6 The Economic Recovery of Latin America: The Myth and the Reality

INTRODUCTION

Bankers, academics and journalists are celebrating what is described – after a decade that was ‘lost to development’ – as the ‘economic recovery’ of Latin America. They point to the end of a haemorrhage of resources and the debt crisis that had plagued the region since 1982, a net positive inflow of capital since 1990, a veritable boom in exports and the growth of GNP in some countries (Argentina, Chile, Venezuela and Mexico). This ‘recovery’ is credited to the free market policies adopted, within the framework of the Structural Adjustment Program promoted and imposed by the IMF and World Bank, by virtually all regimes, including those in Argentina and Peru where the incumbent President had campaigned on a populist program but in power introduced the most ‘radical’ form of economic reforms in Latin America. The ‘restructuring’ and ‘refoundation’ of Latin America – privatization of the means of the means of production (state enterprises); the liberalization of capital and trade flows; the deregulation of private activity; the abolition of subsidies and price controls; the modernization and downsizing of the state (deficit reduction, balanced accounts, cutting back on social programs and public sector employment); and the implementation of austerity measures (demand management and control of inflation) – are described as the painful but necessary conditions for ‘economic cleansing’, ridding the economy of an outmoded model (protectionism, state intervention) and other remnants of a populist strategy and model that created and maintained inefficient and uncompetitive industries, inhibiting economic growth and new investment. In the context of these ‘sensible reforms’ and adjustments to changes in the world economy, academics, politicians and the ‘quality’ press see ‘a bold revolution’ taking shape, led by Mexico, Chile and Argentina that augurs a new era of prosperity in the region (The Economist, 1993: 21).

There are serious problems with this diagnosis and the notion of a region-wide ‘economic recovery’ that need to, and will be, addressed in this chapter. First, it is important to place the apparent ‘recovery’ (in the
growth of output, exports and *per capita* income) in some context, with particular reference to the debt crisis that preceded it and to the structural changes wrought by the subsequent adjustments and reforms in economic policy. Second, it is necessary to grasp the underlying dynamics of this restructuring process and to identify their social impacts and the political responses made to them by various classes. Finally, it is important to examine the nature and impact of the new capital flows in the economy – the resurgence of direct private investment. We do so, questioning its capacity to generate long-term development.

**Crisis and Recovery**

Between 1981 and 1985 Latin America experienced a profound economic crisis, reflected in a precipitous fall in *per capita* national income, a sharp decline in trade and inflows of both loan and investment capital, and an incapacity to service mounting external debts. From 1985 to 1990 the region experienced a further net outflow of $221.3 billion; debt service, on average, equaled 26 per cent of export earnings; the accumulated external debt grew to unmanageable proportions, amounting to $1086 *per capita*, which was more than the annual *per capita* average income in the region (Jaguaribe, 1991: 57); and the current account and net capital deficit position of most countries had drastically deteriorated or were in deficit (see Table 6.1).

A few countries (notably Chile and Colombia) had experienced several years of growth but even in the most ‘successful’ case (Chile) *per capita* output and income levels by 1990 had not yet recovered to levels achieved in 1980 (see Table 6.2). In some countries (Argentina, Bolivia, Peru) *per capita* incomes had not yet recovered levels reached in 1970 (see Table 2.3).

By 1991, however, in the context of the neo-liberal policies that were in place throughout the region, the macroeconomic indicators of growth for a number of countries registered a measurable improvement. Exports and imports experienced a substantial increase in the rate of growth (see Tables 6.1 and 6.3) under conditions of relative macroeconomic equilibrium, increasing export earnings, divestment of state enterprizes, the reduction of public expenditures on social programs, and substantial inflows of investment and loan capital. Under these conditions most countries in the region managed to service their external debts and to balance their trade and capital accounts (see Table 6.4).

Some countries (Chile, Brazil, Mexico, Argentina, Venezuela), those which had in fact instituted the most far-reaching economic and structural