Abstract

This dissertation seeks to explain variation in macroeconomic management among Latin American governments of the left and of traditional labor-based parties during the commodity boom that lasted from 2003 to 2013. In particular, it aims to explain why a set of governments during this period of loosened external constraints – in a break with the past, some of their peers, and theoretical expectations – exercised consistent macroeconomic restraint.

The dissertation argues that political learning on the basis of inflationary crises in the 1970s and 1980s constitutes an important factor for explaining discipline during the commodity boom. Lessons from such crises instilled a respect for – what during the commodity boom were largely latent – economic constraints. Leaders of left and of traditional labor-based parties who embraced the lessons such processes had yielded therefore opted for disciplined fiscal and monetary policies. The dissertation argues further that political learning was the most likely to take place and be lasting when past crises had occurred in the context of resurgent left or labor-based parties and where individuals with direct experience of past crises had been incorporated into contemporary governments.

Empirically the dissertation focuses on the governments of Evo Morales in Bolivia and Alan Garcia and Ollanta Humala in Peru, which pursued disciplined macroeconomic policies, and the government of Néstor and Cristina Kirchner in Argentina, which relinquished restraint. It is based on 104 elite interviews – including with several Ministers of Finances and close advisors of the relevant presidents – carried out over the course of nearly 8 months of fieldwork in 2015 and 2016 as well as a review of newspaper reporting and a variety of government and party documents.

The dissertation also provides a toolkit for studying the effect of political learning by elites on outcomes. This set of tools centers on three criteria for systematically assessing the descriptive accuracy, relevance as a proximate cause, and independence of political learning. These criteria provide the basis for a transparent and structured empirical strategy for studying political learning and facilitate cross-case comparisons.

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Completing a doctorate is a professional pursuit, but it is one that is difficult to accomplish without the encouragement and understanding of those dearest to you.

My parents have supported my every adventure – even though they wished I stayed closer – while always making clear that I could return home at any time. I am privileged to have them.

Maria and I made our first trip together, to South America, in June and July of 2007. She travelled with me as I commenced my fieldwork for this dissertation in Bolivia in August 2015. I look forward with excitement as our journey continues.
CHAPTER 1: INTRODUCTION

There was a strong sense of what we should not do. The failure of its economic management brought the end of a left government 30 years ago. The inflation was over 2000 percent, there were shortages, and several different exchange rates. It opened the door to two decades of neoliberalism. In Europe the Berlin Wall fell in 1989, here it fell with the UDP. It ended the prospects for left government. It was marked on our bodies and minds what we could not do; we could not repeat the failure of the UDP. The macroeconomic variables that we needed to watch and manage became our ABC; we learned what we could and what we could not touch.

- Álvaro García Linera
  Vice President of Bolivia (2006-)

“Why has a government of the left – one that is often described as populist – guarded the public finances so vigilantly that it is even praised by the IMF for its prudence?” Bolivia’s Vice President Álvaro García Linera listened to my question, reflected for a moment, and then emphatically delivered the response quoted above. It was neither the first nor the last time one of President Evo Morales’s closest men explained the government’s cautious macroeconomic management to me in those terms. A couple of weeks earlier, Walter Chávez, Morales’s campaign manager in every election from 2002 to 2014, had underlined that it was “because of the experience of UDP, which had completely failed to manage the economy”. Similarly, just two days after my interview with the Vice President, Minister of Finance Luis Arce – who had held his position since the first day of the administration – replied to the same question by

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1 Author interview with Álvaro García Linera. It was the answer to the first question of the interview, an open question about why the Morales government had consistently produced fiscal surpluses. UDP or hyperinflation had not been mentioned by me or by the Vice President before this point in the interview.

2 Author interview with Walter Chávez. This was also a response to an open question about why the Morales government had consistently produced fiscal surpluses. UDP or hyperinflation had not been mentioned before this point in the interview.
emphasizing that “between 1982 and 1985 we experienced hyperinflation, during a left
government – of the UDP. It was followed by 20 years of neoliberalism... The President
understands that we cannot spend so we have large deficits and become UDP.”

The notion that leaders learn from past events and that it shapes their choices is
commonplace. It is a staple of journalistic accounts of political decisions and an integral part of
the conventional wisdom regarding matters as diverse as the US intervention in Vietnam and
German management of the recent Euro crisis. By not “appeasing” communist aggression,
President Lyndon Johnson hoped to avoid another “Munich” whereas Chancellor Angela Merkel
– like Evo Morales and his inner circle – was fearful of repeating her country’s hyperinflationary
experience and therefore insisted on austerity. Few observers of Latin American politics and
history can have failed to hear the echo from the past in the frequent claims by leading
politicians about how not just traumatic economic crises but also harrowing experiences of
dictatorship have shaped their beliefs, values, and choices.

Yet, and perhaps to the surprise of laymen, as a causal variable and concept in political
science, learning by leaders is poorly understood and underdeveloped. Part of the reason for this
is theoretical. The past two decades have seen a revival of ideational and constructivist
scholarship (Beland and Cox 2010, 4-8). Researchers have shown how ideologies, identities, and
norms are critical in explaining a range of important political outcomes, as diverse as social
democratic performance in the 1930s, the shift from Keynesian to monetarist economics in the
1980s, and the non-use of nuclear weapons since 1945 (e.g. Berman 2009; Blyth 2005;

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3 Author interview with Luis Arce. This was also a response to an open question about why the Morales government had consistently produced fiscal surpluses. UDP or hyperinflation had not been mentioned before this point in the interview.
6 Bermeo (1992) cites a range of instances in Argentina, Bolivia, Chile, and Venezuela.
Tannenwald 1999). But in spite of such advancements, political science remains dominated by materialist theories, characterized by the assumption that actors’ interests and preferences are easily derivable from their position in the material structure. In these frameworks, beliefs, ideas, and perceptions – which encapsulate the content, or are the products of, learning – have little or no place (Goldstein and Keohane 1993, 4; Mehta 2010, 23-4; Berman 2011, 105). Moreover, while scholars have demonstrated the importance of ideas and beliefs, including ones formed in response to past events, ideational explanations are typically limited to a single case, not generating the kind of generalizable theoretical claims embraced by the discipline.

Part of the reason is also methodological. Learning, like ideas more broadly, is challenging to measure and assess (Goldstein and Keohane 1993, 27; Berman 2011, 106). It is often difficult to even descriptively demonstrate that “more” of an idea is present in one case than another. To determine the causal importance of learning, beliefs, and ideas, and to demonstrate that they are not just instrumental reflections of, or otherwise largely endogenous to, underlying material interests, is of course even harder (Goldstein and Keohane 1993, 3).

This dissertation, which argues that elite learning from past crises is an important variable for understanding variation in macroeconomic policy outcomes among governments of the left and of labor-based parties in Latin America during the recent commodity boom (2003-2013), seeks to amend several of these shortcomings. Drawing on the existing literatures on learning and ideas as well as recent scholarship on qualitative methods and process tracing, it does this in three main ways. First, it conceptualizes political learning, which is the term used throughout the dissertation, in a way so that is compatible with assumptions about interests, strengthening its ability to complement materialist theories. Second, it defines three criteria for systematically assessing the descriptive accuracy, relevance as a proximate cause, and independence of political
learning, providing transparency and structure to the inferential process as well as permitting cross-case comparisons of its causal importance for outcomes. Third, it identifies two factors that make learning likely and lasting, augmenting the ability of learning-centered arguments to travel beyond the single case.

This introduction to the dissertation is divided into five parts. Section 1.1 elaborates on the puzzle around which it revolves: the macroeconomic restraint exhibited by a set of Latin American governments of the left and of labor-based parties – including that of Evo Morales in Bolivia, touched on above – during the recent commodity boom. Section 1.2 lays out the empirical argument, which focuses on the role of political learning on the basis of inflationary economic crises in the 1970s and 1980s, while Section 1.3 introduces the toolkit for studying political learning that the dissertation develops. The final two parts – Sections 1.4 and 1.5, respectively – discuss the research design and provide an overview of the organization of the dissertation.

1.1 Puzzle

The ascension to Venezuela’s presidency of Hugo Chávez in 1999 marked the beginning of a “pink tide” that would sweep Latin America over the course of the following decade and a half. By 2013, 10 of the region’s countries had elected an eclectic set of presidents who promised to change, and in some cases to do away with, the market-oriented model put into place over the course of the 1990s. It included leaders who headed a new generation of populist political movements, campaigning staunchly against “neoliberalism”, as well as ones representing the old Socialist and Communist left and the region’s traditional labor-based parties.  

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7 The dissertation will consistently refer to these as “governments of the left and of traditional labor-based parties”. There are two main reasons for using this rather complicated term rather than the “left” shorthand. First, historically
In their pursuit to adjust or undo the market-oriented model, these governments enjoyed extraordinarily favorable external conditions. In 2003, prices for oil, soybeans, copper, as well as other minerals and agricultural goods, crucial to Latin America’s economies, started a rapid climb; heralding an unprecedented commodity boom. At the same time, the 2008 international financial crisis – from which commodity prices quickly recovered – prompted central banks in the United States and Europe to implement exceptionally loose monetary policies, driving down the cost of borrowing and pushing investors to emerging markets in search of higher returns. Only in 2013, with the end of quantitative easing in the US and a subsequent fall in commodity prices, did Latin America’s “golden decade” of high growth, bulging fiscal revenues, and cheap credit come to an end.

Yet, governments of the left and of traditional labor-based parties varied substantially in the extent to which they made use of the added economic room-for-maneuver between 2003 and 2013. Moreover, as indicated in Graph 1.1, macroeconomic policy variation was particularly pronounced in the countries that were the most dependent on commodity exports and which benefited the most from the boom. In some of these countries, especially Venezuela but also Ecuador and Argentina, governments took full advantage of the loosened constraints to break with the strictures of international financial institutions, pursue aggressively expansionary macroeconomic policies, and go into deficit. That was not the case everywhere, however. In Bolivia, Peru, and Chile governments of the left and of labor-based parties acted with a degree of restraint, producing consistent and large fiscal surpluses. Governments in these three countries
differed from each other in many ways. But they all displayed striking fiscal and monetary discipline. As a consequence, they were consistently praised by the IMF for their prudent macroeconomic management.  

The macroeconomic restraint exhibited by governments of the left and of labor-based parties in Bolivia, Peru, and Chile during the commodity boom is puzzling. Such governments, representatives of the poor and the popular classes and committed to greater state intervention, are typically expected to be particularly likely to make full use of economic room-for-maneuver in the pursuit of growth and redistribution (Cowart 1978; Cusack 1999, 465). In Latin America left and labor-based parties have historically also been the most consistent proponents of “heterodox” economic ideas, which downplay the effect that deficit spending and excess demand might have on inflation; and leaders of left and traditional labor-based parties have been the most frequent instigators of “populist macroeconomic cycles” (Dornbusch and Edwards 1989; 1991; Baer 1967). Moreover, political economy theories that make good sense of the region’s

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8 For instance: IMF Article IV Consultation Report, Bolivia. 2012. International Monetary Fund; IMF Article IV Consultation Report, Peru. 2014. International Monetary Fund; IMF Article IV Consultation Report, Chile. 2009. International Monetary Fund
propensity to engage in such cycles, which highlight the role of inequality and natural resource
dependence, have no leverage on Bolivia’s, Peru’s, and Chile’s prudence. At the same time, the
substantial literature devoted to explaining policy variation within Latin America’s left turn,
which emphasizes factors such as resource wealth, bond-market integration, and party-system
stability, provides at best a partial account of why governments in these countries displayed such
discipline (Weyland 2009; Mazzuca 2013; Flores-Macías 2012).

1.2 Argument

This dissertation argues that political learning on the basis of crises in the 1970s and 1980s is a crucial factor for explaining the relative macroeconomic restraint of several governments of the left and of traditional labor-based parties during the commodity boom. These crises were characterized by high inflation – sometimes reaching hyperinflationary levels – and tended to occur against the backdrop of deep fiscal deficits and large government debt. They marked the starting point of a reform period that spanned the 1990s, during which the state-oriented economic model that had been implemented across virtually the whole of Latin America in the postwar decades, and which the region’s left and labor-based parties were committed to deepening, was replaced by one centering of free markets.

Processes of political learning followed different patterns between and within countries. In some cases – including Peru’s APRA and Chile’s Socialist Party – it produced what more or less amounted to an embrace of market liberalism and, in effect, an abandonment of traditional commitments to a significant expansion of the state’s role in the economy. In other cases – such as among significant sectors of Bolivia’s and Peru’s old Marxist left – leaders remained firmly committed to statist policies, but political learning produced a conviction that economic stability,
sound public finances, and an autonomous economic bureaucracy were a *prerequisite* for such a course. Regardless of whether commitments to greater state intervention were effectively discarded or not, political learning instilled a respect for—what during the commodity boom were largely latent—economic constraints. Leaders of left and traditional labor-based governments who embraced the lessons such processes had yielded therefore opted for disciplined fiscal and monetary policies. Convinced about the importance of maintaining macroeconomic stability, they provided Ministries of Finance\(^9\) with a privileged and protected position and with a mandate to impose restraint.

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**Figure 1.1 Political learning, beliefs, and macroeconomic management**

![Diagram](image)

Where leaders of contemporary governments of the left and of traditional labor-based parties, in contrast, did not embrace lessons from crises in the 1970s and 80s, they lacked a similar respect for latent economic constraints. Therefore they seized the opportunity provided by the commodity boom to realize commitments to greater state intervention to further growth,

\(^9\) The name of Ministries of Finance vary in Latin America (*Hacienda, Ministerio de Economía y Finanzas* etc.), but for sake of simplicity and clarity this dissertation consistently refers to them as the “Ministry of Finance”.

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employment, and redistribution. Moreover, in these cases, instead of tempered by lessons from crises associated with deficit spending and spiraling inflation, these commitments were typically reinforced by crises related to free-market reforms. These crises, which occurred during the late 1990s and the early 2000s, were accompanied by low growth, unemployment, a lack of access to basic public services, and were typically preceded by austerity policies. While these crises often did not change beliefs, they strengthened existing commitments to a greater role for the state and produced a suspicion of the professional orthodox economists who had prescribed reforms.

Virtually all major countries in Latin America experienced crises in the 1970 and 80s. The reasons for why leaders in some countries carried with them into office lessons from these crises is highly contingent and can therefore not be fully reduced to one or a small set of variables. But two factors were important in each case. First, the context of the crisis mattered. Crises made a particularly strong imprint when they took place on the watch of a left or labor-based government, or in the context of the electoral resurgence of such forces, and against the background of a heterodox experiment characterized by the adoption of statist policies. Under such circumstances, the political and programmatic defeats of the left and of labor-based parties in the 1990s were interpreted as the consequence of too aggressive attempts to redistribute or to promote development via the state. Second, linkages back to past crises were important. When the ascent to power of leaders in the 2000s was accompanied by the incorporation of individuals with direct experience of crises in the 1970s and 80s they were more likely to adopt past lessons.

1.3 Theory

As noted earlier, the notion that crises can produce elite learning that may affect important political outcomes is by no means new. While it is most commonly employed in
popular and journalistic accounts, it is not unique to those. In political science, the concept of political learning\(^\text{10}\) has been used to explain US foreign policy decisions with regard to Korea and Vietnam (May 1973) as well as Soviet ones concerning Eastern Europe (Bennett 2005), but also to account for the embrace of liberal democracy by the left in Latin America in the 1980s (Bermeo 1992). Yet, for the reasons touched on at the outset of this chapter, the concept of political learning has rarely been systematically and comparatively explored and key questions for making it analytically useful remain unanswered: When does learning have an impact on political outcomes? Why do crises sometimes but not always generate learning? When does it become lasting? Moreover, while the empirical accounts that appeal to political learning are descriptively rich and persuasively show that individual actors have learned, they frequently rely on research strategies that make it hard to determine whether learning has independent causal power or is primarily instrumental and largely endogenous to underlying interests and incentives (Levy 1994, 282). The works that do pay careful attention to competing materialist explanations do that in an ad-hoc fashion, without providing any general guidelines for how to evaluate the role of political learning systematically and comparing its importance across cases.

This dissertation attempts to answer these theoretical and comparative questions, situate its core empirical argument within the parameters of those answers, and to the extent that is possible sidestep common shortcomings in the research strategy. Building on the relatively limited academic literature that uses the concept of political learning, it argues that explanations that employ the concept are (1) ideational and (2) actor-centered. It follows from this that they attribute independent causal power to ideas and beliefs and have a clear voluntarist touch. This

\(^{10}\) The term used varies. Sometimes it is referred to as “historical learning” (Levy 1994, 280), in other cases as “lesson-drawing”. I use “political learning” – a term introduced by Bermeo (1990) – to emphasize the focus on political elites, essentially political lessons, and political outcomes. The word “learning” also appears in other literatures where the focus is not specifically on elite beliefs and where it thus intends to capture a different concept.
means that such explanations contend that individual actors' beliefs about the consequences of different courses of action help them translate interests into preferences and to choose between policy options. It also means that beliefs could reasonably have been different – and that outcomes would then have been too. A consequence of this is that beliefs in explanations that emphasize political learning are more plastic and more dependent on individual actors than the norms and identities that many constructivist accounts center on, making it possible to separate ideas from interests and integrating learning-centered explanations into materialist models.

On the basis of the existing literatures on learning and ideas as well as recent scholarship on qualitative methods and process tracing, the dissertation then defines three criteria for assessing the importance of political learning for an outcome (Table 1.1). The first criterion serves to evaluate the descriptive accuracy of political learning: i.e. that actors indeed held a set of beliefs grounded in past events and that those motivated their policy choices. Evidence supporting that this criterion is met could be constituted by speech from key actors explaining their beliefs with reference to a past event, or documentation of a belief change in connection to a particular experience, as well as evidence that later choices were motivated by such beliefs.

The second criterion centers on the relevance of learning as a proximate cause. This means that leaders had some room for maneuver – more than one possible option and that learning impelled them to make the choice they made. Preferably leaders should also have faced incentives to act differently than they did, suggesting that they paid short-term costs for acting in accordance with lessons from past events. The third criterion concerns the independence of political learning. This means that leaders were not selected on the basis of learning; they did not have to display learning in order to reach power. In a democratic context evidence would, most crucially, need to
indicate that leaders did not have to signal to voters that they had engaged in political learning in
order to win office.

<table>
<thead>
<tr>
<th>Table 1.1 Criteria for assessing the importance of political learning for an outcome</th>
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<tr>
<td><strong>1. Descriptive accuracy</strong></td>
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<tr>
<td>Do elite actors express coherent beliefs that motivate choices that are linked to a past event?</td>
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<tr>
<td><strong>2. Relevance as proximate cause</strong></td>
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<tr>
<td>Did actors choose freely? Could they reasonably have chosen otherwise?</td>
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<tr>
<td><strong>3. Independence</strong></td>
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<tr>
<td>Could leaders have reached power without learning? Could other leaders who had not learned reasonably have reached power in their stead?</td>
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</table>

The weight of evidence that criteria are met—the weight of evidence that questions should be answered in the affirmative—can be scored as low, medium, or high, with greater weight suggesting a more important role of political learning for an outcome.

On the basis of the existing academic literature on political learning and ideas, the dissertation also identifies two sets of factors that make learning more likely and more probable to be lasting. First, an event or experience is more likely to generate political learning if there is a close association of it with some collective unit, such as a political party, and a particular set of policy choices, which may provide a prescription for what kind of actions should be avoided in the future. Second, once drawn, lessons are more likely to be lasting in the case of elite continuity, meaning that individual actors who originally drew lessons remain in positions of influence.

1.4 Case selection, research strategy, and methods

This dissertation has been motivated by an empirical and theoretical puzzle: What explains the empirical variation in macroeconomic management among Latin American governments of the left and of traditional labor-based parties at a time of loosened external
constraints? In particular, why did a set of them – counter to theoretical expectations – display significant fiscal and monetary discipline? This motivation shaped key methodological decisions. The focus on explaining full outcomes – macroeconomic restraint or not – rather than estimating the average effect of a particular variable made this into a “causes-of-effects” rather than an “effects-of-causes” study (Goertz and Mahoney 2012, 41-2). For such a project, qualitative case-study research is more appropriate than either large-n statistical analysis or experimental approaches. It permits the assessment of necessary and sufficient factors for the outcome and allows for close scrutiny of causal mechanisms that helps identify multifaceted causal relations (Goertz and Mahoney 2012, 42; George and Bennett 2005, 21-2).

The puzzle-centered nature of the project also shaped case selection, which was motivated by theory, an attempt to probe the generalizability of the explanation, and an effort to impose controls. Empirically, this dissertation focuses on Bolivia, Peru, and Argentina. Governments of the left and of traditional labor-based parties in Bolivia and Peru were selected because they behave counter to expectations by theory and are generally under-researched. Evo Morales in Bolivia as well as Alan García and Ollanta Humala in Peru were elected in the context of collapsed party systems, in highly unequal and mineral-rich countries with weak state institutions; Morales and Humala, moreover, are best-characterized as populist outsiders; altogether five factors that are expected to make for populist macroeconomic policies (Flores-Macías 2012; Levitsky and Roberts 2011; Weyland 2009; Mazzuca 2013).

Argentina, where the Peronist government of Néstor and Cristina Kirchner did not exhibit macroeconomic discipline, was included as a negative case. It served as a control to Bolivia and Peru, to confirm that factors used to explain restraint there were not present in the same configuration in Argentina. Most importantly, since Argentina like Bolivia and Peru suffered a
traumatic hyperinflationary crisis in the late 1980s, it was critical to establish whether lessons from that crisis had produced an enduring mark there as well and, once it was established that it had not, why that was the case.

While the dissertation centers on three case studies and makes frequent cross-case comparisons, the *comparative method* does not provide the paper’s primary analytical leverage (Lijphart 1971). This comes, instead, from *within-case process tracing*, which involves careful examination of context, mechanisms, and sequences to adjudicate between competing explanations for an outcome (Collier 2011; Bennett and Checkel 2014, 7). Rigorous process tracing demands that the researcher clearly formulates a wide set of competing explanations. (Bennett and Checkel 2014, 23-4). It also requires the identification of observable implications of these explanations or, in other words, the establishment of what diagnostic evidence would serve to strengthen or weaken their validity (Bennett 2010, 208). Research based on process tracing also frequently makes use of carefully constructed counterfactuals. That is, the importance of a variable, and competing ones, may be examined by considering its taking a plausible different value than it did. If the relevant outcome would likely have been the same, that variable probably has limited explanatory power (Goertz and Mahoney 2012, Ch. 9).

Following these prescriptions, for each case a set of plausible explanations were formulated prior to fieldwork on the basis of the existing literature, for which observable implications were specified. These competing explanations, which are discussed in the dissertation’s empirical chapters, were then evaluated based on evidence collected during a total of nearly 8 months of field research in Bolivia, Peru, and Argentina during 2015 and 2016. The examination of competing explanations, complemented by counterfactual exercises, serves as the
basis for the evaluation of cases on the second and third criteria that were briefly introduced in the preceding section and that will be elaborated on in Chapter 2.

The core of the dissertation’s primary evidence consists of 104 semi-structured elite interviews – including with high-level officials in the Ministry of Finance and people close to the president in Bolivia, Peru, and Argentina. Interviews are complemented by a thorough review of newspaper reporting in *La Razón* (Bolivia), *La República* (Peru), *El Comercio* (Peru), and *La Nación* (Argentina), government and party documents, political biographies, and polling data.

The choice to use elite interviews as the main form of original data was a function of the research puzzle: decisions about macroeconomic policy choices are made by a small set of leaders. To explain choices it is necessary to understand their motivations and considerations and where there is no publically available documentation of decision processes, interviews are typically the best source of information (Tansey 2007, 9-10).11

The Methodological Appendix goes into greater detail about interview procedures. But a couple of additional points are worth making here. First, in all three cases interviewees fall into two main categories: informed observers and insiders. *Informed observers* are generally academics, journalists, former politicians, or researchers at think tanks and international organizations. They are usually treated as an “expert panel”, individual quotes are not used as evidence but illustration, and these interviews primarily serve to establish where there is a “consensus view” about the character of economic policy (e.g. do they think it was marked by restraint or not) and about things such as perceived political costs of different choices. *Insiders* have worked in the government that is studied or been close to the relevant president before he or she reached office. They typically are or have been cabinet members, high-level officials in the

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11 While it would be difficult to examine the role of leaders’ beliefs in the absence of elite interviews, there is little reason to think that interviews bias conclusions in favor of ideational explanations. Subjects were asked about the political and economic constraints and incentives they faced and were, unsurprisingly, acutely aware of those.
Ministry of Finance or the Central Bank, or advisors to the president. Unlike informed observers, insiders are not “all equal” as some have had more privileged access to the president and key decisions and whose words therefore carry greater weight. That said, no conclusion is drawn on the basis of one or two interviews with insiders; triangulation of different sources is central to inference and the dissertation uses extensive footnoting for the specific purpose to add additional information about sources and the inferential process behind individual conclusions.

Second, interviews were semi-structured. This means that a set of questions, formulated with the purpose of probing specific hypotheses, were directed to all interviewees of the same category in the same country, largely in the same order, but with some variation depending on their specific profile and their answers. To begin, the interviewee was typically given a brief description of the government’s economic policy and asked whether they agreed with the portrayal and were asked then to explain why the government had made these priorities. The quotes from the interviews with Bolivia’s Álvaro García Linera, Walter Chávez, and Luis Arce at the beginning of this chapter is the answer to such a relatively open, first substantive question. It bears emphasizing that all quotes regarding learning are answers to such questions; when insiders speak about the impact of past crises on their or their governments’ thinking, such crises have not been brought up in a question and has not in any other way figured in the interview up to that point.

1.5 Organization of the dissertation

This dissertation consists of five chapters in addition to this introduction. Chapter 2 lays the theoretical groundwork and elaborates on the puzzle. It, first, reviews the small literature on political learning, before providing a conceptualization and defining the three criteria used for
assessing its causal importance. The chapter, second, turns to the puzzle at the heart of the dissertation. It defines the dependent variable – macroeconomic management – and specifies the indicators used to assess governments’ choices. It provides a brief historical overview of economic-policy outcomes in Latin America and explains why the restraint exhibited by several governments of the left and of traditional labor-based parties during the recent commodity boom is surprising. It also reviews the literature focused on explaining variation within Latin America’s left turn, arguing that while it provides important insights it does not fully account for surprising macroeconomic discipline in Bolivia, Peru, and Chile. Chapter 2, finally, lays out the paper’s empirical argument in greater detail within the parameters of the three criteria for assessing political learning.

The following three chapters constitute the dissertation’s empirical core. Chapter 3 focuses on Bolivia’s Evo Morales government. Morales was elected as a populist outsider in 2005 against the backdrop of a deep crisis and widespread demands for change to the “neoliberal” economic model. Once in office, Morales significantly expanded the role of the state in the economy, but such change was combined with macroeconomic discipline. The chapter argues that political learning on the basis of Bolivia’s hyperinflationary crisis in the 1980s is a key reason for fiscal and monetary restraint. It argues further that two factors were critical in making for sustained learning. First, the crisis took place on the watch of the UDP government – Bolivia’s first, and until that of Morales, last left government – and was followed by the complete political and programmatic defeat of the left, which made it a particularly potent point of reference. Second, on his way to power Evo Morales – who himself had no roots in the UDP – incorporated into his inner circle individuals who did and adopted the lessons they had drawn.
Chapter 4 is devoted to Peru’s governments of Alan García and Ollanta Humala. Both García, who was the leader of Peru’s traditional labor-based APRA party and had presided over a chaotic heterodox experiment in the 1980s, and Humala, running as a populist outsider, did to different degrees promise economic change. Yet, in office, both did not just exercise macroeconomic discipline, but produced complete continuity with the prevailing market-oriented model. The chapter argues that political learning on the basis of the country’s hyperinflationary crisis in the 1980s—during García’s first government—is an important reason for their macroeconomic discipline. The chapter further argues that learning, like in Bolivia, was generated and sustained over time for two reasons. First, the crisis became a salient point of reference because of its association with a labor-based government and an electorally resurgent left and because it was followed by the complete political and programmatic defeat of the two. Second, both García’s second government and that of Humala included individuals with a direct experience of and who had personally drawn lessons from the crisis in the 1980s—in the former case, of course most clearly Alan García himself.

The chapter makes consistent comparisons to the Bolivia case. These serve to underline similarities in the patterns and causes of sustained learning in the two countries, but also to emphasize that the relative causal importance of political learning was significantly greater in Bolivia, where it can appropriately be considered both a sufficient and a necessary condition for restraint, than in Peru, where there is reason to think that discipline was overdetermined and political learning might only have constituted a sufficient condition.

Chapter 5 centers on Argentina’s Néstor and Cristina Kirchner government. The Kirchners, representing the historically labor-based Peronist Party, did not bring lessons from Argentina’s hyperinflationary crisis into office and relinquished macroeconomic restraint. The
chapter argues that the choice to pursue a consistently expansionary macroeconomic policy was the product of traditional Peronist commitments to state intervention into the economy in favor of growth, employment, and redistribution. It argues further that there were several reasons for why no learning from the hyperinflationary crisis made its way into the Kirchner government, but that two factors were particularly important. First, the hyperinflationary crisis did not begin on the watch, and did not cause the end, of a Peronist government and therefore did not provide an especially potent point of reference within Peronism. Second, the Kirchners’ rise to power was accompanied by leadership renovation, meaning that individuals who had indeed drawn lessons were pushed out rather than included in their government.

All three empirical chapters have the same basic structure. They first provide a brief description of the context in which the relevant governments came to power and of their economic management. Each chapter then explains how and why political learning on the basis of hyperinflationary crises in the 1980s was generated and sustained – or not, in the case of Argentina. The chapters then explain how lessons made their way into the respective government – again, or not, in the case of Argentina – and shaped macroeconomic management. After that alternative explanations are considered before each chapter examines the role of political learning on the basis of the criteria that were briefly introduced above. The argument is in all cases presented as a historical narrative, with the purpose both to provide relevant context to the learning processes and to underline the contingency by which it was marked.

The concluding Chapter 6 carries out three tasks. First, it extends the analysis to the cases of Ecuador and Chile. It argues that Ecuador, in a similar way to Argentina, is a case of no learning from crises in the 1980s, embrace of traditional commitments to state intervention, and relinquished restraint. In Chile, in contrast, political learning did take place on the basis of an
inflationary crisis in the 1970s and steered contemporary boom-time left governments towards macroeconomic discipline. Second, Chapter 6 discusses the relationship between political learning and a set of factors – incidence of high- or hyperinflationary crises, technocratic autonomy, and party-system institutionalization – identified by the literature on Latin America’s left turn that figure explicitly or implicitly in the case analyses and the dissertation’s argument. It argues that the emphasis on political learning both provides important corrections to and complements accounts that highlight these factors. Third and finally, Chapter 6 briefly discusses the broader utility of the concept of political learning for political science, arguing that the toolkit provided in this dissertation is useful for studying moments characterized by contingency and chance in a structured and systematic way.
When Latin America’s “golden decade” came to a close in 2013, countries varied significantly in their ability to withstand the new and harsher external environment (Talvi 2014; Adler and Sosa 2015). Some countries – like Argentina, Ecuador, and, particularly, Venezuela – had made full use of the economic room-for-maneuver during the commodity boom. They were now in a vulnerable position, facing strained public finances, and forced to adopt austerity measures, amplifying the decline in growth. Such a predicament was probably of little surprise for most analysts of the region. In fact, it constituted in many respects a repeat of past so-called “populist cycles”, in which governments of the left and of labor-based parties – committed to redistribution and growth – ramped up spending during periods of loosened external constraints, to find themselves in financial difficulties once constraints hardened again (Sachs 1989; Dornbusch and Edwards 1989; 1991). Mere surprising was the strong position of several countries, which had also been governed by governments of the left or of labor-based parties for most of the boom years. Governments in these countries – especially in Bolivia, Peru, and Chile – had consistently acted with a degree of restraint, pursued disciplined macroeconomic policies,
and refused to use the full room-for-maneuver provided by the extended hike in commodity prices. They had instead built ample buffers, providing them with the ability to cushion the slowdown (Adler and Sosa 2015, 141-2).

The core contention of this dissertation is that political learning on the basis of inflationary crises in the 1970s and 1980s constitutes an important factor for explaining why governments of the left and of traditional labor-based parties in some countries broke with their peers and the past and exercised consistent restraint during the boom years. Political learning produced a set of beliefs regarding the importance of macroeconomic stability, fiscal and monetary discipline in its pursuit, and professional economic management. Leaders who embraced such lessons therefore provided the Ministry of Finance with a privileged and protected position and a mandate for restraint. As a consequence – and in sharp contrast to leaders who did not embrace lessons from past inflationary crises – they refused to use the full economic room-for-maneuver provided by the commodity boom.

This chapter serves two main purposes: It lays the theoretical groundwork for an argument centering on the role of political learning and it elaborates on the puzzle focusing on the surprising macroeconomic restraint during the commodity boom by a set of governments of the left and of labor-based parties. The chapter achieves these objectives via three steps. Section 2.1 is devoted to the dissertation's independent variable: political learning. It surveys the existing literature, provides a conceptualization of the term, and defines three criteria for examining its relevance for outcomes. These criteria effectively provide an empirical strategy for estimating the causal effect of political learning. The section, finally, identifies two factors that make learning more likely to take place and to be lasting.
Section 2.2 turns to the dependent variable around which the puzzle of the dissertation is structured: macroeconomic management. It defines the core aspects under study and provides a historical overview of economic policy outcomes in general and macroeconomic management in particular in Latin America. The section then takes a closer look at the recent wave of governments of the left and of traditional labor-based parties and the variation in macroeconomic policy outcomes by which it was marked. It argues that neither political economy approaches that are useful for explaining historical patterns of macroeconomic management, nor the literature on the left turn, provides satisfactory explanations of, in particular, the prudence of a subset of left and labor-based governments.

Section 2.3 concludes the chapter by turning to the three country cases that constitute the dissertation’s empirical core: Bolivia, Peru, and Argentina. It lays out the argument for macroeconomic discipline in Bolivia and Peru, as well as for relinquished restraint in Argentina, within the parameters of the three criteria elaborated on in Section 2.1, thereby setting the stage for the case chapters.

2.1 Political learning: an independent variable

This dissertation argues that political learning is an important factor for explaining variation in macroeconomic management during the commodity boom. More specifically, lessons on the basis of past inflationary crises drawn by contemporary leaders of the left and of traditional labor-based parties generated a commitment to macroeconomic stability as well as fiscal and monetary restraint in its pursuit. As noted in Chapter 1, however, while the notion that leaders draw lessons from past events and that those lessons shape their choices is not new to
political science, political learning as a concept remains underdeveloped and is as a consequence
difficult to use systematically in causal and comparative accounts.

This section seeks to remedy these problems. It proceeds in four steps. First, it briefly
surveys the existing literature on political learning. Second, based on that review and on Jack
Levy's (1994) attempt to “sweep the conceptual minefield” constituted by the lesson-drawing
literature and Bermeo's (1992) discussion of the “lessons of dictatorship”, which are the most
comprehensive efforts to theorize political learning, it draws out the concept’s core
characteristics: that it is ideational and actor-centered. Third, the section defines three criteria for
examining the causal importance of political learning for outcomes in a systematic and
transparent way across cases, providing the basis for an empirical strategy for studying learning.
Fourth, based on the existing literature, it identifies two factors that make learning more likely to
take place and to be lasting.

2.1.1 A survey of the literature

The notion that crises may produce processes of learning among leaders and that those
lessons may affect important political outcomes has appeared most consistently in two
literatures. Most prominently, it has been advanced in works on determinants of foreign policy
choices. In seminal books from the 1970s, Ernest May (1973) and Robert Jervis (1976) argue
that past lessons frequently shape important decisions. May (1973, ix) sustains that foreign-
policymakers “are often influenced by beliefs about what history teaches and portends”. That is,
when confronted with a policy choice, individual actors search for analogous situations in the
past, on the basis of which they make inferences about the consequences of different actions. In a
similar vein, Jervis (1976) argues that past events influence decision-makers’ beliefs, or to use
his choice of words, "perceptions and misperceptions," about other actors' motives and the consequences of different actions. May (1973, 81-2) and Jervis both point to a number of important choices made by leaders with reference to past events, such as Harry Truman's decision to intervene in Korea, which the president motivated by arguing that "each time that the democracies failed to act it had encouraged the aggressors to keep going ahead. Communism was acting in Korea just as Hitler, Mussolini, and the Japanese had acted ten, fifteen, and twenty years earlier".

Following in the footsteps of May and Jervis, foreign policy scholars have sought to show that leaders not only motivate choices with references to past events, but that lessons have causal significance. Focusing on the war in Vietnam, Khong (1992) explicitly takes issue with skeptics who argue that lessons drawn from – or analogies to – past events only serve to justify decisions. He uses process tracing to examine the Johnson administration's choice to escalate US participation in Vietnam in 1965 and argues that the decision hinged on actors trying to determine to which past event – Munich, Korea, or Dien Bien Phu – the situation was most analogous. Concluding that South Vietnam's position was most similar to that of Korea in 1948, Johnson and his inner circle of advisers resolved that the US ally was the victim of foreign, communist aggression and so had to be defended.

Similarly, and shifting the focus from US to Soviet foreign policy, Bennett (2005) argues that lessons drawn from the war in Afghanistan were critical for the decision not to intervene when communist regimes were challenged in Eastern Europe in the late 1980s. Bennett explicitly rejects system- and domestic-level materialist explanations, arguing that Soviet relative decline did not make retrenchment inevitable and that some version of the status quo could have been preserved. At the same time, leaders associated with domestic interests who according to
materialist theories should have preferred interference did not advocate it, and the reason for why they did not was learning from the war in Afghanistan, which had changed their beliefs about the efficacy of interventions.

In addition to the literature on foreign policy decisions, the notion that learning on the basis of past events shape outcomes has also surfaced in works on democratization in Latin America. Most recently, and most comprehensively, Mainwaring and Pérez-Liñan (2013) argue that actors’ beliefs constitute a crucial factor for understanding the evolution of political regimes in the region. More specifically, they argue that democracies’ survival depends crucially on actors’ normative attitudes about democracy and their policy radicalism, both of which shape their willingness to engage in compromises to preserve democratic government. While actors’ normative beliefs about democracy as well as their policy radicalism may have several sources, Mainwaring and Pérez-Liñan suggest that one such is political learning on the basis of past events and that it is a crucial factor for explaining the region’s latest wave of democratization.

Mainwaring and Pérez-Liñan’s work draws on that of scholars who in the 1980s and 90s studied the region’s, then-recent and in some cases ongoing regime changes. Reviewing the seminal collection edited by O’Donnell and Schmitter (1986) on transitions from authoritarian rule, Bermeo (1990, 372) noted at the time that “it seems that the trauma of dictatorship can cause critical changes in the way people view politics” and that “this process of change might usefully be called ‘political learning’”, thereby coining the term used in this dissertation. This observation was, in turn, based on one made by the editors to the volume, who noted that most political actors “of any weight now attribute high intrinsic value to the achievement and consolidation of democracy” and that this is “largely a consequence of the painful learning
induced by the failures of authoritarian regimes and their unprecedented repression and violence” (O’Donnell and Schmitter 1986, 15).

O’Donnell and Schmitter’s, as well as Bermeo’s, conclusions regarding the role of political learning are based on references to transitions in a large number of countries, but the case of Chile’s left constitutes arguably the most well-documented instance of a belief change in response to past experiences producing new behavior that facilitated democratization. Following the coup, and in response to repression and exile, leaders of the Socialist Party – which will be discussed further in the concluding Chapter 6 – reconsidered their previous view of liberal democratic institutions as a bourgeoisie sham as well as their confrontational strategy and radical policies during the government of Salvador Allende, resolving that liberal democratic institutions imposed crucial constraints on the state’s repressive power and that their own intransigence had contributed to the regime breakdown. During the democratic transition they therefore struck a moderate course, abandoning the pursuit of radical economic reforms, and sought out an alliance with the centrist Christian Democrats.

Overall, the two literatures that most prominently have engaged with the notion that learning by elite actors may affect political outcomes – what this dissertation calls political learning – have made significant contributions. Most importantly, they have in detail demonstrated that elites draw lessons or change their beliefs on the basis of crises and other experiences and that such lessons serve to motivate political and policy choices. In at least a couple of cases, most notably Khong (1992) and Bennett (2005), researchers have paid careful attention to alternative explanations to demonstrate not just the descriptive accuracy but also the causal impact of learning.

At the same time, the literature suffers from a certain disparateness, which is manifested in two main ways. First, it lacks a shared language. Whereas some works speak of “lesson-drawing” others call it “learning”. Relatedly, and more importantly, there is a lack of a shared and clearly articulated understanding of what it means to say that actors have learned or drawn lessons – and what the relationship is between the event on which learning is based, the specific lessons drawn, and the choice that is later made. Khong (1992) and Bennett (2005) are in their works the most specific, referring to “analogical reasoning” with reference to historical events and “changed causal beliefs” in response to past experiences, respectively, but they do not provide a general definition of learning. Second and closely associated with the first weakness of the literature, there exist no shared set of guidelines for how to assess the causal importance of learning. Khong (1992) and Bennett (2005), again, do take great care in their respective works to identify and rule out case-specific alternative explanations, but they do not offer more general instructions for what learning-centered explanations need to demonstrate to be causally persuasive.

2.1.2 Conceptualizing political learning

The most ambitious attempts to remedy the shortcomings in the literature on political learning are provided by Levy (1994) and Bermeo (1992) in two review articles. Most importantly, and although their discussions draw on different literatures – that on foreign policy and Latin American democratization, respectively – they highlight three core conceptual features of political learning. First, they both characterize it in terms of beliefs and belief change. For Levy (1994, 283) learning is “a change of beliefs (or in the degree of confidence in one’s beliefs) or the development of new beliefs, skills, or procedures as a result of the observation and
interpretation of experience”. Bermeo (1992, 274) defines political learning as “the process through which people modify their political beliefs and tactics as a result of severe crises, frustrations, and dramatic changes in their environments”. Second, while Levy and Bermeo acknowledge that lessons from the past might be adopted by groups of people or institutionalized in organizations, they both argue that it fundamentally takes place at the individual level. Explanations that emphasize political learning are therefore actor-centered. Third, learning is not an automatic process that yields the same lessons for everyone. As Levy (1994, 283) puts it, “learning is an analytical construction. People interpret historical experience through the lens of their own analytical assumptions and worldviews”. Hence, as a causal factor, political learning is somewhat independent of the event which precipitates it; the specific lessons drawn from a certain event were not a necessary consequence of that experience and contingent on more than that event.

Levy (1994) and Bermeo (1992) do not construct a framework or a general set of guidelines for systematic and comparative examination of political learning, but their definitions provide the building blocks for such an enterprise. Most critically, their conceptualizations have important implications for how to conceive of political learning as a causal variable. First, as Levy and Bermeo underline, explanations that focus on how political learning shapes outcomes emphasize the role of beliefs – hence, they are ideational in essence. This means that such accounts break with the materialist assumption, which underpins most structural and institutional approaches, that holds that actors’ preferences are a more or less automatic reflection of their interests, which in turn are easily derivable from their position in the material structure (Beland and Cox 2010, 10). This does of course not necessarily mean that political learning and other ideational explanations reject the importance of interests, or reject actors’ rational pursuit of
such. It does mean, however, that they hold that *at least sometimes* actors’ *understanding* of their interests, their preferences, depends on beliefs and ideas about the consequences of different actions (Goldstein and Keohane 1993, 10-1). To borrow from Weber (1946, 58): in such explanations, ideas and beliefs work as the “switchmen of history”, translating interests into preferences, determining “the tracks along which action [is] pushed by the dynamics of interests”.

This is clearly the role beliefs play in the accounts that emphasize political learning reviewed above. To take two examples from the literatures on foreign policy and Latin American regime changes, respectively: To safeguard core US interests – preserving American power – was surely top of mind for policymakers who considered action in Korea and Vietnam. But whether that implied an intervention or not depended on beliefs about whether unchecked communist aggression would encourage further advancements and about the ability of the US to stop it without becoming permanently bogged down. These beliefs were, in turn, grounded in lessons from past events, such as the appeasement of Hitler and, in the case of Vietnam, the war in Korea. For the Chilean left, with its primary support among society’s economically less advantaged, redistribution has constituted a constant core interest. But regime preferences depended on whether actors believed that the constitutional individual liberties that accompany liberal democracy primarily lock in existing power asymmetries and property relations (favoring capitalists)\(^\text{13}\) or protect the rights of the (socialist) dissenter.\(^\text{14}\) Having at least wavered in their commitment to liberal democracy in the late 1960s and early 70s, their interpretation of the causes and consequences of the 1973 military coup provided the basis for the belief that it was the only type of government safe for the left. Political learning, thus, is beliefs grounded in an

\(^{13}\) For the classic formulation of this Marxist interpretation of individual rights, see Marx’s (1978) “On the Jewish Question”.

\(^{14}\) For the classic formulation of this liberal interpretation of individual rights, see Mill’s (1992) “On Liberty”.

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interpretation of past events and experiences, and inferences about cause-effect relationships that determine the consequences of different actions. To say that political learning shapes outcomes is, hence, to say that such beliefs help actors interpret their interests and thereby guide a policy or political choice.

Second, as Levy (1994) and Bermeo (1992) also emphasize, learning takes place at the individual level and the beliefs tied to it are therefore necessarily tied to individual actors. This means, as noted above, that explanations that afford a role for political learning are fundamentally actor-centered. In such accounts decision-makers—typically high-ranking members of the government’s, or in some cases a party’s, executive branch—face a set of options and make their choices on the basis of beliefs that stem from learning from past events. These decision-makers, in turn, are conceived of as individual actors rather than mere representatives of collective ones, which gives such explanations a distinct voluntarist flavor: they imply that there existed a real possibility of either the actors in decision-making positions having held different beliefs and thus making different choices, or different actors with different beliefs being in their place.

Accounts that focus on political learning do therefore not just break from materialist approaches, but in significant ways also from many ideational ones. Constructivist work in comparative politics and international relations often argue that beliefs and ideas do not just matter because they shape individual actors’ perception of their interests, but determine their identities and by extension define collective actors and their interests (Hay 2010; Tannenwald 2005, 19; Wendt 1999, 95-6). In such accounts identities and the ideas that define them—and thus actors’ understanding of their interests—could have been constructed differently, but they
are not particularly voluntarist: once constructed, it is difficult for elite actors to escape the identities they represent.

Accounts that appeal to political learning share with works in these ideational traditions the view that material interests are not always naturally or easily translated into preferences. But they depart from them in that beliefs are conceived of as more plastic and tied to individual rather than collective actors. In a way, explanations that focus on political learning can be said to be less ideational or constructivist in that they take key features of the materialist landscape — such as established collective actors and their core interests — as a given while at the same time insisting on some room-for-maneuver for elites, embracing an underdetermined view of political outcomes, and contending that beliefs and ideas sometimes, but not always, appear as an independent causal factor to help actors translate interests into preferences. This places political learning explanations firmly in what is sometimes described as the “rationalist” ideational category, as distinct from the “sociological” or “constructivist” type, espousing a “thinner” conception of ideas (Tannenwald 2005, 17-8; Wendt 1999, 93).

The ideational and actor-centered features of political learning arguments, identified by Levy (1994) and Bermeo (1992), have three implications for the claims they make and for how they can be evaluated. First, the ideational essence means that beliefs rooted in past events are at the core of learning accounts. This means that it should be possible to identify such beliefs, link them to a past experience, and that they should serve to motivate present choices in a logically coherent way (Jacobs 2015, 48). Second, the ideational essence of learning-centered explanations means also that beliefs have a causal role. This implies that had beliefs been different, so would outcomes. In other words, structural and institutional constraints and incentives should have been relatively loose or indeterminate, providing actors with a menu of meaningful options where
those not chosen were not prohibitively costly or risky (Tannenwald 2005, 29). Learning-centered arguments thus need to systematically examine whether structural and institutional factors allowed actors to make different choices than they did. Third, the ideational essence combined with the voluntarist touch given to political learning approaches by its actor-centered features implies that had leaders been different, so would plausibly beliefs and different leaders with different beliefs was a real possibility. This means (a) that although political learning clearly is related to the event on which it takes place, it is not just an automatic consequence of that experience making everybody embrace the same beliefs, in which case learning would just be a mechanism, largely endogenous to the event on the basis of which it has taken place rather than an independent causal factor. It means (b) that leaders are not selected on the basis of whether they have engaged in learning and display a certain set of beliefs. As a consequence, accounts that focus on the role of political learning will need to show, at the least, that learning was contingent on more than the factor on the basis of which it has taken place and that leaders did not need to signal that they had drawn certain lessons to achieve power.

2.1.3 Criteria for assessing the role of political learning

The three implications regarding claims made by political learning accounts can usefully be converted into three criteria for examining such explanations in a systematic manner across cases. These criteria and the instructions for examining them using process tracing outlined below draw, in addition to the literature on ideas and beliefs in the rationalist tradition to which scholarship on political learning belongs, on recent work on qualitative methods. For the sake of clarity, the criteria are formulated as “yes” or “no” questions, where the stronger the weight of
evidence for an affirmative answer, the stronger reason to think that the criterion is adequately met.

First: is learning descriptively accurate? Political learning explanations claim that leaders hold a set of beliefs, rooted in or generated by a past event, which motivate later choices. Since researchers cannot peek into the minds of politicians they will generally have to do with expressed beliefs (Jacobs 2015, 49-56; Goldstein and Keohane 1993, 28). But beliefs should be expressed in a coherent form and stated consistently – orally or in written form – by individuals pertaining to a defined group of political elites, such as leaders of a party or members of a cabinet, who made the choices to be explained. The past experience that generated learning should either be given as a prominent reason for decisions, or the adoption of beliefs that motivate choices should be temporally close to that event and there should be evidence that they were adopted as a consequence of it. Generally speaking, learning expressed in private is likely to better reflect sincerely held beliefs than ones uttered in public as such is more likely to serve an instrumental purpose. In the same vein, beliefs that are expressed consistently over a long period of time – as external circumstances vary – are more likely to be genuine (Jacobs 2015, 58).

Second: is learning a proximate cause? For this to be the case outcomes should have been different in the absence of political learning – different beliefs should produce different choices. That, in turn, implies that external constraints were sufficiently loose so that actors faced a set of not prohibitively costly options. If they could not have acted differently, or different choices would have carried prohibitively high short-term costs, it is reasonable to attribute causality to other factors than beliefs even if actors themselves explain their choices in terms of lessons from a past event. This is particularly relevant for governments elected on the left in Latin America in
the late 1980s and much of the 1990s. Presidents who ran on the left then frequently governed on
the right in a manner described as “bait-and-switch” (Stokes 2001). While several of these
leaders likely would have explained their choices in terms that could be interpreted as political
learning – like Carlos Menem, who will be discussed in Chapter 5 and for whom there is
overwhelming evidence that claims about learning are descriptively accurate – outcomes are
probably better understood in terms of hard external constraints. High debt levels, low
commodity prices, and dependence on fickle credit markets meant that departure from orthodoxy
would result in steep and immediate costs.

Demonstrating that political learning was a proximate cause is in many respects an
exercise in considering and providing evidence against alternative explanations (Bennett and
Checkel 2014, 23-4). The most basic requirement is that actors were not forced to act in a certain
way against their will. But to be robust, evidence is also needed to persuasively disconfirm the
counterfactual that had actors acted differently they would likely not have been forced into the
course of action they chose. The gold standard is to show that actors actually faced strong
incentives to choose differently than they did – and incurred short-term costs by following their
beliefs and making the choices that they did.

Third: does learning exhibit a degree of independence? This means, in effect, that given
the event on the basis of which learning has taken place, it should be possible to come to power
without having drawn lessons from that experience. In other words, leaders are not selected on
the basis of whether they have engaged in learning and display a certain set of beliefs (Jacobs
2015, 48). If, for instance, a crisis made everyone – or a significant-enough chunk of society –
draw the same lesson, learning would be an intermediate variable, a mere causal mechanism
linking that event and the final outcome; political learning would not be an independent cause. In
the context of democratic politics, showing that leaders were not selected on the basis of whether they had learned or not entails, most immediately, demonstrating that politicians did not need to indicate to voters that they had drawn certain lessons for winning a general election. In the context of a functioning party system or where raising campaign cash is essential, it may also be necessary to show that leaders did not have to signal learning to party elites, militants, or key donors. Even more convincing would be evidence that shows actors signaling that they did not hold the beliefs produced by learning, suggesting that selection is for different beliefs, but the "fluke" of a leader holding beliefs shaped by learning making it into office changed outcomes.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Supporting evidence</th>
<th>Overall weight of evidence in favor of criterion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Descriptive accuracy</td>
<td>E.g. statements by leaders explaining policy choice with reference to past event.</td>
<td>Low/Moderate/High</td>
</tr>
<tr>
<td>2: Proximate cause</td>
<td>E.g. Executive overcoming congressional opposition in pursuit of policy to be explained.</td>
<td>Low/Moderate/High</td>
</tr>
<tr>
<td>3: Independence</td>
<td>E.g. Political leader not highlighting learning and beliefs or the policy position they motivate in a campaign.</td>
<td>Low/Moderate/High</td>
</tr>
<tr>
<td>Overall assessment of political learning</td>
<td>Sufficient and/or necessary condition for outcome; causal mechanism</td>
<td></td>
</tr>
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</table>

These criteria allow political learning explanations to be assessed in a systematic and transparent way. They make comparison across cases easier and more coherent: by showing that there is more evidence for more criteria in one case – that the evidence carries a higher weight – it is possible to say that political learning there likely played a more significant role. The criteria also make it possible to assess political learning accounts on different dimensions. Claims about lessons from past events are likely to often be descriptively correct, but it may be hard to fully rule out alternative explanations – establishing its relevance as a proximate cause. In such cases it might be reasonable to conclude that learning likely constituted a “sufficient” cause, but it may
not be possible to say that it was a “necessary” one too – the outcome could simply be overdetermined. In yet other circumstances there might be evidence indicating that lessons are descriptively correct and constitute a proximate cause, but with little independence, effectively turning learning into a critical mechanism, with causal power placed with the event generating or sustaining learning. Finally, on occasion there will be strong evidence for all three criteria, suggesting that political learning constituted an independent, sufficient, and necessary condition for the outcome. Table 2.1 provides the template that will be used to evaluate and “score” the dissertation’s empirical cases in the coming chapters.

2.1.4 Factors facilitating lasting political learning

While political learning to have some independent causal power, need to be the product of a contingent process, not fully reducible to one factor – and most importantly the event on which it is based – the existing literature suggests that there are two important regularities regarding under what circumstances an event is more likely to provide an enduring point of reference (Table 2.2). The first concerns the nature of crises – and the combination of two features appear to make lasting learning more likely. One is when a crisis or a failure generates a serious, perhaps even existential, threat to a particular unit or phenomenon, with which a group of individuals identify (Jervis 1976; Bermeo 1992). The other is when the crisis or failure is closely associated with a certain policy choice or type of action.15 In the case of Munich, for instance, the “unit” or “phenomenon” was powerful democracies, which faced an existential threat as a consequence of a failed response to actions by an authoritarian state and ideology.

15 Works that take ideas and changes in ideas and ideologies as the dependent variable (in contrast to this dissertation, which primarily considers political learning an independent variable) commonly highlight the perceived insufficiency of a set of ideas associated with a crisis as a reason for the embrace of new ones (e.g. Hall 1989; Sikkink 1991).
That crisis and failure was, in turn, closely associated with a particular course of action—
“appeasement”, letting the authoritarian state have something small in the hope that it would then
not seek something bigger and thereby avoid a large-scale conflict. For actors identifying with
the unit or phenomenon “powerful democracies”, facing another authoritarian state and ideology
in Korea and Vietnam respectively, *Munich* provided a potent point of reference—a source of
lessons.

Hence, a crisis seems to be the most likely to generate lasting lessons where there is a
high degree of *association* of individuals pertaining to a certain collective unit and to particular
choices, making it possible for actors to make inferences—correct ones or not—regarding cause
and consequence. It is worthwhile underlining that this those not exclude that crises in other
countries serve as a point of reference and as a basis for the diffusion of lessons, as long as actors
clearly identify with them and their consequences. This is, arguably, the case of the *Munich*
analogy, where failed appeasement was carried out by British and French policymakers, but
lessons later embraced by American ones, who saw themselves as similar representatives of great
power democracies in struggles against authoritarianism.

Second, political learning and its associated beliefs are tied to individuals. Although
actors who did not themselves directly experience an event can use it as its frame as long as they
identify with the individuals who did or the situation they were in, the literature discussed above
suggests that political learning is most common among people who personally experienced the
event on which it is based (Jervis 1976; Bermeo 1992). Political learning is therefore more likely
to be lasting and a particular crisis or failure to remain a potent point of reference if actors who
personally participated remain influential. *Elite continuity* is, thus, likely to preserve and
reproduce beliefs, which makes learning more likely to be lasting over time. Elite continuity
should not be mistaken for the existence of an entrenched political establishment, however. It may well be sustained by very contingent processes and it is sufficient that small numbers of individuals remain in the inner circle of a leader as long as they have influence with and the trust of that person. In fact, only with high degrees of contingency – what effectively is unstable elite continuity – does learning retain high degrees of independence. Conditions such as institutionalized party systems, which tend to generate elite continuity and make it more stable, likely – and as the concluding Chapter 6 will argue – contribute strongly to making learning lasting, but they also subsume some of its independent causal power.

Table 2.2 Factors facilitating lasting learning

1. Association
The crisis is associated with a certain collective actor and a particular set of choices made preceding the crisis, permitting inferences regarding cause and consequence.

2. Elite continuity
Elite actors with whom lessons originated remain elite actors, preserving beliefs.

2.2 The puzzle: boom-time macroeconomic restraint

This section elaborates on the puzzle at the heart of this dissertation: variation in macroeconomic management among Latin American governments of the left and of labor-based governments during the recent commodity boom and, particularly, the surprising prudence displayed by ones in Bolivia, Peru, and Chile. It proceeds in four steps. First, it defines the dependent variable, macroeconomic management, distinguishes it from other aspects of economic policymaking, and explains how cases are assessed. Second, the section provides a brief historical overview of economic policy outcomes in general and macroeconomic management in particular in Latin America. It highlights the role played by governments of the left and the region’s traditional labor-based parties as well as of swings in commodity prices in
driving so-called “populist cycles” of expansionary macroeconomic policies. It argues that major political economy approaches make good sense of such patterns. The section, third, discusses the left turn and the commodity boom that marked the first decade of the 21st century. It emphasizes the particularly pronounced variation in macroeconomic management among left and labor-based governments in countries that were the most affected by the boom and argues that dominant political economy theories provide little leverage for explaining it. Fourth, the section reviews the literature focusing specifically on variation in the recent left turn, arguing that while it provides important insights, it fails to fully account for the persistent restraint of several governments.

2.2.1 The dependent variable: macroeconomic management

This dissertation’s core aim is to explain macroeconomic policy choices by Latin American governments of the left and of labor-based parties during the commodity boom. Macroeconomic management typically refers to fiscal and monetary policies, ranging from public expenditure and interest-rate levels to currency regimes and degree of capital account openness. In political science, much work has historically boiled down to the question of whether governments’ macroeconomic policies are more expansionary, prioritizing low unemployment, or more restrictive, aimed at controlling inflation. But significant effort, particularly in the last couple of decades, has also been devoted to explaining why governments choose certain exchange-rate regimes, decide to open or close their countries to foreign capital, and whether

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16 Three significant debates concern the roles of partisanship (whether left government pursue more expansionary policies), globalization (whether financial openness forces governments to be more austere), and political business cycles (whether incumbent governments spend more prior to elections). For good reviews of each of the literatures, see Cusack (1999, 465-472), Campello (2015, 7-12), and Kaplan (2013, 27-30).
they delegate monetary policy decisions to independent central banks or not, as well as the political and economic consequences thereof.  

Here the focus is effectively on the first question: whether governments pursued expansionary or restrictive macroeconomic policies — or, to use the terminology used most consistently in this dissertation, whether macroeconomic management was marked by more or less restraint. The main indicator used to classify governments' macroeconomic management is overall fiscal balance. In essence, governments are considered to have acted with restraint if they during their time in power coinciding with the commodity boom (2003-2013) on average produced a surplus. This is a reasonable measure for two main reasons. First, it clearly indicates that governments restrained themselves in the sense that they refrained from doing something they could have done — they left money on the table. Second, whereas it is unclear exactly how large buffers governments in highly commodity-reliant countries should build during a period of exceptional prices, there is a virtual consensus around the view that they should build buffers: they should run fiscal surpluses (Frankel 2011, 8).

Moreover, the classification of governments as acting with more or less restraint on the basis of the fiscal balance coincides well with more comprehensive economic-policy assessments by international financial institutions such as the IMF and credit-rating agencies like Moody’s and Standard and Poor’s. Governments that generated fiscal surpluses are considered by the IMF to have overall pursued generally prudent macroeconomic policies during the boom; countries that did not broke to different degrees with the Fund and refused to have their public finances subject to customary reviews.  

Finally, interviews with informed-observers in each of the three

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18 See for instance IMF (2015, especially Chapter 6 and pp. 141-2) for how boom-time management positioned countries for the post-boom period, as well as the country-specific IMF Article IV consultation reports cited.
countries where fieldwork was carried out strongly indicate that the fiscal balance captures well the governments’ core economic choices. In all three countries – Argentina, Bolivia, and Peru – whether interviewees favored the government or not, there was a high degree of agreement on how to describe its macroeconomic management and the priorities that guided it. In Bolivia and Peru, interviewees perceived the surplus to be an active choice that reflected a desire for macroeconomic stability and low inflation; in Argentina interviewees considered deficit spending to be a reflection of priorities centering on keeping down unemployment and stimulating growth.\textsuperscript{19}

The focus on macroeconomic restraint means that the dissertation does not seek to explain a range of other economic policy choices. First, it leaves macroeconomic policy decisions pertaining to exchange-rate regimes, central bank independence, and capital account openness aside. Second, it does not seek to explain the extent to which governments sought to change the size of the state, or the degree of its involvement in the economy. Hence, it does not aim to account for whether governments pursued nationalizations, universal or targeted social policies, or even whether public expenditure levels went up or not. Although macroeconomic restraint is often analytically and empirically associated with market orientation, a focus on the private sector, and low levels of public spending, it does not need to be the case. Budgets can be balanced even as spending goes up and the state’s role in the economy expands – as long as revenues do too – as in the case of Bolivia. The two-by-two table (2.3) below displays one way of thinking about the relationship between macroeconomic management and the degree of state involvement in the economy; what this dissertation seeks to do is to explain why governments of

\textsuperscript{19} In Bolivia, 43 out of 45 interviewees who were asked to characterize the government’s macroeconomic management described it in these terms. In Peru, the number was 22 of 22. In Argentina, 21 of 21.
the left and of labor-based parties that could have chosen, and could have been expected to prefer, the right side opted instead for the left one. Although it will discuss governments’ choices on both dimensions, it does not seek to account for why governments opted for the bottom-over the upper-left quadrant or vice-versa.

<table>
<thead>
<tr>
<th>Increased state involvement in the economy</th>
<th>Macroeconomic restraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes (increased taxes, spending, and state ownership)</td>
<td>Yes (surpluses)</td>
</tr>
<tr>
<td></td>
<td>Prudent statism (Evo Morales in Bolivia)</td>
</tr>
<tr>
<td></td>
<td>Statism (Néstor and Cristina Kirchner in Argentina)</td>
</tr>
<tr>
<td>No (little change in taxes, spending, and state ownership)</td>
<td>Market liberalism (Alan García and Ollanta Humala in Peru)</td>
</tr>
</tbody>
</table>

2.2.2 Economic policy variation across time and country in Latin America

Historically, Latin America has exhibited a good deal of variation both in terms of macroeconomic policy outcomes and the degree of state involvement in the economy. Moreover, and although there of course have existed important cross-country differences at any point in time, broadly speaking the region has tended to move together between different development models (Bulmer-Thomas 2003, 17-18). Three periods, marked by different economic-policy packages, have characterized modern Latin America. Throughout the “long 19th century”, most of the region was on the gold standard and stuck to largely orthodox fiscal policies. Open economies prevailed in a region marked by a liberal export-oriented development model, which combined a small state with relative macroeconomic restraint (Bulmer-Thomas 2003, Chs. 3-5; Armendáriz and Larraín 2017, Ch.2).

This began to change during the First World War, with the Great Depression and the Second World War instituting broader shifts. With the declining supply of manufactured imports
that followed from international crisis and conflict, relative prices shifted in favor of the region’s producers, stimulating industrialization, which was given further impetus as governments ramped up protection of and support for domestic manufacturers (Hirschman 1968). The postwar Import-Substitution Industrialization (ISI) model, which was firmly implemented by the 1950s in the most-developed of the region’s countries and later elsewhere, on the whole was characterized by fixed, multiple and overvalued exchange rates, chronic fiscal deficits, loose monetary policies with seigniorage complementing public debt as a way to make up the negative balance, and high inflation (Bulmer-Thomas 2003, Ch. 19; Armendáriz and Larrain 2017, Ch. 3). Overall, it combined a large state with expansionary macroeconomic policies.

The dramatic increase in international interest rates in the early 1980s marked the beginning of the end of the ISI model. During the 1970s, most Latin American countries had sustained import-substitution policies with cheap credit provided by US banks that were flooded with petrodollars from Middle Eastern countries benefitting from spiking oil prices. When Mexico defaulted in 1982, it prompted a region-wide sovereign debt crisis and the beginning of what became known as “the lost decade”. The 1980s were marked by slow growth and punctuated by the high- and in some cases hyperinflationary crises that provided the source of learning central to this dissertation’s argument (Bulmer-Thomas 2003, Ch. 11; Armendáriz and Larrain 2017, Ch. 4). By the end of the decade, governments began a process of deeper structural reforms. Over the course of the 1990s, trade was liberalized, markets deregulated, and state-owned enterprises privatized according to what became called the “Washington Consensus” (Williamson 1990; Edwards 1995). As a consequence, across the region, ISI was replaced by a market-oriented development model, characterized by a small state and relative macroeconomic restraint.
Latin America’s shifts between economic models reflected broad global trends. Most of the world moved towards greater state intervention in the economy in the postwar decades and away from it in the 1980s and 1990s. But Latin America also exhibited economic policy variation – especially with regard to macroeconomic management – between and within countries during the time periods marked by distinct economic models. In particular, from the 1950s to the 1980s, countries in the region repeatedly experienced what many observers called “populist cycles”. These were marked by aggressively expansionary fiscal and monetary policies and followed by balance-of-payments crises and stabilization attempts via austerity and devaluations (Dornbusch and Edwards 1991; 1989; Sachs 1989).

Populist cycles were typically tied to two circumstances. First, they were precipitated by the ascension to power of leaders who could be broadly conceived of as left-of-center. In some cases, these leaders represented Marxist parties, but more often they headed populist movements or the region’s traditional labor-based parties.20 Regardless, they typically sought to represent, and relied for electoral support on, the working- and popular classes, and embraced heterodox economic ideas that downplayed the role of deficit spending in producing inflation and emphasized the ability of the state to generate virtuous cycles of growth by expanding spending (Dornbusch and Edwards 1989; 1991; Baer 1967; Cardoso and Helwege 1991). Second, the initiation of such cycles was characterized by the loosening of external economic constraint, via the buildup of international reserves, which allowed governments to ramp up spending and

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20 There are reasonable objections to putting Marxist and populist labor-based parties in a shared “left” category. Most importantly, most Marxists would argue that populism constituted a hindrance to working-class organization and the pursuit of a truly transformative program, while populist leaders were often avowedly non-Marxist (e.g. Peru’s APRA and Argentina’s Peronist Party). But they shared a similar social basis – of the working and popular classes – as well as a similar commitment to greater state intervention into the economy with purpose to spur growth, redistribution, and industrialization.

Major political economy approaches make good sense of Latin America’s pattern of such populist cycles. The region’s high levels of inequality, combined with persistent poverty, generate popular demands and political incentives for redistributive spending (Sachs 1989; Kaufman and Stallings 1991). At the same time, weak institutions shorten voters’ time horizons, making it harder for them to punish opportunistic politicians, and increasing the propensity of politically motivated spending splurges (Rogoff 1990; Alesina and Tabellini 2005; Mehlum et.al. 2006). The combination of high inequality and weak institutions, thus, creates persistent demands for governments that engage in macroeconomic populism. The dependence on primary exports and shallow domestic capital markets means, in turn, that countries in Latin America find external constraints closely tied to commodity prices and international interest rates (Gavin et.al. 1996; Campello 2015). Hence, when prices are high and interest rates low, respectively, countries and their leaders are permitted to engage in the kind of macroeconomic populism for which domestic structural conditions generate demand.

Such traditional political economy approaches also make good sense of the lack of populist cycles in the 1990s. Voters did in several instances elect leaders who campaigned on promises of redistribution and reform. But low commodity prices and the debt overhang from the preceding decade, which made for precarious public finances and high dependence on fickle global markets, meant that external constraint were hard, forcing governments to stick to market orthodoxy (Campello 2015; Kaplan 2013). As a result, the 1990s was in part characterized by

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21 These arguments are grounded in Meltzer and Richard’s (1981) influential work, stipulating that there should be more redistribution in countries with greater inequality. Huber and Stephens (2012) provide a persuasive critique of that contention.

22 When dollars are cheap, that is, as Campello (2015) puts it.
politicians running on the left but governing on the right, according to the pattern noted earlier, described as “bait-and-switch” (Stokes 2001; Weyland 1996).

2.2.3 Left turn, commodity boom, and surprising macroeconomic restraint

The rising number of presidents of the left and of labor-based parties during the first decade of the 21st century should perhaps not have been surprising. As noted above, the structural characteristics of most Latin American countries, and especially the region’s deep inequalities, provide a constant source of political demand for redistribution (Sachs 1989; Levitsky and Roberts 2011, 7-8). Moreover, the relative failure of Washington Consensus reforms to generate stable growth, with several of the region’s countries experiencing high unemployment and serious economic crises towards the end of the 1990s, produced additional discontent with prevailing market-oriented policies (Levitsky and Roberts 2011, 9-10). Yet, following a decade in which the few presidents of left and of traditional labor-based parties who were elected quickly moved to the right, the wave that by 2013 had brought such leaders to power in ten Latin American countries (Table 2.4), caught many observers by surprise.

| Table 2.4 Latin America’s turn to left and labor-based governments (1998-2013) |
|-----------------|-----------------|-----------------|-----------------|
| Country         | President       | Election year(s)| Type of left    |
| Argentina       | Néstor Kirchner and Cristina Kirchner | 2003, 2007, 2011 | Labor-based party |
| Bolivia         | Evo Morales     | 2005, 2009      | Populist outsider |
| Brazil          | Luiz Inácio “Lula” da Silva and Dilma Rousseff | 2002, 2006; 2010 | Labor-based party |
| Chile           | Ricardo Lagos and Michelle Bachelet | 2000, 2006      | Old Marxist left |
| Ecuador         | Rafael Correa    | 2006, 2009      | Populist outsider |
| Nicaragua       | Daniel Ortega    | 2006, 2011      | Old Marxist left |
| Paraguay        | Fernando Lugo    | 2008            | Populist outsider |
| Peru            | Alan García; Ollanta Humala | 2006, 2011 | Labor-based party; Populist outsider |
| Uruguay         | Tabaré Vázquez and José Mujica | 2005, 2010 | Old Marxist left |
Leaders elected as part of this “pink tide” varied in significant ways. Some ran as populist outsiders, others represented the old Marxist left, while yet others headed traditional labor-based parties. Within these categories there were further distinctions. Uruguay’s old Marxist left retained strong organic links to civil society, Chile’s did not (Pribble 2013); Hugo Chávez and Ecuador’s Rafael Correa constructed their populist project from above, Evo Morales in Bolivia built his on densely organized social movements (Levitsky and Roberts 2011, 15-6). What they generally had in common was promises to fight inequality and to change – in some cases to overturn – the market-oriented model implemented in the preceding decade.

Graph 2.1 Commodity prices, 1990-2013

Governments of the left and of traditional labor-based parties that were elected during the first decade of the 2000s, unlike their few counterparts of the 1990s that quickly had been forced to shift right by global markets, soon found themselves with dramatically loosened external constraints. Fueled by demand from a rapidly industrializing China, commodity prices, as shown in Graph 2.1, climbed quickly. Prices of oil, copper, iron, and soybeans – to take four examples highly relevant to Latin America – tripled.23 Even the 2008 international financial crisis did not cause more than a temporary fall in prices, which meant that they largely remained at record-

levels for a full decade before the collapse of 2013-2014. Moreover, the international financial crisis prompted central banks in the US and Europe to implement exceptionally loose monetary policies, driving down the cost of borrowing and pushing investors to emerging markets in search of higher returns, further expanding governments’ economic room-for-maneuver (Dora et.al 2015, 18-19).

**Graph 2.2 Dependence on commodity exports**

![Graph 2.2 Dependence on commodity exports](image)

**Graph 2.3 Terms of trade improvement during commodity boom**

![Graph 2.3 Terms of trade improvement during commodity boom](image)

Source: ECLAC, Statistical Yearbook 2011 and World Bank Indicators

Governments of the left and of labor-based parties varied significantly, however, both in the extent to which their constraints were loosened and in the degree to which they took advantage of favorable external conditions to engage in expansionary macroeconomic policies. *Graphs 2.2 and 2.3* rank-order, from right to left, countries in Latin America with left and labor-based governments on commodity export dependence and boom-time term-of-trade improvements, two indicators for the extent to which external constraints loosened during the price hike. They indicate that four countries – Venezuela, Chile, Bolivia, and Peru – benefited the most from the boom, with Ecuador and Argentina following in toe. *Graph 2.4*, which shows the average fiscal balance by left and labor-based administrations in these countries during their years in power coinciding with the commodity boom, underlines the particularly stark differences in macroeconomic management among governments in countries that, arguably, saw
constraints loosened the furthest. The governments of Hugo Chávez in Venezuela, Rafael Correa in Ecuador, and Néstor and Cristina Kirchner in Argentina made full use of the additional economic room-for-maneuver in the pursuit of an aggressively expansionary macroeconomic policy, not only spending the windfall but going into deficit. In Chile, Bolivia, and Peru, however – Michelle Bachelet, Ricardo Lagos, Evo Morales, Ollanta Humala, and Alan García – opted for consistent restraint, producing sizeable surpluses.

Graph 2.4 Average fiscal balance during the commodity boom (2003-2013)

Source: IMF World Economic Outlook (October 2017)

Such prudence is surprising. Not only do partisan political economy theories suggest that governments of the left and of labor-based parties, representatives of the poor and popular classes, should pursue expansionary economic policies when they can (Cowart 1978; Cusack 1999, 465). But, as noted above, in Latin America left and labor-based governments have historically found it particularly hard to resist the “populist temptation” (Kaufman 2011).

Moreover, dominant political economy approaches, which make excellent sense of the region’s historical proclivity to engage in such populist policy cycles, clearly have limited leverage in
explaining variation: As Graph 2.5 underlines, the countries that were the most-affected by the boom remain equally marked by deep inequality. At the same time, as highlighted in Graph 2.6, which displays values on a World Bank indicator for governance effectiveness – and where higher numbers indicates better institutions – with the exception of Chile, all continue to suffer from equally poor institutions.

2.2.4 Explaining variation in Latin America’s left turn

What makes the prudence of governments of the left and of traditional labor-based parties in Bolivia, Peru, and Chile especially puzzling is that the substantial literature on the region’s left turn also does not provide a satisfactory explanation for it. While these works do not focus primarily on macroeconomic policy choice, but rather on why some left governments pursued more “radical” and others more “moderate” changes to liberal economic and political models, they provide several clear hypotheses regarding potential drivers of relative restraint. A first set of scholarship draws closely on the classical political economy approaches touched on above,

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24 Higher values equal higher inequality. The average among OECD countries is around 0.31.
25 Institutional strength is difficult to measure. But these numbers are robust to other measures, such as Transparency International’s corruption perception index.
26 The terms and criteria used to group governments differ. But most tend to classify them on the basis of policy choices and whether they are more or less “radical” (Weyland 2009), “populist” (Panizza 2005), or “contestatory” (Weyland, Madrid, and Hunter 2010). They typically include traditional labor-based parties among left governments if they challenge existing market models (so Argentina’s Peronist government is often included, but not that of Peru’s APRA).
focusing on variation in the loosening of external constraints as the main cause of different choices. Weyland (2009) argues that greater resource wealth meant a more significant loosening of external constraints and made for left governments more able and willing to take on the liberal status quo. Mazzuca (2013), in turn, emphasizes the degree of integration into global markets. He argues that where such was high prior to the boom, it lengthened actors' time horizons by making them aware that borrowing costs were likely to return to normal levels after the boom. Bond-market integration, thus, continued to provide incentives for economic discipline even as short-term constraints softened.27

As explained above, however, while classical political economy approaches make good sense of Latin America’s general proclivity for pro-cyclical policies, they have problems accounting for variation among governments of the left and of labor-based parties during the recent commodity boom. First, among the countries most dependent on commodity exports, which benefited the most handsomely from the boom and found external constraints loosened the most, we find both governments that acted with restraint (Chile, Bolivia, and Peru) and ones that did not (Venezuela, Ecuador, and Argentina). Second, while Latin American countries became increasingly integrated into global bond markets over the course of the 1990s, there is no clear relationship with macroeconomic management during the 2000s. Argentina, Chile, and Venezuela reached the deepest integration into international bond markets during this period and among these there is a great deal of variation in terms of macroeconomic policy choices (Bustillo and Velloso 2000). Also, when countries have achieved good credit ratings, such as Peru, or

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27 Campello (2015, 21-3) effectively combines resource dependence and market integration, arguing that left governments most reliant on commodities and least integrated into international markets should be the most prone to relinquish restraint as reliance on, and vulnerability to, swings in commodity prices generates a pattern of moves between policy extremes, and the lack of market-dependence removes a moderating influence.
been able to float international bonds after a long absence from global markets, like Bolivia, that has typically been a consequence, not a cause, of restraint during the boom.\textsuperscript{28}

Several authors, including Weyland (2009) and Mazzuca (2013), also emphasize the importance of institutional or state strength. Weyland, for instance, argues that in countries where executives are bound by established rules and are facing competing institutional actors with the strength to provide a counterweight, governments that saw large windfalls because of their resource wealth were likely to remain moderate. As noted above, however, Latin American countries remain notorious, almost universally, for weak states and poor accountability institutions. Moreover, while strong institutions are often given as a reason for Chilean restraint, the specific mechanisms through which they have worked to constrain the Ricardo Lagos and Michelle Bachelet governments have not been demonstrated.\textsuperscript{29}

A second set of scholarship on variation in Latin America’s left turn examines how domestic political factors have permitted – or prevented – left governments to pursue more or less radical changes to existing liberal economic and political models. These works focus, in effect, on factors that generated a greater or lesser “push” for and “resistance” to change to market-oriented policies. A number of authors emphasize in different ways how social mobilization and links to civil society of left and labor-based governments tended to make for more radical changes. Pribble (2013), for instance, underlines the importance of organic links between left parties on the one hand and unions and social movements on the other. She argues that governments with stronger ties to civil society organization were more likely to pursue ambitious, universalistic welfare reforms, and to be more successful in that pursuit. Anria and

\textsuperscript{28} Bolivia floated its first international bonds since the early 1900s in 2012 and was able to do so because of the credibility build up via prudent boom-time fiscal policies. See Webber, Judy. 2012. “Bolivia Plans First Bond Since Early 1900s”. Financial Times, March 18, 2012.

\textsuperscript{29} Moreover, Chile’s institutions were, arguably, relatively strong in a regional context in the 1960s and 70s as well, when the country engaged in a “populist cycle”.

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Niedzwiecki (2016) as well as Garay (2017) emphasize how highly mobilized social organizations pushed governments to pursue more expansive social policies.

Another set of authors identify a range of factors that in different ways made for greater resistance to changes. Analyzing variation in left governments’ abilities to increase taxation of economic elites, Fairfield (2015) emphasizes the role of business power. She argues that where business had strong instrumental power, via well-connected lobby organizations or strong ties to the political right, it was better placed to stave off left governments’ attempts to impose new taxes. Dargent (2015), in turn, underlines the role of technocrats in policymaking. He argues that when they have a strong position, policy outcomes are more likely to be moderate and exhibit a degree of continuity with the free-market model established in the 1990s.

As will be made clear in the case chapters, these are all important variables for explaining economic policy choices. In addition to the specific outcomes works that emphasize these factors aim to explain, they appear to generally have good leverage on the dimension that concerns the role of the state in the economy. Where social mobilization was high and governments had strong links to civil society — and business was relatively weak — governments were more likely to attempt to expand state intervention, and to be successful in that pursuit. But these factors have much less leverage for explaining macroeconomic management and particularly fiscal and monetary restraint. Bolivia’s Evo Morales government is of course the most striking puzzle. Morales came to power on the back of highly mobilized social movements and overcame business opposition, but still acted with consistent discipline. Moreover, as Chapter 4 will make clear, while business was in a stronger position and social movement mobilization — let alone linkages to governments — was absent in Peru, decisions for discipline were largely independent of such conditions. Similarly, as Chapter 5 will show, although there was significant social
mobilization when Kirchner was elected in Argentina, it was not what made the government relinquish restraint. These factors thus have limited leverage for explaining macroeconomic policy choices.

Technocrats play, as will also be seen in the empirical chapters, a crucial part in the exercise of economic discipline. Governments that pursued restrained policies sustained Ministry of Finance independence — and staffed the economic bureaucracy with mainstream economists — while those that relinquished it shifted control to the presidential palace. But whether relative technocratic autonomy was maintained was to a significant extent a function of decisions by political principals — and particularly the president; it therefore constituted a mechanism, an intermediate variable rather than an independent one. In fact, as the conclusion will underline, political learning, rather than a competing explanation for macroeconomic discipline during the boom, is better thought of as a condition that contributed to technocratic autonomy.

A final set of works on variation in the left turn emphasizes the institutional and historical factors that shaped the left’s ascent to power and thereby both constraints faced and programmatic commitments. Flores-Macias (2012), focusing on variation on a set of economic policy choices within Latin America’s left turn, argues that party-system institutionalization was a crucial factor. Collapsed party systems permitted the rise of anti-system politicians with few stakes in the existing political and economic order who were therefore more likely to challenge established liberal economic and political models, and to do so in a context of weak checks and balances. High levels of party-system institutionalization, in contrast, allowed insiders to rise to the top in a context marked by strong constraints and filled with actors with long time-horizons, which facilitated the extension of a market-oriented status quo.
Levitsky and Roberts (2011, 405-410) – as well as Madrid (2010) – focus, in turn, on the historical origins and trajectories of both left and traditional labor-based parties and movements that made it into government. Parties with roots stretching beyond the 1990s that followed an “institutional path” to power were more likely to respect existing liberal economic and political institutions. In these cases, left parties had in response to life under military dictatorships and market reforms following the debt crisis often gone through a process of ideological moderation and their leaders had become integrated into the political establishment. They therefore neither sought nor won mandates for radical changes. Where left actors, in contrast, emerged in the late 1990s or early 2000s and followed a “crisis-outsider” path to office they were more likely to challenge the status quo. In these cases, the left was not part of the political establishment, which it considered an obstacle to popular power, and had formed its programmatic commitments explicitly in response to the Washington Consensus and crises that followed on market reforms.

Kaplan (2013, 54-6, 60-1), finally, highlights the importance of past high- and hyperinflationary crises. Such episodes devastated the economy and eroded middle and working class incomes. As a consequence, they created permanent “anti-inflation constituencies”, of voters prioritizing low inflation over employment, extending well beyond the business community and the wealthy. These crises made the left acutely aware both of the economic cost to voters and the electoral price for politicians of high and hyperinflation. Hence, when the left came to power in countries with such a past, governments placed orthodox economists in key positions and “pursued balanced budgets and low inflation in hopes of boosting their credibility as economic managers” (Kaplan 2016, 7).

This set of accounts, too, identifies a number of important factors. It is correct that no country with a stable party system eschewed fiscal discipline, with the partial exception of
Argentina, where the Radical but not the Peronist Party collapsed. But in two countries presidents were elected on the promises of change amidst collapsed party-systems – Morales in Bolivia as well as García and Humala in Peru – and stuck to prudent policies. Similarly, while most left parties with their origin in the pre-90s period opted for disciplined policies, not all did, as evidenced by Argentina’s Peronists, and left leaders heading younger parties varied in their approach to economic policy. As the concluding Chapter 6 will highlight, pathways to power and party-system stability shaped outcomes, but by interacting with processes of political learning.

High- or hyperinflationary crises did – as is a central claim of this dissertation – leave lasting legacies. But they did not inoculate countries against expansionary polices. In Argentina, the Peronist government spent freely and was repeatedly reelected by voters showing limited concern about rising prices. Moreover, when governments in countries with a hyperinflationary past acted with discipline, it was not because voters feared a return to high inflation. As Chapter 3 will make clear, Morales made it a centerpiece of his campaign to remove the Supreme Decree 21060, which was widely credited with ending hyperinflation. He was still elected in a landslide because did not appeal to an anti-inflation electorate, but one that wanted change.

Table 2.5 summarizes which cases fit the different left turn explanations. It should be underlined that, not only do some cases consistently remain puzzles, but fit here is correlational, not causal. As noted above, and which will be made clear in the relevant case chapters, although social movements were weak and business strong in Peru, neither factor constituted the primary cause of discipline, and although both Peru and Bolivia have hyperinflationary pasts, such episodes did not in and of themselves make for contemporary prudence: lasting lessons were embraced by elites, not voters, and were contingent on additional factors than the incidence and level of crisis. The concluding Chapter 6 will elaborate further on how this dissertation’s focus
on political learning both provides a correction to and complements, in particular, the accounts that emphasize the role of hyperinflationary crises, technocrats, and party-system institutionalization.

| Table 2.5 Summary of left turn explanations for countries most-affected by commodity boom |
|---------------------------------|---------------------------------|----------------|-----------------|-----------------|
| **Core prediction**              | **Cases that fit**               | **Cases that do not fit** | **Unclear cases** |
| **Resource wealth**              | Lack of restraint in resource-rich countries | Argentina, Ecuador, Bolivia, Venezuela | Bolivia, Chile, Peru |
| **Bond market integration**      | Restraint in countries with integration into global bond markets | Chile, Ecuador | Argentina, Bolivia, Venezuela | Peru |
| **State/institutional strength** | Lack of restraint in countries with weak states/institutions | Ecuador, Venezuela, Chile | Bolivia, Peru | Argentina |
| **Social movement strength**     | Lack of restraint in countries where social movements are strong or have ties to left governments | Argentina, Chile, Peru | Bolivia | Ecuador, Venezuela |
| **Business power**               | Restraint in countries with relatively more business power | Argentina, Chile, Peru | Bolivia | Ecuador, Venezuela |
| **Party-system institutionalization** | Lack of restraint in countries with collapsed party systems | Chile, Ecuador, Venezuela | Bolivia, Peru, Argentina |
| **Past hyperinflationary crisis** | Restraint in countries with hyperinflationary crisis | Bolivia, Peru, Ecuador, Venezuela | Argentina, Chile |

2.3 Political learning and economic policymaking: Bolivia, Peru, and Argentina

This chapter has sought to accomplish two tasks. First, on the basis of the existing literature, the chapter has developed a toolkit for studying political learning. It has provided a conceptualization of the term as well as a set of criteria for examining its causal importance across cases that serve as the basis for an empirical strategy and it has identified two factors that contribute to making learning happen and lasting. Second, the chapter has defined the dependent variable – macroeconomic management – and argued that while major political economy approaches make excellent sense of historical patterns and particularly the propensity for
"populist cycles" in Latin America, they have little leverage for explaining the significant variation in outcomes between governments of the left and of labor-based parties in the countries that were the most affected by the recent commodity boom. It further argued that while the literature on variation in the region's left turn provides important insights, it does not offer a satisfactory account of the surprising restraint in a set of countries.

This final section fleshes out the dissertation's empirical argument within the parameters set in the preceding pages. The dissertation's core claim is that political learning on the basis of past crises constitutes an important factor for explaining the macroeconomic discipline of several Latin American governments of the left and of traditional labor-based parties during the boom. The region's left and traditional labor-based parties have historically been committed to state intervention into the economy in favor of growth, employment, and redistribution and embraced expansionary and heterodox macroeconomic policy prescriptions. However, crises in the 1970s and 1980s, characterized by high inflation and linked to the exhaustion of state-oriented development models, produced processes of political learning among left and traditional labor-based parties across Latin America. In some cases, such crises generated significant rethinking, resulting in the complete renouncement of traditional commitments to the state and the embrace of market liberalism. In other cases, left actors remained committed to statist models but concluded that their sustainability was contingent on a degree of macroeconomic restraint. In either of these two cases, political learning produced a respect for - what during the commodity boom were essentially latent - economic constraints. Where contemporary governments embraced lessons from crises in the 1970s and 1980s, they therefore exhibited a degree of discipline.
Two factors made such lasting political learning more likely. First, the context of the
crisis in the 1970s and 1980s mattered. Crises produced a particularly enduring mark in countries
where they took place on the watch of a government of the left or of a labor-based party – or in
the context of the electoral resurgence of such forces – after the implementation of policies that
sought to deepen state intervention into the economy, and were followed by the political and
programmatic collapse of left and labor-based parties. Such circumstances favored lessons
suggesting that a lack of macroeconomic restraint in government was the reason for subsequent
electoral defeats and market-oriented reforms, and that a sustainable left project needed to avoid
similar mistakes. 30 Second, when newer left projects incorporated traditional left actors – with
direct experience from the crisis in the 1970s and 1980s – learning was more likely to be
sustained. Such inclusion – which could count as few as a handful of individuals into the leader’s
trusted group of advisors – both strengthened identification with the earlier experience and
introduced advocates of policy lessons from those crises into the inner circle of contemporary
left leaders.

Where contemporary left governments did not carry lessons from past crises with them
into office they instead remained fully committed to traditional commitments to state
intervention for the purpose of growth, industrialization, and redistribution. In such cases the
commodity boom and the added economic room-for-maneuver it generated provided a unique
opportunity to turn promises into reality. Governments therefore used the windfall to

30 It is noteworthy how unusual diffusion of lessons was. Typically actors of the left or of labor-based parties did not
learn from other countries’ crises, even if seemingly similar political forces were affected. It is unclear why this is
the case, but one hypothesis is that the lack of ideologically coherent parties likely reduced cross-country
identification. Populist labor-based movements generally had a strong nationalist tinge, arguably making non-
national experiences seem less relevant (If Peronists did not learn from Radicals in Argentina, why would they from
APRA in Peru?). This hypothesis is supported by diffusion among parties with a clear Marxist identity. Chile’s
Marxist left was first deeply influenced by the Cuban Revolution in its radicalization in the 1960s, then by European
Communist and Socialist renovation process in the 1980s (Italian Eurocommunism and Franoise Mitterrand’s
market-orientation in France). The Allende experience also appears to have served as a reference point for some
Marxist actors in Bolivia.
aggressively expand the role of the state in the economy, making full use of the economic room-for-maneuver provided by the boom, thereby relinquishing macroeconomic restraint.

Three cases are at the core of this dissertation: Bolivia, Peru, and Argentina. Chapter 3 focuses on Bolivia and the government of Evo Morales. Elected against the backdrop of a deep crisis and widespread discontent with the existing market-oriented economic model, Morales engaged in a far-going process of economic change, significantly expanding the role of the state in the economy. But such change was pursued within the confines of a macroeconomic policy marked by discipline. The reason for this, the chapter argues, was political learning from Bolivia's hyperinflationary crisis in the 1980s. On the basis of this experience, Morales and his inner circle concluded that a sustainable left project, aimed at increasing state intervention into the economy, was contingent on maintaining macroeconomic stability and that it required prudent and professional fiscal and monetary management. The government therefore provided the Ministry of Finance with a privileged and protected position and a mandate for restraint.

There were two main reasons for why hyperinflation in the 1980s generated lasting lessons. First, the crisis took place on the watch and spelled the end of Bolivia's first, and until that of Evo Morales last, left government — that of the UDP — and it was followed by two decades of market-oriented reforms. Second, on his way to power, Evo Morales, who himself had no links to UDP, incorporated into his political project important sections of the traditional left, facilitating his embrace of lessons from that experience.

The chapter offers significant evidence that all three criteria laid out in Section 2.1 are fulfilled (Table 2.6). It provides substantial data supporting that learning was descriptively correct in the form of speech evidence from a large number of senior figures from the Morales government that links past lessons to key choices regarding the writing of the election platform.
and key appointments to the economic bureaucracy as well as the decision to afford the Ministry of Finance a degree of autonomy. It shows that the Morales government both could have opted for a less disciplined economic policy and resisted significant pressures for doing so, indicating that political learning constituted a proximate cause. The chapter also demonstrates that the lessons from UDP were by no means essential for Morales’s ascension to power, and that voters indeed were demanding change, suggesting that learning carried significant independence. The chapter therefore sustains that political learning constituted a *sufficient and necessary* condition for the Morales government’s restraint.

<table>
<thead>
<tr>
<th>Table 2.6 Assessment of importance of political learning</th>
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<tbody>
<tr>
<td><strong>Descriptive accuracy</strong></td>
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<tr>
<td><strong>Proximate cause</strong></td>
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<tr>
<td><strong>Independence</strong></td>
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<tr>
<td><strong>Overall assessment</strong></td>
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Chapter 4 centers on Peru and the governments of Alan García and Ollanta Humala. García represented APRA – the country’s traditional labor-based party – whereas Humala ran as a left-populist outsider. Both García and Humala, however, stuck to continuity with the prevailing market-oriented model once in office – not only preserving macroeconomic discipline, like Morales, but also, in contrast to Bolivia’s president, not expanding the role of the state in the economy. The chapter argues that political learning on the basis of Peru’s hyperinflationary crisis in the 1980s is an important reason for persistent macroeconomic restraint. As in Bolivia, learning was generated and sustained to a significant extent because of the context in which it
occurred and due to the inclusion of traditional left and APRA leaders. The crisis took place on
the watch of Alan García’s first government, in the context of an electorally resurgent partisan
left, and was followed by the banishment of the two from the hallways of power and far-going
market-oriented reforms. In APRA García remained in control in the subsequent decade, while
Humala, like Morales in Bolivia, incorporated traditional left individuals into his project.

The chapter provides significant evidence that the first criterion is fulfilled: learning was
descriptively accurate. It demonstrates, in the form of a combination of speech and text evidence,
that the APRA leadership, including García, as well as traditional left leaders close to Humala
had drawn lessons from the hyperinflationary crisis. For both García and Humala, lessons were
linked to key choices regarding the writing of the election program and, for García, the Minister
of Finance appointment. The chapter also shows that there is strong evidence for the third
criterion – of independence – in the case of Humala: embracing lessons from the
hyperinflationary crisis was not necessary for him to reach the presidency. For García, a return to
the presidency was, however, likely contingent on demonstrating to voters that he had drawn
lessons from his first term in office, suggesting that learning in his case had limited
independence. The chapter also provides evidence for the second criterion. But it notes that other
factors – ranging from electoral incentives to business and technocratic strength, which were
important in making Humala relinquish commitments to expand the role of the state in the
economy – meant that had García or Humala attempted to pursue a more expansionary policy,
they may have been prevented from doing so. Hence, while political learning likely was a
sufficient cause of restraint, it was perhaps not a necessary one (Table 2.6). The chapter makes
consistent comparisons to Bolivia, which serves both to underline similarities in the learning
processes—and in the factors buffeting them—and the differences in the ultimate causal weight of political learning.

Chapter 5 is devoted to Argentina and the government of Néstor and Cristina Kirchner. Unlike the governments of Morales, García, and Humala, that of the Kirchners did not embrace political learning on the basis of a past inflationary crisis and pursued a consistently expansionary macroeconomic policy. The chapter argues that relinquished restraint to a significant extent was the product of traditional Peronist commitments to state intervention. The Peronist leadership centering on President Carlos Menem had gone through a learning process in the 1990s, on the basis of Argentina’s hyperinflationary crisis in the late 1980s, resulting in a full-blown conversion to market liberalism. But such renovation was resisted by left sections in the Peronist Party (PJ), to which the Kirchners pertained. The reason for this was, at least in part, that the hyperinflationary crisis did not begin on the watch of, and did not bring down, a PJ government and did therefore not become a potent point of reference, while the rise of the Kirchners represented leadership renewal at the national level.

<table>
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<th>Table 2.7 Assessment of importance of beliefs</th>
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<tr>
<td><strong>Descriptive accuracy</strong></td>
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<tr>
<td>Descriptive accuracy</td>
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<tr>
<td>Proximate cause</td>
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<tr>
<td>Independence</td>
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<td>Overall assessment</td>
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The chapter provides significant evidence that Néstor and Cristina Kirchner resisted the market conversion in the 1990s and continuously embraced traditional Peronist commitments and beliefs. It also provides significant evidence that indicates that beliefs constituted an independent causal factor and, had they been different and had learning been sustained within
Peronism – which was a real possibility – outcomes would have been different and Argentina too might have been a case of macroeconomic discipline (Table 2.7). The chapter makes consistent comparisons to the Bolivia and Peru cases. Comparisons serve to emphasize the conditions that made for sustained learning in Bolivia and Peru, not present in Argentina. The contrast between Bolivia and Argentina is particularly stark – governments in both countries enjoyed substantial room for maneuver and engaged in essentially statist projects – and serves to underline the importance of political learning for restraint among governments committed to expanding state intervention during the commodity boom.
Evo Morales was elected president in December 2005 against the backdrop of a deep economic and political crisis. Bolivia’s economy had been floundering since the late 1990s amidst low prices for its mineral exports and difficulties servicing the expanding government debt. Deep discontent with high unemployment, austerity measures, and the market reforms that had been put into place over the course of the preceding 20 years, as well as with the dominant parties that had introduced them, fueled increasingly intense social protests. Between 2003 and 2005, two presidents were forced from office by the mobilization of a disparate set of social movements\(^3\) – ranging from neighborhood associations to peasant unions – in what amounted to an effective rebellion against the “neoliberal” model. Morales campaigned as a populist outsider, railing against elites, vowing to nationalize the country’s natural resources and put them to use.

\(^3\) These organizations are typically called movimientos sociales in Bolivia. But they are, in effect, different sectoral and territorial organizations focused on protecting the material interests of their members. They are arguably too well-organized and too hierarchical for the term “social movement” as conventionally used in political science, but this dissertation will stick to the term as it is common practice in the literature on Bolivia.
for Bolivians, thereby embracing the key economic demands of social movements and unifying them behind his candidacy (Madrid 2008, 491-5).

After taking office, Morales delivered on his promises for economic change. Most importantly, his government significantly expanded the role of the state in the economy by dramatically increasing its take of profits in the hydrocarbons sector, from 18 to 82 percent (Farthing and Kohl 2014, 38-9). The new tax regime combined with the rise in oil prices – to which that of natural gas, Bolivia’s most important export, is tied – produced a large windfall for the government: Revenues increased from an average of 26 percent of GDP 2000-2005 to 36 percent 2006-2013.32 At the same time, extensive relief under the Heavily Indebted Countries Initiative brought down debt levels from 80% of GDP in 2004 to 20% in 2008.33 Fiscal space was used to ramp up public investment and to implement a slew of new social programs.

Economic change, however, was carried out with a marked degree of restraint. The “nationalization” of natural resources forced MNCs to renegotiate their contracts, but neither was property expropriated nor were foreign firms expelled (Farthing and Kohl 2014, 38-9). Cash transfer programs were introduced, but benefit levels strikingly low (Holland and Schneider 2017, 993); the minimum wage increased, but only moderately, and with an eye towards inflation (Farthing and Kohl 2014, 69). Government spending overall went up, but revenues increased more. As a consequence, the Morales administration produced average fiscal surpluses of 3.2 percent during the commodity boom – among the highest in the region – an average inflation rate of 5.6 percent, and had by 2013 generated the world’s largest foreign exchange

32 Data from the IMF World Economic Outlook Database (October 2017)
33 IMF Article IV Consultation Report, Bolivia. 2007. International Monetary Fund, 4
reserves on a per capita basis. For this it was consistently praised by international financial institutions like the IMF and credit-rating agencies such as Moody’s and Standard & Poor’s, which lauded the Morales government’s “prudent macroeconomic policies”.

This chapter seeks to explain why the Morales government, while pursuing substantial economic change and expanding the role of the state in the economy, exercised relative restraint. It argues that disciplined macroeconomic management, and especially the prudent fiscal policy, to a significant extent was the product of political learning from the hyperinflationary crisis that Bolivia suffered in the 1980s. Hyperinflation took place on the watch of the UDP (Unidad Democrática y Popular) government – Bolivia’s last representing the left until the election of Morales – which failed to contain union demands and spending; it was followed by the thorough defeat of the traditional left, which was banished from power while the statist economic model implemented during the postwar decades was done away with. On the basis of this experience, important sectors of the traditional left concluded that the failure of the UDP government and the defeats that followed were due to its incapacity to exercise a degree of restraint, and that a sustainable political and programmatic left project was contingent on such an ability.

Evo Morales himself and the party MAS (Movimiento al Socialismo) that he led to power did not originate in the traditional left. Morales’s ascent to the presidency took place via the coca growers’ unions and in the 1990s he became as their leader the public face of resistance to the government’s coca eradication policies, which were adopted as a condition for US aid. Morales’s efforts as a social movement leader, however, led to repeated interactions with – and over time

34 IMF World Economic Outlook Database (October 2017); “Turnabout in Bolivia as Economy Rises from Instability”, The New York Times, 17 February, 2014
incorporation into his inner circle of – individuals from the traditional left. This strengthened the identification of Morales and the MAS leadership with the UDP experience and facilitated their embrace of the core lessons on which traditional left actors had arrived. Morales therefore provided the Ministry of Finance with a degree of autonomy and a mandate for restraint, in effect imposing a set of limits on the presidential palace and the process of economic change to which the government itself as well as the social movements that brought it to power were committed.

The remainder of this chapter is divided into four parts. These are structured to demonstrate that there is significant evidence that the three criteria elaborated on in Chapter 2 for examining learning-centered explanations are reasonably fulfilled – and which serve to assess the descriptive accuracy, the degree of power as a proximate cause, and the independence of learning. Section 3.1 argues that following the hyperinflationary crisis in the mid-1980s, significant sections of Bolivia’s traditional left drew important lessons about the objectives of and demands on economic policy. The learning process followed two distinct patterns, with one segment of the left, which by the time Morales reached power was entirely discredited, going through a quick and full-blown conversion to market liberalism and another – that would prove influential for the MAS project – more slowly embracing more limited conclusions regarding the importance of macroeconomic restraint. The section also discusses the roots of Morales’s political project and his early engagement with, and incorporation of, individuals from the traditional left. Section 3.2 argues that the inclusion of traditional left actors resulted in an embrace of their lessons from the UDP experience, and that those lessons shaped a series of choices and policies by Morales and his inner circle – making for a commitment to macroeconomic stability, professional economic management, and fiscal restraint – as he ascended to and then exercised power.
Sections 3.1 and 3.2 present evidence that lends support, in particular, to the fulfillment of the first and third criteria. That is, they present speech evidence from a range of MAS leaders, including several of Morales’s closest collaborators, who motivate economic restraint with explicit references to the UDP experience. They also show that key decisions—such as the inclusion of commitments to macroeconomic stability in the election platform, appointments of professional economists to important positions, and provision of a degree of autonomy to the Ministry of Finance—were linked to learning. In all, this suggests that claims about learning are descriptively correct (Table 3.1, row 1). These sections also present evidence from interviews demonstrating that leading actors in 2005 did not perceive there to be electoral demands for fiscal discipline, but rather for economic change, indicating that commitments to restraint were somewhat independent of background conditions and in particular electoral incentives—Morales and MAS were not selected on the condition that they embraced discipline (Table 3.1, row 3).

Sections 3.1 and 3.2 also present evidence which shows that learning was not an automatic consequence of hyperinflation. It took place because of the strong association of the crisis with a left government and with repeated left defeats and it was sustained because individuals from the traditional partisan left were incorporated into Morales’s project.

Section 3.3 discusses a set of alternative explanations for the Morales administration’s relative restraint. These competing hypotheses focus on the constraints and incentives faced by the MAS administration and suggest that the government might have been forced to act with more restraint than it preferred or that it lacked strong incentives for more spending making relative prudence the path of least resistance. The section argues that there is scant empirical support for these competing explanations. Evidence provided against these hypotheses constitutes evidence in favor of the second criteria—that the MAS government enjoyed sufficient
room-for-maneuver to have been able to act differently without incurring prohibitive costs, indeed faced pressures for doing so, and that learning therefore has significant power as a proximate cause (*Table 3.1*, row 2). Section 3.4 sums up the core claims of the chapter; it weighs up the evidence presented for the three criteria, emphasizing the importance of political learning in the Bolivia case and arguing that it constituted a *sufficient* and *necessary* condition for the economic restraint of the Morales government. It also previews comparisons to Peru and Argentina that will be extended in the coming chapters.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Supporting evidence</th>
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<tbody>
<tr>
<td>1: Descriptive accuracy</td>
<td><em>Section 3.1:</em> Speech evidence from MAS officials with roots in traditional left motivating restraint with the UDP experience (p. 88-9). <em>Section 3.2:</em> Speech evidence from Vice President Álvaro García Linera (p. 99), Minister of Finance Luis Arce (p. 105) and other MAS officials who (e.g. p. 98) motivate economic restraint with lessons from the hyperinflationary crisis during the UDP government; choices to incorporate language about macroeconomic stability in election program (p. 98-100), appoint professional economists to Ministry of Finance post and other positions in economic policymaking posts (p. 103-4), and endow Ministry of Finance with a degree of autonomy (p. 104-5), all on the basis of learning</td>
</tr>
<tr>
<td>2: Proximate cause</td>
<td><em>Section 3.3:</em> Sufficiently capable state, and control over bureaucracy to spend more (p. 110-112); opposition and business unable to constrain government’s economic policy (p. 111); organized pressures from base for more spending (p. 112-3)</td>
</tr>
<tr>
<td>3: Independence</td>
<td><em>Section 3.2:</em> Evidence that voters wanted economic change, not restraint (p. 100-1). Learning contingent on programmatic and political defeats in addition to hyperinflation (p. 88-9)</td>
</tr>
</tbody>
</table>

### 3.1 Hyperinflation, market reform, and learning on the left

This section argues that on the basis of the hyperinflationary crisis in the 1980s, Bolivia’s traditional left drew a set of lessons regarding the importance of economic restraint. It makes this argument via three main steps. First, the section provides an overview of the establishment of a state-oriented economic model and the emergence of a partisan left committed to deepening that
model during the postwar decades. Second, it covers the collapse of the UDP government amidst hyperinflation and explains how it prompted a rapid and far-going renovation process, resulting in the embrace of market liberalism, within one left party - MIR. It also shows how the coca growers' unions, within which Evo Morales began his climb to power, emerged as a political actor and established links to the traditional left during the late 1980s. Third, the section demonstrates how a wider set of traditional left actors drew more limited lessons following deepening left defeats in the 1990s — remaining committed to a statist model but concluding that the sustainability of such a model was contingent on economic restraint — and how these actors came to interact with and began to become incorporated into Morales's political project.

3.1.1 Postwar politics: MNR, a statist development model, and the partisan left

One of Latin America's least developed countries, Bolivia retained one of the most exclusive oligarchical regimes far into the 20th century. Significant economic and political change did not come until MNR's (Movimiento Nacional Revolucionario) 1952-revolution. MNR emerged in the early 1940s as pro-fascist, middle-class party that embraced a mix of socialist and nationalist ideas. In 1951, the MNR-candidate Victor Paz Estenssoro finished first in the presidential race but was prevented from taking office by a military coup. The following year, the party led an armed uprising that brought down the military government and placed Paz Estenssoro in the presidential palace. Once in power MNR dramatically changed the nature of Bolivian politics. The party instituted a land reform, enfranchised the rural indigenous population that constituted the country's majority, nationalized the mines, and dramatically expanded the role of the state in the economy, along the way forging a political coalition based on the middle class, miners, and the indigenous peasantry (Klein 2011, 212-5; Dunkerley 1984, Ch. 2).
By the second half of the 1950s, however, cracks in MNR’s coalition and leadership emerged. Hernán Siles Zuazo, who had succeeded Paz Estenssoro in 1956, managed to paper over differences with organized labor, a key MNR ally, after economic difficulties forced him to adopt orthodox stabilization measures. But having returned to the presidency in 1960, Paz Estenssoro strengthened his grip on the party and steered it in an increasingly conservative direction, putting MNR on collision course with the unions and precipitating splits among its leaders. Amidst labor unrest and with mounting opposition to Paz Estenssoro from erstwhile allies, the military ousted him in 1964 (Klein 2011, 221-3; Dunkerley 1984, Ch. 3).

Over the course of the next seven years a series of officers replaced each other in the presidential palace, before General Hugo Banzer in 1971 established a firm grip on power. Banzer banned and harshly repressed all parties to the left of MNR. Paz Estenssoro initially supported the Banzer regime, but in 1974 MNR was proscribed as well. In spite of his right-wing leanings, nonetheless, Banzer left the state-oriented model in place and made ample use of unparalleled access to international credit markets (Malloy and Gamarra 1988, 2, Dunkerley 1990, 12-3). By the second half of the 1970s, however, the personalist Banzer met increasing opposition within the armed forces and in 1977 he was forced to agree to a transition process, culminating in elections the following year.

The 1970s also produced important changes in left politics. Since the 1940s these had centered primarily on the miners’ union, FSTMB (Federación Sindical de Trabajadores Mineros de Bolivia), which dominated the national labor federation, COB (Central Obrera Boliviana). FSTMB was an early ally of MNR, but moved into opposition in the early 1960s (Klein 2011, 204-8). Until MNR’s conservative shift, the partisan left had found limited political space. In 1971, however, former president Hernán Siles Zuazo led a left-wing breakaway from MNR after
Paz Estenssoro threw his support behind Banzer’s takeover, founding MNRI (*Movimiento Nacional Revolucionario Izquierda*). The same year, a set of Marxist and Christian intellectuals established MIR (*Movimiento Izquierda Revolucionario*) (Dunkerley 1984, 189-90; Dunkerley 1993, 126-33). These parties were characterized by their opposition to military government, a strong anti-imperialist stance, and an expansionary economic policy in favor of industrial development and redistribution. Consistently divided over strategy, it was only towards the end of the 1970s that MIR and MNRI – as well as the older and smaller Communist Party (PCB, *Partido Comunista Boliviano*) – managed to form a united electoral front, UDP (Ballivián 1993, 117-8; Dunkerley 1993, 128-33; Molina 2015a, 29-39).36 The 1978 election set off a drawn out transition, marked by cycles of elections, coups, and union-led protests. Only in 1982 did the military finally withdraw from politics, handing power to UDP’s Siles Zuazo as the most-immediate first-place finisher (Stein 2011, 234-9; Dunkerley 1984, Chs. 7-8).

Hence, as the 1980s commenced, a state-oriented economic model, powered by expansionary economic policies, was firmly in place. Meanwhile, the Bolivian left – committed to an increase of the role of the state in the economy in the pursuit of growth and redistribution – was poised for its first taste of executive power and to put its program into practice.

### 3.1.2 UDP and its aftermath: crisis, MIR’s renovation, and the emergence of the coca growers

Hernán Siles Zuazo’s ascension to the presidency, however, constituted a pyrrhic victory for Bolivia’s left. The Banzer regime had taken full advantage of the petrodollar market in the 1970s, while the military juntas that governed Bolivia during the transition years severely mismanaged the economy. As a consequence, the economy was already in a virtual free fall

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36 A set of smaller left parties did not take part in UDP. The most important of these was PS-1 (*Partido Socialista I*), led by Marcelo Quiroga Santa Cruz (see Ballivián 1993, Ch. 6).
when Siles Zuazo was sworn in: Growth was a negative 4.4 percent while inflation was approaching 300 percent. The difficulties were compounded by spiking international interest rates and collapsed commodity prices (Dunkerley 1990, 14; Pastor 1991, 214-5).

At the same time, the glue that held MNRI, MIR, and PCB together was a shared commitment to expansionary and redistributive policies, while the government faced high expectations from unions and pressure from a set of smaller left parties that had remained outside of UDP. The government therefore refused to pursue orthodox stabilization packages. Instead, devaluations and de-dollarization of the banking sector – aimed at allowing the government to capture scarce foreign exchange – were coupled with large increases to and indexation of the minimum wage, as well as expanded employment in state-owned enterprises. Widening fiscal deficits were financed by the printing press, pushing Bolivia into a devastating hyperinflationary spiral (Pastor 1991, 217-8; Rojo 2000, 179-80). The government’s authority was further undercut by its lack of a majority in congress and growing tensions within UDP that culminated in MIR’s departure from the coalition and the resignation of the party’s leader, Jaime Paz Zamora, from the Vice Presidency. With the economy in shambles, inflation hitting 20,000 percent, increasing social unrest, and political gridlock, Siles Zuazo called early elections for June 1985.

The collapse of the UDP government was followed by the thorough political and programmatic defeat of Bolivia’s left. All left parties received a pummeling in the 1985 elections. In 1980, 38 percent of the electorate had supported Siles Zuazo, with another 12 percent giving their votes to other left candidates. In 1985, the vote for the entire left was halved. When Siles Zuazo was sworn in, left parties held 11 of 27 senate seats, which after the 1985 elections were reduced to 1 only. In congress UDP’s 47 seats made for the single largest bench, with other left parties controlling another 17. The 1985 election delivered 32 seats for the entire
left (Ballivián 1993, Ch. 4). MNRI, which had been UDP’s dominant member, was virtually wiped out. Highly dependent on Siles Zuazo, the party disintegrated between 1985 and 1989 as the former president, old and frail, departed the political stage.

MIR withstood best the voters’ punishment. The party’s departure from government and Jaime Paz Zamora’s resignation from the Vice Presidency in 1984 helped MIR to distance itself from UDP and the economic debacle as well as to begin a shift towards the center. Paz Zamora won 10 percent in the presidential elections and MIR captured the left’s only senate seat. But MIR’s abandonment of UDP, its incipient moderation, and Paz Zamora’s personalist campaign also prompted internal divisions. Several of its most prominent leaders, among them Juan Del Granado and Walter Delgadillo – who two decades later would be close to Evo Morales – departed to found MIR-BL (MIR-Bolivia Libre) and MIR-M (MIR-Masas), which subsequently united as MBL (Movimiento Bolivia Libre). MBL retained a more radical stance and formed the electoral alliance FPU (Frente del Pueblo Unido) with PCB, but winning only a paltry 3 percent of the vote in 1985 (Dunkerley 1993, 134; Brockmann 2012, 55).

The 1985 elections also paved the way for a radical restructuring of Bolivia’s economic model. Hugo Banzer won a plurality with 32 percent of the vote, but since he was short of a majority, the election was thrown to congress where the dwindling left, which had spent much of the 70s fighting Banzer’s dictatorship, decided to support Víctor Paz Estenssoro who had finished second. Once in office, however, the MNR-leader turned to the former dictator and his ADN (Acción Democrática Nacionalista) for political support to implement a draconian stabilization package. Initiated via Supreme Decree 21060 (DS 21060), the program entitled the “New Economic Policy” (NEP, Nueva Economía Política) slashed public spending – cutting public sector real wages by more than two thirds – sharply devalued the currency, opened up the
economy via steep tariff reductions, and immediately laid off tens of thousands of workers from the state-owned mining company COMIBOL (*Corporación Minera de Bolivia*) (Pastor 1991, 224-33; Dunkerley 1990, 32-9). Moreover, NEP was implemented via harsh repression of the unions – with hundreds of FSTMB and COB leaders put in labor camps in the Bolivian Amazon – which were further weakened by the dramatic layoffs from state-owned enterprises (Dunkerley and Morales 1985, 1-2). As a consequence, within a year of Siles Zuazo’s resignation, the left had been electorally wiped out, its union-based organizational backbone had been broken, and large steps had been taken towards the undoing of the statist model the left had aimed to deepen.

*MIR’s embrace of market liberalism*

Following the 1985 election, significant rethinking took place within the left party that had best withstood the electoral shellacking. While MIR – which, as noted above, had initiated its movement towards the center already during the campaign – remained opposed to NEP, advocating a “re-activation” of the economy, it also distanced itself from UDP’s economic management. By the late 1980s, spurred on by the global trend away from socialism and the collapse of the Berlin Wall and later the Soviet Union, the party’s renovation deepened further. The result was a change in its ideological label and programmatic commitments, from Marxist to social democratic and from socialism to a “social market economy” (Dunkerley 1993, 134; Brockmann 2012, 43-4). In practice, it amounted to a complete abandonment of commitments to state intervention and an embrace of market liberalism.

These changes proved politically effective. By 1989, and via a surprise-deal with his erstwhile enemy Hugo Banzer, Jaime Paz Zamora had captured the presidency. Throughout the 1990s, MIR remained one of the three main parties – with ADN and MNR – which via
congressional compromises passed the presidency between each other in what became derided as “pact democracy”. But MIR’s pragmatism also immediately and thoroughly discredited it as a party of the left (Dunkerley 1998, 15; Dunkerley 1990; Torrico 1996, 5). As noted by Erika Brockmann, a former senator for and a chronicler of the party, “after UDP, MIR became the black sheep. The left saw us as traitors... We fought with all intellectuals of the left and the NGOs, nobody on the left wanted anything to do with us”. MIR’s conversion therefore fortified a party-system with no left party of significance opposing market-oriented reforms.

The emergence of the coca growers as a political actor

During the second half of the 1980s, too, the coca growers’ unions emerged as a political actor; and Evo Morales began his long and gradual ascent onto the national political scene. The coca growers’ unions that would come to constitute MAS’s and Morales’s political base had existed since at least the 1960s, but remained focused on community-level governance during the first couple of decades (Stefanoni and Do Alto 2006, Ch. 3). The 1970s cocaine boom in the United States, however, gave impetus to Washington’s “War on Drugs” during the 1980s, which centered on curbing supply. Repression associated with the coca eradication policies on which US aid was contingent politicized the unions (Healy 1988; Healy 1991). Morales himself joined the local coca growers union after he and his parents moved from the highlands - part of a greater migration in response to poor altiplano harvests following the “El Niño” weather phenomenon - to the tropics of Cochabamba in the early 1980s (Sivak 2010, 36-7). By 1988 he had risen through the ranks of local union politics and reached the executive secretary position.

37 Author interview with Erika Brockmann. Brockmann served as a senator for MIR from 1997 to 2006 and is the author of a history of the party (Brockmann 2012).
38 Healy’s (1998; 1991) two articles provide an excellent and in-depth account of the politicization and subsequent political ascent of the coca growers in the 1980s.
39 For overviews of Morales’s personal story see Sivak (2010, Ch. 2) and Archondo (2009).
thus becoming the leader of the regional federation (Sivak 2010, 42-3; Stefanoni and Do Alto 2006, 54-7).

At the same time, the first nodes connecting the future president and traditional left actors were established. Throughout the 1980s the coca growers’ unions actively sought out alliances with other political actors in order to strengthen their position in the fight against the United States’ and the Bolivian government’s coca eradication policies. As part of these efforts, they increased their participation in the national peasant federation, CSUTCB (Confederación Sindical Única de Trabajadores Campesinos de Bolivia), in which they had become the dominant force by the end of the decade (Healy 1991, 93-4). The coca growers also worked closely with the national labor federation, COB, and contracted several of its leaders as advisors. Most notably, during the second half of the 1980s Filemón Escobar, “a veteran labor leader and prominent COB spokesman for many decades”, who during the 1990s emerged as one of Morales’s closest collaborators, became “a highly visible negotiator with government ministries on behalf of the coca-leaf growers and a dynamic orator at the mass rallies and marches in the Chapare and city of Cochabamba” (Healy 1991, 101; Harten 2011, 63).40

The coca growers’ unions also established links to remnants of the traditional left parties. These were primarily based on converging interests, but reinforced by similar ideological commitments. An integral part of the traditional left’s political defeat was the blow delivered by NEP to the miners’ unions that had constituted its organizational core as well as to the workers who had made up its electoral base, which meant that left parties were looking for new constituencies while the coca growers needed congressional representation to fight coca

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40 From the late 1980s to the early 2000s, Filemón Escobar was one of Evo Morales’s closest advisors, constituting a critical link to the unions and the traditional left. He served as a senator for MAS between 2002 and 2005. Morales broke with Escobar in 2005 following an attempt by the then-senator to broker a deal between MAS and President Carlos Mesa over hydrocarbon policy. Escobar subsequently turned into a fierce critic of the Morales government.
eradication policies (Healy 1991, 103-108). At the same time, both the left and coca growers were committed to anti-imperialist stances and opposition to US-intervention in Bolivian affairs (Healy 1988, 117-119). In 1989 IU (Izquierda Unida) – an alliance that included PCB, MBL, and other smaller left parties – received the backing of the coca growers’ union, riding a surprisingly strong showing in Cochabamba into congress (Stefanoni and Do Alto 2006, 48-9; Ballivián 1993, 148-53).

Hence, as the 1980s turned into the 90s, one segment of the left had drawn significant lessons on the basis of the hyperinflationary crisis. MIR had over the course of a handful of years abandoned its commitment to a deepening of the state-oriented model and embraced market liberalism – thereby completing such a far-going rethinking that the party was no longer even considered to be of the left – and becoming an integral part of the emerging party system. At the same time, important segments of the traditional left, including factions that had split from MIR because of its renovation, remained committed to their historic positions, but were politically increasingly marginalized. Meanwhile, in the rural areas of Cochabamba, the coca growers’ unions, in which Evo Morales was climbing the internal hierarchy, were emerging as an increasingly important political actor while establishing links to individuals and parties pertaining primarily to the unreconstructed traditional left.

3.1.3 The 1990s: deepened defeat and wider lessons on the left

Over the course of the 1990s, the programmatic and political defeats that the left had suffered deepened. With the election of MNR’s Gonzalo “Goni” Sánchez de Lozada – who had been Paz Estenssoro’s Minister of Planning and the driving force behind NEP – in 1993 and Hugo Banzer’s (ADN) return to the presidential palace in 1997 the final nails were hammered
into the coffin of the state-oriented model. Most importantly, Sánchez de Lozada and Banzer implemented a wide-ranging privatization program, through which majority stakes and governance of major state-owned enterprises were transferred to the private sector. This included local public utilities, such as water companies, as well as the state-owned hydrocarbons company YPFB (*Yacimientos Petrolíferos Fiscales Bolivianos*) (Dunkerley 1998; Mayorga 1997).

Meanwhile, national-level politics remained dominated by the trifecta of MNR, ADN, and MIR, with a sidelined partisan left. The left’s marginalization was reinforced when MBL, which as part of the IU (*Izquierda Unida*) had done surprisingly well in 1989 and constituted the strongest left force in congress, entered a coalition agreement with MNR in 1993, like MIR becoming increasingly discredited as a left party, and experiencing repeated splits and departures over the course of the decade (Dunkerley 1998).

With MIR and MBL discredited, the traditional left was largely forced into the political wilderness. Disenchanted former members of MIR and MBL as well as PCB, PS-1, and the unions continued to dabble in electoral politics, but largely took refuge in civil society. Some, like the former FSTMB-leader Filemón Escobar, who, as mentioned above, in the 1980s had become an interlocutor for the coca growers’ unions, turned their energies directly into rural and indigenous union organization (Molina 2015b, 65-8). Others devoted themselves to NGOs and research centers such as CEJIS (*Centro de Estudios Jurídicos e Investigación Social*), CEDIB (*Centro de Documentación e Información Boliviana*), and CEDLA (*Centro de Estudios para el Desarrollo Laboral y Agrario*) (Do Alto 2011, 101). This largely non-reconstituted sector of the traditional left cooperated with the emerging social movements, with whom they worked on issues concerning indigenous rights and organized opposition to structural reforms and particularly the privatization of YPFB.
Learning among traditional left actors

In part as a result of repeated and deepening political and programmatic defeat, this ultimate set of traditional left actors also embraced a series of lessons from the UDP experience. These individuals never took part in a thorough ideological renovation process similar to that of MIR and they continuously opposed “neoliberal” structural reforms – particularly privatizations and especially that of the hydrocarbons sector. But they concluded, as one prominent former MIR and MBL leader put it, that “hyperinflation eats everything: salaries, savings, political projects”. They resolved, in the words of Walter Delgadillo – one of MIR’s original founders, who had led the breakaway from the party in 1984, left MBL disenchanted in the 1990s, and later would hold several cabinet positions in Evo Morales’s government – that “UDP fell because of economic instability. It taught us that stability is essential. It is necessary for popular politics”. As another individual, who like her entire family had deep roots in the traditional left and spent most of the 1990s in civil society – during which she and her family developed strong ties to Evo Morales – before serving in the MAS administration, emphatically underscored: “UDP’s time in government was a disaster. They brought forward economic policies that generated enormous economic instability. It resulted in awful, awful hyperinflation. It was a hell to live here. It was a total disaster that opened for a happy and content neoliberalism to take power. It was a trauma; hyperinflation was a demon. UDP fell because of the weakness of its

41 Author interview with Juan Del Granado. He was a prominent MIR leader, a founder of MBL, and a congressman in the 1990s. He broke away to form MSM (Movimiento Sin Miedo) in the late-1990s and was elected Mayor of La Paz in 1999. MSM allied with MAS in the 2005 and the 2009 elections. Del Granado has since broken with Morales and is now a fierce critic.

42 Author interview with Walter Delgadillo. He was a prominent MIR leader and a founder of MBL. He left partisan politics in the early/mid-1990s and spent the decade working with different NGOs and civil society organizations. Delgadillo served as a Minister of Housing in the UDP government and as a Minister of Employment (2007-2009) and Minister of Public Works (2009-2011) in the Evo Morales government.
economic policy. We lost; we were completely defeated and lost all belief in ourselves. We could not manage the economy. We were not capable of it.”

This sector of the traditional left, therefore, drew an intensively political lesson from the collapse of UDP amidst a hyperinflationary crisis: Failure was due to economic mismanagement and an inability to contain social demands, which by extension was the cause, too, of neoliberal reforms as well as the left’s own predicament, largely banished to the political wilderness. Thus, while these individuals remained committed to a statist and redistributive political project, they embraced the importance of macroeconomic restraint, as a precondition for such a venture.

*Increased interaction between the coca growers and traditional left actors*

Meanwhile, interactions between the coca growers’ unions and individuals from the traditional left were maintained and deepened. In the 1993 elections, Evo Morales’s organization allied with ECP (*Eje de Convergencia Patriótica*), another grouping of left forces that included the PCB and splinter groups from MIR and MBL (Stefanoni and Do Alto 2006, 59-60). This time the outcome was relatively poor, in part because of MNR’s strong performance in rural areas, largely due to its running the well-known indigenous leader Víctor Cárdenas as its vice-presidential candidate (Stefanoni 2010a; Ballivián 2003, 96-9). Yet, the alliance with ECP brought a number of traditional left leaders – including Walter Delgadillo (ex-MIR and MBL), José ‘Coco’ Pinello (ex-MIR and MBL), and Antonio Peredo (ex-PCB) who would eventually end up in MAS’s 2005 campaign team and first cabinet – into Morales’s orbit (Stefanoni and Do Alto 2006, 51; Stefanoni 2010b, 140; Archondo 2009, 105).

43 Author interview with Teresa Morales (no relation to Evo Morales). She served as Minister of Productive Development (2011-2015) in the Evo Morales government. Teresa Morales is the daughter of Manuel Morales Dávila, a former Vice Presidential candidate for IU who served as Evo Morales’s lawyer in the 1990s, was a leading opponent of the privatization of YPFB, and served as a congressman for MAS 2002-2005. In addition to Teresa Morales, her siblings Marcia Morales and Manuel Morales Olivera all served in the MAS government.
Alliances between the coca growers’ unions and left parties were marked by splits and disappointments. For instance, in 1993, the coca growers’ unions were denied a seat in congress because the individual responsible for registering the slate – representing ECP – had moved up his own name on the list (Stefanoni and Do Alto 2006). In 1997 the coca growers’ unions therefore finally ran their own ticket – established a “political instrument” – using the then-defunct IU party label, winning four seats, including one for Evo Morales. Once in congress it was with legislators of the traditional left that he worked most closely, as with Juan Del Granado (then MBL, later MSM) who as mayor of La Paz eventually would ally with MAS in the 2005 and 2009 elections.44 Morales’s election to congress also strengthened ties to a broader set of civil society actors dominated by the traditional left. These included CDPN (Comité de Defensa del Patrimonio Nacional), led by the lawyer Manuel Morales Dávila, which was opposing the privatization of YPFB, as well as a set of NGOs and research centers (Salas 2013, 146).45 CEJIS and CEDLA, in particular, both served as connectors between the coca growers’ unions and other social movements and as producers of research on economic and social issues used by the social movements to support their demands (Loayza and Datta 2011, 121-35).46

Hence, as the 1990s turned into the 21st century two processes had proceeded far. First, not only had MIR, which engaged in such a quick and far-going renovation process that it became thoroughly discredited as a party of the left, drawn important lessons from the hyperinflationary crisis. But the parts of the unreconstructed traditional left, which had become increasingly politically marginalized and had remained committed to a genuinely statist program, had drawn conclusions too regarding the objectives of and demands on economic policymaking on the basis of the hyperinflationary experience. Their lessons – centering on the need to

44 Author interview with Juan Del Granado
45 Author interview with Marcia Morales (see footnote 43)
46 Author interviews with Walter Delgadillo, Juan Del Granado, and Teresa Morales
maintain macroeconomic stability and exercise a degree of restraint as a precondition for a sustainable left project – were not automatic products of experiencing hyperinflation. Instead they were intimately tied up with the collapse of a left government as a consequence of crisis and the recurrent programmatic and political defeats that followed during the subsequent decade. Second, the coca growers’ unions had emerged as a political actor and Evo Morales as a key leader. Moreover, over the course of the decade interaction between the coca growers and the traditional left had increasingly drawn important numbers of the latter into Evo Morales’s orbit.

3.2 Lessons from the past and Morales’s macroeconomic restraint

This section argues that lessons from the hyperinflationary crisis regarding the importance of restraint significantly shaped Evo Morales’s economic policy. It argues, further, that these lessons were embraced by Morales and the MAS leadership via the incorporation of traditional left actors into his inner circle. The section makes these arguments in three steps. First, it shows that by 2002, when Morales came close to winning the presidency, the inclusion of traditional left actors into his project had proceeded far and that UDP had emerged as a salient point of reference for the MAS leadership. Second, the section demonstrates that during the campaign of 2005, which delivered Morales the presidency, lessons from hyperinflation and UDP had an important impact on the election platform, which included commitments to macroeconomic stability and restraint. It argues, too, that these commitments by no means reflected electoral incentives, as voters demanded change, not restraint. Third, it shows that once in power, the Morales government consistently sought to balance its conviction in the importance of economic restraint with commitments to change in favor of greater state intervention into the economy. It shows, in particular, that lessons from the UDP period motivated the choice to
appoint professional economists to key economic policymaking positions and to provide the Ministry of Finance with a degree of autonomy.

3.2.1 The 2002 election and early lessons from UDP

By the late 1990s, a backlash was brewing against the political and economic arrangements established over the course of the preceding decade. The Asian financial crisis caused a slowdown and rising unemployment; dissatisfaction with market reforms deepened as governments were forced to adopt austerity measures to oblige international creditors (Madrid 2011, 243). Meanwhile, disillusionment with the main parties – MNR, ADN, and MIR – was widening. The combination of pacts driven solely by a desire for the spoils of office and the adoption of highly visible policies – austerity, privatization, coca eradication – that were pushed by the IMF, MNCs, and the US, but widely opposed domestically, contributed to the perception of a failure of representation (Crabtree 2005, 9-12; Madrid 2011, 243; Harten 2011, Ch. 5). At the same time Bolivia was experiencing a reinvigorated civil society. New community-level organizations – ranging from urban neighborhood associations to an array of rural unions – formed highly mobilized social movements that increasingly made their discontent felt via protests, strikes, and blockades (Crabtree 2005, 2-7; Farthing and Kohl 2014, 8-14).

By the time Hugo Banzer resigned in 2001, because of the cancer that would take his life the following year, the former dictator had only managed to add fuel to anti-establishment sentiments. In order to comply with the “certification process” on which US aid was contingent, he had stepped up coca eradication, resulting in deadly clashes with growers (Crabtree 2005, Ch. 2). Banzer had also gone ahead with the privatization of Cochabamba’s water company, triggering the so-called “Water Wars”. Confrontations between demonstrators and the military
produced several deaths and the virtual expulsion of the state from the city, ultimately forcing the
government to backtrack (Crabtree 2005, Ch. 1).

Although Gonzalo Sánchez de Lozada and MNR recaptured the presidency in 2002, the
election signaled that the end was near for the post-1985 system. ADN was virtually wiped out,
MIR managed only 16 percent, and Sánchez de Lozada finished first with a paltry 22 percent –
down from 35 percent in 1993. Cochabamba mayor Manfred Reyes Villa, running a populist
campaign, was long-favored to win, but fell steadily in the polls following harsh personal attacks
from MNR.

Evo Morales, who was making his first run for the presidency, was the chief beneficiary
of Reyes Villa’s decline (Singer and Morrison 2004). As the leader for the coca growers’ unions
he had become the public face for resistance to eradication policies. His credentials as an anti-
establishment figure were burnished after his expulsion from congress in 2002 on highly dubious
charges regarding involvement in the cocaine trade. Morales’s campaign, which was based on a
series of alliances with social movements, received another jolt after the US ambassador called
on Bolivians to reject him, driving additional anti-establishment voters into his camp and
allowing Morales to squeeze past Reyes Villa, beating him to second place by 20.94 over 20.91
percent of votes (Stefanoni and Do Alto 2006, 64, 69).

Morales, the traditional left, and past lessons

By the time Morales launched his 2002 campaign, the long interaction with actors from
the traditional left had produced an important mark on MAS. Most importantly, it had led to an
emerging process of incorporation of traditional left elites into Morales’s inner circle. In addition
to Filemón Escobar, individuals such as Gustavo Torrico and Manuel Morales Dávila, with roots
in the union movement and traditional left parties, counted among Morales’s advisors and were
given spots on MAS’s congressional lists (Stefanoni and Do Alto 2006, 76-7). These existing
links also meant that it was natural to deepen such a process of incorporation, with Morales
turning to Antonio Peredo, a prominent leftist, with roots in the PCB, to serve as his Vice
Presidential candidate (Sivak 2010, 89-90).

The interaction with and the incorporation of traditional left actors also meant that
Morales and the MAS leadership had begun to adopt some of their lessons from the UDP
experience. As a consequence of Morales’s second-place finish, he had a real chance to become
president. Since no candidate had won a majority, the election was thrown to congress. The deep
unpopularity of former president Sánchez de Lozada, and the intensive negative campaign he had
directed towards the third-placed Manfred Reyes Villa, meant that the latter considered striking a
deal with Morales (Sivak 2010, 88-95). There were several reasons for why this did not
happen, including intense lobbying from the US embassy, but an important reason was that
Morales and his inner circle were hesitant to assume the presidency on such terms. In part this
was because Morales had run against the established parties and the practices of selecting the
president via deal-making in congress, and winning the presidency that way would damage his
brand (Sivak 2010, 92). In part it was because of a fear to reprise the experience of UDP. The
Morales campaign had neither developed a platform, nor assembled a team of policy
professionals. At the same time, the MAS bench in congress did not constitute a plurality, let

47 Author interviews with Teresa Morales and Gustavo Torrico
48 For the Vice Presidency, Morales first turned to José Antonio Quiroga, who although he declined, supported
Morales in the race (Sivak 2010, 87-88; author interview with José Antonio Quiroga). Quiroga is the nephew of
Marcelo Quiroga Santa Cruz, who led PS-1 and who was killed by the last military regime. He is a well-known
publisher and left-of-center intellectual who has since broken with Morales and is now a fierce critic.
49 Author interviews with Walter Chávez and José Antonio Quiroga. Walter Chávez was Morales’s campaign
manager in 2002, 2005, 2009, and 2014. He was typically labelled “Morales’s spin-doctor” before his break with the
government in 2015.
50 Author interview with Walter Chávez
alone a majority. Morales and his inner circle were afraid that they would not be able to provide competent and stable government, risking the collapse of another left government, a repeat of UDP.\textsuperscript{51}

Hence, by 2002 a significant number of individuals from the traditional left had been incorporated into Morales's inner circle. Moreover, such incorporation had helped generate identification with the UDP experience and make it a salient point of reference, and a source of lessons that influenced key decisions.

3.2.2 The 2005 election: crisis, promises of change, and lessons from the past

Gonzalo Sánchez de Lozada's return to the presidency initiated a period of protest that brought Bolivia to the brink of political disintegration. When the president proposed a new income tax in early 2003 in response to IMF-demands for fiscal tightening, large-scale demonstrations erupted in La Paz, culminating in violent confrontations in front of the presidential palace. The announcement in September that Bolivia would export natural gas to the United States, via the archenemy Chile's ports,\textsuperscript{52} stoked a new series of massive protests, led primarily by neighborhood organizations in El Alto. Following a number of bloody confrontations between the armed forces and protesters, Sánchez de Lozada was forced to resign in October 2003. His Vice President and successor, Carlos Mesa, organized a referendum on the future of Bolivia's hydrocarbons resources, producing whopping majorities for nationalization and against exports via Chilean ports. But the new president did not manage to contain the conflict and was forced to resign in June 2005, producing new elections for December that year (Farthing and Kohl 2014, 11-4; Crabtree 2005, Ch. 6; Webber 2010).

\textsuperscript{51} Author interviews with Walter Chávez and José Antonio Quiroga
\textsuperscript{52} Since Bolivia in the War of the Pacific (1879-1884) lost its coastal territories to Chile, La Paz has demanded their return
MAS and Morales were not the drivers behind the protests that ended in the resignations of Sánchez de Lozada and Mesa (Webber 2010; Veltmeyer and Petras 2007). But they were well-placed to capitalize politically on the new situation. The renationalization of natural resources and the reconstitution of the nation through a constituent assembly were the central demands – collectively known as the October Agenda – by the social movements that drove the two presidents from office. MAS and Morales did not only constitute the most important anti-establishment force in congress. But in their struggle against repressive coca eradication policies, they had come to embody the fight to protect national sovereignty against foreign intervention. They were thus a natural vehicle for these demands. Following the announcement of early elections, MAS’s first step was to formalize alliances with a series of social movements – including El Alto’s neighborhood associations and a range of rural unions – incorporating their demands into the MAS program (Harten 2011, Chs.5 and 7).

*Morales’s 2005 campaign and the embrace of lessons from hyperinflation and UDP*

Following Morales’s second-place finish in 2002, interaction with and incorporation of traditional left actors had increased and become more formalized. In January 2003, La Comuna, a group of prominent left intellectuals, organized the Estado Mayor del Pueblo for MAS and a number of social movements to collaborate around the demand for a constituent assembly. After that event, Morales and Álvaro García Linera, one of La Comuna’s founders and a prominent intellectual and TV pundit who would become Morales’s Vice President, established a close working relationship (Harten 2011, 139). In 2004, MAS decided to open up lists to “invited” candidates, which meant that intellectuals and professionals, who did not belong to the social movements on which the party was based, were able to run on its slates (Harten 2011, 134-5).
After new elections were called for December 2005, incorporation stepped up further. Morales charged his running mate with the responsibility of coordinating the writing of the election manifesto. García Linera, in turn, tapped Carlos Villegas, the founder of CEDLA and then-head of CIDES-UMSA (*Posgrado de Ciencias del Desarrollo en UMSA*), to lead a group of academics and policy professionals developing the economic program. García Linera also reached out to economists with a background in the left, including Gabriel Loza (ex-MIR), Horst Grebe (ex-MIR), and Rolando Morales (ex-PCB), to provide independent advice for Morales and himself.\(^{53}\)

Initial incorporation of traditional left actors into Morales’s inner circle – primarily over the course of the 1990s – had mainly been the result of largely short-term and tactical interactions between the coca growers’ unions and old left parties. In the early 2000s, and particularly after 2002, incorporation became more strategic, explicitly aimed at strengthening the party’s urban and middle-class appeal (Harten 2011, 135-142). But interaction with and incorporation of traditional left actors had also as a by-product that it generated identification with their experience and that of the UDP. As argued in the preceding section, by 2002 the MAS leadership had embraced a set of lessons from the UDP period about governability, which served as a reason for not trying to take the presidency without a proper program and a majority in congress. Now, as Morales was in an increasingly strong position for the December elections, these concerns and the fear of risking a repeat of UDP were growing within his inner circle.\(^{54}\)

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\(^{53}\) Author interviews with Álvaro García Linera and Gabriel Loza. Gabriel Loza is a former MIR member who had briefly served in the UDP government and was important in that party’s rethinking of economic policy in the late 1980s. In my interview with García Linera, he specifically pointed to Loza as someone who had been important for his own and Evo Morales’s thinking on economic policy in 2005-2006. Their respective recounting of events of the fall of 2005 coincided on key points.

\(^{54}\) Author interviews with Walter Chávez and Coco Pinelo. Pinelo has a long trajectory in the traditional left and was part of Morales’s inner circle in 2005.
The MAS leadership therefore made further outreach to individuals with professional policy experience associated with the traditional left. Their objective was to create a serious economic plan and lay the foundation for responsible economic management that would permit the government to avoid repeating the mistakes of UDP. The leftist policy professionals Morales’s team reached out to delivered unequivocal advice: A MAS government needed to maintain macroeconomic stability, credibly communicate to economic and financial actors that it would, and in order to be able to do that, it meant that economic policymaking would have to be marked by a measure of restraint. Gabriel Loza, who had briefly served in the Siles Zuazo administration and would subsequently become head of the executive’s economic policy unit UDAPE, Minister of Planning and Development, and President of the Central Bank under Morales, met with García Linera during the early fall and conveyed the message clearly: “If MAS was elected on a platform of change there would be great fear among economic actors – they would think of Allende and the UDP. To avoid capital flight, inflation, and destabilization of the government it was necessary to maintain macroeconomic stability, to not have large current account or fiscal deficits. I then met with García Linera again, I urged him not to revoke the Stabilization decree 21060. It was something else with what came after, privatizations and so, but the stabilization decree was critical. And I urged him and Evo to meet with representatives of the financial and banking system.”

Morales and his inner circle took this advice to heart. By the fall of 2005, the MAS leadership had arrived on a clear shared commitment: a repeat of the UDP experience must be avoided and for that it was imperative to maintain macroeconomic stability, which required a

55 Author interview with Gabriel Loza;
degree of restraint and reassuring economic actors about the limits of change.\textsuperscript{56} As Vice President Álvaro García Linera would later underline in explaining the emphasis on macroeconomic stability by the Morales government: “It was marked on our bodies and minds what we could not do; we could not repeat the failure of the UDP. The macroeconomic variables that we needed to watch and manage became our ABC; we learned what we could and what we could not touch”.\textsuperscript{57} García Linera also heeded the advice to try reassuring economic actors that a MAS government would preserve macroeconomic stability and exercise restraint, holding a series of secret meetings with leading representatives of business during the fall of 2005.\textsuperscript{58}

These lessons from the UDP experience – and the beliefs about the importance of maintaining macroeconomic stability and exercising a degree of restraint – did not entail an embrace of economic orthodoxy or an abandonment of demands for greater state intervention in the economy, however. A high-level Ministry of Finance official would later note that “macroeconomic stability is critical, but it has never been a goal in itself. For the neoliberal governments macroeconomic stability was an end in itself, for us it is the basis for everything else. It is what makes other policies – redistribution and investment – possible”.\textsuperscript{59} Hence, commitments to macroeconomic stability and the exercise of restraint served as a precondition for sustainably instituting change. The electoral platform and the economic plan, produced by the working group led by Carlos Villegas and Álvaro García Linera, reflected this mix of promises for change and stability. The plan vowed to nationalize hydrocarbons and outlined a new economic model with the state at the center. But it also emphasized, under the specific rubric

\textsuperscript{56} Author interviews with Pablo Stefanoni, Coco Pinelo, Walter Chávez, Álvaro García Linera. Pablo Stefanoni is author of the most in-depth book on MAS’s and Morales’s pathway to power. He also served as a presidential advisor to Morales.

\textsuperscript{57} Author interview with Álvaro García Linera

\textsuperscript{58} “MAS busca a empresarios y a cooperantes para que no le teman”, \textit{La Razón}, 21 September, 2005

\textsuperscript{59} Author interview with Marianela Prada. She was the chief of staff to Minister of Finance Luis Arce.
“Macroeconomic stability”, that the party’s “economic policy is aimed at maintaining and consolidating macroeconomic equilibrium, avoiding the provocation of economic and social disequilibria” and that private – domestic and foreign – capital would be protected.60

Critically, these commitments to macroeconomic stability and restraint did not serve to reassure voters fearing that a new left government would again provoke inflation. The election of 2005 was a prototypical “change election” with the candidates competing on their ability to replace the “neoliberal” economic model. More specifically, MAS did not try to convince voters that it would pursue restrained economic policies if they won, emphasizing instead that they would repeal the Supreme Decree 21060 (DS 21060), which instituted the NEP and was strongly associated with the “neoliberal economic model”, but also credited with ending hyperinflation.61 Reassurances about macroeconomic stability and restraint by the MAS leadership were aimed at economic actors – business, finance, and international financial institutions – not at voters.

All major campaigns shared the perception that it was a change election. A senior member of the campaign staff of Jorge Quiroga, the main center-right candidate, underlined that “we understood that there were demands for nationalization and a new economic model. That’s why we adopted the red star as our symbol and why we developed a proposal for how to increase the state’s take of profits in the hydrocarbons sector”. He also noted that the Quiroga campaign tried to “plant fears in the electorate. A vote for Evo would mean a return to UDP and hyperinflation, because he could not manage the economy. But the voters were not interested, they did not care about economic stability, they wanted change. We spent millions on TV spots.

61 As argued by La Razón’s (Tuesday 6 December 2005) editorial board “another eye-catching proposal is that to eliminate all that is neoliberal. That is to say, to remove Decree 21060. That generates the logical question regarding what will happen to the macroeconomic stability, which has been achieved via a great effort over the course of the past 20 years, precisely through DS 21060.”
But they were not interested”.62 This view was affirmed by Walter Chávez, Morales’s campaign manager, who argued that the attempts to scare the voters did not work because “the fear of UDP existed among elites, journalists, not voters. Ten years is a lifetime for a voter; there was no fear of a return to UDP among voters”.63 A leading political consultant, then an advisor of President Carlos Mesa and not affiliated with any of the campaigns concurred, arguing that hyperinflation and the collapse of UDP “was more of a trauma for politicians than for ordinary people. You know, hyperinflation took place under a left government. Yes, it is possible that they, people like [Minister of Finance] Arce, learned, and that they have reasoned that they needed to be more careful this time. That is very possible, but that voters demanded restraint, no way”.64

In short, Morales and MAS were firmly committed to economic change and to expand the role of the state in the economy. These commitments were rooted in both voter demands and the personal convictions of Morales and his team. Morales and his inner circle were, however, also acutely concerned about not repeating the experience of UDP – the key lesson from which was that macroeconomic stability must be maintained and that it required a degree of restraint. Lessons from the UDP experience were embraced following and as a consequence of the incorporation of individuals from the traditional left – a process that began in the 1990s but gathered pace as Morales ascended to power. These lessons from the UDP experience served as the motivation for reaching out to policy professionals and for including commitments to macroeconomic stability in the platform. The embrace of economic discipline and the lessons from UDP, however, were not a result of electoral incentives, with voters demanding change, and Morales publicly emphasizing that he would end the “neoliberal model” and repeal DS 21060, not his commitment to restraint.

62 Author interview with Rafael Loayza. Loayza was Quiroga’s campaign chief in the La Paz region.
63 Author interview with Walter Chávez.
64 Author interview with Ricardo Paz. He was then political advisor to Carlos Mesa.
3.2.3 The Morales government: balancing competing commitments

Following a landslide victory, Morales thus arrived to power with two sets of partly contradicting commitments. On one hand, his government sought to pursue far-going reform of the market-centered economic model. It was committed to nationalizing hydrocarbons and to using the expanded fiscal revenues for increasing public investment and new social programs. This commitment to reform amounted to a greater role for the state in the economy and more spending. It was certainly rooted in ideological convictions – Morales and his inner circle believed that the state should intervene more to promote development and redistribution. But such commitments also reflected MAS’s status as a political vehicle for a multitude of social movements. These social movements – including not just the coca growers’ unions, but a variety of sectoral and territorial organizations – which had brought down two governments, had via the October Agenda firmly put demands for nationalization of hydrocarbons and increased redistribution as well as non-economic issues such as a constituent assembly on the political agenda (Anria 2015, 155-6; Farthing and Kohl 2014, 35-9). Given the mobilizational power of these organizations and the electoral importance of their members for MAS, the Morales government to some extent had to deliver on these promises of change if it wanted to remain in power. On the other hand, Morales and his inner circle were committed to maintaining macroeconomic stability – rooted in lessons from the UDP experience and interpreted as exercising a degree of discipline and, in effect, imposing constraints on the degree of change the government was pursuing. In fact, they were convinced that pursuing a project of change and to sustainably expand the role of the state in the economy required restraint.

Decisions in several policy areas reflected the desire to balance these commitments. The government’s “nationalization” of the hydrocarbons sector, the centerpiece of the October

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65 Author interviews with Álvaro García Linera, Marianela Prada, Teresa Morales
Agenda, clearly reflected such an attempt. Surrounded by banners proclaiming “property of all Bolivians”, Morales signed the nationalization decree at the Margarita gas fields. Yet, the act did not amount to expropriation of that or any other field. The government only forced MNCs to renegotiate their contracts, allowing the state to significantly increase its share of rents without driving capital or technical capacity out of the country (Farthing and Kohl 2014, 38-9). The MAS government’s approach to DS 21060 also reflected an effort to balance commitments to change and restraint.66 Morales and several unions supporting him had vowed to repeal the decree. At the same time, DS 21060 was intimately linked among economic actors to having ended hyperinflation. Instead of a full repeal, which Morales had promised, the government only removed the specific clause that had made “firing at will” legal, and which had been especially detested among the unions, leaving the overall decree in place.67

The structure and dynamics of economic policymaking

The desire to strike a balance between commitments to change and restraint was also reflected in the structure of the government’s economic policymaking. Most significantly, Morales put the most important posts in hands of individuals with prior administrative or policy experience. This was no minor detail given MAS’s anti-establishment profile and that members of its social movement base dominated its bench in the two legislative chambers (Zuazo 2008, 36–41; Do Alto 2011, 106). Morales appointed Carlos Villegas, who had headed the group that wrote the economic plan, Minister of Planning and Development, thereby putting him in charge of industrial policy. He selected Gabriel Loza, who had provided independent economic policy

67 Author interview with Gabriel Loza; “El Gobierno anuncia el fin de la libre contratación de empleados”, La Razon 29 January, 2006

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advice during the campaign, to lead UDAPE, the executive’s economic policy analysis unit. Most importantly, the president appointed Luis Arce, a UK-trained career-economist in the Central Bank, who was personally close to Carlos Villegas and had been one of the economists in the group writing the election platform, Minister of Finance.

The second key feature of these arrangements concerned the role of the Minister of Finance within the government. As explained by one of President Morales’s closest advisors, who had been part of his inner circle since 2002, “Evo was very clear from the beginning that the Minister of Finance should be the accountant, like in the union”.68 That is, he should be responsible for making sure accounts are balanced, but “the accountant does not make policies”. Political initiative should instead come from the presidential palace, which is linked to the bases, the social movements and their leaders, taking up and interpreting their requests and demands, which it translates into policy.69 In other words, as described by a former high-level official in the Ministry of Finance, “Evo is in charge of politics and the social side, the Minister of Finance takes care of the economic one”.70 In a sense, the president interprets what is politically necessary and desirable; the Minister of Finance defines what is economically viable. The establishment of the first two cash transfer programs71 — aimed at families with schoolchildren and the elderly respectively — reflected this dynamic. The Ministry of Finance had initially resisted these presidential initiatives because of their budget implications, but accepted them as it was allowed to influence policy design, limit cost, and tie funding to incomes from gas exports.72

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68 Author interview with Walter Chávez. Other interviewees also described the Minister of Finance as the accountant (even as the “accountant of the revolution”). Author interviews with Daniel Agramont and Abraham Pérez (a director at the Central Bank)
69 Author interviews with Walter Chávez and Álvaro García Linera
70 Author interview Edwin Rojas
71 Bono Juancito Pinto and Renta Dignidad
72 Author interview with Álvaro García Linera
In practice, Luis Arce’s status as “the accountant” of the government provided him with a significant degree of autonomy. The budget process was centralized within the Ministry of Finance and centered on setting a spending ceiling, based on projected revenues, for which the estimation of oil prices and revenues from gas exports was the key variable. The Ministry of Finance had a clear mandate to “say no” to requests for more funds from other ministries and the president frequently backed up Arce in the cabinet when such were put forth and rejected. The president also insulated the Ministry of Finance from direct pressures from social movements (Anria 2015, 170).

Another consequence of the way the relationship between the president and the Minister of Finance was structured – where the former made policy initiatives which economic viability was determined by the latter – was a significant degree of bargaining between the two. Such bargaining, in turn, was characterized by the president trying to understand the nature of economic limitations. Morales – as well as several of his closest advisers, including the Vice President – knew virtually nothing about economics when they entered government. Hence, lessons from UDP, which they personally embraced, were couched in very general terms about maintaining macroeconomic stability, but which over time via conversations with Arce and a handful of other economic advisors turned into more concrete aspects of policy. For instance, as noted by the Minister of Finance, “the president understands that we cannot spend so we have large deficits and become UDP”. Similarly, Morales embraced the policy of keeping large international reserves. Both cabinet members and social movement leaders have argued that they

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73 Author interviews with Edwin Rojas, Daniel Agramont, Marialnela Prada
74 Author interviews with Luis Arce, Marialnela Prada, Claudia Peña
75 Author interview with Álvaro García Linera
76 Author interview with Luis Arce

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should be used for implementing new cash transfer programs. But Morales explicitly defended their existence and size in cabinet meetings. As described by a former cabinet member: “Evo relates the importance of savings and reserves to how his mother managed the household. He talks about how his father always wanted to sell the whole harvest, but his mother wanted to save part of it for the future. In the end they saved a bit and therefore had something in harder times. He argues that the government needs to do the same.”

The second main feature of the government’s attempt to resolve the conflict between commitments to economic change and to macroeconomic stability was by integrating it into the economic bureaucracy. Key appointees, like Carlos Villegas and Gabriel Loza, were economists with administrative experience, but they were of the left and with a commitment to several of the core demands of social movements, such as increasing the state’s take of rents from hydrocarbons. Similarly, Luis Arce was a career-economist in the Central Bank, but he also had a background as a militant in PS-1, and took part in the writing of the MAS platform. Arce was himself invested in balancing the two partly contradictory commitments at the government’s core and was well-aware of the need to meet the demands of the MAS base, recognizing that “we are a government of social movements, so if and when we can, we need to deliver”. This also, in the words of Arce’s chief of staff, meant that the “emphasis on macroeconomic stability is different from that of neoliberalism… For us the preservation of macroeconomic stability is what makes other things possible. It is the floor, rather than the roof. It is what allows for social and economic development. This is a large change from neoliberalism”. Arce also pursued institutional change within the economic bureaucracy. First, Arce concentrated power in the

77 Author interviews with Álvaro García Linera and Abraham Perez  
78 Author interview with Claudia Peña  
79 Author interview with Luis Arce  
80 Author interview with Marianela Prada
Ministry of Finance, with a commensurate reduction in the importance of the Ministry of Planning – following Villegas’s departure to head YPFB – and the Central Bank, which over time became largely subordinated to the Ministry of Finance. Second, after initially keeping the Vice Ministers and directors from the preceding administration, Arce over time replaced them with individuals who were “committed to the process of change and, of course, economists”.\(^8\)

*Removal of gas subsidies the winter of 2010-11*

The most important economic policy defeat of the government and particularly of Luis Arce – the failed attempt to remove gas subsidies – demonstrates several of the dynamics that characterized the government’s economic policymaking. What would become one of the government’s most serious crises began on December 26, 2010, when Vice President Álvaro García Linera announced that gas subsidies were cancelled. The reason was that gas subsidies had become a large drain on the treasury as a consequence of high oil prices and increasing consumption in the booming economy. What was more, smugglers brought gas across the border, effectively subsidizing other countries’ consumption.\(^8\) The Minister of Finance was well aware that “removing the subsidy was a completely anti-popular measure” but convinced that it was “absolutely necessary for the health of [the] economy” and persuaded President Morales and Vice President García Linera of its importance (Anría 2015, 186).

Following the cancellation of the gas subsidy, which produced price increases of an estimated 83 percent, protests instantly commenced. The right opposition or the business interests that stood to lose the most from the policy change did not lead protests. Instead several of the social movements that constituted the base of the Morales government, including the

\(^8\) Author interview with Luis Arce
\(^8\) Author interview with Luis Arce
neighborhood associations in El Alto, headed demonstrations. Despite protests and blockades, the government initially stood its ground, publicly defending the removal of gas subsidies. President Morales convened emergency meetings with the leaders of the coca growers’ unions, asking for their support for the policy change, on the expectation that if MAS’s core base aligned with the government it would be sufficient for ignoring the protests. While Morales and the leaders of the coca growers’ unions did reach a deal, the leadership was not able to convince the rank and file. On New Year’s Eve, coca growers initiated disruptive protests in the city of Cochabamba. The following day Morales reversed the policy, announcing that he had been elected “to rule by obeying” (Anria 2015, 185-7).  

The gasolinazo underlined the strong position of the Ministry of Finance and the degree to which Morales was willing to delegate to it the defining of what was economically necessary—fundamentally rooted in lessons from the UDP experience regarding the importance of maintaining macroeconomic stability. It also demonstrated how the Morales government was willing to challenge its bases, proposing a clearly “anti-popular” measure and defending it in the face of protests from important social movements. But it, too, starkly underlined the limits of the Ministry of Finance’s autonomy and the extent to which it relied on the president’s willingness to actively provide and protect it. Once the president decided to make a U-turn the Minister of Finance had no instruments to stop him. The gasolinazo, moreover, demonstrated where president Morales’s bottom line was—and, therefore, in a sense at what point commitments rooted in beliefs and political learning were trumped by ones based on short-term interests; the demands of social movements could be resisted, some organizations could be wholly ignored, but not the coca growers’ unions and their demands.

83 Author interviews with Luis Arce, Álvaro García Linera, and Ivonne Farah
To sum up, Morales came to power with at least partly contradictory commitments to economic change and to restraint. Commitments to change – to undo the “neoliberal model” and expanding the role of the state in the economy – were grounded both in ideology and clearly articulated demands from highly mobilized social movements, making it very difficult not to act on them. Morales’s commitments to restraint, in turn, were rooted in lessons from hyperinflation and the collapse of UDP in the 1980s. A degree of discipline was ensured via a Ministry of Finance that was insulated from the social movements, given the right to say no to other ministries, control over the budget process, and staffed by professional economists. At the same time, the government sustained a very real process of change by keeping the president involved in policymaking and by including in the economic bureaucracy professionals committed to Morales’s program.

3.3 Alternative explanations

Throughout the boom years, while pursuing a project of economic change, the Morales government demonstrated a significant degree of macroeconomic restraint. Sections 3.1 and 3.2 have argued that discipline to a significant extent was the product of political learning from the hyperinflationary experience that ended Bolivia’s last left government, that of UDP, in the 1980s. They provided evidence for the first and third criteria – indicating that claims about learning are descriptively accurate and that it was characterized by a degree of independence from the original event and that Morales was not selected on the basis of learning. This section considers a set of alternative explanations for the MAS government’s discipline. These focus, on the one hand, on constraints faced by the Morales administration that potentially forced it to act with more restraint than it wished, and, on the other, on incentives, or lack thereof, for pursuing a
looser economic policy, which might have made restraint a path of least resistance. Evidence against these alternative explanations constitutes evidence in favor of the second criterion – that learning was a proximate cause for restraint, as the government could have acted differently without having incurred prohibitively expensive costs.

First, several observers have suggested that the Morales administration’s restraint was a result of state weakness: the government lacked the capability to spend as much as it really would have wanted (e.g. Gray Molina 2010, 65; Madrid 2011, 257). Yet, and even though Bolivia’s state is notoriously weak, there is no reason to think the Morales administration tried to pursue more aggressive fiscal policies but failed to do so. While there are specific examples of implementation failures, as when asphalt shortages in 2010 slowed down several public works projects, there is no evidence that the government consistently found its spending plans frustrated in ways affecting the fiscal balance. As an advisor to the Vice President noted, “of course there are bottlenecks when you are implementing large, especially infrastructure, projects. But the fiscal surpluses are not a result of this; they are a political choice”. Moreover, even with occasional capacity constraints on public investments, such did not exist for current expenditures. The Morales government implemented both a non-contributory pension scheme and two major cash-transfer programs. These have the largest coverage of any such programs in Latin America, but provide the lowest benefits in the region (Holland and Schneider 2017,

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84 IMF Article IV Consultation Report, Bolivia. 2011. International Monetary Fund, 6; Author interview with government official #2
85 Author interview with government official #2. Out of 21 informed observers, a majority of whom were center-right critics of the government, only 4 thought a failure to implement expenditures had contributed in a meaningful way to surpluses and only 3 thought that the government did make no effort to be prudent but that the combination of the boom and a lack of state capacity forced it to appear so. 5 current or former high-level officials in the Ministries of Finance, Production, and Public Works were asked specifically about whether implementation problems had prevented the government from pursuing its preferred policies, which was rejected by all of them.
86 Renta Dignidad, Bono Juancito Pinto, and Bono Juana Azurduy
Since increasing coverage rather than benefit levels requires more state capacity, it is clear that the government had sufficient capabilities to spend more if it wished.

There is also nothing indicating that either the political opposition or business stopped the government from pursuing more expansionary policies. During MAS’s first three years in power, the political right held a majority in the senate, which provided it with some leverage to limit the government’s options. But the conflict between the government and opposition during this time did not focus on how expansive economic policy should be, but on the writing of a new constitution and the distribution of political power between the national level and the regions. Moreover, when the MAS government pursued economic policies opposed by the right it did get its way. The opposition resisted the non-contributory pension scheme Renta Dignidad in the senate. But the mobilization by social-movement actors allied with MAS provided the government with sufficient leverage to overcome opposition. In fact, “the day the bill was voted on, [these] allied movements made a cerco, or a human fence, around the national congress... In this way, the law that approved Renta Dignidad was passed in the absence of the opposing majority and while social movements were keeping guard outside” (Anria and Niedzwiecki 2016, 322). Moreover, after 2009 Morales’s party held large congressional majorities, without abandoning restraint. In a similar way, business – and then primarily foreign firms – opposed the nationalization of hydrocarbons, but were beaten by the government with the help of social movements (Fairfield 2015, Ch. 8). After the first few years were marked by conflict, domestic

87 With 72 of 130 seats, MAS held a majority in the lower house. In the senate, however, Morales’s party controlled only 12 of 27 seats.
88 With 88 of 130 seats in the lower house and 26 of 36 seats in the senate, MAS held 2/3-majorities in both chambers of congress. 2010 to 2013 the government produced fiscal surpluses each year of on average 1.2% of GDP (IMF World Economic Outlook Database, October 2017).
business has had good relations with the government, based on their being provided with economic support of different kinds.89

While the Ministry of Finance, as described in the previous section, enjoyed a degree of autonomy, it would still not be correct to describe restraint as a result of technocratic capture. As argued in Section 3.2, the Minister of Finance's relative independence was the function of a choice by president Morales and his inner circle, derived from their commitment to macroeconomic stability and rooted in lessons from the UDP experience. Moreover, the president did not delegate political initiative to the Ministry of Finance. Morales himself remained the impetus for much of the economic change that was delivered. As a congressman close to the Vice President emphasized “it is important to underline that although the Minister of Finance is very influential, he does not make any decisions without the involvement of the president. This is not the 1990s’ super-ministry model where the Minister of Finance sometimes was more powerful than the president; Evo is the person who has the last word, the person who decides”.90 Finally, as the previous section also noted, the Morales government has not only been one of significant economic policy reform, but also one of institutional change in the economic bureaucracy, with the hiring of staff “committed to the process of change”.91

Another alternative hypothesis for the Morales government’s restraint is that it just did not have any reasons to spend more than it did. That is, discipline may simply have constituted the path of least resistance. Public opinion surveys, however, constantly showed support for measures that involved public expenditures. When voters who supported Morales were asked

89 Author interviews with Amilcar Miranda and Armando Ortuño.
90 Author interview with government official #4. This sentiment was repeated in interviews with almost every insider. One former minister, as the interview was winding down, interrupted to emphasize that “the president is the economic ideologue; he delegates to the Minister of Finance” (Author interview with Claudia Peña). Similarly, the economic advisor to the Vice President cited earlier underlined that “you cannot remove the responsibility from Evo” (Author interview with government official #2).
91 Author interview with Luis Arce
why they did so, the main answers were consistently the different cash transfers, public works, and his caring for the poor. Opinion polls from 2009 and 2015, which identified “because he cares for the poor”, “for the cash transfers”, “for Bono Juancito Pinto”, and “for Renta Dignidad” as the main reasons, and the only ones mentioned by double-digit numbers of respondents, reflected such sentiments. Moreover, until his reelection in 2009, Morales’s position was not considered secure, suggesting that his government should have faced temptations for more spending.

More importantly, the social movements that make up the core of MAS’ electoral constituency constantly clamored for more spending. As described earlier in the chapter, MAS reached power via a series of formal and informal agreements with an array of social movements and labor unions, incorporating both specific demands and representatives of these groups (Zegada, Torres, Camara 2008, 32-45). After his election these organizations channeled their demands, which usually focused on cash transfers (bonos), wage increases, or public works (obras) to the government via representatives in congress, contacts with the Vice Minister for Coordination with the Social Movements (Viceministro de Coordinación con los movimientos sociales), and the president himself who has been known for his grueling travel schedule meeting regularly in-person with local leaders (Sivak 2008, 197, 106-16; Zegada, Torres, Camara 2008, 64-6).93 The very existence of surpluses and the perception that there existed more resources that could be used served as a way to legitimize demands by social-movement leaders. As a senior official at the Central Bank insisted “people organize, they want bonos, and do you know what

92 Data provided by public opinion experts at Ipsos (2009,11; 2015). Ipsos’s public opinion experts emphasized that there had been no relationship between the level of inflation and the president’s approval rating and that the only economic news that tended to produce a clear mark in opinion surveys was when the “double aguinaldo” (an extra monthly salary at the end of the year conditional on 4.5% GDP growth) was announced, which gave the president a substantial bump (Author interview with public opinion experts).

93 Several insiders close to the Minister of Finance and the Vice President emphasize the access of social movements to the president and his cabinet and the focus of their demands on spending (Author interviews with government officials #2 and #4 and with Marianela Prada, and with Edwin Rojas).
their argument is? 'Because there is money you have to give it to us'”. Hence, the MAS government has clearly displayed more restraint than wished for by its social and electoral bases.

Overall, it is clear that the Morales government’s discipline has constituted a choice – it did not attempt to be more profligate but failed because other actors or circumstances forced it to display discipline. Nor is it likely that other actors or circumstances would have prevented the government from spending more if it had tried to. The state was capable enough for implementing more spending and there were clear demands for, and no strong opposition to, a looser economic policy.

3.4 Conclusion

After his election in 2005 – and throughout the commodity boom – Evo Morales pursued a project of economic change that involved expanding the role of the state in the economy. Morales, however, combined change with a degree of macroeconomic discipline, most clearly demonstrated in the form of consistent and large fiscal surpluses. This chapter has argued that restraint to a significant extent was the function of political learning on the basis of Bolivia’s hyperinflationary crisis in the 1980s, which generated a commitment to macroeconomic stability as well as fiscal and monetary restraint in its pursuit. The chapter has also showed that learning was not an automatic reaction to hyperinflation. Instead it was highly dependent on context and specifically the circumstance that the crisis took place on the watch of a left government engaged in statist economic project and was followed by the utter political and programmatic defeat for the left, which made it a potent point of reference. Morales then incorporated into his inner circle

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94 Author interview with Abraham Pérez. He also noted, an observation confirmed by other interviewees who were in the room when such demands were put forward, that several social movements, as well as cabinet members representing them, have argued that one of the main cash transfer programs, Bono Azurduy, should be made universal, and that the international reserves should be used to fund it.
individuals from the traditional left, with their own personal experience of hyperinflation and the
decade of defeat that followed, who brought with them the lessons they had drawn.

The chapter has provided substantial evidence in favor of the three criteria for examining
the descriptive accuracy, the relevance as a proximate cause, and the independence of political
learning. It has provided speech evidence from a range of actors in the MAS leadership,
including close collaborators of Evo Morales and individuals from the traditional left, motivating
economic restraint with references to the UDP experience (Table 3.2, row 1). It has also

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<tr>
<td>3: Independence</td>
<td>Section 3.2: Evidence that voters wanted economic change, not restraint (p. 100-1). Learning contingent on programmatic and political defeats in addition to hyperinflation (p. 88-9)</td>
<td>High</td>
</tr>
<tr>
<td>Overall assessment of political learning</td>
<td>Political learning likely constituted a sufficient and necessary condition for the Morales government’s macroeconomic restraint. It has a high degree of independence from the event on the basis of which it derived and Morales was not selected on the basis of displaying learning.</td>
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demonstrated that commitments to restraint were not the product of electoral demands – and specifically that the key campaign teams did not perceive that there existed any such demands (Table 3.2, row 3). Finally, the chapter has showed that the MAS government could have spent more, and that it resisted pressures for less economic discipline (Table 3.2, row 2). Overall, this suggests that there is strong evidence that political learning constituted a sufficient and necessary condition for restraint in the Bolivia case and that it carried high levels of independence. That is, had the Morales government been committed to its project of economic change, but had not drawn lessons from hyperinflation – which quite plausibly could have been the case – it is likely to have exhibited less discipline.

The next two chapters, which focus on Peru and Argentina, provide comparisons that reinforce several of the key arguments in this chapter. First, they too demonstrate the importance of whether governments engaged in political learning on the basis of hyperinflationary episodes in the 1980s or not. The Peruvian governments of Alan García and Ollanta Humala embraced lessons from such a crisis in a way comparable to that of Morales and pursued a macroeconomic policy marked by discipline. Argentina’s Néstor and Cristina Kirchner, in contrast, did not carry lessons from a past hyperinflationary experience with them into office and relinquished restraint. Second, the contrast to the Peruvian governments of García and Humala, which enjoyed much less room-for-maneuver than did Morales, underlines the importance of learning as a sufficient and necessary condition in the Bolivia case. Third, the Peruvian and Argentine cases also highlight the importance of the context of a crisis as well as the role of individuals in generating and sustaining learning. In Peru, like in Bolivia, hyperinflation took place in the context of a resurgence of left and labor actors and was followed by their prolonged political and programmatic defeat; and individuals pertaining to the traditional left were included in new left
projects, generating and sustaining learning. In Argentina, in contrast, hyperinflation never was closely associated with Peronism and the ascent of the Kirchners implied a degree of elite renovation.
Peruvian voters opted on two occasions during the decade-long commodity boom – in 2006 and 2011 – for presidential candidates who offered change to the market-oriented policies implemented in the 1990s. While Ollanta Humala, running a fiercely populist campaign and vowing to undo the “neoliberal model”, lost the runoff in 2006, having won a plurality in the first round, voters thoroughly spurned the candidate of continuity, Lourdes Flores Nano, who did not even make it to the ballotage. Instead they chose APRA’s Alan García – who as leader of one of Latin America’s preeminent labor-based parties had overseen a disastrous heterodox policy experiment during his first term as president two decades earlier – pledging to provide “responsible change” (McClintock 2006, 101). Five years later, Humala did make it all the way to the presidency on his promise of a “great transformation”95 of the free-market model and with the strong support of important sections of Peru’s traditional Marxist left.

95 “The Great Transformation” (La Gran Transformación) was the title of Humala’s electoral program in 2006 and the first round of 2011.
But while García and Humala, to different degrees, were elected on promises of economic change and identified with labor and the left, they both governed solidly on the right (Vergara and Encinas 2016, 162). García’s departure from APRA’s historical commitments to state intervention in favor of growth, employment, and redistribution – as well as from his own first period in the presidential palace in the late 1980s – was stark. He not only displayed consistent macroeconomic discipline, but explicitly embraced the market (Cameron 2011, 388). Humala maintained a more statist discourse throughout his time in power. But in practice his government differed little from that of García. Not only did the García and Humala governments, like that of Evo Morales in neighboring Bolivia, consistently produce healthy fiscal surpluses – averaging 1.4 and 1.6 percent of GDP respectively – and earning plaudits from the IMF for their prudent macroeconomic management.96 They also, unlike the Morales government, did not significantly expand the role of the state in the economy, neither strengthening regulation nor increasing taxation. Government revenue as share of GDP fluctuated between 20 and 23 percent between 2006 and 2013. As a consequence, many analysts even concluded that Peru was an exception to the region’s left turn (e.g. Cameron 2011; Vergara and Encinas 2016).

This chapter seeks to explain one aspect of the García and Humala governments’ orthodoxy: their macroeconomic restraint. It argues that discipline to a significant extent – as in Bolivia – was the product of political learning from a hyperinflationary crisis in the late 1980s. Hyperinflation took place on the watch of Alan García’s first government (1985-1990), in the context of the Marxist partisan left’s97 electoral resurgence, an insurgency by the armed left, and following the implementation of a heterodox economic program strongly associated with the

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96 Data from IMF World Economic Outlook (October, 2017); Peru 2010, Article IV Consultation Report, International Monetary Fund, 3; Peru 2014, Article IV Consultation Report, International Monetary Fund, 5
97 Parties and individuals pertaining to this group will be referred to as the “partisan” or the “Marxist” left and, when talked about in the context of contemporary, post-1980s politics sometimes described as the “old” or “traditional” partisan/Marxist left. 119
partisan left. It was followed by the complete political and programmatic defeat of both APRA and the partisan left, with the banishment of the two from the hallways of power and the implementation of radical market-oriented reforms.

On the basis of these experiences, important segments of APRA’s leadership as well as of the Marxist left concluded that macroeconomic stability must be maintained and that it necessitated fiscal and monetary restraint. In the case of Alan García and APRA, learning from hyperinflation amounted to a full-blown conversion to market liberalism – similar to that of MIR in Bolivia – and was a highly personal experience. Over the course of the 1990s and early 2000s, García and his close collaborators embraced core tenets of economic orthodoxy, while at the same time keeping a tight grip on APRA. On the basis of lessons from his first time in power, once elected in 2006, García appointed professional economist to head the Ministry of Finance and provided it with autonomy and a mandate for restraint. Ollanta Humala, in contrast, did not have any direct link to the hyperinflationary crisis, only entering politics with his run for the presidency in 2006. Humala, however, like Morales in Bolivia, incorporated into his inner circle important segments of the traditional partisan left. These individuals – similarly to the traditional left actors who joined Morales – remained committed to an expansion of the role of the state in the economy but had on the basis of the hyperinflationary crisis and subsequent defeats concluded that the sustainability of such a project was contingent on maintaining macroeconomic stability and that it necessitated a degree of restraint. They brought such lessons into the Humala campaign, shaping its core economic policy commitments.

As noted above, the García and Humala governments – in contrast to that of Morales in Bolivia – did not just display macroeconomic discipline, they embraced orthodoxy across the board. Accounting for the lack of an increase of state intervention during the two presidencies is
beyond the objective of this chapter, which focuses on fiscal and monetary restraint. But the chapter will make two points with regards to García’s and Humala’s positions on the role of the state in the economy. First, as underlined already, García’s and APRA’s political learning process produced a commitment to both macroeconomic discipline and market liberalism more broadly, and was likely an equally important factor for explaining his choices on both dimensions.

Second, Humala’s stance on state intervention shifted significantly from his first run in 2006 to the end of his government in 2016, but his commitment to macroeconomic stability and restraint was a constant. Factors that can credibly be used to explain his move towards more market-oriented policies, including electoral incentives as well as business and technocratic power, do not explain continuity in his commitments to fiscal and monetary discipline. However, they do introduce a severe inferential challenge: If other factors than political learning forced Humala’s eventual market orientation, might they not in the absence of past lessons have impelled a similar shift in terms of macroeconomic policy? The chapter cannot fully resolve this problem, which is the reason for why it can only claim that political learning was a sufficient, and not also a necessary, factor for restraint.

This chapter – like the preceding one on Bolivia – is divided into four parts in addition to this introduction. These are structured to demonstrate that there is significant evidence supporting the three criteria for examining learning-centered explanations – which serve, respectively, to examine the descriptive accuracy, the relevance as a proximate cause, and the independence of learning. Section 4.1 argues that important sectors of APRA and the traditional Marxist left, which in the postwar decades had embraced interventionist and heterodox economic policies, drew significant lessons following the hyperinflationary crisis in the late 1980s. To
different degrees, they committed to the importance of preserving macroeconomic stability and embraced the view that it required a degree of fiscal restraint. Section 4.2 argues that these lessons made their way into the political projects of Alan García and Ollanta Humala and shaped their respective choice to embrace macroeconomic discipline.

| Table 4.1 Criteria for examining role of political learning: the Peru case |
|-----------------------------|-----------------------------|
| **Criterion**               | **Supporting evidence**     |
| 1: Descriptive accuracy     | **García**                  |
|                             | *Section 4.2:* Evidence from APRA documents reflecting on crisis (p.132-3) |
|                             | *Section 4.3:* Evidence from García in writing: letter (p. 137-8) and book (p. 140-1), committing to restraint on the basis of learning; speech evidence from Jorge Del Castillo motivating Minister of Finance choice with reference to crisis (p. 145-6). |
|                             | **Humala**                  |
|                             | *Section 4.2:* Speech evidence from close advisors to Humala motivating macroeconomic restraint with reference to crisis (p.133-4) |
|                             | *Section 4.3:* Speech evidence from close advisors to Humala motivating commitments in platform to macroeconomic restraint with reference to crisis (p. 143, 148) |
| 2: Proximate cause          | **García and Humala**       |
|                             | *Section 3.4:* Congress did not constrain government’s economic policy (p. 154-5); technocrats or business did not force either García or Humala to pursue disciplined macroeconomic policies (155-6) |
| 3: Independence             | **García and Humala**       |
|                             | *Section 3.3:* Evidence that voters wanted economic change, not restraint – lessons and commitments to prudence not response to electoral incentives (p. 157-8). |

Sections 4.1 and 4.2 provide evidence that support, in particular, the fulfillment of the first and third criteria. That is, they provide evidence that shows that claims about learning are descriptively correct: leaders and their close collaborators drew important lessons and made important choices regarding positions in the election platform and selection of key personnel, including the Minister of Finance, on the basis of past lessons. These sections also provide evidence that lessons are somewhat independent from background conditions. They underline, however, that evidence for the independence of learning is *significantly* stronger for Humala than...
for García, whose very public embrace of lessons from his first government were necessary to reassure voters that mistakes would not be repeated. Sections 4.1 and 4.2 also present evidence which underlines that long-term learning on the basis of the hyperinflationary experience was not automatic. As in Bolivia, it took place because of the crisis’s strong association with APRA and the partisan left and was sustained because of the inclusion of individuals in the García and Humala governments with a direct link to it.

Section 4.3 deals with a set of alternative explanations for the restraint of the García and Humala governments. They focus on constraints that would make anything but discipline difficult and incentives faced by the two governments for more or less restraint, shaping the costs of different choices. Evidence provided against these alternative explanations constitutes evidence in favor of the second criteria – that governments indeed enjoyed sufficient room-for-manuever to have been able to act differently without incurring prohibitive costs. The section underlines that evidence against competing hypotheses generally are of significantly lighter weight than in the Bolivian case (Table 4.1).

As it has done so far, the chapter will consistently make brief comparisons to Bolivia and the Morales government. These will be elaborated on in Section 4.4, which argues that while lessons from past hyperinflationary crisis shaped choices in both Bolivia and Peru, their causal effect was likely significantly larger in Bolivia. The concluding Section 4.4 also previews the Argentina case and contrasts between that and those of Peru and Bolivia.

4.1 Twin traumas: APRA, the left, crisis, and learning

This section argues that the leadership of APRA and important segments of Peru’s Marxist left drew lessons regarding the importance of macroeconomic restraint following the
hyperinflationary crisis in the late 1980s. The section makes this argument in three steps. First, it explains how APRA and a partisan left committed to statist and heterodox economic policies emerged – and how the state-oriented model that they sought to deepen was put into place – prior to democratization in 1980. Second, it goes through the electoral successes of APRA and the partisan left in the 1980s, the implementation by Alan García’s government of a heterodox economic program, associated with the partisan left, and the descent into both hyperinflation and an increasingly bloody conflict with the Shining Path. Third, the section covers the ascendancy and dominance of Alberto Fujimori’s authoritarian government in the 1990s and the dismantling of the statist economic model. It argues that these experiences prompted the APRA leadership to thoroughly renounce traditional statist commitments in favor of market liberalism, a process of renovation comparable to that of Bolivia’s MIR. It also argues that important segments of the partisan left went through a more limited process of political learning – in many respects similar to that by the individuals who were incorporated into Morales’s project in Bolivia – remaining committed to a statist model, but concluding that such a project was contingent on maintaining macroeconomic stability and a degree of restraint.

4.1.1 The postwar decades: APRA, the left, and the establishment of a state-oriented model

In Peru, like in of most of Latin America, middle-class and popular movements challenging the political position of traditional economic elites emerged in the 1920s and 1930s. But unlike in most neighboring countries – including Bolivia, where the MNR-revolution shook the established order in 1952 – the traditional oligarchy managed to cling on to power in the postwar decades. This feat was carried out via a close alliance with Peru’s armed forces, which effectively became the “watchdog of the oligarchy” (Cotler 1995, 328). From the 1920s to the
1970s, a combination of electoral fraud and military interventions served to lock out APRA (Alianza Popular Revolucionaria Americana), the main vehicle of popular organization, and its leader Víctor Raúl Haya de la Torre from the hallways of power. With oligarchic rule followed the preservation of export-oriented economic policies during the immediate postwar decades, limiting state intervention in favor of industrialization (Cotler 1983, 7-13; Thorp 1983, 39-44).

Despite being shut out of power, APRA held political center stage for much of this period. Founded by the student leader Víctor Raúl Haya de la Torre in 1924 as an anti-imperialist and anti-oligarchic movement it gained the support of broad sections of the reform-minded middle class and the Peruvian labor federation, CTP (Confederación de Trabajadores de Perú). While avowedly non-Marxist, and seeking a third way between capitalism and socialism, APRA was highly reformist, advocating a significant role for the state to change existing property relations, cut dependence on the United States, and spur industrialization. APRA’s radical program, personalism, and cultish mystique generated fear among elites, who submitted the party and its members to intense repression (Graham 1992, Ch. 2; Cotler 1995, 326-333).

The existence of a large, reformist party commanding the loyalties of emergent middle- and working classes hampered the development of a socialist and communist left. Marxist thinker José Carlos Mariátegui, a former associate of Haya de la Torre’s, had founded the Peruvian Socialist Party (Partido Socialista de Perú) and a separate union federation (CGTP – Confederación General de Trabajadores de Perú) in 1928. But after Mariátegui’s early death in 1930, which also prompted the party leadership to establish connections to the Comintern and change the party label to communist (PCP, Partido Comunista de Perú), APRA achieved dominance among anti-oligarchic segments of society. Throughout the 1940s and 1950s, the Marxist left therefore played a marginal role (Roberts 1998, 204-5; Haworth 1993, 42-3).
During the 1960s, however, the seeds of what in the 1980s would grow into a left resurgence were sown. First, to end APRA’s exclusion from power, Haya de la Torre moderated the party’s profile and struck a series of deals with the political establishment. The Faustian bargain, however, failed to bring him to the presidency and generated a sense of betrayal among many militants, with significant numbers of young cadres departing to form new left organizations (Graham 1992, 34-5; Cotler 1983, 13-8; Di Tella 2004, 86-8). Second, in 1968 – in a sharp break with the past, when the military had intervened to protect the economic interests of the oligarchy – the armed forces, under the leadership of Juan Velasco Alvarado, took power with the aim to implement a statist development program (North 1983, 247-51). The new regime launched a land reform, put into place import-substitution industrialization policies, and supported union activity as well as the development of new community organizations (Thorp 1983, 44-55). Such policies provided impetus to the left; industrial growth strengthened the working class, while the lack of overt repression provided the left with the political space to build its own organizations (Roberts 1998, 209-17; Cotler 1983, 32-4).

Thus – similarly to in Bolivia – when the military regime finally gave way for democratic government in 1980, two features were etched into Peru’s economic and political landscape. First, a state-oriented development model was firmly in place. Velasco’s tenure and the military’s “revolution” had ended already in 1975, but the state’s role in the economy remained large (Gorman 1982, 25-9). Second, with the labor-based APRA and the new Marxist left resurgent, parties committed to deepening the statist model were in a position to challenge for power. The transition process had begun in 1978 when the military, faced with protests from the unions and new civil society organization, called for elections to a constituent assembly, tasked with writing a new constitution. APRA won 40 percent of the vote, with another 30 percent
spread across five left parties, underlining the strength of forces committed to a statist model and expansionary economic policies (Roberts 1998, 219-20; Woy-Hazleton 1982, 37-8).

4.1.2 The 1980s: left resurgence, APRA in power, hyperinflation, and the Shining Path

In Peru, the 1980s – like in Bolivia, where the UDP came to power in 1983 – provided the high point for political forces linked to labor and the left that sought to deepen the existing state-orientated economic model. For the partisan left, the decade marked its emergence as a serious political contender. Before the military regime, the Communist Party had been the most important Marxist organization, but had produced virtually no electoral footprints with APRA capturing most of the popular vote (Roberts 1998, 204-5; Haworth 1993, 41-2). The resurgent left was, however, highly radical. Most, if not all, Marxist groups were committed not only to a deepening of state intervention into the economy and heterodox macroeconomic policies, but full-blown socialization of the means of production. Moreover, from early on left parties were divided over the role of violence in affecting political change (Roberts 1998, 221; Haworth 1993, 45-7). Over the course of the decade, several left groups – most importantly the Shining Path, but also the MRTA (Movimiento Revolucionario Tupac Amaru), which initiated their insurrections in 1980s and 1982 respectively – opted for armed struggle. At the same time, left parties that pursued a parliamentary path frequently had difficulties clearly and consistently discarding the legitimacy of violence.

Following a surprisingly poor showing in the 1980 presidential and legislative elections, blamed by the Marxist parties themselves on internal divisions, important sections of the partisan left formed IU (Izquierda Unida) (Roberts 1998, 222; Woy-Hazleton 1983, 62-3). Unity quickly paid off: IU captured 24 percent of the vote in the municipal elections later in the same year.
and its mayoral candidate in Lima, the independent leftist Alfonso Barrantes, finished a surprise runner-up (Roberts 1998, 223-5). In the 1983 municipal elections IU expanded its share of the vote to 28.8 percent nationwide, second only to APRA. The left’s success was again the most sweeping in the capital. IU finished first in a majority of electoral districts and Barrantes captured the mayoralty (Roberts 1998, 225-7; Haworth 1993, 51-2).

The pendulum’s swing to the left continued in 1985. IU recorded its strongest result in a presidential race, with Barrantes finishing second with nearly 25 percent of the vote, and with the party winning a fourth of the seats in both houses of congress. Nevertheless, APRA’s Alan García trounced the IU candidate for president. Debilitated by internal power struggles following the death of its founder and long-time leader Víctor Raúl Haya de la Torre in 1979, Peru’s traditional labor-based party had captured only 27 percent of the vote in 1980, losing the presidency to Fernando Belaúnde of the centrist AP (Acción Popular), who was running on a reformist platform, successfully appealing to the middle class (Graham 1992, 70-81).

Following his election as party secretary in 1982, however, the 36-year old Alan García had reinvigorated APRA. García moved the party – which since the 1960s steadily had shifted towards the right – firmly back to its anti-imperialist and anti-oligarchic roots. Benefitting from Belaúnde’s inability to turn the economy around, the government’s shift to harsh austerity policies, and the increasingly violent conflict with the Shining Path, García ran a fiercely populist campaign in 1985, centered on his own charisma and oratorical abilities (Graham 1992, 88-93; Crabtree 1992, 69-73). After García doubled the vote of the second-placed Barrantes in the first round, the IU candidate decided against taking up his runoff spot, arguing that the country would be better served dispensing of a fractious ballotage and with APRA and IU working together (Roberts 1998, 248; Graham 1992, 90-1).
García’s victory and the strong IU showing paved the way for the enactment of a radical economic agenda. APRA’s candidate was elected thanks to a combination of his charisma and the party’s machinery. Despite the leftist rhetoric, however, García’s platform was remarkably vague, a sharp contrast to that of Barrantes, which outlined sweeping state-oriented reforms and a drastically expansionary macroeconomic policy. But once in office García largely adopted the IU program. He limited debt payments to international creditors, while aggressively lambasting the IMF and foreign banks, and embarked on a radical heterodox reactivation program, taking advantage of the reserves built up during the last years of the Belaúnde government and ample spare capacity in the economy (Graham 1992, 101-2; Crabtree 1993, 31-5; Dornbusch and Edwards 1989, 34-47). In 1987 he took up one of IU’s signatures proposals, pursuing the nationalization of large sections of the banking sector and putting the government in direct confrontation with business (Graham 1992, 108-9). While IU remained deeply divided over its relationship with APRA, and regarding whether it should as advocated by Barrantes more formally work with the García government, the left either supported the core direction of the government’s economic policy or, when critical, argued that it was too conservative (Graham 1992, 115-6, 147-8; Crabtree 1992, 80-2).

After a successful first couple of years as president, García’s fortunes worsened dramatically during the second half of his term. The reactivation program had initially proved fruitful, producing growth rates hovering around 10 percent in 1985, 1986, and 1987, with the limit on debt payments contributing to strengthening the government’s foreign exchange position (Graham 1992, 104-5). But with increasing bottlenecks in the productive chain and intensifying capital flight, exacerbated by the attempt to nationalize the banking system, growth weakened while inflation quickly escalated out of control. By 1988, Peru was stuck in a debilitating spiral
of hyperinflation, marked by widespread shortages of basic goods (Graham 1992, 122-3). At the same time the security situation deteriorated quickly. While the most important sections of the partisan left had opted for the electoral road in 1980, the Shining Path had launched an armed insurgency. Over the course of the decade, the Maoist guerrilla – and to a lesser extent the MRTA – carried out brutal terrorist attacks, killing thousands of civilians, and fueling a vicious conflict with the military. The economic chaos further undermined the state’s response to terrorism, while the left was tainted by its association with the Shining Path and the MRTA.

As a consequence – in a similar way to in Bolivia a few years earlier – the 1980s ended with Peru embroiled in a hyperinflationary crisis. Governed by a labor-based party, pursuing the implementation of a radical statist program, and with the partisan left at the height of its electoral power, the country was descending into chaos. Inflation rates topping 3000 percent were accompanied by shortages and panic. At the same time – making matters even worse than in Bolivia – the state was engulfed in a brutal conflict with armed left-wing guerrilla organizations.

4.1.3 The 1990s: defeats and learning for APRA and the left

As in Bolivia, where the leftist and labor-linked political forces associated with hyperinflation were castigated, voters turned their back en masse on APRA and IU in the 1990 election. APRA dropped from 46 to 23 percent in the presidential race (Schmidt 1996, 340; 343-4). The IU-candidate, Henry Pease García, carried 7 percent of the vote, with Alfonso Barrantes capturing less than 5 percent running as an independent, for a combined vote that was about half of what the left had managed in 1985 (Roberts 1998, 255; Crabtree 1995, 10-11). The

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98 The historical counterpart to APRA in Bolivia is of course MNR. In addition to similar anti-oligarchic roots and their foundation in their countries’ labor movements; they followed similar ideological trajectories until the late-1970s: beginning as nationalist and reformist movements that increasingly shifted to the right. APRA, however, unlike MNR moved back to the left in the 1980s, which put them firmly on different paths thereafter.
congressional election results were as devastating. APRA lost 54 of the 107 seats it controlled in congress, and 14 of 30 in the senate. IU suffered even worse, losing two thirds of its 48 congressmen and three fifths of its 15 senators.

Voters, however, did not just deliver a beating to APRA and IU, but to the entire party-system. Following the return to democracy in 1980, Peru’s political landscape had been dominated by four parties, with Belaúnde’s AP and the conservative PPC (Partido Popular Cristiano) occupying the center-right (Tanaka 1998). For the 1990 election, AP and PPC joined Fredemo (Frente Democrático), a market- and business-oriented alliance that promised harsh stabilization measures to deal with the economic crisis, led by the renowned writer Mario Vargas Llosa (Schmidt 1996, 325-7). Until the last few weeks of the campaign, Vargas Llosa appeared poised to win, but in a surprising twist voters turned to a complete outsider, Alberto Fujimori, a political novice running without a real party on a pledge specifically to not implement austerity measures (Schmidt 1996 340). Having squeezed through from the first round, Fujimori defeated Vargas Llosa by 62 to 38 percent in the runoff.

The electoral loss for Peru’s left and labor-based political forces was – again like in Bolivia – followed by a decade-long deepening of programmatic and political defeat. Having run against Vargas Llosa’s shock treatment, Fujimori made a U-turn once in office and to a significant extent adopted his opponent’s program (Degregori 2003, 222; Stokes 2001, 50-53). Within his first year as president, he launched a harsh stabilization program, implementing draconian spending cuts and devaluing, unifying, and floating the exchange rate, effectively forcing the economy into a recession (Wise 2006, 209-10; Weyland 1998). Having brought hyperinflation under control, Fujimori deepened market-oriented reforms. Over the course of the following five years, tariffs were slashed, subsidies cut, and state-owned enterprises privatized,
with the state-centered model in place since the Velasco regime effectively dismantled (Sheahan 2006, 191-2; Wise 2006, 213-6, 223-4).

At the same time, Fujimori hardened his grip on power. He had campaigned against the established parties and attacked them head on after his election, culminating in his closing of the opposition-controlled congress in April 1992. After intense pressure from the United States and the OAS, Fujimori was forced to return to nominally democratic government, and called constituent-assembly elections that were held in November 1992 to write a new constitution (Degregori 2003, 226-7; Crabtree 1993). But with APRA and IU as well as AP boycotting the elections – and Fujimori enjoying strong popularity with inflation tamed and, then, in September 1992, the capture of Abigael Guzman, the leader of the Shining Path – the president secured majority support in the constitutional congress (Crabtree 1993).

Following ratification of the new constitution in a surprisingly close 1993 referendum, Fujimori won re-election in a landslide in 1995. APRA – in which Alan García, who had been forced into exile by the Fujimori government, was still the central figure – managed only to win 4 percent of the vote. The left split, with significant numbers of leading militants, including the 1990 presidential candidate Henry Pease García, supporting the opposition's unity candidate, Javier Perez de Cuellar – who managed a paltry 21 percent. Others stuck with IU, which presidential candidate received less than 1 percent, with the party losing its electoral registration.

On the basis of these experiences – hyperinflation, the descent into armed conflict, and repeated and deepening political and programmatic defeats – important segments both of APRA and the partisan left drew lessons regarding the importance of macroeconomic restraint.

99 Opposition to Fujimori immediately after the 1990 election coalesced around Alan García and APRA (Graham 1992, 218-9). Following the self-coup the former president and the APRA leadership were persecuted, he went into exile and would end up spending most of the 1990s in Europe, from there he remained in touch with the party leadership and the militancy (Cornejo 2011, 133)
Beginning already at the 1991 17th Extraordinary National Congress, APRA initiated what would become a drawn out and far-going ideological renovation process centered on a self-critique of the 1985-1990 period. By 1994, and as preparation for the 1995 elections, APRA had approved new programmatic bases for its platform, which set out a series of “errors that must not be repeated in the future”. Most importantly, the party concluded that “a new macroeconomic policy must not ignore basic equilibriums and must maintain fiscal discipline”.

Although APRA and García continued to conceive of themselves as the representative of the popular classes and remained fiercely critical of Fujimori’s “neoliberalism”, over the course of the 1990s and the early 2000s they progressively abandoned previous commitments to a statist model and heterodox economics. Asked to reflect on his first government in a Financial Times interview in 1999, García noted that they “had given too much weight to the idea of [the state] managing the economy”. He argued further that the government had “failed to be fiscally disciplined because [it] wanted to create jobs, people to have better salaries, generate public works and services, and that created monetary disorder”, thereby linking an excessively large role for the state in the economy to the loss of macroeconomic stability.

The segments of the partisan left that engaged in political learning reached more limited conclusions. These individuals did not embrace the market and did not abandon their commitment to greater state intervention into the economy to promote industrialization and redistribution. But they did draw a set of interlinked lessons. First, they associated their own political exclusion from power and the establishment of a “neoliberal” model with the ravages of terrorism. “After the Shining Path, there existed no political space for the left; everything was

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100 APRA. 2000. Propuestas del APRA. Partido Aprista Peruano, 26
101 Ibid
102 Ibid
103 García (2015, 61)
104 Ibid

133
linked to terrorism,” noted one former member of Barrantes’s municipal government who would later be part of Humala’s team. Second, they made a connection between terrorism and the Shining Path on one hand and the economic crisis and hyperinflation on the other. As underscored by Carlos Tapia – also an IU leader in the 1980s who later became one of Humala’s advisors – “hyperinflation paved the way for the Shining Path.”

Finally, they concluded that economic crisis and hyperinflation were the results of policy choices marked by a lack of restraint. Germán Alarco – an economist who was part of the team writing the IU platform in 1985, subsequently served in the García administration, and who later was an advisor to the Humala campaign in 2011 – noted that the hyperinflationary crisis was “a reference point; it has served as a vaccine, made clear what happens if there are no limits”. The same point was underlined by Oscar Dancourt, another prominent IU-affiliated economist who would later be part of Humala’s team, arguing that “we learned the importance of low inflation in the 1980s. The crisis created a consensus about what we could and what we could not do among economists on the left”.

Hence, on the basis of the hyperinflationary crisis, significant sectors of APRA and the partisan left drew important lessons regarding the objectives of and demands on economic policymaking. These learning processes shared important characteristics with those that Bolivia’s left engaged in around the same time. One set of actors, in APRA, underwent a relatively thorough renovation – similar to that of Bolivia’s MIR. They did not just embrace the importance of macroeconomic stability and restraint, but in the end embraced the market.

105 Author interview with Cecilia Israel; this quote, like the succeeding ones in this paragraph, were echoed in interviews with a wide set of individuals with a background as leaders and militants in IU and who later became part of Humala’s team. They include Alberto Adriazón, Carlos Tapia, Germán Alarco, Gonzalo García Nuñez, Oscar Dancourt, and Sinesio López.
106 Author interview with Carlos Tapia
107 Author interview with Germán Alarco
108 Author interview with Oscar Dancourt
Another set of actors, drawn from the ranks of IU — much like the traditional left in Bolivia that spent much of the 1990s on the fringes of electoral politics before being incorporated into Evo Morales’s project — remained committed to statist development, but concluded that the sustainability of such a model was contingent on maintaining macroeconomic stability and that it in turn required a degree of fiscal and monetary restraint.

In Peru, like in Bolivia, these lessons were closely tied to two features that characterized the situation in which hyperinflation took place: the fact that it occurred in the context of resurgent left and labor forces engaged in an aggressive attempt at deepening the statist model and that it was followed by political exclusion and far-going market-oriented reforms. These circumstances drove home a link between the actions of the left and the crisis — not having exhibited economic restraint, thus provoking the crisis — as well as the left’s subsequent predicament. These actors therefore concluded that they must not make the same mistakes again and that economic management, hence, needed to be marked by discipline.

4.2 Past lessons and economic restraint under Alan García and Ollanta Humala

This section argues that lessons from the hyperinflationary experience drawn by the APRA leadership and segments of the partisan left contributed to the discipline of the Alan García (2006-2011) and Ollanta Humala governments (2011-2016). In the case of the government of García, learning was sustained via continuity in APRA’s leadership. In the case of that of Humala — who himself did not have a background in the partisan left — lessons were embraced via the incorporation of traditional left actors into his campaign.

The section makes this argument in five steps. First, it shows how the combination of the transition following the collapse of the Fujimori regime, the 2001 election, and the Toledo
government, helped reinforce learning in APRA and the partisan left. Second, it demonstrates how both García and Humala embraced macroeconomic restraint in the 2006 election and that it was done with reference to hyperinflation. It argues that for García learning entailed a broader embrace of the market model whereas for Humala it produced a combined commitment to economic change and prudence—similar in substance to that of Evo Morales in Bolivia—and shows how it was linked to the incorporation of a set of individuals from the old partisan left. Third, the section argues that following his Victory in the 2006 election, learning was important for García’s choice to embrace both macroeconomic discipline and market-oriented policies more broadly. Fourth and fifth, it shows how Humala’s position on fiscal and monetary management remained constant—and consistently motivated with references to the past—through the 2011 campaign and into his government, even as his promises for greater state intervention into the economy became more measured and finally abandoned altogether.

4.2.1 The transition, the Toledo government, and sustaining learning on the left and in APRA

Fujimori’s fall from power occurred as suddenly as his rise to it. Following his reelection landslide in 1995, the president had moved quickly to remove the term limits that would have prevented another run five years later. Making ample use of state resources and potentially voter fraud, Fujimori squeezed into first place in the 2000 election (Levitsky and Cameron 2003, 17; Taylor 2001, 7-13). Denouncing the uneven playing field, his main challenger Alejandro Toledo refused to take part in the runoff. In spite of protests and international condemnations, Fujimori appeared at first to be able to hold onto power. But then a secretly taped video was released of the president’s security chief Vlademiro Montesinos bribing opposition politicians. With
Peruvians taking to the streets in large-scale demonstrations, Fujimori resigned (Levitsky and Cameron 2003, 16-21; Taylor 2001, 16-8).

The collapse of the Fujimori regime opened the door for a comeback-bid from Alan García. Following a transition administration headed by AP-politician Valentín Paniagua, new elections were called for April 2001. In a highly personalist campaign, the charismatic García fueled APRA’s rebound (Schmidt 2003, 345-7). The party improved its vote from only 1.4 percent in the 2000 election and 4.1 percent in 1995 – without García – to 25.8 percent in the first round in 2001. While García, finishing at 46.9 percent, ultimately lost the runoff to Alejandro Toledo, who had emerged as something of a democratic unity candidate following his challenge to Fujimori, APRA became the strongest force in congress.

García’s return to Peru in January 2001 was his first time in the country since he was forced into exile nearly a decade earlier, but he had remained the dominant figure in APRA. While García tacked left during the campaign (Schmidt 2003, 345), lambasting the social debt of the Fujimori government, in speeches as well as in his platform, he repeatedly and explicitly acknowledged mistakes committed during his presidential term in the late 1980s. This was the most directly done in an open letter to the Peruvian people in which he head on addressed the three most persistent criticisms directed towards his government: corruption, hyperinflation, and terrorism.109 While García vehemently disputed that he in any way had acted in a corrupt or undemocratic way or that he had not appropriately taken on the Shining Path insurgency, he unequivocally accepted culpability for hyperinflation, noting that “I accept it as the major error [of my administration], it discredited the regime and has no excuse”.110 García also acknowledged that hyperinflation was a result of too much spending and that it had served to

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109 García 2015, 23-48
110 Ibid, 35
pave the way for Fujimori’s “neoliberalism”, concluding that “we now know that any
government with a social vocation must strictly protect monetary stability”.
While the 2001
election did not provide García with the chance to apply in government the lessons he had drawn
from his previous time in power, the APRA leader, nevertheless, consistently and explicitly
reaffirmed them throughout the campaign.

Meanwhile, the democratic unity characteristics of the Paniagua and Toledo
administrations helped reinforce and sustain learning on the left. Following repeated electoral
defeats in the early 1990s, much of the old IU had joined cross-partisan efforts at opposing
Fujimori. In 1995, significant sectors abandoned IU’s own candidate to back the ticket led by
Javier Cuellar Perez. During the second half of the 1990s, Foro Democrático became the main
vehicle to oppose Fujimori’s reelection efforts, with leading left militants taking up important
roles in the Lima-centered umbrella organization. Via these paths, several former IU leaders
found a way into the governments of Paniagua and Toledo. Most importantly, a set of left
individuals with a more technocratic profile assumed economic policy roles in the Toledo
administration. Gonzalo García Nuñez and Oscar Dancourt – both of whom had a background in
IU and would later become incorporated into Humala’s team – were selected to the Central Bank
directorate, with the latter serving a stint as interim Central Bank president. Meanwhile, Kurt
Burneo was a Vice Minister to the Minister of Finance, with Félix Jiménez – who had served in
the Velasco government, been part of IU, and would be Humala’s chief economic advisor in
2006 and 2011 – in a role reporting to him. Confrontation with real economic policy challenges,

\footnote{Ibid, 37-9}

\footnote{Among these were Henry Pease García (IU’s presidential candidate in 1990), Javier Diez Canseco (a founder and leader of PUM), Alberto Adrianzén (IU militant), Carlos Tapia (IU militant), Nicolás Lynch (IU militant), and Gonzalo García Nuñez (served in Velasco government and IU militant)}

\footnote{Author interview with Alberto Adrianzén; “Personalidades de izquierda con trayectoria en equipo de Ollanta Humala”, La Republica, 7 June, 2011}
during a period marked by volatile international markets, cemented their commitment to professional management and fiscal discipline. At the same time, government participation served to raise and strengthen their profile as credible left-oriented technocrats.

Hence, following the transition after the collapse of the Fujimori regime, lessons from the hyperinflationary experience became more entrenched. APRA and Alan García publicly affirmed and elaborated on the conclusions they had arrived on following hyperinflation. Meanwhile a set of individuals from the partisan left became via cross-partisan opposition to Fujimori drawn into policymaking roles that reinforced lessons and strengthened their public standing.

4.2.2 The 2006 campaign: the lessons of García and Humala

The Peruvian presidential contest in April 2006 initially had all the trappings of a status quo election. While Toledo had been a hapless president, he had presided over an economic boom – with the economy growing at an average of 5.7 percent between 2002 and 2006 – fueled by a sharp inflow of foreign investment and rising commodity prices, which appeared to lend legitimacy to the market-oriented reforms of the preceding decade (Cameron 2009, 278-9). At the same time, the second- and third-placed finishers from 2001 – PP’s Lourdes Flores Nano and APRA’s Alan García – as well as interim-president Valentín Paniagua of AP, were well-positioned for the race, seemingly heralding a return of the traditional parties (Schmidt 2003, 350-1). But as 2005 turned into 2006, a rising sense of disappointment among voters in both traditional political elites and the economic model opened up space for an outsider candidate. Discontent was rooted in the uneven distribution of the proceeds of economic growth, with

114 Author interview with Alberto Adrianzén. Several interviewees who do not belong to this group emphasized the importance of their participation in the Toledo government, including Carolina Trivelli and Milton Von Hesse, who served in both Alan García’s second and in Humala’s government and who is considered to belong to the technocratic center right.
115 Economic data from World Economic Outlook (October, 2017)
benefits concentrated along the coast and pervasive poverty in the highlands. Continuing corruption scandals during the Toledo government further fueled anti-establishment sentiments (Cameron 2007, 8-16; 2011; McClintock 2006, 100-1).

Riding this rising wave of discontent, Ollanta Humala entered the political stage in earnest during the second half of 2005. While his father had deep roots in the Marxist left, Humala himself was a virtual newcomer to politics. He had spent his entire career in the military and was best-known for having led an uprising in the dying days of the Fujimori regime (McClintock 2006, 101). Basing his campaign on a network of military reservists in the highlands, and on fiercely nationalist, populist, and leftist rhetoric, Humala gained increasing traction among the rural poor as the year came to a close (Cameron 2011, 385-6; Humala 2009, 155-60). By March 2006, Humala’s anti-elite, authoritarian, and blatantly statist appeals had established him firmly at the front of the pack. His victory, with 30.6 percent of votes, highlighted dissatisfaction with the market model despite the boom. García’s ability to get to 25.4 and to squeeze past Flores Nano via consistent attacks on the PPC-candidate for being beholden to business, further underlined restlessness with the status quo (Cameron 2009, 290-1; McClintock 2006, 103-4).

For many Peruvians, especially from Lima’s middle and upper classes, the runoff between Humala and García constituted an unappetizing choice (McClintock 2006, 104). As demonstrated above, García and APRA had gone through a process of learning since their first time in power, not just committing to the importance of macroeconomic stability and embracing fiscal restraint as a necessary means for achieving it, but more broadly renouncing large-scale state intervention into markets. By 2006, García had more elaborately articulated a defense of market-oriented policies based on the writings of APRA’s founder Víctor Raúl Haya de la Torre, 116

116 Author interview with Salomón Lerner Ghitis
arguing that in the era of globalization, development and social justice required openness to foreign capital and engagement with the private sector (Cameron 2011, 387-8). The APRA leader underlined that “[t]he state cannot renounce its role as promoter of social justice. This does not mean, however, that we must confuse this task with that of the state owning or expropriating private companies” and that instead “[t]he state must create conditions for the investment of private capital to generate employment, create wealth, have better income distribution, education, [and] health”. García’s emphasis on “responsible change” and policy proposals such “Sierra Exportadora” (“Exporting Mountains”) that provided a market- and export-oriented strategy for combatting poverty in the highlands, did not constitute a mere response to electoral incentives in the context of the campaign; they reflected beliefs by then held since well-before the 2006 election. But they clearly served an electoral purpose too. Despite overt attempts by García at reassuring voters that lessons had been drawn from his first term in power and that mistakes would not be repeated, many remained skeptical (Schmidt 2007, 816-7).

Humala made no attempts at reassuring voters. Instead – like Evo Morales in Bolivia the preceding year – he made far-going economic and political change a centerpiece of his campaign, promising to end the “neoliberal model”, nationalize strategic economic sectors, and to call a constituent assembly to re-write the constitution. Despite the programmatic similarities between the two, Humala’s rise was characterized by important differences from that of Morales in Bolivia. Most importantly, Morales’s 2005 campaign followed on a decade-long, gradual ascent first within and then on the basis of highly organized social movements, channeling a series of by then well-articulated popular demands. Humala’s venture was a

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117 García 2005, 73
118 García 2015, 357-405
119 UPP 2006. La gran transformación: Perú de todos nosotros, plan de gobierno, 2006-2011, 11-2; 55-6; 71-2
personalist endeavor, put together within the span of a year and without an organized social basis. Moreover, while Peru’s 2006 election was marked by discontent with the economic model and political elites, it did not take place in the context of a full-blown crisis preceded by multiple presidential resignations and deadly confrontations between social movements and security forces.

But, despite Humala’s sudden emergence on the political scene, he did in a way similar to Morales incorporate important segments of the old partisan left. This process of incorporation was initiated during the second half of 2005 as the campaign began to gather grassroots momentum in the highlands. Still without a program and with a dearth of technical and policy competence, the Humala campaign began to reach out to individuals perceived to have such qualities and to be amenable to the campaign’s nationalist and leftist character. The most high-profile entrants into the campaign were Gonzalo García Nuñez, Salomón Lerner Ghitis, and Félix Jiménez – who all had a background in the Velasco government in the 1960s and 70s and then had been associated with the IU. García Nuñez became Humala’s Vice Presidential candidate, Lerner Ghitis his campaign manager, and Jiménez economic spokesman. Humala put García Nuñez and Jiménez – who had both held technocratic roles in the Toledo government – in charge of writing the electoral program.

Moreover, like for Morales, Humala’s incorporation of individuals from the traditional partisan left into his campaign produced a programmatic mark. García Nuñez and Jiménez had joined Humala because they shared his commitment to greater state involvement in the economy and the program they produced reflected this commitment. Named the “Great Transformation” it

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120 Author interviews with Salomón Lerner Ghitis, Félix Jiménez, and Gonzalo García Nuñez.
121 Humala was introduced to García Nuñez via his uncle – and García Nuñez later introduced him to Jiménez. Lerner Ghitis first met Humala as the leader of one of the main organizations of the Jewish community in Peru (author interviews with Salomón Lerner Ghitis and Gonzalo García Nuñez); “Todos los hombres del candidato. Los que más influyen”, La República, 27 March, 2006; “El plan de gobierno de Ollanta”, La República, 7 January, 2006.
promised to undo the “neoliberal economic model”, nationalize strategic sectors, and increase public investment. But it also reflected the core lessons drawn by Jiménez, García Nunez and others in the left in the 1990s. The program emphasized the importance of maintaining macroeconomic stability “as a prerequisite for its strategy” to expand the role of the state in the economy. It explicitly committed to maintaining the Central Bank’s independence, an inflation-target of 2.5 percent, and embraced the “Taylor rule”. It also committed to “not exceeding deficits of 1 percent of GDP” as part of a “countercyclical fiscal policy”.

According to García Nunez, “there were two reasons for the emphasis on macroeconomic stability and the need for fiscal balance. First, the hyperinflation of the 1980s; it was horrible. And, second, the Shining Path. It was not just terrorism, but closely associated with the left, and discredited left projects. It was hyperinflation and economic chaos that allowed it to take hold”. In other words, the Humala campaign committed to macroeconomic stability – and fiscal and monetary restraint as a means to achieve it – because of lessons from the hyperinflationary crisis. These commitments were not widely advertised, however, and to the extent that they were, they were not believed. Humala’s appeal resided in his promise for change.

Hence, as discontent with “neoliberalism” came to the fore, the 2006 presidential contest turned from a status-quo to a change election. The candidates who promised economic change –

\[\text{122 UPP 2006. La gran transformación: Perú de todos nosotros, plan de gobierno, 2006-2011, 24; “El plan de gobierno de Ollanta”, La República, 7 January, 2006}\\ \text{123 UPP 2006. La gran transformación: Perú de todos nosotros, plan de gobierno, 2006-2011, 25. While the US Federal Reserve does not explicitly follow the Taylor rule, it has been frequently argued that it captures well monetary management during the Paul Volcker and Alan Greenspan periods (“The Education of Ben Bernanke”. The New York Times, 20 January, 2008)}\\ \text{124 UPP 2006. La gran transformación: Perú de todos nosotros, plan de gobierno, 2006-2011, 26}\\ \text{125 Author interview with Gonzalo García Nuñez}\\ \text{126 Humala’s economic team was exasperated – both in 2006 and 2011 – by the disbelief showed by the media and political analysts in their commitments to maintaining responsible macroeconomic policies. This was highlighted both by members of the team, like Feliz Jiménez (author interview), but also individuals like Carolina Trivelli (a cabinet member of the Humala government often described as pertaining to modern and more technocratic left) and Kurt Burneo (who entered the team before the runoff in 2011) (both author interviews).}\\

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Humala in the form of a transformation of the market-oriented model, García as adjustments within its confines – did the best and made it to the runoff. Yet, in terms of core macroeconomic management, no candidate – not even Humala – sought a break with the status quo. Both García and Humala were committed to fiscal and monetary restraint in order to maintain macroeconomic stability. In both cases, such commitments were grounded in lessons from Peru’s hyperinflationary crisis.

4.2.3 García in power: past lessons and present orthodoxy

García defeated Humala in the runoff by a clear but close margin of 53 to 47 percent. The ballotage was decided in Lima, where voters across the class-spectrum, a significant chunk of whom had supported Flores Nano in the first round, opted for García. APRA’s candidate overcame fears that a second government of his would be a repeat of the first and convinced middle-class Peruvians that his promises of “responsible change” posed smaller risks to the economy than Humala’s “great transformation” (Cameron 2011, 386-7). Moreover, for voters who since the Fujimori regime were still watchful for attempts at undermining democratic government, García’s appeared a safer choice than Humala, whose campaign had clear authoritarian touches and was weakened by links to Venezuela’s Hugo Chávez (McClintock 2006, 105-6).

While the vote thus constituted a rejection of Humala’s hard-nosed populism at both the economic and political fronts, it was also widely interpreted as one for change. That 30 percent of Peruvians voted for Humala in the first round and 47 percent in the runoff while the country was in the midst of a boom appeared to signal deep discontent with the economic model. Therefore many analysts expected García to deliver the kind of moderate left-of-center
adjustments that he had appeared to promise (Cameron 2011, 374; Tanaka 2008, 176). But instead, the APRA leader provided complete continuity with the existing market-oriented model. Not only did García maintain strict macroeconomic discipline, but he also made no significant attempts at expanding the role of the state in the economy via ramped up taxes, strengthened regulations or new social policies (Tanaka 2008; Cameron 2011, 389-90). So orthodox was his stewardship that PPC’s Flores Nano criticized García for being “a president for the rich”.

The complete continuity with orthodoxy by García was shaped by lessons from his first government. As shown above, García and APRA had gone through a far-going learning process in the preceding decade-and-a-half, not only concluding that it was critical to maintain macroeconomic stability and that it required a degree of restraint, but fully embracing the market as an instrument for both growth and social justice. García clearly doubted the efficacy of state intervention, which he underlined in a widely read El Comercio op-ed that he penned a year into his government, where he argued that the state cannot create, only obstruct, development and must therefore be stifled (Cameron 2011, 388; Tanaka 2011, 77).

The key decisions reflecting the choice to pursue continuity with orthodoxy were taken during the transition and were specifically motivated with lessons from the past. In order to reassure economic actors that macroeconomic stability and the market-oriented model would be maintained, García quickly appointed Luis Carranza – a reputable and orthodox technocrat with a background as Vice Minister and investment banker – to the position of Minister of Finance. García’s prime minister, and long-time member of APRA’s leadership, Jorge Del Castillo explicitly motivated the choice with reference to the crisis during García’s last time in power,

127 “Lourdes Flores: García se ha convertido en presidente de los ricos.” El Comercio, June 30, 2008
128 “El síndrome del perro del hortelano”, El Comercio, 28 October, 2007
noting that “you do not want to do that again” (Dargent 2015, 108). Carranza would later be succeeded by three Ministers of Finance who cut a similar profile. The choice to pick technocratic heads of the Ministry of Finance – and to provide it with a significant degree of autonomy – would further reinforce orthodoxy (Dargent 2015, 101). APRA congressmen as well as the president found spending commitments in line with electoral promises reined in by the Ministry of Finance (Dargent 2015, 102; Vergara and Encinas 2016).

Hence, the complete continuity with the existing market-oriented model during the García government was to a large extent the product of political learning on the basis of his first. The APRA leadership – and the president – had since then concluded that maintaining macroeconomic stability was imperative and that it required a degree of fiscal and monetary restraint. Lessons had not stopped with an embrace of economic discipline, however, but had produced a comprehensive embrace of market liberalism, which made the government unwilling to expand the role of the state in the economy.

4.2.4 The 2011 campaign: Humala’s continuous commitment to restraint

The 2011 presidential race – like that five years earlier – had all the trappings of a status-quo election but turned into a challenge to the established model. As Alan García was preparing to leave office, Peru had enjoyed a nearly decade-long boom, with average growth rates approaching 7 percent during the preceding five years. Yet, discontent continued to brew, particularly in the highlands, with the distribution of its proceeds (Levitsky 2011, 87-8). At the same time, APRA’s victory had turned out to constitute the last hurrah of the party system. By

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130 IMF World Economic Outlook (October, 2017)
2011 partisan identities were virtually non-existent among voters. These conditions turned out to provide even more fertile grounds for outsider, anti-establishment candidates than in 2006, with voters sending Alberto Fujimori’s daughter Keiko Fujimori, running a populist right-of-center campaign, into the runoff with Humala who again won the first round.

Humala’s 2011-campaign exhibited both key changes and continuities with that of five years earlier. Most conspicuously, Humala significantly moderated his style. In the lead-up to the campaign, he brought in Luis Favre, a political consultant from Brazil who had worked with Lula da Silva. Following the advice of Favre, Humala cut a less radical profile, notably substituting his red sweater from the 2006 campaign for a suit and tie in 2011, softening his rhetoric, and producing more toned down commercials (Lupu 2011, 622; Fowks 2011, 7).

Humala’s first-round programmatic stance, however, was largely the same as in 2011, underpinned by continuity in his policy team. Between the 2006 and the 2011 elections, contacts between Humala and the traditional left had deepened and taken on a more formalized character. Salomón Lerner Ghitis played a key role, organizing a group of former IU leaders and militants, Ciudadanos por el Cambio, which was charged with writing the electoral program. The final product – again titled “The Great Transformation” and with Félix Jiménez as the main author – committed Humala for a second time both to a new constitution and a radical expansion of the role of the state in the economy, via nationalizations of strategic sectors.

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132 Author interviews with Carlos Bedoya (part of Humala’s campaign team in 2011) and Carlos Tapia (political advisor to Humala in 2011)
133 Author interviews with Salomón Lerner Ghitis, Alberto Adrianzén, Cecilia Israel, and Aida Naranjo. “Personalidades de izquierda con trayectoria en equipo de Ollanta Humala”, La República, 7 June, 2011; “Humala presentó a su equipo de plan de gobierno encabezado por economista Félix Jiménez”, El Comercio, 20 December, 2010
But it also, like in 2006, underlined the importance of macroeconomic stability. Again, it committed to an independent central bank, a 2.5-percent inflation target, and the Taylor rule, as well as deficits no larger than 1 percent of GDP as part of a counter-cyclical policy.\footnote{Gana Perú. 2011. \textit{La gran transformación: Plan de gobierno, 2011-2016}, 65-6} Again, such commitments were a derivative of lessons from hyperinflation. As underlined by Alberto Adrianzén, one of Humala’s advisors with roots in IU and a member of \textit{Ciudadanos por el Cambio}, “[t]his was a central point for us. We realized that we can’t fall into the hyperinflation of the 1980s – it was horrendous, with shortages, long lines for bread – we agreed that macroeconomic stability was necessary, and that it required prudent, professional management”.\footnote{Author interview with Alberto Adrianzén; echoed in author interviews with Carlos Tapia and Sinesio López}

The runoff against Keiko Fujimori, however, prompted moderation in substance, which thus went beyond that in style that had preceded the first round. This programmatic shift by Humala during the second-round campaign served a clear electoral purpose, aimed at winning the support of middle-class and centrist anti-\textit{Fujimorista} voters.\footnote{Author interview with Sinesio López} Before the ballotage, Humala took a public “oath for democracy”, abandoning his pledge to write a new constitution and promised to not attempt to remove term limits, thereby securing the endorsement of the liberal Nobel-laureate Mario Vargas Llosa.\footnote{“Lea el Juramento de Humala por la Democracia en el Perú”, \textit{La República}, 19 May, 2011} He also repackaged his economic program into the so-called \textit{Hoja de Ruta} and incorporated into his team several of Alejandro Toledo’s advisors, after the former president has finished a disappointing fourth (Levitsky 2011, 90). The \textit{Hoja de Ruta} removed commitments to nationalizations and state control over strategic sectors. Instead it shifted the focus to more limited initiatives in social policy, regulation, and taxation, while...
underlining that Humala would be committed to private enterprise and investment. Its adoption, thus, involved a palpable moderation of proposals aimed at expanding state intervention.

The degree of change with regards to the direction of economic policy implied by the inclusion of Toledo’s former advisors and the writing of the Hoja de Ruta should not be exaggerated, however. Félix Jiménez, who had written “The Great Transformation”, also coordinated the writing of the new platform. It was also he who personally reached out to the two most high-profile economists who joined from the Toledo campaign, Kurt Burneo and Oscar Dancourt. They had both worked with Félix Jiménez in the Toledo administration, where Dancourt served as interim-President of the Central Bank, Burneo was Vice Minister of the Treasury in the Ministry of Finance, and Jiménez served as the Director of Public Credit, a role in which he reported directly to Burneo. Moreover, while the new program proposed a more limited expansion of the role of the state in the economy – and was much more practical and concrete – it did still imply greater government intervention.

Moreover, as Kurt Burneo emphasized, “[o]n macroeconomic issues there was no change – and it could not have been that different. The original team was led by Félix Jiménez, one of the most accomplished economists in this country. He had been my professor and a colleague in the Toledo administration; he had an understanding of the importance of and a respect for basic macroeconomic equilibria”. The reason for the shared understanding of the importance of macroeconomic stability, according to Burneo, was that “[t]here is a practical knowledge of

139 Gana Perú. 2011. Lineamientos Centrales de Política Económica y Social para un Gobierno de Concertación Nacional
140 Author interviews with Félix Jiménez, Kurt Burneo, Oscar Dancourt, Dani Schydlowsky
141 Author interviews with Félix Jiménez, Kurt Burneo, Oscar Dancourt, Dani Schydlowsky
142 Author interviews with Félix Jiménez, Kurt Burneo, Oscar Dancourt, Daniel Schydlowsky, Germán Alarco and Cecilia Israel; Moreover, Burneo had been a student of Jiménez’s in university and Dancourt was one of Jiménez’s closest colleagues at the Catholic University. According to Burneo he received the call from Jiménez with the question to join the team the night of the first round when it was clear Toledo would not make it to the runoff.
things. There are things you can do and things you can’t do; there are clear historical experiences
that demonstrate this. Venezuela now, Peru in the past. They teach you that the theory is right.
You can run fiscal deficits and have an overvalued fixed exchange rate as long as reserves last,
but they don’t last forever. You just have to look at what the [economics] textbook says, compare
it to real world examples, and you learn from it. We learned from our own hyperinflation, with
pain.”

Hence, although the 2011 election again provided fertile grounds for an outsider
campaign, Humala positioned himself closer to the center than in 2006. For the first round,
moderation was in style only, but for the runoff it was reflected in programmatic substance too:
while Humala did not abandon promises for greater state intervention, proposals became more
measured. Such moderation, in turn, followed an electoral logic, aimed at winning Lima voters.
Commitments to macroeconomic stability and a degree of fiscal and monetary restraint,
however, were a constant — from the first round in 2006 through the runoff in 2011. These were
thus not products of electoral incentives. They were instead grounded in lessons from
hyperinflation drawn by actors from the traditional left that Humala had begun to incorporate
into his campaign in 2006. They were shared by the individuals — also with ties to the old
partisan left — who entered Humala’s inner circle between 2006 and 2011 and from the Toledo
campaign prior to the runoff.

4.2.5 Humala in power: lessons, constraints, and orthodoxy

Humala’s victory over Keiko Fujimori — by a close 51.5 to 48.5 percent margin —
initiated a transition that proved consequential. It was marked by a set of choices that put the new
administration firmly on a path towards continuity, not just with established macroeconomic

143 Author interview with Kurt Burneo
management practices – as Humala had consistently committed to – but with the market-oriented model, which he had promised to alter. Despite his shift towards the center prior to the runoff, Peruvian business remained fearful of Humala (Levitsky 2011, 91). Lima’s stock exchange produced a record 12-percent plunge the day after his election and an intense media campaign was unleashed, warning the president-elect not to alter the market model.144 Two weeks before he assumed office, Humala suddenly unveiled Miguel Castilla as his Minister of Finance. Castilla, with a doctorate in economics from John Hopkins University and a stint at CAF, had served for two years as a Vice Minister in the Ministry of Finance in the García government, with a reputation as a fiscal hawk (Dargent 2015, 110).145 On the same day, Humala announced that he would reappoint the Central Bank president, Julio Velarde, to his post.

The Ministry of Finance and Central Bank selections were interpreted as a signal to markets that there would be no rupture with the economic policy course of preceding governments (Dargent 2015, 110).146 That was also how Humala’s advisors from the traditional left, including the individuals who had joined from the Toledo campaign before the runoff – none of whom had been involved in the decision – understood them. They had expected that either Burneo or Jiménez would be chosen to lead the Ministry of Finance and that Dancourt would be appointed to head the Central Bank.147 They considered the choices of Castilla and Velarde to constitute the abandonment of commitments to expand the role of the state in the economy. Salomón Lerner Ghitis, who had been Humala’s campaign chief in both 2006 and 2011, and who became his prime minister, immediately tendered his resignation in protest, but

144 “BVL registró la peor caída de su historia: cerró con retroceso de 12,51%”, El Comercio 6 June, 2011
145 “Miguel Castilla asumirá como Ministro de Economía en gobierno de Humala”, La República 20 July, 2011
147 Author interviews with Félix Jiménez, Oscar Dancourt, Cecilia Israel, Salomón Lerner Ghitis
was persuaded by Humala to stay on. So were Jiménez and Dancourt, who became economic advisors to the president, as well as Burneo who was appointed Minister of Production.\footnote{Author interviews with Salomón Lerner Ghitis, Alberto Adriánzén, Carlos Tapia}

The Minister of Finance selection meant, thus, that Humala entered the presidential palace with incongruent economic policy commitments and a split circle of advisors and cabinet members. Such divisions were, however resolved within Humala’s first year in office. Following defeats on two high-profile issues concerning the role of the state in the economy – centering on taxation and regulation of the mining sector\footnote{The two issues concerned a new tax on minerals and the Conga mining project; “Peru to impose extra tax on mining groups”, \textit{Financial Times} August 26 2011} – Prime Minister Salomón Lerner Ghitis resigned, and soon the rest of the president’s advisors from the traditional left followed him out the door.\footnote{“Pugnas sin resolver provocaron la renuncia del gabinete Lerner”, \textit{La Republica}, 11 December, 2011; “Sinesio Lopez: ‘Ollanta Humala se dejó atarantar por la derecha’”, \textit{La Republica}, 13 December, 2011; “Humala pierde apoyo dentro de su partido”, \textit{El País}, 7 June, 2012; in the end the Conga project was in fact cancelled. But then most of the left had already departed the government.} After the traditional left’s departure, the Ministry of Finance was firmly in charge of economic policy in a similar way to how it had been during the García government. The Ministry of Finance and its two ministers, Miguel Castilla (2011-2014) and Alonso Segura (2014-2016), both kept tight reins on public expenditures and ensured that measures aimed at expanding the state’s role in the economy were off the table.\footnote{Literally every interviewee emphasized the importance of the Ministry of Finance – and particularly of Humala’s first Minister of Finance, Miguel Castilla. This was the case regardless of whether they approved or disproved of orthodox continuity. High-level officials of both the Ministry of Finance and several of the “spending ministries” responsible for major reforms – including the expansion of the main conditional cash transfer program, changes to the teachers’ law, and to policing – that required increased expenditures emphasized how the Ministry of Finance effectively held veto power over their pursuit. Author interviews with Carolina Trivelli, Jorge Merino, Wilfredo Pedraza, and Miguel Castilla}

Crucially, however, divisions between Humala’s original team and the Ministry of Finance had not centered on macroeconomic policy. There was a general consensus that included Humala’s initial advisors as well as those who had joined from the Toledo campaign and his transition-period appointees regarding the importance of fiscal balance and central bank...
independence. As emphasized by Miguel Castilla, “there is no left or right, only right or wrong when it comes to basic macroeconomic management”, further noting that around this there was a broad agreement grounded in “the poor economic management in the decades preceding the 1990s”. Similarly, Carolina Trivelli, who served as Minister of Development and Social Inclusion, underlined that Humala’s original team “understood that basic rules need to be followed; they would not touch fiscal rules, or allow a ballooning current account deficit, or do away with central bank independence... The country is marked by the crisis of the 1980s”.

To sum up, Humala – in a similar way to Evo Morales in Bolivia – ran on a platform that sought to combine an expansion of the state’s role in the economy with macroeconomic discipline. Humala moderated his commitments to greater state intervention over the course of the 2011-campaign and finally abandoned them altogether once in power. These changes were clearly associated with electoral incentives and the selection of a technocratic Minister of Finance. Why Humala picked an orthodox Minister of Finance rather someone from his own economic team is unclear. The business and media campaign for such a choice, the lack of organized bottom-up pressures for a challenge to the market-oriented model, likely all mattered to some extent. But while the eventual choice of Minister of Finance was crucial for ensuring market-oriented continuity, it was not so for prudence. Humala continuously embraced a commitment to macroeconomic discipline, which was rooted in political learning on the basis of the hyperinflationary crisis.

152 Author interview with Miguel Castilla
153 Author interview with Carolina Trivelli. In a similar vein, Minister of Infrastructure Milton von Hesse noted about Oscar Dancourt and Kurt Burneo that “I don’t think they would have destroyed the economy – they would not have. They understand the importance of fiscal equilibrium” (author interview).
4.3 Alternative explanations

Even though Peru during the commodity boom twice elected presidents who represented the country’s traditional labor-based party and the left, the market-oriented model remained unchallenged. The two preceding sections have argued that one aspect of orthodoxy – fiscal and monetary restraint – to a significant extent was the product of political learning on the basis of the country’s hyperinflationary experience in the 1980s. Sections 4.1 and 4.2 provided evidence for the first and third criteria – indicating that claims about learning are descriptively accurate and that it, particularly in the case of Humala, was characterized by a degree of independence from the original event and voter demands. This section considers a set of alternative explanations, which focus on the constraints and incentives faced by García and Humala. Evidence against these competing hypotheses constitutes evidence in favor of the second criterion – that learning was a proximate cause for restraint, as the government could have acted differently. Such evidence is not as conclusive as in the Bolivia case, suggesting the weight of learning as a proximate cause was significantly lower in Peru.

A first possibility is that macroeconomic restraint – including the appointment of a technocratic Minister of Finance – was forced on García and Humala by an opposition-controlled congress. With 36 out of 120 seats, APRA was only the second largest force between 2006 and 2011. Moreover, while García soon cobbled together a congressional majority, he did it with several center-right parties (Cameron 2011, 388). Similarly, while Humala’s left-nationalist electoral alliance became the legislature’s largest force after the 2011 elections, it did not win a congressional majority. Instead a slim three-seat legislative majority was cobbled together via agreements with Alejandro Toledo’s centrist Peru Posible.\footnote{Humala’s Gana Peru won 47 seats. Alejandro Toledo’s Peru Posible captured 21, which meant that the parliamentary alliance controlled a majority – 68 of 130 seats.}
It is hard to see how these realities imposed macroeconomic discipline, however. García’s deal with the center right may have included commitments to pursue a market-oriented course and exercise restraint. But he was not forced to turn to his right; Humala’s parliamentary group was with 45 seats the largest in congress and could have provided García with a center-left working majority. More than anything else, García’s decision to work with the center right reflected already existing and widely advertised commitments to both prudence and the market, rooted in political learning on the basis of his first time in power. Humala’s agreements with Peru Posible, in turn, were grounded in the deal they struck during the runoff campaign, which resulted in the Hoja de Ruta and the inclusion of several former Toledo advisors into Humala’s campaign team. This process involved, as shown in Section 4.2, significant moderation of proposals regarding the role of the state in the economy, but it did not alter Humala’s stance on macroeconomic management, which already centered on a commitment to restraint.155

Several scholars have underlined the importance of the economic technocracy and particularly the Ministry of Finance for ensuring continuity with orthodoxy in Peru (Dargent 2015; Vergara and Encinas 2016). As noted in Section 4.2, the Ministry of Finance – and the decision to appoint Miguel Castilla as its head – was likely crucial in forcing Humala’s final abandonment of his statist program. Moreover, it is clear that the Ministry of Finance played an important role in implementing fiscal discipline in both the García and the Humala administration, rejecting spending requests from other ministries, congress, and on occasion the president (Dargent 2015, 101-2).

155 Moreover, neither during the García nor the Humala presidency did congress act as a guardian of fiscal restraint. In negotiations over budgets congressional leaders pushed for more spending, not less (Author interviews with Miguel Castilla and Carolina Trivelli). Also, Humala lost his working majority about a year into his presidency when five Gana Perú congressmen left his party to form their parliamentary group. Their departure, as well as subsequent ones, was motivated by Humala’s perceived abandonment of his original left program in favor of a more centrist course (“La dolorosa gran transformación de Gana Perú en el Congreso”, El Comercio, July 31 2015).
But the power of technocrats and, more specifically, the Ministry of Finance appears to have been contingent on a decision by political principals to provide them with a privileged and protected position. That decision, for both García and Humala, appears to have been rooted in political learning from the hyperinflationary crisis and aimed at providing the Ministry of Finance with a mandate to ensure macroeconomic discipline. Hence, even if, as appears likely in the case of Humala’s relinquishment of commitments to expand the role of the state, technocrats used that autonomy to impose on their principals’ policies they did not want, that was not the case with regards to macroeconomic restraint.

Scholars have also underlined the importance of business in maintaining orthodox continuity (Durand 2012). Both transition periods were marked both by loud campaigns in the media and intensive lobbying to make García and Humala, respectively, pick a well-regarded Minister of Finance who would be a guarantor of continuity (Dargent 2015, 109-110). In the case of Humala that campaign may well have influenced the decision to pick the well-credentialed Miguel Castilla rather than someone from his original economic team, which, as discussed above, likely contributed to his relinquishing his statist agenda. Yet, such campaigns did not make either president choose macroeconomic discipline – these choices were, as has already been extensively argued, made much earlier. In fact, both APRA and Humala incorporated commitments to surpluses and Central Bank independence into their programs the election cycle that preceded their victories. Humala’s economic team – both the original members and ones who entered from the Toledo campaign – as well as García and the APRA leadership were committed to macroeconomic discipline, in both cases because of political learning from the hyperinflationary crisis in the 1980s.
Finally, it is worthwhile considering if Garcíá and Humala were presented with any enticements for acting differently than they did. Electoral incentives were mixed. On one hand voters supported candidates who promised economic change and elections were typically interpreted as discontent with orthodoxy. Moreover, public opinion surveys consistently indicated unease with the free-market model. From 2002 to 2011, Latinobarometro’s yearly survey included a question about whether respondents were satisfied with the functioning of their country’s market-oriented economy. In no year did the share saying “not satisfied” or “not satisfied at all” fall below 70 percent.156 Vanderbilt University’s Lapop survey asked Peruvians in 2010 and 2012 about the extent to which they agreed with the statement that “the state should implement resolute policies to reduce inequality” on a scale from one to seven, where a higher value signified greater agreement. Both years more than 55 percent selected a six or a seven, with seven the most common choice.157 Peruvian polls have displayed a similar dissatisfaction with the country’s free-market model. In 2016, surveys from both Datum and Ipsos indicated that more than 60 percent of respondents wanted large changes to the economic model.158

On the other hand, the runoffs in both 2006 and 2011 were effectively decided by which of the candidates managed to better occupy the center ground. For García that did in fact imply reassuring voters that the macroeconomic management of his first mandate would not be repeated. Moreover, although election outcomes in both 2006 and 2011 were typically interpreted as reflecting discontent with the market-oriented economic model, there was no sense of crisis and a complete lack of the kind of social mobilization that provided the context of Evo

\[156\] Latinobarometro database
Morales’s election in Bolivia, generally reducing incentives for voters and candidates to make risky bets.

Overall, it is clear that the García and Humala governments’ discipline constituted a choice in the sense that they did not attempt to pursue looser policies but failed because of constraints imposed by other actors or external constraints. Macroeconomic restraint reflected in both cases beliefs about the objectives of and demands on economic policymaking rooted in political learning from the hyperinflationary crisis. But – unlike in the Bolivia case – there are doubts about whether García or Humala could have been successful in their pursuit had they sought to relinquish restraint: There was a lack of crisis and mobilization for change, business and technocrats had a strong position and appear to have influenced Humala’s abandonment of attempts to expand the role of the state.

4.4 Conclusion

Throughout the commodity boom, Peruvian presidents Alan García and Ollanta Humala did despite promises of, and voter demands for, change leave the market-oriented model intact. Continuity meant that García and Humala – like Evo Morales in neighboring Bolivia – displayed significant macroeconomic prudence, racking up fiscal surpluses. It also meant that García and Humala – in contrast to Morales – did not expand the role of the state in the economy. This chapter has argued that fiscal and monetary restraint – similarly to in Bolivia – to a significant extent was the result of political learning on the basis of a past hyperinflationary crisis. Lessons from hyperinflation in the late 1980s shaped the beliefs of García, Humala, and their respective inner circles regarding the objectives of and demands on economic policy, generating a conviction about the importance of maintaining macroeconomic stability and the necessity of
fiscal restraint in its pursuit. Patterns of learning were also similar in Peru and Bolivia — in both countries lessons from hyperinflation became lasting to a large extent because they occurred in the context of political success of labor and the left and were followed by enduring programmatic and electoral defeats for such forces. In both countries too, learning was sustained via the inclusion of actors with roots in the governments of the 1980s in contemporary projects.

The chapter has provided substantial evidence in favor of the three criteria for examining the descriptive accuracy, the relevance as a proximate cause, and the independence of political learning. The weight of the evidence for the different criteria, however, varies and the overall weight is significantly more measured than in the Bolivia case. The weight of evidence for the first criterion — indicating that political learning is descriptively correct — is particularly strong, with an extensive set of written and spoken sources indicating that a range of actors near García and Humala were committed to macroeconomic restraint on the basis of the hyperinflationary experience and that it influenced choices regarding platforms and key appointments (Table 4.2, row 1). The weight of the evidence for the third criterion — focusing on the independence of learning — varies widely between García and Humala (Table 4.2, row 3). García was elected in a large part because centrist and center-right voters feared that Humala, in addition to being a threat to democracy, would risk macroeconomic stability; and García explicitly sought to reassure voters that a second mandate would not be a replay of his first. Arguably, without political learning — and making it clear to voters he had engaged in it — García could not have become president again. Humala’s appeal, in contrast, never depended on commitments to macroeconomic stability — few observers even noted or believed them — and moderation during the 2011-runoff campaign occurred on other issues.
Table 4.2 Criteria for examining role of political learning: the Peru case

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Supporting evidence</th>
<th>Overall weight of evidence in favor of criterion</th>
</tr>
</thead>
</table>
| 1: Descriptive accuracy | **García**
  - Section 4.2: Evidence from APRA documents reflecting on crisis (p.132-3)
  - Section 4.3: Evidence from García in writing: letter (p. 137-8) and book (p. 140-1), committing to restraint on the basis of learning; speech evidence from Jorge Del Castillo motivating Minister of Finance choice with reference to crisis (p. 145-6).
  - **Humala**
  - Section 4.2: Speech evidence from close advisors to Humala motivating macroeconomic restraint with reference to crisis (p.133-4)
  - Section 4.3: Speech evidence from close advisors to Humala motivating commitments in platform to macroeconomic restraint with reference to crisis (p. 143, 148) | García
  - High
  - **Humala**
  - High |
| 2: Proximate cause | **García and Humala**
  - Section 3.4: Congress did not constrain government’s economic policy (p. 154-5); technocrats or business did not force either García or Humala to pursue disciplined macroeconomic policies (155-6) | García
  - Moderate
  - **Humala**
  - Moderate |
| 3: Independence | **García and Humala**
  - Section 3.3: Evidence that voters wanted economic change, not restraint – lessons and commitments to prudence not response to electoral incentives (p. 157-8). | García
  - Low
  - **Humala**
  - High |

**Overall assessment of importance of political learning**

Political learning likely constituted a sufficient condition for the García and Humala governments’ macroeconomic restraint, making them choose discipline. It is unclear whether it was a necessary condition, i.e. whether learning had not existed and they had opted to act differently they would have been forced onto a path of restraint by other factors.

Evidence for the second criteria, meanwhile, is mixed (Table 4.2, row 2). On the one hand, neither García nor Humala was forced to act with discipline. They both chose restraint and did so because of lessons from hyperinflation. But evidence suggests that had they attempted to choose differently they may have encountered resistance. Unlike García – whose broader orthodoxy, like macroeconomic restraint, was rooted in learning – Humala did propose a project in many respects similar to that of Evo Morales in Bolivia, seeking to combine promises of
greater state intervention with commitments to restraint. That he was not successful in pursuing that program had less to do with learning and more with the generally weaker push for, and the stronger resistance to, change – stemming from factors such as the lack of overt crisis and mobilized social movements as well as more powerful business actors. As a consequence it is also hard to say what would have happened had Humala attempted to relinquish macroeconomic discipline. Therefore it is difficult to determine that learning was indeed a necessary factor for restraint. What seems reasonable to say is that it was a sufficient one, with the choice of discipline being made early on, before pressures for moderation were exerted.

The next chapter, which focuses on the Argentine government of Néstor and Cristina Kirchner, brings out contrasts with this chapter and the preceding one on Bolivia, reinforcing key arguments regarding the importance as well as the determinants of learning. In Argentina no political learning on the basis of a past hyperinflationary crisis was present in the contemporary government, which engaged in a consistently expansionary economic policy. The contrast between Argentina on the one hand and Bolivia and Peru on the other, thus, underlines how crucial beliefs and past lessons are when governments face the kind of economic room-for-maneuver they did during the boom. Moreover, like Bolivia and Peru, Argentina too suffered a hyperinflationary crisis in the 1980s, yet no learning was sustained into the present government. The contrast between the Argentine case and those of Bolivia and Peru, hence, underlines the importance of an association between crisis and the left or labor-based parties for becoming a lasting point of reference, and the extent to which beliefs and learning are in the end sustained by individuals.
As 2006 commenced, Argentina’s Néstor Kirchner was reaching the pinnacle of his power. The manner of his victory in the presidential race two and a half years earlier had forced on Kirchner a set of constraints. He had made it to the runoff, which he won after the polarizing Carlos Menem withdrew from the race, only thanks to the support of then-president Eduardo Duhalde. The anticlimactic walkover declined Kirchner a popular mandate while continued dependence on his predecessor limited his powers. But that all changed with the October 2005 legislative elections in which Kirchner took on and defeated Duhalde. Kirchner’s success in the midterms was, in turn, due to an economy that after the collapse of 2001 — and still in the doldrums when he moved into the Casa Rosada — by 2005 had come roaring back, sending the president’s approval ratings into the 70s.159

The victory in the legislative elections did not only herald the beginning of a period of the Kirchners’ dominance – Cristina Kirchner would succeed her husband in 2007 and win reelection in 2011. It also marked a change in the thrust of economic policy. The recovery had

followed on Argentina’s default and the abandonment of the one-to-one peg to the dollar and had taken place on the basis of a set of policies established under Duhalde. These centered on a fiscal policy characterized both by a cautious stimulus and a large surplus – made possible by the cessation of debt payments and revenues from new export taxes – and a loose monetary policy (Novaro, Bonvecchi, and Cherny 2014, 97-8). In a context of strengthening terms of trade and significant spare capacity in the economy, these policies helped sustain a stable and competitive exchange rate, “twin” fiscal and current account surpluses, as well as high growth with low inflation, a combination hailed as a new “model” (Damill and Frenkel 2009, 1-3).

Beginning in 2006, however, Kirchner abandoned the relative restraint that had marked fiscal policy during the first years of his administration. Annual average surpluses equaling 2.7 percent of GDP from 2003 to 2005, declined to 0.5 percent the following three years, before they turned into an average deficit of 2.6 percent of GDP from 2009 to 2013. Fiscal deterioration took place while record-high soybean prices and increased export taxes pushed up government revenues as share of GDP from 27 percent in 2005 to 34.3 percent in 2013, underlining the dramatic increase in spending as well as the expansion of the state’s role in the economy that also took place.\footnote{All numbers from IMF World Economic Outlook Database (October, 2017)} The consistently expansionary fiscal policy contributed to steady employment, wage, and GDP growth. But it also shattered the “model” that Kirchner had touted during his first years in office. By the end of the Kirchners’ time in power, high inflation, an overvalued currency, and twin fiscal and current account deficits had become permanent features of the Argentine economy.

This chapter seeks to explain why the Kirchner government decided to make full use of the economic room-for-maneuver provided by the boom. It argues that – in contrast to Evo Morales, Alan García, and Ollanta Humala – the Kirchners had not engaged in a political
learning process on the basis of a past hyperinflationary crisis. The Kirchners therefore – unlike counterparts in Bolivia and Peru – held onto the commitments to both a state-oriented model and expansionary macroeconomic policies that characterized Latin America’s left and labor-based parties in the postwar era, including Argentina’s Peronist movement. These commitments were long-held by the Kirchners and rooted in convictions that Peronism should represent the interests of the popular and working classes and beliefs that state intervention for growth and employment promoted that cause. The chapter also argues that these commitments and the beliefs that underpinned them mattered causally for outcomes: It was politically feasible to pursue a macroeconomic policy marked by more discipline; moreover, the Kirchners’ rise to power was highly contingent and it was plausible that other Peronist leaders who indeed had engaged in political learning could have held their place.

The different beliefs held and the different choices made by leaders in Argentina, on one hand, and Bolivia and Peru on the other, are especially notable in light of similarities in the countries’ histories. Like Bolivia and Peru, Argentina did suffer a painful hyperinflationary crisis in the 1980s. Moreover, like the leadership of Peru’s APRA – historically a similar kind of populist, labor-based party – and Bolivia’s MIR,161 important sections within Peronism did in the 1990s draw far-going lessons from the hyperinflationary trauma, renounced traditional commitments to a state-oriented development model, and embraced market liberalism. In fact, the embrace of the market by the Peronist President Carlos Menem and his associates was both more drastic and explicit than in either the case of APRA or MIR. Yet, such lessons and that conversion were not lasting within the Peronist Party (PJ, Partido Justicialista).

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161 Bolivia’s counterpart to APRA and PJ is not MIR, but MNR. But after MNR in the 1960s veered right and split with COB, it never shifted back left and never again became the representative of labor. For the purposes of clarifying the different learning experiences of left and labor-based parties in this dissertation, MIR makes for a more relevant comparison.
This chapter makes three points regarding why lessons from hyperinflation were not sustained and — conversely — why traditional Peronist beliefs and commitments persisted. First, the lack of lasting lessons was the result of a highly contingent process. There were important actors that drew lessons from hyperinflation within PJ and it was plausible that someone who had done so could have reached power in 2003, in which case learning would have been sustained, and Argentina likely would have been a case of restraint alongside Bolivia and Peru. Second, the hyperinflationary crisis in the 1980s began on the watch of and resulted in the premature ending of a Radical government, and followed on a military dictatorship that had sought to implement a neoliberal reform program. As a result — and in contrast to the association with statist economics, labor, and the left in Bolivia and Peru — the crisis did not become strongly linked either to Peronism or heterodox policies, making it a less potent point of reference. Third, Nestor Kirchner’s ascension to the presidency was characterized by leadership renovation, meaning that individuals associated with sections of Peronism that had engaged in political learning were pushed out.

The remainder of this chapter is — similarly to the preceding two — divided into four parts in addition to this introduction. These are structured to demonstrate that there is substantial evidence that the three criteria laid out in Chapter 2 are fulfilled. These criteria serve, respectively, to examine the descriptive accuracy, the relevance as a proximate cause, and the independence of — in the Argentine case — beliefs that constitute a lack of political learning on the basis of the hyperinflationary crisis. Section 5.1 argues that even though the Peronist leadership centered on President Carlos Menem did draw far-going lessons following the hyperinflationary experience in the late 1980s — thoroughly renouncing historical commitments to state intervention and embracing the market — significant sectors of the party resisted the
conversion. It demonstrates that Néstor and Cristina Kirchner were among the most consistent and outspoken Peronist leaders who maintained traditional convictions. Section 5.2 argues that the Kirchners brought with them into office such traditional Peronist commitments to policies in favor of growth, employment, and redistribution, that these commitments were reinforced but not changed by the 2001 crisis, and that they shaped the Kirchner government’s economic policy choices.

| Table 5.1 Criteria for examining role of political learning: the Argentina case |
|---------------------------------|--------------------------------------------------------------------------------|
| Criterion                       | Supporting evidence                                                             |
| 1: Descriptive accuracy          | Néstor and Cristina Kirchner in public consistently express commitment to state intervention in favor of industry, employment, and growth (p. 174-7), as well as notion of primacy of politics over economics (p. 182), relating it to understanding of interest representation (p. 177, 181, 192). Several collaborators affirm beliefs in private (p. 189, 192-3). |
| 2: Proximate cause               | Politically strong position when key decision taken in 2005 (p. 187-91, 200-2); expansionary policies implied decisions that generated short- to medium-term costs (p. 200-202) |
| 3: Independence                 | Kirchner’s election in 2003 marked by high levels of contingency – pro-market candidates could well have won (p. 182-4) |

Sections 5.1 and 5.2 present evidence that support, in particular, the fulfillment of the first and third criteria. That is, that claims about beliefs are descriptively correct, can be linked to key choices, and that they are somewhat independent from background conditions and, in particular, that they were not selected by an electorate that demanded an aggressively expansionary policy. They also present evidence that support the contention that learning on the basis of the hyperinflationary experience was not sustained because of the lack of an association of the crisis with Peronism or statist policies and because of elite renovation in conjunction to the Kirchners’ ascension to power. These sections make a particular effort to demonstrate the Kirchners’ long-term, unchanging, and vocal commitments to a greater role for the state in the economy and a more expansionary economic policy – even during periods when that might have
carried a political cost – with the purpose to show that these commitments reflected genuine beliefs and not opportunistically embraced positions in the context of the 2001 crisis.

Section 5.3 deals with a set of alternative explanations for the consistently expansionary policy of the Kirchner government. These hypotheses focus on constraints that would make anything but spending impossible or difficult and incentives faced by the government for more or less restraint, shaping the costs of different choices. Evidence provided against these alternative explanations constitutes evidence in favor of the second criteria – that the government indeed enjoyed sufficient room-for-maneuver to have been able to act differently without incurring prohibitive costs. The chapter will – as in this introduction – consistently make brief comparisons to the Bolivia and Peru cases. These will be elaborated on in Section 5.4, which argues that like lessons from a past hyperinflationary crisis in Bolivia, the beliefs held by Néstor and Cristina Kirchner likely had a significant causal effect, and had learning been sustained in Argentina, a course marked by more restraint would have been plausible. It also underlines the importance of the context of the hyperinflationary crisis for generating lasting learning and the role of individuals as carriers of lessons and beliefs for sustaining it.

5.1 Hyperinflation and partial Peronist learning

This section argues that while political learning occurred within the Peronist Party on the basis of the hyperinflationary crisis in the 1980s it was not universally embraced. President Carlos Menem and his associates drew far-going lessons that yielded a virtual conversion to market liberalism – similar in kind to that of Peru’s APRA and Bolivia’s MIR. But many leading politicians in the party, among whom Néstor and Cristina Kirchner were among the most consistent and out-spoken examples, resisted such programmatic changes. They remained
committed to traditional Peronist policies to support growth, employment, and redistribution. The section makes this argument in three steps. First, it explains how Peronism, a labor-based political force emerged and how state-oriented economic policies were established during the postwar decades, as well as how a repressive military regime began dismantling the statist model in the late 1970s. Second, it covers the traumatic hyperinflationary experience during Raúl Alfonsín’s Radical government and the drastic market reforms in the 1990s during the government of Carlos Menem. It shows how Menem embraced market liberalism following hyperinflation and how significant segments of PJ resisted the president’s ideological conversion. Third, the section demonstrates how Néstor and Cristina Kirchner during the last few years of the 1990s established themselves as important referents within Peronism for factions that had resisted Menem’s abandonment of statist and expansionary economic policies.

5.1.1 Peronism, a statist model, and neoliberal reform by the military

The election of Juan Perón in 1946 gave rise to a political movement that like no other would shape Argentine postwar politics. By then the urban middle class was already incorporated into the electoral arena via the Radical Party (Unión Cívica Radical, UCR) and the labor movement was Latin America’s strongest (McGuire 1999, 47-9; Collier and Collier 2002). Perón – a coronel, who was appointed Secretary of Labor after the military took power in 1943 – recognized the unions’ strength, cultivated their support, and gained their backing, which brought him to the presidency with the return to democratic politics. Once in office Perón, put into place a state-oriented economic model that combined with its labor basis put a lasting mark on his movement. Although characterized by ideological eclecticism, throughout the postwar decades Peronism retained a staunch commitment to a state-oriented model as well as
expansionary macroeconomic policies aimed at upholding employment and providing redistribution towards the working and popular classes (Levitsky 2003, 27-9). Peronism’s dominance in the labor movement, the traditional social basis of the left, also meant that Argentina did not develop electorally relevant Marxist parties (Schuster 2005, 244-7).

The removal of Perón by the military in 1955 did little to put an end to his movement. Despite proscription, Peronism retained the support of nearly 40 percent of the electorate, turning democratic politics without its participation into an “impossible game” (O’Donnell 1973).

During his time in government, Perón had not vested power in any organization not completely in his control. Throughout the decades it was banned from Argentine politics, Peronism was sustained by the unions, province-level politicians, and countless neighborhood groups pledging loyalty to the exiled leader, but with Perón careful not to delegate unified authority over his movement to others and leaving the Peronist Party as a largely empty shell (McGuire 1999, Ch. 3-4; Levitsky 2003, 38-48).

Perón’s eventual return to power in 1973 turned out to be brief. The deepening social crisis in the early 1970s – marked by kidnappings and violent clashes between a radicalized extra-parliamentary left, part of which pertained to Peronism, and paramilitary right-wing units – had convinced the military to lift the ban on Perón’s participation in politics in the hope that he could contain the chaos (McGuire 1999, Ch. 6). But the 79-year old passed away within a year of assuming power, leaving his wife and Vice President, Isabel Perón, as the heir of his movement and head of the state. With Isabel Perón’s government unable to halt either the violence or the economic deterioration, however, the military soon stepped in again.

In contrast to the past, when they primarily sought to remove the existing government, the armed forces launched a “dirty war”. Killing and torturing tens of thousands of Argentines,
the military sought to crush the extra-parliamentary left that had emerged in the previous decade. Stewarded by Minister of Finance José Alfredo Martinez de Hoz, the regime also attempted to undo the statist model, pursuing a “neoliberal” program, to undercut the left’s structural basis and inject dynamism into the economy (Canitrot 1980). While reforms did initiate a process of deindustrialization, they were neither fully implemented nor succeeded in returning the country to growth (Schamis 1991, 208). The continuous economic crisis and popular revulsion with human rights abuses drained the military of legitimacy, the last of which was lost with its failed attempt to take the Falkland Islands in 1982, prompting a transition back to democracy.

The postwar period in Argentina – like in Bolivia and Peru – was thus characterized by two key features. First, a statist model was put into place and sustained through the 1950s and 60s. Second, while Peronism denied any political space for an electorally relevant Marxist left to emerge, it provided Argentina with a powerful, labor-based political force committed to state intervention and expansionary policies. Yet – unlike military regimes in Bolivia and Peru – Argentina’s last junta did make a serious attempt at neoliberal reform, which dented the statist model. Moreover – unlike APRA and the left in Peru as well as the left in Bolivia – Peronism turned out not to be poised to dominate the 1980s.

5.1.2 Hyperinflation, market reform, and political learning under Menem

The 1983 election delivered a surprise blow to Peronism. The party had expected a return to the presidency with democratization, but its candidate was trounced by UCR’s Raúl Alfonsín. The Radical was, however, dealt a difficult hand. In his efforts to strip the military of its strong position and hold it to account for atrocities it had committed as part of the Dirty War, he was repeatedly confronted by the armed forces (Pion-Berlin and López 1992, 69-86). Alfonsín also
inherited a deep economic crisis. Despite his embrace of orthodox economics, Martinez de Hoz had failed to rein in spending. At the same time, the region-wide crisis pushed up interest rates while inflation was in the triple digits, with the economy stuck in recession (Smith 1990, 2-4).

Committed to the state-oriented model, Alfonsín opted for a heterodox stabilization program. But price and wage ceilings met opposition from business and labor, forcing the government to accept increases, and by 1987 inflation was again spiraling out of control (Smith 1990, 7-25). After a series of failed orthodox stabilization packages and capital flight in early 1989 emptied international reserves – and as the presidential elections approached – inflation, exceeding 5000 percent on an annual basis, turned into hyperinflation. As people’s savings were wiped out and salaries’ purchasing power tumbled, Argentina descended into chaos. Mobs sacked supermarkets for food and “a state of siege was declared in early June as fear mounted that a massive popular insurrection might be brewing. Even if only for a few days, Argentina was virtually ‘state-less’” (Smith 1990, 27-9).

The Menem shocks

Although the 1989 election – with UCR discredited by hyperinflation – expectedly returned Peronism to the presidency, it did produce another round of surprises. First, in the PJ primary, the odds-on favorite, Buenos Aires governor Antonio Cafiero was defeated by his La Rioja counterpart, the more charismatic Carlos Menem, who promised voters a salariazo (big wage hike) (McGuire 1999, 207-12). Second, once in office, Menem shifted sharply to the right. The hyperinflationary burst in May and June – provoked by market fears of a populist Peronist – moved up the transfer of power (Torre and Palermo 1994, 8). Once sworn in, counter to PJ’s traditional economic policy commitments, Menem appointed a Minister of Finance from one of
Argentina's largest companies, Bunge & Born, and launched a market-oriented reform program (Gerchunoff and Torre 1996, 735-6; Levitsky 2003, 145).

A series of privatizations and harsh austerity measures, which neither fully brought inflation under control nor reignited growth, were followed by the Convertibility Law in 1991 (Gerchunoff and Torre 1996, 744-5). The new legislation – a brainchild of Domingo Cavallo, a Harvard-trained economist who had been handed the Ministry of Finance at the outset of the year – pegged the peso to the US dollar and removed all capital account restrictions (Gerchunoff and Torre 1996, 744-5; Palermo and Novaro 1996, 288-304). It reinjected trust in the Argentine currency, spurring an influx of foreign capital (Galiani et.al 2003). By 1992, inflation was down to the single digits and Argentina had returned to growth. The turnaround strengthened Menem politically. In 1995 – having negotiated a constitutional reform the previous year that cut presidential mandates to four years but allowed for one immediate reelection – Menem secured another term.

Peronist lessons and their limits

Menem’s pursuit of aggressive market reforms was intimately tied to the escalating inflationary crisis, its turn into hyperinflation, and the social chaos that accompanied it (Gerchunoff and Torre 1996, 736).\(^\text{162}\) It was the urgent need to “confront the tiger of hyperinflation”, which “was a hell in which the poor suffered more than anyone”, that motivated the selection of Michel Roig as Minister of Finance – the B&B executive whose appointment was intended to assure economic actors of the president’s willingness to do whatever it took to

\(^{162}\text{Several scholars argue that market reforms were not planned prior to the election (Palermo and Novaro 1996, 127-31; Levitsky 2003, 149-50). Menem has claimed otherwise (Baizan 1994, 39-41).}\)
end the chaos – the privatization plan, and the Convertibility Act.\(^{163}\) The crisis, Menem recounted a few years later, made it “clear that a shock of hyper-confidence was needed to transform the economic structure the most drastically possible, to generate a scenario where private initiative would be the engine, while the state would retreat, eliminating all kinds of regulations”\(^{164}\).

Though impelled by the urgency of crisis, Menem’s pursuit of free-market policies reflected a genuine embrace of economic liberalism. Once the reform program was launched, the president castigated his party for being stuck in the past and overly committed to the state (Levitsky 2003, 147). Over the course of the following decade, Menem relentlessly extolled the greatness of free markets\(^{165}\) and denounced the “historical inutility of statism”\(^{166}\). Although more aggressive and overt, Menem’s rethinking was in many ways similar to that of APRA’s Alan García in Peru. Like García, he argued that the world had entered a new historical moment of globalization, which required new instruments to promote development and combat poverty. Menem also specifically sought to ground the new policy direction in the history of his party and the thinking of its founder, who he argued “would have implemented the same measures”\(^{167}\).

Menem’s thorough “neoliberal” conversion was far from universally shared within his party, however. Most leading politicians stuck to the view of Peronism as the representative of the popular and working classes and considered market reforms anathema to their interests. A number of PJ congressmen perceived the reforms to be such a betrayal that they chose to leave. The so-called “Group of 8” – which was headed by Carlos “Chacho” Álvarez – formed their own caucus in December 1989. By the 1993 elections they had set up a new party *Frente Grande*,

\(^{163}\) Quote from interview with Menem in Baizan (1994, 41-4)
\(^{164}\) Quote from interview with Menem in Baizan (1994, 40)
\(^{165}\) E.g. Menem (2001, 77-9; 107-12).
\(^{166}\) Menem (1999, 237)
\(^{167}\) Quote from interview with Menem in Baizan (1994, 24)
which in the 1995 presidential race, as part of a broader coalition (FREPASO, Frente País Solidario) challenging Menem and his market reforms, finished a strong second with a ticket headed by another PJ-dissident, Senator José Octavio Bordón (McGuire 1999, 249-51). But the majority of Peronist elites, including Menem’s Vice President Eduardo Duhalde, accepted emergency measures aimed at putting an end to the crisis, while continuing to oppose the broader programmatic change espoused by the president (Palermo and Novaro 1996, 216-7). These PJ politicians called for a “Perónization” of the reform program, thereby implying that it had gone against the party’s core commitments (McGuire 1999, 244; Levitsky 2003, 145-8).

Unlike the “Group of 8”, Néstor and Cristina Kirchner remained in the party. But they were among the PJ politicians who most vociferously opposed Menem’s market-oriented turn. The two had begun their political involvement in the left-wing Peronist youth groups of the 1970s in La Plata. The couple had then returned to Néstor Kirchner’s home-province – the small, southern – Santa Cruz. He had been elected mayor of the provincial capital Río Gallegos in 1988 and subsequently governor in 1991 (Pandolfo 2011, Ch. 3-4). While Néstor Kirchner accepted convertibility, he had by 1994 become one of the most consistent public critics of the Menem administration, joining a group of governors calling for a “social face” on the economic model (Levitsky 2003, 174). By 1997, he was considered the “PJ politician most critical of the Menem administration” and calling for a “progressive faction” within the party. Simultaneously, Cristina Kirchner, who entered electoral politics by winning a seat in the provincial legislature in 1991, and had then ascended to the Argentine Senate in 1995, became a harsh detractor of the president and the direction in which he had taken Peronism, ultimately being expelled from the party caucus in 1997 (Russo 2011, 226-7). By then, Menem was reportedly worrying that “the

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168 “Sin autocritica, Menem ratificó el modelo económico”, La Nación, 7 November, 1997
169 “El PJ intentará una autocritica sobre la derrota electoral”, La Nación, 1 November, 1997
Kirchner-Kirchner duplet would end up erecting an ‘anti-Menemist’ pole within PJ against questions about whether Néstor Kirchner would join Frente Grande, set up by Chacho Alvarez, José Octavio Bordón, and other left-wing Peronist defectors.

There are several reasons for why hyperinflation did not produce more lasting political learning within Peronism. As will be seen, contingency and chance was important. Menem himself might have reached power in 2003. But one factor was particularly important in reducing the likelihood that lessons from the crisis would remain salient over time: Hyperinflation took place on the watch of a Radical government, after it had attempted a series of orthodox stabilization programs, and, crucially, following a military dictatorship that had engaged in the most concerted attack on the state-oriented model to date. For many Peronists on the left who were critical of Menem, including the Kirchners, “the 1990s consolidated the model begun in 1976 by its strategist and ideologue: Alfredo Martinez de Hoz”. The 2001-crisis, in turn, would mark the failure, “not of De la Rua, but of 25 years of neoliberalism, from 1976 to 2001”. From this perspective, neither of the two crises was the result of too spendthrift or big a state, but of neoliberal reform. Hyperinflation and later the 2001-collapse were both considered an integral part, and a symptom of, a failed neoliberal economic project, associated with the military regime’s attack on the postwar, state-oriented model. Hence – and in contrast to the hyperinflationary crises in Bolivia and Peru, intimately linked to UDP, APRA, and the Marxist

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170 “Estrategias para que los cañones apunten al gobernador Kirchner”, La Nación, 13 October, 1996
171 “Kirchner no deja el PJ”, La Nación, 12 November, 1997
172 Kirchner quote from interview with Torcuato Di Tella (2003, 29).
173 Author interview with government official #9 – a senior-level Ministry of Finance official in the last Cristina Kirchner administration.
174 Kirchner government officials never brought up the hyperinflationary crisis on their own accord (which is a sharp contrast to government officials in Bolivia and Peru, who almost always did). When asked directly about hyperinflation, they would consider it as part of a cycle of crises initiated by “neoliberal” reform and an integral part of the “neoliberal” model (author interviews with government officials #5, 6, 8, 9, 12). Occasionally the hyperinflationary crisis would just be dismissed as an example of the Radicals not being able to ensure governability.
left – there was nothing in it that made it an intrinsically Peronist point of reference, providing an enduring reason for rethinking traditional economic policy commitments.

5.1.3 The Calafate Group and resistance to market liberalism within Peronism

As the end of Menem’s second term as president neared, a sense of malaise was setting in. Growth was slowing while convertibility had generated an overvalued peso, draining the manufacturing sector of competitiveness and deepening deindustrialization. As a consequence, unemployment, which had peaked at 19 percent in 1995, was stuck in the mid-to-high teens. New forms of social protest emerged around organizations of the permanently unemployed, with so-called piqueteros blockading roads, demanding jobs and better access to public services (Dinerstein 2001; Auyero 2005). With the constitution barring another run and Peronist politicians unwilling to let him change it again, Menem was forced to give up his hopes of running in 1999, effectively paving the way to the PJ nomination for his former Vice President, Buenos Aires governor Eduardo Duhalde.

Even though Duhalde had been one of the first Peronist leaders to criticize Menem’s market reforms and to question the viability of convertibility (Levitsky 2003, 148-9), he found it difficult to separate himself from the person he had served as Vice President (Fernández 2011, 28-9). To burnish his progressive credentials, Duhalde therefore asked Alberto Fernández, a Buenos Aires politician and senior campaign advisor, to gather a group of left-wing Peronist intellectuals and political figures to develop a program that could constitute an alternative to Menem’s “neoliberal” model. Fernández turned to the Santa Cruz governor and his wife to

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175 Data from World Economic Outlook Database (October, 2017)
176 “A la izquierda del próximo gobierno”, La Nación, 17 October, 1999; “Un acto con tinte progresista”, La Nación, 2 October, 1998; Author interview with Alberto Fernández
form the heart of the team.¹⁷⁷ During the first weekend of October, 1998, what for a while became known as the “progressive think tank”¹⁷⁸ of Duhalde’s campaign, held a two-day workshop hosted by the Kirchners in the Santa Cruz town of Calafate, which gave the group its name. The conference included about 50 individuals, from inside and outside of Peronism, associated with the left, several of whom – like Carlos Tomada and Jorge Taiana – would go on to become part of the Kirchner government.¹⁷⁹

Participants at the Calafate workshop articulated fierce critiques of Menem’s economic reforms. There was a consensus around the need for a “new model” based on a stronger state that was given the role of protector and promoter of industry, and that sought to reduce economic inequality.¹⁸⁰ In “a severe analysis of local and national issues” Kirchner lambasted the government for being “indifferent to social problems”.¹⁸¹ Several contributors, including Cristina Kirchner, specifically condemned how the PJ in its pursuit of market policies had failed to represent its core constituencies (Fernández 2011, 32-3). Duhalde, visiting the meeting on its second day, embraced the group’s conclusions and promised to “put the PJ back in its place [to the left of UCR]”¹⁸².

At a second workshop in Cordoba in August 1999, however, the group on Kirchner’s initiative distanced itself from Duhalde. The reason for the split was the presidential candidate’s tilt towards Menem over course of the campaign, embodied by his choice of Palito Ortega as his running mate. The meeting produced a public showdown between Kirchner and Duhalde, which

¹⁷⁷ Author interview with Alberto Fernández
¹⁷⁸ “A la izquierda del próximo gobierno”, La Nación, 17 October, 1999
¹⁸⁰ “El gobernador prometió poner al PJ en su lugar”, La Nación, 4 October, 1998
¹⁸¹ “El gobernador prometió poner al PJ en su lugar”, La Nación, 4 October, 1998
¹⁸² “El gobernador prometió poner al PJ en su lugar”, La Nación, 4 October, 1998
created an estrangement between the two that would last for three years.\textsuperscript{183} Although the Calafate Group thereafter had a more marginal role in the Duhalde campaign, it continued to meet regularly, making Kirchner its primary referent, and positioned itself to constitute a “progressive opposition” to the next president, whether Duhalde or not (Fernández 2011, 34-6).\textsuperscript{184}

Hence, by the end of the 1990s, far-going lessons had been drawn by an important set of Peronist actors on the basis of the country’s hyperinflationary experience. Menem and factions of the party linked to him had — in a similar way to, but even more drastically than, Peru’s APRA and Bolivia’s MIR — thoroughly renounced the PJ’s traditional commitments to statist development and expansionary macroeconomic policies and embraced market liberalism. Yet, significant factions within the party had to different degrees resisted Menem’s conversion. Néstor and Cristina Kirchner had emerged as consistent and prominent representatives of factions that most thoroughly rejected Menem’s political learning process. For them hyperinflation — associated with the military dictatorship’s neoliberal reforms and the ineptness of the Radical Party — did not constitute a poignant point of reference for Peronism that impelled programmatic rethinking. They therefore continuously embraced traditional Peronist commitments to policies for growth, employment, and redistribution.

5.2 Beliefs in the primacy of politics and expansionary economics

This section argues that Néstor and Cristina Kirchner’s beliefs about the objectives of and demands on economic policymaking are critical to understand their government’s consistently expansionary economic policy. These beliefs, which centered on a conviction that Peronism should represent the interests of the popular classes and that such were served by state

\textsuperscript{183} “Kirchner renegó de su apoyo a Duhalde y criticó la campaña”, \textit{La Nación}, 28 August, 1999
\textsuperscript{184} “A la izquierda del próximo gobierno”, \textit{La Nación}, 17 October, 1999
intervention for growth and redistribution, reflected traditional Peronist commitments and constituted resistance to the embrace of market liberalism by the PJ’s leadership on the basis of political learning from the hyperinflationary crisis. These convictions were reinforced, but not significantly changed, by the economic collapse of 2001.

The section makes this argument in three steps. First, it covers Néstor Kirchner’s ascension to the presidency, underlining the degree of contingency and chance by which it was marked and the possibility that somebody else, with different beliefs, could have made it to power. Second, the section argues that the Kirchners’ beliefs about the objectives of and demands on economic policymaking were critical for the decision to fire Minister of Finance Roberto Lavagna and relinquish macroeconomic restraint in late 2005. Third, it shows how these beliefs motivated the government’s establishment of a new policymaking structure and adoption of a consistently expansionary macroeconomic stance from 2006 onwards.

5.2.1 Kirchner ascends the presidency amidst crisis

Voters delivered a rebuke to Peronism in 1999, electing a Radical president who – however – would go on to suffer a similar fate to that of Raúl Alfonsín a decade earlier. Within a year of taking office, the government was embroiled in a high-profile scandal, accused of having bribed several senators to pass labor reform. At the same time the economy, already in recession when President Fernando de la Rúa ascended to power, continued to deteriorate. With the dollar peg written into law and the government forced to cut spending to placate international creditors, Argentina entered a vicious spiral of austerity, deepening recession, and growing pressure on the peso (Daseking et.al 2004). Restrictions on bank withdrawals in November 2001 proved to be the straw that broke the camel’s back. The measure deprived the middle class of its savings and
brought the cash-dependent informal economy to a standstill, triggering massive protests. After clashes with the police and the deaths of at least two dozen demonstrators, de la Rúa was forced to resign (Levitsky and Murillo 2003; Novaro, Bonvecchi, and Cherny 2014, Ch.1).

The weeks that followed shook the Argentine political establishment to its core and took the country to the brink of anarchy. Protests had initially been aimed at de la Rúa, but after his resignation demonstrators turned on the entire political class, with the rallying cry _que se vayan todos_ ("everybody out") rolling down the avenues of Buenos Aires (Levitsky and Murillo 2003; Novaro, Bonvecchi, and Cherny 2014, Ch.1). Meanwhile PJ, which had trounced UCR and FREPASO in the November midterm elections, scrambled to form a new government. After a chaotic fourteen days, which saw two interim-presidents pass through the _Casa Rosada_ and the default on the government’s debt, Eduardo Duhalde was sworn in on January 2, 2002.

While Argentina on Duhalde’s watch would eventually begin its climb out of the abyss, it was only after the crisis first deepened. When the government finally ended convertibility in January 2002, the peso plummeted, which drained consumers of purchasing power, driving Argentina deeper into the depression. Meanwhile, social protests continued to shake the political establishment. After two demonstrators were killed by the police, the largest crowds since the return to democracy took to the streets, forcing Duhalde – who on assuming power had promised not to seek a full term – to move up the election from October to May 2003 (Levitsky and Murillo 2003, 155-6). Yet, over the course of the year devaluation increased the competitiveness of Argentine exports, while rising soybean prices provided a boon. At the same time, new export taxes in combination with the freeze on debt payments generated fiscal space, which the Duhalde administration used to expand social spending, alleviating poverty and stimulating demand. By
the end of a year in which GDP plunged by more than 10 percent, an incipient recovery was, hence, finally discernible (Novaro, Bonvecchi, and Cherny 2014, 75-7).

Kirchner campaigns for president

Kirchner had begun laying the groundwork for a presidential campaign immediately following the 1999 election. Having consistently criticized the Menem administration for its “neoliberal” turn, he sought to articulate a programmatic alternative more in line with Peronism’s traditional commitments. In December 2000, Kirchner launched his own progressive “current” within the PJ with the intention to “construct a new model”. In his speech introducing the new faction, he lambasted the party’s lack of programmatic renovation since the election, declaring that “the national Peronist movement cannot be a replica of the US Republican Party, neoconservative and liberal”, and attacking the de la Rúa government for its austerity measures. As Argentina descended into economic and political chaos in late 2001, Kirchner ratcheted up his profile, becoming one of the most vocal proponents of early elections and declaring that he would be a candidate. Once it was settled that Duhalde would serve out de la Rúa’s term, Kirchner continued to argue that elections should be moved up, hitting the campaign trail during the first half of 2002.

Kirchner campaigned staunchly against Menem – who was seeking a return to the presidency – and the market-oriented model he had put into place. He condemned the former president as “a painful part of [Peronism’s] history” and asserted that if Menem won the

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185 Author interview with Alberto Fernández; “Kirchner, por el bloque federal”, La Nación, 30 January, 2000
186 “Kirchner lanzó su corriente nacional para construir un modelo alternativo”, La Nación, 16 December, 2000
187 “Kirchner, Ruckauf y Duhalde exigen que se cumpla con los comicios de marzo”, La Nación, 28 December, 2001
189 “Kirchner: ‘Menem es una página dolorosa en nuestra historia’”, La Nación, 8 May, 2002
nomination he would not vote for PJ and instead seek to form a “national front of progressive sectors”.

Kirchner’s core critique of Menem and the reforms he had pursued centered on the same set of ideas that it had throughout the previous decade: Peronism should, as it had done historically, represent the working and popular classes, whose interests were served by state intervention in favor of industry, employment, and growth.

But the crisis and the massive demonstrations that had followed had reinforced and extended these commitments. Kirchner sustained that by embracing “neoliberalism” PJ had put economics ahead of politics, the interests of capital over those of the people – executed via an autonomous Ministry of Finance, the leadership of which had consistently been handed over to representatives of big business – against which the protests were a reaction. Kirchner therefore vowed to reinstate “a Peronism that would return to represent the sectors it never should have stopped representing”; this implied greater state intervention into the economy to establish “a model for production, jobs, and growth”, and he pledged that he would be “President and Minister of Finance”.

While Kirchner climbed the polls over the course of 2002, it was only after he received Duhalde’s support that he managed to surpass the last obstacles on the way to the presidency. The president sought, above else, to block the return to power of Menem. After his preferred candidates Carlos Reutemann and José Manuel de la Sota refused to run and failed to take off, respectively, Duhalde tried to prod his Minister of Finance Roberto Lavagna into the race, before he finally reconciled with Kirchner and threw his weight behind the Santa Cruz governor’s

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190 “Kirchner dijo que no acompañará a Menem si resulta ser el candidato presidencial del PJ”, La Nación, 5 July, 2002
191 “Kirchner: ‘Menem es una página dolorosa en nuestra historia’”, La Nación, 8 May, 2002
192 “Néstor Kirchner presentó el libro con sus 152 principales propuestas”, Página 12, 23 April, 2003; “Kirchner presentó las bases de su plan”, La Nación, 23 April, 2003
193 “Kirchner: Voy a ser presidente y ministro de Economía”, La Nación, 14 July, 2002
194 “Kirchner crece en las encuestas con una campaña al viejo estilo”, La Nación, 26 August, 2002.
campaign. Perhaps most importantly, Duhalde maneuvered to cancel the PJ primaries, which Menem would likely have won, thereby blocking the former president from running with Peronism’s official stamp of approval. Since Menem had the strong support of about a fifth of the electorate but was intensively opposed by a majority of Argentines, Duhalde’s move effectively turned the race into one for second place, as the La Rioja politician would be vulnerable in the runoff (Novaro, Bonavecchi, and Cherny 2014, 77-81; Levitsky and Murillo 2003, 156-7). Duhalde, who still commanded PJ’s Buenos Aires political machine, also pulled all stops in favor of the Santa Cruz governor in the country’s most important province. At the same time, as the economic recovery picked up pace during the first half of 2003, the endorsements of Duhalde and Roberto Lavagna, who became a frequent presence next to Kirchner on the campaign trail, turned into increasingly valuable commodities (Novaro, Bonavecchi, and Cherny 2014, 82-6).

With Duhalde’s support, Kirchner made it across the finish line as number two. But it was only after a highly volatile race, which until the very end looked like it could go in several different ways. While Kirchner by December 2002 had established himself among the serious contenders, he was still in fourth place behind not only Menem but also Adolfo Rodríguez Saá – another Peronist – and Elisa Carrió, an ex-UCR politician who was then leading the pack. By late February, Kirchner, Menem, and Rodríguez Saá were tied for first place, at a little over 17 percent, with Carrió at 14 percent, and Ricardo López Murphy, another former Radical, on the rise at 10 percent. By March, Kirchner was in the lead for the first time according to La Nación’s tracker, but as the campaign was closing at the end of April he was tied for second

195 Author interviews with Alberto Fernández and Roberto Lavagna
196 “Carrió está primera por el desgaste de PJ”, La Nación, 25 December, 2002
197 “Virtual empate entre los tres Peronistas”, La Nación, 23 February, 2003
198 “Por primera vez, Kirchner lidera la intención de voto”, La Nación, 2 March, 2003
place with López Murphy. In the end, at 22 percent of the vote, Kirchner finished 2.5 points behind Menem and 6 points ahead of Ricardo López Murphy. With no polls giving the former president much more than the 24.5 percent he captured in the first round, Menem withdrew from the ballotage.

Hence, Kirchner had been preparing his run prior to the 2001 crisis. Since at least 1994, he had publicly and consistently articulated the economic policy commitments on which his campaign was based, which reflected resistance to the programmatic conversion based on political learning from the hyperinflationary crisis of the PJ’s leadership centered on Carlos Menem in the 1990s. These commitments did, thus, not reflect political positioning in the context of the crisis or the election. The economic collapse and the massive social protests did not change, but they reinforced and extended Kirchner’s beliefs regarding the objectives of and demands on economic policymaking, adding an emphasis on the notion that politics must not be subordinated to economics and the President to the Minister of Finance.

Kirchner’s election in 2003 was marked by high degrees of contingency and chance. He finished second in a close five-person contest, much thanks to the support of Duhalde and Lavagna. Minor changes – had the recovery begun earlier or later, Duhalde not been forced to move up elections, Reutemann or Lavagna been willing to run – it is conceivable that another candidate, holding different beliefs and commitments than Kirchner could have made it to the presidency. Moreover, both Menem and López Murphy campaigned on liberal platforms, underlining that the electorate by no means wholly rejected the market-oriented model.

199 “Menem y Lopez Murphy, al ballotage”, La Nación, 23 April, 2003
200 Carlos Menem (PJ) – 24.45%; Néstor Kirchner (PJ) – 22.25%; Ricardo López Murphy (Recrear) – 16.37%; Adolfo Rodríguez Saá (PJ) – 14.11%; Elisa Carrió (ARD) – 14.05%
201 That is the earliest reference I could find, noted by Levitsky (2001). La Nación’s online archives only stretch to 1995.
5.3.2 At the crossroads in 2005: President Kirchner takes charge and shifts course

The nature of Kirchner’s election, however, left him in a relatively weak position. Menem’s decision to not contest the ballotage effectively robbed Kirchner of a popular mandate, ascending the presidency on the basis of a second-place finish and 22 percent of the vote instead of the landslide that the runoff was expected to yield. 202 Duhalde’s support, meanwhile, contributed to the perception that the new president was in his position thanks to his predecessor. At the same time, Duhalde remained in control of the Peronist Buenos Aires machine and wielded strong influence over a contingent of congressmen. Altogether this helped create a sense of “cohabitation” or shared power (Novaro, Bonvecchi, and Cherny 2014, 143; Levy Yeyati and Valenzuela 2013, 222-3).

In no area was Kirchner’s lack of complete command clearer than in economic policymaking. This was problematic, but not because there were important disagreements between the president and his predecessor at the time. The policy mix that Kirchner inherited – characterized by a modest fiscal stimulus, increased export taxes, and a loose monetary policy – were producing stellar results, with growth rates reaching 9 percent of GDP. 203 The reason for why Kirchner’s lack of complete control was problematic stemmed instead from the role of Roberto Lavagna, who enjoyed a privileged position due to his relationship with Duhalde and his strong standing in public opinion. 204

Lavagna not only provided competition for the ownership of the recovery, as important was the relative autonomy he enjoyed. Kirchner’s repudiation of the market-oriented model was after the crisis closely tied to a commitment to the primacy of politics over economics, which

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202 Kirchner’s campaign chief and later chief of staff, Alberto Fernández (2011, 87), underlines the extent to which the president-elect believed Menem undermined him.
203 IMF World Economic Outlook (October, 2017)
204 Author interviews with Alberto Fernández, Felisa Miceli, Sebastián Katz, Matías Kulfas, Alfredo Zaiat
entailed the principle that the president, not the Minister of Finance should be in charge. This commitment was rooted in the conviction that Peronism should represent the popular classes and the belief that a subordination of politics to economics, of the President to the Minister of Finance, implied the imposition of market restrictions that tended to serve the interests of capital. It was on the basis of this commitment, Kirchner on the campaign trail consistently had vowed that the "President should be the Minister of Finance".205

By 2005, however, Kirchner had significantly strengthened his position. From his first day in office, the president had been on the political offensive. He made a significant investment of political capital – yielding a healthy return in terms of middle-class support – in taking on corruption and human rights issues (Calvo and Murillo 2013, 143-5; Zelaznik 2011, 96-7; Gargarella 2011, 64-6). At the same time, economic growth had returned with a vengeance. GDP increases hovered around 9 percent – "Chinese levels"206 – in 2003, 2004, and 2005. As a consequence, unemployment and poverty, which had peaked in 2002 at 22 and 44 percent, respectively, had fallen to 11 and 22 percent by 2005. Meanwhile, inflation remained in the single digits during late-2003 and 2004. The strong performance of the economy, moreover, was accompanied by significant fiscal and current account surpluses, averaging 2.5 and 3.5 percent, respectively, between 2003 and 2005.207 These solid macroeconomic numbers, together with a cheap peso, were hailed by Kirchner and considered key features of the new economic "model" (Damill and Frenkel 2015, 128-31).208 The expansion of the formal economy and the increase in

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205 In his interview book, Di Tella (2003, 34) asks Kirchner about his campaign promise to be President and Minister of Finance.
206 It was frequently referred to as "tasas chinas" ("Chinese levels/rates") in interviews.
207 Unemployment, fiscal, and current account data from the IMF World Economic Outlook Database (October, 2017); poverty data from the World Bank Poverty and Equity Data Portal, poverty line for high middle-income countries.
208 Author interviews with Roberto Lavagna, Matías Kulfas, Sebastian Katz, and government officials #6 and #10. In general, it is striking the extent to which interviewees – informed-observers and insiders, whether supportive of the
spending also helped tame the *piquetero* movement, placate the unions, and reduce social protests (Etchemendy and Garay 2011; Calvo and Murillo 2013; Etchemendy and Collier 2007).

As the October 2005 legislative elections neared, with approval ratings consistently in the 70s, Kirchner had thus made significant progress towards constructing a political support coalition that included important sections of both the middle- and the working classes.

*Inflation returns and the showdown between Kirchner and Lavagna*

Kirchner’s first two years in office had not only put him in a position from where he could challenge Duhalde, rein in Lavagna’s autonomy, and end “cohabitation”. They had also created greater reasons for doing so. As Minister of Finance, Lavagna had not only enjoyed, but actively asserted, a degree of independence. He publicly staked out positions on the negotiations with Argentina’s creditors on the terms for exiting the default as well as on trade talks with the United States that conflicted with statements by Kirchner (Novaro, Bonvecchi, and Cherny 2014, 155-8). He was thus effectively affirming that economic policy was an area under the prerogative of the Ministry of Finance, embracing the notion that “a minister without autonomy is not a minister”.210 This clashed with Kirchner’s conviction that the “President should be the Minister of Finance” and that economics must be subordinated to politics.

At the same time, the recovery had generated contradictions in the policy mix that characterized the “economic model”. These contradictions, and the tradeoffs they entailed, created policy differences between the president and his Minister of Finance that went to the core

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*Kirchner government or not – speak about the 2003-2006 period as one marked by a distinct economic model, different from both that of the later Kirchner years and the 1990s.


210 The quote is from Lavagna’s (2015, 462) final conversation as Minister of Finance with Néstor Kirchner, as retold by himself. Repeated in author interviews with Roberto Lavagna and Sebastián Katz. Katz served as a sub-secretary in the Ministry of Finance under Lavagna and briefly under Felisa Miceli.*
of Kirchner’s beliefs concerning the objectives of and demands on economic management. From 2002 to late 2004, the fiscal stimulus and the Central Bank’s aggressive dollar purchases that were financed by monetary emission, which held down the value of the peso, were compatible both with a large surplus and low inflation because the default in combination with new export taxes had created fiscal space while the depth of the depression entailed ample spare capacity in the economy. As the end of 2004 neared, however, strengthening demand and tightening labor markets meant that inflation began to rise, approaching 10 percent during the final months of the year (Frenkel and Rapetti 2008, 220-2; 2009; Novaro, Bonvecchi, and Cherny 2014, 158-60).211

The rise in inflation eventually pushed Roberto Lavagna to the conclusion that there was a need for more fiscal restraint. Initially, the Ministry of Finance attributed inflation to a flow-through from rising international prices and a cheap peso. Over the course of the first half of 2005, however, the technical staff became increasingly convinced that inflationary pressures were the result of an economy approaching full capacity, signaling a need for containing spending increases. Lavagna himself was initially resistant to entreaties from his staff for a less expansionary stance, underlining the political difficulties of implementing the shift in the midst of a midterm year.212 By the end of the spring, however, Lavagna had become persuaded of the need to slow spending increases and bring down growth levels from 8-9 percent to 5-6 percent.213 Publicly, he began highlighting excess demand as a reason for rising inflation, while emphasizing the importance of maintaining a large fiscal surplus.214 Privately, on the basis of proposals from his technical team, Lavagna argued for a countercyclical stabilization fund, into

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211 "Las recetas para frenar la inflación", La Nación, 5 April, 2005
212 Author interviews with Sebastián Katz and Roberto Lavagna
213 Author interview with Sebastián Katz
214 “Para Lavagna, la clave es el superávit”, La Nación, 20 September, 2005; “Lavagna defendió el superávit fiscal alto”, La Nación, 22 September, 2005; “Que une y que separa a Kirchner y Lavagna”, La Nación, 9 October, 2005
which windfall from the commodity boom would be directed – and immediately following the
October elections, the Ministry of Finance announced the establishment of such a fund.\textsuperscript{215}

The Ministry of Finance’s advocacy for fiscal restraint was, however, fiercely opposed by
the presidential palace. Containing spending and cooling down the economy clashed with the
Kirchners’ long-held commitment to state intervention in favor of growth, employment, and
redistribution – to the pursuit of policies perceived to be in the interests of the working and
popular classes they sought to represent – which had been reinforced by the crisis. For the
Kirchners, memories of the massive protests and demands that \textit{que se vayan todos} (“everybody
out”) were vivid reminders of what happened to politicians who subordinated politics to
economics and stopped representing the interests of their voters. They had instilled in Néstor
Kirchner “a fear of the street”, which remained long-after the actual threat subsided, and
convinced him that “he had not been given a blank check”.\textsuperscript{216} Kirchner therefore rejected
“orthodox stabilization” measures.\textsuperscript{217}

After the October elections, which provided the president with a firm grip on the PJ and a
dominant position on the national scene, Kirchner settled the dispute over how to respond to
inflation (Zelaznik 2011, 99). The Kirchners’ had presented their own lists in the midterms and
defeated Duhalde in his own backyard of Buenos Aires, while expanding the number of deputies
loyal to them (Novaro, Bonvecchi, and Cherny 2014, 169-79). The following month, Lavagna
(2015, 462) was told by the president that “until now we governed together, because your
presence was fundamental for winning in 2003. This time I won”\textsuperscript{218} and replaced by Felica

\textsuperscript{215} Author interviews with Sebastián Katz and Roberto Lavagna; “El gobierno frena el alza al gasto para atacar la
inflación”, \textit{La Nación} 29 October, 2005
\textsuperscript{216} Author interview with Sebastián Katz, retelling arguments given by Kirchner. Garay (2016, 199) also underlines
Kirchner’s concern with “controlling the streets”.
\textsuperscript{217} “Una discussion sobre el modelo”, \textit{La Nación}, 20 May, 2005; “Descartan medidas drásticas para combatir la
inflación”, \textit{La Nación}, 19 July, 2005
\textsuperscript{218} Repeated in author interview with Sebastián Katz
The new Minister of Finance had neither an independent power base nor a high public profile. In 2006, spending as share of GDP jumped by 2 percent and the fiscal surplus shrank from 3.2 to 1.3 percent of GDP; meanwhile the countercyclical stabilization fund was never implemented.

The expulsion of Lavagna also deepened the leadership renovation at the national level that had begun with Kirchner’s ascension to the presidency. The 2003 election had meant that Menem’s associates – who embraced market liberalism as part of political learning from the hyperinflationary crisis – were removed from the levers of power in government and the PJ. Néstor Kirchner’s first cabinet had been entirely made up of individuals from Santa Cruz and Buenos Aires, and were thus allies of Kirchner and his predecessor, with the president’s inner circle constituted primarily of people from his home-province and a handful of left Peronists from the Calafate Group (Levitsky and Murillo 2003, 164-5; Novaro, Bonvecchi, and Cherny 2014, 101-4). Over the course of 2004 and 2005, individuals with a clear left profile – with a background in Frente Grande and the Calafate Group and who publicly had resisted Menem’s market-shift rooted in political learning in the 1990s – entered the Kirchner administration (Novaro, Bonvecchi, and Cherny 2014, 183-9; Schuttenberg and Rosendo 2015, 76-8).

Lavagna’s removal, meant, moreover, that the last person who had held a high-ranking national-level position during the crisis of the 1980s – he had served as a Secretary of Industry and Commerce during the Alfonsín administration – left Kirchner’s inner circle. Lavagna had never engaged in a conversion akin to Menem’s, but he – like Duhalde – had drawn lessons regarding the importance of macroeconomic stability and a degree of restraint, which had shaped crisis management in 2002-2003 (Kaplan 2013, 265-6).
In short, the Kirchner government reached a turning point in 2005. Until then, the president had operated within political constraints that effectively provided his Minister of Finance, Roberto Lavagna, with a high degree of autonomy. While there had been few substantial policy differences between the two up to that point, such independence clashed with Kirchner’s beliefs regarding the relationship between politics and economics. By 2005, moreover, the recovery and the contradictions in the existing policy mix it generated produced substantive differences between the president and his Minister of Finance. Following the Kirchners’ defeat of Duhalde in the legislative elections, constraints were significantly loosened. President Kirchner used that additional room for maneuver, acting on his beliefs concerning the objectives of and demands on economic policy, firing Lavagna, reducing the autonomy of the Ministry of Finance, deepening the renovation of PJ and the government, and embracing continued expansionary policies.

5.2.3 The Kirchner government: beliefs and the emphasis on growth

Néstor and Cristina Kirchner arrived to the presidential palace with a set of long-held commitments to state intervention in favor growth, employment, and redistribution. As argued in the preceding pages, these commitments dated back, at least, to their first winning provincial-level political office in the early 1990s— but likely all the way back to when they joined left-wing factions of the Peronist movement in the 1970s—and was sustained and consistently expressed in spite of the PJ leadership’s embrace of market liberalism as a result of political learning on the basis of the hyperinflationary crisis. The commitment to state intervention and expansionary policies reflected traditional Peronist stances and was rooted in an understanding of interest representation: Peronism should represent the popular and working classes, who
benefited from such government action. By pursuing a “neoliberal” agenda of liberalization and austerity, the Kirchners sustained, the PJ had thus betrayed its core constituency.

The commitment to a greater role for the state and more expansionary policies had been reinforced by persistently high unemployment and the new forms of social protest it spawned in the wake of market-oriented reform in the late 1990s. These conditions and experiences added to the ideational underpinnings of the Kirchners’ commitments, which ceased to be just a question of representation, fundamentally a normative commitment to furthering the interests of the popular classes, and evolved into a positive conclusion – too – about what was required to ensure governability. Alberto Fernández’s recollection of how Néstor Kirchner, whom he later served as chief of staff, first contacted him in 1997 after having read an article he had written, reflects this understanding of the need for government action: “In the 1990s, when Menem was president, the state had withdrawn. I believe in the market, but the state has a place too; and when it withdrew the result was deindustrialization, unemployment, a failing health and education system. When people don’t have jobs, what can they do? They begin to protest. We had the piqueteros, blockading roads. The state needed to come back. Néstor shared these ideas and wanted to talk to me.”\footnote{Author interview with Alberto Fernández} In the same way, the crisis of 2001, and the calls of protestors that 
que se vayan todos
(“everybody out”), reinforced the commitment to government intervention in favor of growth and jobs: with high unemployment and austerity, the Kirchners concluded, people would soon be in the streets again.

At the same time, the experiences of the 1990s and the 2001-crisis also extended existing beliefs into a set of convictions regarding the relationship between politics and economics, the President and the Minister of Finance. As expounded on by the then-Governor of Santa Cruz in an interview by Torcuato di Tella, who would later become his Minister of Culture, in the spring
of 2003: “I will explain to you why I say that I will be President and Minister of Finance. Torcuato, take a look at the recent experience: it seems like the Ministers of Finance always have to be those who respond to or belong to certain schools of economics. So in the past few years, we have been in a situation in which the Ministers of Finance have ended up obtaining a good deal of autonomy and behaved like representatives of interests that had little or nothing to do with what they should defend, that of the Argentines.”

Subordination of the President to the Minister of Finance, politics to economics, hence, resulted in a failure of representation and, concluded the Kirchners after 2001, a threat to governability. Néstor and Cristina Kirchner, thus, arrived to the presidential palace with a set of beliefs concerning the objectives of and demands on economic policymaking that centered on the primacy of politics – that the President should be the Minister of Finance – and that the President should take political action to spur economic growth, job creation, and redistribution, which, as the previous section showed, was critical in the firing of Lavagna and the refusal to restrain fiscal policy in the face of inflation in 2005.

The dynamics of economic policymaking

The Kirchners’ beliefs regarding the objectives of and demands on economic management were reflected in the government’s policymaking structure that was implemented after the 2005 midterms. Since the late 1970s, Argentine policymaking had been dominated by a Ministry of Finance with a significant degree of autonomy and a high level of technical competence. The Minister of Finance had generally been a well-qualified, orthodoxly-trained economist – usually with a PhD in economics and often from an American or European

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220 Kirchner and Di Tella 2003, 34
university

and they had been supported by an increasingly professionalized economic bureaucracy, staffed by well-trained technocrats (De Luca 2011, 44-5; Palermo and Novaro 1996, 293-394). All in all, this provided the Ministry of Finance with substantial control over economic policymaking. These conditions largely persisted throughout the crisis. It was also this kind of strong role that Roberto Lavagna had under Duhalde and - as argued in the previous section - continued to have during the first two years of the Kirchner administration.

The firing of Lavagna changed the relationship between the President and the Minister of Finance. From November 2005 onwards, the key economic policy decisions were moved from the Ministry of Finance to the Casa Rosada. As underlined by a senior-level Ministry of Finance official during both Néstor and Cristina Kirchner’s time as president: “It used to be that the Minister of Finance had a political role, formulating policy, and that the roles below him, were technical. But after the departure of Lavagna, the President became the Minister; the Minister was turned into a Secretary and the Secretaries into Sub-secretaries”. Lavagna’s successor, Felisa Miceli, too, recognized the difference: “I was in a different position from Lavagna, who had a very strong position. I could propose and advise the President, but it was very clear that he had the last word”. A third high-level official in the Ministry of Finance, also serving both Néstor and Cristina Kirchner, emphasized the subordinated role of the Minister of Finance after Lavagna’s departure, linking it explicitly to the Kirchners’ belief in the primacy

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2 Domingo Cavallo (1991-1996; 2001), Roque Fernández (1996-1999), José Luis Machinea (1999-2001) held PhDs in economics from Harvard, the University of Chicago, and the University of Minnesota, respectively. Ricardo López Murphy (2001) and Roberto Lavagna (2002-2005) had completed their respective graduate studies - without completing doctorates - at the University of Chicago and the University of Brussels.

22 Author interviews with Alfredo Zaiat and Pablo Gerchunoff. The high-profile role of the Ministers of Finance tended in good times to generate a degree of competition between the President and Minister of Finance.

223 The ending of its autonomy was also accompanied by a general hollowing out of the Ministry of Finance’s traditional technical competence (Streb 2015, 187-9). Following Lavagna’s departure, a steady stream of classically-trained staff economists left (Author interviews with Sebastián Katz and government officials #2 and #3).

224 Author interview with government official #3

225 Author interview with Felisa Miceli
of politics over economics: “Néstor and Cristina always had the last word. This fact was based on a shared conception: that politics would be put ahead of economics; the President, not the Minister of Finance should be in charge of economic policy. The Minister of Finance was just an administrator. The President says where we are going, the Minister suggests the instruments. The great error of the 1990s was that the Minister of the Finance had all the power. The President must always have the last word. This is the key difference between an orthodox [economist] who thinks economics comes first and a heterodox [economist] who puts politics ahead.”

Yet another shift, which reinforced the changes that occurred in 2005, took place around 2010 and further embodied the Kirchners’ beliefs in the economic bureaucracy. After Miceli’s resignation in 2007, Kirchner first sought a replacement with a higher public profile that would be better able to defend the government’s policies. But both Miguel Peirano and Martín Lousteau left after brief stints when they were denied additional independence (Novaro, Bonvecchi, and Cherny 2014, 342). Beginning with Amado Boudou in 2009, and culminating with the appointment of Axel Kicillof in 2013, the Kirchners instead installed unabashed “heterodox” economists in the Ministry of Finance. Boudou and Kicillof both had run “think tanks” that were devoted to articulating and defending the economic policies of the government. They also sought to cultivate young economists dedicated to the Kirchner project that they brought with them into the economic bureaucracy. Boudou, Kicillof, and their disciples embraced the Kirchners’ commitment to expansionary macroeconomic policies and their understanding of

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226 Author interview with government official #8
227 Author interview with government official #11
228 The word “think tank” probably implies too high a degree of institutionalization.
229 “Quiénes son los economistas K?”, La Nación, 7 September, 2011. Author interviews with government officials #5, #6, #8, #9, and #10
interest representation. The defining feature of a heterodox approach, they argued, was that “politics is ahead of economics. This is the key distinction from orthodox economics”. 230

Beliefs, economic policy choice, and the fight against inflation

The Kirchners’ beliefs regarding the primacy of politics were not just reflected in how they re-structured the economic policymaking process. They also shaped the content of policy and how the government approached a series of tradeoffs. As discussed in earlier sections, by 2005 a set of contradictions had emerged in the policy mix that constituted the heart of what the Kirchner administration had hailed as a new model: with the recovery well underway, it was no longer possible to sustain the increase in spending and growth levels in the high single digits, while at the same time maintaining low inflation. At that point, the Kirchner government – in addition to firing Lavagna, who advocated fiscal restraint – opted to continue to increase spending and against cooling down the economy.

Both the choice to subordinate the Minister of Finance to the president and to opt for growth in the tradeoff with inflation reflected the same commitment to putting politics ahead of economics. The conviction that politics should come first was closely tied to the understanding of the economy as being marked by a distributive struggle between the popular and working classes on one side and business and capital on the other, where the former benefitted from state intervention in favor of growth and employment and the latter from the imposition of discipline. Policies aimed at stimulating growth and bolstering demand, which consistently defined the

230 Author interview with government official #6. This sentiment, and frequently the exact words (see quote and footnote 226 above), was echoed in several interviews with members of the Kirchners’ economic team that entered after 2009.
government's economic strategy, followed thus from conceptions about who should be represented and how that would be best achieved. The commitment to the primacy of politics over economics, moreover, entailed the conviction that political action could change objective economic conditions. State intervention into markets could produce export and industrial upgrading, break down bottlenecks in the productive chain, and generate "virtuous cycles of growth" where spending would yield economic expansion, employment, and increased tax revenues.

These beliefs and commitments were also reflected in the Kirchners' choice of instruments to combat inflation, which continued to haunt the government over the following decade. Most importantly, having taken orthodox stabilization measures – and fiscal austerity in particular – off the table because of their presumed distributive consequences, they instead opted for primarily three other tools, which were in line with their understanding of the nature of inflation, following from the heterodox commitment to the primacy of politics. In the view of the Kirchner government, inflation had primarily three causes: The first was the inflow from rising international prices and the second was persistent inflationary expectations. The third source of inflation, and the real culprit, however, was a distributive push from business. That is, with its policies aimed at stimulating growth and employment – as well as wage increases – the

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231 There was a remarkable consensus in interviews regarding this: "There was a clear logic throughout the Kirchner years: to grow with social inclusion – economic policy aimed to support that" (Author interview with government official #10). This sentiment was repeated in similar ways in author interviews with Matías Kulfas and government officials #3, #6, #8, #9. Typically informed observers, even when they did not support the Kirchner government, would agree that this had been the intention.
232 As noted by one economic policy official from Kirchner government – who singled out the heterodox economist Alice Amsden as an inspiration for the government’s policies – "the great difference between the Kirchner model and what came before was that it provided a role for state; it did away with notion that state cannot do things... there are market failures and the state can help resolve them" (author interview with Matías Kulfas). The same sentiment was expressed in author interviews with government officials #5, #6, and #8.
233 Author interview with Felisa Miceli, who characterized Kirchner’s view as "simplistic Keynesian" with an excessive emphasis on "virtuous cycles of growth".
234 Some mix of these causes of inflation were repeated in virtually all interviews with government officials (e.g. Felisa Miceli, Matías Kulfas and #3, #6, #8, #9, #10).
government was in effect favoring the interests of the popular and working classes over those of business and capital. Argentina’s oligopolistic productive structure, however, provided business and capital with the ability to raise prices throughout the value chain, thereby capturing a bigger share of the pie, driving inflation, and pushing back against the government’s redistributive intentions (Levy Yeyati and Novaro 2013, 379).  

Imported price increases were primarily dealt with via the appreciation of the peso, but the second and, particularly, the third cause of inflation were conceived of as political in nature, requiring political solutions. The government’s first instrument to combat inflation, “social pacts” with business and labor reflected a desire to contain the inflationary expectations. The second tool, price ceilings, was a more direct attempt at both holding down inflationary expectations and disciplining business. Third, beginning in February 2007, the government intervened in the statistical agency Indec. It sacked its head, who was soon followed out the door by most of senior management, introducing a new way of calculating inflation, generating numbers up to 30 percent below those of most private consultancies. The intervention into Indec constituted, in a sense, the political solution *par excellence* to the problem of inflation.

To sum up, Néstor and Cristina Kirchner arrived to power with a set of long-held beliefs regarding the objectives of and demands on economic policymaking. These reflected traditional Peronist convictions and commitments and embodied resistance to the market conversion that political learning from hyperinflation had yielded within PJ’s leadership centering on Carlos Menem in the 1990s. Such beliefs put an emphasis on the primacy of politics over economics and entailed a commitment to state intervention in favor of growth, employment, and redistribution, as well as a conviction that such policies favored the interests of the popular and

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235 All officials cited in the preceding footnote emphasized the distributive struggle and Argentina’s oligopolistic productive structure.

236 This was observed by Sebastián Katz, discussing the role of Guillermo Moreno, the Secretary of Commerce.
working classes, which Peronism should represent. These beliefs and commitments motivated
the Kirchners' firing of Lavagna in 2005, the remolding of the economic policymaking structure
thereafter, and the persistent refusal to fight inflation by cutting spending and bringing down
growth — instead turning to social pacts, price ceilings, and other essentially political remedies.

5.3 Alternative explanations

During their time in power, Néstor and Cristina Kirchner consistently put growth first.
They unswervingly pursued an expansionary economic policy and dramatically increased
government spending. This chapter has argued that their beliefs concerning the objectives of and
demands on economic policymaking, which reflected traditional Peronist commitments and
resistance to the market conversion rooted in political learning from hyperinflation that factions
of PJ centering on Carlos Menem had engaged in, were a crucial reason for that choice. The
preceding two sections have provided evidence for the first and third criteria — indicating that
claims about beliefs and commitments are descriptively correct, motivated key choices, and that
they had a degree of independence. This section considers a set of alternative explanations
focusing, in particular, on the incentives faced by the Kirchner government. Evidence against
these hypotheses constitutes evidence in favor of the second criteria — and that the government
could indeed have acted differently had it been guided by different beliefs.

As in Bolivia and Peru, there is no indication that economic policy choices were forced
on the government. The Ministry of Finance’s loss of its privileged and protected position might
have undermined the ability of a government that wanted to enforce discipline to do so. The
weak position of the Minister of Finance relative to the Minister of Planning, Julio de Vido, and
the Secretary of Commerce, Guillermo Moreno, was particularly problematic for containing
spending. But the weakening of the Ministry of Finance and its loss of autonomy vis-à-vis other ministries was itself – as argued extensively above – the result of choices made by the Kirchner government, which did not want to be tied down by the economic bureaucracy.

Congress, meanwhile, was hardly a guardian of restraint. But it is difficult to attribute deficits to an extravagant legislative branch imposing spending on an austere executive. Most importantly, the government clearly had the tools to set a spending ceiling. In fact, between 2003 and 2005, the government generated surpluses by underestimating growth and revenues. These extra-budgetary revenues were then used for discretionary spending by the president, not requiring congressional approval (Kaplan 2013, 2-3). The dramatic spending increases over the course of the Kirchner government, from 23 percent of GDP in 2003, to 27 percent in 2006, and 38 percent in 2013, which turned surpluses into deficits, were clearly a choice not forced on it.

The more serious alternative explanation for the Kirchner government’s expansionary policies center on the incentives it faced for making the choice it did. It may not have been forced to pursue a more expansionary policy than it sought, but its choice may have been corresponding to a set of underlying incentives and might have had to pay a hefty political price for choosing differently. First, on coming to power, Néstor and Cristina Kirchner held a weak political position. As discussed in the preceding section, Néstor Kirchner only finished second in the first round of the 2003 election and ascended the presidency after Menem’s walkover in the ballotage, meaning that he entered the presidential palace with only 22 percent of the vote and an exceedingly weak popular mandate. Moreover, the reliance during the campaign on Duhalde, whose influence in congress and the Buenos Aires Peronist Party remained strong, meant that Kirchner, if he wanted to take charge, needed to construct his own coalition within the PJ.
As explained in the preceding section, Kirchner did take a series of actions during his first two years in office that allowed him to build a broad support base. While many of these were not fiscally expensive, centering on human rights, judicial, and corruption issues, expansionary economic policies were certainly helpful in this endeavor. The continuation of the countercyclical stimulus established during the Duhalde administration helped fuel the recovery and contributed to approval ratings in the 70-80 range between 2004 and 2008. A range of social programs – combined with growth – were useful for incorporating the piquetero movement into the Kirchner coalition, and a generous wage policy helped bringing in organized labor (Etchemendy and Collier 2007; Zelaznik 2011; Calvo and Murillo 2013; Garay 2017, 198-210).

Yet, by 2005 when the loosening of fiscal restraint began in earnest, the support coalition was already constructed. That was why Kirchner could take on Duhalde, take control of the PJ, and force out Lavagna. The further loosening of fiscal policy was thus not necessary to build a coalition.

Continued large spending increases were also not necessary for maintaining the Kirchners’ broad coalition. In fact, in order to sustain an expansion of government expenditures, the Kirchner government was forced to take a series of politically costly decisions to strengthen the revenue side. These ranged from the increase of agricultural export taxes in 2008, the nationalization of the pension system the same year, and the transfer of foreign reserves from the Central Bank in 2010, all of which proved costly with middle class voters. The refusal to rein in spending, of course, implied the acceptance of high inflation, too, which also forced the government to shed middle class voters. These political costs in terms of middle class support were consistently paid by a government that sought to pursue spending increases benefitting its core constituencies. What is more, the government did not face competition for popular and
working class voters. Electoral challenges in 2007, from Roberto Lavagna and Elisa Carrió, were on the Kirchners’ right and centered on critiques of the government for its fiscal profligacy. Hence, rather than being forced to spend in order to stay in power, the Kirchners were willing to accept political costs to be able to maintain expenditure increases. In short, it is hard to sustain the case that the Kirchner government had to pursue as expansionary a policy as it did.

5.4 Conclusion

Throughout their time in power – which almost completely coincided with the commodity boom – and particularly after they gained greater political control in 2005, Néstor and Cristina Kirchner pursued a consistently expansionary macroeconomic policy. This chapter has argued that their decision to relinquish fiscal restraint to a significant extent was the function of a set of beliefs concerning the objectives of and demands on economic policymaking. At the core of these beliefs was a commitment to state intervention in favor of growth, employment, and redistribution, rooted in the conviction that such policies favor the popular and working classes and that Peronism should represent their interests. These were long-held and fundamentally traditional Peronist beliefs and commitments that reflected resistance to the ideological conversion in which a significant part of the PJ leadership had engaged in on the basis of political learning from the hyperinflationary crisis in the late 1980s.

The chapter has provided substantial evidence in favor of the three criteria for examining the descriptive accuracy, the relevance as a proximate cause, and the independence of beliefs that, in the Argentine case, constitute a lack of political learning from past inflationary crises. It has provided significant speech evidence in different forms for the Kirchners’ commitment to putting politics ahead of economics, state intervention in favor of growth, and the link of these
positions to their conception of interest representation (Table 5.2, row 1). It has also demonstrated that these beliefs were not the product of clear-cut electoral demands, not the result of an underlying selection mechanism, and that it was very plausible that someone else, with different beliefs, could have made it to the presidency in 2003 (Table 5.2, row 3). Finally, the chapter has showed that the Kirchner government was not forced into deficit spending, did pay a political price to sustain it, and could have acted with more restraint if it had conceived of that as prudent (Table 5.2, row 2). Overall, this suggests that there is strong evidence that beliefs constituting a lack of political learning from past inflationary crises were a sufficient and necessary condition for relinquished restraint in the Argentina case. That is, had the Kirchners’ beliefs regarding the objectives of and demands on economic policymaking been shaped by the country’s hyperinflationary experience, it is plausible that the government would have demonstrated greater discipline.

| Table 5.2 Criteria for examining role of political learning: the Argentina case |
|---------------------------------|---------------------------------|-----------------|
| **Criterion**                  | **Supporting evidence**          | **Overall weight of evidence in favor of criterion** |
| 1: Descriptive accuracy         | Néstor and Cristina Kirchner in public consistently express commitment to state intervention in favor of industry, employment, and growth (p. 174-7), as well as notion of primacy of politics over economics (p. 182), relating it to understanding of interest representation (p. 177, 181, 192). Several collaborators affirm beliefs in private (p. 189, 192-3). | High |
| 2: Proximate cause             | Politically strong position when key decision taken in 2005 (p. 187-91, 200-2); expansionary policies implied decisions that generated short- to medium-term costs (p. 200-202) | High |
| 3: Independence               | Kirchner’s election in 2003 marked by high levels of contingency – pro-market candidates could well have won (p. 182-4) | High |
| Overall assessment of importance of political learning | Beliefs constituting resistance to political learning likely constituted a necessary condition for the Kirchner government’s relinquishing of restraint. |

The case of Argentina’s Kirchner government provides a stark contrast in primarily two respects to the counterparts of García and Humala in Peru and Morales in Bolivia. First, it
underlines the importance of beliefs – and in this case political learning on the basis of past hyperinflationary crises – for macroeconomic policy outcomes. The comparison with Evo Morales in Bolivia is especially telling. Like the Kirchners he enjoyed significant economic and political room-for-maneuver and used it to engage in a state-oriented project, but unlike them he embraced a set of commitments to fiscal and monetary discipline and unlike them his process of change was marked with a degree of macroeconomic restraint. Second, the way political learning was generated and sustained – or not, as in the case of Argentina – was marked by a high level of contingency. Leaders were generally not selected on the basis of beliefs and learning, which endowed those factors with a degree of independence. But two conditions were important for shaping whether learning took place and was lasting or not. The context of crisis and the extent it was associated with the left and labor was important for determining whether it – as in Bolivia and Peru but not in Argentina – turned into a particularly potent point of reference for such political forces in the long term. Inclusion of actors with direct experience of hyperinflation, in turn, helped sustain lessons over time.
CHAPTER 6: CONCLUSION

The governments that formed part of Latin America’s “pink tide” during the first decade of the 21st century experienced dramatically loosened external constraints. The commodity boom that lasted from 2003 to 2013 strengthened fiscal and current account balances, while accelerating growth. At the same time, expansionary monetary policies in the rich world pushed down international interest rates. As a consequence, global financial markets and multilateral creditors like the IMF could no longer impose discipline the way they had in the 1980s and 90s. Yet, governments of the left and of traditional labor-based parties varied widely in the extent to which they made use of unprecedented economic room-for-maneuver during the region’s “golden decade”. Moreover, variation was the most pronounced among governments in the countries that were the most dependent on commodity exports, which benefited the most from the boom, and that saw constraints loosened the furthest. Most noteworthy, a set of governments of the left and of labor-based parties, which otherwise differed in important ways between each other, broke both with past patterns of populist cycles and peers that did make full use of the
economic room-for-maneuver provided by the boom, and consistently exercised a degree of macroeconomic restraint.

This dissertation has argued that political learning on the basis of inflationary crises in the 1970s and 1980s constitutes an important factor for explaining discipline. Such crises, which took place against the backdrop of deficits and debt, generated lessons regarding the importance of restraint and produced a respect for—what during the boom were temporarily latent—economic constraints. In some cases, political learning entailed a full-fledged embrace of market liberalism and an abandonment of traditional commitments to expand the role of the state in the economy; in other cases, actors remained committed to state-oriented economic change, but concluded that the sustainability of such projects was contingent on a degree of macroeconomic discipline. Regardless of the particular pattern of learning, where governments of the left and of traditional labor-based parties—as in Bolivia and Peru—had engaged in such a process they provided the Ministry of Finance with a privileged and protected position and a mandate for restraint. Where they did not subscribe to lessons from past crises, governments—like in Argentina—instead fully embraced opportunities provided by the temporary loosening of constraints and engaged in aggressively expansionary policies. The dissertation has also argued that whether such lessons were incorporated or not was to a significant extent the result of highly contingent processes, but that two conditions facilitated lasting learning. This was the case when crises in the 1970s or 1980s had happened in the context of electorally successful left or labor-based political forces and when individuals with direct experiences of past crises were incorporated into contemporary campaigns and governments.

This dissertation has also introduced three criteria for systematically assessing the role of political learning for outcomes. These serve to examine the descriptive accuracy, relevance as a
proximate cause, and independence of political learning, and allow both for an assessment of its importance as a causal factor in a particular case and for cross-case comparisons. On the basis of these criteria, the dissertation has argued that political learning was the most important in Bolivia, where it likely constituted a sufficient and necessary condition for restraint. It was also present in Peru, where it is harder to disentangle its relative causal power, but where it likely constituted a sufficient condition for discipline. In Argentina, in contrast, no lessons were carried into office and restraint was relinquished; but had leaders embracing learning come to power, which was not implausible, then greater discipline would have been likely.

This concluding chapter moves beyond the three cases that are the empirical focus of this dissertation. It does this in three ways. First, it takes a look at two additional country cases where leaders of the left and of labor-based parties came to power: Ecuador and Chile. These case studies are based solely on the secondary literature, conclusions are therefore necessarily more tentative, and they serve primarily to probe the generalizability of the argument. The section argues that the government of Ecuador’s Rafael Correa – like that of the Kirchners in Argentina – is a case of no learning where the government pursued consistently expansionary macroeconomic policies. Like that of the Kirchners, too, it provides a useful contrast to the Morales government in Bolivia, underlining the importance of whether learning had taken place or not when governments faced exceptionally loose economic and political constraints. The governments of Chile’s Ricardo Lagos and Michelle Bachelet are, in contrast, examples of macroeconomic discipline based on political learning from an inflationary crisis in the 1970s, but where the sustaining of lessons was the result of a much less contingent process than in Bolivia and Peru, due to Chile’s highly institutionalized party system.
Second, the chapter turns to three factors that, more or less explicitly, are incorporated into the argument of this dissertation, which are also highlighted by the literature on Latin America’s left turn that Chapter 2 discussed: high- and hyperinflationary crises, technocratic autonomy, and party-system institutionalization (or the lack thereof). It argues that an emphasis on political learning both provides a correction to and complements explanations centering on these factors. The chapter concludes by taking a step back from Latin America, governments of the left and of labor-based parties, and macroeconomic management, with brief reflections on the broader contributions of the dissertation’s focus on political learning to the study of politics.

6.1 Beyond Bolivia, Peru, and Argentina

This section extends the analysis to the cases of Ecuador’s Rafael Correa and Chile’s Ricardo Lagos and Michelle Bachelet. It is divided into two parts, with one devoted to each country case, and with each case study structured in a similar way as those in Chapters 3-5. That is, following a brief introduction that provides an overview of the governments’ economic policy stance, it reviews the lead-up to crises in the 1970s and 80s, examines learning processes, and explains why or why not lessons from the past were brought into contemporary governments.

6.1.1 Ecuador

Rafael Correa was elected president in 2006 against the backdrop of a prolonged crisis, promising to undo the “neoliberal” economic model. Once in office, he largely delivered, both dramatically expanding the role of the state in the economy and pursuing an aggressively expansionary macroeconomic policy. From 2007 to 2013, the Correa government generated deficits averaging 1.7 percent of GDP, despite an increase in revenues from 23 to 34 percent of
This section argues that Correa’s government did not incorporate political learning from Ecuador’s inflationary crisis in the 1980s and that the decision to relinquish restraint was based on a set of long-held beliefs regarding the importance of state intervention – in substantive terms similar to those held by the Kirchners in Argentina.

**Postwar history, persistent crisis, and limited learning on the left**

The oligarchy remained in control in Ecuador for much of the postwar period, ensuring continuation of the export-oriented economic model. Marxist parties had emerged in the 1930s, first the Socialist (PSE) and then the Communist Party (PCE), but they produced a limited electoral footprint, with populist leaders capturing much of the support of the popular classes (Sanders 1981, 8-12). Unlike in Argentina and Peru, however, populist movements generated neither lasting organizations, nor enduring partisan identities (Di Tella 2004, 88-9).

The 1970s provided significant change. A military government committed to a developmentalist ideology established a state-oriented economic model. Coinciding with large oil findings and a spike in prices, ISI policies produced a significant transformation of Ecuador’s economy (Sanders 1981, 14-25; Gerlach 2003, 34-42). At the same time, a third force, ID (Izquierda Democrática), emerged within the left. Founded by former militants of the Liberal Party and the PSE, ID cut a democratic and reformist image, with a commitment to redistribution via the state (Conaghan 1995, 441; Freidenberg and Alcántara Sáez 2001, 132-7).

Following democratization in 1978 Ecuador first shifted between different flavors of populism before the ID’s Rodrigo Borja was elected in 1988 (Conaghan 1995, 442-3; Gerlach 2003, 45-6). Like left and labor-based governments in Bolivia and Peru, ID was tasked with administering the decade’s deepening economic crisis. While the crisis was never as acute as in

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237 IMF World Economic Outlook Database (October, 2017)
other countries, with inflation remaining in the high double-digits, it did generate political learning in ID. When Borja finished his mandate in 1992, the party had largely abandoned commitments to significant state intervention in the economy (Freidenberg and Alcántara Sáez 2001, 140). The renovation of ID had no broader effect on the left, however. The traditional Marxist parties, which had typically spurned the reformist ID, remained weak and unreconstructed throughout the decade. Remnants of PSE and PCE either joined or allied with Pachakutik, a new party based on indigenous organizations that with increasing success contested elections during the late 1990s (Madrid 2012, 90-3).

Correa’s rise and his commitment to state intervention

Ecuador never fully resolved the prolonged economic crisis of the 1980s. As the turn of the century approached, discontent with recurrent austerity programs had created a constant anti-establishment sentiment. In 1997 and 2000, respectively, Abdalá Bucaram and Jamil Mahuad were forced from office amidst intense popular protests led by indigenous movements linked to Pachakutik and, in the case of Mahuad, a military coup. In 2005, Lucio Gutiérrez, a coronel who had led the removal of Mahuad and later allied with Pachakutí on the basis of a left-populist platform, was himself ejected from the presidential palace after having done a U-turn once in office, embracing austerity and market reforms (Conaghan 2011, 262-4).

It was against this backdrop Rafael Correa entered political center stage in 2006. A publicly outspoken left-wing economist who had received his training in the US, Correa was “known as an adamant critic of neoliberalism”. In 2005 he served a 100-day stint as Minister

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238 In his doctoral dissertation Correa had “evaluated the impact of the structural reforms [in the 1990s] on the quantity and quality of economic growth in Latin America”, concluding that there is “no evidence of the reforms being growth enhancing” and “that labor deregulation and trade liberalization are negatively correlated with human
of Finance, before being forced to resign over his critical views of a free trade deal with the US and loan agreements with the IMF (Conaghan 2011, 265). Correa’s team in the Ministry of Finance, which included stalwarts of the old left, resigned their positions with him and constituted the core of the presidential campaign he launched soon after (Conaghan 2011, 266). Running as an unabashed populist, promising to write a new constitution and undo the “neoliberal” model, Correa made it to the runoff, where he won a convincing victory.

Correa in power: putting growth first

Once in office, Correa delivered on this promises of economic change. He defaulted on a third of Ecuador’s debt obligations and broke with the IMF (Flores-Macias 2012, 36-7). At the same time, Correa significantly concentrated power over economic policymaking in his own hands. The Ministry of Finance was subordinated to SENPLADES, a coordinating unit in-between the ministries and Correa, whose head pertained to the president’s inner-circle (De la Torre 2013, 38-9). Moreover, Correa ended the practice of earmarking oil windfall to certain long-term funds, significantly increasing his discretion over spending (Conaghan 2011, 275). Power was used to pursue an aggressively expansionary economic policy with overall expenditures rising from 23 to 40 percent of GDP, squashing existing fiscal surpluses in spite of the windfall provided by the boom.239

The dramatic increase in spending, including the turning of surpluses into deficits, was motivated by Correa’s beliefs regarding the objectives of economic policymaking. Explaining his economic policy three year into his tenure, Correa argued that “Latin American countries should overcome the simplified notion that low inflation equals macroeconomic stability and, worse,
that it is the objective of economic policy” and that “real macroeconomic stability is to achieve the highest possible level of growth and productive employment that is sustainable.”

He took specific issue with the notion that it would be useful to save for a rainy day by running surpluses, arguing that “all these policies [stabilization funds, fiscal rules etc.] are presented as ‘prudent’, making them seem, independent of circumstances, as if saving is always a virtue. As is usually the case, these kinds of stupidities do not sustain even the smallest bit of analysis.” He added that “the supposed prudence is in reality the greatest imprudence, given that Latin American countries, with such great needs for infrastructure, education, health, employment, etc. etc., now cannot take it anymore.”

Conclusion

Correa opted to relinquish restraint because of a set of beliefs concerning the objectives of economic policymaking. These beliefs were long-held and reflected traditional left and heterodox commitments. While a section of the left, ID, had engaged in political learning on the basis of Ecuador’s inflationary crisis in the 1980s and largely adopted market liberalism, such renovation was not embraced by the wider left and not sustained into the Correa government. Correa himself was a newcomer on the political stage, and individuals from the traditional left incorporated into his project came from the unreconstructed PSE and PCE rather than ID.

Given the recent history of Ecuador, with multiple presidents being expelled from office after reneging on promises to challenge the market-oriented model, it would have been difficult for Correa to not pursue a statist course without risking the same fate as his predecessors. But the size of the windfall meant that he could have done that while maintaining a degree of

240 Correa 2010, 124-5
241 Correa 2010, 121-4
macroeconomic restraint. The contrast to Evo Morales, who ascended the presidency in Bolivia under comparable circumstances, facing similar popular demands, is stark. The difference between the statist project marked by discipline in Bolivia and one of relinquished restraint in Ecuador appears to be due to political learning in the former but not the latter case.

6.1.2 Chile

In 2000, 27 Years after the military coup against Salvador Allende, Chile returned a Socialist to the presidency. Six years later, Ricardo Lagos was succeeded by a fellow Socialist, Michelle Bachelet. Lagos and Bachelet presided over a windfall provided by high copper prices and pursued fiercely disciplined macroeconomic policies. Lagos introduced a set of strict fiscal rules, later enshrined in law by Bachelet, reserving surpluses – equaling 3.6 percent of GDP during their time in power coinciding with the commodity boom – for tougher times. This section argues that restraint in significant ways was a function of political learning on the basis of the crisis during the Allende government and the coup against it.

The coup against Allende, socialist renovation, and re-democratization

By the end of the Second World War, Chile was already an institutionalized democracy with a state-oriented development model in place. The Marxist left, constituted by the Socialist (PS) and Communist Parties (PC) enjoyed the support of about a third of the electorate, and took part in several coalition governments. The Cuban Revolution, however, had a profound effect on PS, which shifted away from the center and committed itself to Leninism and the dictatorship of the proletariat over the course of the 1960s (Roberts 1998, 91-2; Walker 1990, 147-9).

The left led to victory by Salvador Allende in 1970 was thus increasingly radicalized. Despite a narrow win and although he lacked a majority in parliament, Chile's first Socialist president pushed forward with an aggressively redistributive agenda and sought to socialize parts of the economy. As foreign exchange reserves were exhausted, the economy went into a tailspin with inflation spiraling into the high triple digits (Dornbusch and Edwards 1989, 11-30). By the fall of 1973, amidst food shortages and rising social unrest, after encouragement from both the right and the centrist Christian Democratic Party (PDC), the armed forces under the leadership of General Augusto Pinochet removed Allende from power.243

The coup resulted in the complete political and programmatic defeat of Chile's left. Leaders, militants, and sympathizers of the Socialist and Communist Parties were ruthlessly repressed, with thousands killed and tens of thousands sent into exile (Pollack and Rosenkranz 1986, 186-7; Roberts 1998, 97-8). At the same time the authoritarian regime launched a series of far-going market reforms: tariffs were slashed, austerity imposed, and the social security, health care, and education systems were privatized.

The military coup and life under dictatorship produced a far-going “renovation” within the Socialist Party. This process, which spanned at least a decade and took place in part in exile, in part in research centers in Chile, had two main components. First, socialists substituted their suspicion of constitutional democracy with an embrace of it. Second, left leaders linked the collapse of democracy to economic crisis and the inability to contain popular demands; too aggressive redistributive and expansionary economic policies had generated inflation, which had dissolved popular support (Walker 1990; Roberts 1998).

Political learning was critical for the rapprochement between Socialists and the centrist Christian Democrats (PDC) in the 1980s. The accord led to a center-left alliance, called the

243 Valenzuela’s (1978) *The Breakdown of Democratic Regimes: Chile* remains the best account of the coup.
Concertación, which first defeated the military regime in a referendum in 1988 and then governed Chile throughout the 1990s. Operating within firm constraints, resulting from a constitution written by the military regime that provided the right with overrepresentation in congress and a continued strong position for the military, of which Augusto Pinochet remained commander-in-chief, the Concertación, headed by Christian Democratic presidents steered a cautious course (Valenzuela 1990; Aglero 1996; Weeks 2000).

The Lagos government

The election of Ricardo Lagos in 2000 reflected a shift of power within the coalition from PDC to the Socialists. But it also represented continuity. One of the instigators of the Socialist renovation process, Lagos had served as Minister of Education and of Public Works in the 1990s. In contrast to his Concertación predecessors, however, Lagos governed within loosening constraints. Pinochet had stepped down as commander-in-chief in 1998 and constitutional reform removed key features that had strengthened the representation of the right. Meanwhile, rising copper prices halfway through Lagos’s term provided a fiscal windfall (Huber et.al. 2010, 78).

Yet, and in spite of loosening political and economic constraints over the course of his mandate, Lagos stuck a prudent path. He appointed orthodox economists to key positions in the Ministry of Finance and the Central Bank and once copper prices began rising, generating ballooning revenues, Lagos imposed strict fiscal rules (Huber et.al. 2010, 84-5). The result was surpluses of 2 percent of GDP in 2004 and 4.5 percent in 2005, an election year in which his chosen successor Michelle Bachelet was involved in a closely fought race for the presidency.

Such discipline was continuously motivated by a liberal economic policy outlook rooted in the renovation process and explicit references to the Allende experience. As underlined by

244 Oppenheim’s (2007) Politics in Chile has a good overview of the Concertación governments.
Sergio Bitar, a cabinet member of both the Allende and the Lagos governments: “In order to understand today’s political economy; one has to understand what happened with the Popular Unity government in the 1970s. One of the most important conclusions for the entire Chilean left from this period was [that] the use of an expansive political economy can have gigantic political costs… For fifteen years, we have maintained a high level of political discipline, knowing that populism does not pay.”

The Bachelet government

Michelle Bachelet’s election in 2006 seemed to signify change. While she was the fourth Concertación president in a row, she had entered national-level politics only in the early 2000s and reflected a generational change, engendering expectations of a more radical stance than that of her predecessors (Weeks and Borzutzky 2010, 1). Moreover, Bachelet did from the beginning of her government enjoy the looser economic and political constraints that Lagos had only benefitted from during his final years in power.

In spite of the favorable environment, however, Bachelet continued the cautious course. Like her predecessor she appointed US-trained, professional economists to key positions. Central bank independence, strengthened under Lagos, was left untouched and fiscal policy was characterized by discipline (Borzutzky 2010, 93-6; Huber et.al 2010, 84). When spiking copper further strengthened revenues, the Bachelet government responded by enshrining Lagos’s informal fiscal rules in law and putting into place a countercyclical stabilization fund into which they were channeled (Frankel 2013, 9). Health, education, and pension reforms were marked by efforts to limit spending (Pribble 2013).

245 The quote is from an interview with Sergio Bitar, cabinet member of both the Allende and the Lagos governments, and a senator during that of Michelle Bachelet, cited by Kaplan (2013, 224).
Continued macroeconomic discipline was – as under Lagos – motivated by lessons from the Allende period. As underscored in a detailed analysis of the Bachelet government’s economic policy choices: “There is a visceral aversion among the hegemonic leadership group against any kind of populism, defined as expansionary economic policies in response to popular pressures. This aversion stems from their analysis of the failure of the Allende government. As one high official in the Ministry of Finance who was politically active during the Allende years explained it: ‘It is not about levels of orthodoxy; once you cross the threshold you don’t know where you will end up. You cannot be half pregnant; either you are or you are not. I guess we probably have the feeling ... that eventually the market will catch you’” (Huber et al. 2010, 83).

**Conclusion**

Chile is the best-documented case of political learning in Latin America. That significant, and in the 1990s and 2000s dominant, sectors of the Socialist Party\(^{246}\) reconsidered previous ideological stances and embraced core tenets of market liberalism after the experiences of Allende and dictatorship is beyond dispute. But its causal effect on relevant policy outcomes has always been difficult to determine given the hard constraints imposed by Chile’s negotiated transition. Yet, the progressive loosening of constraints combined with policy continuity under the Lagos and Bachelet governments suggests that it has real power as a proximate cause.

However, learning appears to lack the independence that it has in, for instance, the Bolivia case. Leaders like Lagos and Bachelet were perhaps not selected by voters because of learning, but by *Concertación* elites. The entrenchment of lessons in a wider elite circle – typically labelled the “transversal party” (Siavelis 2006) – which in turn was embedded in a

\(^{246}\) The Socialist Party as well as the Party for Democracy (PPD), which was founded by PS-members as an electoral vehicle prior to the plebiscite as the PS was then still prohibited. The PPD has since then remained an independent party, but closely allied to PS.
highly institutionalized party system, means that it would have been hard for leaders to achieve power without embracing such lessons, thereby shifting causal power from political learning to the institutions and organizations that sustain it.

6.2 Political learning and the left turn literature

This dissertation has argued that political learning is an important variable for explaining variation in macroeconomic management among governments of the left and of traditional labor-based parties during the commodity boom. But the argument and the analysis of the different cases – explicitly and implicitly – has incorporated a set of factors emphasized by the literature on Latin America’s left turn, most importantly hyperinflationary crises, technocratic autonomy, and party-system institutionalization. This section returns to the discussion of these factors – which was initiated in Chapter 2 – arguing that the emphasis on political learning provides a correction to and complements accounts that focus on them in important ways.

6.2.1 Hyperinflation

Most clearly, high- and hyperinflationary crises are at the center of this dissertation’s argument and case analyses. The notion that such crises constitute an especially traumatic class of events is widespread. They wipe out middle-class saving, generate shortages in basic goods, and frequently present threats to governability. Weyland (1998) claims that because extremely high levels of inflation are so traumatic, voters are willing to accept almost any measures to stop them and that Latin American countries suffering from hyperinflationary crises, therefore, pursued deeper market reforms than those that did not in the 1990s. In that vein, Kaplan (2013; 2018) has argued that hyperinflationary crises also leave lasting legacies, marking countries for
decades, and constituting a cause of contemporary prudence. He contends that such crises have produced permanent “low-inflation constituencies” (Kaplan 2013, 60-1) and that “in crisis-scarred countries, the persistence of inflation sensitivity among the electorate and businesses raises the political appeal of mainstream policy solutions that use fiscal discipline as a conduit for inflation-controlled growth” (Kaplan 2018, 20).

Yet, this dissertation’s empirical account differs in two important respects from that of Kaplan. First, inflationary crises in the 1970s and 1980s presented a potential source of learning — a potential cause of belief change. Crises, however, did not as Kaplan claims automatically generate lasting lessons given that inflation reached a certain threshold (100 percent on an annual basis). Whether learning occurred at all and became lasting was contingent on an additional set of factors pertaining, in particular, to the context of the crisis — whether it occurred on the watch of a left or labor-based government or against the backdrop of an electorally resurgent left and a heterodox policy experiment — and depending on what political consequences it had for left and labor-based parties. Learning was more likely to be sustained over time when individuals who had drawn lessons remained in important positions (as García in Peru, and much of the PS leadership in Chile) or were incorporated into new projects (like in that of Morales in Bolivia and Humala in Peru). Crucially, whether learning took place did not depend strictly on the severity of the crisis; there was no clear “cut” above which learning became lasting and underneath which it did not occur. For instance, the crisis in Chile, which yielded high- (around 500 percent on an annual basis) but never hyperinflation, produced incredibly lasting lessons. That in Argentina, which reached inflation rates far into the 1000s, did not.

Second, learning took place at the elite- not the mass-level. Experiencing hyperinflation did not fundamentally change voters’ long-run economic policy preferences. Not only is this
clear in the case of Argentina, where despite the hyperinflationary past the Kirchner government pursued aggressively expansionary policies and twice escaped the punishment by voters in elections where inflation was an important issue. It is also clear in the case of Bolivia, where learning occurred and the government did embrace macroeconomic restraint. As Chapter 3 underlined, Morales ran on promises to undo the “neoliberal” model and explicitly vowed to do away with Supreme Decree 21060, closely associated with ending hyperinflation. As underscored by Morales’s campaign-chief Walter Chávez, “ten years is a lifetime for a voter”. Hence, it was elites, not voters who drew lessons.

These differences between this dissertation’s and Kaplan’s argument are not just important because they allow the dissertation to make better sense of a larger set of cases. They also have theoretical significance. Kaplan’s argument is fundamentally not about beliefs and learning, but about a class of events and the uniform effect they have on countries by shifting mass preferences. This dissertation claims that elite learning has independent causal power, and is thus not largely endogenous to the event on the basis of which it has taken place.

6.2.2 Technocratic autonomy

Technocrats and technocratic autonomy clearly play an important role in the case analyses and argument of this dissertation as well. The key choice made by every president with regard to macroeconomic management was whether to provide the Ministry of Finance with a privileged and protected position or not and who they put in charge of it. In Bolivia, Peru, and Chile macroeconomic restraint was exercised via the selection of a competent economist as Minister of Finance with the mandate to “say no” when asked for more spending.

247 Author interview with Walter Chávez. Cited in Chapter 3 as well.
Correspondingly, relinquishing restraint in Argentina and Ecuador was closely tied to breaking down existing technocratic autonomy and moving key decisions into the presidential palace.

The dissertation’s argument and case analyses complement works on technocrats and technocratic autonomy in two ways. First, it contributes to the understanding of under what conditions political principals do endow Ministries of Finance with a privileged and protected position. Previous works have highlighted factors such as need to reassure economic actors and contexts marked by multiple and conflicting stakeholders (Dargent 2015). This dissertation emphasizes leaders’ beliefs about the objectives of and demands on economic policymaking, and political learning as a source of such beliefs.

Second, and although not a core component of the dissertation’s argument, the case analyses support the contention that once provided with autonomy, technocrats, particularly ones in the Ministry of Finance, gain a degree of independent causal power: the Ministry of Finance in Peru under Humala was, arguably, provided with autonomy to ensure macroeconomic discipline, but used it, too, to ensure continuity of market-oriented policies more broadly. As a result, the case analyses also underline the importance for political principals whose beliefs stipulate a need for technocratic autonomy to staff the Ministry of Finance with individuals who are otherwise programmatically aligned with them. The contrast between outcomes in Bolivia and Peru is quite stark. Morales appointed a professional economist Minister of Finance and provided him with a degree of autonomy. But he picked one who was committed to and became integral for the process of economic change. Humala chose a Minister of Finance who did not share his statist inclinations and, arguably, used his position to contain them.
6.2.3 Party-system institutionalization

Finally, and much less explicitly, party-system institutionalization – or the lack of it – figures both in the general argument and in the case analyses. Moreover, not only is its role largely implicit, its relationship to political learning is also partly contradictory. First, as suggested by the case of Chile, party-system stability contributes to sustaining political learning – or other existing beliefs – by providing a selection mechanism through which new leaders need to gain the support of old ones. Given the traumatic economic crises in the 1970s and 1980s across Latin America and the learning that took place at the elite level to some extent in all countries discussed in this dissertation – including Argentina and Ecuador, around Menem and in ID, respectively – party-system stability would appear to be an incredibly important determinant of what beliefs leaders in the 2000s held. This dissertation has only, and only briefly, discussed one case with a well-institutionalized party system. But it seems plausible that beyond Chile, too, where party systems remained robust into the 2000s, political learning from the 1970s and 1980s was sustained. Yet, by sustaining beliefs and learning, stable party systems also reduce its independent causal power, which is partly subsumed by the institutions that maintain it.

Second, party-system collapses – complete or partial – opened the door to leadership and ideational renovation. Thereby it also increased the probability that past lessons would be flushed out and, at the same time, endowed political learning where it, after all, was sustained with a higher degree of independence: a less structured political space, with less stringent mechanisms.

248 The Chile case also suggests that it was political learning and beliefs that charged party-system institutionalization with the quality of producing orthodox economic policy outcomes in the 2000s, not extended time horizons or the maintenance of career- and insider-politicians per se. In the end, the Chilean party-system was more or less as stable in the 1960s as it was in the 2000s, and Allende was a prototypical insider politician. Arguably, what made for its different effects in the 1970s and the 2000s was that it embedded different beliefs and ideas.
for leadership selection, generally endowed beliefs with greater independent causal power, including ones rooted in political learning from past crises.

6.3 Broader contributions

As noted at the outset of this dissertation, the notion that leaders draw lessons from past events and that such lessons shape their choices is commonplace. Learning is a staple of journalistic accounts and part of the conventional wisdom in popular understandings of phenomena as diverse as German insistence on austerity during the Euro Crisis and the US decision to intervene in Iraq. The notion of political learning has also been used in political science in literatures on the determinants of foreign policy choices and regime change in Latin America. Yet, the term has suffered from a lack of conceptual clarity, which has made causal claims and comparisons across cases regarding the role of political learning difficult.

This dissertation has sought to amend these shortcomings. Drawing out the ideational and voluntarist essence of political learning explanations, it has argued that such accounts need to demonstrate, in particular, that a belief change took place on the basis of a particular event, that such a belief change mattered for the outcome that is being explained, and that different beliefs would have been possible. The dissertation then defined three criteria for examining the descriptive accuracy, relevance as a proximate cause, and independence of political learning. These criteria effectively constitute an empirical strategy for identifying the causal role of political learning and allow for systematic and transparent evaluations of claims about political learning, as well as comparisons across cases of its relative importance.

These criteria can straightforwardly be applied to other cases than those analyzed in this dissertation where there is reason to think that political learning might have been a factor. For
instance, to take a topic substantively similar to those discussed in these pages: the claim that Germany’s austerity during the Euro Crisis is a product of political learning on the basis of the hyperinflationary crisis in the 1920s. To examine such an argument, we would first determine whether it is descriptively correct – whether politicians actually motivate their decision with reference to that crisis. Second, we would examine the relevance of political learning as a proximate cause. Was a different policy course than austerity actually feasible in the aftermath of the Euro Crisis? How hard were financial constraints? What was the position of critical interest groups, such as business and unions? Third, to what extent was there a selection of leaders on the basis of political learning? Was Angela Merkel effectively chosen, either by voters or her own party, on the basis of committing to such lessons? Was it plausible with a chancellor not embracing lessons from hyperinflation? Without delving further into the case of Germany, it is worthwhile underscoring that even if the first criterion is met satisfactorily – that leaders in a coherent and consistent manner indeed motivated austerity with reference to the past – we would probably expect weaker evidence for the other two criteria. Given the depth of crisis, leaders likely faced fairly limited room for maneuver. Moreover, considering the strength of German parties and the party system, if learning exists it would likely be embedded in organizations and institutions in a similar way to political learning from the Allende period was in Chile.

This of course underlines that it is rare that political learning is an independent causally powerful factor. The case analyses that constitute the empirical core of this dissertation highlight this point as well: Only in Bolivia were all three criteria met in such a way that political learning constituted an independent causal factor, sufficient and necessary for restraint. For political learning – and beliefs more generally – to have significant independent causal effect, actors need
to have significant room for maneuver; materially-grounded constraints and incentives need to be indeterminate and selection mechanisms weak.

This observation is not meant to qualify the importance of political learning or the contributions of this dissertation. To the contrary, it serves to underline the real analytical and theoretical value of studying beliefs in general and political learning in particular as independent causal variables, as well as the toolkit for doing so developed in this dissertation. Political science has good instruments for assessing the structural and institutional factors that shape actors’ constraints and incentives. But for critical junctures, periods defined by weak constraints and muddled incentives and therefore marked by contingency and chance, the discipline’s arsenal is weaker. Yet such moments are important and frequently shape countries’ long-term trajectories (Pierson 2000; Mahoney 2000). For instance, how Latin America’s commodity-dependent republics manage a boom – when external constraints are weak – not only affects their room-for-maneuver once it ends, but also the incentives politicians will face the next time prices start rising: busts, harsh austerity, and IMF-conditionality likely strengthens domestic demands for redistributive and expansionary policies once they are again possible, fortifying the “populist temptation”. The notion of political learning, and the toolkit provided in this dissertation for examining it, constitutes a means for systematically studying and making sense of such critically important junctures.
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METHODOLOGICAL APPENDIX

The brunt of the material for this dissertation was collected over the course of nearly 8 months of fieldwork in Bolivia, Argentina, and Peru in 2015 and 2016. Data collection focused on elite interviews. This appendix provides an overview of interview procedures and the data that was gathered.

The core research strategy was the same in all three countries. I arrived with a clearly formulated question – why did the government in Bolivia/Argentina/Peru pursue a disciplined/expansionary macroeconomic policy during the boom? In all three cases I sought to examine a lead-hypothesis focusing on the role of past hyperinflationary crises and a set of competing explanations, which exact specification varied somewhat between cases and were based on the secondary literature. The main difference in core research strategy was that it was more inductive in Bolivia – where I first carried out fieldwork – with a less narrow focus on the hyperinflationary crisis. In Argentina and Peru, the focus was more clearly centered on examining whether there was learning on the basis of the hyperinflationary crisis and why or why not that was the case. This is also the reason for why I spent more time and carried out a larger number of interviews in Bolivia.

In all cases I had drawn up lists of individuals I wanted to speak to on the basis of a review of the existing literature and newspaper reporting. Individuals were added to this list on the basis of information obtained in interviews in a manner that can be described as snowballing. But the major part of interviewees, and especially key government insiders, were identified prior to fieldwork. I sought specifically to avoid relying on snowballing for selecting interviewees since it risks introducing biases.  

Interviewees generally fell into two groups: insiders and informed observers. Insiders are people close to the president in question – typically members of the cabinet, high-ranking officials in the Ministry of Finance, or political advisors. Informed observers are journalists, academics, researchers at think tanks, opposition politicians, business representatives, and other individuals with a strong grasp of the country’s politics but not inside information of the government’s reasoning. For informed observers I was careful to interview individuals critical as well as supportive of the government.

Interviews were semi-structured. The vast majority was carried out in Spanish and took place either in the office of the interviewee or in a public space (typically a café). They varied in length from roughly 20 to 90 minutes. Interviewees knew that I was PhD student at a US university and that I am from Sweden. The main primary source complementing interviews is newspaper reporting. I spent three weeks in La Razón’s archives in La Paz, Bolivia, examining coverage of the 2005 campaign and the presidential transition. For Argentina I made use of La Nación, which online archives stretches back to 1995. The online archives of Peru’s La República and El Comercio are patchier, but permitted access to some articles from roughly 2010 onwards. Harvard’s Widener Library contained many biographies by key actors as well as a number of election platforms.

Snowballing was important in obtaining access, however. I would always carry a list with people I wanted to speak to and at the end of interviews ask if the person could put me in touch with individuals on that list. The fact that I am not from any of the three countries seemed to make interviewees relax and be willing to open up in a way they might not with a fellow national (with a potential personal political interest). The fact that I am from Sweden, and not the US, also appeared to make interviewees more favorably disposed towards me. Several interviewees in Argentina and Bolivia told me about how they themselves or their families had spent time in exile in Sweden in the 1970s and 1980s.
Bolivia

I completed nearly four months of fieldwork in Bolivia in September-August and November-December 2015. I was based in La Paz but made two research trips to Cochabamba. I carried out a total of 52 formal interviews. Of these 25 interviewees are best characterized as insiders and 21 as informed observers. 6 do not fit neatly into either category. I had very good access to President Evo Morales’s inner circle. Insider interviews included Vice President Álvaro García Linera, Minister of Finance Luis Arce, and Evo Morales’s campaign head from 2002 to 2014, Walter Chávez. Interviewees included several current and former cabinet members as well as senior Ministry of Finance and Central Bank officials. With regards to the informed observers, the majority are best-characterized as center-right critics of the Morales administration, but a handful are critics on the left or government loyalists.

Interviews followed a similar template for insiders and informed observers. I usually began by describing the IMF’s assessment of the Morales government’s macroeconomic management during the boom years as “prudent” and characterized by “large fiscal surpluses”. I would ask if they agreed with that assessment and if not why not. I would then ask interviewees to explain the government’s macroeconomic management (i.e. for why it had been prudent, or not).

Following these first open questions about the character of the Morales government’s macroeconomic management and the reasons for it – which typically elicited long answers and follow-up questions – I asked specific questions about the economic policymaking process and the Ministry of Finance’s role in it, the relationship between MAS and the social movements, party elites and base, who the key individuals in the administration were at different points in time, and about interviewees’ perceptions of the 2005 campaign and Evo Morales then.

For insiders, I would ask additional questions about the 2002 campaign, the writing of the 2005 platform, the presidential transition, the selection of Luis Arce as Minister of Finance, and the attempt to remove the gas subsidies in 2010-11. Interviewees who could be expected to have particular information in an area would be asked additional questions about that (e.g. a Vice Minister in the Ministry of Finance would be asked additional questions about the economic policymaking process; someone who was part of Morales’s campaign team in 2005 would be asked specifically about the writing of the platform).

In general there was a significant convergence in interviews, both in terms of key information about how specific events and processes had unfolded (e.g. about who had been involved in the writing of the election platform) and general perceptions about the reasons for policy choices. For instance, of 45 interviewees who were asked about whether they agreed with the IMF’s assessment of the government’s macroeconomic management, 43 said yes, it had been prudent (this includes 19 of 21 informed observers, most of whom were center-right critics of the government). 35 interviewees pointed to the hyperinflationary crisis in the 1980s as the main reason, 23 to the role of Luis Arce, 8 to Evo Morales’s “farmer’s mentality”. I only asked about the hyperinflationary crisis towards the end of the interview if the interviewee had not brought it up, which was exceedingly rare. All 35 interviewees who pointed to the crisis as a key reason for contemporary prudence brought it up themselves as a response the first open question about why the Morales government had acted with restraint.

Argentina

I completed nearly two months of fieldwork in Argentina in March and April 2016. I was based in Buenos Aires the entire time.
I carried out a total of 25 formal interviews. Of these 15 are best characterized as insiders, 10 as informed observers. I generally had less good access than I had in Bolivia. It was particularly difficult to speak to individuals who had belonged to the Kirchners’ inner circle until the end of their government and interviewees were generally less willing to be cited by name. Yet, I did speak to a number of individuals who had held important positions at key moments of the Kirchner government. These included former Ministers of Finance Roberto Lavagna and Felisa Miceli and Néstor Kirchner’s campaign head and chief of staff, Alberto Fernández. Insiders also included 8 individuals who had held high positions in the Ministry of Finance – at the secretary or sub-secretary level – during the Kirchner government, covering the entire period from 2003 to 2014, who could give detailed assessment of the economic policymaking process and how it had changed over time.

Interviews followed a similar template for insiders and informed observers. I began by asking interviewees to describe the characteristics of the Kirchner government’s economic policy. I would then ask interviewees to explain the reasons for those characteristics.

Following these first open questions about the character of the Kirchner government’s macroeconomic management and the reasons for it – which like in Bolivia typically elicited long answers and follow-up questions – I asked specific questions about the economic policymaking process and the Ministry of Finance’s role in it, the relationship between the Kirchners, unions and social movements, party elites and base, and who the key individuals in the administration were at different points in time. I would then ask questions about the firing of Roberto Lavagna in 2005, and the shift from Néstor to Cristina Kirchner in 2007. The hyperinflationary crisis in the 1980s would rarely be brought up by interviewees – either insiders or informed observers – and I would typically ask them towards the end of the interview if it had any impact on the Kirchners’ economic management or their own thinking.

Like in Bolivia, there was a significant convergence both in terms of key information about how specific events and processes had unfolded (e.g. dynamics of the discussions about inflation in 2005) and general perceptions about the character of and reasons for policy choices. For instance, of 21 interviewees who were asked about the character of the Kirchners’ macroeconomic management all 21 – both critics and supporters of the government – agreed that it had been expansionary with a focus on maintaining growth and creating jobs. Virtually all interviewees – again both insiders and informed observers critical of the government – also identified 2005-2006 as the key breaking point where one “model” was replaced by another, and tied it to the expulsion of Lavagna. Moreover, all but two interviewees agreed that there had been no significant change in macroeconomic management because of the shift from Néstor to Cristina Kirchner, with insiders, in particular, insisting that they shared the same economic outlook and that Néstor Kirchner retained a key role in economic policymaking after Cristina Kirchner took over the presidency.

Peru

I completed nearly two months of fieldwork in Peru in November and December 2016. I was based in Lima the entire time. I spent an additional week in Peru in April 2017. Fieldwork focused only on the Ollanta Humala government.

I carried out a total of 27 formal interviews. Of these 21 interviewees are best characterized as insiders, 6 as informed observers. I had very good access to Humala’s different groups of advisors. I interviewed all key individuals from the traditional left who joined Humala’s campaign in 2006 – most importantly Salomón Lerner Ghitis, Félix Jiménez, and
Gonzalo García Núñez – as well as many of those who joined between 2006 and 2011. I also interviewed key individuals who were incorporated into Humala’s team during the runoff campaign and the transition, most importantly Kurt Burneo, Oscar Dancourt, and Humala’s two Ministers of Finance, Miguel Castilla and Alonso Segura.

Interviews followed a similar template for all insiders as well as the few informed observers who I interviewed. I began by noting that there was a perception that Humala had campaigned on the left and governed on the right and asked whether they agreed and what meaning they put into that assessment. I would then ask interviewees to explain the reasons for that shift.

Following these first open questions about the character of the Humala government’s economic policy and the reasons for it – which like in Bolivia and Argentina typically elicited long answers and follow-up questions – I asked specific questions about the economic policymaking process and the Ministry of Finance’s role in it, who the key individuals in the administration and in Humala’s campaign team were at different points in time. I would then ask questions about the 2006 campaign, the 2011 campaign with a particular focus on the runoff and the inclusion of advisors from the Toledo campaign and the writing of the Hoja de Ruta, and the transition period with the appointments of Miguel Castilla and Julio Velarde.

There was a significant agreement on several points. All interviewees – whether they viewed the shift favorably or not – agreed that Humala had moved away from leftist positions once he got into government. There was also agreement on the description of his economic policy as being both macroeconomically disciplined and market oriented. Interviewees converged on key descriptions of facts and processes – regarding who were involved at what points and what key conflicts had been. All individuals from the traditional left as well as individuals who had entered during the runoff campaign in 2011 emphasized the constant commitment to macroeconomic discipline and motivated it with the hyperinflationary crisis in the 1980s. As in the Bolivia case, I never asked about hyperinflation until the end of the interview and where interviewees are quoted referencing it they have brought it up on their own accord. There was also agreement on the importance of the appointment of Castilla and that once installed, Castilla outmaneuvered Humala’s original left advisors.