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# *ECONOMIC CRISES AND DEMOCRACY IN LATIN AMERICA*

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Are there any lessons in democracy to be learned from major twentieth century financial crises? Can any points of reference be drawn for present and future crisis management and democratic institutions? Francisco E. González's recent book, *Creative Destruction? Economic Crises and Democracy in Latin America* undertakes no less than to offer answers to these questions. "The aim of this book […] is to elucidate the chances for democracy during harsh economic crises by observing a small number of cases across time in greater detail" (5.) And as his investigation shows, due to significant structural changes that happened in the second part of the twentieth century, such as the establishment of the UN, the IMF, the WB, the Charter of the American States, and the Inter-American Development Bank, the relative costs of maintaining democracy are getting lower and lower. As opposed to complete regime changes during the Great Depression (from authoritarian to democratic, and vice versa), in the twenty-first century deep economic crises can cause unrest and interrupted presidencies, but electoral democracy is most likely to be preserved.
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*Creative Destruction? Economic Crises and Democracy in Latin America* by Francisco E González, Baltimore: The John Hopkins University Press, 2012.

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Francisco E. González is an associate professor of Latin American Studies at the John Hopkins University School of Advanced International Studies, Washington D.C., publishing works mainly on democracy and its institutions in Mexico and Chile. His 2012 volume, *Creative Destruction? Economic Crises and Democracy in Latin America,* offers an overview of ways economic crises of the past century affected the state of democracy in certain Latin American countries. As Latin America saw the greatest number of regime change in the second half of the twentieth century, it seems to be a fitting place to start a general inquiry into "the political effects (regime wise) of major economic shocks and crises." (44.) The analysis is narrowed down to the so called Southern Cone countries, namely Argentina, Uruguay and Chile, the reason being that compared to other countries of the continent their socioeconomic modernization and democratization was relatively early. This way, due to the examined political and economic circumstances these countries produced the greatest number of regime changes in the twentieth century.

To be able to compare counties this different, González applies the classic analytical perspective of considering the relative costs for economic or political change. His point is clear from the beginning: "I follow this general point of view and argue that in both international and domestic politics, the chances for the survival or installation of democratic regimes during harsh economic crises has increased in Latin America since the 1980s, because the relative costs of organizing to exercise pressures against democracy have risen, compared with the costs of organizing to defend or promote democracy, which have fallen." (4.) The Introduction and the first chapter, entitled *Financial Shocks, Economic Crises, and Democracy: Theory and Practice,* of this clearly structured book offer an insight into the presuppositions and methodological standpoint of the author. By comparative historical analysis the book follows complex events in detail only inasmuch as they shed light on post-2008 events. Focusing on Latin America instead of the traditional points of reference, such as the EU, the USA, or the ever more powerful China, can offer new perspectives to find ways out of future recessions. The analysis intends to "help to establish a range of likely outcomes in the light of past experience." (14.) Part I of the book examines how the Southern Cone countries reacted to the Great Depression of 1929-34, while Part II deals with and compares the same countries in crises in the late twentieth century. Those crises and shocks are chosen to be examined which either positively or negatively affected the state of democracy in any of the Southern Cone countries. These are the external debt crisis (late 1970s to early 1980s), the emerging markets crisis (late 1990s to early 2000s), and naturally the aftermath of the 2008 global shock.

Instead of a country by country investigation, the book takes the three pillars of comparative politics and political economy as its major focal point. Thus the state and changes of institutions, that is, "the rules of the game embodied in alternative types of political regimes," (25.), interest, that is "the prospect of economic gains and losses," (25.) and political or economic ideas will serve as starting points for comparison. Any change in these three pillars (institutions, interests and ideas) can have major influence on the economic prospects of a country or its state of democracy. Any change can influence the relative costs for maintaining a given system, be it an authoritative or a democratic regime. Within this three-pillar framework there is a further distinction the author considers important to be made: influences can be either domestic or international, and their interactions can "explain the changing relative costs for pro- and anti-democratic action" (26.)

González's hypothesis is that the various structural changes in all the examined fields, in domestic and international institutions, interests and ideas have made the costs of anti-democratic actions quite expensive, and thus "help to establish the likelihood that democracy can survive or be (re)instated in the aftermath of harsh economic shocks and crises." (33.) Naturally, he is not of the view that by arriving to a universal and global democracy humanity will reach the "End of History." Rather, admittedly, he has the Western Hemisphere in mind (32.). However, the future role of the Western Hemisphere is unknown and uncertain, and failing to reflect on this is one of the not so many weaknesses of the volume. In an extreme case, the conclusions drawn of this analysis with insight might only turn out to have a limited validity. At the end of the book González lists some further possible, though this time neglected factors that can have major influence on the institutions of a country, and can serve as additional points of investigations. Geopolitics, politicization of ethnicity and religious-fueled conflict are major issues in other Latin American countries or in East Asia, however, their importance is trifle in the Southern Cone countries.

González's ideological framework in itself can be useful to apply in other contexts as well – as is shown in the final section of the book. The last chapter, *Conclusion. Implications for Democracy after the 2008-9 Financial Meltdown*, offers a broader view of the state of democracy and economy in the world. Apart from the Southern Cone countries, other Latin American states are looked into, and there is also a section devoted to other emerging market regions, such as East Asia and Eastern Europe. For example, González concludes that "Latin America's lost decade of growth and development (1982-90) is a mirror that the small European eurozone countries in crisis in the early 2010s can use to reflect on their own situation." (212.) What the Southern Cone countries had in common in 1982 was high indebtedness as a result of "harsh economic restructuring along free market lines," (128.) bureaucratic-authoritarian regimes, and experiencing the worst financial crises since the Great Depression. And that is where their similarities end, as Chile was relatively independent of its neighbours' financial difficulties, while Argentina collapsed at the end of 2001, and got excluded from international markets as a result. One of the reasons was that in a more and more uncertain financial context its fixed exchange rate became a liability. Uruguay, on the other hand, has always thought about herself as a small country that needs good international connections to prosper – thus it has never defaulted on its debt, and has tried to survive the steep social costs the IMF's orthodox stabilization process meant. The case studies of these three very different outcomes can be educational to the Eastern European reader.

For the Hungarian reader González's opinion about our country can also be interesting and relevant. González sees Eastern Europe as a region where ideology is a major conflict source, and where "an economic crisis and a sense of growing inequality and injustice can give way to the type of right-wing populism that looks for scapegoats (to explain current ills) and promises redress." (236.) He considers this process to be "most worrisome" in Hungary, but also adds that "the costs of jeopardizing EU and NATO membership are so great that it is highly unlikely that long-lasting political conflict could challenge or break democracy." (236.)

As said earlier, the book is divided into two major parts, one for the various aspects of the Great Depression in the Southern Cone countries, and one for late twentieth century crises in the same countries. In what follows I will summarize, country by country, González's points and conclusions elaborated in these chapters. While Argentina and Uruguay had democratic regimes at the wake of the 1929 financial collapse, Chile was an authoritarian regime. By the end of the Great Depression, however, the political dynamics of the region had changed completely: both Argentina and Uruguay became authoritarian regimes, while Chile embraced democracy. González states complete regime change to be an unlikely outcome of present day crises, and in the first half of the book he collects all those factors that can explain the radical outcome.

Argentina had a democratic regime since 1916, its first and last president was Hipólito Yrigoyen from 1916 to 1922, then again from 1928 to 1930. On 6 September 1930 a military coup deprived him of his power. The civilians did not show any resistance to the coup, in fact it was welcomed and embraced. The public was less and less supportive of President Yrigoyen's personalized style of leadership, his unsuccessful economic decisions, plus the influential landowning families were more and more afraid of the nationalization of their property. Left-wing military leaders were not seem a threat. Thus the military takeover was even supported by the elite, and under General Justo, between 1932-43, an informal civil-military alliance was formed, and a more successful heterodox economic policy was introduced. In spite of the difficulties, the country always kept its external debts obligations punctually.

In Uruguay the regime change had a similar outcome, though its means and roots were very different. Here the police, and not the army was involved in Gabriel Terra's 1933 seizing of power from President Batlle y Ordóñez, whose modernizing, secular, and industrial politics caused a lot of controversy. The duly elected Terra used the 1931-33 economic collapse to justify his taking on emergency powers above those normally granted to him. Argentina and Uruguay are the two countries which support González's general argument, that during the Great Depression the costs for anti-democratic movements were relatively low, thus they were relatively more successful than more expensive pro-democratic movements.

Chile, however, does not fit the pattern. The authoritarian regime under Carlos Ibañez that existed since 1927 was brought down in 1931. In the resulting chaos three regime changes occurred between July 1931 and October 1932. Chile was strongly dependent on US economy, its collapse had a devastating effect. Furthermore, Chile's main export goods were nitrates and copper, as opposed to Argentina and Uruguay's agricultural profile, the demand for which decreased significantly. Economy fell back most drastically, working classes took to the streets, and it was social mobilization that resulted in regime change.

González concludes that during the Great Depression "economic stabilization through heterodox policy helped bolster whichever type of regime was in power when effective stabilization was implemented." (115.) This stabilization also lead to the weakening of traditional landowning elites and the strengthening of urban and industrial interests. As a further result, politics became more and more mass based.

Part II of the book examines late twentieth century crises, namely the 1982 debt crisis, and the 1997-2002 emerging markets crisis, but also considers the influence of the oil crises of the 1970s, and the 1994-95 crises in Mexico and Brazil. Two major questions form the backbone of the inquiry: Given that during the Great Depression Chile abandoned its authoritarian regime, why did its dictatorship survive the 1982 debt crisis? What made the survival of democracy in Argentina and in Uruguay possible in 2001-3, and not in 1930 and 1933 respectively?

Let's see Chile first. General Pinochet had been in power since 1973. The country's 1980 Constitution contained a transition calendar according to which the military junta step by step withdrew from power, but did this on its own terms. When by 1982 nothing had happened, the shocks caused by the drastic fall in economy reactivated the opposition. Several protests were organized between 1982 and 1984, most of which were violently put down. Although international organization and the Catholic Church raised awareness of human rights violations, as long as the country could get international loan from the US, the IMF or the WB, these allegedly pro-democratic institutions helped sustain an authoritative regime. The uncompromising repression of protests and more and more frequent extremist terrorist attacks frightened off the public, thus, in contrast to 1931, the protesters could not bring the regime down. Nevertheless, Pinochet "turned against the pure version of a free market economy [he] had embraced and implemented between 1975 and 1982," (210.) and introduced countercyclical monetary and fiscal policies, and by "a strategy of combining selective state intervention, protection, and promotion" he enlivened Chile's export in the long run.

In Argentina, a major cause for the survival of democracy in 2001-3 is that the military that could have taken over, was morally, economically, and politically discredited. Although between December 2001 and 2 January 2002 the country had five presidents, there was no alternative to the Peronist party. One of the reasons for Argentina's troublesome financial situation was that the 1991 Convertability Plan, which was also added to the country's constitution, attempted to stop the hyperinflation of the 1980s by pegging the local currency to the dollar. Despite the initial success, the plan's long term consequences, its monetary rigidity lead to the country's 2001 collapse.

Uruguay's reaction to the 2002 crises is radically different. Here the two major historical rival parties (Partido Colorado, Partido Blanco) cooperated in order to find a solution and achieve effective crisis management. When in 2002 Argentinean investors withdrew their money from Uruguay, banks had to be closed for five days. To save the county from collapse, the country under Jorge Batlle Ibáñez (2000-2005) started "moving in an increasingly open direction." (188.) Close collaboration with the IMF, discipline, and the socialization of private losses saved the economy, but at the cost of losing the government's support. On the 2005 elections a relatively new third party from the left, the Frente Amplio was successful.

González's book does not only offer insightful analyses of (to the European reader) little known Latin American countries, its major virtue is its urging the reader to constantly reflect on their own present situations. Although due to the structure the analyses are sometimes a trifle repetitive, the ever changing perspectives create a most educational global picture.

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