

## LATIN AMERICA

# Economic Faultlines

By Manuel Castells and Fernando Calderón

## A New Latin America

Since the turn of the 21<sup>st</sup> century, Latin America has been in a process of profound transformation. Within this far-reaching regional shift, however, it is necessary to account for major internal differences in each country, both in terms of social structure, culture, and institutions, as well as in terms of the relationship to the global system.

With regard to economic growth, the region as a whole has modernized its productive structure, increased its competitiveness in the global economy, and changed its traditional patterns of dependency vis-à-vis the United States. Overall annual GDP growth was 4 percent in 2003–2008, which slid to 2.9 percent in 2009–2011 under the impact of the 2008 economic crisis in the U.S. and Europe, then continued at 2.8 percent in 2012–2013, and kept growing until 2014–15. Latin America withstood the effects of the 2008 financial crisis much better than the U.S. or Europe and, despite the region's deeper integration in the global economy, actually decoupled itself from the evolution of the developed world for the first time. In short, after 2001, Latin America experienced more than a decade of sustained economic growth and increased competitiveness, although a number of countries are experiencing economic traumas today.

We contend that the containment of the effects of the global financial crisis and steady economic growth in the 2003–2013 period were due to two major factors. First, the regulatory role of the state was stronger than in the U.S. and Europe, particularly in financial markets after the crises of the 1990s throughout the region, the crisis of the *real* in Brazil in 1999, and the collapse of Argentina's banking system in 2001 (it appears that the Cardoso administration and the Kirchner administration took more effective financial regulatory measures than either the U.S. or Europe, adapting more efficiently to the systemic volatility of global financial markets). Second, there was a transformation of world trade patterns, with South–South trade (both with Asia and within Latin America) becoming increasingly more significant than dependency on the United States or the European Union.



Photo by Emilio Klüffer.

At the same time, democracy — the key problem in the history of Latin America — stabilized throughout the continent. In 1976, there were only three democracies in the region; now democracy is pervasive, despite 16 occasions on which presidents either resigned or were removed from office, including two coups that were rapidly reversed. According to Latinobarómetro, the index of satisfaction with democracy as a form of

An abandoned railcar symbolizes the failure of Argentina's rail privatization under neoliberal policies in the 1980s.

government peaked in 2010 and continues at a very high level by international standards, despite widespread disaffection with political parties and most politicians. Indeed, although democracy as institutional form has been legitimized, the traditional weakness of the political system still characterizes most of Latin America (with the exceptions of Uruguay and Costa Rica). In recent years, the main mechanism to stabilize the state, in spite

of institutional flaws, has been the rise of charismatic leaders in a number of countries (Chávez, Lula, Kirchner, Morales, Correa). This phenomenon is, in fact, a short-term solution to an endemic problem.

Poverty, the other traditional ill of Latin America, has been reduced from 48% of the population for the entire region in 1990 to 44% in 2002 and to 28% in 2014. Extreme poverty has dwindled from 19.4% in 2002 to

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12% in 2014. Adding the dramatic improvement in main health indicators and near-universal enrollment at the primary education level (despite the poor quality of the school system in many cases), we observe a Latin America that is quite different from the traditional image. We propose that this scenario is largely due to a renewed presence of the state as a central actor in the development process, with strategic guidance and public spending in infrastructure, education, and health, as well as redistributive policies such as the Bolsa Familia in Brazil. Indeed, the neoliberal model of unfettered market-led insertion in globalization collapsed around the turn of the century in most countries, both economically and socially (with the strict economic measures of the *corralito* in Argentina in 2001 being the most symbolic expression of this collapse). And a new model emerged: a model self-declared as *neodesarrollista* (neodevelopmentalist), which was centered in the state, but aimed at global market competition, quite similar to the East Asian development model in the 1960s–1980s period of the Asian takeoff.



A Bolsa Familia identification card.  
(Photo from the Senado Federal do Brasil.)

On the other hand, the criminal economy has become a fundamental sector of the broader economy, a destabilizing force in society, and a disabling factor for the governments of some countries, particularly in Mexico, Central America (with the major exception of Costa Rica), the Caribbean, and Peru. Fortunately, Bolivia seems to have reversed the influence of narcotraffic.

This transformation of the development model from neoliberalism to *neodesarrollismo* (neodevelopmentalism) was largely due to the resistance of large segments of the population to the exclusionary policies of forced incorporation into the global economy for the benefit of elites, old and new. In a number of countries, another fundamental factor conducive to a new polity was the asserted expression of oppressed cultural identities, particularly in Bolivia, Ecuador, and Peru, but equally present in Chile, Mexico, and Colombia under different ethnic identities. A combination of social movements against exclusion and identity movements against institutionalized racism gave birth to a new constellation of political actors, including the Bolivarian regimes (Venezuela, Ecuador, Nicaragua), nationalist *indigenista* regimes (such as Bolivia and neo-Peronism/*kirchnerismo*

in Argentina), and political left-wing governments, like the Partido dos Trabalhadores (PT) in Brazil and Frente Amplio in Uruguay. The broad process of social change underlying these political transformations included the affirmation of human rights, the rise of women's consciousness and the improvement of their condition, as well as the recognition of multiculturalism in society and politics. Furthermore, the ascendance of new political actors traditionally opposed to the United States' control of the region led to a new geopolitical insertion of Latin America in the world — particularly in Mexico, Central America, and Colombia — diversifying the economic and political links that now include China, Japan, Southern Africa, and to a lesser extent, Russia, together with a greater role of European Union countries, alongside the still-significant presence of the United States.

However, the new hegemony of the state was based on weak political institutions, particularly the political parties that became rapidly vulnerable to widespread corruption and patrimonialism in a context of democratic freedom in which civil society could mobilize and the media and social networks could denounce. The result has been the emergence of new networked social movements (Castells, 2015) — particularly in Brazil, Chile, Mexico, and Central America, as well as the civil resistance that led to the ousting of the corrupt president in Guatemala — that challenge statism and try to imagine new forms of democracy and new models of development based on sustainability and dignity. All these trends, in their contradictory realities, are what we call the New Latin America. We will now focus on critical components of this new historical landscape.

### The Rise and Fall of Neoliberalism

After the lost decade of the 1980s, the 1990s saw an accelerated insertion of Latin America into the global economy, liberalization of markets, privatization of public companies and natural resources, strategic alliances of companies and states with multinationals (particularly in banking, communications, and technology), decreased dependence on the United States, and technological modernization, particularly the use of communication technologies and the

expansion of digital media. Yet widespread corruption, submission to the multinationals' interests, lack of an informational model of development that could make the economies truly competitive in the global Information Age, massive rise of poverty and inequality, and vulnerability to financial crises (the Tequila Crisis of 1995, the Brazilian Crisis of 1999, and particularly, the collapse that led to Argentina's 2001 *corralito*) signaled the limits of neoliberal integration in the global economy. It was clear that the Fajnzylber strategy of productive transformation with equity was the only approach that could make Latin America a modernized region competitive in its own right (Fajnzylber, 1993). But the political conditions for such a strategy were not present in any country in the last years of the 20<sup>th</sup> century.

Social protests and political challenges to neoliberal globalization forced an opening of the political systems in most countries (Calderon/UNDP, 2014), starting with the Zapatistas in 1994, who explicitly opposed Nafta in defense of the Mexican Revolution and Indian identity. In Venezuela, the democratic take-over of institutions began with the Bolivarian Revolution after the 1998 election and was supported later by a

Indigenous Zapatista women in Mexico.



Photo by Antonio Nava.

series of re-elections of Chávez and the Chavistas. Nicaragua, Ecuador, and Bolivia elected governments that challenged the Washington Consensus and engaged in a nationalist-leftist strategy of autonomous development. Costa Rica continued with its social-democratic policy of pacifism, modernization, and a tropical welfare state. Brazil, Argentina, and Uruguay clearly positioned themselves against global financial capitalism, while engaging in global competition. In Colombia, on the other hand, the civil war and Uribe's paramilitary state blocked political change for some time, although such transformation did take place at the municipal level, particularly in Medellín and Bogotá. And in Mexico, the narco-state created a specific context of civil war — within and between the cartels and the state apparatuses, with a death toll of 100,000 — that still dominates the dramatic situation of one of Latin America's most important countries.

There was, however, one case of the neoliberal model's partial survival — Chile — with one fundamental observation: there were actually two models of Chilean development, and the democratic model was neoliberal in the economy, but not in the state.

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Photo from the Gobierno de Chile.

Chile's five post-restoration presidents (from left): Ricardo Lagos, Michelle Bachelet, Sebastian Piñera, Patricio Aylwin, and Eduardo Frei.

### The Chilean Exception: Neoliberalism with a Human Face

In his 2005 book, Castells empirically differentiated two models of development in Chile: the liberal exclusionary authoritarian model under the Pinochet dictatorship (1974–1989) and the liberal inclusionary democratic model that started in 1990 under the governments of the Concertación and bloomed in the Lagos administration of 2000–2006. The data and analysis presented in this book demonstrated that the democratic model was much more efficient in terms of economic growth, when comparing the two periods' control of inflation, human development indicators, macro-economic stability, productivity, and international competitiveness. At the same time, human and political rights were asserted, democracy was restored (albeit with some limitations inherited from the dictatorship), and poverty and extreme poverty were significantly reduced. On the other hand, free-market policies, both domestically and internationally, were at the center of the development strategy, and extensive liberalization was maintained, with an all-out export-oriented strategy. Yet, the copper mines — “the salary of Chile” nationalized by Allende — remained in the public sector for the simple

reason that Pinochet did not reverse the nationalization in order to have direct control of the main wealth of Chile and to use this control for his predatory accumulation of a personal fortune.

It has been clearly proved that the strictly neoliberal model ended in Chile in 1990, but some of its economic features continued to characterize the country's successful development. New industrial relations, democratic control of the state, and a legitimate government have smoothed the social resistance that led to the political challenge to the hegemonic neoliberal model in other countries. As a result, Chile has been able to maintain steady economic growth and to increase productivity and competitiveness over the years. However, as soon as the inefficiency and corruption of parties in the Concertación opened the way for the election of conservative Piñera, a highly legitimate and mobilized student movement took to the streets and ultimately contributed to the (re)election of president Michelle Bachelet, a progressive Socialist, in 2014.

### Social Resistance and Political Change as the Source of Neodesarrollismo

The revolts against social exclusion and the affirmation of multiculturalism and dignity were at

the roots of the political processes that took place in Venezuela with Hugo Chávez, in Ecuador with Rafael Correa, and in Bolivia with Evo Morales. Furthermore, the election — for four consecutive terms — of the left-wing PT in Brazil, under the charismatic leadership of Lula, altered the balance of power in the region. Building on the policies of macroeconomic stability and modernization of Fernando Henrique Cardoso — despite the deep differences between Lula and Cardoso — the PT moved toward a new developmental state at the forefront of the process.

It was the Brazilian emphasis on investment in productive infrastructure, together with increases in social spending and redistributive policies that gave birth to neodesarrollismo in Latin America. Argentina experienced a similar process under Kirchnerism, combining socio-political mobilization from the Peronist movement with a dominant role of the state that took on the multinationals and loosened the grip of financial markets on Argentina's economy. Uruguay joined the effort under the leadership of President Mujica. A former member of the Tupamaros guerrilla group, Mujica fully embraced democracy and asserted dignity and welfarism,

becoming one of the most respected political figures on the international scene.

Thus, Latin America created the political foundations for a state-led development strategy based on the creation of a productive infrastructure to provide the resources for social spending that could improve the living conditions of the population. Statism, productivism, and welfarism expanded in a process of synergistic interaction, supported politically by neopopulist movements and left-wing parties in a 21<sup>st</sup>-century version of the political left. The success of the strategy, however, was largely predicated on favorable new conditions of the world economy.

### The Neodesarrollista Model and the New Globalization

The rise of China to a preeminent position in the new global economy provided a huge market for the exports that still characterized most of the region: agricultural products, raw material commodities, and energy. The more China imported and invested in Latin America and the rest of the Southern Hemisphere, the more it induced economic growth in the global south, which became an expanding market in itself.

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Bolivia's reliance on lithium extracted from the Uyuni Salt Flats makes the country vulnerable to commodity price shifts.



Photo by Dmitry B.

Latin America took advantage of the bonanza in the price of commodities linked to the surge of demand in China, India, and other large markets to modernize its primary sector, using new technologies (in information and agricultural genetics), new knowledge, and new commercial strategies.

A new model was born: what we call “informational extractivism.” While informationalism did not transform the entire productive system, it did transform the production of soy, meat products, energy and gas, and rare metals (e.g., lithium in Bolivia), increasing quality and productivity in a virtuous circle of economic growth. However, the success of neodesarrollismo was predicated on two premises, which would soon reveal their fragility: that global demand for commodities would continue to rise and their prices remain high; and that the state, basing its legitimacy on redistributive policies, could remain unchallenged by an increasingly informed, active society, with a growing, assertive middle class.

### The Crisis of Neodesarrollismo

The inability of almost every country to engage in a full-fledged informational transformation of economy and society at large — for instance, in research, higher education, and innovation policies (Castells and Himanen, eds. 2014) — left the pattern of economic growth almost entirely dependent on the exports of the extractive sector. As soon as China’s growth slowed and commodity prices fell, Latin American economies revealed their vulnerability to the fluctuations of the global economy. Even the most diversified economy, Brazil, did not have enough knowledge-based capacity to shift its export mix to higher value-added goods and services. While Latin America had learned to manage financial volatility to some extent, it could not do the same with trade volatility.

As a result, Argentina’s economy shrank by 2 percent in 2014, as did the Brazilian economy in 2015, while the rate of growth was sharply curtailed throughout the region. 2015 is projected to be the first year of the 21<sup>st</sup> century in which the Latin American economy will not grow. While a high level of public spending (essential for social stability) continued for some time, the renewed threat of inflation — as spending outpaced economic growth — forced some governments to impose austerity policies in 2014, particularly the Rousseff administration in Brazil. Such actions undermined the popularity of governments in Brazil, Venezuela, and Argentina, and although the neopopulists kept winning

elections, it was with increasingly narrow margins. These narrow margins became significant reversals in the 2015 elections in Argentina and Venezuela.

Furthermore, neodesarrollismo’s model of development was based on economic growth and redistribution at all costs, focusing on the development of productive forces and the improvement of the population’s material conditions, particularly among the poorest members of society. This model of productivism neglected the attendant environmental and social costs. Giant metropolitan areas became the inhospitable habitat for much of society, with rates of urbanization surpassing three-fourths of the population in most countries. Housing conditions, transportation, urban amenities, pollution, and environmental livability all deteriorated rapidly. While traditional measures of human development (health, education, income) improved, a model of “inhuman development” negatively affected the quality of life for the population at large. The criminal economy, wild violence, pervasive delinquency, and the terror of gangs became the most significant problems of everyday life in virtually every country. The media nurtured this panic, showcasing the atrocious threats to ordinary citizens’ daily lives. Corruption of the police contributed to a shared sense of vulnerability.

At the same time, the consolidation of statist regimes, controlled by one powerful party, evolved towards a patrimonial state, in which access to public companies became a source of funding, influence, and power for the neopopulist movements and induced widespread corruption in political systems. The tradition of transparency in Chilean democratic politics was challenged, with both conservative politicians and Concertación politicians being included in the networks of corruption, which even implicated the family of President Bachelet, a moral personality above all suspicion.

Moreover, the extensive powers of the state in almost every country were enforced with repressive strategies from the political police (sometimes with the assistance of foreign advisors), transforming into a bureaucratic presence that permeated the entire society. The new generations of youth — who had grown up in democracy and were educated, informed, and able to express themselves through the Internet — resented this overwhelming presence of the state. They opposed what they perceived as a threat to their freedom.

The criticism of inhuman development, the denunciation of political and state corruption, and the

deterioration of living conditions under the impact of economic stagnation and austerity policies came together to trigger social movements, particularly in Brazil, Chile, and Mexico. These movements directly challenged the political regimes and their policies, focusing on the demand for alternative forms of political representation. Originally, these movements were spontaneous and driven by a younger population with projects for a better society, as seen in Brazil in 2013. However, they soon were joined by the mobilization of a middle class concerned about the loss of their privileges, as in Venezuela or in Brazil in 2015. Societies fractured, and the legitimacy of neodesarrollismo and its agency — statism — gradually faded away.

Latin America entered a period of economic uncertainty and political instability in 2015, as the new social structure formed during the growth period of the 2000s no longer corresponded with the political agents that had come to power through their struggle against neoliberalism. In a process of conflicts and contradictions over the last two decades, Latin America has superseded

both neoliberalism and neodesarrollismo and is currently in search of a new model yet to be discovered in the practice and consciousness of its people.

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Castells and Calderón spoke for CLAS on September 24, 2015, and wrote this article for the Berkeley Review in October 2015.

References available in the online article at [clas.berkeley.edu](http://clas.berkeley.edu).

Protest in Brazil, March 2016.



Photo by Leonardo Versa.