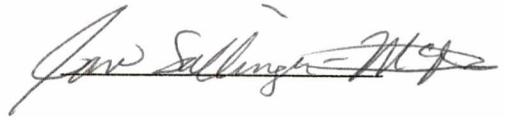


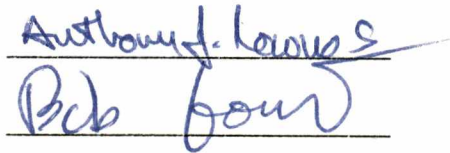
To the Graduate Council:

I am submitting herewith a thesis written by Lia K. Roberts entitled "Latin American Debt: Adjustment or Stability?" I have examined the final copy of this thesis for form and content and recommended that it be accepted in partial fulfillment of the requirements for the degree of Master of Arts, with a major in Political Science.

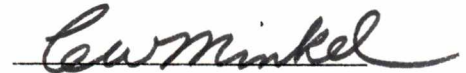


Jan Sallinger-McBride,
Major Professor

We have read this thesis and
recommend its acceptance:



Accepted for the Council:



Associate Vice Chancellor
and Dean of the Graduate
School

LATIN AMERICAN ADJUSTMENT AND THE IMF:
DEBT OR STABILITY?

A Thesis
Presented for the
Master of Arts
Degree
The University of Tennessee, Knoxville

Lia K. Roberts
December 1995

Acknowledgments

As a junior in the political science department at the University of North Carolina at Charlotte, I wandered into Dr. Timothy Mead's (UOP) office wondering exactly what I could do with a political science degree, and more generally, with the rest of my life. Without Dr. Mead's uncanny ability to know exactly when to hold my hand or to kick me in the rear, I would never have made the decision to go to graduate school, much less pursue a Ph.D. To UOP, I offer my most heartfelt thanks.

As for my experiences at the University of Tennessee, I owe all of the best times to Tony L. Barbee, Kimberly Owenby, Dr. Anthony Nownes and last, but not least, Dr. Jan Sallinger-McBride (Faculty Mom). Without Tony and Kim's support and patience this thesis would have remained unfinished. Dr. Anthony Nownes has been a constant source of comedic relief, advice and emotional support. Dr. Jan Sallinger-McBride has been, over the course of two years, my mentor, slave-driver, and most importantly, my friend. Jan's influence in my life has been substantial. I will always be grateful for her support and friendship.

I would also like to thank Dr. Robert Gorman for making my transition into and out of graduate school bearable.

As to my parents, Mary K. and Robert West and Sam and Brooke Roberts, I offer my sincerest thanks for their undying confidence and support, both emotional and financial.

Abstract

This study is an examination of the effects of International Monetary Fund, neo-liberal, austerity policies on political instability in Latin America. A case study approach is used to assert the argument that Fund policies, which direct economic reform at the poor and working class, result in food riots, strikes, demonstrations, coups, capital flight and changes in the head of government or political instability. IMF policies and patterns on political instability are examined in Venezuela and Argentina from 1976 to 1992.

Table of Contents

Chapter One

Latin American Adjustment: Debt or Stability?_____	1
Introduction_____	1
The Debt Crisis; Social Effects and Reactions_____	2
IMF Policy_____	8
Neo-Liberal Approach_____	8
Pragmatic of Fiscal Crisis Approach_____	9
Theoretical Background and Literature Review_____	11
Relative Deprivation Theory_____	11
Resource Mobilization Theory_____	12
World Systems/ Dependency Theory_____	13
Literature_____	14
Hypothesis_____	19
Research Design_____	20
Concepts and Definitions_____	21

Chapter Two

Venezuela: King Oil_____	23
Political Economy 1920-1970_____	23
Borrowing in the 70's_____	26
The Crisis, Stabilization and Instability_____	28

Chapter Three

Argentina: Agro-Interests and Peronism_____	36
Political Economy: 1916-1976_____	36
Borrowing From 1976-1980_____	40
The Crisis, Stabilization, and Instability_____	43

Chapter Four

Conclusion_____	48
-----------------	----

References_____	54
-----------------	----

Appendix_____	58
---------------	----

Vita_____	63
-----------	----

Chapter One

Latin American Adjustment: Debt or Stability

In 1984 the Dominican Republic rejected a IMF pact after riots induced by IMF recommended price increases left 60 dead, 200 wounded, and 300 arrested. The planning minister commented that "It is not that we are unwilling to put our own house in order. It is that we want to keep our house and not let it go up in flames" (Alvater, Elmer, Hubner, Lorentzen, and Rojas, 1991)

Introduction

In the Summer of 1982, Mexico announced its inability to service its debt. For Latin America, Mexico's announcement began a decade of extreme debt, recession, hyperinflation, as well as a return to democracy. Latin America's debt problem soon began to be recognized as a global crisis, affecting the developing world, international financiers, and "core" bankers. The international market turned its attention towards alleviating financial pressure placed on banks and debtor nations. For Latin America, the International Monetary Fund and the World Bank took on increasingly important roles by exercising enormous influence on their domestic economic policies and by weakening state viability leading to the Latin American transition to democracy. The IMF has played an increasingly pivotal role in the re-organization and re-negotiation of Third World debt. Although IMF 'adjustment' gradually began to form in the mid 1950's, structural adjustment in the form of stand-by arrangements did not become prevalent until the 80's debt crisis. The IMF was formed under the Bretton Woods system originally as a lender of last resort, however, from the wreckage of the debt crisis, the IMF has reappeared as an international loan officer and a controversial political figure. Tough

adjustment packages, "advised" by the IMF, and directed at the poor and working classes are leading to heightened levels of social unrest due to the coupling of fiscal crisis and austerity policies, while Latin American government officials scramble to disassociate their political image with that of the IMF. As of yet, the question of political instability and the cumulative effects of IMF austerity packages and debt crisis has been greatly ignored. This research attempts to fill this void by examining the relationship between IMF austerity packages and political instability in Latin America during the recent debt crisis.

The Debt crisis: social effects and reactions

As early as the late 1950's commercial bankers and industrial government officials were referring to Latin American governments as "deadbeats...who...year after year have had to comeback to Washington for bailout loans and foreign 'strech-outs'" (Payer, 1990, 10). However, this attitude did not hinder the heavy lending to Latin American governments that characterized the 1970's. During the period from 1965 to 1976, 7 developing countries, including Argentina, Brazil and Chile, had been involved in 17 debt rescheduling (Walton and Ragin 1994, 13). By 1982, after Mexico's announcement of its inability to service its debt, funds to the region were essentially cut off. While Latin Americans debt burden increased by enormous porproitions (Latin America shares roughly one-half of the world's external debt, U.S. \$ 1 trillion, owed to private banks, multinational agencies and governments), inflation mushroomed and per capita incomes fell as demonstrated by Table 1. "In 1980 the average inflation rate for the region was 150% per year, and by 1990 prices were rising by 1,200% annually" (Naim, 1994, 33). Although by 1993 the region's inflation rate had dropped to 19% and

international fears of world wide disaster seems to have subsided, Latin America is still gripped by fiscal crisis and instability. Debt service ratios are at chronic levels (over 15% annually), and the total debt for the region is 78% greater than it was in 1980 (Latin American Weekly Review, January 16, 1992).

Table 1. Selected Economic Indicators for Latin America, 1980-1991.

	<u>1980</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1989</u>	<u>1990</u>
GNP*	690342	636468	639752	650665	694032	791529	8947
DFI (net)*	6115	3269	4290	3505	5606	7999	7175
TDS/XGS%	37.4	39.9	38.6	44.1	38.2	40.1	29.6
INT/XGS%	19.7	7.9	28.1	27.8	23.5	24.5	16.8

Source. 1992. World Bank. World Debt Tables

TDS/XGS is the debt service ratio.

INT/XGS is the debt interest ratio.

*in \$billions

For most Latin American countries the 80's fiscal crisis was characterized by "budget deficits, negative or very small public savings, excessive foreign and domestic debt, poor creditworthiness of the state expressed in lack of confidence in the national money and in the short run maturity of the domestic debt, and the government's lack of credibility" (Periera, Maravall, Przeworski, 1993, 24). However, the past decade debtor nations have serviced their debts, but not without a great cost to their political and economic structure. The standard IMF response to debt arrears is the imposition of tough adjustment programs which are generally characterized by controversial austerity packages. IMF austerity packages usually entail the abolishment or liberalization of foreign exchange and import controls, reduction of growth in the domestic money supply, an increase in interest rates, an increase in taxes and a reduction of government spending,

the abolishment of food, fuel, and transportation subsidies, a cut in government wages and cooperation on wage restraints from labor unions, the dismantling of price controls, the privatization of publicly owned firms, and the reduction of restrictions on foreign investment and the depreciation of the currency.

The short-term result of adjustment measures is, at least, a decline in growth and a stagnated economy in which the working class, peasants, and farmers pay the price. In Latin America in 1980, 30-34 million people, almost 29% of the labor force were unemployed or underemployed (Schatan and Schatan, 1987, 22). In order to keep up with population growth Brazil and Mexico would have had to create 1.4 million and 1 million jobs, respectively (Ghai and Alcantaran, 1991, 53). As of 1994, minimum wages for the region were at two-thirds of 1980 levels (Walton and Seddon, 1994, 102). In Argentina by the early 1990's, 34.5% of the population was living in poverty up from 20.6% in 1980. (Walton and Seddon, 1994, 73) The actual number born into poverty had decreased, but "what increased dramatically, by 338%, was the number of those who were pauperized by the progressive erosion of their purchasing power" (Latin American Weekly Review, September 17, 1992). Meanwhile, regional statistics published by the World Bank assert that the average income distribution for a Latin American country stands at about 40% of the national income being held by 10% of the population. In Bolivia, after the August, 1985 introduction of stabilization programs by Victor Paz Estenssoro's regime, the real value of wages fell by 67%, but only after the per capita income fell by 30% (Branford and Kucinski, 1988, 34). "By early 1986 a Bolivian primary school teacher in an urban area was spending four fifths of his/her wages on transportation to and from school" (Branford and Kucinski, 1988, 35). Most Latin American governments have had to cut back sharply on spending in public services, especially health and education, upon which the poor particularly depend. The IMF's

draconian measures and their results have become the impetus of strikes, demonstrations, riots, and coups. Latin American scholars and Latin American politicians, alike, are discovering that political pressure from below may alter the feasibility of economic reform directed at the poor (Frieden, 1989).

Since the implementation of IMF austerity programs and their subsequent effects on domestic economies and standards of living, politics in debtor nations have become increasingly anti-IMF. Identification with the IMF and its austerity packages has become a political liability for many government officials. Austerity riots began occurring 2-3 times a year in 1976 until they reached their peak with international repercussions of the Mexican crash of 1982. Since their peak in 1983-85 austerity protest have been occurring steadily, and as argued by Walton and Seddon (1994), it is premature to assume that the wave of the 80's is slowing. In 1989 "IMF riots" erupted in numerous Latin American countries. In Argentina riots left 14 dead, in the Dominican Republic 200 people were murdered in riots and in Venezuela fatalities from IMF riots numbered at 300. Venezuela's economy eventually experienced a rejuvenation, but again at the cost of the poor, unleashing new unrest. In October, 1991 riots in Caracas, Venezuela involving thousands of students left 12 dead and by early 1992 Venezuela experienced an attempted coup d'etat by a segment of the military (Sidell, 1991). In June of 1990, Brazil had an estimated 1.5 million workers participate in 330 separate strikes in response to spreading unemployment and a declining standard of living (Walton and Seddon, 1994). The privatization of industry pushed by Cardoso's regime at the urging of the IMF has since led to numerous demonstrations in Brazil. On January 15th 1985, Jamaica announced an increase in a state-controlled price of petroleum products and riots immediately broke out in Kingston. One thousand protesters rallied in Kingston's ghettos while various groups blocked roads with burning tires and automobiles, halted air and rail

traffic and forced the closure of schools, businesses and government offices. The worst civil violence incident in six years resulted in no effect on government policy, but, a subsequent 3-day general strike in June led to a compensatory 12-15 percent wage increase (Walton and Seddon, 1994, 56).

While IMF riots have generally been endemic to urban settings, however austerity riots have also spread to rural areas in Latin America nations with growing peasant organizations (e.g. Brazil and the Dominican Republic). However, generally IMF riots begin in capital cities where mobilization is easier as government targets are close at hand, and spread to other urban areas. Riots in Caracas spread to 16 Venezuelan cities in March of 1989; looting in Santo Domingo, Dominican Republic spread to 17 cities in 1988. The most interesting characteristic of IMF riots is the diversity of their participants. IMF riots have been staged by students, government workers, the unemployed, peasants, labor unions and other middle class groups, such as shopkeepers expressing grievances over public-service cuts. Targets of IMF Riots tend to be government officials or regimes, however foreign industry has also been targeted as in the destruction of a factory assembly in Sao Paulo in 1985. Targets are varied, as shown by Chilean demonstrators who participated in "land appropriation" in the outskirts of Santiago in 1984.

IMF riots have not been the only evidence of political instability resulting from austerity packages. Incidences of crime have sharply increased, migration has been problematic (professionals and migrant workers), and capital flight (at 56.1% in Mexico, 38.7% in Venezuela, 32.1% for Brazil, and 31.4% for Argentina during the period from 1978-87) has added to the financial crisis and to political instability in Latin America (Bank for International Settlements, 1989).

The debt crisis and IMF structural adjustment also have serious implications for the future of Latin America's present attempts at democratization. Walton and Seddon (1994) have argued that "IMF riots" were instrumental in the breakdown of bureaucratic-authoritarian and military regimes. The question now at hand is whether developing countries can withstand neo-liberal policies "urged" on them by the IMF coupled with slow to no economic growth and a population living at or below the poverty line? Many scholars and politicians have questioned the feasibility of simultaneous democratic consolidation and debt management, although there is a wide diversity of opinion about how much threat the structural adjustment efforts pose to the consolidation of democracy, many scholars argue that democracy will survive present economic arrears. Jeffrey Sachs (1989), however has argued that the runaway inflation of the late eighties and early nineties coupled with controversial IMF adjustment packages have made the three largest debtor nations, Mexico, Brazil and Argentina, extremely difficult to govern. The survival of Latin America's new democracies may well rest on the citizen's perception of their countries economic environment. Political pressure from labor unions concerned with wage issues, peasant groups protesting over land and agricultural issues, and industrialist activity in the form of both grassroot opposition groups and high level lobbying efforts are resulting in social unrest and could be detrimental to the deepening of democracy (Przeworski, 1991; Naim, 1984; Oduber, 1987). Just as the debt crisis contributed to the downfall of an era of authoritarianism, structural adjustment could prove to be the downfall of Latin America's present attempt at democratization.

IMF: Policy

Neo-Liberal Approach

The neo-liberal approach to economic policy has been touted by the international financial system, especially the IMF, the world Bank, and Washington as the solution to the global debt crisis. The origins of the neo-liberal approach lie in the roots of Keynesian consensus and the crisis of development economics. (Pereira, et al, 1993) This approach has also been influenced by the rise of a "new right" including Austrian economics (Hayek, von Mises), proponents of monetary policies (Friedman), and the public-choice school (Buchannon, Olson, Tullock, Niskanen). According to the proponents of the neo-liberal perspective the causes of the global debt crisis are two-fold: 1) excessive state intervention, as evidenced by the use of protectionism, over regulation, and a large public-sector; and 2) economic populism which is depicted as an unwillingness to eliminate the budget deficit (Killick, 1984). Therefore, for the IMF, economic reforms should be concentrated on eliminating economic populism and on controlling the budget. Market -oriented reforms, including the reduction of state intervention, liberalization of trade and the promotion of exports are also emphasized. Williamson (1990) outlines 10 measures that are generally "advised" by the IMF:

- 1) fiscal discipline should be imposed to eliminate the fiscal deficit.
- 2) priorities in state expenditures should be changed to eliminate subsidies
- 3) a tax reform should be implemented with increased rates if unavoidable, but with the admonition that "the tax base should be broad and marginal tax rates should be moderate.
- 4) interest rates should be market determined and positive.
- 5) the exchange rate should be market determined.
- 6) trade should be liberalized (there is no priority for liberalization of international capital flows)
- 7) direct investment should suffer no restrictions.

- 8) state owned enterprises should be privatized.
- 9) economic activities should be deregulated.
- 10) property rights should be made more secure.

Translated, the first five demands constitute stabilization by orthodox measures, while the second five advise to cut state intervention. For Latin America, this policy is based on one of two causal assumptions: the crisis occurred as a result of lax fiscal policies on behalf of debtor nations, or the blame is placed on a historical propensity for populism, protectionism and nationalism. However, among the nations which have implemented neo-liberal reforms, economic results have been mixed at best. For example, Mexico and Bolivia both succeeded in implementing neo-liberal reforms and both nations present unsatisfactory growth rates, increasing debt levels and relatively high rates of political unrest (Korner, Maass, Siebold and Tetzlaff, 1986). Mexico is currently undergoing a severe economic crisis, and the IMF demanded yet another round of economic reforms before agreeing to a "stabilization" loan package guarantee.

For proponents of the neo-liberal approach, the origins of the debt crisis lie in the cumulative distortions brought about by years of populism and national developmentalism, and by the excessive and distorted growth of the state caused by the exhaustion of import substitution strategy. The state, immobilized by the financial crisis, began to be an obstacle, rather than an agent, of growth.

Pragmatic or Fiscal Crisis Approach

The pragmatic approach, which stems from dependency theory, is an alternative view of the origins of and solutions to the 80's debt crisis. Both the pragmatic approach and dependency theory are concerned with international variables, and are critical of diagnoses which ignore the specific historical experiences of Latin American

countries. However, proponents of the pragmatic approach assume that the causes of underdevelopment are to some degree static, or as a constant, while dependency theorists view the causes of underdevelopment as more structural in nature.

The main premise of the pragmatic approach states that growth will not automatically resume after stabilization because stabilization is generally achieved at either the cost of public investment or because the stabilization package implemented did not allow for policies that promote and protect public savings. Therefore, for proponents of the pragmatic approach growth will resume only if stabilization reforms are accompanied by the recovery of the capacity for public savings and by policies that define the state's role as one involved heavily in politics, welfare and economics. The pragmatic approach accepts the need for a reduction in the size of that state, but also emphasizes that it is important for the government to become capable and efficient. In other words it is not the sheer size of the state that is emphasized by the pragmatic approach, but the strength and capability of the state to deal effectively with both fiscal and political crisis. Therefore, the pragmatic approach does not accept the neo-liberal assumption that "...since state failures are worse than market failures, the solution is to reduce state interventionism to a minimum" (Periera, et al., pg 23). Proponents of the pragmatic approach also argue that the neo-liberal's diagnosis of the causes of the debt crisis are false. The pragmatic approach claims that the crisis cannot be attributed to import substitution strategies, which existed and produced favorable results for many years, nor can it be blamed on the inherently flawed character of state intervention which was also successful for many years across the region.

Theoretical Background and Literature Review

The debt crisis compounded with the austerity packages enforced by the IMF have led to massive, both in size and occurrence, demonstrations, strikes, riots capital flight and migration across Latin America. The following discussion of mass political action from both a theoretical perspective and a research perspective is the basis for the argument put forth in this research; namely that political instability, as evidenced by mass political action, is exacerbated by IMF austerity packages, or economic hardship.

Relative Deprivation Theory

Prior to the ascension of resource mobilization theory, world systems theory and dependency theory, relative deprivation theory was the popular choice for explaining variation in mass political action. Relative deprivation theory, which is similar to Huntington's modernization theory, holds that social change is a destabilizing force and may produce unrest in the form of protest movements (Tilly, 1978; Gurr 1969). These protest movements are achieved primarily through the psychological mechanism of relative deprivation. Accordingly, Third World rapid social change can be especially destabilizing due to a linkage between social change and economic development found in most developing nations. Proponents of relative deprivation theory have also linked mass political violence in the Third World to development problems such as overurbanization and rapid industrialization.

Relative deprivation theory is clearly relevant to the question at hand, the effects of austerity packages on political instability. However, this theory has significant downfalls. One of these downfalls is the near impossibility of measuring its

psychological aspects, especially at the national level. The theory has been, as a whole, criticized for its general vagueness (Zimmermann, 1983). It was this vagueness that led to relative deprivation theory's eclipse in the 70's.

Resource Mobilization Theory

Proponents of resource mobilization theory argue that protest and rapid change have no systematic relationship, but persistent discontent can take the form of political action when severe conditions are present: a) there is a power vacuum that provides an opening for oppositional groups and coalitions; b) when the costs of acting are perceived as minimal; c) when sundry collectivities organize for their defense; d) and when due to the extreme disintegration of authority a condition of multiple sovereignties develops (Jenkins 1983; McAdam 1982).

External factors are important to resource mobilization theory, but unlike world systems and dependency theory, external factors are mediated through their impact on states and regimes. In other words, "Changes in the state, the regime, or in national politics resulting from external pressure and events can create or extinguish opportunities for political mobilization and action by collectivities both "members of" and "challengers to" the polity (Walton and Ragin, 1989, 878). For example, the amount of external debt affects the viability and legitimacy of the state, therefore the debt crisis can cause a power vacuum, due to the weakened regime, allowing opportunities for oppositional groups and coalitions. For resource mobilization theory the emphasis is placed on the political consequences of the debt, not the direct impact on living standards. It follows that any structural changes associated with urbanization and economic development increases the capacity for organization and political action.

Another factor emphasized by resource mobilization theory is the degree to which different coalitions are mobilized. On the aggregate level this factor is measured by political contention; the higher the level of contention the higher the level of organization and mobilization. Therefore, countries with a history of mass political action or mobilization are more likely to experience mass protest in reaction to state actions than those with no such prior history.

An important internal condition relevant to resource mobilization theory is a state and regime characteristic referred to as polity openness. Polity openness or the existence of formal political and civil rights is seen as being a factor leading to protest and protest movements. A highly repressive regime, such as a bureaucratic-authoritarian, traditional authoritarian or military regime, may be able to stop collective political action against austerity measures. However, a less open polity may also experience more explosive or violent protest due to the lack of institutionalized channels for political expression. So the general prediction of resource mobilization theory is that the more open the polity the more austerity protest should occur, however this relationship still requires careful, systematic examination.

World Systems/Dependency Theory

For the purpose of this study world systems theory and dependency theory are examined on the basis of their similar strands of thought. Both traditions are similar in that they both view social and economic structures of developing countries as being formed by the historical experiences of colonialism, the timing and nature of their incorporation into the world capitalist system, the growth of dependent ties through the

penetration of multinational corporations, unequal exchange in the international financial system, and the political domination of the "core".

In both perspectives, social conflict is seen as a dilemma born from the need to make a transition from class conflict to class mobilization. "The general pattern in dependent countries is one of income inequality, class polarization, unemployment and underdevelopment, "tertiarization", and surplus population in the urban labor market" (Walton and Ragin, 1990, pg 879).

A general summary of both perspectives produces the following four concerns: 1) the degree of international economic dependence as indicated by the presence of foreign capital and/or the perpetuation of enclave economies and the legacy of colonialism as apparent through the survival and growth of colonial trading patterns; 2) the distortion of developing countries traditional social and economic structures or underdevelopment; 3) an increasing debt burden and associated economic arrears which are seen as a result of unequal exchange in international trade and investment; 4) political results of dependency which are viewed as extremely complex and as yet inadequately addressed by quantitative cross-national study. Proponents of this theory have argued extensively over whether dependent growth weakens the state or strengthens it. (Wallerstien 1974, O'Donnell 1988)

Literature

This study attempts to work from an integration of resource mobilization theory and the world systems/dependency structures as set out by Walton and Ragin (1990). Debt-induced austerity as viewed from world systems/dependency theory and the conditions necessary for mass political organization as seen from resource

mobilization theory are seen here as an adequate theoretical background and starting point for the examination of austerity protest and the IMF. Although this research project attempts to examine the broader relationship between IMF austerity packages and political instability, the aforementioned theoretical background serves as a basis for explaining political mobilization in the form of protests, riots, demonstrations, as well as political expression through migration, capital flight and crime. The previous discussion of mass political action has led to a field of work examining economic hardship and its effects on social unrest. International Monetary Fund adjustment programmes have been a specific focus of numerous studies attempting to make a linkage between economic arrears and political instability.

Scott R. Sidell's 1988 study is an empirical attempt to examine the relationship between IMF conditionality and political instability in thirty-six countries. Though there are questions about the conclusiveness and thoroughness of this study's results, it is by far the most detailed systematic statistical analysis of economic trends and political instability available to date. Sidell's conclusion is that there is no relationship between the Fund's conditionality policies and debtor country political instability. The validity of his conclusions are questionable, however, due to the time frame of his study and some of the indicators he uses. Sidell uses three dimensions of political instability as dependent variables: collective protest events, internal war events, and illegitimate executive transfer events. These three dependent variables are used along with several explanatory variables including degree of state sponsored repression, relative societal educational attainment, degree of urbanization, union density, and fund supported economic intervention. These variables are measured for two different groups of nations; those who have undergone IMF supported stand-by programs and those who have not. A major problem with Sidell's work is his limited time frame from 1969- 1977. Not only is

more recent data available, but the choice of the time period itself has serious substantive problems. The period from 1969-1977 in Latin America was characterized by authoritarian regimes. Sidell's research uses collective protest events and internal war events, both of which usually do not (or rarely) occur under the repression of authoritarianism. Sidell also makes the ad hoc claim that the economic problems and political instability of the third world are fundamental structural problems which existed far before the onset of IMF austerity programs. Therefore, any political instability that the nation experiences is due to these structural problems, not the IMF policies. However his time-frame ends prior to the onset of the debt crisis and the subsequent waves of austerity riots. Thus, the pre-1977 instability he attributes to structural problems may well not be strongly related to IMF policies, but the same may not be the case for the post-1977 instability. Again Sidell's work is an important contribution to the existing research, but it should not be seen as conclusive without juxtaposing Sidell's results against more recent data, appropriate indicators of political instability and perhaps a detailed historical examination of each country's political and economic structure.

Walton and Ragin, although not examining political instability per se, have constructed a research agenda examining the effects of IMF austerity policies on mass political action, specifically austerity riots that they have deemed modern "food riots". Through both quantitative and qualitative examinations of "IMF pressure" and the occurrence of strike and riot activity in Latin America, Walton and Ragin have concluded that the timing of IMF riots seem to suggest that the occurrence of mass political action is dependent upon, and a reaction to, IMF intervention in the form of adjustment packages. Walton and Ragin's 1989 article argues that hardship, urbanization, less dependency and a less repressive state is associated with greater average debt (they place the Southern Cone new democracies in this category). However, IMF attention seems to be directed at

countries with historically less dependency, less repression, less previous unrest, but strong states (Jamaica, Peru and the Dominican Republic). Walton and Ragin argue that it is these last countries that are being used a subject lesson by the international financial community primarily because they tend to be less explosive and able to withstand external pressure, and coincidentally their economic futures are less tied to the affairs of industrial countries.

Overall, Walton and Ragin's research argues that the appropriate hypothesis for explaining IMF austerity pressure and social unrest is what is referred to as the global-urban interplay hypothesis. "The global-urban interplay hypothesis simply incorporates the interaction of global politics (dependency, IMF pressure) and urban mobilization as they are mediated by the state"(Walton and Ragin ,1989, 228). Although Walton and Ragin examine strike and riot activity specifically, their work contributes to the literature surrounding political instability and Latin America adjustment by shedding light on traditional forms of mass political mobilization (austerity riots as a form of food riots) as reactions to IMF pressure. However, Walton and Ragin's work ignores other forms of mass political action in other form such as coups, migration, crime and capital flight.

Marc Lindenberg's comparative analysis of world economic cycles and Central American political instability is an interesting approach to the study of the effects of the international economic system on developing countries. Lindenberg compares five Central American nations and Panama since the 1930's. Variables included world and Central American cycles, leadership instability, regime stability, repression, social discontent, political instability, and population density, ethnic populations, and urbanization. Data were collected through a construction of time series of Central American exports, imports, and total trade between 1900 and 1985, and the use of

existing GDP data from 1950 to the present. Lindenberg's findings support the idea that world economic cycles have an adverse effect on society and lead to political instability. In conclusion Lindenberg states that global and regional economic instability were far more important determinants of political instability in Central America than domestic considerations, with the exception of regime type. "The region's periods of instability triggered by economic shocks have been accompanied by high levels of leadership rotation in five of the six countries and by social discontent and repression, which together have added up to political instability"(Lindenberg, 1990).

Less empirical articles authored by Jeffrey Sachs (1989) and Dharam Ghai and Cynthia Hewitt de Alcantaran (1991), as well as Blanca Heredia (1991) all theorize that the economic situations, which are more exacerbated than created by the IMF, do lead to political instability and significant problems with state building. Sach's 1989 article claimed that Argentina, Ecuador, Peru, and Mexico were concrete examples of debtor nations in political turmoil due to IMF policies. In 1988 the Peronist party in Argentina chose its presidential candidate with regard to the toughness of his stance against debt servicing. In Peru, APRA came to power in 1985 on a program of partial and unilateral suspension of debt servicing, and in Ecuador and in Mexico the story is the same. Sachs is implying that a lack of political consensus on the debt issue can be threatening to the existing political structure and the resolution of the debt issue. Heredia claimed that the debt issue has been the foremost controversy in recent elections in Mexico, and theorized that even though PRI had been weakened, Mexico's presidential system was still intact. However, Heredia's article was written before the recent assassination of the dominate presidential candidate, which unleashed new speculations about Mexico's political stability. Ghai and Hewitt de Alcantaran take a interesting and more original look at individual and collective responses to the economic arrears in Latin

America. This examination includes several variables which lend to the criticism of the aforementioned Sidell article and his choice of variables. Ghai and Hewitt de Alcantaran list the migration of professionals, and the tendency for middle-class families in Latin America to fight off impoverishment through liquidating assets and placing the proceeds in interest-earning bank accounts, the implications of which are potentially damaging. The fate of savers becomes dependent on high interest rates, and the lowering of the rates becomes a political controversy. Ghai and Hewitt de Alcantaran also list crime as a major result of severe economic problems. The argument asserted here is that the types of reactions to economic problems work to exacerbate existing crisis. What seems to be lacking in the existing literature regarding IMF funding and political instability is an empirical research project using both statistical and historical means of analysis.

Hypothesis

The previously cited research seems to support the relationship between extreme debt and a nation's political stability. However past research seems to be lacking in a thorough comparative/historical analysis of austerity packages and political instability. The following research will examine the effects of economic austerity packages on the political stability of developing nations. The hypothesis to be tested is:

- 1) Austerity packages implemented by the IMF lead to increases in political instability in debtor nations

Research Design

The design is comparative/historical case study. The time range examined is the period from 1976 to 1992. This time period is chosen in order to account for periods of relative economic and political stability before the onset of the debt crisis. This time period will also allow for periods of authoritarianism and democracy, as well as economic growth, stagnation and decline. The countries examined are Argentina and Venezuela. Both Argentina and Venezuela have experienced high levels of total external debt, as well as high debt service ratios. However, Venezuela and Argentina have had somewhat different experiences. Venezuela's political system was relatively more stable than Argentina's before the onset of the debt crisis. Venezuela had experienced almost 30 years of a "limited" democracy, while Argentina had been controlled by a military dictatorship during the seventies and had a history of military involvement and illegitimate transfers of executive power. Thus, the debt crisis and the effects of IMF policies are tested against a country with a relatively stable history and one already experiencing levels of unrest. This comparison is used to dispell claims of structural unrest as being the primary cause of instability.

The IMF uses what is called Stand-by arrangements as a prerequisite for any agreement between the IMF and member countries seeking loans. A Stand-by agreement's conditionality is determined by a Board of Directors of the IMF and contains the obligation of the Fund to make loans available over a period of one to three years and a Letter of Intent from the borrowing nation in which it commits to the measures intended to eradicate its deficit. In essence, the IMF Stand-by arrangement is a loan guarantee. In order to test the main hypothesis, the presence of a Stand-by arrangement is used as a measure of IMF intervention. Although the text of Stand-by arrangements are

unavailable, press releases by debtor nations and the IMF are generally very detailed as to the requirements needed by the IMF for further assistance. Data for the independent variable (Stand-by arrangement) is taken from IMF's Survey, the International Financial Statistics Yearbook, the World Bank and Latin America Weekly Review. The data for political instability is taken from various sources including, the World Bank, the Latin American Weekly Report, El Nacional, and data as presented by John Walton and Charles Ragin (1989), John Walton and David Seddon (1994), James Cockcroft (1994), and Richard Hillman (1994).

Argentina's and Venezuela's economic and political histories are traced from the early 1900's, which in both cases represents critical junctures in the political economy; for Venezuela the early 1900's saw the growth of the oil exporting industry, while in Argentina AD's first presidential administration heightened levels of conflict between agro-exporters and urban interest structuring the Argentine political economy. The onset of the debt crisis and subsequent Stand-by arrangements begin the examination of political instability and IMF policies. Each case is examined for levels of unrest including, demonstration, riots, strikes, coups and capital flight before and after the acceptance of a Stand-by arrangement.

Concepts and definitions

Before setting out a definition of political instability it is important to outline the assumption as argued by Sanders (1981). Sanders argues that political instability/stability cannot and should not be seen as a dichotomous relationship, rather as points on a continuum. In other words, instability is a deviation from the norm. Thus, this research does not attempt to categorize cases as stable or unstable, but as points on a

stable/instable continuum before and after the onset of IMF policies. Political instability is defined as a period in a nations past which is characterized by heightened levels of social discontent (riots, strikes, etc.), repression, and leadership instability. Democracy is defined as a regime which allows for collective participation, has regular and fair elections, and is characterized by more than one party. Authoritarianism is defined as a regime which is controlled by either the military or a one party system or a singular person, and is lacking in collective participation and regular and fair elections. Democracy and authoritarianism have been defined loosely in order to account for transition periods which may have been lacking in one or two important characteristics of strong, traditional democracy. Economic austerity programs are defined as economic plans designed and implemented by the International Monetary Fund upon debtor nations.

Chapter Two

Venezuela: King Oil

Venezuela's political economy has been traditionally dominated by its petroleum industry. "King Oil", and the enclave economy it eventually produced, has played a pivotal role in the evolution of Venezuela's state as well as its economy. Venezuela's dependence on its oil industry has shaped the nature of its role in the international financial system, its international debt and its class structure. By the late 1980's and early 1990's "King Oil", the debt crisis and IMF policies had mixed to create heightened levels of political instability in a nation previously seen as a model developing democracy.

Political Economy: 1920-1970

Large scale production of oil started in 1922 and by the early 1950's production doubled to over a billion barrels a year (Cockcroft, 1994). In petroleum exporting, Venezuela ranked third only after the United States and the Soviet Union. Standard Oil of New Jersey, Shell, and Gulf dominated the enclave, while early military dictators Juan Vincente Gomez (1908-1935), Eleazor Lopez Contereras (1935-1941), and Isaias Medina Angarita (1941-45) exploited oil resources to bolster Venezuela's economy. Venezuela's currency, the bolivar, was kept strong and actually appreciated during the Great Depression. The dominance of oil also led to polarization of sectors within industry as a whole pitting the "oil industry and producers of nontradable goods and services against producers of tradable goods other than oil"(Frieden, 1994, 183). By

the early thirties, the oil industry and producers of nontradable goods and services had become advocates of free trade, while producers of nontradable goods became increasingly protectionist.

"King Oil" began to structure a political system based on a patron-client relationship between the traditional elite, the ruling military and a group of wide-ranging oppositional groups. Hillaman argues that "to one degree or another political stability has been influenced by the responsiveness of the political system to volatile economic and social pressures in large part set in motion by the possession of 'black gold'" (1994, 17). Politics in Venezuela began to be centered somewhat around the distribution of oil rents (oil profits).

The 1930's and 1940's gave rise to oppositional groups composed of members of society not benefiting from the elite-military pact (the middle class, business and labor). These oppositional groups spawned a new political party, Accion Democratica (AD). AD, led by Romulo Betancourt, pulled off a successful military uprising in 1945 and consecutive landslide victories in the elections of 1946 and 1947 consolidated AD's rule. The AD government was a strong proponent of protectionism and so continued to raise trade barriers and push through social reforms. Protectionism and the proliferation of social policies directed at the poor and working classes threatened both the traditional elites and their allies, alienated the business community. A military coup from the right in 1948 restored power to the traditional elites. The coup installed Marcos Perez Jimenez as dictator. Jimenez and his cohorts launched one of Venezuela's most oppressive periods. Opponents of the government were sent to concentration camps, prison torture was wide-spread and the Central University, a traditional hot bed of student and intelligentsia activism, was closed. Jimenez resided over Venezuela's oil boom and "oil revenues built skyscrapers and superhighways for the wealthy and the

public housing projects for some of the urban poor" (Cockcroft, 1994). Petroleum production doubled, European migrants flocked in, and urbanization took root and began to override traditional lifestyles. Venezuela possessed what seemed to be an endless supply of petroleum and a popular saying of the period was "God is a Venezuelan".

In 1957 an economic recession hit Venezuela, while the United States restricted oil imports heightening levels of capital flight. Jimenez came under fire from oppositional groups for years of corrupt military rule and a declining economy. Jimenez became the target of protest groups and public outcry. Jimenez fled to Miami, Florida on January 23, 1958. A military-junta immediately replaced Jimenez and anti-American sentiment led to the stoning of Vice-President Nixon a few months later. The coup that removed Jimenez was unlike the coup of 1945. Leaders of the two major parties AD and COPEI (Social Christian Comité de Organización Política Electoral Independiente), the private sector, business and labor worked out parallel agreements to stabilize democratic rule. These agreements are more or less the cornerstone of the modern Venezuelan political system.

Since the expulsion of Jimenez, the modern Venezuelan political system has been dominated by a leftist AD and a conservative COPEI. COPEI tended to be more sympathetic to oil exporters and to the finance, commerce and real estate sectors and thus adopted a free trade stance, while AD with its labor base adopted a protectionist stance. By 1960 both AD and COPEI eventually took on more moderate political platforms, with AD shedding its left wing and COPEI adopting more populist policies. From 1947 to 1988 AD won 6 of 8 political elections, losing only in 1968 and 1978. (Hillman, 1994, 184). Since 1958 all governments have used "petroleum rents to subsidize industry, agriculture and social programs while keeping groups with international ties complacent with the implementation of policies which promoted free capital movement and conservative

macroeconomic management"(Hillman, 1994, 185). Venezuela's dependence on "King Oil" had been an important influence on the development of Venezuela's political economy, but the onslaught of borrowing that characterized the region in the 1970's proved to be a landmark period in Venezuela's development.

Borrowing in the 70's

Again, oil played an important role in the nature of Venezuelan borrowing in the 1970's. Oil rents and massive borrowing combined to allow the central government to push industrialization projects. The height of Venezuelan borrowing hit between 1976 and 1978 when spending averaged 32.3% of the gross domestic product (GDP) and public investment averaged 16.7% of the GDP (Hillman 1994). There are three points of interest regarding Venezuelan borrowing; 1) borrowing was directly tied to its oil fortunes, it more or less coincided with oil price increases; 2) despite its debt, Venezuela was a net international creditor; 3) until 1981 public borrowing was not closely monitored, while private actors were free to borrow and invest in international markets. Medium and long- term external debt needed central government approval, but government agencies circumvented this by using short- term borrowing (Frieden 1994) The crisis hit before government officials and international creditors were aware of the severity of the situation. Before 1973, Venezuela's total external debt stood at approximately \$2 billion, and access to overseas borrowing was limited. However, by the year's end OPEC hiked oil prices and AD's Carlos Andres Perez won the presidential elections. Perez immediately began to pour oil rents and external public borrowings into development programs. "Specifically, the non-oil state enterprises ran large deficits, which they financed out of borrowing and capital transfers from the central government;

the central government and oil sector ran large surpluses, some of which were transferred to the parastatals, and some of which went to overseas assets" (Frieden, 1994, 203).

Between 1974 and 1978 external public debt increased by \$10.5 billion, while external public spending assets increased by \$9.6 billion (Frieden 1994).

Perez built strong ties with business men in nontraditional import-substituting sectors, while strengthening AD's labor ties by increasing wages and securing popular support by expanding government employment and social programs. January 1, 1976 Perez nationalized Venezuelan oil reserves. Petroleum companies mildly protested, but began to profit from the nature of the nationalization. Oil companies profited from service contracts for the production and marketing of the oil and the state bore the risk in price changes and other market forces. Under Perez the economy grew by 6% a year and inflation held steady at international levels (Frieden 1994). Critics of Perez's methods of nationalization referred to it as "figleaf imperialism" which only perpetuated the power of foreign oil firms and of Venezuelan "dependence". Perez's administration was riddled with rumors of corruption, specifically "kickback" scandals tied to Perez's policies toward development projects. Perez had used massive amounts of oil revenues to finance industrialization projects started during the Betancourt administration. Perez's government borrowed billions of dollars in short-term, high interest loans against future oil revenues that fell through in the 1980s. Perez's attempt at "sowing the oil" fell through, and the 1978 presidential election was won by COPEI candidate Luis Herrera Campins who ran on a platform directed at the reforming the government along populist lines, contradictory to traditional COPEI platforms.

Herrera (1979-1983) presided over an extraordinary period in Venezuela's history. Despite the second OPEC oil price hike, the economy collapsed.

"GDP rose 33.5 under Perez, dropped 5% under Herrera; industrial production rose 55% under AD, but 4% under COPEI. Unemployment went from 4.7% in 1978 to 11.9% in 1983, and real wages dropped 22%. Under Herrera Campins from 1978-83 external public debt grew from 12 billion to 27 billion, while external public assets stagnated at 11.5 billion" (Frieden, 1994, 185). The seventies were characterized by an approximately \$20 billion increase in international debt, three-quarters of it public, combined with nearly \$30 billion in private capital flight (Hillman, 1994). In 1980, in an effort to bolster opinion polls, Herrera froze domestic interest rates and consequently, depending on the source of estimate, between \$8 billion and \$13 billion fled the country (Frieden 1994). However, the bolivar appreciated enough in real terms by mid 1981 that devaluation expectations led to another wave of capital flight and another \$8 to \$15 billion in capital flight between 1982 and 1983 (Frieden 1994). In the first six weeks of 1983, capital flight averaged \$500 million a week (Frieden 1994). The Venezuelan public reacted by voting out COPEI in favor of Jaime Lusinchi of AD.

The Crisis, Stabilization and Instability

Lusinchi was elected under a platform which vowed to correct "unhealthy tendencies of waste, squandering and illicit profiteering, but ended up running one of the nation's most corrupt administrations since Perez Jimenez, outdone only by its successor" (Cockcroft, 1994, 396). Venezuela's economy had collapsed and the 1982 announcement of Mexico's inability to service its debt had disastrous effects. The international communities reaction to Mexico's arrears was a region-wide abandonment of borrowing privileges. In an attempt to bolster confidence from private capital, Lusinchi adopted liberal financial policies and implemented IMF-style adjustment measures.

Lusinchi froze wages and selectively froze prices, but most families could buy less, not more, since the wage increases were generally too modest to keep up with skyrocketing inflation rates that were. By 1987 inflation rose to between 35 to 40 percent and the proportion of families living in poverty rose from 22.5% in 1981 to 54% in 1987 (Hillman, 1994). Unemployment surpassed 18 percent and industry was operating at less than 59 percent capacity. The debt service ratio was nearly 50 percent, according to World Bank reports, and the Venezuelan dependence on its oil reserves had done little to diversify the economy. Toward the end of his term Lusinchi suspended payments on the debt principal and petitioned the IMF for loan restructuring (Walton and Seddon, 1994). Earlier implementation of IMF-style austerity policies had created distress among the working class and poor and consequently the implementation of IMF policies had become a politically unpopular platform among the popular masses. Carlos Andes Perez took advantage of this concern and campaigned on a platform criticizing the IMF and its policies. Perez referred to the IMF as a "bomb that kills people with hunger" and promised to limit further payments to \$20 billion (Walton and Seddon, 1994). Perez's campaign was successful and he took office for the second time in 1989.

Perez immediately betrayed his campaign promise and adopted a rigorous austerity program recommended by the IMF. The plan included "the elimination of price controls on basic food products and services; increases in the cost of gasoline and transportation; a public hiring freeze; national sales tax, income tax reforms; interest rate increases; and currency devaluation" (Walton and Seddon, 1994, 126). Despair and resentment was building in urban slums in response to illegal hoarding of products by merchants waiting for official authorization of price increases. Venezuelan staples such as spaghetti, sardines and corn flour disappeared from shelves. Labor unions immediately announced their intention to fight for the wage increases that Perez had

promised during the campaign. Anti-austerity protests began immediately after the announcement of the adoption of the IMF package. Protests began during the week of February 21 and were generally peaceful. However, police opened fire during a clash with students at the Central University of Venezuela in Caracas, killing a university employee.

On February 27, 1989, now known as "Black Monday", rioting broke out in the working class area of Caracas. The riots broke out after students and workers were greeted with price hikes of 50 to 100 percent on public transportation. The crowd immediately reacted and swelled quickly to include thousands. Protestors overturned and set fire to buses, blocked streets with burning tires, threw stones and began looting stores that carried food, clothing, furniture and electronics (El Nacional 1989). Perez sent in the army and police to subdue demonstrators.

The barrio of San Andres de El Valle held a fiesta with champagne, meat and imported whiskey, products of the looting. But the festive mood soon turned deadly as military police moved in with tanks and tear gas, shooting even innocent pedestrians, according to reporters on the scene (SIC, Centro Gumilla 1989).

After three days of uncontrollable rioting that had spread from Caracas to the rest of the nation, Caracas and other large cities gave way to a week of military occupation. "In the end, 300 people died, 2,000 were injured, and another 2,000 jailed in the nations most destructive urban uprising"(Walton and Seddon, 1994, 128). Although mass rioting and instability rocked Venezuela, Perez never budged. Venezuela's austerity package stayed intact. Perez attempted to save his political reputation with the popular masses through a highly publicized letter to the director of the IMF outlining the overall destructivness of IMF austerity packages for Latin America. However, the Perez administration and its austerity program never gained legitimacy. Widespread rioting did

not reoccur, but resistance in the form of pilfering, sabotage, and clashes with the police continued. Since the onset of the IMF 's austerity package student demonstrations and food riots have been rampant.

The military was the next faction of Venezuelan society to bend to the forces of social unrest and instability. Venezuelan citizens, lacking alternative political leadership, looked to the military and to the outside for relief from Perez and IMF austerity. By the end of 1992 Perez's approval rating stood at 10 percent. Enemies and allies alike called for his resignation. On February 4, 1992, on his return from Switzerland a military faction referred to as MB200 (Bolivarian Movement), citing government corruption , public disorder, and inadequate military benefits, attempted to kidnap and assassinate Perez. MB200, with figurehead Hugo Chavez, became synonymous with the attempted coup of 1992 and an alternative to the Perez regime. "The coup was not an isolated incident, but a sign of Venezuelans' desire for a democracy that functions with decency" (Hillman, 1994, 138) After the attempted coup of February 4, 1992 "...fear of food shortages similar to those following the February 27,1989 riots prompted a spate of buying and stockpiling staples" (Hillman, 1994, 138). The years following the implementation of the IMF austerity program have been characterized by general uncertainty, economic recession, numerous protests and growing influence of the MB200 and Hugo Chavez.

MB200 has also been responsible for the occurrence of peaceful demonstrations such as the cacerolazo (beating of pots and pans) of March 10, 1992. Between 9:15 and 9:30 p.m. sporadic noises were heard throughout Caracas and by 9:45 the noise rose to a fever pitch that continued until 12:45 p.m. The cacerolazo reached extremely high decibels and seemed universal. People chanted "fuera CAP" (out with CAP; Perez is known as CAP) and "fuera el paquete" (out with the package). It seemed

that the citizens of Caracas had spoken and shown their discontent. The following "manifesto" appeared on a leaflet dispersed by MB200 planning a follow up cacerolazo:

The third and ultimate cacerolazo has arrived. April 8, Great Popular March, glory to the proud people. We do not want a coup, nor a referendum, nor new elections, the courageous nation demands and calls for a revolution. Enough with deceit, lies, corruption, hunger, misery, repression, censure...After thirty-four years the end of the fiercest fascist dictatorship of the AD and COPEI and their allies; represented by corrupt politicians, hungry business men, sold unionists, speculators, complacent clergy, mercenary military, police assassins. The people have said "enough", Venezuela has been corrupted to its roots, the change must be structural, not more demagoguery. On April 8 at 8:00 p.m sound the saucepans, whistles, fireworks, horns...Let all honest people get together in the streets to defend true democracy...reject the traitors. There will be a new dawn, we must return to Carabobo. Bolivarian Front MB200 (Hillman, 1994, 139).

Despite the tone of this leaflet the demonstration on April 8 was peaceful. This demonstration became known as the pitazo due to the widespread use of whistles in the place of pots and pans. Perhaps what is a indicator of instability is the seemingly common acceptance of the military movement as political leaders. After over thirty years of "democratic" rule, the Venezuelans were allowing a revolutionary military faction to orchestrate demonstrations against IMF measures.

By November of 1992 the military was through with peaceful demonstrations. On the 27th the military attempted another golpe (coup). This time a faction of the top air force and army officers tried to "oust the government by deploying air and ground forces in a two-pronged attack on Miraflores Palace"(Hillman, 1994, 141).

Caracas was bombed and fighting took place in la Carlota airport and in Maracay and Valencia. The next twelve hours were chaos and confusion in the streets of Caracas. Several bombs dropped on Caracas failed to detonate and were left on the streets. The Central University was occupied and bands of citizens took to the streets overturning automobiles and firing rifles in support of the coup. "Hundreds of visitors and nationals fled from Maiquetia airport before hundreds more were stranded there when it was forced to close"(Hillman, 1994, 141).

Military forces loyal to the government defeated the military uprising and approximately 93 officers and soldiers fled the country to Peru. The attempted coup generated numerous anti-Perez protests, manifestations of support for the military, and riots and clashes with the police in the barrios. A mutiny and attempted escape from the Catia prison in Caracas added to the climate of instability. The police's reaction to the prison situation was to open fire into a crowd on the prison grounds in a attempt to gain control. The prison incident at Catia added to the general feelings of instability. "In several cities as well as in Caracas, crowds chanted anti-government slogans, created barriers of flaming tires in the streets, and destroyed vehicles. Many people were stranded in various parts of Caracas, the metro was closed, and some innocent bystanders were killed" (Hillman, 1994, 142). Most people were forced to remain in their houses with the provisions that had been hoarded for several months.

Perez, in an attempt to subdue rebel activity and rioting in the streets, announced that the coup was over and that it had failed. The next day, on November 28 at approximately 9:30 a.m. snipers exchanged fire with police in Caracas, citizens looted stores and a helicopter flown by rebel members open fire on Miraflores Palace and other government buildings. "Between 60 and 70 people were estimated dead in the Catia prison mutiny, 1300 were reported jailed for participating in the coup, and at least 232

deaths resulted from the attempt to oust Perez" (Hillman, 1994, 143). On November 30th, Perez again announced that the coup was over, while a television channel reported hearing shots fired in the streets, civilians reported continued looting, and the presence of guerrilla activity in the eastern mountains.

Affairs in Venezuela had not returned to normal by early December. Riots and golpes had been somewhat subdued. However, political instability still rocked the nation. Venezuelans were taking money out of banks at incredible rates and the streets were filled with large numbers of "security" patrols. The second coup might have been avoided but General Visconti of MB200 claimed to have the support of 90 percent of the middle and lower class officers within the Venezuelan military and claimed that "the war would continue" (El Nacional, December 2, 1992: d-27). Perez remained steadfast and refused to resign the presidency, thus in May 1993 the Congress succeeded where the military failed. Congress suspended Perez and ordered him to stand trial on charges of embezzlement and misuse of public funds. An interim president was appointed and fears of coups and popular uprisings plagued Venezuela throughout 1993. The elections were held peacefully, and Caldera and a coalition of 17 small parties won the presidency. Caldera faced similar troubles as Perez. A crumbling currency and bank failures have spurred numerous violent and peaceful student demonstrations and labor strikes. Caldera won the presidency with less than a third of the vote, so his popular base is thin. He ran on a platform which promised to alleviate economic hardship, and if he fails, Caldera could face instability and unrest.

Venezuela's experience with austerity measures and political instability is far from unusual. In a letter to President Perez in 1991, the director of the IMF acknowledged the difficulty of Venezuela's situation, but refused to adopt policies which avoid macroeconomic policies directed at the poor. After the implementation of IMF

austerity measures which froze wages, increased prices on food and transportation and led to heightened levels of capital flight which eventually sent the nation spiraling into hyperinflation, Venezuelans responded with violent and nonviolent protests, demonstration and riots. The military created a faction, MB200, which after two failed coup attempts, was successful in legitimizing themselves as a political adversary, and an alternative leader to thirty years of democratic rule. Most importantly, the Venezuelan state and economy, almost 6 years after the implementation of IMF policies, is still reeling from severe economic hardship, capital flight, and social unrest. In other words, political instability.

Chapter Three

Argentina: Agro-Interests and Peronism

Introduction

A striking similarity between Venezuela and Argentina is their dependence on profits from natural resource exports. Venezuelan oil and Argentine beef and wheat have been crucial to the development of their respective political economies. In Argentina, as in Venezuela, urban groups composed of industrialists, workers, and the middle class formed coalitions and gave rise "to nationalist and populist movements and to some form of import-substituting industrialization with strong state support" (Frieden, 1994, 180). Thus, the history of both political economies has been dominated by debate and conflict between populist nationalistic forces and those with a more international nature.

Argentine development has been plagued by high levels of polarization and hostility between resource based producers and their allies in the nontradable sector and labor-capital forces. This conflict riddled history, and heavy borrowing by a military dictatorship in the 1970's compounded by IMF stabilization plans have led to a heightened level of political instability.

Political Economy: 1916 - 1976

As in Venezuela, the Argentine agro-exporting industry, especially producers of beef and wheat, and the nontradable sector are proponents of free-trade, while the untradable sector tends to be protectionist and developmentalist. However, in

Argentina the resource based enclave economy was, and is, controlled by private interests, and the government's attempts to appropriate it has met with little success. Frieden argues that "as a result, Argentina's two broadly defined coalitions followed a highly contentious course" (1994, 186).

Up until World War 1, elite agricultural interests and their financial and commercial supporters dominated Argentine politics. By 1916 the tide had turned and the Union Civica Radical (UCR), with its urban business and middle class interests, had consolidated and taken the presidency. UCR remained strong until the 1920's when the depression hit. The depression weakened urban groups and rural agro-interests consolidated and supported a military coup that brought conservative politicians to power. As a result, "economic policy during the depression tended to favor agrarian interest and foreign trade more than in the rest of Latin America" (Frieden, 1994, 187). Conservative control remained steadfast through the use of fraud and repression and the alienation of urban interests. However, urban groups became increasingly strong due to the growth of the industrialist sector and an influx of migrants. The eventual pressure from urban disenfranchised sociopolitical forces and a coup by nationalistic military officers in 1943 toppled the conservative government. Three years later one of the military officers, Juan Domingo Peron, won the presidency. Juan Peron and his wife Eva would become leaders of the populist "Peronist" movement and national martyrs.

Juan Domingo Peron came to power on a strong base composed of organized labor, small business, and industrialists, especially those in the import substituting sector. After 1946 Peronism, as Peron's party became known, and its conflict with its opponents dominated Argentine politics. The right was supported by those groups who had ties to agro-exporting and who were proponents of free trade and conservative macro-economics, while the middle classes supported the Radicals who

tended to be more developmentalist. The conservative right had a relatively small electoral base, though its economic support was of great importance. This usually resulted in an alliance with the military, who readily helped the right achieve its purposes through armed intervention.

Peron held the presidency from 1946 to 1955, during which time he "pursued policies that heavily protected national industry, taxed agriculture, and raised real wages by 44 percent between 1946 and 1948"(Frieden, 1994, 197). These policies, which were directed at his populist base were unsustainable, and they eventually pushed Argentina into poverty. Sociopolitical tension rooted in Argentine historical cleavages and exacerbated by austerity overcame the military's tolerance. In 1955 the elected Peron government was overthrown by the military and Peronist participation in politics was decreed illegal. Peron was exiled.

The military and the Radicals rotated through the presidency from 1955-1966. The military-elite alliance had too small of an electoral base to maintain power, while the Radicals could not rule without making concessions to the Peronists. As Frieden argues, the power trade off between the three groups was inherently unstable. For the next thirty years this instability would continue to structure Argentina's political economy.

In 1958, the first anti-Peron military government was replaced with the elected government of Arturo Frondizi. Frondizi, a Radical, came to power by promising Peronists the restoration of their legal right to participate in politics. For the next four years, Frondizi attempted to implement moderate developmentalist policies, while simultaneously trying to win support from the Peronist labor base. Frondizi failed to efficiently juggle opposing groups, and in March 1962 after the Peronists swept mid-term elections, the military again intervened and overthrew the Frondizi government.

After an interim military government another Radical, Arturo Illia, was elected in 1963. Illia was confronted with the same political problems as was Frondizi; historical cleavages which surfaced as strong hostility and incessant conflict between the conservative agro-exporters and their military allies and the Peronists. Illia was unable to consolidate his power and was overthrown in 1966.

Juan Carlos Onganía, the military dictator who took power after the 1966 coup was determined to overcome the cleavages that had plagued Argentine politics since before WW1. The Onganía dictatorship implemented a somewhat successful stabilization program only after the use of repressive measures against the masses. Labor and student groups reacted violently which eventually led to a decline in the military's ability to govern.

In 1973, Peronists were once again allowed to participate in politics and Hector Campora easily won the presidency. Upon taking office, Campora immediately resigned to make way for the return of Juan Peron and his third wife Isabella. For the previous twenty years, political power had shifted endlessly between heavily polarized groups. However, the central aspects of government economic policies had remained somewhat constant. Every regime had supported protectionist import-substitution policies that favored the country's large industrial plants and to some degree or another supported the agricultural industry. Conflict had centered around how strongly to tax agriculture or how fervently to protect the industrial sector. With the return of Peron, Argentina's politics would become more polarized setting the stage for the heavy borrowing of the seventies and the crisis of the 1980's.

Peron immediately implemented economic and social policies which had as their final purpose radical redistribution. In 1974 real wages rose 18 percent even though Peron began to attack the growing leftist wing of his own movement. (Frieden

1994) However, in 1974, Juan Peron died and was succeeded by his third wife Isabella. Isabella Peron was politically weak and a disappointing replacement of the widely popular Evita. "The economy stagnated and inflation jumped from 24 percent in 1974 to 183 percent in 1975", and Isabella's government was frozen by opposition from organized labor (Frieden, 1994, 190). Urban violence escalated and political battles became more and more bitter. By 1976 the debt ratio reached 15.1 percent and inflation was 499 percent.(Cockcroft 1994). In 1975 agricultural producers struck twice, while in February of 1976 urban employers led a severe lockout (Crockcroft, 1994, 35). Argentina erupted into crisis and violence and, once again, the military led a successful coup in March of 1976.

Borrowing From 1976 to 1980:

By the late seventies, Argentina had acquired access to overseas financial markets. Argentina responded "by reducing state economic intervention and leaving most borrowing to the private sector" (Frieden, 1994, 190). However, political pressure from Peronists and Radicals was still heavy, leading to business opposition to neo-liberal policies and to borrowing by the state.

Videla took power after the successful military coup of 1976. Videla's dictatorship reflected the polarized political arena that had traditionally dominated Argentina. The military, through market-oriented liberalization characterized by an anti-labor bias along with the maintenance of political pressure from opposition groups, was responsible for one of the worst borrowing experiences in Latin America.

After March of 1976, Argentine borrowing grew rapidly from approximately \$7 billion in 1975 to almost \$44 billion in 1982. The principal

beneficiaries of the military government were those helped by liberalization, specifically those in the nontradable sector and those who received subsidies including, foremost, agro-exporters and the iron and steel industries. The financial sector expanded from 3.4 percent of the GDP in 1976 to 9.0 percent in 1982. Organized labor struggled the most under the military regime. Unions were generally disbanded or tightly controlled, while real wages between 1976 and 1981 averaged 15 percent below their position in the early 1970's (Frieden, 1994, 209).

By the end of 1978 Videla's economic team, headed by Martinez de Hoz, announced an IMF-style stabilization plan to fight inflation and to liberalize foreign trade. The plan was committed to a monetary approach. The December 20 1978 Plan, as it became known, was somewhat successful at fighting inflation. However, the change was too slow to stave off the real exchange rate appreciation. According to some estimates the peso appreciated 26 percent by the end of 1978 and 31 percent by the end of 1980. (Frieden 1994). The foreign debt of the private sector soared from \$4.1 billion in 1978 to \$12.7 billion in 1980, while the public debt went from \$8.4 billion to \$14.5 billion (Cockcroft 1994). The military regime's economic policies were alienating the business community. According to Adolfo Canitrot, the Secretary of Economic Coordination for the Ministry of Economics during Alfonsin's regime, "Originally the rural sector supported the dictatorship for its liberalization, industry for its promises to reduce wages. After 1978, however, it became increasingly divorced from its social bases. At the same time, the liberals lost control of public spending to the armed forces on the one hand, and to state enterprises important to the state sector on the other. What happened was a fatal delinking from society" (Frieden, 1994, 215). The result of alienating the business community was the flight of \$14.5 to \$22.4 billion in capital from 1979 to early 1981. In late 1981 and 1982 capital flight was driven largely by political instability. By March of

1980 Argentina's largest bank was closed by the military, and between 1980 and 1982 the government took over 71 financial institutions.

The Argentine economy was on the verge of collapsing, while the military dictatorship waged war against its citizens. The military dictatorship began a reign of terror at approximately the same time as it implemented the "December 20 Plan" in order to assure the plan's success. Between 1976 and 1983 the government was responsible for the "disappearances" or murders of approximately 30,000 citizens and the detention and torture of many more. Almost 14,000 political refugees from Bolivia, Paraguay, Chile, Brazil and Uruguay were hunted down and jailed, tortured or murdered. Argentina's Jewish community, one of the largest in Latin America, was the target of a vicious terror campaign primarily due to Argentina's past ties with Germany and its protection of WW2 Nazi war criminals. Jewish schools and synagogues were firebombed, while a journalist by the name of Jacobo Timerman was kidnapped and tortured by the military. Cockcroft also argues that dissident Catholic clergy were also targeted, while the all powerful Catholic church looked the other way. From 1976 to 1977 seventeen Catholic priests and nuns were murdered. No one was safe from the military's tyranny. Students, professors, doctors and lawyers were silenced. Only one group was able to protest the military's reign of terror: the Madres y Abuelas de la Plaza de Mayo or the Mothers and Grandmothers of the May Plaza. In 1977, a group of women with handkerchiefs on their heads silently marched in to the May Plaza in Buenos Aires. Attached to their chests were signs asking only "where were their children and loved ones, including husbands, pregnant daughters and newborn infants"(Cockcroft, 1994, 568). Year after year their numbers swelled, until in February 1982 when the mothers were suddenly joined by a column of trade union members. Union members filed into the plaza raising a banner that read "Peace, Bread, Work" (Cockcroft 1994). The Madres y Abuelas de la Plaza de

Mayo had found a powerful ally. The military had long lost its legitimacy and the crisis of the 1980's and its subsequent attempts at stabilization eventually destroyed the dictatorship.

The Crisis, Stabilization and Instability

The onset of the international debt crisis compounded by the military's lack of legitimacy, its dismal performance in the Malvinas/Falklands War with Great Britain and protest against austerity and state sanctioned violence ended the "dirty war" and the military's rule. The full force of the debt crisis and IMF pressure to implement austerity packages led to a civilian "coup" and the installation of democratic rule.

In October 1980, in recognition of strong opposition to its neo-liberal approach Videla was succeeded as president General Roberto Eduardo Viola. Viola took office in March of 1981 and began to roll back Videla's economic programs; "a dual exchange rate was established , and the peso was devalued continually. Viola also presided over a period in which the transition to democracy began.

By December of 1981, General Galtieri carried replaced Viola as president through a internal coup. Galtieri's regime while simultaneously dealing with economic recession and social discontent launched an invasion against the Malvinas/Falkland Islands. The military's defeat in the Malvinas Islands War with Britain cleared the way for the return of civilian rule. Transitional military governments began to appease almost every major faction of society. Heavily indebted private firms were bailed out, the peso was continually devalued to satisfy traded goods producers, and Galtieri's regime encouraged real wage increases. Although these policies were politically beneficial, they left the economy in disarray. The gross domestic product

dropped by 8 percent between 1981 and 1983, while the deficit increased from 13 percent in 1980 to 299 percent in 1983 and inflation reached 343 percent by the end of 1983.

The October 1983 elections installed Raul Alfonsin, a Radical, in the presidency. This election marked the first presidential election loss by the Peronist party. In Alfonsin's first year real wages were increased, the budget deficit remained high and the annual inflation rate surpassed 1,000 percent. Alfonsin's government reacted to subsequent IMF pressure by accepting a stand-by arrangement in 1984 and implementing the Austral plan in early 1985.

The Austral Plan was the first attempt by a Latin American nation to adopt a heterodox approach to stabilization. The Austral Plan included a wage price freeze, de-indexation of the economy, a new currency, a tough stance with creditors, and commitments to realistic exchange rate, a reduced budget deficit, and no inflationary financing (Cockcroft 1994). Although the plan ran contrary to standard IMF policy, it did favor private capital and the IMF responded with \$1.2 billion in credit.

The plan succeeded in reducing the budget and the inflation rate in 1986 dropped below 100 percent. Alfonsin's plan remained in place for almost a year and a half. However, the economic recession deepened and a decline in real wages led to demands from the masses for relief. According to Walton (1994) in both Buenos Aires and Mendoza from October of 1983 to August of 1985, Argentina experienced massive austerity protests, demonstrations by labor unions, 24-hour strikes, general strikes and looting. According to Cockcroft, "on November 4, 1987, organized labor responded to the economic crisis with its ninth general strike since Alfonsin's initial installation as president" (1994, 600). Precipitating events were generally price increases, inflation, and policies in foreign debt which were usually implemented by austerity measures required by the IMF for further assistance. An attempted coup in the spring of 1987 and again in

January of 1987 was evidence that the military, though defeated, were still active. America's Watch stated that "the officers who are gaining influence in the armed forces today are, if anything, more totalitarian and fanatic than the generation that took over the country in 1976" (Cockcroft, 1994, 600)

The Austral Plan collapsed under social pressure and in October 1988 the Radicals were soundly defeated in the presidential elections. A Peronist, Carlos Saul Menem, took office in early December. Like Venezuela's Perez, Menem had campaigned on a platform promising populist economic policies. Menem immediately upon taking office abandoned his populist base and implemented a series of orthodox stabilization plans. Menem also began a process of privatization that the IMF has strongly advised and his Harvard educated economic minister immediately "offered all of the state sector of the economy for sale, bringing more than \$7 billion dollars of payments from Argentina, U.S., Spanish, French and Chilean purchasers into federal and military reserves" (Cockcroft, 1994, 598). Menem's regime continued to lift price controls and to lift trade barriers.

Meanwhile, a sudden upsurge in commodity prices led to massive food riots and the government promptly declared a state of siege. In February Menem sent the military in to subdue social unrest in Buenos Aires and Mendoza. After a wave of strikes against the governments' privatization policies led to the eventual restriction of the right of public employees to strike, tens of thousands of employees who continued to strike were laid off. Menem acquiesced to IMF pressure to free wages and in the early part of 1991 the IMF announced new stand-by credits of over \$1 billion dollars. The public reacted to Menem's and the IMF's policies by forming "several marches of 70,000 or more to protest the anti-labor economic policies, including the failure of a minimum wage hike to cover more than two-fifths of a family's basic necessities" (Cockcroft,

1994, 602). Organized labor's first strike against the Menem regime occurred in 1992. Menem was also facing opposition from the military. A faction of the military known as Carapintadas or Painted Faces attempted their fourth coup in three years. Menem's forces crushed the attempt.

In October of 1993, Peronists easily won the congressional elections, setting the stage for an agreement between the Peronists and the Radicals. President Menem and former President Alfonsín, representing the Radicals, signed an agreement reforming the 1853 constitution so that Menem would be able to run for reelection in 1995 in exchange for some executive powers being transferred to the legislative branch.

In the northwestern province of Santiago del Estero, only days later, thousands of government workers rebelled, looting government buildings and burning government cars. The riot quickly spread to neighboring cities and towns, before interventionist military forces subdued the crowds and restored order by the use of armed force and the promise of new elections in five months time. As campaigning for the 1995 election got under way, Argentina faced rising unemployment and declining social conditions.

Argentine politics for the past twenty years has been plagued by IMF intervention and social pressure from below. After the implementation of IMF packages, organized labor and other affected groups generally reacted violently through riots, looting and golpes (coups). Unlike the Venezuelan experience, Argentina experienced regime change as a result of debt crisis and social unrest exacerbated by IMF austerity measures. The military dictatorship of the late seventies folded under the pressures of mass mobilization against its economic policies, especially austerity packages. Alfonsín's Austral Plan, although more moderate in nature than standard IMF adjustment programmes, was directed at protecting elite and foreign capital while sacrificing the

urban poor and middle classes. Mass mobilization in the form of strike activity, looting, attempted coups, and capital flight ended in the loss of Alfonsín's reign in the 1989 elections to Carlos Menem. Menem's orthodox, neo-liberal approach to arrears has resulted in severe social unrest in the form of massive strikes and riots. Although Menem remains in power, food riots, widespread strikes and rumors of coups continue. Economic stagnation caused by the debt crisis compounded by IMF advised austerity measures have led to heightened levels of political instability. Argentina's attempt at democracy will be futile under such social tensions. The question becomes one of either debt or stability.

Chapter Four

Conclusion

The previous analysis has attempted to establish a link between political instability and IMF adjustment packages as measured by the presence of stand-by arrangements. As presented in the case studies, Argentine and Venezuelan political instability has heightened since the implementation of austerity packages.

In Venezuela, the acceptance of the first stand-by arrangement since the onset of the debt was met with massive food riots, student protest and capital flight. In the first round of riots in 1989, on the day known as "Black Monday", 300 people died, 2,000 were injured and 2,000 jailed. Black Monday was not the end to social unrest in the name of opposition to the IMF and its policies. Looting, rioting, clashes with police, student protests, worker strikes and military uprisings still threaten Venezuelan democracy today. MB200's uprising is viewed here as corroborating evidence as to the existence of instability in Venezuela. MB200 ceased to be a fringe group when they were able to orchestrate two massive demonstrations (the cacerolazo and the pitazo of 1992) in Caracas, seemingly winning the acceptance of, if not the support of, the public. MB200's attempted coups were stopped by forces loyal to Perez, but they were accompanied by the bombing of Caracas, shoot-outs with police, rioting and an attempted prison breakout which resulted in the deaths of hundreds. After nearly thirty years of limited democratic rule, Venezuelans were allowing themselves to be led by a military group that attempted two coups and threatened a revolution. Perez was unable to stave off political pressure and was impeached by Venezuela's congress.

The Argentine experience was similar in that the presence of IMF austerity packages were followed almost directly by massive strikes, rioting, looting and regime change. Argentina's first adjustment programme, after the onset of the debt crisis, was Alfonsin's "Austral Plan". The Austral Plan, although a heterodox approach, still directed austerity reforms at the poor and working class and favored private capital. Wages were frozen, and the public responded with massive worker strikes. On November 1987, only a year and a half after the implementation of the package, organized labor responded to the Alfonsin administration with its ninth general strike since his installation as president. Alfonsin did not weather the political controversy surrounding the Austral Plan, even though the plan received widespread approval by the international financial community. Carlos Menem, a Peronist, took the presidency in the October 1988 elections. Menem had campaigned on a anti-IMF platform, but when he assumed office he immediately implemented a series of orthodox plans. Menem also began a process of privatization that is continuing today. Menem took office in December and by February of the next year, Argentina exploded in protest. Tens of thousands of workers went on strike. Meanwhile, Menem acquiesced to IMF pressure to freeze wages and in 1991 the IMF awarded Menem's government with new stand-by credits. Argentina reacted to Menem's deal by organizing protests with as many as 70,000 people, according to observers. Organized labor responded with their first general strike against Menem and a military faction by the name of Painted Faces attempted a coup. Despite political problems, Menem won the elections in 1993, only to have the northwest province of Santiago del Estero erupt in violence protesting Menem's election and IMF policies.

Argentina and Venezuela have experienced protests, riots, demonstrations and military coups as a result of implementing IMF policies, specifically austerity packages. Both countries have experienced changes in the heads of government, while a

compelling argument could be made that Argentina experienced a regime change (from General Visconti and the military to a new democracy). Both cases also experienced capital flight, and an increase in crime and Venezuela experienced high levels of professional migration especially after the bombing of Caracas by MB200.

As of 1995, Argentina and Venezuela are still experiencing heightened levels of protests, riots and general unrest. Venezuela after six years of IMF intervention experienced an inflation rate of 70.8 percent in 1994, and as of June 1995, inflation for the year was up 71.2 percent (Latin American Weekly Review, June 15, 1995). The IMF is again putting pressure on Caldera's administration to adopt its standard orthodox, neo-liberal prescriptions for recovery. Unlike Perez, Caldera is taking the politically safe route of avoiding IMF policies and denouncing IMF programmes as nothing but "economic totalitarianism of those who only wish to impose on all countries rigid norms which only suit their own particular interest"(Latin American Weekly Review). Caldera maybe fighting the IMF, but he is also fighting a negative growth rate, -4% as of January 1995, an exploding unemployment rate and a general decline in standards of living (Latin America Weekly Review, January 5, 1995) . Unemployment grew from 7.8% to 11.4% in 4 months in the beginning of 1995, while 78% of all Venezuelans are living below the poverty line (Latin American Weekly Review, January 5, 1995). Polls in Venezuela in 1994 " have shown that violent crime is main worry of almost half the population, while terror of social explosion has reached psychosis proportions in the minds of some Venezuelan leaders"(Latin America Weekly Review, November 3, 1994). Between January of 1994 and July 25th of the same year 1,354 murders occurred in Caracas alone.(Latin American Weekly Review, November, 3, 1994). Meanwhile, by the summer of 1995 crime rates are spiraling and in late May public transport workers demonstrated to draw attention to the 7,500 hold ups and 47 murders so far this year. In 1994 Samper

in an address to Congress stated that "we must lay the foundations of a real democracy, which provides responses to poverty, corruption and dependence....The construction of a new Latin American identity will only be possible if it is underpinned by the adoption of alternative model of development, characterized by more political participation, more productive economies and greater hemispheric integration" (Latin American Weekly Review, November 3, 1994). Unfortunately by March of 1995, Caldera had moved to place the military in control of air traffic, a move widely criticized as being "a slow-motion coup". Fears of an authoritarian take over came to a head in March of 1995 when plans were announced for the military take over of Caracas. By April widespread street demonstrations erupted in Caracas, hooded gunmen appeared on the streets joining protests by teachers, the unemployed, and neighborhood groups. Political instability has been on the rise since Venezuela's first stand-by arrangement. As a result of IMF intervention, as measured by the presence if stand-by arrangements, political instability has taken hold of Venezuela and its democracy, although limited, is threatened.

Argentina is experiencing similar ills as capital flight has picked up primarily as a result of the present Mexican crisis. Menem has continued his acceptance of IMF intervention by accepting another austerity package in March of 1995. However, as of the summer of 1995 recession had again hit Argentina. Press reports for June 1995 predict a 14% increase in unemployment, while economic minister Cavallo asks Argentina to "be tranquil and calm.." (Latin American Weekly Report, June 22, 1995). Organized labor, students and public workers have begun protesting and if the economy fails, Menem will be ousted and the return to military rule would not be surprising. The future of Argentina is dependent on economic policies that do not deteriorate the legitimacy of its new democracy. For Venezuela it is imperative that economic policies imposed by the IMF redirect reform away from the working classes and lend themselves

toward building confidence in democratic rule. Caldera's and Menem's survival is dependent upon their economic success. For Caldera, the future is not promising, with the Venezuelan economy failing and political instability steadily growing, while for Menem success is primarily contingent upon his ability to attract foreign capital back to Argentina and to distance himself from the IMF. Political scientists and politicians alike have recognized the failure of IMF intervention in the form of austerity packages and it is still to be seen as to how and when the IMF-debtor nation system will collapse. However, it seems evident that collapse is unavoidable. The debt crisis may have brought about a region-wide transition to democracy, but IMF structural adjustment may very well bring about the return to authoritarianism.

This research has attempted to establish a link between political instability and IMF adjustment packages through a comparative/historical case study. Although the evidence presented here is compelling, a statistical analysis combined with a comparative/historical case study would produce the most effective results. Walton and Ragin's (1989) use of an "IMF pressure" index seems to be the most effective method to date for measuring IMF intervention. However, data for political instability in Latin America is somewhat difficult to come by due to the 1970's military occupation of most government seats, although extensive data collection from various Latin American papers, as well as reports from Latin American Weekly Report and the IMF Survey would create a compelling argument.

Directions for future research are endless. The area of political instability and IMF policies is still somewhat uncharted. A systematic statistical analysis of the evidence to date is as of yet ignored. The occurrence of food riots as a result of IMF intervention, the relationship between successful IMF adjustment implementation and

the strength of organized labor, as well as the effects of IMF policies on the brain drain, migration, women's role in the economy and crime are also unexamined.

References

References

- Altwater, Elmer. and Kurt Hubner and Jochen Lorentzen and Raul Rojas. 1991. The Poverty of Nations: A Guide to the Debt Crisis From Argentina to Zaire. London: Zed Books ltd.
- Branford, Sue and Bernardo Kucinski.(1988). Debt Squads: The U.S. Banks, and Latin America. New Jersey: Zed Books Ltd.
- Cockcroft, James D. 1994. Latin America: History, Politics, and U.S. Policy. Nelson-Hall Publishers; Chicago.
- Frieden, Jeffrey. 1991. Debt, Development, and Democracy: Modern Political Economy And Latin America, 1965-1985. Princeton University Press; Princeton, New Jersey.
- Ghai, Dharam. and Cynthia Hewitt de Alcantaran.1991. "The Crisis of the 1980s in Africa, Latin America and the Caribbean: An Overview" In The IMF and the South: The Social Impact of Crisis and Adjustment, ed. Dharam Ghai. New Jersey:Zed Books Ltd.
- Gurr, Ted Robert. 1969. Why Men Rebel. Princeton University Press;Princeton,NJ.
- Heredia, Blanca. 1991. "The Political Economy of the Mexican Crisis" In The IMF and the South: The Social Impact of Crisis and Adjustment, ed Dharam Ghai. New Jersey: Zed Books Ltd.
- Hillman, Richard S. 1994. Democracy for the Privileged: Crisis and Transition in Venezuela. Lynne Rienner Publishers; Boulder
- Jenkins, J. Craig. 1983. "Resource Mobilization Theory and the Study of Social Movements." *Annual Review of Sociology*. (9); 527-53.
- Killick, Tony. 1984. "IMF Stabilization Programmes". ed, The Quest For Economic Stabilization. Heinemann Educational Books; London
- Korner, Peter, Gero Maas, Thomas Siebold and Reiner Tetzlaff. 1986. The IMF and the Debt Crisis: A Guide to the Third World's Dilemma. Zed Books Ltd. New Jersey.

- Lindenberg, Marc. 1990. "World Economic Cycles and Central American Political Instability". *World Politics*, 42: 397-421(April).
- McAdam, Doug. 1982. Political Process and the Development of Black Insurgency. University of Chicago Press; Chicago.
- Naim, Moises, 1994. "Latin America: The Second Stage of Reform". *The Journal Of Democracy*, 5(4).
- O'Donnell, Guillermo. 1988. Bureaucratic Authoritarianism: Argentina, 1966-1973, in Comparative Perspective. University of California Press; Berkeley, CA.
- Oduber, Daniel, 1987. "The Threat to Democracy". In Latin America's Debt Crisis: Adjusting to the Past or Planning for the Future?, ed. by Robert A. Pastor. Boulder: Lynne Rienner Publishers.
- Payer, Cheryl. 1975. The Debt Trap: The IMF and the Third World. Monthly Review Press; New York
- Pereira, Luiz Carlos Bresser, Jose Maria Maravall, and Adam Przeworski. 1993. Economic Reforms In New Democracies: A Social Democratic Approach. Cambridge University Press; Cambridge.
- Sachs, Jeffrey. 1989. "New Approaches to the Latin American Debt Crisis" In *Essays in International Finance*, ed. International Finance Section: Princeton University. Sanders, David. 1981. *Patterns of Political Instability*. St. Martins Press; New York.
- Schatan, Jacobo and Gilda Schatan. 1987. World Debt: Who is to Pay?. Zed Books Ltd; New Jersey.
- Sidell, Scott. 1988. The IMF and Third-World Political Instability: Is There A Connection? New York: St. Martins Press.
- Tilly, Charles. 1978. From Mobilization to Revolution. Addison,-Wesley; Reading, MA.
- Wallerstein, Immanuel. 1974. The Modern World-System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century. Academic Press; New York.

- Walton, John. 1987. "Urban Protest and the Global Political Economy: the IMF Riots". in The Capitalist City: Global Restructuring and Community Politics, ed. Michael Peter Smith and Joe R. Feagin. Blackwell; Cambridge, USA.
- Walton, John and Charles Ragin. 1990. "Global and National Sources of Political Protest: Third World Responses to the Debt Crisis". *American Sociological Review*. 55: (December: 876-890).
- 1989. "Austerity and Dissent: Social Bases of Popular Struggle in Latin America". in Lost Promises: Debt, Austerity, and Development in Latin America, ed. William L. Canak. Westview Press; Boulder, Co.
- Walton, John and David Seddon. 1994. Food Riots and Free Markets. Blackwell; Cambridge, USA.
- Williamson, John. 1983. IMF Conditionality. MIT Press; Cambridge.
- The World Bank. 1991. World Debt Tables. Washington D.C.
- Zimmerman, Ekkart. 1983. Political Violence, Crises and Revolutions: Theories and Research. G.K.Hall; Boston, MA.

Appendix

Appendix I.

Article I

Purposes

The Purposes of the International Monetary Fund are:

- (1) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- (2) To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- (3) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (4) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (5) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (6) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Appendix II.

Text of Decision of IMF Executive Board, March 2, 1979, on Access to Resources from Fund and Uses of Stand-by Arrangements

- (1) Members should be encouraged to adopt corrective measures, which could be supported by use of the Fund's general resources in accordance with the Fund's policies, at an early stage of their balances of payments difficulties or as a precaution against the emergence of such difficulties. The Article IV consultations are among the occasions on which the Fund would be able to discuss with members adjustment programs, including corrective measures, that would enable the Fund to approve a stand-by arrangement.
- (2) The normal period for a stand-by arrangement will be one year. If, however, a longer period is requested by a member and considered necessary by the Fund to enable the member to implement its adjustment program successfully, the stand-by arrangement may extend beyond the period of one year. This period in appropriate cases may extend up to but not beyond three years.
- (3) Stand-by arrangements are not international agreements and therefore language having a contractual connotation will be avoided in stand-by arrangements and letters of intent.
- 4) In helping members to devise adjustment programs, the Fund will pay due regard to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balances of payments problems.
- (5) Appropriate consultation clauses will be incorporated in all stand-by arrangements. Such clauses will include provision for consultation from time to time during the whole period in which the member has outstanding purchases in the upper credit tranches. This provision will apply whether the outstanding purchases were made under a stand-by arrangement or in other transactions in the upper credit tranches.
- 6) Phasing and performance clauses will be omitted in stand-by arrangements that do not go beyond the first credit tranche. They will be included in all other stand-by arrangements but these clauses will be applicable only to purchases beyond the first credit tranche.

- (7) The Managing Director will recommend that the Executive Board approve a member's request for the use of the Fund's general resources in the credit tranches when it is his judgment that the program is consistent with the Fund's provisions and policies and that it will be carried out. A member may be expected to adopt some corrective measures before a stand-by arrangement is approved by the Fund, but only if necessary to enable the member to adopt and carry out a program consistent with the Fund's provisions and policies. In these cases the Managing Director will keep Executive Directors informed in an appropriate manner of the progress of discussions with the member.
- (8) The Managing Director will ensure adequate coordination in the application of policies relating to the use of the Fund's general resources with a view to maintaining the nondiscriminatory treatment of members.
- (9) The number and content of performance criteria may vary because of the diversity of problems and institutional arrangements of members. Performance criteria will be limited to those that are necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives. Performance criteria will normally be confined to (i) macroeconomic variables, and (ii) those necessary to implement specific provisions of the Articles or policies adopted under them. Performance criteria may relate to other variables only in exceptional cases when they are essential for the effectiveness of the member's program because of their macroeconomic impact.
- (10) In programs extending beyond one year, or in circumstances where a member is unable to establish in advance one or more performance criteria for all or part of the program period, provision will be made for a review in order to reach the necessary understandings with the member for the remaining period. In addition, in those exceptional cases in which an essential feature of a program cannot be formulated as a performance criterion at the beginning of a program year because of substantial uncertainties concerning major economic trends, provision will be made for a review by the Fund to evaluate the current macroeconomic policies of the member, and to reach new understandings if necessary. In these exceptional cases the Managing Director will inform Executive Directors in an appropriate manner of the subject matter of a review.
- 11) The staff will prepare an analysis and assessment of the performance under programs supported by use of the Fund's general resources in the credit tranches in

connection with Article IV consultations and as appropriate in connection with further requests for use of the Fund's resources.

(12) The staff will from time to time prepare, for review by the Executive Board, studies of programs supported by stand-by arrangements in order to evaluate and compare the appropriateness of the programs, the effectiveness of the policy instruments, the observance of the programs, and the results achieved. Such reviews will enable the Executive Board to determine when it may be appropriate to have the next comprehensive review of conditionality.

Vita

Lia Roberts is originally from Asheville, North Carolina where she attended Clyde A Erwin High School. She was active in her high school as a member of the student council, the honor society and the girls tennis team. Lia entered the University of North Carolina at Charlotte in August of 1989 as a political science major. Four years later she graduated with a double major in political science and psychology. Although her first goal was to attend law school, classes taken in African politics quickly moved her in the direction of graduate school in political science.

Lia entered the graduate school at the University of Tennessee, Knoxville in August of 1993 in hopes of completing a Master's degree with a major in political science. She worked for a year and a half with Dr. Jan Sallinger-McBride, with whom she also co-authored a article on land reform and peasant organizations in Latin America. Lia opted to complete her Ph.D elsewhere and is planning on entering the University of California at Santa Barbara in the fall of 1995. Upon completing her Ph.D. Lia plans on entering academia.