Dependency, models of capitalism and the Challenges to Strengthen Economic Development in Latin America

Alexandre Queiroz Guimarães

Grupo de Investigación Estado, Instituciones y Desarrollo (GIEID-ALACIP)

Introduction

Two points are striking in Latin American political economy trajectories in the 2000s. Firstly, the persistency of structural fragilities in terms of investment, productivity and export performance: productivity has been stagnated by decades, investment share of GDP is very low (below 20%) and the exports are very concentrated in commodities (Palma, 2011a). These difficulties have persisted in spite of a decade marked by high economic growth and very favorable international terms of exchange.

The second point concerns the similarities which marked Latin American countries, permitting, by means of indicators, to classify them in a cluster (Palma, 2011b) Despite the differences in terms of parties, candidates and national identities, the similarity is striking. The trajectories of development also shared many similarities. In the 1950s, most countries implemented import substitution industrialization (ISI) strategies, sharing many features and fragilities. All of them suffered a very serious crisis in the 1970 and 1980s, which provoked a “lost decade.” From the end of that decade, neoliberal reforms were adopted, contributing to economic stabilization but failing to produce a sustainable process of economic recovery. The frustration with neoliberalism, by the way, explains the rise to power of center left governments at the beginning of the 2000s. The 2000s were marked by high economic growth and significant social advances, but the difficulties returned with the international economic crisis.

The similar directions are explained by events related to the international order, but also by institutional similarities. Important questions follow: why, after previous decades of difficulties and adjustment, the Latin American continent was not able to develop a consistent program of economic recovery and restructuring? Why is it so difficult to adopt a consistent industrial and economic program able to promote elaborated sectors and to increase national productivity and competitiveness. Which policies are necessary to achieve that?

---

1 Lecturer and Researcher – Escola de Governo – Fundação João Pinheiro – Brasil.
The article’s objective, by exploring those institutional characteristics, is to interpret the recent events, particularly the emergence and crisis of the center left governments. For this objective, it departs from dependence theory and gives strong emphasis on the varieties of capitalism approach and to its application to Latin America (Schneider, 2013). I believe that they are very useful to understand certain economic characteristics and the challenges faced by the continent, including high income inequality, low productivity and recent deindustrialisation (Palma, 2011a). A key point is to show how the similar trajectories, reflecting institutional and international factors, are key to understand the rigidities and difficulties of the economic model. In addition, by discussing the economic rigidities and difficulties, the article also intends to understand the available trajectories and the necessary policies and challenges to reinvigorate the economic model.

**Political dependence and evolution of Latin American economic model**

A critical notion to understand the evolution and the characteristics of capitalism in Latin America is that of dependency. It is related to the international division of labor, which led many countries to insert into international economy as exporters of primary product. This shaped the economic organization of peripheral countries, leading to an economic structure centered on the production and exports of primary goods, in which the export (and modern) sectors were weakly integrated in the rest of the economy, constraining the capacity to stimulate economic development. As a consequence, the economies were marked by structural unemployment, problems in the balance of payments and external vulnerability (Bielschovsky, 1988).

There is also a political dimension of dependency, related to the form in which economic organization influenced the political power of the respective political classes. The main features was the emergence of a very strong and influential agrarian bourgeoisie, which became a key actor in the political scene. However, the political dynamic was not static. The success of the export economy, by promoting urbanization, strengthening other economic sectors and stimulating industrial activity, was also key to the reconfiguration of the political structure. The medium class segments, the civil servants, the commercial and financial segments, the industrialists and the working class became political actors (Cardoso and Faletto, 1975).

---

2 In countries marked by the predominance of mineral products, explored by foreign enterprises, the political dynamic was different. Cardoso and Faletto (1975) call them enclave economies.
The emergence and strengthening of other groups made the political equation more complex and opened the possibilities for coalitions. It also increased the possibilities for tensions and divergence. The agrarian bourgeoisie kept the power but had to form alliances with other groups. The configuration of these alliances became a key element to understand the respective economic and political trajectories of modernisation, as well as the impasses and the consequent political instability.

Cardoso and Faletto (1975) show, in a seminal work, how dependency is very related to the particular political structure of those coalitions. The dynamic of coalition formation varies among countries, depending on the main economic product, on the presence (or not) of strong an agrarian bourgeoisie and on the timing of industrialisation. A critical contribution is to show how the differences took place inside similar patterns and structures, which influenced the trajectories of development and explain certain similarities. By doing that, Cardoso and Faletto (1975) show that dependency is not a metaphysical relation between countries; changes in the peripheral countries are not a mere reflex of changes in central ones. They are mediated by the political forces and coalitions, which interweave external and domestic factors, once the interests of the main domestic political groups are connected to the export activity and to the working of the international economy. Those interests represented a key constraint in the capacity of the respective governments to promote measures towards an autonomous process of development. They are also critical to understand the impasses of the respective trajectories and the fragilities of the development model (Guimarães, 2003).

A key moment was the international crisis of the 1930s, which strongly hit economies very dependent on the export of primary products. By weakening the agrarian bourgeoisies, the crisis marked new possibilities and new forms of alliances. It strengthened the medium urban groups and the military, which in alliance with other segments of the aristocracy and with the infant industrial class, broke with the agrarian bourgeoisie dominance and created the conditions to transform the economic model. The transformation, nevertheless, was undertaken by a very broad coalition, requiring policies to contemplate a wide range of political interests (Cardoso and Faletto, 1975).

In the years which followed the Second World War, Latin American countries shared a similar model of import substitution industrialization. The state played a key role by controlling instruments such as tariffs, credit and the exchange rate regime. State enterprises were also created and expanded to invest in infrastructure and in heavy
industrial sectors. This model was also marked by distortions and difficulties, including the adoption of overvalued exchange rates, which damaged exports and produced difficulties in the balance of payments.³

Another key source of difficulties was fiscal, given the necessity of contemplating a wide range of interests. The incentives to industry had to be conciliated with policies to the agrarian sectors, concessions to the labour class and to state’s role as investor in infrastructure and industry. In face of the dominant groups’ veto to increases in tax, the governments faced serious fiscal difficulties, Most governments faced the trade off between increase the role in economic development or to stabilize the economy. In most of the countries, the process of development was marked by high rates of inflation (Guimarães, 2003).

The disincentives to exports and the problems in the balance of payment help to explain another key feature of this model: the high disposition of the governments, despite the nationalist orientation, to attract foreign capital. It was considered a key source of foreign currency and technology and, thus, as a key way to advance the process of industrialization. As a result, the presence of foreign capital gave a new dimension to the phenomenon of dependency. Foreign enterprises controlled key sectors and became the main source of technological innovation. In addition, many segments of the national industry became suppliers and gravitated around foreign capital. The foreign enterprises’ decisions became critical to the performance of the economy, constraining policy makers’ decisions. Likewise, policy makers became sensitive to measures aimed at promoting consumption and employment in sectors occupied by foreign enterprises, given their key role in capital accumulation.

A key point to emphasise is how the economic difficulties which marked the process of industrialization were related to the structure of social interests and to the challenges to keep together very heterogeneous coalitions. This was also the key to understand political instability. The process of development provoked tensions and disputes, in a context in which democracy was not yet institutionalized and in which it was not possible, by fiscal and political reasons, to create an encompassing welfare state. The cold war context is also important to understand the frequent occurrence of military coups. Those political difficulties are also interconnected to the economic ones,

³ This is explained by the fact that exchange rate policy was used as a disguised form to transfer resources from primary activities to the industry.
increasing the fragility of those economies and their vulnerability to the turbulence in the international economy which emerged in the 1970s (Guimarães, 2003).

**Inequality in the Latin American model**

A key feature of Latin American capitalism is the high level of income inequality. It has its roots in colonial times and in the very unequal pattern of land distribution. American Indian population was eliminated in many countries and only in few they achieved certain degree of autonomy. Slave population, most imported from Africa, were at the bottom of society and had very few opportunities after slavery abolition. Consequently, one achievement of colonization was the overlapping between class, ethical groups and income (Thorp, 2012).

After independence, there was the consolidation of economies organized around the export of primary products. A key issue was how the countries responded to the shortage of labour force. In Argentina, Uruguay and Costa Rica, countries which did not have significant entrance of Africans, immigration was strongly promoted since the end of the XIX century. In this process, in contrast to the United States, the possibilities of access to the land were closed. Large part of the migrants were forced to move to the cities and inequality significantly increased.

In Brazil, immigrants were imported in worse conditions than in the Southern neighbors. The land code also vetoed the possibility of access to the land. As Leff (1997) shows, a key issue was the decision to attract Europeans instead of workers from the Brazilian Northern, a region in decay after the decline of sugar cane activity. There are two main hypothesis to explain such a decision: racist considerations and the intention to increase the supply of labor and keep the wages low (Leff, 1997). In other countries, institutions were created to force indigenous population to work in very precarious conditions; land was removed from communities and forms of compulsory labor were introduced.4

From the 1870s, the rapid growth of international economy opened many opportunities for the expansion of primary export activity and the increase in profits. The agrarian bourgeoisie produced for foreign markets and had no interest in strengthening the domestic market. The elastic labour supply, the draconian labour

---

4 Another common practice was the concession of “incentives” to induce the labour force to move into prosperous regions. However, in exchange for the payment of moving expenses, the workers acquired a high debt with the landowner, which tended to increase in result of the high interest rates and of the high prices of the subsistence good acquired in the landowners’ drugstore.
legislation and the lack of welfare policies resulted in low wages and precarious conditions for large part of the population. In addition, investment in education was low and insufficient, being larger in countries in which the large immigration population organized itself and pressured the government. By contrast, countries with ethnic inequality postponed investments in education and adopted fierce discrimination against indigenous population (Thorp, 2012).

After the Second World War, the adoption of import substitution industrialization was not accompanied by policies aimed at strengthening the domestic market. A high proportion of industrial production was concentrated on durable consumer goods, directed to the richest segments of the population. Another key characteristic of ISI was the relative low capacity to create jobs, fruit of the capital intensive technics imported from developed countries. In face of the demographic pressures and of the intense migration from rural areas, there was a huge increase in the large cities, where the migrant population was absorbed mainly in precarious and informal jobs, marked by low productivity and remuneration.

A key part of the process was the lack of policies to support the migrants and other segments of the poor population. There were no policies to train the migrant population or to help them to find a job. The government’s financial capacity was limited and directed to areas of interest of the powerful groups. Meanwhile, the welfare expenditure was concentrated on formal urban workers, a result of the reforms adopted as a form to coopt and control urban workers. Most of the labour rights, including unemployment insurance and pensions, were not extended to rural workers, a result of the veto exerted by the landowners. As a result, inequality increased during the period of industrialization, nurtured also by inflation and other vicissitudes of the process. Income distribution was later deteriorated by the effects of the economic crisis and of the neoliberal reforms adopted in the 1990s. The post neoliberal governments made advance in income distribution, but the process was suddenly interrupted by the economic crisis. In brief, the point to highlight in this section is that high inequality was a result of dependent development and of the institutional pattern which was consolidated in those countries.

Hierarchical Capitalism

A key and very original contribution to understand structural regularities in Latin America is the approach hierarchical capitalism, developed by Ben Ross Schneider
(2013) and based on the approach varieties of capitalism (VOC - Hall and Soskice, 2001). The approach is centred on the idea that national institutions produce constraints and incentives which led the agents to behave in certain ways. A key actor is the firm which, understood as an organisation, establishes relations with actors which critically affect their performance: workers, suppliers, financers, other enterprises and clients. Those relationships are critically influenced by the national institutions, including the regulation of the labour Market, the systems of worforce training, the forms of corporate governance and the characteristics of the financial system. Hall and Soskice (2001) define two paradigmatic models of capitalism: liberal market economies (LMEs) and coordinated marked economies (CMEs). In LMEs, the relationships are centred basically on market and hierarchies. In CMEs, there are also important forms of coordination via networks, which tend to institutionalize cooperation and facilitate the exchange of information. A strong point of VOC approach is to show how the respective models have complementarities in their institutions, critical to explain the model’s resilience.

Schneider (2013) argues that the approach helps to understand important features and puzzles in the organisation of Latin American capitalism. It also helps to understand the development trajectory and the results of certain economic programs. According to Schneider (2013), the model of capitalism developed in Latin America is very different from the two paradigmatic types. Hierarchical Market Economies (HMEs) are marked by the predominance of family owned diversified groups, dependence on multinational corporations (MNCs), low levels of labour qualification, low average tenure in office and segmentation of the labour market. HMEs fail to develop forms of regulation via networks and have more forms of hierarchies than in other models. They are present, for example, in the relations between enterprises managers and the family onwers, in the prevalence of oligolistic market structures and in the relations developed with workers and suppliers.

A key point in Schneider’s argument is to refuse the idea that Latin American capitalism is incomplete and under construction, as may be implicit in the expressions developing or emerging capitalism. Schneider (2013) emphasises that it is not a question of stage, since specific institutions in HMEs and differences continued relevant even when controlled by per capita GDP. Developed countries, when had the present Latin America per capita income, had already very different institutional structures.
Therefore, there is no a priori reason to believe that economic growth will approximate Latin America from the other models of capitalism.

A key characteristic of HMEs is the specific form of business organisation, marked by two main features: the control exerted by diversified family owned business groups and the role played by MNCs. According to Schneider, more than 90 percent of the 32 largest business groups in Latin America at the beginning of the 2000s were controlled by families and most had several family members in top management positions. Those groups are very diversified and control a large share of GDP. Diversification, nevertheless, did not follow a pattern based on technical or product affinity, but was motivated by the intention to diversify risk in economies marked by permanent macroeconomic difficulties and high political uncertainty. The objective of many groups is to be profitable in 4 or 5 different sectors, electing sectors which are differently affected by the economic cycle. So, diversification tends to take place in sectors which have natural or regulatory barriers, such as TV broadcast, cement, beer, processed foods and airlines companies. The domestic groups have weak connection with banks and with the capital market and finance is mobilised mainly through retained profits and international and state agencies loans.

In brief, these domestic groups consolidated their participation in sectors not intensive in technology and marked by low labour skills, the niches they found in a process of industrialisation marked by the prominent role played by state enterprises and MNCs. Their comparative advantages were centred on the development of powerful distribution and marketing networks and on the exploration of natural resources. In order to deal with a very complex and instable environment, those firms learned to deal with the high transaction costs inherent in those economies, constituting an “expertise” which give them advantage in competition with rivals. Another source of advantage is the consolidation of oligopolistic structures, which benefit from weak anti-trust regulation and other forms of government support.

A key implication is that, in face of the main sources of comparative advantages, those firms have little incentive to innovate or to invest in skills. In addition, given the

5 In Chile, at the beginning of the 2000s, the ten top 20 groups controlled half of GDP. In Colombia, the 4 largest groups controlled 278 firms and 20% of GDP in 1998.
6 The low propensity to export, result of a model oriented to the domestic market, also helps to explain the decision to diversify.
7 According to the directors of a Chilean anti trust agency, abuse of power takes place in almost every sector of the economy. Tariffs tend to be high in products such as cement, steel and soft drinks. Oligopolistic structures are also responsible for the very high prices practiced in sectors such as telecommunications services.
presence of oligopolistic structure and barriers to entry, firms suffer little pressure to increase efficiency. As a result, investment per work tend to be very low, negatively affecting productivity (Palma, 2011). This also explains the low share of business participation in R&D expenditure; in contrast to developed countries, most of R&D investments are undertaken by the governments.\(^8\)

A second key characteristic of HMEs is the role played by multinational enterprises. The strong presence of MNCs has critical implications. A first one is the mentioned division of attributions with domestic capital, pushing national enterprises away from technological intensive sectors. The few domestic firms intensive in technology tend to be bought by MNCs.\(^9\) Another implication is political: the presence of MNCs tends to divide the business class and reduce the power of nationalist coalitions aimed at strengthening industrial capacity. As important segments of national capital are concentrated on sectors which sell to MNCs and on commodities and other low skill sectors, the demands of the business sector are fragmented and not directed towards an integrated effort to develop technological capacities. This was a key obstacle faced by previous attempts to strengthen the weak chains of the industrial structure, such as the Second National Plan of Development in Brazil (Guimarães, 2003).

Another important characteristic of HMEs is the organisation of the labour market. It is very segmented and marked by high informality, which tend to respond for 40% to 50% of the market. According to Schneider (2013), a small labour elite, characterised by long tenure in office, high skills, high pay and benefits, responds by 10% to 20% of the labour force. A formal sector of low qualification and high turnover responds for 30% to 40% of the workforce. Union density is lower in HMEs when compared to the other models of capitalism and there are few channels of representation and collaboration in the shop floor. Job tenure is in average very low: 3 years in average in HMEs, compared to 4 years in LMES and 7.4 years in CMEs. This has very important consequences. As workers expect to stay little time in office, they have little incentives to invest in qualification, helping to explain the low levels of skills in this model of

\(^8\) In Brazil, for example, the average investment of firms in R&D is only 0.23% of the sales, while in Mexico private sector invests only 0.17% of GDP in R&D. It is striking the contrast to East Asia, where the national groups, supported by the state, invested heavily in R&D.

\(^9\) This process was intensified after the process of liberalisation in the 1990s. The participation of MNCs in the sales of the 500 largest firms increased from 27% in 1991 to 39% in 2001. Among the largest (7) firms, MNCs responded, for example, by 57% of sales in Brazil and 73% in Argentina. From 1996 to 2000, the participation of foreign firms in the total sales rose from 27% to 42%.
capitalism. The lack of institutionalised practices of training also contributes to these results.

Another feature is the high degree of regulation present in the labour market. Schneider (2013) shows how regulation in HMEs (an index of 1.8) is higher than that present in CMEs (1.4) and LMEs (1.0). As a consequence, HMEs did not benefit neither from the flexibility inherent to LMEs nor from the incentives to invest in qualification present in CMEs. Despite the negative results, there are few incentives to engage in reforms. As business has the access to informal markets and the possibility to subcontract workers, they have little incentive to engage in collective action to reform labour market regulation. In addition, trade unions have enough power at national level to block reforms aiming at increasing flexibility.

Another institutional characteristic of HME is the low level of education and the low qualification of the workforce. Latin America has 1.4 years of study less than expected in face of per capita income, while Latin American students tend to have the worse results in PISA tests. Education levels are also low among the labour force: the average worker years of study tend to be 5.7 in Latin America, against 9.9 in CMEs and 11 in LMEs. The implications are clear in terms of productivity: in a sample of 47 countries, Mexico ranked 34th, Chile 36th, Brazil, 38th, Colombia 40th and Venezuela 42th (Schneider, 2013). Low education, the failure of the training system and the high turnovers are important components of low productivity.\(^\text{10}\).

A key point is to understand why education is low, which is related to the neglect of investments in education during most of the previous phases of industrialisation. According to Schneider’s argument, a key explanation is that hierarchical markets economies are able to work and to obtain profits despite the low skill of the workforce. This explains the low degree of priority and the lack of collective action towards the improvement of the educational system.

Another interesting feature is the low return of education: HMEs have the lowest return of education among the three models of capitalism.\(^\text{11}\) The result seems paradoxical when one considers the shortage of skillful workers. The result, nevertheless, is explained by the low demand for skillful workers, a consequence of a productive structure very centred on commodities and low skill sectors. Despite the low

\(^{10}\) This is very well illustrated by the following data: from 1961 to 2000, productivity grew 0.3% a year in the seven largest Latin American countries; in East Asia, it grew 2.2%.

\(^{11}\) Brazil tends to be an outlier, since the return of education is much higher than the continent average.
demand, years of study tend to be required as a credential for low skill jobs, explaining its key role in explaining income inequality.

As argued, an implication of the varieties of capitalisms approach is the identification of institutional complementarities which are key to understand the resilience of the structures. In HMEs, business groups are mainly concentrated in low skills sectors, invest little in productivity and have low incentives to press for improvements in training and education. Meanwhile, in face of the high job turnover, workers have little stimulus to invest in skills. Schneider calls it “low skill trap”: while low degree of workers qualification does not stimulate the investment in high quality sectors, the consequent lack of demand for qualified workers do not stimulate workers’ investments in qualification.

As a result, in face of the low quality of work force and of precarious R&D capacity, HMEs failed in both incremental and radical innovation and have to find other sources of comparative advantages. As argued, they are found on natural resources, on logistic and distribution networks and on other barriers of entry. The problem, as Palma (2010) and other authors argue, is that those sectors tend to have a less dynamic international demand and to face fierce competition from poorer countries. In this sense, the incapacity to advance towards more elaborated sectors is part of the difficulties faced by those economies.

Another characteristic which contribute to the high resilience of this model of capitalism is the political system. It is marked, in many countries, by the combination between presidentialism and proportional representation, a very rare combination in other parts of the world. As Schneider (2013) points out, from 1982 to 2003, the president’s party in 12 Latin American countries had the control of legislature only 34% of the time. A consequence is that the president tends to face difficulties to obtain the votes necessary to approve policies and reforms.

In addition, the characteristics of the electoral system tend to bring many parties to the congress and to lead to the formation of coalition governments. As a result, the president has to offer ministries and state agencies to allied parties in exchange for its support in the legislature. So, the respective ministries became important target for political action by groups interested in the respective areas. Since the rules of electoral funding are not very strict, it is common strong donations of specific groups to the respective parties. As a consequence, the political system offers privileged forms of
access and influence in the policy making process, hindering the adoption of certain reforms.

As a consequence, the possibility of breaking the chains of the model and of improving performance in HMEs demand intense state action, the only way to break certain institutional rigidities. State action has played a key role in the perpetuation of HMEs: low investment in education, excess of regulation and the timid anti oligopoly policy are key features of HMEs. In this sense, decisions to break this pattern tend to be crucial to alter the way the model works. This is very well illustrated by recent initiatives in Brazil and Chile. In Brazil, a huge effort has been made to stimulate innovation and to stimulate sectors intensive in knowledge. The high quality of universities in Brazil and the high number of PhD students tend to favor investments in R&D, even by MNCs. The problem is that a huge economic and political crisis has interrupted these efforts. The point is that such crises are part of the model, contributing to explain the perpetuation of the structures.

**Recent trajectories in Latin America: from neoliberalism to the crisis of center left governments**

In the 1990s, market reforms were implemented in the continent. During the 1980s, Latin America suffered a very serious economic crisis, leading many states to a fiscal collapse. Despite the gravity of the crisis, it is not enough to explain market reforms. A very important step was the construction of an ideological discourse, connecting the economic crisis with the previous model of development. A neoliberal narrative was constructed; structural reforms were defended and neoliberalism was sold as a form to protect society from predatory states and to restore economic prosperity.

A key role was played by international financial institutions (IFI), whose position had been strengthened by the countries necessity of sources of credit. A key role was played by the Brady Plan, a plan of renegotiation of the foreign debt which conditioned the concession of resources to the adoption of reforms such as privatization, deregulation and trade opening. Although the policies were negotiated, asymmetry was substantial and gave the countries no other alternative. IFIs were not the only agent, but played important role in the adoption of liberal reforms.

A critical point is to understand how reforms, which hurt certain segments, were adopted in a democratic context. As the reforms tended to impose losses in well positioned segments, an hypothesis is that they would only be possible in a system
marked by a strong executive. Panizza (2013), nevertheless, shows that the policies were only possible because they had political support. Although many presidents issued decrees and exception measures, many policies had to be negotiated.

One source of political support was resultant of the negative effects of a persistent economic crisis, which hurt many social segments. It was not, nevertheless, sufficient; a viable reform had to be designed to compensate losers, including business groups and politicians who lost control of many instruments. In brief, it was not the case of strong enlightened policymakers which adopted the reforms despite opposition. It is important to investigate the coalitions in favor of reforms. A key factor was the capacity to coopt groups. The sale of state assets at favorable prices gave the governments many opportunities to coopt certain business groups; opportunities in new sectors and favorable contracts was the form to compensate certain groups (Panizza, 2013).

Public support was also important. The effects of economic crisis played important role, since the groups accepted losses in order to get free from the larger problems caused by high inflation. In this sense, reforms which addressed hyperinflation gave political capital to the incumbents, while resources from privatization gave conditions to improve social policies and coopt allies. From 1990 to 1997, most countries saw a reduction in the share of households below the poverty line, a result of both stabilization and economic growth. Most of the incumbent governments were reelected.

Neoliberal reforms had positive effects, permitting control of inflation and other advances. Exports increased substantially, but also did imports; consequently, the linkage effects and the final impacts on the economy were limited. In a first moment, the end of inflation improved consumption and living conditions. However, at the end of decade, the number of Latin American living under poverty line had increased again. Labour market reforms had very negative results on wages, working conditions and income distribution, reducing the labour share in the national income.

The point is that Washington consensus promised too much and delivered too little. The second half of the 1990s was marked by many economic crisis and frustrating economic performance. Consequently, criticisms against market fundamentalism increased, even from inside. As most governments were center-right, space was open to left parties. The gap between promises and results gave them a narrative to criticize neoliberalism and defend substantial changes. A new ideology was constructed, associating the economic problems of the continent with neoliberalism (Panniza, 2013).
Consequently, a new left wave swept the continent. In 2003, a meeting of national leaders (ckr) announced the consensus of Buenos Aires, which defended a consistent policy of social assistance, deliberate action to reduce unemployment, strengthening of the state institutions, an active industrial policy, the promotion of education as a condition for social inclusion and the project of regional integration.

Significant differences marked the center left governments. In countries such as Venezuela, Bolivia and Ecuador, there was the emergence of radical or populist governments, marked by attempts to strengthen the leaders and their capacity to speak directly to the masses. The oligarchies were blamed as the main enemy and many policies and measures were promoted in order to increase the social support for the president. Other countries, such as Uruguay, Chile and Brazil, had more institutionalised center-left governments, marked by important participation of left parties and (or) social movements. In those countries, the objective was to preserve (and strengthen) market mechanisms and representative democracy. Those were the countries which most advanced in the promotion of social conditions (Panizza, 2013).

The decade of 2000s in Latin America was marked by high economic growth, very influenced by China’s economic growth and the boom in the demand for commodities. The favorable economic conditions allowed the governments to make substantial advances in social policies and in the reduction of poverty; a timid improvement was obtained in income distribution. In addition, industrial policy returned to the agenda. The favorable economic conditions and the expansion in social programs promoted the re-election of center left governments, leading the continent to a “pink tide”.

Nevertheless, in 2008 came the very deep international crisis, putting an end to the prosperity. After a weak first impact, it strongly hit Latin American economies, revealing a high degree of vulnerability. During the boom, the governments did not address important reforms and engage to improve financial situation; tax, labour and pensions reforms were not addressed. Industrial policy, although implemented, did not show enough strength and organization to make difference in industry: productivity and competitiveness did not increase and exports continued concentrated on commodities.

As a result, the crisis deteriorated economic situation and pressured for political changes. In countries such as Argentina, it led to the victory of a center right candidate in the national election, which resulted in change of direction and in the attempts to implement many reforms. In Brazil, economic crisis was a key component of a very serious political impasse, putting in check a democratic system which seemed to have
been institutionalized. In Venezuela, the crisis aggravated the polarization and reduced the capacity and governability of a very radical regime, which had previously promoted deep changes and adopted authoritarian reforms, using the oil financial resources to adopt the social programs and manage the network of patronage.

**Final considerations**

The crisis and the political difficulties, shared by different countries, revealed the institutional difficulties which were a key component of Latin American recent history. As a result of the crisis, economic growth reduced, unemployment increased and the advances in income distribution and social conditions were interrupted. Economic difficulties persisted, with few signs and perspectives of advance in Latin American economy, while countries in other parts of the world have made significant progress, adjusting to the new trends of capitalism.

The crisis revealed the institutional impasses of Latin American capitalism, showing how the institutional equilibrium inherent to hierarchical capitalism has many deficiencies and may be no more sustainable. The model of capitalism in Latin America has failed to promote consistent economic advances and to reduce inequalities; Latin American countries are among the most unequal countries in the world (Palma, 2011b). During prosperity, the local economies surfed in the commodities boom, failing to adjust their economies and implement the necessary reforms. In countries such as Brazil, recent revelations of details about the relationships between business groups and politicians showed the dark background in which national economy and politics has been based. In addition, it puts not very optimist perspectives for the near future.

The necessary adjustment in Latin America model requires significant changes. It is necessary to break certain rigidities typical of HMEs, in a process which tends to be very complicated. The objective of this article is to highlight this reality, showing that despite the oscillation of the economy and the current difficulties, there were critical institutional constraints. The capacity to promote a more advanced and sustainable model of capitalism implies the change of key practices and institutions. I see two possibilities: a) the emergence of a consensus around certain issues, a very optimist but improbable scenario, for which the present article intends to contribute; democracy, with alternation in power, may favor the rise to power of governments with proposes which intend to break with the present structure; b) the other is the persistence of the vicious model, with all its distortions and unbalances, until a point in which the
accumulation of problems and dissatisfaction may provoke a more radical outbreak. In the short and medium time, nevertheless, the most probable scenario is the preservation of all this structure, with all its deleterious effects.

**Bibliographical references**


PALMA, João Gabriel (2011). *Why has productivity growth stagnated in most Latin American countries since the neo-liberal reforms?* University of Cambridge, CWPE 1030, July 2011.


