

UNIVERSIDADE DE SÃO PAULO
INSTITUTO DE RELAÇÕES INTERNACIONAIS

RAFAEL DE MORAES BALDRIGHI

Rethinking Economic Populism in Latin America:

A Most-Similar Design for Institutional Consolidation in Brazil and Argentina During
the Pink Tide

SÃO PAULO

2022

RAFAEL DE MORAES BALDRIGHI

Rethinking Economic Populism in Latin America:

A Most-Similar Design for Institutional Consolidation in Brazil and Argentina During the
Pink Tide

Versão Corrigida

Dissertação apresentada ao Programa de
Pós-Graduação em Relações
Internacionais do Instituto de Relações
Internacionais da Universidade de São
Paulo, para obtenção do título de Mestre
no Programa de Pós-Graduação em
Relações Internacionais.

Orientadora: Profa. Dra. Maria Antonieta
Del Tedesco Lins

SÃO PAULO

2022

Autorizo a reprodução e divulgação total ou parcial deste trabalho, por qualquer meio convencional ou eletrônico, para fins de estudo e pesquisa, desde que citada a fonte.

Catálogo na publicação
Seção Técnica de Biblioteca
Instituto de Relações Internacionais da Universidade de São Paulo

Baldrighi, Rafael de Moraes

Rethinking economic populism in Latin America: a most-similar design for institutional consolidation in Brazil and Argentina during the pink tide / Rafael de Moraes Baldrighi ; orientadora: Maria Antonieta Del Tedesco Lins. -- São Paulo, 2022.

129 p.

Dissertação (Mestrado) – Instituto de Relações Internacionais. Universidade de São Paulo, São Paulo, 2022.

1. Populismo econômico 2. Brasil 3. Argentina 4. Lula 5. Kirchner I. Lins, Maria Antonieta Del Tedesco, orient. II. Título.

CDD – 339.5098

Responsável: Giseli Adornato de Aguiar - CRB-8/6813

ABSTRACT

“Economic Populism” is a concept popularized by a series of works by Dornbusch and Edwards in the late-1980s and early-1990s after observing a series of similar boom and bust cycles in Latin America. According to the duo, it is an approach to economics that tends to emphasize growth and reduction of inequalities while dismissing inflation, public deficits, external constraints, and the reaction of agents to non-market policies. Even though those founding works still are the main references on the subject and greatly represent the core of theories and models on Economic Populism, much has changed in the region. Thus, the objective of the present work was to conduct a Theory Refinement exercise, methodologically and conceptually, to better adequate Economic Populism in the 21st century, mainly during the Pink Tide. To do so, we added a new qualitative independent variable to the instrumentalized model: institutional consolidation. It explains how, more than three decades after Dornbusch and Edwards’ works, institutions in Latin America have stronger constraints than they previously had, which limits the room for maneuver of Economic Populist leaders and policies. To apply such refined theory and test the inference quality of this newly added variable, in a qualitative most-similar design, we compare the positive case for Economic Populism during the Kirchners’ Era in Argentina and the pragmatism in Lula’s macroeconomic administration in neighboring Brazil. We conclude that the different outcomes in Brazil and Argentina are a result of a more robust evolution of institutions in Brazil after the late eighties – or when Dornbusch and Edwards (1989) inaugurated the field – than in Argentina. In the former, a series of economic reforms conducted by Cardoso and Lula favored pragmatism and a sound fiscal and inflationary scenario. In Argentina, a series of noxious policies from Menem to Cristina Kirchner explains how, in the early 2010s, the country’s economy (and its population) suffered. In summary, institutions were strengthened in Brazil and weakened in Argentina. More permissive economic institutions lead to the implementation of an Economic Populist agenda and more constrained institutions lead to sound macroeconomic policy and effective reduction of poverty and inequalities during the administrations analyzed.

Keywords: *i.* Economic Populism; *ii.* Brazil; *iii.* Argentina; *iv.* Lula; *v.* Kirchner.

RESUMO

“Populismo Econômico” é um conceito popularizado por uma série de trabalhos de Dornbusch e Edwards no final da década de 1980 e início da década de 1990, mediante a observação de uma série de ciclos semelhantes de crescimento e crise econômicos na América Latina. Segundo a dupla, essa é uma abordagem da economia que tende a enfatizar o crescimento e a redução das desigualdades ao mesmo tempo em que ignora a inflação, os déficits públicos, as restrições externas e a reação dos agentes a políticas não mercadológicas. Embora essas obras fundadoras ainda sejam as principais referências sobre o tema e representem em grande parte o núcleo de teorias e modelos sobre o Populismo Econômico, muita coisa mudou na região. Portanto, o objetivo do presente trabalho foi realizar um exercício de Refinamento da Teoria, metodológica e conceitualmente, para melhor adequar o Populismo Econômico ao século XXI, principalmente durante a *Pink Tide*. Para tanto, adicionamos uma nova variável independente qualitativa ao modelo instrumentalizado: a consolidação institucional. Esta explica como, mais de três décadas após os trabalhos de Dornbusch e Edwards, as instituições na América Latina têm restrições mais fortes do que antes, o que limita a margem de manobra dos líderes e políticas do Populismo Econômico. Para aplicar essa teoria refinada e testar a qualidade de inferência dessa variável recém-adicionada, em um desenho qualitativo most-similar, comparamos o caso positivo de Populismo Econômico durante a Era Kirchner na Argentina e o pragmatismo na administração macroeconômica de Lula no Brasil. Concluímos que os diferentes resultados no Brasil e na Argentina advêm de uma evolução mais robusta das instituições no Brasil após o final dos anos 80 – ou quando Dornbusch e Edwards (1989) inauguraram o campo – do que na Argentina. No primeiro, uma série de reformas econômicas conduzidas por Cardoso e Lula favoreceram o pragmatismo e um cenário fiscal e inflacionário mais sólido. Na Argentina, uma série de políticas nocivas de Menem a Cristina Kirchner explica como, no início dos anos 2010, a economia do país (e sua população) sofreu. Em resumo, as instituições foram fortalecidas no Brasil e enfraquecidas na Argentina. Instituições econômicas mais permissivas levaram à implementação de uma agenda econômica populista e instituições mais restritivas levaram a uma política macroeconômica mais sólida e efetiva redução da pobreza e das desigualdades durante as gestões analisadas.

Palavras-chave: *i.* Populismo Econômico; *ii.* Brasil; *iii.* Argentina; *iv.* Lula; *v.* Kirchner.

INDEX

<i>Introduction</i>	1
<i>Chapter One</i>	5
<i>Chapter Two</i>	17
<i>2.1 Theory Refinement: Methods and Concepts</i>	21
2.1.1 <i>Institutional Consolidation: Economics, Politics, Academia, and Institutions</i>	23
2.1.2 <i>Economics</i>	23
2.1.3 <i>Politics</i>	33
2.1.4 <i>Academia, Institutions, and the Political Economy Zeitgeist</i>	42
<i>2.2 Conclusion</i>	45
<i>Chapter Three</i>	48
<i>3.1 Why compare Lula da Silva's Brazil and the Kirchners' Argentina?</i>	48
<i>3.2 Inferential analysis: or how Brazil avoided Economic Populism and Argentina did not</i>	62
3.2.1 <i>Cardoso's Brazil</i>	63
3.2.2 <i>Lula's Brazil</i>	74
3.2.3 <i>Argentina before the Kirchners</i>	85
3.2.4 <i>Argentina during the Kirchners' administrations</i>	93
3.2.5 <i>Social unrest and political instability in Argentina</i>	103
<i>3.3 Conclusion</i>	109
<i>Conclusion</i>	110
<i>References</i>	113

LIST OF CHARTS, TABLES, AND GRAPHICS

<i>Chart 1 – The independent variables of the classical works of Dornbusch and Edwards.</i>	11
<i>Chart 2 – The independent variables of Edwards’ (2019) refinement.....</i>	12
<i>Chart 3 – The independent variables of our refinement.....</i>	19
<i>Table 1 – De Facto Exchange Rate Regime Classification (1990-2000).....</i>	27
<i>Graph 1 – Global Price Index of All Commodities (1995-2020).....</i>	30
<i>Graph 2 – Total reserves in months of imports – Latin America & Caribbean (1989-2019).....</i>	30
<i>Graph 3 – Total reserves (% of total external debt) – Argentina, Brazil, Mexico and Venezuela (2000-2015).....</i>	31
<i>Graph 4 – Industry, value added (% of GDP) Latin America – 1980-2019.....</i>	33
<i>Graph 5 – Liberal Democracy Index for Latin America (1980-2000).....</i>	34
<i>Graph 6 – Presidentialism Index for Latin America (1980-2000).....</i>	36
<i>Table 2 – Central banks’ institutional changes in Latin America (1990s).....</i>	37
<i>Table 3 – Reelection status in Latin America in 2015.....</i>	40
<i>Table 4 – A summary of the governments analyzed.....</i>	49
<i>Table 5 – Inflation, GDP growth, reserves, and the general government final consumption expenditure in Brazil (2003-2010)</i>	61
<i>Table 6 – Inflation, GDP growth, reserves, and the general government final consumption expenditure in Argentina (2003-2015).....</i>	61
<i>Flowchart 1 – A summary of this dissertation and the steps taken.....</i>	111
<i>Annex 1 – How Lula’s Brazil and the Kirchners’ Argentina compare qualitatively.....</i>	120
<i>Annex 2 – How Lula’s Brazil and the Kirchners’ Argentina compare quantitatively.....</i>	128

ACKNOWLEDGEMENTS

To my parents, who were always supportive of my decision to pursue a Master's degree and for consistently galvanizing my performance and helping me with my perception of academic and life choices when I needed the most;

To the rest of my family, mainly my grandmother Arary, for their pivotal role in my young years and the enthusiasm toward my life achievements;

To Anne, my dearest, for the mutual growth, for joining me on our quest on such foreign lands to pursue a Master's degree, and for both literally and figuratively lighting a candle during adversities;

To my friends from Aracaju and elsewhere, *Ideal*, *Nossa Escola*, UFS, and the *Frases* Diaspora.

To my former employers who encouraged me to leave them (for the best, I hope) and grow intellectually and professionally, and to my current colleagues from the *Bureau du Québec*, who welcomed me in the middle of my usgian journey, *merci*!

Of course, to the University of São Paulo staff: it is not easy to be the best higher education institution in Latin America! To all my teachers and professors, you were of paramount importance to my peregrination. To the IRI community and, with lots of acclamations and compliments, to my academic advisor, Tuca Lins!

Lastly – and sorry for that, Tuca –, to Abel Ferreira and his staff. The pandemic years have been particularly hard but with a cool head and a warm heart, your virtuous work was a balm to such misfortunes.

Muito obrigado!

Introduction

“Economic Populism” is a concept that was popularized by Dornbusch and Edwards in 1989 after observing a series of Latin American governments that presented a similar macroeconomic and political cycle of boom and bust. Based on previous works that analyzed tendencies on how exchange rate overvaluation (DIAZ-ALEJANDRO, 1963; O’DONNELL, 1977), urban sectors’ social demands (CANITROT, 1975), and inflationary pressures (DIAZ-ALEJANDRO, 1981) dictated the macroeconomic and political cycles in the second half of the 20th century in Latin America, Dornbusch and Edwards (1989, 1990, 1991) created a series of works that theorize and model Economic Populism – or the populist cycle, as Jeffrey Sachs (1989) labels it.

The duo’s definition of Economic Populism is an “approach to economics that emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints and the reaction of economic agents to aggressive non-market policies” (DORNBUSCH; EDWARDS, 1989, p. 1). This would all go on in a chronological and quite mechanical succession of events (SACHS, 1989) that starts with a political will toward heterodoxy and non-market policies intending to reduce inequalities and increase the purchasing power of urban sectors at all costs. With tools like price controls, artificial exchange overvaluation, and the use of international reserves, those policies are successful in the short-run, but live to witness their demise in the long run: inflation rises, foreign investments plunder, parallel markets emerge, and salaries tend to lose its purchasing power by the end of the populist experience, often (in the twentieth century) marked by a violent process of regime change by a *coup d’État*.

To this date, the works of the duo remain the main references on the subject in academia. Sure, in the last thirty years, some authors have marginally contributed to the theory/model of Economic Populism – Edwards (2010, 2019) himself –, considering the flaws of defining populism solely by economic policy (ROBERTS, 1995), adding the advent of reelections to the models (CHECCI, 1996; ACEMOGLU, EGOROV, SONIN, 2013), and incorporating the facets of the Pink Tide on ‘new’ populist experiences in Latin America (BRESSER PEREIRA, NAKANO, 2003; RODRIK, 2018^b; DE BOLLE, ZETLEMEYER, 2018). Thus, as Latin America has changed a lot in the last three decades, to analyze economic populist governments such as those of Evo Morales in Bolivia – Acemoglu, Egorov and Sonin (2013), Mudde and Kaltwasser (2013) and Edwards (2019) –, Chávez and Maduro in Venezuela – Blumenschein e Navarro (2016) and Kaltwasser (2018) and Edwards (2019) –,

the Kirchners in Argentina – Krugman (2014), Blumenschein and Navarro (2016) and Edwards (2019) –, Rafael Correa in Ecuador – Acemoglu, Egorov and Sonin (2013) and Edwards (2019) –, and Dilma Rousseff in Brazil – Mesquita (2014) and De Bolle (2016) – one should consider the economic, political, academic, and institutional alterations and evolution since Dornbusch and Edwards (1989) inaugurated the field. And not only that: with a predominant bias toward small-n analyses that often compare positive-only cases, (not-so-) new qualitative methodology techniques in Social Sciences should be incorporated in the study of Economic Populism, mainly when selecting cases and comparing them to increase inference quality.

Those considerations lead us to the inevitable Theory Refinement exercise conducted in the present work. Taking two paths, we contemplate a methodological refinement, bringing qualitative methods techniques to select, compare, and analyze cases; and a conceptual refinement, weighing up the social changes in Latin America in the last decades and how they directly impact the original theory/model proposed by Dornbusch and Edwards (1989, 1990, 1991). Abiding by those important considerations, here, using *a.* case selection and case comparison techniques, we compare the governments of Lula da Silva in Brazil and Néstor/Cristina Kirchner in Argentina after *b.* reviewing and acknowledging how those cases relate to Economic Populism in a different economic / political / academic / institutional environment in 21st century Latin America. Specifically, in a most-similar design – in which corresponding entities are matched because they produce very different results (dependent variable) due to specific differences in an independent variable of interest –, we compare the positive test for Economic Populism in the Kirchners and the pragmatism in Lula's macroeconomic administration. Also, in the last twenty to twenty-five years, qualitative methodology has greatly evolved in the Social Sciences (specifically in Political Sciences and correlated areas), mainly after King, Keohane and Verba's (1994) *Designing Social Inquiry*. Consequently, an already robust tradition in case comparison flourished in the last decades, chiefly contributing to the comparison conducted in this work.

Overall, if the explaining factors brought by Dornbusch and Edwards (1989, 1990, 1991) can explain the Economic Populist experiences of the twentieth century, they are no longer enough to unravel newer cases. Not only the political, economic, social, intellectual, and international scenarios changed within themselves, but those changes produced a new feature that is present in their models and should be incorporated among the independent variables leading to the Economic Populist outcome. This item is the greater institutionalization (in various arenas) in Latin America since the late 1980s, which correlates

negatively to producing Economic Populist leaders, policies, parties, academic thinking, and so on due to more robust constraints that emerged in the region. Our hypothesis points to the different outcomes in Brazil and Argentina as a result of a more solid evolution of institutions in Brazil after the late 1980s – or when Dornbusch and Edwards (1989) inaugurated the field –, which created more constraints to the implementation of Economic Populist policies in this country. Specifically in those cases, social pressure in the early- and mid-2000s in Argentina for the implementation of economic policies that are successful in the short term but do more harm than good in the long run, following the principles of Economic Populism, were responsible for the country's positive test for Economic Populism, as institutions were weaker and did not resist the populist temptation in the country. There, *piqueteros*, neighborhood assemblies, occupied factories, and other social movements play a significant role in the early Néstor Kirchner government. Also, the demonization of the not-so-and-partially-implemented-liberal reforms of the 1990s (WILLIAMSON, 2009) boosted non-market spirits to reverse some of the feeble and stillborn institutional gains of the previous decades. This is not the case in Brazil, which was marked by a less severe crisis in the late 1990s when compared to Argentina, a more cordial and peaceful political transition, and a market-appeasement strategy adopted by Lula da Silva, mainly between 2003 and 2006. Consequently, social pressures were not as significant as in Argentina and institutions were stronger in the country, favoring Brazil's pragmatism in the early 2000s.

One should be aware, however, that, as nearly all relevant studies that make use of Dornbusch and Edwards' frameworks (and themselves) emphasize, countering what became to be known as Economic Populism does not mean being against income redistribution or reducing social inequalities. Those goals are of paramount importance to solve a plethora of Latin American problems that range from urban violence to low and stagnated productivity. The fact of the matter is that, as the models and theories show, after the populist cycle, salaries tend to decrease to inferior levels than those before the Economic Populist administration and the aftermath of the experience brings features to the macroeconomic and political environment that tend to increase inequalities and harm the poor: accelerating inflation, purchasing power erosion, the emergence of parallel markets, currency collapse (and possible dollarization), IMF packages and its austere consequences, and, often, *coups d'État*. Thus, Economic Populism tends to backfire and hurt the ones it intended to help the most.

Here, we rethink Economic Populism in a Theory Refinement exercise dealing with conceptual and methodological issues. We observed and incorporated into our analysis the

political, economic, social, academic, and institutional changes that Latin America has undergone in the last three decades to, in a most-similar design, compare the governments of Lula da Silva in Brazil and Néstor/Cristina Kirchner in Argentina, a negative and a positive cases of Economic Populism, respectively.

The first chapter of this dissertation covers a literature review on the subject. A methodological section and a refinement section constitute chapter two. Chapter three covers an extensive explanation of why Brazil and Argentina can be compared in the model used, the effective inferential comparison of the cases analyzed, and a conclusion.

Chapter One

Populism and its economic facet: how erratic macroeconomic policy became a concept

Dé al pueblo, especialmente a los trabajadores, todo lo que pueda. Cuando a Usted le parezca que les da mucho, dele más.

Juan Domingo Perón, Carta al Gral. Ibañez (1953)

Populism is a concept that is highly debated in politics since the emergence of the gregarious and agrarian movements of the late 19th century in the Russian Empire and the rural areas of the Southern United States (MORAES, 2018). Notwithstanding, despite its foreign origin, in no other region of the world has this phenomenon had such significant social, political, and economic impacts, nor a history with so many electoral successes (ACEMOGLU; EGOROV; SONIN, 2013) as in Latin America – chiefly after the 1929 Great Depression.

Especially in the developmentalist era of the so-called Industrialization by Import Substitution (ISI) and, more recently, during the Pink Tide, which revitalized the Bolivarian ethos among relevant left and center-left regional leaders in Latin America, this phenomenon has achieved wide relevance and popular support in the national and regional political arenas.¹ In the majority of these Latin American governments considered populists in the aforementioned periods, a set of macroeconomic guidelines that aimed at increasing the population's purchasing power in the short term, overvaluing the exchange rate, and promoting distributive policies for working classes and urban sectors is a common feature. Such policies came to be known as 'economic populism',² a phenomenon that, although not fully identified with the political and *jack-of-all-trades* strand of populism, almost always tends to coincide with it (BRESSER PEREIRA, 1991).

As Rodrik (2018a) avers, *populism* is often used as a vague and diffuse concept that covers a diverse set of phenomena. Because of this contextual sensitivity, the history of the study of populism is marked by a lack of conceptual clarity (ROODUIJN, PAUWELS, 2011). Based on the observation that the political phenomenon of populism suffers from important

¹ However, one should not rule out other experiences from different time periods and different ideological orientation, as the cases of Fujimori (CHECCI, 1996) and, more recently, Bolsonaro show.

² Here, we will use the term 'economic populism' to reference this phenomenon. The literature also presents 'macroeconomic populism' or 'populist cycle' as synonyms.

analysis bias, even within academia, numerous studies have emerged in the last two decades to try to better delimit this concept in scientific research.

Gidron and Bonikowski (2013) claim that most academics agree that populism appeals to the people. Years later and based on more recent literature, Ruth-Lovell, Lührmann and Grahn (2019) affirm that there is a growing consensus in academia that three central ideas characterize populism: people-centrism, anti-elitism (either against the political elite, against the economic elite, or both), and an antagonistic relationship between the just, virtuous, and *bona fide* people against a corrupt elite (us versus them). Accordingly, Rodrik (2018a) points out that the 21st century populism presents five general characteristics: 1) anti-establishment orientation; 2) a speech to please the people and strongly against the elites; 3) opposition to economic liberalism and market-oriented policy; 4) opposition to globalization; and 5) authoritarian inclination.

One of the most famous conceptualizations comes from Mudde and Kaltwasser (2013). They emphasize a minimal definition that conceives populism as “a thin-centered ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, ‘the pure people’ versus ‘the corrupt elite’, and which argues that politics should be an expression of the *volonté générale* of the people” (MUDDE; KALTWASSER, 2013, p. 149-150). They do so to overcome normative and regional biases based on Sartori’s (1970) minimal definition principle to include only the necessary and sufficient features of a concept, aiming at its core. Therefore, as one can realize, even if definitions vary and need to be reduced to give meaning to a higher number of cases, populism and Economic Populism are *not* the same thing, even if they share some common features and often coincide. Roberts (1995) and Aslanidis (2017) cleverly capture this difference and state that limiting populism’s definition only to economic policy would create bias in the study of this phenomenon. Thus, there may be a populist leader that does not make use of Economic Populist policies and another leader that follows Dornbusch and Edwards’ guidelines but cannot be identified as populist in a broader sense by mainstream academia.

That said, to analyze Economic Populism, one must focus on macroeconomic policy characterized by the stop-and-go cycle in experiences in Latin America that paved the way for the foundation of its models and theory. Canitrot (1975), O'Donnell (1977), and Díaz-Alejandro (1981) analyze the 1970s government of Domingo Perón (Hector Cámpora and Isabelita too) in Argentina, highlighting economic features and policies that would be linked to Economic Populism in the future. And sure, even though Perón is the quintessential populist

leader, his governments are important to understand how populism and Economic Populism manifest (often together, at least in Latin America), which are their goals, and which of Perón's actions are linked to erratic macroeconomic policy.

Even though Canitrot (1975) recognized that other previous experiences, such as Perón's first time in the presidency (1946-1955) and the 1963-1966 period of Argentine history, displayed such a trend, the one in the seventies is emblematic. A nationalistic platform that seeks to use adrift economic policy to please the masses is identified as populist by the author. While pinpointing the failures of these policies and the collapse of the regime, he writes a classic work on the concept. O'Donnell (1977), albeit never using the word 'populism' or its variants, gives us a clear cut of how this cycle operates and how, mainly in Argentina, such policies resulted in inevitable political and economic bottlenecks, leading to rising inflation, emerging parallel markets, demonetization, and political collapse – i.e., *coups d'État*. Some years later, Díaz-Alejandro (1981) noted a peculiar cycle of stop-and-go stabilization programs and chronic inflation that fed back on each other culminating in high public deficits and a decrease in real wages for the population. According to him, Latin America's greatest problem has always been stark social inequality and, in a scenario of high inflation, any attempt to promote redistributive policies using government spending would only deepen the problem in the long-run. These classical works paved the way for Economic Populism's theory/model formulation.

Dornbusch and Edwards (1989) define Economic Populism as a set of macroeconomic policies emphasizing growth and income distribution that deliberately ignores the risks of inflation, external and budgetary limitations, and implement aggressive non-market policies. To these authors, such events are characterized by a chronological succession marked by necessary preconditions and four stages of political and economic events. According to them, before the emergence of an Economic Populist leader, three features tend to appear, which they call 'Initial Conditions', 'No Constraints', and 'Policy Prescription'. The first one consists of the population's dissatisfaction with the country's economic performance (stagnation, recession, and the effects of austere IMF programs implemented to curb inflation and reestablish currency stability). In this scenario, living standards are lower, prices are higher, and inequalities are rising. Secondly, a greater inclination towards heterodoxy and non-market policies emerges in the political *milieu*. Idle capacity is seen as a possibility for non-inflationary expansion. The accumulation of international reserves has grown with the previous programs to achieve currency stability, which is seen as a relief against external

restrictions. Thus, deficit financing risks are described as exaggerated. Finally, the third feature emphasizes three objectives: reactivation, redistribution of income, and restructuring of the economy, i.e., economic recovery with redistribution. In this environment, the Economic Populist leader emerges and starts to implement his deleterious agenda. The succession of events, after emerging to power, is divided into four stages: *i.* short-term macroeconomic successes are achieved thanks to price controls, the use of international reserves, and the appreciation of the exchange rate to increase purchasing power. These policies can curb inflation in the short-run and they also allow imports to mask shortages; *ii.* the economy starts to face bottlenecks due to increased demand and the decrease in international reserves – thus, budget deficits grow; *iii.* inflation accelerates and capital flight begins as shortages and public deficit increase. The leader tries to get around the situation by devaluing the national currency and, consequently, the real purchasing power of wages falls, which in turn results in parallel markets and demonetization (dollarization in some cases); *iv.* the consequences of these erratic macroeconomic policies are orthodox and austere economic measures to restabilize the currency, marked by the adoption of IMF programs and their dire conditionalities, a strong loss of the population's purchasing power when compared to the initial conditions, and political change, sometimes by a violent process.

The duo thus realizes that such an approach to economics, that emphasizes growth and redistribution and deemphasizes inflation and deficit finance risks, has been present in several governments and countries in Latin America all over the 20th century, mainly in its second half. Therefore, to better understand the (hyper)inflationary experiences of the 1980s and 1990s, Dornbusch and Edwards (1989) suggest that a combination of debt crises, economic embargos, socialization of firms and banks, and other features often linked to Economic Populism bring about “an unsustainable economy where inflation is out of control, and the foreign exchange constraints force realism on policy makers” (DORNBUSCH; EDWARDS, 1989, p. 2).

Later in 1989, Jeffrey Sachs (1989) also identified such phenomenon, labeling it the “populist cycle”, noting a strong pressure on policymakers, especially in the transitional democracies of his day, to combat inequalities in Latin America which, according to him, were fertile ground for the imbalances of Economic Populism. As in Díaz-Alejandro (1981), Sachs (1989), attributes the eternal return of inflationary policies in Latin America to the great social inequality that marks the region. In an environment of monetary instability, the

implementation of redistributive policies and social spending would inevitably lead to uncontrolled inflation.

The typical cases of Economic Populism used by Dornbusch and Edwards (1989) to formulate their theory/models are Alan García in Peru and Salvador Allende in Chile. The authors emphasize, for the two cases, how heterodox short-run economic programs resulted in a first year of government marked by rapid growth and repressed inflation, followed by a second year of failed stabilization attempts, and a third year of economic chaos (and a *coup* in Chile). The duo is not unfair and they also credit the Chilean domestic economic opposition disruption and the foreign blockade significant roles in aggravating the dire consequences of Allende's policies, paving the way to the implementation of the austere and authoritarian actions of Pinochet. The Peruvian case may not have ended in a *coup*, but enabled the election of an outsider, Fujimori, that eventually turned into an authoritarian right-wing leader during the 1990s. Writing before the end of García's administration, the duo avers that "Peruvian policy makers do not like to hear this, but the most likely course of Peru is that taken by Chile under Allende in the period from September 1970 to September 1973" (DORNBUSCH; EDWARDS, 1989, p. 50-51). Also, "the exact timing and details of the Peruvian experience may not match that of Allende, but the broad outline certainly does" (DORNBUSCH; EDWARDS, 1989, p. 51).

In that same year, Sachs (1989) identified that the cases of Sarney in Brazil and Perón's administration in the 1970s in Argentina – heavily relying on Canitrot (1975), O'Donnell (1977) and Díaz-Alejandro (1981) – were similar to those of Chile and Peru. According to him, the populist cycle in Latin America "has been often repeated, always with disastrous effects [...] as to justify a clear common description of these experiences" (SACHS, 1989, p. 16). Comparing Sarney and Perón with Allende and García, Sachs (1989) affirms that "the experiences all involve the accession to power of an urban-based government, intent on raising – sharply and quickly – the living standards of the urban workers" (SACHS, 1989, p. 24). He also points to the previous austere and conservative interludes before Perón, Allende and Sarney, which boosted social demands and pressures to reduce inequalities. According to him, on the economic side, the four leaders' programs were marked by an early rise in product and real wages, with stable prices, and a late phase of falling real wages and recession, with explosive inflation. And, a common turning point of these experiences was the collapse of the fixed exchange rate when foreign reserves ran out (and also limited access to international credits). A similar trend thus was captured by academia in the late 1980s.

At the beginning of the 1990s, the duo would return with a formal model to depict the events that marked Economic Populist experiences in the 20th century. The author's model relates consumer's price index, employment, real exchange rate, and real wages. Considering a scenario where international trade counts with exportable, importable, and nontradable goods, Dornbusch and Edwards (1990) state that the use of what they call populist policies, such as subsidies, play a special role as they increase real wages without deteriorating competitiveness. Also, in their model, nationalistic protection increases competitiveness but reduces real wages. According to their equations, employment is positively affected by the use of subsidies or reducing profit margins as these raise real wages and thus the demand for nontradable goods. Also, increasing government spending and competitiveness gains can raise employment. In their formal sequencing, there are several sources of acceleration of the inflation rate, such as demand, excess of labor demand, real depreciation, subsidy removal, and social pressures to increase nominal wages over the real wages thresholds (productivity).

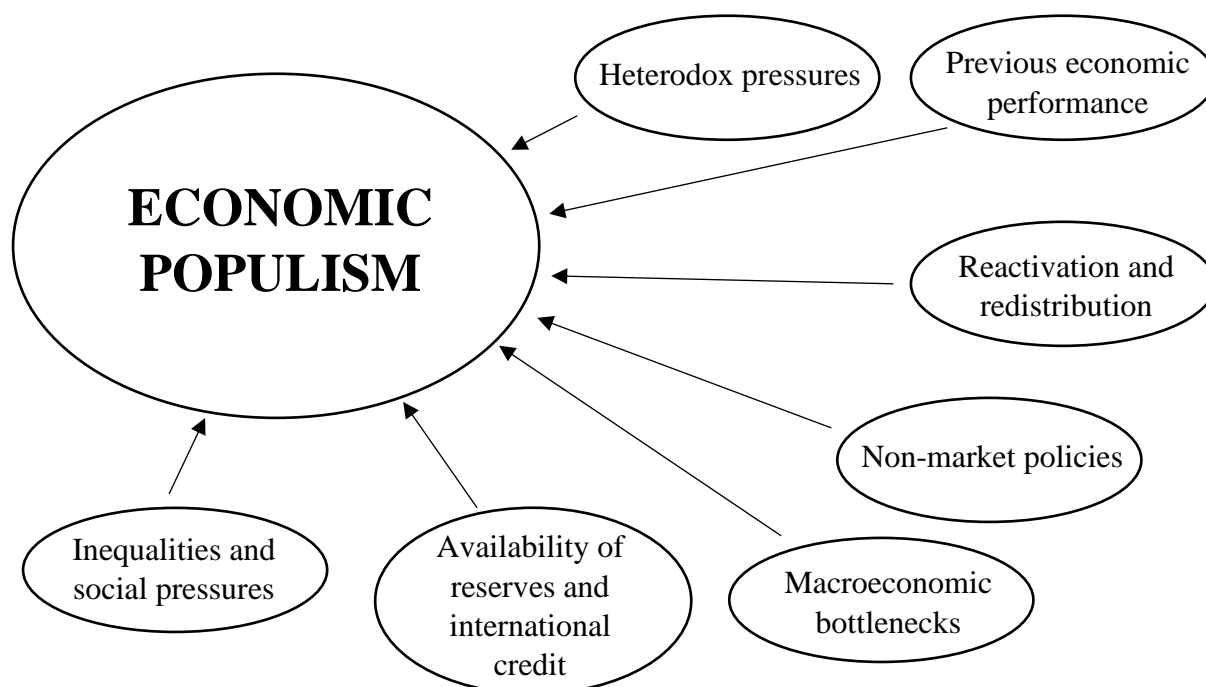
According to the model, budget deficit depends on subsidies, foreign exchange losses, and tariff revenues, which, by tax collection, can interfere with the level of activity and competitiveness. On the other hand, the deficit is financed by the existing international reserves and money printing, the latter depending on budget, external balance, and credit expansion (all measured regarding nominal income). Thus, their formal model "highlights the basic tradeoffs that are faced by a policymaker who seeks to expand the level of economic activity (i.e., reducing unemployment) via wage rate and expansionary fiscal policies" (DORNBUSCH; EDWARDS, 1990, p. 253). Thus, real wages can be affected by the appreciation/depreciation of the exchange rate or by the implementation of subsidies. Those can, however, interfere with external constraints and the latter is an inflationary policy. Also, those same subsidies – along with depreciation – can increase levels of employment, which leads the authors to affirm that the room for policies that raise real wages and employment is therefore severely limited (DORNBUSCH; EDWARDS, 1990, p. 253).

With this model, they show how a vicious inflationary cycle emerges, and "the only way out is by implementing a severe stabilization program that cuts the deficit, generates a major real depreciation and reduces real wages" (DORNBUSCH; EDWARDS, 1990, p. 254), which marks experiences such as those of Allende and García and introduces the harsh outcome of Economic Populist policies: austere IMF programs with stark conditionalities, real wage losses, and even political unrest (violence) resulting in regime change.

Performing a qualitative instrumentalization of variables, we can gather the independent variables that lead to the Economic Populist outcome in the duo's classical works

to see which phenomena lead to the implementation of those stigmatized policies. Chart 1 describes these relations.

Chart 1 – The independent variables of the classical works of Dornbusch and Edwards



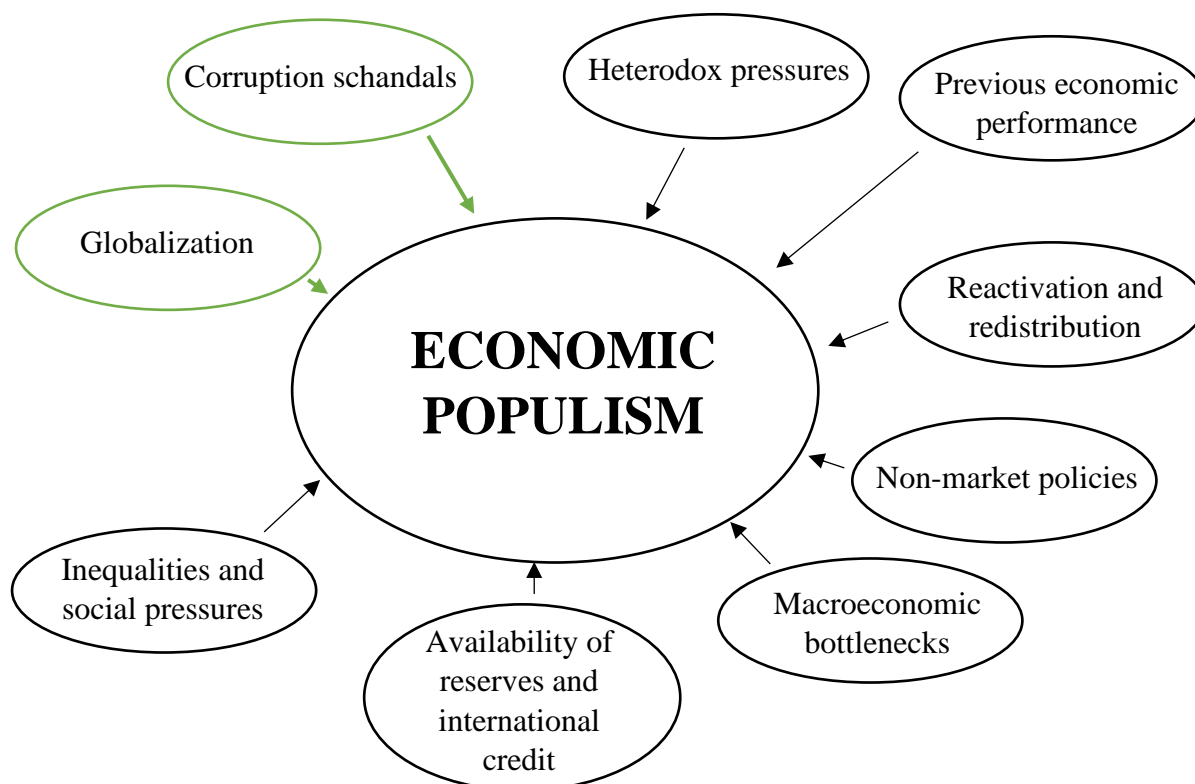
Source: Self-elaboration (2022), based on Dornbusch and Edwards (1989, 1990, 1991).

Chart 1 does not account for the chronological succession of events that lead to the collapse of Economic Populist administrations, but for the conditions listed by the authors that eventually lead to the populist cycle. Heterodox pressures may lead to the election of a populist leader as would the previous austere (often marked by the IMF) economic performance. The need to reactivate the economy and redistribute income comes from the highly unequal social structure which boosts Economic Populist policies along with the availability of international reserves and credit, implementing non-market policies in a macroeconomic environment full of bottlenecks.

In what he calls the ‘new’ Pink Tide populisms, which emerged after the 1990s, Edwards (2019) refines the model that he himself proposed thirty years earlier and lists some dissimilarities with classical theory: *i.* aftermath crises are not as abrupt and chaotic as those of the last century, *ii.* not only low growth and economic lethargy generate dissatisfaction among the population, but also corruption scandals, *iii.* the acceleration of inflation (except in the Venezuelan case) was not as drastic as in the classical experiments and, finally, *iv.* recent populist leaders are extremely critical of globalization. Central issues and core principles regarding the Economic Populism phenomenon, however, remain the same, according to the

author. Updating the original model, we can create Chart 2, with the two points on Edwards' (2019) refinement that emerge as causing factors (not consequences) of Economic Populism.

Chart 2 – The independent variables of Edwards' (2019) refinement



Source: Self-elaboration (2022), Dornbusch and Edwards (1989, 1990, 1991) and Edwards (2019).

Sure, globalization and corruption long existed in Latin America. However, it is completely understandable to insert those two causing factors only when refining the original works. First, with the end of the developmentalist era, the formation of regional and international economic blocks flourished in Latin America during the 1990s, as did the liberalization of foreign trade. Embodied by the Washington Consensus, the 1990s reforms got a bad reputation in the early 2000s and a bitter will toward the United States and international financial institutions, boosting globalization critics. Also, the consolidation of institutions and other democratic features such as press freedom, freedom of speech, and increased transparency brought more and more corruption scandals to the public conscience. With authoritarian regimes gone, democratic responsiveness and accountability penalize corrupt government officials that otherwise would never be discovered by the public. Thus, those two factors are added to the original model if we consider Edwards' (2019) refinement.

In addition to these complementary theoretical models/frameworks and Sach's (1989) perspective, several authors have carried out research to refine such theory, methodologically or conceptually, over the past three decades. Roberts (1995) and Checci (1996) are among the first ones to lambaste the models and the theory of Dornbusch and Edwards (1989), pointing to the greater parsimony necessary when defining the populist phenomenon in Latin America via macroeconomic analysis and bringing important considerations on how populist candidates are often successful at the polls, even given the historical failure of policies linked to Economic Populism in the region. Also, Checci (1996) tries to counter the idea that Economic Populism would be inherently linked to heterodox economics and left-wing redistributive policies by analyzing Fujimori's administration, often considered *neoliberal*, in Peru.

Bresser-Pereira and Nakano (2003), while refining the theory, create a taxonomy to identify three types of economic policies that may be linked to Economic Populism: Fiscal Populism, characterized by the government spending beyond what its revenues allow; Exchange Rate Populism, observed when there is an overvaluation of the exchange rate to increase the population's purchasing power; and the combination of both, or what the authors call Total Economic Populism.

The reframing of classic cases for models is also a refinement issue. The governments of Salvador Allende in Chile and Alan García in Peru are examples of typical cases of the theory inaugurated by Dornbusch and Edwards (1989). Sachs (1989) also finds similarities between Perón in Argentina and Sarney in Brazil and several authors will also point out Vargas and Goulart in the latter – Sachs (1989), Castro and Ronci (1991), Bresser Pereira (1991), Checci (1996) and Edwards (2019) –, Morales in Bolivia – Acemoglu, Egorov and Sonin (2013), Mudde and Kaltwasser (2013) and Edwards (2019) –, Chávez and Maduro in Venezuela – Blumenschein e Navarro (2016) and Kaltwasser (2018) and Edwards (2019) –, Echeverría and López Portillo in Mexico – Bazdresch and Santiago Levy (1991) and Edwards (2019) –, Ortega – Ocampo (1991) and Checci (1996) and Edwards (2019) – in Nicaragua, and many others like the Kirchners in Argentina – Edwards (2010), Krugman (2014), Blumenschein and Navarro (2016) and Edwards (2019) –, Rafael Correa in Ecuador – Acemoglu, Egorov and Sonin (2013) and Edwards (2019) –, and Dilma Rousseff in Brazil – Mesquita (2014) and De Bolle (2016), as typical cases of Economic Populism in the region. Also, one should note that these are common cases in the literature and do not represent a consensus on which leaders are (and are not) related to Economic Populism. For example, through discourse analysis and sequential evidence in a procedure similar to that of Process

Tracing, Fonseca and Monteiro (2005) and Fonseca (2011) seek to counter, respectively, the myths and even exaggerations attributed to Goulart and Vargas, introducing new ways of approaching the subject in Brazil. As Checci (1996), Fonseca (2011) also upbraids the automatic link between heterodox economic policies and Economic Populism, which had already become pervasive in the literature by then. Also, according to Loureiro (2009), despite the numerous controversies regarding the nature of Vargas' economic policy, it is a fact that, in its early years, the Brazilian state sought to balance the public sector budget to contain the inflationary pressure via the *Plano Lafer* in the early 1950s.

These authors also point to an ontological problem regarding the object of Economic Populism and the methodologies often applied when using Dornbusch and Edwards' models and theory: a stiff and unyielding approach that transforms various administrations in different countries in one chronological succession of events, being too mechanic, sequenced, and formalist comprising different periods. Even if instrumentalized, a hermetic system is not adequate here. Our deductive *modus operandi* in the present work (that is, identifying theoretical inconsistencies after observing empirical cases) tries to counter the rigidity of the original model. Also, the theory refinement will address this conceptual stretching problem of analyzing different periods with the same framework.

Later, Acemoglu, Egorov and Sonin (2013) developed an electoral model for populist leaders, following the steps of Roberts (1995) and Checci (1996), to understand how leaders with political platforms that have historically failed be successful in Latin American polls. Dealing with issues of economic voting and rational choice, the authors add a new component to the analysis, which did not exist in the late 1980s in much of the region: the possibility of reelection, which would weigh on the tradeoff between short- and long-term economic gains, creating constraint to an ingenious maneuver of transferring the risks and the negative outcomes to the next administration.

Also, with the acceleration of the populist phenomenon outside Latin America, as in the United States and Europe, relevant authors for the International Political Economy scenario contributed with more robust approaches to the phenomenon and the economic causes and consequences of populist experiences. Rodrik (2018a) questions whether the policies linked to Economic Populism are necessarily bad and whether, in times of crisis and depression, certain premises would do more good than harm. Using the example of Franklin Delano Roosevelt in the United States in the 1930s, the author advocates the parsimonious use of distributive policies, exchange rate appreciation, and government spending. It is Rodrik

(2018b) himself who also identifies a model for the rise of the recent right- and left-wing populists, or exclusivists and inclusivists, with special attention to Latin America and the historical prevalence of heterodox economics, redistributive bias, and a disregard for budgetary limits *vis-à-vis* policies linked to Economic Populism. Eichengreen (2018) and Ocampo (2019), by comparing institutions and social achievements in developed countries, also analyze how the populist temptation was traditionally countered in the United Kingdom, for example, and succeeded in the United States, Italy, and Latin America. Furthermore, Broz, Frieden and Weymouth (2021) aver that the populist backlash triggered by globalization – as in Rodrik (2018^b) – is now a threat to the Liberal International Order, be it in commerce, regional integration, or institutional development, and how the ‘new’ populists are closely related to reforms on electoral rules, national/international institutions, and the labor market.

The study of Economic Populism in Latin America is relevant since it is a recurring phenomenon, and it needs to be updated with the new regional singularities. After all, even though good refinement research has been conducted over the last three decades, some issues still need to be tackled as Dornbusch and Edwards’ works between 1989 and 1991 are still the main references on the subject. Also, the addition of rarely used (for the subject) methodological techniques will bring greater robustness to the analysis of the phenomenon. The recent resumption of populism all over the world, although not always side-by-side with its economic facet, also induces us to justify its study. Furthermore, the relevance of the cases addressed, at the domestic and regional levels, strengthens our quest: Brazil and Argentina are among the largest economies and populations in the region, both have a strong (economic) populist history and were important players in regional governance in the 2000s, with both Lula and Cristina Kirchner being relevant political actors to the present day.

Regarding the two cases studied in this work, we highlight the frequent prevalence of the Kirchners’ governments in economic populism analyses – Edwards (2010), Krugman (2014), De Bolle and Zetlemeyer (2018), Blumenschein and Navarro (2016), Damill, Frenkel and Rapetti (2015), Eichengreen (2018), Edwards (2019) and Ocampo (2019). For Lula da Silva's government, there is little literature regarding his Economic Populist tendencies, which denotes the absence of negative cases being used in theory for the construction of inferences. A big exception comes from Edwards (2010), who contrasts Lula with Chávez and how pragmatism prevails in the Brazilian case. Wise and Lins (2015) go in the same direction and compare pragmatism and profligacy in Brazil and Argentina, respectively, in the 2000s.

According to Edwards (2010), the Argentine experience was marked by a traditional populist policy: taxing the export sector to subsidize urban workers. This policy has been “behind Argentina’s dismal long-term economic performance” (EDWARDS, 2010, p. 161). Around 2007, inflationary pressures increased, threatening currency stability and triggering a plethora of non-market corrective measures, such as firing and replacing bureaucrats to manipulate the price index data and establishing price controls (EDWARDS, 2010). In Brazil, however, although Lula represented what Edwards (2010) calls the quintessential populist, his government was marked by pragmatism regarding property rights respect and huge levels of direct foreign investment under the umbrella of institutions that restrained erratic policies like the ones adopted in Venezuela and Argentina.

The next chapter describes how those cases were selected and how they are compared in this work.

Chapter Two

Methodological notes and Theory Refinement

It is never possible to find perfectly matched cases, which would require that the cases would be matched vis-à-vis both known and unknown rival hypotheses

Seawright & Gerring, Case Selection Techniques in Case Study Research: A Menu of Qualitative and Quantitative Options (2008)

Here, we try to rethink Economic Populism in a Theory Refinement exercise to update the models and theory consolidated since Dornbusch and Edwards (1989) while dealing with conceptual and methodological issues. That given, we observed and incorporated into our analysis the political, economic, social, academic, and institutional changes that Latin America has undergone in the last three decades. Also, we added case study and case selection techniques enshrined in social sciences with few records to date in the literature on the subject. Generally, qualitative studies in Economic Populism are restricted to positive cases, without exploring potential rival explanations or counterfactual scenarios for inference building. Overall, even in comparative and small-n, studies that focus solely on positive analysis galore. In a most-similar design, we paired and compared the governments of Lula da Silva (2003-2010) in Brazil and Néstor/Cristina Kirchner (2003-2015) in Argentina, the Brazilian representing a negative case for Economic Populism, while the Argentine, marked by monetary instability, a positive one.

The geographical units of our analysis are similar in several ways, but our hypothesis points to the different outcomes in Brazil and Argentina because of a more robust evolution of institutions in Brazil after the late eighties – or when Dornbusch and Edwards (1989) inaugurated the field – than in Argentina (Chart 3). Our dependent variable is the characterization of a government as Economic Populist (or not) by mainstream scholars and pundits on the subject. To collect the evidence needed for inferences, we analyzed official/institutional documents and government plans/proposals, performed qualitative and interpretative speech and content analysis, accessed macroeconomic databases, and historical and newspaper documentary archives, triangulating those pieces of evidence when available and possible.

In summary, the development of this study has three stages: a) performance of the conceptual and methodological theoretical refinement; b) comparison of cases relevant to the theory in a most-similar design; c) application of the premises of the refinement to the cases

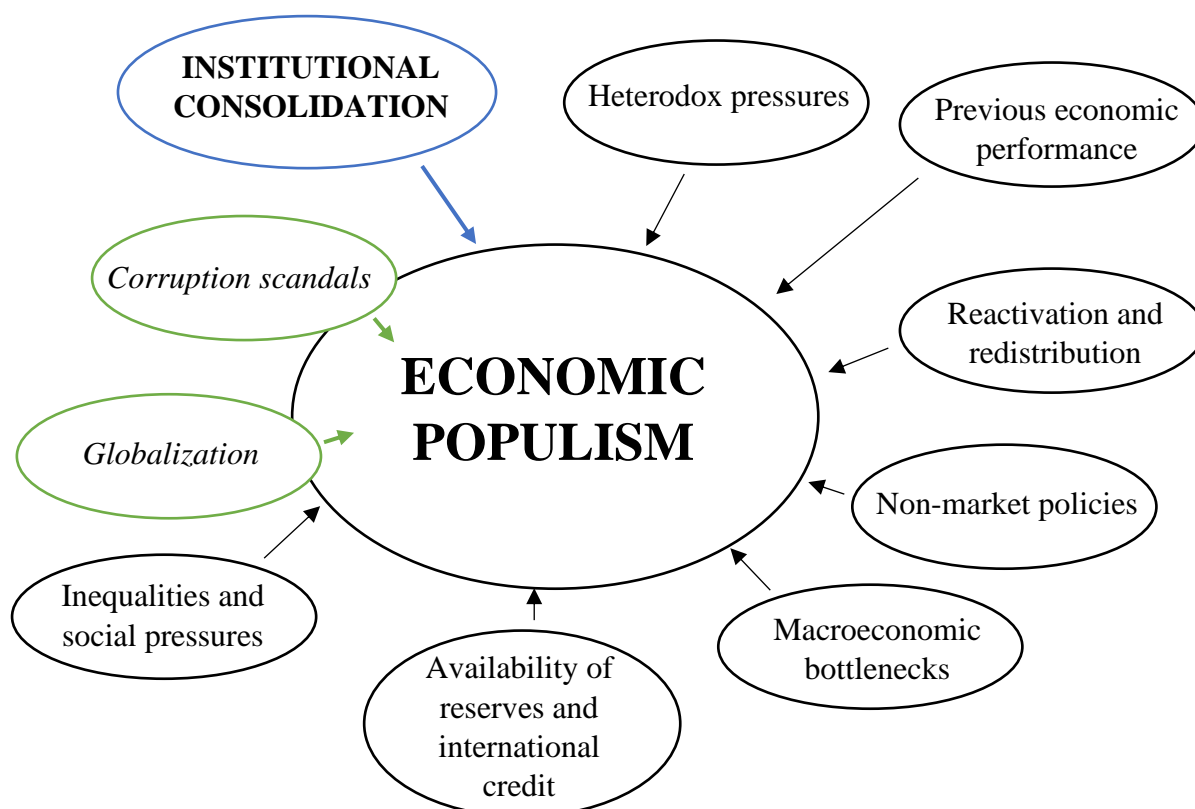
analyzed and characterization of the variable of interest that differed and led to contrasting results in the dependent variable.

The object of this work is the performance (or not) of economic policies linked to Economic Populism in the cases studied. The geographical units of analysis are Brazil and Argentina, specifically during the Lula da Silva and Néstor/Cristina Kirchner administrations. This is a most-similar design, following the requirements and instructions for matching cases of Seawright and Gerring (2007) and Bennet and Elman (2006): administrations with a left-wing bias, heterodox discourse, elected in the same period in Latin American countries coming from crisis between the end of the 1990s and the beginning of the 2000s marked by IMF programs, previous exchange easing and similar history (colonization by an Iberian colonial power, Catholic religion, middle income, late industrialization and import substitution, decades of national-developmental orientation, history of populist and economic populist leaders, unequal societies, recent experiences with hyperinflation, military dictatorships, re-democratization processes, and others).³

Therefore, in this context and expanding the analysis from the two cases to the region, we add a new causing factor to the model of the factors causing Economic Populism: institutional consolidation, which, in the Lula-Kirchners comparison, is used as the independent variable of interest in the most-similar design. Chart 3 thus completes Charts 1 and 2, by adding the new variable brought by our refinement. Henceforth, with the addition of ‘institutional consolidation’ in the research design, we refine the models/theory of Economic Populism in Latin America on the conceptual front using recent cases to distinguish what led to a positive result in Argentina and a negative one in Brazil.

³ Of course, in the real world, those features, even though similar, bear several differences. The instrumentalization of variables to compare cases in the most-similar design oversimplifies such characteristics. Thus, for example, even though both countries experienced economic crises, the one in Argentina is significantly severer than that of Brazil; social inequality in Argentina, historically, is significantly smaller than that of Brazil; the heterodox discourse in both countries differs because of a fifty years old and diverse *Peronismo* with that of the PT emergence and changes within itself during the 1990s, and so on.

Chart 3 – The independent variables of our refinement



Source: Self-elaboration (2022), based on Dornbusch and Edwards (1989, 1990, 1991) and Edwards (2019).

This new variable of our conceptual refinement correlates negatively with Economic Populism. As advancements in democracy, macroeconomic stability, and the quality of institutions are made, Economic Populism tends to be countered by constraints imposed on a leader's free will and more robust crisis, inflation, and public spending controls mechanisms. In this chapter we dive into the several realms in which substantial changes occurred since Dornbusch and Edwards (1989), justifying the addition of this new variable, and in **Chapter 3** we present how such changes were more efficient in institutional consolidation in Brazil than in Argentina, leading to different outcomes.

At first, descriptive inferences of the objects are made, as the Kirchners and Lula are recent phenomena and require a good description (KKV, 1994). In the model by Dornbusch and Edwards (1989), despite not using such lingo, we can identify the necessary conditions for the emergence of Economic Populism, as well as in points *ii.* and *iv.* in Edwards' (2019) refinement – see Charts 1 and 2. Here, we do not necessarily intend to refute or reconstruct

the causal mechanisms for Economic Populist governments in the 21st century, but instead to refine such theory.

The Theoretical Refinement carried out is divided into two fronts: *a.* methodological and *b.* conceptual. First, this is a methodological refinement for bringing case study and case selection techniques in social sciences with few records so far in the literature on the subject. In general, as said, qualitative studies in Economic Populism are restricted to positive cases, without exploring potential rival explanations or counterfactual scenarios for the construction of qualitative inference based on negative cases and comparisons. An example of this is the fact that, if we search for "Economic Populism" + "Most Similar" on Google Scholar, we get only 54 results. If we replace the second term with "Most Similar Design", there are no results.⁴ Thus, by combining a certain absence in the study of negative cases (which could, counterfactually or based on theory, be positive) in the literature on Economic Populism with the little use of the most-similar design method for selecting and matching cases, we can bring this methodological refinement to the theory and its models.

The part of the conceptual refinement concerns the political, economic, social, and academic-institutional changes that Latin America has undergone since the publication of Dornbusch and Edwards (1989), the most cited work and still the main reference in the study of Economic Populism among scholars. The newly added independent variable covers changes that affect institutionalization in the economic (monetary stabilization from the 1980s to the 1990s; adoption of different types of exchange rates in the last decades – even dollarization in some cases; greater accumulation of international reserves; fiscal policy encouraging higher interest rates and consequent deficits in the current account of the balance of payments; drop in industry's share of GDP and consequent growth in the primary sector from the 1990s onwards); political (greater stability of democratic regimes and reduction of *coups*; weaker presidentialism; possibilities of reelection for the leaders of the Executive and consequent dialogue with Political Business Cycle Theory; democratization of autocracies; increased income redistribution capacities with monetary stabilization and the commodities boom; central banks acquiring autonomy and even independence); and academic-institutional (changes in the epistemology and the *Zeitgeist* of Economics in Latin America – from national-developmental heterodoxy to greater defense of foreign exchange, financial, and commercial liberalization; the Washington Consensus; Neo-developmentalism and Bolivarianism during the Pink Tide; IMF's departure from the region; fostering new and existing regional initiatives for macroeconomic cooperation and financial stability – such as

⁴ Search conducted in February 02, 2021.

SUCRE, Banco del Sur, SML, FONPLATA, FLAR, CAF, BNDES, among others) scenarios. It is important to note, however, that the core of the classic model proposed by these authors will be maintained and used, with only marginal changes being made, preventing the proposed adjustments from being defined as a Theory Development.

For the analysis of the cases, according to the literature on qualitative methods for case comparison – Lijphart (1971), Sartori (1991), Collier (1993), and a plethora of works that followed KKV's (1994) *Designing Social Inquiry* –, we opposed Lula and Néstor/Cristina Kirchner. To identify the causal mechanisms that led to divergent results, techniques based on and inspired by Process Tracing (VAN EVERA, 1997) were used to understand the evolution and development of the phenomena in each of the cases analyzed.

2.1 Theory Refinement: Methods and Concepts

The need to perform a Theory Refinement when dealing with Economic Populism comes from two different sources, as presented: conceptual and methodological changes in the last three decades. However, what is a Theory Refinement, and why the present work is not a Theory Testing or a Theory Development exercise? And do we why advocate for the need for refinement if several works have done so in the past three decades?

According to George and Bennet (2005), Theory Development necessarily involves the creation of new hypotheses and the selection of new study problems. Although a new hypothesis for specific cases is tested here, we sustain and reinforce the core premises and causal relationships that are enshrined in the literature on Economic Populism. Also, this is not simply a Theory Testing. The cases analyzed here are not tested to prove (or reject) existing causal and inferential mechanisms in a purely deductive exercise. We are also not using cases that have not yet been analyzed (or, *does this case support an existing theory?*) by a given theory to check whether they validate a framework or not – or a paradigm vs. an anomaly in the context of common received beliefs, as in Kuhn (1962).

The refinement exercise, also known as Theory Building, is inductive but it is also useful to inspire new evidence to strengthen theories. It tries to heal wounds within a theory or to fill existing blanks that the literature has not yet dealt with. Thus, Theory Refinement's purposes are not to recreate a paradigm, but instead to analyze and incorporate new concepts to enlarge the body of literature around a theory's *hard core*, contributing to the *auxiliary hypotheses* in Lakatos' (1970) pyramid. Also, although one can notice the gaps in the literature by analyzing cases inductively, it is important to denote a deductive procedure, from literature

review to abstract issues and specific fissures that are not studied/wrongly studied. This is why this work starts with an Economic Populism review, refining it, before diving into the cases of Lula da Silva and the Kirchners.

Here, the need to perform a Theory Refinement comes from several changes that occurred in the past thirty years in Latin America (embodied by the new variable added to the model) that have only partially been covered by the literature on Economic Populism; and also, from poor performance when analyzing negative cases to build inference and counterfactual qualitative explanations in the field. The first front emerges from the need to fight conceptual stretching and the dangers that arise when scholars increase the number of observations carelessly to apply/test theories to new cases – see Sartori (1970), Collier and Mahon (1993) and George and Bennet (2005). Economic Populism is already a very stretched-over-time concept: it tries to bring together experiences from the 1950s (Vargas and Perón), the 1960s (Goulart), the 1970s (Allende and Perón again), the 1980s (García and Sarney), and the Pink Tide (Chávez, the Kirchners, Rouseff, Correa and Morales). Edwards (2010, 2019) thus tries to separate those cases into two groups (classical and new populists) to remedy this anachronical issue. Therefore, one cannot lump together such dissimilar cases to increase the number of observations without hindering conceptual validity (GEORGE; BENNET, 2005). Henceforth, to avoid overstretching, scholars studying Economic Populism should focus on the economic, political, academic, and institutional changes that occurred in Latin America in the last thirty years to better understand how recent cases relate to the premises of Dornbusch and Edwards (1989).

The second front deals with the incorporation of consolidated qualitative methodological practices in the Social Sciences to the study of Economic Populism, overall, when considering case selection and case comparison. The main issue with case studies in Economic Populism might be the predominance of qualitative studies that focus solely on positive cases, even when comparing two or more leaders/experiences. In this framework, comparisons and theory testing should follow strict case selection techniques to avoid bias in the study of Economic Populism, reducing conceptual dilution and stretching (ASLANIDIS, 2017). This occurs since selection bias in qualitative research may leave scholars vulnerable to errors when focusing uniquely on the outcome of interest – positive or negative (COLLIER; MAHONEY, 1996). This scenario is not desirable and tends to happen a lot in the cases selected for the study of Economic Populism. This is the reason why we choose to compare Lula da Silva and the Kirchners based on the most-similar design pairing technique to contrast

a positive and a negative case, which is not abundant in the literature. The case of Lula da Silva is highly interesting as a negative case since he had everything to be a positive one, considering his background, his party's historical stands on the subject, the economic situation of Brazil by 2002, and the tradition of Economic Populism in the country. Thus, this case quite possibly could, counterfactually and based on theory, be positive, which justifies our interest in the comparison.

This accounts for our methodological refinement, along with the introduction, of more defined and complex techniques to compare cases, based on a long tradition that dates to the works of John Stuart Mill and his method of difference, to the more recent developments in academia, especially since Lijphart (1971), Sartori (1991), Collier (1993), Brady, Collier and Seawright (2004) and Mahoney e Goertz (2006). As the structural changes in Latin America since the late 1980s are more complex and demand much more explanations, they are brought into a different subsection.

2.1.1 Institutional Consolidation: Economics, Politics, Academia, and Institutions

When Dornbusch and Edwards (1989) inaugurated the concept of Economic Populism – and even before, in a certain way, with Canitrot (1975), Díaz-Alejandro (1981) and O'Donnell (1977) –, Latin America was marked by hyperinflation, an entire decade of economic crises (the 1980s), authoritarian and transitional regimes, the sundown of developmentalism and heterodox economics, a bitter will towards financial institutions – mostly the IMF –, and recent (economic) populist experiences. Of course, this is not the case for all the countries in the region, but those features were present in most nations, sometimes even all at once.

2.1.2 Economics

In economics and the macroeconomic scenario, the most important and conspicuous change in the last thirty years is the monetary stabilization that countries like Brazil, Argentina and Peru underwent after 1989. Inflation and hyperinflation were at the core of the Economic Populist experiences of the twentieth century, with IMF programs preceding the rise of a leader that would implement policies like price controls and artificial wage increases to keep up with the currency devaluation. Also, accelerating inflation would mark the last stages in the model of Dornbusch and Edwards (1989), leading to the formation of parallel markets, dollarization, and currency collapse. This cycle was followed by yet another IMF austere program and a fall in real wages. Thus, prices and currency stabilization would break this

stop-and-go cycle and facilitate the implementation of social programs without putting excessive pressure on inflation (DÍAZ-ALEJANDRO, 1981; SACHS, 1989; SACHS, 1996). As Campos and Casas (2019) suggest, if real wages are determined by productivity variation, in the long run, redistributive attempts without real output changes would inevitably lead to inflation, stagnation, and real wage losses in the future. This was the case for several Economic Populist governments in the 20th century in Latin America.

Among many reforms that were implemented in this period, during “the early 1990s, the Washington Consensus reforms bore fruit: inflation declined substantially, growth accelerated, and, adjusted for inflation, wages increased throughout the region” (EDWARDS, 2010, p. 6), with the golden age of currency pegs to the US dollar as a panacea for controlling prices. To better understand how hyperinflation was curbed and social spending grew with less inflationary pressure after monetary stabilization, the Brazilian case is very representative. After 1994, with the “end of inflation, in the first term of the Cardoso government, fiscal policy became even more lax and the public sector’s debt started to grow” (ALSON, *et. al.*, 2005, p. 7), with the central government’s net debt of the public sector (as a percentage of the GDP) growing at a high pace from 1994 on – the year of the *Plano Real*, which was a set of macroeconomic measures to stabilize the Brazilian currency and curb inflation. One can read Cardoso’s inauguration speech in 1995 to see how those matters were of great importance for him and his government, as he emphasized how internal stability is a paramount feature for economic growth.⁵

In a scenario in which institutional consolidation and re-democratization gains were boosted by the Cardoso administration, the 2000 *Lei de Responsabilidade Fiscal* embodies the care for fiscal stability and the creation of checks and balances regarding government spending, a tendency that would triumph during Lula’s government, mainly with the accumulation of international reserves and new social programs (MENEZES; VIEIRA, 2012). Thus, even if the transition from Cardoso to Lula was marked by a change in opposing parties and ideologies, a tacit compromise with currency stability by different governments from different groups in Brazil contributed to the social improvements of the 2000s without adding too much pressure on inflation and effectively reducing inequality and poverty in one of the most unequal countries in the world.

⁵ Sample of Cardoso’s inauguration speech in 1995, in Portuguese: “a importância de países como o Brasil não depende somente de fatores militares e estratégicos, mas sobretudo da estabilidade política interna, do nível geral de bem-estar, dos sinais vitais da economia – a capacidade de crescer e gerar empregos, a base tecnológica, a participação no comércio internacional”.

Those are real examples of how redistributive and social policies have better results when implemented in a stabilized environment that can sustain long-term growth and redistribution, which contrasts with the populist experiences that often represent a “complete failure when measured in terms of stability, redistribution of income, growth, investment and increased standard of living” (OCAMPO, 2019, p. 27). Also, “efficiency improves—and thus productivity grows—if there is political, social, and economic stability if the institutional setting supports learning and innovation, and if economic policies encourage competition” (EDWARDS, 2010, p. 12). Specifically, for the Argentine experiences after 1945, political instability heavily penalized investment and labor productivity and, consequently, per capita income in one of the richest countries in the world at the beginning of the 20th century (OCAMPO, 2019). However, after the declaration of the central bank as an autarchic institution aiming at its independence and price stability, by fully converting the peso with the American dollar, this country managed to control hyperinflation at the beginning of the 1990s (DAMIL, FRENKEL, RAPETTI, 2015). Thus, “output experienced a spectacular recovery: gross domestic product growth was 11 percent in 1991, 10 percent in 1992, 6 percent in 1993, and 8 percent in 1994” (EDWARDS, 2010, p. 146).

Thus, as noted by Edwards (2019) on one of his refinements, this results in populist experiences that, except for Venezuela and the Chávez/Maduro duo, are not marked by runaway inflation. Those “new” populist experiences linked to the Pink Tide, instead, are characterized by an unsustainable accumulation of debt (EDWARDS, 2019). Argentina, for example, even though inflation increased a lot during Cristina Kirchner’s administration (and perhaps even more since official data suffer from a mild case of jiggery-pokery), it stopped at a two-digit level. The cases of Morales’ Bolivia and Correa’s Ecuador are emblematic, as inflation remained low during their governments – in the Ecuadorian case mainly due to the dollarization of the economy. Thus, “Ecuador’s experience shows that total collapse, wage decline, and runaway inflation are not the unavoidable results of populist policies” (EDWARDS, 2019, p. 94) in the 21st century.

Another arena that presented several changes from the late 1980s is the different types of exchange rates adopted in the last thirty years – and even dollarization in some cases. Especially in the 1990s, this was a central issue for Latin America, a phenomenon brilliantly captured by Broz and Frieden (2001) in the light of the impossible trinity. According to these authors, exchange rate policy must be carried out with attention to its political implications since the exchange rate becomes an extremely preponderant factor in electoral disputes. The

examples of Brazil between 1998 and 1999 and Argentina in 2019 illustrate this scenario, in which governments assess, based on the exchange rate, the importance of consumers' purchasing power and the stability of nominal macroeconomic variables to win elections.

At the turn of the millennium, this was the most important issue threatening Latin America's macroeconomic stability. At the beginning of the 2000s, with financialization and greater capital mobility, a fixed exchange rate triggered disadvantages for developing countries since it required governments to subordinate all other economic policy goals to stabilize it (EICHENGREEN, 2000). This happened since a lot of Latin American countries tried to use artifices like fixed exchange rates, crawling-pegs, currency boards, 1-to-1 parity with the American dollar, and so on, to counter inflation in the 1990s. This sacrifices either autonomous monetary policy or free capital flow. The impossible trinity "principle explains that where capital is internationally mobile, a fixed rate and monetary independence are not simultaneously attainable" (BROZ; FRIEDEN, 2001, p. 322), and the subordination (EICHENGREEN, 2000) refers to the fact that a fixed exchange rate with international capital mobility renders "monetary policy ineffective, meaning that there is no leeway to use monetary policy for purposes of demand management or balance-of-payments adjustment. This poses a tradeoff between two competing values: stability and flexibility" (BROZ; FRIEDEN, 2001, p. 323).

Thus, monetary policy often lost its autonomy in Latin America during the 1990s, which can significantly reduce the room for maneuvering for Economic Populist policies that rely on money printing, artificial salary increases, and interest rates increasing to overvalue exchange rates, which have a direct impact on inflation, currency stability, and purchasing power. Based on the taxonomies of exchange rate regime and *de facto* exchange rate regime classification from Bubula and Ötoker-Robe (2002), one can see that, in developing countries, dollarization, fixed pegs to a (basket of) currency/ies, crawling-pegs, and currency unions were quite common at the beginning of the 1990s. However, from 1990 to 2001, independent and managed floats became more popular as inflation was curbed and the fixed regimes presented a lot of pressure on emerging markets' currencies like the Russian ruble, the Brazilian real, and several other Southeast Asian national currencies. Table 1 highlights how exchange rates varied from 1990 to 2000 in some Latin American countries based on the thirteen-tier taxonomy proposed by Bubula and Ötoker-Robe (2002).

Table 1 – *De Facto* Exchange Rate Regime Classification (1990-2000)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Argentina	13	3	3	3	3	3	3	3	3	3	3
Bolivia	9	9	9	9	9	9	9	9	9	7	7
Brazil	12	9	9	9	11	9	9	9	7	13	13
Chile	10	10	10	10	10	10	10	10	8	13	13
Colombia	9	8	8	8	8	8	8	8	8	13	13
Ecuador	7	7	6	10	8	8	8	8	8	13	1
Honduras	4	4	13	13	11	7	8	8	8	8	8
Mexico	7	8	8	8	13	13	13	13	13	13	13
Nicaragua	9	4	4	7	7	7	7	7	7	7	7
Panama	1	1	1	1	1	1	1	1	1	1	1
Paraguay	11	11	11	11	11	11	11	11	11	11	11
Peru	13	13	12	12	12	12	12	12	12	13	13
Uruguay	10	10	8	8	8	8	8	8	8	8	8
Venezuela	12	12	12	9	4	4	8	8	8	8	8

Source: Bubula and Ötker-Robe (2002).

The scale from 1 to 13 ranges from another currency as legal tender (e.g., Panama and dollarization) to independent floating.⁶ The bigger the number, the more flexible the exchange rate. It is noticeable how most countries presented very different values over one decade and among each other. Thus, monetary restrictions presented important differences in the economic scenario from 1989 to the beginning of the 21st century. And, from the turn of the millennium on, fixed rates were progressively abandoned and the Argentine collapse of 2000-2002 is emblematic regarding how rigid regimes eventually failed in Latin America. The Asian Financial Crisis (and its repercussions in Russia and Brazil) and the Brazilian flexibilization in 1999 are also symbols of the economic chaos in the turn of the millennium that were related to the various exchange rate regimes.

In Argentina, this is a dramatic example. From 1991 to 2000 the country relied on a currency board to control inflation, with initial success and output growth. However, for such

⁶ According to Bubula and Ötker-Robe (2002), 1 = Another currency as legal tender; 2 = currency union; 3 = currency board; 4 = conventional fixed peg to single currency; 5 = conventional fixed peg to basket; 6 = pegged with a horizontal band; 7 = forward-looking crawling peg; 8 = forward-looking crawling band; 9 = backward-looking crawling peg; 10 = backward-looking crawling band; 11 = tightly managed floating; 12 = other managed floating; and 13 = independently floating. It is also important to highlight the difference between *de jure* exchange regime and its *de facto* exchange rate. "A country's actual exchange rate regime, however, can differ from its official notification. Over the past decade or so, a number of countries that had officially declared to be floating were in reality targeting stable exchange rates" (BUBULA;ÖTKER-ROBE, 2002, p. 4).

a regime to succeed in the long-term, fiscal discipline was paramount (EDWARDS, 2010), which did not happen, with a mean of 4.1% of the GDP fiscal deficit in the 1990s – which is severe in a country with fixed exchange rates. Therefore, in Argentina, this regime became a straitjacket (EDWARDS, 2010) since the pegged currency did not count with labor market flexibility – quite the contrary.

This is an important topic to monitor when analyzing the ‘new’ manifestations of Economic Populism since artificially overvalued exchange rates to increase purchasing power and control inflation in the short run are common features of the populist toolbox. However, since the 1990s, this happens in a new environment in Latin America and its differences should be highlighted. Also, in the 2000s, a new form of populism, according to Bresser-Pereira and Nakano (2003) would emerge: exchange rate populism. Since hyperinflation was so hard to overcome and the main weapon to fight it (fixed exchange rates) became unsustainable at the beginning of the 21st century, Latin American countries like Brazil and Argentina turned to a solution that would control inflation, attract international capital, and boost purchasing power: increased interest rates – with the downside of current account deficits and fall in investments.

Faced with the inevitability of reversing the overvalued exchange rate policy, the effects on the aggregate demand and welfare must be considered. How currency devaluation affects redistribution and inequalities in mass consumption in Latin America is a matter as old as Economic Populism. This was first analyzed by Díaz-Alejandro (1963) and by Canitrot (1975). According to the first author, devaluation would yield a negative initial impact by decreasing domestic output and purchasing power, increasing inequalities – and favoring agrarian elites over urban workers. However, in the long run, it would result in improvements in the current account. This would lead to the temptation of implementing exchange rate populism (BRESSER-PEREIRA; NAKANO, 2003), which marked Latin American governments in the 2000s – a favorable environment during the commodities boom facilitated this process (GRIGERA, 2017). Thus, it is a very appealing policy (to overvalue the exchange rate to increase consumption while controlling inflation) in the short-run and a modern form of populism that would be unsustainable if dealing with fixed exchange rates in an economic scenario without foreign incentive – that is, international reserves and the commodities boom, for example.

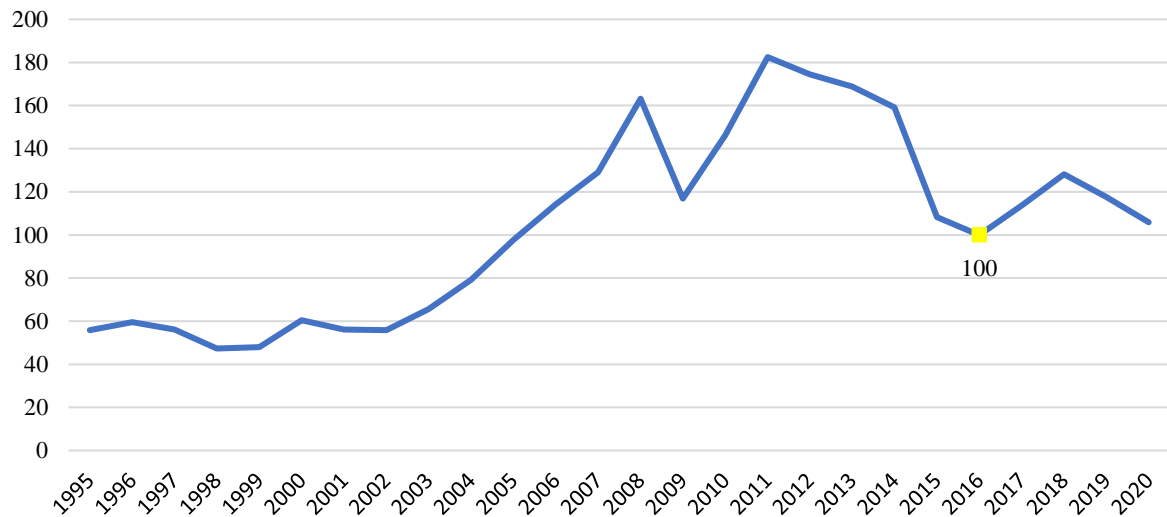
For the ‘new’ Economic Populist experiences, thus, the exchange rate regime can present a lot of changes when compared to the ISI and transitional episodes. According to

Edwards (2010), instead of relying on fiscal deficits to redistribute income, intrusive government controls and restrictions (such as the fixed exchange regime or the overvalued currency using super-high interest rates) can be tools to redirect income to specific groups. Thus, the example of how exchange controls have been used in Chávez/Maduro's Venezuela to control inflation (when it was still possible) and increase purchasing power (mainly of foodstuffs) is emblematic.

Directly related to how and to what extent governments can influence the exchange rate is the accumulation of international reserves. A very useful tool in the short-run for Economic Populists, international reserves can put the IMF away and can serve as a buffer for price controls, embargos, and artificially overvalued exchange rates in a scenario of capital flight. But not for long. Thus, the unprecedented accumulation of international reserves by Latin American countries in the 2000s has an impact on how the populist cycle (SACHS, 1989) evolved.

According to Grigera (2017), the commodities boom of the 2000s – boosted by China's growth and its entry into the World Trade Organization – led to an such rapid growth of international reserves in Latin America. The context was that of a recent crisis involving capital flight and exchange rate devaluation in the late 1990s. As such, a need to find shelter during the storm stuck in the minds of Latin American policymakers. The favorable environment of the commodity boom led to the inevitable use of international reserves as a shield to be wielded against external shocks. As Latin America is a powerhouse when it comes to exporting oil, soybeans, beef, minerals, tropical delights, and several other commodities, the countries could surf on that sweet pink tide. Graph 1 shows how commodity prices varied from 1995 to 2020 with an index number in which 2016 = 100.

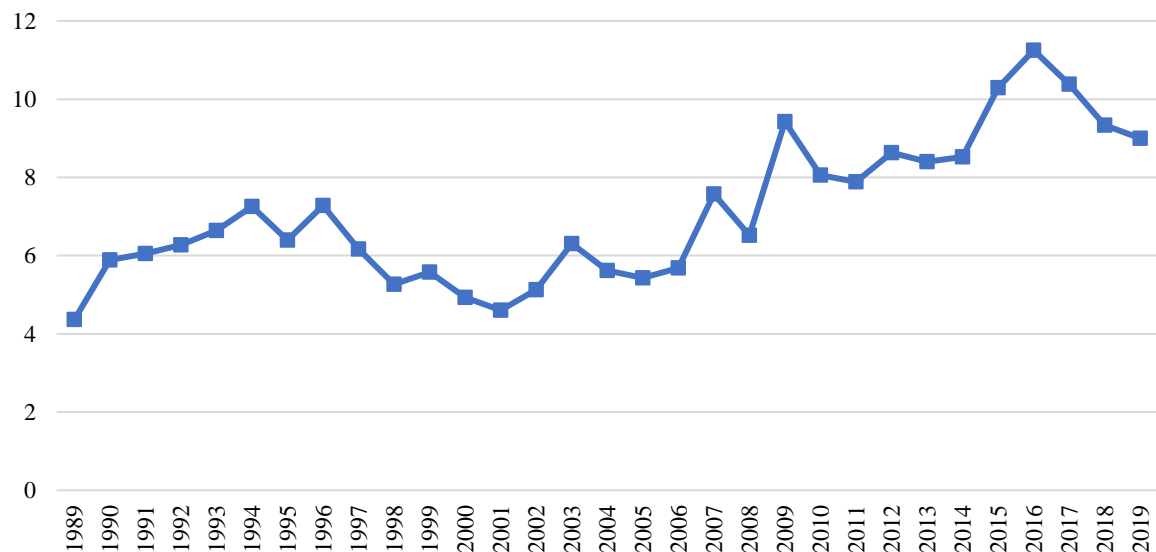
Graph 1 – Global Price Index of All Commodities (1995-2020)



Source: FRED Economic Data. Global Price Index of All Commodities, Units: Index 2016 = 100, Not Seasonally Adjusted, Frequency: Annual, Average.

Commodity prices skyrocketed around 2002 and this phenomenon lasted until the 2008 financial crisis, when variations became very high and, by 2015-6, prices returned to 2005 levels. Countries like Venezuela were especially hit by this fall in commodity prices, especially by how oil prices fell after 2014. However, to confirm reserve accumulation, it is necessary to observe how this measure varied. Graph 2 shows how total reserves in months of imports for Latin America and the Caribbean varied from 1989 to 2019.

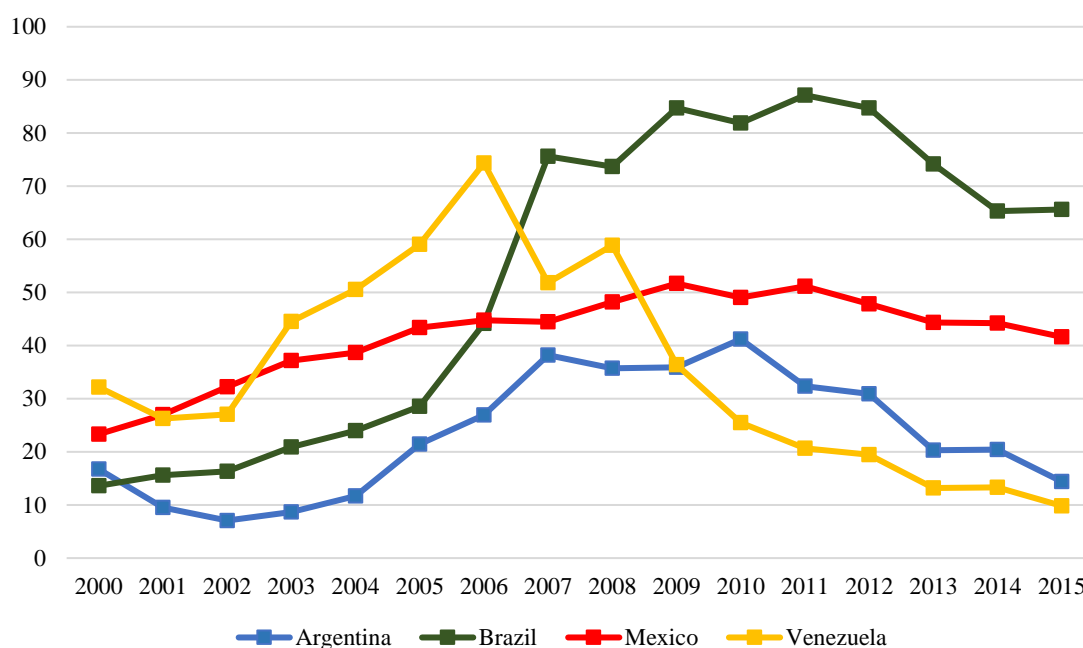
Graph 2 – Total reserves in months of imports – Latin America & Caribbean (1989-2019)



Source: World Bank (2020)

Also, some countries' trajectories are symbols of this period. Graph 3 shows how Brazil, Mexico, Venezuela and Argentina's total reserves (as a percentage of total external debt) varied from 2000 to 2015.

Graph 3 – Total reserves (% of total external debt) – Argentina, Brazil, Mexico and Venezuela (2000-2015)



Source: World Bank (2020)

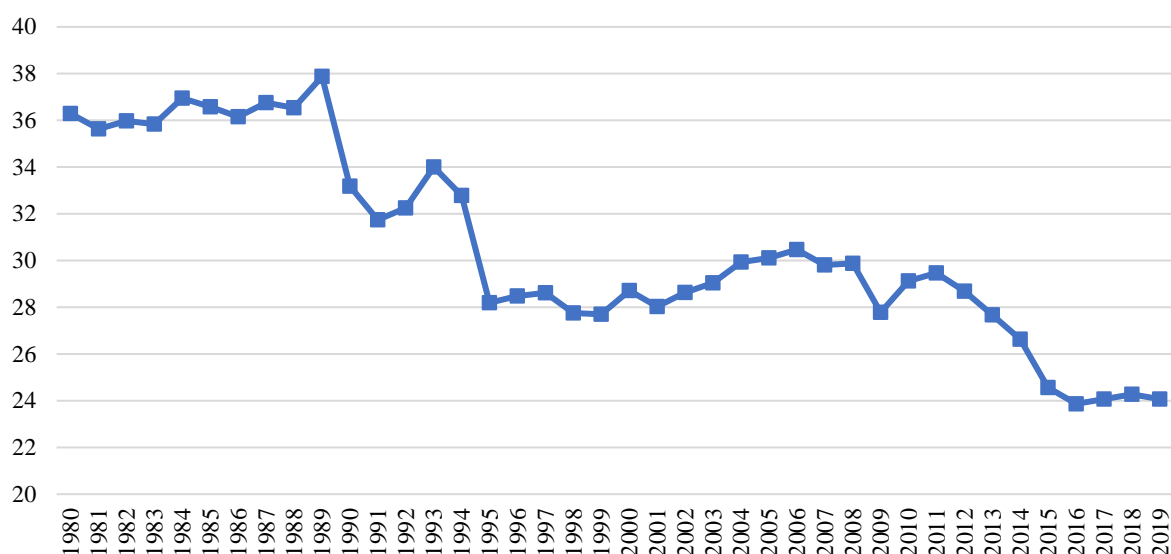
The increase of foreign reserves in all these countries is conspicuous. Also, it is noticeable how populist experiences represented a depletion in international reserves (Chávez/Maduro in Venezuela, the Kirchners in Argentina, and the moderately populist experience of Rousseff in Brazil). And this is especially true since the cycle – Dornbusch and Edwards (1989); Sachs (1989) – from the 20th century is marked by the exhaustion of the reserves after the initial boom, which induces the leader to foster money printing.

The accumulation of reserves represents a buffer and a huge step towards stabilization, mainly after the succession of crises in the late 1990s. According to Blumenschein and Navarro (2016), external constraints have always been a source of destabilization during populist experiences and the depletion of reserves has always been an alternative for inconsequential leaders. This, eventually, would lead countries to search for IMF bailouts and a large devaluation of the national currency (EDWARDS, 2010) – i.e., inflation and recession. The unprecedented accumulation thus drastically changes this scenario.

Lastly, in the economic environment, the changes in the GDP participation of urban and rural sectors are a very important issue to contextualize Economic Populism after 1989. This is an issue that deserves critique when analyzing the literature that precedes Dornbusch and Edwards (1989). Sure, all models are just a representation of reality and not reality itself, but the division between rural elites vs. urban workers is quite pervasive in the literature on the subject to analyze a series of (economic) populist experiences in the 20th century – Portantiero (1963), Germani (1971), Di Tella (1973), Canitrot (1975) and O'Donnell (1977). However, levels of urbanization changed dramatically from the classical populist experiences of the 1930s-1950s (Cárdenas, Vargas and Perón) to the late experiences from the 1970s and 1980s. Also, the participation of industry and primary goods in the GDP varied intensively during this period. One true thing, though, is that Economic Populism often targeted urban workers with policies that tended to be harmful to agrarian elites. It was the golden age of developmentalism, rural exodus peaked, and industrialization grew at enormous rates. Policies to increase the living standards of urban sectors were of paramount importance for those in power to remain in power (even more in an era in which *coups d'État* bred like rabbits). However, since the 1990s, urban sectors and industry outputs started suffering from a chronic crisis of slow productivity growth and lethargic loss of share in Latin America's GDP. As mentioned, the rural sector has gained a lot of importance with the commodity boom during the 2000s, and, when comparing the industry's relevance during the 1970s-1980s to that of the 2000s-2010s (ironically even in countries led by a former unionist industry worker – i.e., Lula da Silva), it is noticeable how the industrial sector lost its importance in the last decades.

Also, not only the rural sector grew in relevance for Latin America's exports and output share, but services are now more predominant in urban areas and the GDP. This has a direct relationship with loss of labor rights and social protection since industry unions tend to be more powerful and have more bargaining power and because several services are linked to economic activities that are averse to unionism and safety nets for workers, such as the financial sector – even if bank officer's unions were relatively strong and influential in the 1980s and 1990s. Graph 4 shows how the value-added from industry (including construction) as a percentage of the GDP varied in Latin America and the Caribbean from 1980 to recent years.

Graph 4 – Industry, value added (% of GDP) Latin America – 1980-2019



Source: World Bank (2020).

The Asian competition in this sector and the lethargic growth in productivity in Latin America contribute to this scenario. It is undeniably true, however, that unions are weaker and urban sectors lost their importance when it comes to social demands. The recent Brazilian reforms since the Temer administration illustrates this scenario. The reduction of bargain power of social groups, however, also comes from left-wing administrations. As an example, the Kirchners performed well in Argentina to capitalize on urban discontentment and several social movements, such as the *piqueteros*, in their administration. Those groups were deeply incorporated into mainstream politics during their administration and lost a lot of relevance (HOPSTEIN, 2007). A similar trend can be observed in PT's Brazil, chiefly with land reform and indigenous rights pressures (SINGER, 2012).

The economic landscape was transformed in Latin America from 1989 to date. Not only has hyperinflation disappeared (except for Venezuela), but also exchange rate regimes, international reserves accumulation, and the share of industry in GDP varied. Also, other changes that are related to economics (but more on the Political Economy side), such as central bank autonomy/independence, are presented in the next subsection.

2.1.3 Politics

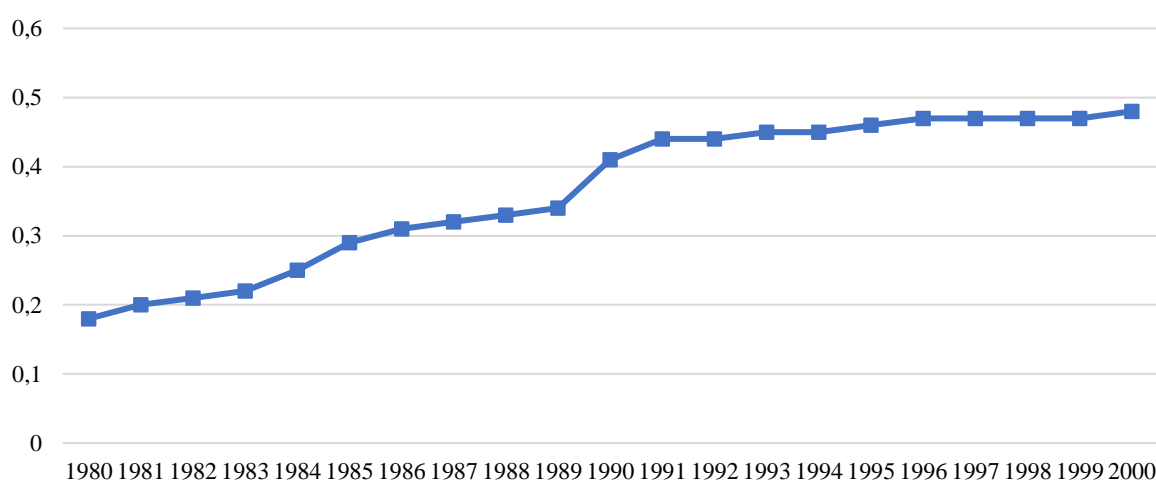
Kauffman and Stallings (1991) pointed out that transitional regimes were more prone to implement Economic Populist policies than democracies or autocracies. After observing and analyzing the transitional experiences from the 1980s and how they resulted in Economic

Populism (Sarney in Brazil and García in Peru are the best examples), the authors came to point out a huge difference in the political context regarding the ‘new’ populisms and the old ones: democratization came to be the rule of the game when dealing with regimes in Latin America and those transitional regimes are good examples.

Peru itself fell back to being an autocracy in 1992 during the Fujimori government, but, with a few exceptions (Venezuela, for example), stable (and heavily flawed, sure) democracy is the predominant regime in Latin America since the 1990s. This massive evolution in institutional consolidation impacts several features of the ‘old’ Economic Populist experiences. Stability, the tradeoff between short- and long-term gains, reelections, electoral business cycles, and so on.

To measure how regimes changed in Latin America, the Varieties of Democracy’s (V-Dem) *Liberal Democracy Index*⁷ can be used. In Graph 5, the evolution of such an index is presented.

Graph 5 – Liberal Democracy Index for Latin America (1980-2000)



Source: V-Dem (2020). Liberal Democracy Index. The index ranges from 0 to 1, the higher the number, the better the institutions.

First, this democratic implementation and consolidation represent a blow to policies that are linked to short-lived successes. The threat of *coups d’État* has decreased and leaders do not need necessarily to strike a huge success in their first months of the administration to gain popular support and back off the opposition and the military willing to seize power. This

⁷ V-Dem’s Liberal Democracy Index represents the quality of democratic institutions in an increasing scale (0-1). This index adds several dimensions, such as suffrage, election fairness, law equality, checks and balances, and freedom of association and expression (V-DEM, 2020).

is one incentive less that democratization brought to decrease the chances of implementing an Economic Populist agenda in the first moments of a government.

According to Pérez-Liñán and Polga-Hecimovich (2016), ever since democratization in Latin America, military *coups* threatening the regime are not so common anymore. Instead, presidents become the target of impeachment processes. Thus, the regime survives even if at the expense of impeaching the head of the Executive. The authors aver that this brings a whole new level of competitiveness to the political environment in Latin America because, eventually, new elections are going to take place and the previous leader (or someone from his/her party) can run again. With fewer violent *coups d'État* on the sight and new possibilities to remain in power – or to eventually return to the office –, erratic economic policies that are successful in the short-run but are deleterious in the following years have reduced incentives to be implemented in a democratic environment.

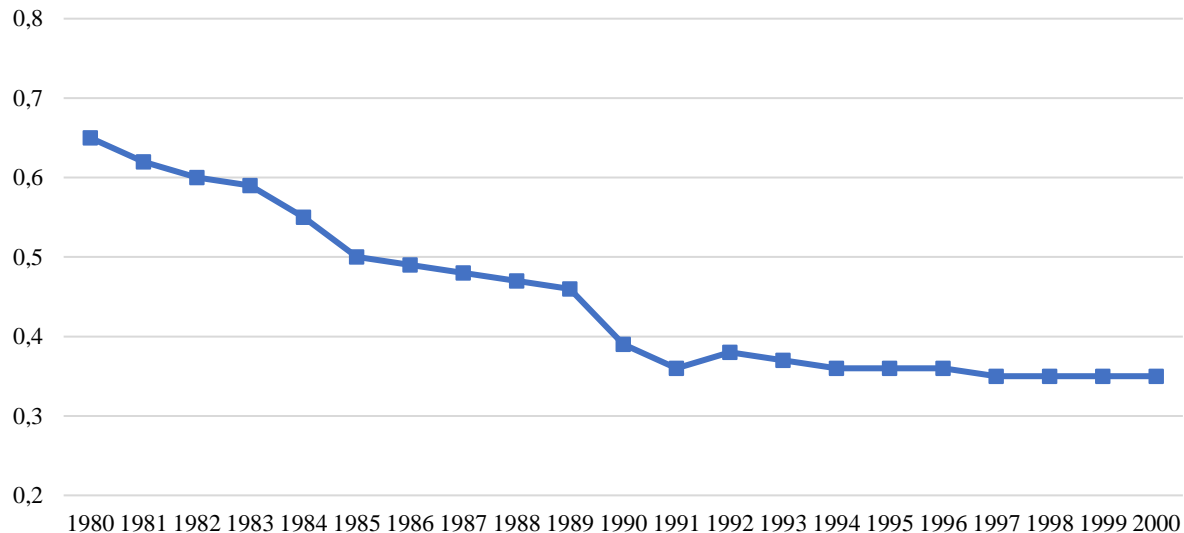
According to Checci (1996), when in office, “a populist leader is hard pressed to attain visible results. This pressure prevents long-term structural reforms from being enacted, and favors short-term welfare policies, thus increasing the intrinsic weakness of these regimes” (CHECCI, 1996, p. 492). This is also backed by Acemoglu, Egorov and Sonin (2013) who, when analyzing term limits, conclude that shorter and softer term limits tend to increase the incumbent’s incentives to implement populist economic policies (to survive in power or to break those soft term limits).

Also, democratization brings new rules to the game. As democracy and institutions consolidate, leaders tend to lose decision-making power and deal with checks and balances constraining power and fomenting accountability and democratic responsivity (ACEMOGLU; ROBINSON, 2012). In the lexicon of Acemoglu and Robinson (2012), the evolution and consolidation of institutions involve inclusiveness and elite constraints. Therefore, as democratization swiped dictatorships in Latin America, not only social achievements were acquired– for example, the Brazilian federal constitution from 1988 represents social improvements in areas such as education, health, housing, and institutional consolidation –, but also new checks and balances emerged, voting being the most important of them, as leaders can be democratically ousted in the polls, saving the regime.

Thus, such constraints render presidents weaker. Less concentration of power in the hands of leaders (V-Dem, 2020), is a tendency that can be observed since the beginning of the 1980s with the relaxation of autocratic regimes and democratization. Graph 6 displays the

evolution of the *presidentialism index* in Latin America, a V-Dem's (2020) measure that focuses on the extent to which presidents are free from constraints by other actors.

Graph 6 – Presidentialism Index for Latin America (1980-2000)



Source: V-Dem (2020). Presidentialism Index. This index ranges from low to high between 0 and 1, with higher values indicating a higher concentration of power.

It is noticeable how presidents got weaker from the 1980s to the beginning of the 1990s and how this is now a tendency in Latin America. And, even if in comparative terms, the region still has a very strong presidentialism (it is possible to compare the index with the United States' measure to see how stronger Latin American presidents are), it is undeniably true that reducing the power held by a leader and creating institutional constraints to his/her wills can reduce the room for Economic Populist policies. As the short-run actions that characterize the models and the theories often cite erratic and unsuccessful economic policy, a leader may find new constraints in the 'new' populist experiences than in the past. As said, voting plays a significant role since bad policies can result in fewer votes and lost elections – i.e., public opinion. Other features, such as budget limits (as the one cited in the previous subsection regarding the Cardoso administration in Brazil), central bank independence/autonomy, and fiscal responsibility Acts are liberal institutional achievements that can restrain a president's power to implement erratic economic policy.

Particularly monetary policy suffered from huge restrictions since the beginning of the 1990s with several central banks becoming independent or autonomous throughout Latin America. "In theory, independent central banks constitute a first line of defense against the full populist onslaught" (EDWARDS, 2019, p. 89). With this movement, leaders lost their ability to interfere directly in money printing and interest rate regulation to artificially

overvalue national currencies – depending on the exchange rate regime adopted, naturally. This significantly limited inflationary policy, restricting one of the main components of Economic Populism. Often, populists “reject restraints on the conduct of economic policy. Autonomous regulatory agencies, independent central banks, and external constraints (such as global trade rules) narrow their policy options and hence need to be overcome” (RODRIK, 2018b, p. 196). The granting of autonomy to central banks signaled “good behavior”, especially regarding the reduction of state intervention in monetary matters, one of the many causes of the hyperinflationary effects of the 1980s (MARQUES, 2017). Therefore, political pressures on central banks are not as effective as in the past. The 1980s are a good example. According to Edwards (2010), after the oil crises of the 1970s, central bankers in Latin America were forced by politicians to grant large loans to public enterprises and the government. This creation of liquidity would result in pressure on prices and “made already large trade deficits even larger” (EDWARDS, 2010, p. 60).

Central bank independence/autonomy is considered an institutional improvement by Edwards (2010), and this movement was in line with the policy prescriptions of the Washington Consensus. Even if in some cases – Argentina, as always, Venezuela, and Bolivia, *unexpectedly* countries with populist leaders (EDWARDS, 2010) – these reforms regressed in the 2000s, several central banks gained autonomy in the 1990s. This, together with further inflation targeting policies (and the failure of exchange rate anchors), allowed the exchange rate to fluctuate, relieving pressure on international reserves and releasing the interest rate to be used exclusively in the pursuit of price stability (MARQUES, 2017). Table 2 presents some institutional changes in Latin American central banks during the 1990s.

Table 2 – Central banks' institutional changes in Latin America (1990s)

<i>Country</i>	<i>Year</i>	<i>Details</i>
<i>Argentina</i>	1992	The central bank shall not be subject to orders or instructions from the presidency and the Congress is responsible for its accountability. The bank's objective is to promote monetary and financial stability and socio-economic development – Law 20,539.
<i>Bolivia</i>	1995	The central bank will not be able to grant credit to the public sector – Law 1,670.
<i>Chile</i>	1989	The central bank is an autonomous constitutional institution and its objective is to preserve currency stability and the functioning of the payment system – Law 18,840.
<i>Colombia</i>	1992	The bank acquires administrative and technical autonomy. The Board Director can adopt specific inflation targets. – Law 31.

<i>Mexico</i>	1993	Central bank's institutional redesign to acquire autonomy as a juridical person of public law – organic Law.
<i>Paraguay</i>	1995	The central bank has regulatory autonomy within the constitutional limits. The bank's objective is to preserve the stability of the currency's value – Law 489.
<i>Peru</i>	1993	The central bank exercises its autonomy, and its purpose is to preserve monetary stability – Law 26,123.
<i>Uruguay</i>	1993	The central bank is autonomous for administrative, financial, and technical issues. The bank's objectives are monetary and payment system stability, external solvency, and financial regulation – Law 16,696.

Source: Based on Marques (2017).

Therefore, organic laws and the implementation of political checks and balances (such as inflation targeting) curbed a leader's populist temptations. Or at least made them more difficult by restricting inflationary monetary policy. According to Edwards (2010), the creation of independent central banks in Latin America helped maintain macroeconomic policies geared toward stability and controlled inflation. According to the author, “the global financial crisis of 2008 has shown that these advances in macroeconomic management have paid off throughout Latin America: in contrast to other historical episodes of global financial upheaval, there have been no major currency crises in the region during the last two years” (EDWARDS, 2010, p. 99). And, currently, eight Latin American countries make use of inflation targeting in monetary policy: Brazil, Chile, Colombia, Guatemala, Mexico, Paraguay, Peru and Uruguay (DE GREGORIO, 2019).

The last political change that represents an important alteration in the environment in which the Economic Populist leader's habitat is the reelection possibility and its impacts on political business cycles. The decrease in *coups d'État* already represents larger stability and, consequently, policies that are successful in the short run but deleterious in the long run tend to be avoided. Reelections, which became popular in the region after democratization, tend to reinforce this tradeoff. The obvious reason is that economic success in the electoral years is more interesting for leaders to maintain power. Thus, Machiavelli would probably recommend for the 21st-century Latin American princes that the possibility of a crisis during an electoral dispute should always be avoided.

The reelection possibility and the tradeoff between the short- and the long-run and its relation to Economic Populism can be traced back to Roberts (1995) and Checci (1996). However, it is Acemoglu, Egorov and Sonin (2013) that model this phenomenon by considering term limits in the light of the ‘new’ populists using Hugo Chávez and Evo Morales as examples. According to these authors, signaling becomes increasingly important to

politicians seeking reelection and, for them, populist policies tend to be implemented by a politician trying to keep the office in the electoral dispute, dealing with the deleterious consequences of Economic Populism after the election is won, during his/her second term, turning the populist cycle upside down.

This brings to light the consolidated literature on economic voting, mainly the works related to electoral business cycles. What is being discussed in such a theory concerns the power of influence that institutions have over the economy to be able to interfere in the economic performance of a democratic country in electoral periods through the manipulation of economic policy instruments to achieve electoral success. As one of the pioneers in combining analyzes of economic fluctuations and elections, Downs (1957) presents the process of choosing candidates based on the policies of a given government. Regarding decision-making, the model proposed by this author considers marginal benefits and costs. For Key Jr (1966), the electoral process is the main mechanism of accountability used by voters to punish or reward current officeholders. Therefore, these two classic works attribute to the electorate a rational and responsible behavior to decide its votes based on the existence of transparency and economic alternatives presented to the voters during an election.

Based on these initial works, the literature on the subject flourished in the 1970s and 1980s. With a sequence of years of stability and economic growth during the Bretton Woods system, the spread of democratic rule throughout the West, and the absence of wars between democracies, a time horizon that extended from the end of World War II to the crises of the 1970s emerged as a huge database for electoral processes in democratic regimes. It is in this scenario that Nordhaus (1975) analyzes the electoral choice contrasting inflation and unemployment. For the author, the expectation of future well-being is fundamental for decision-making, as in Key Jr (1966). Thus, Nordhaus (1975) hypothesizes that voters have their vote influenced by a government's decision to assign higher priority to fight inflation or to create jobs, incorporating the Phillips Curve tradeoff into the theory. In this sense, Hibbs (1977), analyzing industrialized countries, understands that parties on the left have a greater tolerance for inflation and promote more policies aimed at job creation in electoral periods when compared to parties on the right, which are less tolerant to inflation and more amenable to unemployment – at least back then.

Given the changing global landscape of the 1980s – the end of the Bretton Woods system, the oil shocks, and the emergence of Germany and Japan – new nuances were incorporated into the electoral business cycle approaches. Here, it is possible to highlight the works of Alesina (1989) and Rogoff and Silbert (1988). These authors show that a government

always seeks the maximization of votes and re-election. Alesina (1989) argues against the validity of the approach to party ideologies in the pre-electoral periods and stresses that the ideological effects occur after the elections, and not before. For him, the primary focus would thus be to win the election, seeking a more 'moderate' position in the pre-election period, with a right-wing government, for example, being able to accept higher inflation rates to win an electoral race. This is crucial to understand that Economic Populism is not necessarily linked to left-wing and developmentalist governments (FONSECA, 2011).

Developed countries/consolidated democracies have a long history of works analyzing how electoral processes interfere with economic policy. After the democratization processes of the 1980s, these classical works can also apply to Latin America – of course considering the structural differences between the two groups of countries. Now, commonly, Executive terms last from 4 to 6 years in the region, thus, macroeconomic success in the first two and a total collapse in the last years of a mandate can hinder a leader's aspiration. The cases of José Sarney in Brazil and Alan García in Peru are emblematic. Their countries experienced economic growth and inflation control in the first two years of their mandates but ended up with populist/outsider leaders winning the following elections, i.e. Fernando Collor and Alberto Fujimori, and hyperinflation.

Therefore, the whole chronological and often mechanical (LOUREIRO, 2009) order of the populist cycle of the late-1980s is altered and leaders may leave the populist policies for the reelection year to get positive economic results during the electoral race – and deal with the deleterious effects of Economic Populism after the polls. Thus, a model that is consistently considered to be too mechanic and sequenced is turned upside down. The chronological sequencing of the original cycle, therefore, tends to be ousted when analyzing countries that allow consecutive reelections. Table 3 summarizes the status of reelections in some Latin American countries.

Table 3 – Reelection status in Latin America in 2015

<i>Type</i>	<i>Countries</i>
<i>Non-Consecutive Reelection Allowed</i>	Chile, Costa Rica, Dominican Republic, El Salvador, Panama, Peru, and Uruguay.
<i>Consecutive Reelection Allowed</i>	Argentina, Bolivia, Brazil, Colombia, and Ecuador.
<i>Indefinite Reelection Allowed</i>	Cuba, Nicaragua, and Venezuela.

Reelections not Allowed

Source: Glickhouse (2015).

The Brazilian reelection case is a good example of how electoral business cycles manifest. Cardoso is not considered a populist leader by the literature – quite often the contrary, i.e., someone who contributed to the consolidation of institutions in Brazil. However, his tardiness to implement exchange rate flexibilization in Brazil between 1998 and 1999 represent well how governments can delay crises or reforms to win electoral races. In Brazil, reelections were not allowed until 1997, and Cardoso himself was the first president to be reelected (consecutively) in Brazil, winning the 1998 electoral race. Given the known problems of the fixed exchange rate in Latin America and the succession of crises in the 1990s, capital flight increased by a lot in Brazil in 1998 (refer to Table 1 for exchange regime changes in Brazil during the 1990s). At the end of 1997, there were many analysts who defended exchange rate flexibilization, changing the regime. All macroeconomic indicators showed deteriorating conditions, such as unemployment, GDP growth, public deficit, current account deficit, and public debt as a percentage of the GDP. Thus, even long before the 1998 election, such a change was already seen as justified. Therefore, to delay the crisis, the government had to take the burden of a latent change in the exchange rate (GREMAUD, VASCONCELLOS, TONETO JÚNIOR, 2018). The government kept the fixed exchange rate stable until the polls, delaying the necessary reforms for 1999. Thus, the wait was due to the electoral calendar and the process of transferring exchange rate risk to the public sector.

Another factor related to the delayed containment of the crisis and the exchange rate devaluation was a loan from the IMF, taken only after the elections. In late December 1998, according to Gremaud, Vasconcellos and Toneto Júnior (2018), capital flight accelerated, with reserve losses exceeding U\$S 1 billion/day. Soon after Cardoso's victory, the country would turn to the IMF and other international organizations to get more than \$ 40 billion in loans. In January 1999, Fernando Henrique Cardoso announced the devaluation of the Brazilian currency seeking to reduce the capital flight. The same government that implemented the consecutive reelection possibility in Brazil starred in a classical maneuver from the handbook of electoral business cycles while dealing with an important aspect of Economic Populism: exchange rate artificial overvaluation and the population's purchasing power (or erratic economic policy to gain popular support during an election).

Concluding, the political scenario changed sharply from 1989 to today. Democratization, regime stabilization, institutional evolution, weaker presidents, independent central banks, and reelections are just examples of how the populist cycle of the classical cases could never be applied in the same way as to the ‘new’ populist leaders. Some of those changes literally reverse the sequenced and mechanical chronological order of the duo’s model.

2.1.4 Academia, Institutions, and the Political Economy Zeitgeist

It would be naive to affirm that the changes in politics and economics were due to mere chance or were random phenomena. Sure, in Latin America one can rarely count on prudent and parsimonious leaders, and reforms to improve productivity and consolidate institutions are always hard to implement (EDWARDS, 2010). However, and even if the 1990s reforms were only partially carried through, a change in the *Zeitgeist* regarding Political Economy in the region was on its way, and perhaps the best procedure to present them is to talk about the Washington Consensus and its premises. This term was coined exactly in 1989 by John Williamson to represent how the old ideas of “development economics that had governed Latin American economic policy since the 1950s were being swept aside by the set of ideas that had long been accepted as appropriate within the OECD” (WILLIAMSON, 2009, p. 7).

This movement and term itself would become a point of controversy throughout Latin America regarding its real meaning and the pervasiveness of the ideas of the consensus and the successive 1990s crises. Overall, the consensus was elected as the scapegoat for the financial crises that swept developing countries in this period, defined by some as a conspiracy by the Washington institutions (the IMF, the World Bank, the Federal Reserve Boards, the United States government, and several think tanks) to implement neoliberal (another yet highly-debated concept) reforms in Latin America to privilege capital over labor (rights, protections, and unions). However, the consensus represented a list of 10 reforms recommended by Williamson in 1989 that aimed at boosting productivity, competitiveness, and institutional consolidation in Latin America.

Most of the components of its 10-points list were oriented to increase productivity and consolidate institutions in Latin America, creating checks and balances for governments (points 1. and 10. of it), aiming at increasing Latin America’s insertion in international trade (points 4., 5., 6., 7., and 9.), and contributing to the public sector’s efficiency (points 2., 3., and 8.). However, as Williamson (2009) himself cataloged, the consensus is often presented as a new imperialism, a *laissez-faire* globalization to the extreme, market fundamentalism,

and the main reason for economic collapses, such as that of Argentina at the beginning of the 2000s. Edwards (2010), however, will contrast this intrigue mostly propagated by radical Pink Tide leaders – as Chávez and Morales –, and affirm that the Argentine collapse and the other crises of the 1990s were due to incomplete reforms or a stubborn will to sustain the fixed exchange rate when the regime was already clearly unsustainable (the Cardoso case presented in the paragraphs above illustrates this phenomenon quite well). And, according to these authors, these policies, “unlike populist programs, they do have the potential to produce a real social revolution if they are pursued steadfastly” (WILLIAMSON, 2009, p. 21).

These ten points can summarize the changes in the environment in which politics were made in Latin America. But how those changes were planned and the tendencies in academia and mainstream media are also important to understand the spirit of that era. It was the dusk of the developmentalist state in the region and the policy prescriptions of the Structuralists, the *Comisión Económica para América Latina y el Caribe* (CEPAL), and the Dependency Theory of Prebisch, Furtado, Singer, Faletto and Cardoso (yes, that one) were being swept away from Latin America. A strong and protectionist state regulating prices, exchange rates, and market relations was first implemented in Latin America back in the 1930s, with Cárdenas in Mexico and Vargas in Brazil as its main exponents. This was a movement following the 1929 financial crisis and a radical turn from the oligarchical elites that ruled Latin America and made use of orthodox economics as the international insertion strategy in global trade. It was an era of growing urbanization and import substitution industrialization became a thing in this historic scenario: golden standard system collapse, 1929 financial crises, Second World War, and the catch-up/recovery from the crises in countries marked by strong state interference, corporate capitalism, and state economic planning – i.e., Roosevelt’s New Deal, Fascist Italy, Nazi Germany, and Stalin’s five-year plans.

This strategy of development would last for at least five decades until Latin American countries found themselves amid debt crisis and hyperinflation in the 1980s. The authoritarian facet of this type of capitalism would also weigh on its rejection after democratization. Thus, in academia and mainstream media regarding economic thinking, developmentalism started to be considered an old-fashioned idea by the end of the 1980s. Leaders like Fujimori, Collor de Melo and Menem became the representatives of this movement toward *neoliberal* economics and an international tendency that Cervo and Bueno (2015) would label the *normalization* of the state. And a good part of the ideas present on Williamson’s list would be implemented in Latin America, embraced by a share of mainstream academia and the media.

Privatization, deregulation, and fiscal discipline became mantras during the 1990s, even during the Cardoso administration in Brazil – which, given his past as a sociology professor in the framework of the Dependence Theory, could surprise an inattentive reader. More surprisingly, also in the Lula administration. His *Carta ao Povo Brasileiro* issued during the 2002 presidential elections, reassuring his commitment to reinforce and maintain Cardoso's fiscal discipline and market-oriented policies, shows how these ideas were here to stay and how even left-wing politicians would be amenable to those principles to placate investors and the centrist electorate to win at the polls.

Of course, those tendencies did not last forever. During the Pink Tide, some ghosts would return from the past – De Bolle compares Rousseff's economic policies with Woody Allen's movie *Midnight in Paris*, in which every evening her Ministry of the Economy, Guido Mantega, would embark in an old car in Brasília to visit economists from the developmentalist era – and new theories would influence the Political Economy thought in Latin America. We are talking about Neobolivarianism, Neodevelopmentalism, and the *socialismo del siglo XXI*. All of them are linked to heterodox economics and, so far, have resulted in economic collapse after initial success (commodities boom). It is also noticeable how countries that focused on institutional consolidation did not suffer from economic or regime collapses (as Chile, Uruguay and Brazil during Lula da Silva's administration), but the ones that undermined institutions to implement erratic economic agendas eventually suffered from high inflation (Argentina, mainly after Néstor's death, and Venezuela) or government/regime collapse (Bolivia, Rousseff's Brazil and Venezuela's authoritarian adventure).

This *mélange* of ideas and economic theories would certainly influence how institutions evolved in Latin America in the 21st century and which politicians were rewarded or defenestrated by the mainstream media and the public opinion. However, a common thread would be the *neoliberal* and institutional predominance in the 1990s followed by the return of heterodox ideologies after the crises of the late 1990s and the beginning of the 2000s with different paths following the 2008 financial crisis and the end of the commodity boom. For example, Brazil turned to deleterious economic policies with Rousseff and later liberalization/deregulation with Temer and the Frankenstein (the monster) that is the far-right Bolsonaro government; and Argentina had an inflationary surge during Cristina's government followed by the orthodox and liberal interim of Macri and his failed market-oriented reforms followed by yet another IMF program and Cristina's return as vice-president alongside Alberto Fernández.

Speaking of the IMF, a common feeling among Latin American leaders in the 2000s was that the fund's conditionalities for loans during the 1990s crises led to unemployment, recession, and economic downturns (PRASAD; RAJAN, 2008) – here, the Washington Consensus became the scapegoat for the reforms that arguably resulted in poverty and unemployment (WILLIAMSON, 2009; EDWARDS, 2010). Thus, left-wing leaders related to the Pink Tide exhibited a *malaise* regarding global financial governance and its most relevant institution. The discontent was triggered, in a large part, by the action of multilateral organizations in the face of the financial crises that victimized several emerging countries since 1994. The speed and the functioning of the Fund in actions to rescue and adjust the affected economies contributed to deepening the economic effects of the crises and gave rise to different forms of reaction by parties, academia, and regional institutions. A reorientation of economic policies thus aimed at reducing external vulnerability through financial regulation and strong accumulation of reserves and also in the emergence of regional projects for financial governance, such as the Chiang Mai Initiative in Asia. The erosion of the IMF's legitimacy in the multilateral sphere gave greater importance to emerging countries and regional financial arrangements (MOSCHELLA; WEAVER, 2014).

Backing away from the IMF and other Bretton Woods institutions means a huge deal for the 'new' populist episodes in Latin America as the institution was involved both before and after the original cycle. Normally, the austere policies regarding the Fund's conditionalities would increase inequalities and represent a huge blow to the population's purchasing power, which then would foment the desire for a populist economic policy to reach short-run success. However, as the cycle indicates, inflation accelerates and a process of capital flight is intensified and, to stabilize the economy, orthodox and austere economic policies are implemented following IMF package conditionalities (DORNBUSCH; EDWARDS, 1989). Thus, at least for the first two decades of the twentieth-first century, an important player in the populist cycle was pushed aside. However, the Fund's recent return to Argentina in 2018 may represent a new tendency.

2.2 Conclusion

In this first chapter, we presented how erratic macroeconomic policy in Latin America came to be known as Economic Populism. The early works of Díaz-Alejandro (1963, 1981), Canitrot (1975) and O'Donnell (1977) paved the way for the foundation of the theory and the development of a formal model by Dornbusch and Edwards (1989, 1990, 1991) and the proposal of the populist cycle by Sachs (1989).

It is also important to highlight that Economic Populism is not the same thing as populism, the latter covering a wider and much less defined scope of actors and policies than the former. Even if the ends are similar, the means differ, and one should be attentive not to mix these two separate concepts to avoid bias when analyzing these social / political / economical phenomena (ASLANIDIS, 2017). This is a good starting point for the refinement exercise conducted here, both in the light of methodological procedures and the conceptual rethinking.

Sure, even though an institutional position was adopted in this chapter, especially with the inclusion of the new variable to the models of Dornbusch and Edwards (1989, 1990, 1991) and Edwards (2019), it is not necessarily true that improving institutions in the way described here will eliminate Economic Populism and erratic macroeconomic policy. Nor that the objectives of populist leaders in reducing inequalities in a very unequal region are worthless – quite the contrary. Even if it is almost a consensus in the literature that better institutions lead to economic development and democratic consolidation in the long run, some of these aspects may be just not appropriate for the region's characteristics, impossible to implement in Latin America, or even deleterious if developed using an OECD recipe. For example, during the Coronavirus pandemic (2020-2021), even in countries with high public deficits – such as Brazil –, public spending was essential to avoid social chaos, mainly in unequal states like the Latin American ones and especially when considering the huge informal labor market and, for the Brazilian case, the high unemployment rate.

Questions such as these should be asked when trying to better understand how economic, political, and institutional changes interfere with the history of Economic Populism in Latin America. Many reforms that targeted institutions were partially implemented, abandoned, or reversed – Williamson (2009), Edwards (2010). Things are very dynamic and tend to be quite unpredictable in Latin America. Consequentialism is never avoidable in politics, especially in an environment where the ends (here, to reduce social inequalities) should never justify means that are in fact more deleterious in the long run. A common consequence of the populist cycle is the deterioration of institutions and, most importantly, the fall in real wages to an inferior level than the one at the beginning of the experiment.

Therefore, we presented how the models and theories gravitating around Economic Populism's hard core can be refined. First, and most simply, by applying case selection and matching techniques and implementing comparative strategies to enhance inference quality, and second by incorporating the changes in the Political Economy environment in Latin

America, embodied by the addition of a new variable to the model, thirty years after Dornbusch and Edwards (1989) inaugurated the field. With these propositions in mind, the comparison between Lula da Silva and the Kirchners can be better contextualized.

Chapter Three

Institutional consolidation: or how Brazil avoided Economic Populism and Argentina did not

Quiero poner entonces, en este nuevo modelo económico de matriz diversificada, de acumulación con inclusión social que se ha puesto en marcha la clave para los tiempos que vienen.

Discurso de Cristina Fernández de Kirchner en la Asamblea Legislativa (2007)

3.1 Why compare Lula da Silva's Brazil and the Kirchners' Argentina?

Before we dive into the comparative analysis of how differences in institutional consolidation in Brazil and Argentina led to different outcomes in both countries when dealing with Economic Populism, we need to *i.* explain why the cases can be paired in the methodological design used here, *ii.* confirm if they do fit the theoretical models as to be useful for the refinement, and *iii.* validate if the literature is right in qualifying Brazil as a negative case and Argentina as a positive one. After that, we can thus analyze how the newly added independent variable to the refined model differed in both cases, leading to different outcomes.

The pairing of cases in a most-similar design is a parsimonious task and several features must be considered when doing so. Based on Seawright and Gerring (2007) and Bennet and Elman (2006), the matching of Lula da Silva's and the Kirchners' governments was made by respecting historical, geographical, ideological, and societal instrumentalized characteristics. Historical, since the history of Brazil and Argentina presents similar development, mostly in recent decades, and because those governments were elected roughly in the same period; geographical, since they are located in the same region, being the two biggest countries in economic and territorial terms in South America; ideological, since the two administrations, even if bearing relevant dissimilarities, are part of a broader center-left movement, the Pink Tide and emerge after more liberal governments of Cardoso and Menem; and societal, since both societies presented fertile ground for Economic Populism. Lula da Silva's Brazil and the Kirchners' Argentina are two administrations with a center-left/left-wing bias, with predominant heterodox discourse (which dominated PT's and the *Partido Justicialista*'s official speeches for decades, with their differences in mind), elected in the same period in Latin American countries coming from crisis between the end of the 1990s and the beginning of the 2000s marked by IMF programs, previous dramatic (mainly in Argentina) exchange rate flexibilization and similar history (colonization by an Iberian colonial power,

Catholic religion, middle income, late industrialization and import substitution, decades of national-developmental orientation, history of populist and economic populist leaders, unequal societies, recent experiences with hyperinflation, military dictatorships, and re-democratization processes).

Sure, those are similar features, but one should always read them as the instrumentalization of variables to model comparisons to materialize future causal inferences. They are similar, oversimplified, but not equal, and bear several minor differences, be it in the singularities of the *Partido Justicialista* as a left-wing and heterodox – in the sense of economic policies proposals – organization and the specificities of inequality in both countries, for example. With that in mind, one question should be considered: they are similar, but do such similarities fit the models (DORNBUSCH; EDWARDS, 1989, 1990, 1991; EDWARDS, 2019) of Economic Populism? Because, if not, even if similar, there would be no reason to conduct the present refinement exercise. However, before that, Table 4 presents some general features of both administrations.

Table 4 – A summary of the governments analyzed

	<i>Lula da Silva</i>	<i>Néstor (Cristina) Kirchner</i>
<i>Party</i>	Partido dos Trabalhadores (PT)	Partido Justicialista (PJ)
<i>Predecessor</i>	Fernando Henrique Cardoso (Partido da Social Democracia Brasileira – opposition to Lula)	Eduardo Duhalde (PJ – by the time of the election, he supported Néstor)
<i>First election</i>	October 27, 2002	May 14, 2003**
<i>Vote percentage (1st election)</i>	46.44% (2 nd round: 61.27%)	22.25% **
<i>Reelection*</i>	October 29, 2006	October 28, 2007
<i>Vote percentage (reelection*)</i>	48.61% (2 nd round: 60.83%)	45.29%
<i>End of government</i>	December 31, 2010	December 10, 2015***
<i>Successor</i>	Dilma Rousseff (PT – situation)	Mauricio Macri (Propuesta Republicana – PRO – opposition to PJ)

Source: Author. * Néstor did not try to get reelected. Instead, his wife, Cristina, ran and won the polls. Néstor would eventually die in October 2010. ** The second round of the election was scheduled for May 25, but the runner-up Menem dropped the race on May 14, leaving Néstor as the only candidate. *** Cristina was reelected in 2011 for another mandate with more than 54% of the votes.

In order to demonstrate how the cases fit the model and how they compare, we must revisit the features of Economic Populism in Chart 2. They are: Heterodox pressures; Previous economic performance; Reactivation and redistribution; Non-market policies; Macroeconomic bottlenecks; Availability of reserves and international credit; and Inequalities and social pressures from the foundational works by Dornbusch and Edwards (1989, 1990, 1991); and Corruption scandals; and Globalization from Edwards (2019). To make sure that the cases are in accordance with the previous models and that they differ mainly in the independent variable of interest, those nine items must be present and similar in the administrations analyzed. Two long tables summarize the comparison of the nine independent variables from Chart 2, in Lula's Brazil and the Kirchners' Argentina. Due to their size, they are present in **Annexes 1 and 2**, after the References section.

After visiting the annexes, one can observe that both Brazil and Argentina, at the beginning of the 21st century, were fertile grounds for Economic Populist policies, at least if we consider the causing factors that are presented in Charts 1 and 2. Unemployment, inequality, heterodox pressures, close ties to previous Economic Populism episodes (mainly in Argentina), non-market policies, economic bottlenecks, corruption scandals, criticism of globalization (softer on the Brazilian side), and pressures to reactivation with redistribution are present. Also, the attentive reader can see that the cases are, if instrumentalized, similar, but have conspicuous differences, mainly in the proportion of the economic crisis in Argentina, the exchange rate situation, and its dire social consequences.

Responding to the question of this section's title, the first condition (in a most-similar design) was met. The cases are similar and they fit the theoretical models (Charts 1 and 2 in Chapter One). Now, we look at the outcome. In the methodological design used, they need to differ. Thus, we need to answer why Argentina under the Kirchners' administrations is considered a typical case of Economic Populism and Lula's Brazil is not? Quite the contrary, for the latter. So, why does Argentina fit it and Brazil does not? If the concept emphasizes growth and income redistribution, then why Lula is remembered for his pragmatism? To answer those questions, we must turn *vers* the macroeconomic performance of the countries during the administrations and to concepts, as Wise and Lins (2015) put it, such as *macroprudence* and *macroprofligacy*.

According to them, to the casual eye, the economic trajectory of both countries in the 2000s seem to intimately overlap. The authors mention that Brazil and Argentina had implemented market reforms in the 1990s, faced economic crises between 2000 and 2003, currency crises in the same periods, and met favorable conditions to recover growth by late

2003. Differences are spotted, however, in strategies to deal with domestic political restraints, economic bottlenecks, and the growth slowdown in the 2010s. In their words (WISE; LINS, 2015, p. 148):

[w]hile Brazil was late to embrace a serious program of inflation stabilization and structural reform, since the launching of the Real Plan in 1994 it has gradually put its macroeconomic house in order. Despite some recent macro-policy missteps, few would dispute Brazil's success in institutionalizing a new pattern of policymaking since the mid-1990s and the importance of political stability in reinforcing its macroeconomic reforms. Argentina is a different story.

Let's start with Brazil's pragmatism (or *macroprudence*, or fiscal responsibility). By maintaining inflation low and under control (at least until the mid-2010s) and adopting a sturdy fiscal policy, Lula is a successful case of how to dodge Economic Populism among the punditry on the subject. It is almost a consensus in the Political Science literature that, alongside Michelle Bachelet in Chile and Tabaré Vázquez in Uruguay, Lula is part of a modern and moderate left that, in Latin America, is unwilling to go back to developmentalist and protectionist policies, rolling back the 1990s institutional reforms. Those leaders tend to "recognize the need to take advantage of global markets, and they fully understand the benefits of low inflation" (EDWARDS, 2010, p. 166).

As Singer (2012) shows, the first three years of Lula's (2003-2005) mandate are marked by controlling public spending, interest rate increases, reinforcement of the flexible exchange rate regime, slow increases in the minimum wage, and the institution of a social security reform targeting mostly the retired population. Aiming to avoid conflicts with the financial system and the Brazilian elites, the president adopted a quite orthodox economic policy. The definition of his economic team with several orthodox members, mainly in the central bank and in the Ministry of the Economy, is a symbol of his commitment to keeping Cardoso's macrostability (GREMAUD; VASCONCELLOS; TONETO JÚNIOR, 2018). As Singer (2012) shows, the central bank increased interest rates in the first months of his government, reaching an astonishing rate of 26.5%, compensated by increasing the primary surplus target from 3.75% of 2002's GDP to 4.25% and cutting more than 14 billion BRL from the public budget in 2003 – two clear austere measures. For the first three years of his administration, the primary surplus grew continuously. That allied with the increase in the *real's* value contributed to decreasing the liquid public debt incessantly from 2003 until the end of his administration in 2010 (GREMAUD; VASCONCELLOS; TONETO JÚNIOR, 2018). The profile of the public debt also became more favorable during his administration. From 2003 to 2006, bonds indexed by American dollars and the central bank's interest rates

were significantly reduced, alleviating the public debt from currency shocks and increasing the government's room to control inflation. Also, even though public spending as a percentage of the GDP grew, so did the national revenue from taxes.

Furthermore, at the beginning of his administration, Lula had to deal with increasing inflation, which was aggravated by the uncertainty of the electoral process. Based on the IPCA, the most relevant Brazilian inflation rate, from a scenario close to a two-digit inflation rate in 2003, the government was able to reduce it considerably in 2004, 2005 and 2006, keeping a stable index until 2010 and conserving the target at 4.5% from 2005 on. Furthermore, the minimum wage would remain virtually frozen until 2005.⁸ Thus, growth slowed down (to 1,3% in the first twelve months of Lula's tenure – see Annexes 1 and 2 to compare with Cardoso's final years), unemployment rose, and the population's purchasing power fell. All that while financial institutions increased their gains by 6.3% in 2003 (SINGER, 2012).

Even if after 2005 Lula would pursue a more active stand on fighting inequalities and poverty with the increase in social spending, Singer (2012) underscores that concessions to the financial system were made *while* avoiding political confrontation with elites, not compromising the fiscal soundness of the country, and effectively reducing poverty in the country. As examples of this duality, the author points out that, during Lula's government, huge interest rates benefited the rich and the "owners of the money", while the president promoted cash transfer programs to the poor; both agribusiness and small family farms received subsidies, as do industries that were affected by the overvalued *real*, which benefited international speculative capital. Singer (2012) names this the model of *diminuição da pobreza com manutenção da ordem*, or poverty alleviation with maintenance of order. Following the author, Gremaud, Vasconcellos and Toneto Júnior (2018) also highlight the chronological evolution of Lula's macroeconomic administration. The first years are marked by reinforcing a commitment to consolidate stabilization mainly by strengthening the credibility of his government by conserving fiscal efforts, a flexible exchange rate, inflation targeting, and preserving contracts (increasing Brazil's protection of property rights). Later, external surpluses boosted by the commodities boom also played a significant role in increasing the country's tolerance to international shocks, as well as economic reforms that

⁸ John Williamson, the father of the term 'Washington Consensus', would even say that Lula adopted some of its tenets to win the election and that it was a good sign for the Brazilian economy. True story. FOLHA DE S. PAULO ONLINE. Lula adotou Consenso de Washington, diz pai da doutrina. **BBC Brasil**, Últimas notícias, October 28, 2002. Available at: <<https://www1.folha.uol.com.br/folha/bbc/ult272u15170.shtml>>, access: November 29, 2021.

created a sound environment for the financial system, as well as expanded consumption credit to the masses. After stabilization and credibility growth, the authors agree with Singer (2012) and highlight a more flexible economic policy aimed at increasing growth and reducing inequalities, mainly after 2008, but not letting go of the commitment to the previous tenets of Cardoso's macroprudence.

In summary, Lula's administration was marked by the contradictory (or eclectic) synthesis that consists of the simultaneous promotion of policies that benefit capital and the inclusion of the poorest, with a relative improvement in the situation of the Brazilian working class allied with fiscal responsibility (SINGER, 2012). Lula developed a pragmatic and diverse "point of view that adapted quickly to new circumstances; throughout his presidency his goal has been to transform Brazil into a modern social democracy" (EDWARDS, 2010, p. 213).

Even if he was, as said, the typical populist, Edwards (2010) avers that the president of Brazil followed a market-friendly economic program, reducing inflation, reviving credit markets, and attracting considerable volumes of international investments. According to the author, the period that led to his victory on October 27, 2002, was a swamp of uncertainty and instability as fretful predictions talked about the return of runaway inflation and government nationalization and intervention in the private sector. Edwards (2010) points out that, as the second round of the election approached in the second semester of 2002, the *real* lost 30% of its value, and Brazil's cost of international financial markets borrowing hit historical records. Uncertainty about Lula's capacities to govern and stabilize the public debt reinforced an increase in capital flight, which devaluated the currency and created inflationary pressures. Several weak spots in the Brazilian economy in that period aggravated this scenario: reduced growth, increasing unemployment rates, rising public debt, the fragile fiscal situation of the Brazilian state, and the normal uncertainty of the electoral process (GREMAUD; VASCONCELLOS; TONETO JÚNIOR, 2018).

However, as time passed, Lula's commitment to fiscal prudence, economic stability, trade openness, and "market orientation paid off when Standard & Poor's granted Brazil's national debt the 'much-sought-after' investment grade classification, which helped the country attract additional foreign investment and allowed it to borrow internationally at significantly lower costs" (EDWARDS, 2010, p. 2). To the surprise of the prophets of the apocalypse, PT's administration proved to be pragmatic and macroprudent (EDWARDS, 2010; WISE; LINS, 2015). Singer (2012) points out that his government represented more a continuation of what was being done by Cardoso than a radical change to the left, differing

from the PT of the 1980s and 1990s. Lula understood that runaway inflation is a tax affecting the poor disproportionately, increasing consumer credit (one of the pillars of Lula's social programs) cost (EDWARDS, 2010). His administration reduced inequalities, reactivating the economy and redistributing income, accomplishing legit and *bona fide* Economic Populist goals but avoiding it at the same time. In a stable economic scenario, "consumer credit soared, and for the first time in a generation the lower middle class and the poor had widespread access to white goods, vacations and automobiles and, perhaps more importantly, could obtain mortgages and become homeowners" (EDWARDS, 2010. P. 211). And, even if slow-paced and incomplete, Lula's government achieved his main goals of fighting poverty, especially where it is most excruciating, both socially and regionally, improving the consumption pattern of the poorest half of society, which is concentrated in the North and Northeast of the country, but without confronting the interests of financial capital (SINGER, 2012). And this was possible due to what Singer (2012) calls a tripod of Lula's strategies: in summary, it is formed by 1) the *Bolsa Família* (or *Family Allowance*), which is a social welfare program that evolved from several of Cardoso's policies that were unified during Lula's administration. It provides monetary aid to the poor (*voir miserable*) Brazilian families with criteria of children attending schools and having a to date vaccination card; 2) robust increases in the minimum wage (above inflation) after 2005; and 3) consumer credit expansion. The tripod would even count with auxiliary and *ad hoc* measures and policies such as the expansion of rural electrification, access to water supply in Northeastern semiarid regions, increase in formal work contracts, and facilitated access to health programs and higher education for the poor.

Therefore, his administration cannot be considered as Economic Populist since inflation remained under control, the central bank's reserves were not depleted (quite the contrary), no parallel markets emerged (in fact the Brazilian currency got stronger), protection of property rights increased, the IMF never came back to Brazil, no austere and orthodox economic policies after Lula's administration were implemented (again, quite the contrary), and the actual and effective reduction of inequalities, even if at a slow pace. Even though the durability and soundness of Lula's policies, mainly those established after the Global Financial Crisis of 2008, are questioned by some authors, the negative consequences of it would only hit Brazil later on, during Rousseff's administration, which played a significant Economic Populist role in eroding much of Lula's institutional consolidation.

We now cross the border and head south to better understand why Argentina during the Kirchners' administrations is considered a typical case of Economic Populism by the literature (refer to Chapter One's literature review). Alongside Chávez and Maduro in

Venezuela, Morales in Bolivia, Correa in Ecuador, and the return of García in Peru, Acemoglu, Egorov and Sonin (2013) highlight the Kirchners as populist leaders, in conspicuous contrast with what Edwards (2010) has called the moderate and modern left in Latin America (Bachelet, Lula and Vasquez). In his parlance, those are the *neopopulists* (to which the author also adds Lugo in Paraguay and Ortega in Nicaragua). They share similar features such as being outspoken critics of the United States, the market system, the private sector, foreign companies, multilateral institutions, globalization, and neoliberalism (EDWARDS, 2010).

Regarding the Kirchners macroeconomic policy, however, one must be parsimonious before laying down adjectives. The Néstor administration indeed began with several economic measures to placate international financial institutions and the elite, similarly to Lula. Even before, his predecessor, Eduardo Duhalde, had implemented a list of reforms to try to appease the population and the severe economic and social crisis that unraveled Argentina at the beginning of the new millennium. According to Damill and Frenkel (2013), the main pillars of the initial macroeconomic scheme of the Kirchners administrations had already been established before May 2003. A harsh critic of Menem's policies in the 1990s (mainly by how he had stained the chaste principles of *Peronismo*), Duhalde sent to the national congress of Argentina, at the beginning of 2002, a project of the *Ley de Emergencia Pública y de Reforma del Régimen Cambiario*,⁹ which covered important measures to stabilize the economy, such as the end of the fixed exchange rate system and the embrace of an administered flotation of it, an agreement between the central government and the provinces to reduce deficits and introduce fiscal order at the subnational level, and the stabilization of the economy based on restructuring the bank system and renegotiations with the IMF.

The Duhalde administration would mark the beginning of the fast recovery after the 2001-2002 chaos, and the measures mentioned can easily be labeled as anti-Economic Populist. "The economy began a rapid and strong recovery, which then turned into rapid and strong economic growth." (DAMILL; FRENKELL; RAPETTI, 2015, p. 2). This program would be further developed in Néstor's administration after 2003. According to the authors, inflation stabilized in 2003, and rapid recovery turned into rapid and strong growth, with employment and output expanding very fast. As an example, the impacts of the Global Financial Crisis of 2008 were short-lived (as in Brazil). For these authors, the robust economic

⁹ MINISTERIO DE JUSTICIA Y DERECHOS HUMANOS. Ley 25.561. January 6, 2002. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/70000-74999/71477/texact.htm>>, access: December 29, 2021.

recovery mainly responded to a positive environment created by Duhalde's and Néstor's sound macroeconomic policy that was based on three pillars: "(1) a stable and competitive real exchange rate (SCRER), (2) twin surpluses of the current account and the fiscal balance, and (3) a large and increasing stock of international reserves" (DAMILL; FRENKELL; RAPETTI, 2015, p. 2). As in Lula's Brazil, the overall living standards of the population started to improve, as real wages grew, income distribution improved, inequalities fell, and employment rates increased. However, despite "its success, this macro-policy orientation was gradually abandoned and replaced by a shortsighted strategy that sought to stimulate aggregate demand disregarding the impacts on the macrobalances" (DAMILL; FRENKELL; RAPETTI, 2015, p. 2). It all starts with the dualities of the programs and policies that the return of *Peronismo* exerted in Argentina. Thus, Damill and Frenkel (2013) aver that the Kirchner era can be divided into two periods: 2003-early 2007 when stability and macroeconomic soundness prevailed, and from mid-2007 on, when macroeconomic performance crumbled.

Also, in the *Ley de Emergencia Pública y de Reforma del Régimen Cambiario*, a ghost that has haunted Argentina for decades was proposed: "the old Argentine tradition of taxing the export sector – including the vast agricultural sector – to subsidize urban dwellers, including, in particular, government bureaucrats, teachers, and health workers" (EDWARDS, 2010, p. 161). Since Perón's administration in the 1950s, this policy has tormented and distorted Argentina's long-term economic performance. To finance a social program called *Jefas y Jefes del Hogar* to attend to unemployed people over 18 years old, Duhalde ordered the ministry of the Economy to retain and tax exports – 10% in raw materials, 5% in agricultural manufactured goods, and 20% in crude oil (SILETTA, 2011). This matter would reach its zenith in 2008 during Cristina's tenure: to increase public funds, the minister of the Economy designed a new scheme to tax grain exports. Several farmers throughout the country protested with roadblocks and interruptions in foodstuff supply and increasing "reliance on export taxes to finance an expanding public sector" that "generated severe political tensions between the government of President Cristina Fernandez de Kirchner and agricultural producers" (EDWARDS, 2010, p. 162).

The main consequence of populist policies tends to be runaway inflation. As seen in Chapter Two, except for the Venezuelan case, in the 21st century, hyperinflation does not return and it tends to persist at a two-digit level (or not even, as for Correa and Morales). Authors on the subject take it into account when labeling the Kirchners as Economic Populist leaders. If this indicator was controlled and stable in 2003, from 2004 to 2006 it started showing signs of long-term growth. In 2007, inflationary pressures increased significantly,

which hindered macroeconomic stability and strengthened the already big social pressures in Argentina for wage increases. “The government response appeared to be taken from a manual on populism: instead of acknowledging the problem and implementing corrective measures, the administration claimed that the higher inflation figures were the result of a flawed consumer price index” (EDWARDS, 2010, p. 162). That might be the single most inconsequential and not institutional-friendly economic measure adopted by the Kirchners during their administrations. “Expansive growth policies endangered economic stability, to the point of hiding their effects through the manipulation of inflation” (CORTÉS, 2010, p. 107). To mask the growing inflation, since 2006, the technical staff of the *Instituto Nacional de Estadística y Censos* was replaced by political allies that could deliberately manipulate data. Damill, Frenkell and Rapetti (2015) aver that even though the central bank pursued a policy of low interest rates (real ones were close to zero), by the beginning of 2007, things changed. Data adulteration came also when interest rates started to rise to match inflation by late 2008. Thus, annual inflation figures of the consumer price index were manipulated to show price increases of less than 10% when they were actually above 20%! This adulteration is a watershed in how the Kirchners wanted to conduct macroeconomic policy, according to Damill, Frenkell and Rapetti (2015).

But where did inflation come from? According to Cortés (2010), several factors played a role to increase it. The author underscores growth in public spending, fall in investments (increased interest rates), expansion of the monetary base by printing Argentinian pesos to finance increasing public expenditure increases, and price controls/subsidies. Even if the government would only go full-Economic Populist by 2010-2011 (during Cristina’s government), wage policy had been strongly expansionary and inflationary since 2003. Damill, Frenkell and Rapetti (2015) state that the growth of nominal wages always surpassed past inflation and the labor productivity rate, a sustained rising trend in unit labor costs, and a very inflationary policy in the long run. This “demand-led” measure would only create a snowball effect, increasing public spending, and the population’s consumption, which, in turn, put even more pressure on inflation. The country’s fiscal deficit, in 2003, had been alleviated by the default in 2001 and currency depreciation after the end of convertibility, which resulted in a treasury surplus of more than 3% of the nominal GDP that year. But... it was reduced to a little more than 0.6% in 2007, given the expansionary nature of the economy. Thus, two very traditional consequences in Argentina’s history were ready to come back: the establishment of price (and foreign currency) controls and stagflation.

By late 2005, seeing that inflation was getting out of control, Néstor's economic team implemented a series of measures that were part of a disinflation program (in addition to the *very* effective manipulation that would emerge later). Price controls were established by agreements with leading Argentine firms. As expected, this populist policy was not effective. Even if inflation seemed to stabilize between 2005 and 2006, "the prices of goods and services that had not been in the agreements rose about 15% on average. Furthermore, even prices within the agreements started to rise at an accelerating rate after a while" (DAMILL; FRENKELL; RAPETTI, 2015, p. 7). By 2007-2008 inflation was rising, manipulated, and had a not very good perspective in the long run. However, the country was still growing at a very high pace, pushed by increasing consumption, the commodities boom, and China's hunger for beef and soybeans. What could go wrong?

The Global Financial Crisis of 2008. Even if Argentina could rapidly recover from it, not enduring deep economic and social consequences (as other parts of the world did), it had a strong impact on long-term growth in the country and the implementation of Economic Populist policies in its aftermath when the government adopted a very expansionary fiscal policy. By 2010-2011 the country would, despite a favorable external environment, enter a stagflationary trap due to changes in the macroeconomic policy of populist orientation (DAMILL; FRENKELL; RAPETTI, 2015). Monetary and fiscal policies, from that biennium on, had a strong expansionary facet (alongside the income and wage policies that had already such feature). The public sector (fiscal deficit) and the current account balances accumulated negative results non-stop from 2010 on. In this context, pressure was put on the exchange rate to act as a nominal anchor. A currency crisis was on the horizon and the government tried to curb it by implementing a series of controls. Cristina then decided "to curb the excess demand of foreign currency by imposing controls on imports, the transfer of profits from foreign investment and the acquisition of foreign currencies for saving motives and tourism" (DAMILL; FRENKELL; RAPETTI, 2015, p. 28). And, since the country was cut off from international financial markets, the central bank had to be the major source of public financing, the rate of growth of the money supply surpassed 30% from 2010 on, reflecting what Edwards (2019) call a strong 'fiscal dominance'. It only exacerbated Argentina's macroeconomic imbalances. Those controls were imposed in late 2011 and, by 2013-2014, the country started to face serious problems of emerging parallel market exchange premium and a fall in the central bank's international reserves.

As the literature on Economic Populism suggests, parallel currency markets emerge during such experiences, harming output and formal employment (an endemic problem in

Latin America affecting almost exclusively the poor). Sooner or later, when international reserves are depleted, devaluation emerges as the only option. But this hinders Economic Populist principles and hits hard on the population's purchasing power, mainly the poor (who already suffer more from runaway inflation). As Cristina's reelection approached in 2011, the public had a feeling that she would push for a devaluation after winning the polls (in a similar fashion to that of Cardoso in 1999 in Brazil). "Trying to anticipate this move, the public ran against the international reserves of the central bank, which lost 6 billion dollars in the process" (DAMILL; FRENKELL; RAPETTI, 2015, p. 27). However, once Cristina Kirchner won, her administration decided not to devalue the currency. Excessive demand for foreign currency aggravated and the central bank kept losing its international reserves. In 2014, the country was hit by a balance of payments crisis and the central bank had to devalue the Argentinian peso by 25%. All that in a scenario in which this institution suffered several hits to undermine its independence: in 2010, new legislation extended the use of available international reserves to cancel all public debt obligations in foreign currency; then in 2012 by strengthening the subordination of such institution to fiscal and income policies; and lastly also in 2012 with increasing the margins for the central bank to lend to the Treasury (DAMILL; FRENKELL; RAPETTI, 2015, p. 27).

The use of subsidies also rapidly increased after 2008. This increase appeared as an urgent measure but was deepened and became a permanent policy. In the administrations of Duhalde and Néstor, from 2002 to 2007, "subsidies to the private sector averaged less than 0.9% of GDP. However, since 2008 its burden raised non-stop and ended up accounting for close to 5% of GDP in 2013" (DAMILL; FRENKELL; RAPETTI, 2015, p. 27), with that, according to the authors, the trade balance fell from a positive result of around 3.5% of GDP to a deficit of 1% in that same year. As seen, the subsidies to public services in urban areas are a mark of the Economic Populist history of Argentina. The authors suggest that these measures of subsidizing expenditure on energy and transportation were an important factor behind the shift from the sound macroeconomic policy implemented by Néstor, from twin surpluses to twin deficits.

Lastly, the deterioration in the degree of protection of property rights was very much present in Argentina during the period. According to Edwards (2010), eight out of eighteen Latin American countries experienced some deterioration on it between 1990 and 2006. He underscores that, in Argentina, this decline was concentrated in Néstor's administration. According to him, an increase in contract breaches with foreign investors, the expropriation and nationalization of properties, and increases in harassment of the business sector and

judiciary decisions are responsible for this loss in the legitimacy of the government's economic policy, thus favoring the adoption of Economic Populist policies.

In summary, by several factors, the governments of the Kirchners can be considered Economic Populist: taxing exports, increasing inflation, price controls, extensive use of subsidies, depletion of the central bank's reserves, the emergence of parallel markets, currency shocks, expansionary nominal wage policy, manipulation of data, and the deterioration in the degree of protection of property rights. One can go even further and remember that the consequences of the populist cycle persist even after the end of an Economic Populist administration. The defeat in the polls of the *Partido Justicialista* in 2015 and the arrival of Mauricio Macri is a sign of that. The implementation of a more austere and neoliberal platform, embodied by the return of the IMF in 2018, also coincides with the models' cycle.

This comparative analysis reveals

deep historical and economic distinctions between the financial systems in Argentina and Brazil. Whereas Argentina spent the initial decade of the twenty-first century severing its ties with the IMF, spending down its fiscal and current account surpluses, and cooking the national statistics on inflation, Brazil toed the line on all three of those fronts. (WISE; LINS, 2015, p. 161).

To illustrate the different evolution of macroeconomic indicators in Brazil and Argentina and better understand macroprudence and macroprofligacy, Tables 7 and 8 bring data on inflation, reserves, growth, and the general government's final consumption expenditure.

Table 5 – Inflation, GDP growth, reserves, and the general government final consumption expenditure in Brazil (2003-2010)

<i>Year</i>	<i>Inflation (%)</i>	<i>GDP growth (%)</i>	<i>Reserves (billions of US\$)</i>	<i>Government consumption (% of GDP)</i>
2003	14.71	1.41	49.30	19.08
2004	6.56	5.76	52.94	18.47
2005	6.87	3.20	53.80	18.89
2006	4.18	3.96	85.84	19.04
2007	3.64	6.07	180.33	18.94
2008	5.68	5.09	193.78	18.84
2009	4.89	-0.13	238.54	19.65
2010	5.04	7.53	288.58	19.02

Source: World Bank (2020) – inflation data is “Inflation, consumer prices (annual %)”; GDP growth is “GDP growth (annual %)”; reserves are “Total reserves (includes gold, current US\$)”; and government consumption is “general government final consumption expenditure (% GDP)”.

Table 6 – Inflation, GDP growth, reserves, and the general government final consumption expenditure in Argentina (2003-2015)

<i>Year</i>	<i>Inflation (%)</i>	<i>GDP growth (%)</i>	<i>Reserves (billions of US\$)</i>	<i>Government consumption (% of GDP)</i>
2003	13.4	8.84	14.16	11.44
2004	4.4	9.03	19.66	11.12
2005	9.6	8.85	28.08	12.14
2006	10.9	8.05	32.02	12.43
2007	25.7*	9.00	46.15	12.99
2008	23*	4.06	46.39	13.63
2009	14.8*	-5.92	48.01	15.9
2010	25.7*	10.13	51.21	15.16
2011	22.5*	6.00	46.27	15.69
2012	25.2*	-1.03	43.22	16.65
2013	27.9*	2.41	30.53	16.81
2014	38.5*	-2.51	31.41	16.95
2015	27.8*	2.73	25.52	18.09

Source: World Bank (2020) – GDP growth is “GDP growth (annual %)”; reserves are “Total reserves (includes gold, current US\$)”; and government consumption is “general government final consumption expenditure (% GDP)”. IMF (2021) and * Bolsa de Comercio de Santa Fé (2016) – inflation, that is, “Inflation rate, average consumer prices (Annual percent change)” for 2003-2006 and “Average adjusted inflation per annum (%)” for 2007-2015.

Henceforth, one can confirm that Argentina lost (after ephemerally gaining) reserves, dealt with increasing inflation, and increased its government consumption, while Brazil presented a stable indicator for changes in the consumer prices, the general government final consumption expenditure, and greatly increased its international reserves in the period.

Now, the reader can also verify that the two similar cases that fit the models present different outcomes. Therefore, Argentina during the Kirchner’s can be considered an example of Economic Populism while Brazil cannot. The last question to answer regarding the structure of the present analysis is thus how the newly added independent variable to the qualitative models, or institutional consolidation (Chart 3), differed from one case to another. This is where the refinement of the present work lies. We intentionally left it out from Annexes 1 and 2 since its different nuances in Brazil and Argentina are going to be compared in the next subsection to explain why the different outcomes rely on the institutional changes, as hypothesized.

3.2 Inferential analysis: or how Brazil avoided Economic Populism and Argentina did not

We now demonstrate how Lula da Silva could back off the implementation of Economic Populist policies in Brazil while the Kirchners failed to do so in Argentina. Previously, we presented the variable ‘institutional consolidation’ as our contribution to the refinement of the theoretical models of Economic Populism. Since the main works of Dornbusch and Edwards (1989, 1990, 1991), institutions have changed and evolved in Latin America and they are now more solid and act as a stronger barrier to protect the region from such intrepid enterprises.

Several measures and policies adopted in Brazil, mainly during Cardoso’s and Lula’s administrations explain how, at the beginning of the 21st century, the country could avoid Economic Populism even if, as seen, it was a strong candidate for such a profile. In Argentina, however, actions from the 1990s on, mainly during Menem’s, Duhalde’s, and the Kirchners’ administrations¹⁰ can explain how institutions have been more permissive to Economic

¹⁰ Of course, the political instability of the period that covers De La Rúa’s and Rodríguez Saá’s administrations from December 1999 to December 2001 are also relevant, but, due to their short time in the presidency, their actions are not as important as those of Menem, Duhalde and Néstor/Cristina for the present analysis.

Populism, be it by undoing some real advancements from the 1990s or revisiting classic policies from the *porteño* populist playbook. The more fragile institutions in Argentina would be fertile ground for implementing deleterious policies emerging from the strong social pressures of the country, making the Kirchners' administration more amenable to those, that is, the independent variable of interest of the present model.

In Chapter Two, we saw how institutions changed and evolved over the past thirty years in the region. Based on those points of refinement, we now show how such changes were sounder in Brazil than in Argentina. Later, we'll dive into the social unrest and political instability of Argentina to see how the more fragile institutions of this country allowed the establishment of Economic Populist policies during the Kirchners' administrations.

The points presented in this subsection deal directly and indirectly with parts of Chapter Two. Some items have partially been presented in subsection 3.1 as they attest to the populist (or not) label to the countries studied and contribute to institutional improvement/hindering on them. Also, items that deal with institutional consolidation/deterioration like data manipulation in Argentina or the exchange rate management in both countries have already been discussed in the previous part, as they are of paramount importance to qualify both administrations as populist or not, but also serve their purpose to the newly added variable. We will then evoke several features from both countries that contributed (or not) to institutional consolidation in the 1990s and during the administrations analyzed. As we extensively did in subsection 3.1., newspaper articles, discourse samples, and a plethora of official/institutional documents from different sources are used as evidence. We shall begin with Brazil.

3.2.1 Cardoso's Brazil

As Wise and Lins (2015) point out, Brazil has traditionally been a financially interventionist country. However, from the mid-1990s onward, the country has developed several mechanisms to modernize its domestic financial system and successfully adapted to the more liberalized and globalized world that emerged after the Cold War. With the end of the hyperinflationary era in Brazil, the banking system faced several challenges, as the privatization of state banks took place, the federal banking system was reinforced, and new foreign banks entered the country (WISE; LINS, 2015). To face such institutional obstacles and to strengthen its banking system, three programs were approved by the Brazilian congress and lasted between 1995 and 2001 during the Cardoso administration: the *Programa de Estímulo à Reestruturação e ao Fortalecimento do Sistema Financeiro Nacional* (PROER),

the *Programa de Incentivos à Redução do Setor Público Estadual na Atividade Bancária* (PROES), and the *Programa de Fortalecimento das Instituições Financeiras Federais* (PROEF).

The PROER was created in November 1995 and targeted the private sector and allowed the Brazilian central bank to use public resources to organize acquisitions and mergers of banks and financial institutions that were experiencing difficulties after the end of the inflationary period. According to the Banco Central do Brasil – or BCB – (1995), during the 1960s, 1970s and, above all, 1980s, institutional and legal reforms were undertaken to better structure the Brazilian banking system in the fight against inflation. This three-decade period of coexistence with (hyper)inflation allowed gains from non-remunerated liabilities, such as demand deposits, to offset administrative inefficiencies distorted by uncontrolled rising prices. With the *Plano Real* in 1994, the BCB (1995) witnessed a complete inability of Brazilian financial institutions to spontaneously promote the necessary adjustments for their survival. In 1995, the BCB recorded dozens of failures in more than 250 existing banks in Brazil, which caused enormous financial and social costs. With Provisional Measure No. 1,179¹¹ and Resolution No. 2,208¹² from November 1995, the BCB implemented the PROER after the 22nd intervention in a banking institution after the establishment of the *real*, in July of the previous year. This program limited the potential for contagion that eventual localized problems could have on the entire national financial system, which would bring obvious social costs.

With PROER, the BCB had its responsibilities increased to the macroeconomic stability of the country. With great powers came the great responsibilities to safeguard the payment system and to be the gatekeeper protecting it against bad banking policies. Resolution No. 2,208 would be modified formally in March 1997 by Resolution No. 2,369¹³ to include a special line of financial assistance linked to credits from the *Fundo Garantidor de Créditos* (FGC), comprised by PROER. Created two years before, in August 1995, the FGC was authorized by Resolution No. 2,197¹⁴ of the *Conselho Monetário Nacional* (CMN) of the BCB. Such a resolution authorized the constitution of a private, non-profit entity that aimed

¹¹ BRASIL. **Medida Provisória No 1.179**, de 3 de novembro de 1995. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 1995. Available at: <https://legis.senado.leg.br/norma/554206/publicacao/15757444> >, access: January 29, 2022.

¹² BCB. **Resolução No. 2.208**, 1995. Available at: https://www.bcb.gov.br/pre/normativos/res/1995/pdf/res_2208_v2_L.pdf >, access: December 29, 2021.

¹³ BCB. **Resolução No. 2.369**, 1997. Available at: https://www.bcb.gov.br/pre/normativos/busca/downloadNormativo.asp?arquivo=/Lists/Normativos/Attachments/45644/Res_2369_v2_L.pdf >, access: December 30, 2021.

¹⁴ BCB. **Resolução No. 2.197**, 1995. Available at: https://www.bcb.gov.br/pre/normativos/res/1995/pdf/res_2197_v3_p.pdf >, access: December 30, 2021.

at administering a mechanism to protect credit holders from financial institutions. According to the FGC's institutional video presentation,¹⁵ the fund acts in cases of intervention, liquidation, and failure of financial institutions to safeguard the depositor's savings and investments (originally of up to R\$ 20,000, but reaching R\$ 250,000 in 2021).¹⁶

The PROER's positive impact on the Brazilian domestic financial system was validated by the final report of a Parliamentary Commission of Inquiry that investigated the program between 2001 and 2002. The investigative commission concluded that the program avoided a banking crisis in the country and the possibility of a domino effect that the contagion that single events could have on the national financial system, even if its impacts on the Union's budget were highlighted.¹⁷ In March 2008, in the wake of the Global Financial Crisis, President Lula, during a business forum between Brazil and Mexico in Northeastern Brazil told a group of businessmen and women that he had called US President George W. Bush and told him "*Bush, son, solve your crisis*", referring to the still incipient but looming American banking crisis.¹⁸

To restructure public banks, especially at the subnational level of Brazilian states, PROES was created in August 1996 through Provisional Measure No. 1,514.¹⁹ The program aimed at establishing mechanisms to encourage the reduction of the presence of the public sector of the Brazilian states in banking activities favoring the privatization of financial institutions through incorporations, mergers, and divisions. The program tackled the problem of bad banking policies at the subnational level in Brazil, mainly the extraction of the states'

¹⁵ FGC. Você sabe o que é o FGC? **Youtube**, February 28, 2018. Available at: <<https://www.youtube.com/watch?v=DcetUfBaJJo>>, access: December 30, 2021.

¹⁶ On the institutional section of the FGC's website, we can find that: "Muito mais do que 'pagador de dívidas', que só surge em cena em momentos dramáticos, o FGC conta com profissionais preparados para agir de maneira preventiva em todo o sistema bancário e financeiro, atuando de maneira pontual e, muitas vezes, silenciosa para garantir um funcionamento fluido e harmônico de todo o sistema" (FGC, 2018, n.p.).

¹⁷ As reported by the Brazilian newspaper *Estadão*, the conclusion was: "O Proer foi uma necessária intervenção do poder público para evitar um mal maior. Esta é a obrigação do dirigente público: uma postura ativa, diligente. A omissão, diante da percepção de uma possível crise, seria um crime indesculpável. É aceitável que se erre no acessório, nunca no principal" (O ESTADO DE S. PAULO, 2002, n.p.). O ESTADO DE S. PAULO. CPI conclui que Proer evitou crise bancária. **Política**, April 4, 2002. Available at: <<https://politica.estadao.com.br/noticias/geral/cpi-conclui-que-proer-evitou-crise-bancaria,20020404p55913>>, access: January 2, 2022.

¹⁸ UOL. "Bush, meu filho, resolve tua crise", diz Lula. **Da Redação**, Últimas Notícias, March 27, 2008. Available at: <<https://noticias.uol.com.br/ultnot/2008/03/27/ult23u1594.jhtm>>, access: January 2, 2022.

¹⁹ According to this legislation, the measure establishes "mecanismos objetivando incentivar a redução da presença do setor público estadual na atividade financeira bancária, dispõe sobre a privatização de instituições financeiras, e dá outras providências [...] A extinção das instituições financeiras a que se refere o caput deste artigo poderá dar-se por intermédio de processos de incorporação, fusão, cisão ou qualquer outra forma de reorganização societária legalmente admitida" (BRASIL, 1996, n.p.). BRASIL. **Medida Provisória No. 1.514**, de 7 de agosto de 1996. Câmara dos Deputados, Legislação Informatizada, 1996. Available at: <<https://www2.camara.leg.br/legin/fed/medpro/1996/medidaprovisoria-1514-7-agosto-1996-359354-publicacaooriginal-1-pe.html>>, access: January 3, 2022.

governments of credit from their public banks, which undermined credit assessment independence (MAIA, 1999). It also contributed to the relief of the states' budgets, mainly in cases of privatization.

In December 1994, two of the most important public state banks were already under central bank intervention: the BANESPA, from the state of São Paulo, and the BANERJ, from the state of Rio de Janeiro. PROES served debt restructuring agreements involving the forgiveness of debt and an interest rate subsidy on the restructured debt, allowing banks to exchange the state government paper they held for federal ones (MAIA, 1999). The federal government was, in summary, financing the restructuration of the network of subnational state banks, while also evaluating the need for adjustments in the sector.

Before the creation of the program, the subnational banking system was comprised of 64 financial institutions, and, according to Salviano Junior (2004), they were marked by improper administrative practices (mainly on credit concession) that were masked during the period of high inflation. After the program, 41 remained and were privatized and terminated/transformed into funding/development agencies. According to the author, the benefits of eliminating a source of uncontrolled fiscal deficits and the gain in the allocation of public funds to more efficient and liable banks tend to prevail in his analysis. Also, he corroborates with the argument of the Cardoso government that the privatizations were not done with prices lower than they should.

Speaking of which, in Cardoso's official message to the Brazilian congress in 1998,²⁰ in what he named the 'construction of the foundations of stability', the president intensely defended the program and its contribution to a healthier banking/financial system. According to him, the program created the conditions for the affirmation of a stable monetary regime, in which the Central Bank is not rivaled by a multiplicity of financial institutions capable of expanding the monetary base autonomously. In addition, PROES suppressed a spurious source of financing for state deficits, inducing states to generate primary surpluses compatible with the national effort to structurally balance public accounts to pave the way for the definitive consolidation of price stability.

²⁰ CARDOSO, F. H. Mensagem ao Congresso Nacional na abertura da 4ª Sessão Legislativa Ordinária da 50ª Legislatura. Presidência da República, Secretaria de Comunicação Social, 1998. Available at: <<http://www.biblioteca.presidencia.gov.br/publicacoes-oficiais/mensagem-ao-congresso-nacional/mensagem-ao-congresso-nacional1998-fernando-henrique-cardoso/@@download/file/1998%20-%20Fernando%20Henrique%20Cardoso%20-%20Mensagem%20ao%20Congresso%20Nacional.pdf>>, access: January 5, 2022.

The last of the three programs, the PROEF, was created in June 2001 by Provisional Measure No. 2,155.²¹ As the PROES, it also targeted public financial institutions but at the federal level for equity adjustment of federal banks. According to Golfajn, Hennings and Mori (2003), the program acted to transfer credit risk to the National Treasury, increase the capital amount in three of the four banks that were targeted, and substitute assets with low liquidity with ones with higher liquidity.

The Provisional Measure also authorized the creation of the *Empresa Gestora de Ativos* (EMGEA), a public company to acquire assets and rights of the Union and other entities that are part of the Federal Public Administration, being able, in return, to assume their obligations. In late June 2001, EMGEA's operation guidelines were established by Decree No. 3,848.²² This public company had a decisive role in the realization of PROEF's purposes, contributing to the adequacy of that financial institution to the rules of the Basel Capital Accord, and reducing the eventual need for capital contribution by the Federal Government, the EMGEA's institutional website informs (EMGEA, 2020). Consequently, it also contributed to the strengthening of the national financial system and the health of public accounts.

By March 2002, the program had already allocated more than R\$ 12.5 billion to federal banks.²³ In 2005, a Brazilian senator pushed for a surveillance and control constitutional procedure²⁴ to find out the results of the processes of intervention and liquidation of public and private financial institutions during the Cardoso administration. The final report, issued only in 2012, positively evaluated the impacts of the PROEF since it contributed to the monitoring of the adoption of good corporate governance practices at federal banks, with greater involvement of the central bank in the approval of strategies and compliance with internal and legal regulations, better internal control, and modernization of the banks' management.

²¹ BRASIL. **Medida Provisória No. 2.155**, de 22 de junho de 2001. Câmara dos Deputados, Legislação Informatizada, 2001. Available at: <<https://www2.camara.leg.br/legin/fed/medpro/2001/medidaprovisoria-2155-22-junho-2001-323777-publicacaooriginal-1-pe.html>>, access: January 5, 2022.

²² BRASIL. **Decreto No. 3.848**, de 26 de junho de 2001. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 2001. Available at: <http://www.planalto.gov.br/ccivil_03/decreto/2001/D3848.htm>, access: January 6, 2022.

²³ FOLHA DE S. PAULO. Ajuda a bancos federais somou R\$ 12,5 bilhões. **Mercado**, Sucursal de Brasília, March 12, 2002. Available at: <<https://www1.folha.uol.com.br/fsp/dinheiro/fi1203200222.htm>>, access: January 7, 2022.

²⁴ TAQUES, P. Relatório Final No., de 2012 da Comissão de Meio Ambiente, Defesa do Consumidor e Fiscalização e Controle (CMA), sobre a Proposta de Fiscalização e Controle No. 8, de 2005. **Senado**, 2012. Available at: <<https://legis.senado.leg.br/sdleg-getter/documento?dm=4071648&ts=1594032017211&disposition=inline>>, access: January 7, 2022.

While discussing the PROES, we briefly mentioned the negative impacts of bad credit assessment on loans to the states' political elites and how that created several risks to the national financial system. This deals directly with the debt structure of subnational entities in Brazil, which had become a powder keg in the country by the mid-1990s. As Maia (1999) puts it, the PROES was part of a comprehensive process to adjust the states' fiscal situation and debt restructuring to generate primary surpluses and reduce debts to a sustainable level. The main component of such a process is the *Programa de Apoio à Reestruturação e ao Ajuste Fiscal dos Estados* (PARAFE), created in September 1997 by the Law No. 9.496.²⁵

This law established the criteria for the consolidation, assumption, and refinancing, by the Union, of the public securities debt under the responsibility of the Brazilian states and the Federal District. Previous legislation inspired the 1997 law. Law No. 7.949²⁶ from December 1989 and Law No. 8.727²⁷ from November 1993 established the grounds for, respectively, the assumption of much of the states' debts by the federal government and the assumption of states' debts owed to federal financial institutions (MAIA, 1999). The program instituted in 1997 aimed to implement measures that would allow the federative units to reach a sustainable budget balance. The Program proposed at the time constituted a milestone in the financial relations between the Union and the state governments, through which the latter should adopt a posture consistent with the maintenance of fiscal balance and macroeconomic stability (BRASIL, 2020).²⁸

In general, the PARAFE contributed to reducing the debt balance of the states and the Federal District by granting an initial subsidy, extending the payment term, and reducing eventual financial charges by annual targets and commitments (BRASIL, 2020). Throughout the program's existence (the refinancing contracts of Law 9,496 of 1997 were expected to be paid in up to 360 successive monthly installments, or 30 years), due to the adoption of a consistent posture with the maintenance of fiscal balance and with macroeconomic stability, the results achieved by the states were important in reducing their indebtedness level

²⁵ BRASIL. **Lei No. 9.496**, de 11 de setembro de 1997. Câmara dos Deputados, Legislação Informatizada, 1997. Available at: <<https://www2.camara.leg.br/legin/fed/lei/1997/lei-9496-11-setembro-1997-365395-publicacaooriginal-1-pl.html>>, access: January 8, 2022.

²⁶ BRASIL. **Lei No. 7.949**, de 20 de dezembro de 1989. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 1989. Available at: <http://www.planalto.gov.br/ccivil_03/leis/1989_1994/L7949.htm>, access: January 8, 2022.

²⁷ BRASIL. **Lei No. 8.727**, de 5 de novembro de 1993. Câmara dos Deputados, 1993. Available at: <<https://www2.camara.leg.br/legin/fed/lei/1993/lei-8727-5-novembro-1993-349582-norma-pl.html>>, access: January 8, 2022.

²⁸ TESOURO NACIONAL. **Programa de Reestruturação e de Ajuste Fiscal (PAF)**. Estados e Municípios, March 27, 2020. Available at: <<https://www.gov.br/tesouronacional/pt-br/estados-e-municipios/programa-de-reestruturacao-e-de-ajuste-fiscal-paf>>, access: January 9, 2022.

(BRASIL, 2020). According to Alvim (2017), the restrictions and conditionalities proposed by the PARAFE, allied with the PROES, proved to be very agile and efficient in the short run, producing the desired effect in a short period. At the same time, the policy was effective in articulating a normative network of contractual objects, establishing special lines of financial assistance, criteria, and conditionalities for the privatization of financial institutions linked to fiscal policy (ALVIM, 2017).

Critics to the program however emerged since by 2001 some states simply stopped complying with the conditionalities accorded, which led to the relaxation of established targets, to which the editorial body of the main Brazilian newspaper, *Folha de S. Paulo*, qualified as undesirable, as the editorial advocated for sanctions against the mismanagement of public funds to foster a culture of fiscal responsibility in Brazil.²⁹ Later on, the unsustainable situation was dealt with by the Temer administration, in 2016, by the Complementary Law 156 of December.³⁰ Such legislation establishes an Aid Plan for the States and the Federal District and measures to stimulate fiscal rebalancing, changing, among other laws, No. 9,496 of September 1997. The PARAFE thus encountered difficulties during its existence, however, it is undeniably true that the program was a fundamental institutional gain in the late 1990s and paved the way, as advocated by the *Folha de S. Paulo* editorial in 2002, to foster a culture of fiscal responsibility in Brazil, contributing to back away populist policies in both the federal and subnational levels of the country, benefiting Lula's macroprudence.

Complementary Law No. 101, or *Lei de Responsabilidade Fiscal* (LRF), from May 2000³¹, established public finance standards for fiscal management responsibility of the Union, the states, the Federal District, and the municipalities of Brazil. As seen in Chapter Two, the LRF embodies the care for fiscal stability and the creation of checks and balances, transparency measures, and public spending controls in Cardoso's Brazil (MENEZES; VIEIRA, 2012). As noted by Wise and Lins (2015), the Brazilian Congress passed such a Law under heavy pressure from the IMF, originating from the imposition of the Brazilian National Congress based on a long path of fiscal and administrative adjustments (Constitutional

²⁹ FOLHA DE S. PAULO. Outro nó fiscal. Opinião, April 9, 2002. Available at: <<https://www1.folha.uol.com.br/fsp/opiniao/fz0904200202.htm>>, access: January 9, 2022.

³⁰ BRASIL. Lei Complementar No. 156, de 28 de dezembro de 2016. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 2016. Available at: <http://www.planalto.gov.br/ccivil_03/leis/lcp/lcp156.htm>, access: January 11, 2022.

³¹ BRASIL. **Lei Complementar No. 101**, de 4 de maio de 2000. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 2000. Available at: <http://www.planalto.gov.br/ccivil_03/leis/lcp/lcp101.htm>, access: January 12, 2021.

Amendment nº 19, of April 6, 1998³²) in Brazil. The set of institutional norms against bad administrative spending would be completed by the *Lei de Crimes Fiscais* (LCF) from October 2000, or Law No. 10.028,³³ which established sanctions for public managers who fail to comply with the rules provided for in the LRF and other Brazilian fiscal and budget regulations.

As documented by Gadelha (2011), through the establishment and collection of all taxes under its jurisdiction and the establishment of parameters and limits for expenses, the LRF stipulated a ceiling on personnel expenses at 60% of net current revenue for states and municipalities. To avoid indebtedness, the law also stipulated a ratio of 1.2 between the net consolidated debt and the administrative entity's current revenue. It also defined annual fiscal targets and the requirement to present quarterly monitoring reports, as well as mechanisms for controlling public finances in election years (remember Political Business Cycles from part 1.3.3?) and established penalties if regulations were not complied with (GADELHA, 2011).

In the short term, Wise and Lins (2015) aver that the complementary law yielded positive results, reducing deficits, and spiraling public debt. Between 1997 and 2002, Brazil's tax collection had risen more than 5% using its GDP as a metric (from 27.4 to 32.8%). Also, as highlighted by Fioravante, Pinheiro and Vieira (2006), in 2004, municipalities that exceeded the personnel expenditure ceiling as a proportion of net current revenue adjusted, as did city halls that exceeded indebtedness limits, with a concentration of debts in municipalities that did not adjust. In the long-term, according to Afonso (2016), after the LRF, the federative institutions of Brazil were strengthened since each state and municipal government became solely responsible for its actions, and the population of its jurisdiction became responsible for electorally assessing any successes or errors, as the LRF allowed equal treatment from the federal government to the smallest state and the smallest city hall of the country, all subject to the same rules, limitations, and conditions. This substantially contributed to limiting the room for maneuver for populist policies.

During the discussions and debates of the complementary law and right after its implementation, the opposition (again, mainly PT) harshly criticized the LRF, proclaiming that it presented several proposals that were unconstitutional. In June 2000, three left-wing parties filed a direct action of unconstitutionality within the Brazilian Supreme Court (STF),

³² BRASIL. **Emenda Constitucional No. 19**, de 04 de junho de 1998. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 1998. Available at: <http://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc19.htm>, access: January 12, 2022.

³³ BRASIL. **Lei No. 10.028**, de 19 de outubro de 2000. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 2000. Available at: <http://www.planalto.gov.br/ccivil_03/leis/110028.htm>, access: January 12, 2022.

alleging reasons for the Court to overturn the newly edited law. The latter decided not to accept the unconstitutionality of it, keeping the law within the constitutional limits of Brazil. In a movement that will be further discussed in part 3.2.3., years after the LRF, PT's leadership would recognize its importance for Brazil's macroeconomic stability and regret the party's decision in 2000 to oppose the complementary law. In 2010, the former Economy Minister of Brazil until 2006, Antônio Palocci, averred that PT had done a huge mistake in not supporting the law 10 years before and that the compensation for the mistake was the excellent fiscal management of Lula's government.³⁴ Rousseff, in August 2016, days before her impeachment, praised the LRF and criticized the PT for not having voted for its approval in Congress in 2000.³⁵ The institutional gains of the LRF, mainly its macroprudential pattern, "continued under the avowedly leftist Labor Party governments that have presided over the Brazilian economy since 2002" (WISE; LINS, 2015, p. 158).

Profiting from the liberalization of the capital account, the attraction of foreign investment regimes, and the stock and bond market boom in the 1990s, Brazil moved away from a fixed to a floating exchange rate regime by January 1999 (WISE; LINS, 2015). This, according to the authors, became a strategy to withstand external shocks and minimize compensations in output, employment, and inflation. According to them, when Brazil had it all to be the next hotspot of the crises affecting Asian countries and Russia in 1997-98, IMF's help placated the attacks on the *real*, and Brazil got back on the tracks faster than the markets' expectations (even if, as seen, the devaluation and flexibilization of the exchange rate were voluntarily postponed to after the 1998 presidential election). This regime change, alongside the tenets of fiscal responsibility embodied by the LRF, and the adoption of inflation targets by the Brazilian central bank in 1999 came to be known as one of the most famous concepts of Brazilian Economics, the *tripé macroeconômico*, or macroeconomic tripod: a "fairly orthodox, or 'macroprudential', framework centered on fiscal discipline, inflation targeting, and effective management of the floating exchange rate" (WISE; LINS, 2015, p. 158). It is important to highlight that the *tripé* is not a program per se, but a group of measures oriented by three pillars to provide macroeconomic stability.

³⁴ FROUFE, C.; ANDRADE, R. Palocci admite que PT errou ao condenar LRF em 2000. **O Estado de S. Paulo**, Política, May 4, 2010. Available at: <<https://politica.estadao.com.br/noticias/geral,palocci-admite-que-pt-errou-ao-condenar-lrf-em-2000,546808>>, access: January 13, 2022.

³⁵ CIPRIANI, J. Dilma elogia Lei de Responsabilidade Fiscal e critica PT por ter votado contra. **Estado de Minas**, Política, August 29, 2016. Available at: <https://www.em.com.br/app/noticia/politica/2016/08/29/interna_politica,798574/dilma-elogia-lei-de-responsabilidade-fiscal-e-critica-pt.shtml>, access: January 13, 2022.

According to Nassif (2015), although there is no articulated theoretical framework to justify the joining of these three precepts to ensure macroeconomic stability, the author suggests that it is supported by the so-called macroeconomic consensus that prevailed until the 2008 global crisis, with strong orthodox and neoclassical influence. The tripod would work as follows: *i.* the implementation of the inflation targeting system in 1999 provided a monetary policy regime that combined flexibility and credibility, with the main objective of achieving inflation targets; *ii.* fiscal consolidation, with the establishment of primary surplus targets, the agreement with the states (PARAFE), and the important approval of the LRF, which balanced public spending in Brazil; and *iii.* the establishment of the floating exchange rate regime by the central bank, which allowed for the absorption of international shocks (GOLDFAJN, 2018). As Marques (2017) underscores, inflation targeting policies (and the failure of exchange rate anchors), allowed the exchange rate to float, relieving pressure on Brazil's international reserves and releasing the interest rate to be used exclusively in the pursuit of price stability by the central bank.

In January 1999, through Communiqué No. 6.565,³⁶ the central bank authorized that the interbank market (free and floating segments) now defines the exchange rate and that the institution could intervene in the markets, occasionally and limitedly, to contain disordered movements in exchange rates. Inflation targets, however, were established by the Resolution No. 2.615³⁷ of the central bank, which set the targets for inflation and their respective tolerance intervals, as well as the price index to which they apply, for 1999, 2000, and 2001. Similar resolutions would be issued by the institution over the following years, and currently cover inflation expectations up to 2024. This regime has been successful in Brazil since then, with inflation remaining above the tolerable ceiling or below the tolerable floor for six years since 1999 and until 2021: 2001, 2002, 2003, 2015, 2017, and 2021.

Over the years, however, the tripod was gradually abandoned, mainly by the partially Economic Populist experience of Rousseff's administration³⁸ and the establishment of the *Nova Matriz (Macro) Econômica* (NME). It is a quasi-consensus in the literature that, given the excellent international scenario provided by the commodities boom and the

³⁶ BCB. **Comunicado No. 6.565**, de 18 de janeiro de 1999, 1999. Available at: <<https://www.bcb.gov.br/estabilidade/financeira/exibenormativo?tipo=Comunicado&numero=6565>>, access: January 15, 2022.

³⁷ BCB. **Resolução No. 2.615**, 1999. Available at: <https://www.bcb.gov.br/pre/normativos/busca/downloadNormativo.asp?arquivo=/Lists/Normativos/Attachments/45112/Res_2615_v1_O.pdf>, access: January 15, 2022.

³⁸ CAMAROTTO, M.; CAMPOS, E. Dilma abandonou tripé macroeconômico em 2015, diz relator do TCU. **Valor Econômico**, Política, June 15, 2016. Available at: <<https://valor.globo.com/politica/noticia/2016/06/15/dilma-abandonou-tripe-macro-economico-em-2015-diz-relator-do-tcu.ghml>>, access: January 15, 2022.

macroeconomic stability of Cardoso's and Lula's governments, from 2006 on, Lula's administration started a more expansive administration to reduce social inequalities, which was strengthened with more interventionist policies after the 2008 financial crisis, to oppose the global growth slowdown (GOLDEFAJN, 2018). Fraga (2019), BCB's president from March 1999 to January 2003, corroborates it affirming that the Lula administration could sustain the tripod, which was abandoned in the 2010s and, by 2019, had lost one of its legs (the fiscal one), becoming an *unstable pet with only two feet*.³⁹

Lastly, the new Brazilian Payment System (SPB), which started operating in April 2002, was created to interconnect financial institutions, allowing money transfers between different branches and banks in real-time and the processing and settlement of payments for individuals, companies, governments, the Central Bank and other financial institutions.⁴⁰ In March 2001, Law No. 10.214⁴¹ was passed to regulate the performance of institutions within the scope of the Brazilian payment system, comprising the entities, systems, and procedures related to the transfer of funds and other financial assets, or the processing, clearing, and settlement of payments. This law, together with a series of resolutions (mainly Resolution No. 2882⁴² from August 2001 which established the principles for structuring the new SPB based on efficiency, safety, integrity, and reliability), created a normative web to modernize and reform the Brazilian payment system, which became one of the most sophisticated worldwide in the period, ensuring that interbank funds transfers could be settled in real-time, irrevocably and unconditionally (BCB, 2002).⁴³

At first, the new SPB seems to be a great contribution to the microeconomic level, largely benefiting the population, investors, and businesses as payments and transactions become faster, safer, and more transparent.⁴⁴ However, real-time settlement helps reduce

³⁹ FRAGA, Érica. Temos um bichinho instável com dois pés, diz Armínio Fraga sobre tripé macroeconômico. **Folha de S. Paulo**, Mercado, January 12, 2019. Available at: <<https://www1.folha.uol.com.br/mercado/2019/01/temos-um-bichinho-instavel-com-dois-pes-diz-arminio-fraga-sobre-tripe-macroeconomico.shtml>>, access: January 16, 2022.

⁴⁰ PORTES, I. Entenda como funcionará o novo Sistema de Pagamentos Brasileiro. **Folha de S. Paulo**, Mercado, April 18, 2002. Available at: <<https://www1.folha.uol.com.br/folha/dinheiro/ult91u45525.shtml>>, access: January 16, 2022.

⁴¹ BRASIL. **Lei No. 10.214**, de 27 de março de 2001. Legislação citada anexada pela Coordenação de Estudos Legislativos – CEDI. Available at: <https://www.camara.leg.br/proposicoesWeb/prop_mostrarintegra;jsessionid=9EFA9E92015A143B66A672106E9FFDA2.node2?codteor=838550&filename=LegislacaoCitada+-PL+110/2011>, access: January 16, 2022.

⁴² BCB. **Resolução No. 2.882**, 2001. Available at: <https://www.bcb.gov.br/pre/normativos/res/2001/pdf/res_2882_v2_L.pdf>, access: January 17, 2022.

⁴³ BCB. O novo Sistema de Pagamentos Brasileiro. **Relatório de Inflação**, June 2002. Available at: <<https://www.bcb.gov.br/htms/relinf/port/2002/06/ri200206b4p.pdf>>, access: January 17, 2022.

⁴⁴ INFOMONEY. **SPB: o que muda com o novo sistema de pagamentos do Brasil**. Consumo, March 25, 2002. Available at: <<https://www.infomoney.com.br/consumo/spb-o-que-muda-com-o-novo-sistema-de-pagamentos-do-brasil/>>, access: January 17, 2022.

settlement risks in interbank transactions, with a consequent reduction also in systemic risk – the risk that the failure of a bank causes a chain failure of other financial institutions –, acting as an adequate protection mechanism in interbank transactions that are under constant evaluation by the central bank (BCB, 2002). As a result, the overall risk of the banking system was reduced given the creation of a requirement that, in any settlement system considered systemically important by the Central Bank, the operating entities participating in the system should act as central counterparty and ensure the settlement of the operations carried out (BCB, 2002). Thus, the new SPB introduced advantages such as reducing the risk that the Brazilian society needs to bear in cases of financial system crises, the gain in efficiency of payment instruments, increase in the liquidity of credit, the encouragement of competition among institutions, and the reduction systemic banking risk contribute to a scenario of greater macroeconomic stability in Brazil (ARAÚJO, 2002).

The Cardoso administration greatly contributed to promoting institutional changes in Brazil, creating a web of programs, legislation, and organisms to promote macroeconomic stability and therefore better shield the country against populist temptations. Initiatives like PROER, PROES, PROEF, PARAFE, the LRF, and the new SPB set the foundations of post-inflationary macrostability in Brazil, while FGC, EMGEA, LCF, and the greater role of the BCB act as checks and balances to the financial system to preserve the tripod. Henceforth, it is impossible to deny that the institutional reforms of the Cardoso's government contributed to the good and far from populist administration of Lula da Silva, even if the latter did well in improving and deepening some of the previous measures, while also creating new ones that would ultimately contribute to strengthening institutional consolidation in Brazil.

3.2.2 Lula's Brazil

Even though Luís Inácio Lula da Silva was the archetypal populist coming from a party that was surely inclined to Dornbusch and Edwards' playbook, his administration performed well, if we analyze his contributions to institutional consolidation in Brazil. The reader has already grasped the change of tone of PT and the man himself from the 1980s to the moments preceding Lula's election in 2002. In general, the party and its leader went from a radical reformist, and even anti-establishment/revolutionary, standpoint to a more moderate and mildly reformist one (SINGER, 2012). But how? What changed and how can we really attest to this change of heart?

According to Singer (2012), four trends explain it. First, the party no longer wants a revolution on society, with growing discourse moderation. Second, PT is losing the

characteristic of a strongly ideological party, becoming a broader institution that, in other words, is willing to adapt and make any kind of alliance/concession to get votes. Third, the party's links to social movements are increasingly weak and its ties with the State and public financing are stronger. Militants have also lost importance to more technocratic leadership within the party's core. Lastly, the social origin of PT's members has changed: from a left-wing intellectualized elite and urban unionized workers concentrated in the Southern/Southeastern regions of the country (mainly the states of São Paulo, Rio de Janeiro, and Rio Grande do Sul) to the bulk of Brazil's poor and miserable population, expanding overall in the Northeastern region. By analyzing the party's official documents from the 1980s to the 2000s one can observe such a shift.

On May 1st, 1979, on international workers' day, PT launched its letter of principles⁴⁵ in which the party defended its core intentions to better organize urban and rural workers in Brazil, to end the exploration of the lower classes, and to attain a socialist democratic society. It precedes the party's manifest from 1980 (Annexes 1 and 2). Some extracts of the letter of principles help us understand PT's founding spirits (PT, 1979, n.p.):

In a society like ours, based on exploitation and class inequality, the exploited and oppressed have a permanent need to keep themselves organized, so that they can offer serious resistance to the unbridled thirst for oppression and privileges of the dominant classes. [...] The Workers' Party defends the return of state-owned companies to their function of meeting popular needs and the detachment of state-owned companies from monopoly capital [...] A party that aims at a socialist and democratic society must itself be democratic in the relations that are established within it (translated)⁴⁶

The party advocated for a socialist objective, highly anti-capitalist, against private business relations on society, and effusively denying any sort of conciliation with the country's elites. According to Singer (2012), this more radical facet differed PT from other Brazilian parties emerging since the military dictatorship relaxation under the Geisel administration (1974-1979) in Brazil. In the beginning, the party's electoral and parliamentary participation was guided by the perspectives of social struggle and mobilization, committing itself to be a staunch tool in the struggle for the labor organization, seeking to raise the political awareness of the working class against the current social order in Brazil (SILVA, 2009).

⁴⁵ PARTIDO DOS TRABALHADORES. **Carta de Princípios do Partido dos Trabalhadores**. Comissão Nacional Provisória, May 1, 1979. Available at: <<https://pt.org.br/carta-de-principios-do-partido-dos-trabalhadores/>>, access: January 20, 2022.

⁴⁶ Original: “Numa sociedade como a nossa, baseada na exploração e na desigualdade entre as classes, os explorados e oprimidos têm permanente necessidade de se manter organizados à parte, para que lhes seja possível oferecer resistência séria à desenfreada sede de opressão e de privilégios das classes dominantes. [...] O Partido dos Trabalhadores defende a volta das empresas estatais a sua função de atendimento das necessidades populares e o desligamento das empresas estatais do capital monopolista [...] Um partido que almeja uma sociedade socialista e democrática tem de ser, ele próprio, democrático nas relações que se estabelecem em seu interior”.

The first democratic election in Brazil after the military dictatorship occurred in 1989 and Lula was PT's candidate. Defeated on the second round in December 1989, we can still find references to the socialist objectives of the party and its highly reformist profile in Lula's government program⁴⁷ (if elected) at the time:

Our goal is socialism, that is, a society in which collective work is used for the benefit of all, in which land is not an object of speculation [...] Within the capitalist system, we are condemned to be a peripheral and marginal nation, a supplier of raw materials, cheap labor, market to multinationals, and interest to international bankers. In short: an exploited nation. Our entire political history is the history of the exploitation of workers by the elite that controls the interests of national and international capital (translated)⁴⁸

The 1989 electoral program, for example, advocates for the preservation of the environment and the reduction of social inequalities in several areas: gender, race, health, violence, education, and so on. Those are valid and noble objectives, as Dornbusch and Edwards (1989) also averred when discussing the deleterious effects of Economic Populism, despite its good intentions.

Following Ozaí da Silva (2009), the fact that the party participates in the election and has a structured program corroborates its 'normalization'. From the 1990s on, the party presented a process of adaptation to the *bourgeois* order of Brazil, slowly becoming a representant of social democracy in the territory. Institutionally and in the party's bureaucratic apparatus, the radical and revolutionary discourse of the party began to falter (OZAÍ DA SILVA, 2009). This "light" image started to be cultivated within the party mainly after the 1986 general elections in Brazil, as the party tripled the number of its congresspeople and the fact that the role of a public administrator obliged the PT to negotiate with different interlocutors, changing the radical posture by a more realist one (OZAÍ DA SILVA).

On PT's directives for the government program⁴⁹ for the 1998 presidential election, the party attests that given the electoral and administrative experiences, it underscores that there were advances both in content and method of government planning and that the 1998 scenario demands changes, compared to the 1989 and 1994 elections, in the party's electoral

⁴⁷ PARTIDO DOS TRABALHADORES. **Uma nova sociedade**. Nas lutas de hoje, o Socialismo de amanhã, 1989. Available at: <<https://fpabramo.org.br/csbn/wp-content/uploads/sites/3/2017/04/06-sociedade.pdf>>, access: January 20, 2022.

⁴⁸ Original: Nosso objetivo é o socialismo, ou seja, uma sociedade em que o trabalho coletivo seja usado em benefício de todos, em que a terra não seja objeto de especulação [...] Dentro do sistema capitalista, estamos condenados a ser uma nação periférica e marginal, fornecedora de matérias-primas, de mão-de-obra barata, de mercado às multinacionais, de juros aos banqueiros internacionais. Em resumo: uma nação explorada. Toda a nossa história política é a história da exploração dos trabalhadores pela elite que gerencia os interesses do capital nacional e internacional.

⁴⁹ PARTIDO DOS TRABALHADORES. **Diretrizes para o Programa de Governo**. Fundação Perseu Abramo, 1998. Available at: <<https://fpabramo.org.br/csbn/wp-content/uploads/sites/3/2017/04/01-ofimdeumciclo.pdf>>, access: January 22, 2022.

approach. Due to its increasingly electoral nature (SINGER, 2012), the party sought to augment its political alliances, for example, with the *Partido Democrático Trabalhista* (PDT), a center-left party, for the 1998 electoral race. Even though its socialist objectives were still present in the party's official discourse, Singer (2012) avers that the alliance with the PDT marks the abandonment of a purely ideological organism to favor a more responsible and pragmatic party to increase the number of votes received by making electoral concessions. The directives serve as evidence to highlight an incipient change of heart in the party's intentions:

The reforms proposed by the Program, although situated within the framework of a capitalist society, clash with the capitalism that actually exists in Brazil. The implementation of a radical reform program – for its economic effects, but above all for its political capacity to aggregate social forces – will contribute to the recreation of a socialist perspective in the country [...] Dismantling the exchange rate anchor - high-interest rates trap is our first task. The country needs to establish new financing mechanisms. This will only be possible if we overcome the exchange rate overvaluation since this policy exposes the country to a risk situation in the face of a speculative attack on the currency, which will compromise stability, causing recession and the return of inflation. The new government will define a transition policy that dismantles the neoliberal logic and protects production and the fragile sectors of society [...] We must fight the North American project of forming a Free Trade Area of the Americas [...] We will change the country's foreign policy, basing it on the refusal of the inexorability of globalization and the fight for another world order [...] This new order will only be possible with the reconstitution of North American hegemony and with the constitution or reconstitution of international organizations (translated)⁵⁰

The party avers that its reforms will take place in a capitalist scenario, changing its socialist perspective. It also criticizes the exchange rate policy of Cardoso's government given its conspicuous failure by mid-1998.⁵¹ However, one can also observe that globalization, FTAA, and the United States are denounced.

⁵⁰ As reformas que o Programa propõe, ainda que situadas no marco de uma sociedade capitalista, se chocam com o capitalismo realmente existente no Brasil. A implementação de um programa radical de reformas – por seus efeitos econômicos, mas sobretudo por sua capacidade política de agregar forças sociais – contribuirá para a refundação de uma perspectiva socialista no País [...] Desmontar a armadilha da âncora cambial-juros altos é nossa primeira tarefa. O País precisa constituir novos mecanismos de financiamento. Isso só será possível se superarmos a sobrevalorização cambial, já que essa política expõe o País a uma situação de risco frente a um ataque especulativo da moeda, que comprometerá a estabilidade, causando recessão e volta da inflação. O novo governo definirá uma política de transição que desmonte a lógica neoliberal e proteja a produção e os setores fragilizados da sociedade. [...] Devemos combater o projeto norte-americano de formação de uma Área de Livre Comércio das Américas [...] Alteraremos a política externa do País, baseando-a na recusa da inexorabilidade da globalização e na luta por uma outra ordem mundial [...] Essa nova ordem só será possível com a desconstituição da hegemonia norte-americana e com a constituição ou reconstituição de organizações internacionais.

⁵¹ In his *Carta ao Povo Brasileiro*, Lula himself would use the term “populismo cambial”, or exchange rate populism, to criticize Cardoso's late devaluation. The attentive reader will remember Bresser-Pereira and Nakano (2003) from Chapter One.

In December 2001, anticipating the electoral race of 2002, the PT launched its directives⁵² for the polls. The proposal that insisted on linking the party's image to its origins, highly criticizing neoliberal policies, international capital, and globalization would be ephemeral, considering the *Carta ao Povo Brasileiro* from June 2002, and the government plan from July 2002. Even though the party did electoral concessions in 1998 and was moving to a more moderate position, it continued to be a polarization vector at the beginning of the 2000s, being extremely relevant, for example, to the biggest anticapitalism initiative of the time, the 2001's World Social Forum in Porto Alegre (SINGER, 2012). In the aforementioned directives:

The implementation of our democratic and popular government program for Brazil will represent a break with the current economic model, based on radical opening and deregulation of the national economy and the consequent subordination of its dynamics to the interests and moods of globalized financial capital [...] In particular, the neoliberal ideology produced an enormous disregard for the social scenario, aggravating the level of income concentration and increasing social exclusion [...] In the 1990s, moreover, the federal government carried out a process of reconcentration of resources and deconcentration of attributions, a reaction to the 1988 constitution [...] It submitted all federative bodies to the criteria and priorities of macroeconomic policy through the Law of Fiscal Responsibility, which, despite its necessary aspects for fiscal control, impedes important elements of autonomy of the federated entities, stifling, in some cases, investments in social policies [...] From the point of view of foreign policy, it is necessary to oppose the international shield that sustains globalized neoliberalism [...] International relations must not be surrendered to the logic of deregulated markets or to the imperial command carried out by the institutions of neoliberal globalization – IMF, World Bank, WTO, FTAA (translated)⁵³

Dissatisfaction with a market-oriented and capital-shaped world is, therefore, still evident. However, it would quickly evolve in 2002, with the *Carta ao Povo Brasileiro*⁵⁴ as the symbol of this change of heart (SINGER, 2012). As the election in October 2002

⁵² PARTIDO DOS TRABALHADORES. **Concepção e diretrizes do programa de Governo do PT para o Brasil, Lula 2002.** São Paulo, Diretório Nacional do PT, 2002. Available at: <<https://fpabramo.org.br/csbn/wp-content/uploads/sites/3/2017/04/02-resolucoes-xii-encontro.pdf>>, access: January 22, 2022.

⁵³ Original: A implementação de nosso programa de governo para o Brasil, de caráter democrático e popular, representará uma ruptura com o atual modelo econômico, fundado na abertura e na desregulação radicais da economia nacional e na consequente subordinação de sua dinâmica aos interesses e humores do capital financeiro globalizado [...] Em particular, o ideário neoliberal produziu um enorme descaso pelo social, agravando o nível de concentração de renda e ampliando a exclusão social [...] Nos anos 1990, ademais, o governo federal levou a efeito um processo de reconcentração de recursos e de desconcentração de atribuições, em reação à constituição de 1988 [...] submeteu todas as instâncias federativas aos critérios e prioridades da política macroeconômica através da Lei de Responsabilidade Fiscal, que, apesar dos aspectos necessários ao controle fiscal, tolhe elementos importantes de autonomia dos entes federados, engessando, em alguns casos, os investimentos em políticas sociais [...] Do ângulo da política externa, é preciso se opor à blindagem internacional que sustenta o neoliberalismo globalizado [...] As relações internacionais não devem ser entregues à lógica dos mercados desregulados ou ao mando imperial levado a cabo pelas instituições da globalização neoliberal – FMI, Banco Mundial, OMC, ALCA.

⁵⁴ FOLHA DE S. PAULO. Leia íntegra da carta de Lula para acalmar o mercado financeiro. **Últimas notícias,** Poder, June 24, 2002. Available at: <<https://www1.folha.uol.com.br/folha/brasil/ult96u33908.shtml>>, access: January 23, 2022.

approached and the voting polls indicated that Lula was going to have an easy win, PT started sending moderation signals to placate international markets and the Brazilian economic elites, as fear grew (refer to subsection 3.1.). The *Carta* was issued in June 2002 and presented important concessions that Lula and his party were willing to do to avoid an unstable macroeconomic scenario (that was already forming). We highlight some important parts of the *Carta*:

Society is convinced that Brazil remains vulnerable and that true stability needs to be built through courageous and careful changes [...] The premise of this transition will naturally be the preservation for the country's contracts and obligations. The recent financial market turmoil must be understood in this context of the fragility of the current model and the popular clamor for its overcoming [...] This is the best way for contracts to be honored and for the country to regain freedom of its economic policy oriented towards sustainable development [...] I now want to reaffirm this historic commitment to fighting inflation [...] We will preserve the primary surplus as long as necessary to prevent the internal debt from increasing and destroying confidence in the government's ability to honor its commitments [...] We will organize the public accounts and keep them under control (translated)⁵⁵

A new star is born. In the following month, the party would launch its government program⁵⁶ for the imminent win in the presidential election. Similarly, macroeconomic stability, openness to trade/globalization, and respect for contracts and the private sector were repeatedly mentioned. Complementing the excerpts already cited in Annexes 1 and 2:

Brazil must not do without foreign companies, technology, and capital [...] Our government will preserve the primary surplus as much as necessary, so as not to allow an increase in the internal debt regarding the GDP, which could destroy confidence in the government's ability to fulfill its commitments [...] Our government will create an environment of stability, with inflation under control, and solid macroeconomic fundamentals [...] Macroeconomic stability is indispensable, it is a starting point [...] With the definition of new priorities, some programs may be replaced, canceling existing expenses for the creation of new ones, as required by the Fiscal Responsibility Law (translated)⁵⁷

⁵⁵ Original: A sociedade está convencida de que o Brasil continua vulnerável e de que a verdadeira estabilidade precisa ser construída por meio de corajosas e cuidadosas mudanças [...] Premissa dessa transição será naturalmente o respeito aos contratos e obrigações do país. As recentes turbulências do mercado financeiro devem ser compreendidas nesse contexto de fragilidade do atual modelo e de clamor popular pela sua superação. [...] Esse é o melhor caminho para que os contratos sejam honrados e o país recupere a liberdade de sua política econômica orientada para o desenvolvimento sustentável. [...] Quero agora reafirmar esse compromisso histórico com o combate à inflação [...] Vamos preservar o superávit primário o quanto for necessário para impedir que a dívida interna aumente e destrua a confiança na capacidade do governo de honrar os seus compromissos [...] Vamos ordenar as contas públicas e mantê-las sob controle.

⁵⁶ PARTIDO DOS TRABALHADORES. **Programa de Governo 2002: Coligação Lula Presidente.** Resoluções de Encontros e Congressos & Programas de Governo - Partido dos Trabalhadores, Fundação Perseu Abramo, 2002. Available at: <<https://fpabramo.org.br/csbh/wp-content/uploads/sites/3/2017/04/14-programagoverno.pdf>>, access: January 23, 2022.

⁵⁷ O Brasil não deve prescindir das empresas, da tecnologia e do capital estrangeiro [...] Nosso governo vai preservar o superávit primário o quanto for necessário, de maneira a não permitir que ocorra um aumento da dívida interna em relação ao PIB, o que poderia destruir a confiança na capacidade do governo de cumprir seus compromissos [...] Nosso governo vai criar um ambiente de estabilidade, com inflação sob controle e sólidos

It seems a different party. Not *de jure*, but *de facto*. As Singer (2012) suggests, party members realize, day by day, that old practices were no longer in force, giving way to unusual behavior according to the criteria of the past. The anticapitalistic stand of the party is long forgotten. Observing the PT's political trajectory, it is almost impossible to recognize in today's party any resemblance to the original PT (OZAÍ DA SILVA, 2009). This can be observed in three tendencies: first, since Law No. 9.096 from September 1995,⁵⁸ a new era for political financing began in Brazil, granting huge amounts of public money to parties. Such law created the so-called *party fund*, which became the main source of financing for Brazilian political parties. From 1995 to 1996, the percentage of the PT's budget arising from public resources jumped from 12.3% to 72.1%, while statutory contributions dropped from 60.7% to 20.4% (RIBEIRO, 2009). Second, PT's alliance with a right-wing party in the 2002 presidential election, with Lula's vice-president, José Alencar, coming from parties like the *Partido do Movimento Democrático Brasileiro* (PMDB) and the *Partido Liberal* (PL). By building bridges with right-wing parties without considering ideological reasons, the PT demonstrated a pragmatic disposition that was at the opposite extreme of the party's original purism (SINGER, 2012). Third, dissident and rebellious members were expelled or left the party after its "normalization", especially between 2002 and 2004, culminating in the founding of the *Partido Socialismo e Liberdade* (PSOL). Thus, the radical and refractory rows of PT found themselves excluded from the party's life after the new directives (mainly the alliances with center-right and right-wing groups and Lula's social security reform targeting the retired population) were put in place. Thus, such realignment was crystallized in 2006, with Lula's re-election for a new term. This permanently removed the anti-capitalist spirit of the party and its leader, and also attracted new groups from the other ideological guilds into the party. Thus, what seemed to be a purely electoral maneuver to win in 2002 became a permanent guideline (SINGER, 2012).

Therefore, the party's written and spoken commitments to macroeconomic stability, preservation and respect of contracts, and maintenance of Cardoso's economic tenets (mainly the ones linked to the *tripé*) increased PT's credibility to govern and placated international investors and the Brazilian elites. Sudden changes would not be (and were not) carried out. The evolution of the party and its moderate posture would be of paramount importance in

fundamentos macroeconômicos [...] Estabilidade macroeconômica é indispensável, é ponto de partida [...] Com a definição de novas prioridades, alguns programas poderão ser substituídos, anulando-se despesas existentes para a criação de novas, conforme exigência da Lei de Responsabilidade Fiscal.

⁵⁸ BRASIL. **Lei No. 9.096**, de 19 de setembro de 1995. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 1995. Available at: <http://www.planalto.gov.br/ccivil_03/leis/19096.htm>, access: January 25, 2022.

contributing to macroprudence in Brazil, solidifying the already in-course institutional consolidation in the country and paving the way to effectively reduce poverty and inequalities in Brazil without harming macroeconomic soundness.

Accordingly, Lula's first constitutional reform comprised increasing the autonomy of the Brazilian central bank. After the president's election, talks about it began to appear, as a sign of good intentions towards the market and commitment to price control. As early as January 2003, in the inauguration speech of the newly appointed President of the BCB, Henrique Meirelles, the subject was addressed.⁵⁹ He stated that the government's proposal to increase the autonomy of the BCB aims to institutionalize the central bank's role as the guardian of the national currency, signaling Brazil's permanent commitment to price stability. In the first official message from President Lula to the National Congress,⁶⁰ in February 2003, on the occasion of the opening of the work of the Legislative Power, the president advocated that combating inflation and reducing the public debt were permanent objectives of his government, since, for him, economic stability would not represent an end in itself, but a pre-condition for the economy to grow on a sustainable basis (remember Díaz-Alejandro and Sachs from Chapter One?), which would be reinforced by greater central bank autonomy.

Granting a higher level of autonomy to the central bank would reduce the room for maneuver for leaders willing to implement economic populist policies. According to Blinder (1999), monetary policy is a long-term horizon since its effects on output and inflation come with long lags, which favors decision-makers to ignore the results of their actions for a while. The author suggests that politicians in democratic countries “are not known for either patience or long-time horizons. Neither is the mass media nor the public. And none of these constituencies have much understanding of the long lags in monetary policy” (BLINDER, 1999, p. 56). Increasing autonomy (or even independence) would limit the temptation of leaders to seek short-term gains with electoral/popularity purposes (remember Political Business Cycles from Chapter Two?) at the expense of the future, mostly, inflation

⁵⁹ In his words: “A autonomia do BC proposta pelo Ministro Palocci visa a uma institucionalização da função do BC como guardião da moeda e sinaliza o compromisso permanente do Brasil com a estabilidade de preços. Os bancos centrais modernos contam com regras claras quanto ao seu papel, à composição e à renovação de sua diretoria” (MEIRELLES, 2003, n.p.).

⁶⁰ SILVA, L. I. L. da. **Mensagem do Presidente da República, Luiz Inácio Lula da Silva, ao Congresso Nacional, por ocasião da solenidade de abertura dos trabalhos do Poder Legislativo**. Presidência da República, Secretaria de Imprensa e Divulgação, Discurso do Presidente da República, Congresso Nacional, 17 de fevereiro de 2003. Available at: <<http://www.biblioteca.presidencia.gov.br/presidencia/ex-presidentes/luiz-inacio-lula-da-silva/discursos/1o-mandato/2003/17-02-2003-mens-do-pres-da-rep-luiz-inacio-lula-da-silva-ocasio-solenid-abert-dos-trabalhos.pdf/@download/file/17-02-2003-Mens.%20do%20Pres.%20da%20Rep.%20Luiz%20Inacio%20Lula%20da%20Silva%20ocasio%20solenid.%20abert.%20dos%20trabalhos.pdf>> access: January 26, 2022.

(BLINDER, 1999). This, by the author's calculations, results in a notably negative correlation between central bank autonomy/independence and inflation.

Correspondingly, in May 2003, the Brazilian Congress approved constitutional amendment No. 40,⁶¹ altering specific parts of the national constitution that dictated the functioning of the financial system. As Wald (2004) points out, the approval of this amendment allowed the elaboration of different complementary laws for the national financial system, detaching it from the regulation of companies in the insurance sector and opening the way for the recognition of the operational autonomy of the central bank, also giving greater flexibility to legislation and regulation in the matter. Furthermore, the author states that such approval evidenced a national consensus regarding the fight against inflation to preserve the value of our currency and, in particular, its purchasing power. The change made to the legislation was very simple and objective, but it resulted in a huge practical difference and had an important political will (which was lacking in previous governments) from the PT administration.⁶²

The greater autonomy granted to the central bank during Lula's government can be understood as an important measure to reduce the inflationary potential that a leader following the precepts of Economic Populism may have. Furthermore, it is an important step in institutional consolidation in the country's main organism regarding monetary policy, shielding it from political pressures aimed at short-term gains and strengthening checks and balances that would consolidate price stability in the long run. This, as seen, would result in a stable macroeconomic environment for the implementation of policies to combat social inequality and poverty, with reduced inflationary pressure, as Lula wished.

Briefly moving away from macro to microeconomics issues, we can find in Lula's administration a series of so-called microeconomic reforms of his government that contributed to a more solid economy in the country. According to Goldfajn (2018), this group of measures at the micro-level, alongside the maintenance of the tripod, assured Lula's success in deepening Cardoso's institutional changes, preserving stability, increasing productivity, and contributing to a more robust economy, especially from 2003 to 2006. As the author suggests, this group of micro reforms also greatly contributed to reducing Brazil's Gini index and poverty without creating unnecessary inflationary pressure.

⁶¹ BRASIL. **Emenda Constitucional No. 40**, 2003. Câmara dos Deputados, Legislação Informatizada, 2003. Available at: <<https://www2.camara.leg.br/legin/fed/emecon/2003/emendaconstitucional-40-29-maio-2003-496812-publicacaooriginal-1-pl.html>>, access: January 26, 2022.

⁶² RODRIGUES, F. Primeira reforma de Lula facilitará autonomia do BC. **Folha de S. Paulo**, Brasil, Sucursal de Brasília, February 16, 2003. Available at: <<https://www1.folha.uol.com.br/fsp/brasil/fc1602200302.htm>>, access: January 26, 2022.

Toward the end of Lula's administration, Palocci Filho (2010) defended such reforms as a way of thinking not only about the so-called structural reforms and large institutional support but also about the so-called microeconomic reforms, which have great potential to unlock fundamental bottlenecks for increasing productivity and economic development in a stable environment. The author includes the following measures in the group of important microeconomic reforms during PT's administration: the civil construction reform (Law No. 10,931 of 2004) which addressed tax and credit issues in one of the main sectors of the Brazilian economy (especially in the context of huge national construction companies that are beneficiary of important state support); the new business recovery law, the so-called Bankruptcy Law (Law No. 11,101 from 2005), which played an essential role in the 2008 crisis, saving tangible and intangible assets that would normally have been lost in the processes of the old legislation; the approval of a group of laws to modernize and reduce bureaucracy in the Brazilian Judiciary, computerizing processes, facilitating access to justice, and increasing the legitimacy of judicial processes in the country (consequently increasing protection of property rights and preservation of contracts); the creation of the National Statute of Micro and Small Enterprises by the Complementary Law No. 123 from December 2006, which establishes general rules regarding the differentiated and favored treatment to be given to micro and small businesses; the introduction of consumer credit, or payroll loans, to increase mass consumption, giving bargaining power to workers in the financial system and removing many obstacles in the credit market in Brazil (previously difficult to access for the poorest layers of the population); among other minor adjustments. Those reforms thus contributed to institutional consolidation by giving support to national companies in several contexts (civil construction, failures and bankruptcy, development of embryonic micro and small enterprises, and so on), strengthening the Judiciary power and increasing access to Justice and property protection, and facilitating the integration of Brazil's population within the financial system and credit market. Therefore, such microeconomic reforms had an impact on consolidating institutions in the country and contributed to macroeconomic stability.

The last important contribution of Lula's administration to institutional consolidation is the increase in transparency of public spending. Doing so can contribute to strengthening the population's monitoring of how public funds are spent, which in turn creates barriers to reckless use of the government's budget. Therefore, increased transparency limits a leader's will to go full Economic Populist, preserving public funds by creating checks and balances to how the government's money is spent. Lula's administration is famous for two initiatives that

did so: the creation of the *Portal da Transparência* in 2004 and the approval of the Complementary Law No. 131 in May 2009.

The *Portal da Transparência*, or Transparency Portal, is a federal website that provides data and detailed information on the budget and financial execution of the Brazilian Executive Power. The Portal is an important tool for accessing information and controlling government expenditures in Brazil. Such information is made available to the public in various ways, such as panels, detailed queries, graphs, and open data⁶³ and it is regulated by Decree No. 5.482 of June 2005.⁶⁴ This decree establishes that the Portal makes available expenses incurred by agencies and entities of the federal public administration; transfers of federal resources to the states, Federal District, and municipalities; budget resource decentralization operations; and credit operations carried out by official development finance institutions (such as development banks). It assures full transparency of the Executive's federal expenses, making it available to anyone with internet access, creating thus a big constrain to nonchalant use of the public budget.

Remember PT's critics of the LRF? Well, the Complementary Law No. 131 from May 2009⁶⁵ serves to add new guidelines to it to increase the Complementary Law 101 of 2000 to create public finance standards focused on fiscal management responsibility to determine the availability, in real-time, of detailed information on the budget and financial execution of the federal, states, Federal District and municipalities. The 2009 complementary law provides that any citizen, political party, association, or union may report non-compliance with the law to State Courts, increasing the population's power to denounce bad practices in fiscal management and non-compliance with the LRF. In theory and as provided by the approved legislation, such complementary law encourages popular participation and public hearings during the processes of elaboration and discussion of plans, budget guidelines, and government budgets. A good example of Lula's continuity of Cardoso's management of economic policy and PT's more moderate stand in the 2000s, strengthening and innovating what was once a very criticized legislation.

⁶³ CONTROLADORIA GERAL DA UNIÃO. **Portal da Transparência**. O que é e como funciona, 2020. Available at: <<https://www.portaltransparencia.gov.br/sobre/o-que-e-e-como-funciona>>, access: January 26, 2022.

⁶⁴ BRASIL. **Decreto No. 5.482**, de 30 de junho de 2005. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 2005. Available at: <http://www.planalto.gov.br/ccivil_03/_ato2004-2006/2005/decreto/d5482.htm>, access: January 29, 2022.

⁶⁵ BRASIL. **Lei Complementar No. 131**, de 27 de maio de 2009. Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, 2009. Available at: <http://www.planalto.gov.br/ccivil_03/leis/LCP/Lcp131.htm>, access: January 30, 2022.

The Lula da Silva administration greatly contributed to promoting institutional changes in Brazil. Be it by committing his policies to macroeconomic stability and the continuation of the tripod, or by creating new strategies (and improving existing ones) that increased the constraints of an Economic Populist adventure in Brazil. PT's change of heart, organizational changes to make a more autonomous BCB, a series of microeconomic reforms, and measures to increase public spending transparency are of paramount importance to institutional consolidation in Brazil.

In this chapter and the previous one we have seen that after 2006, and mainly after the global crisis in 2008, Lula established a more interventionist economic policy that would be deepened in Rousseff's administration, culminating in the termination of the tripod and two-digit inflation. The same is true for Cardoso and his delay in letting the exchange rate float after the 1998 presidential elections. Economic Populist actions and policies thus were also present in those administrations, but, overall, the positive outcomes of these two governments far exceed the negative ones when analyzing institutional consolidation and the creation of a sound macroeconomic environment with more constraints for a populist adventure in Brazil.

3.2.3 Argentina before the Kirchners

As mentioned, the period preceding Néstor's administration is very unstable in Argentina, with a remarkable succession of presidents since the end of the Menem era. We regroup thus all the important facts from the 1990s and the beginning of the 2000s in one part to avoid creating several little sections for brief governments like the ones of De la Rúa, Rodríguez Saá (literally seven days), and Duhalde. Chronologically, we begin by listing the actions regarding institutional consolidation in Argentina during the 1990s, as we did for Brazil.

As seen in previous parts of this dissertation, the 1990s were a roller coaster era in Argentina. On the positive side, inflation was controlled, growth recovered, and some market-oriented structural adjustments/institutional reforms were started to better position Argentina in the international monetary and financial system and increase macroeconomic stability. After decades of unstable growth, inflation, and macroeconomic mismanagement, President Menem enacted the Convertibility Law in April 1991.⁶⁶ As the anecdote goes, like Ulysses

⁶⁶ ARGENTINA. **Ley No. 23,928**, de Marzo 27 de 1991. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 1991. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/0-4999/328/norma.htm#:~:text=Ley%20N%C2%BA%2023.928%20del%2027%2F03%2F91&text=ARTICULO%201%C2%BA%20%E2%80%94%20Decl%C3%A1rase%20la%20convertibilidad,establecidas%20por%20la%20presente%20ley>>, access: February 2, 2022.

trying to resist the temptation of the sirens' singing, the government tied itself with strict legal limitations on the Argentine central bank monetary policy. As presented in Annexes 1 and 2, "its central feature was pegging the value of the domestic currency – originally the *austral* and later the *peso* – to the U.S. dollar. The initial peg was 10,000 *australes* per U.S. dollar; once the new *peso* was issued in 1992, the peg was one peso to one dollar" (EDWARDS, 2010, p. 145), creating a currency board system. Austerely in a voluntary way, Menem tried to end Argentina's vicious cycle by renouncing an independent monetary policy.

To recover credibility and send positive signs to international financial institutions, Menem introduced a "package of reforms aimed at modernizing financial markets and the productive side of the economy; many of these corresponded to the policies of the Washington Consensus" (EDWARDS, 2010, p. 146). These reforms comprised the privatization of state-owned enterprises, relaxation of businesses and investment, flexibilization of protectionist policies on international trade (Mercosur's customs union), partial privatization of the social security system, reduction of export taxes, restructuring of the country's banking system to increase the participation of foreign banks in the country's financial system, and the signing of dozens of bilateral investment agreements with Argentina's trading partners to protect foreign investors. Argentina thus became a model among developing countries regarding the modernization of its financial system. To the point that in the October 1998 Press Briefing of the Annual Meetings, IMF's Managing Director, Michel Camdessus, affirmed that the country had a story to tell the world about fiscal discipline.⁶⁷ In the short run, those reforms yielded good results: inflation remained under control and the country's GDP grew at astonishing rates between 1991 and 1994. In line with the Washington Consensus, his administration pursued liberalization, privatization, and deregulation until 1998 (WISE; LINS, 2015).

On the fiscal side, in 1998, an attempt to create the first law regarding fiscal responsibility in the country was made: Law 25,152, which was approved in August 1999.⁶⁸ This law established the measures to which the powers of the National State must adjust regarding the administration of public resources; the formulation of the General Budget of the

⁶⁷ IMF. **Press Briefing by IMF Managing Director Michel Camdessus**. IMF Meeting Hall, IMF Headquarters Washington, D.C., October 1, 1998. Available at: <<https://www.imf.org/en/News/Articles/2015/09/28/04/54/tr981001>>, access: February 2, 2022. In the words of Michel Camdessus: So, clearly, Argentina has a story to tell the world: a story which is about the importance of fiscal discipline, of structural change, and of monetary policy rigorously maintained. Of course, in the case of Argentina, in the framework of its convertibility plan, the basic principle that you cannot solve problems by relaxation of monetary discipline has demonstrated its virtues.

⁶⁸ ARGENTINA. **Ley No. 25,152**, de Agosto 25 de 1999. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 1999. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/60000-64999/60039/texact.htm>>, access: February 2, 2022.

National Administration; fomented efficiency and quality in public management; put in practice public and freely accessible information, and created a Fiscal Countercyclical Fund. In the late 1990s, with increasing indebtedness of the government and a feeling that privatizations were no longer effective, this law aimed at reducing the deficits in the public sector in five years.

However, as Braun and Gadano (2007) affirm, the outcomes of this law were disappointing. It was implemented in the early 2000s and, as we know, the ‘mother of all crises’ was on its way in Argentina. The deficit limits imposed by the law were then modified and ceilings on expenditure were ignored in recovery years. The Fiscal Countercyclical Fund never received the resources for good operation (we will get back to that later). “Although Law 25,152 was never formally repealed, its resounding initial failure consigned it to oblivion” (BRAUN; GADANO, 2007, p. 58).

As seen, such institutional reforms were only partially implemented and even reversed in Menem’s government. As the tides changed, the ties on the macroeconomic policy in Argentina became more relaxed, and institutional advancements were eroded. In 1995, in the context of the Mexican crisis, growth reduced, unemployment skyrocketed, and the country entered a recession in 1999. Complementing what was presented about it in Annexes 1 and 2, the effects of the Mexican crisis unveiled the weaknesses of the fixed-rate and the currency board (EDWARDS, 2010, p. 147):

large fiscal deficits, especially in the provinces; rigid labor legislation that made both the hiring and dismissal of workers very costly, and thus made the economy’s response to foreign shocks such as decline in the country’s export prices more costly; and a trade policy that emphasized regional trade through Mercosur and kept Argentina relatively closed to the rest of the global economy.

This regime, without fiscal discipline, became a straitjacket. When compared to currencies other than the U.S. dollar, the peso became artificially strengthened, impacting exports’ competitiveness, as interest rates grew at a fast pace. As the 1999 general elections approached and Menem tried to subvert the constitution⁶⁹ and run for a third mandate, his government significantly increased expenditures. “In 1999, the public-sector debt increased by 6.1 percent of national income, and by the end of that year the government debt reached 51 percent of gross domestic product, up from 33 percent in 1993” (EDWARDS, 2010, p. 149).

⁶⁹ CLARÍN. El Presidente admitió que podría ser candidato en 1999. **Política**, February 15, 1998. Available at: <https://www.clarin.com/politica/menem-gente-pide_0_B1V-pAeAte.html>, access: February 2, 2022. https://www.clarin.com/politica/menem-gente-pide_0_B1V-pAeAte.html

With little support to change the Constitution and amid a crumbling economy, Menem gave up the possibility of trying second consecutive reelection and the PJ lost the elections. Initially, the president wanted to change Article No. 40 of the Constitution to enable a popular decision on the subject to put pressure on the opposition (SILLETTA, 2011). Overall, his fiscal efforts were meaningless both for his party and his aspirations to remain in power. And his journey to seek a third mandate affected the country's legal and economic stability, in the words of Eduardo Duhalde, PJ's candidate who lost the 1999 elections.⁷⁰

Menem's government thus tried at first to implement good reforms, from the perspective of the international community but did little to deepen them, abandoning fiscal discipline and heavily relying on a policy that since 1994 gave signs of depletion: the Convertibility Law. His actions to subvert the Constitution also mark a negative point on how his government contributed to creating more instability in already unstable political and economic scenarios in Argentina. Not to mention the corruption scandals already discussed in Annexes 1 and 2. His government thus created deep changes in the social structure of the country, opening the way for new political dynamics and collective organizations (HOPSTEIN, 2007).

Therefore, what started as an attempt to grant credibility to Argentina after decades of macroeconomic mismanagement, ended up entering the literature as a typical case of right-wing or neoliberal populism in Latin America, alongside Fujimori in Peru – Roberts (1995), Cortés (2010), Mudde and Kaltwasser (2013), and Aslanidis (2017). Thus, on the negative side, Menem hindered institutional consolidation in Argentina through the persistence of corruption scandals during his tenure, his attempt to subvert the Constitution, his denial to recognize the Convertibility Law's failure after 1994, and the abandonment of fiscal discipline for electoral purposes after 1998.

On December 10, 1999, Fernando De La Rúa started his short administration as president of Argentina after winning the country's general elections in October. The situation was already bad, as the convertibility issues had not yet been addressed, fiscal deficits were large and expanding, the artificially overvalued currency eroded exports' competition, and social indicators deteriorated. The government's debt was growing and the De La Rúa administration found deficit numbers three times higher than the ones reported by Roque Fernández, former Minister of the Economy until December 1999 (SILLETTA, 2011).

⁷⁰ CLARÍN. La pelea por el 99: contactos entre el gobernador y la oposición. **Política**, March 26, 1998. Available at: <https://www.clarin.com/politica/reeleccion-presiones-gobierno-alianza-duhalde_0_SySMmK1yUhe.html>, access: February 2, 2022.

As seen in Chapter Two, in countries with pegged currencies, labor market flexibility is needed as a substitute for exchange-rate flexibility, which was not the case in Argentina, quite the contrary (EDWARDS, 2010). In the first months of his administration, De La Rúa faced several IMF critics to solve this problem. To tackle it, José Luis Machinea, De La Rúa's Minister of the Economy, passed a labor reform, the Law 25,250 of May 2000⁷¹, to modernize labor legislation by reducing the power of labor unions and the costs of hiring and firing workers. "The measures, however, were rather timid and did not change regulations significantly" (EDWARDS, 2010, p. 150).

To make things worse... The international shocks of the late 1990s and early 2000s were too heavy for the Argentine financial system. A decline in export prices and a diminished volume of foreign capital entering the country combined with the Brazilian devaluation in 1999 hit the economy hard. The rigid exchange rate did not allow compensation for the crisis by a devaluation. "The country was unprepared because it had implemented the reforms halfway and had failed to put in place the policies required to support the currency board. As a consequence, these shocks had a very negative effect on the economy" (EDWARDS, 2010, p. 151), completing the dirty deed initiated by Menem to implode the country's international credibility.

In the series of crises that affected emerging countries since the mid-2000s, the one about to begin in Argentina was possibly the worse among them all. Its social costs in the short run were severe and its impact on Argentina's international credibility remains to this day. In December 2000, the government sought help from the IMF for a loan that was granted and complemented in August 2001, with reforms to reduce federal transfers to the provinces as conditionalities imposed by the Fund. However, "by then it was too late; the increase only prolonged the agony, making the costs of the collapse even higher" (EDWARDS, 2010, p. 152). The economy did not recover, and the vultures of the default gathered around Argentina's growing external debt and commitments.

To make things worse once again... As analysts believed that the one-peso-to-one-dollar policy would soon be abandoned by the government, the country "was forced to pay increasingly high interest rates to attract investors" (EDWARDS, 2010, p. 153). By late November 2001, a bank run began in Argentina. In the last week of that month, more than one billion dollars were extracted by the public from the banking system. It led to the famous

⁷¹ ARGENTINA. **Ley No. 25,250**, de Mayo 11 de 2000. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 2000. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/60000-64999/63208/norma.htm>>, access: February 3, 2022.

Corralito, Decree 1,570 on December 1st, 2001,⁷² that aimed to safeguard the country's financial institutions by creating a withdrawal limit of 250 U.S. dollars per week per person.

On December 9, the IMF announced that it was suspending its assistance to Argentina, acknowledging that there was no way of avoiding a major crisis (EDWARDS, 2010). Protests broke out throughout the country and *piqueteros* blocked major roads, supermarkets were sacked, and *cacerolazos* were heard all over Argentina for two weeks, which led to De La Rúa's resignation on December 20. His government lasted for less than 750 days and had a significant and negative impact on the country's macroeconomic situation, as international reserves were reduced by more than 20 billion dollars and unemployment increased even more (Annexes 1 and 2). Thus, his short-lived administration negatively impacted institutional consolidation in Argentina since Law 25,250 from May 2000 did little to address the labor market flexibility needed, the main issue of convertibility had only gotten worse, his early resignation (even if it was not a surprise) deepened political and economic instability, international reserves were severely reduced, and the relationship with international financial institutions, conspicuously the IMF, deteriorated (remember Michel Camdessus' kind words in 1998?).

On December 23, after a narrow approval by Argentina's legislative assembly, Rodríguez Súa became the country's acting president, originally for 45 days and until new elections in March 2002. PJ was back to power. During the first days of his government (literally, as it lasted for a week), Rodríguez Súa praised fiscal stability so the country could once again access international credit and negotiate good terms with the IMF. But... He also intended to promote a moratorium on foreign (and also internal) debt payments to release resources that could be used for the reactivation of the economy. In parallel, the already restricted foreign trade of Argentina would be impacted by increased tariffs on imports (including Mercosur), and studies were conducted on, you guessed it, increasing exports' taxes. Lastly, the president promptly denied that he was evaluating alternatives such as devaluation or dollarization to the convertibility issue.⁷³

Rodríguez Súa thus suspended the payment of the external debt, and the news of that action took the world as the greatest default in history. By that time, it reached more than US\$

⁷² ARGENTINA. **Decreto 1,570/2001**, de Diciembre 1 de 2001. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 2000. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/70000-74999/70355/norma.htm>>, access: February 3, 2022.

⁷³ CLARÍN. El nuevo gobierno: impulsarían una moratoria en los pagos de la deuda externa. **Economía**, December 22, 2001. Available at: <https://www.clarin.com/economia/rodriguez-saa-afirmo-seguira-convertibilidad_0_rylgyBLeRKL.html>, access: February 3, 2022.

132 billion. The president thus, even if praising fiscal stability and an intention to recover Argentina's credibility with international financial institutions, took a step that would only worsen the already bad relations and the country's image around the world. His measures also comprised several populist promises such as the creation of a million jobs, the maintenance of convertibility, and the money saved by the default would be used for job creation plans and social progress.⁷⁴ However, the *Corralito* persisted and it was aggravated by a bank holiday⁷⁵ that prohibited the transfers of deposits in pesos to dollars. Due to the scarcity of money, the economy regressed even more and culminated in new major riots in Argentina on December 28, as banging saucepans returned to the ears of the *Casa Rosada* (which was almost invaded by protesters). The following day, the president renounced. Once again, little was done to tackle the convertibility issue and, even if lasting in power for only a week, Rodríguez Súa was able to deteriorate even more Argentina's international credibility. Leaving the presidency on December 31, the legislative assembly had to choose a new acting president for Argentina on January 1st, 2002. Eduardo Duhalde was appointed as president by a large margin of votes (262 against 21).

We will be short here since his administration was already partially covered in previous sections. As seen, the *Ley de Emergencia Pública y de Reforma del Régimen Cambiario* was promptly sent by the Duhalde administration to the Congress and, in January 8, 2002, convertibility officially ended and the peso was devaluated in a regime of administered flotation (*flotación sucia*). Under heavy pressures from the financial and banking systems and of middle classes (who had deposits in dollars in the banks), Duhalde ended this 'sick man' policy, forever changing Argentina's financial *modus operandi*, and enforcing the emergence of new, more horizontal, political organizations in Argentina.

As presented, the Duhalde administration had mixed feelings about Economic Populism and institutional consolidation. Even if his programs aimed at fiscal balance, inflation control, and finally resolving the country's long convertibility problem, policies like increasing export taxes and a heavy populist discourse towards foreign banks,⁷⁶ companies,

⁷⁴ EL PAÍS. El nuevo presidente argentino suspende pagos y lanza un programa populista. **Internacional**, December 23, 2001. Available at: <https://elpais.com/diario/2001/12/24/internacional/1009148401_850215.html>, access: February 4, 2022.

⁷⁵ CLARÍN. Cronología del Corralito. **Economía**, May 14, 2002. Available at: <https://www.clarin.com/economia/cronologia-corralito_0_rJE7BMHeCKg.html>, access: February 4, 2022.

⁷⁶ CLARÍN. Duhalde dice que los bancos se pueden ir. **Política**, May 9, 2002. Available at: <https://www.clarin.com/politica/duhalde-dice-bancos-pueden-ir_0_HkjQAGSxCKl.html>, access: February 5, 2022.

the Washington Consensus,⁷⁷ and the IMF (EDWARDS, 2010) also mark his administration.⁷⁸ In mid-2002, the tides started to change in Argentina and the country saw a light at the end of the tunnel as international reserves augmented, the exchange instability had ceased, a primary surplus scenario emerged, and inflation remained under control (SILLETTA, 2011).

Relations with the IMF, however, remained bad. Duhalde wished to reopen a dialog with the Fund to resume its aid and the negotiations about how to pay the country's debt.⁷⁹ This situation with the fund would remain static and bitter in the second semester of 2002, despite the government's attempts alongside partners in Europe and the United States. In November, the president decided to once again default on a payment of more than US\$ 800 million to the World Bank, assuming only US\$ 77 million, which corresponded to the interests of this debt, putting a deal with the IMF as the first step before paying other debts. The president however did not give up and, whenever he could, he reiterated his willingness to make a deal with the IMF.⁸⁰ However, Economic Populist jargon was always there too: Duhalde affirmed that, even though a way out with the IMF was sought, no measure that would risk the *reactivation* of the Argentine economy would be adopted (a clear reference to the stark conditionalities that are often associated with the IMF).⁸¹

Finally, in January 2003, it happened. In Davos, the president met with Anne Krueger, the Fund's 'number two'. The pact with the IMF provided a new line of credit of almost 3 billion dollars to Argentina and a restructuring of terms of between three and five years for the payments that the country failed to comply with in the last months.⁸² Argentina had at last closed a deal with the Fund. Duhalde would not try reelection in 2003 and, as the elections approached, the race between Menem and Néstor Kirchner within the PJ was already established. Duhalde's presidency would have an ambiguous end, with positive and negative

⁷⁷ FREIRE, F. Duhalde critica duramente políticas "acertadas em Washington". **Folha de S. Paulo**, Folha Online, Poder, January 14, 2003. Available at: <<https://www1.folha.uol.com.br/folha/brasil/ult96u44749.shtml>>, access: February 5, 2022.

⁷⁸ In January 2002, Horst Köhler, head of the IMF at that time, said that Duhalde's populist policies were not the way out of the Argentine crisis. **ÁMBITO**. FMI cree poco probable dar crédito de u\$s 15.000 millones. **Economía**, January 23, 2002. Available at: <<https://www.ambito.com/economia/fmi-cree-poco-probable-dar-credito-us-15000-millones-n3156138>>, access: February 4, 2022.

⁷⁹ THE NEW YORK TIMES. Argentina Says I.M.F. Talks Will Resume. **Business**, June 24, 2002. Available at: <<https://www.nytimes.com/2002/06/24/business/argentina-says-imf-talks-will-resume.html>>, access: February 5, 2022.

⁸⁰ FOLHA DE S. PAULO. Vizinho em crise. **Mercado**, December 18, 2002. Available at: <<https://www1.folha.uol.com.br/fsp/dinheiro/fi1812200219.htm>>, access: February 6, 2022.

⁸¹ EL PAÍS. Duhalde decide no pagar una deuda de 805 millones de dólares al Banco Mundial. **Economía**, November 14, 2002. Available at: <https://elpais.com/economia/2002/11/14/actualidad/1037262780_850215.html>, access: February 8, 2022.

⁸² EKAIZER, E. Duhalde celebra el acuerdo entre Argentina y el FMI. **El País**, Internacional, January 25, 2003. Available at: <https://elpais.com/diario/2003/01/26/internacional/1043535609_850215.html>, access: February 7, 2022.

actions toward institutional consolidation. But mostly positive: it was the first time in years that Argentina experienced a healthier macroeconomic policy and the first time since the mid-1990s that the country had done some important reforms to recover international credibility and stabilize the economy (as the fiscal responsibility law had no practical effects). Even further, if we compare the soundness of his policies with the ones from the early Menem administration, Duhalde's government was far from having a populist (in here, the more generic term) approach to politics, did not try to subvert the constitution, and was not even close of having his name associated with numerous corruption scandals, as did Menem. The Economic Populist rhetoric and actions, such as increasing export taxes, continued, however.

Overall, the period analyzed in this part that precedes the Kirchners' administrations had mostly negative actions toward institutional consolidation in Argentina, creating a chaotic scenario and quite possibly the country's worst economic crisis ever. The early Néstor Kirchner government would continue some of the improvements brought by Duhalde, but these were short-lived.

3.2.4 Argentina during the Kirchners' administrations

Some of the topics discussed here were already presented or partially presented, in previous parts of Chapters Two and Three. For example, data manipulation, the abandonment of the SCRER, increasing government expenditure, inflationary wage policy, and the shift from twin surpluses to twin deficits during the Kirchners governments can be found in previous parts. Also, for example, the central bank's reforms have been mentioned but need further development. As in Lula, those topics were used in part 3.1 to show *why* such administrations can be considered populist or not. Here, we analyze the *how* of the outcomes. One must also remember, as presented, that the early moments of Néstor in power are marked by sound policies in certain areas and that institutional consolidation has seen some improvements at the beginning of his mandate (a tendency that we can trace back to Duhalde and the maintenance of Roberto Lavagna as minister of the Economy).

By the end of his administration, in December 2007, the former president had a positive image in around 75% of the country's population, according to opinion polls of the time. On the positive side, Néstor's government left a growing economy in Argentina, reduced unemployment and inequalities, incremented salaries, and significantly diminished the external debt and the need for IMF's assistance in the country. Specific in this point, Néstor's contribution to regaining Argentina's credibility among international financial institutions can be considered as an effort toward institutional consolidation. Starting in 2004, deals with the

IMF were conducted to refinance the country's debt and in March 2005 the country had closed a deal with more than 76% of its creditors to restructure it.⁸³ Argentina's external debt was thus reduced from more than 190 to 125 billion dollars, the biggest nominal relief in history (a record for the Guinness Book,⁸⁴ according to the president) and a successful case regarding the extension of the payments' deadlines and the reduction of interest rates on them. In December 2005, days after the same movement was done by Lula da Silva in Brazil, Néstor announced a long-awaited accomplishment: Argentina was paying the entirety of its debt with the IMF in a singular relief of almost 10 billion dollars using the central bank's reserves. A further step toward fiscal improvement and credibility restoration of Argentina.⁸⁵ The country "had defaulted and lived to tell about it, while also pulling the plug on any further IMF policy advice" (WISE; LINS, 2015, p. 160).

Analogous to Lula, right? Poverty and inequalities reduced, soundness of the macroeconomic policy, inflation – in a certain way – under control, payment of external debts and IMF's commitments, increase in international reserves, and so on. Well, yes, after all, this is a most-similar design. However, let's not forget that Néstor went down in history as a typical case of Economic Populism while the Brazilian did not. In Dornbusch and Edwards' theory and cycle, the debacle was yet to come, in Cristina's administration. Néstor prepared the ground for it, as already seen, by reducing the treasury's surplus, allowing the manipulation of inflation data, increasing government consumption as a percentage of the GDP, artificially augmenting salaries, promoting antiglobalization and anti-foreign rhetoric, creating price controls, and hindering property rights. Here is how Lula and he differ in institutional consolidation.

Moving to a more concrete perspective, even though the *desendeudamiento* had a positive fiscal and credibility impact in Argentina, two important consequences of these efforts negatively influenced the country's economy in the following decades: the central bank's acceptance of non-transferable bonds from the Treasury and the 'vulture funds' that did not negotiate with the country in 2005 (and later in 2010). In January 2006, the government issued nontransferable bonds to compensate the central bank with the same number of reserves

⁸³ EL PAÍS. La adhesión al canje de deuda argentina fue del 76,07%. **Economía**, March 3, 2005. Available at: <https://elpais.com/economia/2005/03/03/actualidad/1109838786_850215.html>, access: February 8, 2022.

⁸⁴ MONTENEGRO, M. ¿Record para el libro Guinness? **Página 12**, March 4, 2005. Available at: <<https://www.pagina12.com.ar/diario/elpais/subnotas/48044-16304-2005-03-04.html>>, access: February 8, 2022.

⁸⁵ MONTENEGRO, M. Todo en un pago y chau al Fondo. **Página 12**, December 16, 2005. Available at: <<https://www.pagina12.com.ar/diario/elpais/1-60572-2005-12-16.html>>, access: February 8, 2022.

that were used to fully pay off the national debt with the IMF.⁸⁶ The Joint Resolution 4/2006 and 1/2006⁸⁷ from January 2006 specifies the nature of the bonds: as it is a non-transferable title, it is not be listed on the local or international stock markets and the central bank could not sell those in the open market if the country needed dollars.

According to Cachanosky (2018), as the central bank computed such bonds by their nominal values, rather than by market values, it inflated the bonds, resulting in an overestimation of the central bank's equity and aggravating its solvency. Through this maneuver that started in 2006, a "nationalization" of the debt with private creditors and a hollowing out of the Central Bank of the Argentine Republic (BCRA) occurred. By 2015, more than half of the debt corresponded to 'intrastate' assets, leaving the BCRA without reserves and indebted.⁸⁸ It meant that the balance of the central bank went from having liquid assets (reserves) to having illiquid assets (nontransferable bonds) whose value is almost non-existent, which creates deterioration in itself.⁸⁹ The degeneracy had begun and would be repeated in 2010 by Cristina. Thus, the erosion of the BCRA, its independence, and institutional credibility that would happen in the next years can be traced back to this measure in 2006.

Secondly, the 2005 restructuring of the country's external debt was not complete: the deal was closed with more than 76% of its creditors. In 2010, after a new round of deals, this number surpassed 92%. However, powerful hedge funds bought bonds from the 2001 default. These funds were acquired from investors who did not accept the debt restructuring starting in 2005. Thus, the name 'vulture' for such funds, as they try to feast on the corpse of collapsing economies by buying undervalued bonds only to sell them later by their 'actual' price.⁹⁰ In 2014, a court in the United States decided in favor of those funds after a pledge to receive the

⁸⁶ BANCO CENTRAL DE LA REPÚBLICA ARGENTINA. **Estados Contables al 31 de diciembre de 2013**. Presentado en forma comparativa con el ejercicio anterior, 2014. Available at: <<https://www.bkra.gob.ar/Pdfs/PublicacionesEstadisticas/e2013estadoscontables.PDF>>, access: February 9, 2022.

⁸⁷ ARGENTINA. **Resolución Conjunta 4/2006 y 1/2006**, de Enero 5 de 2006. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 2006. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/110000-114999/112815/norma.htm>>, access: February 12, 2022.

⁸⁸ CLARÍN. El "desendeudamiento" en realidad quebró al BCRA. **Economía**, December 13, 2015. Available at: <https://www.clarin.com/economia/desendeudamiento-realidad-quebro-BCRA_0_ryDgdm1FPmx.html>, access: February 13, 2022.

⁸⁹ PICCARDO, D. Las Letras Intransferibles agravan la insolvencia del Banco Central. **Ámbito**, Opiniones, January 23, 2020. Available at: <https://www.ambito.com/opiniones/banco-central/las-letras-intransferibles-agravan-la-insolvencia-del-n5078217>, access: February 13, 2022.

⁹⁰ BRONSTEIN, H. Argentina gets set for debt talks by calling U.S. judge biased. **Reuters**, Business News, July 4, 2014. Available at: <<https://www.reuters.com/article/us-argentina-debt-idUSKBN0F91KA20140704>>, access: February 15, 2022.

nominal values plus interest of the funds that were bought for a very reduced price.⁹¹ By then, as Wise and Lins (2015) aver, Argentina remained mired in this litigation involving around US\$25 billion in defaulted sovereign debt making the country struggle to access funds in international capital markets. Only in 2016, Argentina finally ended the default, during Macri's administration.⁹² The consequences of the *desendeudamiento*, thus, impacted the country's economy for more than a decade, be it by the nontransferable funds or the incomplete negotiations with creditors that started in 2005.

Remember the Fiscal Countercyclical Fund established by Law 25,152 from 1999? Well, according to Article No. 9 of this law, the fund should have fifty percent (50%) of the resources from privatizations, concessions, sales of fixed assets, and remaining shares of privatized public companies owned by the national state. Also, the fund would be integrated until reaching an amount equivalent to three percent (3%) of the GDP to be used when a reversal of the economic cycle is verified. If it was indeed difficult to create such a shield at the beginning of the 2000s for obvious reasons, after 2003 and the commodity boom, it should not be difficult for Argentina to do so. Right?

Well, Laws No. 25,827 from 2003, 25,967 from 2004, 26,078 from 2006, and 26,198 from 2007⁹³ suspended the corresponding integration of the Fiscal Anticyclical Fund in the years following the legislation. In times of *vacas flacas*, it is comprehensible to modify the integration of the fund. But, between 2003 and 2007, Argentina experienced huge mean growth in the economy and the commodity boom. The timing was right and yet the instrument at hand was not strengthened during the *vacas gordas*. In 2005, Néstor's administration announced that the fund should have 6 billion dollars by 2008. In December of that year, only 64.7 million dollars were there. Meanwhile, soybeans had record prices per ton in international markets.⁹⁴

This last example illustrates what happened during Néstor's tenure: opportunities were there, but a different path was chosen. It is impossible to deny that sound management of the

⁹¹ CLARÍN. Fondos buitres: la Corte de EE.UU. rechazó tomar el caso argentino. **Economía**, June 16, 2014. Available at: https://www.clarin.com/economia/fondos-buitres-corte-unidos-deuda-default_0_SJ7rMm39v7e.html, access: February 15, 2022.

⁹² PAGANO, M. Fondos buitres: Argentina les paga hoy US\$ 9.352 millones. **Clarín**, Política, April 4, 2016. Available at: https://www.clarin.com/politica/fondos-buitres-argentina-us-millones_0_NySo23zxb.html, access: February 16, 2022.

⁹³ ARGENTINA. **Ley 25,152**, de Septiembre 21 de 1999. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 1999. Available at: <https://www.argentina.gob.ar/normativa/nacional/ley-25152-60039/actualizacion>, access: February 17, 2022.

⁹⁴ DONOVAN, F. Ahorrar en tiempos de vacas gordas, una promesa que no se cumplió. **La Nación**, Economía, August 2, 2009. Available at: <https://www.lanacion.com.ar/economia/ahorrar-en-tiempos-de-vacas-gordas-una-promesa-que-no-se-cumpleo-nid1157545/>, access: February 17, 2022.

economy took place from 2003 to 2006. However, sustainable growth was defenestrated. Adulteration of data on inflation, the extensive use of price controls, the dire consequences of the *desendeudamiento* (nontransferable bonds in the BCRA and the ‘vulture’ funds), and the abandonment of the Fiscal Countercyclical Fund explain how institutional consolidation was not virtuous in Néstor’s Argentina. Add to that the aforementioned reasons why he can be considered an example of Economic Populism.

In October 2008, Cristina Kirchner won the presidential election in Argentina and the *Casa Rosada* passed from husband to wife. As Damill, Frenkell e Rapetti (2015) attest, Argentina would go full Economic Populist during her tenure and the soundness of macroeconomic policy would be gradually abandoned, especially after the Global Financial Crisis in 2008. On the *why* side, we have already seen the actions taken during Cristina’s administration that explain her ‘Economic Populist’ label. At a higher level than that of Néstor. On the *how* side, we have also seen that Argentina’s institutions had been under severe stress since the 1990s, except for some strengthening measures by Menem, Duhalde and Néstor – which have also been underpinned by themselves, in a way. Thus, by 2007, economic policy was already very permissive to social demands and institutional checks and balances could not do much against unfortunate actions pursued by a government. Also, Cristina’s administration would reinforce some institutional deleterious policies already adopted by Néstor and fabricate new ones.

First, inflation data adulteration persisted in her years in office. On Edwards’ (2019) accounts, real data would largely surpass official data in years like 2008 (23% versus 8.6%), 2010 (25.7% versus 10.5%), 2011 (22.5% versus 9.8%), 2012 (25.2% versus 10.2%), 2013 (27.9% versus 10.6%) and 2014 (38.5% versus 22.1%). To which the president always denied critics from the private sector and the IMF to better the methodology and statistics of Argentina’s inflation data, stating that the numbers were scientific and professional.⁹⁵ Thus, in her government, numbers largely surpassed the two-digit mark and official data did little to inform the public that rapidly lost its purchasing power as growth significantly reduced from 2012 on.

Second, we mentioned that the *desendeudamiento* had negative impacts on two fronts of Argentina’s economy: nontransferable bonds in the BCRA and the ‘vulture’ funds.

⁹⁵ CLARÍN. Cristina: “Si la inflación fuera del 25%, el país estallaría”. *Economía*, September 27, 2012. Available at: <https://www.clarin.com/politica/cristina-inflacion-pais-estallaria_0_r13z_S1nDXe.html>, access: February 17, 2022. According to Cristina, “nuestro gobierno no es un modelo de metas de inflación; es de metas de crecimiento”. It looks like a bot that was programmed to say Economic Populist sentences.

Although in 2006, the reserves obtained using nontransferable bonds could only be issued to pay off obligations with international organizations, notably the IMF, in 2010, Cristina's government established, by resolution 105/2010 from March 2010,⁹⁶ that the BCRA reserves could also be used to pay public debt with private creditors. This was a subjugation of the Organic Law of the BCRA, which prevented the use of the central bank's reserves for that purpose, deflagrating a confrontation with its president, who got fired⁹⁷ for not complying with the duties of public officials and for having no qualms about omitting, refusing, or delaying the assignation of the reserves. A step further on the misuse of nontransferable bonds and a flagrant political intervention in the BCRA, hindering the institution's norms and autonomy.

In June 2010, 92% regarding the restructuring of the default's debt was attained, which led Cristina to affirm that, from then on, June 23 was the *desendeudamiento* day.⁹⁸ By then, the hedge 'vulture' funds had already appealed to American courts to block and seize Argentine goods for the value of the debt, miring the country's access to international credit markets, even if the country had the political will to pay its debts was a good sign toward credibility. As seen, the incapacity to close a deal with 100% of the creditors (even if good faith had been demonstrated) remained a 'spoke in the country's wheels', an idiom that Cristina often used.⁹⁹ Ultimately, as Argentina did not pay straight away after the American court's decision, a new default, 'selective' this time, was on its way. The government promptly denied the version that it was indeed a default¹⁰⁰, however, the perception of it in international media was that, for the second time in the twentieth-first century, Argentina defaulted on its creditors.

While presenting *why* the Kirchners could be considered typical cases of Economic Populism, we have briefly discussed Cristina's conflict with the agricultural sector of

⁹⁶ ARGENTINA. **Resolución 105/2010**, de Marzo 1 de 2010. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 2010. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/160000-164999/164709/norma.htm>>, access: February 18, 2022.

⁹⁷ CLARÍN. Cristina echó a Redrado ignorando al Congreso. Economía, Mercados y finanzas, January 8, 2010. Available at: <https://www.clarin.com/mercados-y-finanzas/congreso-cristina-redrado-ignorando-echo_0_Hy5Km0GAvQx.html>, access: February 18, 2022.

⁹⁸ PÁGINA 12. CFK destacó que el canje, en total, alcanzó al "92,4 por ciento de la deuda". **Últimas noticias**, June 23, 2010. Available at: <<https://www.pagina12.com.ar/diario/ultimas/20-148139-2010-06-23.html>>, access: February 19, 2022.

⁹⁹ ÁMBITO. Cristina celebró el resultado del canje: "Es el día del desendeudamiento argentino". **Economía**, June 23, 2010. Available at: <<https://www.ambito.com/economia/cristina-celebro-el-resultado-del-canje-es-el-dia-del-desendeudamiento-argentino-n3628896>>, access: February 20, 2022.

¹⁰⁰ "Van a tener que inventar otra palabra", said Cristina about the selective default. **ÁMBITO**. Cristina: "Impedir que alguien cobre no es default". **Política**, July 31, 2014. Available at: <<https://www.ambito.com/politica/cristina-impedir-que-alguien-cobre-no-es-default-n3851857>>, access: February 21, 2022.

Argentina and her overuse of controls in the economy. Those measures also apply here as part of a movement against institutional consolidation in Argentina. As fiscal responsibility was gradually deteriorated by the end of Néstor's government and commodity prices started to give signs of stagnation at the beginning of 2008, Cristina's government had to increasingly rely on export taxes. Thus, Resolution 125¹⁰¹ from March 2008, created a huge conflict with agricultural organizations in the country as taxes and retention of cereals increased. Instead of profiting from the *momentum* and the inflow of dollars that record prices of commodities and exports represented, Cristina opted otherwise to pursue retentions, that were already in place since 2002 and increasing in the last years. According to her, without retentions, chicken, beef, and milk would only be seen on television since retentions are a redistributive policy.¹⁰² The resolution was, in the end, rejected, given the enormous social costs of strikes and road blockings in Argentina. Its impacts, however, showed how far Cristina could go to try to push a populist agenda so present in the country's history and how sound macroeconomic policy was in a full process of deterioration.

In late 2011, after the government's political intervention on statistics and lack of savings instruments, Cristina's administration decided that it was time to control the amount of foreign currency held by the population. As inflation grows, naturally, parallel markets emerge, and people search for options to keep a store of value. This was the case in Argentina and the hysteria toward American dollars by then, initiating a process that would make the BCRA's reserves fall non-stop from 2010 on. In October 2011, the country installed several foreign exchange controls to limit the population's ability to buy or sell foreign currencies. It would, technically, preserve the central bank's reserves and slow down inflation at the expense of imposing an authoritarian measure on the people while dramatically reducing investments.

General Resolution No. 3,210¹⁰³ from October 2011 instituted that all foreign exchange operations had to have the permission of the *Administración Federal de Ingresos Públicos* (AFIP). In the coming years, until December 2015, the newspaper *La Nación* accounts for thirty-seven measures taken by the government to tighten the controls over the

¹⁰¹ ARGENTINA. **Resolución 125/2008**, de Marzo 10 de 2008. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 2008. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/135000-139999/138567/norma.htm>>, access: February 22, 2022.

¹⁰² CLARÍN. "Son piquetes de la abundancia". **Home**, March 26, 2008. Available at: <https://www.clarin.com/ediciones-anteriores/piquetes-abundancia_0_HJojs6R6Ke.html>, access: February 23, 2022.

¹⁰³ ARGENTINA. **Resolución General 3,210**, de Octubre 28 de 2011. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 2011. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/185000-189999/188904/norma.htm>>, access: February 23, 2022.

population's access to foreign currencies.¹⁰⁴ Some are emblematic, such as the one from February 9, 2012, that established that companies that need dollars to make international operations, either for the payment of imports or transfer of profits, should have approval from the BCRA; and the one from May 9, 2012, which reduced the limit for the purchase of dollars per person from 40% to 25% of the monthly salary. Later, even tourism would suffer from the government's restrictions.

Those constraints would only be lifted in December 2015, during Macri's administration (he would later restore it near the end of his mandate). Overall, this series of measures would heavily impact investment in the country (as international companies had limitations to sending their profits abroad), importers needed to undergo heavy bureaucratic procedures to access credit in foreign currencies, and exporters were demotivated as the artificial appreciation of the *peso* made them lose competitiveness. And, most importantly, those restrictions did little to curb inflation, even if we consider the counterfeit official data, and preserve BCRA's reserves.

As Edwards (2010, 2019) affirms, a new feature of the Pink Tide populism is its aversion to globalization and all things that come with it: Washington Consensus, international financial institutions, foreign banks and companies, and the consequent nationalization of international and national property (by force or by law). In the context of the Global Financial Crisis, in 2008, the country took a huge step in the last item by nationalizing the *Administradora de Fondos de Jubilaciones y Pensiones* (AFJP), a conglomerate of companies dedicated to managing the funds of the retirement contributions made by workers in an individual capitalization regime established in 1993 by Law 24,241.¹⁰⁵ This measure was adopted, according to Cristina, to protect Argentina's workers¹⁰⁶ as around 75% of the money invested in retirement funds was in bonds and shares that were suffering losses in value since 2007 – which aggravated the financial crisis (SILLETTA, 2011).

Here, we are not trying to decide if a national and centralized system is better or not than a decentralized and capitalized one. The issue is that the nationalization of such funds allowed the treasury to obtain a set of resources that would enable it to face the negative effects

¹⁰⁴ LA NACIÓN. Cepo cambiario: cronología de estos cuatro años de restricciones. **Economía**, December 16, 2015. Available at: <<https://www.lanacion.com.ar/economia/cepo-cambiario-cronologia-de-estos-cuatro-anos-de-restricciones-nid1854739/>>, access: February 23, 2022.

¹⁰⁵ ARGENTINA. **Ley 24,241**, de Septiembre 23 de 1993. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 1993. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/0-4999/639/norma.htm>>, access: February 25, 2022.

¹⁰⁶ PREMICI, S. Habrá un solo sistema y lo administra el Estado. **Página 12**, Edición impresa, October 22, 2008. Available at: <<https://www.pagina12.com.ar/diario/elpais/1-113765-2008-10-22.html>>, access: February 25, 2022.

derived from the global crisis, increasing the fiscal capacity of the government before the country's legislative elections in 2009 (DAMILL; FRENKEL, 2015). It was, thus, “a desperate attempt to rectify government spending, which was beginning to rapidly outpace revenues” (WISE; LINS, 2015, p. 168). Thus, the government benefited from the flows of social security contributions and seized the stock of assets previously managed by such funds, which configured domestic financial repression (LABAQUI, 2014). Thus, using the populist rhetoric that AFJP served more foreign purposes than national ones, the project was strongly defended by Cristina and was finally approved by the National Congress by Law No. 26,425¹⁰⁷ from November 2008. And, even if it was indeed beneficial for the population in a time of financial crisis, the measure was a step that confirmed the nationalization and violation of property rights¹⁰⁸ capacities of Cristina’s administration and an unconventional maneuver to preserve fiscal balance in the short run by repressing Argentina’s financial system.

Lastly, we present the series of reforms that targeted the country’s central bank independence and autonomy, eroding the institution’s credibility, its reserves, and its powers to preserve price and macroeconomic stability. We have already seen how the erosion of the BCRA started in 2006, during Néstor’s administration, using nontransferable bonds, how it was deepened by Cristina’s administration, and the chaos that succeeded her disputes with the institution president in 2010. In the coming years, important steps to subordinate the BCRA were taken, mainly regarding fiscal and income policies constraints. It culminated, in 2012, with the reform of the Central Bank Charter (CBC).

As seen in Chapter Two, since the 1990s, the BCRA was independent as an anthraquic institution ruled by the CBC (Law No. 24,144¹⁰⁹ from September 1992), with the objective of price stability. By the end of the convertibility, naturally, several changes to the Charter had to be done, however, the BCRA independence and price stability remained untouched (DAMILL; FRENKEL; RAPETTI, 2015). This is corroborated by the central bank’s institutional information that states that, by the introductions brought by the *Ley de*

¹⁰⁷ ARGENTINA. **Ley 26,425**, de Noviembre 20 de 2008. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 2008. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/145000-149999/148141/norma.htm#:~:text=ARTICULO%201%C2%BA%20%E2%80%94%20Disp%C3%B3nese%20la%20unificaci%C3%B3n,y%20beneficiarios%20del%20r%C3%A9gimen%20de>>, access: February 25, 2022.

¹⁰⁸ DIÁRIO JUDICIAL. La Corte Suprema más cerca de resolver sobre la estatización de las AFJP. **Noticias**, September 23, 2009. Available at: <<https://www.diariojudicial.com/nota/60481>>, access: February 25, 2022.

¹⁰⁹ ARGENTINA. **Ley 24,144**, de Septiembre 23 de 1992. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 1992. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/65000-69999/66194/texact.htm>>, acces: February 26, 2022.

Emergencia Pública y de Reforma del Régimen Cambiario in 2002, the BCRA regained powers to implement monetary and foreign exchange policies (as convertibility ended). “That period witnessed a substantial improvement in the central bank’s prudential regulation, which ultimately resulted in increased solvency in financial institutions operating in Argentina” (BANCO CENTRAL DE LA REPÚBLICA ARGENTINA, 2021, n.p.).

A decade later, in 2012, the CBC was deeply reformed to make the organization a more interventionist one. Law 26,739¹¹⁰ from March of that year modified several points of the previous Charter, shifting the objectives of monetary policy. Now, according to Article No. 3 of the CBC, price stability was no longer the only purpose of the BCRA. With multiple mandates, it now aimed at promoting, to the extent of its powers and within the framework of the policies established by the national government, monetary stability, financial stability, employment, and economic development with social equality. Also, the new CBC entitled the “board of the central bank to discretionally determine the level of ‘freely available reserves’ and therefore to transfer international reserves to the Treasury to cancel debt services in foreign currency virtually without limit” (DAMILL; FRENKEL; RAPETTI, 2015, p. 24). Thus, the new Article No. 13 increased the margins for the central bank to lend to the Treasury, and, in early 2012, the government was using all the short-term financing allowed by the new CBC and was getting closer to running a primary fiscal deficit (DAMILL; FRENKEL; RAPETTI, 2015).

In Cristina’s speech at the Opening of the 130th Ordinary Period of Sessions of Congress in March 2012, she defended such measure since BCRA’s functions should not, according to her, be reduced solely to preserving monetary stability, but also to preserving fiscal stability, and the value of production – that is, that the central bank must have the obligation to intervene in the real economy to continue sustaining growth and employment in Argentina.¹¹¹ Four months later, in July 2012, the amount lent by the BCRA to the Treasury had already almost reached the mark of 20 billion dollars to accompany growing public

¹¹⁰ ARGENTINA. **Ley 26,739**, de Marzo 22 de 2012. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 2012. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/195000-199999/195621/norma.htm>>, access: February 27, 2022.

¹¹¹ KIRCHNER, C. F. Apertura del período de sesiones ordinarias 2012. **Cristina Fernández de Kirchner**, Unidad Ciudadana, March 1, 2012. Available at: <<https://www.cfkargentina.com/cfk-en-el-congreso-apertura-del-periodo-de-sesiones-ordinarias-2012/>>, access: February 26, 2022.

spending rates.¹¹² To foment reactivation,¹¹³ the president was using the central bank's reserves, a classic move in Economic Populism (and the rhetoric coincides too).

Therefore, Cristina's government checks several boxes when it comes to being an Economic Populist leader and negatively contributing to institutional consolidation in Argentina. She deepened policies that were harmful to the macroeconomic institutions of the country that could be traced back to Néstor, such as the use of nontransferable bonds, the incapacity to close a deal with 100% of the 2001 default's creditors (culminating in a new default in 2014), and kept intervening on official inflation data. Also, her crusades against the agricultural sector and access to foreign currencies were exceptionally interventionist. Finally, the nationalization of the AFJP and the CBC reform consummate her efforts against institutional consolidation. Thus, if we add the deterioration inherited since Menem and the ones added by the Kirchners, we see that Argentina's institutions were much more corroded than those of Brazil – and, consequently, more permissive to social demands and adrift macroeconomic desires of rulers. Fewer constraints meant, in the *K* era, more Economic Populism, as Chart 3 suggests.

3.2.5 Social unrest and political instability in Argentina

So far, we have heavily presented the political, economic, and institutional factors of populism in Argentina. Overall, weaker institutions became more permissive to Economic Populism, especially in a time of political uncertainty and economic crisis. Social demands proliferated in the country as the situation deteriorated since the mid-1990s and gradually the political elite lost its credibility among an impoverished and unemployed population. Those processes are perceived as stronger in Argentina than in Brazil, but comparable due to the instrumentalization of variables here.

Much changed in Argentina during Menem's government. We have seen that his administration tried to implement institutional reforms heavily based on the Washington Consensus and had a 'neoliberal' facet. Those reforms were short-lived, partially reversed, and violated by his populist administration. However, some had deep impacts in Argentina, mostly negative, in social terms. If the reader revisits Annexes 1 and 2, he/she will see that unemployment and inequality accelerated in the 1990s in Argentina. Joined with the acrimony

¹¹² DONOVAN, F. Auxilio récord del BCRA al Tesoro. **La Nación**, Economía, August 7, 2012. Available at: <<https://www.lanacion.com.ar/economia/auxilio-record-del-bcra-al-tesoro-nid1496967/>>, access: February 26, 2022.

¹¹³ OBARRIO, M. El Gobierno usará reservas para reactivar la economía. **La Nación**, Política, March 27, 2012. Available at: <<https://www.lanacion.com.ar/politica/el-gobierno-usara-reservas-para-reactivar-la-economia-nid1459920/>>, access: February 28, 2022.

toward Menem's neoliberal agenda and the imminent powder keg that was convertibility, those factors were fundamental to creating a chaotic social scenario in the country, that would culminate with the episodes of urban violence and protest of December 2001 that led to De La Rúa's (and later Rodríguez Saa's) resignation.

Menem's government aimed at deep changes in the social structure of Argentina and the role of the State in this country. His early government had the urgency of combating hyperinflation in the country and, besides the convertibility solution implemented in 1991, it was marked by a strong liberalizing program that encompassed privatizations, trade openness, and tax reforms in Argentina. His privatizing agenda, according to Hopstein (2007), comprised almost every public sector that provided services: telecommunications, aviation, roads, railroads, and oil and natural gas. With inflation under control after convertibility and the budgetary boost that privatizations represented, until 1992 the country grew at a tremendous pace, unemployment reduced, and poverty diminished.

However, by late 1993, the tides had shifted, unemployment surpassed the two-digit mark and growth slowed down. Among the Argentine public, the privatization of companies meant worse services and the shrinking of the State's capillarity in a large and scarcely populated country (HOPSTEIN, 2007). Also, the reduction in public spending on the early Menem administration meant that lots of jobs were lost or suffered from a reduction of social benefits, now in the private sector. In the 1994-1995 biennium, after the outbreak of the Mexican crisis, growth became negative, unemployment doubled, and poverty grew again in Argentina. As seen, it is around that time that the fiscal situation of the country started to deteriorate and convertibility started showing its weak spots. In the coming years, the public debt grew and, by 1998, international capital began to dry – as seen, Law 25,152 from 1999 tried to tackle those issues and the inevitable end of the fiscal *bonanza* of privatizations.

During that decade, tensions were slowly brewing in Argentina. Hopstein (2007) does an amazing job in cataloguing them: mostly emerging from the privatizations, already in 1990 and 1991, several protests by (former) public servants in the areas of telecommunication, railroads, and oil conducted strikes and manifestations against migrating to the private sector and losing jobs/social benefits; with the introduction of the capitalization regime for pensions in Argentina, in 1993, the *Movimiento Independiente de Jubilados y Pensionados* (MIJP) started a long process of protesting against their losses with the privatization of social security guarantees; emerging from the dictatorship and trying to obtain reparations for Human Rights violations, the famous *Madres y Abuelas de Plaza de Mayo* were strengthened in the 1990s; and groups of family members from the victims of the terrorist attacks against the Israeli

embassy and the *Asociación Mutual Israelita Argentina* also sought the political support and the public opinion's eye to the resolution of such aggressions.

International trends, mainly in the so-called Global South, contributed to the generalized bitterness in the Argentine society: globalization was the 1990's novelty as a concept and, by the end of that decade, in Latin America, feelings from the public opinion and academia toward it were largely negative. The protests during the World Trade Organization meeting in Seattle in the United States in 1999 and *Fórum Social Mundial* in Porto Alegre, Brazil, in 2001, summarize how alternatives to a predatory globalization process were on the agenda of the political debate. Heavy critics of the 1990s' neoliberal policies and the Washington Consensus were part of the *Zeitgeist* of the turn of the millennium. The protests emerging from the *Corralito* and the imminence of the end of the convertibility that ravaged Argentina from December 2001 are inserted in such a scenario.

Those processes, thus, heavily changed the country's political dynamics, giving voice to alternative actors and collective organisms that were outlined by mainstream politics. Hate toward the establishment and decentralization of power and articulation gave way to non-traditional types of political organizations embodied in three main axes: the *piqueteros*, neighborhood associations, and occupied factories/enterprises (HOPSTEIN, 2007). Given the political instability in Argentina from 1999 to 2001, the lack of leadership, and the population's anger toward the elite, those emerging groups became important players in the country at that time. As their voices were heard, their social demands grew.

The *piquetero* movement as we know it today emerged from unemployed protesters between 1996 and 1997 in Northern and Southern Argentina after the privatization of companies, mostly in the oil and gas sector – even though we can trace them back to the 1980s. The *piqueteros* receive their name due to the *piquetes*¹¹⁴ they made to block roads, bridges, and railroads, and consequently disrupt important supply chains in the country. Between 1997 and 2002, the phenomenon exploded in the country and reached more and more the region of Buenos Aires. If in 1997 the number of *piquetes* was around 140, in 2001 almost 1,400 actions were registered and, in June 2002, more than 1,600 had already been documented by a multimedia journalistic investigation by *Clarín*.¹¹⁵

¹¹⁴ The *Real Academia Española* defines 'piquete' as "pequeño grupo de personas que exhibe pancartas con lemas, consignas políticas, peticiones, etc" and "grupo de personas que, pacífica o violentamente, intenta imponer o mantener una consigna de huelga".

¹¹⁵ CLARÍN. La Fundación para un Nuevo Periodismo premió al Equipo de Investigación y Clarín.com. **Home**, June 3, 2003. Available at: <https://www.clarin.com/ediciones-anteriores/fundacion-nuevo-periodismo-premio-equipo-investigacion-clarincom_0_SkW3y-eAKe.html>, access: February 28, 2022.

Even though those movements were decentralized, autonomous, and did not have clear leadership at the national level, a strong identity between its members emerged (HOPSTEIN, 2007), culminating in the *Piquetero* Nacional Congress in 2001. The way the administrations addressed such growing issues vary, but they are linked to public spending and fiscal programs: it started during the Menem administration with the famous *Planes Trabajar*, from the Mexican crisis on, consisting of a subsidy to an unemployed household chief against the provision of a specific job. It was financed initially using loans from the World Bank.¹¹⁶ Almost systematically, the prolonged blockade of a route was interrupted in exchange for the delivery of hundreds and sometimes thousands of individual subsidies (ESCUDE, 2009). Those programs would be consolidated during the following years (as the *Plan Provincial de Generación de Empleo*¹¹⁷ created by Law 11,983 from July 1997 and the program *Crear Trabajo* created during De La Rúa's government in November 2000), only to be expanded and renewed by Duhalde's government with the *Jefas y Jefes del Hogar*.

During Néstor's tenure, not only such social programs would be expanded quantitatively, but several leaderships of the movement would also be incorporated into the bureaucracy. According to Escudé (2009), during his administration, leaders of the *piquetero* movement systematically entered as civil servants at the various levels of the state. By 2003, an estimation of 400,000 *piqueteros* existed in Argentina. As the author states, in this process, pro-government leaders benefited from perquisites, even if it meant losing their autonomy. By June 2006, around fifty *piqueteros* had changed the streets for the state and they were present in almost all the Ministries of Néstor Kirchner.¹¹⁸ As the reader already knows, we are not questioning the legitimacy of the movement, nor of their social demands, but simply showing how the weakened institutional apparatus of Argentina was amenable to such pledges and the later incorporation of the *piqueteros* in the state as to placate the chaotic social and economic scenario that the country experienced at the beginning of the 21st century.

Strengthened after December 2001, neighborhood assemblies blossomed in Argentina, mostly in the metropolitan area of Buenos Aires. They meant a new arena for political debate and an attempt to compensate for the lack of legitimacy of the elite who had their credibility

¹¹⁶ LA NACIÓN. Mitos y verdades de los planes Trabajar. **Política**, May 24, 2001. Available at: <<https://www.lanacion.com.ar/politica/mitos-y-verdades-de-los-planes-trabajar-nid307428/>>, access: February 28, 2022.

¹¹⁷ GOBIERNO DE LA PROVINCIA DE BUENOS AIRES. **Ley 11,983**, de Julio 31 de 1997. Sistema de información normativa y documental, 1997. Available at: <<https://normas.gba.gob.ar/ar-b/ley/1997/11983/4850>>, access: February 28, 2022.

¹¹⁸ LA NACIÓN. Cincuenta piqueteros cambiaron la calle por los sillones del poder. **Política**, June 11, 2006. Available at: <<https://www.lanacion.com.ar/politica/cincuenta-piqueteros-cambiaron-la-calle-por-los-sillones-del-poder-nid813651/>>, access: February 28, 2022.

severely damaged in the events between December 19 and 21. In 2002, according to Hopstein (2007), more than 300 hundred assemblies counting around 200 participants existed in Argentina. Those organizations played a significant role in the several *cacerolazos*, protests, and marches that took place in Argentina between 2001 and 2002. It was a common image to see, during that time, the different flags of the assemblies in the protests that ravaged Argentina.¹¹⁹

According to Retamozo (2011), the balance of the December protests were the multiple citizen assemblies that were formed under the slogan “*que se vayan todos*”. This leadership and representation crisis had its organizational crystallization in the urban middle sectors in those assemblies that targeted decision-making and the repoliticization of urban and marginalized spaces (squares, streets, and so on). It was, as the *piqueteros*, a movement emerging from outside the traditional channels of political participation and the logic of politics (RETAMOZO, 2011).

However, the Kirchners’ administrations incorporated a variety of novel political forms for whose concretion the activists of the social movements were key (RETAMOZO, 2011). Therefore, according to the author, such assemblies evaluated the possibility of forming part of the popular movement under the leadership of Néstor and Cristina, although that meant giving up their autonomy, as did the *piqueteros*. Later, those 300 assemblies with 200 members, by 2007, had been reduced to an estimation of 60 organizations with around 15 participants each (HOPSTEIN, 2007).

Lastly, with the disruption of output in Argentina and the severe economic crisis, a lot of industries and companies closed down as unemployment grew in the country. In the late 1990s, those abandoned businesses started to be occupied and ‘recovered’ by former employees in a movement that swept Argentina. In this context, work cooperatives emerged as important political players to demand legal possibilities of preserving jobs and the supply chain. The country’s *Ley de Concursos y Quiebras* from 1995 (Law 24,522 from July 1995¹²⁰ and later modified in 2011) served as important legislation that gave considerable autonomy to workers under a failing company.

¹¹⁹ CLARÍN. Las cacerolas contra el corralito volvieron a sonar en la Plaza. **Política**, February 16, 2002. Available at: <https://www.clarin.com/politica/cacerolas-corralito-volvieron-sonar-plaza_0_rJhZFTrg0Fg.html>, access: February 28, 2022.

¹²⁰ ARGENTINA. **Ley 24,552**, de Julio 20 de 1995. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 1995. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/25000-29999/25379/texact.htm>>, access: February 28, 2022.

Article 191 from such Law authorizes the continuation of activities of a company in bankruptcy if its interruption could result in a serious output decrease, when a production cycle that can be concluded is interrupted when a court deems its activity economically viable, or in safeguard of the conservation of the labor source of the workers. Thus, the possibility legally existed and the crisis scenario made the timing right. At the beginning of the millennium, the legislative body regarding this process blossomed with concessions to workers, mainly in the metropolitan area of Buenos Aires.¹²¹

During the Kirchners' administrations, as seen, the presidents "had to progressively incorporate the various forms of self-organization that were created and consolidated by social movements such as the recovered companies" (HUDSON, 2016, p. 157). This was done mainly by the use of subsidies to those occupied factories and the creation of the *Programa de Trabajo Autogestionado* (Resolution 203/2004¹²²) – a program whose main objective was the incipient development of a productive sector based on cooperatives created by the workers who recovered bankrupt companies, the formalization of pre-existing cooperative projects, and the incubation of new cooperatives by the Program itself through the transfer of funds and the creation of sectoral networks (HUDSON, 2018).

By 2007, with the provincial and municipal reduction of subsidies to those factories, the federal government stepped in by increasing the amount of money destined for those companies. That year, according to the *Programa Facultad Abierta* (2009), 85% of surveyed factories stated that they had received some type of public aid, with the Ministry of *Trabajo, Empleo y Seguridad Social* as its main source (around 40% of all the subsidies). If in 2002 subsidies represented not even 5% of those companies' sources of income, in 2009 it had surpassed the mark of 20%, a large increase. Thus, during the Kirchners, the state has intervened as a stabilizer of those companies, strengthening strategic dimensions via subsidies (that is, public spending), so that they can be reinserted into the marketing circuits (HUDSON, 2016).

Of course, such subsidies, the *Planes Trabajar*, or other social programs are not the only, nor the main, cause of Argentina's inflation. Once again, we do not aver that such demands are not legitimate or that social spending should be banned, even in times of economic crisis and chaotic social and political events – as Rodrik (2018^a) points out, policies

¹²¹ PÁGINA 12. Para rescatar predios de empresas recuperadas. **Sociedad**, November 25, 2004. Available at: <<https://www.pagina12.com.ar/diario/sociedad/3-44033-2004-11-25.html>>, access: February 28, 2022.

¹²² ARGENTINA. **Resolución 203/2004**, de Marzo 26 de 2004. InfoLEG, Información Legislativa, Ministerio de Justicia y Derechos Humanos, Presidencia de la Nación, 2004. Available at: <<http://servicios.infoleg.gob.ar/infolegInternet/anexos/90000-94999/93949/norma.htm>>, access: February 28, 2022.

linked to Economic Populism can not necessarily be bad, mostly in times of crisis and depression, which was the case of Argentina. However, those points are fundamental to understanding how the Argentine society was under heavy tension since the 1990s and how that anger and discontent was capitalized by the Kirchners' administration, be it by incorporating them into the country's bureaucracy or creating programs that included subsidies and money transfers to such movements. They help us illustrate a scenario in which weakened institutions ended up being more permissive to social demands to increase political stability and governability – after all, *piqueteros* in Ministries do not make *piquetes* anymore. In the opposition, those social organizations had an incredible disturbance potential already observed in the administrations that preceded Néstor's. Thus, not only institutions were more lenient to social demands, but they were also indulgent in the political maneuvers made by the Kirchners to assimilate outsiders into the establishment as to silence disrupted voices that could destabilize their governments. Therefore, the adoption of Economic Populist policies faced fewer obstacles in the country at the beginning of the 21st century as the ground was fertile and the farmers had the political will to plant a tremendous number of seeds.

3.3 Conclusion

The comparison shows that the independent variable of interest, institutional consolidation, differed significantly in Brazil and Argentina. Via instrumentalization, we have seen that those countries during Lula and the Kirchners are comparable and the analysis of historical evidence (speeches, official and institutional documents, newspaper articles and news, and so on) supports our point that institutions were weaker in Argentina. This made the country's bureaucracy and institutional body more yielding to the Kirchners Economic Populist agenda and permissive to different social demands.

This scenario of eroded institutions and weaker checks and balances led to the definition of the Kirchners as typical cases of Economic Populism based on the outputs of their administrations: inflation accelerated, reserves were depleted, the IMF eventually returned, devaluation, and the loss of purchasing power of the population. Brazil would only face it afterward, during Rousseff's moderate Economic Populist administration. Until 2010 however, institutions were solidified, and macroeconomic indicators showed a sound economy with an actual reduction of poverty and inequality in the country.

Conclusion

Hay diablos que hacen subir los precios.

Presidente de la República Argentina, Alberto Fernández (2022)

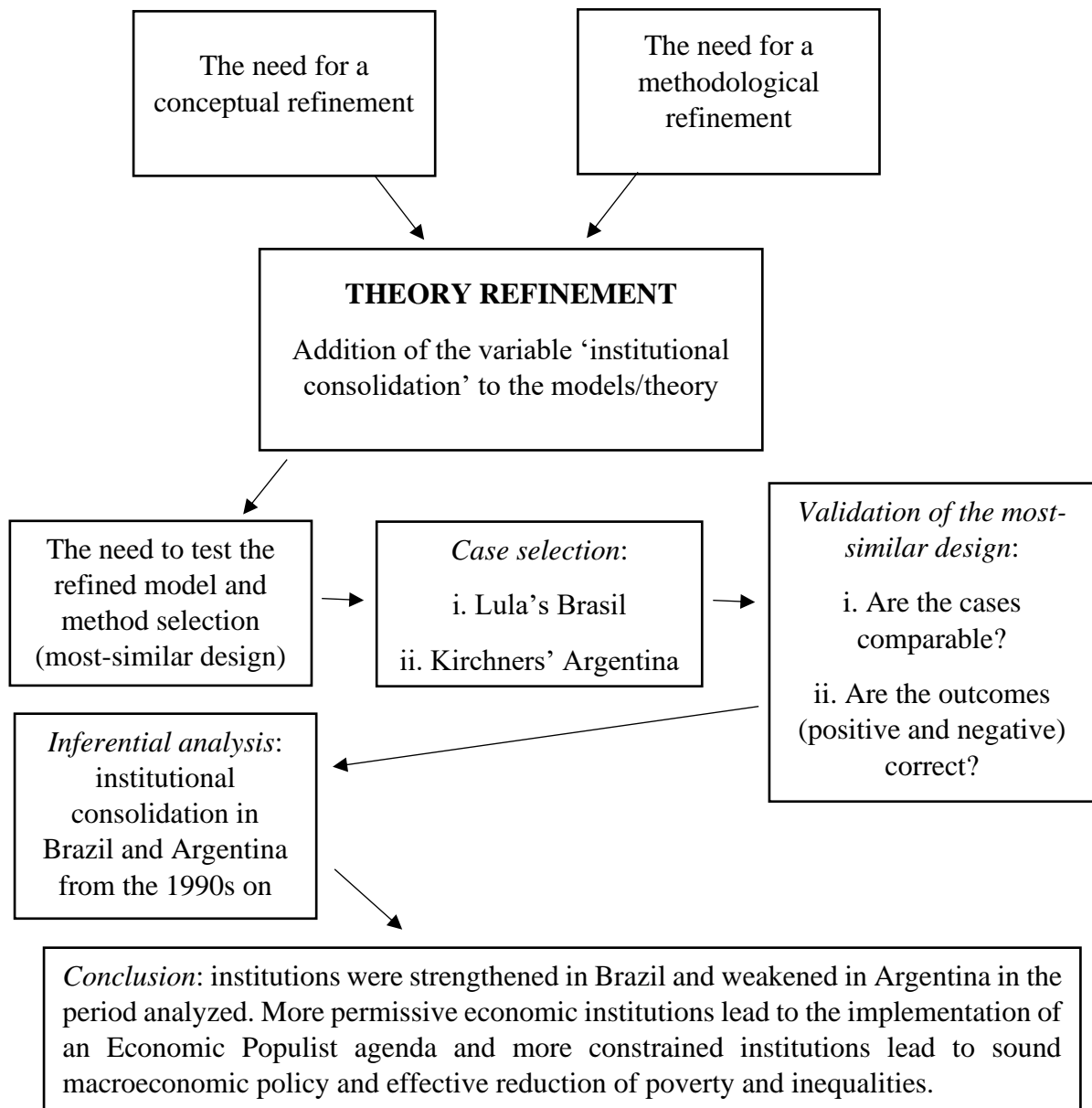
In the last 120 pages, we have covered significant ground. By finding conceptual and methodological gaps in Economic Populism literature we built a long-needed Theory Refinement to include a new explicatory variable in the models: institutional consolidation. This means the political, economic, social, academic, and organizational changes that took place in Latin America and it ultimately represents stronger institutions which, in turn, act as constraints to an Economic Populist agenda, negatively correlating with the phenomenon. In accordance with the theory's core, we have added a new independent variable to better adapt Dornbusch and Edwards' works to the 21st century, mainly to the Pink Tide governments and its nuances that were not completely dealt by the literature. The mainstream models and were outdated and this work updates them by the use of a missing explanatory variable.

This newly added causing factor also is the independent variable of interest in our comparison in the most-similar design. The use of this case selection and comparison technique is equally a part of the refinement exercise, as there are very few examples of its use in the study of Economic Populism. The literature on it is heavily concentrated on small-n analyses of positive-only cases, which tend to result in biased conclusions. Here, by comparing different outcomes in a similar scenario, we increased inference quality when studying Economic Populism's models (Chart 3).

To apply it, we confirmed the literature's label for Economic Populism to the Kirchners and Lula da Silva. This certified that the first ones are indeed typical cases for the theory and the last one is marked by pragmatism and macroeconomic soundness. We also validated that the cases truly fitted a most-similar research design and were comparable, once the variables were instrumentalized. After the development of the refined model and those validations, came our greatest contribution to the field: section 3.2. As institutions were weakened by several administrations since the 1990s in Argentina, Economic Populism found fertile ground there, which was not the case in Brazil. Fewer constraints meant more permissive institutions, which ceded to heavy social pressures and the implementation of an Economic Populist agenda by the Kirchners. Thus, the different outcomes in Brazil and Argentina are a consequence of the independent variable of interest proposed: a more solid evolution of institutions in Brazil after the late 1980s – or when Dornbusch and Edwards

(1989) inaugurated the field –, which created more constraints to the implementation of Economic Populist policies in this country. Flowchart 1, below, summarizes the evolution of the present dissertation:

Flowchart 1 – A summary of this dissertation and the steps taken



Source: Self-elaboration (2022)

Three main limitations and unexplored pathways can refine our refinement in the future. The first one is better addressing why the Kirchners were considered as a single Economic Populist experience, even though it is clear that this agenda was only fully embraced by 2010-2011. Sure, as seen, it began with Néstor, but his government analyzed singularly would hardly be considered as Economic Populist as Cristina's, Chávez's, Maduro's, and so on. This question also applies to why not consider Lula and Rousseff as a single administration for the analysis of Economic Populism, after all, they are from the same party and shared similar features. This one is a bit more complicated though, as Lula can be considered more as a successor to Cardoso – even if they significantly differ from a historical perspective and the global economic context – than a predecessor of Rousseff if we limit the scope to macroeconomic policy analysis.

The second limitation is the reduced sample: two cases. Other Pink Tide governments could and should be incorporated into the analysis using the refined model we propose. Here, a patent problem in Latin American Social Sciences appears: Argentina has the peculiar power of being a *sui generis* case in various scenarios. The country is quite often an outlier when discussing Economics, Politics, Sociology, International Relations, and so on. Thus, bringing more positive and negative cases for Economic Populism of the Pink Tide would strengthen (or not) the proposed refinement.

Lastly, Chart 3 can be temporary or even *ad hoc*. As the context changed since Dornbusch and Edwards (1989), it can also change one more time. And again. As the previous paragraph states, cases within the Pink Tide are welcomed to this analysis. For previous and future cases, we don't really know. As a new left-wing tide approaches Latin America with AMLO, Fernández, Castillo, Boric, and others, we will see. Maybe Chart 3 will have to be updated in the future, as the Social Sciences are a constant Theory Refinement exercise.

Poverty and social inequality are probably the most important problems for Latin America to overcome centuries of underdevelopment, low productivity, and all that comes with it. The region is indeed desperate (and has been for decades) for administrations that effectively tackle such problems, without making them worse, as Economic Populism tends to do. Thus, we actually cheer for Chart 3 to be temporary, as, in the future, maybe those problems will be addressed and inconsequential macroeconomic policy will no longer be considered as an alternative to solve such issues. May the next generation of Latin American leaders be able to successfully reduce inequalities and poverty, putting an end to literature discussions and refinements about Economic Populism.

References

ACEMOGLU, Daron; EGOROV, Georgy; SONIN, Konstantin. A Political Theory of Populism. **The Quarterly Journal of Economics**, v. 128, n. 2, p. 771-805, 2013.

ACEMOGLU, Daron; ROBINSON, James. **Por que as nações fracassam: as origens do poder**, Agliet. Macroeconomia financeira, vol.2: crises financeiras e regulação monetária. São Paulo, Loyola, 2012.

ALESINA, A. Macroeconomic policy in a two-party system as a repeated game. **Quarterly Journal of Economics**, v. 102, n. 3, p. 651-678, 1987.

ALSTON, Lee et al. Who Decides on Public Expenditures? A Political Economy Analysis of the Budget Process: The Case of Brazil. **Inter-American Development Bank**, 2005.

ALVIM, Valdir. O Sistema da Dívida Pública: Novo Regime Fiscal e a restauração neoliberal da Era FHC. **NECAT**, v. 6, n. 12, 2017, p. 52-80.

ARAÚJO, Maria da G. D. S. O Sistema de Pagamentos Brasileiro e a assunção de riscos pelo Banco Central. **Notas Técnicas do Banco Central**, n. 23, Banco Central do Brasil, 2002.

ASLANIDIS, Paris. Avoiding Bias in the Study of Populism. **Chinese Political Science Review**, v. 2, p. 266–287, 2017.

BANCO CENTRAL DE LA REPÚBLICA ARGENTINA, **History of the Central Bank of Argentina**, 2021. Available at: <http://www.bcra.gov.ar/Institucional/Historia_i.asp>, access: February 24, 2022.

BANCO MUNDIAL. **World Development Indicators** [banco de dados], 2020. Available at: <https://databank.worldbank.org/source/world-development-indicators>.

BAZDRESCH, Carlos; LEVY, Santiago. Populism and Economic Policy in Mexico, 1970-1982. In.: DORNBUSCH, Rudiger; SEBASTIAN, Edwards (orgs.), **The Macroeconomics of Populism**. University of Chicago Press: Chicago, p. 223-262, 1991.

BENNET, Andrew; ELMAN, Colin. Case Study Methods in the International Relations Subfield. **Comparative Political Studies**, v. 40, n. 02, p. 170-195, 2007.

BLINDER, Alan S. **Central Banking in Theory and Practice**. Cambridge: The MIT Press Cambridge, 1999.

BLUMENSCHNEIN, Fernando; NAVARRO, Diego. **Macroeconomics of Populism in Latin America and Regional Governance Dynamics**. First Draft, 2016.

BRAUN, Miguel; GADANO, Nicolás. ¿Para qué sirven las reglas fiscales?: un análisis crítico de la experiencia argentina. **Revista CEPAL**, v. 91, 2007, p. 53-65.

BRESSER PEREIRA, Luiz C. **Populismo Econômico: Ortodoxia, Desenvolvimentismo e Populismo na América Latina**. Nobel: São Paulo, p. 249, 1991.

BRESSER-PEREIRA, Luís. C.; NAKANO, Yoshiaki. Crescimento Econômico com Poupança Externa? **Revista de Economia Política**, v. 22, n. 2, p. 3-27, 2003.

BROZ, J. L.; FRIEDEN, J. The Political Economy of International Monetary Relations, **Annual Review of Political Science**, v. 4, p. 317-343, 2001.

BUBULA, Andrea; ÖTKER-ROBE, Inci. **The Evolution of Exchange Rate Regimes Since 1990 Evidence from De Facto Policies**. IMF Working Paper No. 02/155, 2002.

CACHANOSKY, Nicolas. The Cost of Populism in Argentina, 2003-2015. **MISES: Interdisciplinary Journal of Philosophy, Law and Economics**, Special Issue, 2018, p. 1-19.

CAMPOS, Luciano; CASAS, Agustín. Populism and income redistribution. **Economics Letters**, v. 186, p. 1-5, 2019.

CANITROT, Adolfo. La experiencia populista de distribución de ingresos, **Desarrollo Económico**, v. 15, n. 59, p. 331-351, 1975.

CASTRO, Paulo R. de; RONCI, Marcio. Sixty Years of Populism in Brazil. In.: DORNBUSCH, Rudiger; SEBASTIAN, Edwards (orgs.), **The Macroeconomics of Populism**. University of Chicago Press: Chicago, p. 151-173, 1991.

CERVO, Amado L.; BUENO, Clodoaldo. **História da política exterior do Brasil**. 5. ed. Brasília: Editora UnB, 2017.

CHECCI, Daniele. MACROECONOMIC POPULISM: A FORMAL REPRESENTATION AND A SUGGESTED INTERPRETATION OF THE PERUVIAN EXPERIENCE (1985-90). **Journal of International Development**, v. 8, n. 4, p. 489-516, 1996.

COLLIER, David. The Comparative Method. In Ada Finifter (org.), **Political Science: the State of the Discipline II**. Washington, D.C.: American Political Science Association, 1993.

COLLIER, David; MAHONEY, James E. Conceptual "Stretching" Revisited: Adapting Categories in Comparative Analysis. **The American Political Science Review**, v. 87, n. 4, 1993, p. 845-855.

_____. Insights and Pitfalls: Selection Bias in Qualitative Research. **World Politics**, v. 49, n. 1, 1996, p. 56-91.

COLLIER, David; SEAWRIGHT, Jason. **Rethinking Social Inquiry: Diverse Tools, Shared Standards**. Rowman & Littlefield Publishers: Oxford, pp. 273-314, 2004.

COPPEDGE, Michael, et al. V-Dem [Country–Year/Country–Date] Dataset v10. **Varieties of Democracy (V-Dem) Project**, 2020.

CORTÉS, Rosalvina O. The danger of Populism: Macroeconomic Populism in Latin America, is Colombia the exception? **Prolegómenos - Derechos y Valores**, v.13, n. 26, 2010, p. 99-122.

DAMILL, Mario; FRENKEL, Roberto. La economía argentina bajo los Kirchner: una historia de dos lustros. In: GERVASONI, Carlos; PERUZZOTTI, Enrique (Orgs.). **¿Década Ganada? Evaluando el legado del Kirchnerismo**. Buenos Aires: Debate, 2015.

DAMILL, Mario; FRENKEL, Roberto; RAPETTI, Martín. Macroeconomic Policy in Argentina During 2002–2013. **Comparative Economic Studies**, v. 57, n. 3, p. 369-400, 2015.

DE BOLLE, Monica B. More Lessons from Brazil's Boom-Bust. **PIIE**, Realtime Economic Issues Watch, December 14, 2016.

DE BOLLE, Monica B.; ZETLEMEYER, Jeromin. Measuring the Rise of Economic Nationalism. **Peterson Institute for International Economy**, Working Paper, 2018.

DE GREGORIO, José. Inflation Targets in Latin America. **Peterson Institute for International Economy**, Working Paper, 2019.

DI TELLA, Torcuato S. Populismo y reformismo. In: GERMANI, G.; DI TELLA, T. S.; IANNI, O. **Populismo y contradicciones de clase en Latinoamérica**. México D.F.: Ediciones Era, p. 38-82, 1973.

DÍAZ-ALEJANDRO, Carlos F. A Note on the Impact of Devaluation and the Redistributive Effect. **The Journal of Political Economy**, n. 71, n. 6, p. 577-580, 1963.

_____. Southern cone stabilization programs. In: CLINE, W. e WEINTRAUB, S., (Eds.) **Economic Stabilization in Developing Countries**. Washington, D.C.: The Brookings Institution, 1981.

DORNBUSCH, Rudiger; SEBASTIAN Edwards. The Macroeconomics of Populism in Latin America. **Country Economics Department: The World Bank**, 1989.

_____. Macroeconomic Populism. **Journal of Development Economics**, v. 32, 247-277, 1990.

_____. **The Macroeconomics of Populism**. University of Chicago Press: Chicago, 1991.

DOWNS, Antony. An Economic Theory of Democracy. Harper and Row: New York, 1957.

EDWARDS, Sebastian. **Left Behind: Latin America and the False Promise of Populism**. Chicago: University of Chicago Press, 2010.

_____. On Latin American Populism, and Its Echoes around the World. **Journal of Economic Perspectives**, v. 33, n. 4, p. 76–99, 2019.

EICHENGREEN, B. A Globalização do capital: uma história do sistema monetário internacional. São Paulo: Editora 34, 2000.

_____. **The Populist Temptation: Economic Grievance and Political Reaction in the Modern Era**. Oxford University Press: United States, 2018.

EMGEA. A EMGEA. Quem Somos, 2020. Available at: <<https://www.emgea.gov.br/>>, access: January 10, 2022.

ESCUDE, Carlos. Piqueteros al gobierno: un experimento populista argentino, 2003-2007. **Estudios Interdisciplinarios de América Latina y el Caribe**, v. 20, n. 1, 2009, p. 117-145.

FACULTAD DE FILOSOFÍA Y LETRAS DE LA UNIVERSIDAD DE BUENOS AIRES. **Facultad Abierta**, 2009. Available at: <<http://seube.filo.uba.ar/facultad-abierta>>, access: February 28, 2022.

FIORAVANTE, Dea G.; PINHEIRO, Maurício M. S.; VIEIRA, Roberta da S. Lei de Responsabilidade Fiscal e finanças públicas municipais: impactos sobre despesas com pessoal e endividamento. **Repositório do Conhecimento do Ipea**, Texto para discussão N° 1223, 2006.

FONSECA, Pedro C. D. O mito do populismo econômico de Vargas. **Revista de Economia Política**, v. 31, n. 1, p. 56-76, 2011.

FONSECA, Pedro C. D.; MONTEIRO, Sérgio M. M. (2005). Credibilidade e Populismo no Brasil: A Política Econômica dos Governos Vargas e Goulart. **RBE Rio de Janeiro**, v. 59, n. 2, p. 215-243, 2005.

FRAGA, Arminio. Monetary Policy During the Transition to a Floating Exchange Rate: Brazil's Recent Experience. **Finance & Development**, v. 37, n. 1, 2000.

FRED ECONOMIC DATA. **Economic Research**, 2020. Available at: <https://fred.stlouisfed.org/>.

GADELHA, Sérgio R. de B. Análise dos Impactos da Lei de Responsabilidade Fiscal sobre a Despesa de Pessoal e a Receita Tributária nos Municípios Brasileiros: um Estudo com Modelo Probit Aplicado a Dados em Pannel. **Revista Brasileira de Economia de Empresas**, v. 11, n. 1, 2011, p 65-77.

GEORGE, Alexander; BENNETT, Andrew. **Case Studies and Theory Development in the Social Science**. Cambridge, Mass: MIT Press, 2005.

GERMANI, Gino. De la sociedad tradicional a la participación total en America Latina. In: GERMANI, G. **Política y sociedad en una época de transición**, p. 195-216, 1971.

GIDRON, Noam; BONIKOWSKI, Bart. Varieties of Populism: Literature Review and Research Agenda. **Weatherhead Center for International Affairs**, Working Paper Series, n. 13-0004, 2013.

GOLDFAJN, Ilan. Nota do Presidente Ilan Goldfajn sobre o cenário econômico da década de 2000. **Banco Central do Brasil**, 2018.

GOLDFAJN, Ilan; HENNINGS, Katherine; MORI, Hélio. **Brazil's Financial System: Resilience to Shocks, no Currency Substitution, but Struggling to Promote Growth**. Working Papers Series 75, Central Bank of Brazil, Research Department, 2003.

GREMAUD, A.; VASCONCELLOS, M.; TONETO JÚNIOR, R. **Economia Contemporânea Brasileira**. Atlas, São Paulo, 8. Ed., 2018.

GRIGERA, Juan. Populism in Latin America: Old and new populisms in Argentina and Brazil. **International Political Science Review**, v. 38, n.4, p. 441-455, 2017.

HIBBS, Douglas A. Political parties and macroeconomic policy. **American Political Science Review**, v. 71, n. 4, p 1467-97, dez. 1977.

HOPSTEIN, Graciela. **A Rebelião Argentina**. Rio de Janeiro: E-Papers, 2007.

HUDSON, Juan P. Public Policies and Companies Recovered by their Workers in Argentina. Analysis of the Worker Self-Management Program, 2004-2012. **Apuntes**, v. 43, n. 79, 2016, p. 157-184.

KAMINSKY, Graciela; MATI, Amine; CHOUEIRI, Nada. **Thirty Years of Currency Crises in Argentina: External Shocks or Domestic Fragility?** NBER WORKING PAPER SERIES, Working Paper 15478, 2009.

KAUFFMAN, Robert R.; STALLINGS, Barbara. The Political Economy of Latin American Populism, In.: DORNBUSCH, Rudiger; SEBASTIAN Edwards (orgs.), **The Macroeconomics of Populism**. University of Chicago Press: Chicago, p. 15-43, 1991.

KEY JR, V. O. **The responsible electorate**. Belknap: Cambridge MA, 1966.

KING, Gary; KEOHANE, Robert; VERBA, Sidney. **Designing Social Inquiry: Scientific Inference in Qualitative Research**. Princeton University Press: Princeton, New Jersey, 1994.

KRUGMAN, Paul. Macroeconomic Populism Returns. **New York Times**, The Opinion Pages, February 1, 2014.

KUHN, Thomas S. **The Structure of Scientific Revolutions**. Chicago: University of Chicago Press, 1962.

LABAQUI, Ignacio. Who's Afraid of Reversing Neoliberal Reforms? Financial Statecraft in Argentina and Venezuela. In: ARMIJO, Leslie E.; KATADA, Saori N. (Eds.). **The Financial Statecraft of Emerging Powers**. London: Palgrave Macmillan, 2014, p. 21-46.

LAKATOS, Imre. **Falsification and the methodology of scientific research programmes**. In: Lakatos; Musgrave 1970, p. 91-195.

LIPJHART, Arend. Comparative Politics and Comparative Method. **The American Political Science Review**, v. 65, n. 3, p. 682-693, 1971.

LOUREIRO, Felipe. P. Considerações sobre o conceito de populismo econômico: explicação ou distorção histórica? **Revista Eletrônica Boletim do Tempo**, Rio de Janeiro, ano 4, n. 16, 2009.

MAHONEY, James; GOERTZ, Gary. A Tale of Two Cultures: Contrasting Quantitative and Qualitative Research. **Political Analysis**, v. 14 n.3, p. 227-249, 2006.

MAIA, Geraldo. **Restructuring the banking system – the case of Brazil**. BIS Policy Papers n. 6, 1999.

MARQUES, Fernando L. B. **Os Efeitos da Crise Financeira sobre a Autonomia dos Bancos Centrais: as Decisões do Banco do México entre 2009 e 2014**. Dissertação apresentada ao Programa de PósGraduação em Relações Internacionais do Instituto de Relações Internacionais da Universidade de São Paulo, para obtenção do título de Mestre em Ciências, 2017.

MEIRELLES, Henrique. **Discurso de Posse do Presidente do Banco Central do Brasil**. Banco Central do Brasil, 2003.

MENEZES, Thiago M.; VIEIRA, Máira B. B. A “onda rosa” no Brasil e na Argentina sob o prisma das distintas morfologias políticas. **8º Encontro da ABCP**, 01 a 04/08/2012, Gramado, RS Área Temática: Cultura Política e Democracia, 2012.

MESQUITA, Mário. A política econômica do governo Dilma: a volta do experimentalismo. In.: Centro de Debate em Políticas Públicas, **Coletânea de Capítulos da Agenda ‘Sob a Luz do Sol’**, p. 3-14, 2014.

MORAES, Leonardo. **POPULISMO, POLÍTICA ECONÔMICA E CRISES NA AMÉRICA LATINA**. Tese (Doutorado em Economia) – FACULDADE DE CIÊNCIAS ECONÔMICAS, Universidade Federal do Rio Grande do Sul. Porto Alegre, p. 234, 2018.

MOSCHELLA, Manuela; WEAVER, Catherine. **Players, Power, and Paradigms**. In.: MOSCHELLA, M.; WEAVER, C. (ed.) **Handbook of global economic governance: players, power, and paradigms**, 2011.

MUDDE, Cas; KALTWASSER, Cristóbal R. Exclusionary vs. Inclusionary Populism: Comparing Contemporary Europe and Latin America. **Government and Opposition**, v. 48, n. 2, p. 147–174, 2013.

NASSIF, André. As armadilhas do tripé da política macroeconômica brasileira. **Brazilian Journal of Political Economy**, v. 35, n. 3, 2015, p. 426-443.

NORDHAUS, W. The Political Business Cycle, **The Review of Economic Studies**, v. 42, n. 2, p. 169-190, 1975.

O'DONNELL, Guillermo. Estado y alianzas de clase en Argentina, 1956-1976, **Desarrollo Económico**, v. 16, n.64, p. 523-554, 1977.

OCAMPO, Emilio. The Economic Analysis of Populism. A Selective Review of the Literature. **Serie Documentos de Trabajo UCEMA 694**, Buenos Aires, 2019.

PALOCCI FILHO, Antônio. Reformar para crescer. **Folha de S. Paulo**, Mercado, June 27, 2010. Available at: <<https://www1.folha.uol.com.br/fsp/mercado/me2706201020.htm>>, access: January 26, 2022.

PÉREZ-LIÑÁN, A.; HECIMOVICH, J. P. Explaining military coups and impeachments in Latin America, **Democratization**, v. 24, n. 5, nov. 2016.

PORTANTIERO, Juan Carlos. Política y clases sociales en la Argentina actual. **Pasado y Presente**, a.1, n. 1, p. 18-23, 1963.

PRASAD, Eswar S.; RAJAN, R. G. A Pragmatic Approach to Capital Account Liberalization. **Journal of Economic Perspectives**, v. 22, n. 3, 2008, p. 149-172.

RETAMOZO, Martín. Movimientos sociales, política y hegemonía en Argentina. **Polis Revista Latinoamericana**, v. 10, n. 28, 2011, p. 243-279.

ROBERTS, Kenneth M. Neoliberalism and the Transformation of Populism in Latin America: the Peruvian case. **World Politics**, v. 48, n. 1, p. 82-116, 1995.

RODRIK, Dani. Populism and the economics of globalization. **Journal of International Business Policy**, 2018.

_____. Is Populism Necessarily Bad Economics? **AEA Papers and Proceedings**, v. 108, 2018, p. 196–199.

ROGOFF, K.; SILBERT, A. Elections and macroeconomic policy cycles, **Review of Economic Studies**, v. 55, n. 1, p. 1-16, jan. 1988.

ROODUIJN, Matthijs; PAUWELS, Teun. Measuring Populism: comparing two methods of content analysis: Comparing Two Methods of Content Analysis. **West European Politics**, v. 34, n. 6, p. 1272-1283, 2011.

RUTH-LOVELL, Saskia P.; LÜHRMAN, Anna; GRAHN, Sandra. Democracy and Populism: Testing a Contentious Relationship. **The Varieties of Democracy Institute**, Working Paper Series, n. 2019:91, 2019.

SACHS, Jeffrey. D. Social conflict and populist policies in Latin America. **NBER WORKING PAPER SERIES**, Working Paper No. 2897, 1989.

SALVIANO JUNIOR, Cleofas. **Bancos Estaduais: dos problemas crônicos ao PROES**. Brasília: Banco Central do Brasil, 2004.

SARTORI, Giovanni. Comparing and Miscomparing. **Journal of Theoretical Politics**, v. 3, n. 3, p. 243-257, 1991.

_____. Concept misformation in comparative politics. **The American Political Science Review**, v. 64, n.4, 1970, pp. 1033-1970.

SEAWRIGHT, Jason; GERRING, John. Case-Selection Techniques in Case Study Research: A Menu of Qualitative and Quantitative Options. **Political Research Quarterly**, v. 61, n. 2, p. 294-308, 2008.

SILLETTA, Afifredo. **La Patria Sublevada**. Buenos Aires: Ediciones LEA, 2011.

SILVA, Ozaí da. Nem Reforma, nem revolução: A estrela é branca. In: ANGELO, Vitor A.; VILLA, Marco A (Orgs.). **O Partido dos Trabalhadores e a política brasileira (1980-2016): Uma história revisitada**. São Carlos: Edufscar, 2009, Capítulo 1, p. 13-34.

SINGER, André. **Os Sentidos do Lulismo: Reforma gradual e pacto conservador**. São Paulo: Companhia das Letras, 2012.

SOUZA, Amaury de. Cardoso and the Struggle for Reform in Brazil. **Journal Of Democracy**, v. 10, n. 3, p. 49-63, 1999.

VAN EVERA, Stephen. **Guide to Methods for Political Science Students**. United States: Cornell University Press, 1997.

WALD, Arnaldo. A Emenda constitucional nº 40 e a autonomia do Banco Central. **Revista de Direito Administrativo**, v. 235, 2004, p. 147–158.

WILLIAMSON, John. A Short History of the Washington Consensus. **Law & Business Review of the Americas**, v. 15, n. 1, 2009, 7-23.

WISE, Carol; LINS, Maria Antonieta D. T. Macro-prudence versus Macro-profligacy. Brazil and Argentina in the Face of the Global Financial Crisis in Carol Wise, Leslie Elliott Armijo, and Saori N. Katada (eds.) **Unexpected Outcomes: How Emerging Markets Survived the Global Financial Crisis**. Washington DC: Brookings Institution Press, 2015.

ANNEX 1

How Lula's Brazil and the Kirchners' Argentina compare qualitatively

<i>Feature observed</i>	<i>Lula's Brazil</i>	<i>Kirchners' Argentina</i>
	<i>Dornbusch and Edwards (1989, 1990, 1991)</i>	
<i>Heterodox pressures; non-market policies</i>	<p>History: The PT was founded in 1980 and, according to Singer (2012), it is the only worker's party founded after World War II. Initially, the party had a gregarious bias toward urban unionized workers and a highly reformist and radical profile that "normalized" during the 1990s and mainly in the 2000s. Lula himself participated in the 1989, 1994 and 1998 presidential elections as a hard oppositionist to the institutional and "neoliberal" reforms of the 1990s – embodied by Collor de Melo and Cardoso.</p> <p>For decades, the "Workers' Party, or <i>Partido dos Trabalhadores</i> (PT), had advocated nationalization of large firms and banks, deep agrarian reform, and a move toward socialism. Lula's election represented a dramatic change in Brazil's history and a test for the country's young democracy" (EDWARDS, 2010, p. 1). The "Partido dos Trabalhadores (PT), had long had a platform based on land redistribution, strong government regulation, expansive fiscal policies, and the nationalization of privately owned companies" (Edwards, 2010, p. 205).</p>	<p>History: The PJ was founded in 1946 by Juan Domingo Perón and Evita Perón after his first election as president, replacing the <i>Partido Laborista</i>. It has been the most successful party in free and fair elections in Argentina ever since and it is extremely popular among the country's population (even when it was banned) to this day, even though several changes in ideology have succeeded in the last decades. Since 2003 and led by Néstor Kirchner, the <i>Frente para la Victoria</i>, a political alliance with the PJ as its major player, has predominated on Peronist frontlines.</p> <p>On the PJ's official website, we can find some useful institutional information on its profile and history: "The Justicialist Party is part of the Peronist Movement, a political current founded by Juan Domingo Perón and María Eva Duarte that includes unions, social movements, grassroots organizations, and other groupings [...] Peronist ideals also reflect, among other values: the centrality of work and production; the organization of workers to defend their rights and interests, and solidarity in the financing of social protection" (PARTIDO JUSTICIALISTA, 2021, n.p.).¹²⁵</p>

¹²⁵ PARTIDO JUSTICIALISTA. *El Partido*, 2021. Available at: <www.pj.org.ar/>, access: December 20, 2021. Original: El Partido Justicialista integra el Movimiento Peronista, una corriente política fundada por Juan Domingo Perón y María Eva Duarte que incluye sindicatos, movimientos sociales, organizaciones de base y

According to Silva (2009), PT was born as a critic of the Brazilian dictatorship and *bourgeois* parties. In the 20th century, PT's participation in the electoral game consisted of fomenting social struggle and mobilization to elevate the consciousness of the worker's class against the current Brazilian social order. As a unionist and political leader, during the 1970s and 1980s, Lula "spent a lifetime in trade union circles and at a young age became familiar with the nuances of left-wing and particularly Marxist doctrines" (EDWARDS, 2010, p. 213).

Just as an example, to observe such a profile change, we can compare the party's foundation manifest in 1980 and Lula's government plan for the 2002 elections:

"They organize themselves so that the social and political situation is the tool for building a society that responds to the interests of workers and other sectors exploited by capitalism." (PARTIDO DOS TRABALHADORES, 1980, n.p.).¹²³ In

During the 1990s and mainly in Menem's core of principles, Peronismo would change and suffer from several inside fights amongst its member. This interview of Julio Bárbaro, Menem's Cultural Secretary, elucidates those disputes in the PJ: "At first, the arrival of liberalism in Peronism in the 1990s did not scare me. I thought that Peronism was still alive and that it would happen the same as in the sixties when socialism approached Peronism and was nationalized [...] Menem liberalized himself as a Peronist, because for him business was more important than the national movement and that is his greatest betrayal" (SILLETTA, 2011).¹²⁶ However, the PJ would return closer to its original tenets during Duhalde's (and later on with the Kirchners) administration. As the former president puts it in January 2002: "we must end decades of an alliance that harmed the country, which is the alliance of political power with financial power and not with the productive sector" (ÁMBITO, 2002, n.p.).¹²⁷ Those features can also be found in Cristina's inaugural speeches in 2011: "They govern with goals of growth but of

otros agrupamientos [...] También los ideales peronistas reflejan, entre otros valores: la centralidad del trabajo y la producción; la organización de los trabajadores para defender sus derechos e intereses y la solidaridad en el financiamiento de las protecciones sociales.

¹²³ PARTIDO DOS TRABALHADORES. **Manifesto de fundação do Partido dos Trabalhadores**, 1980. Available at: <<https://pt.org.br/manifesto-de-fundacao-do-partido-dos-trabalhadores/>>, access: December 13, 2021. Original: Organizam-se elas mesmas, para que a situação social e política seja a ferramenta da construção de uma sociedade que responda aos interesses dos trabalhadores e dos demais setores explorados pelo capitalismo.

¹²⁶ Original: En un principio a mí no me asustó la llegada del liberalismo al peronismo en los noventa. Pensé que todavía el peronismo estaba vivo y que sucedería igual que en la década del sessenta cuando el socialismo se acercó al peronismo y se nacionalizó [...] Menem se liberalizó como peronista, porque para él eran más importante los negocios que el movimiento nacional y ahí está su mayor traición.

¹²⁷ ÁMBITO. Texto completo del discurso de Eduardo Duhalde ante empresarios de la producción. **Economía**, 4 jan. 2002. Available at: <<https://www.ambito.com/economia/texto-completo-del-discurso-eduardo-duhalde-empresarios-la-produccion-n3153378>>, access: December 15, 2021. Original: debemos terminar décadas en

*Macroeconomic
bottlenecks*

2002: “There is no PT government in the financial sector and I want to notify the states and municipalities that is not committed to fiscal responsibility and the stability of public accounts. Our government will not break contracts or revoke established rules. International commitments will be respected [...] Fiscal responsibility and the stability of public accounts will mark our government's policies” (COLIGAÇÃO LULA PRESIDENTE, 2002).¹²⁴

the financial sector and I want to notify you that we govern with goals of growth of work and employment. These are the axes of our Government and these will continue to be [...] Then came the other great sovereign decision to pay the debt with the International Monetary Fund, in such a way that no one could be the head of the Argentine economy; the head of the Argentine economy sits here and by decision of the People” (KIRCHNER, 2011, n.p.).¹²⁸

Exchange rate situation: In January 1999, the Brazilian central bank abandoned the currency band regime, starting to operate in a floating regime. Throughout the 1990s, crawling pegs and bands predominated with a delay to allow the drop in the value of the *real* (the Samba effect), distorting the foreign currency market and value and aggravating capital flight.

Exchange rate situation (bottlenecks): In 1991, the Convertibility Plan was launched by the Menem administration. It created a currency board that enforced the 1-to-1 peg of the peso to the American dollar.

By 1994, the plan started to display weaknesses that became more conspicuous with the Mexican crisis, the Tequila effect, and social conditions, mainly unemployment and privatization effects, worsened. Capital “flows to Argentina completely dried out in the last half of 2000 and especially in 2001. By this time, political uncertainty (President Menem’s desire to remain in power for a third term), as well as financial turmoil following Brazil’s crisis in January 1999,

Argentina de una alianza que perjudicó al país, que es la alianza del poder político con el poder financiero y no con el productivo.

¹²⁴ Original: Não há governo petista nos estados e nos municípios que não esteja comprometido com a responsabilidade fiscal e a estabilidade das contas públicas. O nosso governo não vai romper contratos nem revogar regras estabelecidas. Compromissos internacionais serão respeitados [...] A responsabilidade fiscal e a estabilidade das contas públicas marcarão as políticas do nosso governo.

¹²⁸ KIRCHNER, Cristina F. **Asunción de Cristina Kirchner**, 2011. Available at: <<https://www.cfkargentina.com/asuncion-de-cristina-kirchner-10-de-diciembre-de-2011/>>, access: December 16, 2021. Original: Gobiernan con metas de crecimiento pero del sector financiero y yo quiero notificarles que nosotros gobernamos con metas de crecimiento del trabajo y del empleo. Estos son los ejes de nuestro Gobierno y estos van a seguir siendo [...] Luego vino la otra gran decisión soberana de pagar la deuda con el Fondo Monetario Internacional, de modo tal que ya nadie pudiera ser jefe de la economía argentina, que el jefe de la economía argentina se sienta acá y por decisión del Pueblo.

	<p>government's domestic debt—which amounted to 40 percent of GDP—consisted of short-term financing. The current account deficit was approaching 5 percent of GDP, even as the economy was sliding into recession. Then, as often happens to vulnerable countries, an economic crisis erupted: after Russia defaulted on its debt in August, capital flows to Brazil came to a halt. These events forced Brazil to float the real and led to a panic in January 1999. In February, the real plummeted to 2.15 to the dollar, from 1.20 at the beginning of the year” (FRAGA, 2000, p. 16).</p> <p>“Summing up briefly, the policy response to the crisis entailed a combination of tighter fiscal policy, tighter monetary policy with an inflation target, and external financial support. Results have, so far, been surprisingly positive. The exchange rate stabilized and fell below 2 reals to the dollar very quickly. Inflation expectations also came down, which allowed us to use the interest-rate bias twice during March 1999; rates were first cut to 42 percent, then to 39½ percent” (FRAGA, 2000, p. 18).</p> <p>Visit Table 1.</p>	
<i>Previous economic performance</i>	IMF Lending Commitments ¹²⁹ : 1998, 2001, and 2002.	IMF Lending Commitments ¹³⁰ : 1996, 1998, 2000, 2001, and 2003 (twice).
<i>Edwards (2019)</i>		

¹²⁹ IMF. **Brazil: History of Lending Commitments as of August 31, 2013.** Available at: <https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=90&date1key=2013-08-31>, access: September 20, 2021.

¹³⁰ IMF. **Argentina: History of Lending Commitments as of August 31, 2019.** Available at: <https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=30&date1key=2019-08-31>, access: September 20, 2021.

During his inaugural speech in 2002, Lula addressed globalization and international organizations: “Trade negotiations are of vital importance today. Regarding the FTAA, in the understandings between Mercosur and the European Union, at the World Trade Organization, Brazil will fight protectionism, fight for its elimination, and try to obtain fairer and more adequate rules for our condition as a developing country [...] We will value multilateral organizations, especially the United Nations, which has the primacy in preserving international peace and security”.¹³¹

Although in 2002/3 the president seemed to have a more favorable opinion towards globalization and free trade, this was not always the case. In 2001, he harshly criticized the Free Trade Area of the Americas (ALCA/FTAA) and Cardoso’s economic policy.¹³²

In 2002, Lula would once again attack ALCA and lambaste George W. Bush.: “The United States has a president who, out of ten words he speaks, nine are

The “Kirchner’s years in office were characterized by political discourse centered on anti-globalization and the ills of inequality. Like his predecessor, he blamed foreigners, in particular the IMF, for the country’s state of affairs. [...] Throughout the Kirchner administration the antiglobalization and antiforeign rhetoric continued” (EDWARDS, 2010, p. 159). In a speech to announce the *desendeudamiento* with the IMF, in December 2005, Néstor averred that “This debt has been a constant vehicle of interference because it is subject to periodic reviews and has been a source of demands and more demands, which are contradictory to each other and opposed to the objective of sustainable growth” (CASA ROSADA, 2005, n.p.)¹³⁶.

In the IV Summit of the Americas, in 2004, Néstor harshly criticized the Washington Consensus. “In obtaining these consensuses to advance in the design of the new policies that the situation demands, the discussion cannot be absent as to whether they will have to respond to unique prescriptions with the pretense of being universal, valid for all times, for all countries, all place. The

¹³¹ PORTAL DA CÂMARA DOS DEPUTADOS. **Discurso do presidente Lula no Congresso Nacional**. TV Câmara, March 1, 2003. Original: As negociações comerciais são hoje de importância vital. Em relação à Alca, nos entendimentos entre o Mercosul e a União Européia, na Organização Mundial do Comércio, o Brasil combaterá o protecionismo, lutará pela eliminação e tratará de obter regras mais justas e adequadas à nossa condição de país em desenvolvimento [...] Vamos valorizar as organizações multilaterais, em especial as Nações Unidas, a quem cabe a primazia na preservação da paz e da segurança internacionais.

¹³² FOLHA DE S. PAULO ONLINE. Lula critica Alca e política econômica do governo FHC. **Últimas notícias**, Poder, April 11, 2001. Available at: <<https://www1.folha.uol.com.br/folha/brasil/ult96u18355.shtml>>, access: December 18, 2021.

¹³⁶ CASA ROSADA. **Palabras del Presidente de la Nación, Néstor Kirchner, en el acto de anuncio del plan de desendeudamiento con el Fondo Monetario Internacional**, 2005. Available at: <<https://www.caserosada.gob.ar/informacion/archivo/24862-blank-41184041>>, access: December 19, 2021. Original: Esta deuda ha sido constante vehículo de intromisiones, porque está sujeta a revisiones periódicas y ha sido fuente de exigencias y más exigencias, que resultan contradictorias entre sí y opuestas al objetivo del crecimiento sustentable.

about waging war. He is always looking for some new adversary [...] As the US is proposing, the FTAA is not a proposal for integration, it is a policy of annexation, and our country will not be annexed” (FOLHA DE S. PAULO ONLINE, 2002, n.p.).¹³³

Already as president, in 2003, Lula denounced the negative effects of globalization: “If globalization is inevitable, this does not mean that we must fatalistically reconcile ourselves to its perverse effects [...] We do not need to accept that the price of modernization – of gains in competitiveness and efficiency – is marginalization, impoverishment, and the hopelessness of those left behind” (FOLHA DE S. PAULO ONLINE, 2003, n.p.).¹³⁴ And, in 2004, it was IMF’s turn: “The international financial system must contribute to the growth of production. Its rules must allow developing countries the necessary margin of uniformity intended by what was called the 'Washington Consensus', today, there is empirical evidence regarding the failure of these theories” (OAS, 2005, n.p.)¹³⁷.

One of the themes that concern the rejection of globalization is the Free Trade Area of the Americas (FTAA, or ALCA in Spanish and Portuguese). Néstor’s rejection of it was remarkable (SILLETTA, 2011) and the 2005 summit of the Americas in Argentina marked the end of the agreement’s negotiations. We highlight Hugo Chávez’s theatrical performance in Buenos Aires to fight Bush, comparing South American presidents with musketeers and even saying that Néstor was the D’Artagnan of the group (CLARÍN, 2005, n.p.)¹³⁸.

¹³³ FOLHA DE S. PAULO ONLINE. Lula critica a Alca e diz que Bush "só pensa em fazer guerra". **Últimas notícias**, Poder, September 24, 2002. Available at: <<https://www1.folha.uol.com.br/folha/brasil/ult96u38392.shtml>>, access: December 18, 2021. Original: Os Estados Unidos têm um presidente que, de cada dez palavras que fala, nove são sobre fazer uma guerra. Ele está sempre procurando algum novo adversário [...] Tal como está sendo proposta pelos EUA, a Alca não é uma proposta de integração, é uma política de anexação, e o nosso país não vai ser anexado.

¹³⁴ FOLHA DE S. PAULO. Lula faz crítica a efeitos da globalização. **Últimas notícias**, Poder, November 1, 2003. Available at: <<https://www1.folha.uol.com.br/folha/brasil/ult96u54983.shtml>>, access: December 19, 2021. Original: Se a globalização é inevitável, isso não significa que devemos nos reconciliar, de forma fatalista, a seus efeitos perversos [...] Não precisamos aceitar que o preço da modernização – do ganho em competitividade e eficiência – seja a marginalização, o empobrecimento e a desesperança daqueles que ficaram para trás.

¹³⁷ OAS. Palabras del presidente de la República Argentina, Dr. Néstor Kirchner, durante la inauguración de la IV Cumbre de las Américas, en Mar del Plata. **Discursos**, November 4, 2005. Available at: <https://www.oas.org/es/centro_noticias/discurso.asp?sCodigo=05-0263>, access: December 19, 2021. Original: En la obtención de esos consensos para avanzar en el diseño que las nuevas políticas que la situación exige no puede estar ausente la discusión respecto de si aquellas habrán de responder a recetar únicas con pretensión de universales, válidas para todo tiempo, para todo país, todo lugar. Esa uniformidad que pretendía lo que dio en llamarse el ‘Consenso de Washington’ hoy existe evidencia empírica respecto del fracaso de esas teorías.

¹³⁸ CLARÍN. Chávez, eufórico: “Fuimos como cinco mosqueteros”. **Home**, November 6, 2005. Available at: <https://www.clarin.com/ediciones-antiores/chavez-euforico-mosqueteros_0_H1CZKxvJOK1.html>, access: December 20, 2021.

Corruption scandals

autonomy” (FOLHA DE S. PAULO, 2004, n.p.).¹³⁵

Anões do orçamento: In 1993, a scandal involving more than 100 million reais frauds with resources from the Federal Budget during the late-1980s and early-1990s was revealed. It concerned mostly irrelevant congressmen, thus the pejorative name of “Budget Dwarves”.

Collor de Melo’s impeachment: Elected as president in 1990, Collor de Melo endured an impeachment process that culminated in his renouncing in December 1992. The process regarded a corruption investigation emerging from an accusation from his brother in 1992, blaming the treasurer of Collor’s campaign for articulating a corruption scheme on several fronts: influence peddling, distribution of public jobs, and collection of bribes.

SUDAM: In the late 1990s, several administrators from the Superintendência de Desenvolvimento da Amazônia, or SUDAM, were accused of embezzling money through falsified tax documents and contracts surpassing hundreds of millions of *reais*. The repercussion was such that in 2001 SUDAM was extinguished by Cardoso, replacing it by the *Agência de Desenvolvimento da Amazônia* (ADA).

Yomagate: This political scandal took place in Argentina in 1991, during Menem’s administration, concerning a cocaine trafficking operation. Allegedly, large amounts of money from drug trafficking in the United States were being sent to Argentina to be laundered implicating Amira Yoma, Menem’s former sister-in-law.

Arms trafficking and Menem’s house arrest: between 1991 and 1995, more than 6000 tons of illegal arms shipments from Argentina to Croatia and Ecuador took place at a moment when international law had restrictions on it due to a UN embargo against the European country and a peace agreement with the South American one. However, three secret decrees signed by Menem facilitated illegal shipments. In 2001, the former president would be condemned to 6 months of house arrest. Menem would later flee to Chile, which did not accept Argentina’s extraditions requests. The former president would only return to Argentina in 2004, after the warrants’ annulation.

Néstor Kirchner’s critics to Menem and corruption: “Menem is the past. He is responsible for the Argentina we have, he is responsible for social exclusion, for the structural corruption that this country has” (PÁGINA 12, 2002, n.p.).¹⁴⁰

¹³⁵ FOLHA DE S. PAULO ONLINE. Lula condena lado negativo da globalização e critica FMI. **Brasil**, Diplomacia, September 21, 2004. Available at: <<https://www1.folha.uol.com.br/fsp/brasil/fc2109200408.htm>>, access: December 19, 2021. Original: O sistema financeiro internacional deve contribuir para o crescimento da produção. Suas regras devem permitir aos países em desenvolvimento a necessária margem de autonomia.

¹⁴⁰ PÁGINA 12. “En Argentina hay que perder el miedo al poder”. **El País**, December 8, 2002. Available at: <<https://www.pagina12.com.ar/diario/elpais/1-13913-2002-12-08.html>>, access: December 20, 2021. Original:

<p>In his inaugural speech, Lula mentioned the fight against corruption: “The fight against corruption and the defense of ethics in dealing with public affairs will be central and permanent objectives of my Government. It is necessary to face with determination and trump the true culture of impunity that prevails in certain sectors of public life” (SILVA, 2003, n.p.).¹³⁹</p>	<p>“We will build a government of national unity, fight corruption, recover social justice, and create a new dawn” (CLARÍN, 2003, n.p.)¹⁴¹.</p> <p>In Néstor’s inaugural speech in 2003: “There will be no reliable change if we allow impunity to prevail. A guarantee that the fight against corruption and impunity will be relentless, it will strengthen institutions on the basis of eliminating all possible suspicion about them”.¹⁴²</p>
--	---

Sources: World Bank (2020); IMF (2021); and others already mentioned in the text.

Menem es el pasado. Es el responsable de la Argentina que tenemos, es el responsable de la exclusión social, de la corrupción estructural que tiene este país.

¹³⁹ SILVA, Luis I. L. da. **Pronunciamento do Presidente da República, Luiz Inácio Lula da Silva, na sessão solene de posse no Congresso Nacional**, 2003. Available at: <http://www.biblioteca.presidencia.gov.br/presidencia/ex-presidentes/luiz-inacio-lula-da-silva/discursos/discursos-de-posse/discorso-de-posse-lo-mandato>, access: December 13, 2021. Original: O combate à corrupção e a defesa da ética no trato da coisa pública serão objetivos centrais e permanentes do meu Governo. É preciso enfrentar com determinação e derrotar a verdadeira cultura da impunidade que prevalece em certos setores da vida pública.

¹⁴¹ CLARÍN. **Kirchner llamó a votar contra el modelo económico de los 90**. *Política*, April 25, 2003. Available at: https://www.clarin.com/politica/kirchner-llamo-votar-modelo-economico-90_0_BJfzNnWe0Fx.html, access: December 21, 2021. Original: Vamos a construir un gobierno de unidad nacional, a combatir la corrupción, a recuperar la justicia social, a generar un nuevo amanecer.

¹⁴² CASA ROSADA. **Discurso del señor presidente de la nación, doctor Néstor Kirchner, ante la honorable Asamblea Legislativa**. Presidencia, May 25, 2003. Original: No habrá cambio confiable si permitimos la subsistencia de ámbitos de impunidad. Una garantía de que la lucha contra la corrupción y la impunidad será implacable, fortalecerá las instituciones sobre la base de eliminar toda posible sospecha sobre ellas.

ANNEX 2

How Lula's Brazil and the Kirchners' Argentina compare quantitatively

Feature observed *Lula's Brazil*

Kirchners' Argentina

Dornbusch and Edwards (1989, 1990, 1991)

<i>Previous economic performance</i>	Real GDP Growth (IMF, 2021):		Real GDP Growth (IMF, 2021):	
	<i>Year</i>	<i>%</i>	<i>Year</i>	<i>%</i>
	1995	4.4	1995	-2.8
	1996	2.2	1996	5.5
	1997	3.4	1997	8.1
	1998	0.3	1998	3.9
	1999	0.5	1999	-3.4
	2000	4.4	2000	-0.8
	2001	1.4	2001	-4.4
	2002	3.1	2002	-10.9
<i>Reactivation and redistribution; Inequalities and social pressures</i>	Unemployment rate (IMF, 2021):		Unemployment rate (IMF, 2021):	
	<i>Year</i>	<i>%</i>	<i>Year</i>	<i>%</i>
	1995	9.9	1995	18.9
	1996	11.2	1996	18.8
	1997	11.6	1997	16.8
	1998	14.7	1998	14.8
	1999	14.7	1999	16.1
	2000	13.9	2000	17.1
	2001	12.5	2001	19.2
	2002	13	2002	22.5
	Gini Index:		Gini Index:	
	<i>Year</i>		<i>Year</i>	
	1995	59.6	1995	48.9
	1996	59.9	1996	49.5
	1997	59.8	1997	49.1
	1998	59.6	1998	50.7
	1999	59	1999	49.8
	2000	n.a.	2000	51.1
	2001	58.4	2001	53.3
	2002	58.1	2002	53.8
<i>Availability of reserves and international credit</i>	Total reserves (% of total external debt):		Total reserves (% of total external debt):	
	<i>Year</i>	<i>%</i>	<i>Year</i>	<i>%</i>
	1995	32.21	1995	16.18
	1996	33.09	1996	17.74
	1997	26.24	1997	17.49

1998	18.38	1998	17.57
1999	14.83	1999	17.35
2000	13.61	2000	16.76
2001	15.6	2001	9.54
2002	16.31	2002	7.07

Sources: World Bank (2020); IMF (2021); and others already mentioned in the text.