

**International Conference: Comparative perspectives of development experiences in South América and Eastern Europe - Development and semi-periphery, Tallinn, October 9th-10th 2008. <sup>1</sup>**

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Sociopolitical comparative analyses about South America (SA) and Central and Eastern Europe (CEE) became one of the most productive during the 90s. Usually, these studies originate from the hegemonic academic centres of Europe and the United States to explain socio-political contexts of the peripheral regions and create analytical models, which are for the most part arbitrary and historically not contextualized. The very use of the term “Latin America” presupposes a historical and cultural unity – supposedly “Latin” – that simply does not exist. It is as if we talked about “Eastern Europe” – an idea implicit to the notion of “Western Europe” – and conclude that the countries of the Eastern and Central Europe are homogeneous, which sounds absurd, even if taking into consideration the common history of Soviet domination. Recent studies on the history of ideas have shown that many of these concepts have been externally produced and serve as arbitrary antipodes to institutional and civilizational models.<sup>2</sup>

This analytical bias in relation to Latin America has been consolidating since the end of the WW II, especially as a contribution made in the United States, where the studies aimed at explaining the underdevelopment of the region by relating it to perverse institutional aspects. After the fall of the Soviet bloc it was the turn of CEE to

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<sup>1</sup> This Conference would not have been possible without the crucial role of Krista Lillemets – lecturer at Tallinn University. Besides her contribution to the Conference programme, she also should be acknowledged for the excellent organization and institutional articulation that made the meeting financially possible.

<sup>2</sup> See João Feres Jr. (2009) *The Concept of Latin America in the United States: Misrecognition and Social Scientific Discourse*, Nova Science Pub Inc; Wolff, Larry (1994) *Inventing Eastern Europe: The Map of Civilization on the Mind of the Enlightenment*, Stanford University Press

become the study object of area studies – however with several arbitrary generalizations. In general, the intellectual tradition of area studies possesses, with some exceptions, a devaluative bias with regard to the qualities of the democratic institutions and civic culture in the periphery, which has been mostly associated with some type of cultural or historical atavism, as if democracy were a normatively defined project.<sup>3</sup>

The way how the nations see themselves in relation to the other patterns of modernization helps to restrict intellectual projects and repertoire of ideas mobilized in political struggle. Financial crisis in the 1930s contributed to the ebb of the repertoire of liberal ideology, making room for other intellectual projects, like corporativism, and other patterns of circulation of ideas, as it happened, for example, between Romania and Brazil in the 1930-40s.<sup>4</sup> The experiences of the critical thinking in the periphery, such as for example the import substitution industrialization (ISI) model, were formulated by South American and CEE intellectuals – Raul Prebisch, Celso Furtado and Ragnar Nurkse – within the context of wide hegemony of keynesianism and the weakening of the European civilizational project, reflected in the horrors of war and the gradual deconstruction of the colonial system. Although the developing countries had grown more during the state interventionist ISI policy (1950-1980) than during the period of neoliberal reforms (1980-2001), the geopolitics of the cold war and the crisis of staginflation in the developed countries created incentives for the neoliberal turn within intellectual repertoire available in the 80s, whose privileged laboratory were South America and CEE.<sup>5</sup> For that it was necessary to disqualify the previous trajectory as outmoded, without any other critical project

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<sup>3</sup> Dornbusch, Rudiger and Sebastian Edwards (Eds.) (1991) *The macroeconomics of populism in Latin America*. Chicago: University of Chicago Press; Mainwaring, Scott (2006) The Crisis of Representation in the Andes, *Journal of Democracy*, 17:3; Inglehart, Ronald. (1999), “Trust, Well-Being and Democracy”, in M. Warren (org.), *Democracy and Trust*. Cambridge, Cambridge University Press, pp. 88-120

<sup>4</sup> Love, Joseph (1996) *Crafting the Third World: Theorizing Underdevelopment in Rumania and Brazil*, Stanford: Stanford University Press

<sup>5</sup> Valdés, Juan G. (1995) *Pinochet's Economists: The Chicago School in Chile*, Cambridge: Cambridge University Press; Bockman, Johanna and Gil Eyal (2002) Eastern Europe as a laboratory for economic knowledge: the transnational roots of neoliberalism, *American Journal of Sociology*, 108: 2

arising in its place. Since then the intellectual production in the periphery has been fenced in phantasmagoric notions like populism, neopopulism, clientelism, patronage, patrimonialism, authoritarianism, etc., which characterise the repertoire of ideas that constitute the pejorative self-image of these societies.

Also the CEE countries have lived this drama of trying to free themselves from the self-image related to the communist legacy that has been associated with the idea of backwardness. Comparative studies in the 90s have adverted that it was necessary to accelerate the market reforms as the only development alternative. At the same time within the context of accelerated institutional convergence for integration with the European Union, the domestic intellectual elites have looked for reinventing the way of belonging to the European identity and to the liberal capitalist order.<sup>6</sup> What could be observed in these countries was a political instrumentalisation of the same pejorative notions used for disqualifying the South American development experience. Nevertheless, in the case of the CEE countries it has served to delegitimize and discredit any reference appointing to the continuities with the very communist history. In that sense, this anxiety of becoming part of the future of the new economy and bury the past as deep as possible, has reflected in acritical appropriation of certain conceptual instruments, the phenomenon that reminds the cases of South American countries at the beginning of the dogmatic fever of neoliberal reforms.

For creating the alternatives of critical analysis, it has become more and more urgent that reflections produced in non-hegemonic regions could establish mutual contacts and construct a common research agenda amongst themselves. For the purpose of initiating a dialogue towards elaborating a research agenda, IUPERJ's research network on Entrepreneurs, Institutions and Capitalism (NEIC) together with the

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<sup>6</sup> Gil Eyal (2000) Anti-Politics and the Spirit of Capitalism: Dissidents, Monetarists, and the Czech Transition to Capitalism, *Theory and Society*, Vol. 29, No. 1; Raik, Kristi (2004) EU Accession of Central and Eastern European Countries: Democracy and Integration as Conflicting Logics, *East European Politics and*

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Financial crisis that broke out in the USA and has already contaminated Europe and some peripheral regions shows that the development model exclusively led by and for the market is not that reliable that the governments and societies could bet all their tokens on it. On the contrary, various analyses have demonstrated that semi-peripheral regions have come forth as influential actors within this new setting, where the political coordination between the States is essential to formulate the new model of financial regulation.

One of the motives that triggered the organization of the International Conference was to create a forum capable of reflecting on the dilemmas related to the development within this new context where politics and societal pressures for bigger participation in political decisions have regained their relevant role. Therefore the conference aimed at examining these regions without falling into the old explanatory schemes that had invalidated the very history of the SA and CEE countries.

South America, with distinct emphasis and during different phases between the 70s and 90s, had adopted a variety of economic and institutional reforms that were sustained by this negative diagnosis of the region's development. The prevailing idea was that state policies had been the principal cause of underdevelopment and that the social demands for public policies concerned with the reduction of inequalities and the consolidation of social rights had caused public indebtedness that had tormented the region throughout this period. That is to say that in that period a technocratic elitism appeared suggesting that social participation created populism and patronage

what consequently threatened democracy. The governments started to defend themselves from these democratic demands for the sake of economic growth – it was necessary to discipline the society through market-led economic rationality.

The theories of *rent seeking* gave their contribution to this thinking by portraying politics as the space of irrationality and the State as the predatory reproducer of this irrationality seen as dangerous to economic growth.<sup>7</sup> Associated to *supply-side economics*, this was the model used for reducing the State intervention in the economy and supposedly resolving the problems of inflation and lack of growth in the developing countries, justifying like that the neoliberal policies of Reagan and Thatcher carried out in the 80s.<sup>8</sup> While being devastated by inflation and external indebtedness, the South American countries adopted this agenda with some variations in its extension and depth. The State became the instrument of economic reforms that aimed at privatizing the enterprises and public services as well as reducing the State capacities to coordinate the economy and promote minimal welfare regime. Market development and oligopolized profits by predatory coalitions became the instrument aimed at disciplining the South American societies, which should have “naturally” lead to “responsible” growth.<sup>9</sup> This agenda became known as Washington Consensus.

In parallel to this neoliberal intellectual turn the first works started to emerge that tried to understand why some countries in the periphery had had the highest growth rates since the WWII till then. Initially these studies were focused on Japan, Brazil and Asiatic tigers.<sup>10</sup> Later on India and China were included in this group.<sup>11</sup> This

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<sup>7</sup> Buchanan, James et al (1980) *Toward a theory of the rent-seeking society*, College Station: Texas A&M University Press

<sup>8</sup> Krugman, Paul (1995) *Peddling Prosperity: Economic Sense and Nonsense in an Age of Diminished Expectations*, W. W. Norton & Company

<sup>9</sup> Schamis, Hector (2002) *Re-forming the state - the politics of privatization in Latin America and Europe*, Ann Arbor: University of Michigan Press

<sup>10</sup> Johnson, Chalmers (1982) *MITI and the japanese miracle*, Stanford University Press; Amsden, Alice (1989) *Asia's Next Giant*, New York: Oxford University Press; Haggard, Stephan (1990) *Pathways from the periphery*:

research agenda concentrated on the periphery, called attention to the fact that this group of countries had elevated growth rates because their States had the capacity to interfere in the economy through the professionalised bureaucracy, orientated credit policy, institutionalised conflicts of interest, pilot agencies that conferred cohesion and priority to policies and established cooperation between the State and society. Thereby this literature responded to the criticism of *rent seeking* theories avoiding elitist technocratic insulation that had contaminated the countries of CEE and SA in the attainment of structural adjustment. Neither did it fall into the patrimonialist model that considered the State incapable of reacting to predatory coalitions. Without the same ascendancy over the policy makers, that the neoliberal stream of supply side economics had had, this new literature reached an equilibrated state model of *embedded autonomy*.<sup>12</sup>

Although the neoliberal hegemony being predominant, more consistent comparative research were demonstrating that the institutional legacies were shaping the reform trajectories, creating a differentiation within the rhythm and depth of these reforms in accordance with every country. Hence, among the SA and CEE countries there were different patterns of liberalization, which resulted in the differentiated models of productive regimes and, therefore, in *varieties of capitalism*.<sup>13</sup>

When it comes to South America then in Argentina the neoliberal reforms had the

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*politics of growth in Newly Industrializing Countries*, Cornell University Press; Evans, Peter (1979) *Dependent Development: The Alliance of Multinational State and Local Capital in Brazil*, Princeton, NJ: Princeton University Press

<sup>11</sup> Chibber, Vivek (2003) *Locked in Place - state-building and late industrialization in India*, Princeton University Press; Saxenian, AnnaLee (2006) *The New Argonauts - regional advantage in a global economy*, Harvard University Press; Kohli, Atul (2004) *State Directed-Development: Political Power and Industrialization in the Global Periphery*, Cambridge University Press

<sup>12</sup> Evans, Peter (1995) *Embedded Autonomy: States and Industrial Transformation*. New Jersey: Princeton University Press

<sup>13</sup> Bohle, Dorothee and Béla Greskovits (2007) Neoliberalism, embedded neoliberalism and neocorporatism: Towards transnational capitalism in Central-Eastern Europe, *West European Politics*, 30:3, 443 – 466; Boschi, Renato and Flavio Gaitán, Politics and Development: lessons from Latin America; David Lane, Post Socialist States in the system of global capitalism: a comparative perspective - papers presented in INTERNATIONAL CONFERENCE: Comparative perspectives of development experiences in South America and Eastern Europe Development and semi-periphery, Tallinn, October 9th-10th 2008

biggest extension and depth within the entire region. The reforms consisted of privatization of basic public services and all the strategic economic sectors, which in consequence diminished drastically state capacities. Although known as the successful laboratory of neoliberal policies, Chile did not privatize its strategic sectors like copper and, besides that, it also maintained the state capacities, specially through interest coordination arenas capable of institutionalizing political conflicts and direct private investment, which are known as CORFO and *Concertacion*. Brazil is the most successful case of ISI policy, presenting the second highest growth rate during the post-war golden age (1945-1975). It was also the last country in the region to start its liberalization process, only in 1992, and made it with less profundity. It maintained most of its strategic economic sectors under the control of the State or para-state agencies – such as powerful public banks and companies in the petrol and mining sector – guaranteeing like that the highest state capacity in the region.

In South America the promises of Washington Consensus were realized in their worse aspects. National states lost significant part of their capacity to coordinate the economy and make public policies, inflation was low at the expense of the absence of growth and high unemployment in the 80s and 90s. This project failed mainly due to the growth of public indebtedness and diminishing capacity of the state to react to financial crises caused by the deregulation of capital account in search of external saving-based growth – one of the golden precepts of neoliberalism. As a result the economies of Brazil, Mexico, Argentina and Venezuela broke down, poverty and inequality increased to higher level than they had been before.

The political consequence of this trajectory was that under the pressure of market's excluding rationality, the South American societies returned to use actively politics as an instrument of collective pressure. During the last ten years these societies elected centre-left governments concerned with recovering the state capacities as the principal instrument of public policy to revert the excluding effects of the predatory

model of deregulated markets. Under the new political coalitions, with strong public policies, bigger market coordination, higher growth rates, low unemployment and active social mobilization, South America is again the target of intellectual controversy that accuses this new democratic moment for being the revitalization of populism. Why?

The financial crisis in the US and the immediate intervention by its government injecting hundreds of billions of dollars to save banks, insurance companies and pension funds, offers a good example to compare how similar political behaviours are being treated conceptually differently. The North American government nationalised financial system in crisis, is interfering strongly in recovering the credit liquidity – for example the new regulatory model of financial system proposed by Obama’s administration, which aims at broadening the supervisory powers of the FED. These were the measures that, if applied by the CEE or SA governments in the middle of the crises in the periphery, as it happened between 1997 and 2001, would qualify them automatically as populist or even presenting a communist threat.

No, any respected analyst has accused Timothy Geithner and Lawrence Summers for being populists or dangerous communists. But yes, Korea, Russia, Brazil and Argentina saw their economies in ruins because with the structural adjustments their governments gave up institutional mechanisms necessary to defend themselves in the crisis. However, this is not the central issue. The heart of the matter is that hegemonic concepts are being used in an opportunistic manner to obstruct any critical and constructive formulation about the development alternatives, forbidding the peripheral nations from opening the space in the hierarchical relations that dominate the concert of nations. More recent analyses of the economy of development have qualified this strategy as *kicking away the ladder* - that is to create several ideological barriers to maintain an asymmetric order between the countries.<sup>14</sup>

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<sup>14</sup> Chang, Ha-Joon (2002) *Kicking away the ladder : development strategy in historical perspective*, London: Anthem

Although the trajectories of SA and CEE were quite distinct, the way how institutional and economic reforms occurred in the CEE countries reminded the South American experience. There is of course a key difference: the unification with the EU provided bigger institutional security for these countries. Even though the integration obliged the CEE states to give up their macroeconomic instruments for their national projects. At the same time it has been widely accepted among the political, intellectual and economical elites to consume the literature, which regards highly the beneficial effects of the market liberalization. Such notions like populism or patronage gained pejorative connotation and became related with political and party leaders that represented demands for social rights and public policies. The pejorative use of these notions not only served to disqualify the old leaders from the communist era but also prevented that actual collective social demands could voice themselves in a legitimate manner and were recognised as important for the development of the region. The integration with EU and positive legacy from the communist period, in terms of the educational qualification of the society, guaranteed a much better starting point for the CEE countries when compared to SA.

Institutional umbrella provided by the EU prevented CEE from going in the same hallucinated direction of economic liberalization as Russia did, which also precluded Russia's destiny of being ruined by the crisis of 1998 and by the predatory capitalism – a pattern resembling SA.<sup>15</sup> Other comparative studies about CEE, inspired by the concept of *embedded autonomy*, also demonstrated that in the absence of a strong State and a developed market, the reforms were translated by coordinating institutions with deliberative and associative properties, constituted by the legacy of networks among enterprises.<sup>16</sup> In order to comprehend the emergence of the “capitalism without capitalists” and the differentiated performance among the CEE countries with regard

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<sup>15</sup> Andrew Jack, “Shock therapy' sell-offs blamed for 1m deaths”, *Financial Times*, January 15 2009

<sup>16</sup> Stark, David e László Bruszt (1998) *Postsocialist Pathways - transforming politics and property in East Central Europe*, Cambridge University Press

to the neoliberal reforms, it is necessary to comprehend the connections and alliances between the new actor networks made up by intellectual dissidents – at the present time as new entrepreneurs – and the old nomenklature.<sup>17</sup> Hence one could argue that the State kept the important role of economic coordinator in the economic and political opening. Or, saying it another way, there are cleavages between political and economic elites. Moreover, it is also important to emphasise the regional positions within the CEE as the determinant factor in choosing between regulated or competitive capitalism.<sup>18</sup> Despite of all, there still prevails quite favourable view on the role of the markets in development in the East, in spite of the important differences between the countries. It could be noticed by the pro-deregulation positions in Brussels.

All in all, as it can be seen in the following articles<sup>19</sup>, the Conference tried to approach the dilemmas of development trajectories in the semi-periphery as diversely as possible, always emphasising the variety of trajectories as a crucial factor. Therefore there are evaluations of the role of cognitive regimes produced by professional fields as elements of collective action coordination and beacons that fix the State-society relations. Some articles appoint to the relevance of innovation policies and regimes of financial investments, which are necessary for the sustainable or long-lasting development. Other articles emphasise the models of privatization and monetary policy as determinant factors in the degrees of freedom that the countries have for their strategies of external insertion and attainment of public policies. At the same time the articles tried to indicate institutional innovations that have been consolidating, specially in the face of the regional integration, as well as social legacies of the reforms adopted during this period.

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<sup>17</sup> Eyal, Gil, et al. (1998) *Making capitalism without capitalists: class formation and elite struggles in post-communist Central Europe*, London/ New York : Verso

<sup>18</sup> György Lengyel,(2008) “Political and Economic Elites on European Integration”, paper presented in INTERNATIONAL CONFERENCE: Comparative perspectives of development experiences in South America and Eastern Europe Development and semi-periphery, Tallinn, October 9th-10th

<sup>19</sup> See <http://neic.iuperj.br/internationalconference2008.html>