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ARTÍCULO

WHY LEFT AND RIGHT-WING GOVERNMENTS FAIL IN LATIN AMERICA. WITH A CRITIQUE OF GABRIEL PALMA¹

Luiz Carlos Bresser-Pereira

Bresser-Pereira, L. C. (2024). Why left and right-wing governments fail in Latin America. With a critique of Gabriel Palma. *Cuadernos de Economía*, 44(93), 117-130.

Since 2019, a new wave of left-wing governments is arising in Latin America, but there is no reason to believe they will be successful. Since 1980, no governments either on the left or on the right have been economically successful. Quasi-stagnation – growing less than the other developing countries and less than the rich countries, falling behind – has been the rule. Gabriel Palma has drafted a recent paper presenting data and discussing this problem but offering no solution and ignoring other Latin American contributions on the subject including New Developmentalism, which sets forth an explication and a solution.

Keywords: Quasi-stagnation; left-wing; right-wing; governments; economic growth; Latin America.

JEL: O011, O054.

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Bresser-Pereira, L. C. (2024). Por qué fracasan los gobiernos de izquierda y derecha en América Latina. Con una crítica a Gabriel Palma. *Cuadernos de Economía*, 44(93), 117-130.

Desde 2019, surge una nueva ola de gobiernos de izquierda en América Latina, pero no hay motivos para creer que vayan a tener éxito. Desde 1980, ningún gobierno, ni de izquierda ni de derecha, ha tenido éxito económico. El cuasi-estancamiento —crecer menos que los demás países en desarrollo y menos que los países ricos, quedarse atrás— ha sido la regla. Gabriel Palma ha redactado un artículo reciente en el que presenta datos y analiza este problema, pero no ofrece ninguna solución e ignora otras contribuciones latinoamericanas sobre el tema, incluido el Nuevo Desarrollismo, que propone una explicación y una solución.

Palabras clave: cuasi-estancamiento; izquierda; derecha; gobiernos; crecimiento económico; América Latina.

JEL: O011, O054.

Latin America has been almost stagnant since the 1980s. In these forty-four years, governments of left and right have alternated in the region, but none was able to make the region return to growth. In the first decade of the 21st century there were satisfying growth rates but they originated from a boom of commodities, which once the commodity prices became “normal”, the countries fall back to quasi-stagnation. These small growth rates do not allow for catching-up. In the 2000s, several Latin American countries made a centre-left turn which ended in 2014; a brief neoliberal turn followed; and in the 2020s we had a new progressive turn. But the quasi-stagnation of per capita income and the complete stagnation of productivity proved irreducible. The question that this special issue poses is what to think of this new turn to the left in Latin America. I am already advancing my response: I do not see any prospects for the countries moving to the left in this decade to be able to increase public savings and public investment, nor to stop incurring in current-account deficits, nor to prove capable of neutralising the Dutch disease. Only these three policies will open room for Latin America to return to growth and catching up.

We saw progressive governments in the 2000s and 2020s. In the 2000s, we had the governments of Hugo Chávez in Venezuela (1999-13), Nestor Kirchner in Argentina (2003-2007), Lula in Brazil (2003-10), Tabaré Vázquez in Uruguay (2005-10), Evo Morales in Bolivia (2006-19), and Rafael Correa in Ecuador (2007-17). In the 2020s, the governments of Andres Obrador in Mexico (since 2018), Alberto Fernández in Argentina (2019-23), Gabriel Boric in Chile (since 2022), Luis Arce in Bolivia (since 2020), Gustavo Petro in Colombia (since 2022), and Lula in Brazil (since 2023) also were progressist. These last six countries are very diverse, and the period in office is short. Yet Jair Bolsonaro’s election in Brazil, in 2018, point out to rise of right-wing populism in Latin America, which the election, in 2024, of Milei confirmed. Now, given the meagre results achieved by the progressist administrations, it is possible that the wave of national-populist right-wing leaders in rich and developing countries prove stronger than José Natanson’s left wave.

In 2022, Natanson authored an excellent article on the left in Latin America. For him, in the 2000s, the “new left,” at its peak, came to govern all Latin American countries except Colombia and Peru. And he adds: the then left-wing countries were favoured by the commodity boom and, in this context, by the combination of two elements: “macroeconomic sustainability (except for Peru and partially Argentina, in which macroeconomic management was sober; broad income transfer policies that allowed formidable impulses of inclusion (especially in the most disadvantaged regions such as the Bolivian highlands and the Brazilian Northeast” (Natanson, 2022, p. 25).

WAVES, NOT CYCLES

Some speak of left-wing and right-wing cycles in Latin America. Natanson states that “Latin America moves in waves: in the last three decades, the region has

gone from neoliberal hegemony to the left, and from there to a later brief dominance of the right, and then to an incipient but already perfectly distinct return of the left” (Natanson, 2022, p. 34). Manuel Canelas, on the other hand, speaks of “progressive cycles”, but does not elaborate on the theme. He is more interested in showing that there has been a shift to the left in recent years, but progressive governments fail to make the changes they have promised. For him, “on both the left and the right, there are several recent examples in the region that the outcome of an election does not determine a predetermined ideological course” (Canelas, 2022). In Colombia, for example, Juan Manuel Santos broke with the right-wing Álvaro Uribe and formed a progressive government. In Ecuador, Rafael Correa chose Lenin Moreno as his successor, but once in office, Moreno broke away and formed a right-wing government

I don’t believe that there are cycles alternating left and right in Latin America, especially if this alternation takes place every ten years – “waves”, as proposed by Natanson, of left or right seems to me a more appropriate name. We also have cycles, not of alternation between left and right but economic cycles caused by commodities which follow a cyclical pattern and make the exchange rate also cyclical; in Brazil, for example, there was an exchange rate cycle between 2002 and 2014. And we have the political cycle governments beginning by putting the house in order, but as the re-election or the election of a new president of the same political party approaches, the government starts spending more than it collects and damages the economy again. And, if the damage does not lead to a financial crisis before the election, the government’s candidate will succeed. This is the classic political cycle that, when too pronounced, turns into a populist cycle. It is the populist fiscal cycle that becomes “perfect” when it takes on an exchange rate character – when increased public spending leads to increased imports, an appreciation of the national currency, and an increase in the purchasing power of workers’ wages and rentiers’ revenues. The populist political cycle certainly applies to Latin American countries, both to left-wing governments, whose populism is justified by “Keynesian” policies, and to right-wing governments in which it is usually disguised. Nothing, however, prevents such a political cycle from bringing to power a government that is still on the left or even on the right.

We are not talking about cycles, but about waves when we discuss the return to power of left-wing political parties in Latin America in the 2020s. There is a possible explanation for these waves. They reflect the successive failures of governments. The wave may be either a left-wing or a right-wing wave, both having in common that governments fail. The two first Lula administrations (2003-2010) may be seen as an exception, but, first, it was unable to solve the long-term problems that cause the quasi-stagnation of Brazil (which will be discussed below), and the commodity boom played a large part in this success.

Between 2004 and 2013, a left-wing wave lasted longer than one would expect due to the commodity boom, but as soon as commodity prices fell, left-wing governments went into crisis, giving way to a right-wing wave, which was short-lived.

Already in 2018, we have the election of Andrés Obrador in Mexico, and the following year a new wave of the left begins that, for the time being, is faltering and which I do not believe will be successful.

QUASI-STAGNATION

When we discuss Latin America on the economic level, what is really important is the quasi-stagnation of per capita income and the stagnation of productivity in the region. Or, as Gabriel Palma prefers to say, since the 1980s Latin America has faced “a trilogy of contrasts: i) when compared with all other regions, Latin America’s capacity to generate employment in services and construction ranks top in the world; ii) however, its productivity-growth (increase of output per worker) ranks at the bottom; and iii) despite some progress in poverty reduction and in the income-share of the bottom 40%, Latin America still ranks almost at the top in terms of inequality” (Palma, 2023).

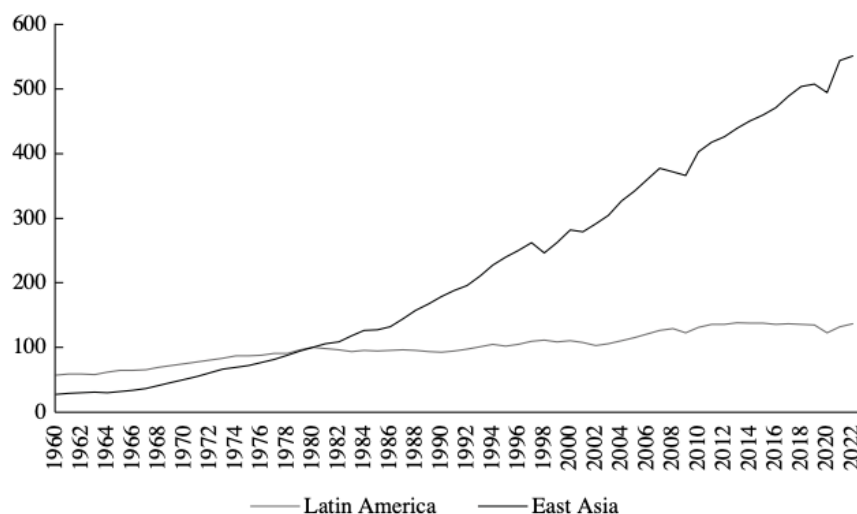
Producing jobs is a great thing, but if productivity is stagnant, that means the jobs created are of low quality – that the additional employment is defined by low-value-added per capita that requires little education and pays low wages. It could be argued that the cause is the low level of education of the population which would be incompatible with better quality jobs. This last argument does not hold in Latin America in the last 30 years. There has been a great increase in the level of education of the low-income population, but no improvement in the quality of jobs, which shows that the problem was on the demand side rather than on the supply side. Moreover, between 1940 and 1980, when it would be reasonable to say that education was a major factor impeding growth, what actually happened was great economic growth.

The problem of inequality is indeed a big problem, but I will not discuss it in this short essay. I will therefore focus on the stagnation of productivity and the corresponding quasi-stagnation of per capita income. I will ask why Latin America has been lagging behind for so long; it does not catch up with the rich countries, and it grows less than the developing countries even when we exclude China. I’ve been talking about this since 1999, when I drafted a paper on Latin America’s quasi-stagnation that had been going on for 20 years (Bresser-Pereira, 1999). Later, in 2019, I published the article “Why did trade liberalisation work for East Asia but fail in Latin America?” (2019), information which is contained in Figure 1 that clearly shows the quasi-stagnation of Latin America since the 1980s when it is compared to East Asia. We see from the figure that the point of intersection occurred in 1980. Prior to this, East Asia’s per capita income was lower than Latin America’s; since then, it has grown a lot, while Latin America has lagged behind.

Gabriel Palma, whose figures are always unrivaled, presents a figure with his trilogy of contrasts, comparing data from 1950 to 1980, when the import-substitution industrialisation (ISI) model prevailed – that, in my view, is a developmentalist

Figure 1.

Comparing the growth per capita of Latin America and East Asia: 1954-2022



Source: World Bank. Latin America: Brazil, Mexico, Argentina, and Colombia; East Asia: South Korea, Indonesia, Singapore (1954-60 period excluded).

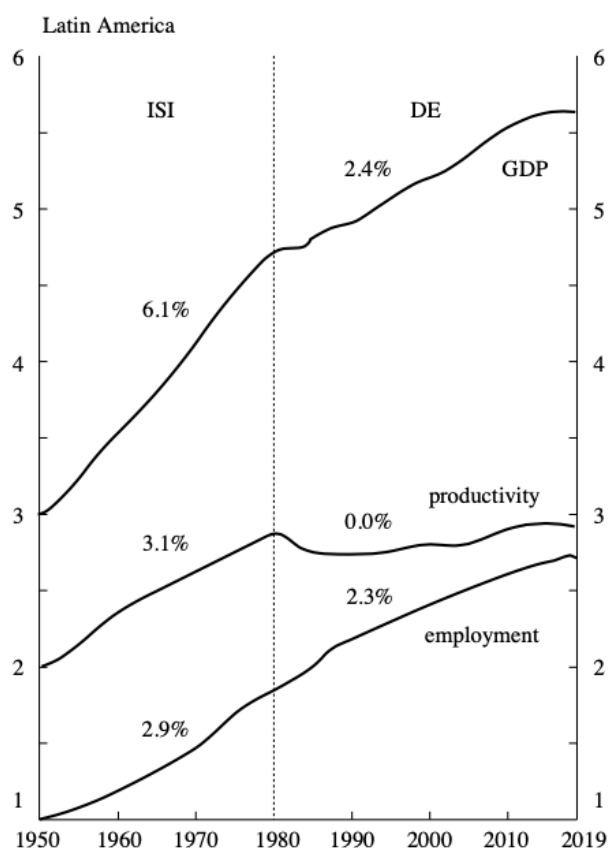
model in which the State promoted industrialisation –, and the period from 1980 to 2019 – the years of what he calls the “dual-extractive model” (DE). The word “extractive” is not used in Latin America, but it is a more expressive term than the classic “primary-export model” used by Latin American economists since the 1950s, which, today, is “outmoded”, i.e., the orthodoxy condemned it. Extractivism may be defined as the use of natural resources for exports with minimal processing. There is an ecological element in this expression, in addition, of course, to the economic character that corresponds to the primary-export model with the addition that the exported commodities are not processed in the country. The ability of said model to increase the per capita value added of each country’s production is limited.

We can see from Figure 2 that, from 1950 onwards, even employment did not stop decreasing; the dual extractivist model lost its vigour from 1980 onwards; and productivity (which corresponds to the growth of per capita income) stagnated, practically coinciding with what we see in Figure 1. Meanwhile, productivity was growing in the rest of the world, as shown in Figure 3, also from Palma. The loss of vigour of DE growth derives from the stagnation of productivity over the same period that lowered the quality of employment, which was diverted from the non-commodity tradable sector to the primary-export sector.

Thus, the catching up (approximation of the level of growth in the United States), which was positive in the developmental period, became negative with the extrac-

Figure 2.

Latin America: GDP, employment, and productivity, 1950-1980 and 1980-2019



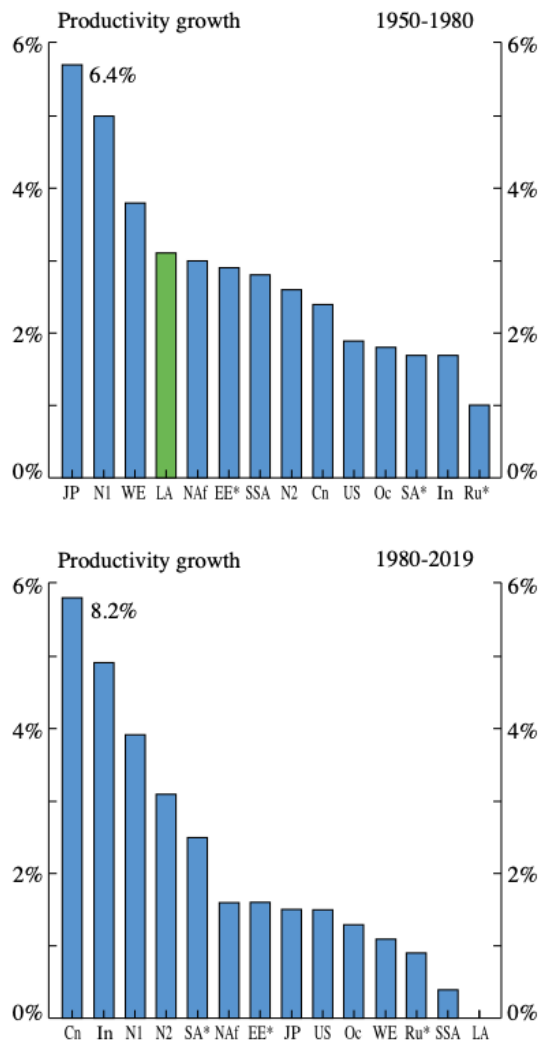
Source: Palma (2023).

tivist model. All the catching up carried out between 1950 and 1980 was lost in the following period. Considering only Brazil, Palma estimates that “Brazil’s productivity, which in 1980 (in PPP terms) had already reached 40% of that of the US, by 2019 had fallen to just 26% —reversing all the “catching-up” achieved during ISI (Figure 20 below).”

These are the data. The two questions that arise in this scenario are *why* and *how* to overcome the quasi-stagnation how to get Latin American countries out of the extractivist model so that they grow again. I have discussed this issue on other occasions. Now I will summarise the new ideas associated to New Developmentalism and, at the same time critique, the 2023 paper of Gabriel Palma, whose data collection is remarkable, but whose analysis and proposals are, in my view, insufficient.

Figure 3.

All regions and main countries: average annual productivity-growth, 1950-1980 and 1980-2019



Source: Palma (2023). The acronyms for countries are those of their Internet domains; and N1=Korea, Hong-Kong, Singapore and Taiwan; N2=Indonesia, Malaysia and Thailand; WE=Western Europe; NAf=North Africa; EE=Eastern Europe (data available only since 1970); SSA=Sub-Saharan Africa (including South Africa); Oc=Oceania (Australia and New Zealand); SA*=South Asia, excluding India (Bangladesh, Pakistan, and Sri Lanka); and Ru*=countries of the former Soviet Union. In this figure (and others), the second period ends in 2019 to avoid the impact of the pandemic.

WHY?

The causes of Latin America's quasi-stagnation since the 1980s involve many variables, but we must exclude the facts that *are not new*. Factors such as lack of basic education, populism, institutions that do not guarantee property and contracts, and geographical factors, such as the tropical character of much of the region, must be excluded because in the previous period (1950-1980) Latin America developed despite these factors that were already present. Note that I speak of quasi-stagnation despite the stagnation of productivity, because GDP per capita had grown, albeit modestly.^z

Palma suggests a number of factors that have caused the quasi-stagnation. He speaks, for example, of a return to the extractivist model from the 1980s onwards, which is indisputable. Extractivism only makes sense for a country when it does not yet have an industrial sector and commodities allow it to carry out primitive capital accumulation. By the 1950s, many countries were already sufficiently industrialised so as to deliberately adopt a developmental model of growth, in which the state intervened moderately in the economy, promoting the continuity of industrialisation.

Palma also says that the “elites’ preferences are on neophobic elite preferences for ‘known’ and secured ‘easy rents’, and ‘neophobic’ governments turning a blind eye to necessary ‘upgrades’.”¹ Yes, the elites tend to prefer the easy rents of commodity exports, but when opportunities arise for investment in industry thanks to import tariffs, which were central to the developmental model, a part of the elites – the industrial entrepreneurs – can become national elites, committed to the development of the country.

These explanations are true, but too general. Both of the “return to the extractivist model” and the dependent character of the industrial elites are a serious obstacle.

Below, Palma discusses the alternatives to his analysis existing in the literature, but he proposes only one – the neoliberal alternative. According to him, “a common alternative explanation to LA’s current problems (Group of Thirty, 2023; Edwards, 2023) is that neo-liberalism was somehow working (or could work, as it did temporarily in Chile), but got derailed by unfortunate shocks, such as populism.” That is what neoliberals have to offer. Populism has always existed in Latin America. It is related to the inequality that exists in the region, as Palma rightly observes. More recently, with Bolsonaro and now with Milei, an extreme-right populism has emerged, but this is a copy of the same populism in Europe and the United States, where the increase in inequality has also been great. But this is not the “populism” to which neoliberals are referring. For them, populists are all leading politicians in Latin America who have adopted economic nationalism and have been develop-

¹ Neophobic is a perfect expression for certain elites, not all. According to the Oxford Dictionary, neophobic is an adjective meaning “an extreme and irrational dislike of anything new or unfamiliar”.

mentalists. Now, we know that there were successful leaders in Latin America. In Brazil, for instance, we had Lula and specially Getulio Vargas, who led the Brazilian industrial and national revolution from the 1930s to the 1950s.

Faced with this only alternative explanation that he has found to explain Latin America's quasi-stagnation, Palma also offers a list of seven "obstacles to upgrading", which he deems necessary to overcome quasi-stagnation. Some are relevant but do not constitute either an alternative explanation or a set of solutions.

Faced with this extensive paper (33 pages, single-spaced), I ask: why does Palma not consider any Latin-American economists or group of economists that have been presenting their analyses and making their proposals of alternative policies? In my case, I ask why did he not discuss the alternative that New Developmentalism has been offering for many years to explain the quasi-stagnation of Latin America? Why not make a careful analysis of this new theoretical framework that a group of Brazilian economists has been developing since 2001?

The new developmentalist explanation assumes that Latin America was growing satisfactorily until 1980 and is entirely based on new facts that occurred between 1970 and 1990. Two facts are fundamental. The first is the fall in public savings and, consequently, in public investment. Its cause was the large external debt that was acquired in the 1970s as a result of the large international private banks, which, after 40 years of drought, opened their portfolios for loans to Latin America. Attracted by the generally accepted thesis that growing with "foreign savings" was the solution, countries borrowed rapidly and heavily, ignoring the new developmentalist thesis (at that time, not available) that only exceptionally is it possible to grow with foreign savings or foreign debt (Bresser-Pereira & Gala, 2008). This is because external debt implies net inflows of capital, which represent an increase in the supply of foreign money in the country, which necessarily appreciates the exchange rate and makes uncompetitive the industrial companies that use the best technology in their sectors. Therefore, the exchange rate will remain overvalued as long as the current account deficit and net capital inflows are occurring. An exception occurs when the country is growing at an exceptional rate, in which case the marginal propensity to consume falls while the marginal propensity to invest increases, and investments occur despite exchange rate appreciation.

Thus, when the inevitable financial crisis hit Latin America between 1980 and 1982, countries were suddenly unable to pay their bills and defaulted. Facing the crisis, the governments of the region became paralysed. The state-owned companies which had been used as collateral to make the loans viable, almost went bankrupt and lost the capacity they had to produce public savings. Besides, many countries used the state-owned companies to control inflation, which was also disastrous for them. The result was that these companies, which were responsible for a large part of the public savings, lost such capacity and public investment fell. I only have data for Brazil to support this thesis, but it seems reasonable to assume that something similar occurred in other countries.

The second fact was that Latin American countries stopped neutralising the Dutch disease. Palma makes a brief reference to new developmentalist thinking, stating that “as Brazilian ‘Developmentalist’ economists rightly insist, overvalued commodity-exchange-rates are a key macro-disincentive to LA’s industrialisation.” And he cites a recent work of mine with José Luis Oreiro.² But that is all. It is curious because Palma was the first economist to discuss the problem of the Dutch disease in Latin America, in 2004. And he did it in an original way. It would have been interesting, however, that a little later he had read my 2008 paper, “The Dutch disease and its neutralisation: A Ricardian approach,” which is one of the basic papers of New Developmentalism. In this paper, he could have seen that in commodity-exporting countries, as are all Latin American countries except Mexico, the Dutch disease is characterised by two equilibriums: the current or general equilibrium that zeroes out the current account, and the industrial equilibrium that makes competitive the tradable non-commodity companies that use the best technology in the respective sector.

In the same paper I already talked about how to neutralise the Dutch disease – either with a tax on commodity exports or tariffs on imports and subsidies on exports of manufactured goods. The Latin American countries, which are commodity exporters, had only managed to industrialise until 1980 because, even if they did not know what the Dutch disease was, their economists knew that the tariffs were required and, pragmatically, neutralised it with tariffs and, in the case of Brazil, between 1979 and 1990, with subsidies for the export of manufactured goods.

In 2020, in an article with Eliane Araujo and Samuel Peres, when critiquing the “middle-income trap” thesis, we showed that what really happened in Latin American countries was the “*liberalisation trap*” (Bresser-Peres et al., 2020). They had the most varied levels of income, but they stopped growing from the 1980s onwards. Thus, the problem was not related to income, but was historical – a problem of dependency. The full stagnation in that decade was due to the great foreign debt crisis; in the following decades, in which we had quasi-stagnation, this was due to the opening of the Latin-American economies, which, in doing so, eliminated the import tariffs that neutralised the Dutch disease. As a result, the exchange rate relative to the manufacturing industry depreciated, the companies ceased to be competitive, and the countries entered into a serious process of deindustrialisation. Instead of “catching up”, they started to experience “falling behind”.

HOW?

We have, therefore, two new facts that have led Latin America to quasi-stagnation: the fall in public savings and the liberalisation trap. How to tackle these problems? Palma, at the beginning of his paper, already advances his proposal: “the key

² Bresser-Pereira & Oreiro (2024). Palma cites the version forthcoming in the *Brazilian Journal of Political Economy*.

challenges for sustaining productivity-growth —and catching-up— is the capacity to move on, doing these continuous ‘upgrades’.” A very general proposal. It is important to upgrade public policies; and there are many policies that need to be upgraded. This is something that all countries do when they are minimally well managed. The problem is to know which strategic policies have not yet been properly defined and transformed into practice, and to know what to do with them.

With regard to increasing savings and public investment, I have some proposals that may not be sufficient. To increase public savings, it is necessary to decrease government consumption spending. Among expenditures, the two consumer expenditures that should be the most reduced are those that refer to the high interest paid on the public debt and the enormous subsidies and tax exemptions that exist in the country. Both expenditures primarily benefit the wealthy and are viewed by neo-liberalism as “immutable”. To lower the interest paid, it is necessary to review the interest rate policy of central banks – a policy that is more concerned with protecting the banks and guaranteeing extra rents to rentier capitalists, than with controlling inflation. This is one of the facets of “austerity”. As for subsidies, it must be considered that they are generally not part of a well-conceived industrial policy but are merely favours of the state achieved by the most varied sectors of the economy. The same applies to tax exemptions. Here, however, the beneficiaries are not necessarily companies, but churches, clubs, associations.

As for the exchange rate, we have two problems. First, it is necessary to abandon the implicit policy adopted by Latin American countries of incurring chronic current account deficits. If deficits and surpluses alternated, there would be no current account deficit policy. When, however, they are recurring, the exchange rate is not fulfilling its role because governments’ implicit policies of “growing with foreign savings” or controlling inflation with an “exchange rate anchor” are at work. Governments must therefore take notice of this policy and review it.

Secondly, there is the problem of the Dutch disease. In this case, the solution is to use one of the two neutralisation mechanisms or combine them. Both are economically equivalent, both assume that the export tax on commodities and the tariffs and subsidies on manufactured goods should be variable, according to the variation in the terms of trade or the average price of the country’s exports. From a political point of view, given the assumption that mineral extraction is generally concentrated, it is ideal to use an export tax because the number of companies that will pay the taxes will be relatively small. In the case of agricultural commodity production, where there are a huge number of producers, import tariffs are the best alternative, because the farmers and their associations have the political power to prevent the tax from being approved in parliament. In any case, the government will create obstacles to implement the neutralisation of the Dutch disease. In certain cases, such as Argentina, these taxes are unavoidable for a fiscal reason, and they have no purpose to neutralise the Dutch disease.

CONCLUSION

In political economy terms, the two greatest obstacles that Latin-American faces to grow again and catch up are the ones posed by the Western Empire, led by the United States, which is committed to letting the region fall behind, thus avoiding any competition, and local populism. Long ago, Raúl Prebisch was well aware of that when he coined the terms centre and periphery. In relation to Latin America, present imperialism does not recur to the use of direct force. There is always the threat of “sanctions”, but the method is to exert ideological hegemony and the main system of ideas that is conveyed is economic liberalism – an economic liberalism which is unproductive in promoting growth in the wealthy countries and unable to do so in developing countries.

As to populism, I want to move the discussion from politics to political economy. In political terms, populism is often a first stage of autonomy of the masses, as Ernesto Laclau discussed fully in 2005. In economic terms, however, economic populism is always bad, because it occurs when a state or the whole nation-state expends, *irresponsibly*, more than what it receives. A state may responsibly expend more than it receives and incur in public deficit, mostly when it is engaged in countercyclical macroeconomic policy, but these are special occasions. It is more difficult to find circumstances in which the country engages responsibly in current-account deficits.

I believe that economic populism is a more serious obstacle to the growth of Latin America than imperialism. Economic populism is a central trait of the three more relevant “classes” in modern societies: the rentier capitalists who have the money, the politicians who have the formal power, and the popular classes, who vote. Thus, none of them accepts the basic new policies required: the increase in public savings, the end of the growth with chronic current-account deficits, and the neutralisation of the Dutch disease. The rentiers, because such policies will reduce the acquisitive power of their revenues (interests, dividends, and real estate rents), of their wealth in the national money, and because the depreciation of this money will require the fall of the interest rates. The popular classes, because they want to protect their wages in the short-term and the profits of their small businesses. And the politicians, because they want the financial support of the rich and the votes of the poor.

To conclude, Gabriel Palma is one of the most notable Latin American economists. It happened that I received from him his most recent paper on Latin America shortly after receiving the invitation to participate in this special issue of *Cuadernos del Desarrollo*. So, I took the opportunity to draft this short paper with some friendly critiques. Latin America’s quasi-stagnation has been going on for 44 years, and there is a widespread belief that no solution to the problem is really available. Well, such a solution perhaps exists, and I have set it out here in the most concise way possible.

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CUADERNOS DE ECONOMÍA

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FOREWORD

GONZALO CÓMBITA MORA AND MATÍAS VERNENGO

Special Issue: A new turn to the left in Latin America?

vii

PAPERS

FANDER FALCONI

Latin American Challenges and the Transition to Post-Development

1

LEONARDO VERA

Towards a progressive economic development agenda for countries
endowed with natural resources: Lessons from the rise and demise
of the Bolivarian Revolution

21

MANUEL VALENCIA DELGADO AND JUAN JOSÉ LÓPEZ ROGEL

Challenges to the left in Central America: A comparative political
economy analysis based on a Structuralist-Keynesian approach

47

FABIÁN AMICO

Conflicting claims over income distribution and financial dollarisation in Argentina

87

LUIZ CARLOS BRESSER-PEREIRA

Why left and right-wing governments fail in Latin America. With a critique of Gabriel Palma

117

ARIEL BERNARDO IBAÑEZ-CHOQUE

Will Bolivia be able to remain as an emblematic example of democratic socialism?

131

MIGUEL TORRES

The development dilemma in contemporary Chile: A historical-structural analysis

157

JEANNETTE SÁNCHEZ

Progresismo en Ecuador: políticas socioeconómicas para el buen vivir (2007-2017)

197

NOEMI LEVY

Política económica del primer gobierno de la 4T. ¿Qué sigue?

237

GERMÁN BIDEGAIN, MARTÍN FREIGEDO AND CRISTINA ZURBRIGGEN

The stability of change: State and public policies during leftist
administrations in Uruguay (2005-2020)

263

FERNANDO LORENZO

Economic policy and structural reforms in Uruguayan
left-wing administrations

285

ISSN 0121-4772

