

The Politics of Market Discipline in Latin America: Globalization and Democracy*

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Two phenomena have been especially prevalent in Latin America during the decades of the 1980s and 1990s: re-democratization and economic liberalization. In this context, it is legitimate to wonder if it is possible for democracy itself to become a hostage to investors. A vast literature argues that in emerging economies such as those of Latin America, the market has greater capacity to influence political outcomes and also has preference for candidates based on their position on the party-political spectrum. That is, it rejects left-wing agendas, which in turn promotes a convergence toward orthodox politics. However, how do we then explain the emergence of the left in Latin America over the last decade? Do these governments really find their political agenda constrained? Did the market treat all of these governments similarly and was it capable of constraining them with the same efficiency? These are questions that *The Politics of Market Discipline in Latin America: Globalization and Democracy*, a new book by Daniela Campello, seeks to answer, indeed, not only to answer, but also to go beyond that. The result is an engaging work, full of notable and robust empirical findings, and which is an important contribution to the area of Comparative Politics and International Political Economy.

Campello starts by describing the Brazilian presidential elections of 2002, when Luiz Inácio Lula da Silva and the Workers' Party (PT) were elected into government for

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the first time. What is highlighted at this moment, on the one hand, is the action of the market. On the verge of the impending victory of a party of the left in the country, the first signs of investor dissatisfaction with these imminent facts were: capital flight and consequently a devaluation of the currency, clear and classic case of a confidence crisis. On the other hand, the author calls attention to the reaction of Lula and the PT to the approaching crisis. Already on the eve of the elections, but especially during the term of the administration, the new government put to one side its traditional and historic political agenda, characterized by steadfast opposition to neoliberal policies, in order to allow the continuity of a market-oriented economic policy. The most notable example of the change in course was the nomination of Henrique Meireles for the position of President of the Central Bank. The case of Brazil, however, was not the rule. For example, in Ecuador, the election of the former Finance Minister Rafael Correa in 2006 points to a very different outcome. From the beginning of his presidential campaign, Correa showed himself to be a candidate of strong anti-neoliberal rhetoric, who was against the dollarization of the economy and whatever movement toward free trade with the US. A distrust took hold of the market, creating similar effects to those that occurred in Brazil. But the president elect did not seek to moderate his message or implement a policy switch. On the contrary.

From the two cases mentioned above, those of Brazil and Ecuador, we can identify the main topics addressed in the book: 01. the definition of investor policy preferences in relation to the left; 02. the inconsistent nature of the market in imposing, in an efficient fashion, constraints on the political agenda of governments of the left; 03. the varied reactions of left-wing governments to the confidence crisis of investors, ranging from moderation to policy switch; or the continuation of the previous agenda. The work of Campello investigates these topics in a precise and creative way, and its great contribution is to evaluate the relation between investors and emerging governments in the context of financial flows, in which Latin American states, highly dependent upon commodities and holders of low levels of international reserves, become highly exposed and vulnerable to the *good and bad times* of the international economy. These cycles of boom and bust, according to the author, are elements that are fundamental for an understanding of the political dynamic of the region.

Campello develops her arguments through a formal model (Chapter 02), quantitative analysis (Chapters 03 and 04) and a detailed study of four countries of the

region – Brazil (Chapter 05), Ecuador (Chapter 06), Venezuela (Chapter 07) and Argentina (Chapter 08), which guarantees robustness in the results achieved in the study. By utilizing formal theory to describe the relation between politicians and investors, she explains that their actions are always contrary to one another when facing a left turn; and that the reaction of presidents of a left-wing bent is to converge toward liberal policies. This occurs in the context of complete information, in which the actors know the limits of their actions because there exists the possibility of capital mobility, meaning that investors can leave the country when they notice the possibility of a hike in taxes and of income redistribution, causing a currency crisis and reducing the capacity of leftist governments to implement redistributive policies. A situation characterized by uncertainty is more consistent with the Latin American context. The sources of this uncertainty can be varied, such as the recent process of re-democratization and economic liberalization; the great concentration of power in the hands of the Executive; or the high levels of income inequality. Nonetheless, Campello highlights an exogenous and structural factor: the high level of dependency of Latin American countries on the exports of commodities and their low international currency reserves. The first group of uncertainty-generating items may be minimized over time, but this does not occur with structural types of uncertainty.

In this sense, the author concludes that in countries less exposed to uncertainty, where the relation between investors and government is less unpredictable, it is possible to predict a move toward ideological coherence, since left-wing governments understand the limits of market constraints and market swings are of lesser extremity. In countries that are more exposed to these market shocks, market constraints will vary considerably over time. Governments in these situations that promote aggressive redistribution policies will be unable to carry them through. Thus, the more dependent a country is on commodity exports and foreign savings, the less the moderating effect of economic globalization on left-wing administrations, which will swing more frequently between redistributive policies and policy switches.

The hypotheses derived from the relation between investors and governments are formalized and tested by the author. Firstly, Campello goes on to evaluate the behavior of investors in the face of the emergence of leftist governments in Latin American countries and how this can change in moments of boom and bust. The important question, in this case, is: does the ideology of a government affect the way

investors perceive the country? Empirically, the perception of the market is measured by bond spreads. To capture the cycles of market highs and lows, Campello develops the Good Economic Times Index, which details items such as variations in prices of commodities and international interest rates. Analyzing 39 presidencies in 09 countries, the author concludes that the ideology of the presidential candidates matters for the market and that investors perceive candidates who are state-oriented as a greater risk compared to market-oriented moderate leftists or candidates of parties of the right. In practice, what we may observe is that, with investors facing the possibility of unfavorable policies, bond spreads become elevated with the consequent reduction in foreign finance. Nevertheless, this perception is mediated by international economic conditions, exogenous to both investors and politicians. In economic booms, it is interesting to note that the findings show that the market does not distinguish between right or moderate left, but maintains an antagonistic position towards the radical left.

Campello also analyzes the reaction of governments and candidates of the left in the face of the actions of investors, dealing directly with the phenomenon of policy switch, a theme much studied in Latin American politics. The main question to be answered, therefore, is if currency crises and booms affect the political agenda of recently elected presidents. The presence of crises and booms is checked with the Index of Exchange Market Pressure, and the analysis of the phenomenon of policy switch is developed through the evaluation of government programs and their consequent implementation in 89 elections, held in 15 countries. The findings confirm the theoretical predictions — in the face of crises, there is a greater probability of policy switch on the part of left-wing presidents. During boom periods, or indeed in times of normal growth, left-wing candidates follow their traditional agenda. In sum, the main point is that all governments worry about a scarcity of dollars, which can be caused by a confidence crisis among investors, but for left-wing governments, this becomes a worry only during times of foreign currency shortages; in periods of strong growth, market discipline is not as efficient. An example of this lack of efficiency, observed by the author, was the response by President Correa to the nerves of the market: "take Valium". In that period, the country benefited from the high international prices of oil.

The cases detailed by the author illustrate excellently how, in practice, the interaction between investors and governments unfolds. In the case of Brazil, the author explains the moderation of the left, represented by the PT, as being a result of economic

stability to exogenous international cycles. In the case of Ecuador, as well as that of Venezuela, it is possible to observe the opposite: how the vulnerability of their economies to international cycles impacted upon the behavior of the left in the two countries. This can be observed in the comparison of the governments of Lucio Gutiérrez with his successor, Correa; and the changes in the behavior of the Venezuelan government of Hugo Chavez, starting in 2003. In the case of Argentina, special attention is warranted for the governments of Néstor Kirchner and Cristina Fernández in the face of the absence of responsibility toward the market, after the default, combined with the rise in commodity prices. In order to extrapolate the validity of her arguments beyond emerging economies, the author analyses Greece, Portugal and Spain in the context of the financial crisis of 2008, detailing policy switches similar to those of socialist parties when arriving in power.

In summary, Campello makes a convincing argument in explaining why market discipline varies so considerably in Latin America. By resorting to exogenous factors, such as economic cycles of good and bad times, she offers too a mechanism little used in the literature. In a certain way, the reading of this book demands greater discussion of how the position of Latin America in the global economy, a theme dear to dependency theorists, should be mobilized to think about the quality of democratic participation in the region. Moreover, in analyzing topics such as economic and financial liberalization, dependency, party and electoral politics, among others, the work of Campello has made itself obligatory reading in order to interpret the recent political history of Latin America. The emergence and persistence of a neoliberal agenda, even under the control of governments of the left, over the period since re-democratization, should be associated with a scarcity of foreign exchange reserves, itself a result of low prices for commodities and high interest rates. These moderate or market-oriented governments acted to rebuild the confidence of investors; on the other hand, the argument is useful too for explaining the persistence of the left during the 2000s, when a favorable international market, buoyed by high commodity prices, permitted many governments to be free of market constraints.

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