Neoconservative Economics in the Southern Cone of Latin America, 1973-83

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Review Article by
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I. Introduction

Ramos' principle thesis is that the nations of the southern cone of Latin America—Argentina, Chile and Uruguay—responded to the social crisis of the 1970's, which grew out of a quarter century's deteriorating economic performance, by adopting a set of policies identified as "neoconservative." The similarity of their experiences is demonstrated by the fact that the neoconservative period of each country can be divided into three distinct phases, each marked by a specific set of problems and a particular policy response.

By almost any standard, the neoconservative experiences of these countries were unsuccessful, leading to their ultimate abandonment. Ramos' attributes the failure to a naive faith in the market process on the part of policymakers and to their ignoring distribution as a policy concern. While not disputing Ramos' contentions, indeed he does a credible job of supporting them, it is important to realize that this was a rather odd version of neoconservatism, attention to the supply side of the economy being conspicuously absent. Such policies not only contributed to the cyclical swings experienced by these nations, it was also totally inappropriate for countries whose underlying economic objective is growth.

In the following section the origins of the neoconservative experience are briefly explored. In sections III, IV, and V, each of the stages identified by Ramos is examined to understand the rationale for the policies adopted and their impact in the economy's performance. An analysis of the major themes and issues is presented in Section VI, while Section VII contains a brief conclusion.

II. Origins

When shrinking markets for traditional exports led to serious economic contractions, the nations of the southern cone responded to the Great Depression by attempting to industrialize, adopting policies intended to promote protection, and creating investment stimuli. Initially, the policies adopted to achieve import substitution were notable successes: industrial output grew both absolutely and relative to GNP and the stimulus of rising investment pulled these nations out of the pit well before global war had brought recovery to North America.

Unfortunately, the continuation of these policies after WWII was not as successful. Chronic inflation, fuelled by repeated demand stimuli and strengthening inflationary expectations, emerged as a problem. In these countries, moreover, inflation was not accompanied by growth in real output, as it was, for example, in Brazil. Indeed, in the 30 years ending in 1975, per capita GNP rose at an annual rate of 1.5 percent in Chile, 2.0 percent in Argentina and .7 percent in Uruguay. For the rest of Latin America, the corresponding figure was 3.2 percent [Ramos, p. 2]. Economic stagnation, heightened by the global recession which followed the first oil shock, was accompanied in the southern cone by mounting social conflict and political polarization.

In this air of crisis, it was widely acknowledged that some fundamental change was needed. Although Allende in Chile and the Tupamaros in Uruguay had offered alternatives of their own, the approach adopted in the mid-1970's was what Ramos refers to as neoconservative. The term is an unfortunate one, bound to be vague, but as employed in the book, it looks much like a reflection of

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ideas associated with the University of Chicago. Monetarism was used to explain the behavior of the macroeconomy and the balance of payments. The microeconomy was viewed as consistently (or at least tolerably) competitive and, therefore, efficient, in the absence of excessive government intervention.

Ramos is also correct in noting that public choice theory was used by the neoconservatives to argue in favor of promoting efficiency by reducing the economic role of the state. What is conspicuously missing in the southern cone version of neoconservative thought is any conception of supply side economics of the sort expressed by Arthur Laffer and the editorial staff of The Wall Street Journal. Had anything like Jack Kemp's affection for the gold standard been included in the policies adopted, the huge capital inflows, soaring debt burdens, and ultimate collapse of each of these economies might have been avoided. In any case, one must be careful in using the experiences described in this book to explain or predict the outcome of different types of neoconservative experiences, such as those of de la Madrid's Mexico or Mrs. Thatcher's Britain.

Ramos notes that each of the neoconservative experiments was proceeded by a military coup which overthrew constitutional government. This is offered as evidence to support the view that the crises of these countries in the early 1970's were more political in nature than economic. Given the polarization which had occurred, some type of political change was probably a necessary prerequisite to economic reform. The military has traditionally supported the elites in many Latin countries, but it does not follow that the adoption of neoconservative policies represented a knee-jerk response on the part of the military. The military, for example, has not always shared the neoconservative faith in markets or its hostility to bureaucracy.1 In the end, why these countries opted for the neoconservative approach is not entirely clear. Similar circumstances are capable of leading to a very different response, as evidenced by the accession of Aquino in the Phillipines.

One of the book's contentions is that the neoconservative experience was essentially the same in all three countries. This is troubling, in light of notable differences in their performance. For example, Argentina's performance was the worst of the lot, and one cannot but wonder that its diplomatic and military conflict with the U.K. was influential in that outcome. In spite of the absolute differences, however, the performance of each economy appears to conform to the three phases identified by Ramos, suggesting that there was some commonality to their experiences.

III. Phase I

At the beginning of Phase I, inflation was regarded as the primary problem, approaching 350 percent in Argentina [Ramos, p. 35]. The inflation appeared to be of the classic demand pull type with large public sector deficits (25 percent of GNP in Chile) financed by rapid monetary growth. Current account deficits seemed further evidence of excess demand. In all countries, public budget reduction and slower monetary growth were adopted to ease inflation. In Chile and Uruguay, wage controls were imposed, while Argentina sought to lessen unions' political authority [Ramos, p. 59]. Wage restraint was sought to insure that the slowdown in demand fell on prices rather than output. Although Chile devalued its currency, the other two nations chose export promotion to relieve the external disequilibrium.

While inflation slowed in all countries, effects on real variables were less desirable. In Chile, unemployment rose and output declined. In Uruguay, output rose but unemployment soared as the domestic sector was squeezed to promote exports. In Argentina, employment soon recovered but real output declined. Ramos' explanation for these divergent experiences is that wages slowing more

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1After the 1964 coup in Brazil, for example, the junta used extensive government intervention (i.e., external tariffs and domestic indexation) to achieve its economic objectives [Nyrop, p. 165].