

## Debt, IMF and the New Latin American Left. A place for autonomy.

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### 1. Introduction

The coincidence in time of leaders with similar political characteristics in the region gives a special color to Latin America at the beginning of the current century. Leaders from diverse backgrounds on the left have been elected and reelected by popular will in many Latin American countries. These governments not only coincided in time and mode of election. As we shall see, they have also developed a new foreign policy strategy which hails a new era of the Latin American left.

This change is not limited to *how many* and *who* the rulers of the Latin American countries are, but also to *how* they rule. Unlike what had happened during the last decades of the twentieth century, where candidates who won election on a left platform<sup>1</sup> once in power put in practice neoliberal policies<sup>2</sup>, the latest victories of the Latin American left has given way to a new era of political experimentation in which these governments expanded their role on development, redistribution and social welfare (Levitsky and Roberts 2011, Murillo, Oliveros, Vaishnav 2011). In the 21st century, these governments have also managed to govern *from* the left.

The conditions that made this possible exceed this work and have been explored by several authors (Rodriguez Garavito and Barrett 2004, Richardson 2009, Murillo, Oliveros and Vaishnav 2011; Kaufman 2011; Weyland 2011; Levitsky and Roberts 2011). In the debate, there is consensus that this century has provided a favorable macroeconomic context which reduced the need for external financing, allowed for fiscal and trade surpluses and increasing levels of money reserves, all of which made it easier for governments to transfer resources to the less well off.

However, this is not sufficient to explain why these governments have decided to allocate more resources (resulting in part from the reduction of the external constraints) to the reduction of social inequalities.

As mentioned by Etchemendy and Garay (2011), "the availability of resources does not dictate the content of policies or governmental coalitions". These resources could always have been used to finance policies for other purposes. Following a contrary argument would deny the role that ideology plays in forming political action, a thesis that has been maintained throughout the past decades precisely by those who favor one form or another of neoliberalism.

In this paper, we focus on the analysis of two of the governments which are part of this "wave" of left in Latin America –Argentina and Brazil-, by studying the political implications of a particular

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<sup>1</sup> In this work, "left" I refer to that school of thought that maintains a strong commitment to seeking and achieving greater levels of equality, social inclusion and justice, with an active presence of the state as their primary responsibility and promoter. See section 3.

<sup>2</sup> By "neo-liberalism" I will indicate to the menu of policies that were implemented by the governments of Latin America, mostly during the 90's, involving market deregulation, the indiscriminate opening of national economies, and the reduction of the social functions of the state.

measure adopted by both countries, the early repayment to the International Monetary Fund (IMF).

In contrast with neo-liberal governments that were in power during the '90s –who prioritized fiscal balance over development- both governments defined development as a central plank of their national and international platform, which could not be achieved without an active intervention of the State in economic management and in combating social inequalities – an approach that was at odds with the "minimal state", approach that neo-liberalism had favored in both South American countries.

After a decade marked by the Washington Consensus and close relations with the United States and the IMF, with policies which had a noticeable negative effect on social welfare and development, both governments defined as key components of its external strategy, development, regional integration and the recovery of the autonomy and independence in domestic politics, especially as it relates to economic, monetary, and fiscal policies.

On December 27, 2005, nearly three years after he took office, Luiz Inacio *Lula* Da Silva paid in advance all the debt owed by Brazil to the IMF (U\$ 15.6 billion). A few days later, on January 3, 2006, President Nestor Kirchner did the same, and paid in advance the full U\$S 9.5 billion that Argentina owed to the Fund.

In both cases, the measures were presented as actions aimed at recovering national autonomy and independence, by two governments of the "Latin American left", which the literature describes as different in many ways (Rodriguez Garavito and Barrett 2011, Kaufman 2011, Levitsky and Roberts 2011, among others).

This leads us to ask whether this important change affecting the foreign policy of both countries regarding the Fund has the distinctive characteristics of the "Latin American left" and marks a "turning point" in the region. Why did these governments decide to pay in advance? In what respect or from whom do they seek greater autonomy? Is this a relevant element of a Latin America-wide process?

The following analysis will provide us with possible answers to these questions, providing in the process a new perspective to identify common features and contributing to a new classification of left-of-center governments in Latin America.

## **2. The search for "autonomy" and "independence"**

### **2.1. Argentina**

The political desire to obtain a higher degree of autonomy for managing domestic policies was emphasized by former President Nestor Kirchner during the announcement of the early payment of the debt with the IMF. "This crucial step will allow us to see our future devoid of impositions, with autonomy and tranquility, without being rushed or unduly pressured. This is a step that helps us build, with all responsibility, a more fair, inclusive and equitable future, with greater flexibility in the design and execution of economic policy, a step that will give us access to resources and

better tools to fight for growth, employment and social inclusion. This is a step that hails the end of an era".

Highlighting the effects of state of indebtedness for domestic policy, the change that symbolized in the decision was also highlighted by Kirchner, "[the debt with the IMF] has been a constant vehicle for interference, because it made us subject to scheduled reviews and has been source of more and more demands, which are contradictory and go against the goal of sustainable growth", "Today we can say that every time we took on debt, we became weaker to the world and lost ability to solve".

There is a lot of literature that describes the evolution of the relationship between Argentina and the IMF after Argentina's worst crisis, in 2001, which is key to understanding the decision we are about to discuss. The President's words allow us to identify the beginning of a new relationship. Since he took office, Kirchner prioritized certain objectives of his governmental platform regarding which he would not yield to pressure from the IMF. This new attitude, although it had elements of the position assumed by his predecessor Eduardo Duhalde, would be presented by Kirchner as a new strategy towards the IMF.

After the 2001 crisis, the IMF also changed its attitude towards Argentina and adopted a tougher and more uncompromising stance. Unlike what happened during the 90s -when unfulfilled commitments were systematically waived, enabling new credits- the IMF made new agreement conditional on the implementation of a "comprehensive sustainable program" and significantly reduced the funding made available to the country. Adding to that, the Managing Director at the time, Horst Köhler, became one of the toughest opponents to granting Argentina new loans. Kohler believed that the country should pay for the consequences of government's irresponsible actions, which led it into the crisis<sup>3</sup>.

Aware of this new situation, in his inauguration speech Kirchner warned that the government's position at the negotiating table with the IMF would be tougher and that the debt payment schedule would depend on national growth, giving priority to economic development and social justice<sup>4</sup>.

This argument became a cornerstone of a new paradigm for development and debt management under the new government, which was seeking more room for negotiation with the IMF. Thus, Kirchner used the argument during the negotiations of the first agreement discussed during his tenure, to avoid setting quantitative goals that could constrain his administration during the last stages of the program agreed with the Fund. It was also useful to postpone the definition of the most contentious issues, resulting in an ambiguous text<sup>5</sup> that allowed both parties to present

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<sup>3 3</sup> This particular position Köhler against Argentina is corroborated in the interviews. Asimismo, puede verse un mayor desarrollo de la misma en Tenembaum 2004. It can also be further development of it in Tenembaum 2004.

<sup>4</sup> In his inaugural address to Parliament Argentina, Kirchner said he would not resort to increased borrowing and debt to pay "out of famine and exclusion of Argentines, generating more poverty and increasing social unrest. The impossibility of that old model can be noticed up to the creditors, you have to understand that they can only collect if Argentina was going well, "" Growing our economy will grow our credit rating".

<sup>5</sup> It is also necessary to consider two elements that had granted the Kirchner government more room to maneuver. On the one hand, after 9-11 there had been a change in the attitude of the United States against the negotiations between the IMF and Argentina, with the US no longer actively involved and only

themselves as "winners" in the negotiation (Bembi and Nemiña 2007). Then, the government used the same argument again on the occasion of the quarterly reviews of the program, when the IMF, despite having admitted that macroeconomic and fiscal objectives of the first two reviews were over-satisfied by Argentina, argued that the government did not comply with some structural reforms. At that time, Argentina argued that it had completed the reforms it had committed to but in a way that did not adversely affect economic growth, poverty reduction, and employment levels.

This debate kept negotiations with the IMF unstable for the duration of the agreement, but the situation became increasingly tense when the government began to perceive greater pressure and interference from the Fund on issues that were not part of their formal mandate.

Parallel to the program execution, Argentina was also restructuring its defaulted debt with private creditors. Although initially the IMF's policy was to stay away from this process, bondholders began to press their governments -which were represented on the Board of the Fund- altering the position of the IMF. From the government's point of view, the debt swap it was planning involved only the State and its creditors, so, the IMF had no reason to have a say in it. This attempt to intervene made the government more rigid and the IMF, in return, began to postpone the reviews of the agreement. To avoid an overlap in the negotiations and a possible interference with the debt swap, the government decided to suspend the discussions with the IMF until the process was complete<sup>6</sup>.

Thus, the relationship with the IMF fluctuated between confrontation and mutual deterrence: the IMF was against the post-crisis economic policies –including the *default* to private bondholders- but, at the same time, a possible default by one of its three largest creditors was too risky for its own balance sheet. On the other hand, the Kirchner administration struggled to achieve more independence in policy management but feared a common front between the IMF and private bondholders (Etchemendy and Garay 2011).

These intrusions deeply bothered President Kirchner. According to a second-tier level official of the Economy Ministry at the time, "the thing that we discussed more often with President Kirchner was the fact that the IMF was interested not only in the debt, but also in many other issues and the IMF was a very strong institution, probably the strongest of the IFIs". After the debt swap, "the IMF had demands about a series of topics other than the money Argentina owed: the payments to the holdouts [of the debt swap] and the Paris Club, the need to increase public utility rates and to renegotiate a number of international contracts, among others. The IMF had

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intervened at critical times to unlock the negotiations (Indeed, in his first meeting with Kirchner, Bush encouraged him to "deal firmly" with the IMF). Secondly, because the magnitude of the debt that Argentina had with the credit agency, any abrupt decision of the Argentine government to approach the default with the agency could complicate the financial situation of the IMF itself.

<sup>6</sup> When you reach the third review of the agreement into effect in July 2004, arguing that there were delays on the fulfillment of some reforms, the IMF decided to postpone treatment and unify it with the discussion of the fourth review in September. As this was overlapping with the opening of the debt swap with private creditors, the government decided to suspend negotiations until completion of debt restructuring, leaving unilaterally, breaking the agreement with the Fund. In parallel, the IMF accepted the Argentine request to postpone the maturity that would operate during the term of the agreement.

demands concerning all those issues in spite of the fact that it can only intervene on issues like the exchange rate, monetary asymmetries, the balance of payments, or on internal imbalances that allow the country to sell its products abroad at a cheaper price. What the Fund has to look after are the conditions to trade but, as we were debtors, they could put pressure on us in all these different issues. So, we paid in advance and got rid of the pressure. That was what we achieved by paying. They could not pressure us as we no longer were debtors. That is the reason why the IMF got its payments in advance, because not doing so would have allowed the Fund to keep its pressure on a government that wanted to keep its options open. "

Claudio Loser, a former official of the Fund for Latin America, was of the same opinion: "the IMF kept Argentina tied basically on two sets of issues. First, it insisted to negotiate the debt swap under specific terms, something Argentina did later on its own terms. The other group of issues was tax policy, subsidies, and public utility rates. Probably, the Fund was also concerned by monetary policy because it was very expansive and inflation was growing. So, I think the IMF must have been a *drag* for the Argentine government, who wanted more freedom of action without having to consult the IMF."

In fact, once the debt swap was concluded, negotiations with the IMF were never formally reopened because of the IMF's insistence on reviewing issues that the government considered as key tenets of its economic policy and, therefore, did not want to negotiate. Thus, the agreement with the Fund was effectively and unilaterally suspended<sup>7</sup>.

As a first conclusion, we can presume that the early payment to the IMF was a measure taken to gain autonomy from the IMF interference in the handling of economic and other domestic policies.

In fact, during the 90's, through the conditionality it imposed on developing countries to access its programs and credit lines, the IMF supervised the compliance with the programs including structural reforms. While Latin American countries obtained and renewed their loans, their foreign debt increased, as well as the power that the Fund had over the government's decisions concerning economic policy. Therefore, the IMF stamp of approval was an endorsement of sorts in the view of markets and, consequently, it was essential for these countries to entertain smooth relations with the Fund. Also, this meant new conditions had to be accepted by the governments.

In the words of the official interviewed, "the IMF proposes things that are not sustainable because they are an ideal and not necessarily viable. How much room does each government have to say

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<sup>7</sup> Meanwhile, Argentina continued to stagger payment of maturities and started what would later be heralded by the government as a policy of "debt reduction", rather than a programmed decision, as a result of the new government. Nemiña and Bembi note that "the progressive cancellation of outstanding loans with the Fund had never been raised by the government as an end in itself, but in fact was the result of the unilateral suspension of the current agreement, which forced our country to continue canceling their claims with the agency without receiving their payouts. This meant that, logically, the stock of debt to the agency would begin to decline more rapidly. Thus, the result of the suspension of the agreement was redefined a few months later as a central pillar of national economic policy, as a byproduct of a decision became the focus of the same: greater autonomy in the definition of state policy in economic matters"(Bembi and Nemiña 2007).

no? It can say no as many times as it wants, depending on how isolated from the market it wants to be".

However, we must consider that at the time of the early repayment, the agreement between Argentina and the IMF was still suspended, but the country continued to pay in time the rolled over debts. Consequently, the IMF's quarterly program reviews –a tool for the IMF to condition and interfere in domestic policy- were suspended too. Quite evidently, the government's goal was not just to gain autonomy from the constant pressures and interference of the IMF, mostly channeled through the revisions. There was something else.

### **2.1.1. The autonomy to give signals**

We have said that during the last two decades of the 20th century, the power of IMF conditionality on domestic policies increased parallel to the rise of the indebtedness of the countries requiring its assistance. We have also said that the IMF endorsement was a reference for the markets. To get approval, then, it was essential for those countries to keep smooth relations with the Fund, agreeing to its conditionality.

Thus, during the 90s, developing countries allowed the IMF to be the master of assessing the solvency and stability of their economies. In other words, it was the IMF who gave the "bill of reliability" on the health and direction of each economy to the international community. By signing an IMF program, then, a country also received a "seal of approval": it was defined as a reliable economy to invest in and do business with. State actions, then, were not enough to assess the economic direction of the country, and were at best taken as secondary signals.

In this course of action, the Argentine early repayment of its debt can also be seen as a measure aimed at restoring the autonomy of the state to send its own signals of stability, reliability, and health of the economy.

There are two elements that suggest that this interpretation is plausible. On one hand, the presidential announcement was full of references to the key elements of the economic model and its promising results, among which was the early repayment.

Since 2002, Argentina's economical and fiscal situation was improving significantly, with the country enjoying remarkable levels of growth and successive trade surpluses, after a decade of deficits and external constraints. This gave the country strength in the external economic front, which reduced the need of IMF funding. Also, the improved economic environment led to increased money reserves, which would then be used for the payment to the Fund.

In announcing the prepayment, Kirchner summarized the policies chosen to nurture the favorable context. "We can do this [prepay] because of a continued fiscal effort, which provides consistency to successive surpluses, as well as for the increasingly dynamism of exports, which in turn allows us to have a trade surplus, thus, contributing to the generation of a stable macroeconomic environment", and the high level of money reserves that "we have increased more than three times from the minimum of US\$ 8.25 billion registered at the beginning of 2003".

The announcement was followed by a press conference in which the Economy Minister and the President of the Central Bank described the technical details and economic implications of the

measure, giving transparency to the signal and showing that it was not only political but also economic<sup>8</sup>. In the words of the President, this was an indication of reliability and predictability.

In a context in which the country was experiencing an economic recovery after an unprecedented crisis, restructuring its external debt -some of which still remained in default-, the early payment was a signal of solvency as well as a way of showing that the economic direction that was still skeptically perceived as successful in some quarters, was correct.

The country that since 2001 had ignored the advice of the IMF, leading to the discontinuation of its program with the Fund, disregarding the need for this endorsement, was financially capable of paying what it had borrowed. Argentina showed that it could "walk alone", that it had the resources and strength to do so, and exposed the IMF's errors in the process. From the Argentine perspective, the Fund could no longer be taken as a reliable spokesman for the economic stability of countries.

The second element that allows us to say that the early repayment of debt was also a way to restore the autonomy to "give signals", is apparent in the attitude Argentina had against the interference of the Fund in the negotiation of the debt swap.

We said that throughout the process, Kirchner sought to keep the IMF out of the negotiations. For the government, the Fund was not a legitimate actor as it was neither a 'debtor' nor a 'creditor'. Initially the IMF respected this wish however, as the official proposal took shape, the creditors successfully lobbied their governments to get the Fund to advocate their interests obtaining, among other benefits, a better offer. The conflict was solved when the government suspended the agreement with the IMF to avoid the overlapping of the negotiation of the IMF review and the one on the debt swap.

This shows the firmness and will of the government of being the only actor talking to the creditors and the sole guarantor of Argentina's solvency. No one other than the government knew about the state of the domestic economy and, therefore, only the government could be relied to negotiate with its creditors.

Finally, we still need to consider the economic impact of the early repayment, to determine whether the prepayment was a decision based on the desire to obtain a financial gain for the country.

For the prepayment of the debt with the Fund, the government used money reserves that exceeded those affected to back the monetary base -the "excess reserves". For this, the Treasury issued a dollar-denominated bond with a maturity of 10 years for the total debt -US\$ 9.53 billion-,

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<sup>8</sup> In line with the policy implications announced by the President, Minister of Economy said that the cancellation improved "the economic outlook, financial and tax in the country and is symbolic because Argentina regains autonomy and initiative to decide the policies that carry on." He also stated the data showing the strength of the economy macro (twin-fiscal surpluses and trade, the high rate of activity, spending levels, etc.). President of the Central Bank, meanwhile, focused on the operational details of the realization of the measure and endorsed the policy of accumulating reserves of the government, highlighting the neutral monetary effect of the cancellation, in order to eliminate any suspicion of adjustment in the peso devaluation.

with an interest rate equal to the one accrued by international reserves, to pay the Central Bank for the reserves used by the government<sup>9</sup>.

Consequently, although the prepayment entailed a decrease in Argentine international liabilities, in nominal terms the total amount of the debt remained similar after the prepayment, but instead of owing money to the IMF, the Argentine Treasury contracted debt with the Central Bank in better conditions regarding installments, currency, and interest rates.

Also, although with the early repayment the government saved US\$ 842 million in interest payments, later on, Argentina conducted a series of financial transactions in the capital market to recover the reserves used. In such transactions, it had to pay a higher interest rate than the one paid to the IMF. This implied some economic loss to the country.

The Economy Ministry official interviewed, confirmed that: "I cannot say if we got a good or a bad deal. If you look at the numbers you will notice that the market interest rate was more expensive for us than the one we were paying to the IMF, it is true. But the question is, when I go to the IMF what other things does it demand that make the loan more expensive? So, the price of a debt with the IMF is one that cannot be directly measured in numbers. In practice, it would have been more expensive for the country to keep the debt with the IMF. It was a political decision".

That allows us to reject the argument that the decision to pay to IMF in advance had been based, at least primarily, in the pursuit of economic gain and, at the same time, provides conclusive evidence that the early repayment was driven, primarily, by political considerations.

In these terms, you may consider that Argentina's decision to prepay its debt to the IMF was directed at gaining greater autonomy in two ways: in the definition and handling of domestic policy as well as in sending signals of stability, reliability, and health of the domestic economy to the world.

Also, the early repayment meant a sign of solvency. Facing the crisis and consequent default that had put into question the seriousness and the commitment of the country to get out of the crisis and cancel its debts, through the prepayment Kirchner demonstrated that the recovery was sustainable: the country was reliable and committed to pay.

## **2.2. Brazil**

The Brazilian example shows similarities and differences. By the second half of 2002, before and during the electoral campaign that led Lula da Silva to the presidency, Brazil suffered a major speculative attack that led to the reduction of external financing, a higher country risk premium and a sharp depreciation of the currency. Inflation increased considerably and there was a rapid deterioration of public finances: the public sector net debt was 51.3% of GDP and money reserves were low, 55% corresponding to an IMF loan given to the country during the preceding government of Fernando Henrique Cardoso (Sader and Garcia 2010).

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<sup>9</sup> Thus, the Central Bank paid 6,655,729 million SDR, which were deposited in sixteen accounts of the IMF and had two starting points: a) SDR 3.656 million from the account at the Bank of Basel Accords; b) SDR 3,000 million left from what Argentina had in the IMF. For more details see BCRA 2006.



Given the difficult context, Cardoso signed an agreement with the IMF including a reinforcing credit line -the *Supplemental Reserve Facility* (SRF) - to deal with the speculative attack that was taking place, financing that, according to the IMF, was the largest ever given under this scheme.

At the same time, Brazil was in the midst of the electoral campaign that was going to lead Lula to the presidency. While the left candidate grew in the polls, so did the suspicions of the financial world about the economic management under a hypothetical Lula presidency. Lula's Workers' Party (PT) is historically critical of the IMF, IFIs and the economic orthodoxy advocated by them, and was negatively perceived by international markets, which feared the onset of a "heterodox and populist" economic policy.

Because of that, the left presidential candidate was forced to anticipate the economic policy he would pursue if elected. In the "Letter to the Brazilian People"<sup>10</sup>, Lula suggested his would be an orthodox economic policy. "Really aimed at the community of foreign and domestic investors rather than to the general public, the letter promises to keep many of the economic policies of the Cardoso era and to comply with the agreement that Brazil had previously closed with the IMF" (Hunter 2011). Inflation targeting, fiscal surplus, and respect for contracts were, according to the letter, the only way to put Brazil on a path of growth, re-industrialization, to increase domestic consumption and reduce the social inequalities generated by the neo-liberal approach of the previous government.

Finally, despite the mistrust, Lula won the elections and implemented an orthodox economic policy which gave stability to the Brazilian economy, a fact recognized and praised by the IMF in each review of the agreement. The inflation control as a priority, the high interest rates and the fiscal stringency define a strong commitment to market reform and international competitiveness. The government even achieved fiscal surplus levels that overshoot the targets agreed in the IMF program. The growth of the global economy led to a significant increase of exports that eased the external sector of the economy (Barbosa and Pereira de Souza 2010, Hunter 2011).

Shortly after a year of taking office -December 15, 2003-, with a stabilizing economy which was prompting a recovery in external confidence, the government decided to extend and expand the agreement it had with the IMF, making it clear that this decision was made as part of a strategy to make its "way out" from IMF financial support. Thus, the agreement would be treated as "preventive", i.e., the government would not use the financial resources that would be provided, but this would work as a reassurance of further external shocks. In the words of the government, "We must emphasize, however, that we do not intend to make any disbursement under this Agreement and that this request for extension is part of our strategy to draw ourselves away from the Fund's support. The proposed extension will provide insurance against the impact of any deterioration in the external environment."(IMF, 2003b).

Since then and until the termination of the agreement (the tenth and latest review occurred on March 23, 2005), the relationship between President Lula and the IMF was presented repeatedly by the Fund as one of mutual agreement and cooperation. The reviews of the agreement were

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<sup>10</sup> Letter to or povo Brazilian, Luiz Inacio *Lula* da Silva, Statement submitted on 22 June 2002 during the presidential campaign.

approved in a timely manner and all emphasized the economic recovery and sound management of public policy by the PT administration. IMF officials traveled frequently to Brazil, where they had many interviews with the President and his ministers, which were summarized through flattering official IMF statements, highlighting the progress of the Brazilian economy and the confidence of the Fund in the South American country. As we noted, this worked differently in the Argentine case.

Having reaching the end of the period covered by the agreement and having rejected the possibility of renewing the Fund's financial assistance, on July 14, 2005, Lula notified the IMF of the first early repayment of its debt, the US\$ 5 billion that the country owed under the SRF. Several months later, on December 13, the government publicly announced the total repayment of the US\$ 15.6 billion that the country still owed the IMF.

At the time of the announcement, the Brazilian president said that the measure allowed more independence to address the social and productive needs of the country. According to Lula, the payment *"gives sovereignty to Brazil and allows it to walk on its own two feet."* At that time, he also stated that the early repayment to the IMF let Brazil save US\$ 900 million in interest payments that would be used for investment in education, health, and infrastructure.

From here on, we can already identify some similarities and differences between the cases of Brazil and its South American neighbor, Argentina. Both governments announced the measure as an act of sovereignty and independence, leading to enhanced autonomy. However, in the case of Brazil we can perceive a much more fluent relationship with the Fund, than in the Argentine case.

Gradually, Brazil became, to the IMF, *The Example* of what had to be done in the new era<sup>11</sup>. The approval of the reviews without delays, the frequent meetings between the IMF authorities and the President and his officials, added to the limited conditionality imposed on this Latin American country at the time of the extension of the 2003 agreement, highlights the different relationships between the countries and the Fund. Consequently, we can infer that the IMF was not as annoying and intrusive to Brazil as it was perceived by Argentina. The frequent praise from the IMF to Brazil's economy helped prevent the possibility of other attacks on its economy as a result of the lack of confidence of investors.

Although the orthodox policy deployed by Brazil under the IMF agreement put limits to the progress of the Lula agenda on social policy, as stated in his electoral platform (which was inspired by the ideas of the left PT [Hunter 2011]), there is not a clear need to avoid the IMF's intervention in the Brazilian economy and, therefore, to find a greater degree of autonomy in this area, unlike in the Argentine case.

Considering this and: a) that, at the time of prepayment, Brazil was economically recovered, so as to avoid using the loans granted by the IMF over the past two years, b) its agreement with the IMF was regularly completed, c) that the government had ruled out a new loan request and, d) that statement was received with gratitude by the IMF, why did Brazil pay in advance? On what or

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<sup>11</sup> Among others, the IMF press release announcing the extension of the agreement, the agency said Brazil's performance "continued to be exemplary." Press Release, No. 03/217, 15 December 2003.

whose respect did the government gain autonomy and independence? As well as in the Argentine case, there are two possible explanations worth considering.

During the first two years of Lula's government, the left-wing of the PT was disappointed by the economic course that the government had taken. Orthodoxy and adjustment in detriment of social policies were considered a deviation from the core ideology of the Party and the electoral platform that led the PT to power. They accused Lula of continuing the neo-liberal course of his predecessor, betraying the promises for change.

Following a former adviser of the Economic Policy Secretariat of the Ministry of Finance, "In the first three years of Lula da Silva's government, the neo-liberal vision dominated economic policy actions" (Barboza and Pereira de Souza 2010). A senior economist at CEPAL also recalls the controversy, "At that time there was a debate in Brazil confronting the two existing economic views within the government of Lula: growth vs. stability. In fact, the extension of the IMF's agreement had almost no conditionality for two reasons. Firstly, because the government was deploying an orthodox economic policy, in accordance with the Fund and, of course, because the market was already convinced that the economy was in doing well, so, the PT would not break bond with the IMF. So, at the time of prepaying the debt, the external sector was stable (although with slow growth). The economic signal had already been given. Anyway, since 2002 the distrust from the PT was big. Then the measure was addressed to the domestic field, because in a few months presidential elections were taking place in the country and this was a move that would please the PT and its partners."

From this perspective, the early repayment of debt in Brazil is also a measure based on political reasons -as in the case of Argentina-, but directed to the domestic sphere. The decision was taken primarily to gain autonomy from the IMF's pressures but also to ratify the autonomist and independent orientation of the ideology of the ruling party. As highlighted by a major specialist in Brazilian affairs, "The measure includes elements of the ideological tradition of PT and its historical position towards the IMF."

However, the Brazilian actions towards the IMF during Lula's government allow us to analyze the measure in depth.

Brazil has been probably one, if not the only, of the few debtor countries of the Fund that, without requiring their financial resources, extended and enlarged its program of assistance, even stating that the decision was part of a strategy to leave aside the financial assistance of an institution that was once one of the most influential global lending institutions. This is far from being just a story of the relationship with the Fund. By interrupting the use of the resources provided, but also extending the agreement with the IMF, Brazil was giving a clear signal that the economic recovery it was experiencing -which would be consolidated a few years later-, was not a result of the IMF financial support, but of the successful handling of the economy by the government. At the same, the country was "sweetening" the organism, leaving it to take place within the recovery process, keeping a harmonious and collaborative relationship.

Here there are new coincidences with the Argentine case. The early repayment of IMF debt was the natural recognition of a sign of autonomy and independence that Brazil had begun to show a while back. Brazil did not need the IMF to develop -we might rather think that the IMF needed to be next to the recovery of the Latin American giant. Since 2003, Brazil had credit and access to

external financing that it did not use, but early repaying its debt to the IMF, Brazil left no doubt that it could provide itself all the resources needed to develop.

In this matter, Claudio Loser explains: "Brazil was viewed by the IMF as a country that had done things very well. The prepayment, seen with pleasure by the Fund, was a sample of Brazilian calling to establish itself as the most important country in South America and second in the continent after the United States (there is a competition with Mexico, but that is a different issue). The truth is that Brazil had very reasonable financial conditions and that was why they wanted to show that they no longer needed the IMF. It was a signal of international and domestic image".

According to the Pereira de Souza Barboza statement, the Brazilian strategy was successful. The early repayment of debt reaffirmed the autonomy sought by Brazil regarding the IMF assistance and gave the country space to carry out its original social and economic platform: "The improvement of public finances and the decrease of the external vulnerability of Brazil allowed its independence towards credit agencies. In this process, the prepayment of the debt to the IMF was fundamental, as well the strategic option of betting on growth rather than accepting the uncertain fiscal adjustment and contraction proposal, based on liberal canons, all of which ended up being an option validated by its immediate results." (Pereira de Souza and Barboza 2010).

### **3. Is autonomy a defining element of the new Latin American Left?**

There is consensus in the literature about that the current governments from the Latin American left, despite sharing political overtones, have differences with their predecessors from previous decades. First, the current Latin American left does not point as its final objective the establishment of a classical model of socialist state or the dictatorship of the proletariat – not even "The 21st Century socialism" of Hugo Chavez does not appear to aim at this purpose-, the armed action ceased to be a theoretical or practical option, while the democratic commitment deepens. All new left governments have come to power through democratic and transparent elections, even many of them have been ratified in office by the popular will in pluralist elections (those are the cases of Lula and Dilma Rousseff in Brazil, Cristina Kirchner in Argentina, Jose "Pepe" Mujica in Uruguay and even Hugo Chavez –frequently called an "authoritarian" leader- have repeatedly undergone different democratic elections). The debate "revolution vs. reform" has also been left aside to make room for a more pragmatic approach that involves the pursuit of egalitarian alternatives to the neo-liberalism of the 90's, in a context of market economies (Levitsky and Roberts 2011, Rodriguez Garavito and Barrett 2005, De Souza Santos 2005, Natanson 2008, Murillo, Oliveros and Vaisnav 2011, among others).

Taking into account all these differences and the current variety of experiences of the left in the region (in their programs, origin, level of radicalism towards neo-liberalism, etc.), the literature has defined the new Latin American left for its commitment in the pursuit and achievement of greater degrees of equality, social inclusion and justice for the inhabitants of the region (Levitsky and Roberts 2011, Rodriguez Garavito and Barrett 2005, Natanson 2008). This, we might add, with a renewed presence of the state as a primary promoter. Even though the use of *autonomy* has been repeatedly mentioned by the leaders of this new Latin American left in their speeches and governmental actions, the theoretical literature has not yet considered thoroughly the part taken

by *autonomy* in these processes. In this sense, autonomy is a relevant concept to think about as a possible strategy of these governments to obtain greater degrees of equality.

In the era of globalization -or post globalization- it is hard to imagine a country isolated from the world or immune to the conditional ties that its environment can impose on its government. We are referring to restrictions not only regarding the economy, but also those that could modify the distribution of relative power in the international arena and, ultimately, the overall allocation of the resources needed to ensure human welfare. Consequently, we can think about the strategy followed by these governments according to their external environment.

The notions of *imperialism* and *dependency* –*face off* sovereignty and *autonomy* – have been a classic standard of the left popular and political culture, used to explain world's power relations. There is copious literature that explains, analyzes, and criticizes the subjugation that peripheral and less developed nations have suffered in hands of the central and more developed countries. However, in the current debate on the new Latin American left, these notions have been almost forgotten.

In this sense, *autonomy* can be viewed as the external strategy deployed by these Latin American governments in their search for a better balance of world power as well as to link their international activity with the domestic action in order to obtain –here too- higher degrees of equality. Therefore, *autonomy* also defines the relationship established by these governments between their systemic and domestic sphere. Greater equality in the international arena allows for greater equality at the national level. This way, autonomy also stands as a feature of the new Latin American left, which returns the old anti-imperialist and independence tradition of the left.

Moreover, these governments have included as part of this strategy their partnership to accumulate relative power and achieve greater parity in the international field. In that sense, foreign policy of these governments has sought to strengthen the regional areas of political-economic integration already existing such as MERCOSUR -which expanded its membership during the last years-, conforming new forums such as UNASUR and abandoning old regional association models that sought to perpetuate dependency and underdevelopment as the FTAA, worldwide symbol of neo-liberalism.

As we have seen in the foregoing sections, as to their differences in backgrounds and programs, it is true that these governments have also nuances in the pursuit to recover national autonomy. However, this section allows us to start understanding *autonomy* as a quality of these new left wing governments in their international activities.

#### 4. **Conclusions**

At the beginning of this paper we aimed to identify up to what extent the search for greater autonomy degrees was a defining element of the political processes of the new Latin American left. We also proposed to explain it in the case of Argentina and Brazil.

Leaving aside the particularities of each case, we can conclude that *autonomy* can be presented as a common element to the governments of the Latin American left and that it relates to the need

to decide without imposition of external conditionalities - but not without help- on the course of national destiny.

In this vein, we recognized that autonomy is a value associated not only to the traditional left -in the form of anti-imperialism and independence- but also to the new Latin American left and, in that sense, it is the definition of the strategy set by these governments to advance in their commitment towards greater degrees of equality and social justice.

As from this, then, we believe this work can make a contribution in the classification of the new left governments in the region. This paper has analyzed the Argentinean and Brazilian governments, which generally have been positioned at different sides of the Latin American Left classification. While some authors have tried to overcome the binary classification of the Latin American left, Brazil still usually represents a "moderate" left, closer to "social liberalism", while Argentina is often seen as a more ambiguous case, located closer to "radical" or "illiberal" left (Weyland 2011, Levitsky and Roberts 2011-2011b, Kaufman 2011). In economic terms, Brazil is often defined as "orthodox", while Argentina is usually included among the countries with a more "heterodox" management of economics (Levitsky and Roberts 2011-2011b, Kaufman 2011). The fact that these two "dissimilar" countries reached the same decision, almost at the same time, forces us to rethink these categorizations in order to ensure that they will help us explain this and other phenomena that are to come.

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