

Chapter 10

Economic Policies Amid Political Instability in Latin America



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Introduction

Latin America's image is deeply intertwined with crises, whether stemming from the foreign debt crisis of the 1980s or various episodes of political instability throughout its history. The region weathered intense financial turmoil in the 1990s, prompting substantial shifts in economic policy, and has frequently grappled with currency crises. The notion of permacrisis, explored in this volume, finds a strong resonance within Latin American economies, particularly evident in the cases of Argentina, Brazil, and Mexico. Examining a broader timeframe stretching back to the 1980s, we observe a recurring pattern of economic crises, notably marked by currency crises (Kaminsky, 2003, 2006). This is not merely a matter of witnessing a series of crises unfold but also recognizing that unresolved issues resurface, exacerbating currency devaluations and frequently leading to inflationary pressures and declining real incomes, particularly impacting disadvantaged groups.

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A theoretical framework commonly employed to assess the trajectory of emerging economies is the concept of the middle-income trap (Glawe & Wagner, 2016; Agénor, 2017; Bresser-Pereira et al., 2020, *inter alia*). This concept refers to countries that have undergone periods of robust economic expansion, resulting in a significant rise in average income yet subsequently struggle to sustain this growth trajectory, thus failing to surpass the middle-income threshold. Brazil is a typical example of this phenomenon. Discussing the vast literature related to experiments in Latin America, Middle East, North Africa, and East Asia, Agénor (2017: 2) proposes a specific perspective of analysis for the concept of middle-income trap: “a middle-income trap is best viewed as a ‘bad’ equilibrium among many—bad but nonetheless stable, in the sense of being a persistent state to which the economy gravitates unless some significant shock, structural or otherwise, occurs.” It means that countries with similar characteristics may converge to diverse levels of growth “depending on their initial conditions.” This approach appears intriguing for Latin American countries, given that, even though they faced similar types of crises, employed several comparable policy strategies during their development period, and implemented similar macroeconomic instruments for stabilization, some national disparities make them unique cases.

There is an intense debate in Latin America about the determinants of the chronic low growth in the region. From one perspective, the supply-side approach aims to pinpoint shortcomings in the productive and institutional framework, a perspective that aligns with the challenges posed by the middle-income trap. On the contrary, a demand-side viewpoint argues that policies emphasizing macroeconomic stability impede government intervention in the economy, thus obstructing the expansion of demand and overall growth. Both perspectives offer relevant insights and are not mutually exclusive.

In this regard, the concept of the middle-income trap can be incorporated into the notion of a permacrisis. Prolonged periods of steady but moderate growth serve as limiting factors in addressing long-standing challenges that are seldom overcome. According to Brown et al. (2023), a permacrisis is characterized by countries being unable to effectively address various structural issues, thus impeding growth and development. The authors (2023: 9) assert: “The greatest risk is that these challenges persist and interact with one another,” a statement directly applicable to Latin America.

Despite persistent economic and social challenges, there is a discernible shift in the “quality” of crises in recent times. Since the 2000s, Latin America has been less susceptible to external shocks. Many countries have tightened regulations on their financial systems, maintained healthy levels of international reserves, and improved the balance of public accounts compared to the turbulent episodes of the late twentieth century. The region is more resilient to monetary and financial shocks (Canuto, 2022). However, although the region was less vulnerable during the global financial crisis (GFC), it did not achieve sustained growth or significant social progress. Therefore, the region accumulates different structural challenges that can potentially become triggers for new crises, in addition to possible external shocks, such as those generated by the pandemic and armed conflicts in other parts of the world.

The COVID-19 pandemic crisis has exacerbated Latin America's prolonged period of mediocre growth. The pandemic's devastating impact has magnified the region's structural asymmetries, including inequality, healthcare deficiencies, educational shortcomings, limited innovation capacity, and stagnant productivity. Mere post-pandemic GDP growth, while welcome, is insufficient to tackle these entrenched problems and lift countries out of the enduring middle-income trap, regardless of its form (Canuto, 2022). During the last 15 years, Argentina, Brazil, and Mexico shared unfavorable trends, including low growth, heightened poverty, and inequality, and, in the cases of Argentina and Brazil, periods of significant political instability.

This chapter aims to elucidate the intersection between economic strategies and political transformations over the past 15 years, emphasizing the repercussions of political instability on economic outcomes. By concentrating on the three largest economies in the region, the objective is to contribute to a comprehensive understanding of the relationship between politics and economics in times of crisis. The next section is devoted to providing an overview of the economic performance of the three countries to ascertain if they are stuck in the middle-income trap, experiencing longer-term economic stagnation. The following section will deal with the specificities of each case. The last section concludes with a brief analysis of the three cases from the perspective of recurring crises that feed into each other and interconnect, as discussed in this volume under the concept of “permacrisis.”

Economic Performance Amid Political Instability

The performance of Latin America's largest economies—Argentina, Brazil, and Mexico—over the last 15 years has been characterized by various economic ups and downs influenced by both domestic and international factors (Lins, 2021). Figure 10.1 shows this volatile trajectory for the three countries with Argentina having the sharpest variations and Mexico exhibiting more stability in the annual rates. Are these trends enough to be considered “a crisis?” Although the deepest external shock was the one caused by the pandemic, growth rates throughout the period indicate at least evidence of stagnation by showing no persistent expansion. Apart from Mexico, which maintained a positive trend throughout the period, Argentina and Brazil exhibit inconsistent patterns. Taking the average annual growth of Argentina, Brazil, and Mexico between 2010 and 2023—1.3%, 1.6%, and 2%, respectively—one can say that it was a mediocre performance, with greater volatility in the case of Argentina and Brazil. Despite the mediocre growth of their economies, Argentina, Brazil, and Mexico did not face a sharp rise in unemployment. The unemployment rate increased in 2020, as predicted, but employment has been recovering in the years 2021 and 2022.

The numbers become even more concerning when we look at the average annual GDP per capita growth between 2010 and 2023: in this period, Argentina saw an average growth rate of 0.12%, Brazil of 1%, and Mexico of 0.83%. Data for per

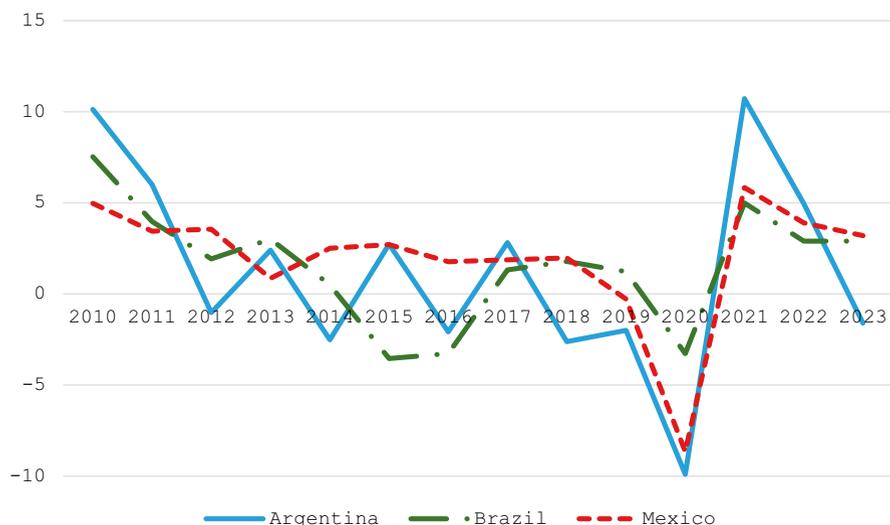


Fig. 10.1 GDP annual growth rates, %. (Source: World Bank database)

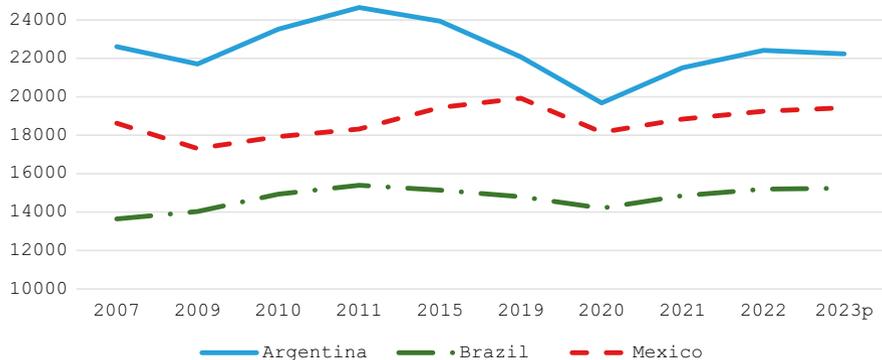


Fig. 10.2 GDP per capita, current prices (purchasing power parity; international USD per capita). (Source: IMF, World Economic Outlook, 2023 October report)

capita GDP show even more explicitly the dynamics of stagnant income in the three countries. Taking the data in comparable currency values (purchasing power parity) confirms that there was no significant real income gain for populations. Figure 10.2 shows this evolution through selected years. Argentina, despite the intensity of the crises it suffered during this period, remains the highest-income country among the three. For Brazil, the effects of the 2015–2016 recession are visible on per capita income, and for Mexico, there is a stubborn stagnation.

Bresser-Pereira et al. (2020), rather than identifying stagnation in Latin America as a typical case of middle-income trap, claim that it is a liberalizing trap, because the region adopted liberal reforms more intensively than emerging economies in other parts of the world, such as in Asia. According to the authors, among the major problems in Latin America was the decision to pursue trade liberalization before the industry was ready to face competition. Trade liberalization combined with an anti-inflationary policy based on managed exchange rates and high interest rates to attract foreign capital was a detrimental combination that led to a process of deindustrialization. This strategy resulted in excessive appreciation of these countries' currencies with little capacity to manage capital flows, in other words, a situation of Dutch disease, limiting the growth capacity of the industry. To what extent would the argument of the mistakes of the liberal reforms of the 1990s and the Dutch disease be sufficient to explain the stagnation in Latin America?

A comprehensive study by Agénor (2017) reviews empirical studies that focused on countries that are supposedly caught in the middle-income trap. Although there are many differences in the criteria used to define a middle-income trap situation, the priority factor—which gives the concept its name—is the evidence of a stagnation in per capita income, which may be a consequence of more structural variables, such as deficiencies in the education system, diminishing returns to physical capital, lack of access to technology, inequal income distribution, insufficient quality of human capital, or decreases in factor productivity.

Indeed, the three countries studied here have experienced an intense reduction in labor productivity during this period. Estimates from the International Labor Organization (ILO) show that the average annual growth rate of output per worker (GDP constant 2017 international \$ at PPP) for Argentina decreased by 1.38%, for Brazil by 0.35%, and for Mexico by 0.11% between 2014 and 2023. In addition, the period was marked by a constant constraint of public resources to finance current expenditure and further stimulate investment. Focusing only on the primary government balance between 2010 and 2020, Fig. 10.3 shows that, while Brazil and Mexico largely maintained a positive balance, Argentina has consistently faced a primary deficit.

Notwithstanding the presence of structural shortcomings which inhibit the resumption of a growth process capable of getting these countries out of the trap, the recent crises have not led them again to the old, well-known nightmares of balance of payments crises. While Argentina faced very hard circumstances when negotiating its foreign debt, as Datz shows in this volume (Chap. 12), the three countries were significantly less vulnerable to balance of payment crises at this time, even with the economic stagnation experienced throughout this period. Despite experiencing low growth, the average current account balance for the three countries remained in the negative throughout the observed timeframe. Specifically, between 2010 and 2023, Argentina, Brazil, and Mexico recorded an average current account balance of -1.42% , -3% , and -1.25% of their GDP, respectively.

The liquidity buffer represented by foreign reserves was a crucial factor in reducing the external vulnerability of the three countries. Figure 10.4 shows the status of foreign reserves in absolute terms, in billions of dollars, and in relative terms,

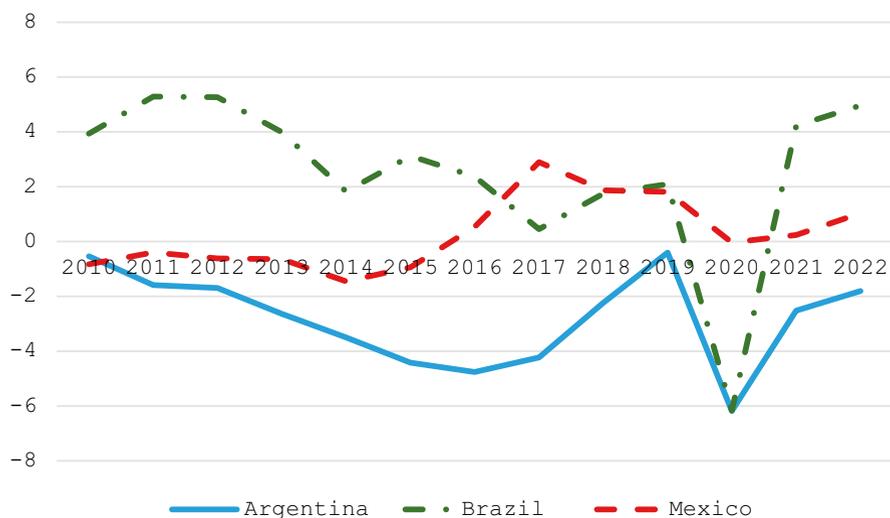


Fig. 10.3 Government primary balance, percent of GDP. (Source: IMF. Public Finances in Modern History Database. Available at: <https://www.imf.org/external/datamapper/rltir@FPP/USA/FRA/JPN/GBR/SWE/ESP/ITA/ZAF/IND>)

measured by the ratio of reserves to imports. Brazil stands out in both instances, albeit experiencing a decrease in the number of months that its reserves could cover imports as of 2022. This is mainly due to an improvement in GDP growth—leading to an increase in imports—and to the rise in import prices, which grew by about 24% compared to 2021.¹ Argentina’s situation has been deteriorating since 2018, as the country has had more difficulty honoring its external debt and the debt stock increased substantially, as Fig. 10.5 shows.

Despite their reduced vulnerability to global shocks compared to previous periods, these countries underwent significant moments of political upheaval. While it is possible to discern shared elements in the trajectories of Argentina, Brazil, and Mexico, it is also imperative to analyze the particularities of the political dynamics of each country to get a better understanding of the intertwined relationship between politics and the economy and the dynamics of interdependence between the two domains. The next section explores the national experiences of these countries.

¹ Brazilian Ministry of Development, Industry, Commerce and Services. Available at: <https://www.gov.br/economia/pt-br/assuntos/noticias/2023/janeiro/Balanca2022.pdf>

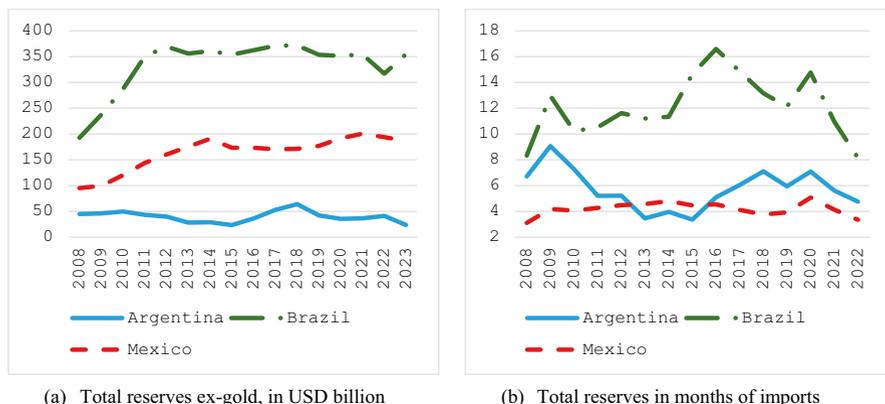


Fig. 10.4 Foreign reserves (a) Total reserves ex-gold, in USD billion (b) Total reserves in months of imports. (Source: IMF—World Economic Outlook)

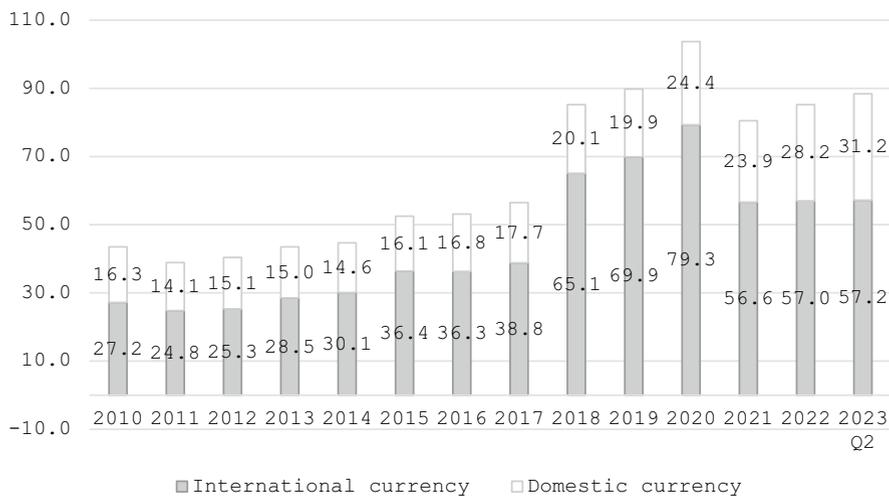


Fig. 10.5 Gross central government debt, in % of GDP. (Source: Argentine government. Ministerio de Economía—Finanzas. Available at: <https://www.argentina.gob.ar/economia/finanzas/graficos-deuda/deuda-bruta-por-moneda-en-porcentaje-del-pbi>)

National Idiosyncrasies: Exploring the Relationship Between Politics and Economics in Argentina, Brazil, and Mexico

Argentina

Argentina stands out as the country among the three analyzed here experiencing the most pronounced product fluctuations. Moreover, it has undergone notable shifts concerning the direction of its economic policies. Following the 2001–2002 crisis, the Peronist administrations of Presidents Néstor and Cristina Kirchner (2003–2007 and 2007–2015, respectively) pursued policies aimed at expanding public expenditure, alongside various heterodox measures, such as the nationalization of private pension funds (Lins, 2021), and controls over exports during the commodity boom to avert domestic prices to rise. Upon Mauricio Macri's election in 2015, the economy was already facing deceleration, escalating inflation, a public deficit hovering around 4.4% of GDP, and a substantial accumulation of public debt denominated in foreign currency (Pessoa, 2019).

Macri's economic policy rested on the premise that the primary cause of economic challenges stemmed from excessive state intervention by prior administrations. These interventions had primarily aimed at bolstering consumption through income transfers, ultimately leading to the country's isolation in the global economy. The proposed solution involved diminishing the state's influence through a series of reforms aimed at revitalizing private investments. This strategy aimed to facilitate a resurgence in economic growth. From the point of view of external relations, the objective was to open the country on all fronts of the economy.

Sturzenegger (2019: 2), a former central bank governor, emphasizes the legacy inherited by Macri at his inauguration: "the Central Bank's balance sheet was deteriorating quickly, and capital controls contributed to a rising gap between official and black-market exchange rates. The heritage also included four years of stagnation, a large and growing budget deficit, persistent high inflation, a dual exchange rate system, utility prices that had been frozen in spite of high inflation, and lack of reliable statistics." He also argues that, for methodological reasons, the official figures on government debt provided by Cristina Kirchner's administration should be reviewed. He shows the stark deterioration of the central bank (BCRA) net worth to a peak deficit of ca 93 billion USD during the third quarter of 2015 (Sturzenegger, 2019: 5). The Macri administration assumed the mantle of steering a politically contentious, albeit necessary, adjustment process. The liberalizing reforms introduced by the Macri government spurred an uptick in foreign investment. However, anticipated growth failed to materialize, resulting in increasing inflation and a dangerous hike in both the deficit and public debt. This significant deterioration in the economic landscape eroded government popularity.

A different perspective is presented by Amico (2020: 56–58), who identifies different phases in the economic policy of the Macri government. According to the author, the first was a shock phase: abolition of capital controls—with the aim of cooling the parallel dollar market and adoption of an inflation target system by the

BCRA combined with currency fluctuation. Liberalization of the foreign exchange market was expected to lead to adjustment of relative prices, which did not happen, and inflation rose, the peso depreciated, and BCRA had to raise interest rates. In June 2017, the government issued a 100-year debt bond, implying that the government deficit was lower than expected. In the same phase, the government made a debt payment to holdout creditors (see Datz, Chap. 12, in this volume).

The second phase was ironically named by Amico (2020) as “late populism.” This is because facing the parliamentary elections that would partially renew the Chamber of Deputies and the Senate in a scenario of economic stagnation would pose a risk to the Macri government. Therefore, the elections marked a halt in the reform program. This phase constituted a deviation from the previous electoral program of the government and brought contradictions to the initial macroeconomic strategy. In 2017, changes were announced in the management of the inflation targeting regime, which had the immediate effect of currency depreciation. From there would come a third phase characterized by Amico (2020) as currency crisis and worsening of economic activity.

In September 2018, inflation targeting was abandoned in Argentina, having lasted only 25 months (Cachanosky & Ferrelli Mazza, 2021). According to the authors, two main factors help to explain the IT failure in Argentina: “The first one is the explosive growth of short-term bills, Letras del Banco Central (LEBACs), used to sterilize issued ARS.² The second one is a negative credibility shock that took place in December 2017. A perfect storm of foreign shocks in April 2018 only accelerated the failure of the BCRA policy inconsistencies” (Cachanosky & Ferrelli Mazza, 2021: 107).

Public debt appears to be a recurring issue in Argentina, almost like an unavoidable inheritance passed down from one government to the next. The data depicted in Fig. 10.5 vividly portray the substantial growth in debt during the period under examination. Just as Macri’s administration denounced the legacy inherited from the Kirchner era, his successor, Alberto Fernández, could use a similar argument upon assuming office at the end of 2019, with Cristina Fernández de Kirchner as vice president. Furthermore, alongside the pronounced increase in debt as a percentage of GDP, it is essential to highlight the considerable portion denominated in foreign currency, significantly increasing the country’s external vulnerability.

The Alberto Fernández administration will go down in history as synonymous with an economic catastrophe: consumer prices surged by approximately 408% over 4 years, the currency underwent severe devaluation, and the escalation of external debt, which had begun years before, resulted in increasingly challenging negotiations with the IMF, ultimately culminating in a period of profound destabilization. The president’s popularity plummeted in tandem with the rise in inflation (Brasil & Pera, 2022). The government inherited a burdensome legacy from its predecessor, and the onset of the pandemic in early 2020 left few opportunities for a sound reformulation of economic policy. Fernandez’s choice was for an unorthodox

²ARS is the symbol for Argentine pesos.

direction to the economy. Despite the unequivocal need to increase public spending to tackle the global health crisis, the government was elected as a clear alternative to the proposal brought by Macri. However, all relevant economic variables had deteriorated sharply, a trend which was further exacerbated by the pandemic. There was limited room for policy innovations, and the government lacked a proposal capable of addressing the inevitable deepening of the crisis.

The heart of the political instability laid within the Fernández government itself, marked by ongoing conflicts between the president and the vice president throughout their term. This discord stems from the internal dynamics of the Peronist electoral camp, which united to prevent Macri's reelection. This coalition brought together two distinct factions of the Peronist movement to create the *Frente para Todos*, with Alberto Fernández as president and Cristina Fernández de Kirchner as vice president (Lucca, 2022). While their alliance successfully ousted Macri in the elections, it also set the stage for internal division from the beginning, complicating consensus on any matter. This division reached a climax in May 2021 when a dispute led to the resignation of half of the cabinet members, sparking a political crisis. Furthermore, in September 2022, an assassination attempt on the vice president, though unsuccessful, exacerbated the government's unease and further destabilized the situation (Molino, 2021).

The worsening economic situation further eroded support for the government. Sergio Massa was appointed as the new economy minister with the hope of restoring credibility and predictability to the economic policy (Brasil & Pera, 2022). However, the level of disorder was so severe that his efforts saw limited success. This long history of economic instability led Argentina to elect, in October 2023, an outsider, far-right candidate, Javier Milei, defeating Minister Sergio Massa.

Brazil

When COVID-19 struck Brazil in February 2020, Jair Bolsonaro's presidency celebrated just 1 year in power, during which the main economic accomplishment was the pension reform passed by the congress in 2019.³ The government's election campaign rhetoric blended nationalist and ultraliberal elements, but the government lacked ability to design and approve radical reform measures. Despite market expectations and the new government's belief in the necessity of reforms for economic recovery—before the pension reform, a legal control on public spending was approved in 2016, and a labor reform in 2017—these measures proved insufficient to stimulate economic activity (Lins, 2020). But the domestic crisis had begun back in 2013–2014. Political upheaval started with huge street demonstrations in June 2013 primarily highlighting social grievances, including concerns over the cost of public transportation, overcrowding in hospitals, and corruption. As the country was

³Emenda constitucional N° 103 of November 12, 2019.

getting ready to host international sporting events, citizens questioned the justification of investing in stadiums amid the nation's significant social deficits. The political crisis intensified concurrently with the deteriorating economic conditions: inflation, since the global financial crisis (GFC), had consistently veered away from the central bank's target, and consumer prices were averaging annually 6.4% between 2008 and 2015, peaking at over 9% in 2014.

President Dilma Rousseff (2011–2014) adopted a strongly interventionist economic policy, which the government called the “new macroeconomic matrix”; its effects contributed to raising inflation further and were not effective in its central objective (Lins, 2022). This exacerbated macroeconomic instability and further fueled popular discontent. Upon her reelection, Rousseff attempted to pivot the direction of economic policy toward controlling inflation and decreasing fiscal deficits. However, her efforts came too late. Her failure to address both the 2013 street protests and opposition within Congress paved the way for an impeachment process, based on allegations of manipulating the federal budget (Winter, 2017). In short, Dilma Rousseff's second term deteriorated into a parliamentary movement aiming at the removal of the president under the allegation that she had acted against the law on public spending control, coinciding with a rapid deterioration in economic conditions.

Regarding political instability, a huge police and judicial investigation began in 2014. Initially, it was an investigation of a parallel exchange market operator based in the city of Curitiba, Paraná. As the investigations progressed, links between politicians and the investigated became apparent. So began the “Car Wash” operation. A group of public prosecutors in the state of Paraná initiated this operation that would evolve into a massive case implicating Brazilian politicians. Against the backdrop of political uncertainty and macroeconomic instability, an economic crisis broke out in 2014 (Guilherme & Ribeiro Hoffmann, 2021).

The recession of 2015–2016 marked the conclusion of an era of economic prosperity. As economic troubles deepened, discontent with the political system surged, paving the way for the rise of antiestablishment ideologies, particularly championed by far-right groups, as discussed by Herz and Ribeiro Hoffmann, Chap. 2, in this volume. This led to the election of Jair Bolsonaro in 2018. The 2018 elections must be understood in the light of the rupture of the political fabric from corruption scandals and a real deterioration of the economy with the recession that began in 2014.

Bolsonaro's 4 years in office proved to be far less favorable than his promises and the expectations of his ca 58 million voters in the second round. Following the previous years' slump, markets anticipated a robust recovery and the successful implementation of structural reforms from his tenure. However, 2019 already delivered disappointment with its poor growth, and the beginning of the pandemic in 2020 dashed hopes for a recovery. Political instability, emanating from within the government's inner circle, further compounded the situation. 2020 marked the convergence of three simultaneous crises: political, economic, and health. The roots of these crises can be traced back to 2013–2014, with the onset of the health crisis exacerbating and deepening existing issues.

As a result of all these political developments and the poor economic performance, the 2022 elections were marked by unprecedented polarization in Brazil. Even following the elections, democracy remained under threat. On January 8, 2023, thousands of supporters of former President Bolsonaro forcefully entered the centers of power in Brasília, invading the national congress, the supreme court, and the presidential palace. The elections were won by a coalition led by the Workers' Party (Partido do Trabalhadores), with former President Luiz Inácio Lula da Silva as the candidate, and composed of 16 center and center-left parties.

Mexico

Mexico is also a case of repeated crises and a long process of economic stagnation. Blecker (2022: 225) presents the situation clearly: "From 1975–76 to 1994–95, a crisis broke out about every 6 years, usually either right before or right after a presidential election. Each time, the balance of payments deteriorated, inflation accelerated, the peso was devalued, and a severe recession occurred." Between the late 1980s and the mid 1990s, a set of liberalizing reforms were implemented, and economic policy has remained relatively stable since then (Lins, 2021). Among the three economies, Mexico stands out as the most committed to economic stability. Since 1993, its central bank has been officially independent, a milestone Brazil achieved only in 2021, while Argentina is still far from making such a move.

In the intense scholarly debate about the causes of the weak growth of the Mexican economy, on the one hand, the supply-side approach seeks to identify deficiencies in the productive and/or institutional structure, an approach to which the contribution of the middle-income trap converges. Conversely, a demand-side perspective contends that policies prioritizing macroeconomic stability hinder the state's intervention in economic affairs, thereby acting as a barrier to demand expansion and growth. This clash of interpretations is highly prevalent in the analysis of the Mexican case. After about 35 years since liberalizing policies began to be implemented in Mexico and given that there has been no economic policy reversal during this the period, the main question that critics ask is why stable, more robust growth has not been observed (Ros, 2013; Nadal, 2020; Blecker, 2022). On the pro-stabilization side, a first set of responses was that reforms need time to produce growth. Time has effectively passed, and another way to explain low growth is to focus on supply-side shortcomings and other structural constraints.

Analyses from both sides are relevant. On the supply side, labor productivity has not grown for a decade and has even decreased in a few years as we saw above. According to ILO estimates, this indicator had an average annual variation between 2019 and 2023 of -0.9% , what is explained, among other factors, by the strong informality prevailing in the Mexican economy. On the demand side, economic policy is viewed as the main cause of low growth rates. The commitment to inflation control by the Mexican central bank, by administering interest rates—and keeping them high—would constantly limit investment incentives. So would the overvalued

exchange rate in a country extremely open to trade with its richer neighbors. Conversely, a consistent and sometimes unexciting economic policy fosters high predictability in government actions, which in turn supports business planning. However, what about political stability?

A panoramic view of the Mexican political system might give the impression of stability. Since the transition to democracy in 2000, when there was a shift from a dominant party authoritarian rule to democracy (Álvarez Tovar, 2013), elections have occurred every 6 years, and there have been no reports of dramatic incidents such as candidate assassinations or electoral frauds. However, the fact that there have been few incumbent presidents since 2010,⁴ that a president who is not a member of one of the two largest parties⁵ was elected in 2018—Antonio Manuel López Obrador (AMLO), from the Movimiento Regeneración Nacional (Morena)—and that governments have maintained a commitment to macroeconomic stability does not mean that politics is stable. In defense of a more free-market approach and contrary to government policy, Rubio (2023) in a sharp critic to President López Obrador affirms: “Mexico undertook economic reforms largely in order to avoid reforming its politics. Therein lies the huge difference in results between Mexico and Chile, or between Mexico and its Asian peers.”

Besides inequality and poverty, Mexico faces serious problems related to migration, corruption, drug traffic, and organized crime, despite the government’s militarization of public security. Moreover, critics point to the lack of accountability for the government as a result of the president’s control of parliament, weakening the system of checks and balances (Sánchez-Talanquer & Greene, 2021; Ellner, 2020). Sanchez-Talanquer and Greene (2021) highlight a notable trend of power concentration in the executive branch during the first half of AMLO’s term. An instance of interference in institutions was witnessed in 2023 when the Senate approved alterations to the National Electoral Institute (INE), responsible for overseeing elections, resulting in a reduction of its resources. This move triggered large-scale demonstrations across the country, raising concerns about a potential regression of democracy, with fears looming of a slide back toward autocracy (Sánchez-Talanquer & Greene, 2021; Wirtschafter & Sarukhan, 2023).

As the 2024 presidential elections in Mexico approaches, the incontestable popularity of AMLO is expected to lead him to name his successor and retain control over the congress. Strictly considering indicators of public opinion, we can say that during the last two decades there was, and there still is, political stability in Mexico. However, given the deep social problems and those derived from the powerful structure of organized crime, the situation is much more complex.

⁴Since 2010, as the presidential mandate is 6 years, México had only three presidents: Felipe Calderón Hinojosa (2006–2012), Enrique Peña Nieto (2012–2018), and Andrés Manuel López Obrador (2018–2024).

⁵Vicente Fox of the Partido Acción Nacional (National Action Party—PAN) was elected in 1999, marking the end of a 70-year rule of the Partido Revolucionario Institucional (Institutional Revolutionary Party—PRI).

A Permanent State of Crisis, Both in the Economy and in Politics

This chapter explored the argument that political instability can be a determining factor in deepening economic crises. By analyzing the main political and economic trends of the three largest Latin American economies—Argentina, Brazil, and Mexico—it showed that the last 15 years have been a period of economic stagnation, during which these countries have been unable to address structural problems to overcome the middle-income trap. Besides mediocre growth rates, these countries have seen their social indicators worsen. The pandemic bears some of the blame for this.

Argentina's, Brazil's, and Mexico's responses to the COVID-19 pandemic were flawed, leading to significant loss of life and economic downturn, revealing that their healthcare systems and infrastructure were ill-equipped for such a crisis. While there were variations in their approaches, the Brazilian government's denial under Jair Bolsonaro and its lack of action represented the most harmful aspects of the pandemic's management in Latin America. Despite implementing isolation measures, income support, and distributing vaccines when available, the economic, social, and human toll of the health crisis hit these countries harder than many others worldwide.

This situation raises questions about whether the long history of crises in these countries contributed to the magnitude of the pandemic's impact and whether inherent factors within these economies and societies might precipitate or exacerbate future crises in response to external shocks. The evidence gathered in this chapter suggests a positive response to the query of whether past crises have influenced current outcomes. This is attributed to the fact that the underlying issues plaguing these societies have not been properly tackled. While certain institutions have weathered numerous storms—highlighted by the strain on democratic institutions in Brazil from 2019 to 2022—there remain significant social and economic challenges that demand resolution. Table 10.1 gathers information on some of the main variables discussed here to help compare these countries and provide an assessment of political instability's impact as an additional factor in deepening crises.

It was seen that the high approval ratings of the Mexican government did not shield the country from crises and that even a government with a strong interventionist tendency did not target institutions linked to macroeconomic stability, primarily the central bank. In Brazil on the other hand, when Luiz Inácio Lula da Silva returned to power in 2023, he publicly expressed his dissatisfaction with the central bank's interest rate policy, which was already protected by the autonomy law of 2021. Argentina is the most unstable among the three countries. Instability permeates its institutions and undermines predictability, which is detrimental to investment decisions. In all three cases, political dynamics have a profound effect on economic management. They are stories of multiple crises, whose elements intertwine and mutually influence each other, as discussed in this volume with the concept of permacrisis.

Table 10.1 The three cases summarized

	Argentina	Brazil	Mexico
Commitment with stability	No	Yes	Yes
External vulnerability	High	Low	Low
Gross capital formation annual average 2013–2022 (%GDP)	16,8%	17,4%	22,7%
Evidence of middle-income trap	Yes	Yes	Yes
Structural reforms	Inflation targeting later reversed Capital controls	Pension, labor and tax reforms, central bank autonomy approved	Social reforms proposed No substantial economic reforms
Government orientation	Left-wing populism (2007–2015 and 2019–2023) Right wing (2015–2019) Extreme right (2022–2027)	Center left (2003–2016) Center right (2016–2018) Extreme right (2019–2022)	Center right (2006–2018) Left-wing populism (2018–2024)
Political instability	High	High	Low to moderate

Regional cooperation could provide a platform for these countries to develop common responses to crises and provide economic and political effectiveness and stability. Argentina and Brazil are members of Mercosur, a regional bloc that aimed at a comprehensive and promising agenda but which suffered from the lack of consensus to deepen commitments; the most profound blow suffered by Mercosur originated precisely from the financial crises experienced by Brazil and Argentina in the late 1990s (Bouzas, 2001). Mexico has been a member of the North America Free Trade Agreement (NAFTA) and its successor, the United States-Mexico-Canada Agreement (USMCA), but these projects are more focused on fostering free trade. Other initiatives such as CELAC include these three countries, but it is only a space for political concertation; regional institutions in Latin America have failed so far to build a solidity which would allow them to survive and operate as national governments change, regardless of their political orientations. As a result, they end up relinquishing a powerful tool to politically construct alternatives to overcome the middle-income trap and tackle social problems.

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