**Latin American's 'New Left' In Crises**

**As the 'Free Market' Collapses**

**James Petras**

**October 2008**

Latin America is entering a period of profound economic recession, financial crises, collapsing stock market quotations, prices, deep devaluation of its currencies, growing unemployment, declining revenues and the prospect of a prolonged socio-economic recession. The economic breakdown, which is still unfolding, affects the entire political spectrum, extending from the far-right Uribe regime in Colombia to the social-liberal Chilean and Brazilian governments of Bachelet and Lula da Silva to the 'center-left' regimes of Evo Morales in Bolivia and Rafael Correa in Ecuador and even to the leftist government of Hugo Chavez.

It is not surprising to see that rightist regimes[1], embracing neo-liberal doctrines and deeply enmeshed in free trade agreements with the US, following its path to economic collapse. The deepening crisis has affected, with equal or greater force, the so-called 'center-left' regimes of Brazil, Ecuador, Argentina, Bolivia and Nicaragua.

The uniformity of the collapse of Latin American economies raises important questions about the changes and claims of independence, decoupling and post-liberal models, which many regime leaders, ideologues and progressive US-European Latin American writers made over the past several years.

The collapse of what some writers have referred to as Latin America's 'pink tide' and other more exuberant publicists referred to as the new 'revolutionary regimes' (and other more prudent analysts called the 'post-neo-liberal' democracies) raises serious questions about the emergence of a new dynamic heterodox model no longer subordinated to the US.

The simultaneous economic crises in Latin America and US/Europe call into question the degree of structural changes that were implemented by the center-left Latin American regimes. More specifically, the breakdown focuses attention on the continuities in financial systems, trade patterns, productive structure and free trade policies with their predecessor neo-liberal regimes. The claims of 'de-coupling' put forth by the pundits of the center-left have been proven to be without substance.

Faced with the collapse of the center-left economies, their former ideological cheerleaders have alternated between a deafening silence and avoidance of any structural explanations, and/or to simply project 'blame' on the 'casino capitalism' of the US. The latter posture begs the question of the center-left regimes' domestic policies which opened their economies and made them excessively vulnerable to Wall Street speculation. Up to the recent collapse, the intellectual defenders of the 'center-left' had little to say about the Wall Street linkages, busying themselves with the temporary high growth rates, which they attributed to the 'new heterodox model'.

The problem avoidance and external finger pointing adopted by the ideologues of the 'New Latin American Left' reflects a fundamental misunderstanding or ignorance of what was

[1] As of the end of 2008, rightist regimes (free market/neo-liberal) would include Calderon of Mexico, Uribe of Colombia, Alan Garcia of Peru, Tabare Vazquez in Uruguay, Bachelet in Chile, Fernandez in the Dominican Republic, as well as the governments of Panama, El Salvador and Guatemala.

really going on within these countries. They substituted emotional gratification at rhetoric flourishes and symbolic changes and privileged invitations to private soirees with the 'center-left' presidents over hard analyses of substantive policies and structural continuities. Disentangling illusions from reality is the first step to coming to terms with the existing collapse affecting the region and the disastrous consequences for the great majority of wage, salaried and informal workers and peasants.

## The 'New Latin American Left' (According to Its Publicists)

Despite the extensive and, in some cases, profound differences in social structure, levels of economic development and sheer wealth among Latin America's 'center-left' regimes[2] – their publicists, advocates and adversaries claimed they were breaking with neo-liberalism and pursuing a vastly different socio-economic model, a break with the past, a heterodox economic strategy which combined 'market' and 'state' in pursuit of what some claimed was 'Twenty-First Century Socialism'.

This line of argument defined the 'novelty' of the new center-left by identifying twelve areas of 'transformation' or change. The 'new center-left' ideologues argued that, in contrast to the previous neo-liberal regimes (NLR), the center-left regimes (CLR):

1. Adopted a new more socially responsive economic model that pursued 'mass inclusion', cultural diversity and social justice;

2. Put an end to 'free market neo-liberalism' and replaced it with a 'state-market model';

3. Began a process of 'social transformation' (Argentina), a 'democratic and cultural revolution' (Bolivia), 'twenty-first century socialism' (Ecuador), and a process of long-term high growth based on fiscal responsibility and social justice (Brazil);

4. Ended discrimination and exploitation of the indigenous people (Brazil and Ecuador) and empowered the Indian communities (Bolivia);

5. Moved to replace dependence on the Western markets and ended Wall Street domination through the pursuit of regional integration;

6. Developed regional political and economic organizations like ALBA, UNASUR and PETROCARIBE, which marked the construction of a new independent alternative regional economic architecture;

7. Promoted a new kind of participatory democracy in which the popular classes had a bigger direct say in the formulation of government policy;

8. Developed diversified markets, especially with Asia (China particularly), Europe and the Middle East based on greater economic independence, effectively 'decoupling' from the US economy and ending US 'hegemony';

9. Accumulated vast foreign reserves (tens of billions) based on promotion of an agro-mineral export strategy, thus creating long-term insurance against future downward movements in the prices and demand for export commodities;

[2] The 'center-left' regimes in Latin America include Lula da Silva of Brazil, Kirchner of Argentina, Evo Morales of Bolivia, Rafael Correa of Ecuador and Daniel Ortega of Nicaragua. Venezuela, because of its policies of selective nationalization and greater social spending is considered a more genuinely leftist regime. However, its continued dependence on primary commodity exports (oil) and the US market and lack of a diversified economy, faces much the same economic crises.

10. Amassed large-scale budget surpluses through fiscal discipline and avoidance of 'populist' spending on large social and infrastructure programs;
11. Pursued policies favoring greater social equality of opportunity, pro-labor income policies, easy credit, increased consumer imports and increased spending on food programs for pensioners, children and the poor;
12. Formed public-private partnerships between the state and foreign multinationals replacing foreign domination by equal partners and increasing benefits to the home country.

According to the promoters of the 'center-left' regimes, the 'proof' of the progressive, sustainable and dynamic character of these regimes was demonstrated by the period between 2005-2007 where high growth, high income, budget and trade surpluses and repeated electoral victories were the norm.

**End of an Illusion: 2008 The Year of Reckoning**

The success claimed by the center-left regimes (CLR) and their apologists were based on an entirely false set of assumptions and temporary and volatile set of structural relations with regard to trade, investment and financial linkages. When the onset of the financial collapse and economic recession first struck the US and Europe, the first response of the CLR was to deny that the crisis would affect their economies. For example, President Lula da Silva of Brazil at first blamed the 'casino capitalism' of the US and claimed that the Brazilian economy under his rule was healthy, protected by large reserves and would be hardly affected. As the effects of the financial breakdown and economic recession in Europe and Wall Street deepened and spread to Latin America, the CLR regimes and their intellectual defenders adopted a different posture. On the one hand they sought to deflect all the blame to the US financial system and thus avoid facing the structural weaknesses of their economic policies. On the other hand some writers looked to some of the recent regional organizations, like Bancosur and ALBA, as alternative sources for salvation or as mechanisms to ameliorate the effects of the crisis. Neither the CLR nor their intellectual defenders have demonstrated any willingness to confront the structural weaknesses and vulnerabilities of their socio-economic strategies over the past half decade. More specifically the CLR and their defenders refused to admit that the claims of 'change', and construction of 21st Century Socialism were in fact built on illusory assumptions.

The spread of the crisis from the US-Europe to Latin America is a result of the CLR's continuities of the neo-liberal policies, the maintenance of the same ruling economic classes and the pursuit of economic strategies dependent on inflows of speculative capital, debt financing and the agro-mineral export elites.[3]

Despite the rhetoric of '21st Century Socialism' (Chavez in Venezuela, Morales in Bolivia, Correa in Ecuador and Ortega in Nicaragua), 'independent model' (Lula Da Silva in Brazil), and the 'social-liberal' model (Bachelet in Chile and Vazquez in Uruguay), the above-mentioned regimes retained and even deepened the principle structural features and policies of the neo-liberal model. They remained highly dependent on the global market: in fact they all accentuated its worst features by emphasizing primary goods exports (agro-mining commodities) to take advantage of the temporary spike in prices. As a result they vastly increased their vulnerability to external shocks. With the onset of the world recession in 2008, the collapse of demand put an end to the big trade surpluses and provoked a big slide in all the related economic

[3] While the public foreign debt may in some cases have been reduced, the internal public debt grew exponentially, and private corporate debt financing based on foreign capital exploded. With the collapse of the US and EU markets and the drying up of credit, Latin America's growth was paralyzed and the corporate sector went into crisis.

factors: Foreign reserves plummeted. Government revenues based on export taxes declined precipitously. Local currency was devalued as both foreign and domestic investors fled to what they perceived as stronger currencies and safe havens.

All of the CLR based their development strategies on a strategic partnership between the nationalist capitalist class, the state and foreign investors contrary to the populist-nationalist imagery of Western intellectuals. At the very onset of the financial collapse, foreign capital began its massive flight outwards and upwards driving down the stock markets in Brazil and Argentina by over 50% and forcing a de facto devaluation as local savers and investors converted local currency into dollars, euros and yen. With the onset of the recession in the real economies of the EU and the US, national capitalists and financial elites responded by reducing investment in the productive sectors anticipating a sharp decline in demand for their primary commodity exports. This provoked a multiplier effect in satellite and related domestic manufacturing and service industries.

The double exposure to financial shocks and world recession was a direct result of the one-sided export market policies pursued by the CLR. The leaders of the CLR paid lip service to 'regional integration' (ALBA, MERCOSUR, UNASUR), even setting up an entire administrative structure and initially investing marginal resources to the effort. The regional rhetoric was dwarfed by the ongoing and growing 'integration' in the world market, which remained the motor force of their growth. Given their deep involvement in the primary commodity boom, the regimes maximized the importance of markets outside of the Latin American region. With the downturn, even the regional integration scheme (MERCOSUR) faces disintegration as Argentina turns protectionist.

The temporary trade and budget surpluses were used to further deepen the primary sector expansion (expanding infrastructure to and from productive sites to shipping centers on the coast), increase the wealth of the agro-mineral elites, and encourage a huge influx of speculative investors who inflated stock valuations (doubling and tripling prices in the course of two and three years: Price/earnings ratios reached bubble proportions.

The reactionary/retrograde model of the CLR, built on the 'primarization' of the economy and the boom in speculative investment, was ignored by almost all Western intellectuals who were dazzled by and chose to focus on marginal 'populist' measures: Lula's $30 dollar (45 Reales) monthly food basket for 10 million poor families (who became part of his electoral client machine in the Northeast); Kirchner's promotion of human rights and 150 Peso ($50 USD) monthly unemployment benefit; Evo Morrales cultural *indigenismo* and 'joint ventures' with the international oil and gas companies (falsely dubbed 'nationalization') and Rafael Correa's declarations in favor of 21st Century Socialism and increased social spending.

The ideologues of the CLR failed to analyze the fact that these marginal increases in social spending took place within a socio-economic and political framework, which retained all the structural features of a neo-liberal economy. With the collapse of overseas primary commodity prices, the first reductions in government programs are directed at…the poverty programs that provided a fig leaf to the rapacious speculator-agro-mineral driven economic model. The entire 'left spectrum' ignored the fact that the balance of payments and budget surpluses, which funded social reforms, were dependent on the inflow of 'hot money'. The latter, by its nature, enters easily and flees rapidly, particularly in response to any adversity in their 'home market', not to mention in the face of a worldwide financial crash. Thus the already meager social measures adopted by the CLR were fragile to begin with, highly dependent on the volatile behavior of highly speculative capital and world markets.

The claim of the CLR that Latin America was de-coupling from the US market, through greater ties with Asia (China, Korea, Japan and India) and developing into a world power (as part of the BRIC bloc – Brazil, Russia, India and China) has been demonstrated to be false. Brazil's agro-mineral exports to Asia were highly dependent on world prices determined by demand from the US, EU as well as many other regions and countries. The deep world recession and credit collapse has profoundly affected Asia's exports to the US and EU, which, in turn, has led to a decline of Latin America's primary exports to Asia. None of the Asian countries can maintain their commodity imports from Latin America because they are not able to substitute domestic demand. The class polarities and class rigidities in China limit mass consumption.

Latin America did not 'de-couple' – it was part of a global chain, which tied it to the vagaries of the US and EU economies. The attempts by Brazil's President Lula to blame Brazil's crises on US 'casino capitalism' in order to deflect criticism from his policies of deep structural dependency on primary commodity exports and hot money is besides the point: The Brazilian regime's policies opened the door wide to the full adverse effects of the downfall of US speculative capital.

None of the CLR deviated from the neo-liberal 'export model' nor did they make any effort to *dynamize* the domestic market or mass consumption via redistributive policies. Industrialization was subordinated to commodity exports. Urban incomes between capital/labor favored profits over wages. Interest and royalties remained highly skewed in favor of capital thus weakening domestic demand. Support of the agro-export elite and the rejection of agrarian reform, undermined the domestic purchasing power of millions of landless and subsistence peasants, rural laborers and small farmers. Tax subsidies and incentives, not progressive taxation, eliminated the possibility of rebuilding social services (public health, education, pension and social security programs), which could have expanded domestic production and investment. The CLR did not invest in a production grid linking complementary internal regions and economic sectors. The CLR's investments linked local domestic sites to ports connected to overseas markets.

The CLR strategies weakened their domestic markets relative to the big push toward exports thus avoiding structural changes. This emphasis on social payments was contingent on the performance of the agro-mineral export sector of the big bourgeoisie. Even their 'social transfers' have proved to be unsustainable. Without the meager poverty programs there is little to distinguish the CLR from their traditional neo-liberal predecessors.

During the boom in commodity prices several CLR regimes, namely Brazil and Argentina, diverted billions of dollars in earnings to early pay-offs of their debts to the IMF and other official lenders, claiming this 'freed' them to pursue 'independent policies'. In fact the IMF was very happy to re-capitalize their treasury while the levels of poverty continued at alarming levels and public facilities, like housing, transport, schools and hospitals deteriorated. While some aspects of foreign external debt declined, others, mainly private foreign debt in dollars and Euros, skyrocketed, encouraged by the CLR. Given the regimes' high domestic interest rates, foreign overseas borrowing by domestic businesses rose precipitously and foreign speculators, lenders and overseas subsidiaries of US and EU banks loosened lending standards. With the financial crash in the US and EU, foreign flows of capital dried up and short-term notes were called. Foreign inflows turned into massive outflows, driving down the value of the currency. The Brazilian and Argentine stock markets fell by over 50% in less than 5 months (June-October 2008) and the credit crunch began to squeeze investment.

The crash in commodity prices, deeply affected state revenues as prices for copper declined by 60% (from $9,000 USD a ton in June 2008 to $3,900 USD in October 2008 and oil fell from $147 USD a barrel to $64 USD during the same period). What is worse, the decrease in the CLR's foreign debt was matched by a vast increase in domestic debt – that is borrowing from foreign banks' subsidiaries and local financial groups. The latter lent to the regimes by borrowing from overseas banks and thus the entire credit/finance chain continued to depend on private financial institutions in the US and Europe. Rather than reflect a break with the financial dependence of the past neo-liberal regimes, the CLR reproduced it via local intermediaries. Combined with the collapse of commodity prices, the financial crisis revealed the abject integration and subordination of the CLR to the empire-centered marketplace. The sustained fall in stock prices and the massive flight from local currencies to dollars revealed the entire precariousness and profoundly 'liberal' nature of the CLR economic policies.

The CLR regimes diverted the major part of their windfall profits to building up their foreign reserves to attract foreign loans, credit and investors and to cushion the effects of a downturn in the economy rather than in large-scale investments in human resources and the domestic market. As a result, the foreign reserves provide a temporary lifesaver in the face of the decline in revenues from export earnings. Nonetheless, the regimes are using the foreign reserves to keep afloat the private banking system and to pacify panic-stricken investors seeking to convert local currency into dollars and euros. As the reserves are depleted, the CLR are resorting to class-selective reactionary fiscal policies. Once again the negative impact of the financial panic reveals another negative ('liberal') component of the CLR strategy: its dependence on an unregulated stock market highly susceptible to any downturns in the valuations of commodities and commodity prices.

The CLR economic policies and the major private economic actors were deeply enmeshed in the world of speculation just as any 'neo-liberal' regime would be. The total absence of any popular movement oversight of the CLR policies was a result of their total exclusion from all governmental positions making economic decision (Central Bank, Ministers of Economy, Finance, Commerce, Industry, Agriculture and Mining). The claims of participatory democracy were revealed to be a total farce. Moreover, the CLR (with the partial exception of Venezuela) granted 'autonomy' to the Central Banks, eliminating Congressional oversight and facilitating closer ties between Central Banks and the private financial elite.

## Conclusion

As the capitalist financial system crashes throughout most of the world and a global recession spreads from the imperial countries to Latin America, the leading center-left regimes are not immune to the double shocks. Because they opted for a primary commodity export model they are especially exposed and vulnerable to the rapid fall in world demand and prices. While it is true that conservative fiscal policies allowed them to build up their foreign reserves, thus providing them with a partial and temporary cushion to weather the first wave of capital flight and to finance dollar-denominated debt, it should be remembered that the other side of the 'prudent fiscal policies' was the neglect of the social problems and economic diversification. Poverty reduction, through investment in productive employment, agrarian reform for landless peasants and the development of the internal market, in the medium run, could have lessened the impact of the crisis in the North.

The attempts by Lula, Evo Morales and political leaders to pin the blame entirely on the crises in the imperial countries, ring hollow after years of their hobnobbing with the economic elite in Davos and focusing exclusively on trade and investment agreements with MNC, 'hot money' from Wall Street and betting on agro-mineral exports. The spread of the crisis in Latin America, from early 2008 onward, is playing itself out gradually. The high level reserves, the relatively high prices (despite the 70% decline from record prices), the temporary return of partial liquidity and the slight loosening of credit in world markets as a result of over $1.5 Trillion USD injection of public funds by the US and EU has slowed the fall into an inevitable recession. What is crucial however is not where Latin America's CLR stand at any given moment in time, but the direction they are moving and the inherent negative structural features, which are driving the economies toward a deep recession. As the reserves dwindle and as the agro-mineral elites disinvest in the face of declining prices, a serious negative multiplier effect sets in, battering satellite industries and driving dependent sectors into bankruptcy. Equally important, the economic recession is leading to deep and widespread state spending cuts. Given the fiscal conservatism built into the personnel of the key economic ministries and central banks, it is highly improbable that the CLR will reverse course and run fiscal deficits, increase large-scale, long-term public investments, restructure their economies and re-configure the social basis of public policy.

By the end of 2009, Latin America's CLR will feel the full brunt of the world economic recession, precisely when its depleted foreign reserves will have further discouraged overseas and local capital investment. No long able to rely on its principle 'economic motor force', the agro-mineral elite to finance imports and lacking overseas investment and credits for its exporters and banks, Latin America's CLRs will be confronted with powerful pressures from below. Workers and employees losing their jobs, local banks facing bankruptcy, manufacturers closing plants and indebted consumers and mortgage holders with few assets to sustain demand and living standards will be on the streets clamoring for state intervention: From the left and from the right.

Faced with the collapse of the 'heterodox model' of neo-liberal 'primarization' of the economy with 'modest social transfers', two options are possible for the CLRs: One would involve large-scale bailouts in order to save dominant financial-agro-mineral elites. The regime could try to impose the costs on the backs of the workers, urban poor, peasants and public employees through social cutbacks, firing of public employees, wage reductions and large-scale reductions in public investments. The second option would involve a revival of import substitution strategy including public investments in industry accompanying the nationalization of bankrupt banks and strategic economic sectors and large-scale shift in state policy from financing the bankrupt agro-exporters to co-operatives, family farms producing for the domestic market.

The first option would, by necessity, require greater state repression, in the face of social resistance to cuts in living standards and would probably lead to the demise of the CLR regimes. The more reactionary right is in the 'wings' ready to seize power and confront the burgeoning social movements reacting to the crises.

The second option would require a major shift in the internal class composition of the CLR regimes, a rupture with existing political allies and large-scale social mobilization of the 'popular classes'.

The second option would depend on a fragile coalition of local business groups, manufacturers, debtors, trade unions, left parties and peasant movements – the emergence of a 'nationalist-populist' coalition (NPC) prepared to jettison the agro-mineral export model, to shelve overseas debt obligations and to pursue deficit financed economic recovery.

However, under the stress of a prolonged world credit squeeze and recession, the linkages between big and small capital with labor and subsistence farmers and peasants may dissolve and lead to demands that go beyond 'Keynesian' capitalism to the socialization of the economy. The latter option will be favored by the prolonged and deepening nature of the world recession, the further decline in foreign trade, the drying up of private credit, the decline of living standards and the profound and widespread discrediting of capitalism clearly associated in the public mind with speculative excesses, financial collapse, lost savings and the bankruptcy of private firms.

A final caveat: Though the world recession and financial collapse reveals that the center-left regimes were neither popular, nationalist, nor a break with neo-liberalism, this does not mean a near term turn to the left – for the simple reason that the CLR severely undermined independent class mobilizations. Renewed 'statism' of the right or left variants and obligatory import substitution policies may temporarily moderate the worst impacts of the world crisis. However, the failure of Keynesianism could lead to fascistic repressive 'restorationist regimes' or to a radical/socialist solution. In this crisis all political options are 'open' given the 'fragmentation' caused by CR regimes and the 'shock' of the depth of the crisis. Future political economic outcomes are not governed by any speculative notions of 'grand historical waves'. Political outcomes are contingent on the class struggle and the struggle for state power. The current unpredictable outcome of social struggle is a result of the lack of preparation by any left-social movements to take the lead over the wreckage of a world capitalist breakdown.