

Economic Institutional Change in Latin America

by Fabio Fossati

The Import-Substitution Industrialization (ISI) economic institutions

The economic policies, anchored to ISI protectionist institutions, began to be applied after two exogenous shocks: the crisis of '29 and the Second World War. The previous prevailing institution had followed European colonization and was based on *laissez faire*: the export of primary goods, according to the neo-classic theories of development, and the import of industrial products. In the 30s, ISI policies represented the first relevant economic institutional change. They were based on a combination of two instruments: first, a huge trade protection was granted to local producers, especially through tariff barriers; then, a large variety of public subsidies were targeted towards national (either public or private) industry, while at the same time rural exporters were punished with a variety of economic instruments (exchange rate manipulation, taxes...). Especially in the decades of the 50s and 60s, ISI was applied without either selection or graduality. Scholars of the CEPAL, following the thirdworldist ideology, supported these institutions, as they thought it was the best instrument to break the dependence of the south from the north¹. The first phase was linked to political *movimientismo*, in a context of expansive and irresponsible policies: the so-called macro-economic populism (like in Argentina with Peron). Thus, in mid 50s most of Latin American countries were living a deep economic crisis, especially because populism had almost broken its ties with multinational capital, in the typical confrontation attitude of that period.

Also the Asian Newly Industrialized Countries (NICs) of east Asia had started with the "state-centered" ISI, but since the end of the 50s they have been progressively promoting exports. This shift in the development theory is essential in order to label their economic institutions as "market-centered". Instead, post-Marxist scholars emphasized the pre-eminent role of the state in the industrial policies. In summary, the market was the instrument that permitted the selection, by banks and governments, of those producers that were entitled to receive subsidies².

Latin American governments did not implement the same shift that was occurring in Asia. The only limited change was a more open attitude towards

¹ Cfr: B.Geddes *Paradigms and Sand Castles in Comparative Politics of Developing Areas*, pp. 45-75, in W. Crotty (eds) *Political Science. Comparative Politics, Policy and International Relations*, Evanston, Northwest University Press, 1991. F.Fossati *Mercato e democrazia in America latina*, Angeli, Milano 1997.

² S.Haggard, *Pathways from the Periphery: the Politics of Growth in the Newly Industrialized Countries*, Ithaca, Cornell University Press, 1990.

transnational enterprises in the so-called second phase of ISI, that is to say at the end of 50s and the beginning of 60s. Democratic governments could not bear the costs of that change; thus, there was a wave of "soft" authoritarianisms (the *dictablandas*). The pressures coming from popular mobilizations pushed to a democratic transition in all Latin America at the end of the 60s and a new wave of populist governments went to power (for example, Allende in Chile and Peron in Argentina). Both political and economic mismanagement pushed most of countries towards social and political disorder, which was even more deepened because of the presence of violent communist groups, especially in the "Southern cone" societies (Argentina, Chile and Uruguay).

The single case (Chile) of economic institutional change during the 70s

After the second failure of macro-economic populism, in mid 70s there was another authoritarian transition in many Latin American countries; some of those *golpes* were supported by the USA Republican administration. There were three military governments (of Argentina, Chile and Uruguay), that repressed with violence the above-mentioned leftist groups and at the same time they declared themselves willing to introduce deep economic changes, aimed at promoting exports and ending with ISI. Finally, only Pinochet introduced those reforms in Chile: first, with the radical approach of the "Chicago boys" (in the 70s); then, with a "corrected" *laissez faire* (in the 80s). Instead, Argentina and Uruguay coupled ISI with (non structural) adjustment.

Chile

Since the beginning of the Pinochet government, in September '73, a *laissez faire* political economy was launched from the economy minister Leniz, but it was very gradual. Public expenditures increased and there were no relevant privatizations: only of those enterprises being nationalized by Allende. In April '75, as inflation had increased, Pinochet gave all the power to the so-called "Chicago boys", that is a group of young economists of the *Universidad Católica*, who had studied in the "capital" of radical liberalism. Gradualism was abandoned and a shock therapy was applied to Chile; the economy minister De Castro implemented a vast privatization program, together with the opening to foreign trade and investments. Then, liberal reforms touched areas, such as social security, labor legislation, education, pensions...; Chile became an experiment for the application of radical theories of the Chicago school, at a wider extent of the USA with Reagan and the UK with Thatcher; in fact the latter were not authoritarian regimes. As it often happens when institutions are "exported", there are always social and cultural

obstacles to the full realization of expectations of the governments. In fact, the limited supervision of public institutions over the economic liberation process produced some negative externalities; in '81 there was a financial crisis and some banks (45% of the entire system) failed because of the excessive credits to the big "differentiated" private firms that had bought state enterprises. In June '82, there was a devaluation of the exchange rate and at the end of '83, all the "Chicago boys" had left the government.

In February '83, a new political economy was launched, characterized by pragmatism. Inflation rate was kept under control, but the state started to direct some credits to private enterprises, especially of the agriculture and construction sectors; moreover some price controls were introduced. The two economic ministers were Caceres and Collados, both close to the reformed (but more "localized") business sector. At the beginning of '85, a man coming from the bureaucracy, Buchi, became the new economy minister. He launched a vast negotiation process with business associations in order to implement political economy decisions. Trade liberalization, for example, was stronger than during previous years; taxes were lowered; prices controls were reduced to some basic agriculture products; privatizations were increased. However, the copper industry of the north has never been privatized: neither by the Chicago boys, nor by Buchi. Since mid 80s, Chile realized economic agreements with the IMF, while the radical governments of the 70s had refused any foreign supervision. The economic stability improved and foreign investments started to be accumulated at a high rate, while in the 70s they had been lower also because of low human rights record of Pinochet during the first years of his administration.

Argentina

In the other Southern cone country, there were neither privatizations, nor trade and investments opening, because of the nationalistic nature of the armed forces, which were not willing to favor foreign capital. After the military *golpe* of '76, all power was given to the super-minister of the economy Martinez de Hoz and president Videla declared that his country was going to abandon ISI institutions. However, also economic policies were heterodox and there were some public tariffs controls and the overvaluation of the exchange rate. Thus, rural exports were damaged, while capital flight was favored; in fact, there was low financial supervision. In '80 there was a financial crisis, whose effects were deeper than in Chile, because there had been no structural reforms. In February '81, there was a devaluation; both Videla and Martinez de Hoz left the power. Viola was the new president and the following economic policies of all the governments were even

more incoherent; the main political event was the Falklands' war in April '82. That military defeat introduced the political transition, after two other presidents, Galtieri and Bignone. In '84 the new democratic president, Alfonsín, inherited a disastrous economic situation for his country. Two factors that increased the bad performance of Argentina were the division within the armed forces and the protectionist orientation of the "localized" business associations (naturally, except the rural ones).

The comparative analysis

The main interpretations of the reasons why Chile was the only country able to change its economic institutions are to be explored, in order to understand the differences between that "exception" (Chile) and the late 80s regional economic change. In the literature on this subject, four coherent hypotheses have been presented, each of them is based on specific causing factors: the power linked to Pinochet's personalized leadership; the autonomy of the bureaucracy from the lobbies; the pressure of the business actors; the nationalism of the Argentine armed forces.

Institutional factors (i.e. the preparation and the autonomy of the state bureaucracy³) were of limited importance. Changes materialized because Pinochet had centralized all decision making, neutralizing centrifugal trends in the institutions. He promoted changes in the state bureaucracy, marginalizing many "*burosauros*" and introducing several young employees with an economic (and not law) background. Cultural factors cannot be considered as the crucial factor. Argentina's armed forces were strongly nationalistic -opposing opening of trade and privatizations- and divided in rival factions; thus, they vetoed most of Martínez de Hoz's (the economy minister of the first phase of the military period) liberalization measures. However, it is of note that though the Uruguayan armed forces did not liberalize either, that country has never become as nationalist as Argentina.

Thus, economic institutional change can be explained by power dynamics, materialized in the strategies of two actors: business groups and especially Pinochet. The leader was able to strategically choose and/or abandon any ally in order to control and maintain power⁴. The power of business was important in two

³ A.Velasco *The State and Economic Policy: Chile 1952-82*, pp.379-429, in B.P.Bosworth, R.Dornbusch, R.Laban (eds) *The Chilean Economy. Policy Lessons and Challenges*, Washington, the Brookings Institution, 1994.

⁴ K.Remmer *Neo-patrimonialism. The politics of military rule in Chile*, "Comparative Politics", 1989, vol.25, n.1, pp.149-70. K.Arriagada *Pinochet: the Politics of Power*, Boston, Unwin Hyman, 1988.

critical junctures among the different phases of economic change⁵. First, at mid 70s, when the gradual approach was defeated and the Chicago boys -linked to the main "differentiated" business groups- controlled the government. Second, after the financial crisis of the early 80s, when the radical reforms were stopped and pragmatic economic policies were applied by some economy ministers (Escobar and Collados) linked to the "localized" business associations. However, the empirical evidence shows that the bargaining with business was an important, but probably secondary constraint. In fact, it was the depth of the reforms of the Chicago boys that conditioned the capabilities of those actors. The business associations' platform was oriented towards a "corrected" *laissez faire*, as the most conservative (and protectionist) groups were made powerless by the radical government of mid 70s – the same process had not materialized in Argentina where most of (not rural) business remained in favor of ISI. In the 80s, industrial and rural producers started to receive some public subsidies, in line with the Asian economic policies; free market was used as a selection instrument, then the state intervened, even if in a limited way.

Finally, the outcome was also influenced by non-intentional dynamics, because the radical reforms of the 70s were applied probably because of a single event. Many young students of the Chilean *élite* (of the *Universidad Católica*) had followed masters in Chicago. During the 80s, also institutional factors played some role, because the prime minister was a man coming from the reformed state bureaucracy (Buchi). In fact, he was an excellent negotiator with business leaders.

In synthesis, Chile was the first and only coherent experiment of economic liberalization (in the context of authoritarianism) in the region before '89, during the Cold War. Pinochet's economic success did not lead immediately to any change in the other countries. Only in the 90s, did the countries of the region started to apply those structural reforms (privatizations, foreign trade and investments opening), following those implemented some decades before by Chile.

The regional change at the end of the 80s

Economic institutional change occurred at a regional level (that is in all Latin America) only after '89, and conspicuously not in '82, when the foreign debt crisis exploded⁶. During the 80s, an incoherent adjustment was applied and ISI

⁵ E.Silva *Capitalist Coalitions, the State and Neo-Liberal Economic Restructuring. Chile 1973-88*, "World Politics", 1993, vol.45, n.4, pp.526-59; E.Silva *Capitalist Regime Loyalties and Re-democratization in Chile*, "Journal of InterAmerican Studies and World Affairs", 1992/3, vol.34, n.4, pp.77-117.

⁶ F.Fossati *Debito estero e aggiustamento economico in America latina*, "La Comunità Internazionale", 1991, vol.46, n.4, pp.556-577. F.Fossati *Mercato e democrazia in America latina*, Angeli, Milano 1997.

institutions survived in all the countries of the region; there was only monetary and wages stabilization, but structural reforms (privatizations, trade and finance opening) were not implemented. During the 80s, most of the countries were living democratic transition and Pinochet also left the power at the end of the decade. Now, it is necessary to understand the dynamics of the shift from protectionist to *laissez faire* institutions.

I will now focus on the main hypotheses concerning institutional change⁷. Critical junctures may be the outcome of coercion, linked to power factors. In Latin America, the change would have been the outcome of external pressure: the shift to the ISI institutions after the '29 crisis and the Second World War. An important international shock like the debt crisis of '82 did not produce any relevant economic change, except some monetary and wage adjustment. Thus, the first thesis about the end of the ISI model in Latin America is linked to the important external change of '89.

The second theory is based on rational dynamics and horizontal processes. Change is the outcome of a learning process. Surely, this was the answer of the Asian NICs, which learned from the positive experiences of Japan and Western countries and gradually abandoned the ISI model at the end of the 50s, starting to implement export-oriented market reforms. During the Cold War countries of Latin America did not learn anything, absorbing lessons neither from Asia, nor from Chile, because of the negative influence of neo-Marxism upon scholars of the CEPAL in Santiago.

Finally, the third theory of change is based on non-intentional dynamics. According to this interpretation, the regional shift to market reforms in Latin America was the outcome of neither power nor rational factors. In the following paragraph, I'll describe the process, referring to March's model of exploration/exploitation⁸. This is the thesis, together with the international one, that will be chosen in order to explain the economic institutional change in Latin America in the past decade.

During the last fifty years, Latin American governments over-exploited the inefficient ISI model. Other institutional solutions were not explored, like they had

⁷ S. Krasner, *International Regimes*, Ithaca, Cornell University Press, 1983. The philosophical referee of the first theory is Hobbes, with his realist thesis on the Leviathan and the vertical dimensions of the absolute state genesis in Europe. The philosophical referee of the second theory (of rational liberals) is Locke, with his emphasis on social contract as the institutional constraint for the genesis of law and order –see the experience of the Anglo-Saxon countries. Von Hayek is the philosophical referee for the third theory of radical liberals; he assumed that *laissez faire* was at the origin of order and that any conservative or constructivist intervention of the authority could lead to disorder.

⁸ J. March *Exploration and Exploitation in Organizational Learning*, "Organizational Sciences", 1991, vol.2, n.1, pp.71-87. F. Fossati *Mercato e democrazia in America latina*, Angeli, Milano 1997.

been in Asia, because the "sunk costs" of protectionism were perceived to be too high. The over-exploitation of the ISI policies pushed Latin American countries to look for foreign credits in the 70s in order to avoid adjustment. But this event had a boomerang effect because the debt service crisis in '82 pushed all the countries of the region to apply adjustment policies with the supervision of the IMF. Nonetheless, this event did not lead immediately to the withdrawal of the ISI institutions. In the 80s, restrictive policies were coupled with protectionism (in trade and finance) and absence of privatization programs⁹. Thus, governments began to comply with the (international) monetary regime, but did not abandon the ISI model of development. The 80s were the "lost decade": monetary and wage adjustment, coupled with debt service constraints, were sources of recession. Some countries continued following the macro-economic populism of the past, especially Argentina and Peru, which experienced hyper/inflation crises and social revolts (*los estallidos sociales*¹⁰) in '89. This event represented the focal point, which revealed the mistakes of the previous decades. In fact, March (1991) assumes that over-exploitation (in order to avoid changes) -strongly influenced by the neo-Marxist ideology- of the current institutions leads to a deeper change after a focal point.

This interpretation of change bears the closest relation to the empirical evidence and is compatible with the first interpretation based on international factors. Thus, both variables were relevant. The problem becomes methodological and there are no ways of denying either hypothesis. The only way of under-estimating external constraints through the analysis of the '82 shock that had limited effects, but one could argue that '89 events were more relevant than the foreign debt crisis. This way of reasoning leads probably to counter-factual analysis that has few scientific bases. However, the only certain conclusion is that rational learning process did not function in Latin America; lessons coming from Asian countries (and Chile) were not taken into consideration before '89, especially because of the ideological constraints of neo-Marxism.

The consolidation of the economic change during the 90s

The third period to be analyzed concerns the consolidation of market reforms in the 90s in the high/middle sized countries: Mexico, Venezuela, Brazil, Peru and Argentina -Chile had already liberalized its economy in the 70s. The empirical

⁹ This was probably the main mistake of the IMF. I do not agree with those thirdworldist scholars who attributed to this organization all the responsibilities for the poor countries' problems: the ailment cannot be blamed on the "doctor". Moreover, these scholars were not able to understand the nature of incoherent economic policies that were labeled as neo-liberal: Argentina in 70s and all the countries in the 80s.

evidence shows that two countries suffered fewer problems in the first half of the 90s: Argentina and Peru. Mexico and Venezuela, instead, lived deep economic crises at the beginning of the decade. Brazil can be classified somewhere in the middle. Economic institutional change, produced by structural adjustment, was surely not so easily enacted; there were many social and political actors that obstructed the process. My hypothesis (for the beginning of the 90s) is still linked to March's model on exploration/exploration, that is to say those countries, not having suffered focal points like '89 hyper/inflation, had more problems at the beginning of that process in the first half of the decade. This explains why Peru¹¹ and Argentina performed better, that is to say with limited social and political opposition.

In Mexico and Venezuela, oil revenues had permitted low levels of inflation, in the context of economic populism. Over the short term, social and (especially) political actors started to oppose economic reforms and the outcome was the assassination of political figures (by narco-traffickers, with political links) in Mexico, and two attempted military (and populist) coups in Venezuela. These events led to deep stock exchange and currency crises. While the latter started to implement marginally coherent market reforms and shifted towards political populism (with Caldera), the former enjoyed an important recovery, thanks to USA support with the IMF package of mid 90s. Mexico belongs to NAFTA as the most strategic Latin American country. In synthesis, external factors played a very important role in this phase of the economic institutional change.

Also in Brazil, before '89 coherent adjustment was postponed and inflation - even not at the hyper level- fueled, but real wages had increased. Sunk costs were linked to the threats of the labor and the industrial business, but there was no focal point¹². In the first half of the 90s, lowly coherent market reforms were implemented, even if Brazil did not suffer the crises of Mexico and Venezuela – whose past was more “glorious” thanks to oil revenues. However, economic success in reforms implementation did not matter, because Venezuela's performances were the best ones before '92.

¹⁰ F.Fossati *Debito estero e estallidos sociales in America latina: i casi di Argentina, Perù e Venezuela*, “Relazioni Internazionali”, 1993a, n.22, pp.70-77. F.Fossati *Mercato e democrazia in America latina*, Angeli, Milano 1997.

¹¹ Also in Peru, there were intentional obstacles to reforms coming from opposition parties (like APRA), but Fujimori could overcome them by relying on popular support for his *auto/golpe* in '92. In Mexico and Venezuela, conservative parties (PRI and AD) were more legitimated by the population, because of the structural factors mentioned in the text.

¹² Workers are negatively affected by adjustment in the short term, but thirdworldist emphasis on the fall of real wages is over-dimensioned. In reality, the main losses were the result of macro-economic populism: for example in '88/89, both in Argentina and in Peru. CEPAL statistics of (democratic) Chile and Mexico (since '92) show that structural adjustment leads to real wage increases, after some years of “sacrifices”.

I must now cite competing explanations on the starting phase of the consolidation of the economic institutional change in the first half of the 90s, advanced by other scholars. The most interesting neo-institutional hypothesis is Evans' theory on embedded autonomy¹³. Economic change implementation would be dependent on the autonomy of government and bureaucratic *élites* from the pressures of lobbies. However, autonomy cannot be confused with isolation; there must be a "network of ties" with business actors (either groups and associations), that is a continuous negotiation process with them. The empirical evidence of the 90s shows that when the government is too isolated (like Collor in Brazil), the failure of the economic policies is more than likely. However, the "IESA boys" experience in Venezuela does not confirm Evans' theory, because both conditions of the embedded autonomy were present and that government did not last.

Geddes¹⁴ linked the consolidation of economic change to the plebiscitary appeals of the leaders to the population. It is certain that this instrument helped both Menem and Fujimori to overcome the traditional clienteles, but this seems an intervening variable that becomes evident only in those countries which "touched the bottom" economically (through the hyper/inflation focal points). Plebiscitary appeals to the population had no influence in those countries that had not experienced focal points in the past; in fact, other presidents (Caldera, Cardoso) used that *atout*, but the economic outcome was very different.

Finally, prospect theory¹⁵ seems to be compatible with the "focal point" hypothesis. Its problem is that every Latin American country in the 90s was in the situation of taking high risks while facing high losses. Thus, prospect theory does not explain the differences. Moreover, there are some problems with Weyland's empirical analysis. The Chilean case cannot be directly compared, because everything happened many years before. Venezuela was the country with more difficulties, but Mexico was not considered. Argentina, Peru and Brazil were classified among the stabilizing countries, but the empirical evidence showed that the latter was not going in that direction.

However, the second half of the decade and the beginning of the new millennium showed that the hypothesis based on March's theory on institutional change had more limited explanation power. In fact, even if Venezuela increased its exceptions to *laissez faire* with the neo-populist president (and former *golpista*

¹³ P.Evans *The State as Problem and Solution: Predation, Embedded Autonomy and Structural Change*, pp.139-81, in S.Haggard, R.Kaufman (eds) *The Politics of Economic Adjustment*, Princeton, PUP, 1992.

¹⁴ B.Geddes *Politicians' Dilemma: Building State Capacity in Latin America*, Berkeley, University of California Press, 1994.

¹⁵ K.Weyland *Risk Taking in Latin America Economic Restructuring: Lessons form Prospect Theory*, "International Studies Quarterly", 1991, vol.40, n.1, pp.185-208.

military leader) Chavez -and that was coherent with the above-mentioned hypothesis-, the economic crisis of Argentina at the beginning of 2000 represented a new negative testing of that theory. In fact, the persistence of a fixed exchange rate, together with great difficulties in the tax reform, materialized a lowly coherent package of structural adjustment.

Thus, we have to look for alternative hypothesis in order to explain the consolidation of market reforms, because March's theory has been confirmed only in the beginning of that phase. An interesting theory was advanced by Haggard and Kaufman¹⁶. In a comparison between Asian and Latin American countries, they asserted that polarization of the party systems was the main obstacle to market reforms stabilization. In reality, most Asian countries were authoritarian regimes in the first period of economic liberalization, and remained lowly polarized after democratization. Instead, Argentina is the most polarized political system in Latin America (with the historical cleavage between Radicals and Peronists) and the recent resistance of the center-left government to coherent market reforms, together with the pressures coming from *Justicialista* party, confirmed Haggard and Kaufman's hypothesis¹⁷.

Since mid 90s, Brazil showed a more stable liberalization process, also because president Cardoso (of the centre-left coalition) took profit of the Asian crisis in order to implement a more coherent structural adjustment and, for example, devalue its currency (on the contrary of Argentina). Chile and Peru did not materialize any relevant change to the prevailing economy trend, while Mexico was probably the most stabilizing country. Thus, all these countries have a less polarized political system than Argentina, even if in Brazil and Peru two leftist presidents (Lula and Toledo) were elected. However, they do not seem to have any nostalgia for the macro-economic populism of their ideological pioneers; moreover the party system of these two states is less structured than Argentina's. Instead, Chavez increased the incoherence of market reforms, which was stronger than the packages applied previously by Caldera and Perez (after the marginalization of the IESA boys). The stability of Mexico is being helped by the external "anchor", represented by NAFTA; the same positive externalities did not materialize in Mercosur for Argentina¹⁸. Naturally, the USA is a more reliable partner than Brazil,

¹⁶ S.Haggard, R.Kaufman, *The Political Economy of Democratic Transitions*, Princeton, PUP, 1995.

¹⁷ An interesting review article on the main theories on the economic institutional change is: S.Haggard *Interests, institutions and policy reform*, pp.21-59, in A.Krueger (ed) *Economic policy reform. The second stage*, Chicago, University of Chicago Press, 2000. See also: F.Fossati *Introduzione alla politica mondiale*, Angeli, Milano, 2006.

¹⁸ The pioneer of the "anchor" theory, which was applied to political consolidation process, is Pridham. See: G.Pridham *Encouraging democracy. The international context of regime transitions in Southern Europe*, Leicester, LUP, 1991.

especially by an economic perspective. In synthesis, in the high/medium sized countries, the economic institutional change is in its consolidation process, even if *laissez faire* reforms are not implemented (for example) with the same coherence of eastern Europe.

However, one undisputed empirical evidence is that economic liberalization has not ameliorated the deepest problem of Latin America: income inequality. This does not mean the *laissez faire* is the root-cause of that problem, like neo-Marxist scholars assume. In fact, Prealc statistics show that the countries with less inequalities are those without indigenous population: Costa Rica, Argentina and Venezuela¹⁹. Thus, the explanation of the dependent variable has to do with cultural and not economic factors. Moreover, the disasters of macro-economic populism linked to ISI institutions have crystallized huge public deficits and thus social reforms have not been easily enacted since '89. A second phase of structural reforms, precisely directed to welfare, anti-trust legislation, institutional and tax reforms should be implemented in the new millennium²⁰.

Conclusions

Thus, the processes of the economic institutional change were different between the single case (Chile of the 70s) and the region (in the late 80s). I have emphasized how power relations linked to Pinochet's capabilities mattered in Chile; regional change followed two sources of change: on one hand, power dynamics of the end of Cold War; on the other hand, non-intentional dynamics linked to some hyper-inflation crises, which represented the focal points. The latter also conditioned the first phase of the consolidation of the economic institutional change. In the first half of the 90s, Argentina and Peru -which suffered hyper/inflation in the past- were the most stable countries. Mexico consolidated economic reforms, but did not suffer any collective shock in the past. This occurred because of the economic assistance of the USA, through NAFTA. In Brazil, *laissez faire* policies have been implemented with some difficulties, but their coherence was improved during the Asian crisis; in Venezuela, they were almost stopped. Since mid 90s, another factor has been relevant: the polarization of the political systems. In fact, Argentina applied a lowly coherent package of market reforms and it is probably the highest polarized party system of Latin America. During this phase, the importance of the external factors (like the "anchor" of the NAFTA

¹⁹ Prealc *Empleo e equidad*, Santiago 1990. The neo-Marxist thesis is supported by: R.P.Korzniwicz y W.C.Smith *Pobreza, desigualdad y crecimiento en América Latina*, "Desarrollo Economico", 2000, vol.40, n.159, pp.387-424.

²⁰ V.Corbo *Economic policy reform in Latin America*, pp.61-98, in A.Krueger (ed) *Economic policy reform. The second stage*, Chicago, University of Chicago Press, 2000. F.Fossati *Introduzione alla politica mondiale*, Angeli, Milano, 2006.

agreement for Mexico) also has to be emphasized; however, "North-South" cooperation seems to be more stabilizing than "South-South" coalitions, such as Mercosur. However, Venezuela still represents the case with less coherent market reforms, especially after the elections of '99 where the former military *golpista* Chavez became the new president.