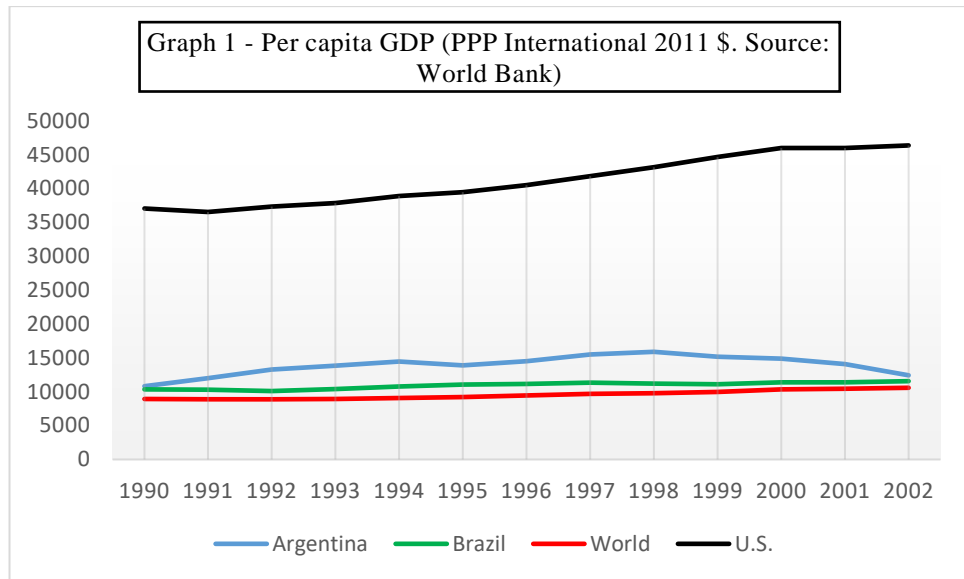
It is beyond dispute that the results actually achieved after one decade of neoliberal policies came far short of what was promised in the neoliberal discourses. Nevertheless, neoliberal and neodevelopmentalist writers offer two diametrically opposed narratives to explain the reasons for these shortcomings. While the former blame vested interests, governmental incompetence or unfortunate circumstances (Rodrigues 1995; Cavallo and Cottani 1997; Cavallo 2005; Franco 1999; Onis 2000; Pinheiro, Giambiagi, and Moreira 2001; Williamson 2003; Fraga 2004), the latter blame the perceived retreat of the state (Pochmann 2001; Mantega 2001; Lavagna 2003; 2011; Ferrer 2006; Kicillof et al 2006). What is lacking in both mainstream narratives is an international and class-relational perspective. Because they idealise development as catching-up with global north countries and reify the state or the market as the privileged means to do so, they are blind to the uneven and combined development that actually occurred in the aftermath of the neoliberal reforms, as well as to its real driving forces: class struggle under international pressures and opportunities.

In the following two chapters I challenge the mainstream narratives about the neoliberal state reforms in Brazil and Argentina and offer an alternative perspective. Following the critical Argentinian and Brazilian political economy literature (Azpiazu, Basualdo, and Schorr 2001; Basualdo 2010; Boito Jr and Resende 2007; Boito Jr 2007, among others), I argue that the transformation in productive structures witnessed in both countries are better explained by shifting class relations. Building on that insight – and here is precisely the contribution my argument aims to make – I claim that these decisive shifts in class relations happened under the whip of external necessity, concretely instantiated in the 1997 Asian crisis, the 1998 Russian crisis, the 1999 Brazilian crisis and the 2001 Argentinian crisis. These crises, to which Brazil and Argentina were exposed given the reliance on international capital inherent in their respective development

strategies, finally forced the dismantling of the neoliberal class alliance forged in each country at the beginning of the 1990s.

More specifically, in both countries neoliberal policies were supported by a heterogeneous coalition, including different fractions of the ruling class and the urban middle classes. While the fruits of the reforms were largely appropriated by the financial fraction of the ruling class through high interest rates and extremely favourable privatisations, the middle classes enjoyed their share of the short-lived neoliberal prosperity thanks to overvalued exchange rates, which increased their purchasing power. In order to promote this privatisation of gains to the top layers of society, a socialisation of losses was imposed on the remaining social classes and class fractions, particularly on the working class. The whole model was premised on the constant influx of external capital, which was indeed abundant in the context of the end of the Cold War. Towards the end of the 1990s, the international situation reverted. A series of international crises put the neoliberal development strategy under stress, prompting the Brazilian and the Argentinian governments to expand the socialisation of losses to the middle classes, thereby undermining the social bases of the neoliberal administrations.

In short, international pressures and class conflicts coupled to bring an end to the neoliberal decade – through elections in Brazil, through a popular uprising in Argentina. The substantial changes in productive structures resulting from the neoliberal reforms certainly cannot be described as cases of catching-up development. In terms of per capita GDP, for instance, the growth experienced during that period is well in line with the average world growth, and the gap between Brazil and Argentina and the United States only widened (Graph 1). Instead, these changes and their causes are better captured by the concept of uneven and combined development.



The narrative sketched above is elaborated on in the two in-depth case studies that follow. Chapter 3 is dedicated to the neoliberal reforms in Argentina; chapter 4, explores the reforms in Brazil. In both of them, the structure of my argument is similar. First, I uncover the development promises used to justify the reforms through an analysis of speeches and official documents, showing how those promises were ultimately premised on a market utopia. Then, using primary and secondary data, I assess neoliberal policies in key areas, such as monetary management, privatisations and foreign policy. Finally, mainstream neoliberal and neodevelopmentalist explanations for the shortcomings of the reforms are questioned, and an international class relational interpretation based on the concept of uneven and combined development is fully presented. After chapters 3 and 4, my overarching argument is summarised in the conclusion to Part 2, where some incorporated comparisons between the experiences of Brazil and Argentina are suggested.

Chapter 3 – Neoliberalism in Argentina – the first world is here

We set in motion a privatisation plan of unprecedented intensity. It has already been implemented in important areas as telecommunications, airways and, to a great extent, the oil industry. (...) All of this combined with a policy of total deregulation of the economy. (...) Dear Congressmen: For our program to produce its results, it is of capital importance that it receives support and concrete answers from abroad. President Menem (1991, 114).

In the evening of the 20th of December, 2001, President De La Rúa fled the presidential palace in Buenos Aires in a helicopter. Surrounding the building, the infuriated crowd in the historic *Plaza 25 de Mayo* chanted ‘everyone must go’.

The description provided by one of the many protesters offers a glimpse into that moment:

December 19th and 20th was a historic process. I was there, with everyone else, combating a system. I believe no other country in the world had four presidents – and one day without a president – in just one week. (...) Clearly, when people unite, no one can bring them down. (...) On 19th and 20th the people took the streets. It wasn’t expected – the demonstrations multiplied from one second to the next. People didn’t know where they were marching or why they were marching, they were just so fed up with this typically neoliberal system that Menem implemented – that we lived under because of US imperialism – we were so fed up with everything (Anti-capitalist activist, cited in Sitrin 2006, 30).

The popular revolt of the 19th and 20th of December, 2001, is the endpoint of the neoliberal journey in Argentina. Unprecedented rates of unemployment and poverty, limited access to banking deposits (*corralito*), dismantling of state services and a deep distrust in traditional political organisations (including parties and trade unions) fuelled massive protests across the country. Roads were blocked, unproductive factories were taken, supermarkets were looted and bank windows were smashed. The neoliberal dream of a developed capitalist Argentina, a first world country, melted into air. After 12 years of sweeping neoliberal reforms, the country was very far from the idealised view of the first world promised in the political speeches.

The neoliberal state-reform process had its epicentre in Menem's government (1989-1999)²⁴ and involved change to laws and regulations, privatisations, trade liberalisation, the dismantling of public services and the forging of a new international identity. That these development strategies proved incapable of producing catch-up development in Argentina is beyond dispute. The questions worth asking are why that was the case, who benefited from the neoliberal reforms and what kind of development resulted from those policies instead?

Neoliberals and Neodevelopmentalists cannot offer convincing answers to those questions. For neoliberals, the Argentinian crisis of 2001 was caused by insufficient discipline in applying pro-market policies, in particular a lack of fiscal responsibility (Williamson 2003; Fraga 2004; Cavallo 2005). For them, the reforms did not go far enough, despite being arguably the most comprehensive set of neoliberal reforms ever implemented under democratic conditions. Still, market rule was not sufficiently enforced, and the state, always captured by vested interests, spoiled the reforms by spending beyond its means.

Neodevelopmentalists, on the other hand, make the opposite case. For them, the reforms went way too far. The state was dismantled and its capacity to promote catch-up development was severely curtailed, to the benefit of transnational capital. Privatisations, drastic reduction in trade tariffs and political alignment with the US left no space for development policies. In that context, the loss of control over the monetary policy after the Convertibility Plan, which resulted in a chronically overvalued exchange rate, is often presented as the ultimate cause of the crisis (Lavagna 2003; 2011; Ferrer 2006; Kicillof et al. 2006).

As argued in chapter 1, the neoliberal and the neodevelopmentalist narratives are inverted twin sisters, based on opposing state and market utopias, and politically justified by a common promise of catch-up development. Exactly because the perfect state and the perfect market are never materialised in the real world, the failure to finally catch up with global north countries can always be attributed to insufficient state-led policies or market-led reforms. As a consequence, real world development, with its uneven and combined nature, cannot be fully grasped.

²⁴ The Argentine political economy literature normally points to Martínez de Hoz's administration as finance ministry (1976-1981) – under the last military dictatorship – as the precursor of neoliberalism in Argentina (Ferrer 2006; Basualdo 2010). Nevertheless, the developmentalist state in Argentina was only thoroughly dismantled after President Menem took office.

My argument in this chapter is that the extent and the depth of the reforms in Argentina – as well as their ultimate failure in bringing about catch-up development – must be understood in the context of a particular configuration of class relations and international pressures and opportunities. Fiscal and exchange rate policies were not simply mismanaged. Instead, the fiscal imbalances and the overvaluation of the exchange rate were consequences of the interplay between the distributive conflict and international variations in capital flows. The exchange rates were kept overvalued, leading to growing fiscal difficulties, because of the initial abundance of international capital and the particular conjunction of interests that had to be satisfied within the social alliance supporting Menem's government. As a consequence, the neoliberal scheme could only be sustained by the constant influx of capital from abroad, which was, in turn, largely dependent on the privatisation of former state-owned companies. Eventually, however, the contradictions of the social alliance backing the neoliberal reforms would emerge and international capital flows would reverse, leading to the collapse of the whole scheme, as effectively happened in December, 2001.

The uneven and combined character of Argentine development in the 1990s is revealed through a specific combination of socialisation of losses and privatisation of gains. Fractions of the ruling class benefited from the privatisations and the possibilities of association with international capital, and the middle classes of Buenos Aires enjoyed the tide of cheap imports. At the same time, the working classes bore the costs of the reforms, enduring unemployment, cuts in government services and unprecedented poverty levels. The failure of neoliberal reforms in Argentina was, therefore, not simply a failure of implementation or management. It could not have been avoided by a more efficient state or an even more liberalised market.

In this chapter, I substantiate these claims with an international political economy analysis of Argentine uneven and combined development and suggest an alternative interpretation of neoliberal reforms implemented in Argentina. My argument is built in four steps. In the first section (3.1), I analyse the neoliberal discourse of President Menem to show how promises of catch-up development were mobilised as a justification for extensive reforms, clearly based on a market utopia. After that (3.2), I scrutinise some key neoliberal public policies actually adopted during Menem's government, with particular focus on the monetary reforms and privatisations. In section 3.3, the foreign policy of 'carnal relations' with the US is examined. The fourth and last section (3.4) brings together the results of the preceding sections and explains why the promises of the

political discourse failed to materialise, producing instead an uneven and combined form of development.

3.1 From ‘*Salario*’ to ‘catch-up’ development – the promises of Neoliberalism in Argentina

In the first chapter of the *Eighteenth of Brumaire*, Marx remarks that during convoluted times of social change men ‘anxiously conjure up the spirits of the past to their service’ (2010a [1852], 104). Accordingly, the neoliberal cycle in Argentina started by politically mobilising expectations of reviving a Peronist²⁵ past. As the state reforms were implemented, that discourse changed to incorporate neoliberal economic jargon, particularly after Menem’s re-election in 1994. Instead of looking to the national past for inspiration, ‘first world’ countries were presented as development models to be emulated. The official discourse transitioned from state to market utopia. In both moments, however, promises of development were repeated to exhaustion in order to justify the socialisation of losses imposed by the reforms.

If the traditional developmentalist strategy adopted in Argentina reached its limits in the 1980s, culminating in the social tragedy of debt crisis and hyperinflation, the neoliberal turn in Argentina started farcically. During the electoral campaign in 1988 and 1989, amidst a deep economic crisis, Menem presented himself as a faithful, if renewed Peronist. Running for the presidency for the ‘Justicialist’ Party (PJ), founded in 1947 by Juan Domingo Perón himself after declared ideas of ‘social justice’ (hence the name ‘*Justicialista*’), the then Governor of the remote province of La Rioja promised in his campaign to promote a ‘*salarizo*’ (substantial increase in salaries) as well as a ‘productive revolution’ (Canelo 2011, 77; Szusterman 2000, 199; Brenta 2013, 277; Ferrer 2006, 257). Interviewed in a popular TV show in 1987, Menem so described the differences between him and President Raul Alfonsín:

²⁵ Peronism is the labour-based political movement initiated by Juan Domingo Perón in 1947. Analysing the character of Peronism is a challenge that has defied generations of scholars (Murmis and Portantiero 1973; McGuire 1997; Levitsky 2003). For my purposes, whenever I refer to Peronism I mean the institutionalised version of the movement, represented by the Justicialist Party (PJ).

The differences lay in the economic aspect. While at this moment *Radicalismo*²⁶ has chosen to follow an economic policy with a clear monetarist character in which the economy and the people are at the service of Capital, we *Justicialistas* are for an economy of a social character, in which Capital and the economy are put at the service of the people. This is the big difference. On one side a social economy, on the other a monetarist economy of liberal character (Menem, 1987).

Although constantly reaffirming classic Peronist values such as social justice, solidarity and state regulation of the economy in interviews and campaign documents (see, for instance, Menem [1988]; Menem and Duhalde [1989a]; Menem and Duhalde [1989b]), Menem also tried to mobilize the image of renovation. The need for state reforms and privatisations was mentioned in the campaign, side by side with the denunciation of enemies of the people such as the old ‘oligarchy’ and the ‘parasite class’ (Canelo 2011, 77–78).

Menem’s discourse tried to maintain a broad political appeal while progressively leaning towards market utopia after the elections. In his inaugural address to Argentine’s National Congress, in 1989, alongside traditional mentions of social justice, it is possible to identify a clear anti-statist approach. ‘Everything that private enterprise can do for itself, the national State will refrain from doing’, announced Menem, claiming at the same time that the forthcoming reforms would take into account the interests of the ‘most humble people’ (1989, 18). After recognizing the situation of ‘economic emergency’, his calls for unity, collective sacrifice and austerity are justified by grand promises of development: ‘At this crucial moment, economic independence means, to this government, the defeat of stagnation, the victory of production, the triumph of development’ (1989, 20).

Six years later, in 1995, a triumphant Menem emboldened by the initial success of the Convertibility Plan and engaged in his re-election campaign addressed the National Congress of Argentina again to make an ‘evaluation of the entire period of the mandate’ (1995, 7). This time, although keeping a few references to ‘social justice’, the entire tone of the Presidential speech is definitively aligned with the neoliberal creed. Menem starts his address affirming that he has fulfilled his mission of ‘changing the history’, by ‘turning away from decay’ (1995, 8). According to him, the reforms undertaken during

²⁶ The expression ‘Radicalismo’ here refers to the followers of the *Union Civica Radical* Party (UCR). This traditional liberal party, formed after a split in Argentinian liberal forces in the last decade of the XIX century, incorporated from the beginning some populist and charismatic elements (Di Tella 2013, 47). The UCR and the PJ have been the main institutionalised political forces in Argentina since the end of World War II. Their supremacy was only suspended during periods of military dictatorship, and recently by the election of Mauricio Macri in December 2015.

his first term made this turn possible. Among the policies proudly enumerated by Menem before the Congress were:

The liberalisation of markets, allowing the free game of demand and supply to be the only regulator.

The reorganising of the State, putting an end to a gigantic, expensive and inefficient apparatus, a cradle for corruption.

The privatisation of mammoth state enterprises, putting an end to a constant draining of hard currency, and starting the improvement of the services so as to bring them to the level of the leading nations (Menem 1995, 21).

The explicit comparison with the ‘leading nations’, the ‘developed’ countries or the ‘first world’ is a constant throughout this speech. Menem announces that economic growth rates of the previous three years were higher than in ‘Italy, Spain and other developed countries’. Also the inflation rates were lower than those ‘previously unreachable First World nations’ (1995, 18). According to him the production of cars and home appliances increased reflecting cuts in trade tariffs, and the quality of national products was elevated ‘to the level of the First World countries’ (1995, 23). The promises of catching-up development assume a rare concreteness towards the end of the speech. Talking about the plans for the next five years, Menem claims that per capita income should increase by fifty percent by the year 2000 (1995, 32).

Menem’s discursive transition from state to market utopia entailed the renewal of old developmental promises, although those promises took a new form. While the 1989 inauguration speech and the first presidential campaign documents appealed to ideas like ‘national unity’, ‘sovereignty’ and ‘national self-determination’, implying that a strong national State would be conducive to development, the 1995 inauguration speech fully embraced the mirage of neoliberal, market-based catch-up development, suggesting that Argentina was well on its way towards the ‘First World’. In the first instance, a strong Peronist Argentina of the past was a source of inspiration; in the second, selected developed countries were presented as models to be emulated.

A curious merger of the two ideas can be seen in a short article published in the *Harvard International Review* (Menem 1998). In this remarkable example of combination of discourses, Menem makes an unusual move for a Peronist and praises the classical liberal insertion of Argentina into the international system at the beginning of the 20th Century. Supplying raw materials to Europe triggered ‘a process of economic development that by its first centennial rendered Argentina among the world’s most

prosperous nations' (Menem 1998, 18). Here, Menem's words resonate Carlos Escudé's ideas reviewed in Chapter 1: the most rational international strategy for a peripheral country is to 'bandwagon' with the dominant world power, in exchange for economic benefits (Escudé 1995, 156). However, by representing the liberal Argentina of the beginning of the 20th century as a model of development, Menem empties his previous calls for social justice, as well as the traditional Peronist emphasis on industrialisation. Just like in his early speeches, the past is summoned again as a model for the future, but this time instead of evoking Peron's nationalist policies and his dignified defiance of foreign powers, Menem, a declared Peronist, evokes the image of an agrarian country profoundly connected in international trade flows, i.e., the pre-Peronist, liberal Argentina.

This idealized image of the liberal past is complemented by a comparison with developed countries that were soon to be surpassed by Argentina, thanks to the market friendly policies adopted in Menem's administration:

By reshaping our entire economic and political system, we have leapt beyond many European countries that maintain structures from an era of statism and inefficiency. Within the next few years, Argentina will have surpassed some European Union countries in terms of population and economic growth (Menem 1998, 19).

Summing-up, repeated promises of development always formed part of President Menem's rhetoric. Sometimes totally ambiguous, sometimes taking the form of big figures, the promises of development have a clear catching-up character. Argentina was represented as a country that naturally should have a place alongside developed nations of the west. 'For some time, Argentina lost consciousness of its Western orientation and devised for itself a leading role in a Third World to which it had been historically alien' (Menem 1998, 19). The correction of the 'statist' policies that led Argentina astray would supposedly put the country back on the development track.

3.2 'The Economy of the Garden of Eden' – and how to pay for it.

Neoliberalism in Argentina went far beyond the discursive turn in the traditional Peronist rhetoric. Concrete public policies, materialised through a series of laws, decrees and government acts, reshaped the productive structure of the country. So extensive and deep were the reforms adopted after 1989 that it would be impossible to detail all of them

in this thesis.²⁷ The drastic monetary reforms and an extensive program of privatisations are remarkable examples of the way the class fractions in control of the Argentine state concretely reacted to international circumstances, promoting privatisation of gains and socialisation of losses. Therefore, this section will focus on these two interconnected sides of macroeconomic management. Overall, my argument here is that the monetary reforms produced concentrated gains – particularly for the urban middle classes of Buenos Aires and big capital owners – that had to be paid for through a sweeping process of privatisation. This represented a clear case of socialisation of losses, since the privatised companies were a public heritage built by the Argentine working class over generations.

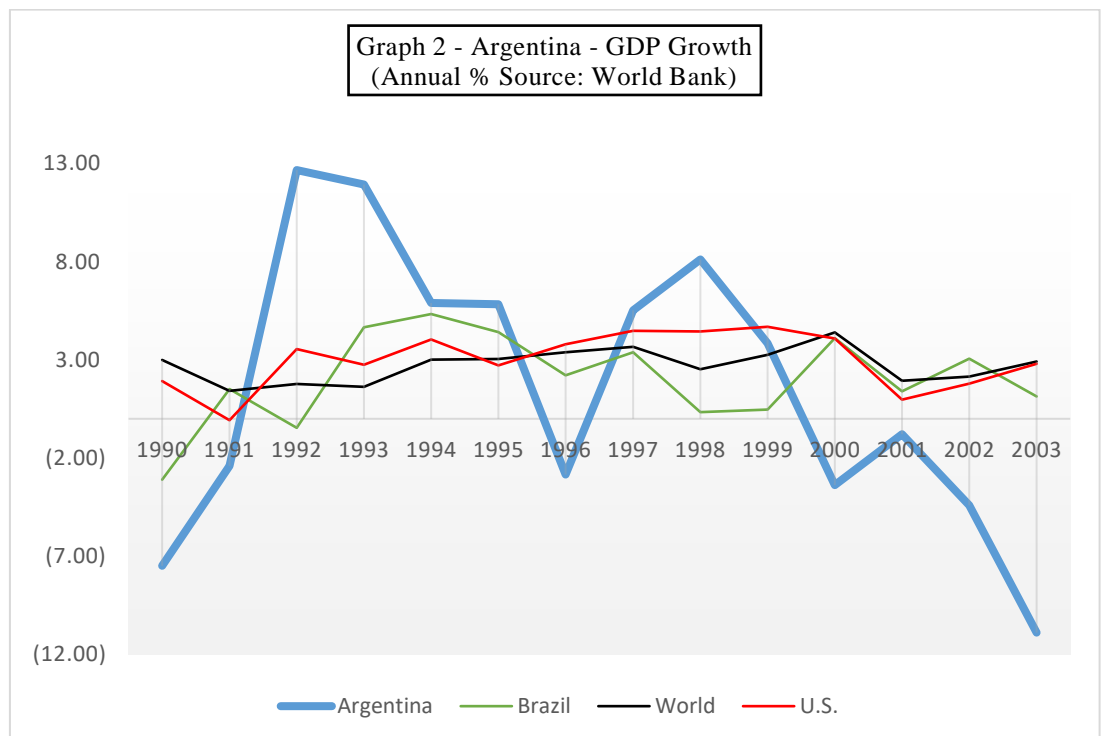
The reform process was not linear, however. In the first three years of Menem's administration (1989 to 1991), Argentina had four finance ministers. The first one, Miguel Angel Roig, died of a heart attack only five days after taking office, on the fourteenth of July, 1989. He was immediately replaced by Nestor Mario Rapanelli, who implemented the first stabilization plan of Menem's government, known the 'BB Plan'. The acronym 'BB' refers to the agro-industrial group Bunge & Born, then considered the most important of Argentina (Basualdo 2010, 285). Both Roig and Rapanelli were recruited from top executives of that group, in an effort to reassure the private sector of the new government's market-friendly intentions, despite the ambiguously defiant tone adopted by Menem in the presidential campaign (Gerchunoff and Torre 1996, 736; Campello 2015, 161).

The economic policies implemented in this early phase comprised the sharp devaluation of the national currency in order to foster commercial surpluses, thereby favouring the exporting sectors, particularly the agro-industrial complex. Also public tariffs were raised and State expenditure was cut (Ferrer 2006, 258). Some increase in nominal salaries was announced but its effects were rapidly offset by inflation, falling well short of the promised '*salario*' (Rapoport 2005, 63). The most significant actions taken by the government in this phase were the approval of two very important bills – the Law of Economic Emergency (Law 23.697 [Argentina 1989a]) and the Law of State Reform (Law 23.696 [Argentina 1989b]) (Basualdo 2010, 287). Also important was an

²⁷ Rarely in history have neoliberal reforms gone so deep in so little time, including many instances of deregulation, cuts in trade tariffs, tax reforms, reduction of state services and privatisations. For a classical overview of these reforms, see Gerchunoff and Torre (1996); for a detailed and critical account, see Basualdo (2010); for a mainstream marginalist appreciation of the reforms, see Pastor Jr and Wise (1999). Finally, for a defence of the reforms, in particular of the Convertibility Plan, see Rodriguez (1995) and Cavallo and Mondino (1995).

early agreement with the IMF, which would guide the fiscal austerity policies of the next few months (Brenta 2013, 278).

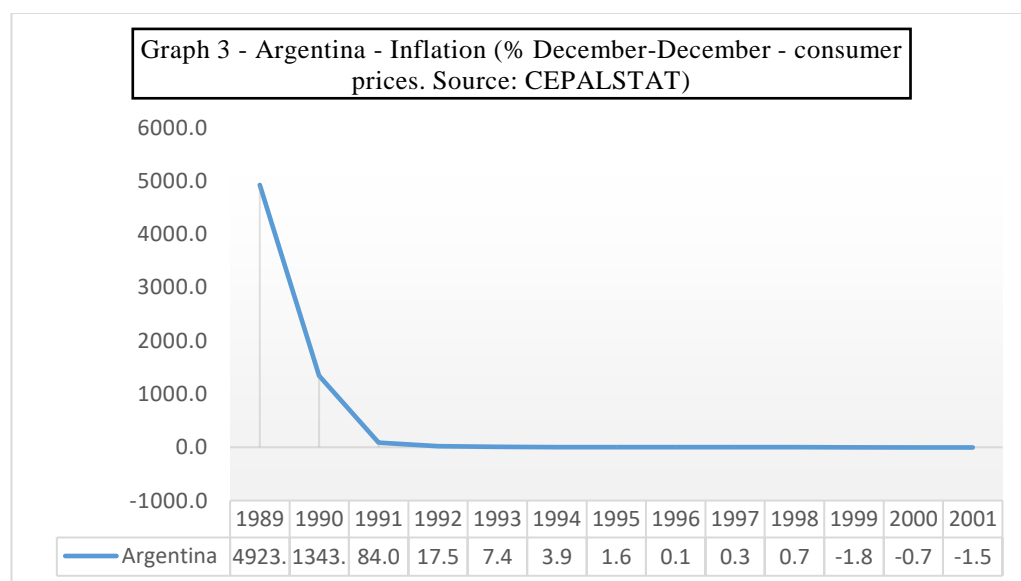
Recognizing the situation of ‘State emergency’ (art.1), Law 23.697 declared a draconian cut in the public budget and considerably broadened the government’s powers. All state subsidies were suspended for 180 days (art.2), as well as incentives for the manufacturing industry (art.4), the mining industry (art.11) and the hiring of new workers in the public sector (art.42). A commission was created to reform the Central Bank of Argentina so as to ‘grant the functional independence necessary to accomplish its essential mission of securing the value of the currency’ (art.3). Incentives for external investments were approved (arts.15-18) and internal public debt was restructured (art.38). Finally, the Congress agreed to granting special powers to the government regarding budget flexibility (arts.24-27) and the negotiation of agreements with international economic institutions (arts. 85-87). Not surprisingly, this law has been described as a ‘straightforward attack to the heart of the assisted capitalism that developed in Argentina since the post-war years’ (Gerchunoff and Torre 1996, 736).



Profound as those reforms were, they proved unable to rebalance the public budget and control inflation. In a context of contracting GDP (see Graph 2), lack of credibility in government plans and distrust in the national currency itself, complicated

by distributive struggle between different classes and class fractions in the absence of a clear political direction from the government, inflation peaked again in December 1989. Minister Rapanelli was forced to resign. His successor, Erman Gonzalez, took office on 19th December, 1989, remaining in charge until March, 1991, when public discontent with the repeated austerity measures coupled with corruption allegations forced his substitution with the then Foreign Minister, Domingo Cavallo (Brenta 2013, 279). During his months as Finance Minister, Gonzalez made use of the extraordinary government powers and determined by decree the compulsory exchange of saving deposits and short term public debt for US dollar denominated bonds, to be redeemed in ten years. This caused the ‘sterilisation of 60% of the monetary base existing in the beginning of 1990’ (Ferrer 2006, 258), a move known as the ‘Bonex plan’. According to Carlos Rodriguez, one of the leading orthodox economists in Argentina and an enthusiastic supporter of Menem’s government, this restructuring of the public debt made possible the ‘adoption of measures to permanently stabilize the economy’ (1995, 4).

The ‘stabilization’ mentioned by Rodriguez would be achieved after the adoption of the Convertibility Plan, announced by Domingo Cavallo in 1991. Nevertheless, with the benefit of hindsight, the economic meltdown of 2001-2002 may be mentioned as evidence that the ‘permanency’ of this stabilization was questionable. What is beyond question is the immediate success of the Convertibility Plan in controlling inflation, as well as its deep consequences for the Argentinian productive structures (see Graph 3 and section 3.4 below).



The backbone of the Convertibility Plan was a simple law of no more than 14 articles, contrasting with the long and abstruse dispositions of the previous Laws of State Reform and Economic Emergency. So straightforward are the main dispositions of Law 23.938 (Argentina 1991) that I shall quote it at length:

TITLE I – On the Convertibility of the Austral

Article 1: It is hereby established the convertibility between the austral and the United States dollar as from April 1, 1991, in a ratio of ten thousand australs (A 10,000) per each dollar, selling price, under the provisions of this Law.

Article 2: The Central Bank of the Argentine Republic shall sell the currencies that may be necessary for exchange operations according to the exchange rate established in the previous Article, and shall withdraw from circulation the australs received in exchange.

Article 3: The Central Bank of the Argentine Republic may buy foreign currency at market price, out of its own resources, by order and for the account of the National Government, or by issuing the necessary australs to meet that end.

Article 4: The unrestricted reserves of the Central Bank of the Argentine Republic in gold and foreign currency shall always be equivalent to, at least, a hundred percent (100%) of the reserve money. (...) (Argentina 1991)

According to this legal disposition, the Central Bank of Argentina took as its principal mission the safeguard of a fixed exchange rate parity between the austral and the US dollar, acting as a currency board. All currency in circulation, as well as the deposits of commercial banks in the Central Bank, were guaranteed by the reserves of the Central Bank, in a scheme resembling the classic gold standard.²⁸ The government tied its own hands, renouncing the use of monetary policies to accommodate economic cycles. ‘Like Ulysses, who commanded his own tying to the mast of his ship so as not to be attracted by the misleading melodies of the mermaids, the government chose to renounce the use of key economic instruments in order to make credible its commitment to monetary and fiscal discipline’ (Gerchunoff and Torre 1996, 745–46). The monetary reform was completed with the substitution of the austral by a new currency, the Argentinian *peso*, at the rate of ten thousand australs per peso, i.e., 1000 australs = 1 peso = 1 US dollar. The new peso notes were issued on the first of January of 1992. Below the number indicating the value, the notes carried the statement: ‘convertible legal tender’ (Figure 1).

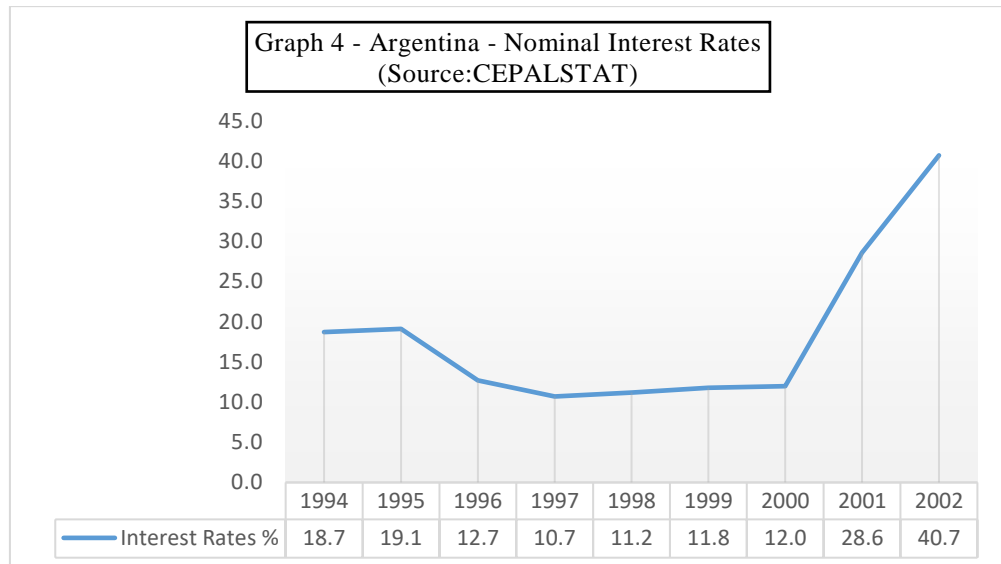
²⁸ The monetary regime in Argentina during the 1990s was even more strict than the classic gold standard, whose supposed automatic functionality has been recently called into question by Knafo (2013).

Figure 1 – A promise in the money bill – Convertible legal tender. Argentinian Peso in 1990.



This extreme move was designed to control the inflation by three means. First, it simply prohibited the multiplication of the monetary base, implying that the government could not finance its fiscal debts by creating money. Second, it grounded expectations, tying the value of the national currency to the US dollar, a currency already widely used as a stable store of value and unit of account. Third, coupled with the cuts in trade tariffs, it exposed commodities bought and sold in the internal market to direct international competition, establishing therefore a roof on domestic prices.

Nevertheless, the potential problems associated with this strategy were considerable. By limiting itself to the role of a currency board, the Central Bank lost its capacity to adjust the monetary base so as to balance economic cycles, and could not function as a lender of last resort. Also, the Central Bank was legally prohibited from adjusting the exchange rate. As a result, taking into account the residual inflation and the high interest rates (Graphs 4), the national currency was permanently overvalued in real terms. Therefore, the Argentine economy became particularly prone to external shocks. As harshly noticed by Brenta, ‘the currency board can only be viable in the long term in a context of permanent growth of activity, external surplus and fiscal balance; in short, in the economy of the Garden of Eden’ (2002, 57).



In order to sustain the convertibility between the Argentinian peso and the US dollar promised in the new Argentine banknotes, it was paramount to attract dollars to the domestic economy. Deficits in the balance of payments, occasioning the reduction of the Central Bank reserves, meant that the monetary base itself would have to shrink, with dramatic consequences for the level of activity. As explained by Brenta, considering the legal impossibility of adjusting the exchange rate, cyclical adjustments would have to be made through contractions on the level of activity (2002, 57). The pressing need of dollars after the Convertibility Plan, therefore, partially explains the intensity and the speed of the privatisation process in Argentina.

The Convertibility Plan was not the only factor behind the privatisations, however. In fact, as mentioned before, ‘privatisation’ was one of the few neoliberal terms that figured in Menem’s speeches after the presidential campaign. Accordingly, the key legal text providing the basis for the privatisation process, the Law of State Reform (Argentina 1989b), was approved in the first phase of Menem’s government, only a few months after he came to power and almost two years before the Convertibility Law.

The Law of State Reform starts with the same catastrophic language of the previously analysed Law 23.697 (Economic Emergency). Declaring the ‘State of emergency in the provision of public services, the fulfilment of public sector contracts and the economic and financial situation of Public National Administration’ (art.1), the law gives special powers for the government to intervene in state-owned companies (art.2). The appointed intervenor should ‘provisionally reorganise the entity, society or enterprise intervened’ (art.3), preparing its privatisation. The law also defines five

modalities of privatisation, ranging from concessions to private administration to the total liquidation of the company's assets (art.17). The privatisation processes should 'avoid negative effects on employment', and take into account the need for a 'stable and sustainable public provision' (art.41). Trade unions' political leaders – the labour aristocracy historically close to the PJ – were empowered, inasmuch as the law recognized their representativeness to negotiate the terms of employment with the new owners of the companies, as well as explicitly keeping the *status quo* regarding union affiliations (arts.41-42). Employees were theoretically given incentives to acquire part of their companies' shares (arts.21-40), but none of the major privatised companies fell under direct workers' control. Finally, the law listed 33 state-owned entities that should be privatized, including iconic Argentinian companies such as Aerolineas Argentinas (airlines); Yacimientos Petroliferos Fiscales-YPF (oil); Ferrocarriles Argentinos (railways); Canal 11 and Canal 13 (broadcasting) and Subterraneos de Buenos Aires (subways) (Argentina 1989b).

In short, Law 23.696 gave Menem's administration vast powers to set in motion the biggest privatisation plan in Argentina's history, objectively transferring public assets to private hands. After the approval of the Law, the rhythm of privatisations was amazingly fast (Gerchunoff and Torre 1996, 740; Romero 2006, 257). In only one year, 'before October, 1990, almost all of the public companies listed were transferred to the private sector' (Gerchunoff and Torre 1996, 739), although the biggest one, YPF, would be totally privatised only in 1999, bringing much needed dollars in a moment of crisis. Maria Julia Alsogaray, a former Member of the Congress (1985-1989) indicated as intervenor and posteriorly condemned for corruption, was instructed to 'conclude the privatisation of the telecommunications company before the eighth of October, 1990, the date of Peron's birthday' (Romero 2006, 257).

Not surprisingly, privatisations were defended in ideological terms by neoliberal economists. For Rodriguez, 'The privatisation process in Argentina has efficiently dismantled the "entrepreneurial state" (...) which has proven itself totally incompetent and untrustworthy' (1995, 14). Domingo Cavallo highlights the fact that privatisation of insolvent public companies alleviated the public budget. Moreover, inasmuch as 'Argentina's public resources were misallocated, and investment was directed towards unproductive activities', privatisations were conducive to better allocation of capital and increased microeconomic efficiency (1997, 461). Nevertheless, even Cavallo recognizes that the model adopted in the first wave of privatisations 'could have been designed much

better'. According to him, '[e]mphasis was placed on maximising the sale price of the companies', which was a political necessity to make the 'privatisation process (...) palatable and assist the government in convincing the markets of its commitment to economic reform (...) ' (1997, 466).

Cavallo's benign self-criticism is partially followed by other authors writing in the 1990s. Instead of questioning the logic behind privatisations *per se*, these authors emphasise the shortcomings and incoherencies of the privatisation model adopted in the first years of Menem's administration. Gerchunoff and Torre, for instance, highlight that in Argentina privatisations did not effectively break monopolies. Hence, 'the newly privatised economies operated in a framework that was as far from the rules of market competition as the previous phase of protected industrialization' (1996, 740). Furthermore, the fact that part of the payment for the privatised companies was made in government bonds, accepted at their face value instead of their much lower market value is also often mentioned as a circumstantial critique of the privatisation process (Calvert 1996; Galiani and Petrecolli 1996).

Beyond the temporary quelling of fiscal necessities, the attracting of dollars to Argentina and the need to send reassuring political signals to investors, there is little evidence that the privatisations improved the microeconomic efficiency of the privatised companies. Even more doubtful is the supposition that eventual efficiency gains were finally transferred to consumers in the form of real tariff reductions or improvement in services. There is some degree of consensus among liberal and developmentalist writers that the speed and the modelling of the first wave of privatisations did little more than transfer to private capital already existing monopolies, a situation aggravated by poor regulation (Goldstein 1998; Rapoport 2000; Cavallo 1997; Herrera 1993; Gerchunoff and Torre 1996). This explains why re-nationalisation of some of the privatised companies after 2003 was extremely popular (see Chapter 6).

The privatisation process in Argentina can only be fully understood in the context of a much larger neoliberal development strategy. Within that strategy, privatisations played a double role, responding to a conjunction of political and economic factors (Calvert 1996, 147). On the one hand, from the outset Menem's administration faced a credibility challenge, as not all fractions of the national ruling class were convinced of the pro-market conversion of the Peronist leader, much less international investors (Gerchunoff and Torre 1996; Rodriguez 1995; Cavallo 1997; Herrera 1993). By privatising flagship national companies such as Entel (telecommunications) and

Aerolineas Argentinas in his first years in office, Menem gave national and international capital proof of his commitment to neoliberalism. The privatisation of Argentina's Railways was an unequivocally symbolic act, inasmuch as those had been proudly nationalised by Peron himself almost half a century earlier, in a controversial exchange for the British World War II debts to Argentina (Romero 2006, 99).

On the other hand, privatisations played a very important role in attracting dollars to the national economy, keeping the convertibility possible and balancing national accounts in key moments. Even before the final privatisation of YPF, in 1999, privatisations brought to the Argentine government US\$ 18.17 billion. Taking into account only the three initial years of the Convertibility Plan, when the influx of dollars was extremely important, privatisations generated an extraordinary figure of US\$ 11.6 billion (Rapoport 2000, 35). Therefore, in Argentina privatisations are as inextricably intertwined with the monetary reforms. To keep the 'economy of the Garden of Eden' (Brenta 2002, 57) going, a constant influx of dollars was needed, and that was met thorough a socialisation of losses in the form of privatisations.

The political and economic sides of the privatisation process were synthesized by researchers of the influential Buenos Aires' Latin American Faculty of Social Sciences (FLACSO). According to Eduardo Basualdo, the privatisations were 'the most important structural process in Menem's administration' (2010, 392), inasmuch as they made possible the reconciliation of interests between fractions of the ruling class in Argentina and the international capital, creating the basis of a coalition that would be hegemonic over the following years (2010, 392–416; 2011, 41–109). I will build on this analysis in section 3.4 below, relating these class alliances to a broader uneven and combined view of Argentine development.

3.3 – The foreign policy of Carnal Relations

The association between Argentine and international capital brought about by the privatisation process and the dismantling of the developmentalist state went hand in hand with an active foreign policy, inspired by the work of Carlos Escudé (1992, 1995, 1999). Accordingly, Argentina's diplomatic capabilities were intensely mobilised in order to renew the country's international image, presenting it as a safe harbour for international capital. The monetary reforms and the privatisation process analysed in the last section

were evoked in speeches aimed at international audiences as proof of Menem's administration's commitment to market reforms. For instance, speaking at a joint session of the US Congress during a State visit in the 14th of November, 1991, Menem declared:

Without any exaggeration, I come here at the best moment of our bilateral relations.
 We share the same values of Western civilization. (...)
 My administration has faced a sequence of profound transformations (...)
 Our Convertibility Plan assures the complete backing of the entire monetary base in hard currencies. (...)
 We set in motion a privatisation plan of unprecedented intensity
 It has already been implemented in important areas like telecommunications, airways and, to a great extent, the oil industry.
 All of this combined with a policy of total deregulation of the economy. (...)
 Dear Congressmen:
 For our program to fructify, it is of capital importance that it receives support and concrete answers from abroad (Menem 1991, 114).

The bargain offered by Menem's administration could not have been put more clearly. The Argentine government was prepared to guarantee extensive investment opportunities and friendly economic environment for foreign capital, asking in return support for its economic reforms. Indeed, the declared intention of attracting international capital – a necessity dictated by the monetary and exchange policies – can also be seen as the most visible face of the invitation for association extended by the hegemonic fractions the Argentinian ruling class to international capital (see section 3.4 below).

Peripheral Realism, the foreign policy framework adopted by Menem's administration, conveniently translated Argentina's ruling class strategy into international relations terms, endowing it with social scientific reputability. Accordingly, it was in 'Argentina's interest' to cultivate privileged relations with the US, which was expected to materialise in the form of economic advantages. In Argentina's Foreign Minister's own words:

We want to be part of the Western Club. I want to have cordial relations with the United States, and we are not talking of platonic love. We want carnal love with the United States; it is in our interest because we may benefit from it.
 (Di Tella, cited in: Bonnet 2007, 76)

Concretely, the support of the US was expected to facilitate negotiations with the IMF and with private banks in the restructuring of Argentinian debt. Regarding the IMF, after the first stand-by agreement closed in the context of the BB plan, already in 1989,

the Convertibility Plan was supported by seven new agreements (including extensions), approved between July 1991 and August 2001 (Brenta 2013, 165). Cavallo was keen to recognize that ‘the Convertibility Plan received strong support from the international financial community and, especially, from the International Monetary Fund’ (Cavallo and Cottani 1997, 19). Nevertheless, the Argentinian Finance Minister remarked about some points of contention in relation to the Fund: ‘the IMF was never comfortable with the idea of cutting taxes (...) even if the government was running a fiscal surplus. According to the Fund’s credo, accumulating reserves is always better’ (1997, 19).

The renegotiation of Argentina’s privately owned foreign debt was also dependent on direct US support. This restructuring happened in the context of the so-called Brady Plan, named after Ronald Reagan and George Bush’s Secretary of the Treasury, Nicholas Brady. Following the model adopted in other Latin American Countries (Costa Rica, Mexico, Venezuela, among others), the negotiations involved the exchanging of defaulted bonds for new, securitised, ‘Brady bonds’ including extensions in the repayment terms and reduction of the total debt. As explained by Sachs when the Brady Plan was first announced, ‘the [US] Treasury is relying on "market" solutions, based on the "voluntary" actions of creditors, to bring about the debt reduction’ (1989, 88). Nevertheless, these ‘market’ solutions could only work with the support of the IMF, the World Bank and the US Treasury, in order to give credibility to the bond swap process.²⁹

How much of the support given by the IMF and the US government to the debt restructuring and the economic reforms at large can be credited to the special diplomatic relations Menem’s administration tried to cultivate with Washington is difficult to tell. There is no doubt that without the IMF’s positive reports and the unprecedentedly friendly relations with the US, attracting investments would have been more difficult. Nevertheless, the relatively low prices of the privatised companies and the expected high returns could have been enough to convince individual investors to bring their money to Argentina, particularly in the context of high international liquidity and stock market optimism that marked the end of the Cold War. The restructuring of Argentine debt under the Brady Plan would not be possible without US support, but the fact that similar programs of debt restructuring were carried out in the putative benefit of less aligned countries shows that Washington could have backed it independently of Argentina’s strong foreign policy alignment.

²⁹ For a favourable overview of the restructuring of Argentine debt in the context of the Brady Plan, provided by a truly insider, see Oliver (2010).

The concessions made by Menem's administration to signal Argentina's openness to international capital and its intention to cultivate special relations with the US went far beyond the economic and financial spheres, involving important changes in multilateral diplomacy and security matters. Indeed, the most dramatic feature of Menem's foreign policy is a marked inflection in Argentina's traditional non-alignment in international political matters, a move recognized by defenders and critics alike (Candeas 2010; Cervo 2001; Cisneros 1998; Balze 2001; Escudé 1992; Escudé 2009; Paradiso 2005; Russell and Tokatlian 2004).

An early example of this inflection is Argentina's formal involvement in the Gulf War against Iraq, in support of the US led coalition, only a few months after Menem took power. The sending of a ship to the conflict zone was justified by Escudé as 'free training at the highest level for the Argentine Navy', which could also result in opportunities for national companies to participate in the rebuilding efforts once the war was over (1992, 38). The involvement of Argentina in the Gulf War was officially acknowledged by George Bush during his visit to Buenos Aires in December, 1990:

In the current crisis halfway around the world in the Gulf, you have also shown strength and vision by helping to lead international efforts to stop Saddam's brutal aggression. Your contribution to the multinational force in the Gulf is a statement of your commitment to peace and a commitment to the rule of law and a clear sign that you are assuming your rightful place as a leader among freedom-loving nations (Bush 1991, 1756).

George Bush's words complemented Menem's catching-up development rhetoric and offered the Argentine ruling class a reflected image they wanted to see. The explicit approval of the US President of Argentina's diplomatic shift coupled with the approval granted by international financial institutions to Argentina's economic reforms, externally validated the official discourse, according to which the country was finally on the way to 'development'. The construction of a developed Argentina would comprise the abandoning of the out-dated 'third world' identity in order to fully embrace its 'reincorporation into the first world' (Balze 1998), side by side with other developed Western nations.

Many other examples of Menem's foreign policy initiatives further substantiate this perspective. Argentina's definitive adhesion to Tlatelolco and Non-Proliferation Treaties in 1994 (Norden and Russell 2013, 98); the cancelling of the ballistic missile program 'Condor II' (Cavallo 1995, 15–17); the distancing from the Non-Aligned

Movement (Paradiso 2005, 285) and the vote in the UN Commission on Human Rights recommending investigations into human rights violations in Cuba (Russell 1991, 20) are frequently mentioned as clear implications of the Menem's administration intention to avoid political disagreements with the US government, reinventing Argentina's international identity as a trustworthy and mature ally.

One of the most enduring foreign policy initiatives of that period, the foundation of the Common Market of the South (Mercosur), in association with Brazil, Uruguay and Paraguay, should be interpreted in the same perspective, although with important nuances. In Menem's administration view, 'Mercosur represents substantial progress in the South American transition to a liberal model of an international market economy' (Menem 1998, 20). The organization was settled, therefore, as an initial step towards a broader commercial integration, which would potentially comprise the American continent as a whole (Balze 2001). After 2002, nevertheless, during the neodevelopmentalist cycle, Mercosur was transformed into a substantially different kind of organisation, progressively acquiring institutional density and political relevance (see chapters 5 and 6).

Looking back to Argentina's diplomacy of 'carnal relations' twenty years later, it is evident that its declared long-term political aims were not fully achieved. The alliance with the US were reversed, and bilateral relations reached a historic low after 2003. The IMF failed to support the country in the crucial moment of the 2001 crisis. The endeavour of guaranteeing Argentina's membership in the 'Western Club' or promoting its 'reincorporation into the First World' (Balze 1998) did not materialise in any meaningful way. A partial exception is the recognition of Argentina as a 'major non-NATO ally' of the US, a consolation prize after the country failed attempt at full NATO membership despite not being in the geographical area covered by that Treaty (Reficco 1998, 42).

Regarding security issues, Escudé claims that Argentina's commitment to non-proliferation agreements put pressure on Brazil to adhere to the same international regimes. According to the author, this alone 'is Argentina's most important contribution to mankind in the entire history of our country' (1999, 11). Nevertheless, organic intellectuals associated with Menem's administration failed to convincingly demonstrate that the subordinate engagement in security regimes was conducive to catch-up development or brought Argentina any closer to the 'First World' (Cavallo 1995; Cisneros 1998; Balze 1998; 2001; Escudé 1992; 1999).

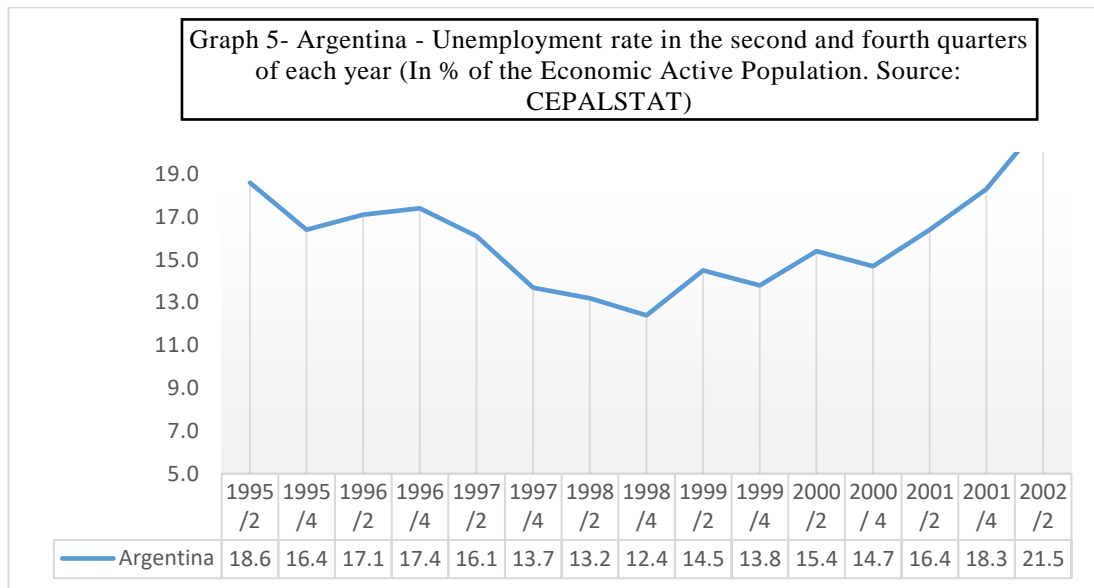
The short-term objectives of Argentine neoliberal foreign policy were largely achieved, however. For a brief period, until the Mexican crisis of 1995 and the Brazilian crisis of 1998-1999, Argentina succeeded in appearing as a stable and modern Western country, attracting substantial foreign investment and offering plenty of possibilities for association between Argentine and international capital. In short, the diplomacy of ‘carnal relations’, premised on the peripheral realist paradigm, was instrumental to the neoliberal development strategy as a whole. It offered a crucial bridge between the interests of the fractions of the Argentine ruling class in control of the state and international capital, providing at the same time a road-map for the incorporation of Argentina into the developed world.

3.4 Uneven and combined development in Argentina – or what happens when the whip of external necessity lashes the economy of the ‘garden of Eden’?

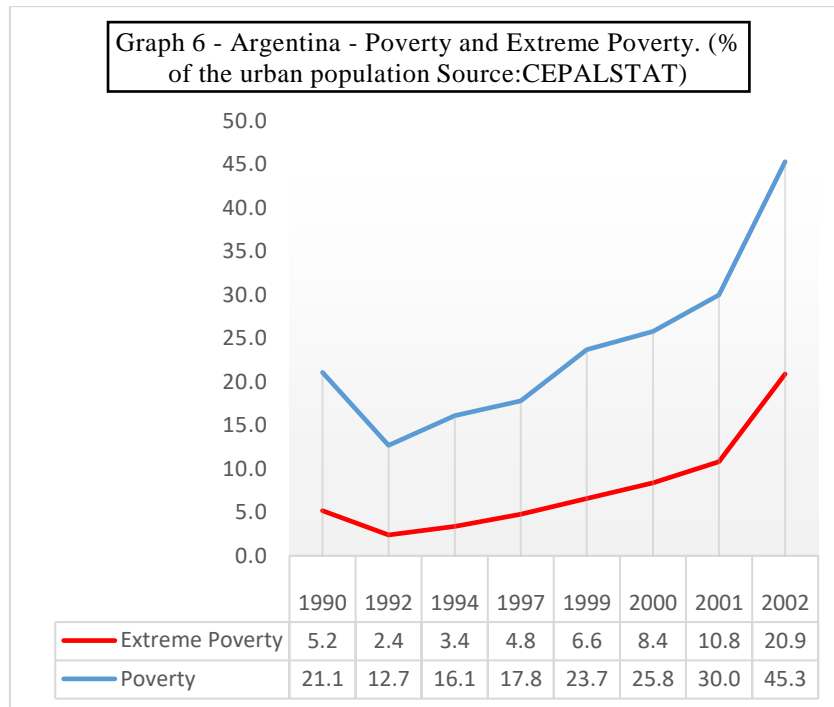
In the previous sections, I argued that neoliberalism took a complex form in Argentina in the 1990s. It involved a discursive combination which twisted the traditional Peronist rhetoric to justify a series of reforms, premised on the market utopia and with the declared aim of promoting catch-up development. It also comprised concrete public policies – including a radical monetary reform, a comprehensive privatisation program and a substantial change in the Argentine foreign policy.

The extent of the real damage caused by the neoliberal reforms can hardly be overstated. Unemployment surged to record levels, reaching 21.5% in the second quarter of 2002 (Graph 5). Historically one of the most equal countries of Latin America, inequality in Argentina as measured by the Gini index rose from 0.482 in 1992 to 0.578 in 2002. Absolute poverty levels also increased. In 1992, 12.7% of the Argentinians were poor and 2.4% suffered from extreme poverty; in 2002, the figures were respectively 45.3% and 20.9% (Graph 6). One of the few concrete promises made by Menem in his 1995 Congress speech (see 3.1 above) was that there would be 50% increase in per capita GDP by the year 2000, which would put Argentina on par with some European countries. Instead, by the end of the neoliberal cycle, in 2002, per capita GDP was US\$ 7215, 10% lower than in 1995.³⁰

³⁰ For the analysis that follows, I rely on statistics from the United Nations Economic Commission for Latin America and the Caribbean (CEPAL 2017) unless another source is indicated.



That the development strategy adopted in the 1990s failed to bring about catch-up development is not disputed, even by neoliberal analysts. The reasons behind the failures, nevertheless, are still an object of much controversy almost two decades after the 2001 crisis. Implicit in this debate is the supposition that Argentina could have fulfilled Menem's promises of entering into the 'first world', but deviated from its natural development path. The failures of neoliberal policies in Argentina are seen by the mainstream political economy literature, therefore, as merely circumstantial, not as an indication of the fundamental weaknesses of the neoliberal development strategy. From an uneven and combined development perspective, however, more important than identifying what went wrong with the neoliberal development strategy in the vain hope of fixing it is grasping what kind of development actually happened.



Neoliberal authors' explanations for the disappointing results achieved after the reforms basically claim that Menem's administration did not go far enough. Cavallo blames the lack of 'political support in Argentina for the fiscal discipline necessary to preserve rapid growth' (2005, 43). The former Finance Minister also resented the withdrawal of IMF support in 2001, which precipitated the run against the banks in the last months of 2001, causing the premature fall of De la Rúa's administration³¹ on 20th December, 2001.

A similar point is made by Arminio Fraga. According to him, the Argentine government's incapacity to maintain fiscal austerity and the appreciation of the exchange rate in real terms were the key factors behind the crisis of 2001-2002. For that reason, Fraga believes that Argentina's debacle cannot be linked to the Washington Consensus, which 'clearly calls for fiscal restraint and competitive exchange rates' (2004, 98). For Williamson, 'Argentina did indeed undertake many excellent reforms, particularly in the first half of the 1990s' (2003, 2). Nevertheless, it persisted for too long in the strategy of keeping pegged exchange rates, causing the overvaluation of the peso in real terms, aggravated by the overall tendency of the appreciation of the US dollar vis-à-vis other main currencies and by 'fiscal laxity' (2003, 4). For that reason, Williamson resents

³¹ De La Rúa was elected in President in 1999 and was supposed to remain in office until 2004. Although critical of Menem's administration, during the presidential campaign he committed to keeping the Convertibility Plan, and recalled Domingo Cavallo to the Finance Ministry in 2001.

‘people trying to blame the Washington Consensus for the Argentinean collapse’ (2004, 199).

Neodevelopmentalist economists tell a different version of the same story. According to Roberto Lavagna, initially the pegging of the exchange rate was a suitable solution to curb inflation, but ‘the real mistake was ignoring that local and international reality did not provide the supposed conditions to keep the convertibility scheme sustainable’ (2011, 1737). Accordingly, the first ‘lesson’ to be drawn from the Argentine experience is that stronger regulation of international capital flows is key to maintaining economic stability in developing countries (2003, 2). In moments of expanded international offer of speculative capital, it becomes possible to finance ‘macroeconomic fantasies’ such as the convertibility plan, which end up ‘creating undesirable and long-lasting structural effects’ (2003, 2). Because it allowed these artificial conditions to persist and legitimised Argentine monetary policy, the IMF should ‘do its own soul-searching on its responsibility during the long period of convertibility’ (2011, 641).

Following that line of reasoning, the failures of the neoliberal model in Argentina were ultimately caused by the irresponsibility or incompetence of Argentine policy-makers, encouraged by the support of international institutions, that kept the country living beyond its means for too long. At certain moments, Lavagna recognises that the monetary policy during the neoliberal decade was especially favourable to the interests of the financial sector. His solution to correct that, in line with the neodevelopmentalist postulates (see chapter 1), is to propose a national development strategy beyond classes, putting ‘the interests of society as a whole above sectorial claims’ (2011, 1773). Unfortunately, how ‘the interest of society as a whole’ is to be defined is never clearly explained. This perspective is exalted by Bresser-Pereira, in his preface to the Brazilian edition of Lavagna’s book. In Bresser-Pereira’s reading, Lavagna was right in searching for the way out of the crisis inside his own country, mobilizing the people’s will to turn ‘disintegration into opportunity’ (Bresser-Pereira 2013b, 10). A complimentary point is made by Ferrer, who ultimately blames the lack of ‘national density’ for the intensity of the neoliberal reforms (Ferrer 2006, 264).

In short, neoliberal analysts claim that the real problem was the lack of fiscal responsibility, while neodevelopmentalists stress the insufficiency of the state control over international capital flows, expressed in the overvaluation of the exchange rate in real terms. Both sides blame the IMF for insufficient or misconceived support and supervision, and identify fiscal and exchange rate policies as the Achilles’ heel of the

convertibility system. After this diagnosis, remedies vary from the radicalization of the convertibility system – including the complete dollarization of the economy³² – to the total reversion of the exchange rate policy, keeping the Argentine peso devalued in relation to the dollar so as to recover competitiveness and to rebalance national accounts (Lavagna 2011; see also Chapter 6).

The neoliberal narrative of the state reforms in Argentina is thus premised on the market utopia, while the neodevelopmentalist narrative is premised on the state utopia. For the first, the government spoiled the reforms by failing to keep fiscal austerity and preventing the market from self-correcting. For the latter, the greed of the international financial markets was not effectively tamed by the state in the name of the national interest. The policy recommendations emanating from these competing narratives are not surprising: more market rule, less state intervention; more state intervention, less market rule.

What both neoliberals and neodevelopmentalists miss is that neither the market nor the state are neutral arenas that automatically maximise the allocation of scarce resources or promote the national interest. Actually, the (lack of) support for the continued fiscal discipline and the external conditions of volatility in the capital markets must form an integral part of the analysis of Argentina's development. Instead of accidents that were not efficiently neutralised and therefore spoiled the otherwise 'excellent reforms' undertaken during Menem's administration (Williamson 2003, 2), these are precisely the variables that need to be explained by an international political economy analysis of Argentine neoliberal development. In other words, the uneven and combined form of development produced in Argentina in the 1990s is a result of class conflicts (reflected in the disputes around fiscal policies) and international constraints and opportunities (of which the flows of international capital are but an expression).

At this point, the materialist sociological analysis proposed by researchers from the FLACSO is especially helpful (Azpiazu, Basualdo, and Schorr 2001; Basualdo, Nahon, and Nochteff 2007; Basualdo 2010; Basualdo 2011). Based on extensive empirical research on the dynamics of Argentine debt and on the transformation of the biggest economic groups in the country, Basualdo and his colleagues unveil the process of reorganisation of the national hegemonic bloc in the aftermath of the hyperinflationary

³² According to Brenta, this hypothesis was seriously considered by IMF staff and Argentinian neoliberal policy-makers (2013, 306).

crisis of 1989 and 1990, following the tendency towards financial accumulation that had imposed itself since the last military dictatorship, between 1976 and 1983.

According to their narrative, rising interest rates – both nationally and internationally – put productive activities under increased pressure, undermining the traditional mode of capital accumulation based on state protection and substitution of imports. In this context, high inflation and the permanent drain on resources caused by the debt crisis opposed the interests of important fractions of national capital – dependent on state subsidies – and of international capital – whose priority was to guarantee the fiscal surplus necessary for the sustainability of Argentina's debt obligations. The scenario was aggravated by severe fractures in the Argentine ruling class itself, expressed in distributive conflicts that undermined the series attempts to stabilize the economy in the 1980s. The definition of the exchange rate and fiscal policies always had, therefore, a strong political component in Argentina, directly affecting distributive disputes.

The recomposing of the hegemonic bloc in a post-protectionist era involved the creation of conditions for association between national and international capital. Basualdo (2010) shows how those conditions were finally provided by the privatisation process. In fact, the economic conglomerates that acquired the privatised companies effectively represented a marriage of the biggest national private economic groups – Perez Companc, Techint, Astra, Roggio, CEI, Loma Negra, Macri and Soldati – and international banks and transnational service companies.³³

For the productive fractions of the national capital, privatisations offered a way of augmenting productivity due to gains of scale, the reduction of competition and the integration of the commodity chains, by acquiring state companies that supplied important inputs to their own activities. Basualdo cites among many other examples the acquisition of the traditional steel company SOMISA by Techint (a case of market concentration) and the purchase of part of the railway system by the oligopolistic cement company Loma Negra (Basualdo 2010, 398). For international service companies, privatisation offered an opportunity of stepping into a traditionally protected market, whose size was not to be neglected. Moreover the acquisition of Argentine companies could offer a platform to access the even bigger Brazilian market, due to the promising regional integration in the context of Mercosur. Spanish companies (BBVA, Telefonica, Repsol, among others) were quick in taking up the opportunity (Toral 2008). One example

³³ For a detailed map of the participation of those groups in the privatisation process, see Basualdo (2010, 402)

of the association of international service companies and private national capital in the privatisation process was the selling of Aerolineas Argentinas to the Spanish group Iberia and the Argentine group Cielos del Sur, whose payment was made almost exclusively in debt bonds (Petrecolla, Porto, and Gerchunoff 1993, 90).

The analytical perspective proposed by Basualdo and the Buenos Aires' FLACSO school explains very effectively the shifting class relations in Argentine society during the neoliberal reforms. Nevertheless, although explicitly recognising the importance of international capital, it does not organically relate international pressures and opportunities and the transformations in productive structures and class relations. As a result, the final crisis of the neoliberal development strategy appears as a consequence of the weakening of the Argentine state, largely echoing the neodevelopmentalist perspective. The rich social analysis they offer can be taken one step further if the interplay between international pressures and opportunities and social change is fully unpacked, using the uneven and combined development framework presented earlier in this thesis (Chapter 2). Accordingly, the successive international crises that put the neoliberal hegemonic bloc under increasing pressure can be seen as instances of the whip of external necessity, while the responses the Argentine state offered to these international crises can be described as forms of privatisation of gains and socialisation of losses.

To reconcile the contradictory interests of different classes and class fractions that provided political support for Menem's administration – particularly capital owners and the urban middle classes in the service sector – the neoliberal development strategy was based on the constant influx of foreign investments. This macroeconomic arrangement was particularly vulnerable to international crisis. Before 1995, the 'economy of the garden of Eden', performed well, in the presence of externally favourable conditions. The ephemeral catch-up development illusion guaranteed Menem's initial popularity, although the gains of this phase were privatised to the top layers of the society. Nevertheless, in the second half of the 1990s, the whip of the external necessity repeatedly lashed the Argentine economy. As a consequence, successive waves of socialisation of losses were imposed – first to the working class, and finally to the middle classes. As a result, instead of the catch-up development promised in Menem's speeches, the neoliberal development strategy could only produce a non-converging form of uneven and combined development.

To understand the apparent initial success of President Menem's administration it is paramount to bear in mind that he took office amidst a hyperinflationary crisis. The

accumulated inflation rate for the year 1989 reached unprecedented 4923.5% (Graph 3). After the first wave of restrictive policies (BB plan) adopted in the second semester of 1989, the hyperinflationary cycle lost strength, only to peak again from December 1989 to March 1990 (Rapoport 2005, 64), reaching 1343,9% in 1990. This tense moment is referred in the specialised literature as the second hyper-inflation crisis (Basualdo 2010, 289; Brenta 2013, 277–78; Gerchunoff and Torre 1996, 744), triggering a renewed set of restrictive policies, as well as the mentioned compulsory exchange of saving deposits and short term internal bonds for US dollar denominated bonds (Bonex plan). These measures deepened economic recession, but coupled with the first privatisations, the surplus in trade balance, and a new agreement with the IMF helped rebalance the public budget (Ferrer 2006, 259). Inflation, nevertheless, remained alarmingly high until the approval of the Convertibility Law, in March 1991.

In this context, the initial success of the Convertibility Plan in controlling escalating internal prices was immediately perceived as a remarkable economic achievement. Annual inflation rates (December-to-December) dropped from 84% in 1991 to 17.5% in 1992, 7.4% in 1993 and only 3.9% in 1994 (Graph 3). Taking into account the equally impressive economic recovery from 1991, with GDP growth rates reaching 10.6% in that year and 9.6% in 1992 (Graph 2), it is no wonder that a proud Finance Minister Domingo Cavallo would want to suggest that the recent experience in his country could qualify as a case of ‘Argentina’s Miracle’ (Cavallo and Mondino 1995). The economic boom, particularly in the services sector, and the renewed purchasing power of the Argentinian Peso – now pegged to the US Dollar – rendered Menem’s administration particularly popular among the urban middle classes. The brief prosperity experienced in this first phase made possible not only the privatisation of gains for the capital owners, via the direct appropriation of previously state-owned companies, but also for the middle classes, through access to a tide of imported consumption goods.

Yet, as mentioned earlier (see section 3.2 above), the strategy of currency stabilization based on a fixed exchange rate parity between the new Argentine currency and the US Dollar implied a permanent demand for dollars and left the country particularly vulnerable to external shocks. In the context of post-Cold War, the whip of external necessity would appear to Argentina’s ruling classes not in its classical form of a geopolitical threat, but as a series of international financial crises in emerging markets, putting the Convertibility Plan under pressure. The 1994/1995 Mexican crisis, the East Asian financial crisis of 1997, the Russian crisis of 1998 and, finally, the Brazilian crisis

of 1998/1999 made it increasingly difficult for Argentina to sustain the parity peso-dollar, requiring successive waves of socialisation of losses.

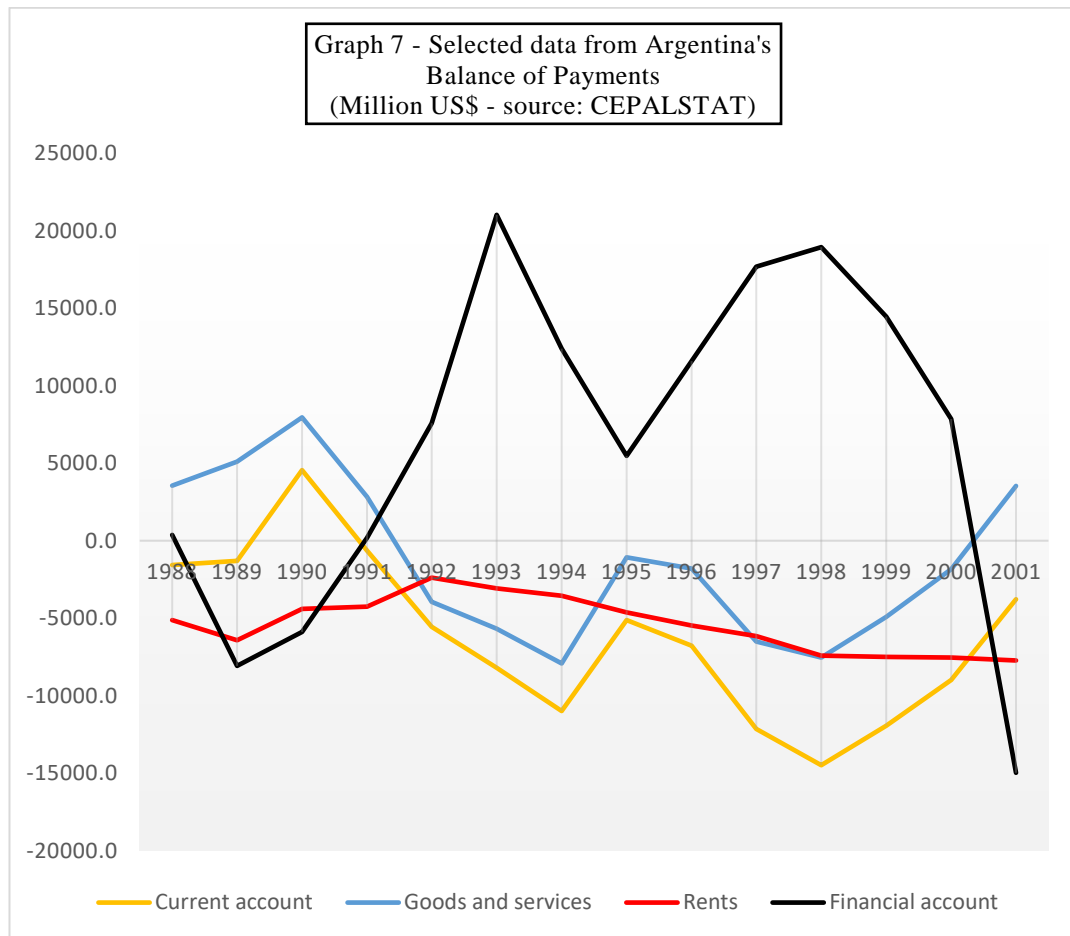
An analysis of Argentina's Balance of Payments³⁴ tables clearly reveals the imbalances of the neoliberal macroeconomic model. Because of the currency overvaluation in real terms, current account (including goods, services, income, and current transfers) shows consistently negative results between 1991 and 2001, reaching an unprecedented deficit of US\$ 14.48 billion in the troublesome year of 1998. Traditionally an exporting country, Argentina suffered from deficits in the trade balance (amounting to a deficit of US\$ 7.54 billion in 1998, including goods and services), aggravated by historically negative results in the income balance (reaching a deficit of US\$ 7.40 billion in 1998) (Graph 7).

Following the Convertibility Law, external deficits leading to the diminishing of national reserves would necessarily lead to the shrinking of the monetary basis, with profound impacts on the level of activity. The current account deficits had, therefore, to be compensated by the attraction of dollars via foreign investment. Hence, the central role played by privatisation of public companies and the foreign policy of carnal relations (see 3.2 and 3.3 above). Accordingly, the financial account jumped from a deficit of 8 billion dollars in 1989 to a surplus of 21 billion dollars in 1993. Graph 7 shows the inverse relation between the financial account and the current account throughout almost the whole period.

The entry of dollars in the form of foreign investments could not last forever. Eventually, the government would run out of attractive companies to privatise, the positive conditions in the international financial markets would reverse and the foreign capital appetite for Argentina's market would diminish. The strategy of socialising losses through privatisations had an absolute limit. This limit was tested for the first time in the aftermath of the Mexican crisis of 1994/1995, a concrete example of external necessity destabilising the neoliberal development strategy. Growing aversion to risk and rising interest rates in the US drastically reduced the international offer of capital. The surplus in the financial account was reduced to 12.33 billion dollars in 1994, and only 5.4 billion dollars in 1995, barely covering the deficit of 5.1 billion dollars in the current account (Graph 7). In order to keep the exchange rate parity, Argentina had to rely on IMF lending and exceptional credits, amounting to 1.35 billion dollars in 1994, and 2.22 billion dollars

³⁴ The terminology and methodology adopted for balance of payments analysis in this thesis is that of the IMF Balance of Payments and International Investment Position Manual (2009).

in 1995. A further socialisation of losses was imposed on the working class, in the form of tightening of the public budget, tax rises and salary cuts (Brenta 2013, 290).



In-depth analysis of key macroeconomic figures for the year 1995 offers a good picture of the first hard lash of the whip of external necessity on Argentina's neoliberal development strategy and the extent of the socialisation of losses it brought about (table 1). In a context of international crisis, foreign trade could not function as a motor for economic growth, and the current account showed a deficit of 5.1 billion dollars. Given the difficulties of attracting capital to cover that imbalance, interest rates rose to 19.1% a year, despite inflation being only 1.6% from December 1994 to December 1995. Reflecting the external constraints, GDP decreased by 2.8%. This contraction had uneven effects across sectors; while more competitive sectors such as agriculture and cattle raising avoided the crisis growing 5.6%, industrial activity was reduced by 7.2%, and the construction sector shrank by 12.2% (Graph 9). The automotive industry, one important source of industrial jobs, was heavily hit, reducing the production of cars from 338.4

thousand units in 1994 to 226.7 thousand units in 1995. Overall unemployment reached 18.6% in the second quarter of that year (Graph 5).

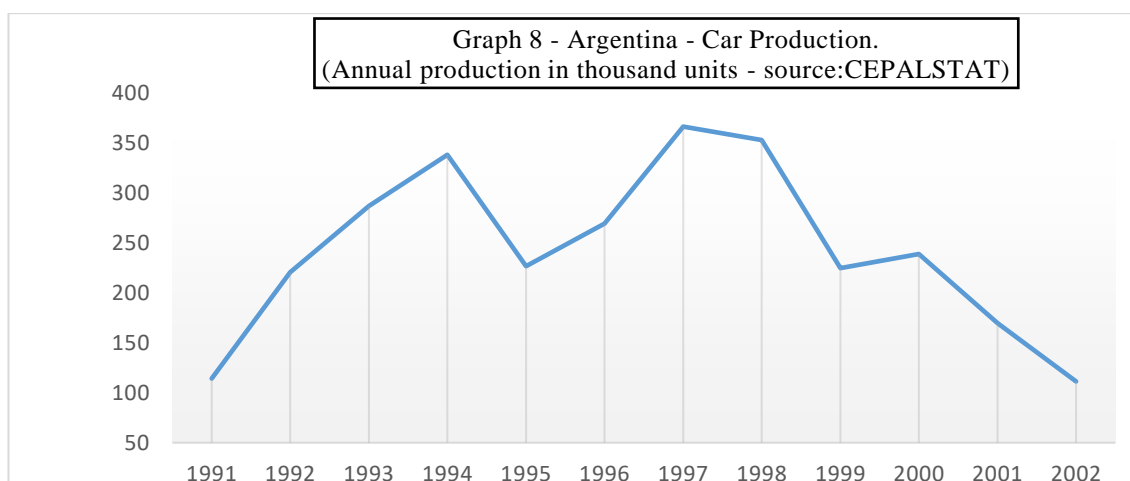
TABLE 1 – SELECTED MACROECONOMIC FIGURES – ARGENTINA/1995. Source: CEPALSTAT

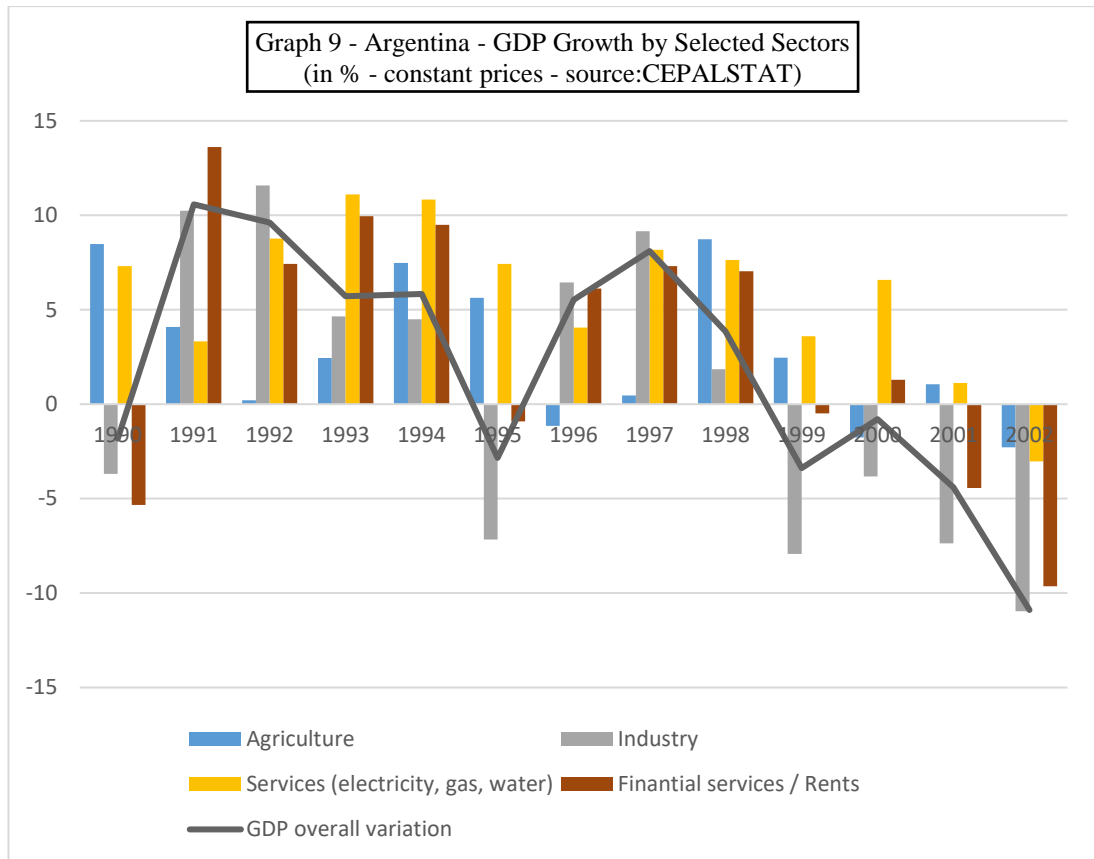
Current account deficit	Interest Rates	Inflation	GDP growth	Agriculture and cattle rising	Industrial activity	Car Production	Unemployment
US\$ 5.1 billion	19,1%	1,6%	-2,8%	5,6%	-7,2%	226.7 ('000 units)	18,6% (QII)

From 1996, the recovery of international demand, combined with the initial success of the stabilization plan in Brazil (see Chapter 4) would rapidly improve the economic situation, producing a second ‘golden cycle’ of neoliberalism in Argentina (Agustín 2015, 195). GDP grew by 5.5% in 1996, 8.1% in 1997, and 3.9% in 1998 (Graph 2). The socialisation of losses was not reversed, however. The gains continued to be privatised to the ruling class. Part of these gains were also appropriated by the middle classes, through high consumption standards boosted by the exchange rate overvaluation. As a consequence, Argentine industry was depleted and unemployment rates persisted at high levels throughout the period (Graph 5).

As soon as the whip of external necessity lashed again, the fragile basis of Argentina’s short prosperity were exposed once more. The Russian crisis of 1998 and especially the Brazilian crisis of 1998/1999 would drag Argentina’s economy down, culminating in the country’s severe crisis of 2001-2002. The pattern of this crisis resembles that of 1995, but this time the negative expectations of foreign investors could not be reversed by IMF loans. The current account deficit reached its peak of US\$ 14.42 billion in 1998, compensated by a surplus of US\$ 18.93 billion (see Graph 7) in the financial account, thanks to the issue of US\$ 10.90 billion in debt bonds. In the following year, the current account deficit of US\$ 11.92 billion was partially compensated by the selling of the government’s participation in the Argentine oil company YPF, one of the last valuable assets to be privatised. The Spanish company Repsol paid US\$ 14.9 to take control of YPF (Torral 2008, 537), including the purchase of state and private owned assets, thereby bringing some relief to the national accounts in 1999.

Nevertheless, again, debt and privatisations could not play the role of a permanent source of much needed dollars in an economy based on a fully convertible currency. Confirming Brenta's argument, in the absence of a flexible monetary policy, the variable adjusted in face of external shocks would have to be the real sector of the economy (2002, 57). Accordingly, GDP shrunk 3.4% in 1999, 0.8% in 2000, 4.4 in 2001 and unprecedented 10.9% in 2002 (Graph 2). Car production, a previously mentioned barometer of industrial work levels, dropped from 353.1 thousand units in 1998, to 238.9 thousand units in 2000, to only 111.3 thousand units in 2002, half of the total produced 10 years earlier (Graph 8). Industrial activity in general was reduced by 7.9% in 1999, 3.8% in 2000, 7.4% in 2001, and 11.0% in 2002 (Graph 9). It is worth noting that industrial contraction was worse than general contraction of the economic activity throughout the crisis period, confirming a de-industrialization tendency observed since the 1980s (for more evidence on Argentinian de-industrialization, see Basualdo 2010, 315-322).





Mediated by the state's capacity to promote privatisation of gains and socialisation of losses, the whip of external necessity produced uneven results across the Argentine society. The most privileged sectors were big Argentine corporations – in the agrarian and industrial sectors –, which had been created under state protection in the previous phase of ISI. With the reforms, and particularly the privatisation process, Argentine capital was released from the limitations of Argentine internal market and gained an opportunity to access international markets, in association with foreign capital.

Even part of the industrial capital, affected by the reduction in subsidies, the cut in trade tariffs and, since 1992, by the overvalued exchange rate, found an opportunity to migrate to highly profitable new sectors opened by the state companies' retreat, namely into the provision of services.³⁵ In fact, the privatisations in Argentina were extremely generous to buyers not by mistake, as implied by neoliberal writers (Cavallo 1997), but to better serve the political end of transferring public property to private hands, a remarkable example of privatisation of gains and socialisation of losses. The neoliberal

³⁵ See Graph 9 for evidence of differentiated growth performance across sectors, with services and agriculture growing significantly more than industry. See Azpiazu, Basualdo, and Schorr (2001) for an in-depth study of Argentine de-industrialisation process during the neoliberal cycle.

reforms ‘freed’ Argentine national capital, which largely fled the country in the 2001 crisis, leaving behind the closure of factories. In control of the state, capital owners were particularly successful in profiting from the privatisation of gains brought about by the neoliberal development strategy.

Another key social actor that benefited from the neoliberal reforms – at least in its first phases – was the urban middle classes, including independent professionals and workers in the service sector. While industrial workers on the periphery of Buenos Aires and across the country were severely hit by the deindustrialization, the upper strata of workers in the service sector benefited from access to imported goods and enjoyed the purchasing power of the overvalued currency. Again here, what neoliberal and neodevelopmentalist writers see as potentially avoidable errors of macroeconomic management – nominally the imbalance between imports and exports causing the constant current account deficits (see Graph 7), as well as the universally criticised overvaluation of the exchange rate – are actually much more than that. They formed an integral part of the political strategy of Menem’s administration, which depended on the support of the middle classes. Therefore, the exchange rate overvaluation and the consequent de-industrialisation are better explained as a concrete example of privatisation of gains for the middle classes, accompanied by socialisation of losses for the working class at large.

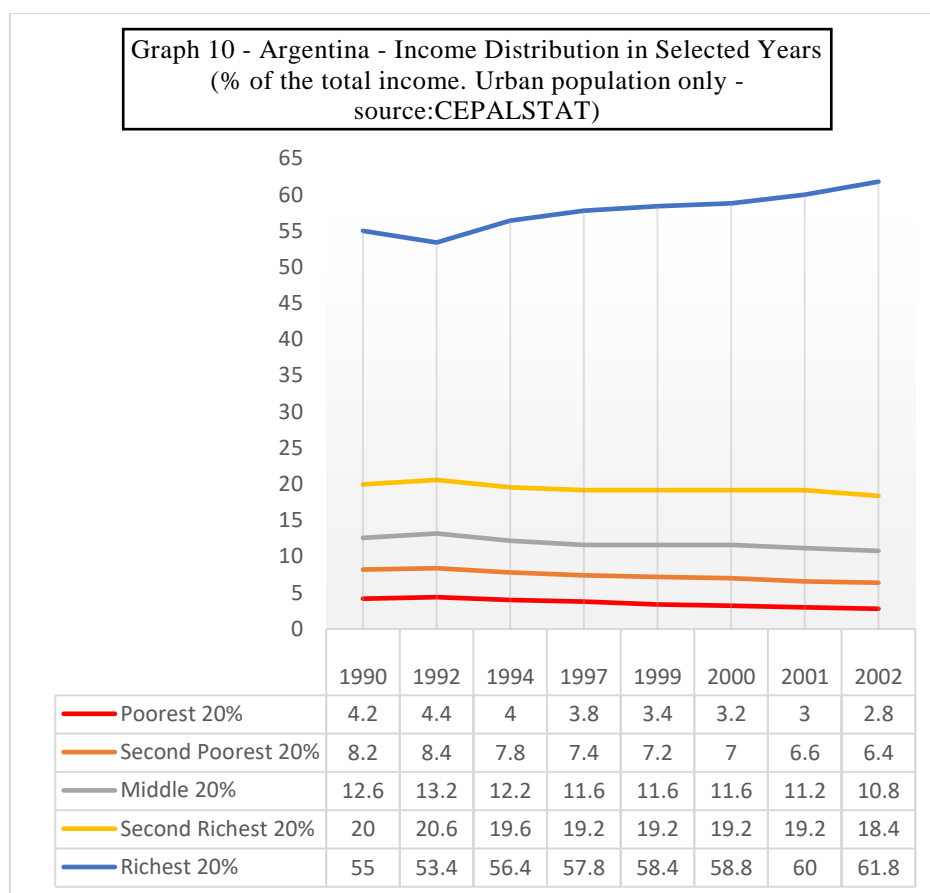
In this context, Pucciarelli (2011) identifies the forging of an amalgamated form of political expression in the years between 1989 and 1991, which the author calls ‘neoliberal Peronism’. The author convincingly documents the change in the support basis of Menem’s government, from the organised working class under the traditional banner of Peronism to the middle classes of the elegant neighbourhoods of the centre of Buenos Aires, who were directly benefited by his policies. However, the popular basis of the Justicialist Party took longer to realise the transformations of Peronism under Menem’s leadership. This partially explains the period of extraordinary popularity allowing the electoral victories of the government (1991-1995), despite the growing unemployment and the sustained tendency of income concentration (see Graphs 5 and 10). The confusion in Peronist popular leaderships is exemplified by the case of Abdul Saravia, a ‘semi-illiterate, Peronist-born’, leader of the fishing union in Mar Del Plata, who at the same time enthusiastically supported President Menem and resisted the government reforms against the interest of the small fishermen (Colombo 2015, 457). Saraiva was not a rare case in the 1990s. While ideology was enough to keep the support

of some union leaders despite the anti-popular reforms, others had their faith further stimulated through direct engagement in the privatisation process and other forms of co-optation.³⁶

The gains of the neoliberal reforms were, therefore, highly concentrated at the top of the social pyramid. The lower 80% of the population saw their income being reduced from 45% to 35% of the total in one decade (see Graph 10). For the great majority, the promises of catch-up development did not materialize. For them, trade liberalisation and overvalued exchange rates did not mean investment opportunities, access to cheap imported goods and shopping trips to Miami, but rather unemployment. In face of the whip of external necessity represented by successive international crises, the costs of the socialisation of losses were borne by the working class. From a labour-centred perspective, therefore, the changes in the productive structures caused by the interplay between class struggle and international relations were highly regressive.

Given the economic unsustainability of the fiscal and exchange policies needed to keep it together in face of international constraints, the hegemonic bloc that politically supported the neoliberal reforms started to break apart in the aftermath of the Brazilian crisis of 1999. When the unemployment rate rose enough to affect the service sector and the convertibility of the Argentine currency was threatened, the urban middle classes were required to partake in the socialisation of losses that the working class had endured since the start of the neoliberal reforms. Finally unable to attract the amount of dollars needed to keep the exchange rate parity, the government declared the '*corralito*' on the third of December, 2001, severely restricting access to dollar denominated bank deposits. At that point, the middle class definitively turned its back on the government, joining the recently formed popular movements and organisations in their increasingly radical demonstrations. 'I couldn't believe it' – says the anti-capitalist activist cited in the first page of this chapter, referring to the protests of December 2001 – 'I saw the middle class fighting alongside me' (cited in Sitrin 2006, 30).

³⁶ For a detailed analysis of the relations between Menem's government and trade unions, see McGuire (1997). For a critical evaluation of the changings in the PJ, see Levitsky (2003).



The dissolution of the hegemonic bloc was combined with the final withdrawal of international support for the government's economic policies, expressed in the IMF's refusal to provide new loans, coupled with private investors' capital flight to more secure markets. As a result of the combination of internal distributive disputes and external material restrictions, the neoliberal decade came to an end with the deepest crisis in the history of Argentina. On December 20th 2001, after days of a spontaneous and decentralised civil unrest that could not be controlled even after the declaration of martial law, President De la Rúa resigned. The country descended into a state close to anarchy in the following two weeks, until a relatively stable government could be formed again. It would take the entire year of 2002 to rebuild a political coalition under the banner of a renewed development strategy: neodevelopmentalism (see Chapter 6).

Chapter 4 – Neoliberalism in Brazil – ‘A new development project’

We have recovered the faith in development. (...) This year will be better. The next, better still. Today, there is no single serious analyst that predicts for Brazil anything different from a long growth period. (...) Our economy is like a healthy plant after a long period of drought (...) now it is the time to grow and blossom.

President Fernando Henrique Cardoso (1995, 25)

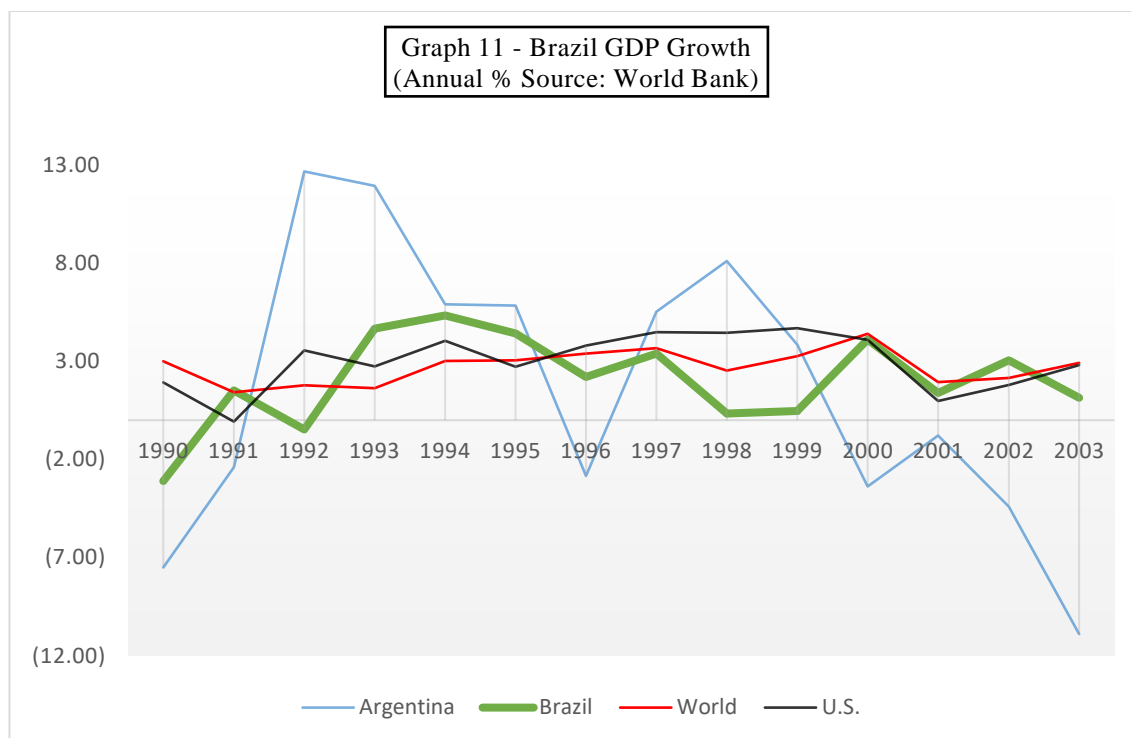
‘A new development project’.

This was the title of the first chapter of President Cardoso’s administration program (2008 [1994], 2). Its core message was clear enough. The Brazilian traditional development strategy based on active state intervention had to be replaced. The world had changed. It had entered the age of ‘globalisation’, the then trendy word Cardoso incorporated in many of his speeches, replacing his former emphasis on ‘dependency’. In the new world setting, there was no room for isolation, protectionism or nationalism. It did not mean that Brazilian eternal aspiration for development should be abandoned. No candidate would dare to run for President of Brazil on such a message. It just meant that the country would have to find another way to continue its never-ending search for development.

When Cardoso presented his program, the ‘old’ development strategy had already been dismantled. Since the 1980s, the Brazilian state had lost its capacity to coordinate the economic activity, let alone to mediate class conflicts. The military dictatorship (1964-1985) had left behind a country politically divided, deeply indebted and profoundly unequal. The debt crisis of the 1980s evolved into an inflation crisis. A succession of economic plans unsuccessfully tried to curb inflation, actually worsening the problem. Fernando Collor, the first president chosen in free democratic elections after almost three decades, had been defenestrated in the aftermath of yet another failed stabilisation plan, not before starting a wave of liberalising reforms.

Despite the numerous difficulties that mounted over the previous decades, 1994 was a year of hope. The economy was growing vigorously (5.85% - see Graph 11). The national football team – a popular passion for Brazilians – won the World Cup after 24 years. The last time it had happened, in 1970, the country was experiencing the zenith of the national developmentalist model, the ‘Brazilian Miracle’. In people’s minds, the joy of winning the World Cup could be magically associated with faith in a prosperous future. Interestingly enough, there was something peculiar about the players that won in 1994.

Unlike the dream team of the 1970s, the 1994 squad was composed of mediocre but very dedicated players. Discipline and respect for the coach's plans were key to the victory, achieved in the penalty kicks, after a painfully ugly 0-0 draw against Italy.



The 1994 Brazilian national team offers an opportune metaphor of the renewed development strategy Cardoso was proposing. Development was not to be achieved by talent or creativity. In the economy, as on the football pitch, the victory would be the consequence of hard team work and respect for the rules. The lack of discipline was regarded as an underlying cause of Brazilian backwardness. In Cardoso's words: 'throughout our History, we had staggered from crisis to crisis mainly due to our resistance in accepting the rules' (Cardoso and Winter 2015, 252).

A former half-hearted reader of Marx, Cardoso was heavily influenced by the Weberian sociology of Sergio Buarque de Holanda (2015) and Raymundo Faoro (2012),³⁷ particularly identified with the University of Sao Paulo, where the future President made his academic career. That sociological perspective linked Brazilian backwardness *vis-à-vis* the United States with a lax public morality inherited from Portuguese Catholic institutions, as opposed to the impersonal Protestant institutions. The confusion between

³⁷ For a contemporary critique of this sociology, see Souza (2015).

the public and the private was the cornerstone of Brazilian patrimonialism, which allowed the elites to control the state as their own property. Modernisation in Brazil would require, therefore, not only the adoption of new technologies, but mainly an institutional change, brought about by a mind-set change. Accepting impersonal rules, this was thought to be the way to development.

In the international context of the 1990s, the rules Latin American states were supposed to accept were clear. They had been dutifully summarised in the Washington Consensus (Williamson 1990, see chapter 1). The Real stabilisation plan, implemented by Cardoso in 1994, was already showing very promising results based on respect for market fundamentals. Unlike previous stabilisation plans, it did not include freezing of assets, nor compulsory changes in existing contracts. It was entirely premised on market dynamics and the voluntary adhesion of rational subjects (see section 4.2). The promise embodied in Cardoso's election was that Brazil would finally become a developed country by playing the game of neoliberalism. While the state was perceived as an easy prey to vested interests, the market was portrayed as a neutral sphere of compromising among legitimate interests, which would finally lead to development.

Although not as evident as in Menem's or Collor's political speeches, the market utopia was at the core of the neoliberal development strategy implemented by Cardoso. Indeed, there is an intriguing mismatch between discourse and practice in the case of Brazilian neoliberalism. Undoubtedly, President Collor had the strongest pro-market rhetoric, contrasting with the more nuanced and intellectualised discourse of President Cardoso. However, the most effective neoliberal reforms were conducted by the latter. Indeed, the consolidation of neoliberalism in Brazil would only be achieved in the second Cardoso's second administration (1999-2002), with the institution of the so-called 'economic triad' (primary fiscal surpluses, floating exchange rates and inflation targets), a set of supposedly impersonal market-friendly rules that could not be easily dismantled, and would persist even after Cardoso left office (see chapter 6).

With the benefit of the hindsight, there can be no doubt that the neoliberal development strategy did not live up to its promises. Traditional, patrimonialist elites did not only remain in power, but actually had their grip on the state apparatus reinforced. Rules were partially and selectively applied, as exemplified in the questionable amendment of the constitution in 1997 in order to allow for Cardoso's own re-election

one year later.³⁸ Instead of becoming modern and competitive, Brazilian productive structures actually became more concentrated in primary sectors. Instead of unleashing a sustained period of economic growth, the reforms resulted in high unemployment, persisting poverty and inequality. The 1994 Human Development Report ranked Brazil in 63rd position (UNDP 1994, 102). In the 2003 report, the country resides in the 65th position (UNDP 2002, 238). After one decade of neoliberalism, there was no sign that Brazil was catching-up with the so-called developed countries.

Why did the ‘new development project’ announced by Cardoso fail to produce catch-up development? What kind of development did it deliver instead?

The mainstream political economy literature on Brazil’s recent state reforms – in its neoliberal and neodevelopmentalist branches – cannot offer convincing answers to these questions. Neoliberals either ignore the disappointing results of their policies or suggest that their lack of success was the consequence of their incomplete application. Market rule was not sufficiently enforced, many outdated state regulations were still in place and privatisations did not go far enough (Fraga 2004; Franco 1999; de Onis 2000; Pinheiro, Giambiagi, and Moreira 2001).

Neodevelopmentalists make the opposite argument. They insist that the neoliberal development strategy failed because of the reduction of the state, whose central role in promoting development can never be substituted by the market (Pochmann 2001; Coutinho, Hiratuka, and Sabbatini 2003; Mantega 2001). Trapped in the *a priori* opposition between the market and the state utopias, both neoliberals and neodevelopmentalists fail to clearly spell out the role of class struggle and international pressures and opportunities as concrete determinants of development outcomes. Even when acknowledging the importance of international influences, both sides fail to offer an integrated international political economy analysis, capable of making sense of Brazil’s uneven and combined development during the 1990s.

My argument is that the neoliberal development strategy was inconsistent from the start. The different interests it tried to address could not be permanently reconciled, particularly under the whip of external necessity. After winning the 1989 elections thanks in part to favourable international circumstances – namely the dissolution of the Soviet bloc, seen as a failure of state-led development in general – President Collor could not build a stable class alliance to back his neoliberal reforms. President Cardoso, however,

³⁸ The Constitution Amendment 16 (Brasil 1997a) was approved with the decisive support of Brazilian traditional oligarchic elites, involving never properly investigated accusations of bribery Dória (2013).

successfully forged a broad alliance between traditional oligarchies, the dominant fractions of the national bourgeoisie, the international capital and urban middle classes. Sustained by this heterogeneous alliance, he managed to selectively implement Washington Consensus reforms in his first administration, stabilising inflation and generating some economic growth, based on the growing influx of foreign investments.

Nevertheless, the favourable international circumstances deteriorated after the Asian crisis of 1997, followed by the 1998 Russian crisis. In face of external pressure, Cardoso was forced to devalue the exchange rates, extending the socialisation of losses to the weakest part of the class alliance. At the same time, gains continued to be privatised for the financial fraction of the ruling class, though extremely high interest rates and continued fiscal austerity. As a result, the developmental outcomes of the neoliberal development strategy were uneven. The hard team work Cardoso demanded from the Brazilian society was actually heavily imbalanced, involving a socialisation of losses for the lower tiers of society, while eventual gains were channelled to the top.

In the remainder of this chapter, I substantiate the argument outlined above through a closer analysis of neoliberal discourse and the policies in Brazil. I do so in four steps. In the next section (4.1), I analyse the political discourse of Presidents Collor (1990-1992), Franco (1992-1994) and Cardoso (1995-2002) to show how the neoliberal reforms were premised on the market utopia and justified by repeated promises of development. After that (section 4.2), I explore in closer detail key public policies actually adopted during the neoliberal decade, focusing specifically on the monetary reform and the privatisations. Here I show how the monetary stabilisation policies adopted to curb inflation evolved into the neoliberal economic triad after the 1999 crisis. In section 4.3, the neoliberal foreign policy, whose key objective was rebranding Brazil's image abroad as a reliable liberal and stable democracy, is critically assessed. Finally, in section 4.4, I map the winners and losers of the reforms and show how the interaction between class conflicts and international constraints coupled to destabilize the neoliberal development strategy, resulting instead in a specific instance of uneven and combined development.

4.1 From market fundamentalism to reformism and back: the promises of neoliberalism in Brazil

The neoliberal decade in Brazil comprises at least two phases, with a period of intermission. The first phase started in 1989 with the election of Fernando Collor and ended in 1992 with his resignation to evade an impeachment process. Although clearly announced in speeches and official government plans, the neoliberal reforms were only partially implemented in this initial phase. The institutional consolidation of neoliberal reforms would only happen in Cardoso's presidency (1995-2002). Contradictorily, at that point the official rhetoric assumed a much more nuanced tone, echoing Cardoso's reformist dependency theory ideas. Between these two moments, Itamar Franco's short presidency (1992-1994) combined features of the neoliberal and the traditional developmentalist discourses, while launching the monetary bases for the neoliberal policies later adopted by Cardoso. Despite the differences in styles and emphasis among the three Presidents of the neoliberal decade, the market utopia and repeated promises of development were a constant in their discourses.

The most simplistic expression of the market utopia is to be found in President Collor's speeches. The former governor of the small province of Alagoas – one of the poorest of the country – was elected in 1989, in the first democratic presidential election since 1960.³⁹ Collor was also the youngest President ever to be elected in Brazil, walking up the ramps of the Presidential Palace in Brasilia only a few months after turning 40 years old. Bearing these credentials in mind, it was not difficult for his campaign managers to sell him as a living symbol of Brazil's modernisation (Velho 1990; Ramaldes and Prado 2008; Almeida 2013). That modernisation, in its turn, meant the dismantling of the developmentalist state. In his last television spot before the second round of the elections, Collor remarks upon the differences between himself and the trade union leader Lula da Silva:

(...) It is not about being right or left wing, this discussion is being buried under the wreckage of the Berlin Wall. The real difference between me and my adversary is just one: it is a new idea against an old idea. It is a modern vision against a backward vision. It is a possible future, against a past already tested, for instance, in Poland, Hungary, East Germany and Czechoslovakia. A past that, as we can see, has failed. Who between the two of us is the new? The new, my people, is not creating an ever bigger and inefficient State (...). The new is diminishing the size of the State machinery in order to make the government stronger and more efficient in fulfilling its obligations (...), guaranteeing the development that we want and we will achieve. (...). With the help of God we

³⁹ Janio Quadros was elected in direct elections in 1960, but resigned in 1961. His vice-president, Joao Goulart assumed power that year and was overthrown by a military coup in 1964. The military dictatorship lasted 21 years, with no direct elections for President. In 1985, the first civil government was indirectly elected by the Brazilian Congress. The elections of 1989 were, therefore, the first opportunity a generation of Brazilians had to vote for President.

will build the Brazil of our dreams. You can be sure. From next year on, nothing will be like it was before (Collor 1989).

Collor's discourse reveals a stageist view of History, coupled with a straightforward positivist notion of progress. According to that vision, humanity moves relentlessly towards the future, and the nations that are not willing to submit to the 'new necessities' of the world economy are destined to lag behind. Nevertheless, the nation's fate can be transformed by the determination of its leader. By carrying on the required modernisation reforms, the leader guarantees the fulfilment of the final goal that 'we want and we will achieve', namely, 'development'. By contrast, backwardness is identified with an 'ever bigger and inefficient State', a model that 'failed' in Eastern Europe.

This simple and easy to grasp promise of development – aiming at the broadest possible audience – was combined during the 1989 presidential race with a strong anti-corruption discourse. The state was portrayed as the source of inefficiency and clientelism. Traditional politicians and high level civil servants were described as a group of affluent parasites, sarcastically nicknamed 'Maharajas' by Collor (Fausto and Devoto 2004, 465; Martuscelli 2012, 25; Schneider 1991, 324).

The extent to which the idea of modernisation and the anti-corruption rhetoric determined the final results of 1989 elections is debatable.⁴⁰ In any case, the appeal to this idealisation of development as progress – always linked to the need of pro-market reforms – remained present in President Collor's speeches after his victory. In his assumption speech, for instance, he blatantly praised the market efficiency over the state inefficiency, manifesting his 'conviction that the market economy is the superior form of wealth generation, of intensive and sustained development' (1990, 15).

Collor's government was abruptly interrupted by his resignation to escape an impeachment process amidst a deep political and economic crisis, on the 29th of December, 1992. In the aftermath of the failure of his economic plans to control inflation, and facing escalating corruption charges, Collor clung to his promises of development. In his final broadcasted speech, the President's discourse included an explicit catch-up promise:

⁴⁰ Based on quantitative surveys carried out in 1989 and 1990, Andre Singer claims that ideas on the size of the State surprisingly did not play a key role in determining voters' decisions in the 1989 election. Rather, the author identifies a strong relation between ideological identification – understood as expectations of changing or keeping the *status quo* – and voting decisions in that election (Singer 1999).

I will only take my mission as finished, I will only consider my administration program accomplished, after sanctioning those projects that will allow us to bequeath to the future generations a country structurally different from how I received it and capable of inserting itself among the modern nations of the world (Collor 1992).

Only three months after delivering that speech – and, arguably, before fulfilling his ‘mission’ of inserting Brazil ‘among the modern nations of the world’ – Collor resigned and the Vice-President Itamar Franco was sworn in as President.

The exceptional circumstances through which President Franco came to power were reflected in his public speeches. Released from the necessity of disputing elections, his promises were significantly more modest than those of both his predecessor and his successor. The lack of clear long term objectives and the inherently contradictory character of a government formed by the provisional truce between many distinct political forces is reflected in the scarce academic literature about Franco’s presidency. In fact, in the political economy literature, Franco’s administration is normally mentioned *en passant* as a prelude to Cardoso’s administration (Giambiagi et al. 2005; Pinheiro, Giambiagi, and Moreira 2001).

President Franco’s discourse shows an interesting combination of developmentalist and neoliberal features. In his first broadcasted address to the nation, on the 30th of December, 1992, he indirectly criticised his predecessor: ‘Too much has been said about modernity in recent months, as if anyone, in the full command of his mental capabilities, would intend to go back to the past, or to keep the country in backwardness’ (Franco 2008 [1992], 11). Franco goes further in his critique of the modernity discourse and effectively points to its contradictions:

During the almost three years in which the false modernity has been proclaimed as a government plan, the result was some steps back in the country’s economy. (...) In conclusion: the modernity motto, so much proclaimed, impoverished the country by ten percent in just thirty months. We all want to modernise the country, and we will do so, without impoverishing the middle class and without deepening the sacrifice required from the workers (Franco 2008 [1992], 11).

This strikingly progressive discourse, resembling the old tradition of Brazilian developmentalism, was contradictorily combined with important concessions to the Washington Consensus agenda (see chapter 1). For instance, in the same speech Franco recognised the necessity of promoting a ‘fiscal adjustment’ and announced that his government would look for means to ‘broaden privatisations, without bringing losses to

the nation' (2008 [1992], 13). Even more important, he reassured external creditors that Brazil would 'fulfil its obligations' regarding the foreign debt. In the end, the market utopia reappears as the way to development, as 'the peoples did only progress by participating in the world market' (Franco 2008 [1992], 13).

After serving as Foreign and Finance Minister in Franco's administration, Cardoso was elected president in 1994. Unlike most of the politicians before and after him, Cardoso's speeches are at times quite nuanced and thoughtful, reflecting his successful academic career as a sociologist. Moreover Cardoso produced much more discursive material than Collor and Franco, remaining in power for twice as long as his two predecessors combined (1995-2002). Overall, his public speeches and his campaign materials reveal a transition, from state to market utopia.

Notwithstanding the more complex character of Cardoso's discourse, repeated promises of development play a key role in his political speeches. One example of the political use of catch-up development's promises can be seen in Cardoso's last television campaign spot:

Great nations of the world are not built by better people than ours. They are built by people like me and you. It so happens that in those places, the governments knew how to work side by side with its people and built fairer societies. And this is what we are going to do in the next four years. Brazil can be one of the great powers in the world. This is no exaggeration. This is an idea as big as Brazil itself. (...) Brazil is not an underdeveloped country. Brazil is an unfair country. (..) On the next the 3rd of October [the election day] I invite you, Brazil, to think big (Cardoso 1994a).

Much can be read between these lines. They are not simply patriotic calls to greatness. In fact, they translate in a straightforward language ideas already present in Cardoso's debate with Marini (see chapter 1), representing the political culmination of the Weberian strain of dependency theories. Cardoso is calling for a cohesive society, led by a competent and well-intended government. The union between the 'people' and the 'government' can potentially make Brazil 'one of the great powers of the world'. The 'Brazil' to which Cardoso addresses his speech is not fundamentally divided by social classes with conflicting interests. Furthermore, it does not face fundamental international constraints in order to become a 'great power'. Cardoso's discourse identifies no enemies, no conflicts. The only challenge facing Brazil is getting the government and the people to work 'side by side'.

In this context, the intriguing claim that Brazil is ‘not underdeveloped’, but ‘unfair’, shall not be read as a step back in the development promises. On the contrary, the promise of catch-up development is clear enough by the explicit comparison between Brazil and the ‘great nations of the world’. The appeal for ‘fairness’ is better understood as part of the class compromise that the government is supposed to broker, comprising economic growth and social stability for the national bourgeoisie and gradual material gains for the working class. Indeed, these words apparently confirm Marini’s prediction that the incipient ‘neodevelopmentalism’ he saw in Cardoso’s dependency theory would ‘soon lose its inhibitions’ (Marini 1978, 102–3). From this perspective, the similarities between Cardoso’s discourse in 1994 and Lula’s discourse in 2002 are striking, with the difference that in President Lula’s administration some material gains for the working class were actually delivered (see chapter 5).

Cardoso’s 1994 campaign discourse was, therefore, not typically neoliberal, like those of Menem and Collor. In it, praises to the market’s inherent efficiency are not to be found. In the first presidential debate, when questioned about his alliances with conservative political forces, Cardoso responded by emphatically defining himself as a ‘social-democrat’. For Cardoso, ‘the fact is that the world has passed through a great transformation, and in this great transformation there is – so I believe, especially regarding Brazil – no room for neoliberal or conservative policies’ (1994b).

Cardoso’s explicit rejection of neoliberalism notwithstanding, key elements of the Washington Consensus were incorporated into his discourse, figuring as preconditions to development. These elements appear in the official government plan (Cardoso 2008 [1994]), the most detailed document of its kind produced in Brazil since the return of democracy. The plan starts by announcing ‘a new development model’, to be implemented in the aftermath of the ‘exhaustion of our development model based on protected industrialisation’ (2008 [1994] 4). The implementation of the ‘new development model’ involves continuing the privatisation process started in Collor’s government, promoting fiscal austerity through tax reform and curbing state expenditure, creating investment partnerships with the private sector, attracting foreign investment and further opening the economy to international trade. The market utopia surreptitiously appears in between the lines here, as market efficiency is presupposed in much of the economic policies included in Cardoso’s first administration plan.

President Cardoso’s first inauguration speech, however, can hardly be classified as neoliberal. ‘Uniting government and community’ he promised to ‘sweep hunger and

misery away from the Brazilian map' (1995b, 32). Perhaps even more unexpectedly for a president elected with the decisive support of Brazilian traditional elites, Cardoso set as the government's task 'the reduction of inequalities until they disappear' (1995b, 30). Broader, less specific development promises also abounded in Cardoso's first inauguration speech. After claiming that he 'fought and dreamed' for many years to see 'justice, freedom and development' become a reality in Brazil, Cardoso affirms: 'without arrogance, but with absolute conviction, I say; this country will thrive!' (1995b, 24).

Consistent with the tone of his campaign, an ideological defence of the efficiency of markets is totally absent from Cardoso's first inauguration speech. Instead, policy reforms, when mentioned, are justified on the basis of the inevitable changes the world was passing through. 'We cannot' – says Cardoso, somewhat deterministically for a critical sociologist – 'turn our backs to the course of History' (1995b, 32). Apart from a quick mention to the need to promote 'a broad reorganisation of the government's apparatus', involving 'structural reforms necessary to give efficiency to the civil service' (1995b, 31), not much is said about the state reforms that were to be implemented over the next eight years.

That Cardoso's first public speech as President avoided mentioning neoliberal policies and remained close to his reformist, Weberian version of dependency theory is not entirely surprising. After all, he made his name as a left-leaning intellectual. The discursive transition from state to market utopia comes to the surface when we compare his first and his second inauguration speeches. Four years later, the promises of development were less grandiose and the pro-market policies being adopted simply could not be left unmentioned. Furthermore, Brazil was facing a serious crisis in the aftermath of the first wave of neoliberal reforms and the Asian crisis of 1997. This backdrop marked the tone of Cardoso's second inauguration speech:

I was not elected to be the manager of the crisis. I was the one chosen by the people to overcome it and to fulfil my campaign promises. To go on building a stable, modern, open and competitive economy. To consistently continue the privatisation. To support those who produce and generate jobs. And, through this path, to put the country back again in the trajectory of sustained and sustainable growth, with better wealth distribution among the Brazilians (1999, 28).

Here, leaving aside his usual carefully ambiguous language, Cardoso comes closer to the standard form of the neoliberal development discourse, premised on the market utopia. Economic growth – conflated with development – is deemed a consequence of

neoliberal state reforms (privatisation, trade liberalisation, promotion of a ‘competitive economy’). The aim of reducing inequalities is a vestige of Cardoso’s first inauguration discourse (1995b, 30). However, the final perspective of driving this reduction to the point of making inequalities ‘disappear’ is omitted. Moreover, it is interesting to remark that now ‘better wealth distribution’ is to be achieved by market mechanisms, while four years earlier it was considered the outcome of state policies.

In the same speech, Cardoso makes use of a common economic-physiological metaphor, which periodically reappears in the neoliberal and the neodevelopmentalist literature: the disease metaphor (see chapter 1). In order to justify cuts in the public budget, he claims that ‘it is better the bitter medicine that heals the disease, than the chronic fever that weakens the strength and pawns the organism’s health’ (1999, 29). Neoliberal policies – namely, fiscal austerity – are represented here as a form of treatment, involving a temporary sacrifice in order to achieve the greater good of development. Cardoso’s conversion to market fundamentalism was completed.

In conclusion, endless promises of development have constituted an integral part of the official discourses during the neoliberal decade in Brazil. Starting with President Collor, the association between market utopia, neoliberal policies and development promises was evident. Brazil would be included among ‘the modern nations of the world’ by unleashing international market forces. In the short presidency of Itamar Franco, a contradictory combination of the classical developmentalist discourse and the defence of neoliberal reforms took the stage. Finally, Cardoso’s administration started under the promise of turning Brazil into ‘one of the great powers in the world’. This great goal was to be achieved by a national class compromise, involving the decisive participation of the state – a model directly derived from Cardoso’s reformist version of dependency theory. In the course of his first term, and particularly after his re-election, however, Cardoso’s discourse shifted, coming closer to the standard neoliberal association between pro-market reforms and development.

4.2 Brazilian neoliberalism in action: monetary reforms and privatisation

Two key areas in which the neoliberal reforms were most clearly applied are monetary policies and privatisations. As in the case of Argentina, there is a strong link between the fiscal necessities created by the monetary reforms and the need for

privatisations. Not only were these two sets of public policies justified in ideological terms in reference to the market utopia, but they were also based on similar social alliances between international capital, big national corporations and the urban middle classes.

Nevertheless, this class alliance involved contradictory demands. The middle classes expected the exchange rates to remain overvalued in order to allow for increasing consumption of imports, while national and international capital demanded high interest rates and fiscal austerity, to guarantee the sustainability of the government's debt. These demands could only be reconciled through a constant influx of extraordinary resources, via privatisations and international investments. This delicate balance was maintained for a short period, between 1994 and 1998, until being destabilised by external shocks.

In the context of the early 1990s, there was no question that a monetary reform was badly needed. Controlling inflation was perceived as the most pressing priority for every administration in Brazil since the return of democracy, in 1985. In the five years between the elections of President Collor (1989) and President Cardoso (1994), Brazil had four different currencies: Cruzados Novos (NCz\$); Cruzeiros (Cr\$); Cruzeiros Reais (CR\$) and, finally, Reais (R\$). The substitution of currencies was so fast that it was impractical to print and distribute new notes. The provisional solution was stamping old notes with the name and values of the new currency, eventually cutting zeros in order to facilitate accounting (Figures 2 and 3).

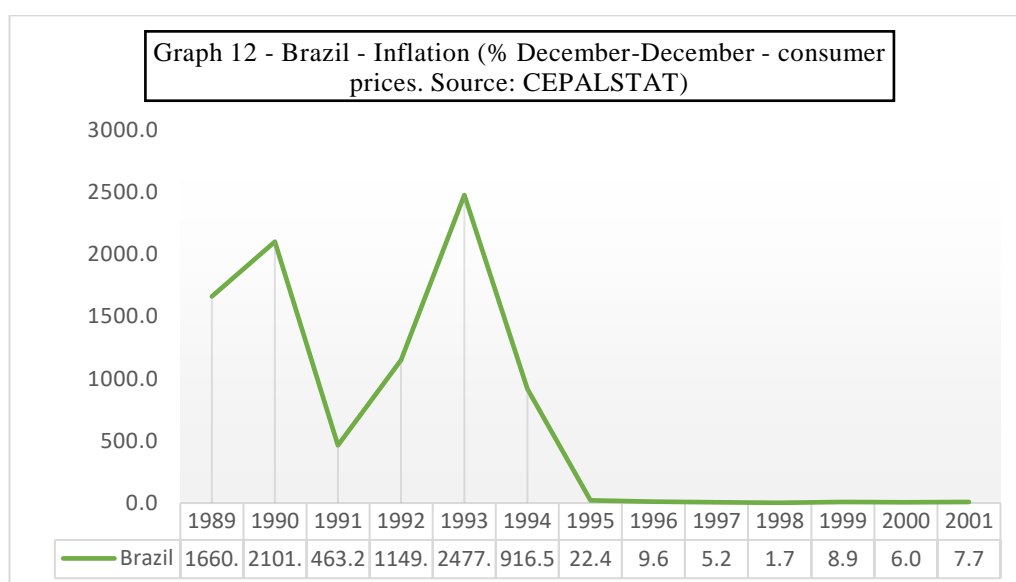
Figure 2 – Stamping the bill to change its name. Brazilian Cruzado Novo/Cruzeiro in 1990.



Figure 3 – Stamping the bill and cutting the zeros. Brazilian Cruzeiro/ Cruzeiro Real in 1993.



When President Collor announced a new economic stabilisation plan, in his first day in office, inflation was out of control. Consumer prices had increased in the previous year by 1660% (see graph 12). Monthly inflation had peaked to 80% (Schneider 1991, 321; Saad-Filho and Mollo 2002, 118). In these extreme circumstances, the mix of monetary and fiscal policies that constituted the ‘Collor Plan’ – officially ‘New Brazil Plan’ – was immediately launched and received extensive media coverage.



The most important feature of the economic plan was an unprecedented monetary squeeze. Almost 80% of the total money offer was immediately frozen, representing 30% of Brazilian GDP (Pastore 1991, 157). The government did so by compulsorily holding in the central bank all individual deposits above NCz\$ 50.000 (roughly equivalent to US\$

1.000), including current and saving accounts deposits. The total liquidity (M4) was reduced from US\$ 112 billion to US\$ 37 billion overnight (Crabtree 1991, 120). The frozen deposits were to be gradually repaid in the following two years, after the consolidation of the deflationary effects of the monetary squeeze. Finally, banking deposits below NCz\$ 50.000 were converted to the new currency (Cr\$) and declared immediately available. This radical and unprecedented assets freeze hit directly the middle class, who had voted overwhelmingly for Collor. While the biggest companies had ways of protecting themselves through international banking and the working class did not have enough money in the bank anyway, the middle classes suddenly lost access to their lifetime savings. This unique monetary reform was legally implemented through two Provisional Government Decrees, posteriorly converted into the Law 8.024/90 (Brasil 1990a).

The plan also included severe cuts in the government's budget, tax increases, privatisation of public companies, decisive cuts on trade tariffs, elimination of bureaucratic barriers to imports and liberalisation of the exchange rate (Bresser-Pereira 1991, 17–18). The plan combined, therefore, orthodox fiscal restrictions and unorthodox monetary reform. Accordingly, the underlying causes of the high inflation were identified as chronic fiscal imbalance coupled with excess of monetary supply. Fiscal austerity was supposed to tackle the first cause of inflation, while monetary reform and the liquidity squeeze would tackle the remaining causes. The plan succeeded in reducing inflation in the very short term. For three months after its announcement, in 16th March 1990, inflation was kept below 10% (Crabtree 1991, 123; Saad-Filho and Mollo 2002, 118). Towards the end of 1990, however, it became clear that President Collor's did not 'kill the tiger of inflation with one shot', as he said he would (Crabtree 1991; Bresser-Pereira 1991, 33).

With the inflation accelerating again, partially due to external factors like the oil price shock caused by the gulf war (Schneider 1991, 331), the government announced the 'Collor Plan II'. The new measures basically reinforced the orthodox component of the plan, deepening fiscal austerity. Interests rates rocketed, and the government changed indexation taxes, so as to detach them from past inflation (Giambiagi et al. 2005, 150). In May 1991, the finance minister Zélia Cardoso de Mello was substituted by Marcilio Marques Moreira, who kept the fiscal austerity measures. At that point, liberal and developmentalist economists – and the population at large – had already turned their backs on the government (Bresser-Pereira 1991, 34; Pastore 1991). Inflation remained

extremely high (1149% in 1992 – see Graph 12), and growth rates were very disappointing (-4.4 % in 1990; about 1% in 1991 and -0.5% in 1992 – see Graph 11).

After Collor's resignation, in December 1992, President Itamar Franco named six different finance ministers. The first, Gustavo Krause, lasted only two months. The second and the third ministers, Paulo Roberto Haddad and Elizeu Resende, did not fare much better, remaining in office for around three months each. The literature normally skips this tumultuous period – between October 1992 and June 1993 – altogether (see, for instance, Giambiagi et al. [2005], an influential Brazilian textbook). Contrastingly, the subsequent period – the genesis of the Real Plan is studied deeply by economists from diverse inclinations.⁴¹

Cardoso was President Franco's fourth Finance Minister. He took office in June 1993 and remained in charge until March 1994, when he stepped down to prepare his campaign for the upcoming presidential elections. The reason for the disproportionate attention the literature dispenses on his administration as Finance Minister is evident enough. Unlike the many economic plans launched in the previous ten years – of which Collor Plans I and II were just other examples – the Real Plan finally succeeded in curbing inflation. Annual inflation rates descended from 2477% in 1993, to 916% in 1994, and 22% in 1995 (see Graph 12). For the rest of the decade, inflation remained below 10% a year. The social consequences of this stabilisation plan, however, were huge (Saad-Filho and Mollo 2002; Amann and Baer 2002; see 4.4 below).

Before implementing the new plan, a limited monetary reform was announced by a Provisional Government Decree and subsequently converted into Law 8.697 (Brasil 1993b). Because of the galloping inflation of the previous years, this reform simply changed the name of the currency – now called Cruzeiros Reais – and cut three zeros in order to facilitate accounting (1000 Cr\$ = 1 CR\$). Once again, the money bills were stamped (figure 3). The new currency was set to have a short life, however. The Real Plan would culminate with its substitution for a new, stable, currency (R\$) to be released in the second semester of 1994, just a few months before the presidential election. This final currency change was defined as the culmination of the stabilisation plan, which comprised three steps.

⁴¹ A well-balanced literature review of the different perspectives on the Real Plan is still to be written. For a comprehensive explanation of the plan and a passionate defence, see Franco (1995). For a more balanced perspective from one of the earlier architects of the plan, see Bacha (1997). For an developmentalist perspective, see Bresser-Pereira (1994). For a Marxist critique, see Saad-Filho and Mollo (2002).

The first step was an austerity package, including cuts in public spending and the freezing of up to 15% of the public budget, to be directed towards an 'Emergency Social Fund'. Despite its misleading name, the main purpose of the fund was not to sustain social programs, but to reduce public deficit. The austerity package also included raising taxes and an agreement with the IMF and private banks (Giambiagi et al. 2005, 151).

The second step was the most interesting aspect of the plan. Its aim, the 'de-indexation' of the economy, was based on the inertial inflation theory, 'the most original contribution Latin American, and particularly Brazilian thought offered to macroeconomics' (Bresser-Pereira 1994, 129). According to this theory, one of the main causes of inflation in Brazil was the widespread indexation of the economy – meaning the automatic price correction based on past inflation. Because contracts, including labour contracts, incorporated the provision of regular rises based on the inflation verified in previous periods, inflation could never retrocede, being always higher than in the past.⁴²

Previous economic stabilisation plans – particularly the Cruzado Plan, in 1986 – had also recognised the inertial character of Brazilian inflation. They unsuccessfully tried to correct it by freezing prices and prohibiting indexation of new contracts. The innovation included in the Real Plan was the creation of a transitional bi-monetary system, instead of trying to de-index the economy by freezing prices. From 27th February 1994, the government introduced a new semi-currency, the URV (Real Unity of Value). It was originally a semi-currency because it was meant to perform only one of the three classical functions of currency, namely, serving as unit of accounting. The old currency (CR\$) kept the functions of medium of exchange and store of value (heavily affected by the ongoing inflation). Prices – including salaries – were then marked in both, CR\$ and URVs. The value of URVs in CR\$, however, changed daily, at pace with the inflation rate. In the economic jargon, the government created an 'indexed money'. The value of the URV in CR\$ started at URV 1 = 647.50 CR\$, on 1st March 1994, and ended at URV 1 = 2750.00 CR\$, on 1st July 1994.

After four months, when the URV was consolidated as a unit of accounting and most of the people learned to trust its stable value – in contrast with the falling value of the CR\$ – the URV finally became the new currency, now called 'Real'. Thus, the third and final step of the plan was the substitution of old CR\$ notes by brand new R\$ notes, at the URV conversion rate (CR\$ 2750.00 = 1.00 R\$). The result was that the new

⁴² For a review of the concept of inertial inflation, see Bresser Pereira (2010). Arida and Resende (1985) are normally considered pioneers on the topic.

contracts expressed now in R\$ should not include automatic price correction based on the past inflation, because the inflation has been incorporated into the money itself.

The successive steps and the rationale behind the plan were explicated in a series of official documents. The Exposition of Reason⁴³ 395/1993 stressed the necessity for fiscal austerity; introduced the already mentioned ‘Emergency Social Fund’ (Brasil 1993a, secs. 44–57) and defined the strategy of de-indexation via URV (Brasil 1993a, 121–28). It also established, as the final step of the plan, the creation of the new currency (Brasil 1993a, sec. 129). The Exposition of Reasons 047/1994 (Brasil 1994a) detailed the monetary reform and reaffirmed the necessity of keeping fiscal austerity. Finally, the Exposition of Reasons 205/1994 (Brasil 1994b) summarised the three steps of the Real Plan and introduced the last piece of legislation necessary for the transition between the URV and the R\$.

The last document also contemplated another key aspect of the monetary stabilisation: the control of money creation. ‘It is proposed that the Real shall be ballasted by the country’s international reserves, in the exact proportion of 1 US\$ for each Real issued’ (Brasil 1994b, sec. 38). In short, the cornerstone of the Argentinian stabilisation plan – then widely considered successful – was also adopted in Brazil, so as to give credibility to the new currency. In the Brazilian case, however, the fixed exchange rate parity between the national currency and the US dollar was deliberately not defined by law, so as to allow for some flexibility (Brasil 1994b, sec. 39).

In fact, the strategy of using the exchange rate to back the stabilisation plan constituted what is normally referred to in the Brazilian literature as the ‘exchange rate anchor’ (De Paula and Alves 1999; Silva 2002). Exactly how much of the initial success of the Real plan should be credited to the exchange rate policy, the ingenuity of the currency substitution or the fiscal austerity is difficult to tell. The overvalued exchange rate coupled with trade liberalisation meant that internal producers had to face competition of imported goods, establishing a ceiling for price raises. At the same time, it guaranteed the support of the middle classes, which saw their purchasing power substantially increased. The smooth change of currencies de-indexed the economy, making sure past inflation would not automatically be transferred to the future. Finally, fiscal austerity prevented the government from financing deficits with further monetary

⁴³ ‘Exposition of Reason’, in the Brazilian juridical lexicon, is the internal document whereby one or more State Ministers express their views to the President, eventually suggesting alterations in the legislation in order to implement public policies.

emission, at the same time guaranteeing the support of national and international financial capital.

One additional factor that is rarely mentioned in the literature is the favourable international conjuncture. Not surprisingly, one of the few authors to stress this is dependency theorist Theotonio dos Santos, in his bitter open letter to his former colleague and now President Cardoso:

Firstly, we must demystify the statement that it was the Real Plan that ended inflation. (...) From 1994 onwards all [national] economies of the world showed a reduction of the inflation to less than 10%. Of course, in each country local 'geniuses' emerge claiming to themselves the authorship of that reduction. But this is false: it was a planetary movement (Santos 2010).

It is not necessary to fully agree with Santos' exclusively external explanation for the end of inflation in Brazil to recognise that the Real Plan was launched in a positive international conjuncture (see Saad-Filho and Maldonado Filho 1998). Soon, however, the fragilities of the plan would become clear. Akin to the Argentinian Convertibility Plan, the Real Plan relied on a constant external supply of capital, in order to cover growing current account deficits and keep the exchange rate overvalued. This involved privatising companies and keeping interest rates high, which ended up putting further pressure on the public budget. Simultaneously, permanent fiscal austerity and high interest rates meant less productive investments and rising unemployment. The result was sluggish GDP growth rates during most of the decade (see Graph 11). The most negative consequences of the plan would appear in the aftermath of the Russian crisis of 1998, when the 'exchange rate anchor' could not be kept.

Privatisations played a key role in both, sustaining the overarching macroeconomic strategy and keeping together the class alliance forged by Cardoso – if only temporarily. In the first case, privatisations generated revenues, debt cancellations and foreign investments, allowing for the exchange rate to be kept overvalued. In the second case, it directly pleased national capital owners, by allowing them to take control over former state competitors or suppliers, substantially expanding their business in association with international capital. In order to produce tangible gains for these privileged class fractions, the losses of the privatisation process were conveniently socialised, mainly through the alienation of valuable assets built by the generations of Brazilian workers.

In speeches and public documents, privatisations were justified by a set of ideological reasons, clearly springing from the market utopia. These reasons are identified in the two most important pieces of legislation that regulated the privatisation process, respectively establishing and reforming the National De-nationalisation Program (PND). In fact, both laws 8.031/1990 (Brasil 1990b) and 9.491/1997 (Brasil 1997b) – approved respectively in President Collor and President Cardoso administrations – list the same six aims. Making reference to an idealised opposition between state and market, the law sustains that de-nationalisation was expected to ‘reorient the strategic position of the State in the Economy, by transferring to the private initiative activities that are unduly explored by the public sector’ (Brasil 1990b, sec. 1; 1997b, sec. 1). Ideological arguments for privatisation also included the idea that it would increase ‘competitiveness’ of the private sector (Brasil 1990, sec. 4; 1997, sec.4)⁴⁴ and that the State should concentrate its efforts on the ‘realisation of national priorities’ (Brasil 1990, sec. 6; 1997, sec.6). Finally, privatisations were said to help to achieve budget balance, by reducing public debt (Brasil 1990, sec. 2; 1997, sec.2).⁴⁵ Moreover, the government counted on privatisations to increase investments (Brasil 1990, sec. 3; 1997, sec.3) and to boost the stock market (Brasil 1990, sec. 6; 1997, sec.6).

Despite his aggressive pro-market rhetoric and his explicit evocation of the market utopia, privatisations under President Collor were rather limited. In 1990, no state company was privatised. The technical reason for the delay in executing the PND was the time necessary to structure each individual privatisation. Before the final stage – the public auction of the company’s assets – the program encompassed seven previous steps, which were expected to take 275 days on average to complete (Almeida 2010, 281). These steps included the hiring of consultancy firms in order to structure the auction, effectively privatising privatisation itself (Schneider 1992, 16).

In 1991, only four state companies were privatised, frustrating the government’s declared intention to pass to the private sector 27 companies worth of a total of US\$ 18 billion (Schneider 1992, 16). In 1992, 16 companies were sold (including provinces’ companies), but the government was able to collect only US\$ 4.04 billion (Almeida 2010, 289). Most of that was paid in government bonds, including ‘Privatisation Certificates’,

⁴⁴ This point is phrased in the two laws in a slightly different ways.

⁴⁵ Again, this point is phrased in two slightly different ways, meaning substantially the same thing.

compulsorily bought by financial institutions as part of the liquidity squeeze comprised in the Collor Plan.

It is also worth noticing that the first privatised companies were relatively small firms from the capital goods sector (steel, turbines, fertilisers, etc.). This is explained by less legal restrictions and potentially less political resistance associated with the sale of those companies (Paiva 1994, 105). After the resignation of President Collor, President Franco continued the privatisation process. The first well-known companies were privatised in 1993 and 1994. Those include the giant steelmaker CSN (proudly founded during Vargas administration as a symbol of Brazilian state-led development) and Embraer (a world class aircraft maker).

Cardoso's administration would bring the privatisation program to an unprecedented level. It did so by breaking long-lasting state monopolies, selling giant, previously-monopolistic companies and extending privatisations to the highly profitable service sector. The privatisation program had its most intense years between 1996 and 1998, after legal adjustments approved in 1995. These included five Constitutional Amendments (Almeida 2010, 332–33), as state monopolies in areas such as oil, gas and telecommunications were enshrined in the Constitution. Even weakened by the continued crisis of the previous two decades, the institutions of the developmental state in Brazil were not easily dismantled. Only a specific conjunction of growing necessity to attract capital, the contradictory demands of a class alliance between the middle class and fractions of the ruling class and decisive international support (in the form of capital flows and official endorsement by the IMF and the World Bank) can explain how Cardoso's first administration managed to substantially extend the privatisation program.

The aforementioned necessity to attract capital was a direct consequence of the macroeconomic model established in the aftermath of the Real stabilisation plan. To keep the 'exchange rate anchor', the government needed to guarantee a constant influx of dollars to the Brazilian economy. At the same time, the overvalued exchange rate and the trade liberalisation boosted imports of consumption goods (Kume 1996; De Paula and Alves 1999). Without resorting to imports, the consumer demand unleashed by the economic stabilisation would have been directed to the internal market, exerting an upward pressure on prices and potentially re-igniting inflation. In this context, privatisations were a key part of the stabilisation plan, inasmuch as the government counted on the sale of public companies to compensate current account deficits generated by increased imports. Furthermore, the privatisation revenues helped keep the public

budget under control. The centrality of the privatisation program is clearly reaffirmed in public documents, as the Exposition of Reasons 205/1994 states that ‘the results of a privatisation program are considered to be an integral and fundamental part of the government’s budget balance’ (Brasil 1994b, sec. 13).

This perverse dynamics of selling public property in order to allow for the relatively cheap import of consumer goods is described in a positive light by neoliberal economists. Pinheiro, for instance, mentions a ‘virtuous cycle’ between privatisations and economic stabilisation, ‘so that the second creates the political conditions for new sectors to be included in the [privatisation] process, while the first contributes to sustain the stability’ (Pinheiro 1999, 168). In short, the macroeconomic model demanded overvalued exchange rates and constant fiscal austerity, allowing the government to present privatisations as inevitable.

In total, 80 companies were privatised in the first term of President Cardoso, generating US\$ 60.1 billion, plus 13.3 billion in debt cancellation (Pinheiro 1999, 164–165 - includes provinces' companies). Of that impressive amount, US\$ 6.9 billion (including debt cancellation) refers to the sale of the giant mining company Vale do Rio Doce, in 1997. The telecommunications sector, often quoted by neoliberal economists as the best example of the success of the privatisation program in Brazil, generated US\$ 29 billion (including debt cancellation), with the split and subsequent sale of the national telecommunication system in 1997 and 1998.

The privatisation rhythm slowed down in the second presidential term (1999–2002), partially sparing some flagship state companies. Petrobras, the National Mail Service and Banco do Brasil, for instance, remained under government control. To understand these dynamics, it is necessary again to bear in mind the links between privatisations, their social conditionings, international constraints and the macroeconomic strategy at large after 1999.

Battered by the Asian crisis of 1997 and the Russian crisis of 1998, the monetary policy adopted in the aftermath of the Real plan had to be substantially reformed. Even resorting to an IMF loan worth of US\$ 42 billion in October 1998 (Couto and Abrucio 2003, 284), the government could not avoid the current account crisis and was forced to abandon exchange rate controls in January 1999, just one month after the start of President Cardoso’s new term. The R\$ lost more than 50% of its value against the US\$ between the end of December/1998 and the end of January/1999. The ‘maxi-devaluation’ of the R\$ (Gonçalves 1999; De Paula and Alves 2000; Palma 2006) negatively affected the

privatisation program in two different ways. Firstly, by severely impacting the popularity of President Cardoso, who had been recently re-elected on the basis of attaining monetary stability. The expensive dollar affected the urban middle classes, making the support needed for the privatisation of symbolic companies like Petrobras much more unlikely. Secondly, with the liberalisation of the exchange rates and the realisation of primary fiscal surpluses, the necessity of using privatisations to guarantee current account and budget balances did not hold anymore.

Even so, the government did not abandon privatisations completely. Six companies were privatised in 1999, generating US\$ 554 million (Pineiro 2000, 22), a limited amount if compared with previous years. In 2000, the government tested the waters for the privatisation of Petrobras, selling shares of the company on the stock markets of Sao Paulo and New York and releasing a plan to change its name for 'Petrobrax'. Despite being able to raise US\$ 2.6 billion in the international market only (BNDES 2000, 36), the changing of the name of the popular oil company faced strong opposition. Shortly after the announcement of the new brand, the government had to step back and President Cardoso himself published a note in the newspapers guaranteeing that Petrobras would not be privatised and would keep its name (Ednilson 2010, 144).

Taken together, the monetary reforms and the privatisation process in Brazil during the 1990s reveal an intriguing mismatch between discourse and practice. While President Collor announced very vocally his adherence to a market utopia, it was only during President Cardoso's administration that privatisations and a solid neoliberal monetary reform actually took-off. This apparent contradiction indicate that, in Brazil, neoliberalism cannot be reduced neither to discourse, nor to policies. The key to understand the differences between the two periods must be found in the class disputes that underpinned the neoliberal development strategy and the changing international settings.

4.3 'Autonomy by participation' and the resynchronisation of foreign policy with the neoliberal development strategy

In the previous sections, I argued that Brazilian neoliberalism entailed a shift from classical developmentalism, which had been the dominant development strategy for decades after the Second World War. Accordingly, the international in general, and the

international market in particular, were represented as spheres of opportunities, into which Brazil had to be integrated. Privatisations and monetary reforms – among other policies – relied on the supposedly inherent efficiency of the market in allocating scarce resources to the benefit of the whole society. In short, a new market utopia replaced the old state utopia. In one key area of Brazilian public service, however, the state utopia was particularly entrenched. The Ministry of External Relations, with its steady and professional bureaucracy, has traditionally been an arm of Brazilian developmentalism. An important aspect of the neoliberal development strategy in Brazil was, therefore, a sharp change in foreign policy.

Under the impact of the fall of the Berlin Wall, eloquently evoked by President Collor in his campaign, the changes in foreign policy initially took the form of an attempted rapprochement with the United States, coupled with a decisive liberal turn in trade policy. To the horror of an older generation of nationalist diplomats,⁴⁶ the new president was not keen to confront the US in order to defend industrial policies. A concrete example was Brazil's change of position regarding property rights standards and protection for the nascent computing industry. President Collor agreed to negotiate a revision of these policies bilaterally with the US and sent to the Congress a bill that contemplated many US demands (Batista 2009, 148; Sallum Jr 2011, 270).

The negotiations on the foreign debt also stepped back from a more nationalist stance. After insisting in the first year that the restructuring of the debt should be subordinated to the capacity of generating growth, Collor's administration ended up agreeing with the conditions imposed by the IMF and signed a deal with the Fund and the Paris Club in January 1992 (Batista 2009, 149; Sallum Jr 2011, 270). The final restructuring of the debt, however, following the model of the Brady Plans adopted in other Latin American countries, would only happen in President Franco's administration (Hirst and Pinheiro 1995, 17). Regarding trade, the new government promoted a drastic, unilateral cut in tariffs. As a result, the average import tariff dropped from 32% in 1990 to 14% in 1994 (Averbug 1999, 47). At the same time, non-tariff barriers were also lifted, so that by 1993 the only controls on imports were the falling tariffs (Corseuil and Kume 2003, 15).

⁴⁶ Given the hierarchical structure of the Foreign Service, few diplomats dared to speak out. For two notable examples among senior Ambassadors, see Nogueira Batista (2009) and Pinheiro Guimarães (2001).

Politically, notwithstanding President Collor's best intentions to avoid confrontation with the US, the change in foreign policy he implemented did not go as far as a total alignment. Unlike Argentina, for instance, Brazil did not volunteer troops to the 1991 Gulf War, despite having seconded the US' position in the UN Security Council (Hirst and Pinheiro 1995, 22; Casarões 2012, 141). Another expression of the renewed image that the Brazilian foreign policy was trying to convey was the hosting of the United Nations Conference on Environment and Development. The Conference took place in Rio de Janeiro, in June 1992, bringing to the city an unprecedented number of Heads of States.

In an influential article, Hirst and Pinheiro (1995) highlight the deadlock in which the Brazilian Ministry of External Relations found itself after the downfall of President Collor's administration. The neoliberal turn broke the traditional nationalist line followed by Brazilian diplomacy, creating a division within the bureaucracy itself. This division opposed 'positions closer to neodevelopmentalist ideals – therefore nationalist – to positions more akin to neoliberalism, with a more cosmopolitan perspective' (Hirst and Pinheiro 1995, 9). At the same time, the challenge of formulating and implementing foreign policy in a liberal democracy confronted a generation of diplomats shaped during the long dictatorship and used to an authoritarian, top-down approach to public policies.

In this context, a new foreign policy strategy emerged from within the Brazilian Ministry of External Relations. This strategy resynchronised the foreign policy with the official discourse and the economic policies, through a common view of the international setting as primarily a source of opportunities for development, as well as a shared faith in the market utopia. The best theoretical expression of this new strategy was the book '*A Legitimidade e Outras Questões Internacionais*' (*Legitimacy and Other International Questions*) by Ambassador Gelson Fonseca (1998). The book explains and justifies the most relevant traits of Brazilian foreign policy in 1990s from a liberal perspective, capable of placing the foreign policy within the general neoliberal development strategy.

According to Ambassador Fonseca, the conditions posed by the end of the Cold War and the return of democracy led to a 'rethink' of Brazilian international strategies (1998, 363). Cautiously, as befits a professional diplomat, the Ambassador claimed that Brazil traditionally tried to preserve its national autonomy by distancing itself from deep engagement with international regimes. In the new scenario, this position should be replaced by a new strategy labelled 'autonomy by participation' (Fonseca 1998, 363). In order to effectively influence in the building up of new international regimes on issues

like the environment, human rights, international trade, and new technologies the country needed to ‘renew its credentials’ (1998, 367). In practical terms, the renovation of credentials meant abandoning old developmentalist positions and embracing a non-conflictive international identity. Examples of diplomatic actions based on this perspective included taking part in the UN Security Council and in UN ‘peace operations’, engaging with nuclear control initiatives such as the Tlatelolco and the Non-Proliferation treaties, and actively contributing to environmental and human rights conferences (1998, 368-369).

Most importantly, however, is the change in position regarding economic and commercial matters. According to Fonseca, ‘today, Brazilian economic agents have the clear view that, to profit in the international economy, the initial and necessary step is to accept the premise of the competition and the constraints of the market laws’ (1998, 371). This perspective clearly empties the claim that developing countries should have special treatment in trade regimes, one of the cornerstones of the traditional developmentalist diplomacy, expressed in international forums such as the UNCTAD. Indeed, from the 1990s, Brazilian diplomacy shifted its traditional priority, from Third World-oriented spaces such as UNCTAD to organisations such as the WTO and even the OECD.⁴⁷

This new international perspective fitted like a glove in the overall neoliberal development strategy, providing a complementary line of discursive justification for the market reforms being implemented. As clearly stated by Fonseca:

[W]e know that (...) the conditions for competitiveness depend on “tidying up the house”, on the adaptation of the national economy to the new international conditions. Policies like trade liberalisation (...), privatisation, resuming contacts with the financial community and keeping stability are necessary preconditions to create a situation of “economic health”, with repercussions for the international performance of the economy (1998, 372).

During President Cardoso’s administration, therefore, foreign policy became one of the areas where the neoliberal development strategy expressed itself most clearly, displacing older developmentalist perspectives. From a traditional political non-alignment that sought to guarantee spaces for nationalist policies occasionally contradicting US interests, Brazilian diplomacy moved to a more cooperative attitude

⁴⁷ Brazil never became a full member of the OECD, but its engagement with the Organisation was intensified in the 1990s. In 1999, the OECD council launched a program specifically tailored for Brazil. After the downfall of Brazilian neodevelopmentalism, in 2016, the new administration is renewing its attempts to join the OECD, this time as a full member.

towards the US, in particular, and global north countries in general.⁴⁸ The personal prestige and diplomatic efforts of President Cardoso himself also helped to promote Brazil's renewed international image as a vibrant liberal democracy. At the same time, trade liberalisation, which started with unilateral cuts in trade tariffs under President Collor's administration, evolved into the formation of Mercosur, consolidating the new low tariffs by tying it to an international agreement involving Argentina, Paraguay and Uruguay.⁴⁹ Potentially, trade liberalisation would reach its zenith with the creation of the Free Trade Area of Americas (FTAA), whose complex negotiations extended beyond the neoliberal decade and were finally discontinued in 2005.⁵⁰

Ambassador Fonseca's concept of 'autonomy by participation' and his calls for the 'renewal of credentials' updated the diplomatic discourse, resynchronising it with the overall neoliberal development strategy. Therefore, foreign policy and neoliberal reforms actually reinforced each other – while the reforms were internationally presented as 'tidying up the house', international support legitimised further dismantling of the developmentalist state.

Beyond the fog of diplomatic discourse, however, it is difficult to see actual diplomatic achievements in this period. The crucial support received from international financial institutions (IMF, specifically) depended more on the government's willingness to promote the prescribed fiscal austerity agenda than on its foreign policy or cooperative bilateral relations with the US. A point can be made that the projection of a positive image was important to attract foreign capital, although it is more likely that the high interest rates overshadowed the foreign policy on that matter. Furthermore, the new international image of Brazil and the prestige of its President were not enough to guarantee to the country pre-eminent positions in international governance bodies. The long-lasting endeavour of conquering a permanent seat in the UN Security Council was not realised. Brazil also remained excluded from the OECD and the Group of Seven (G7), despite its expansion in 1997 to include Russia. Most importantly, Brazil remained under-represented on the Executive Boards of international financial institutions such as the IMF and the World Bank.

⁴⁸ One rare case of limited diplomatic tension between Brazil and the US in the period was the dispute regarding property rights for anti-HIV drugs.

⁴⁹ Mercosur aspires to be more than a free-trade zone. In an effort to constitute a common market, the Organization adopted and common external trade tariff, ranging from 0 to 20 % (Azevedo and Massuquetti 2009). For a comprehensive overview of the formation of Mercosur, see Vaz (2002)

⁵⁰ The resistance against the FTAA is proudly presented as a decisive diplomatic victory by neodevelopmentalists in Brazil and in Argentina (see chapters 5 and 6).

As expected, the sharp shift in Brazil's traditional foreign policy strategy marginalised the nationalist faction of the Ministry of External Relations, triggering the opposition of some of Ambassador Fonseca's senior colleagues, most notably Ambassador Samuel Pinheiro Guimaraes. For them, while the benefits of the neoliberal development strategy were elusive, the costs of 'renewing Brazilian credentials' were perceived as very real in terms of policy-space limitation. From Ambassador Pinheiro Guimaraes' perspective, the international regimes in which Brazil was aiming to get more involved actually formed part of the US' 'hegemonic power structures' (2007, 36), actively hindering possibilities for state-led development in peripheral countries.

The nuclear non-proliferation regime, for instance, arguably froze international power imbalances by creating a legal distinction between nuclear and non-nuclear countries (Batista 2009, 217). Acceptance of strict intellectual property regulations and of foreign trade parameters defined by the WTO are other examples. Consequently, international juridical limitations to the state's policies are portrayed as a form of 'indirect recolonization'. 'What are the characteristics of a colony' – rhetorically asks Ambassador Pinheiro Guimaraes, implying a comparison with the situation of Brazil in the 1990s – 'It cannot have weapons; it cannot have foreign policy; it cannot have internal economic policies; it cannot have a currency' (2001, 4).

4.4 Neoliberalism and uneven and combined development in Brazil

One decade of neoliberal reforms failed to lift Brazil out of underdevelopment, as repeatedly promised in the political discourses. The dismantling of the developmental state – involving monetary reforms, privatisations, and a shift in the foreign policy – did not boost economic growth, as predicted by neoliberal writers. After 12 years of market-friendly policies, there was no sign that Brazil was catching-up with the global north in economic or social terms.

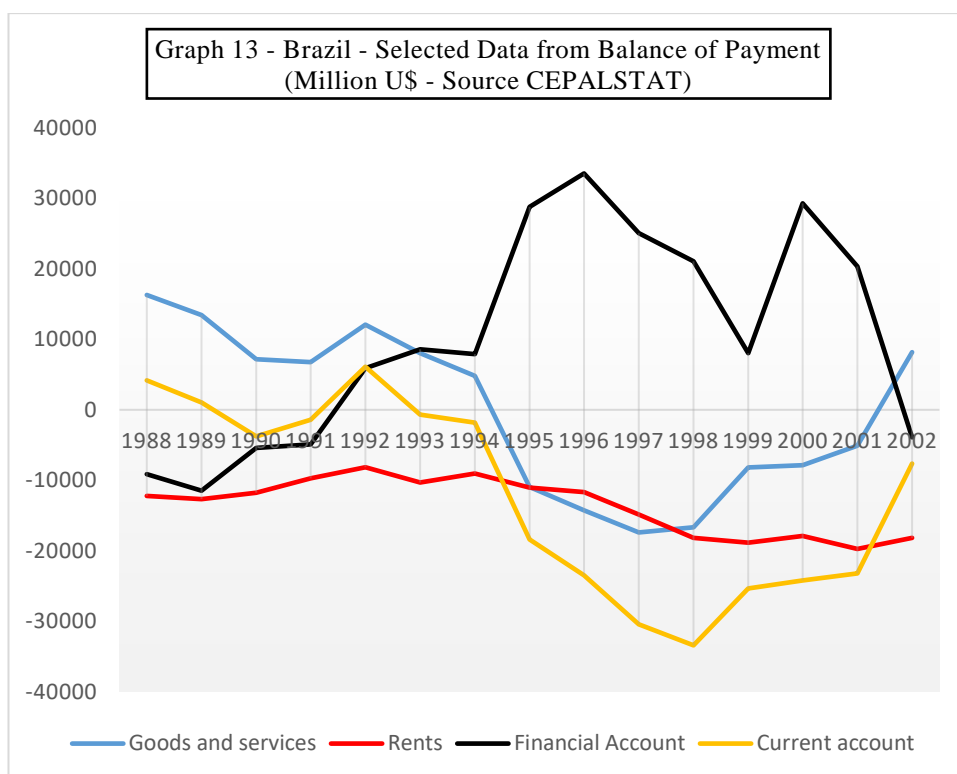
'Brazil can be one of the great powers in the world', announced Cardoso, when running for office for the first time (Cardoso 1994a). In January 2003, he passed the yellow and green Presidential Ribbon to Lula da Silva. The country he left behind, before flying for a sabbatical period in Paris, was certainly not a 'great power'. It was a poor and very unequal country, struggling with yet another economic crisis, and eager to believe

once again in the renewed development promises that the new president was about to make (see chapter 5).

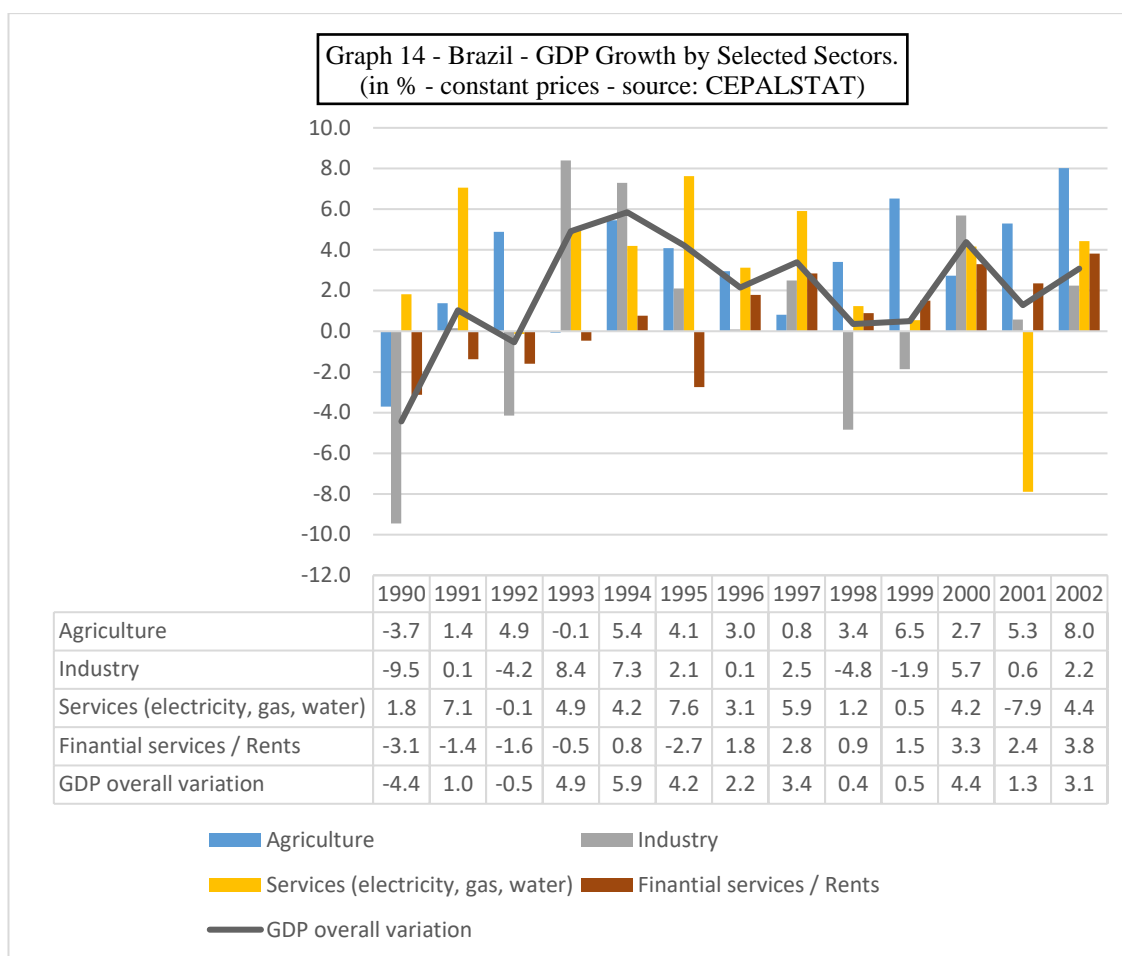
My argument in this chapter is that the failure of the neoliberal reforms to live up to the grand expectations evoked in the neoliberal political discourse is not circumstantial. It stems from limitations of the neoliberal development strategy. For a short period, between 1994 and 1998, the internal contradictions of the neoliberal development strategy could be postponed. The declared aim of the Real Plan – reducing inflation – was actually achieved in 1994 (see graph 12). Nevertheless, the monetary reform created a situation of heavy dependence on international capital flows (De Paula and Alves 1999). Consequently, a reversal of these flows would put the entire macroeconomic strategy under pressure, leading to its collapse in the first months of 1999.

A closer look at Brazilian balance of payments tables reveals the fragilities of the monetary policy in face of external shocks (graph 13).⁵¹ Initially, the stabilisation of prices stimulated the aggregate demand, resulting in GDP growth rates of 5.85% in 1994 and 4.22% in 1995 (see graph 11). Nevertheless, following cuts in trade tariffs, and responding to the overvaluation of the exchange rates, this demand was largely channelled to imports, failing to stimulate national industry (graph 14). The external balance of goods and services, for instance, went from historically positive results to a deficit of US\$ 10.95 billion in 1995. The pressure on the international reserves was exacerbated by historical deficits in rents (US\$ 11.05 billion in 1995 alone), due to the constant remittance of profits from foreign capitals investing in Brazil (graph 13).

⁵¹ For the analysis that follows, I rely on statistics from CEPAL (2017), unless another source is indicated.



During the brief heyday of the neoliberal development strategy, this deficit could be counterbalanced by positive results in the financial account. In 1994, the country attracted US\$ 7.9 billion in net investments. In 1995 this figure jumped to US\$ 28.7 billion, before reaching its peak – US\$ 33.5 billion – in 1996. These impressive figures can be partially explained by the privatisation process, but also by the emission of public bonds, amounting to US\$ 7.3 billion in 1995 and US\$ 15.3 billion in 1996. The high interest rates played a significant role at this stage, attracting short term international capital, in a context of relatively low inflation. As a consequence, public indebtedness increased significantly. Net public debt (including internal and external debt, subtracting reserves) jumped from 26.0 % of the GDP in 1994, to 30.9% in 1996, to 42.6 % in 1999 (Averbug and Giambiagi 2000, 12).



In short, the ephemeral golden age of the Real Plan – between 1994 and 1998 – was based on the attraction of volatile foreign capital, depredation of public property, and continuous public indebtedness. In other words, it required a continuous socialisation of losses. Because most of the economic surplus was appropriated by the ruling class via high remuneration for capital (interest rates) and direct transfer of undervalued public assets (privatisation), even during the best years of Cardoso's administration, gains for the working class were very limited. Wages decreased, unemployment levels remained basically unchanged and social inequality did not diminish (graphs 15 and 16).

The dubious initial success of the stabilisation plan was dramatically reversed when the Brazilian economy was lashed by the whip of external necessity. External pressure took the concrete form of a sharp contraction in the international offer of capital in the aftermath of the 1997 (Asian) and 1998 (Russian) financial crises. In-depth analysis of key 1998 macroeconomic figures reveal how vulnerable the development strategy in place was in face of external shocks. To compensate for a mammoth current account deficit of US\$ 33.4 billion, the government tried to attract foreign capital by raising the

interest rates to 49.75%, despite inflation being only 1.6%. This severely penalised the productive sector. Overall GDP growth was only 0.34%, which actually represented a contraction in *per capita* figures. Furthermore, the monetary restrictions affected different sectors unevenly, promoting a regressive specialisation of the economy. Less competitive in the face of Asian exports, the industrial product contracted by 4.8%, while agriculture expanded by 3.4% (table 2).

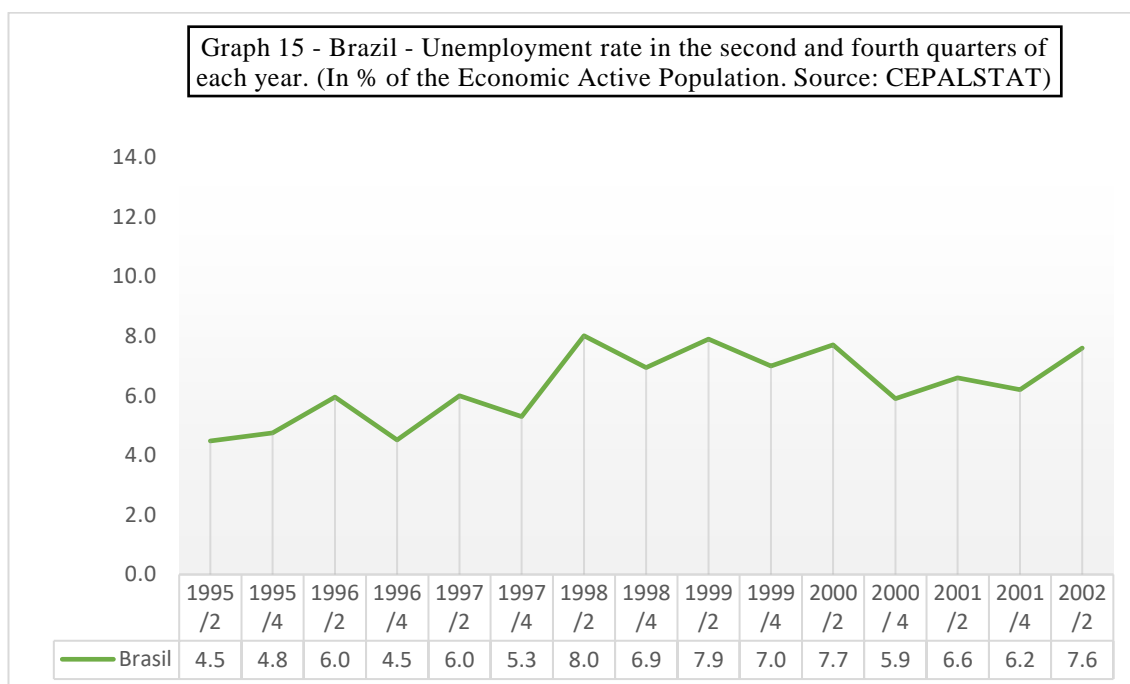


TABLE 2 – SELECTED MACROECONOMIC FIGURES – BRAZIL/1998.

Souce:CEPALSTAT – BC/Brazil

Current account deficit	Interest Rates	Inflation	GDP growth	Agriculture and cattle raising	Industrial activity	Car Production	Unemployment
US\$ 33.4 billion	49,75% (Selic official rate 10/1998)	1.65 %	0.35%	3.4%	-4.8%	353.0 (thousand units)	8.0% (second quarter of the year – underestimated by old Brazilian methodology)

In the course of 1998, it became clear that the current account deficit could lead to the collapse of the entire macroeconomic strategy, dependent on the exchange rate control. Incapable of attracting international capital to the extent necessary, the

government started contemplating a shift in the exchange rate policy. ‘We really feared devaluation’ – confessed many years later Gustavo Franco, then the President of the Central Bank (2004). In order to avoid it, or at least postpone it until after the elections scheduled for October 1998, the government tried to fix the growing hole in the balance of payments, imposing a further socialisation of losses. Fiscal austerity was reinforced and the biggest loan to date with the IMF was requested, worth US\$ 42 billion (Averbug and Giambiagi 2000, 14).

It was not enough. In January 1999, Gustavo Franco was replaced by Francisco Lopes, who tried to promote a gradual devaluation of the exchange rate. The dollar was allowed to float within pre-established limits, which were supposed to be regularly adjusted. The new president of the Central Bank called this complicated strategy the ‘diagonal endogenous exchange rate band’ (Lopes 2003). Again, it was not enough. With the general expectation that the government would end up liberalising the exchange rate market, capital owners forced the limits of the band in a speculative attack against the Brazilian currency. Losing international reserves, the government finally abandoned the gradualist strategy after only two days. The exchange rate was allowed to devalue drastically over the following few weeks – against the advice of the International Monetary Fund, which preferred the establishment of a currency board, the strategy adopted in Argentina. ‘I was astonished by the degree of control demanded by the IMF over our policy making decisions’, the President of the Central Bank would confess (Lopes 2003, 56).

Demoralised, Lopes was replaced by Arminio Fraga after the liberalisation of the exchange rate. With the ‘exchange rate anchor’ lost, Fraga commanded the remodelling of the entire macroeconomic strategy, establishing the tripod that was kept even after the end of Cardoso’s administration. The tripod comprised continued fiscal austerity, floating exchange rates and inflation targeting. In practical terms, it meant that the Central Bank officially aimed at a pre-determined inflation rate (8% in 1999; 6% in 2000, 4% in 2001 and 3.5% in 2002), hoping to settle expectations. In order to deliver the promised inflation rate, the Central Bank’s main tool was the manipulation of interest rates on government bonds. By raising the interest rates, the monetary supply and the level of activity would

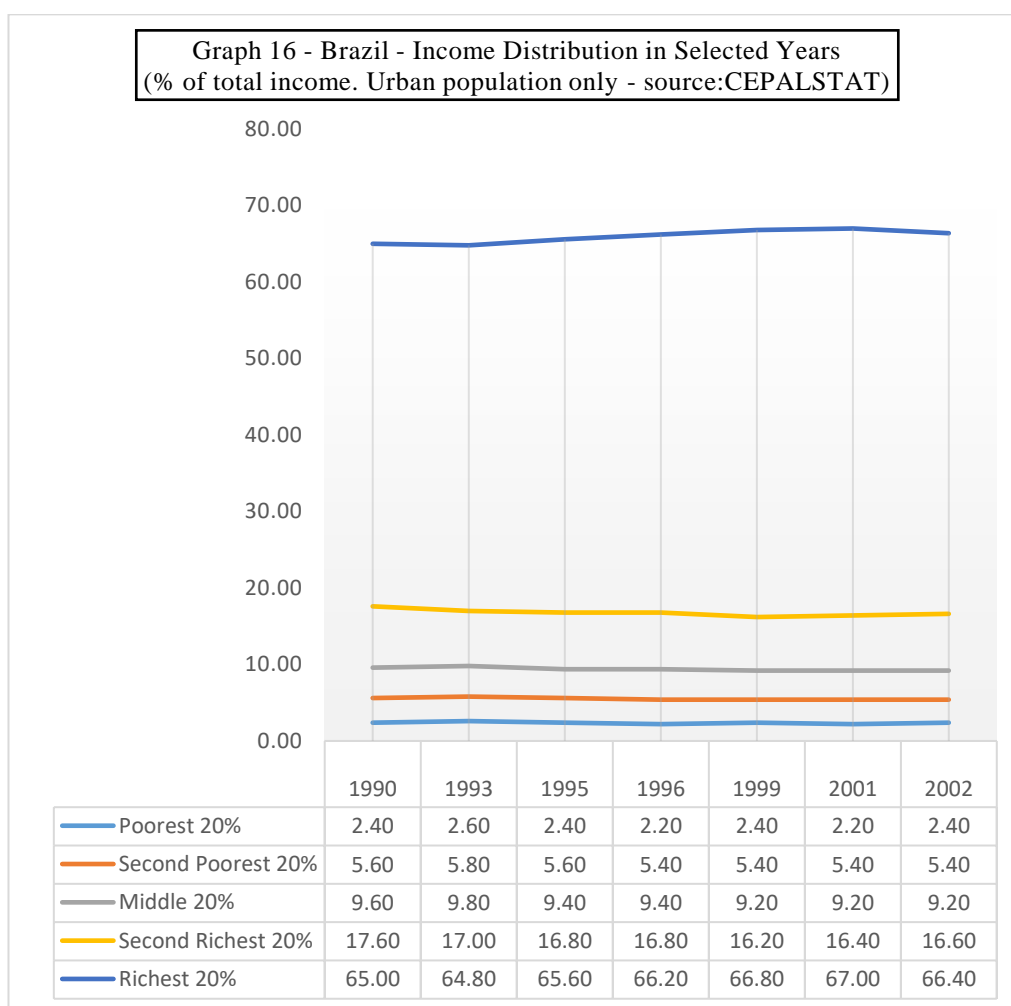
diminish, therefore driving down inflation; by lowering interest rates, the inverse was expected.⁵²

Finally, the strategy was completed by strict fiscal austerity – as established in the original agreement with the IMF and further tightened in the agreement's revision. The primary surplus target (not including the payment of interest rates) was established at 3.10% in 1999, 3.25% in 2000 and 3.35% in 2001 (Giambiagi et al. 2005, 178). These targets were achieved thanks to the continuous increase in taxes (Bresser-Pereira 2003, 25). At the same time, total public debt was not reduced, despite the primary surpluses, because of the high interest rates throughout the period.

The consequences of the shift in the macroeconomic model after the 1999 crisis were not only economic, but also social. They would be most acutely felt by the productive fraction of the ruling class, as well as by the middle and working classes. The average annual GDP growth rate for the first four years (1995-1998), which had already been low by historical standards (2.6%), would further diminish to 2.1% between 1999 and 2002 (Giambiagi et al. 2005, 181). Given the increase in population, per capita GDP remained almost stagnant throughout the entire period (see graph 1). Furthermore, most of the limited economic growth was led by the agricultural and services sector (graph 14). The growth rates in the industrial sector surpassed overall GDP growth in only one of the eight years of Cardoso's administration, actually declining in absolute terms in two years (- 4.8 % in 1998 and -1.9% in 1999). In 2002, with the adoption of a new methodology by the Brazilian Statistics Institute (IBGE), unemployment was estimated at 12% (7.6% according to the old methodology), indicating that the real levels in the previous years were effectively much higher.

In this context of economic quasi-stagnation, de-industrialisation and growing unemployment, salaries were reduced and social inequality remained alarming. In real terms, average monthly income went from R\$ 923 in 1995 to R\$ 770 in 2003 (Saboia 2007, 483). Despite the limited gains, the minimum wage remained extremely low, and in reality did not benefit all workers, as 19.3% of them earned less than the minimum wage in 2002 (Afonso et al. 2011, 565–66). As a result, the share of the poorest 20% of the population in the total income remained unchanged between 1990 and 2002 (at only 2.4%). During the same period, the share of the top 20% increased from 65.0% to 66.40%.

⁵² For different views on the economic tripod and the inflation targeting strategy in Brazil, see Arestis, Ferrari Filho, and Paula (2011); Barbosa Filho (2008); Blejer et al. (2002); Fraga, Goldfajn, and Minella (2003).



The negative effects of the market-friendly reforms of Cardoso's administration in the real economy are paradigmatically illustrated in the privatisation of the electric sector. After privatising only half of the sector – the distribution – investments in generation of electricity stalled, anticipating further privatisations. The brief acceleration of economic growth in 2000 (after two years of stagnation), meant that the demand for energy suddenly increased. The lack of investments and the disorganisation of the sector, coupled with a drastic water shortage, forced the government to announce a rationing policy. Tariffs increased and fines for residences consuming above a pre-determined limit were imposed. 'The government failed to implement an adequate regulation environment as well as a reliable free market of energy (...), but succeeded in paralysing the coordinating role of Eletrobras [the state electricity company], rendering the system acephalous' (Goldenberg and Prado 2003, 229). As a result, the electricity rationing of 2001 negatively impacted GDP growth, increased the unpopularity of Cardoso's

administration. At least in this key sector, market-led solutions to inefficiency and lack of investments clearly ended up aggravating the problem.

The above mentioned figures show how far President Cardoso went from fulfilling his promises of development. Instead of ‘thriving’, GDP growth rates were at best disappointing (see graphs 1 and 11). The bold aim of reducing social inequalities ‘until they disappear’ (Cardoso 1995b, 30) was evidently not achieved. Other human development promises – for instance, to sweep ‘hunger and misery away from the Brazilian map’ (1995b, 32) – also failed to materialise. Despite some limited progress in poverty alleviation, due to the implementation of pioneering social programs, extreme poverty still afflicted 10% of the population in 2002, while 34.3% lived in poverty.

Why did the neoliberal reforms fail to deliver the developmental outcomes promised in the political discourse? What did they produce instead? Which social groups actually benefited from them?

There is little controversy about President Collor’s ill-fated administration. His failures are normally attributed to his political fragility and administrative incapacity, best represented by the almost universal condemnation of his monetary stabilisation plan (Pastore 1991; Schneider 1992; Bresser-Pereira 1991; Mérette 2000; Fiori 1990a; Fiori 1990b, to quote just a few). In short, the accepted narrative is that Collor failed to modernise Brazil because his government was too weak politically and his economic plans were ill-conceived. As a media phenomenon, he managed to win a deeply polarised election against Lula da Silva on a thin anti-communist message (see section 4.1) – a discourse particularly alluring in the context of the fall of the Berlin Wall. Few neoliberal writers are willing to admit that Collor’s administration was instrumental to the pro-market reforms effectively implemented during Cardoso’s administration. Nevertheless, Cardoso himself does exactly that in a revealing interview:

[I]n our case we truly reshaped the structure of the state. Collor had dismantled it without creating anything. He didn’t offer any alternatives, did he? It is true that he dismantled things to such a degree that it facilitated the process of reassembly’ (Cardoso cited in Sorj and Fausto 2013, 37).

When it comes to explaining the shortcomings of Cardoso’s administration, the picture becomes much more complex. At this point, neoliberals and neodevelopmentalists offer competing narratives. Whenever neoliberal writers are honest enough to recognise that the results of the pro-market reforms were less than ideal (Franco 1999; Dornbusch

and Cline 1997; de Onis 2000; Fraga 2004), they blame the limited character of the pro-market reforms actually undertaken. Fiscal austerity was not as strict as it should have been (particularly in the period 1994-1998), privatisations should have been extended (after 1998) and other liberalising reforms should have been promoted (labour regulation reform, tax reform, pension reform, etc.). In any case, the problem was not with the neoliberal development strategy in itself, of course, but with the fact that Cardoso's administration did not follow it to the necessary extent. Limited by their uncritical reliance on the market utopia, their analysis can only point to the necessity of further liberalisation, in the hope of unleashing the ever elusive market forces, which are supposed to bring about development.

Franco (1999) and Fraga (2004) actually move one step further, towards a political economy analysis. To explain why Cardoso's administration did not persist in liberalisation, they are forced to introduce an exogenous element: the political opposition to the reforms. Nevertheless, their simplistic social perspective (based on the same methodological individualist assumptions implicit in the market utopia) is blind to competing class interests. The result is that internal political disputes are presented as illegitimate corporatist pressures of 'powerful interests', against the diffuse common good of the 'silent and unorganised majorities' (Franco 1999, 3). The corollary of their theoretical incapacity to account for class struggle is their policy prescription: stubbornly persist with the neoliberal reforms in the hope that the corporatist interests will finally be broken.

On the other side of the political and ideological gulf, neodevelopmentalist writers offer an alternative narrative. Their point of departure is precisely the recognition of the distance between the neoliberal promises and the results actually achieved: 'an actual neoliberal fantasy took over the country, creating an enormous moat between what was announced and what has been revealed after its implementation' (Pochmann 2001, 7).

Stressing the irreplaceable role of the state in controlling capital and directing investments in order to promote development, these analysts see the poor results achieved in the neoliberal decade as a consequence of the retreat of the state, in particular in the productive sector. According to Pochmann, in the aftermath of privatisations, the participation of state companies was reduced from 100% to 32.6% in the public service sector (water, energy, communications); 61.3% to 35.5% in the banking sector; 68.8% to 9.3% in the mining sector and 64.6% to 0.6% in the steel sector. 'So far, the private sector,

in face of the retreat of the state in the productive sector, is still unable to promote the urgently necessary socioeconomic development' (Pochmann 2001, 34).

Coupled with the state's loss of capacity to determine productive investments, the reduction of trade tariffs broke national production chains, leading to a substitution *for* imports (the reverse of ISI traditional model) and to the relative specialisation in sectors with less aggregate value (Coutinho, Hiratuka, and Sabbatini 2003). Finally, the overvaluation of the exchange rate and the financial liberalisation opened avenues for speculative capital and created permanent imbalances in the balance of payments (Mantega 2001). In short, for neodevelopmentalists, the neoliberal development strategy did not deliver on its promises because it rolled back the state.

The neodevelopmentalist perspective is often complemented by a geopolitical view, which seeks to explain the dynamics of economic cycles and external crises. According to this nationalist perspective, the disappointing development results of the 1990s can also be seen as a consequence of the hegemonic position of the US and of the imposition of neoliberal policies by the IMF (Tavares and Fiori 1997; Fiori 2004; Guimarães 2007). The dependence on volatile external capital and the fragility in face of international crisis are portrayed, therefore, not as simple accidents, but as intended outcomes of an imperial strategy of domination by US capital in Latin America. Just like its neoliberal counterpart, the neodevelopmentalist narrative culminates with policy prescriptions. These may vary, but in general comprise halting the privatisation process, keeping the exchange rate undervalued, resisting further trade liberalisation, expanding the regulatory power of the state, controlling capital flows, increasing social spending and refusing guidance from international financial institutions.

The critique offered by neodevelopmentalists is surely much richer than the very limited neoliberal self-criticism. Nevertheless, because it is based on the faith that a national interest driven state should be the necessary actor in bringing about development, it has important limitations. Firstly, it cannot make sense of some important features of the neoliberal reforms. The economic explanations that focus on the retreat of the state do not explain why the privatisation process halted in 1999, before reaching all state-owned companies, both in the productive and the financial sectors. Secondly, they also cannot explain how a supposedly shrinking state dramatically increased the tax burden. Furthermore, explanations that stress the negative consequences of the exchange rate anchor have difficulties in accounting for the continuation of external imbalances after the adoption of the flotation regime in Cardoso's second administration. Finally, and most

importantly, if the neoliberal development strategy was not compatible with national development, why did some sectors of the society support it in the first place?

The geopolitical explanation offered by Tavares and Fiori (1997) tells half of the story by putting the neoliberal reforms into the international context, marked by the expansion of US hegemony in the final years of the Cold War. Nevertheless, external pressures cannot be seen as the only drivers of the reforms, because on a number of occasions there were important tensions between the Brazilian government and international financial institutions. Despite the best efforts of the neoliberal foreign policy in embracing globalisation and engaging in a non-conflictive relation with the US, at key moments some autonomy was maintained, as in the refusal to send troops to the gulf war, or the refusal to establish a currency board in the aftermath of the 1998 crisis. Indeed, although the reforms were certainly supported by international financial institutions and the US government, the role of Brazilian social actors must also be taken into account.

The second half of the story, insufficiently explored in the neodevelopmentalist literature, is to be found in the class dynamics of Brazilian society under the whip of external necessity. Referring back to the theoretical perspective adopted in this thesis (chapter 2), development is defined as the material changes in productive structures caused by the interrelation of class struggle and international relations. To understand the uneven and combined development produced in Brazil in the aftermath of the neoliberal decade, and explain why it came so far short of matching the idealised view of development announced in the official discourse, it is necessary to take a closer look at the class alliance behind the neoliberal development strategy.

The extensive work of Gramscian sociologist Boito Jr. is the most complete and insightful attempt to explain Brazilian neoliberalism in terms of class struggle (Boito Jr and Randall 1998; Boito Jr 2006; Boito Jr and Resende 2007; Boito Jr 2007; Boito Jr and Saad-Filho 2016). Building on Poulantzas' concept of class fraction, Boito Jr claims that, in Brazil, neoliberalism was the hegemonic project of the financial fraction of the ruling class, in association with international capital. One of the most important features of this period is the acceleration of profits and concentration of capital in the banking sector. The profits of the ten largest banks in Brazil increased by 1039% in less than ten years, between 1994 and 2003 (Boito Jr 2006, 275). This formidable increase was a consequence of the high interest rates paid by the state on its bonds, which are held by the private banks, constituting up to 40% of their total investment portfolios (Boito Jr 2006, 273).

The increase in the profits of the financial sector was directly linked to the increase in public debt, driven by astronomic interest rates (see section 4.2).

The hegemonic position attained by the financial sector of the ruling class in the 1990s was something new in Brazilian capitalism. During the previous fifty years, the developmentalist state induced the accumulation of capital in the industrial sector, via tariff protection, subsidies, technological assistance and control over labour demands. The displacement of the industrial fraction from the top of the social pyramid should not be seen as a smooth process. Industrial entities such as the Federation of Industries from Sao Paulo (FIESP) and the National Confederation of Industry (CNI) issued a number of press releases criticising the burden of the interest rates and the overvaluation of the exchange rates, going as far as to support the general strike against unemployment summoned by major trade union federations in 1996 (Boito Jr 2006, 275).

Nevertheless, the interests of the financial and the industrial fractions of the ruling class could be partially reconciled, thanks to other important elements of the neoliberal development strategy. These included the privatisation process, allowing for the concentration and consolidation of some production chains, with private companies incorporating their former suppliers or competitors and intensifying the exploitation of labour. One example among many is the steelmaker Gerdau, which acquired a number of its previously state-owned competitors in the first wave of privatisations. Immediately after taking over the USIBA steel plant, Gerdau fired more than half of its 1400 employees, managing at the same time to increase productivity by 161% in four years (Pinho and Silveira 1998, 88).

Apart from providing new lucrative opportunities for productive capital, privatisations effectively married the industrial and the financial fractions of the ruling class, by forging new associations. To quote another example from the steel-making sector, the Companhia Siderurgica Nacional (CSN) – the first large steel mill in Brazil, a symbol of the developmentalist era – was acquired by the textile giant Vicunha, in association with Bamerindus Bank and the mining giant Companhia Vale do Rio Doce (itself privatised years later) (Pinho and Silveira 1998, 85). Beyond the declared objectives of reducing debt and enhancing productivity, the privatisation process also accomplished the hidden purpose of creating profitable alternatives for the productive fraction of capital, negatively affected by trade liberalisation, the overvalued exchange rate and high interest rates. These opportunities were multiplied with privatisations in the highly valuable service sector, making possible associations with international capital.

Also crucial to the cementing of the class alliance behind the neoliberal reforms was keeping salaries low throughout the entire period. This was achieved by the stagnation of salaries in the public sector, increasing competition between workers in the private sector (due to high unemployment) and insufficient rises in the minimum wage. As explained by Boito Jr and Resende, ‘the reduction of wages and the reduction or suppression of social rights’ end up benefiting ‘[a]ll capitalist enterprises, be they large or small, commercial, industrial, or agricultural, national or foreign’ (2007, 116). Despite the uneven gains shared by different fractions of capital, the unified interest in keeping the working class from appropriating a larger part of the social surplus explains why the Brazilian ruling class was able to temporarily put its differences aside and support Cardoso’s administration.

An alliance between the big productive and the financial fractions of the ruling class, with the participation of international capital, would not be enough to guarantee the political basis necessary to pass the reforms in a liberal democratic environment, however. Two other social groups, to a large extent neglected in Boito Jr’s research, proved crucial to give Cardoso’s administration the support it needed, and shall be ultimately credited for its final political disintegration. The first one is the traditional political oligarchy organised in parties like PMDB, PFL and PPB. Undoubtedly a fraction of the ruling class, the material interests represented by this social stratum is diversified and difficult to trace – ranging from agriculture and religious lobbies to the defence of a myriad of regional and local privileges. Devoid of any strong ideological beliefs, apart from an inclination towards moral conservatism, this established political class largely supported the military dictatorship, but also formed part of every government since the return to democracy.

In order to secure the votes from PMDB, PFL and PPB in Congress, Cardoso’s administration was prepared to open spaces in the public administration, naming some of its leaders to key positions, including ministries. Despite having said in the past that ‘the PFL is the very incarnation of backwardness. It symbolizes everything that is wrong with this country’ (cited in Power 2001, 622), Cardoso made Senator Marco Maciel – a PFL leader who supported the military dictatorship – his vice-president. If the extent of legal and illegal favours granted to the traditional political oligarchy is yet to be fully researched, the support obtained from the aforementioned mentioned parties was substantial. Between 1995 and 1998, when the most important reforms were approved, PMDB followed the government directions in 63.1% of the voting; PPB in 67.0%; and

PFL in 77.5%, surpassing the fidelity levels of president Cardoso's own party (PSDB, which supported the government in 77.3% of the cases) (Nicolau 2000).

The final social group that supported the neoliberal reforms can be broadly described as the 'middle class'. Structurally a fraction of the working class, inasmuch as its earnings come from labour, instead of from capital, the Brazilian middle class is actually formed by independent professionals, public service employees and the higher ranking workers in the services sector, mainly concentrated in cities like Sao Paulo, Rio de Janeiro, Brasilia and Belo Horizonte. Because of its *sui generis* class position, based on the monopoly of symbolic and cultural capital, the Brazilian middle class is defined by Jessé Souza (2002) as a 'class of privilege'. In a highly unequal country, this middle class is part of the richest 2/5 of the population, which appropriated 83% of the total income in the year 2002 (see graph 16).

This urban middle class was largely favoured by the stabilisation of inflation, trade liberalisation and the overvaluation of the exchange rate. Imported goods, whose purchase was perceived as a sign of social status after years of national industry protection, became suddenly accessible, connecting this privileged social group with international consumption standards. Miami and Buenos Aires became very popular holiday destinations. During the first booming years of the Real Plan, registered expenses from international travel jumped from US\$ 2.2 billion in 1994 to 5.7 billion in 1998. Furthermore, the very person of the president – a successful and cultivated white gentleman, fluent in English and French – projected exactly the image the middle class had of itself.

Taking into account the complex sociological background against which the reforms unfolded – largely ignored by the neoliberal and neodevelopmentalist literatures – it is possible to trace the interplay between class struggle and international relations, revealing the uneven and combined developmental outcomes of the neoliberal development strategy. In his first period in office, the macroeconomic model adopted by the Cardoso administration was largely imbalanced. It was characterised by fiscal deficits, high interest rates and overvalued exchange rates – compensated for by the attraction of international capital, and privatisations. Instead of being ill conceived, this model precariously combined the interests of the middle classes (cheap imported goods, travel), the financial fraction of capital (high interest rates, privatisations), and the political oligarchy (government jobs, local spending).

The heterogeneous neoliberal coalition rested upon too many contradictory demands. The exchange rate opposed the middle classes to the industrial fraction of the ruling class. The privatisations opposed the political oligarchy and part of the middle class (defending jobs in the public sector) to the financial and industrial fractions of the ruling class. The rising public debt opposed the political oligarchy and the middle class (resistant to budget cuts) to the financial sector and international capital (eager to guarantee that the government would have means to pay the high interests rates). Necessarily unstable, the entire edifice would crumble due to an external shock – the international capital shortage in the aftermath of the Russian crisis of 1998. Nevertheless, it was the contradictions within the coalition that made it dependent on constant influx of international capital in the first place.

The crisis of January 1999, leading to the devaluation of the Brazilian currency, prompted the middle class to withdraw its support for the government and triggered a period of very low popularity for Cardoso. The opposition forces, representing fractions of the working class originally excluded from the neoliberal project, started to campaign under the leadership of the PT for the deposition or renunciation of the just re-elected President Cardoso.

The rapid deterioration of political support undermined the chances of the government to continue the privatisation of highly popular companies like Petrobras and the public banks. At the same time, the devaluation of the Real, against the will of the IMF, hit the financial sector, especially international capital, which expected revenue in dollars. Quickly reaffirming its commitment to this sector, the hegemonic core of the neoliberal coalition, the government named a man from the international stock-markets as head of the Central Bank, renegotiated the terms of the agreement with the IMF and committed to strict fiscal discipline, as well as increasing interest rates. This course correction in macroeconomic policy, as well as the slowdown of the privatisations after 1999, are therefore best understood as consequences of the rearrangement of the neoliberal social coalition in the aftermath of the Russian 1998 crisis. When the whip of external necessity forced the change of course of the macroeconomic policies, the Cardoso administration had to prioritise, and the weakest part of the neoliberal coalition, the middle classes, were forced to partake in the socialisation of losses that the working class had been experiencing since the start of the neoliberal reforms.

If the devaluation of the exchange rates alienated the middle class and the fiscal austerity undermined the support of the traditional political oligarchy, the productive

fraction of capital nominally benefited from it, recovering conditions for external competitiveness. In fact, 2000 was the only year in Cardoso's presidency that industry led the GDP growth, jumping 5.7% after a decrease of 1.9% in the previous year. After the 1999 devaluation, the agriculture sector also received a major boost (see graph 14). High interest rates, however, kept the productive fractions of capital under permanent pressure, discouraging investments in less profitable areas and leading to further specialisation in primary sectors. Moreover, the continued fiscal austerity prevented the growth of internal demand, and unemployment levels remained high. In short, the reorganization of the neoliberal coalition after the 1999 collapse included only some of its original components. If, in strict economic terms, the model adopted after 1999 was less fragile for avoiding growing debt and international imbalances, in political terms it was not sustainable, for it excluded important fractions of the ruling class, as well as the middle class and virtually all of the working class.

In a nutshell, international and internal factors interacted and reinforced each other to produce changes in the productive structures observed in Brazil during the neoliberal decade. The stagnation in per capita GDP levels and the evident failure to realise idealised views of development as catch-up shall not lead us to the conclusion that the neoliberal policies failed to produce any kind of development. The concept of uneven and combined development accurately captures the outcomes of these policies. In the specific case analysed, development can be described as uneven, in the double sense that it did not point towards international convergence and that it unequally affected different classes and class fractions, further intensifying class struggle. Development was also combined in a double sense. Far from being exclusively determined by internal factors, it was directly affected by the international dynamics of capital accumulation, and further affected class struggle in other parts of the world, notably in Argentina. Indeed, the Brazilian crisis of 1999 would have for Argentina a similar effect that the Russian crisis of 1998 had for Brazil, only intensified by the commercial relations between two countries in the Mercosur. Finally, development was combined in the sense that it resulted in mixed productive structures, instead of assuming the idealised 'modern' form announced in the neoliberal discourse.

My claim is that, in Brazil, the neoliberal development strategy failed not due to the incompleteness of the reforms – as neoliberals insist – nor simply due to the rollback of the state – as suggested by neodevelopmentalists. Instead, much more important than looking for errors in the neoliberal development strategy in the vain hope of fixing it, is

understanding what kind of development was actually produced, and who benefited from it. Brazil did not catch up with the developed world, but its productive and social structures changed. The changes in the productive structures – to the benefit of fractions of the ruling class, especially financial capital – were the result of the interaction between class struggle and international constraints and opportunities.

Conclusion to Part 2 – Crisis and class struggle

In the previous chapters, I argued that international crises played a key role in undermining the class alliances sustaining the neoliberal reforms in Brazil and in Argentina. In both countries, the neoliberal development strategy was premised on the misrepresentation of the international market as a sphere of opportunities for development, ignoring its disruptive effects. In face of contracting flows of international capital, the neoliberal administrations had to extend the socialisation of losses to the middle classes, hurting their own bases and undermining the political support for the neoliberal development strategy. In short, the coalescing of international pressures and class struggle represented a structural constraint to development, at least in the idealised catch-up form promised in the political discourse. What resulted instead was an uneven and combined form of development, involving winners – national and international capital, particularly in the financial sector – as well as losers – users of public services, jobless workers, and later, the middle classes.

Exactly because these constraints were not only determined by external factors, but also by the local conditions of class struggle, they played out differently in the two cases analysed. One fundamental difference is the historical working class basis of Menem's Justicialist Party in Argentina, compared to the middle-class basis of the Cardoso's Social Democrat Party in Brazil. Facing less organised opposition, the privatisation process in Argentina could get much further. In Brazil, the political and social opposition to Cardoso's government would find institutional expression in the Workers Party. In Argentina, the opposition to Menem's government had no equivalent institutional expression, opening up in a myriad of decentralised social movements as the socialisation of losses expanded. Consequently, neoliberalism would be defeated in Brazil through a regular electoral process, culminating with the triumph of the Workers Party and its leader, Lula da Silva (chapter 5), while in Argentina it would be defeated in a popular uprising with no clear leadership, resulting in a period of institutional instability (chapter 6). In both cases, however, the downfall of neoliberalism would involve the redefinition of the respective development strategies and the turn towards neodevelopmentalism.

These comparative notes shall not be taken as a standard positivist comparison between the cases, as they cannot be properly isolated. Therefore, I make no generalizable

claims – except that, when hit by similar whips of external necessity (in the form of international financial crises), different societies will tend to suffer different effects and react differently, based on their class configuration. In other words, what precise combination of socialisation of losses and privatisation of gains will result from an international constraint cannot be theoretically predicted.

Nevertheless, the contrast between the cases of Brazil and Argentina can be used to illustrate one interesting aspect of inter-societal relations conceptualised earlier in this thesis (chapter 2). International financial crises, which appear in the contemporary world as concrete instantiations of the whip of external necessity to societies affected by them, are, at the same time, products of class struggle in the societies where they originate. Put differently, inasmuch as no society is isolated, class struggle in one place generates consequences that affect other places as externalities.

The Brazilian crisis of 1999 – caused, in turn, by the shortage of international capital after the Russian crisis of 1998, as well as by the irreconcilable demands of the different class fractions supporting Cardoso's government – hit Argentina as an external shock. The reduction of imports, the devaluation of the Brazilian currency and the further increase in the perception of risk by international capital owners complicated the already fragile economic situation in Argentina. Coupled with the dissolution of the neoliberal class alliance, these factors culminated in the 2001 Argentinian crisis. Conversely, this later crisis reappeared in Brazil as yet another external shock, hindering economic recovery and sealing the fate of Cardoso's government.

The juxtaposition of the two case studies reveals that the interplay between class conflicts and international pressures is magnified by societal multiplicity. It echoes through the international system, resulting in uneven and combined forms of development. Brazilian and Argentinian development in the 1990s can be described as uneven and combined in multiple ways, following the definitions of unevenness, combination and development proposed in chapter 2.

Firstly, unevenness in the particular cases analysed means that there was no sign of convergence between consumption and production standards in the countries analysed and the global north, as expected by neoliberal theorists. But development was also uneven in the sense that it produced differentiated social results, involving socialisation of losses and privatisation of gains. Also, development was combined because it happened under international pressure – represented in my narrative by the recurring international crises – and further reverberated internationally, affecting other societies.

Finally, the combined nature of development appears in many instances of amalgamated discourses, capitals and social practices.

Part 3 – Neodevelopmentalism and state utopia

Introduction

Although the concept of neodevelopmentalism was firstly proposed by Ruy Mauro Marini (1978) forty years ago as a critique to Cardoso's reformist dependency theory, politically it is a new phenomenon. As a development strategy, it emerged in the aftermath of the neoliberal debacle, having its epicentre in Brazil and in Argentina, and later spreading to other Latin American countries. Both in Brazil and Argentina, the disappointing results achieved by neoliberal administrations provided the grounds for the emergence of left-leaning governments that, at the discursive level, radically opposed neoliberalism. In place of the market utopia, the neodevelopmentalist discourse is based on a state utopia. It portrays the state as a virtuous entity, capable of bridging class conflicts, neutralising external influences and, finally, delivering catch-up development.

The advent of neodevelopmentalism puzzled and divided the contemporary political economy literature in Latin America. Over the last two decades, a growing number of scholars have written in support of the model, stressing its economic and social achievements (Lavargna 2003; Bresser-Pereira and Theuer 2012; Mercadante 2010; Pochman 2010; Kicillof 2016). At the other end of the spectrum, neoliberal writers, demoralised after the 2001 Argentine crisis and the almost universal shaming of the Washington Consensus, quickly regrouped and started denouncing what they perceive as the return of populism (Franco 2011; Giambiagi and Schwartzman 2014; Lanata 2014; Lucca 2015). The English language literature largely reproduced this divide, locating neodevelopmentalism within the rise of the left in Latin America, poorly conceptualised as a 'Pink Tide'.⁵³ Moderate neodevelopmentalist administrations were celebrated (Cohen 2013, 2016; Nederveen Pieterse and Cardoso 2014). Nevertheless, the 'populist temptation' (Castaneda 2006; Kaufman 2011) was always on the prowl, as exemplified by the experiences of Bolivia and, above all, Venezuela.⁵⁴

⁵³ The term 'Pink Tide' appeared for the first time in the New York Times, in reference to moderate left-wing governments in Latin America (Rohter 2005). The use of such a thin concept in tens of articles and books reveals the difficulty of the academic literature in conceptualising the phenomenon.

⁵⁴ For a critical review of the literature on the rise of the left in Latin America in general, see Webber (2017, chapter 3).

Marxist writers were also initially divided. While some saw the simple continuation of neoliberalism (Maldonado Filho 2003; Antunes 2004; Boito Jr 2006), others perceived the ascension of left-wing administrations as a momentous event (Sader 2008). The victory of President Lula da Silva in the 2002 elections, for instance, was proclaimed nothing less than ‘the greatest political triumph of the Brazilian working class since the abolition of slavery, in 1888’ (Saad-Filho 2003, 15). The passing of time only thickened the plot, as both the social achievements and the un-revolutionary character of neodevelopmentalism became crystal clear.

In the last few years, a more nuanced understanding of what neodevelopmentalism actually is and what are its inherent potentialities and limitations started to emerge, at the same time that the political cycles of neodevelopmentalist administrations approached their exhaustion in Brazil and in Argentina. Singer (2012, 2015); Boito Jr (2013); Katz (2014); Feliz (2014); Boito Jr and Berringer (2014); Boito Jr and Saad-Filho (2016) all arrived at class relational perceptions of neodevelopmentalism, successfully identifying the material sources of its policy differences in relation to neoliberalism. While the neoliberal development strategy relies on a class alliance between all fractions of the ruling class, the neodevelopmentalist strategy is based on a difficult and unstable class alliance between fractions of the working class and fractions of the ruling class. As a result, while the policies implemented in the context of neoliberal development strategies tend to favour capital over labour and increase or perpetuate wealth inequalities, neodevelopmentalist policies are mixed and contradictory, sometimes favouring labour, other times favouring capital.

My argument in the two chapters that follow builds on that class relational perspective of neodevelopmentalism, adding an important dimension so far not systematically explored: the international. From an uneven and combined development perspective, I claim that international pressures and opportunities are inextricably intertwined with the dynamics of the neodevelopmentalist class alliances in Brazil and in Argentina. In both countries, the alliances between fractions of the ruling class and fractions of the working class were premised on a utopian view of the state as capable of guaranteeing cooperation and continued socialisation of gains for both labour and capital. For a short period of time, in an exceptional context of expanding international economy, high commodity prices, and constant increases in tax revenues, both the Brazilian and the Argentinian states could indeed fulfil this role, albeit imperfectly. After the 2008 crises,

however, and particularly after the drop in commodity prices in 2014, this Sisyphean task became increasingly more difficult to undertake.

At that point, showing that international conditions are key, but developmental outcomes can only be explained in reference to concrete class relations, both countries took different paths. In Brazil, the more conciliatory administration of President Rousseff tried to keep the neodevelopmentalist class alliance together by sharing the burden and socializing the losses broadly. In Argentina, the more confrontationist administration of Cristina de Kirchner chose to alienate part of the neodevelopmentalist class alliance, privatising the losses to particular fractions of the ruling class. In both cases, after a period of intense political disputes (2014-2015), the strategies failed. The Brazilian and Argentinian ruling classes soon regrouped in broad fronts of the bourgeoisie, sabotaged the ongoing public policies and defeated the neodevelopmentalist strategy – in Brazil through a parliamentary *coup d'état*, in Argentina through elections.

The recent neodevelopmentalist experience in Brazil and in Argentina reveals the limits of the idealised notion of the state that lies at the core of neodevelopmentalism. Instead of a neutral actor whose sole concern is to promote the national interest, the state is better understood as a historically constituted institution, an object of disputes between classes and class fractions, under constantly changing international pressures and opportunities. As such, the state could not consistently do the two things neodevelopmentalists expected it to do, namely bridge internal class conflicts and neutralise external threats. The fact that neodevelopmentalism did not live up to the catch-up promises contained in its political discourse is, therefore, not a mere accident.

Chapters 5 and 6 substantiate these claims through an in-depth analysis of neodevelopmentalism in Brazil and in Argentina. The analysis is carried out in four steps. Firstly, I explore the neodevelopmentalist political discourse and show how it is based on two complementary elements: an idealised view of the state and constantly reaffirmed promises of development. After that, I concentrate the analysis on two crucial sets of policies: macroeconomic management and foreign policies. The focus on the ministries of finance and foreign affairs is justified by the fact that they were supposed to perform exactly the two crucial tasks neodevelopmentalists expect from the state at large – i.e. class conciliation through socialisation of gains, and the neutralisation of international barriers to development. Each chapter finishes with an analysis of the actual results of the neodevelopmentalist cycle from an uneven and combined development perspective.

Chapter 5 – Neodevelopmentalism in Brazil – the future that never arrives.

Development does not happen by spontaneous generation, and Brazil needs the state action to promote increasing wellbeing for the society.

Guido Mantega, Finance Minister between 2003-2012 (2005, 11)

On the 11th April 2016, a country torn apart saw in the TV the live casting of a crucial vote in the lower chamber of the national Congress. The matter being decided was the admissibility of an impeachment process against the sitting president, Dilma Rousseff. People for and against the impeachment gathered in streets and squares across Brazil, cursing or vibrating with every vote, as if at a football championship final. A wall was installed in the huge Ministerial Boulevard in front of Brazilian Congress, in Brasilia, dividing it, allegedly to avoid fights. Inside the Congress itself, the division could not be clearer. Each one of the 511 Members of the Congress present at the voting (two failed to attend) had their one minute of fame, declaiming his or her vote to the entire nation in front of the cameras. Some celebrated democracy, some denounced what they perceived as a *coup d'état*. One member of the Congress launched a confetti cannon. One resurrected the memory of a famous military official who tortured Dilma Rousseff when she was an anti-dictatorship rebel in her twenties. Many dedicated their votes to their families. Casting a vote, the President of the lower chamber, Eduardo Cunha, a fierce enemy of the Worker's Party and the man who decided to take the matter to vote in the first place, paraphrased the bible: 'May God have mercy on this nation – my vote is yes' (Cunha 2016).

During the following months, the removal of the wall in the Ministerial Boulevard could not close the wounds of a deeply divided society. The 367 votes in favour of the admissibility of the impeachment process sealed Rousseff's fate. Although the final decision was to be taken by the Senate, it was clear from the start that the upper house of Brazilian Congress would not save her presidential mandate. The neodevelopmentalist cycle came to a dramatic end, culminating in the deepest economic crisis in recorded history, coupled with the worst political crisis since the return of democracy, turning the Brazilian catch-up development dreams into a nightmare. Since 2015, per capita GDP has fallen by almost 15%, regressing to the levels of 2004. Brazilian multinational

corporations were dragged into the crisis by corruption allegations, losing billions of dollars in international contracts and cutting thousands of jobs. From a celebrated rising global power endowed with stable democratic institutions, Brazil fell back to its reality as a peripheral Latin American country, prone to international crises, struggling with poverty, unemployment and fragile democratic institutions.

The contemporary crisis of Brazilian neodevelopmentalism is multifaceted and can be framed from different perspectives. One of the most useful and influential narratives is suggested by Professor Andre Singer, recently praised by Perry Anderson as ‘the most impressive social thinker of his generation in Latin America’ (2016, 22). In his landmark book *Os Sentidos do Lulismo* (Lulism and its Meanings 2012), Singer identifies an important reshuffling of class alliances taking place between the 2002 and the 2006 elections. Relying on quantitative surveys on voting intentions and on the actual results of the elections, Singer convincingly shows that the poorest layers of the population – conceptualised by him as sub-proletariat – became a key part of the social base supporting President Lula’s second administration. This happened because the development strategy adopted under Lula was capable of promoting real gains for the sub-proletariat while maintaining the social order, consisting in a ‘weak reformist’ program defined by the author as ‘Lulism’. Successfully mobilising the state capacities without confronting long-lasting privileges, Lula forged a heterogeneous national alliance for development, backed by fractions of the ruling class, organised labour and the sub-proletariat. Singer compares the gradual process of social change inaugurated in the second half of Lula’s first term with the Rooseveltian New Deal. With cautious optimism, the author envisaged a potentially long cycle of economic growth and social ascension, giving birth to a developed capitalist society (Singer 2012, chap. 3; Anderson 2011, 9).

This long cycle of prosperity and social ascension failed to materialise. After a short-lived period of intense growth between 2004 and 2010, relative stagnation followed for another three years. A period of social dispute marked by growing protests and rising inflation was inaugurated in 2013. Finally, the Lulist class alliance sustaining the neodevelopmentalist strategy broke apart soon after Rousseff’s re-election in the second half of 2014. The substitution of Guido Mantega with Joaquim Levy as Finance Minister and the restrictive policies adopted by the latter in 2015 drove the country into recession, making ‘the incremental Lulist process to retrocede to the starting point of Lula’s first term in office’ (Singer 2015, 69). If that is the case, what caused the ‘Lulist’ class alliance

to collapse, bringing a premature end to the neodevelopmentalist program of gradual reforms?

It is no exaggeration to say that this is the most relevant question challenging social scientists interested in making sense of Brazilian contemporary political economy. The question itself is certainly not original. It has been proposed in different forms by neoliberal, neodevelopmentalist and Marxist writers. The approach I suggest in this chapter builds on the Marxist literature – particularly the sociological analysis of Singer (2012, 2014, 2015); Boito Jr (2006; 2007; 2013); Boito Jr and Berringer (2014); Boito Jr and Saad-Filho (2015, 2016) and Claudio Katz (2014). I seek to expand these class relational perspectives by systematically introducing an international perspective, which allows me to describe the social and productive changes produced in Brazil as instances of uneven and combined development. Hence, the narrative that follows organically correlates class conflicts and international pressures and opportunities in order to uncover the intrinsic limitations of the neodevelopmentalist strategy.

My argument in this Chapter is that the neodevelopmentalist coalition was necessarily fragile, because the contradictory class interests represented in it could not be reconciled by the state in the long run. Disappointed with the results of neoliberal policies, and facing external competition from East Asian cheap industrial imports and from US' and European capitals, the productive fraction of the ruling class embraced the neodevelopmentalist catch-up project for a short period, in coalition with organised labour and, posteriorly, the sub-proletariat. Nevertheless, the state could only socialise gains for all social classes and class fractions in the neodevelopmentalist class alliance in a context of rapid GDP growth. When the international economic circumstances changed, in the aftermath of the 2008 financial crisis and the reduction of Chinese growth rates, the components of the Lulist coalition started to compete for the state's limited resources. The political confrontation was finally won by the ruling class, whose fractions were capable of quickly reorganising themselves as a broad front – led by financial capital –, while the working classes failed to do so, mainly because of the political demobilisation of the sub-proletariat and the alienation of the middle classes.

Since the neodevelopmentalist strategy rested from the very start on the international expansion of Brazilian capital and on a contradictory class alliance for development, and taking into account the non-confrontational, reformist character of Lulism, implying the demobilisation of the sub-proletariat, my conclusion is that the catch-up development promises in the neodevelopmentalist discourse could never be fully

delivered. In other words, the neodevelopmentalist project depended on two unrealistic assumptions: long term internationally favourable conditions for capital expansion and the state's capacity to suspend (or postpone) class struggle. Therefore, the neodevelopmentalist strategy suffers from intrinsic limitations and cannot be saved by re-knotting the broken ties between the productive fraction of the ruling class and the working class, as has been once again suggested by neodevelopmentalists in a recent Manifesto (Projeto Brasil Nacao 2017).

In the remaining of this chapter, I substantiate the above outlined argument in four steps. First, I analyse the neodevelopmentalist political discourse in order to show how it idealises the role of the state in promoting catch-up development, represented as an uncontested goal of a fundamentally non-conflicted society. The expectation of development and the faith in the state's capacity to socialise gains and neutralise external shocks were the glue holding the Lulist class alliance together. Having established the promises and the core beliefs of neodevelopmentalism, I take a closer look at a set of policies actually adopted during the neodevelopmentalist cycle, privileging two key areas: macroeconomic management and foreign policy. By doing so, I unpack the particular means through which the state was mobilised to do the two things expected from it, namely reconciling class interests and guaranteeing externally favourable conditions for development. Finally, in the last section I summarise my argument and contrast it with competing neoliberal and neodevelopmentalist explanations for the disappointing results actually achieved after almost 15 years of neodevelopmentalism. I conclude by arguing that the shortcomings of neodevelopmentalism were not caused simply by errors of policy implementation or unfortunate international circumstances. Instead, they can be better described as a necessary mismatch between a utopian view of the state's capacities and the bitter reality of class conflict and international competition.

5.1 Change and social development – the promises of neodevelopmentalism in Brazil

The Brazilian 2002 elections took place under the banner of change. None of the candidates – including Minister Jose Serra, officially endorsed by the incumbent administration – could avoid criticising Cardoso, particularly regarding his macroeconomic policies. The 'development strategy' announced by Cardoso in his first

election, in 1994, had come to a premature end, without delivering its promised results (see chapter 4). After a decade of sluggish growth rates and high unemployment, amidst yet another economic crisis and facing energy rationing, Cardoso reached the last year of his second term in office with very low popularity rates. According to a survey conducted by Datafolha in 2002, 36% considered Cardoso's administration bad or very bad, while only 26% would classify it as good or very good. Perhaps more revealing, for 33% of the interviewees politicians were the social group most privileged under Cardoso's presidency, closely followed by bankers (29%). Contrastingly, 49% believed that the working class was the social group that suffered the most (DATAFOLHA 2002). In this context, it is not difficult to understand why every presidential candidate wanted to present himself as a champion of change.

Apart from the fringe left-wing candidacies of Rui Costa Pimenta (PCO) and Jose Maria (PSTU), the most vocal critique of Cardoso's administration came from the PT, the largest opposition party in the Brazilian Congress. Lula da Silva, the former union leader defeated once by Collor de Mello (in 1989) and twice by Cardoso (in 1994 and 1998), found himself in an excellent position to embody the change people desired and finally win the elections (Carreirão 2004, 179). In order to do so, his campaign aimed not only to confront Cardoso's neoliberal model, but also to gain the support of more conservative voters, dissatisfied with the government but historically suspicious of the PT's socialist inclinations. As a result, Lula's presidential campaign precariously combined calls for social change with promises of development and exhortations for solidarity with the poorest. Looking deep into the camera in a television spot aimed specifically at voters inclined towards voting for him, Lula declared:

Now you see, my almost-Lula friends. I know you also want our country to change. I know you understand the necessity for Brazil to have a government that will be concerned with development, with the future, but also that will not forget the small ones, the weak, and the hungry ones, always so much forgotten. I need your vote of confidence (...). See, my friend almost-Lula, just like you want to be happy, not almost-happy, Brazil needs change, not almost-change. Because we have to face a crisis, not almost-a-crisis. And you need a job, not almost-a-job. Isn't that so? (...) May God enlighten you (Da Silva 2002a).

The best textual example of the contradictory balance Lula's campaign was trying to strike between the left-wing origins of the PT and the appeal to conservative voters and fractions of the ruling class was the 'Letter to the Brazilian people'. This symbolic document issued by Lula da Silva just before the official start of the 2002 presidential

race attracted immediate criticism from the left because of its explicit commitment to key pillars of neoliberal macroeconomics. The Letter was the idea of Antonio Palocci,⁵⁵ one of the coordinators of Lula da Silva's campaign and future Finance Minister, and was crafted to send a signal to the Brazilian ruling classes, especially to the financial sector. The very wording of the commitment to keep fiscal austerity contained in the Letter was discussed between Palocci and Joao Roberto Marinho, CEO of the Globo Organisation, the most important media conglomerate in Brazil – one of the uncontested representatives of the Brazilian bourgeoisie. The sentence 'we will keep primary surplus as much as necessary to keep the internal debt from increasing; which would destroy, as a consequence, the trust in the capacity of the government to honour its commitments' (Da Silva 2002b, 4–5) was approved by Mr. Marinho himself, after expressing his preference for a numeric public surplus target above 4% of the GDP (Palocci 2007, 32).

For Palocci, the commitment to fiscal austerity, floating exchange rates and inflation targeting – the neoliberal macroeconomic triad implemented by Arminio Fraga in the aftermath of the 1998 crisis (see chapter 4) – was not a concession to 'the market', as alleged by left-wing sectors of PT. 'Later, it was necessary some effort to explain, repeatedly and with a lot of patience, that it was simply a set of commitments recommended by political and economic common sense, and that the economic intervention mechanisms were the same used in the best economies of the world' (Palocci 2007, 36).

The left had real reasons to complain, nonetheless, and not only because of the condescending tone with which Mr. Palocci dismissed any possibility of real change in macroeconomic management. In practical terms, the commitment to fiscal austerity implied less resources for social expenditure. The maintenance of inflation targets and floating exchange rates, in their turn, represented a *de facto* surrender of the monetary policy into the hands of the financial fraction of the ruling class, a move confirmed with the subsequent naming of Henrique Meirelles⁵⁶ as head of the Central Bank.

⁵⁵ Antonio Palocci, a former Trotskyist militant, was one of the ascending political figures in the PT. As mayor of Riber o Preto, a rich city in the countryside of S o Paulo, he forged solid relationships with capital owners, particularly in the agrarian and financial sectors. His memoirs (Palocci 2007) reveal a wholehearted conversion to economic orthodoxy. After Lula's election, he was named Finance Minister. As I write these lines, he is in jail, accused of influence trafficking, in the context of the 'Lava Jato' operation.

⁵⁶ Henrique Meirelles is a banker and politician. He made his career as an assets manager at BankBoston and was elected member of the Congress in 2002, running for Cardoso's PSDB. He accepted Lula's invitation to be the head of the Brazilian Central Bank, giving up his party membership. After the

Although the ‘Letter to the Brazilian People’ was meant as a concession to the ruling class, it is also interesting to notice within it traces of Lula’s former strong reformist rhetoric. In fact, Cardoso’s administration is severely criticised for its incapacity to bring about economic growth, and Lula does not shy away from his condition as an opposition candidate:

The Brazilian People want real change. They refuse any form of continuity, be it explicitly announced or masked. They want to follow (...) the path of structural reform, actually capable of modernising and democratising the country, making it fairer, more efficient, and, at the same time, more competitive in the international market (Da Silva 2002b, 2).

The powerful discursive glue capable of holding together different classes and class fractions whose interests are materially contradictory was the state and its supposed capacity to promote development. This grand goal, to be achieved by a national alliance between capital and labour – politically represented by Lula’s invitation to Jose Alencar⁵⁷ to run alongside him as vice-president – potentially postponed class struggle to an indefinite future. Coming together, workers and capitalists could bring about the productive transformations Brazil needed, thereby improving everyone’s lives. ‘Brazil wants to change’ - announced the Letter in its first sentence – ‘Change to grow, to include and to pacify. Change to conquer the economic development that we do not have now and the social justice that we seek’ (Da Silva 2002b, 2). At the end of the text, the development promise is reiterated: ‘Brazil needs to sail in the open seas of economic and social development’ (Da Silva 2002b, 5).

Six months after publicly presenting the ‘Letter to the Brazilian people’ at a press conference crowned with ‘total success’ (Palocci 2007, 36), Lula took office as Brazil’s first factory worker to ever become president. In his inauguration speech, the curious nautical development metaphor with which he finished the Letter reappears:

In order to bring Brazil back to the path of growth, so as to create the jobs we need so badly, we need an authentic social pact for change and an alliance that objectively intertwines work and productive capital, the creators of the fundamental wealth of the nation, allowing Brazil to overcome present stagnation and resume sailing on the open seas of economic and social development (Da Silva 2014 [2003], 11).

deposition of Dilma Rousseff, in 2016, he would return as Finance Minister in President Temer’s *de facto* administration.

⁵⁷ Jose Alencar was one of the most important Brazilian industrialists in the textile sector. Initially rejected by the left, he became one of the most progressive voices during Lula’s first term in office. He died in 2011.

In fact, Lula's first inauguration speech is a very clear expression of the neodevelopmentalist political rhetoric. After severely criticising the previous (neoliberal) development model, which 'instead of generating growth, produced stagnation, unemployment and hunger', Lula claims that the country cannot be left 'adrift (...) lacking a truly national development project'. This 'national development project', in its turn, was supposed to rest on a class compromise between labour and capital, involving continuous increase in productivity, economic growth and incremental gains for the workers over time. Radical demands for social change had no place in the social pact Lula proposed to the nation: 'we have to keep our many legitimate social demands under control, so that they can be fulfilled in due pace and at the right moment'. With patience, however, and after the implementation of reforms, development would finally come for all: 'I believe in a magnificent future for Brazil' (Da Silva 2014 [2003], 8).

The appeal of such a discourse for the ruling class was obvious, particularly coming from the most popular left-wing leader in Brazil's contemporary history. Taxation of fortunes, auditing of the public debt, breaking up of media oligopolies, and the expropriation of the means of production – historical demands of the radical left – are totally absent from Lula's inauguration speech. A 'peaceful, organised and planned' agrarian reform is quickly mentioned, just prior to effusive praise for Brazilian agribusiness, whose productivity in certain regions 'is higher than in Australia and the United States' (Da Silva 2014 [2003], 10).

The grain of radicalism remaining in the speech is wisely channelled towards the 'struggle against hunger', a priority capable of touching even the most insensitive neoliberal heart. Using vivid colours, Lula reminds the audience made up of well-fed heads of state and congressmen that 'millions of Brazilians (...) are, at this very moment, lacking food'. Here is the only part of the speech where a concrete aim is announced: 'That is why I hereby claim – let us bring to an end the hunger in our country' (Da Silva 2014 [2003], 9).

There are striking similarities between Lula's and Cardoso's first inauguration speeches. Notwithstanding very clear differences of style, and despite Lula's strong criticism of the previous administration, the general message conveyed by the two presidents is basically the same: Brazil can have a bright future as a developed capitalist country. In order to reach that future, different social groups should put their differences aside and work together, under the guidance of the state. Development, in the form of

economic growth and increased productivity, would mean gradual material gains for both the ruling class and the working class, without substantial subversion of class structures. In this context, Cardoso represented himself as the enlightened intellectual conscience of Brazil's social injustices, while Lula played the role of the responsible labour leader, willing to make mutually beneficial deals with capital owners. Even the most radical part of Lula's speech, the promise of defeating hunger, echoes Cardoso's unfulfilled promise of sweeping 'hunger and misery off the Brazilian map' (1995b, 32).

The same cannot be said about the two presidents' second inauguration speeches, nevertheless. While Cardoso stepped back from his previous proto-neodevelopmentalist stand and subordinated the possibility of development to the implementation of neoliberal reforms, Lula moved forward and reaffirmed the neodevelopmentalist social pact in his triumphant speech on the first day 2007, after receiving almost 60 million votes in the 2006 elections (60% of the total in the second round). Of course, the circumstances of both speeches were quite different. Cardoso was facing the consequences of the 1998 crisis and used his second inauguration speech to anticipate some of the sacrifices required in the adjustment policies he was about to launch, a move that would severely impact his popularity. Lula, on the other hand, was in the ascendant, after resisting the first corruption allegations against the PT (Carvalho 2006). The outcomes of his poverty alleviation programs could already be seen, as well as the positive economic results driven by a surge in exports coupled with the expansion of internal consumption (see section 5.2 below). Therefore, when Lula reaffirmed bold promises in his second inauguration speech, development appeared for the first time in contemporary Brazilian history as something actually within reach, not merely as a vague aspiration for the future. 'My second administration will be the administration of development, with wealth distribution and quality education' (Da Silva 2007).

Perhaps more importantly, a clear political contrast between the neoliberal and the neodevelopmentalist development strategies could finally be made. By reaffirming the role of the state in his neodevelopmentalist speech and refusing the neoliberal wisdom according to which development would only come through market-friendly reforms, Lula apparently proved that another way was possible: 'I was reappointed as President of the Republic by the majoritarian will of the Brazilian people.(...) The people made a conscious choice. Beyond a man, the people have chosen a proposal, have opted for one side' (Da Silva 2007). Although tangible, development was still to be fully realised. At this point, the neodevelopmentalist program assumes an explicit catch-up character:

What other countries did back in the 19th and 20th century, we will have to do in the next few years. I'm talking about overcoming the big educational deficit that afflicts us and, at the same time, move in accelerated steps towards the transformation of our country into a knowledge society, allowing us to have a competitive and sovereign insertion in the world (Da Silva 2007).

Educational and scientific catch-up was to be achieved by decisive state intervention – in the form of scholarships, increase in public investments in science and technology, and the creation of new universities. Moreover, instead of focussing on the formation of a cheap yet skilled labour force in order to boost capital accumulation, Lula's political proposal takes on a truly emancipatory character, finally echoing some historical aspirations of the left that were carefully diluted in Lula's first inauguration speech:

Within ten to fifteen years, Brazil will witness the emergence of a new generation of intellectuals, scientists, technicians and artists coming from the poorest layers of the population. This has always been our intention: democratise not only the income, but also knowledge and power (Da Silva 2007).

Despite potentially revolutionary excerpts like this one – coming close to transcending the narrow limits of neodevelopmentalist reforms – the general tone of the speech is certainly not confrontational. Class struggle is still absent. There are no losers in Lula's promise of development, just winners. The improvement in the living conditions of the poor, and even the 'democratisation' of 'knowledge and power' are not to be realised at the expense of the ruling class. In an ever expanding economy, the contradictory demands of different classes and class fractions could be reconciled. Unsurprisingly, Lula finishes the speech with an emotional call for national unity, placing himself above petty political disputes and perfectly embodying the spirit of national development. Addressing congressmen from opposition parties, Lula declares:

I want to simply ask you to look more to the things uniting us than to the things dividing us (...). Only by doing so can we all can serve this country that we love so much. I, myself, will govern for all, without looking at skin colour, belief, ideological or party option. More than ever, I am a man of only one cause. And this cause is called Brazil (Da Silva 2007).

Certainly lacking the charisma and political skills of her predecessor, Dilma Rousseff repeated much of the same message in her first inauguration speech, in 2011. Elected to build on Lula's legacy, Rousseff was an outsider in the Brazilian political establishment, as she had never fought an election before. Nevertheless, and despite not being a professional public servant, she was seen as a competent public administrator. Her management of the crisis in the energy sector after the ill-conceived privatisations of the 1990s (see chapter 4) and her moral integrity paved her way to the command of Casa Civil – the most powerful of the Ministries, responsible for the administrative coordination of the entire government. Her ascent was facilitated by the relative vacuum of power within the PT in the aftermath of the corruption scandal of 2005, which resulted in the detention of senior politicians from the party and their public demoralisation by the corporate media (Miguel and Coutinho 2007).

Reflecting her technocratic style, the personal touch Rousseff included in the neodevelopmentalist discourse involved a strong commitment to the 'permanent fight' against corruption, a renewed valorisation of technology as the passport to the future, and calls for 'efficiency' in public spending. Nevertheless, the central message was the same as that of Lula's second inauguration speech – Brazil was well on its way towards development, thanks to the neodevelopmentalist policies being adopted by the state. In Rousseff's own words:

A lot of things improved in our country, although we are living just the beginning of a new era. It is the waking up of a new Brazil. (...) For the first time Brazil finds itself facing the real possibility of becoming, of being, a developed nation. (Rousseff 2011)

At the very end of her first inauguration speech, however, Rousseff deviates from the script and, instead of repeating promises of state-led development, she enigmatically declaimed a poem by Guimaraes Rosa, an internationally renowned Brazilian modernist writer: 'The stream of life shuffles around everything. / Life is like this: it heats and cools, / it squeezes and then releases, / it calms down and later disturbs. / What it wants from us is courage' (Rosa cited in Rousseff 2011). The quotation could not be more prescient, as it anticipates the political turmoil of her presidency and the disintegration of the catch-up development dream, which seemed so real in the previous years. Unfortunately, contrary to the poet's verse, and building on Lula's old nautical metaphor, 'courage' would not suffice to keep the neodevelopmentalist ship afloat.

The zenith of the neodevelopmentalist political discourse in Brazil also marks the start of the rapid dismantling of the achievements of the previous decade. The overcoming of hunger and extreme poverty – a promise repeated in every single presidential speech since 1994 – is proudly announced as a fact by Rousseff in her second inauguration speech: ‘In my first term, Brazil achieved a historic feat: we overcame extreme poverty. But (...) the end of extreme poverty is just the beginning’. This remarkable discursive turn from mere promises to the actual announcement that extreme poverty had been eradicated was presented as a concrete step towards development: ‘Brazil will not always be a developing country. Its destiny is to be a developed and fair country (...)’ Rousseff goes on and reminds the audience of the impressive achievements of the previous governments, including the creation of millions of formal jobs, the accumulation of US\$ 370 billion in international reserves and the successful control of inflation rates (Rousseff 2015).

The triumphant tone of Rousseff’s second inauguration speech – only tempered by occasional remarks about the necessity of reigniting growth rates – offers a sharp contrast to the reality of deep economic and political crisis in which Brazil was about to fall in the following months. Just when development seemed so close, the economic activity shrank by 3.5% for two years in a row, causing per capita GDP to fall by almost 10%. Unemployment levels rose again, and inflation rate finished 2015 well above the official target.

The most dramatic mismatch between Rousseff’s speech and the bitter reality that soon would confront the neodevelopmentalist project was regarding the sustainability of the broad political alliance forged by Lula in his first term in office. Following her predecessor’s repeated calls for national unity under the development banner, Rousseff declared:

I know I can count on your support, ladies and gentlemen members of the Congress, the legitimate representatives of the people in this national Congress. I know I can count on the support of my dear vice-president Michel Temer, my partner in every moment. I know I can count on the efforts of the men and women of the judiciary. I know I can count on the strong support of my Congress allies, on each party leader among them, and on the ministers who, from today, will be working alongside me for Brazil (Rousseff 2015).

Only 15 months later, it became clear that she should have known better. 367 of 513 member of the lower house of Brazilian Congress voted against her and authorised

the quick start of an impeachment process based on extremely fragile allegations. Among the impeachment enthusiasts were some of her former ministers and many of her presumptive allies. Michel Temer, her ‘partner in every moment’, actively manoeuvred politically to guarantee her removal from office. Before completing half of her second term as president, Rousseff was suspended from office. The catch-up development promise contained in the neodevelopmentalist political speeches – so real in the previous years – now sounds like a tragicomic illusion.

5.2. – From neoliberal orthodoxy to the ‘new economic matrix’ and back – the three phases of the neodevelopmentalist cycle from a macroeconomic perspective.

The Brazilian neodevelopmentalist cycle comprised three distinct phases regarding macroeconomic management. The first one, between 2003 and 2006, is actually better described as a continuation of the orthodox neoliberal strategy adopted in the second administration of Cardoso, with an important if limited increase in poverty alleviation programs. A second phase, characterised by more active industrial policies, substantive state investments in infrastructure, reduction of interest rates and less fiscal rigidity took place between 2006 and 2013, after Guido Mantega assumed office as finance minister. This period is the short-lived golden age of Brazilian neodevelopmentalism, when the state seemed to be able to fulfil its expected task and catching-up with developed countries appeared to be only a matter of time. Finally, from 2015 to 2016, many of the policies of the previous phase were reversed in the hope of avoiding the deterioration of the public budget and the tendency towards rising inflation – and, I argue, in order to appease increasingly rebellious fractions of the ruling class.

Given the commitments to capital owners made by Lula during his presidential campaign of 2002 – most notably in the ‘Letter to the Brazilian People’ – the continuation of the macroeconomic strategy that had been adopted since Cardoso’s second term could hardly be viewed as a surprise. Nevertheless, the extent of the adherence initially shown by Lula’s administration to neoliberal orthodoxy went beyond the expectations of both critics and partisans of the PT. Led by Antonio Palocci, the team of experts assigned to key positions in public administration included economists known for their commitment

to fiscal discipline such as Joaquim Levy. Appointed originally as Treasury Secretary⁵⁸ in 2003, Levy would come back in 2015 as Finance Minister under Dilma, marking the end of the second phase of the neodevelopmentalist cycle. Heterodox and Keynesian economists, historically closer to the PT, were barred from the Finance Ministry and found some limited space in the less powerful Planning Ministry, led by Guido Mantega, and in the Brazilian Development Bank (BNDES), led by Carlos Lessa.

As mentioned in chapter 4, after the devaluation of the Real in 1999, Cardoso's administration adopted an orthodox macroeconomic triad composed of floating exchange rates, inflation targets and primary fiscal surpluses. The key instrument used in order to deliver the targeted inflation rate was interest rates manipulation by the Central Bank, leading to disproportionately high returns to financial investments. High interest rates paid on public bonds represented, on their turn, a permanent strangling of the public budget, requiring consistent primary fiscal surpluses in order to reassure debt owners – mainly Brazilian banks and investment funds – of the state's capacity and willingness to keep rolling its debts. According to the critics of the model, this structurally reduced the budgetary space for social spending and productive investments, rendering the economy particularly prone to external shocks (Mantega 2001). The picture was completed by a long term tendency towards exchange rate overvaluation, given the permanent attraction of international capital due to the high interest rates, as well as the nature of Brazilian foreign exchange, heavily dependent on primary commodities (Bresser-Pereira 2006, 2012).

The possibilities of rapid economic growth under this strategy were severely curtailed, inasmuch as the attractiveness of productive investments – particularly in the industrial sector – were dumped by high interests and the overvalued exchange rates, in face of cheap imports from Asia. During the presidential campaign of 2002, the scenario became even grimmer, as capital owners feared a reversion of the macroeconomic model notwithstanding Lula's reassuring words in the 'Letter to the Brazilian People'. Between January and October 2002, the value of the US Dollar in Brazilian Reals jumped from R\$ 1.95 to R\$ 3.99 (Mollo and Saad-Filho 2006, 112), reflecting a looming balance of payment crisis. Despite a modest increase in exports, the Brazilian current account closed the year of 2002 with a deficit amounting to US\$ 7.6 billion, aggravated by a deficit of

⁵⁸ In the Brazilian government system, 'treasury secretary' is a sub-ministerial position, under the Ministry of Finance, responsible for overseeing the public budget.

US\$3.9 billion in the financial account.⁵⁹ In the context of pressure against Brazilian limited international reserves, and to avoid a technical default, the government had to resort to a new IMF loan totalling US\$ 30 billion, the third during Cardoso's presidency. At the end of 2002, just before Lula took office, Brazilian international reserves totalled US\$ 37.8 billion, of which US\$ 20.8 billion corresponded to the IMF loan (Barbosa Filho and Souza 2010, 2).

As usual, the agreement with the IMF included 'conditionalities', most notably in the form of primary fiscal surplus targets for the following years, fixed at 3.75% of the GDP. The Brazilian government also committed to structural reforms – including the restructuring of public pensions – and reaffirmed its inflation targets. Although the agreement had been negotiated by Cardoso's orthodox economic team, led by Arminio Fraga and Pedro Malan, Lula was pressured to endorse it before being elected (Mollo and Saad-Filho 2006, 113).

Lula's administration started, therefore, under severe financial, political and institutional constraints. Facing an inherited balance of payment crisis, lacking a stable majority in both houses of the Congress, and officially tied to the IMF austerity measures, the room for substantial change in macroeconomic policies in the short run was severely limited (Saad-Filho 2003). In the first phase of the neodevelopmentalist cycle, therefore, the 'macroeconomic triad' was not only kept, but effectively reinforced. The primary budget surplus delivered in 2003 amounted to 4.36% of the GDP, well above the IMF target. Soon after the new president took office, the Central Bank increased the interest rates at two consecutive board meetings. Nominal interest rates reached 26.5%/year and remained at that level for three months (Paiva 2006, 201). Considering the falling inflation rates (12.5% in 2002; 9.3% in 2003 and 7.6% in 2004), the debt burden on the public budget increased in real terms. In short, the monetary policy initially adopted under Lula was at least as restrictive as before, while the fiscal policy was 'significantly more restrictive than in the previous administration', entailing a reduction of public spending amounting to 2.8% in real terms in 2003' (Giambiagi et al. 2005, 210).

During this phase, Lula's administration received much praise from the financial fraction of the ruling class, international financial organisations and their organic intellectuals. Williamson, for instance, notes that Lula embraced 'the basic notions that were embodied in the original concept of the Washington Consensus', despite rhetorically

⁵⁹ For the analysis that follows, I rely on statistics from the United Nations Economic Commission for Latin America and the Caribbean (CEPAL 2017) unless another source is indicated.

rejecting it (2003b, 110). For Fraga, '[f]rom a macroeconomic standpoint, the aftermath of Lula's election has proven to be quite encouraging' (2004, 98). After a meeting with the Brazilian President in September 2004, Rodrigo Rato, Managing Director of IMF declared: 'The advances made by the Brazilian government are very impressive. President Lula's administration has adhered to disciplined macroeconomic policies and developed an ambitious structural reform agenda' (Rato 2004).

The results of the restrictive macroeconomic policies adopted between 2003 and 2006 were mixed. Regarding macroeconomic stabilisation, this first phase of the neodevelopmentalist cycle can only be considered successful. Fears of a massive capital flight, unbridled acceleration of inflation and debt default were revealed as unjustified, as quickly recognised by neoliberal scholars (Giambiagi et al. 2005; Fraga 2004). Putting it in sociological terms, President Lula's first administration successfully managed to neutralise the opposition of the financial fraction of the ruling class, which menaced the PT's government from the start. Proof of this perceived success was the fact that the 2006 elections ran much more smoothly than four years before for the PT, with no sign of panic in the capital markets.

From the perspective of the working class, however, the picture of this first period is much less brilliant. The disappointment with President Lula's administration was soon reflected in the left-leaning academic literature, which clearly identified the continuities with the previous neoliberal development model (Maldonado Filho 2003; Boito Jr 2006; Carvalho 2006; Morais and Saad-Filho 2005; Anderson 2011; Saad-Filho 2003; Leher 2005; Arestis and Saad-Filho 2007; Oliveira 2003; 2006). The disagreements with the economic strategy in place were not just theoretical. Unemployment rates rose to an unprecedented 12.9% in the third trimester of 2003 (graph 21). Workers' average incomes also diminished by 15% in 2003 (Ferrari-Filho and Maldonado Filho 2007, 59). Nominal increases in the legal minimum wage were insufficient in face of the high inflation, resulting in very limited increases in real terms. In January 2003, the legal minimum wage represented 15% of the living wage. In 2005, that proportion had risen to only 18% (DIEESE 2016), a disappointingly slow improvement. Redistributive initiatives historically advocated by the PT – such as land reform and over-taxation of fortunes – were not implemented.

The PT's adhesion to neoliberal orthodoxy had important political consequences, menacing the party's very social basis. Two examples should suffice to illustrate my point here: in a quantitative survey carried out in May 2005, Datafolha found that 59% of the

people believed that ‘Lula has stopped advocating most of the ideas he had before being elected’, while only 34% believed he ‘still advocates most of [those] ideas’ (DATAFOLHA 2005). Secondly, the PT lost important municipal elections in 2004, including Sao Paulo, where the voting of the middle class is decisive, and Porto Alegre, a traditional bulwark, where flagship left-wing policies such as the participatory budget were firstly implemented (Baiocchi 2005).

At the same time, the orthodox macroeconomic choices triggered the growing opposition of the productive fraction of the ruling class and, most traumatically, caused an early division within the government’s party itself. Carlos Lessa, an old school heterodox economist – collaborator of legends of Brazilian classical developmentalism like Celso Furtado and Conceição Tavares – was fired from the Presidency of the National Development Bank after calling the monetary policy ‘a nightmare’ in an interview (Lessa 2004). The vice-President himself, seen as a spokesmen of the industrialists, manifested on several occasions his disapproval regarding the interest rates levels. Further towards the left, one Senator and three Congressman were expelled from the PT for voting consistently against the party orientations, particularly on the reform of the pension system required by the IMF. Together with a number of supporters and intellectuals disappointed with the perceived abandonment of the PT’s historical program, they founded the PSOL in 2004. The new party would grow significantly over the next few years, in the aftermath of corruption allegations affecting senior PT members (Anderson 2011).

The shift in the orientation of the macroeconomic management that happened towards the end of Lula’s first term in office is recognised by neoliberals and neodevelopmentalists alike (Giambiagi 2009; Barbosa Filho and Souza 2010). Which event marked this inflection and at what exact point in time it is to be located is still open to debate, however. The periodisation I propose here establishes the start of the proper neodevelopmentalist phase of the PT’s administration at the inauguration of Guido Mantega as Finance Minister, on the 28th of March 2006. Although in the previous years some increase in salaries and poverty alleviation programs had been announced by the government, the focus of the macroeconomic management was still on maintaining stability, mainly through orthodox means (i.e. fiscal discipline, interest rate manipulation). The faith in the capacity of ‘markets’ to promote development was still prevalent.

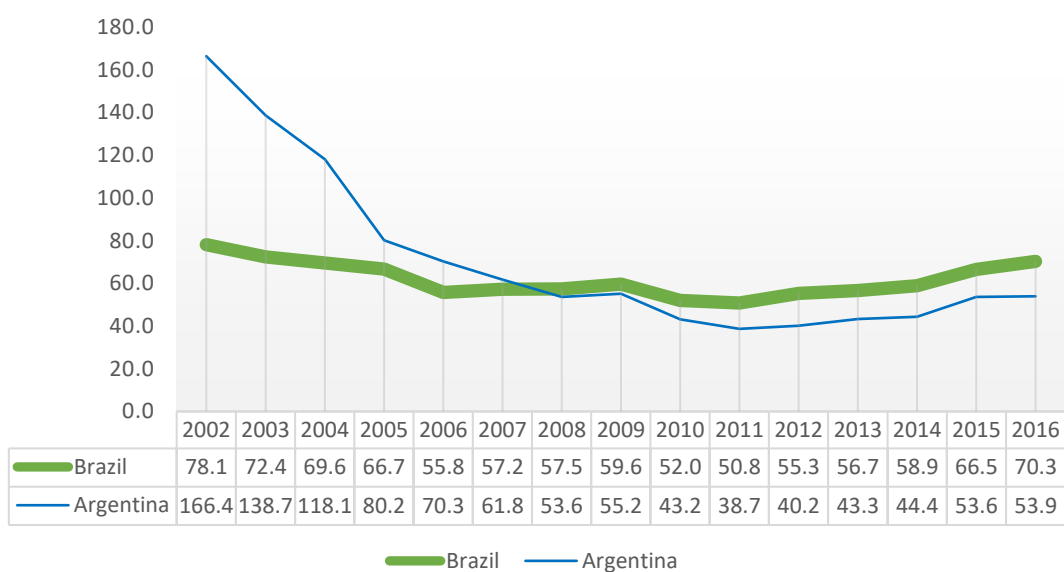
From 2006, the priority of Lula's administration clearly shifted towards accelerating economic growth, ideally without abandoning macroeconomic stability. The endeavour of bridging social inequality was not being achieved in any meaningful way by the market forces. Therefore, in order to guarantee economic growth it was decided that more state intervention was needed. Minister Mantega's mandate was announced by President Lula himself in a speech during his nomination:

It was not only once, twice or three times that (...) someone presented to society an economic model that was supposed to save Brazil. Then the model resisted sometimes for three months, occasionally one year, maybe two; what we want to guarantee to the Brazilian people is a cycle of say one decade, eventually two, maybe three decades of virtuous growth, so that we can recover, in some years, the social debt accumulated for centuries in this country. So, my dear Guido, good luck to you; from now on, those wanting to complain about the economy shall stop blaming Palocci and can start blaming Guido Mantega (Da Silva 2006).

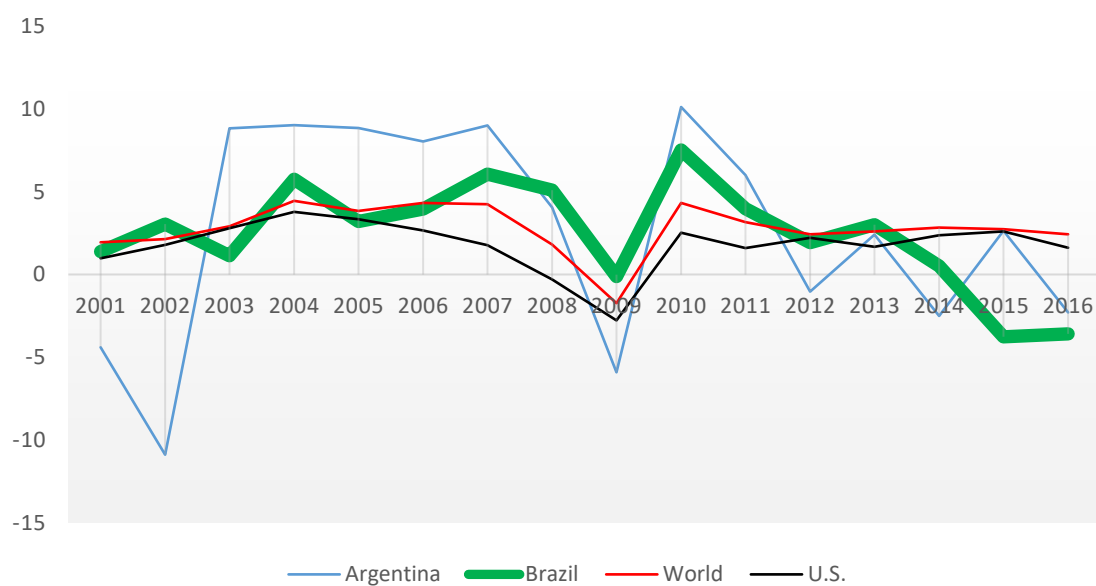
Initially, during the period between 2006 and the world financial crisis of 2008-2009, the endeavour to accelerate economic growth was indeed reconciled with the maintenance of macroeconomic stability. The economic tripod was not officially abandoned, although the fiscal 'leg' of the strategy progressively lost its strength, particularly after the contra-cyclical measures adopted in response to the crisis (Schwartzman 2012). In fact, despite the substantial increase in public spending, debt as a percentage of the GDP did not increase substantially, remaining consistently below 60% until 2014 after reaching 78% in 2002. In other words, in the short golden age of neodevelopmentalism, the government managed to spend more and, at the same time, save more. During that phase, strong fiscal surpluses stabilised and eventually even reduced the ratio between debt and GDP to historically low levels (see graph 17).

This apparent economic contradiction was possible due to three factors which combined to create a positive spiral of capital accumulation. First, an increase in GDP growth rates (graph 18), driven by internal and external demand (high commodity prices). Second, a decrease in interest rates (graph 19), reducing the cost of the debt and further stimulating domestic demand. Third, an increase in tax revenues, going from 30% of the GDP in 2000 to 35% in 2013 (graph 20), thereby allowing for further spending, which created further internal demand, refeeding the cycle.

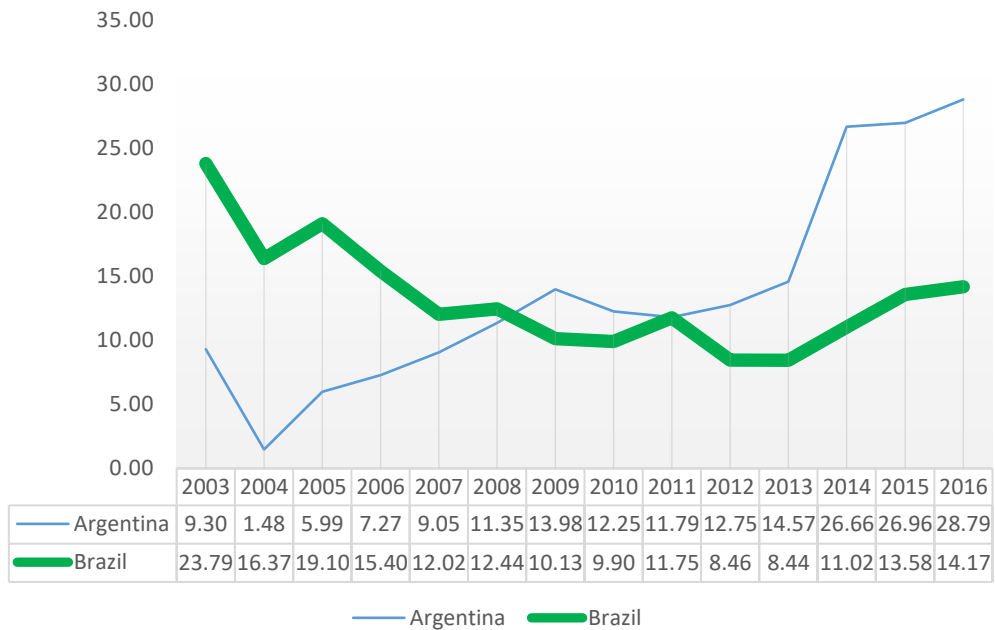
Graph 17 - Brazil - Public Debt (as % of the GDP. Source: CEPALSTAT)



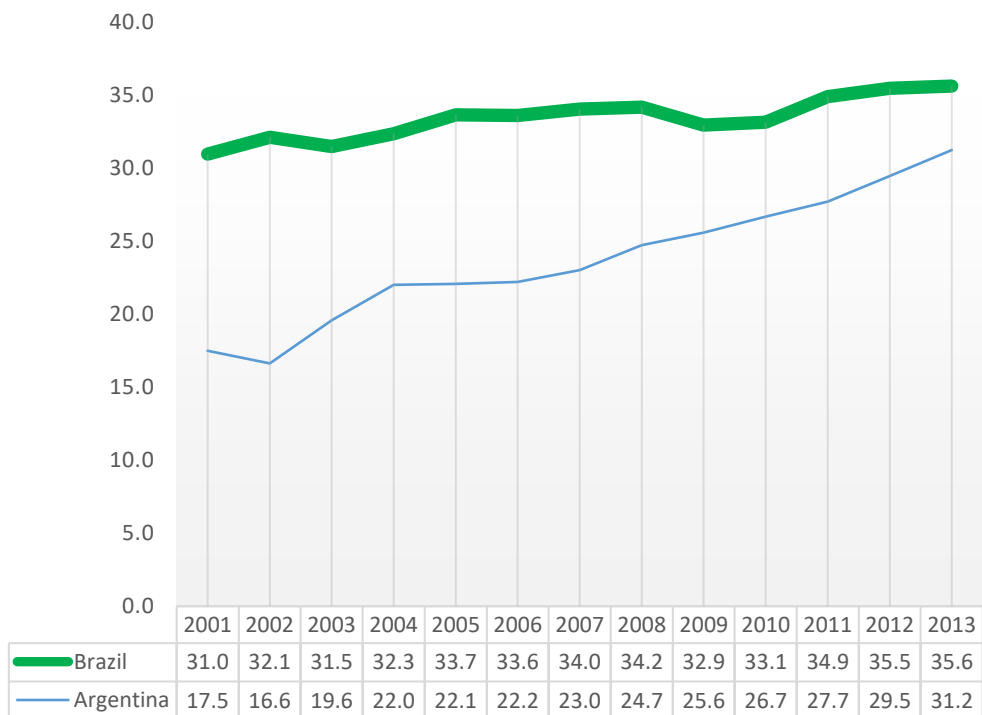
Graph 18 - Brazil - GDP Growth (Annual % Source: World Bank)



Graph 19 - Brazil - Interest rates (annual official Central Bank rates - source: CEPALSTAT)



Graph 20 - Brazil - Tax revenues (Including social contributions, % of GDP. Source: CEPALSTAT)



The limits of this cycle would become clear when external demand dropped and room for further cuts in interest rates and increase in tax revenues were blocked. Nevertheless, before the neodevelopmentalist strategy reached its limits – far sooner than

suggested by Lula in Mantega's inauguration – important gains for different social classes and class fractions were achieved. Substantial increases in the minimum wage were granted (16.7% in 2006 alone). The public sector was revalorised, reversing a tendency towards the dismantling of social services during the neoliberal cycle. Salaries increased substantially in the public sector, and many new jobs were created, including the founding of 27 new public, tuition free university campuses. From 2007, massive investments in infrastructure were launched under the Growth Acceleration Program (PAC). For the period 2007-2010, total planned investments amounted to more than R\$ 500 billion (US\$ 230 billion in January 2007 exchange rates), privileging sectors such as transport, energy and social infrastructure (Barbosa-Filho and Souza 2010, 15).

One particular class fraction, the poorest layers of the working class – called the 'subproletariat' by Andre Singer (2012) and the 'rabble' by Jesse Souza (2012) – received for the first time at least part of their share of the economic prosperity. The Bolsa Familia program is possibly the most well-known social policy of the neodevelopmentalist cycle in Brazil (Saad-Filho 2015). Its management, components and results have been intensely studied in the academic literature on development and are normally presented as a success story to be emulated by other developing countries (Neri 2010; Sader and Costa 2013). Indeed, in little more than one decade, Bolsa Familia had grown from the unification of a set of relatively small scale scattered programs to become one of the biggest cash conditional transfer programs in the world, reaching more than 14 million families (50 million people) in 2014, starting from a number of 3.6 million families in 2003. During the same period, the total value transferred jumped from R\$ 4.22 billion to R\$ 24.7 billion, or 0.5% of the GDP. The average payment was R\$167 per family in June 2014, little more than US\$ 73, composed of fixed and variable elements, depending on the number of children in the family and other conditions (MDS 2014).

At the same time, the very top of the social pyramid kept on receiving generous state resources. If the Bolsa Familia program stands as an example of the PT's pro-poor social policies, pro-rich policies were exemplary implemented by the National Bank for Economic and Social Development (BNDES). Founded by President Vargas in 1952, this 100% state owned bank played a key role in supporting long term productive investments and import substitution during Brazilian classic developmentalist cycle. In the 1980s and particularly in the 1990s, the bank was instrumental in the implementation of the neoliberal reforms, centralising and structuring privatisations (Fontes 2010). During the neodevelopmentalist cycle, BNDES' role changed again. The bank grew to become

bigger than the World Bank itself (Stiglitz 2014) and was explicitly considered a key tool in promoting ‘better coordination between government and markets’, a precondition for ‘economic development’ (Mantega 2005, 11).

The coordinating role of BNDES meant, in practice, offering favourable financing conditions for large, long term investments, discouraged by the extremely high interest rates offered by commercial banks – a consequence of the concentration of capital markets in Brazil and the high basic interest rates offered by the Central Bank itself (graph 19). Accordingly, the total volume of loans offered by BNDES jumped from R\$ 35.1 billion in 2003 to R\$ 168.4 billion in 2010, corresponding to 4.6% of Brazilian GDP, or about eleven times the amount spent on Bolsa Familia during the same year (Bugiato 2016, 174; MDS 2014). In 2014, total loans increased further to R\$ 187.8 billion – US\$ 70 billion at 2014 exchange rates (BNDES 2014).

The neodevelopmentalist strategy was tested in the 2008-2009 financial crisis, and reached its best performance in 2010, when GDP grew 7.6% (graph 18). In a presentation delivered in September 2009 at FGV/SP (the same think tank where the ten Theses on New Developmentalism would be announced a few years later), Minister Mantega claimed that Brazil was one of the most successful countries in the world in facing the international crisis. This, according to him, was due to a solid financial system and adequate monetary policies, but mainly because of the ‘active fiscal policy’ practiced under his supervision. Examples of fiscal expansion quoted by the Minister included R\$ 100 billion made available for the National Development Bank; R\$ 68 billion destined to the popular housing program ‘Minha casa minha vida’; R\$ 107 billion in incentives to the agriculture sector through ‘Plano Safra’; expansion of poverty alleviation programs; increases in transfers for provincial governments and municipalities and the continuation and expansion of PAC. Mantega also announced an ambitious program of tax cuts, benefiting the industrial sector (less IPI), the financial sector (less IOF) and individual tax payers (adjusting of IRPF).⁶⁰ The total effect of the fiscal expansion on the GDP was an estimated increase of 2.5% to 3.0% in 2009 alone (Mantega 2009).

Indeed, the fiscal expansion made true Lula’s prediction in 2008 that the financial crisis was a tsunami for the US, but just a small ripple for Brazil (Anderson 2011, 6) – at least initially. By the end of 2009, all major risk assessment agencies had upgraded Brazil to their respective investment grades. In November of that year, the journal *The*

⁶⁰ IPI = Tax on industrialized goods; IOF = Tax on financial operations; IRPF = Income tax of individual taxpayers.

Economist – whose sympathy for the PT was from the start rather limited – would publish its famous cover on Brazil, depicting the Christ Statue in Rio being launched up rocket-style: ‘Brazil Takes Off’ – read the headline, echoing Rostow’s outdated modernization theory (The Economist 2009). In an atmosphere of the triumph of neodevelopmentalism, Dilma Rousseff was elected despite her absolute lack of charisma and political skills. Lula’s blessing was enough. According to a quantitative survey carried out during his final months in office, 84% of the people believed that Lula was handing on to his successor a better country than the one he had received at the beginning of his administration, compared with only 35% who would say the same about Cardoso. Most tellingly, ‘workers’ are mentioned as the social group that benefited the most under Lula (33%), beating ‘politicians’ (13%) and ‘bankers’ (13%)(DATAFOLHA 2010).

The fiscal policy part of the neodevelopmentalist strategy started to be implemented from 2006, and was reinforced in the aftermath of the financial crises of 2008-2009, when primary surpluses were reduced and the ratio debt/GDP started to rise again (graph 17). In that phase, the socialisation of gains could be done without any meaningful privatisation of losses, thereby partially fulfilling the neodevelopmentalist class conciliation promises. The monetary policy part of the neodevelopmentalist cycle, however, was much more delicate to implement, inasmuch as it represented a direct confrontation of the interests of the financial fraction of the ruling class. Consistent reduction in the interest rates would only be forcefully tried in Rousseff’s first term in office, with the substitution of Henrique Meirelles for Antonio Tombini⁶¹ as head of the Central Bank.

After a fiscal adjustment in her first year in office, in order to contain rising public debt and inflation caused by the contra-cyclical measures taken over the previous two years,⁶² Rousseff’s administration advanced against Brazil’s historically high interest rates, only marginally reduced during the previous years. The effort to drive down financial costs included not only cutting the official Central Bank rates, but also involved open political pressure to force private banks to lower the interest rates they charged on final credit takers. The difference between the cost of capital attraction and the cost of

⁶¹ Contrary to previous Heads of the Brazilian Central Bank, Alexandre Tombini did not have a solid background in the private financial market, having spent most of his career in the Central Bank itself.

⁶² Serrano and Summa (2015) find in the fiscal adjustment policies of 2011 the origins of the crises that would result in the dismantling of the neodevelopmentalist model in the following years. Although my approach here puts more emphasis on social disputes and the effects of the international crisis, particularly the drop in commodity prices, it is worth noticing that their analysis certainly captures one of the hidden causes of the crises of neodevelopmentalism in Brazil.

capital lending by banks – the interest rates spread in the financial jargon – gave room to what Andre Singer labelled the ‘spread battle’, opposing Rousseff’s administration and private banks in a war of contradictory declarations. Eventually, the forceful mobilisation of the lending capacity of the public banks lead the private banks to partially cut their own interest rates, in a perceived victory for the neodevelopmentalist side (Singer 2015, 51).

Far from being an expression of unbridled left-wing confrontation against capital in general, the battle to force down interest rates actually aimed at creating conditions for further capital accumulation in the real sector of the economy. In the context of decelerating economic activity after the 2011 fiscal adjustment, Rousseff’s administration – with Guido Mantega still as head of the finance Ministry – tried to rekindle the neodevelopmentalist virtuous cycle described above. Falling international demand, reflected in falling prices for Brazilian commodity exports, was supposed to be compensated for by extra incentives to domestic demand, via an increase in the legal minimum wage and more government spending. New investments in infrastructure were announced as the second phase of the Growth Acceleration Program. Specific sectors were targeted for special credit conditions under the National Development Bank. In this context, reducing the interest rates was perceived as essential to facilitate an expansion of credit for consumption and investments.

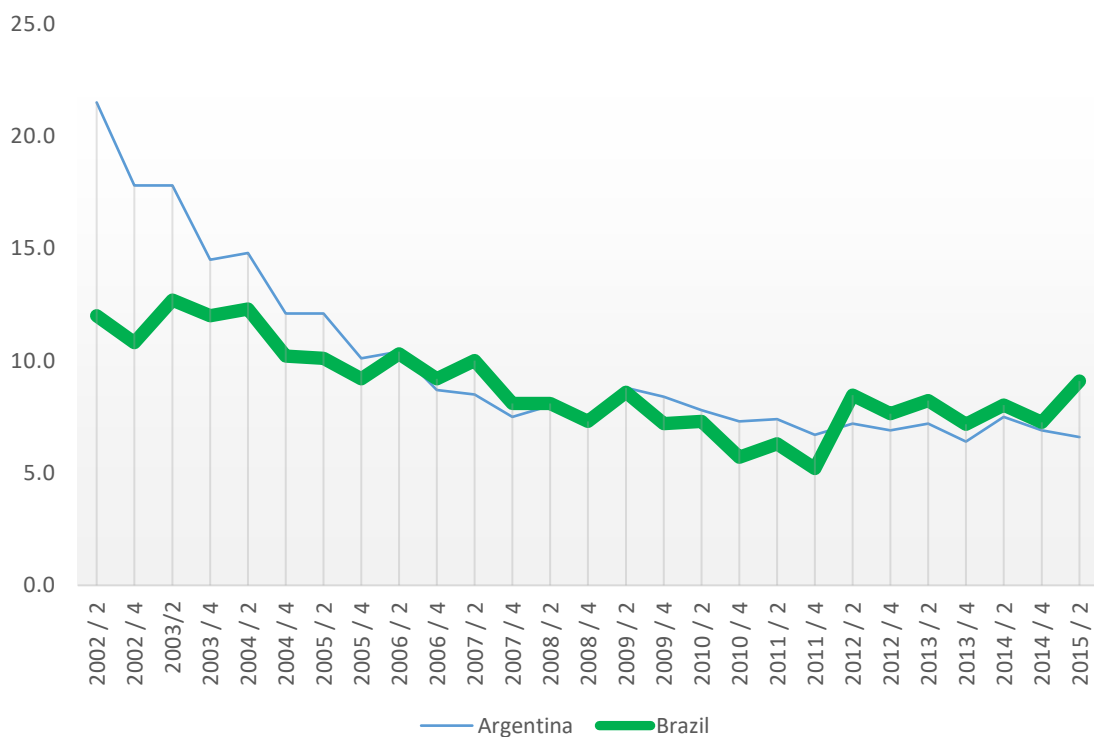
This time, however, contrary to what had happened in the first two years of the golden age of neodevelopmentalism – just before the 2008-2009 crisis – the government could not repeat the ascending cycle of simultaneous increase in expenditure and in primary surplus. The room for increasing taxes was very small, given the tax burden already in place and the weak economic activity. It was expected that an increase in the level of activity would generate enough tax revenues to sustain the ambitious fiscal expansion *ex post*. However, internal demand was not sufficient to compensate for the fall in international prices of commodities, leading instead to a deterioration in the commercial balance as imports increased. In other words, to keep on socialising gains in the absence of positive international conditions, some privatisation of losses would be necessary – and a sacrifice was required from the financial fraction of the ruling class, in the form of lower interest rates.

After the disappointing economic growth in 2012 and 2013, the government became increasingly reluctant to admit the worsening of its fiscal position. At that point, officially abandoning the fiscal leg of the macroeconomic triad by admitting primary

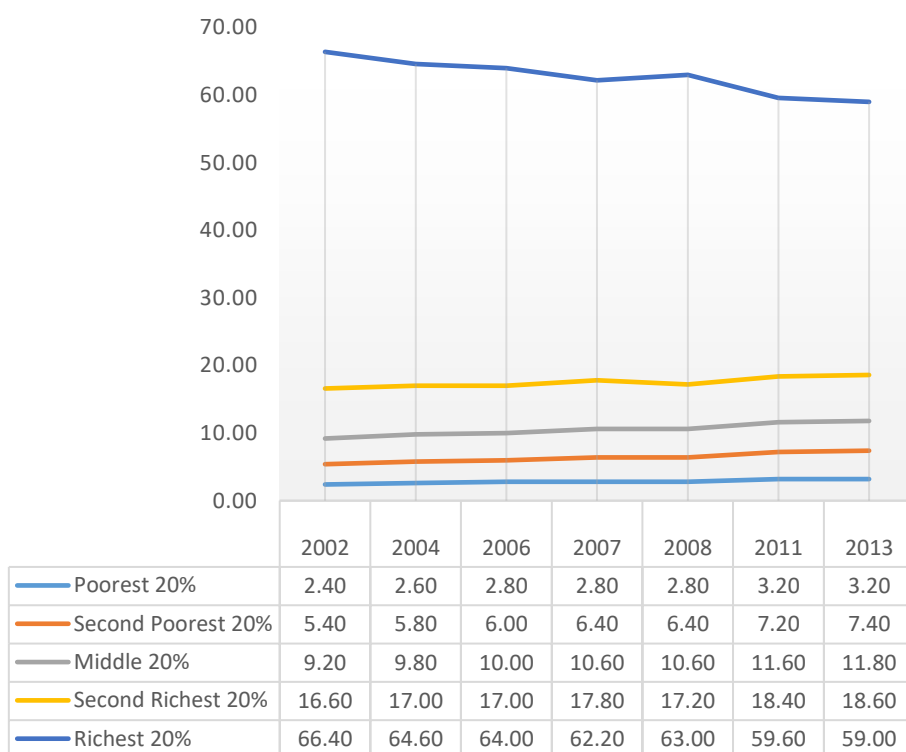
deficits instead of surpluses could potentially lead to further distrust in economic management by capital owners, forcing interest rates up again and postponing any short term recovery. In this context, weak budget surpluses were masked by extraordinary revenues from public concessions to private capital (particularly in infrastructure and energy), resembling the situation of the first Cardoso administration (see chapter 4). Furthermore, expenditures from Petrobras, Eletrobras and other investments in the context of the Growth Acceleration Program were excluded from the primary surplus accounting. Finally, the so-called ‘creative accounting’ adopted by Rousseff’s administration involved postponements of the central government payments to public banks – in charge of implementing social policies – generating thereby transitory relief to public budget (for critiques to the deterioration of the fiscal policy and public accounting, see Cruz 2016; Barros and Afonso 2013; Ter-Minassian 2013; Schwartzman 2012). This last practice – nicknamed by the mainstream media as ‘fiscal peddling’ would later become the core of the fragile juridical allegations used to justify Rousseff’s impeachment in 2016.

Despite looming difficulties, the economic situation was not yet perceived as a crisis back in 2013. Unemployment rates were at low levels (graph 21) and salaries were increasing in real terms. Inequality was being reduced (graph 22). Prices were under control, partially because of freezing of public tariffs. Rousseff’s administration was considered good or excellent by 65% of the people according to a survey carried out in March 2013. Furthermore, 51% of the people believed that the economic situation was about to improve, against only 10% that believed it would get worse. An astonishing 75% believed they ran no risk of losing their jobs, and 76% believed Brazil was a good or excellent place to live in (DATAFOLHA 2013). In short, the early signs of crisis of the neodevelopmentalist model were not perceived by the vast majority of the population until the middle of 2013.

Graph 21 - Brazil - Unemployment rate - second and fourth quarters of each year. (In % of the Economic Active Ppopulation. Source: CEPALSTAT)



Graph 22 - Brazil - Income Distribution - Selected Years
(% of total income. Urban population only - source:CEPALSTAT)



The moods changed radically after massive street demonstrations in June and July of 2013. Explaining the sudden emergence of unprecedented protests against a seemingly popular administration is a contemporary problem defying some of the best Brazilian social scientists (Singer 2013; Ribeiro 2014; Antunes and Braga 2014; Romão 2014; Saad-Filho 2013). Certainly, the prolonged political crisis inaugurated in June 2013 is related to the poor quality of public services, the obvious inversion of priorities expressed in the offensive amount of money expended in events such as the World Cup and the Olympic Games, and the perceived widespread corruption of the Brazilian political system. My own interpretation of the demonstrations, coherent with the overarching argument of this thesis, is that the emptiness of the repeated promises of development made by Brazilian political elites became all too evident at the moment that the fruits of development were finally supposed to be ripe, triggering a mass rejection of *any* form of institutionalised political leadership, and an intense naming and blaming of professional politicians. In 2013, both the state and the market utopias had lost any credibility.

Whichever the explanation of the wave of protests that began in June 2013, their consequences for the popularity and the stability of Rousseff's administration were dramatic. The golden age of neodevelopmentalism came to an abrupt end. The second semester of 2013 and the first semester of 2014 were marked by political confusion and further deterioration of the public budget, now aggravated by accelerating inflation. The fiscal expansion was partially contained and interest rates started to rise again (graph 19), driving economic growth further down (graph 18).

The presidential elections took place in the second semester of 2014 against a backdrop of deep distrust in the government and widespread suspicion of politics in general. With the decisive support of part of the left, including some of the most important leaders of PSOL, Rousseff won re-election in the second round on a clearly anti-neoliberal platform, promising to keep the social achievements of the neodevelopmentalist cycle (Webber 2017, 57). Her adversary, Senator Aécio Neves⁶³, represented the return

⁶³ Aécio Neves, a former Governor and Senator (PSDB), comes from a traditional political family from Minas Gerais. His grandfather, Tancredo Neves, was indirectly elected President in 1985 to mark the end of the dictatorship, but suddenly died before taking office. After aligning himself with Lula and PT during the golden age of neodevelopmentalism, Aécio Neves assumed a strong neoliberal stance in the 2014 presidential campaign, defending privatizations and claiming the legacy of Cardoso's reforms. He is currently implicated in the 'Lava Jato' operations, accused of favoring construction companies during his time as Governor of Minas Gerais.

to pro-market policies. Final results were the tightest in 25 years, with President Rousseff winning 51.6% of the valid votes, against 48.4% for Senator Neves. During the campaign, a direct conflict between neoliberalism and neodevelopmentalism could be witnessed in the media. Organic intellectuals of each camp were enlisted to the battle of ideas. One of the high moments of the confrontation was the televised debate between Guido Mantega and Arminio Fraga. While Fraga declared the present development cycle exhausted, calling for fiscal restriction and inflation control, Mantega blamed the ongoing international crisis for disappointing GDP growth results and announced further state programs to stimulate the economic activity (Fraga and Mantega 2014).

Once re-elected, however, Rousseff abandoned the neodevelopmentalist strategy – in crisis since 2013 – and embraced a strong neoliberal adjustment program. Guido Mantega was replaced by Joaquim Levy at the Finance Ministry, marking the start of the third phase of the neodevelopmentalist cycle, which in fact corresponded to an attempted return to the first phase. Interest rates rose, public investments were postponed, the government sent to Congress a proposal involving the curtailing of social security rights, public banks' subsidised loans were reduced, and new primary budget surplus targets were announced. In short, Levy tried to implement part of the neoliberal agenda espoused by Senator Neves in the Presidential campaign –an agenda that he had informally helped Arminio Fraga to formulate (Sadi and Nery 2014). The political consequences of Rousseff's neoliberal turn were momentous: '[o]verwhelmingly, the reaction among her voters was that her victory was an *estelionato*, an embezzlement: she'd cheated her supporters by stealing the clothes of her opponents. Not just disillusion, but anger followed' (Anderson 2016, 2; see also Webber 2017, 58).

If between 2003 and 2006, Antonio Palocci succeeded in implementing a fiscal adjustment and reversing negative expectations regarding Lula's administration, this time Joaquim Levy could not repeat his former bosses' achievements. The falling prices of commodities and the abrupt contraction of internal demand after the misguided fiscal adjustment combined to produce a sharp recession of -3.5% in 2015 alone, followed by a further recession of -3.5 in 2016. In the context of contracting economic activity, tax revenues frustrated original expectations, making it impossible to deliver the targeted primary surpluses. Indeed, instead of a budget surplus, the government delivered a primary deficit in 2015, causing the ratio between public debt and GDP to increase (graph 17). The rapid deterioration of the public budget prompted all major rating agencies to downgrade Brazil's debt bonds. From January 2015 to January 2016, the nominal

exchange rate between Brazilian Reais and US Dollars went from R\$ 2.66 to R\$ 3.90. Debt default was avoided, nevertheless, thanks to country's massive international reserves accumulated during the golden age of neodevelopmentalism and the debt profile, largely owned by domestic capitalists and denominated in Brazilian Reais.

In short, regarding macroeconomic management, the neodevelopmentalist cycle was characterised by a relatively short initial period of fiscal and monetary restraint (until 2006), followed by an uneven period of first fiscal and then monetary expansion (2006-2014), and finally by a second contractionary period (2015-2016), which contributed to the final collapse of Rousseff's second administration, amidst a political and economic crisis.

5.3 - Brazil in the age of giants – neodevelopmentalist geopolitics and the national interest

The 'active and bold foreign policy' (Amorim 2010, 239) adopted since 2003 is a key component of the neodevelopmentalist strategy. Its principles and strategic vision are clearly defined by Ambassador Pinheiro Guimarães (2008a; see also chapter 1), who served as vice-Minister of External Relations (2003-2009) and Minister of Strategic Issues (2009-2010). The post-Cold War world was perceived as an increasingly competitive system, heavily influenced by the actions of a reduced set of superpowers. Given the geopolitical constraints to development in such a system, the only hope for Brazil to catch-up and finally become a developed country was to constitute a political and economic bloc in South America, capable of being one of the emerging power centres in this competitive world.

This anti-liberal foreign policy narrative, sceptical of trade liberalisation and critical of the renewed engagements in international regimes undertaken in the 1990s (see chapter 4), fits extremely well with the neodevelopmentalist economic narrative. Although not rejecting market forces totally, both place the state in a central position regarding the promotion of development. Accordingly, in the neodevelopmentalist cycle the professional bureaucracy of the Ministry of External Relations was revalorised. Salaries increased substantially, the diplomatic corps were expanded by 40%, and tens of new embassies were opened. Between 2006 and 2010, more than 100 new recruits a year were admitted to the Brazilian diplomatic academy (Rio Branco Institute - IRBr),

arguably helping the traditionally elitist Ministry of External Affairs to become more representative of the diversity of Brazilian society. The new diplomats – myself included – were trained by Ambassador Pinheiro Guimarães himself. Ha-Joon Chang's *Kicking away the ladder?* (2002) became required literature in formation courses at IRBr.

Although profoundly nationalist and assertive in its formulation, the neodevelopmentalist foreign policy skilfully avoided direct confrontations with the United States, distancing itself from President Kirchner's and President Chavez' ferocious anti-imperialist discourse. Instead, Ambassador Celso Amorim – Minister of External Affairs between 2003 and 2010 – was able to translate the neodevelopmentalist priorities into a dignified defence of multilateralism, against unilateral decisions of superpowers (Amorim 2013; 2015). The corollary of that principled discourse was a repeated call for reform of international organisations, so as to better represent the post-Cold War international reality. In practical terms, it meant replacing the G-8 with the G-20 as the privileged forum for world political concertation, increasing the voting share of Brazil and other emerging powers in the IMF and the World Bank, creating coalitions among countries in the Global South in order to increase Brazil's influence in international organisations such as the WTO and, last but not least, broadening the UN security council, so as to include Brazil as a permanent member – a long lasting aim of Brazilian diplomacy.

Good personal understandings between President Lula and President Bush – and later President Obama – also helped to avoid the deterioration of bilateral relations with the US, despite Brazil's regional and global ambitions (Vigevani and Cepaluni 2007, 307; Neves and Spektor 2011). Indeed, Lula's growing international stature as a popular leader of the Global South was apparently met with respect by US authorities. After President Lula left office, however, an important moment of tension in the US-Brazil bilateral relations emerged. NSA secret reports released by Edward Snowden revealed that the agency actively spied on President Rousseff and the national oil company, Petrobras (Bauman et al. 2014, 128). After the release of documents confirming these accusations in the international media (Greenwald 2013), President Rousseff was prompted to cancel a state visit to the United States in 2013, marking a historic low in bilateral relations.

The above mentioned Brazilian regional and global ambitions were not simply vague ideas of greatness. Objectively, they were materialised through the formation of international alliances, regional blocs and concrete foreign policy initiatives. One example of these alliances is the BRICS, a political concertation of self-perceived

emerging powers, including China, Russia, India, and later South Africa. Less frequently mentioned are the pioneering summits between South American and African countries and South American and Arab countries. The Brazilian presence in Africa and the Caribbean was reinforced through the opening of a number of Embassies and the launching of cooperation programs to fight hunger and extreme poverty (Pinheiro, Hirst, and Soares de Lima 2010). Unprecedentedly, Brazilian diplomacy even tried to influence issues traditionally reserved to great powers, such as international peace and security. The agreement with Iran regarding a swap of nuclear material and limits to uranium enrichment – intermediated by Brazil and Turkey in 2010 – was not immediately successful due to the stepping back of the US, but paved the way for future negotiations (Amorim 2015; Fitzpatrick 2010).

These global initiatives were ultimately premised on South American economic and political integration and on Brazil's ability to coordinate and represent the region.⁶⁴ In this context, Mercosur, which started in the 1990s as a neoliberal commercial initiative – a step towards full trade liberalisation (Menem 1998) – was re-signified, to become the core of the region's development bloc. The inclusion of Venezuela as a full member, in 2012, was justified in clear geopolitical terms. Beyond Mercosur, broader international political organisations were launched, like UNASUR – formed by all South American Countries – and CELAC – including all Latin American and Caribbean countries, and excluding the United States.

These momentous foreign policy initiatives are sometimes misinterpreted as the ultimate materialisation of the PT's left-wing ideologies (Almeida 2004; 2006; 2010; Cason and Power 2009). At their worst, these interpretations fall back on conspiracy theories that see a subordination between Brazilian state policies and the PT's international party alliances in the context the Sao Paulo Forum.⁶⁵ Although it is evident that long-lasting international connections of the PT helped in the political concertation with left-wing Latin American governments, portraying the neodevelopmentalist foreign policy as intentionally putting party socialist ideologies above the 'national interest' is deeply misleading. Because the 'national interest' is never given, every political group

⁶⁴ One important challenge for Brazilian neodevelopmentalist diplomacy in the region was the nationalisation of gas fields in Bolivia in 2006, just after Evo Morales came to power. The move directly affected Petrobras' interests. Bearing the internal costs of avoiding a more confrontationalist instance *vis-à-vis* the Bolivian government, the neodevelopmentalist diplomacy managed to scale down the conflict, renegotiate contracts and satisfy some of the Bolivian government's demands (Duarte, Saraiva and Bone 2008; Glachant and Hallack, 2009; Fuser 2014).

⁶⁵ The Sao Paulo forum is a coordinating mechanism of left-wing Latin American parties.

represents it in different ways. Therefore, denouncing a foreign policy for its partisanship and lack of concern with the ‘national interest’ can only be seen as a partisan critique in itself. In fact, as mentioned earlier, a clear vision of the ‘national interest’ was presented in the work of the main idealiser of the neodevelopmentalist foreign policy (Guimarães 2007; 2008a). Accordingly, the Brazilian foreign policy initiatives under Presidents Lula and Rousseff are better understood as concrete efforts to make Brazil a great power in an emerging multipolar world – seen as a necessary condition to make possible the country’s capitalist development. In other words, the neodevelopmentalist foreign policy represents a proactive response to perceived international limitations to development.

Evidence of the non-socialist character of the neodevelopmentalist foreign policy is the international expansion of Brazilian private capital under privileged conditions. Here again, the BNDES played an important role in providing very attractive credit opportunities for Brazilian companies to expand their business overseas, taking over their international competitors. What is more, the strengthening of national capital was even formulated as a state policy. As explains Joao Carlos Ferraz, one of the Bank’s top executives, ‘there is no example of a country wanting to have a proper place in the concert of nations that fails to have powerful companies’ (cited in: Garcia 2012, 122). To quote a well-researched example, between 2005 and 2010, BNDES financed the successive taking over of Argentinian and US’ companies by JBS Friboi, making it the largest meat producer in the world, operating in more than ten countries and making around 70% of its revenues abroad. The creation of this Brazilian multinational – and a number of others – was only possible with the active participation of the Brazilian state via its development bank, which injected R\$ 6 billion into the company in 2010 alone (Garcia 2012, 122; see also: Bezerra et al. 2016; Lethbridge 2009; Bugiato 2016).

Beyond extraordinarily attractive credit conditions, Brazilian private capital counted on the active engagement of the Brazilian Ministry of External Relations in opening new markets and guaranteeing favourable conditions for Brazilian investments (Boito Jr and Berringer 2014, 106). ‘Lula became something of an Ambassador for Brazilian capital abroad’ (Webber 2017, 54). Indeed, President Lula took pride in traveling worldwide with big Brazilian entrepreneurs, intermediating the political contacts of Brazilian capitalists and foreign governments, particularly in Africa and Latin America. In his own words:

I am very proud to be an advertiser of Brazilian products – whichever they are. That is the way we build a great nation. You know what? I am ready to travel across the African continent selling machines, tractors, biofuels, whatever is there to sell. I have no problems in being Brazil's peddler' (Da Silva 2008).

A good example of the use of political relations to open profitable opportunities for big Brazilian corporations is the reform and enlargement of the port of Mariel, in Cuba, where a new special economic zone is to be established. The civil works – estimated to be US\$ 957 million, of which US 662 million were financed by BNDES – were conducted by the Brazilian multinational Odebrecht (Vigevani and Aragusuku 2016, 285). Indeed, during the neodevelopmentalist cycle, good relations with neighbouring Latin American countries paved the way for an unprecedented international expansion of Brazilian construction firms, which gained public contracts in Bolivia, Ecuador, Venezuela, Argentina and Nicaragua, among other countries.

It is true that the Brazilian foreign policy under the PT's administration cannot be reduced to the simple defence of the interests of big national corporations. In fact, the Brazilian Ministry of External Affairs has always privileged the agenda set up by the ruling class, including promotion of Brazilian capital abroad. In this regard, the novelty represented by the PT was more a matter of intensity than the mere fact of using state means to promote private interests artificially conflated with 'the national interest' – a rather common practice of capitalist states everywhere in the world. Indeed, promising spaces for social participation were created, particularly in the context of Mercosur and with regard to regional policies for family farming (Patriota 2013, 213; Dolce Faria 2015). Notwithstanding the pioneering opening of the Brazilian Ministry of External Relations to the influence of subordinated social classes and class fractions, there is no doubt that the spaces for social participation were very limited. The partial inclusion of fractions of the working class in the definition of the foreign policy actually mimicked the logic of the neodevelopmentalist project in general, involving marginal concessions for the working class, under the undisputed hegemony of the productive fraction of the national ruling class.

In short, the limits of the neodevelopmentalist social alliance can be seen not only in the macroeconomic management. Neodevelopmentalism also materialised itself through a coherent and well-tuned foreign policy, explicitly committed to catch-up development, and willing to elevate private interests to the level of national interests in order to achieve this goal.

5.4 Beyond the crises of neodevelopmentalism – uneven and combined development

Not even the most enthusiastic PT supporter would dare to argue that in 2016, when the party was ousted from power, Brazil was ‘sailing in the open seas of economic and social development’, as promised by President Lula when the PT came to power, fourteen years earlier (Da Silva 2014 [2003]). Without belittling the important social achievements of Presidents Lula’s and Rousseff’s administrations, there can be no doubt that neodevelopmentalist policies have failed to live up to the promises contained in the neodevelopmentalist political discourse. The national union announced by President Lula da Silva clearly broke apart in 2015, when President Dilma Rousseff was abandoned by almost all political forces supporting her government, including industrial and agrarian organisations, political parties, and her own vice-President. The state could not fulfil the moderating role neodevelopmentalists expected from it – in a moment of economic contraction, class conflict returned with a vengeance. Despite Brazil’s active foreign policy, the state was also unable to shield the country from international negative pressures. In the absence of favourable external conditions, the socialisation of gains halted, eventually reverting to a socialisation of losses during Rousseff’s second term. As a result, several years of rapid economic growth and wealth distribution were balanced by very poor GDP performance in other years, culminating in the dramatic recession in 2015 (-3.5%) and 2016 (-3.6%) (graph 18).

What went wrong with a development strategy that, during its short-lived golden age (2004-2010), seemed to have put Brazil on the track to becoming a developed country? This momentous question is currently a matter of heated political and academic debate, and the answers once again divide the neoliberal and the neodevelopmentalist fields.

For neoliberals, PT’s administrations were based on a fundamentally misguided anti-markets ideology. Ignoring the best economic practices, the state heavily intervened in varied aspects of the economy. This ended up causing uncertainty among economic agents, halting investments and reigniting inflation. While the positive results are dismissed as a form of ‘zodiacal paradise’ (Giambiagi and Schwartzman 2014, 6) – meaning a confluence of good luck – the bad results, particularly after 2010, are directly attributed to the interventionist public policies implemented by the PT. These policies

were ultimately responsible for bringing down capital productivity and profits, curtailing the attractiveness of new investments (Holanda and Pessoa 2014). Equally damaging was the PT's lack of fiscal discipline in the aftermath of the 2008 crisis (Franco 2011; Schwartzman 2012). The result of excessive state spending and intervention – as neoliberals anticipated – was a mismatch of relative prices, the deterioration of the public budget, unrealistically high salaries, and artificially low employment rates.

This economic analysis is coupled with a similar argument made in relation to the neodevelopmentalist foreign policy, perceived as ideologically driven, detached from reality and privileging party over national interest (Almeida 2004, 2006, 2010, 2011; Abdalla 2016). Finally, in the context of the heavily politicised investigations of the 'Lava Jato' operation, a complementary argument is being made by some journalists and political analysts. For them, the real drivers of the neodevelopmentalist errors were not only misguided ideological views, but the actual intention of favouring a set of big companies, which in turn would reward PT and its leaders with funding for campaign and private favours (Leitao 2017).

With different nuances, the neoliberal argument focusses on perceived liabilities stemming from the state's intervention in the economy, thereby falling back on the market utopia that characterises the neoliberal ideology. Although they explicitly recognise that the state is supposed to play an important role, by guaranteeing stable macroeconomic conditions and sound fiscal policies, the driver of development should unquestionably be market forces. Excessive state intervention – mainly in the form of fiscal and monetary expansion, but also by putting a thumb on the scales in favour of labour through pressing for high salaries – is doomed to cause market inefficiencies and backfire in the medium term. In short, for neoliberals the neodevelopmentalist strategy implemented during the PT's administrations is fundamentally mistaken and should be replaced by a more market-friendly strategy, based on a new set of market reforms in order to rebalance the state budget, recover profitability and increase productivity of capital.

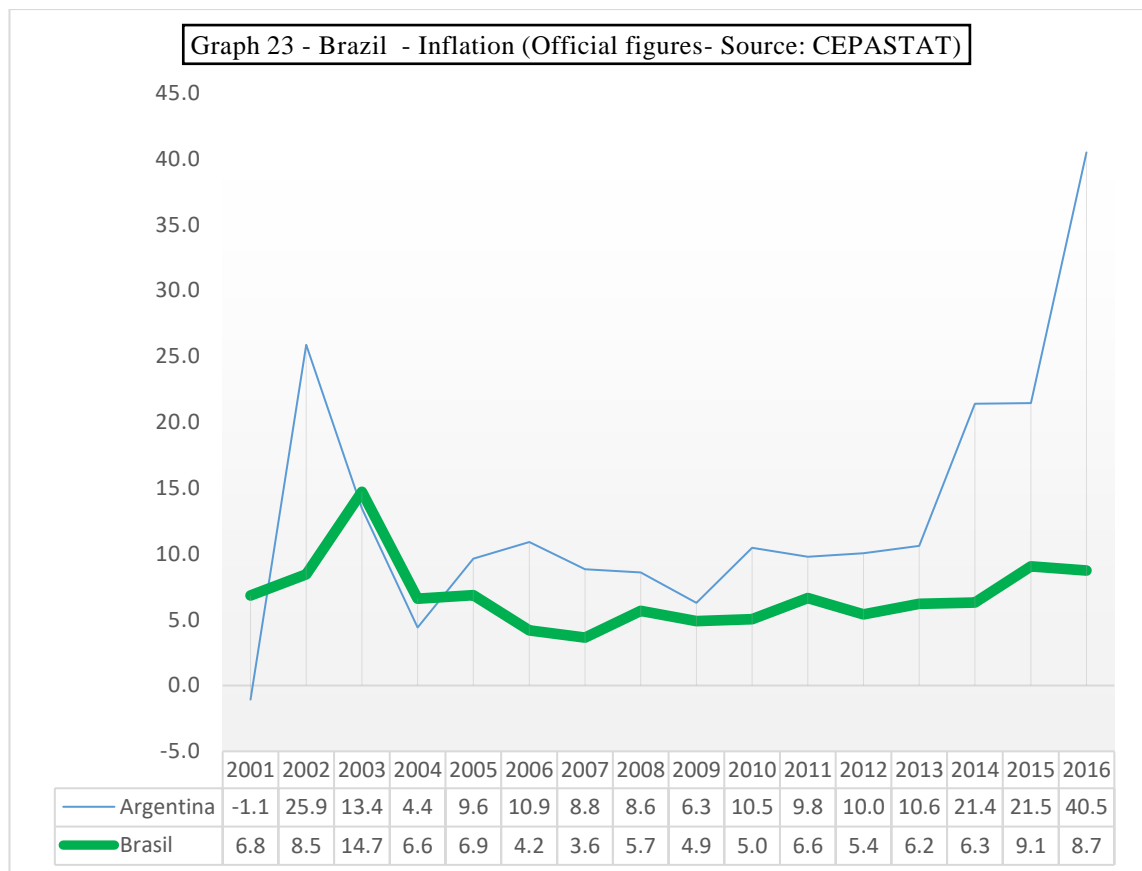
A totally different narrative is made by neodevelopmentalist authors. For them, the PT's government can be considered largely successful, as shown by high growth taxes between 2004 and 2010, but most importantly by the unprecedented social ascension of the poorest layers of the population (Mercadante 2010; Sader and Costa 2013). By rebuilding the state's capacity to intervene positively in the economy, a number of successful public policies were implemented, including flagship programs like Bolsa Família, and Minha Casa Minha Vida. Thanks to state investments and political support,

positive results were arguably produced in the areas of science and technology (Machado Rezende 2013), public health (Costa 2013), woman's rights (Menicucci de Oliveira 2013) and racial equality (Ferreira 2013). The neodevelopmentalist foreign policy is described as hugely successful, raising Brazil's profile internationally and prompting the country to have important participation in the context of the WTO, the G-20 and climate change negotiations, among others (Amorim 2013, 2015). Concrete steps were taken towards South American integration, such as the constitution of UNASUR, coming close to the perspective of making the region as a whole an emerging power pole in a multipolar world (Guimarães 2009).

The disappointing economic results after 2010 are attributed to factors beyond the control of the government, particularly the international crisis of 2008, and the subsequent drop in international liquidity and commodity prices (Barbosa Filho 2013, 80; 2015). In fact, the immediate response to the crisis is praised as bringing back the state's capacity to promote contra-cyclical expansionist policies in order to maintain the level of activity and employment (Mantega 2009). Nevertheless, the sluggish recovering of international demand, the decelerations of Chinese growth rates, the second fall in international commodities prices in 2014, and the rising inflation rates (graph 23) arguably exhausted the possibilities of contra-cyclical policies. Increasing government spending was not met with economic growth and tax revenues, raising therefore the public debt as a percentage of the GDP (graph 17). Another unforeseen circumstance was the severe drought that occurred in the Southwest region of Brazil, forcing water rationing in the state of Sao Paulo (Soriano et al. 2016). Because the Brazilian system is heavily dependent on hydroelectricity, the water shortage triggered the use of auxiliary fossil fuel power plants, driving up energy prices and further impacting on inflation.

There is an interesting parallel between the two mainstream narratives about the neodevelopmentalist cycle in Brazil. For neoliberals, the positive results achieved during the years of economic expansion were exogenously produced, while the negative results were a consequence of the PT's disastrous policies. For neodevelopmentalists, the inverse is true. The positive results are perceived as the consequence of socially progressive public policies, while the poor results are seen as being ultimately exogenously determined. These two opposing narratives are both consistent with their respective utopias. If the impersonal forces of international markets are the source of prosperity and the state is the source of inefficiency and corruption, logically the good results can be attributed to the former and the bad results to the latter. On the other hand, if the

international capitalism is a source of threats and imbalances while the state is the key actor to promote development, then logically the good results shall be attributed to the latter, while the bad results are produced by the former. Therefore, even when neodevelopmentalist writers recognise actual mistakes made by PT administrations – particularly regarding high exchange rates, lack of fiscal responsibility and high interest rates (Bresser-Pereira 2013; Barbosa-Filho 2015) – the underlying presupposition is that the model itself has to be preserved. The faith in the state’s capacity to tame markets and lead the country to development remains unshakable.



What is missing is a narrative capable of organically correlating the recent developmental dynamics of Brazilian society with international constraints and opportunities. Recently, a growing literature in sociology and political economy, including some authors sympathetic to neodevelopmentalism (Singer 2013, 2014, 2015, Souza 2012, 2015), and others critical of it (Castelo 2012; Boito Jr and Berringer 2014; Boito Jr 2013; Boito Jr and Saad-Filho 2015, 2015; Katz 2014) provides one key element of that missing narrative, by bringing to the forefront of their analyses the shifting class relations during the neodevelopmentalist cycle. All these authors see the development

strategy adopted during the PT administration as more than a simple set of economic and social policies, involving an unstable class alliance between fractions of the ruling class and fractions of the working class.

Accordingly, the first years of the PT administration are seen as the forging of the ‘Lulist’ class alliance (Singer 2012), which included an ‘unusual economic arrangement’ (Barbosa-Filho 2008), meaning gains for the very richest (through high interest rates) and the poorest (through social policies). In the golden age of neodevelopmentalism, other class fractions were progressively incorporated. Organised labour benefited from increasing salaries, and the national productive capital received cheap credit from public banks and preferential treatment on government purchases. The crisis of neodevelopmentalism is, therefore, explained by a dissolution of that broad and contradictory class alliance.

If that is the case, the next question to ask is what caused the dissolution of the neodevelopmentalist class alliance? Particularly puzzling is abandonment of the neodevelopmentalist project by the productive fraction of the ruling class, which largely benefited from it. The financial fraction of the ruling class had material reasons to oppose the government after the forceful reduction of interest rates. But the same policy actually was meant to favour industrialists and agrarian producers. Indeed, during the almost fifteen years of the PT administration, the productive fraction of the ruling class – in its rural and industrial parts – was consistently benefited by subsidised credits from public banks, government contracts, and a foreign policy that explicitly tried to promote agrarian exports and the interest of Brazilian multinational corporations abroad. Contrary to what happened in Argentina, where Cristina de Kirchner antagonised rural producers (see chapter 6 below), President Rousseff’s administration tried to please industrial and agrarian producers until the very end, naming their representatives to key ministerial positions. Nevertheless, during the tumultuous years of 2015 and 2016, both the National Confederation of Agrarian producers and the Federation of Industries of Sao Paulo, the two most powerful representative organisations of Brazilian capital, formally declared their support for the impeachment process (FIESP 2015; CNA 2016).

This apparently irrational behaviour of part of the Brazilian bourgeoisie can only be understood as a defensive strategy of class reproduction in the face of international pressures, a point largely missed by the existing literature. As it became clear, the adhesion of the productive fraction of the ruling class to the neodevelopmentalist project was premised on their perception of the state’s capacity to moderate labour demands and

guarantee continued gains for capital. When international conditions were exceptionally favourable, the PT's administration could indeed reconcile those demands with some gains for the working class, particularly to its poorest layers, through social policies and cash transfer programs. The neodevelopmentalist class alliance depended, therefore, on the state's capacity to promote continued socialisation of gains. The perspective of continued gains for both, capital and labour, was galvanised through the insistently repeated promise of development, as seen in the neodevelopmentalist political discourse analysed earlier.

When the whip of external necessity lashed for the first time, in the aftermath of the international financial crisis, the contradictory demands of the different fractions of the neodevelopmentalist class alliance emerged, putting the PT administration in complicated circumstances. The problem could initially be postponed by the fiscal expansion starting in 2009, which generated the best GDP growth results of the entire neodevelopmentalist cycle in 2010 (graph 18). Only one year later, however, the fiscal adjustment carried out in the first year of Rousseff's administration and the deceleration of growth that followed started to put the neodevelopmentalist project under threat. For a short period, the government tried to preserve social achievements by concentrating the burden on the financial fraction of the ruling class, through new regulations and political pressure for interest rate reduction, the so-called 'spread battle' (Singer 2015, 51).

The strategy of privatising losses for the financial fraction of the ruling class was not enough, however. The social struggle for shrinking resources had been unleashed. On the labour side, growing impatience with poor quality public services, insufficient salary gains and increasing cost of life prompted the appearance of new social movements, and culminated in the mass protests of 2013 (Antunes and Braga 2014). On the capital side, beyond the open dissatisfaction of private banks with the forced reduction of interest rates, the industrial and agrarian capital reinforced their demands for subsidised credits, debt restructuring and tax breaks. In the context of growing distributive disputes, increasing pressure on the public budget and rising energy costs, inflation accelerated (graph 23), worsening the perception of a looming crisis, and driving interest rates up again (graph 19).

The precarious re-gathering of the neodevelopmentalist front in the 2014 elections could not resist the second and worse fiscal adjustment implemented by Rousseff at the very beginning of her second term. At the same time, the whip of external necessity lashed again, with a second drop in commodity prices. Iron ore prices, for instance, went from

U\$ 128 (dry ton) in January 2014 to U\$ 67 in January 2015. Soybeans went from U\$ 547 (metric ton) in April 2014 to U\$ 357 in April 2015. The barrel of crude oil went from U\$ 108 in June 2014 to U\$ 47 in January 2015 (INDEXMUNDI 2017), menacing the profitability of oil production in Brazil's recently developed off-shore fields, with profound impacts on the whole oil production chain. Facing shrinking economic activity and tax revenues, the government moved to a dramatic phase of socialisation of losses, through a combination of inflation, taxation, exchange rates devaluation and cuts in public expenditure.

At that point, perceiving the erosion of the neodevelopmentalist class alliance both on the side of labour and on the side of capital, the political opposition defeated in the 2014 election did not hesitate to use corruption allegations to demoralise the government. Despite the fact that President Rousseff was not directly implicated, the impeachment process prospered based on extremely fragile allegations of budget mismanagement, leading to the voting mentioned in the introduction of this chapter. The technical merits of the impeachment allegations clearly did not matter (Singer et al. 2016). The neodevelopmentalist strategy was totally discredited, and the class alliance supporting it did not exist anymore.

In a sense, the neoliberal, the neodevelopmentalist and the critical class-relational arguments mentioned early are all at least partially right, although they all also largely miss the point. Each of them successfully captures one angle of the story. The crisis of neodevelopmentalism in Brazil can indeed be attributed to its unsustainable macroeconomic policies (Giambiagi and Schwartzman 2014), to the international crisis (Barbosa Filho 2013, 2015), and to shifting class alliances (Singer 2013, 2014, 2015). In fact, if the uneven and combined character of Brazilian recent development is taken into account, all three elements can be seen as intertwined. The macroeconomic policies were misguided precisely because they responded to contradictory pressures of an unsustainable class alliance in a context of external pressure. As with the neoliberal development strategy fifteen years earlier, neodevelopmentalism fell prey to its own theoretical and political contradictions. In a context of international crisis and contracting activity levels, the state could not play the class conciliatory role neodevelopmentalists expected from it.

In conclusion, the kind of development that actually resulted from the neodevelopmentalist strategy was very different from the idealised catch-up development promised in the political discourses. Productive and social structures changed, but Brazil

did not become a developed country. Instead, Brazilian development over the last 15 years can be better conceptualised as uneven and combined. Unevenness and combination resulted in a particular balance of socialisation and privatisation of gains and losses, determined by differentiated state responses to class conflicts and international pressures and opportunities.

Chapter 6 – Neodevelopmentalism in Argentina: from class conciliation to confrontation

Let it be clear, this is not an economic model. Let it be clear, this is a political project with economic, social and cultural aims.

President Cristina Fernandez de Kirchner (2013)

At midnight on the 9th December 2015, Cristina de Kirchner's mandate as President of the Argentine Republic officially expired. A new President was not immediately sworn in, however. It took more than 12 hours for Mauricio Macri, the winner of the 2015 elections by a margin of less than 3% of the votes, to be officially nominated President by the Argentine Congress. The departing President refused to attend the transfer ceremony.

During the previous week, tension between the entering and the departing Presidents mounted, as they could not agree on the protocol to be followed. Mauricio Macri wanted to receive the baton and the ribbon that symbolise the Presidency at the Casa Rosada, after the Constitutional ceremony in the Congress, while Cristina de Kirchner insisted that the attributes of the Presidency needed to be transposed in the Congress itself. The controversy culminated in a bitter telephone call between the two, followed by a series of twitter exchanges in which Cristina de Kirchner accused Macri of shouting at her. In a letter released one day later, she went on and revealed the harsh responses she gave to the President elect in three points: 1) She was not his escort; 2) The inauguration day was not Macri's birthday party; 3) She would not keep on silently accepting his personal and public mistreatments (De Kirchner 2015). Macri responded by taking the case to court. Finally, a judge decided that Cristina de Kirchner term should officially terminate in the final minute of the 9th of December, creating a 12-hour presidential vacuum just before Macri could finally take office.

The anecdotal conflict about the protocol to be followed in the Presidential transition is actually much more than a silly political controversy in an eccentric underdeveloped country, as much of the international media covered it. It represents the degree of polarisation in Argentine society after 12 years of substantial political, social

and economic change. The transfer of power was perceived by both sides as a crucial moment. Much more than a simple change of command, it entailed a substantial shift in the political discourse, the class alliance in power, the economic policies adopted and the relations the Argentine society would seek to establish with other societies – in short, it represented a change of development strategy. It was the end of the neodevelopmentalism cycle and the return of neoliberalism.

Such transition would have seemed highly improbable only one decade earlier. In the heyday of neodevelopmentalism, between 2003 and 2008, the economy was growing at Chinese rates, exports were booming, Argentina was accumulating international reserves, industries were reopening and unemployment and inequality rates were falling. During that short period, neodevelopmentalism came the closest to the ideal presented in Bresser-Pereira's theory and in the 'Ten Theses on New Developmentalism' (see chapter 1). In an internationally favourable setting, different class interests were reconciled through the state, provisionally able to socialise gains without privatising losses. In accordance with the neodevelopmentalist political discourse, a progressive, class-neutral state was apparently guiding the country towards development.

The setting would rapidly change after the double political and international crisis of 2008. From that point on, a period of growing social conflict emerged. The neodevelopmentalist discourse progressively abandoned its class reconciliation features and became more and more conflictive. In order to keep on socialising gains, or at least to defend the achievements of the previous years, the economic policies could not avoid privatising losses, thereby progressively alienating fractions of the neodevelopmentalism class alliance. The limited possibilities of the Argentine state to reconcile class conflicts and shield the national economy against external pressures became clear. The final electoral defeat of Argentine neodevelopmentalism after a long period of crisis shows the limits of the reformist strategy of Cristina de Kirchner, and of neodevelopmentalism at large. Despite the important incremental gains achieved by the working class in the period, the neodevelopmentalist long-term project was aborted before it could accomplish its declared goals of eradicating poverty and promoting long lasting social justice.

My argument is that the shortcomings of neodevelopmentalism in Argentina are better explained by the limitations of the model itself than by fortuitous accidents or mistakes in its implementation. Taking into account the necessarily uneven and combined character of development, the disruptive effects of the 2008 crisis cannot come as a surprise. Indeed, development possibilities are conditioned by the interplay between

international pressures and opportunities and the class structure of societies. From the start, the Argentine model was based on two interrelated fragile assumptions that ignored unevenness and combination in the development process: the existence of continued internationally favourable conditions and the possibility of permanent class conciliation based on an idealised state. Mirroring what happened in Brazil, when international conditions reverted – i.e., when the price of export commodities dropped – disputes for the shrinking social resources re-emerged with a vengeance, cracking the neodevelopmentalist class alliance apart. Contrary to Dilma Rousseff, however, Cristina de Kirchner did not step back, compromising the core of her political discourse in order to try to recompose the developmentalist class alliance. Instead, the Argentine president reacted by radicalising discourse and policies, thus pushing neodevelopmentalism to its limits.

In this chapter, I make the above outlined argument in four steps. Firstly, I analyse the neodevelopmentalist political discourse, showing how it progressively lost its class conciliation aspects, while keeping other essential traits of neodevelopmentalism, such as the idealised role of the state and the promise of development. After that, I show how the shift in the neodevelopmentalist discourse went hand in hand with a shift in the economic policies. The third section explores the neodevelopmentalist foreign policy, focusing on its insufficient answers to the international pressures threatening the development model. Finally, in the last section, building on the Argentine Marxist literature, I question the interpretations offered by contemporary neoliberal and neodevelopmentalist writers for the crisis of neodevelopmentalism. Going beyond the debate about the failure or the success of the so-called ‘won decade’, I conclude that the mixed results actually obtained after 12 years of neodevelopmentalism are better understood as consequences of the structural limitations of neodevelopmentalism itself.

6.1 From unity to overcome the crisis to the ‘won decade’ – Neodevelopmentalist political discourse in Argentina

The neodevelopmentalist cycle in Argentina passed through different moments, surviving three consecutive presidential elections (2003, 2007 and 2011) and generally corresponding to the period in which the Kirchner family remained in charge (2003-2015). In fact, in the aftermath of the political and economic crisis of 2001-2002, the

provisional administration of President Duhalde – indirectly elected by the Congress after a series of three resignations – can also be seen as laying down the foundations for Argentine neodevelopmentalism. Nevertheless, a consolidated neodevelopmentalist class alliance was to be forged only during the disputed 2003 elections. This class alliance progressively changed to include broader fractions of the working class, alienating as a result some fractions of national capital that adhered to the neodevelopmentalist project in its first years – particularly agrarian and financial capital. The gradual shift in Argentine neodevelopmentalism has its correlate in the political discourse about development. From clear catch-up developmentalist propositions under Duhalde and Néstor Kirchner to a defiant twist towards social justice and egalitarianism, particularly in Cristina Kirchner's last term in office.

President Duhalde came to power in extremely delicate circumstances. After losing the 1997 elections to De la Rúa, who promised a change of course in the Argentine neoliberal model but ended up reinforcing it by naming Domingo Cavallo (the original architect of the convertibility plan) as his finance minister, Duhalde was finally sworn in as President in the aftermath of successive resignations. Amidst deep economic and political crisis, he was indirectly chosen by the Senate to complete the presidential mandate of De la Rúa and call new elections in 2003. In his first speech before the Argentine Congress, in January 2002, he described the ongoing crisis in vivid colours:

(...)I want to tell you that the financial crisis of the public sector, as you know, has no precedents. We have no money to face the obligations of salaries, pensions, and bonuses of the National State. The exceptional fall in the economic activity is translated into a strong fall in tax collection. This generates a vicious, perverse circle that leads our country to the brink of disintegration and chaos (Duhalde 2002).

This situation had been brought about by ‘an exhausted model that has caused despair to the great majority of our people.’ Therefore, the task Duhalde defined for himself was to ‘set the basis for a new model, which is capable of recovering the production, the Argentines’ jobs, its domestic market, and promoting a fairer distribution of wealth.’ Preaching on national unity around his program of ‘national salvation’, President Duhalde not surprisingly appealed to the perspective of future development, conflated with economic growth. According to him, ‘the only way to face our domestic and external commitments is through the growth of our economy that produces an authentic human development’ (Duhalde 2002).

Duhalde's political speech brings together all the elements of the neodevelopmentalist discourse, as seen in relation to President Lula's speeches in Brazil (chapter 5). Starting with the denunciation of the neoliberal 'model' adopted in previous years – portrayed as anti-national and anti-productive –, it promises growth and development as a result of national unity around a new model, anchored on the productive sector and in the national interest.

Néstor Kirchner's political discourse also gravitates towards the same broad themes. Once again, for the seventh time in less than fifteen years, a new president took office amid a crisis. Notwithstanding the precarious stabilisation accomplished by Duhalde and his finance minister, Roberto Lavagna (see 6.2 below), the political conjuncture remained explosive. Peronism, Argentina's undisputed hegemonic political force, faced a profound identity crisis after Menem's neoliberal reforms. Contrary to the party's traditional nationalist and statist convictions, the extended program of privatisation, deregulation and denationalisation carried out by Menem – with the support of Peronist trade union leaders – demoralised and split the Peronist field and its official party, the PJ. New, independent social movements, with horizontal forms of organisation, emerged as important political actors from the non-Peronist left (Sitrin 2006; Etchemendy 2011). Nevertheless, their refusal or incapacity to structure a party hindered their electoral expression (Sader 2008, 17).

Accelerating inflation, persistently high unemployment rates and the political fragility of the indirectly elected government fuelled the street protests, repressed by central and local authorities. Social instability culminated with the 'Avellaneda Massacre' of the 26th of June 2002. In a brutal attack against protesters blocking a major bridge connecting the city of Buenos Aires with part of its southern suburbs, the police killed two young activists (Maximiliano Kosteki, 22 years old, and Darío Santillan, 21), and injured tens of others. The episode further deepened the social crisis, forcing the government to hold early general elections. Under pressure, and losing political support, President Duhalde gave up his plans of running for office (Weinfeld 2016, 40).

As a result of the political fragmentation, in the 2003 elections three main candidates could claim Peronist credentials. Adolfo Rodríguez Saá, the former governor of San Luis and interim president for seven days in December 2001; Néstor Kirchner, the former governor of Santa Cruz; and Carlos Menem, running again for the presidency on the promise of bringing back the booming years of the early 1990s. Carlos Menem and Néstor Kirchner (supported by Duhalde) finished first and second in the first round,

getting respectively 24.45% and 22.24% of the valid votes. Only a few days after celebrating his provisional lead, Menem announced he was stepping out of the presidential race. As a consequence, Kirchner won the second round by default.

The particular circumstances of his elections raised some important questions about Kirchner's program, which was not made entirely clear during the campaign. In the video spot announcing his withdrawal, Menem claimed that the Argentine people were being 'submitted to the moral violence of having to choose a presidential candidate they barely know (...), not as an expression of adhesion to a proposal and a program that he refused to discuss publicly, but with the only purpose of preventing the victory of another presidential candidate' (Menem 2003). Certainly the majority of the Argentine people had good reasons to reject Menem. Nevertheless, the fact remains that Kirchner – then the governor of a remote and scarcely populated province closer to Antarctica than to Buenos Aires – was an outsider whose program was only vaguely suggested in his short presidential campaign. Beyond nationalist calls for union and a confrontational tone regarding the foreign holders of Argentina's defaulted debt, the only certainty Kirchner had to offer was the promise to keep the finance minister, Roberto Lavagna, whose neodevelopmentalist program based on a massive devaluation of the Argentine peso was already starting to show some results.

In this context, Néstor Kirchner's first presidential speech was particularly important. Elected with less than a quarter of the total votes due to his adversary's abdication, this speech can be seen as both, a public self-introduction and the laying down of the political foundations of Argentine neodevelopmentalism. Unsurprisingly for a country torn apart, the elected president started with a call for national unity, which is revealing for its explicitly international comparison. According to Kirchner, Argentina should follow the example of 'civilised countries with high intensity democracies', where 'adversaries discuss and disagree but keep on cooperating'. More than just calling for national unity, however, Kirchner announces a clear break with the neoliberal past. 'It should be absolutely clear that, in the Argentine Republic, in order for us to have a future and not repeat our past, we need to thoroughly face the challenge of changing. (...) Change is the name of the future' (Kirchner 2003a).

At this point, instead of echoing Menem's grandiose plans to reinsert Argentina into the first world, Kirchner preferred a much more sober posture, praising hard work and public administration effectiveness. The endeavour to make Argentina a 'normal' country is repeated four times in this speech. The new president explicitly refused 'big

plans, followed by frustration due to the lack of results'. Indeed, according to him, 'an administration should not distinguish itself by its official's speeches, but by the actions undertaken by its teams' (Kirchner 2003a).

This apparent departure from the neodevelopmentalist political discourse – in whose core lay exactly big promises of future development – has the rhetorical purpose of establishing a difference of style in relation to Carlos Menem. However, only a few minutes later, Kirchner cannot avoid resuming development promises. Argentina is forecasted to experience vigorous economic growth based on internal consumption, which is set to be 'in permanent expansion', thanks to higher salaries and more job opportunities. 'The result shall be the doubling of [national] wealth every fifteen years (...) strengthening the middle class and recovering from poverty all our fellow compatriots' (Kirchner 2003a).

The most important neodevelopmentalist mark in Néstor Kirchner's speech is not the promise of vigorous economic growth – which is also to be found in neoliberal speeches (see chapters 3 and 4) – not even the key role attributed to the internal market, as opposed to the neoliberal emphasis on comparative advantages activated through international trade. Kirchner's speech is a perfect example of the centrality of the state in the neodevelopmentalist project. The idea that the state can and must manage the national economy and bridge social conflicts so as to provide capitalist development is the cornerstone of the model he espoused. This notion is further reinforced in reference to 'developed countries', whose pattern of capital accumulation is to serve as a model:

In our project we place in a central position the perspective of rebuilding a national capitalism that generates alternatives that allow the resuming of ascending social mobility. (...) It suffices to look at how more developed countries protect their producers, their industries, their workers. (...) It is about giving birth to an Argentina of social progress (...). In order to do that, it is necessary to promote public policies conducive to the development and economic growth of the country. (...) Naturally the State has a key role in that, as the presence or the lack of the State constitutes a political attitude (Kirchner 2003).

Finally, after calling for national unity, refusing the presuppositions of the previous neoliberal model, promising economic growth and stressing the role of the State in bringing about 'social progress' and 'development', Néstor Kirchner finishes his inauguration speech on a high note, announcing his views for the future of Argentina:

I come to propose to you a dream, I want a united Argentina. I also want a normal Argentina. I want us to become a serious country. But I also want a fairer country.

I wish that following this way a new and glorious nation will rise on the face of the Earth. Our nation (Kirchner 2003).

It is interesting to notice here the conflation between national pride and development, a notion also present in Brazilian neodevelopmentalist discourses. According to this narrative, further elaborated in speeches delivered at International forums,⁶⁶ the world is characterised by competing national interests. Therefore, the path to development is also the path to international glory. This vision guided a marked shift in Argentine foreign policy, from the attempt to establish privileged relations with the US to the adhesion to the endeavour of building a power pole in South America in association with Brazil (see 6.3 below). At the same time, the perspective of becoming a ‘glorious nation’ seems to fit oddly with the ‘dream’ of becoming a ‘normal’ country, unless normal countries are deemed as glorious, in which case the whole notion of glory is somewhat emptied.

In short, Néstor Kirchner’s inauguration speech is a particular affirmation of the neodevelopmentalist ideology, adapted to the Argentine political culture. The class conciliation aspect – highlighted in the speech Lula da Silva delivered only a few months earlier in the Brazilian Congress – is also present here, albeit with less emphasis. So is the explicit comparison with ‘developed countries’, taken as examples to be followed, and the denunciation of the previous neoliberal model. The promise of vigorous and fast economic growth is key. The perspective spelt out for Argentina is clear: becoming a developed and glorious capitalist country in the foreseeable future. Finally, repeated calls for social justice are added as an unmistakable mark of the Peronist affiliation claimed by Néstor Kirchner.

Cristina Fernández de Kirchner, former Senator from the provinces of Santa Cruz and Buenos Aires, and President from 2007 to 2014, progressively polarised the neodevelopmentalist discourse, erasing its conciliatory elements and stressing the notions of social justice and national pride. The first woman elected President of Argentina⁶⁷ came to power in much more favourable circumstances than her husband four years earlier. The promising economic results of Nestor Kirchner’s administration and his ability to reduce social tensions – not by repressing social movements, as was the case

⁶⁶ See, for instance, Kirchner Speeches at the United Nations General Assembly and in the inauguration of the Summit of the Americas (Kirchner 2003b, 2005).

⁶⁷ Isabelita de Peron was the first woman to become President of Argentina, in 1974, although she was not directly elected, being sworn in as President after the passing of her husband, Juan Domingo Peron.

with President Duhalde, but by a complex mix of concessions, co-option and diversion – resulted in the expressive victory of Cristina de Kirchner, with 45% of the votes. Her closest adversaries were the moderate leftist Elisa Carrio (23%) and Roberto Lavagna (17%), the former finance minister under Nestor Kirchner and Duhalde. The coalition supporting Cristina Kirchner's candidacy also won comfortable majorities in both Houses of the Argentine Congress, confirming a tendency that had already appeared in the 2005 legislative elections (Levitsky and Murillo 2008).

The political discourse in the campaign assumed a professorial tone and frequently evoked Cristina de Kirchner's identity as a woman (Vitale and Maizels 2011; Vitale 2014). The television spots, on an invariably positive note, celebrated the country's economic recovery and, again, stressed on the union of the Argentinians. This union was represented by the very alliance the Kirchners built, broad enough to include tiny fringe communist parties and a significant part of the centrist UCR – traditionally the main political adversaries of Peronism. In exchange for the support of the latter, the UCR dissidents indicated the vice-President, Julio Cobos, the former Governor of Mendoza Province – a bold political deal that would reveal its price only a few months later.

The expressive electoral victory was crowned by a triumphant inauguration speech. Unlike the carefully crafted speech Nestor Kirchner read four years earlier before the Congress, Cristina de Kirchner delivered a passionate, improvised speech, occasionally stopping to cast a deep gaze at her husband – seated next to her –, salute the militants and nod in agreement with their patriotic ovation. The economic and political message, however, remained substantially the same one delivered four years earlier by Nestor Kirchner. The union of the Argentinians, under the strong leadership of the state, representing the national interest, was the key to development. According to her, the work done so far by her husband's administration not only rescued Argentina from its most dramatic crisis, but paved the way to its effective development:

He has done it on behalf of his convictions, the same as mine and many other Argentinians, who have always believed in the country and in its men and women, in the people and in the Nation, words that in times of globalisation do not sound well, or at least sound rare. But it suffices to know the countries with more economic and social development and ask the reasons for their growth and development to find in the unrestricted defence of their own interests, as States and societies, the key to that advanced condition, to that development (De Kirchner 2007).

The experience of ‘developed’ countries, therefore, is evoked as evidence that a country must care about its ‘own interests’, despite the recognition that this idea does not fit well in ‘times of globalisation’. Accordingly, Cristina de Kirchner reaffirmed the importance of having a ‘political project’ for development. At that point, looking at her husband with a discrete smile, the incoming President said: ‘You, after all, have never been a postmodern: in times of postmodernity, you were a President of modernity, and I guess I am too’ (De Kirchner 2007).

It is very interesting to notice the conflation between globalisation, postmodernity and neoliberalism in Cristina Kirchner inauguration speech. The political project she represented, on the contrary, is perceived as national, modern and conducive to development. It is premised on the mobilisation of the national productive sector in its different fractions, under the promise of a ‘better life’ for all:

I want to propose, therefore, this new economic model of a diversified matrix, of accumulation with social inclusion (...); a model that recognises in labour, production, industry, exports, in the countryside, the moving forces that made it possible for millions of Argentines to recover not only their work, but also the hope and belief that a better life is possible (De Kirchner 2007).

Despite nominally recognising the importance of all sectors of the economy – and particularly the traditionally powerful agrarian export sector, the speech echoes the classical Peronist view in prioritising industry as the key sector to generate development. Once again here, ‘developed’ countries appear as a model to be emulated:

I think we have to overcome this historical taboo that has always existed among the Argentines about the model being either the industry or the countryside. I believe that we can, and we are showing that a model of accumulation based on countryside and industry has synergy. I always say that, I would love to live in a country where the higher incomes came from industry, maybe. Then we would surely be living in one of the great developed countries, where the industry has always subsidised the countryside (De Kirchner 2007).

Defence of the national interest, social unity, a strong and benign state, focus on the production – particularly on the industrial sector – these are, in short, the key elements of Cristina Kirchner’s first inauguration speech, firmly anchored in neodevelopmentalist ideas. There is an important discursive twist, however. The perspective of social justice, and the final overcoming of poverty, which appeared in Nestor Kirchner’s speech in an oblique way, is elevated to the highest aim of the ongoing political project. After all,

Nestor Kirchner's government achieved 'important triumphs, but not the definitive one, because the definitive victory will be always lacking while there is a single poor person in the Fatherland. This is absolutely clear to us' (De Kirchner 2007).

Finally, it is important to notice that this 'definitive victory' is obviously to be achieved on a national basis. The development of Argentina is supposed to put an end to poverty in that country, and only there. In other words, it is up to Argentina to overcome its own underdevelopment in a competitive world. As Cristina de Kirchner makes clear towards the end of the speech: 'maybe we are a little more modest and humble now. In those years we dreamt of changing the world; now we acquiesced to change this country of ours, our home' (De Kirchner 2007).

Contrary to the relatively stable four years preceding it, the period of Cristina de Kirchner's first term (2007-2011) was marked by the re-emergence of latent social conflicts. The government clashed with agrarian producers, powerful trade unions, foreign companies and the corporate media – always claiming to represent the national interest. After broadening her electoral base in the 2011 elections (getting 54% of the votes, in comparison to 45% in 2007), Cristina de Kirchner felt emboldened enough to double down on her bet and deliver a defiant second inauguration speech on the 10th of December 2011.

This time, however, Nestor Kirchner was not beside her. The former president had died one year earlier from a sudden stroke at only 60 years old. The 2011 presidential inauguration speech can be seen as an important mark in the active discursive construction of the image of Nestor as a national hero, who saved the country from the neoliberal debacle and laid down the basis of a new development model. Dressed in black, Cristina de Kirchner began her speech on an emotional tone: 'As you all can imagine, today is not an easy day for this President. Despite the joy of the striking popular vote, there is something missing, there is someone missing' (De Kirchner 2011).

After this dramatic start, the work of Nestor Kirchner and his vision for the country is taken as the guiding line for the long and improvised speech, many times interrupted by shouting and applause coming from the crowd of militants occupying every available space in the Congress' galleries and overflowing into large square in front of it. Nestor Kirchner is not referred to by his name one single time, but the listeners can have no doubt about whom is Cristina de Kirchner is talking about:

That man also said, from this very place, a sentence that possibly even he himself could not have realised how much of prophecy it contained. (...) ‘Change is the name of the future’. My God, things have really changed since that 25th May 2003, not only in Argentina, but in the world as well! We are in a new Argentina, but we also are in a new world, meaning greater challenges and greater decisions in commitment with the interests of our people and our society. Argentina has undergone a phenomenal leap (...), today we have a country that has passed through the largest growth cycle in its 200 years of history. Moreover, its per capita GDP had one of the most important, or even the most important, result in the world in terms of growth, surpassed nevertheless by industrialisation levels. In fact, the economic activity, which grew at Chinese rates, was exceeded by the rates of industrialisation, and the two things are not unconnected, quite on the contrary, they were perfectly articulated (De Kirchner 2011).

Repeating and reinforcing the call to end poverty made four years earlier, the President declared: ‘I said that while we have a single poor person in Argentina, the national and popular project will not be complete’ (De Kirchner 2011). Here, the adjectives ‘national and popular’ are added to the original sentence, in a significant conceptual shift from the calls of national unity of the early neodevelopmentalist speeches. Although Cristina de Kirchner still summons the notion of a national interest, this time there is a privileged social group that is placed at the centre of her development model: ‘the people’. Vague as this social group may be, placing herself as the legitimate heir of the ‘national popular’ model started by her husband allows her to antagonise other class fractions – represented as ‘non-people’ –, and demand that they too do their part for the development of the nation as a whole. For instance, referring to business owners:

That is why I advise to all sectors to not spit at the sky, because it is not a good method and it never produced good results for the Argentinians to spit at the sky. Let us take care of our accomplishments during these years, when small entrepreneurs became mid-range, when mid-range entrepreneurs became big, and when the big ones got tired of making money; and that is alright, I do not complain about those who make money, I just ask for their fair and intelligent contribution, not even patriotic, simply the fair and intelligent contribution to a virtuous economic model (...) (De Kirchner 2011).

Among the social and political sectors mentioned in the speech in a critical or demanding tone are the international financial system, the media conglomerates and even Peronist trade unions who, according to Cristina de Kirchner, abused the right to strike: ‘with us the right to strike is recognised; but I mean the right to strike, not to do blackmail and extortion’. Puzzlingly enough, the agrarian sector, with which the government had an important confrontation, is not directly mentioned, except for an elliptical reference to

‘the biggest and longest political conflict in memory, at least since the advent of democracy’ (De Kirchner 2011).

Beyond the breach in the national unity discourse, in favour of a more popular perspective, another important difference in relation to previous speeches is the role attributed to ‘developed’ countries. Instead of a source of inspiration, this time the scarce references to the ‘developed nations’ are made in a critical and defiant tone. Amidst the Greek crisis, global north nations are represented as hostages of the financial sector. The United States is not mentioned at all, while the Brazilian President, Dilma Rousseff, present at the ceremony, is explicitly acknowledged. In fact, the few foreign policy comments present in the speech are mainly directed to Latin American countries and the perspective of regional integration, including a public acknowledgement of Venezuela’s help to Argentina by buying Argentina’s debt.

It is extremely challenging to grasp the central point of the 2011 inauguration speech. Different from the much shorter 2003 and the 2007 speeches, which clearly revolved around key neodevelopmentalist themes – such as the necessity of national union for development, and the perspective of catching-up with ‘developed’ countries – the 2011 speech is fragmented and convoluted, including random references to the naming of an asteroid after a young anti-dictatorship activist. The stream of the argument is interrupted many times by side comments, rhetorical questions and anecdotes. Overall, however, a certain vision of the future provides the *leitmotiv* of the entire speech. Despite the opposition of unpatriotic and short-sighted groups, Argentina was well on its way to development and social justice, and the government was determined to continue the country’s march to the future.

The same idea appears in its clearest form in a historical speech delivered two years later. On 25th of May 2013, still wearing mourning clothes, Cristina de Kirchner led the celebrations of the Argentine Independence Day in the historic Plaza 25 de Mayo. In this speech, the President launched the catchy expression ‘*decada ganada*’, or the ‘won decade’ – an obvious contrast to Latin America’s infamous ‘lost decade’. This time, the expression is used to characterise the cycle that started ten years earlier when her husband came to power. More importantly, she exhorted her fellow Argentinians to keep on progressing towards a new ‘won decade’. After mentioning the avalanche of critiques against her government, and comparing herself and her husband with Juan Domingo and Eva Peron, she gravely said:

But I do not complain. We know [that this is what happens] when we affect interests, when we stand by the most vulnerable sectors, when we incorporate millions of Argentinians to work (...) in this 'won decade'. (...) We successfully managed to articulate this, and this is the best tribute we can make to those men and women that freed our people 203 years ago. But their task was not completed, because we keep on struggling, not for freedom anymore, but for equality, which is the great sign of this decade, and of the next ones. I also want to summon the Argentinians to this creation; may this won decade be followed by another one, in which the Argentinians keep on winning. (...) It is necessary to empower the people, the society, with these reforms and these achievements, so that no one can ever take it away, and I know what I am talking about (De Kirchner 2013).

The defiant tone of the speech is complemented by praises for 'other patriots', such as Presidents Lula da Silva of Brazil, and Hugo Chavez of Venezuela. Global north countries are totally absent from the speech, except from a quick mention of the economic difficulties affecting the world as a whole, 'even Sweden'. Finally, towards the end of the speech, Cristina de Kirchner provided the best insight into her development strategy: 'Let it be clear, this is not an economic model. Let it be clear, this is a political project with economic, social and cultural aims' (De Kirchner 2013).

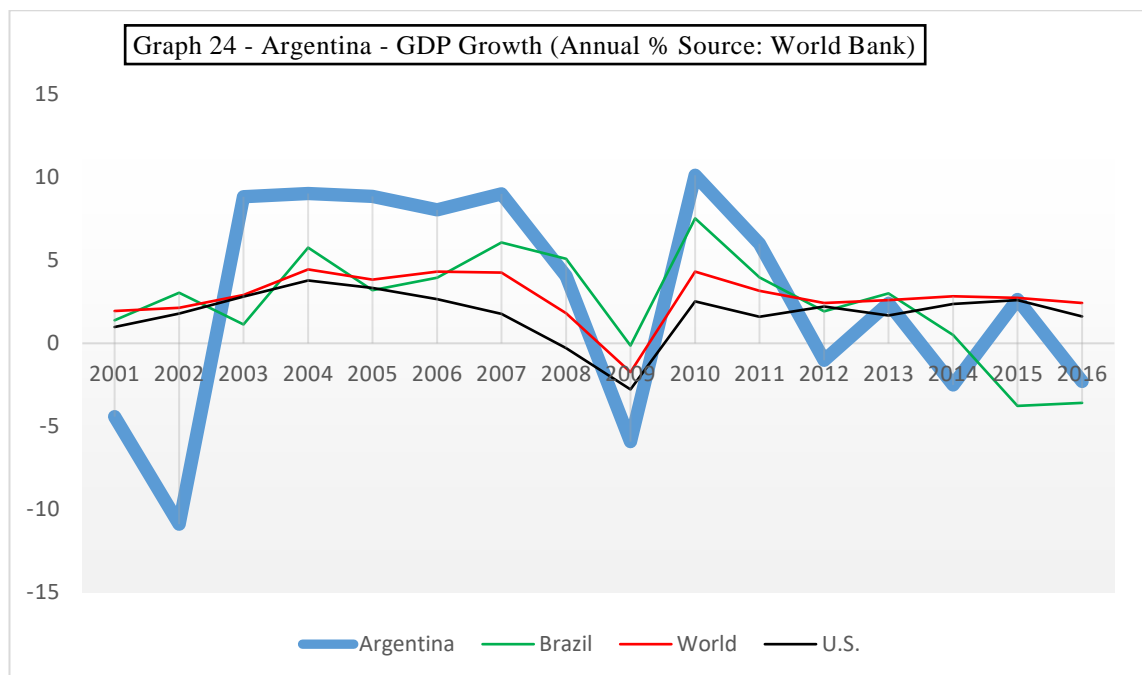
In summary, the political cycle starting in 2003 provides paradigmatic examples of neodevelopmentalist discourse. From the conventional call for national unity against international financial interests made by Nestor Kirchner to the confrontational tone adopted by Cristina de Kirchner, the common element of the neodevelopmentalist political discourse in Argentina is an always repeated idea of national interest, represented by the state, and a vision of continuous progress towards a developed condition. This discourse meets its limits when the very notion of development is decisively extended beyond the perspective of catching-up with nations of the global north to include potentially disruptive elements, such as social justice, equality and people's empowerment.

6.2 The political economy of confrontation – testing the limits of neodevelopmentalism

The gradual shift in the neodevelopmentalist discourse in Argentina is intrinsically intertwined with the shifts in macroeconomic management and other public policies implemented by the Argentine state during the same period. Far from being simply an expression of Cristina de Kirchner's irascible personality or emotional

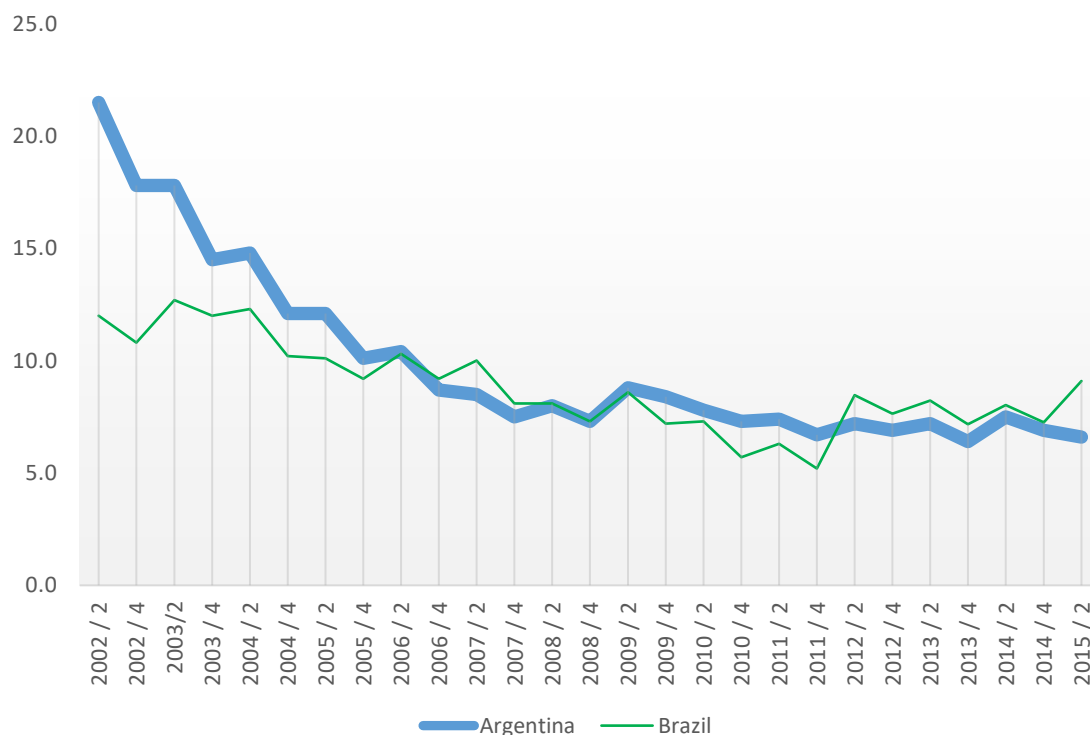
instability – as implied by opposition journalists in misogynous notes (Castro 2015) – the changes in the political discourse announce and justify a deeper change in Argentina’s neodevelopmentalist model itself.

When Nestor Kirchner was sworn in as President, on 25th of May 2003, Argentina’s economy was already showing the first signs of recovery. After free falling for four years and reaching a historic contraction of -10.9% in 2002 alone⁶⁸, the GDP finally started an upward trend, growing by 8.8% in 2003 (graph 24). Although unemployment and poverty rates remained alarmingly high (graphs 25 and 26), a positive tendency was already noticeable.

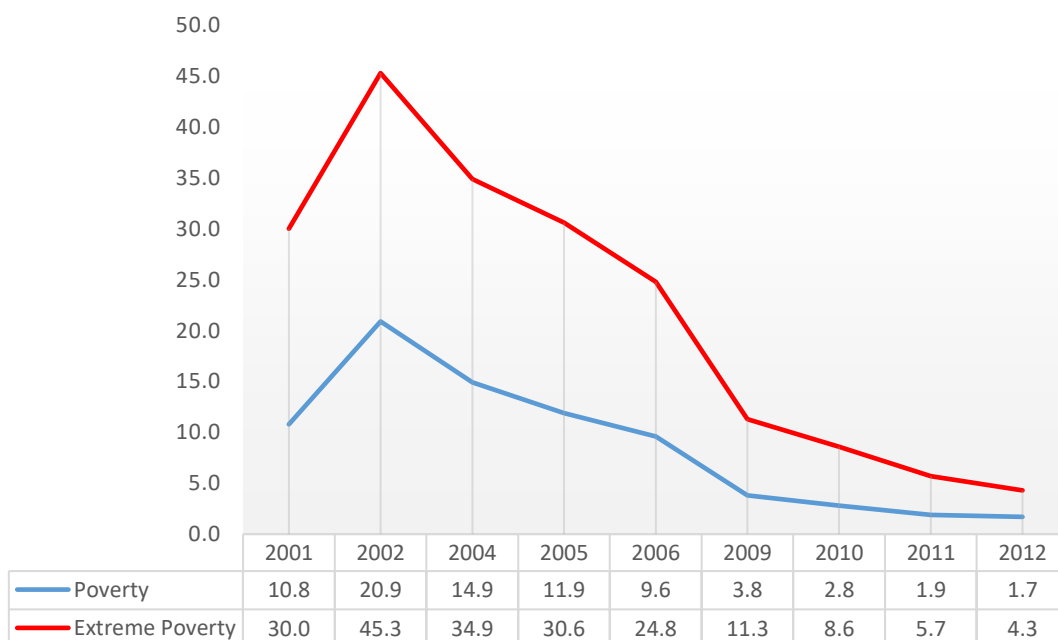


⁶⁸ For the analysis that follows, I rely on statistics from the United Nations Economic Commission for Latin America and the Caribbean (CEPAL 2017) unless another source is indicated.

Graph 25 - Argentina - Unemployment rate - Second and fourth quarters of each year. (% of the Economic Active Population. Source: CEPALSTAT)



Graph 26 - Argentina - Poverty and Extreme Poverty. (% of the urban population. Source:CEPALSTAT)



Those limited but promising results were a direct consequence of the policies being adopted by the finance minister Roberto Lavagna from April 2002 on. Lavagna's

strategy was based on building on the immediate shock of competitiveness Argentine national production received after the debt default, the imposed conversion of bank deposits from dollars to pesos, and the subsequent official abandoning of the convertibility law. These extremely unpopular measures, announced between December 2001 and January 2002, sparked continued protests, as the Argentine middle classes saw the real value of their savings being dilapidated without being able to take out their money from the bank due to withdrawal restrictions (the infamous *corralito*). Nevertheless, the consequent sharp devaluation of the Argentine peso had a silver lining. Between the last days of convertibility, in December 2001 and the end of 2002, the nominal exchange rate between US dollars and Argentine pesos went from US\$ 1.00 = 1.00 Ar\$ to US\$ 1 = 3.06 Ar\$, or put in other terms, the Argentine currency lost two thirds of its value in less than one year. The new exchange rate immediately discouraged imports, boosted exports and reduced real domestic production costs, recreating conditions for capital accumulation in the real sector of Argentine economy.

The break with the convertibility law and the devaluation were not so much a choice as a necessity, given the drought of international capital influx and the consequent lack of dollars to keep the exchange rate parity (Frenkel 2002; Kicillof, Nahón, and Costa 2006). Nevertheless, Lavagna seized the opportunity to ‘transform this particular conjuncture into a macroeconomic policy regime’ (Kulfas 2016, 109), despite the opposition of more orthodox economists, represented by the President of the Central Bank Prat-Gay.⁶⁹ The guiding lines of the new ‘regime’ were presented in an extensive document launched by the Argentine Finance Ministry, the CEPAL and the Inter-American Development Bank in the last months of 2002, and published only a few days before Kirchner took office (Kosacoff 2003).

The document started with a an essay by the Finance Minister, in which he deplored the fact that in most of the previous three decades the exchange rate had been overvalued. ‘This means that (...) 80% of the time passed (22 out of 27 years) was wasted in terms of sustainable development’ (Lavagna 2003, 1). The lessons to be learned from the disappointing results of the previous period were to keep better control over speculative capital influxes, which tended to overvalue the exchange rate in the short run, and also avoid public deficits, which had to be covered by foreign capitals. The Finance Minister noted that despite its legal strength – guaranteed by a series of laws and

⁶⁹ Prat-Gay would return years later as Finance Minister now under Mauricio Macri’s neoliberal administration.

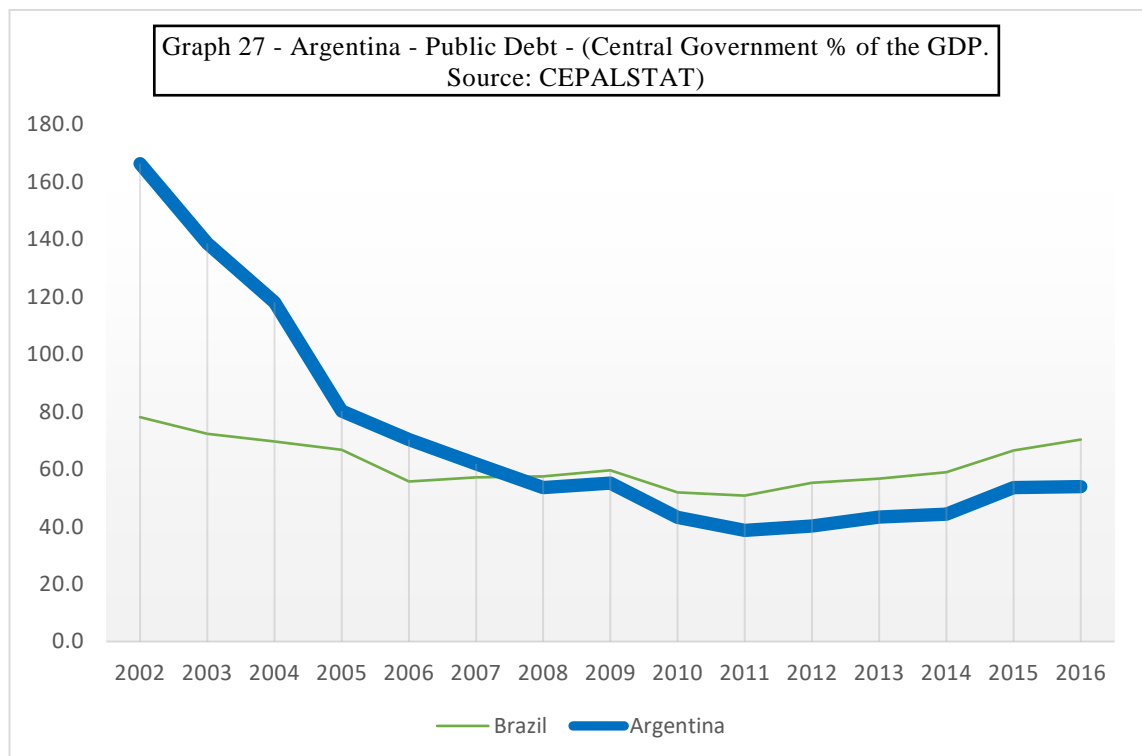
international commitments – the convertibility could not be kept in the absence of macroeconomic sustainability. As a consequence, he suggests that the conditions for competitiveness must be built within the real sector of the economy. Finally, Lavagna refuses the advice given by international financial institutions for their lack of sensibility to the particularities of each national economy (Lavagna 2003, 5-6). The same points, particularly the importance to keeping ‘competitive’ exchange rates, were later reaffirmed in a self-congratulatory book Lavagna published revisiting his period as Finance Minister (2011).

Although Lavagna never goes as far as presenting an explicit and all-encompassing economic plan (Kicillof, Nahón, and Costa 2006), the guiding lines of the macroeconomic regime replacing the convertibility were clear enough. The Argentine economy was to be rekindled through a combination of undervalued exchange rates and primary surpluses. By regaining control over monetary and fiscal policies, the government would be able to keep the exchange rates at competitive levels in the long run, thereby guaranteeing the profitability of national producers and discouraging imports. Complementarily, in order to avoid the revalorisation of the Argentine currency after the boost in exports seen in 2002, the government imposed fixed export taxes on agrarian commodities, reinforcing its own financial position and making possible the primary fiscal surpluses and the accumulation of reserves. In short, the model adopted by Lavagna comes very close to the ‘new developmentalist’ policies suggested by Bresser-Pereira and the other authors of the ‘Ten Theses on New Developmentalism’ (2012 - see chapter 1), and was explicitly recognised as so by Bresser-Pereira himself (Bresser-Pereira and Theuer 2012, 826; Bresser-Pereira 2013b).

The initial success of the transition from a regime of overvalued exchange rates and financial valorisation – dependent to the constant influx of international capitals – to a regime of undervalued exchange rates, based on current account and fiscal surpluses, was possible due to two key factors: the growing international demand for Argentine exports and the successful renegotiation of the defaulted debt. In the first case, the solid expansion of the world economy as a whole in the first half of the 2000s, driven by the high growth rates of East Asian countries, increased the prices of raw materials and agricultural commodities, such as soy beans and minerals.

The second key factor that made possible the consolidation of the new economic regime – the renegotiation of the defaulted debt – is directly related to the government’s decision to curb the influx of short term capitals in order to keep the exchange rate at a

favourable level. Furthermore, the *pesification* (the forceful conversion of US dollar denominated assets into pesos) eased the urgency of recovering external sources of financing in the short run. At its peak, in 2002, the debt represented 166% of the country's GDP (graph 27). The default and the posterior renegotiation of the debt provided an important relief for the public budget, allowing for some fiscal expansion over the following years, despite the substantial budget surpluses delivered by the Argentinian government since 2002.

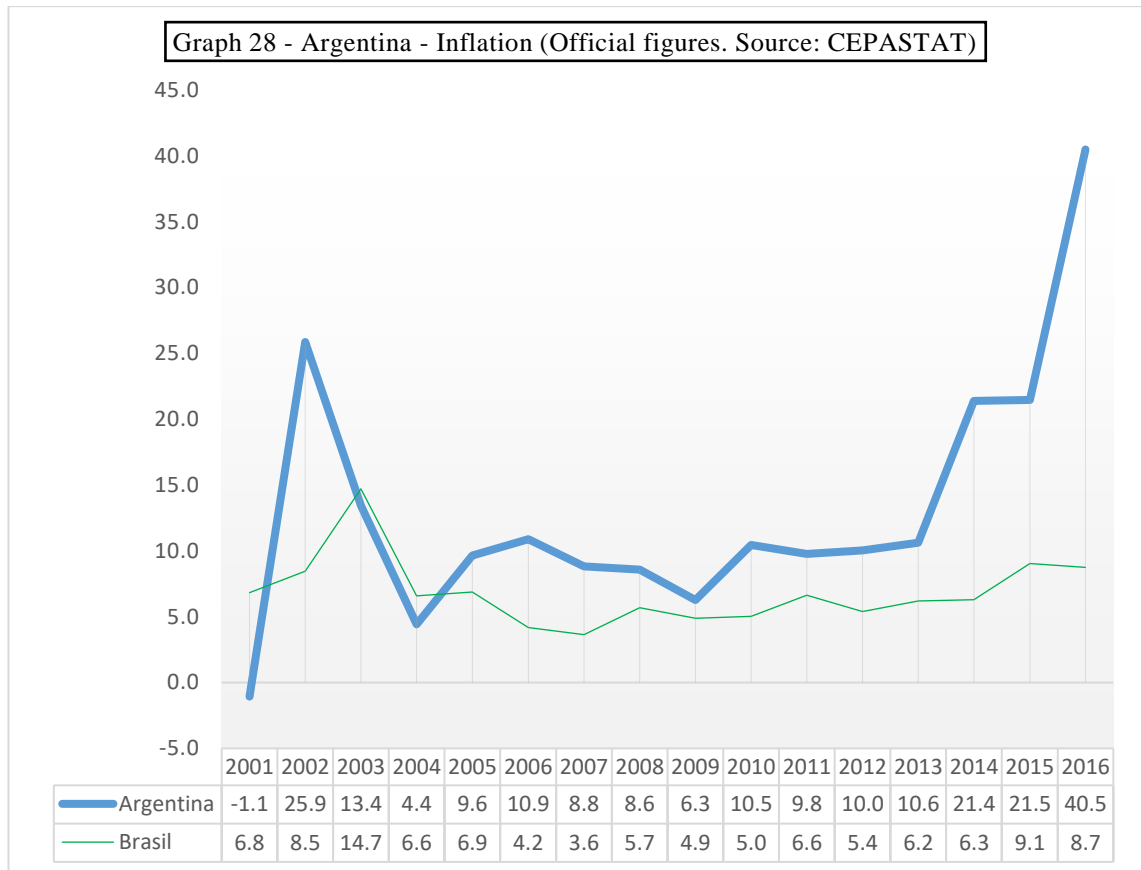


The renegotiation of Argentina's foreign debt – crucial to guarantee the fiscal surplus – was the first decisive political victory of Kirchner's government. After two proposals presented by the Argentine government and substantial pressure from the IMF and private debtholders, the swap mechanism was officially launched in January 2004, reaching 76.15% of acceptance a few months later (Damill, Frenkel, and Rapetti 2006, 28). More than 150 different defaulted bonds, worth nominally US\$ 104 billion, were swapped for three new bonds, whose value was US\$ 35 billion. On average, the Argentine government achieved a remarkable reduction of about 65% in the swapped bonds, arguably one of the most successful debt swaps in history (Kulfas 2016, 155; Cunha and Ferrari 2006, 288; Levitsky and Murillo 2008, 17).

The swap and the consequent debt reduction were consistent with the fiscal surplus targets agreed with the IMF in January and September 2003 as a condition for the restructuring of the part of the Argentine debt held by the Fund itself and multilateral banks (Ferrer 2003). Most importantly, it was consistent with the official political discourse. In his first participation in the General Assembly of the UN, Nestor Kirchner insisted that ‘nobody has ever heard of someone being able to collect debt from the deceased’ (Kirchner 2003b). According to that logic, the agreement with the IMF and the debt swap gave the fiscal space for keeping the Argentine economy alive, so that it could grow and meet its financial obligations in the future. The first phase of the successful debt restructuring was completed when Argentina anticipated its payments and liquidated the debt with the IMF. On 15th December 2005, Nestor Kirchner summoned provincial governors, national authorities and social movement’s leaderships to announce the end of IMF tutelage over Argentina. During January 2006, about US\$ 10 billion from the country’s reserves were transferred back to the Fund (Brenta 2013, 329).

The immediate results of the neodevelopmentalist macroeconomic policies in Argentina were more than encouraging. Between 2002 and 2007, the GDP grew between 8% and 9% a year (graph 24), quickly recovering the losses of the previous four years. The growth in the industrial sector was even more impressive, reaching 16% in 2003 and 12% in 2004. Production of cars, for instance, more than tripled between 2003 and 2007, coming very close to 400 thousand units in 2008 – the best result in the historical series. Salaries also recovered, encouraged by collective negotiations sponsored by the government. Finally, unemployment and poverty rates fell sharply, reaching respectively 9% and 27% in 2007, roughly half the rates seen five years before (Levitsky and Murillo 2008, 17).

Notwithstanding the encouraging results just mentioned, the limits of the model soon started to become evident. Inflation, which had peaked in 2002 (25.9%) after the end of the convertibility regime, decelerated sharply in 2003 (13.4%) and 2004 (4.4%), but resumed an upward trend in 2005 (9.6 %) and 2006 (10.9 %) (graph 28). In January 2007, the government intervened in the national statistics institute (INDEC), changing the methodology for inflation monitoring. Since then, an information war started, with multiple inflation rates being released by different sources.



The accelerating demand, driven by increase in salaries and exports, met the limitations of Argentina's productive capacities and the low levels of investment during the neoliberal period. At the same time, government regulated prices (energy, transports, etc.), frozen to help the control of inflation after the end of convertibility, became clearly underestimated, undermining the attractiveness of new private investments, and prompting a dispute between the government and the privatised companies. Finally, in a context of stable nominal exchange rates, the accelerating inflation meant an appreciation of the Argentine pesos in real terms (for estimations, see Arceo et al. 2010, 33), weakening one key pillar of the regime.

In fact, the continuity of the macroeconomic model adopted in the aftermath of convertibility meltdown had been called into question earlier, when its main architect left office. After disputes with other Ministers – particularly the Peronist Planning Minister Julio de Vido – and even with President Nester Kirchner himself, Lavagna was urged to resign in November 2005. The government had just achieved an important victory in the legislative elections held one month earlier, and Kirchner felt emboldened enough to take the key economic decisions into his own hands (Kulfas 2016, 120). Lavagna would challenge the Kirchners in 2007, running for President against Cristina de Kirchner, and

losing by a wide margin.⁷⁰ The model he left behind, however, would not be immediately replaced, but gradually eroded between the end of 2005 and 2008. In the last year of the period, two complementary crises would change the situation substantially.

First, the dispute between the government and rural producers, in the aftermath of the hike in export taxes on agrarian commodities. These kinds of taxes, strongly discouraged by neoliberal economists for their distorting effects, performed a key task in the neodevelopmentalism model, for their potential to neutralise the so-called ‘Dutch Disease’ (Bresser-Pereira 2012a; 2012b). Because the commodities being produced in the resource rich sector (in the case of Argentina, particularly soybeans) are extremely competitive, they attract dollars and investments, causing the overvaluation of the exchange rate. In other words, commodities produced in the resource rich sector can be exported at a lower exchange rate than the one needed to make the industrial sector internationally competitive. Furthermore, specifically in the case of Argentina, because soybeans were displacing more basic traditional agrarian products, sold at the same time internally and internationally (meat, milk, wheat), the offer of these products was being reduced, and their prices were pressured up, fuelling the inflation cycle.

In the first months of 2008, as the macroeconomic regime bequeathed by Lavagna showed signs of exhaustion in face of rising inflation, the government found itself in a dilemma. A further devaluation of the exchange rates to keep international competitiveness would mean an extra spur to inflation rates, and a reduction of salaries in real terms. Such an alternative would penalise mainly workers and the urban middle classes, with foreseeable negative consequences for the government’s popularity. At the same time, failure to revert the exchange rate appreciation and the diminishing current account surpluses would predictably mean a reduction of the GDP growth rates.

The solution proposed by the government was exactly the one suggested in neodevelopmentalist theory: increase the tax burden on the resource rich sector (Bresser-Pereira 2012a; 2012b; Ten Theses 2012). This was supposed to even the economic playing-field and channel investments away from that sector to other productive sectors, particularly industry. Furthermore, it could have a positive impact on the exchange rate, easing the tendency of appreciation caused by super-competitive agrarian exports. Finally, it would have positive effects on the public budget, creating space for further state-directed investments. Internationally increasing prices of commodities offered a

⁷⁰ Cristina de Kirchner was elected in the first round with 45% of the votes, against 23% of centre-leftist Elisa Carrio and 17% for Lavagna.

good window of opportunity to implement this solution – just when a record harvest was expected (Kulfas 2016, 130).⁷¹

On the eleventh of March 2008, the Finance Minister Martin Lousteau⁷² announced the controversial Resolution 125/2008. It replaced the linear export tax adopted after the fall of the convertibility regime for a complex system of variable taxes, according to the volumes being exported, the kind of agrarian commodity and the prices on the international market (Silva 2015, 152). In its very text, Resolution 125 affirms that the persistence of high international prices and the volatility of the markets could cause ‘negative repercussions on the economy as a whole through higher internal prices, less distributive equality and growing uncertainty [in the] agriculture and husbandry sector’ (Argentina 2008). At the press conference summoned for the announcement of the Resolution 125, Lousteau warned against the ‘*soybeanisation*’ of Argentine fields – with negative effects on the prices of basic consumption goods such as meat, milk and wheat – and affirmed that the bill represented a ‘consolidation of the model that was initiated five years ago’ (Lousteau 2008).

The response of the agrarian sector came quickly. Overcoming historical divisions, organisations of small and large producers promoted a series of strikes and road blockages demanding the annulment of Resolution 125 (Silva 2015). The conflict extended in time, with long and unfruitful negotiations between the parts (Hora 2010). Purveyance of basic consumption goods in Argentinian cities was menaced, forcing the Finance Minister to step down in April, just one month after announcing the plan. Nevertheless, Cristina de Kirchner’s administration insisted on the tariff hike, bringing the conflict to its limits. Despite having the constitutional powers to modify the tariffs by executive act, the government decided to submit the bill to the Congress for approval, confident in a comfortable majority in both Houses. Indeed, the bill was approved in the Lower House, but in the Senate resistance proved stiffer.

After a series of defections of Senators supporting the government, the bill was finally put to vote in 17th July 2008. In a tense session, the Senate came to a draw, with 36 Senators voting for the bill and the same number against it. According to the Argentine

⁷¹ For a comprehensive study of the economic and technical conditions behind the strong performance of the Argentine agrarian sector in that period, see Bisang (2007).

⁷² Martin Lousteau, a young economist trained at the LSE, was Finance Minister between December 2007 and April 2008. After leaving the government, he tried to position himself as an independent political force, but ended up adhering to Mauricio Macri neoliberal government in the condition of Ambassador to the United States.

Constitution, this rare circumstance would call for the decisive vote of the Vice-President, who also presided over the session. Visibly tense and undecided while his vote was being broadcasted live to millions of Argentinians, Vice- President Julio Cobos, himself from a mainly agrarian Province (Mendoza), imposed a remarkable defeat upon Cristina de Kirchner's administration by voting against Resolution 125. 'History will judge me. I beg for pardon if I am mistaken' – declared the Vice-President, casting his vote (Cobos 2008). After the session, Cobos fled the Congress through a back door and drove more than 1000 kilometres to his hometown, where he was greeted as a hero. Meanwhile, thousands of Peronist militants gathered in Plaza de Mayo denouncing him as a traitor.

The defeat in the government's arm-wrestling with the agrarian sector brought momentous consequences. Politically, it substantially weakened the Kirchnerist support base, affecting the government's popularity⁷³ and producing an important fissure in the neodevelopmentalist coalition. As an offspring of the agrarian crisis, the tense relations between the government and the corporate media⁷⁴ – particularly Argentina's largest media conglomerate, *El Clarin* – deteriorated further, presaging another major crisis that would erupt in the forthcoming years. Economically, the strikes and blockages caused considerable losses in terms of exports and internal consumption. Finally, the economic imbalances that prompted Cristina de Kirchner's administration to adopt the tax hike in the first place remained unresolved.

When the international financial crises unfolded, in the second semester of 2008, the economic situation was already deteriorating fast. Growth rates had more than halved in relation to the previous year (4.1% in 2008 against 9% in 2007 –graph 24), current account surpluses also reduced by about U\$ 700 million, and inflation reached 22.7%, according to unofficial estimates (Salama 2012, 158). Because of accelerating inflation, real exchange rates presented a long term tendency towards appreciation, compromising the international competitiveness of Argentinian exports, particularly in the industrial sector. At the same time, imports increased from U\$ 18 billion in 2003 to U\$ 68 billion in 2008. On the bright side, contrary to what had happened in previous crises, a debt default was not on the horizon. Thanks to the successful debt swap of 2004 and the

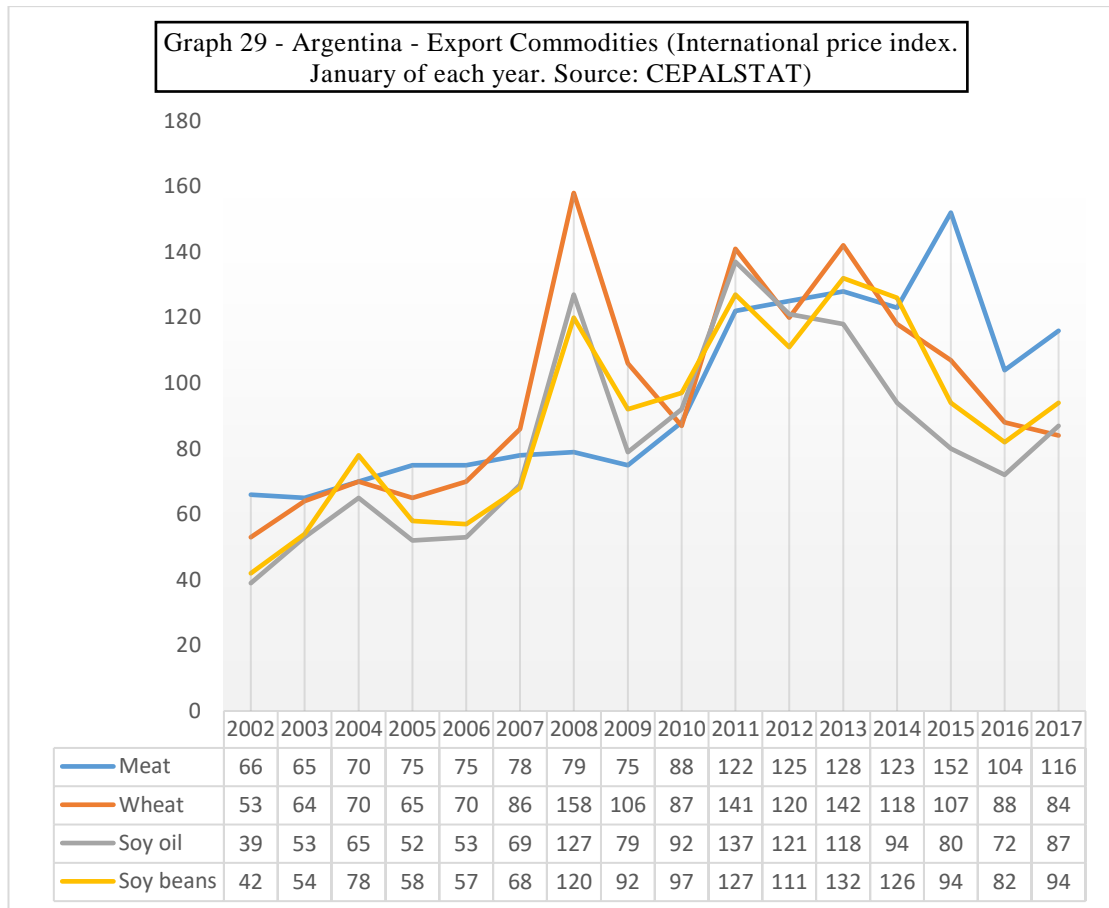
⁷³ According to opinion pools, in 2009 the disapproval rates of Cristina de Kirchner's administration surpassed the approval rates for the first time, reaching respectively 67% and 33% towards the end of that year (Rouvier 2016, 333).

⁷⁴ For a quantitative analysis of the media coverage of the agrarian conflict, see Zunino (2015).

cancellation of the debt to the IMF in 2006, a long-lasting source of external fragility was under control.

The effects of the international crisis of 2008-2009 on Argentina's neodevelopmentalist strategy would be substantially different from the effects of the 1995 and 1999 crises on the previous neoliberal strategy (see chapter 3). If in 2002 the ratio debt/GDP reached 166%, six years later this proportion was only 53%, of which roughly half was actually internal debt (see graph 27). The 2008 crisis did not affect Argentina's capacity to roll its public debts, as the debt burden was relatively low and the country had already been virtually excluded from international capital markets since the 2002 default. Instead, two other mechanisms, more related to the real economy, explain the propagation of the international crisis and its negative effects. In Argentina – and in most of Latin America – ‘the economic crisis did not evolve into a financial crisis’ (Arceo et al. 2010, 94) .

The first propagation mechanism of the 2008 crisis was through a reduction in the prices and quantities of exported commodities (Varesi 2011, 45). Wheat, soybeans, soy oil, meat, all lost value in 2009 in relation to 2008 (see graph 29). Globally, exports in 2009 were US\$ 16 billion smaller than in 2008. Secondly, the crisis also affected Argentina through a further relative exchange rate appreciation. In other Latin American countries with floating exchange rates, the crisis was immediately met with a currency devaluation. In Argentina, although the nominal exchange rates actually devalued, the government kept it from floating dramatically in the last months of 2008, which would increase the already high inflation rates (for numeric evidence, see Arceo et al. 2010, 95). This, in turn, prompted two related problems: a capital flight, due to global aversion to risk and the expectation of imminent exchange rate devaluation, and a further loss of competitiveness in industrial goods, particularly in relation to Brazil, whose currency had been drastically devalued.



The defeat in the conflict against agrarian producers and the 2008 financial crisis marked the lowest point of the neodevelopmentalist strategy in Argentina. In 2009, GDP contracted for the first time since 2002, shrinking by 5.9% (graph 24). In the mid-term legislative elections, the Kirchnerist coalition came first nationally, but only by a very small margin, being unable to secure a firm majority in the Congress. Nestor Kirchner himself, who ran for member of the Congress as head of the list in Buenos Aires, could not prevent his coalition from ending up second, with 32% of the votes.

In face of the political and economic crises, the Kirchners doubled down their bet. From 2008, Argentine neodevelopmentalism departed from a perspective of moderate intervention to a decided state management of strategic economic activities and direct wealth distribution. At the same time, Cristina de Kirchner did not shy away from assuming new political conflicts and radicalising old ones – including, this time, the attempt to split media conglomerates, challenge conservative and religious sectors over gay rights and demand productive investments from the national bourgeoisie. The shift in the discourse identified in section 6.1 above was, therefore, paralleled by a shift in concrete public policies.

There are many examples of renewed impetus with which the neodevelopmentalist strategy was relaunched in the aftermath of the crisis. Perhaps the most symbolic one was the confrontation with the President of the Central Bank, Martin Redrado, over the use of international reserves to cover upcoming debt obligations amounting to US\$ 18.8 billion in 2010 (Kulfas 2016, 141). Once again alienating the financial fraction of the ruling class and challenging the consolidated neoliberal practice of isolating the Central Bank from direct political pressures, Cristina de Kirchner opposed Redrado's plan to reinsert Argentina in the international financial market and take on new loans in order to cover the impact of the upcoming debt payment on the country's reserves. Instead, Cristina de Kirchner fired Redrado, who refused to leave office based on the autonomy of the Central Bank approved in 1992. The political confrontation escalated, with Redrado receiving support from opposition members of the Argentine Congress, but finally being abandoned by the majority of the Senate. In his place, Cristina de Kirchner named Marco del Pont, a devoted developmentalist economist, with no background in the financial sector.⁷⁵ Over the following two years, the Organic Charter of the Central Bank of Argentina would be reformed along neodevelopmentalist lines.

The re-nationalisation of pension funds is another crucial policy decision taken in that period.⁷⁶ By reversing the pro-market reform of this sector carried out in the 1990s, the Argentine state regained control over funds worth of US\$ 97 billion, plus annual contributions of US\$ 12 to 15 billion (Varesi 2011, 46). What is more, among the assets in the pension funds were financial options of a number of private companies, potentially further stretching the government's influence in their management (Kulfas 2016, 138). The significant resources of pension funds could then be channelled to counter-cyclical macroeconomic policies, helping to keep the level of activity in periods of crisis, when private investment would tend to shrink (Arceo et al. 2010, 163; Kulfas 2016, 138).

Another key policy implemented during that period was the Argentine conditional cash transfer program. Normally given less mention in the international literature than its Brazilian or Mexican equivalent, this program arguably had an important impact on reducing poverty, extreme poverty and school evasion, at the same time representing an important boost in Argentine aggregate domestic demand. Extensive research based on

⁷⁵ Marco del Pont's economic vision is strikingly similar to Bresser-Pereira's, including an emphasis on the real sector of the economy and the defence of industrially competitive exchange rates (Del Pont 2016).

⁷⁶ For a detailed overview of the sector, see Arceo et al. (2010, chap. 3). For a critique of the reform, see Mesa-Lago (2009).

household surveys by Agis, Cañete, and Panigo (2010) show a reduction of 55% to 70% in extreme poverty linked to the program, as well as positive impacts on the Gini index, placing Argentina amongst the least unequal countries in Latin America. In 2010, one year after its implementation, the program guaranteed modest but important cash transfers (up to US\$ 45.00, or Ar\$ 180.00 per children/month) to more than 3.5 million children. The total cost, amounting to 0.6% of the GDP in 2010, meant an expansion of 1.5% to 1.8% in aggregate demand (Marques 2013, 307). Beyond its impressive social and macroeconomic impact, the program marked a shift away from the Peronist's traditional predilection for programs subject to being captured through clientelism – as was the case with social works of trade unions or local authorities – towards a truly universal program of social inclusion, capturing, thereby, one of the key banners of the Argentine left (Zarazaga 2015, 339–40).

Furthermore, the government announced the re-nationalisation of symbolic Argentinian companies, which had been privatised to international groups in the 1990s. Aerolíneas Argentinas, the country's largest airline, was renationalised after passing through two crises (2001 and 2008) that threatened its very existence, essential to guarantee connectivity in a country of continental dimensions. The nationalisations included the national mail company and industries, such as the *Fabrica Argentina de Aviones* (Argentine Aircraft Industry). The most important of the series of nationalisations, however, was the national oil company (YPF).⁷⁷ In this case, the national government regained control over a strategic sector, which had suffered from insufficient investments over the previous decades, turning Argentina into a net importer of fossil fuels (Gaggero, Schorr, and Wainer 2014, 144). After the re-nationalization, YPF intensified its investments, focusing on shale oil (Kulfas 2016, 163). The reduction of the price of oil towards the end of the neodevelopmentalist period, however, negatively impacted the profitability of these investments.

The implementation of large scale cash transfer programs, the re-nationalisation of pension funds, the intervention on the Central Bank, and the taking over of symbolic companies can all be understood in the context of the response to the 2008-2009 political

⁷⁷ The nationalisation of YPF, involving the compulsory sale of assets from the Spanish Oil company Repsol, occasioned an avalanche of critiques of Cristina de Kirchner's administration from the liberal writers (Melgarejo Moreno, López Ortiz, and Montaña Sanz 2013; Costamagna et al. 2015). Given the perceived predatory policy Repsol, other writers took the direct opposite view, criticising Cristina de Kirchner's administration for even agreeing to pay indemnity (Katz 2014, 124). Despite the critiques, there is no doubt the nationalisation was a popular measure, intensely exploited by the government in the following years.

and economic crisis. In fact, previous to the decisive renationalisation of YPF, in 2012, the expansion of direct state control over privatised companies can hardly be regarded as a general and coherent strategy, being better explained as ad-hoc governmental answers to problems of particularly important sectors (Gaggero, Schorr, and Wainer 2014, 142). After the double shock of the conflict with agrarian producers and the international crises, however, these policies became an integral part of the neodevelopmentalist strategy.

Intertwined with these economic responses is the political reorganisation of Kirchnerism after the agrarian fraction of the ruling class moved decidedly to the opposition. The crack in the neodevelopmentalist class alliance forged by Nestor Kirchner during his first election, in 2003, was compensated for by the emergence of a stronger ‘Kirchnerist’ hard core, consisting of loyal politicians, organic intellectuals,⁷⁸ trade unions and some social movements. This process can be described as the emergence of a new political identity within the Peronist tradition, which moved from being an ‘impure’ form of Peronism to constitute full-fledged ‘pure Kirchnerism’ (Montero and Vincent 2013).

The most important of the new social actors emerging in that period is the youth organisation La Campora, named after the ex-president Hector Campora, famous for his loyalty to Peron. Indeed, he won the 1973 elections in Peron’s name, since the latter was in exile. His victory paved the way for the return of the mythical leader to Argentina. Similarly, La Campora professes loyalty to the Kirchners, organising regular demonstrations in support of the government and acting as the spearhead of Kirchnerism, thus progressively conquering spaces within the national administration. At the same time, the emerging Kirchnerist political camp was galvanised through new successive conflicts, with the corporate media,⁷⁹ international corporations (like Repsol) and the favourite neodevelopmentalist adversary, the national and international financial sector. Finally, the sudden death of Nestor Kirchner, in 2010, made possible the discursive construction of the movement’s eternal hero – ‘that man’ who saved Argentina from economic collapse under neoliberalism.

⁷⁸ For instance, the group ‘Carta Abierta’, including influential intellectuals like Ernesto Laclau, was constituted in 2008 in support of Cristina de Kirchner’s government amidst the conflict with agrarian producers.

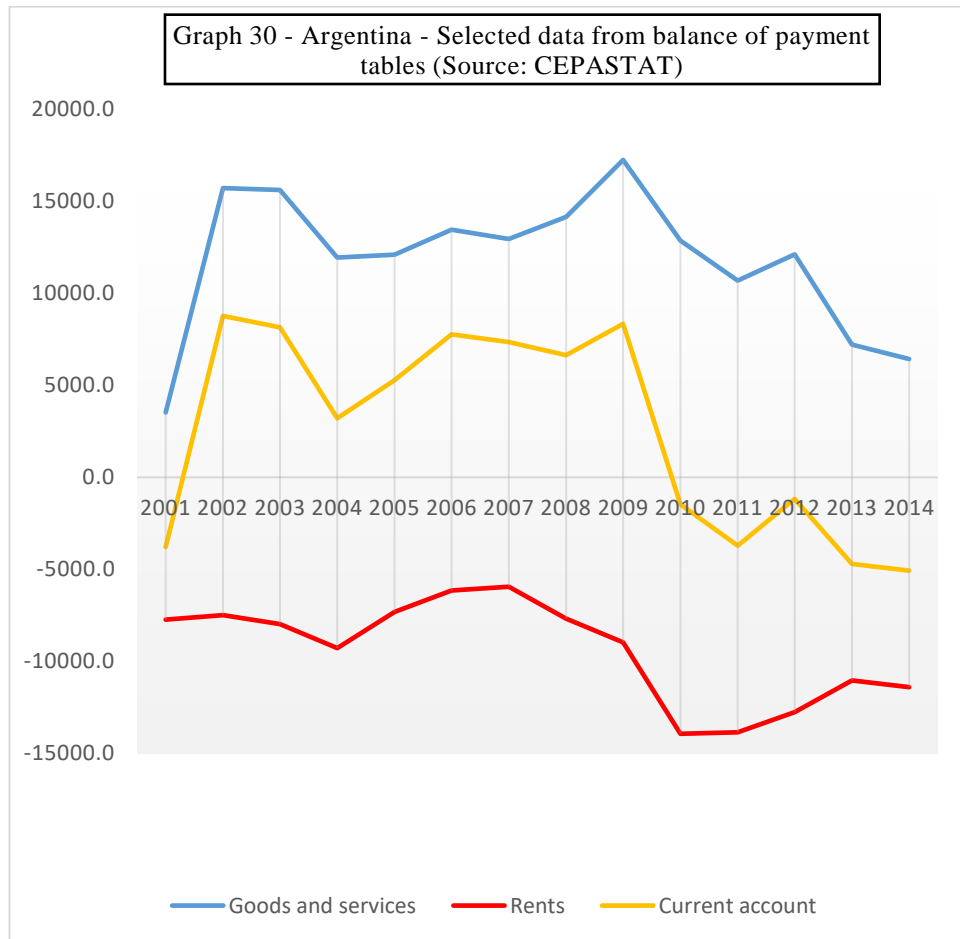
⁷⁹ The conflict with the corporate media – particularly the group Clarin – emerged after the overwhelmingly negative coverage of the failed attempt at raising export taxes for agrarian producers. In response, Cristina de Kirchner’s administration passed a law establishing limits for market concentration in the broadcasting sector, but couldn’t fully apply it due to contrary judicial decisions. For an overview of the ‘epic battle’ between Kirchnerism and the corporate media, see Weinfeld (2016, 275–94).

Responding to the policies mentioned, the political reshuffling of the neodevelopmentalist class alliance and the improvement in international conditions – particularly the increase in the commodities prices (graph 29) driven by Chinese demand and Brazil's fast recovery – the Argentine economy showed strong results in 2010 and 2011. The GDP grew 10.1% in 2010 and 6.0 % in 2011, after the negative results of 2009 (graph 24). Exports grew to US\$ 81 billion in 2010, almost recovering 2008 levels, after reaching only US\$ 66 billion in 2009. In 2011, exports achieved the best result in the historic series, US\$ 99.6 billion, although a substantial increase in imports and rents meant that the global results of the current account actually showed a negative trend since 2010 (Graph 30). Most importantly, unemployment rates fell from 8.8% in the second quarter of 2009 to 6.4% at the end of 2013 (graph 25). As a consequence of the accelerating economic activity and of the cash transfer program, extreme poverty fell from 3.8% in 2009 to 1.7% in 2012, while poverty fell from 11.3% to 4.3% during the same period (graph 26). In short, defying the Washington Consensus recipe, the country apparently showed a strong recovery from the double (political and international) 2008-2009 crisis (Cohen 2013, 2016).

The good results and the overall optimism produced a short lived 'Kirchnerist spring' (Kulfas 2016, 144) between 2010 and 2013, the peak of which was the landslide victory of Cristina de Kirchner in the first round of the 2011 elections, with more than 54% of the votes – the most decisive electoral performance since the return of democracy in the 1980s. In a context of fragmented opposition, with no clear alternative to the neodevelopmentalist project represented by Cristina de Kirchner, her alliance won in most of the provinces as well, besides guaranteeing comfortable majorities in both houses of the Congress (Catterberg and Palanza 2012). At that point, the promises of totally eradicating poverty seemed real, and the Argentine model after 2003 was perceived as a viable alternative to neoliberalism, particularly in face of the Greek and Spanish crises (Cohen 2013, 2016). Nevertheless, a series of external pressures would soon undermine Argentine neodevelopmentalism, leading to the unexpected defeat of Peronism in the 2015 elections.

In the first case, as already mentioned, the rise of commodities' prices after 2010 (graph 29) boosted Argentine exports. Nevertheless, the continuous imbalance between inflation in Ar\$, R\$, and US\$ kept the Argentine currency overvalued in real terms (Kulfas 2016, 156), thereby promoting a disproportionate increase in imports of goods and services. Global current account results were consistently negative after 2010,

reaching a US\$ 5 billion deficit in 2014 alone (graph 30), thereby putting pressure on the international reserves. In the absence of a higher tax on agrarian exports, as suggested by the neodevelopmentalist literature, in order to revert that situation the government would have to promote regular devaluations of the Argentinian peso. However, that would be very unpopular, increasing the cost of imported goods, refeeding inflation and directly affecting the living standards of Cristina de Kirchner's own political base.



Instead, the government chose to deal with the shortage of dollars – a recurrent phenomenon well-known in the local political economy literature as ‘external restriction’ (Gaggero, Schorr, and Wainer 2014; Manzanelli et al. 2014; Kulfas 2016, chap. 5) – by trying to regain some access to international markets, and by tightening state controls on the exchange markets. These controls included non-automatic import licences, meaning that importers had to apply for authorisation. In fact, importers were stimulated to do joint operations with exporters in order to generate enough dollars to cover their external obligations, thereby creating the unusual circumstance of prompting international

companies like Porsche or Mitsubishi to get involved in the export of Malbec wine and peanuts (Schmall 2012). The restriction on the exchange market was nicknamed by the corporate media (now in open opposition to the government) as *cepo cambiario* – or the ‘exchange rate trap’. This consisted of the imposition of limits and bureaucratic checks for the acquisition of foreign currency by individual buyers.⁸⁰ As a consequence, a parallel market of US\$ dollars and Brazilian R\$ mushroomed in the streets of downtown Buenos Aires, offering foreign currency at prices that eventually doubled the official exchange rate.

At the same time, the government expected to ease the ‘external restriction’ by attracting international investments and regaining access to international financial markets. In fact, given Argentina’s low level of indebtedness since the renegotiation conducted by Kirchner in the first years of his administration (graph 27), the space for a controlled debt increase in order to gain time for a smooth exchange rate devaluation and for the further improvement of the international economic setting was theoretically given. Nevertheless, another unpredicted external shock blocked this alternative. In October 2012, the US Judge Thomas Griesa gave an unconventional decision in favour of the so called ‘vulture funds’⁸¹ that controlled a minor part of Argentina’s defaulted debt and refused to accept previous restructuring offers. Ignoring the successful debt swap negotiations and the international practice in similar cases, the US Judge determined that the Argentine state would have to repay the full face value on the defaulted bonds held by the two funds moving the case, plus interest.

The total amount, US\$ 1.6 billion, was substantial and unfair, considering that the vulture funds had acquired the defaulted bonds under judicial dispute for only US\$ 80 million (Kulfas 2016, 171). Nevertheless, it was not in itself impossible to cover, taking into account the proportions of Argentina, a country with a nominal GDP close to US\$ 450 billion in 2012 and international reserves then estimated at US\$ 27 billion (Cantamutto and Ozarow 2016, 133). The problem was that the repayment of this marginal fraction of the debt (1.5%) could potentially trigger the dismantling of the painfully achieved debt restructuring as a whole. This is because the previous debt swaps included a clause stating

⁸⁰ For a defence of this policy, based exactly on the ‘external restriction’ argument, see Kicillof (2016, 200).

⁸¹ The Vulture Funds are private speculative investment funds which buy defaulted sovereign debt papers or other low values assets in the hope of recovering part of their value through negotiation and judicial litigation. For a detailed overview of the Argentinian case, see Kupelian and Rivas (2014). For a critique of Judge Griesa’s decision see Stiglitz and Guzmán (2014).

that if a better offer was made later to any remaining bond holder, that offer would have to be extended to all – thereby nulling the substantial reduction achieved in the previous negotiations.

In June 2014, exactly when Cristina de Kirchner's administration had made important progress towards reopening international credit possibilities for Argentina – through negotiations with the Paris Club, and the payment of compensations to Repsol for the renationalisation of YPF – the US Supreme Court refused Argentina's appeal and confirmed Judge Griesa's decision. Because Argentina refused to comply, giving a political answer through its foreign policy instead (see 6.3 below), the payment of parts of the restructured debt that was due on that month was blocked by the US justice. This caused Argentina to technically fall into default again.

This US' Supreme Court decision had momentous negative effects for the world financial system as a whole (Vernengo 2014; Stiglitz and Guzmán 2014). For Argentina, particularly, this unexpected external pushback contributed to worsening the economic situation. The government contained an incipient capital flight by allowing a 30% nominal devaluation of the Argentinian peso in the first months of 2014, but the galloping inflation rapidly eroded its real effects. In an atmosphere of uncertainty, the GDP closed 2014 with a contraction of -2.5% (graph 24). Politically incapable of promoting further devaluations, barred from international markets, the dollar shortage limited any possibility of a second round of expansive fiscal and monetary policies, such as those used to overcome the 2009 crisis.

6.3 Damage control and international space for development - Neodevelopmentalist foreign policy in Argentina.

The relation between international constraints and opportunities and Argentine neodevelopmentalism was certainly not a one way street. Although, as explored above, the different moments of the neodevelopmentalist cycle were in many ways conditioned by external factors over which policy makers in Argentina had little or no control – like the fluctuation of commodity prices or judicial decisions in the US – foreign policy responses to these international circumstances formed an integral part of the neodevelopmentalist strategy. Accordingly, it is possible to analyse the Argentine foreign policy in the neodevelopmentalist period as underpinned by two complementary

imperatives: controlling the damages caused by external pressures, and actively trying to build an international economic, political and institutional setting in which state-led development strategies could prosper.

Contrary to the foreign policy adopted under President Menem in the neoliberal cycle, based on the postulates of 'Peripheral Realism', it is particularly challenging to analyse the Argentine foreign policy in the neodevelopmentalist cycle given the lack of a clear overarching narrative contextualising and justifying Argentina's diplomatic actions. Indeed, there is nothing equivalent to the influential works of Escudé (1992, 1995) and Fonseca (1998) – respectively the ideologues of Argentinian and Brazilian neoliberal diplomacy – or Guimarães (2007, 2008a, 2008b, 2009) – the international strategist of Brazilian neodevelopmentalism. This absence has puzzled local analysts, generating contradictory interpretations, ranging from the denunciation of a total lack of a strategy (Tokatlian 2011), to the hypothetical postulation of many conflicting theoretical influences (two variations of realism plus two of liberalism) behind Argentina's foreign policy under the Kirchners (Corigliano 2008).

Taking into account that the development strategy implemented in the period was explicitly not limited to 'an economic model' but constituted 'a political project with economic, social and cultural aims' (De Kirchner 2013), I suggest that the Argentine foreign policy is better understood as an intrinsic part of the neodevelopmentalist strategy. Therefore, even in the absence of a clear diplomatic narrative, the key aspects of the country's foreign policy are intelligible in relation to the political economy of Argentine neodevelopmentalism. In other words, the same particular interplay between international pressures and opportunities and class struggle that explain the economic and social policies implemented by the class alliance which gained access to the State apparatus with the rise of Kirchnerism also explains its foreign policy choices. The active resistance against the proposed Free Trade Area of the Americas (FTAA), the permanent challenge to International Financial Institutions and the call for their reform, the distancing in relation to the US, the closer relations with China, the key role attributed to Brazil, the priority given to South American integration, and finally, the mobilization of third world countries against 'vulture funds' and unilateral judicial decisions, all can be understood as foreign policy responses to the 'external' factors perceived as affecting Argentina's development.

The great debut of Argentina's neodevelopmentalist foreign policy was the Mar del Plata Conference in 2005, officially called IV Summit of the Americas. This major

diplomatic event, which Argentina committed to hosting in 2001, attracted 34 heads of State or Government, including Venezuela's President Hugo Chavez and US President George W. Bush, then in open confrontation with each other after the US backed attempt at a coup d'état in Venezuela three years earlier. In the opening statement of the conference, Nestor Kirchner broke with protocol. Instead of simply extending an insipid diplomatic welcome to the visiting authorities, the Argentine president delivered a strong anti-neoliberal speech. Kirchner pointed the finger at international financial institutions for their one-size-fits-all theories and practices, citing Argentina as an example of the negative consequences of the 'Washington Consensus'. Furthermore, in an outstanding example of the neodevelopmentalist discourse, he emphasised the role the state should play in promoting development, and blamed the protectionism and the lack of support from 'developed countries' as the underlying causes of the difficulties faced by developing nations (Kirchner 2005).

The confrontational tone established by Kirchner culminated with Mercosur's and Venezuela's coordinated refusal to commit to specific dates to the implementation of the FTAA, in practice burying the trade liberalization negotiations started in the First Summit of the Americas, held in Miami one decade earlier. Leading a massive political rally which included hundreds of Latin American trade unions and social movements in the local stadium, President Chavez denounced the imperial pretensions of the US and declared: 'each one of us has brought a gravedigger's shovel here, because here in Mar del Plata is the grave of FTAA'. To the ovation of the crowds, the Venezuelan president went on and famously led the protest chanting: '*Alca, al carajo!*' – 'Fuck the FTAA' (Chavez 2005). Cornered by the street protests and the unfriendly atmosphere in the high level meeting rooms, George W. Bush spent less than 36 hours in Argentina. Only after the end of the three Kirchner administration, more than ten years later, would a US' President dare to set foot in Argentina again.

The coordination of anti-neoliberal Latin American administrations in order to stop the US' backed FTAA is perceived as a sign of the rise of the left in the region (Sader 2008, 2009). Kirchner's administration was instrumental in constituting this left momentum in Latin America, establishing special relations with Chavez's administration, despite the marked differences between Argentina's neodevelopmentalism and Venezuela's 21st Century socialism (Katz 2014). These special relations are explained by part of the literature as a form of 'balancing', counterweighting the disproportionate influence of Brazil in the region (Saraiva and Briceño Ruiz 2009; Cepik and Silva 2012).

Beyond those geopolitical concerns, *a priori* supposed by the authors based on underlying realist assumptions, it is clear that the bilateral relations between Venezuela and Argentina were premised on an extensive material interests, expressed, for instance, in the substantial growth of bilateral trade (Roark and Giglio 2010) and in the acquisition of US\$ 1 billion worth of Argentine bonds by the Venezuelan government (Bonvecchi and Giraudy 2008).

Brazil also played a key role as a privileged diplomatic partner to Argentina, particularly during Lula's administration. After a long history characterised by moments of both rivalry and cooperation (Candeas 2010), since the 1980s the two biggest countries of South America decidedly moved towards regional integration while dismantling their respective developmental states. Mercosur, formed in the neoliberal decade as a step towards future trade integration in the FTAA, substantially increased bilateral commerce and investments. The customs union forged a new set of common interests between Brazilian and Argentinian ruling classes, besides intensifying the effects of the economic performance of one nation on the other, as seen in the 1998 Brazilian crisis and the 2001 Argentinian crisis. Despite nationalism being one of the distinctive traces of the neodevelopmentalist strategy, bilateral and regional integration were not immediately reversed, neither by Lula's nor by Kirchner's administration. Instead, in both cases regional integration was represented as congruent with the national interest, as opposed to continental integration under US leadership.

From the Brazilian perspective, the tension between nationalism and regional integration was dissolved by the expansion of Brazilian capital, which made South America a privileged space for accumulation by rising Brazilian multinationals (chapter 5). From the Argentine perspective, this tension was partially accepted as inevitable in face of the absence of credible alternatives. The decision to reverse the country's dependent association with the US – marking a '180 degree shift in the Argentine foreign policy' (Taiana 2016) – left Argentina's diplomacy with few alternative options. Furthermore, well established Brazilian neodevelopmentalist diplomatic discourse (Guimarães 2007, 2008a, 2008b, 2009), which represented the contemporary world as heading towards an increasingly multipolar configuration, provided a convincing rationale for regional integration. The concertation of Brazilian and Argentinian neodevelopmentalist foreign policies thus added an important political dimension to the previously existing economic regional integration framework, allowing for its notable institutional consolidation after 2003.

At some points, however, material contradictions emerged between the perceived national interest and the efforts towards regional integration. One example well explored in the literature was the long controversy with Uruguay regarding the building of allegedly polluting paper mills on the Uruguayan side of the Uruguay River, which delimits the border between the two countries (Landau 2006; Escude 2006; Vara 2007; Sannazzaro 2011). Pressured by local groups opposing the factories, the Argentine Government adopted a hard stance against Uruguay, escalating the controversy to the International Court of Justice and thereby creating a major source of instability within Mercosur. Another example is the adoption of the previously mentioned import licences, which affected Mercosur partners, Brazil in particular. In short, Argentina's commitment to regional integration seemed to be subordinated to the perception that it corresponded to the best expression of the national interest – defined in terms of development. Whenever a perceived conflict between the two seemed to appear, the choice was to privilege the latter.

Lacking the global dimension and the extended resources of Brazilian neodevelopmentalist foreign policy – for instance, Argentina was not included in the BRICS – the Argentine diplomacy concentrated its extra-regional efforts in some key areas. One of them was certainly the bilateral relations with China, whose trade flux with Argentina more than tripled between 2001 and 2006 (Bolinaga 2007, 9). Chinese investments in the country also increased substantially, opening up a badly needed new source of capital in the aftermath of the debt default (Yue 2013). In 2004, both countries signed a Memorandum of Understanding through which Argentina recognised China as a market economy, an important diplomatic concession in the context of China's accession to the WTO three years earlier. After the 2009 crisis, however, the strategy of promoting closer ties with China in the hope of increasing exports and investments showed its limitations, as the bilateral trade balance reverted and Argentina started accumulating trade deficits (Bekerman, Dulcich, and Moncaut 2014, 66).

On the multilateral scene, Argentine diplomacy tried to capitalise on the country's positive records regarding human rights protection in recent years. In fact, one of the distinctive traces of Kirchner's administration was the determination to finally come to terms with the tragic human rights violations during the country's dictatorship, fully disclosing one of the darkest chapters of the country's history (Weinfeld 2016, chap. 5; Jozami 2016). Accordingly, high ranking military personnel were publicly recognised as responsible for state terrorism and had their honours revoked, marking a striking contrast

with Brazil, where bridges, schools, public buildings and roads are still named after human rights offenders. Building on that moral high ground, Argentine foreign policy efforts were instrumental in consolidating the concept of ‘Right to Truth’ within the UN Human Rights system (Taiana 2016, 84).

The most important multilateral achievement of Argentina’s neodevelopmentalist foreign policy came in the last years of Cristina de Kirchner’s administration. During the 1990s, Menem’s administration distanced Argentina from Third World forums, particularly the non-aligned movement, in an unsuccessful attempt to accede to first world organisations, such as the NATO and the OECD (chapter 3). In the context of the dispute against the vulture funds, however, the Argentine government managed to partially reverse this strategy. Embracing Argentina’s condition as an underdeveloped country menaced by speculative financial capital, it gathered substantive international support.

The first time third world solidarity against the vulture funds had to be mobilised was in 2012, when the Argentine War frigate *Libertad* was arrested in Ghana under judicial orders to guarantee debt payment.⁸² After the controversial decisions in favour of the vulture funds in the US judicial system, Argentina’s diplomacy showed its capacity of coordinating a rapid international political response, obtaining favourable declarations of support by International Organisations such as UNASUR, CELAC, OAE and UN Human Rights Council. Finally, with the crucial support of G-77 countries (mainly from Africa and Latin America), and despite the opposition of the US, the UK, Germany and other developed countries, Argentina managed to pass Resolution 69/319 in the UN General Assembly, establishing guidelines for debt restructuring that are largely favourable to States, to the detriment of investment funds.

In short, Argentina’s neodevelopmentalist foreign policy explicitly departed from the previous neoliberal paradigm (Taiana 2016). While in the 1990s the national interest was defined in terms of forging a special relationship with the US and being perceived as part of the first world, in the 2000s priority was given to South American integration, strategic bilateral relations with Venezuela, Brazil and China, and the gathering of international support against the vulture funds. Consistent with the overall development

⁸² The Frigate liberty case is particularly complicated, involving conflicting interpretations of international law. In short, an Argentine war ship was kept under arrest for months in the port of Accra as a guarantee to Argentine standing debt with the vulture funds. See Pereira da Silva and Pereira (2013) for an overview of the case from an international legal perspective.

strategy, Argentina's neodevelopmentalist diplomacy tried to give political answers to perceived external threats to the country's development.

6.4 'Won Decade'? Uneven and combined development in neodevelopmentalist Argentina.

Kirchnerism produced deeply controversial results, which have been the object of heated political debate within Argentine political economy. Anti-Kirchner neoliberals insist that what Cristina de Kirchner tried to label 'the won decade' was actually a period of thriving corruption, populism and inefficiency (Lucca 2015; Lanata 2014). They stress that a heavy burden – in the form of high inflation, institutional degradation, imbalance in relative prices, increasing current account deficits, and falling international reserves – was bequeathed to the next administration (Cachanosky 2016). In short, according to them, neodevelopmentalism failed to deliver development.

This 'failure' narrative is reinforced by the IMF. In a press release issued after the first IMF mission to Argentina in more than ten years, the staff led by Roberto Cardarelli praised the 'transition toward a better economic policy framework' undertaken by President Macri's administration, and declared that:

Upon taking office in December last year, Argentina's new government faced pervasive macroeconomic imbalances, microeconomic distortions, and a weakened institutional framework. Consumption levels were unsustainably high, investment reached historically low levels, and large fiscal deficits were financed by money creation, which lead to high inflation. Distortions at the micro level included an extensive network of administrative controls (for example, trade barriers, foreign exchange restrictions, and price controls) and a business environment that eroded competitiveness and undermined medium-term growth (IMF 2016).

The argument made on the neoliberal side criticises the excessive and misguided state intervention, seen as a source of 'imbalances' that disturb the 'business environment' and the 'competitiveness', the real keys to sustainable economic growth. Although this argument is attentive to the limitations of the state in promoting development, it too easily falls back into the neoliberal market utopia. By simply replacing state utopia with market utopia once again, the argument offers only a very partial take on Argentine neodevelopmentalism. Furthermore, this argument cannot

explain the unquestionably positive results in terms of GDP growth and poverty reduction.

A diametrically opposed narrative is offered by pro-Kirchner analysts. Nestor Kirchner is portrayed as the man who saved the country from neoliberalism by cunningly manoeuvring the political system in order to bring the state back to the centre of the stage (Weinfeld 2016). Using the state as ‘the battle ram of social change’ (Trotta 2016), the Kirchners’ administrations managed to tame the markets and promote social and economic policies to the benefit of the poorest, lifting millions out of poverty. Although some shortcomings are recognised (Filmus 2016), those are caused by mistakes that can and will eventually be fixed, not however by limitations of the model and its theoretical presuppositions *per se*. Finally, the re-emergence of Argentina from ‘the ashes of neoliberalism’ was limited by the ‘external restriction’ (Del Pont 2016), particularly after the international crisis. Favourite villains are the drop in commodity prices and the conflict with the vulture funds.

Although better historically situated and less incoherent than the neoliberal discourse, the neodevelopmentalist narrative is also ultimately based on a utopian presupposition. Instead of the market, the state appears as the privileged institution responsible for bringing about catch-up development. Failure to achieve that idealised goal, taken as an unquestionable end societies should naturally aim for, is always seen as contingent and, therefore, externalised. The international crisis, the US judicial system, greedy agrarian producers – all these are to blame for the shortcomings of neodevelopmentalism. The assumption that the state is a virtuous institution ultimately capable of bridging class conflicts, neutralising external pressures, and delivering catch-up development persists, nevertheless.

There can be no doubt that the neodevelopmentalist cycle produced better results than the previous neoliberal model. Without belittling its important social achievements, it is also clear that Argentina did not catch-up with the ‘developed’ countries, the underlying objective of neodevelopmentalism. Indeed, despite modest increases in life expectancy and per capita GDP, between 2003 and 2014 Argentina fell from the 34th to 40th position in the human development index (UNDP 2014). The ‘dream’ proposed by Nestor Kirchner in his first inauguration speech did not come true. Deeply divided, facing yet another crisis, struggling with high inflation and low growth rates, hounded by vulture funds, the Argentina of 2015 was arguably not the ‘new and glorious nation’ Kirchner promised to make ‘rise on the face of the Earth’ (Kirchner 2003).

Writers coming from the Marxist and the dependency traditions have offered better explanations for the shortcomings of neodevelopmentalism in Argentina, calling the model itself into question. For Claudio Katz, ‘the neodevelopmentalist essay has failed because of the government’s incapacity to increment the state appropriation of soy plantation rents’ (2014, 121). This incapacity was not perceived as contingent, however, but rather as a consequence of a model itself, which relies on unstable class alliance with fractions of the ruling class. The faith in the progressive character of the national bourgeoisie is also called into question by Gaggero, Schorr, and Wainer (2014). Mariano Feliz highlights that the neoliberal cycle of the 1990s created the conditions for a new cycle of accumulation by pressing down salaries. The initial dynamism of the neodevelopmentalism cycle was, therefore, limited to the reduction of capital returns as soon as salaries recovered (Féliz 2012, 2014).

These critiques of the neodevelopmentalist model have so far concentrated on the fact that the state could not perform one of the two fundamental tasks neodevelopmentalists expect of it – namely, to permanently reconcile class conflicts. Eventually, the contradiction of material interests between different classes and class fractions – particularly between industrial and agrarian capitals and the unionised working class – outgrew the state capacity to provide constant gains for all. Nevertheless, the second structural problem of neodevelopmentalism – the faith in the state capacity to consistently neutralise international pressures and promote a truly ‘national’ development – has so far not been sufficiently explored.

From an uneven and combined development perspective, however, we can see that the two shortcomings of neodevelopmentalism are in fact interrelated. Taking inter-societal interaction and class struggle as premises, it is possible to realise that state responses are doubly conditioned by the character of the international impulse (expansive, contractive) and by the concrete configuration of the class alliance in power. When the international situation was favourable, between 2003-2008 and again 2010-2012, the state could socialise the gains of rising commodity prices through taxation and focused spending. During that short period, a mirage of the neodevelopmentalist state utopia was produced, and the state seemed indeed capable of delivering gains for the whole of society. When the international situation reverted, firstly in the 2008 crisis, and again after 2012, this mirage melted into air, calling the neodevelopmentalist class alliance into question. Conversely, the defeat of the neodevelopmentalist class alliance in the struggle

with the agrarian capital in 2008 rendered the state less capable of dealing with the upcoming international crisis.

The two premises of the neodevelopmentalist model were, therefore, dramatically tested in the crucial year of 2008. Firstly, the state's capacity to guarantee continued gains for both capital and labour was called into question in the conflict with the agrarian producers. Secondly, the state's capacity to face external threats to development was challenged by the contraction of commodity prices and the capital flight. After this double setback, Argentina's neodevelopmentalism would not be able to show consistently good economic results again. Instead of a 'won decade' for the whole of Argentine society, as implied in the neodevelopmentalist discourse, or a complete disaster, as suggested by neoliberals, the picture is much more nuanced. During the six years of exceptional growth, a real socialisation of gains was extended to all parts of the class alliance in power, including the working class. After 2008, successive privatisations of losses had to be imposed, progressively alienating class fractions that had initially supported the model.

Despite the frustration with the economic results of Cristina de Kirchner's second term – particularly in comparison with the booming years between 2003 and 2007, and the 'Kirchnerist spring' of 2010-2011 – political support for the incumbent President remained relatively high. The hard core of the Kirchnerist militancy, represented by La Campora, fulfilled its promises and remained loyal to Cristina, promoting regular demonstrations in support of her and her 'national and popular' government. Romantic *graffitis* of the Kirchner Presidential couple proliferated on the walls of Buenos Aires. If the conflict with the 'vulture funds' damaged the possibility of accessing new sources of external investments, politically it provided extra fuel to Kirchner's nationalist rhetoric, offering an irresistible foreign enemy the Argentinians could unite against. At the same time, the political polarisation produced by years of social conflict against fractions of the ruling class also generated a vociferous anti-Kirchnerist hard core, at the head of which were the corporate media, affected by the broadcasting reform.

At the crucial moment of the 2015 elections, the political limitations of the confrontational tactics adopted by Argentine neodevelopmentalism became clear. Because Cristina de Kirchner herself could not run for a second re-election, the movement she led lacked a clear substitute. Daniel Scioli, former vice-President under Nestor Kirchner and twice Governor of the Buenos Aires Province (2007-2015) failed to mobilise the Kirchnerist militant base, and was only reluctantly supported by Cristina de Kirchner herself (Alles, Jones, and Tchintian 2016, 185). Nevertheless, he attracted the

fierce opposition from the anti-Kirchnerist pole, led by the former Mayor of Buenos Aires, Mauricio Macri. At the same time, counting on the firm support of the corporate media and of the anti-Kirchnerist groups, Macri could afford to soften his neoliberal discourse and present himself as the candidate of moderate change (Kulfas 2016, 177), thus reaching undecided voters at the centre of the political spectre. Scioli's defeat in the second round of the 2015 elections is certainly an indication of the inherent difficulties faced by the neodevelopmentalist project in Argentina, marking the end of a period. Multiple sources of instability – stemming from international factors, but also from the particular characteristics of class struggle in Argentina itself – severely limited the possibilities of the neodevelopmentalist project, and finally aborted it, giving rise to a neoliberal restoration from 2016.

Instead of a complete disaster, as suggested by neoliberals, or a 'won decade', as Kirchnerists insist, the kind of development actually produced in Argentina over the last 15 years can be better described as uneven and combined. Class conflicts and international pressures and opportunities resulted in a particular balance of socialisation of gains and privatisation of losses. In the end, the Argentine society was substantially different from how it was in 2002, although its consumption and productivity standards had not converged to those seen in the global north.

Conclusion to Part 3 – Kirchnerism and Lulism as actually existing neodevelopmentalism.

The parallelism between the recent neodevelopmentalist experiences in Brazil and Argentina is striking. In both countries, the neoliberal strategy implemented in the 1990s came to a disappointing end in 2001-2002. In both countries, the neodevelopmentalist political discourse was initially used by charismatic leaders to mobilise hope in state-led, catch-up development and forge contradictory class alliances between fractions of the working class and fractions of the ruling class. Both countries shifted their foreign policies away from a perspective of privileged relations with the US, refused to join the AFTA and invested in regional integration. Both countries experienced a remarkable cycle of growth coupled with social inclusion, lifting millions out of poverty. Both countries benefited from the international high prices of commodities and the rise of China. Both countries were affected by the 2008-2009 international financial crises, but showed the capacity to quickly recover in 2010 using expansionist macroeconomic policies. In both countries, the original neodevelopmentalist leaders were able to elect their successors – two powerful women, both of whom faced clearly misogynous prejudices from traditionally patriarchal societies. In both countries, traditional elites, particularly the corporate media, offered fierce opposition to the neodevelopmentalist political project. In both countries, the economic situation deteriorated after 2011 – growth rates decelerated, and inflation rose. In both countries, the neodevelopmentalist class alliance came under increasing pressure in the context of economic contraction. In both countries, the question about the results of the neodevelopmentalist cycle divides the political economy literature between neoliberals, who stress the economic shortcomings of the model, and neodevelopmentalists, who stress its social achievements. Both countries are deeply politically divided along similar lines. Finally, both countries are now passing through a painful neoliberal restoration, initiated in 2016.

This long list of similarities, which could be expanded further upon, is largely explained by the adoption of a substantially similar development strategy, based on a common state-led development utopia and on similar class alliances. Furthermore, although Brazil is a much larger country than Argentina, both occupy roughly equivalent positions in the world division of labour. Brazil and Argentina were similarly affected by the 2008-2009 crisis and the subsequent drop in commodity prices in 2014, as both are

major producers of agrarian commodities besides having sizeable and technologically equivalent industrial economies.

Given the many similarities just mentioned, the interesting point to be made here is, therefore, about the differences between the two processes. Because in each country the incumbent administrations tried to get around similar problems in different ways, a contrast between them may shed some light on the inherent limitations of the neodevelopmentalist strategy. In fact, during the expansionist cycle prior to the 2008-2009 crisis, in both countries the positive international impulse was translated into a socialisation of gains – although in Brazil this socialisation was done primarily through cash transfer policies aimed at the very bottom of the social pyramid, while in Argentina the recovery of salaries initially played a primordial role, aiming at organised labour. Even before the reversal of the international circumstances, in the first months of 2008, Cristina de Kirchner confronted some selected class fractions – in particular the national and international financial capital and agrarian producers – assuming the necessity of some privatising losses in order to keep socialising gains. In fact, Argentina's cash transfer policies were implemented in the aftermath of the crisis, coupling with decisive nationalisation of financial assets (pension funds) and big companies (YPF, Aerolineas Argentinas) to confirm a clearly confrontational approach to neodevelopmentalism.

In Brazil, Rousseff's administration insisted on the non-confrontationist line bequeathed by President Lula for several years after the international crisis. In fact, the immediate response to the crisis tried to avoid privatisation of losses, insisting on a socialisation of gains through fiscal expansion. The fiscal adjustment of 2011 halted the socialisation of gains. Nevertheless, it did not aim at any specific sector, trying instead to preserve social achievements, while avoiding confrontation with fractions of the ruling class at any cost. Only after 2012, when the negative effects of the international crises proved to be long-lasting, did Rousseff's administration impose some losses on the financial fraction of the ruling class to the benefit of productive capital, forcing private banks to cut their interest rates through the 'spread battle' (Singer 2015, 51). This effort largely backfired, as private interest rates soon rose again when the central bank started an interest rates hike a few months later, trying to curb rising inflation. After this failed attempt at a limited confrontation, Rousseff's administration insisted on conciliatory tactics until the very end. Weeks before the voting of her impeachment, yet another Ministerial reform was announced in the vain hope of appeasing the contradictory interests within Rousseff's political base.

The difference between the confrontationist approach in Argentina and the conciliatory approach in Brazil is more than a simple expression of different personalities of the respective political leaders. Although both are based on contradictory associations between capital and labour, there are important differences between the neodevelopmentalist class alliances in Brazil and in Argentina, which stem from historical differences in the economic formation and the process of industrialisation in the two societies.⁸³ Given the greater relative strength of organised labour in Argentina and its political representation through Peronism, it could offer a more solid base for the neodevelopmentalist alliance. The better cohesion of the neodevelopmentalist alliance in Argentina, including the very vocal youth militancy of La Campora – one element largely absent in the Brazilian case – guaranteed a qualitatively superior political support for Kirchnerism. As a consequence, the neodevelopmentalist class alliance in Argentina could afford confrontations with important fractions of the ruling class – particularly the financial capital and agrarian producers, largely seen as historical enemies of Peronism.

In Brazil, contrastingly, the cornerstone of the neodevelopmentalist alliance was not organised labour, or active youth movements, but a large sector of the working class that had been historically marginalised – not even being regularly integrated into the labour market. The sub-proletariat, as identified by Singer (2012), was not politically mobilised, and lacked a coherent party representation, particularly if compared to Peronism. In its best result ever, in the 2010 elections, the PT guaranteed only 88 out of the 513 seats in the lower house of Brazilian Congress, and 14 out of 81 seats in the upper house. At the same time, the loose political identity of Lulism allowed for a broader class alliance, including different fractions of the ruling class.

Exactly because of the historical fragmentation of Brazilian society, institutional forms of class conciliation were created within the state. One key example is the BNDES, which allow for targeted transfer of resources to the industrial sector, attenuating the potentially disruptive effects of the high interest rates practiced by the Central Bank. Another is the multiplication of Ministries, mounting to 39. As remarked by Souza (2016) the way the PT found to guarantee a minimum level of governability was to include in the state itself the many contradictions of Brazilian society, giving institutional space to large and small agrarian producers, trade union leaders and factory owners, bankers, protestant churches, communists, indigenous populations and slave descendants – just to

⁸³ The classical references on the matter are Furtado (1969; 2005) for Brazil and Ferrer (2006) for Argentina.

mention a few. The neodevelopmentalist class alliance in Brazil was, therefore, much broader and less disciplined than in Argentina. As a consequence, the struggle to keep that alliance together severely curtailed the policy possibilities available for the PT's administrations. Challenging the rural producers with an export tax, intervening in the Central Bank, and reversing privatisations – hallmarks of Argentine neodevelopmentalism – were simply not on the agenda. One of the few political spaces for bolder neodevelopmentalist policies was in foreign affairs, as long as no class interests were directly affected.

In short, Kirchnerism and Lulism can be described as historically determined instantiations of the neodevelopmentalist class alliance. In its ideal form – announced in the neodevelopmentalist theoretical texts (chapter 1) and in the political speeches – the national alliance for development is supposed to conciliate all distinct class interests in a common catch-up project under the leadership of an idealised state, resulting in gains for all. In reality, as I have shown in the previous chapters, the limited means of the Brazilian and Argentinian states were not enough to reconcile those interests, particularly under adverse international circumstances. Hence, the neodevelopmentalist alliances assume different forms, allowing for different concrete policies.

Because these concrete policies are always insufficient when compared to the ideal neodevelopmentalist policies carefully crafted to produce 'development', and because international influences can never be efficiently neutralised, the catch-up development promises contained in theoretical texts and political discourses necessarily fail to materialise. This has been the central argument of chapters 5 and 6: the mixed results produced by real existing neodevelopmentalism are better understood as necessary consequences of the interplay between class and international relations – i.e. of Brazilian and Argentinian recent uneven and combined development – than as policy failures. As defined in chapter 2, inter and intra-social forms of unevenness interacted, generating a combined form of development that came very far from the neodevelopmentalist expectations. Indeed, the neodevelopmentalist policies can only be seen to have failed in relation to idealised neoliberal or neodevelopmentalist policies, which could not be effectively applied by Lulism or Kirchnerism – the actually existing neodevelopmentalist class alliances.

Accordingly, the end of the neodevelopmentalist cycles in Brazil and in Argentina can also be traced back to the real limitations of Kirchnerism and Lulism. True to its better defined political core and its confrontationist character, Kirchnerism progressively

alienated and antagonised enough political forces to become a minority and lose the presidential elections. Lulism, on the other hand, collapsed under the weight of an impossibly large alliance. Avoiding confrontation and trying to please every class and class fraction under structurally restrictive conditions, President Rousseff disappointed everyone and saw her political base disappear.

Conclusion – Challenging the oligopoly of legitimate development discourses

While I write the final lines of this thesis, Brazil and Argentina are heading towards elections. In October 2018, Brazilians will go to the polls hoping to put an end to the prolonged political and institutional crisis unleashed in the aftermath of the altogether questionable ousting of President Rousseff, in May 2016. Months after the new President of Brazil takes office, the Argentines will start their electoral process, voting on the primaries for the 2019 general elections.

Both countries are currently witnessing neoliberal restorations. Launching her candidacy to the Senate in the mid-term 2017 elections, former President Cristina de Kirchner criticised the economic policies adopted by her successor, President Macri, comparing the new wave of neoliberal reforms to the classic blockbuster ‘Jaws’, by Steven Spielberg: ‘This thing that we are witnessing with the debt and the economic plan is like watching Jaws 1, Jaws 2, 3, 4. I don’t want to watch Jaws 5. I know how it ends, and I don’t like it’ (De Kirchner 2017).

Taking into account the social damage caused by the neoliberal economic policies of Presidents Mauricio Macri, in Argentina, and Michel Temer, in Brazil, the renewed hope eventual neodevelopmentalist candidacies are raising do not come as a surprise. Cristina de Kirchner and Lula da Silva are still perceived by many as the legitimate representatives of important fractions of the working class, whose interests have been directly affected by the recent neoliberal shift.⁸⁴ Their public appearances attract thousands of passionate supporters, contrasting with the overwhelming popular rejection of Temer in Brazil, and the lukewarm indoor political rallies hosted by Macri.

The approaching electoral struggle in Brazil and in Argentina will, therefore, repeat once again the neoliberalism versus neodevelopmentalism divide. One side defending gains of efficiency through market-friendly reforms, attraction of international investments, privatisation and a better business environment. The other side reclaiming the central role of the state, announcing a pact between capital and labour and proposing new industrial and social policies. Both sides reaffirming their respective market and state

⁸⁴ Examples are the labour and the pension system reforms in Brazil, as well as the tariffs hike, the labour reform and the austerity package in Argentina (Benedetto 2017; Casullo 2017; Katz 2017).

utopias, and renewing their promises of catch-up development. Unfortunately, not much can be expected from this limited debate, in which the priorities of subordinated classes are not represented. Building on Cristina de Kirchner's cinematographic metaphor, we have seen this film before, and it does not end well.

My overarching argument throughout this thesis has been that Brazilian and Argentinian perceived developmental shortcomings are intrinsically related to the oligopoly of the legitimate discourse about development shared by neoliberals and neodevelopmentalists. Indeed, neoliberalism and neodevelopmentalism are two complementary sides of the political economy of permanent underachievement. Because of their common representation of development as capitalist catch-up, and their respective state and market utopias, they are caught in a vicious circle. Continuous failure to achieve an idealised view of development is explained as excessive or insufficient state intervention in the market. This biased diagnosis is then used to justify state-led or market-friendly policies that, in turn, can never be fully applied. Necessarily falling short of their expected results, they end up confirming the narrative of failure, as a self-fulfilling prophecy.

The discursive divide between neoliberalism and neodevelopmentalism, which reflects a real conflict of interests between different class alliances, prevents the appearance of theoretical and political alternatives. By contrast, building on the historical materialist tradition, I challenged the political economy of permanent underachievement, and proposed a distinctive way of conceptualising Brazilian and Argentinian recent development. Beyond the market and state utopias, which see the continuous developmental shortcomings as excess or lack of state control over markets, I suggested that the particular outcomes of the state reforms in Brazil and in Argentina are better understood as expressions of uneven and combined development. Instead of being a product of policy failures, the particular developmental paths followed by Brazil and Argentina are the result of a balance of socialisation of losses and privatisation of gains.

In a nutshell, it is not that neoliberalism and neodevelopmentalism failed to produce development *tout court*. Indeed, some form of development resulted from both waves of reforms analysed in the empirical chapters of this thesis. Productive structures changed, so did class relations. Class conflicts interacted with international pressures and opportunities, bringing about important transformations in societies that are very far from stagnant. Yet, this development did not mean catching-up. Blind to complex forms of development, neoliberal and neodevelopmentalist writers fail to capture these changes.

All they can offer are *a priori* narratives about the inevitable shortcomings of the markets or the state, and renewed packages of policies to reignite market-friendly or state-led development.

The critique of neoliberalism and neodevelopmentalism I carried out in this thesis was twofold. First, in Part 1, the fragile theoretical presuppositions of both streams were revealed through an engagement with representative neoliberal and neodevelopmentalist authors. After presenting my theoretical alternative in chapter 2, I moved to the empirical critique of the neoliberal policies adopted in Argentina (chapter 3) and Brazil (chapter 4) in the 1990s. The neoliberal cycle came to frustrating ends in both countries, particularly in Argentina. The 2001 crisis seemed to represent the defeat of the Washington Consensus for all Latin America, paving the way for neodevelopmentalist administrations. Yet, neodevelopmentalists also failed to live up to their promises of catch-up development. This time, Brazil was the epicentre of the crisis, facing the worst recession in its history in the period 2014-2017. In both countries, neodevelopmentalism took distinct political expressions, in the form of Lulism and Kirchnerism. The critique of Lulism is carried out in chapter 5, while Argentine Kirchnerism is the object of chapter 6.

At the end of each empirical chapter, I returned to the mainstream narratives provided by the neoliberal and neodevelopmentalist literatures in the respective periods. I showed how the theoretical fragilities of neoliberalism and neodevelopmentalism not only resulted in bad policy strategies, but also in historical narratives unable to make sense of mixed forms of development. Contrary to that, and applying the alternative conceptual toolkit defined in chapter 2, informed by the concept of uneven and combined development, I sought to uncover the differentiated social gains and losses brought about by the neoliberal and neodevelopmentalist reforms.

My conclusions can be summarised in five claims: 1 – although mutually representing each other as opposites, neoliberalism and neodevelopmentalism are based on similar theoretical presuppositions, namely, the definition of development as capitalist catching-up, and the division between states and markets; 2 – these theoretical presuppositions result in two competing sets of policies, informed either by the state or the market utopia, and politically mobilised by conflicting class alliances; 3 – whenever applied, these policies tend to produce mixed results, favouring the class alliance backing them; 4 – these results are further determined by external constraints, the most visible of which are international capitalist crises; 5 – the resulting form of development is uneven and combined. It necessarily involves a balance of socialisation and privatisation of gains

and losses, coming short of the catching-up promises contained in the neoliberal and neodevelopmentalist political discourses.

These conclusions constitute original contributions to different theoretical and political debates, across different fields. The most substantial theoretical contribution is to contemporary Latin American political economy, by directly calling into question the presuppositions of its two dominant perspectives: neoliberalism and neodevelopmentalism. A secondary theoretical contribution to the broader fields of development studies, international political economy and international relations is also suggested, building on the contemporary literature on uneven and combined development. I propose a set of mid-range concepts, such as of socialisation of losses, privatisation of gains – and their opposite, socialisation of gains, and privatisation of losses – adequate to grasp relatively short-term unevenness and combination in the face of a specific form of the whip of external necessity, represented by international economic crises. The alternative narrative of the recent development processes of Brazil and Argentina that I suggest in the empirical chapters of the thesis is also a contribution to the contemporary Latin American studies literature, adding a distinctive international approach to established Marxist perspectives, and reclaiming some classical dependency theory's insights.

Most importantly, this thesis is intended as a political contribution to the Brazilian and Argentinian left, currently trapped between the devil and the deep blue sea. My claim is that instead of choosing sides in a rigged dispute between two false promises, subordinate social groups can build their own development alternative. The political purpose of this thesis will be accomplished if the powerful banner of development is taken from the hands of national ruling classes, allowing for the formulation of challenging and socially revolutionary claims for development.

The contributions here suggested are to be taken more as starting points for new inquiries than as the endpoint of a research agenda. Because this research is among the first to explore the potential of contemporary formulations of the concept of uneven and combined development for political economy analysis, and the only one to do so in reference to Brazil and Argentina, much room is left for further investigation. The focus on macroeconomic and foreign policies adopted in my empirical analysis is just one among many possible approaches. What other forms of external pressures – beyond international capitalist crisis – defined the paths of development of Brazil and Argentina in the last three decades? How did extreme climate change events, such as the historic

Brazilian drought of 2014/2015, contribute in shaping developmental outcomes? What other forms of combination can be observed beyond socialisation of gains and privatisation of losses? What role did entrenched social unevenness in terms of gender and race play in the neoliberal and neodevelopmentalist cycles?

The answers to these questions lie beyond the limited scope of this thesis, pointing to new research avenues that I look forward to explore in the future. By undermining the dominant neoliberal and neodevelopmentalist narratives about Brazilian and Argentinian development, my aim was to open the intellectual space for these and other questions to be posed. The theoretical and political challenge of imagining Brazilian and Argentinian development beyond neoliberalism and neodevelopmentalism is just starting.

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