

The New Century: Critical Junctures in Privatisation Policy in Brazil and Argentina?

John Hogan*
(Dublin Institution of Technology)
David Doyle
(Dublin City University)

- I . Introduction
- II . The Problem of Time Lags and the Identification of Critical Junctures
- III . Latin America Turns to the Left
- IV . Testing for a Critical Juncture in Privatisation Policy
 - IV.1. Identification of Macro-economic Crisis
 - IV.2. Identification of Ideational Change
 - IV.3. Identification of Change in Government Economic Policy
- V . Conclusion

I. Introduction

For institutionalists (Mahoney 2000; Pierson 2000), periods of abrupt change are regarded as initiated by crises. This has resulted in scholars differentiating the past into periods of normalcy and critical junctures.

* 존 호건(corresponding author, Dublin Institution of Technology, Lecturer in International Political Economy, john.hogan@dit.ie) / 데이비드 도일(2nd Author, Dublin City University, Lecturer in Latin American Politics, School of Law and Government, david.doyle@dcu.ie), “새로운 세기: 브라질과 아르헨티나 민영화 정책의 결정적 국면들(Critical Junctures)”.

Despite critical junctures importance to the analysis of temporal processes, the concept received limited attention (Pierson 2004). To address this, Hogan and Doyle (2007; 2008) developed a three-stage framework, according to which, a critical juncture consists of: crisis, ideational change, and radical policy change.

This framework is built on the hypothesis that a crisis induced consolidation of a new idea -replacing an extant paradigm- leads to significant policy change. Such a framework would be capable of explaining why certain crises lead to critical junctures in policies, whereas others do not. The differentiating factor between such crises would be ideational change-making the identification of ideational change a harbinger of policy change.

In the absence of ideational change the level of policy change in response to a crisis will be of the first or second order, but not the third.¹⁾ Policy instrument settings and the instruments themselves may change, but without ideational change the hierarchy of goals underpinning a policy will remain unaltered. A crisis will lead to ideational contestation, but not necessarily ideational consolidation and policy change. If ideational change is discovered radical policy change will follow, if ideational is not discovered, lesser policy change is likely.

The framework is employed in examining privatisation policy in Brazil and Argentina. Both countries experienced serious economic difficulties at the turn of the century, resulting in social and political turmoil and ultimately, the election of left-wing leaders critical of the previous economic model. Our objective is to determine if these difficulties constituted crises. Secondly, if they were crises, did they led to ideational change with regard to privatisation policy, and thirdly, if ideational change is confirmed, did this led to a radical policy change

1) Here the model borrowed from Hall's (1993) concept of order of policy change.

(critical juncture). Previously, we would have had to wait decades before being able to determine if a critical juncture occurred.

II. The Problem of Time Lags and the Identification of Critical Junctures

Critical junctures are regarded as branching points, setting processes of change in motion, resulting in the adoption of an institutional arrangement from among alternatives (Mahoney 2000, 512). Development paths funnel units in particular directions, with resultant irreversibilities (Mahoney 2003, 53). Critical junctures have been regarded as highlighting the importance of the past in explaining the present (Pierson 1993, 602).

Views vary as to the duration of a critical juncture. For some, it constitutes a brief period in which one direction or another is taken, while for others, it is an extended period (Mahoney 2001). For Collier and Collier (1991) and Mahoney (2001) in their analyses of the labour movements and regime change in Latin and Central America critical junctures took decades to occur.

In relation to short term change, Haggard (1988, 91) argued that the Great Depression brought into question existing institutions, resulting in dramatic change. Garrett and Lange (1995, 628) showed that electoral landslides create critical junctures by producing mandates for policy change. Casper and Taylor (1996) employed the concept in analysing the liberalisation of authoritarian regimes, while Hogan's (2006) remoulded framework was used to examine swift changes in trade union influence over public policy.

Looking at Brazil and Argentina Munck (2003, 495) argues that the former found itself in economic difficulties at the turn of the century,

while the economy of Argentina virtually collapsed in 2001-2002. Argentina's debacle was a blow to the concept of all conquering capitalism. In the previous decade both states had engaged in wholesale privatisation. Nevertheless, conditions in their economies served to discredit the neoliberal prescriptions of the "Washington Consensus" (Carranza 2004, 320). The question that has yet to be answered is - did the privatisation policies in both countries undergo critical junctures, and what role did ideas and policy/political entrepreneurs play in this process?

III. Latin America Turns to the Left

'Political parties, which can broadly be characterised as from the left and the centre left are in power, have been in power or have good chances of gaining power' (Panizza 2005, 716-717). The region's unparalleled socio-economic inequalities and enduring poverty have become associated with the last quarter century of neoliberal restructuring (ECLAC 2005). Many left-leaning political leaders have emerged in this socio-economic context.

The resurgence of the left has occurred along to two lines - radical populist and reformist (Castañeda 2006; Panizza 2005). The latter was the radical orthodox left that transformed in response to the political realities of neoliberal globalisation. Responding to popular demands, it seeks to mitigate the excesses of the neoliberal model through reform/regulation.

Do the policies of these leaders represent a departure from the market-friendly model of the 1990s? Specifically, we are concerned with the economic problems in Brazil (1999), and Argentina (2001), that led to the elections of Luiz Inácio Lula da Silva as President of Brazil, and Nestor Kirchner, as President of Argentina. Did these periods of economic

flux witness critical junctures in both countries' political economies?

The paper focuses upon privatisation policy, as this represented a central tenet of the conservative economic reforms of the 1990s. After the economic malaise in each state, public opinion and political attention appeared to scapegoat privatisation. It is a useful policy to examine as, of all the structural reforms undertaken in Brazil and Argentina in the 1990s, privatisation is perhaps the most difficult to reverse, and a significant shift in this policy, would be symptomatic of larger macroeconomic policy change.

It is important to note that in comparing Brazil with Argentina, we recognise they are not identical. Their different histories resulted in them having different approaches towards privatisation. Brazil had a more statist economy than Argentina, in which privatisation did not go as far. Thus, the baselines from which privatisation was reversed were not identical. Nevertheless, their similarities provide a valid comparison.

IV. Testing for a Critical Juncture in Privatisation Policy

IV.1. Identification of Macro-economic Crisis

The critical junctures literature focuses upon crises. Any of a range of external shocks are cited as explanations for policy change (Golob 2003, 373). However, crises are rare, rendering definition and identification difficult (Yu, Lai, and Wang 2006, 439). So, how do we identify crisis?

Defining a crisis, including a macro-economic downturn, requires subjective and objective deliberations (Pei and Adesnik 2000, 139). Here we seek to identify macro-economic crisis through quantitative and qualitative measures. Macroeconomic crisis serves as a proxy for "generative cleavages" as this renders politics highly fluid (Garrett 1993,

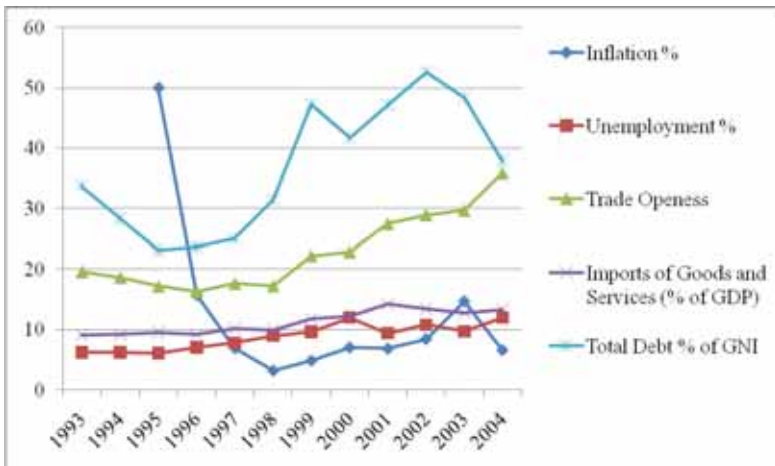
522), generating debates concerning economic models, which can lead to radical ideas to replace existing paradigms. Consequently, González (2005, 93) suggests the adoption of a multifaceted approach. Kaminsky, Lizondo, and Reinhart (1998) advocated individual variables when quantifying currency crises. Pei and Adesnik (2000, 138-139) developed a range of criteria for identifying macro-economic crises: annual inflation greater than 15 percent, stagnant or negative annual gross domestic product (GDP) growth, combined with discursive descriptions of economic circumstances. For Garuba (2006, 21), Kwon (2001, 105), and Solimano (2005, 76) a macro-economic crisis can be identified through indicators and perceptions of growth, inflation, employment creation, poverty reduction, and their combined socio-psychological burden on society.

We develop a range of observable implications which build upon previous studies (Frankle and Rose 1996; Hogan and Doyle 2007; 2008). These observables accept that a macro-economic crisis constitutes an economic low point (See Appendix A). They seek to identify large change in nominal economic performance as well a significant alteration in perceptions of the economy's health. Drawing upon Frankle and Rose (1996, 351), we define a "macro-economic crisis" as a stagnant economy, wherein investment is in decline, inflation, interest rates, and unemployment are above 15 percent, and actors perceive the economy to be in crisis.

Brazil: Crisis 1998-2000

Brazil undertook an inflation stabilization programme in 1994, the *Plano Real*, pegging the *real* to the dollar. This reduced inflation from 50 percent per month in 1995 to 3.2 percent annually by 1998 (Figure 1). However, there was substantial exchange rate appreciation, making Brazilian goods relatively more expensive, contributing to a current account deficit by 1997 (Bulmer-Thomas 1999, 730).

Interest rates doubled as the repercussions from the Asian crisis reached Brazil, indicating the fragility of its financial situation (Heymann 2001, 16). Simultaneously, inflation rose to almost 5 percent by 1999. Nevertheless, the authorities promised a new assault on fiscal problems, now aggravated by higher interest on government debt. However, the government, with an eye to the 1998 elections, failed to make good on its commitments, and the budget deficit grew to 8.4 percent of GDP. As a result, debt/GNI increased to over 47 percent by 1999.



Source: Data Gob, Government Indicators Database; Instituto Brasileiro do Geografia y Estadística

<Figure 1> Inflation; Unemployment; Trade Openness; Imports; Debt

But, following the Asian crisis, and Russian bond default, investors became risk averse (Kaminsky, Reinhart, and Végh 2003, 51), reflecting the downgrading of Brazil's credit rating.²⁾ As \$30 billion fled the country

2) Brazil's rating in 1999; Moody: B2, S&P: B+; Fitch: BB-. See Moody's Investor's Service; Standard & Poor's; Fitch IBCA; at <http://www.latin-focus.com/latinfocus/countries/brazil>

in September, the central bank raised interest rates to 43 percent. Unemployment reached 9 percent by the end of 1998, while imports of goods and services and trade openness declined. By November President Cardoso, safely re-elected, announced measures to right the economy.³⁾

However, the *real* came under attack in November 1998. To defend the currency, the central bank pushed interest rates to 50 percent,⁴⁾ increasing the cost of servicing public and private debt to the extent that investors became convinced a default was inevitable, to be followed by the collapse of the *real*. High interest rates, instead of slowing the tide of dollars leaving Brazil, accelerated the process. The governor of Minas Gerais announced a 90 day moratorium on repayments to the federal government⁵⁾ and this announcement, and fear that the governors of Rio de Janeiro and Rio Grande do Sul could do likewise, threatened the country's fiscal integrity (Rothkopf 1999, 91). Foreign investors fled Brazilian capital markets (Cattaneo 2001, 228). With the Brazilian central bank losing \$2 billion a day,⁶⁾ the World Bank initiated crisis talks.

In response, a \$41 billion IMF rescue package was arranged.⁷⁾ But, President Cardoso was unable to get an appropriate budget (tax increases/spending cuts) approved.⁸⁾ The possibility of debt default arose. As much of the country's foreign debt was short term this was a daunting burden. The upper classes, convinced devaluation of the *real* was inevitable, now began withdrawing investment from Brazil. The dip in gross capital formation for 1998 reflected this capital flight (Figure 2). As FDI went elsewhere the prospects for the economy, and the value of the *real*, grew bleak.

3) *The Economist*, 21 November, 1998, p. 23.

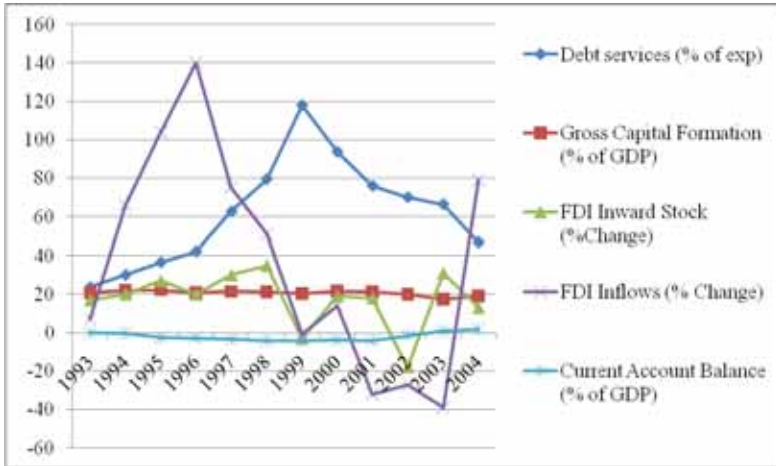
4) *The Independent*, 4 December, 1999, p. 18.

5) *Business and Finance*, 25 January, 1999, p. 36.

6) *The Evening Standard*, 15 January, 1999, p. 41.

7) *Ibid.*, 30 January, 1999, p. S12.

8) *The New York Times*, 28 February, 1999, p. 1.



Source: Data Gob, Government Indicators Database

<Figure 2> Gross Capital Formation; FDI Inward Stock; FDI Inflows; Current Acc Bal

Despite pledges to the contrary, the exchange rate band was widened to accommodate devaluation in January 1999 (Roett and Crandall 1999, 279). While the *real*/dollar exchange rate had been close to parity prior to devaluation, it plummeted to two for one by February. Debt services, as a percentage of exports, reached 117 percent by 1999 (Table 2), and the devaluation reinforced negative expectations in financial markets and among well-to-do Brazilians.⁹⁾ It also put pressure on the central bank as diminishing foreign currency reserves were the only thing preventing further devaluation.¹⁰⁾ However, devaluation did not stop the haemorrhage of dollars. The inflow of FDI declined in 1999 (Figure 2).

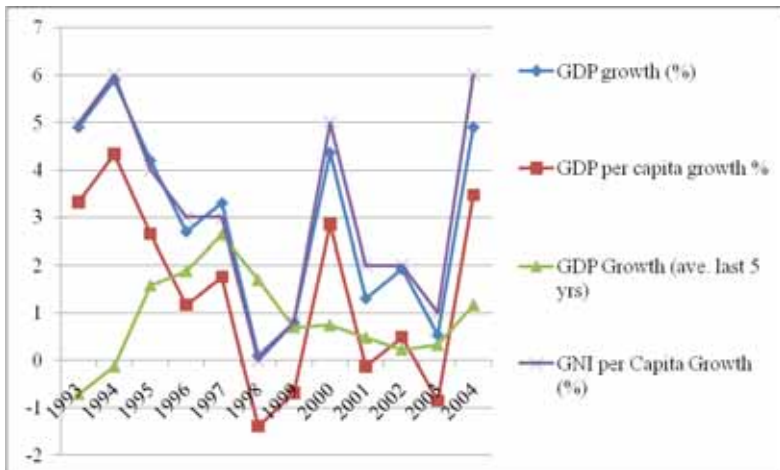
On the day of devaluation, the Sao Paulo stock exchange fell 10 percent and within a few weeks this policy collapsed, forcing the resignation of a second central bank governor. Arminio Fraga, the new governor, floated the currency,¹¹⁾ but the country plunged into recession with

9) *The Independent*, 14 January, 1999, p. 1.

10) *The Daily Mail*, 15 January, 1999, p. 65.

significant declines in industrial output and GNP. The percentage of the population below the poverty line surpassed 25 percent.¹²⁾ *The New York Times* predicted a debt default.¹³⁾

Yet, most indicators of economic performance did not reach decade long lows. In fact, real GDP grew in 1998, albeit by 0.1 percent, and expanded by 0.8 percent the following year, while GDP per capita fell by 1.39 and 0.7 respectively in the same period. Although GDP growth averaged over 5 years was stagnant in 1999, it was not contracting (Figure 3). However, GDP was to rise by 4.5 percent in 2000, while the highest inflation rate was 7 percent in 2000. GNI per capita growth stagnated between 1998 and 1999, before recovering.



Source: Data Gob, Government Indicators Database

<Figure 3> GDP Growth; GDP per Capita Growth; GDP Growth (5.yr.av);
GNI per Capita Growth (%)

11) *Financial Times*, 4 March, 1999, p. 6.

12) Brazil, <http://www.indexmundi.com/g/g.aspx?c=br&v=69>

13) *The New York Times*, 31 January, 1999, p. 16.

‘Many commentators in the first half of 1999 assumed Brazil would have to restructure its debt (a euphemism for default)’ (Bulmer-Thomas 1999, 736). Summers (2000, 5) rated the situation as one of the major financial crises of the 1990s. By early March 1999 the Brazilian central bank was still struggling to prop up the *real*,¹⁴⁾ but the bank’s framework for targeting inflation made progress. By the middle of the year the *real* had recovered. Inflation did not rise, nor output fall by as much as expected, while interest rates gradually declined (Heymann 2001, 16). By August, financial analysts were predicting the economy would contract by 1 percent, compared with earlier estimates of 5 percent.¹⁵⁾ As Figure 3 shows, slow and steady growth resumed in 2000. According to Summers and Williamson (2001, 56) Brazil’s central problem was a pegged exchange rate lacking sufficient institutionalisation of the measures necessary to make the peg stick.

Argentina: Crisis 1999-2002

As a result of Economy Minister Domingo Cavallo’s 1991 Convertibility Plan, the Argentine peso was pegged to the dollar. However, as the dollar appreciated, the peso became overvalued, especially in relation to the Brazilian *real*. While Argentine exports declined, imports increased, and the national debt, denominated in dollars, grew rapidly.

After recovering from a short recession following the 1995 Mexican crisis, Argentina’s economy was in trouble by 1998. International financial turmoil in the wake of the Asian crisis, and anxiety over the Brazilian economy, resulted in high interest rates, a stock market plunge, and slow growth.¹⁶⁾ According to *The Economist*, the Argentine

14) *The Times*, 3 March, 1999, p. 12.

15) *The Washington Post*, 5 August, 1999, p. A01.

16) *New York Times*, 6 February, 1998, p. 1.

economy shrunk by 3.2 percent in 1999.¹⁷⁾ The cost of servicing the national debt more than doubled between 1993 and 2001 (Figure 4) (Mulraine 2005, 7). But, hailed as an example of free market reforms, Argentina was permitted to further indebt itself.

In early 2000, the government began cutting spending and increasing taxes to close the yawning budget gap (Saxton 2003, 10). The government bet that the effects of this decision would be offset by the boost to confidence from putting the public finances in order. However, this ignored the fact that the economy was shrinking and would further reduce the already diminishing tax base. As deficit spending “got Argentina into its mess”,¹⁸⁾ the tax increases, instead of reviving the economy, drove it into stagnation.¹⁹⁾ In November 2000, Standard & Poor’s downgraded Argentina’s credit rating, suggesting major uncertainties in its ability to meet its financial commitments.²⁰⁾ By late 2000 the country was in economic and political turmoil.

The mood of economic pessimism darkened as tension increased between Argentina and the IMF (Eichengreen 2003, 75). If it kept the peso pegged to the dollar exports would continue to fall, and the national debt grow. If the peso was unpegged, its value might collapse, and although exports would grow, the national debt would explode.

In late 2001, capital flight reached 6 percent of GDP, and the government found itself unable to meet debt repayments (Kaminsky, Reinhart, and Végh 2003, 63). The slump in gross capital formation and the reversal of FDI inflows (Figure 4) bears witness to the declining attractiveness of Argentina. With the effective freezing of bank accounts on 1 December,

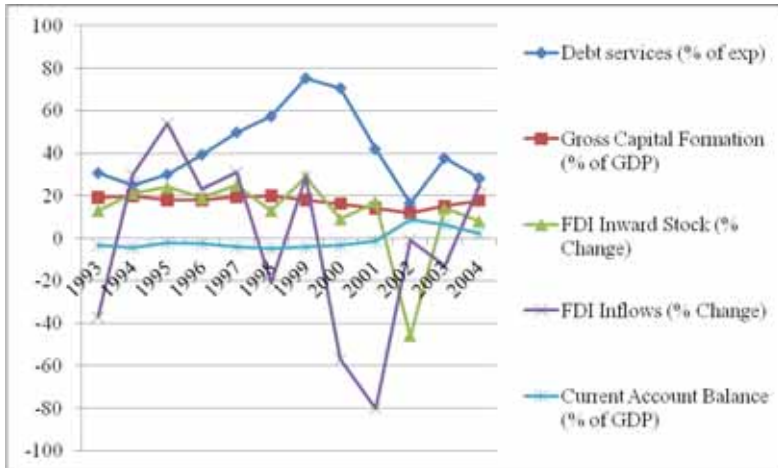
17) *The Economist*, 7-13 October, 2000, p. 77.

18) *Business Week*, 11 February, 2002, p. 26.

19) *The Economist*, 7-13 October, 2000, p. 77.

20) By 2001 Argentina’s credit ratings were as follows: Moody: Ca, S & P: SD, Fitch: DDD. See Moody’s Investor’s Service; Standard & Poor’s; Fitch IBCA; at <http://www.latinfocus.com/latinfocus/countries/argentina/argeiratings.html>

to stop the run on the banks, the situation exploded onto the streets.



Source: Data Gob, Government Indicators Database

<Figure 4> Debt Service; Gross Capital Formation; FDI Inward stock; FDI Inflows

The *Wall Street Journal* described the situation as chaotic.²¹⁾ *The Independent* declared Argentina to be in political and economic meltdown.²²⁾ Following violent protests, the government collapsed in late December. Recession, crushing debt, and the ineptitude of the political classes precipitated this situation.²³⁾

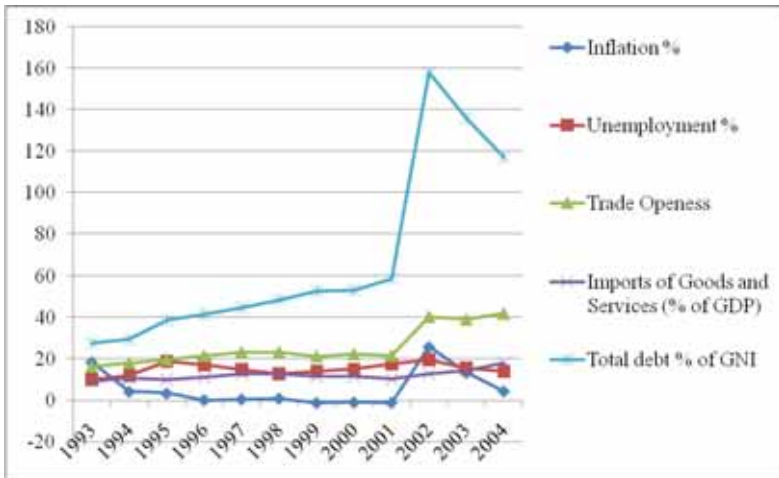
President de la Rúa's successor, Ramón Puerta, was in office two days when succeeded by Adolfo Saá. Saá initially declared a debt

21) *Wall Street Journal*, 21 December, 2001, p. 9.

22) *The Independent*, 21 December, 2001, p. 3.

23) The citizens declining confidence in their government was reflected in the government's effectiveness index falling from 0.28 in 2000, well above the world average of 0, to -0.47 in 2002, and while Argentines regarded their government as somewhat corrupt in 2000, with a score of -0.34, this opinion more than doubled to -0.78 by 2002. See Government Effectiveness Index and Control of Corruption Index at http://www.iadb.org/data_gob/index.html

moratorium, but a few days later Argentina announced the biggest default in history: \$132 billion.²⁴⁾ With unemployment surpassing 18 percent,²⁵⁾ Saá was soon replaced by Eduardo Camaño, who lasted just three days. In January 2002, President Eduardo Duhalde unpegged the peso from the dollar prompting it to lose 75 percent of its value, triggering inflation (Gurter 2004). This had an immediate impact on the remaining debt, which tripled in value. The jump in inflation between 2001 and 2002 was dramatic, from -0.17 to almost 26 percent (Figure 5). Imports of goods and services slumped-reflecting declining trade openness.



Source: Data Gob, Government Indicators Database; Instituto Brasileiro do Geografia y Estadística

<Figure 5> Inflation; Unemployment; Trade Openness; Imports; Debt

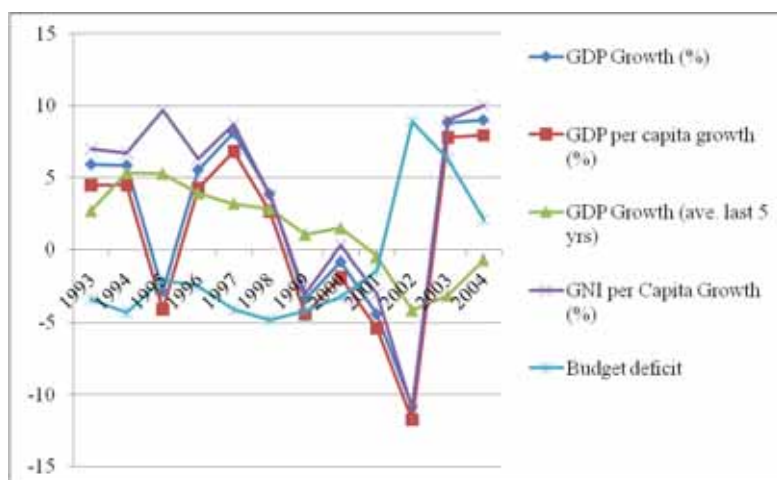
The central bank, to stabilize the currency, spent vast amounts of foreign exchange (Desai 2003, 173), but ‘because most debt instruments in Argentina were denominated in dollars, the depreciation of the [peso]

24) *The Times*, 24 December, 2001, p. 12.

25) *ibid.*, 26 December, 2001, p. 1.

made it impossible for borrowers to earn enough money to repay their dollar-denominated loans' (Cavlo and Mishkin 2003, 101). Despite the default and the fall in debt services as a percentage of exports from 70 percent in 2000 to just above 40 percent in 2001, the remaining debt as a percentage of GNI increased dramatically, reaching 160 percent.

GDP growth and GDP per capita growth were down over 10 percent in 2002. Real GDP fell by 28 percent between 1998 and 2002, while real wages declined by 23.7 percent, inflation reached 41 percent, and unemployment peaked at 23.6 percent (Saxton 2003, 1).



Source: Data Gob, Government Indicators Database

<Figure 6> GDP Growth; GDP per Capita Growth; GDP Growth (5.yr.av); GNI per Capita Growth (%); Budget Deficit

The public was enraged over soaring unemployment, and the disappearance of their savings.²⁶⁾ In 2002, the number of people below the poverty line doubled to 60 percent, while growth contracted by 4.4 percent.²⁷⁾ All measures of economic performance sank beneath decade

26) *The Financial Times*, 27 February, 2002, p. 11.

long lows. It was a crisis of unprecedented financial turmoil, and a shocking drop in output (Guidotti 2006). For Miller, Fronti, and Zhang (2005, 1) it was a ‘full-blown financial crisis where the collapse of the exchange rate and the paralysis of the banking system precipitated an Argentine Great Depression’.

<Table 1> The Identification of Macro-economic Crisis

The Observable Implications	Argentina	Brazil
	1999-2002	1998-2000
O1. Main GDP indicators stagnant/negative?	X	X
O2. GNI per capita PPP growth stagnant/negative?	X	X
O3. 50% + of population below poverty line?	X	
O4. Total debt above 100 of GNI?	X	
O5. Debt services exceed 100% of exports?		X
O6. Importations and trade openness declined?	X	X
O7. FDI inflows, and FDI inward stock decline?	X	
O8. Gross capital formation as % of GDP declined?	X	X
O9. Annual inflation greater than 15%?	X	
O10. Annual interest greater than 15%?	X	X
O11. Annual unemployment greater than 15%?	X	
O12. Decline in sovereign credit rating?	X	X
O13. Corruption and gov. effectiveness problematic?	X	
O14. Opinion polls regard the economy in crisis?	X	X
O15. Media regard economy in crisis?	X	X
O16. Commentators regard economy in crisis?	X	
O17. Central bank regard economy in crisis?	X	
O18. Domestic/international orgs regard economy in crisis?	X	X
O19. Politicians regard economy in crisis?	X	
O20. Gov. pronouncements on economy consistent with crisis management approach?	X	
Economic Crisis	Y	Y

27) The Economic Intelligence Unit - Country Report: Argentina, January, 2002.

According to the framework Argentina (1999-2002) experienced an economic crisis, as it satisfied nearly all observable implications (Table 1). The economy was stagnant, investment was falling, inflation and interest rates were rising rapidly, and the general perception (home/abroad) was one of crisis. Although Brazil (1998-2000) satisfied only half of the observables, we argue that it too experienced an economic crisis, as its economy was stagnant, investment was declining, and the media, public and international organisations all regarded it to be in crisis. In terms of the severity of these crises, Argentina's was more acute.

The next section examines both periods for changes in the ideas underlying privatisation policy. Based upon the above findings, our framework leads us to predict the possibility of ideational contestation in both countries.

IV.2. Identification of Ideational Change

Ideas determine policy choices (McNamara 1998, 57). When an economic model is in difficulty, windows of opportunity (Kingdon 1995) appear in which change agents contest the viability of prevailing paradigms. They present new ideas to replace ones upon which existing policy is based. Ideas influence policy through actors (Berman 1998, 22).

We argue that significant policy change depends on actors reaching consensus upon, and consolidating around, a particular set of new ideas. Ideas determine the path of subsequent policy, as policy makers work within a framework of ideas that specify not only the goals of policy, but the instruments to be used to achieve these goals, and the nature of the problems they are addressing (Hall 1993, 279). Ideas are the casual mechanisms of change (Golob 2003).

We contend that ideas emanate from *change agents*. The most important

are what Dahl (1961) termed ‘political entrepreneurs’. They ‘exploit moments of instability’ and ‘invest resources in the creation of a new policy’ (Sheingate 2003, 188-190). In times of crisis, ‘uncertainty makes possible the entrepreneurial quality of everyday politics’ (Sheingate 2003, 192). In a crisis, a political leader, usually an opposition leader, will introduce new policy ideas to rectify the existing paradigm. This is similar to Kingdon’s (1995) concept of policy entrepreneurs, which also constitute a *group of change agents*. Policy entrepreneurs encompass civil servants, technocrats, academics, economists and interest groups etc., who engage in policy innovation, and have access to decision makers. Other agents may be outside influences, including the media, and international organizations. They are responsible for producing ideas, but political entrepreneurs inject ideas into the policy process.

We argue that a crisis is necessary, but insufficient, for policy change. Should a broad range of agents agree the prevailing paradigm is inadequate, the first stage of Legro’s (2000, 419) model of ideational change, collapse, has occurred. Five observable implications seek to identify the generation of new ideas and ideational collapse (See Appendix B). However, ‘even when ideational collapse occurs, failure to reach consensus on a replacement could still produce continuity, as society reflexively re-embraces the old orthodoxy’ (Legro 2000, 424). In the wake of ideational collapse, the issue is reaching consensus on a new set of ideas. If consensus is achieved it is the second stage of Legro’s model -consolidation- agents co-ordinating a replacement set of ideas. ‘Ideas facilitate the reduction of [...] barriers by acting as coalition-building resources among agents who attempt to resolve the crisis’ (Blyth 2002, 37). Three observable implications identify ideational consolidation (See Appendix B).

Brazil: *Reluctantly Embedding Privatisation*

The state played an important role in Brazil’s development (Treat

1983; de Almeida 1999). ‘Brazilian capitalism can be defined as state capitalism’ (Goldstein 1999, 675). However, this changed with the beginning of state retrenchment due to the adverse economic conditions facing the Geisel administration in 1974, particularly the prospect of a deceleration of economic growth and harsh policies for adjusting to the increase in oil prices and the international recession (Pinheiro and Giambiagi 1999, 7). Privatisation was tentatively adopted by Brazil’s first civilian President of the *Nova República*, José Sarney (1985-1990), as an extension of his *Cruzado Plan* in 1986, accelerated and placed within a legal framework under Fernando Collor (1990-1992) through the *Programa Nacional de Desestatização* (The National Program of Destatisation: PND), as part of the Collor stabilization plan, reluctantly maintained under Itamar Franco (1992-1994) and finally institutionalized by Fernando Cardoso (1994-2002). By the end of Cardoso’s second term Brazil had divested 210 public enterprises, generating US\$100 billion, and privatisation had become institutionalized as a policy instrument.²⁸⁾

Brazil: *Different Policy Ideas*

By the election of 2002, discontent with the market model was widespread (as a result of the *Real Crisis* and persistent indigence), and privatisation was perceived as a central tenet of the model (Bulmer-Thompson 1999). Luiz Inácio Lula da Silva and the *Partido dos*

28) For detailed analyses of the evolution of Brazilian privatisation policy see for example, Licínio Velasco Junior(2006), “Congresso e política de reforma do estado no Brasil,” *Dados; Revista de Ciências Sociais*, Vol. 49, No. 2; L. Velasco(1997), “A economia política das políticas públicas: as privatizações e a reforma do estado,” *BNDES, Textos para Discussão*, Vol. 55; Armando Castelar Pinheiro(2000), “The Brazilian Privatisation Experience: What’s Next?,” *BNDES, Textos para Discussão*, Vol. 87; Armando Castelar Pinheiro and Kiichiro Fukasaku(eds.)(1999), *Privatisation in Brazil: The Case of Public Utilities*, Rio de Janeiro: Ensaio BNDES.

Trabalhadores (PT) contested the 2002 election attacking the market-friendly policies of Cardoso, and in particular privatisation. In a letter to *Folha de São Paulo*, Lula threatened to review all privatisations in the electricity sector,²⁹⁾ before claiming, if elected, he would renationalize electricity companies.³⁰⁾ The PT's program for government, *Concepção e Diretrizes do Programa de Governo do PT para o Brasil*, although more moderate than previously,³¹⁾ was critical of Cardoso's policies. The document, entitled '*A Ruptura Necessária*' emphasized government intervention and poverty reduction.³²⁾ The program explicitly stated 'privatisation will be halted, and existing privatisations will be audited.'³³⁾ The opinion of the electorate echoed these sentiments, with the public's support for privatisation falling from 51 in 1998 to 33 percent in 2002.³⁴⁾

Following market jitters concerning a return to statist policies Lula announced he would not reverse capitalist reforms, but would make them fairer. These fears were due to the meltdown of the Argentine economy, a poor credit rating for Brazil, and the possibility it might default.³⁵⁾ Investor anxiousness sent the value of the *real* tumbling to its sharpest decline since 1999.³⁶⁾ In response, the PT released an edited

29) *Folha de São Paulo*, 4 September, 2001.

30) *AFX European Focus*, 4 September, 2001.

31) This document was even a departure from initial policy positions in the 2002 election. An earlier document, the *Carta de Recife* (Letter from Recife), articulated even more radical positions.

32) Partido dos Trabalhadores(2002), *Concepção e Diretrizes do Programa de Governo do PT para o Brasil*, São Paulo.

33) *ibid.*, parágrafo 57.

34) Latinobarómetro(2003), *Informe Resumen: la democracia y la economía* – available at <http://www.latinobarometro.org/fileadmin/documentos/prensa/Espanol/2003.pdf>

35) *Time Magazine*, 19 August, 2002.

36) *ibid.*, 2 December, 2002.

Programa de Governo do PT.³⁷⁾ Just before the election, to assuage investor confidence, Lula produced the *Carta ao Povo Brasileiro* (Letter to the People of Brazil), stating that he was not going to implement the leftist ideology of the PT if elected (Flynn 2005, 1246). It suggested he would seek to ensure economic stability, did not criticize free market policies,³⁸⁾ and said that the PT would engage in dialogue with a diverse range of actors.³⁹⁾

As radical as Lula had portrayed himself, he recognised his party's impact upon the market. 'Economic autarchy [was] not an option for an export-driven economic powerhouse'.⁴⁰⁾ There was recognition, in the toning down of Lula's policies, that any program that might result in default would make it extremely difficult for him to pursue the social policies he wanted.⁴¹⁾ This was in contrast to his calling for Brazil to default on its debts when he first ran for election in 1989.⁴²⁾ In the run up to the 2002 election Lula was aware of the fiscal and economic realities, and consequently moderated his rhetoric.⁴³⁾

Ideational contestation occurred, but Lula did not act as a political entrepreneur and did not present an alternative policy to state divestiture. Recognition of economic realities forced Lula to moderate his position. The international financial markets were betting Brazil might go the way of Argentina - J.P. Morgan gave a 45 percent chance of default.⁴⁴⁾ The renationalisation of firms would scare domestic and foreign investor (Weyland 2004, 144). But, Lula's acceptance of the need to pursue

37) *Gazeta Mercantil*, 21 June, 2002.

38) Partido dos Trabalhadores(2002), *Carta ao Povo Brasileiro*, São Paulo.

39) *ibid.*

40) *Time Magazine*, 4 October, 2002.

41) *ibid.*

42) *ibid.*

43) *The Washington Times*, 24 November, 2002, p. 2.

44) *The Washington Post*, 6 November, 2002, p. 1.

disciplined economic policies gained him the support of previously wary investors.⁴⁵⁾ By the end of the campaign, in his efforts to ‘reassure foreign investors and financial markets that he [was] not a reckless Marxist firebrand’⁴⁶⁾ Lula no longer promoted nationalisation. He instead called for an end to outright privatisation (unremarkable, considering there was little left to sell), and made commitments to increase state involvement in some sectors. From a position of radicalism, Lula had come to recognise the need for growth within the context of the extant regime to achieve his social agenda.⁴⁷⁾ No alternative was presented to privatisation, thus new ideational consolidation did not occur.

Argentina: *Embedding Privatisation - Sell, Sell, Sell*

The growth of state enterprises in Argentina was the product of different opportunistic political initiatives, rather than a coherent strategy, a process that began in the Perón era, when a pro-industry coalition between the nationalistic military and the working class supplied the impetus for nationalization (di Tella 1986). Despite incidental privatisations in the 1960s, it was not until the return of the military in 1976, and the appointment of José Martínez de Hoz as Minister of the Economy, that privatisation was viewed as part of a new drive towards liberalization (Müller 2000). Raul Alfonsín (1983-1989), Argentina’s first civilian President after military rule, attempted to invigorate the process of privatisation with the creation of the *Directorio de Empresas Públicas* (DEP). But, it was not until the election of Carlos Menem (1989-1999), and the Public Sector Reform Law coupled with the Economic Emergency Law, granting the executive significant power to legislate independently, that privatisation

45) *ibid.*

46) *The New York Times*, 30 October, 2002, p. 26.

47) *The Washington Post*, 6 November, 2002, p. 1.

became core to liberalizing reforms. By the end of Menem's second term he had privatised 90 percent of federal companies.⁴⁸⁾

Argentina: Nationalisation Anyone?

By the 2003 elections there was widespread discontent with neoliberalism. Néstor Kirchner, presidential candidate, of the *Frente para la Victoria* (FpV) wing of the The Péronist *Partido Justicialista* (PJ) attacked the pro-market policies of former president, and election rival, Carlos Menem. Kirchner claimed 'people cannot bear any more austerity. They have sold everything'.⁴⁹⁾ Privatisation was an essential component of Menem's policies and Kirchner set himself against this. Kirchner's uncompromising stance against privatisation came from his efforts to differentiate himself from Menem.⁵⁰⁾ That he and Menem were members of the ruling Peronist Party (Menem its nominal leader) exacerbated this effort.⁵¹⁾

Kirchner called for an end to all future privatisations, particularly utilities,⁵²⁾ and argued that 'there is a need to recuperate the instruments

48) For detailed analyzes of the Argentine privatization process see Pablo Gerchunoff et al.(2003), "Comienzos diversos, distintas trayectorias y final abierto: más de una década de privatizaciones en Argentina, 1990-2002," *Instituto Latinoamericano y del caribe de Planificación Económica y Social, Gestión Pública*, Vol. 34, April; Daniel Azpiazu and Martín Schorr(2001), *Privatizaciones, rentas de privilegio, subordinación estatal y acumulación del capital en la argentina contemporánea*, Buenos Aires: Instituto de Estudios y Formación; Mariana Llanos(1998), "El presidente, el congreso y la política de privatizaciones en la Argentina, 1989-1997," *Desarrollo Económico*, Vol. 38, No. 151, October/November, pp. 743-770; Javier Corrales(1998), "Coalitions and Corporate Choices in Argentina, 1976-1994: the recent private sector support for privatization," *Studies in Comparative International Development*, Vol. 32, No. 4, Winter, pp. 24-52.

49) *The Buenos Aires Herald*, 21 February, 2003.

50) *The New York Times*, 12 May, 2003, p. 6.

51) *The Washington Post*, 28 April, 2003, p. 17.

of the state, the essential macroeconomic tools for driving Argentina. It is not a question of nationalising everything, but regaining strategic control'.⁵³⁾ Kirchner indicated 'he would recover the railways, the petrol rents and the commercial airlines',⁵⁴⁾ while stating that if elected he would 'analyse the [privatisation] contracts'.⁵⁵⁾ Kirchner was critical of the privatisation of state-oil company, YPF, under Menem, and called for greater state-involvement in the energy sector.⁵⁶⁾ He was particularly critical of the "sweet deal" privatisations that benefited Spanish and French utility companies.⁵⁷⁾

Kirchner's *Plan de Gobierno* and the FpV's *Plataforma Electoral* accused Menem of engendering the 2001 economic crisis by 'dismantling the national productive sector', and 'selling the national patrimony'.⁵⁸⁾ The *Plan de Gobierno* promised to construct a 'national capitalism', and it proposed to halt all privatisations, 'to recover the wealth for the Argentine people'.⁵⁹⁾ It advocated a renegotiation of all privatised utility contracts, so the 'state would have control over these macroeconomic instruments' to direct the efficient usage of these services.⁶⁰⁾ It proposed greater state involvement in rail and commercial airline industries, the recovery of the 'golden share' in the state oil company and the creation of a new hydrocarbon law to regulate the petroleum industry, while rejecting the privatisation of any of the remaining state banks.⁶¹⁾ Kirchner

52) *Latin America Regional Reports: Southern Cone*, 15 April, 2003.

53) *El País*, 29 September, 2002.

54) *ibid.*, 6 February, 2003.

55) *The Buenos Aires Herald*, 1 April, 2003.

56) *El País*, 10 February, 2003.

57) *The Miami Herald*, 18 May, 2003, p. 6.

58) Frente para la Victoria(2003), *Plataforma electoral, frente para la Victoria: declaración de principios*, Buenos Aires.

59) Frente para la Victoria(2003), *Plan de gobierno: capítulo estado*, Buenos Aires.

60) *ibid.*

wanted companies that reaped profits in the 1990s to fulfil contracts they had come to regard as burdensome.⁶²⁾

Kirchner's pro-statist/anti-privatisation stance was supported by the public. When private utility companies sought to increase tariffs Kirchner opposed this.⁶³⁾ By 2003, only 15 percent of Argentines were satisfied with the market economy, while support for privatisation was 12 percent.⁶⁴⁾ Trade unions and civil society groups organised demonstrations against public utility tariffs, and planned privatisations of national banks.⁶⁵⁾ Even conservative newspaper *El País* criticised privatisation,⁶⁶⁾ while former Brazilian President Cardoso, who oversaw the privatisation of many Brazilian enterprises, claimed Argentina's crisis was due to excessive liberalisation, including excessive privatisations.⁶⁷⁾ With agents agreed on the inadequacy of extant policy, ideational contestation and collapse occurred.

An alternative to privatisation emerged. The new idea involved halting privatisation and the re-nationalisation of companies considered essential for the public good. Kirchner adopted this stance as Argentina's default freed him from worrying about what international investors would make of his decisions - in contrast to Lula who had to adopt a softer approach in his efforts to avoid default. Thus, Kirchner's agenda was not framed within the context of the same financial regime/constraints as Lula's. As *The Washington Post* pointed

61) *ibid.*

62) *The New York Times*, 1 December, 2003, p. 17.

63) *ibid.*

64) Latinobarómetro(2003), *Informe resumen: la democracia y la economía* – available at <http://www.latinobarometro.org/fileadmin/documentos/prensa/Espanol/2003.pdf>

65) *The Buenos Aires Herald*, "Nation at a Glance," 8 February, 2003.

66) *El País*, "La errónea privatización del Estado," 4 April, 2003.

67) *Agência Brazil*, "Radiobrás," 22 April, 2004.

out, the worst had happened in Argentina, and this differentiated Kirchner, and his approach to privatisation, from Lula.⁶⁸⁾ Once these alternative ideas had been consolidated, Kirchner was, with his election victory in 2003, charged with utilising them to supplant privatisation.

<Table 2> The Identification of Ideational Change

The Observable Implications	Argentina	Brazil
	1999-2002	1998-2000
Ideational Collapse		
O1. Media questioning efficacy of current model and/or specific policy areas.	X	
O2. Opposition parties critique current model and propose alternative ideas - at elections their platform are built around these alternative ideas.	X	X
O3. Civil society organisations critique the current model, reflecting Hall's coalition-centred approach.	X	X
O4. Widespread public dissatisfaction with current paradigm, observable through opinion polls, protests etc.	X	X
O5. External or international organisations critique current model or, actively disseminate alternative economic ideas.	X	
	Y	Y
New Ideational Consolidation		
O6. A clear set of alternative ideas are evident	X	
O7. A clear change agent (political entrepreneur) to inject these new ideas into policy arena is evident	X	X
O8. Political Entrepreneur combines a mixture of interests to produce consensus around a replacement paradigm	X	
Adoption of New Idea	Y	N

68) *The Washington Post*, 23 July, 2003.

In Table 2 all observable implications for Argentina were satisfied, confirming ideational contestation and collapse, and subsequent new ideational consolidation. Kirchner, as a political entrepreneur, advocated re-nationalisation as an alternative to privatisation. Around this policy actors converged. In Brazil, although privatisation was challenged, no alternative was presented. Lula's position on re-nationalisation mellowed as he recognised that turning his back on international finance would make it impossible for him to implement his social policies. Fear of default impelled him to favour stability and growth in the extant economic context.

The next section examines the cases to determine if radical changes in privatisation policy followed. With the results so far, our framework leads us to anticipate radical policy change in Argentina, but not Brazil. This is based on Argentina experiencing an economic crisis, and ideational change, while Brazil did not display ideational change.

IV.3. Identification of Change in Government Economic Policy

The final issue is discovering if there were radical changes in the governments' privatisation policies. The observables are based upon Hall's (1993) concept of first, second and third order change. Hall (1993, 291) argued that policy failures, and exogenous shocks, set off processes that lead to ideational change, to the extent of resulting in a re-examination of the belief systems through which policy has been generated - a paradigmatic (third order) change. As we are dealing with the concept of a critical juncture we must assume change is swift.

- 01.** Did privatisation policy instrument settings change swiftly?
- 02.** Did the instruments of privatisation policy change swiftly?
- 03.** Did the hierarchy of goals behind privatisation policy change swiftly?

Brazil

Lula assumed office on 1 January 2003, but privatisations did not cease. That he appointed Antonio Palocci, who had privatised local utilities in 1990s, as finance minister was a signal of his intentions.⁶⁹⁾ Government policy was to keep a tight grip on the money supply and implement spending cuts.⁷⁰⁾ Lula, through *medida provisória* (provisional decree) 144/03, managed to ensure the state electricity company, *Eletrobras*, and its subsidiaries *Eletronorte*, *Chesf*, *Furnas* and *Eletrosul* would be exempt from the *Programa Nacional de Desestatização* (The National Program of Destatisation: PND), created under Collor.⁷¹⁾ During this period, when Lula was attempting to gain greater control in the electricity sector, AES, the US firm which bought *Eletropaulo*, one of Brazil's main electricity generators, announced it would be unable to repay an US\$85 million instalment of a US\$1.2 billion loan from BNDES, the Brazilian development bank.⁷²⁾ Amid rumours of re-nationalization, the government and BNDES reached a debt for equity deal.⁷³⁾ José Dirceu, PT Chief of Staff, and a member of Lula's inner circle, stated that privatisation was over, although the government would not re-nationalise companies.⁷⁴⁾

There was surprise in November 2003, when the privatisations of state and federal banks, which Lula had opposed while waiting to assume office, proceeded.⁷⁵⁾ On 10 February, 2004, *Bradesco*, Brazil's

69) *Time Magazine*, 2 March, 2003.

70) *New York Times*, 10 April, 2003, P. 10.

71) *Latin America News Digest*, 30 January, 2004.

72) *Latin America Regional Reports: Brazil*, 18 March, 2003.

73) In return for writing off US\$600 million of the debt, BNDES received 49.9 percent of a new company owning AES's interests in *Eletropaulo*, as well as generators *Uruguaiana* and *Tiete*. See *Business News Americas*, 9 September, 2003.

74) *World Markets Analysis*, 16 June, 2003

75) *Gazeta Mercantil*, 10 November, 2003.

largest private bank, bought the *Banco do Estado de Maranhão* (BEM).⁷⁶ Despite opposition from labour unions, members of the opposition, and sections of the PT, the National Monetary Council announced its intention to continue privatising the *Banco Estado do Cera* (BEC), *Banco do Estado de Santa Catarina* (BESC), and *Banco do Estado do Piauí* (BEP).⁷⁷ Shortly afterwards, *Bradesco* purchased BEC,⁷⁸ while the Central Bank announced the limit on foreign capital in the federal monolith *Banco do Brasil*, was being lifted from 5.6 to 12.5 percent in preparation for privatisation.⁷⁹ In December 2004 Lula approved the Public Private Partnership Bill (PPP), wherein wholesale privatisation of state-enterprises would cease. Instead, private firms would invest in state-owned-enterprises, which would remain in state hands. This came on the back of *Plano Plurianual*, an investment strategy requiring 191 billion *reais* (US\$65.7 billion) for priority infrastructure.⁸⁰

Meanwhile, the PND continued to operate with the National Privatisation Council (CND) privatising the state's interest in five firms: *Liasa*, *Celpe*, *Enersul*, *Celpe* and *BeP*.⁸¹ By 2005, the CND and ANEEL, the electricity regulatory agency established under Cardoso, had privatised 37 electricity facilities throughout Brazil.⁸² The privatization of electric facilities, and the right of ANEEL to offer these concessions, had been included in the PND under Decree 4,023 of November 2001, and Decree 4,426 of October 2002.⁸³

76) *Noticias Financieras*, 13 February, 2004.

77) *O Globo*, 28 September, 2005.

78) *Valor Econômico*, 25 December, 2005.

79) *Global Insight*, 2 June, 2006.

80) Morrison & Foerster *LLP*, 26 April, 2006.

81) BNDES, *Programa Nacional de Desestatização: Relatório de Atividades 2003 (National Privatization Programme: Summary of Activities, 2003)*, Rio de Janeiro: BNDES, p. 10.

82) *Valor Econômico*, 19 February, 2004; *Gazeta Mercantil*, 7 May, 2004.

83) BNDES, *Programa Nacional de Desestatização: Relatório de Atividades*

In early 2005 Finance Minister Palocci, told the *Financial Times*, that the government planned to submit a bill to end state monopoly in the reinsurance industry and allow for privatisation of the *Instituto de Reseguros do Brasil* (IRB).⁸⁴⁾ This was followed by the announcement in February that São Paulo state, controlled by Geraldo Alckmin and the *Partido da Social Democracia Brasileira* (PSDB), were planning to privatise one of their largest electricity companies, *Companhia de Transmissão de Energia Elétrica Paulista* (CTEEP).⁸⁵⁾ In June 2005, eight federal railways were auctioned, while lines on the Rio metro system were sold for US\$408 million.⁸⁶⁾ The CND approved the model for the sale of nearly 3,000 kilometers of federal highways, with the privatisation process beginning in April 2006.⁸⁷⁾

By the end of Lula's term privatisation policy had altered somewhat. Although privatisations had not ceased they had slowed. Furthermore, there appeared to be a move from full-scale privatisations to public/private partnerships. In terms of previous policy under Cardoso, the instrument settings had changed, but the instruments themselves, and the hierarchy of goals, remain the same - a first order change in privatisation policy.

Argentina

Once in office, Kirchner appeared intent on dis-embedding privatisation policy. The main problem was that in the wake of the crisis privatised firms 'discontinued their investment plans and provided services only to established clients, awaiting a restoration of their previous profit levels' (Baer and Montes-Rojas 2008, 334). This led to widespread public dissatisfaction with falling levels of service. On 4 July, 2003, Kirchner

2003, p. 11.

84) *The Financial Times*, 27 January, 2005.

85) *Valor Econômico*, 4 February, 2005.

86) *O Estado de São Paulo*, 19 November, 2004.

87) *Agência Radiobrás*, 1 April, 2006.

issued decree 311/03, establishing *Unidad de Renegociación y Análisis de Contratos de Servicios Públicos* (UniRen),⁸⁸⁾ with a mandate to analyze and possibly renegotiate 61 utility concessions privatised in the 1990s.⁸⁹⁾ Kirchner appointed Daniel Azpiazu, who had produced a number of reports attacking privatisation for engendering the social inequity⁹⁰⁾, as an advisor to this commission. In October, Kirchner accused privatised utility companies of failing to invest in services they had purchased, and announced ‘from now on they [privatised utility firms] are going to have to fulfil their obligations’.⁹¹⁾ At the end of November, Kirchner issued a decree rescinding the contract of *Grupo Macri*⁹²⁾ to run the national postal service *Correo Argentino*.⁹³⁾ Within three months, the government announced it was considering nationalising the post.⁹⁴⁾

In January 2004 he cancelled the US\$500 million concession of the French defence firm, Thales Spectrum, to operate the Argentine radio-electric spectrum,⁹⁵⁾ claiming that its control was ‘an integral function of the state’.⁹⁶⁾ In May, Kirchner, as part of a new energy plan, established a state-owned energy company, *Empresa Nacional de Energía* (Enarsa)⁹⁷⁾ that would be in competition with the former Argentine oil company YPF, sold to the Spanish firm Repsol during Menem’s presidency.⁹⁸⁾

88) *Clarín*, 4 July, 2003.

89) *Ibid.*

90) See Azpiazu and Schorr 2001; Azpiazu and Basualdo 2004; *Clarín* 12 July, 2003.

91) *World Markets Analysis*, 22 October, 2003.

92) The owner of Grupo Macri was Francisco Macri, who interestingly, lost the mayoral elections against the Kirchner backed candidate in Buenos Aires during the summer. See *Noticias Financieras*, 21 November, 2003.

93) *Noticias Financieras*, 21 November, 2003.

94) *World Markets Analysis*, 9 February, 2004.

95) *La Nación*, 26 January, 2004.

96) *Ibid.*, 27 January, 2006.

97) *Clarín*, 30 April, 2004.

After repeated warnings to rail operators to improve service,⁹⁹⁾ Kirchner signed decree 798/04 in June, rescinding the contract of *Metropolitano* to operate the San Martín rail line.¹⁰⁰⁾ Shortly afterwards, the Argentine Communications Secretariat announced it was revoking the satellite licence of *Nahuelsat S.A.*, and a new state enterprise, *Empresa Nacional de Soluciones Satelitales* (Arsat S.A.), assumed control.¹⁰¹⁾ Kirchner's aggressive actions proved popular with the electorate. A poll conducted shortly after Kirchner called for a boycott of all Shell petrol stations for increasing prices, indicated 78 percent of Argentines believed foreign-owned utilities should be nationalised.¹⁰²⁾

In March 2006, riding a wave of popular support, Kirchner cancelled the contract of water firm *Agua Argentinas*, renationalising the service.¹⁰³⁾ This was followed by a bill proposing reform and partial re-nationalisation of the pension system. The new law proposed to allow all 12 million affiliates of private pension funds 180 days to switch to the public system.¹⁰⁴⁾

Kirchner then announced the re-nationalisation of the shipyard *Tandanor*, privatised in 1991 under Menem,¹⁰⁵⁾ and the nationalisation of the Buenos Aires' *Hospital Francés*, after the charity running it went bankrupt.¹⁰⁶⁾ He revoked the rail concessions for *Metropolitano General Roca SA.* and *Metropolitano Belgrano Sur*.¹⁰⁷⁾ Both the

98) *Ibid.*, 9 May, 2004.

99) *La Nación*, 13 May, 2004.

100) *Clarín*, 24 June, 2004.

101) *El Cronista*, 27 August, 2004.

102) *World Markets Analysis*, 19 April, 2005.

103) *Clarín*, 22 March, 2006.

104) *Business News Americas*, 2 February, 2007.

105) *La Nación*, 2 April, 2007.

106) *Global Insight*, 24 April, 2007.

107) *El Cronista*, 23 May, 2007.

Belgrano and *General Roca* lines were given to state-run *Unidad de Gestión Operativa Ferroviaria de Emergencia* (UGOFE).¹⁰⁸⁾

By the end of Kirchner’s administration there had been a reversal of policy with the ending of outright privatisations, and the re-nationalisation of utilities when their private owners failed to provide adequate service. The instrument settings, the instruments themselves, and the hierarchy of goals behind privatisation policy, embedded in Argentina under Menem, had changed - a third order change.¹⁰⁹⁾

<Table 3> The Identification of Change in Government Economic Policy

The Observable Implications	Argentina	Brazil
	1999-2002	1998-2000
O1. If privatisation policy instrument settings changed there may have been a radical change in privatisation policy.	X	X
O2. If the instruments of privatisation policy changed there may have been radical change in privatisation policy.	X	
O3. If the hierarchy of goals behind privatisation policy changed there may have been a radical change in privatisation policy.	X	
Radical Change in Privatisation Policy	X	

Although there was economic crisis in Brazil, there was no ideational or radical policy change. Devaluation of the *real* and ensuing economic difficulties, led to a first-order change in privatisation policy - there was no critical juncture.

108) *Latin News Daily*, 23 May, 2007.

109) In fact, Kirchner’s economic model is such a departure from the market-friendly policies of the nineties that other authors have also suggested it represents a new, post-neoliberal economic strategy. See for example Grugel and Pia Riggirozzi(2007), “The Return of the State in Argentina,” *International Affairs*, Vol. 83, No. 1, January, pp. 87-107, who have called this economic strategy *neodesarrollismo*.

In Argentina, in 2001, we identified economic crisis and ideational change. According to the framework, ideational change is the differentiating factor between crises that lead to paradigmatic policy change, and those that do not. At the end of the previous section, our framework led us to anticipate a third order change in Argentine privatisation policy, identified in Table 3 - thus constituting a critical juncture in privatisation policy.

V. Conclusion

This paper examined changes in privatisation policy during economic upheavals in Brazil (1999) and Argentina (2001), using Hogan and Doyle's (2007; 2008) critical juncture framework. According to this framework, the deterioration of the Brazilian economy in 1999 was an economic crisis, but although ideational collapse and contestation occurred, change agents, lacking the influence of a political entrepreneur willing to champion an alternative idea, failed to consolidate around an alternative, and as a result extant ideas endured. Consequently, President Lula can be seen as belonging to the more moderate reformist left, and in the absence of ideational change there was only a first order change to privatisation policy - reform in place of revolution.

Economic malaise in Argentina in 2001 constituted an economic crisis. Ideational collapse followed, and alternative ideas were proposed to replace privatisation policy by a determined political entrepreneur (Kirchner). Ideational collapse and the consolidation of a new idea by change agents led by Kirchner, frequently accused of old style populism (Castañeda 2006; Panizza 2005), led to a paradigmatic change in privatisation policy - renationalisation. The 2001 economic crisis resulted in ideational change, followed by a third order change in policy, which, according to the

framework, constitutes a critical juncture.

During a crisis, established policies, and the protection afforded by their underpinning ideas, having been questioned by previous failures, are liable to be overcome by political entrepreneur led change agents consolidating around new ideas - Argentina. In the absence of ideational change, the level of policy change, in response to a crisis, can be of the first or second-order, but not the third - Brazil. Without ideational change the hierarchy of goals underpinning policy will remain unaltered.

Appendix A

Economic Crisis Observable Implications

Quantitative

- O1.** If annual GDP growth (Pei and Adesnik 2000); GDP growth per capita; and GDP growth averaged over 5 years were stagnant or negative, then the economy may have been in crisis.
- O2.** If GNI per capita ppp growth was stagnant or negative, then the economy may have been in crisis.
- O3.** If more than 50 percent of the population were below the poverty line, then the economy may have been in crisis.
- O4.** If total debt as a percentage of GNI was above 100 percent, then the economy may have been in crisis.
- O5.** If debt services exceed 100 percent of exports, then the economy may have been in crisis.
- O6.** If the importation of goods and services; and the level of trade openness declined, then the economy may have been in crisis.
- O7.** If FDI inflows, and FDI inward stock declined, then the economy may have been in crisis.
- O8.** If gross capital formation as a percentage of GDP declined, then economy may have been in crisis.
- O9.** If the annual inflation rate was above 15 percent (Pei and Adesnik 2000), then the economy may have been in crisis.
- O10.** If the annual interest rate was above 15 percent, then the economy may have been in crisis.
- O11.** If the annual unemployment rate was above 15 percent, then the economy may have been in crisis.
- O12.** If the country's credit rating, as measured by independent agencies (S&P, Moody, Fitch) declined, then the economy may have been in crisis.

Qualitative

- O13.** If corruption and government effectiveness are perceived to

be problems, then the economy may have been in crisis.

- O14.** If opinion polls regarded the economic in crisis, then the economy may have been in crisis.
- O15.** If the national media regarded the economy in crisis, then the economy may have been in crisis.
- O16.** If economic and political commentators regarded the economy in crisis, then the economy may have been in crisis.
- O17.** If the central bank regarded the economy in crisis, the economy may have been in crisis.
- O18.** If both domestic and international organisations (Organisation for Economic Cooperation and Development (OECD)) regarded the economy in crisis, the economy may have been in crisis.
- O19.** If elected representatives regarded the economy in crisis, the economy may have been in crisis.
- O20.** If government pronouncements on the economy were consistent with a crisis management approach, the economy may have been in crisis.

Appendix B

Idea Generation Observable Implications

Economic Context

- O1.** The media questions the efficacy of the current model and/or specific policy areas.
- O2.** Opposition political parties critique the current model and propose alternative ideas – at election time their platform will be built around these alternatives.
- O3.** Civil society organizations, e.g. labour unions, employer organizations, consumer groups etc. critique the current model, reflecting Hall's (1989, 12) coalition-centred approach.
- O4.** Widespread public dissatisfaction with the current paradigm,

observable through opinion polls, protests etc.

- O5. External or international organizations critique the current model and/or actively disseminate alternative ideas.

New Ideational Consolidation

- O6. A clear set of alternative ideas, developed by policy entrepreneurs, are evident.
- O7. A clear change agent (political entrepreneur) injecting new ideas into the policy arena is evident.
- O8. The Political Entrepreneur combines a mixture of interests to produce consensus around a replacement paradigm

■ Abstract ■

This paper utilised and builds upon the critical junctures framework developed by Hogan and Doyle (2007; 2008). That framework consists of three separate elements that must be identified in sequence in order for the researcher to be able to declare, with some degree of certainty, if an event constitutes a critical juncture. These three elements are crisis, ideational change, and radical policy change. The framework set out here constitutes an even more rigorous approach to clearly identifying crisis, and ideational and radical policy changes. As Thelen (2003, 234) argues that few tools exist in political science to enable us make sense of institutional/policy change, a framework such as this should be of significant value. The framework is employed here in examining the economic debacles in Brazil in 1999 and in Argentina in 2001, to determine if there were critical junctures in their privatisation policies at the start of the 21st century. Privatisation policy is examined as it constitutes a core tenet of conservative economic restructuring. A significant change in privatisation policy may be indicative of wider changes in macro-economic policy. Prior to the existence of this framework we would have had to wait for decades pass before we would be able to determine if a critical juncture had taken place.

Key Words: Privatization Policy, Critical Juncture, Policy Change,
Macroeconomic Policy, Political Entrepreneurs / 민영화 정책, 결정적
국면(Critical Juncture), 정책전환, 거시경제정책, 기업가형 정치인

논문투고일자: 2010. 03. 14

심사완료일자: 2010. 07. 09

게재확정일자: 2010. 07. 21

■ 참고문헌 ■

- Baer, W. and G. Montes-Rojas(2008), "From Privatization to Re-nationalization: What went Wrong with Privatizations in Argentina?," *Oxford Development Studies*, Vol. 36, No. 3, pp. 323-337.
- Berman, S.(1998), *The Social Democratic Moment: Ideas and Politics in the Making of Interwar Europe*, Cambridge MA: Harvard University Press.
- Blyth, M.(2002), *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, Cambridge: Cambridge University Press.
- Bulmer-Thomas, V.(1999), "The Brazilian Devaluation: National Responses and International Consequences," *International Affairs*, Vol. 75, No. 4, pp. 729-741.
- Carranza, M. E.(2004), "Mercosur and the End Game of the FTAA Negotiations: Challenges and Prospects after the Argentine Crisis," *Third World Quarterly*, Vol. 25, No. 2, pp. 319-337.
- Casper, G. and M. M. Taylor(1996), *Negotiating Democracy: Transitions from Authoritarian Rule*, Pittsburgh: University of Pittsburgh Press.
- Castañeda, J. G.(2006), "Latin America's Left Turn," *Foreign Affairs*, Vol. 85, No. 3, pp. 28-43.
- Cattaneo, A.(2001), "Deforestation in the Brazilian Amazon: Comparing the Impacts of Macroeconomic Shocks, Land Tenure, and Technological Change," *Land Economics*, Vol. 77, No. 2, pp. 219-240.
- Cavlo, G. A. and F. S. Mishkin(2003), "The Mirage of Exchange Rate Regimes for Emerging Market Countries," *Journal of Economic Perspectives*, Vol. 17, No. 4, pp. 99-118.
- Collier, R. B. and D. Collier(1991), *Shaping the Political Arena: Critical Junctures, the Labour Movement, and Regime Dynamics in Latin America*, Princeton, NJ: Princeton University Press.
- Dahl, R.(1961), *Who Governs? Democracy and Power in an American City*, New Haven, CT: Yale University Press.
- de Almeida, M. H. T.(1999), "Negociando a reforma: a privatização de empresas públicas no Brasil," *Dados; Revista de Ciências Sociais*, Vol. 42, No. 3, pp. 421-452.
- Desai, P.(2003), *Financial Crisis, Contagion, and Containment: from Asia to Argentina*, Princeton, NJ: Princeton University Press.

- di Tella, G.(1986), *Perón-Perón: 1973-1976*, Buenos Aires: Hyspamérica.
- ECLAC(2005), Social Panorama of Latin America, Available online at http://www.eclac.cl/publicaciones/DesarrolloSocial/8/LCG2288PI/PSI2005_Cap1_Pobreza.pdf
- Eichengreen, B.(2003), "Restructuring Sovereign Debt," *Journal of Economic Perspectives*, Vol. 17, No. 4, pp. 75-98.
- Flynn, P.(2005), "Crisis, Corruption and Change in Political Perspective," *Third World Quarterly*, Vol. 26, No. 8, pp. 1221-1267.
- Frankel, J. A. and A. Rose(1996), "Currency Crashes in Emerging Markets: an Empirical Treatment," *Journal of International Economics*, Vol. 41, No. 2, pp. 351-366.
- Garrett, G.(1993), "The Politics of Structural Change: Swedish Social Democracy & Thatcherism in Comparative Perspective," *Comparative Political Studies*, Vol. 25, No. 4, pp. 521-547.
- Garrett, G. and T. D. Lange(1995), "Internationalization, Institutions, and Political Change," *International Organization*, Vol. 49, No. 4, pp. 627-655.
- Garuba, D. S.(2006), "Survival at the Margins: Economic Crisis and Coping Mechanisms in Rural Nigeria," *Local Environment*, Vol. 11, No. 1, pp. 17-36.
- Goldstein, A.(1999), "Brazilian Privatisation in International Perspective: the Rocky Path from State Capitalism to Regulatory Capitalism," *Industrial and Corporate Change*, Vol. 8, No. 4, pp. 673-711.
- Golob, S.(2003), "Beyond the Policy Frontier: Canada, Mexico, and the Ideological Origins of NAFTA," *World Politics*, Vol. 55, No. 3, pp. 361-398.
- González, S.(2005), "The Politics of the Economic Crisis and Restructuring in the Basque Country and Spain During the 1980s," *Space and Policy*, Vol. 9, No. 2, pp. 93-112.
- Guidotti, P. E.(2006), *Challenges to Fiscal Adjustment in Latin America: the Cases of Argentina, Brazil, Chile, and Mexico*, OECD, Paris.
- Gurter, F. J.(2004), "Why did Argentina's Currency Board Collapse?," *World Economy*, Vol. 27, No. 5, pp. 679-697.
- Haggard, S.(1988), "The Institutional Foundations of Hegemony: Explaining the Reciprocal Trade Agreements Act of 1934," *International Organization*, Vol. 42, No. 1, pp. 91-119.
- Hall, P. A.(1993), "Policy Paradigms, Social Learning, and the State: the Case of Economic Policy Making in Britain," *Comparative Politics*, Vol. 25,

- No. 3, pp. 275-296.
- Heymann, D.(2001), *Regional Interdependencies and Macroeconomic Crisis Notes on Mercosur*, Buenos Aires: United Nations.
- Hogan, J. W.(2006), "Remoulding the Critical Junctures Approach," *Canadian Journal of Political Science*, Vol. 39, No. 3, pp. 657-679.
- Hogan, J. W. and D. Doyle(2007), "The Importance of Ideas: an A Priori Critical Juncture Framework," *Canadian Journal of Political Science*, Vol. 40, No. 4, pp. 883-910.
- _____ (2008), "Macroeconomic Policy Change: Ireland in Comparative Perspective," *Irish Political Studies*, Vol. 23, No. 1, pp. 77-97.
- Kaminsky, G. L., S. Lizondo, and C. Reinhart(1998), "Leading Indicators of Currency Crises," *International Monetary Fund Staff Papers*, No. 45, pp. 1-48.
- Kaminsky, G. L., C. M. Reinhart, and C. A. Végh(2003), "The Unholy Trinity of Financial Contagion," *Journal of Economic Perspectives*, Vol. 17, No. 4, pp. 51-74.
- Kingdon, J.(1995), *Agendas, Alternatives, and Public Policy*, 2nd ed., New York: Harper.
- Kwon, S.(2001), "Economic Crisis and Social Policy Reform in Korea," *International Journal of Social Welfare*, Vol. 10, No. 2, pp. 97-106.
- Legro, J. W.(2000), "The Transformation of Policy Ideas," *American Journal of Political Science*, Vol. 44, No. 3, pp. 419-432.
- Mahoney, J.(2000), "Path Dependence in Historical Sociology," *Theory and Society*, Vol. 29, No. 4, pp. 507-548.
- _____ (2001), "Path Dependent Explanations of Regime Change: Central America in Comparative Perspective," *Studies in Comparative International Development*, Vol. 36, No. 1, pp. 111-141.
- _____ (2003), "Long-Run Development and the Legacy of Colonialism in Spanish America," *American Journal of Sociology*, Vol. 109, No. 1, pp. 50-106.
- McNamara, K. R.(1998), *The Currency of Ideas: Monetary Politics in the European Union*, Ithaca: Cornell University Press.
- Miller, M, J. Fronti, and L. Zhang(2005), "Credit Crunch and Keynesian Contraction: Argentina in Crisis," Centre for Economic Policy Research, No. 4889, pp. 1-37.
- Müller, A.(2000), "Un quiebre olvidado: la política económica de Martínez de

- Hoz,” Paper presented at the annual meeting of the Asociación Argentina de Economía Política, Córdoba.
- Mulrairie, M. L. B.(2005), “An Analysis of the 2002 Argentine Currency Crisis,” Unpublished Research Paper, Department of Economics, University of Toronto.
- Munck, R.(2003), “Neoliberalism, Necessitarianism and Alternatives in Latin America: There Is No Alternative (TINA)?,” *Third World Quarterly*, Vol. 24, No. 3, pp. 495-511.
- Panizza, F.(2005), “Unarmed Utopia Revisited: The Resurgence of Left-of-Centre Politics in Latin America,” *Political Studies*, Vol. 53, No. 4, pp. 716-734.
- Pei, M. and C. A. Adesnik(2000), “Why Recessions Don’t Start Revolutions,” *Foreign Policy*, Vol. 118, pp. 138-151.
- Pierson, P.(1993), “When Effects Become Cause: Policy Feedback and Political Change,” *World Politics*, Vol. 45, No. 4, pp. 595-628.
- _____ (2000), “Increasing Returns, Path Dependency, and the Study of Politics,” *American Political Science Review*, Vol. 94, No. 2, pp. 251-267.
- _____ (2004), *Politics in Time: History, Institutions, and Social Analysis*, Princeton, NJ: Princeton University Press.
- Pinheiro A. C. and F. Giambiagi(1999), “The Macroeconomic Background and Institutional Framework of Brazilian Privatization,” in Armando Castelar Pinheiro and Kiichiro Fukasaku(eds.), *Privatisation in Brazil: the Case of Public Utilities*, Rio de Janeiro: Ensaios BNDES, pp. 5-30.
- Roett, R. and R. Crandall(1999), “The Global Economic Crisis, Contagion, and Institutions: New Realities in Latin America and Asia,” *International Political Science Review*, Vol. 20, No. 3, pp. 271-283.
- Rothkopf, D. J.(1999), “The Disinformation Age,” *Foreign Policy*, Vol. 114, pp. 82-96.
- Saxton, J.(2003), *Argentina’s Economic Crisis: Causes and Cures*, Washington, DC: Joint Economic Committee, United States Congress.
- Sheingate, A. D.(2003), “Political Entrepreneurship, Institutional Change, and American Political Development,” *Studies in American Political Development*, Vol. 17, No. 3, pp. 185-203.
- Solimano, A.(2005), *Political Crises, Social Conflict and Economic Development: the Political Economy of the Andean Region*, Cheltenham: Edward Elgar.
- Summers, L. H.(2000), “International Financial Crises: Causes, Prevention, and Cures,” *The American Economic Review*, Vol. 90, No. 2, pp. 1-16.

- Summers, L. H. and J. Williamson(2001), "An Analysis of Russia's 1998 Meltdown: Fundamentals and Market Signals," *Brookings Papers on Economic Activity*, Vol. 7, No. 1, pp. 51-68.
- Thelen, K.(2003), "How Institutions Evolve: Insights from Comparative Historical Analysis," in James Mahoney and Dietrich Rueschemeyer(eds.), *Comparative Historical Analysis in the Social Sciences*, Cambridge: Cambridge University Press, pp. 208-240.
- Trebat, T. J.(1983), *Brazil's State-Owned Enterprises: a Case Study of the State as Entrepreneur*, Cambridge: Cambridge University Press.
- Weyland, K.(2004), "Neoliberalism and Democracy in Latin America: a Mixed Record," *Latin American Politics and Society*, Vol. 46, No. 1, pp. 135-157.
- Yu, L., K. K. Lai, and S-Y. Wang(2006), "Currency Crisis Forecasting with General Regression Neural Networks," *International Journal of Information Technology and Decision Making*, Vol. 5, No. 3, pp. 437-454.