Macroeconomics of Populism in Latin America and Regional Governance Dynamics

(First Draft)

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1. Introduction

There has been in the past decade a distinct confluence in Latin America between shifts in the coordination between governments and the emergence of a new brand of economic populism. While much has been said about this round's distinct ideological timbre, its characteristics as an instance of classical Latin American populism – which are largely orthogonal to ideological posturing – afford, on their own, enough interesting analytical inquiry. Indeed, this "tide" (or, more neutrally, the 2005-2015 cycle in Latin American politics) has many features that place it squarely on a long-running sequence of populist cycles with distinct economic policy ramifications. At the same time, many novelties presented by this latest round deserve clarification.

This article gives central focus to one specific feature of the 2005-2015 era: while past episodes of macroeconomic populism in the region have shown varying degrees of cross-borders resonance, the most recent round of populist experiments in Latin America has been explicitly mediated by new mechanisms of transnational coordination, both in its rise and downfall. Moreover, these mechanisms of coordination have been unique in their partisan (across political parties sharing a few core ideological tenets) rather than national alignment. This raises new questions alongside the classical problems in the macroeconomics of populism, and force us to examine exactly what has happened from a wider-angle point of view.

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At face value, “populism” is an umbrella term for a variety of concerns about the social legitimacy of policy-making as constrained and incentivized by representative democracy. Such concerns are as old as democracy itself, and have since Classical Antiquity been a key object of social theory, often at a level of generality that entangles the theory of populism with abstract methodological debates and ideological commitments.

Research and debate on the macroeconomics of populism is, in this context, unusual in its neat boundaries and consequent analytical power: by focusing on what *happens* when populist *policy* is adopted, it bypasses much of the anxiety caused by the hard questions of what *is* populist *politics*. Moreover, because populist macroeconomics cycles tend to burst after a while, it is possible to enumerate some broad-strokes characteristics of what we may term a populist economic *experiment*:

1. There are effective (if not always predictable) limits to the duration of populist experiments. Because of its tendency to disregard structural constraints, populist economics typically follows a life cycle structure. While the phases of this life cycle may be difficult to date and predict, their succession follows a clear pattern long noticed by the macroeconomics of populism.

2. Past experiences with specific failed policies are usually not enough to prevent their recurrence. This is often attributed to a “lack of political memory”, although there are both issues of persistent ignorance (a poor understanding of economics by politicians and the citizens) and deeper social grievances that populists claim to be able to directly address.

3. Populist macroeconomics is seldom an *ad hoc* enterprise leading to unique, original mistakes. Rather, it follows well-worn paths supported by an array of loosely related alternative economic theories. Despite not being exclusive to the Latin American context (having important precursors in German institutionalism and “core-periphery” theories such as those of Amin (1971), these ideas have found fertile ground in Latin American universities, as well as in regionally-focused institutions such as the United Nations Economic Commission for Latin America and the Caribbean (ECLAC)

Because of these common features, macroeconomic populism in Latin America challenges Tolstoy’s adage that “all happy families are alike, but all each unhappy family is unhappy in its own way”. It’s very clear, on the contrary, that Latin American economies tend to fail in similar ways.

Given such regularities and the devastating after-effects that populist experiments have had on developing nations – both in terms of present-time welfare and missed opportunities for cumulative progress and development – the macroeconomics of populism tends to be a relatively narrow research program, with clear boundaries that leave aside the abstract issues of political agency and legitimacy. Such boundaries lend it the autonomy to discuss the pragmatic core of how populist policy-making happens and how it fails with relatively little concern for partisan and ideological controversy.

It is not always the case, however, that politics-as-such can be usefully abstracted away from policy research and debate, especially regarding macroeconomic populism. Indeed, much of the scholarship on macroeconomic populism deals directly with some of the conditions under which populist politics thrives, such as intergenerational bargaining and demands for wealth redistribution. Still, macroeconomic theory is much clearer on why populist cycles inevitably fail than on the reasons for their recurrence. In particular, it remains unclear that the society-wide support that generates and maintains populist experiments can be meaningfully reduced to a discrete set of failure modes in economic and political rationality. Rather, history has shown (and keeps on showing) that the social forces that make macroeconomic populism possible are integral to the social system as a whole.

In light of this expanding set of concerns, a widening of problem boundaries becomes valuable. Put into systemic context, the macroeconomics of populism retains a *primus inter pares* role as an explanatory thread, but finds that economic policy and outcomes are parts of an overarching social system where many other factors matter, such as national and transnational agenda-setting instances.

In this paper, we attempt to synthesize a descriptive account of the recent (post-2005) wave of Latin American populism with the basic insights of macroeconomic theory and the classical literature on the macroeconomics of populism as inaugurated by Dornbusch and Fisher's classical 1990s papers[1] and the ongoing research program it has spawned.

This synthesis may be achieved with the help of organizing concepts of systems theory, a transdisciplinary research tradition emphasizing the interactions, couplings and networks betweeen phenomena that are themselves systems (and thus systems of systems). In other words, systems thinking eschews both "first principles" (or "bottom-up") concept architectures and "grand interpretation" (or "top-down" accounts), trying instead, to explain the emergence and and persistence of coherent wholes from the (often structural) linkages between subsystems (themselves coherent wholes not necessarily up to detailed explanation)[2]. Indeed, a careful reading of the literature stemming from Dornbusch and Fisher's pioneering work yields insights that are fundamentally systems-oriented, which matches our need for an exploratory account of how further interlocking geopolitical and regional governance concerns.

A key premise of the present paper is, thus, that macroeconomic theory and theory-informed policy making naturally present an orientation towards systems thinking. First, the theoretical approaches that make up the "modern consensus" in macroeconomics

[1] Sachs (1989) deserves special mention both as an early study of this subject and as a thorough examination of perspectives that are not well covered in the present article. Rather than starting from dysfunctional populist policy, Sachs focuses on social conflict as a primary object from which populism (but also European social-democracy) arises.

[2] In this very same way, systems theory is neither a top-down theory of epistemology nor a research methodology built from first principles, but an array of coherent theories, encompassing approaches as diverse as those of Alfred North Whitehead, Ludwig von Bertalanffy, Niklas Luhmann and Stuart Kaufmann, that are tightly coupled by a few key concepts (including the very concept of "coupling"). A detailed review of its concepts would, of course, fall outside the scope of the present article, which works instead from a minimal, uncontroversial concept of "systems thinking" that enables us to encapsulate the macroeconomics, the politics and the coordination features of our problem space.

share the common understanding that macro phenomena can neither be studied as an autonomous phenomenon that is operationally independent from the behavior of individuals and firms (as Keynesian theory might have at its peak), neither can it be derived from the "first principles" of microeconomic decision theory. Second, policy-makers informed by the modern macroeconomic consensus no longer understand the effects of economic policy to be mechanistic and highly predictable– a view that has come to be derided as "hydraulic keynesianism". Instead, the modern consensus leads to an understanding (whether implicit or explicit) of the target of intervention as being dysfunctions in complex, quasi-organic systems.

Indeed, "modern consensus" macroeconomics tends to zoom in on the irregularities, frictions and structural inefficiencies that differentiate the macroeconomic phenomenon from the cleaner and increasingly mathematized objects of microeconomics. In this sense, a national economy is truly a system of systems, in many aspects operating like an organism where policy interventions take effect through long causal chains that are subject to variable delays and thus to imperfect observation by economic agents and policy-makers.

Whether this natural systems orientation of macroeconomics extends naturally to an understanding of populist politics is, as often is the case in social theory, an open question, ever-mediated by clashes between theoretical paradigms. Nevertheless, the systems-oriented insights (particularly those of the "classical" systems theory of von Bertalanffy and Luhmann) present a framework for a practical synthesis of the topics at hand. In this spirit, David Easton's 1965 formulation remains particularly succinct and powerful:

> "All political systems are distinguished as such by the fact that if **we're able to describe them as persisting**, we must attribute to them the successful fulfilling of two functions. They must be able to allocate values for a society; **they must also manage to induce most people to accept these allocations as binding**, at least most of the time". (Easton, 1965, our emphasis)

This passage highlights the extent to which a systems approach to macroeconomic populism makes sense only in the context of a stable, longer-running political process that gives rise to populist experimentation as a consequence of its wider dynamics and stability requirements.[3]

Thus, even when populist politics seeks to frame itself as a clean rupture with the past or a hard turn to the left, it must co-opt established institutions and social forces in order to achieve political power and produce policy effects. There are practical reasons for this: populist policy often hinges on the voluntary cooperation of workers and capitalists – for example, when inflation control is premised on "social pacts". This is also usually clear

[3] Indeed, some of the literature on the macroeconomics of populism in classical papers such as Edwards (1991) even makes a clear point of excluding outright socialist revolutions (such as Allende in Chile) from its case studies on populism. This methodological choice emphasizes the specificity of populism at the risk of overemphasizing Latin American revolutionary rhetoric and underrating how typical the macroeconomic policies these governments are.

in retrospect: while left-wing governments sometimes enact expropriations and revert privatizations, the bulk of populist policy making is not hostile to capitalism, but instead tries to improve it through a larger role for the state.

In this sense, we ought to be less concerned with the value-signaling of populist governments and instead pay attention to the systemic continuity between policy regimes, which to some extent complement each other. Since populist macroeconomics can not last indefinitely, it has to follow after "orthodox", reformist governments. On the other hand, orthodox reforms (such as constraints on fiscal and monetary policies in order to achieve lower inflation, as well as trade liberalization) do not take place in stable economies, but follow after periods of destabilizing policies. And although politics is anything but logical, there is an internal logic to the macroeconomics of populism that directly interfaces national and international politics.

How is, then, macroeconomic populism distinguished from politics-as-usual, and how do we expand our understanding of it towards its coupling with transnational coordination sites by expanding on the basic system-thinking virtues of the classical literature pioneered by the work by Dornbusch, Edwards and others? It is this challenge that we attempt to address in the remaining sections of this paper. In Section 2, we zoom in on the most salient features of Latin American political and policy coordination since the 2000s. as well as examining what has actually taken place in quantitative terms, with a special focus on Argentina, Brazil and Venezuela. In Section 3 we return to the macroeconomics of populism, examining in detail the classic features of a stylized populist experiment and the innovations seen in the most recent wave of populist experiments.

2. Populist macroeconomic policy in Latin America: 2005-2015

2.1. Dating populist policy cycles

Although the specifics of populist experiments have changed a lot over their past few iterations, there are several structural aspects that translate into useful regularities. First, because the heterodox policies of populist policy-makers become unworkable past the short term, these experiments have "boom" and "bust" phases. In other words, a populist cycle is inevitably composed of a short-term phase, where policy innovations over the previous orthodox regime seem to yield results, followed by a period of crisis leading to the experiment's demise.

These broad strokes of a theory of populist macroeconomic dynamics map very clearly to the experience of those Latin American nations that have had populist cycles since 2005. Nevertheless, there is nuance and variation within a boom-and-bust structural theory: however grounded in the same misunderstandings, heterodox policy-making has evolved over the decades and figured out some of its most pressing weaknesses. Moreover, the 2005-2015 period includes one of the most unusual occurrences in recent world economic history, namely the late 2008 financial crisis followed by the 2009 global recession.

There are a few interrelated reasons for the selection of 2005-2015 as a time window for the most recent wave of populist policy experiments. First, although many countries underwent populist policy cycles, a few economies are clearly dominant, both because they are very large and boast higher GDPs and higher populations, and because they have had disproportionate influence in regional coordination policies. We have, thus, focused on Brazil, Argentina and Venezuela as the most representative and consequential episodes of populism in the past decade.

Second, although Hugo Chávez took power in 1999, and Lula da Silva and Néstor Kirschner both became presidents in 2009, their governments up to 2004/2005 were first marked by a significant degree of adherence to orthodox economics. Indeed, Chávez followed the policy recommendations of the International Monetary Fund back in the late 90s – as did most countries then – while Kirschner was tasked with finishing the reconstruction efforts of previous (post-Menem) president Duhalde and Lula da Silva was interested in preserving the price stability he had inherited.

At the same time, Argentina, Brazil and Venezuela each benefited from a favorable international commodity prices conjuncture, which led to fiscal surpluses and great hopes for the ability to reconcile populist discourse and orthodox economics.

A few events in 2005 are noteworthy by contrast. In Argentina, a radical debt restructuring process took place, culminating on the full repayment of their debts to the IMF in an act of rejection of external oversight on economic policy. In Venezuela, Hugo Chavez proclaimed his influential doctrine of a "socialism for the 20th century" and launched ALBA (the Bolivarian Alternativa for the Americas), then consisting only of Venezuela and Cuba. By the end of that year, the 4th Summit of the Americas saw Venezuela and the then-four members of Mercosur (Argentina, Brazil, Paraguay and Uruguay) stand in opposition to continuing negotiations on the Free Trade of the Americas Agreement (FTAA), effectively stalling regional trade liberalization as pursued by the United States.

By the early 2006, Venezuela had significantly reshaped its outlook and the expectations of its neighbors, while Argentina and Brazil had changed the finance ministers (Lavagna and Palocci) that had led an initial commitment to orthodoxy. Symbolically enough, by that year (Castañeda, 2006) the international community was scrambling to make sense of Latin America's "left turn" and tell apart the "right Left"(such as Brazil's Lula da Silva and Chile's Michelle Bachelet) from the "wrong Left"(most egregiously Venezuela's Hugo Chávez) in order to encourage the least damaging populists to cooperate with the international community. As *Foreign Affairs* notoriously put it,

> [The] populist left has traditionally been disastrous for Latin America, and there is no reason to suppose it will stop being so in the future . . . Distinguishing between these two broad left-wing currents is the best basis for serious policy, from Washington, Brussels, Mexico City or anywhere else. . . The right left should be able to show that there are no penalties for being what it is, but also that it can deliver concrete benefits. The international community should also clarify what it expects from the wrong left. . . Latin American governments of any persuasion must abide by their countries commitments regarding human rights and democracy. . . [and] continue to comply with the multilateral effort to build a new international legal order. (Castañeda, op. cit)

2.2. Orthodox and heterodox policy at the turn of the millennium

It should be clear, from the nature of these “rupture events”, that understanding the shifts in policy-making that characterize the new populism require, first, rewinding a few years to focus on what, exactly, was the “orthodoxy”[4] populist leaders and policy-makers came to rail against. Beyond the usual catchphrases of the Latin American Left, populists positioned themselves against a specific set of policies, including:

- Trade liberalization and the gradual removal of tariffs and non-tariff barriers to imports. Classical, pre-1990s populism was to a significant degree based on the import-substitution industrialization model of economic development, which in turn led to industrial policies based on protection from external competition. Latin American governments in the 1990s, in turn, reversed this course in many significant aspects.

- More generally, a closer coordination with international institutions (such as the IMF) and developed nations in solving structural problems, including a bond market-oriented restructuring of sovereign debt and financing deals with the IMF conditional on policy advisories.

- Inflation targets, whether implicit or explicit. In the narrative told by populists, orthodox policies reflected a neoliberal view of economics where the state can not stimulate growth directly. Thus, macro stability would be (incorrectly) the only accepted role for fiscal and monetary policies.

- Privatizations and a market-regulation approach to state intervention in the economy. On the one hand, privatization has been framed as selling out the people’s patrimony to corporate interests. On the other, the market-regulatory philosophy has been deemed insufficient to ensure that social goals are met.

It is important to note that governments in the 1990s did not enact a radical turn towards orthodoxy, neoliberalism or even minarchism (“the minimal State”, in populist jargon), as populists would claim. On the one hand, policy-makers were never exempt from the complexities of maintaining a diffuse support base, which made many essential reforms (such as fixing unsustainable national pension systems) impossible. On the other, political leaders in the 1990s were never “neoliberals”. As an example, Fernando Henrique Cardoso’s (Brazil) academic work in dependency theory (a major current in heterodox economics) is still influential in “developmentalist” circles, and Carlos Menem (Argentina) was a rank-and-file peronist – the same political party to later elect the Kirchners. As such, while many privatizations were enacted, the Brazilian state held on to Petrobras and the largest consumer banks in the country, and Argentina’s Menem was unsuccessful in his push to hand over the pension system to the private initiative.

[4] For many “heterodox” theoreticians and policy-makers, orthodox and heterodox are terms that apply to economic theory rather than policy. But, as we will see later (section 2.3), economic theory is neither irrelevant nor the determinant factor in how populist politics is formulated and implemented.

In other words, regardless of any actual appraisal of these 1990s governments (which is well outside the scope of this article), it is clear that populists built them as a caricature of the neoliberal, state-minimalist or right-wing regimes to which they were supposed to be an alternative. This phantom opposition has important repercussions for the nature of recent populist policy-making, as argued in the next sections, and has influenced many concrete decisions regarding regional integration and uncoupling from developed economies.

2.3. The symbolic calculus of populism

The success of populism, particularly in its Latin American incarnations, is inevitably a product both of savvy political maneuvering and of an ideology-driven understanding of the meaning of politics itself.

First, populist politics is usually marked by the successful capture of key figures and groups in a complex setting where institutions, information asymmetries and rule-making processes allow savvy politicians to cultivate a diversified support base. In other words, it involves an efficient utilization of what Buchanan and Tullock (1963) called *the calculus of consent*.

Second, it should be clear that populist politics is no mere conspiracy between organized groups and captured governments, but has to do with the *symbolic manipulation of reality*. Populism achieves efficacy and legitimacy by displacing existing social conflicts and grievances onto a structural narrative with well-defined protagonists, antagonists and a strong concept of collective identity and action that necessitates state intervention. It is probably too reductive to state that populists render politics into a battle of good versus evil, but not by much: all too often populist governments claim to be on the side of progress against the "forces of backwardness".

The synergy between those two processes (the calculating ascent and maintenance of power and the symbolic manipulation of reality) is one of the clearest distinguishing marks of populism. Special interest groups rise to special power as they're vested into special symbolic roles (such as labor unions, "social movements" and strategic "'national champion" companies), but at the same time they help establish the symbolic legitimacy of populist leaders and their policies. Indeed, populist governments have further invested in their symbolic legitimacy by mobilizing public intellectuals and artists in their cause, hoping to establish a kind of claim to legitimacy that is robust to catastrophically adverse economic outcomes and the ensuing shifts in actual popular support.

a. Ideology as mirage

The efficacy of such symbolic exchanges plays an important role in explaining the recurrence of populist policy experiments. As argued in the Introduction, populism is a systemic feature of Latin American nations rather than a rupture with the past, and much of the region's susceptibility to repeating failed experiments has to do with the continued importance of populist-friendly thinking in academia, the media and other sites of intellectual influence. More importantly, the success of populists' appeal to the symbolic manipulation of reality depends on their ability to represent their political project as a kind of vague totality that appeals equally to artists and new political allies.

At this point, populist politics seems essentially disconnected from policy-making (as witnessed, for example, for the radical-left support for capital-friendly policies). Instead, the inner structure of its symbolic legitimacy mirrors the condition that Jean Baudrillard calls the "precession of simulacra" – the priority of symbols over that to which they refer, leading to the substitution of ideology by transparent "simulation":

> It is no longer a question of the ideology of power, but of the *scenario* of power. Ideology only corresponds to a corruption of reality through signs; simulation corresponds to a short circuit of reality and to its duplication through signs. It is always the goal of ideological analysis to restore the objective process, [while] it is always a false problem to wish to restore the truth beneath the simulacrum". (Baudrillard, 1988)

Indeed, one of the trademarks of populist *governments* is their adeptness at this balancing game: performing populist *politics* while enacting "heterodox" policy measures that neither lead to immediate collapse nor threaten their overall symbolic order. If Baudrillard's simulation theory (which has a speculative character and should be taken skeptically) was literally true, finding the essence of populist policy-making (i.e. its internal dynamics and how it produces its destructive effects) would be irrelevant, as populism is a "simulation" of real politics that lives and dies by symbolic, rather than material, exchanges.

Concretely speaking, what is clear from the 2005-2015 cycle is that the symbolic efficacy of populist politics (which has a very real effect on the viability of populist government, as it shapes domestic and international expectations) appears to precede its policies and their outcome for their putative support base (the low-income masses, the working class, the socioeconomically "excluded"). Instead, policy is *underdetermined*: intellectuals, social movements, labor unions, and other components of the diffuse alliance behind populist parties lend their support well in excess of favorable policy content, and very often seem to support the mere notion of populist ("popular", "nationalist") government whatever its policies are. As a result, populist governments often seem to be targeting a narrative (an ideological mirage) than any of their presumed ideological agendas.

An archetypal example is the movement for agrarian reform in Brazil, which has remained in very close alignment with the Worker's Party despite the fact that land expropriations were much more frequent under previous governments – and instead nearly stopped during the tenure of presidents Lula and Dilma Rousseff. Similar observations apply to organizations such as the Mothers of Plaza de Mayo in Argentina (which, in principle, advocates for the survivors of that country's military dictatorship), and more generally to intellectuals in academia and beyond. It is also symptomatic that *Foreign Affairs* (Castañeda, op. cit) still points in 2006 to "Fome Zero" (Zero Hunger) as an example of "good" pragmatism in Brazil, when this program never got off the ground and possibly was never more than a publicity slogan.

Besides explaining in part how populist governments have held on to power for such extended periods of time (over 12 years both in Brazil and Argentina; and the entire

21st century in Venezuela), such a symbolic grounding is certainly a piece of the wider puzzle regarding the recurrence of such political projects despite their repeated past failures. Indeed, even as they fall from power (as has happened in Argentina and Brazil) under economic catastrophes and disappearing popular support, populist parties continue to have enthusiastic support from numerous opinion-makers. This evidence should be surprising, but is partially explained by the notion that these supporters may be evaluating an ideological hall of mirrors rather than the disastrous outcomes being experienced in the present.

b. The ambivalence of diffuse support

At the same time, support for populist governments is seldom a pure matter of faith or illusion. Instead, it is backed by government's ability to exercise state power and supporters willingness to wait for their turn. In other words, Latin American populism is neither founded on baudrillardian "simulation", nor on the rational choice of focused interests (and the rational ignorance of voters, who are poorly-informed most of the time). Rather, savvy populist governments deftly leverage both.

For example, while it is clear that the lower-class origins and left-leaning discourse of presidents Lula, in Brazil, and Chávez, in Venezuela, have played an important role in building their overall support and their mass popularity, both "symbolic elites" (such as artists, intellectuals and the media) and and the low-income masses have benefited from patronage, state sponsorship and income redistribution policies.

Moreover, not all sources of political support are that easy to court. A key piece of the populists' narrative has to do with the support of national businessmen and industrialists, which are generally much less inclined to support the "ideological mirage" of populism and instead expect real concessions in the form of subsidies, state-backed credit and protection from foreign competition.

While somewhat distant from the specific regularities of populist policy-making, this interplay between the symbolic-ideological myth-making and the cold engineering of a diffuse alliance is an important point for understanding the specific actions of populist governments. Indeed, populist policy at many moments appears to be as ambivalent as its political support base, engaging in temporary orthodox stabilization or alternating between artificial currency devaluation (to please exporters) and overvaluation (to placate consumer price indices).

This calculated ambivalence significantly complicates the otherwise unimpeachable logic of the classical macroeconomics of populism (which deals with how unworkable heterodox policies crumble under the weight of reality constraints). On the one hand, populists' grip on power extends beyond the calculus of rational consent.[5] On the other,

[5] This discussion overlooks analytical objections to the "calculus of consent" research program. Indeed, Arrow's 1963 theorem on the impossibility of preference aggregation mechanisms – an early high watermark in social choice theory – casts a shadow on whether special interest groups are able to have collective interests at all. On the other hand, Arrow's desideratum of "independence from irrelevant alternatives" (IIA) provides a natural candidate for the site of action of "symbolic manipulation": people who are (even if only indirectly) negatively affected by populist policy are led to believe that their actual choice lies elsewhere – not between lower taxes versus increased government outlays,

populist policy does not usually take the form of an amorphous expansion of government outlays and state power, but a continued negotiation with those sectors in society that give it support, both through overtly targeted policies (such as the subsidies for off-season fishermen in Brazil) and through the ostensible participation of "workers and bosses" in industrial policy-making seen in many countries.

2.4. Regional coordination in Latin America: 2005-2015

One of the key takeaways of what has been discussed so far is that populist politics should not be understood as a "viral infection" – the international spread of political, policy and ideological conceptions due to factors exogenous to domestic conditions. On the contrary, even when regional coordination is understood to be a relevant feature, the recurrence of populism depends on a number of persistent conditions that are never as homogeneous and constant over time when seen as a regional whole.[6]

a. A brief account of Latin American integration

The larger issue of regional coordination far exceeds the topic of populism. First, there are deep historical roots to the notion of "Latin American unity", dating at least back to the 19th century, where a handful of military leaders such as Simón Bolívar, Antonio Sucre and José de San Martín have been key figures in the independence wars of multiple countries, including Chile, Argentina, Venezuela, Bolivia, Colombia, Ecuador and Peru." Indeed, some analysts such as (Malamud and Castro, 2007) go as far as claiming that "[w]orship to the alleged natural unity of Latin America" is a "permanent component the regional political discourse".

Regional coordination has not been, of course, a mere matter of historical brotherhood, and indeed the region has seen many internecine wars in the 19th and 20th centuries. Indeed, the push for regional coordination has originally stemmed from the stresses of post-World War 2 global reorganization, most notably the European process of economic integration. Riggirozzi (2010) quotes, in this context, the president of Uruguay "in the early 1960s"[7] as establishing that

> "[T]he formation of the European Common Market is a state of near-war against Latin American exports. To an integration scheme we must respond with another integration". (as quoted in Riggirozzi (op. cit.))

for example, but between a retrograde world of oligarchic underdevelopment and a progressive, less unequal society.

[6] Indeed, trying to account for the populist wave in *all* countries in the region immediately brings up the problem of temporal coincidence: although we can safely say that a large set of countries associated with the international blocs we discuss in this region have seen populist governments in the 21st century, time-frames are not always consistent.

[7] From 1952 to 1967 Uruguay was not ruled by a president, but by a (democratically elected) National Council of Government along the lines of the Swiss Federal Council. While this Council had a rotative yearly presidency, its leaders are not usually counted as Presidents of Uruguay in standard historical chronology. It is likely from context that Riggirozzi assumed that a given policy statement (kicking off the negotiations to establish LAFTA, an early, short-lived regional bloc) corresponds to a Council position on policy.

The "closed" model of regional policy-making that ensued from the 1960s to the 1980s closely mirrors the nationalist economic policies of import-substitution and state-led growth – and indeed, it is more likely that blocs and alliances from the "closed era" would not have even gotten off the ground if not for compatible decision-making at the national level.

The emergence of Mercosur in the early 1990s represents a break from a mode of regional policy-making that was led from domestic interests to one that, at least in principle, imposed, with its free trade provisions, real restrictions to national policy-making. In fact, at least during its first years, Mercosur appeared to mirror developments in Europe, gradually evolving a customs' union and provisions for the movement of people between member countries.

Mercosur has maintained such a coordinating role after 2005. However, the effective demise of negotiations towards United States-led Free Trade Area of the Americas has given new direction to policy-making at the regional level. In this sense, Riggirozzi (op. cit.) constrasts what he calls an "old", trade-motivated regionalism to the "new" regionalism epitomized by Venezuela-led Bolivarian Alternative for the Americas (ALBA).

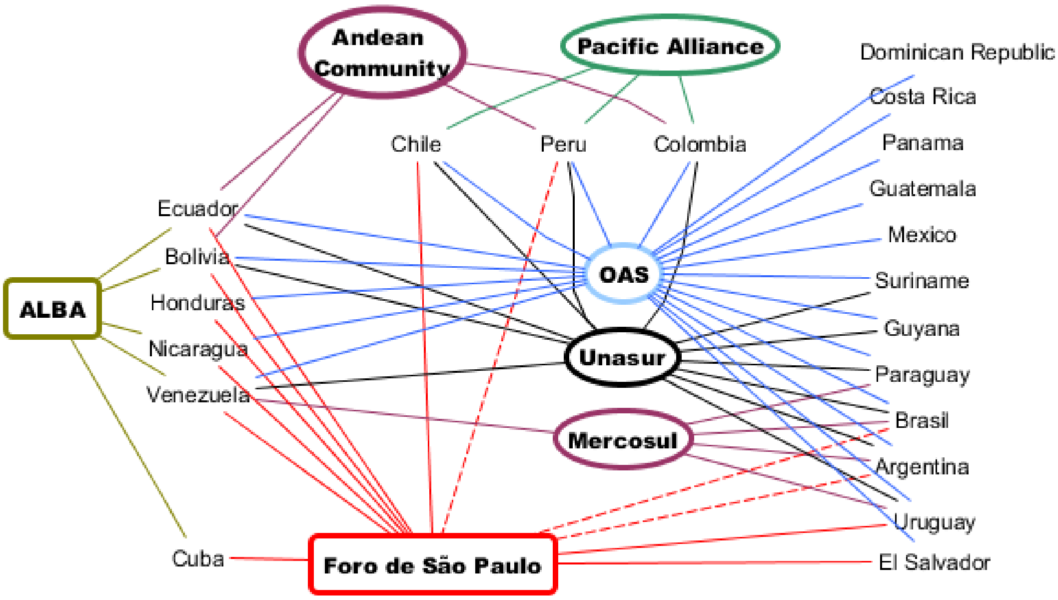
b. Populist regionalism after 2005

The case of the recent populist cycle in Latin American brings an additional layer of complexity: these linkages between politics and policy-making have also interacted with explicit coordination mechanisms in excess of the usual societal forces that bring about the recurrence of populist macroeconomics. Moreover, part of these mechanisms is not classically "international" in the sense of having to do with relations between nations and blocs, but take the form of a transnational system of alliances that crossed national borders but tended to bind political parties. These new coordination mechanisms yielded unique strengths and weaknesses for the survival of the 2005-2015 populist cycle. On the one hand, unlike the decades-long process of statecraft that led to European integration, Latin American joint policy efforts have taken place at faster pace. On the other, these integration projects have irrevocable ties to national politics, where non-aligned political alliances may retake power (as they have since 2015), and the weight of some countries leaving the fold may force populist experiments to stop before they have reached their ordinary turbulent end.

This system of alliances is (partially[8]) illustrated in Figure 1, which charts affiliations to four different regional blocs in Latin America. Four major international alliances, more typical of traditional diplomacy and international coordination, are shown as ellipses: the Organization of American States (OAS), Unasur, Mercosul and the Pacific Alliance. In addition, two major partisan transnational blocs are shown as rectangles: ALBA (Bolivarian Alliance for the People of Americas) and Foro de São Paulo (São Paulo Forum, henceforth FSP).

[8] In particular, we have entirely omitted alliances that are somewhat relevant to the topic at hand, but expand beyond Latin America, such as those derived from the brazilian Workers Party's "south-south diplomacy" with Africa or BRICS-derived institutions such as the Bank of the South.

Figure 1: Membership in partisan and nation-wise blocs (23 selected countries; dashed lines indicate recent departures



Much can be said about regional relations from the structure of the chart alone. First, the Organization of American States (OAS) remains a common thread between all countries in the region with the sole exception of Cuba. Indeed, OAS plays a key role in joining nations in a number of important region-wide policy mechanisms, most notably the Interamerican Court of Human Rights. Secondly, only Venezuela shares an affiliation to the four regional organizations: besides OAS, ALBA, the FSP, Mercosur and Unasur. Third, recent departures of FSP-aligned governments have tended to happen at countries that already enjoyed membership in Mercosul or the Pacific Alliance.

Second, membership in regional blocs also cuts across partisan alliances, and in some cases dominates policy perspectives, as well as coinciding with the most preeminent political changes in the region. It should be noted nevertheless that regional blocs have not been exempt from partisan influence, as most clearly seen by Venezuela's successful membership bid (following Paraguay's suspension, which was itself triggered by the impeachment of an allied party) despite extant bloc protocols and regional scope.

Partisan blocs are, in turn, also heterogeneous in the intensity of their coordination efforts and the impact they've had on policy-making so far. ALBA is clearly more focused towards international policy-making, having made small but symbolic investments in regional "social policies" and pushing for the adoption of a common currency (the sucre). More importantly, a number of large-scale projects have been started under the auspices of ALBA, such as PetroCaribe and, most notoriously, the television network Telesur. Foro de São Paulo, in turn, has played a far more ambiguous role, being notable by overt cross-country partisan alliances (where leaders from member nations actively campaign in the other nation's elections) at the same time it sometimes coexists with less ideological approaches to policy-making in certain countries such as Chile and Peru.

The model of regionalism pushed by ALBA – heavily ideological and legitimated by "radical" and "advanced" (in the parlance of supporters such as Riggirozzi (op.cit)) transnational social investments – presents some interesting contrasts with UNASUR, the other major bloc to arise from post-2005 populist regionalism. In many ways, UNASUR is a continuation of Mercosur's economic integration process. As such, it models itself even closer to the European Union, featuring a proposed Parliament, as well as a common defense initiative.

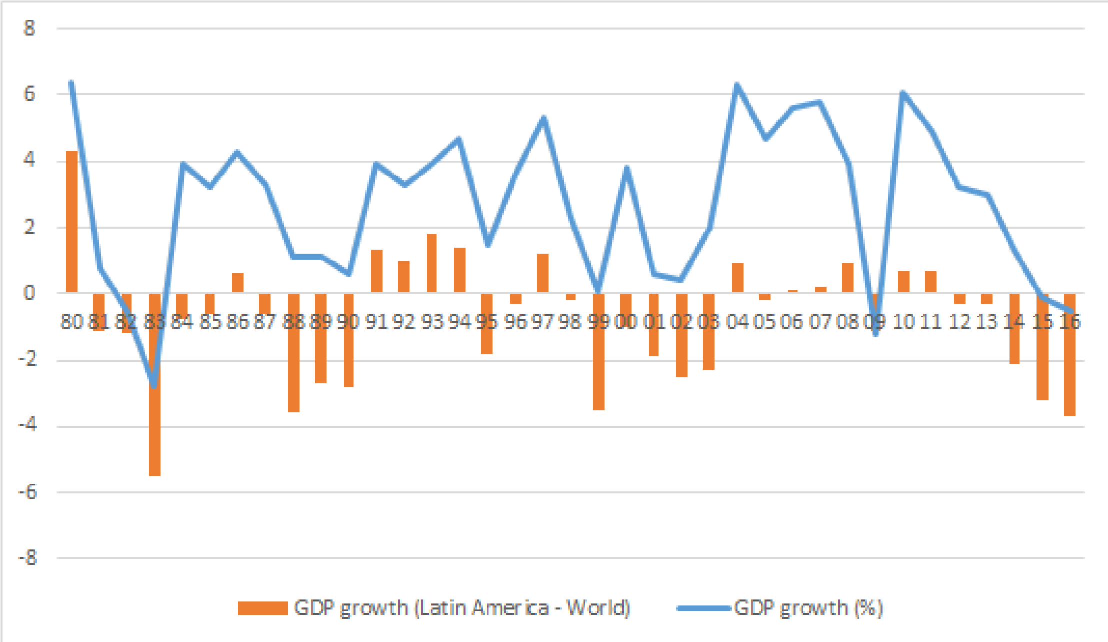
2.5. Stylized facts

In this section we present stylized facts related to GDP growth, unemployment and inflation before and during the 2005-2015 wave of populist governments.

a. GDP growth

Short-run GDP growth reflects a wide variety of factors, from institutional constraints to short-term policy-making to favorable conditions for signature exports and for the world economy as a whole. This is well represented by the relatively high year-to-year volatility seen by regional growth rates as seen in Figure 2.

Figure 2: GDP Growth (% change/year)
Latin America and the Caribbean versus World aggregates



Source: International Monetary Fund - World Economic Outlook 2016

At the same time, while the region may seem to have lived a few short but expressive golden ages the comparison to world GDP growth is less than impressive, even if one considers wide aggregates that include lower-performing highly-developed nations. Indeed, regional crises can be clearly read from the time-series as being comprised of multiple years of underperformance with respect to world trends, while good years seem to entail being able to simply follow them.

b. Unemployment

While GDP figures hardly show extraordinary outcomes during the 2005-2015 decades, unemployment rates may appear to tell a different story (Figure 3). Indeed, many populist regimes in the region, including Argentina and Brazil, have managed to arrive at 2015 with unemployment rates well below their long-run averages – while Mexico, who can be said to have sided with the United States by joining NAFTA, has instead slightly higher unemployment.

Figure 3: Unemployment rates

	2015	2005-2015	2005-2010	2011-2015	1980-2015
Argentina	6.5	8.2	9.1	7.1	10.2
Bolivia	4.0	5.1	6.3	3.8	–
Brazil	6.8	7.3	8.7	5.7	6.8
Chile	6.2	7.6	8.5	6.4	9.5
Costa Rica	8.3	7.1	6.2	8.1	6.3
Ecuador	4.8	5.4	6.4	4.2	7.1
El Salvador	5.3	6.1	6.7	5.5	7.2
Honduras	4.0	3.9	3.6	4.2	4.7
Mexico	4.3	4.5	4.2	4.8	3.8
Nicaragua	7.1	6.4	6.5	6.3	10.5
Peru	6.0	7.7	8.5	6.8	7.7
Venezuela	7.4	8.5	9.0	7.8	–

Source: International Monetary Fund - World Economic Outlook 2016

It is important, however, not to read too much into the change in unemployment rates. First, there are many methodological breaks and inconsistencies in how unemployment (usually a random-sample survey whose exact language is important[9]) is measured, even within the same country. Unemployment rates may be artificially lowered by conditional or unconditional cash transfers[10], or simply undercounted.[11] Besides these statistical and methodological issues, the rhetorical role of unemployment in populist discourse has to figure in a critical approach to unemployment rates in the region. While classical populism has always contrasted an orientation towards growth with orthodox policies emphasizing macroeconomic stability, the 2005-2015 wave has often given low unemployment rates a special importance. This can be seen most clearly by noting how 2015 rates are still lower than the 2005-2015 averages, despite the region facing negative GDP growth.

[9] A particular point of attention is that economists (orthodox and heterodox alike) define the unemployed as those who have looked for, but not found, employment in a given time period. The fine details of this definition may differ between countries and even within a country over time – for example, whether those receiving long-term government assistance count as unemployed. Some experts also question whether "unemployment by despondency" (those who have given up looking for jobs despite wanting them – which usually don't count as unemployed) should be added to the existing unemployment figures

[10] In Brazil, for example, *Bolsa Família* was at first an outgrowth of previous conditional cash transfer policies, but then came to be extended beyond its original purposes. Cash transfers may also take more creative forms, such as paying fishermen to stop working during certain seasons under the guise of environmental policy (as in Brazil).

[11] Indeed, the discrepancy between official and alternative inflation rates in countries such as Argentina suggests heavy political interference in statistical agencies; and unlike inflation, unemployment is expensive to measure and hard to define in exact agreement with official definitions

c. Inflation

Inflation has not only been a signature issue of economic malaise that is directly felt by the ordinary people that populist policy is supposed to be pandering to, but is also deeply symptomatic of a number of underlying issues, often of a structural nature, and of the ability (both technical and political) of policy-makers to stave it off. Indeed, while governments of all stripes generally claim to be tough on inflation, populist policy-makers have made concessions to the idea that there is a structural trade-off between low inflation rates and faster growth that may have to be navigated.

As Figure 4 shows, Argentina, Brazil and Venezuela have seen an increase in inflation rates unparalleled in other regions, whether in Advanced Economies or in the aggregate of emerging nations.

Figure 4: Inflation rates

	Argentina	Brazil	Venezuela	Advanced	Emerging	World
2005	12.3	5.7	14.4	2.5	5.7	3.9
2006	9.8	3.1	17	1.9	6.1	3.9
2007	8.5	4.5	22.5	3.2	7.5	5.3
2008	7.2	5.9	30.9	1.6	7.7	4.6
2009	7.7	4.3	25.1	1.2	5.3	3.3
2010	10.9	5.9	25.7	1.8	6.6	4.3
2011	9.5	6.5	26.8	2.7	6.5	4.7
2012	10.8	5.8	19.3	1.8	5.8	4
2013	10.9	5.9	60	1.3	5	3.3
2014	23.9	6.4	68.5	0.7	4.7	2.9
2015	n/a	10.7	180.9	0.6	4.7	2.9

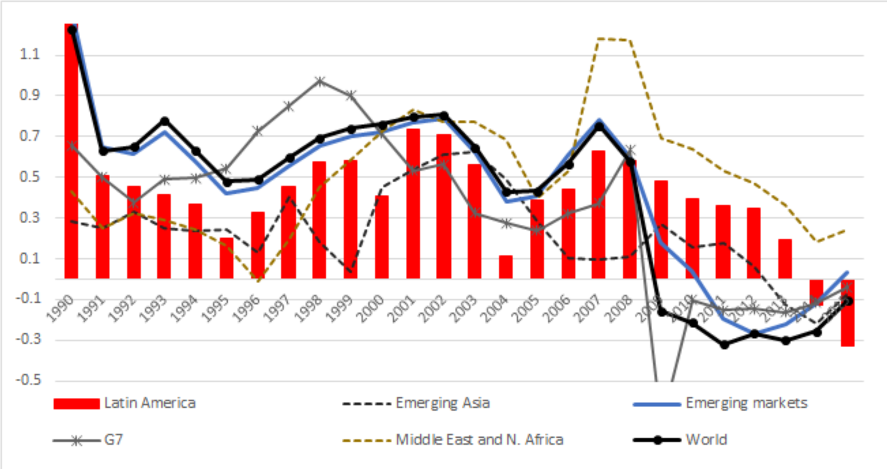
Source: International Monetary Fund - World Economic Outlook 2016

As inflation rates often carry a long memory, direct comparisons may not adequately tell the more interesting stories, which have precisely to do with how much it seems to be out of hand – that is, its inertial, endogenous features. In an attempt to capture the phenomenology of inflation from that aspect, we have taken 10 year rolling-window samples – that is $[T-10, T]$ intervals, where T goes from 1990 to 2015 – and estimated the one-year "memory" coefficient from the simple autoregressive model

$$\pi_t = \alpha + \beta\pi_{t-1} + u_t$$

where π_t is the inflation rate at time t and u_t is an error term. An estimated inflationary memory β goes above 1 implies that inflation rates will rise even given "neutral" policy – which, on a ten year horizon, implies an environment of instability where inflation rates above the long-term average will quickly feed back on themselves. This is illustrated in Figure 5

Figure 5: Inflationary inertia in Latin America and the Caribbean versus other regions: 10 year rolling-window estimates



Source: IMF's World Economic Outlook and authors' calculations

Taking Latin America and the Caribbean as a whole, we see little evidence of long-run disparities between inflationary inertia in the region and elsewhere. Indeed, the key feature of the 1990-2015 period is the sharp turn seen after 2007 first at non-G7 advanced economies and soon in the world as a whole, a turn that hasn't been reflected in the region until the post-2015 crises in Argentina and then Brazil made their weight visible in regional aggregates. On the contrary, instead of displaying long-run economic turbulence, inflationary inertia estimates seem to capture a series of instances of "orthodoxy shocks", such as 1990-1991, 1994-1995 (as influenced by Brazil's notorious *Plano Real*) and 2003-2004. Indeed, in the late 90s Latin American nations have been paralleled only by the Emerging Asia bloc (which was also the subject of significant IMF intervention) in outperforming world averages and developed countries in taming this self-propelled character of inflation. This also means, of course, that discretionary policy-making bears a higher portion of the blame for rising inflation.

3. The life-cycle of populist experiments

The basic insight that populist experiments follow life-cycles driven by their own internal constraints is due to Dornbusch and Edwards' pioneering 1991 paper, whose four-phase model is summarized in Figure 6. Populist experiments are short-lived, in their account, because populist policy is predicated on a *paradigm of no constraints*. Indeed, the rhetoric of populist governments in the region attributes their own success to a willingness to defy received wisdom on the constraints to policy – where past governments have failed due to a lack of will and courage or, worse, to a perverse opposition to "socially inclusive" development.

Figure 6: Dornbusch and Edwards' life-cycle of macroeconomic populism

Phase	Constraints	Symptoms	Policies
I	None	Macro-level success	Monetary and fiscal expansion; sometimes price controls
II	Inventory decumulation; restrictions to trade	High inflation (but wages keep up)	Price realignments, currency devaluations and exchange controls
III	Pervasive shortages, accelerating inflation, foreign exchange gaps and falling tax revenues	Capital flight; demonetization of the economy; massive decrease in real wages	Unstable
IV	Populist policies no longer work	Massive capital flight, depressed investment major political change	Orthodox stabilization takes over

Source: Adapted from Dornbusch and Edwards (1991)

While several decades old now, Dornbusch-Edwards four-phase model, shaped after Allende's Chile and Alan García's Peru, remains relevant where it identifies the system dynamics of populist policy at the crossroads of policy thinking, populist politics and real world constraints. The specific mechanisms driving the life-cycle have, of course, changed over time, and the 2005-2015 wave has exhibited particular innovations that connect the macroeconomics of populism to the issue of regional coordination. Still, the four-phase model provides a minimal language – both a taxonomy and a theory of how high-order elements interact – over which the specifics of new populist policy cycles can be discussed.

In its purest form, Phase I is triggered by the abandonment of self-imposed policy constraints. The populist narrative here typically asserts that such policy constraints were based on excessive conservatism regarding the requirements of economic stability and were hampering growth.[12] Instead, populists will promote an active role for the State that takes a classical keynesian bent in its emphasis on fiscal and monetary stimulus, but also somewhat mirrors its left-wing discourse in that it starts targeting issues such as the reach of the welfare state and economic inequality as primary policy variables.

In practice, the initial policies of populist *governments* will depend, among other

[12]Later on, the orthodox policies of populist's predecessors may be painted as actively hostile, submissive to foreign interests or conspiring to favor the elites at the expense of the people; but this tends to happen as populist policy stops working.

factors, on the economic climate they inherited. If, on the one hand, populism tends to follow (or at least project itself against) the relative failure of previous orthodox policies, on the other they might find many policies to preserve, at least initially. In this way, during 2003-2005 the Lula administration had initially committed to maintain its inflation targeting and fiscal surplus rule, and in Kirschner's Argentina, this commitment to continuity included keeping the previous government's finance minister.

The recent experiences of Argentina, Brazil and Venezuela, in this sense, show that populist (macroeconomic) *policy* can be delayed for some time until populist *governments* achieve the necessary space for political maneuvering, accumulate enough goodwill that they can start picking their own fights – that is, enacting a scenario of rupture. This is most clear[13] in Néstor Kirschner's overt, public disagreements with minister Lavagna over the need to moderate economic policy to curb inflation and promote stability, culminating with his firing in late 2005.

3.1. Lessons learned from previous episodes: the question of external vulnerabilities

External constraints have always been a major source of destabilization for populist policy experiments, particularly those stemming from capital account restrictions were, then, a major mechanism of destabilization. On the one hand, countries with depleted foreign reserves were vulnerable to the politically-uncommitted behavior of foreign investors who were able to quickly curtail and reverse financial flows. On the other, the domestic supply of real goods depends on world markets, the competitiveness of national exports and the ability to finance trade deficits.

Of course, active foreign restrictions are far from specific to Latin American failing heterodox experiments. Indeed, the literature on the effectiveness of capital controls (see Edwards (1999) and (2001)) has surveyed a number of situations where long-lived (but not "heterodox" in the sense of no-constraint populism) policies of enforcing exchange rate pegs and/or restrictions on capital mobility (such as South Korea, Thailand, Mexico and eventually Brazil) came apart in the mid-to-late 90s. However, where in the late 1990s South Korea, Thailand and even Brazil (in 1999) buckled to their real constraints and paid the short-term by opening up policies and devaluing their currencies, the populist regimes of the 1980s (including Mexico and Brazil) did not and rather "'muddled through" (as put by Edwards 1999) by doubling down on heterodoxy, tightening restrictions on capital mobility and enacting price controls.

Capital account and capital flow constraints remain, of course, a conditioning factor on the ability of policy-makers to work miracles. They also play an important in recent populist policy crises such as Venezuela. However, populist governments from the

[13] As often is the case when the trajectories of these three countries are compared, Venezuela already has at any given time in 2005-2015 a more centralized decision-making process that occludes which political facts are easily observable; on the other hand, Brazil experiences a torrent of semi-related political events from which it is harder to pick key moments – for example, orthodox-leaning finance minister Palocci was fired (and replaced with Mantega, a left-wing sociologist that would stay until the end of 2014) shortly after Argentina's Lavagna not because of policy debates but because he was implicated in the multifaceted *Mensalão* corruption scandal.

2005-2015 wave took active measures to subdue external mechanisms of destabilization through an active financial uncoupling from developed nations and country blocs. Besides showcasing that, however ideological or tied to erroneous theories, policy-makers do learn from experience and adapt, this is also a case study in which policy outlooks that are seemingly very different (in the 1980s and post-2015) take similar roles in the systemic linkages between political discourse, policy-making, international coordination and economic outcomes. Indeed, political discourse has often taken the financial crises of the late 1990s, which took place in the context of orthodox stabilization, to be the very unworkable short-lived policies to be railed against – for example, deriding the first phase of Plan Real as "exchange rate populism".

Informed by both the severe difficulties and high social costs of bust-phase 1980s populism, and the continued relevance of external restrictions ("foreign vulnerabilities") in the 1990s, policy-makers of the post-2005 wave took specific measures towards "independence" (that is, external uncoupling, particularly from developed economies):

- Maintaining high levels of foreign reserves, even (as argued for example by Rodrik (2006)) at high fiscal and social costs.
- Counterintuitive debt finance strategies, such as paying off low-interest debts to the IMF and acquiring precariously-negotiated debtor positions, as most notably in the case of Argentina.

Besides these actions, many regional efforts are taken towards financial uncoupling from the rest of the world:

- Trade deals oriented towards regionally-bound trade finance, sometimes to the point of creating regional currency denominations such as ALBA's sucre and Mercosur's gaucho.
- Indirect regional project finance at development-bank subsidized interest rates, often in the guise of "exporting services" towards infrastructure projects in other countries.
- Strategic initiatives involving state-owned companies, particularly involving the oil and gas sector.

These measures gave the 2005-2015 wave considerably more resilience to external constraints. For example, Brazil in 2011-12 was able to manipulate exchange rates both to devaluate (and boost exports) and overvalue (to curb inflation). Argentina, in turn, was able to display remarkable brinkmanship in renegotiating their debt in 2014 while maintaining (at least officially) a currency peg and avoiding the financial market convulsions that a more open economy would experience.

This does not mean, of course, that the new populist policy-makers have somehow been able to bend the rules. Indeed, the power of financial uncoupling from the world economy has been best seen in countries (such as Argentina and Brazil) with multiple signature exports, large domestic markets and diversified economies – that is, countries that were already less sensitive to balance-of-trade restrictions before external uncoupling. Moreover, these efforts towards uncoupling are achieved at a cost (not only fiscal, but also in terms of productivity and microeconomic efficiency) that probably contributed to later instability.

Still, these active efforts towards uncoupling from global financial markets gives populist governments an extra degree of freedom, which raises the potential stakes and makes predicting the downfall of heterodox policy experiments much harder. More importantly, this additional degree of freedom may have increased the role of politics at the end of populist cycles. On the one hand, active external constraints have acted in the past as a *de facto* international coordination mechanism through market forces, while now national actors who wish to change the policy regime are forced to clarify the fiscal, microeconomic and social costs of populist policies, including those aimed at handling external constraints. On the other hand (and returning to David Easton's insight from the Introduction), the ability to impose costly "independence" policies as outlined above has to do with governments' abilities to allocate their burdens and benefits (often including redistribution programs painted as integral parts of the overall mechanisms) in a way that is politically sustainable.

4. Concluding remarks

John Maynard Keynes famously hoped that economic policy, like dentistry, would be one day thought of as a matter for "humble and competent" specialists. In practice, policy-making has always been structurally coupled to politics, at least in part because of the very nature of democratic government. This has not, however, lead in all places and times to a recurrence of populist policy-making experiments. Given this fact, a question that should always be asked when discussing the macroeconomics of populism in Latin America is – what can economists, political scientists and other experts do about it?

A partial answer emerges from the literature directly dealing with the macroeconomics of populism: there are actual constraints to the viability of populist policy-making (that is, since there is more than normative theory to the subject) that governments typically ignore, but that should be highlighted in policy debates. In other words: there is more than politics and political legitimacy to the undesirability of policies such as price controls – namely, that they don't work after a short period of time – and this degree of orthogonality should be emphasized. Indeed, without such an emphasis on technical matters, finding common ground and achieving progress in macroeconomics might be impossible.

There is more, however, to helping avoid costly policy mistakes (sometimes catastrophically so) than pressing technical matters. In fact, the latest wave (roughly encompassing the years 2005-2015) of populist policy-making in Latin America has been informed by the accretion of knowledge on matters such as the economics of external vulnerability in the region and used to further shield itself against outside pressures for economic rationality.

Indeed, one of the lessons left by the recent populist wave in Latin America is that a superficial embrace of “orthodox” macroeconomic policies may disguise the more typical life-cycle of populist experiments. For example, many market-oriented analysts pointed to Brazil’s trajectory until 2013 as exemplary, given the nation’s policy-makers’ apparent commitment to budget surpluses and inflation targets. Under a different light, Venezuela was also held by many intellectuals and social scientists as an impressive case study of rapid development. In that way, many actors (whether financial agents, academics or foreign leaders) have failed to press for real improvements in policy-making.

Given this context, how can regional institutions be redesigned in order to exert a positive influence on governments? Latin American institutions have historically been oi two kinds: they either enable countries to adopt their own policies, whether “orthodox” or “heterodox”, populist policies, or they have tried to coordinate a common vision. A clear representative of the latter is Mercosur in the 1990s with its modern agenda towards free trade. This liberalization project would, however, hit a political limit with the demise of FTAA talks in 2005, leading in turn to a change of role for Mercosur and the creation of new institutions such as ALBA.

It becomes clear, from this experience, that while both “orthodox” and “heterodox”-leaning regional mechanisms have been able to make their mark in the region, neither has enjoyed enduring success. This comes partly from nationalism, but also from the domestic tensions that both kinds of policy-making have to overcome. “Heterodox”, populist policies eventually finds itself at a collision route with reality, but “orthodox” policy-makers have scarcely done better from a systemic point of view.

While long-term, sustainable development requires responsible macroeconomic policy-making, such measures are not always enough. Whenever orthodox adjustment leads to a transitory loss of welfare for significant groups of people, compensatory policies should be devised. Moreover, policy-makers need to clarify the rationale and the benefits of orthodox policies in the short run in order to prevent future outbreaks of populist policies. Likewise, regional coordination blocs need to incorporate this wider understanding of policy-making as an endeavor that is intertwined with politics and socioeconomic outcomes.

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