# The post-neoliberal mix: New state practices in Latin America's big three

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## IS THERE A POST-NEOLIBERAL MIX?

Clearly, rumours of the death of the state were greatly exaggerated. After the neoliberal Washington Consensus prescribed dramatic reductions in the role of the state in the 1980s, the developmentalist state is now back with a vengeance. Examples from throughout much of Latin America display the renewed vigour and significance of state action in pursuit of development and equity. But what kind of state? What is the appropriate role of state action in the context of the continued existence of globalization?

We have seen, over the past several years, the emergence of the "post-neoliberal" state in Latin America. Since the beginning of the 21st century, the majority of Latin American countries have elected left-leaning parties to office, and leaders on the left of the political spectrum govern close to 60 percent of Latin Americans. The explanation for this historic shift lies largely in the widespread rejection by Latin Americans (both elites and the populace) of the neoliberal policy program: privatization, deregulation, state cutbacks, etc.

Neoliberalism's failure to deliver on its multiple promises has given rise to post-neoliberalism: a search for progressive policy alternatives arising out of the various contradictions of neoliberalism. Even governments (like Mexico) that maintain a commitment to many of the basic principles of neoliberalism are experimenting with state-led solutions to the poverty, inequality, and sluggish growth engendered by market-led reforms.

In contrast, however, to the cookie-cutter approach of the neoliberal era, post-neoliberal policies are diverse. In this article, we briefly review the experiences of Brazil, Argentina, and Mexico, in their search for the best balance among state, market, and society.

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## ARGENTINA AND BRAZIL: THE SURPRISE RETURN OF THE STATE

Argentina's recent experience represents a prime example for how the post-neoliberal state has re-asserted its presence in the economic realm. After the retreat of the state from the economy, linked to liberalization and privatization processes promoted throughout much of the neoliberal era, the Argentine financial crisis of 2001 was the catalyst for the state's return to the economic scene. Faced with a significant economic challenge as GDP dropped precipitously and unemployment skyrocketed, the government started to implement developmentalist policies based on re-industrialization, import substitution, and increased exports, and began seeing consistent fiscal and trade surpluses.

In May 2003, these tendencies were intensified when Governor Néstor Kirchner, a social democratic Peronist, was elected president. Immediately after ascending to power, Kirchner aggressively renegotiated contracts with utility providers and re-nationalized some previously privatized enterprises, as he took a much more confrontational stance criticizing the sway of "organized business interests" over the political process.

## STEERING AND ROWING THE ECONOMY

Kirchner instituted price controls on energy and water rates, and, in 2006, citing the alleged failure of *Aguas Argentinas* to meet its contractual obligation to improve the quality of water, he terminated the company's contract with Argentina to provide drinking water to Buenos Aires. A number of high-profile service companies were also re-nationalized, including the postal service, the radio and electronics sector, water, transportation and, most recently, *Aerolíneas Argentinas* (the national airline). Most of these firms were in the hands of foreign multinationals.

Argentina's growing preference for a more active role of the state in the economy was also underscored with the founding, in 2004, of ENARSA, a new state-owned energy company. Finally, Kirchner promoted a vigorous income policy and public works investment, a clear sign that the state has come to play a more decisive role in steering the economy and that a new balance between state and market is being struck in post-neoliberal Argentina. Since flirting with post-neoliberal policy alternatives, Argentina has enjoyed robust economic growth, coupled, though, with relatively high inflation rates.

## BRAZIL'S SOCIAL WELFARE POLICY REVOLUTION—*BOLSA FAMILIA*

Brazil is another example of the emergence of post-neoliberal policies in Latin America, especially in the social policy

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realm. In Brazil, the state has reappeared predominantly through experimenting with new forms of social welfare policies. Brazil's conditional cash transfer (CCT) program *Bolsa Familia* (BFP) has remained a centrepiece of President Lula da Silva's social policy platform, and is considered to have played a crucial role in his re-election in 2006.

CCTs advance cash payments to qualifying recipients are based on a number of conditions, including school attendance and regular health check-ups. In doing so, they attempt to both reduce short-term poverty through direct cash transfers and fight long-term poverty by increasing the human capital of the poor. The programs are thus ultimately market-friendly, designed to promote "human capital development" so that the poor are integrated into the labour market with improved skill sets. Nevertheless, they represent an important innovation in social policy, as they attempt to alleviate poverty while giving incentives to improve human capital, redirecting the focus from social assistance to social development. Through the activation of the capacities of its citizens, the Brazilian state has reappeared to play a much more prominent role in the social sphere.

In fact, the BFP has been identified as a key factor contributing to the recent steep reduction of poverty in Brazil, which fell 27.7 percent during Lula's first term in government. Other factors include an improvement in the job market and real gains in the minimum wage, which demonstrate further resolve on the part of the state to tilt the economic playing field in favour of the poor.

## MEXICO: STUCK IN THE NEOLIBERAL RUT

Unlike the other large Latin American states, Mexico has remained in the neoliberal fold despite weak economic performance. Mexico's growth rates have been dismal at a little better than 2 percent in recent years, compared with its high-performing Southern Cone rivals. As well, it faces escalating security crises

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linked to the drug trade. Overall, Mexico's record hardly represents a convincing argument for market-led policies.

There are several reasons for Mexico's continued attachment to neoliberalism. Mexico was late to democratize, with truly competitive elections not occurring until 2000, compared with democratization in 1983 in Argentina and 1985 in Brazil. The left may thus be later to benefit from democratization than its counterparts in other Latin American states. In addition, Mexico's historic decision to join the North American Free Trade Agreement (NAFTA) in 1994 (before democratization), locked the country into neoliberal reforms and severed it symbolically from the rest of Latin America. Also in contrast to other Latin American states, which have seen a political polarization between two strong political parties, one on the centre-right and one on the centre-left, Mexico has three strong political parties, the PAN (centre-right), the PRI (centre), and the PRD (centre-left). In the last federal election, in 2006, the PAN candidate, Felipe Calderón was declared the victor by a razor-thin margin; the official results were hotly contested by PRD candidate Andrés Manuel López Obrador.

## SOME NEW INITIATIVES

Despite its governments' ideological commitment to neoliberalism, Mexican policies have strayed, in some respects, from neoliberal dogma. Social spending was cut back dramatically in the aftermath of the debt crisis of the early 1980s. Since the late 1980s, however, successive Mexican administrations have attempted to address their legitimacy problems through anti-poverty policies. The current program, *Oportunidades*, is a CCT program like *Bolsa Familia* in Brazil. Spending on the program has increased rapidly since the outbreak of the economic crisis, with the current government spending almost $5 billion US dollars, representing a 23.3 percent increase from the 2009 budget. Despite this significant spending, however, Mexico has been much less successful than Brazil in combating poverty. In Mexico, given the absence of other redistributive mechanisms and the failure of the market to create jobs, poverty levels declined by a disappointing 6.3 percent between 2000 and 2008, according to the Economic Commission on Latin America.

## WHAT IS NEXT FOR THE POST-NEOLIBERAL STATE?

These diverse country experiences demonstrate that post-neoliberalism neither represents a homogenous policy regime that completely rejects all aspects of neoliberalism, nor does it imply a return to the developmentalist strategies of the populist regimes of the post-war period. Particularly in the area of macroeconomic policy, left-wing regimes maintain a commitment to such principles as moderate inflation rates, balanced budgets, and trade liberalization. However, post-neoliberal governments are united by several traits that diverge from the neoliberal consensus: a willingness to use state power to stimulate economic growth; redistributive measures to reduce social inequalities; new forms of social investment to include and activate the poor; re-nationalization of

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## SHORT ON VISION AND NOT VERY PRAGMATIC

The political dialogue, arguably, could have been influential, but so far, there is not much to show for it. Canada was clearly isolated in the last Summit of the Americas in 2009 while advocating for more free trade and less business regulation. Not even one of those dialogue and aid partners supported it. That isolation has grown with the quick Canadian recognition of the government arising from the 2009 coup in Honduras, something strongly opposed by all these countries. That last issue has driven Prime Minister Harper's democratic governance tenet into the ground as far as most Latin American country governments are concerned.

Thus, making a policy strategy that has such restricted instruments, aid for just a few countries and on narrow areas, plus dialogue only with supposedly like-minded governments (obviously less like-minded than Ottawa expected), has not taken Canada very far at all in the region. The inability to make an attractive policy offer or even promote a common vision is however, what has hindered it most.

The apparent lack of courage to be more pragmatic and engage in dialogue with seemingly less like-minded governments demonstrates a rather outdated understanding of Latin American foreign relations today, where pragmatism and a truly global capacity to engage with others is the strongest common characteristic. In contrast to Canada's stern self-dictated limitations, Colombia's right-wing government is negotiating a free trade agreement with Communist China, Argentina's seemingly populist Néstor Kirchner maintained very good personal relations with the Bush administration in the United States, and Brazil engaged the entire Middle East for a conference to promote closer economic and political cooperation.

> In fact, the Harper administration's "Strategy for the Americas" is rather low-cost and unambitious in its approach.

## FOREIGN POLICY AS BUSINESS RISK INSURANCE

What explains such political thriftiness is that Canadian foreign policy toward Latin America remains, at its core, an exercise in business risk insurance. Just as in previous Canadian government ventures in the region, a lack of depth in understanding Latin American current affairs leads to perilous dependency on fairly narrow Canadian business interests with investment or trade opportunities in the region defining policy.

The largest achievement of this Latin American foreign policy is, after all, the 14 bilateral free trade and foreign investment protection agreements signed there. This number is more than with any other region of the world and in evident disproportion to Canadian investments and trade there. The nature of the investments, 70 percent concentrated in just two industries, mining and banking, and in only a dozen Canadian firms is what provides the obvious answer. These two industries have in common that much, if not all, of their profitability depends on national regulatory frameworks, unlike the cases of manufacturing or agriculture. Besides, expropriation risks are fairly high as mines and banks can easily be nationalized.

## DOING MORE AND BETTER

The choices then are clear for Canada if it wants to develop a comprehensive policy toward Latin America. It can continue its current path, unambitious and commercially oriented. Alternatively, it can strive to influence that region with a positive agenda that includes some of the main developmental aspirations of Latin America. After all, the challenges there are very similar to Canada's: how to succeed in a global economy that wants its natural resources and how to use those proceeds to create just, equitable societies.

Negotiation of trade and investment agreements are much less relevant today when many regional initiatives are under way. In contrast, domestic debates on the roles of state and businesses continue to hold centre stage, and indeed have become the real driving force behind policy changes in Latin America. An effective Canadian contribution to those discussions would certainly demonstrate that Canada has finally understood what the new Latin America is all about.

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some parts of the economy, particularly in the resources sector, and greater citizen engagement and inclusion of the poor in decision making. In contrast to the market fundamentalism of the Washington Consensus years, these experiences reflect the importance of democratic governments seeking a balance between the excesses of the state and the market, and policies that respond to each country's diverse circumstances and requirements.