UNIVERSITY OF ALBERTA

PATTERNS AND POLICY IMPLICATIONS OF HYPERINFLATIONARY CRISES (1984-1990)

BY

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A thesis submitted to the Faculty of Graduate Studies and Research in partial fulfillment of the requirements for the degree of Master of Arts.

DEPARTMENT OF POLITICAL SCIENCE

Edmonton, Alberta

Spring 1992

ISBN 0-315-73071-4

UNIVERSITY OF ALBERTA

RELEASE FORM

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TITLE OF THESIS: Patterns and Policy Implications of Hyperinflationary Crises (1984-1990)

DEGREE: Master of Arts

YEAR THIS DEGREE GRANTED: 1992

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October 1991

UNIVERSITY OF ALBERTA

FACULTY OF GRADUATE STUDIES AND RESEARCH

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TO MOM AND DAD

ABSTRACT

This thesis investigates the immediate and empirical economic, social, and political patterns of the recent hyperinflationary crises in Latin America. The countries of Brazil, Argentina, Peru, Bolivia, and Nicaragua are examined as the complete set of recent hyperinflationary countries in the world. This thesis finds discipline-biased approaches to the problem of hyperinflation lacking, and therefore turns to multi-disciplinary response patterns as the key to understanding the matter. The bulk of the thesis is spent charting economic, social, and political response patterns of the countries mired in hyperinflationary crisis. Although the makeup of the countries studied shows a rather diverse cross-section of the Latin American polity and society, causation and reaction patterns are evident.

Unresolved indebtedness and underdevelopment set the stage for hyperinflation. All the governments examined eventually reacted to hyperinflation with orthodox stabilization, while political systems remained generally democratically legitimized, despite the severity of the reforms. The gains made through orthodox stabilization, although economically beneficial, turned out to be socially and politically unsustainable. All governments tried to use orthodox stabilization as a means of bridging international interests with national interests by subduing societal demands, but to a large extent they failed in their efforts. Although labour mobilization proved to be a strong opponent of orthodox stabilization, eventually it too succumbed to the discouraging and disorganizing effects of severe economic reform.

The constricting effect of hyperinflation on feasible national public policy alternatives and the unanimity of "authoritarian-democracy" as a means of combatting the economic crises are then seen as the emerging national public policy implications of hyperinflation. The optimal strategy of "authoritarian-democracy" dominated public policy strategy as a result of the convergence of the economic, social, and political natures of hyperinflation.

"Authoritarian-democracy", however, is seen to have failed to bring development to these countries. This, the thesis concludes, is due largely to the fact ending hyperinflation falls only partly within the domain of national public policy, and international economic policy is not at this point in time geared towards completing the linkage between national and international interests so necessary to the sustained

development of hyperinflationary countries.

ACKNOWLEDGEMENTS

There are many people I would like to thank for their support and encouragement in writing this thesis. I would like to thank professor Fred Judson for the considerable insights he has given me, not only in writing this thesis, but also for his teaching me to look at politics through a broader more comprehensive spectrum. As well, I would like to thank many of my other professors in the department of political science, most notably professor Jeremy Paltiel and professor Alain Noel. A special thank-you is in order to my family and friends for their moral support, for my grandparents in their care and interest, and for my girlfriend Cindy for her understanding over the period I wrote this thesis. Indeed, the credit for this thesis, be there any, lies with the aforementioned and others too numerous to mention, while the accuracy and responsibility for the following interpretation must remain mine, alone.

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In 1984, Bolivia became the first country in the world to experience hyperinflation in 35 years. Not since 1949, when China had experienced 160 000% annual inflation, did any state have to overcome the incredibly destabilizing forces of hyperinflation (Maier 1978:46). When hyperinflation did reappear, it did not do so with all the intensity it had in the past. The recent hyperinflation episodes were nowhere near some of the all-time recorded worst situations such as in Greece in 1944 (5×10^{10}), Germany in 1923 (2×10^{12}), or Hungary in 1946 (6×10^{29} or 400 times a billion cubed) (Maier 1978:46-47). However, apart from these highly unusual cases, the extent of the recent hyperinflation episodes were comparable to the handful of other such instances.

The term hyperinflation is an admittedly arbitrary word used to denote excessively high levels of inflation (Cagan 1956:25). Philip Cagan's systematic monetarist treatment of the subject in his 1956 classic article entitled, "The Monetary Dynamics of Hyperinflation" stands as the time-honored authority on the subject. In his article he defines hyperinflation "..as beginning in the month the rise in prices exceeds 50 per cent" (Cagan 1956:25). Today that definition has taken on an aura of institutionalization and is used by scholars and media alike as the dividing line between hyperinflation and galloping inflation.

Since 1984, four other countries have fallen into hyperinflation, all from the Latin American region. By the end of 1990, Brazil, Argentina, Peru, and Nicaragua had joined Bolivia in becoming the only countries in the world to experience hyperinflation since 1949. However, despite high levels of inflation experienced by these countries prior to the onset of crisis in 1984, hyperinflation remained a topic largely neglected by political scientists (Whitehead 1979:564). Charles Maier complained in 1978 that

> "..political scientists have only recently begun serious analysis of inflation, while historians of politics and society have been even more laggard" (Maier 1978:37).

By 1985, the Bolivian hyperinflation crisis sparked renewed interest in the study of inflation by other social disciplines besides economics. One book in particular, edited by Leon Lindberg and Charles

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Maier and entitled <u>The Politics of Inflation and Economic Stagnation</u>, sought to provide a comprehensive examination of the neglected political and social nature of the subject.

To date, there have been generally three distinct approaches in the scholarly literature addressing the topics of inflation and hyperinflation. These approaches are economic, social, and political in nature. Although all provide some insight into the nature of inflation, none can claim to completely explain the nature of hyperinflation.

The weakness of a purely economic view of inflation is that although it answers how inflation occurs, it does not adequately answer why. Social and political structures impact on inflation, just as inflation alters social and political roles (Maier 1978:39). Economists who view inflation in terms of a routine of transactions that follows the logic of utility-maximizing behaviour, neglect many innuendos of collective human action associated with a hyperinflationary crisis. Hyperinflation is beset by prisoner's dilemmas, handcuffed by distributional crises, and complicated by unpredictable events and irrational expectations, all of which sterilize the value of a purely economic approach.

Furthermore, every economic view of inflation presupposes an implicit sociological model. In an economic view of democracy, often politicians are characterized as "conscienceless seekers of power", while voters are seen as short-term utility maximizers barely possessive of "any cognitive or ratiocinative capacities" (Barry 1985:300; Maier 1985:569). That same one-dimensional problem can also be seen in a purely economic view of inflation. While monetarist theories of inflation tend to deny the importance of collective economic actors such as labour unions, neo-Keynesian theories "tend to concentrate on how collective interests influence economic outcomes more than on the structure of these interests in the marketplace or in the political system" (Maier 1985:571). The fact that it is competition between various social groups which often gives rise to inflation and governments which ultimately allow inflation to dissipate a potential distributional crisis, illustrates the incompleteness of a purely economic view. So although an economics view is useful for determining the "mechanics" of inflation, it does not help to understand the underlying "organics" of the problem.

The truth of the above statements does not have to be further discussed, for as Albert O. Hirschman wrote in an article entitled "Reflections on the Latin American Experience",

> "..it would be difficult to find an economist who would not agree that underlying social and political forces play a decisive role in causing both inflation and the success or failure of anti-inflationary policies" (Hirschman 1985:53).

What then can a sociological approach add to the study of inflation and hyperinflation? In contrast to the economic view, the sociological approach attempts to account for the underlying generative relationships between social groupings which influence economic behaviour (Goldthorpe 1978:212). It simplifies technical economics to discover large-scale collective behaviour. The sociological approach accounts for inflation "..as the consequence of unrestrained distributional conflict between different groups whose total demands or aspirations are greater than the capacity of the economy" (Gilbert 1986:32). Thus, "inflation lets social groups demonstrate their power and antagonism to other groups" as it plays its "intermediary role" between 'social harmony and civil war" (Hirschman 1985:72).

In particular, the sociological approach is a useful tool for understanding the prisoner's dilemma present in hyperinflation. Non-cooperative collective behaviour becomes the dominant strategy in such a crisis. In the hyperinflationary prisoner's dilemma "individual rationality translates into group irrationality" (Pothier 1982:198), as individuals try to protect their sustenance at the cost of others, while in the process they damage the social contract that ensures their livelihood in the first place. Although at lower levels inflation can be seen as a useful tool for dissipating social rivalry, beyond a certain rate it cannot play the role of "social lubricant" and "..instead aggravates the very distributional conflicts it helped assuage" (Pothier 1982:215). While no group likely becomes an advocate of inflation absolutely, the actual and perceived costs of stabilization drive social groups to higher levels of inflation (Maier 1978:61). By the time the economy has reached hyperinflation the distributional conflict is deadlocked into a wage and price spiral. Refusal or inability by any group to participate in such a struggle only serves to push them towards the economic fringe. The frenzied nature of the crisis only makes the gains and losses by the competing groups that much greater. By examining the social and economic interaction of various groups the sociologist provides great insights into the collective logic of hyperinflation.

The sociological approach is also well-equipped to examine the phenomenon of the "culture of inflation" which also seems to permeate the logic of hyperinflation. The "culture of inflation", which is based on frequently-unconscious collective expectations in society, serves as a grand-scale "self-prophecy" in which perceptions about inflation translate into reality. While inflation can be useful for "accommodating political strife over income distribution", if left unchecked it can develop a "dynamic" of its own (Hirsch 1978:270). That is, inflation can increase simply from society's expectations. As individuals adapt their behaviors increasingly in anticipation of inflation, the inflationary process becomes self-generating and potentially accelerating (Hirsch 1978:270). Socio-psychological and socio-historical methods are most capable of assessing both these and other fundamental logics of hyperinflation and thus become indispensible tools for making an economic view of hyperinflation something more than simply a technical mathematical problem largely devoid of practical use.

However, even with an economic and sociological approach to the topic of hyperinflation, its true nature cannot be discerned. A political/institutional approach is also needed. While an economic approach can explain many of the "hows" of hyperinflation, and a sociological approach can explain many of the "whys", neither can explain the highly politicized nature of the subject. Without the role of the state being considered, civil war rather than hyperinflation would be the means by which competing social groups would solve the distributional crisis. Indeed, it is only through the political arena that hyperinflation can be manifest.

In a sense, hyperinflation represents one of the most dramatic signs of government failure (Barry 1985:290). It usually occurs because the state, through war, revolution, the antagonism of strong social groups, or the corruption and/or incapacity of its own administrative apparatus, is unable to collect sufficient revenue to finance its expenditures and thus resorts to printing currency (Barry 1985:290). In hyperinflation the state is largely unable to overcome these barriers, and thus its own weakness stands as an underlying precondition to crisis (Maier 1978:47).

However, even though the state may be a weakened actor within a hyperinflationary crisis, it is still a crucial actor. Indeed, its fundamental position within an understanding of the topic must not be underestimated. As Malcolm Anderson reminds us,

> "Rarely are political leaders, parties and institutions totally at the mercy of blind clashes of interest or the short-sighted aspirations of sections of the electorate. They have resources of initiative, imagination and power which allow them to confront the inflationary demands of particular groups, although faced by a coalition they may lose" (Anderson 1978:261).

In fact a political/institutional approach to the nature of hyperinflation is a necessary complement to a sociological and economic approach. Just as market forces can be upheld, extended, imposed, or curbed by political action so too can societal groups be educated, organized, disorganized, and transformed through political process (Whitehead 1979:572). The fact that all five hyperinflationary countries were able to eventually exact some form of economic stabilization in their economies illustrates that, even in hyperinflation, the state is by no means a casual observer. Instead, the state is a "..player deeply enmeshed in the game of social and economic bargaining (Maier 1978:40).

A recognition of the economic, social, and political nature of hyperinflation thus dictates a particular type of methodological approach to examining patterns within the crisis. If the nature of hyperinflation and stabilization is believed to be the culmination of a variety of economic, social, and political interactions, examining comparisons in the interplay of such factors across a widened spectrum of experiences would be a useful means by which to understand the nature of the subject. That is, examining comparative economic, social, and political responses to the multi-disciplinary phenomenon of hyperinflation becomes the most complete way to address the topic. The patterns which emerge from such a study would not only give indications as to why collective groups behave the way they do, but it would also suggest policy implications to those involved. Such implications would not be based on a distorted one-sided view of the problem but would be based on the comparative balanced interplay of the most important variables.

That is what this thesis intends to accomplish. By comparing crucial economic, social, and political response patterns to the crisis of hyperinflation, it is hoped it will assist in uncovering important policy implications not only for the subject countries studied, but also for countries on the verge of such a fate and for external creditors whose participation is critical to eventual resolution of the problem.

Looking at the five hyperinflationary episodes in Latin America during the 1980s, certain patterns seem to emerge. Sociopolitical behaviour in reaction to the hyperinflationary crises tend to follow certain patterns and lead in turn to consolidating general public policy implications.

Although the make-up of the countries studied shows a rather diverse cross-section of the Latin American polity and society, their sociopolitical reactions to the same economic stimuli were largely consistent. Unresolved indebtedness and moderate underdevelopment set the stage for the onset of hyperinflation in all instances. In all cases governments experiencing hyperinflation were largely unable to provide tangible solutions to the problem, although all turned to orthodox stabilization policies to attempt to extract them from the crises. While some tried to resolve the crises through gradualist means, all had to impose some form of stabilization in order to stop hyperinflation if only temporarily. Even leaders who had campaigned as leftists soon imposed rightist solutions to the crisis. All the hyperinflationary governments, however, came to power through democratically legitimate means and despite the severity of the crises, none of the countries turned to fiscally-conservative authoritarian governments to bring them out of indebtedness and hyperinflation.

Democratic fiscally conservative governments that did assume office were largely more successful in overcoming reoccuring hyperinflationary crises than their predecessors, however, their gains were small and short-lived particularly in comparison to the fundamental restructuring they did to attain those ends. Once in power, all newly-elected governments which had experienced hyperinflation tried to bridge international credit interests with domestic capital interests. Although some were more successful than others, all five governments resorted to repressing societal demands when the "bridging" was threatened. In the end, some form of labour acquiescence was required in order for production levels to be maintained at pre-hyperinflationary levels. In most instances, the combined crises of hyperinflation and stabilization were powerful enough to discourage and disorganize labour mobilization, although there were variations in the extent.

In order to appreciate the patterns of crisis fully, however, it is necessary to consider the diversity of the Latin American countries which experienced hyperinflation. Poor, underdeveloped countries such as Nicaragua, Bolivia, and Peru faced hyperinflation just like the wealthier countries of Brazil and Argentina. Although Brazil and Argentina represented two of the most highly indebted countries in the world, their indebtedness expressed as a percentage of GDP was nowhere near that of Bolivia and Nicaragua. Peru's first-time decision to limit its debt servicing payments conferred on it perhaps the unusual status of a country hostile to foreign capital interests. That Nicaragua faced hyperinflation in the context of a trade embargo and a civil war, that Peru and Bolivia faced it with undiversified economies while policing significantly profitable drug trades, and that Brazil faced it in the aftermath of a private business boom further illustrates the diversity of experience. That Argentina, Nicaragua, and Bolivia faced inordinately powerful union movements, that Peru faced a powerful insurgent movement, that Bolivia and Peru faced a history of tremendous political instability serves to strengthen the contention that despite the fact hyperinflation only occurred in the one region of the world, it did so in fairly different social and political circumstances. Because structurally different countries responded in such similar ways, it seems to suggest that hyperinflationary collective behaviour is regulated more by economic reality than by social and political variations.

What did unite the countries with the onset of hyperinflation was their bankruptcy, and the choice by external creditors not to cooperate in providing investment and credit solutions to potentially hostile lenders. The fact that all five countries were unlikely or unwilling to pay off debts, would probably be less credit-worthy in the future, and were highly indebted already, left these countries somewhat isolated from the world economy. In such a context, inflation and eventually hyperinflation became the means by which competing groups, short of civil war, ensured their own livelihoods while the country's collective wealth deteriorated.

Once economic crisis did erupt, hyperinflationary governments initially proved incapable of bridging international capital interests with domestic capital interests. In every case, government's subservience to societal demands not only deepened the domestic crisis, but also hardened international resolve not to aid economically desperate governments.

Daniel Ortega of Nicaragua faced the greatest obstacles in becoming the "link" to outside capital, with his leadership against U.S.-backed insurgency, his investment-threatening ideology, and facing an economically paralyzing economic embargo. Even when Ortega applied orthodox stabilization solutions to the economy, the country was unable to overcome hyperinflationary/deflationary crises. Although he had succeeded in controlling hyperinflation in 1989 he had done so by severely devaluing the currency.

Herman Siles of Bolivia also proved incapable of becoming the link to external capital. His heavy reliance on a socialist/communist coalition and facing a distributional crisis of a newly democratic country in the context of a strongly contracting domestic economy made it virtually impossible. In fact, the apparent intransigence of the Confederation of Bolivian Workers and its power to mobilize labour into country-wide general strikes would seem to have been strengthened by labour's success whenever it pursued such a confrontational approach from a position of relative strength. That labour became stronger each time it had successfully overthrown a government austerity program made the government's link with outside capital that much harder to forge in Bolivia.

In Peru, Alan Garcia faced very significant obstacles in repairing the country's credit-worthiness when he decided to limit debt servicing payments to external creditors. Although Garcia's consumption strategy of 1986 and 1987 brought short-term growth to the Peruvian economy, it did so at the cost of alienating long-term foreign credit and investment. As a result, his political popularity also failed to outlast depleted foreign exchange reserves, and left the country in inflationary/deflationary crises for the next three years.

Raul Alfonsin's political base made it very difficult to have a mandate for austerity in Argentina. Although he tried to impose austerity in the Austral Plan (1985) and the Primavera Plan (1987), politically he was unwilling or unable to enact stabilization measures prior to the onset of hyperinflation. Even Alfonsin's successor Menem found it difficult, and his failure to overcome Argentina's first bout of hyperinflation seems to not have been completely unrelated to his Peronist political roots.

Even Jose Sarney of Brazil was unable to secure international capital. His attempts to attract credit and investment through austerity in the Cruzado Plan (1986), the Bressner Plan (1987), and the Summer Plan (1989) all failed , and it was only when foreign credits dried up that the hyperinflationary economic crisis forged political support which made it possible for democracy to purposefully elect for austerity. When Brazilians did, it was the "leftist" government that was "blamed" for bringing the country to the position of bankruptcy in the first place. Thus, Ortega, Siles, Garcia, Alfonsin, and Sarney, when all initially faced with the reality of hyperinflation let societal demands place a greater priority on the political process than international creditor demands.

Leaders elected on leftist campaign promises, such as Menem (Argentina) or Fujimori (Peru), or even as moderate conservatives such as Paz (Bolivia), found it necessary to impose rightist solutions to the crisis of hyperinflation. Carlos Menem's promises to labour and the poor were abandoned, particularly in his second stabilization program. Alberto Fujimori's commitments to the maintenance of state companies, to labour stability, and to economic development without recession, fell from the economic agenda almost immediately after he assumed office. Even Victor Paz's rejection of "Banzer's anti-statist attitudes" and promises to hold down the social costs of reform fell by the wayside, once he assumed office.

Although Peru, and to a lesser extent Bolivia and Nicaragua, attempted to overcome hyperinflation through more gradualist policies, even these were abandoned for more severe stabilization programs. Peru was perhaps most obvious in this regard. Under Garcia the state succeeded in preventing hyperinflation through gradualist policies for almost two years. However, the cost of gradualism was consistently high inflation, high unemployment, massive and continuous devaluations, and eventual renewed hyperinflation. In the end, Peru could not avoid the orthodox stabilization that was also deemed necessary by other Latin American countries which experienced hyperinflation.

Although the emphasis and extent of the broad range of policies that were used to stabilize hyperinflation varied, the general aims remained consistent. Fiscal reforms were aimed at dramatically cutting state expenditures while at the same time significantly increasing state revenues. Cutting expenditures entailed a variety of reforms which included large cuts in the central government bureaucracy, significant reductions in subsidies, and the privatization of state-run companies. Meanwhile, the governments also took steps towards increasing revenue by expanding the size of the tax base, increasing prices for a variety of utilities and public services, and enlarging sales taxes, particularly on food and gasoline. To ensure the fiscal reforms did not spark another round of hyperinflation, often monetary reform in the form of wage and price controls were introduced concurrently with currency devaluations. However, in the case of Bolivia and Nicaragua, they had to be abandoned due to widespread hoarding and speculation.

The stabilization programs also included various patterns of other monetary reforms in addition to fiscal reforms. These changes always included currency devaluation through controlled flotation, but also often included the introduction of a new form of local currency and/or an overt liquidity squeeze on local money. Devaluations were intended to reduce inflationary pressures created by drained foreign exchange reserves when the overvalued local currency lost its financial backing. Additionally, devaluations when they were controlled played a significant role in reducing speculation and hoarding, and provided the means by which the country could build up foreign currency reserves through the liberalization of trade. New forms of currency were sometimes developed, as in the case of Brazil and Nicaragua, to help instil confidence in the local currency and erase symptoms of an evolving inflation culture. Finally, government sometimes imposed an overt liquidity squeeze, in addition to the implicit constraint on liquidity created through devaluation. The two richest and most indebted countries, Argentina and Brazil, curbed consumption in this manner through freezing bank deposits. which helped to prevent foreign external debt from being transformed into domestic debt.

The stabilization programs also generally included means by which foreign credit and investment could help bridge the shortfall in production created through the recessionary means used to stop hyperinflation. Without foreign capital hyperinflation would simply be traded for deep recession, or as the Nicaraguan experience perhaps best illustrates, a combination of both crises. Thus, trade barriers were generally lifted to help open the way for foreign investment and the flow of foreign currency critical to any rebuilding economy.

However, if gains were made through trade liberalization and foreign investment, little was gained through extended foreign credit. All the expectations about restoring credit-worthiness were left unfounded, for all these countries found it extremely difficult to convince foreign lenders to extend credit. In fact, it was the inflexibility of foreign credit agencies which "forced" governments to make politically difficult decisions in the first place.

Not that these governments were any more flexible on the debt issue. For them to make debt payment most felt was not only to forfeit the economic gains made through politically difficult decisions, but to surrender the decision-making powers of future austerity measures to external agencies as a precondition for more loans. Thus, in the context of tight world credit all of these government only made marginal, if any, gains in servicing their debts, especially in light of the fundamental restructuring they did to attain those ends. In fact, total disbursed external indebtedness for all the countries studied increased despite the introduction of orthodox stabilization measures (Cepal:90:34).

However, despite the rather pessimistic indicators of the success of stabilization, all countries that experienced hyperinflation remained committed to democratically-elected fiscally-conservative governments. That none of the countries turned to authoritarian governments to settle their hyperinflationary crises is also a consistency in the crisis patterns. Although all had first-hand knowledge of the fiscal mismanagement of previous types of regimes, perhaps the nature and extent of the crisis had much to do with the political stability in an economically unstable time. Indeed, the hyperinflation/stabilization crises patterns suggest that all of society must be united towards a common purpose if the crisis is to be overcome. The illegitimate seizure of power by a military government would not only likely discourage foreign investment and credit, but would probably exacerbate an already heightened distributional crisis and lead towards civil unrest, the ends of which would create further inflationary pressures and benefit no group living in the country.

That the various governments had varying degrees of success in overcoming hyperinflation is obvious. Although all turned to stabilization, all did not experience the same degree of success. Brazil's less severe economic crisis and wealthier status made it easier for it to overcome hyperinflation than for Nicaragua, beset by a myriad of economic, social, and political problems.

In "bridging" domestic capital interests with international capital interests all hyperinflationary governments eventually repressed domestic demands made upon them rather than impose continued demands on international capital and run the risk of credit and investment isolation. Most noticeably, in the aftermath of stabilization almost all the governments found it advantageous or necessary to repress labour opposition. Although labour was initially supportive of stabilization, it soon became disaffected with the program. Since it was the working classes which inevitably felt the brunt of stabilization, and were largely excluded from the long-term benefits of the program, it was they who mobilized to oppose such ends.

In Brazil, Collor's extensive stabilization program, the large degree of political support gained in the initial phases of stabilization, and the congressional elections that took place within such a context, went a long way towards preventing the mobilization of labour opposition in 1990. In Argentina, the first stabilization program largely failed as a result of Menem's irresolute stance towards labour demands. The second stabilization succeeded when Menem turned away from his political support from labour and actually followed through on the goals of stabilization. In Peru, Fujimori's stabilization plan led to strikes, violent demonstrations, and eventually towards a general strike; however, his decision to fire government employees illustrated his government's hardened position against labour. The toughest labour stance, however, was taken by one of the continent's most powerfully confrontational labour movements. Virtually any form of austerity was met with general strikes during the Bolivian hyperinflationary period. Paz's stabilization led to strikes, demonstrations, and a general strike. Eventually it took the army, hundreds of arrests, and martial law to subdue labour opposition in Bolivia.

In Nicaragua, under the Ortega government, there was a noticeable absence of labour unrest. Instead, Nicaraguans responded to austerity with despair and mass emigration. That labour had a privileged position in government decision-making meant that it had to assume responsibility for the hyperinflation/stabilization cycles of the highly indebted country. The fact that Ortega could not solve Nicaragua's hyperinflation crisis, despite the introduction of orthodox stabilization mechanisms, perhaps best illustrates the handicapped position of labour-sympathetic governments in overcoming hyperinflation. When Chamorro assumed the leadership, she represented leadership relatively hostile towards the Sandinista trade unions and as a consequence faced mobilized labour opposition similar to that of Paz in Bolivia. That within months of assuming power the post-revolutionary country faced the largest outbreaks in strikes and labour violence was not an accident. Chamorro, however, chose initially not to take the confrontational stance Paz had taken in Bolivia, for to have done so in the strongly polarized society would have likely brought extensive civil unrest and perhaps civil war. Instead, the government followed a policy of consensus-building, which neither gave Nicaragua an outlet from hyperinflation, nor relief from the economic austerity placed upon the working class, only necessary political stability as a prerequisite to rebuilding the economy.

Finally, in the aftermath of the repression of labour opposition, some form of labour acquiesence was attained for all countries that had successfully overcome hyperinflation. In almost all hyperinflationary episodes, the recessionary results of stabilization left labour aims in line with state aims. Instead of looking for the highest wage, labour was content to have jobs in stabilization. This obviously had profound effects on the mobilization capabilities of labour. Therefore, orthodox stabilization not only provided the means by which the country could escape hyperinflation, but it also served to disorganize and discourage "stalemating-effects" of large scale labour mobilization.

Thus, the hyperinflationary crises of the various countries bear identifiable resemblances. The economic hyperinflationary crises patterns, although sometimes showing gradualist strains, all relied on orthodox stabilization with the onset of hyperinflation. The political hyperinflationary crises patterns show the failures of governments to mediate the most articulated interests of the country with the interests of international capital. Finally, the social hyperinflationary crises patterns show the dismantling of labour power as countries responded to the dictates of the international economy, using economic, social, and political repression to subdue demands made upon the state.

These crisis patterns, then, seem to lead to certain developmental policy implications, two of which will be discussed here. The first implication which emerges is that hyperinflation, by nature, tends to have a constricting effect on feasible public policy alternatives. That is, the range of public policy options becomes limited as the state faces hyperinflation. Orthodox stabilization appears to be the only means by which countries can exit hyperinflation. This in turn, it would seem from a comparative analysis of the countries studied, would indicate that certain social and political crises also cannot be avoided, if hyperinflation is to be overcome. However, although the structural necessity for stabilization was primarily economic in nature, the choices to pursue stabilization and what form it would take were ultimately political and social in nature.

In every country examined there were complaints from the leadership that they had no choices. In overcoming hyperinflation in Brazil a "parliamentary-minded" president "needed" to force his policies through a variety of social and political obstacles. In Argentina, "Menem had little choice; he had to force Argentines to accept austerity" (Wynia 1990:16). Once orthodox stabilization was pursued, labour mobilization was the logical result. The orthodox stabilization measures taken by Paz were described as "necessary.. to prevent the collapse of the economy and control inflation" (MH: Sep. 1, 1985), and led to government policy in which the vice-president described having, "..had to impose a state of siege.. because the unions had taken over the mechanisms of the state" (JC: Oct. 1, 1985). Even Nicaragua, with its largely supportive labour movement under the Ortega government, was not immune to such forces. Mr. Cerezo, the former president of Guatemala, prophetically described Nicaragua's situation at the end of 1988:

> "Political reality p[illegible]e Sandinistas against the wall.. Either they take a different path, which implies a reduction of their power over the medium term, or they will soon have to impose a dictatorship. The economic situation will provide movements, not necessarily political but social movements, aimed against them. They need to make some choices" (NYT: Dec. 13, 1988).

This is not to say that all the states had to pursue the same type of stabilization plan, for that is entirely untrue. Brazil's large sudden multifaceted stabilization program was very different from those in Peru and Nicaragua which relied primarily on devaluing the local currency to stabilize the economy. However, in all cases, fairly drastic forms of monetary and fiscal reform were needed to turn the economies from hyperinflation for an extended period of time.

The second general public policy implication which seems to emerge in light of the crises patterns, is the apparent need for resolute political will to forge a mediation between international and national interests, without alienating the potentially destructive forces of labour. "Authoritarian-like" means appear necessary to better integrate the international-capital-resistant-country into the world economy, while at the same time ensuring the collective support needed to rebuild the national economy is met through a long-term developmental aim. To this end, an "authoritarian-democratic" public policy orientation would seem to provide the optimum short-term means and long-term goals for resumed development.

What is meant by an "authoritarian-democratic" public policy orientation? It means that hyperinflationary countries emphasize authoritarian, or presidential, ways of overcoming the crises for ultimately democratic purposes. While solving the hyperinflationary crises requires resolute political will in the short term, it also requires the cooperation of labour and business groups which see their long-term goals being met.

Why then does it seem that an "authoritarian-democratic" public policy orientation is perhaps the best means by which to transform a hyperinflationary country? Not only would it provide the legitimacy to government for making difficult political decisions, but it would also likely ensure a rational continuous course of development rather than a course stalemated by the conflicting heightened competition of labour and business groups within a hyperinflationary period. Such a policy orientation would dampen the heightened distributional crisis that characterizes hyperinflationary countries while it promises to move society towards greater democracy as the crisis is gradually overcome, allowing for intergroup competition once moves towards post-hyperinflationary development have been made. Ideally its authoritarian short-term nature poses a mediating role with international credit, while is progressive developmental ideology towards long-term democratic aims keeps the support of labour.

Undoubtedly there are many other factors to consider. Paramount among them must be the availability of external credit and the potentially divisive economic, social, and political cleavages within the hyperinflationary society. If external credit is tight an "authoritarian-democratic" public policy approach will not be able to deliver the democratic long-term benefits needed to forge a developmental social contract. Similarly, the particular divisiveness that characterizes society prior to hyperinflation will determine how long groups within society are willing or able to tolerate the elusive benefits of postponed democracy. However, despite these constraints, it is hypothesized that an "authoritarian-democratic" public policy orientation can, perhaps better than any other discussed approach, bring development to the hyperinflationary countries of Latin America.

The format for the thesis has been made quite simple. After a narrative about each one of the subject countries, there follows a postscript chapter, which re-examines the hypothesized policy implications in light of the dynamic course of changing events. Each country chapter begins with a brief consideration of some of the most significant economic, social, political, and historical forces which shaped the country prior to the onset of hyperinflation. Each chapter then goes on to describe in detail the shifting economic, social, and political reactions throughout the hyperinflation and subsequent stabilization periods. Since the thesis is most concerned with examining patterns of responses within hyperinflationary crises (including stabilization), the country narratives do not go on to describe the aftermath of crisis in great detail. Finally, each country chapter will end with a short discussion relating the country experience to the observed patterns of hyperinflationary crisis and the constraining features leading states to develop an authoritarian political response to this particular crisis.

Recognizing, of course, that the crises patterns are dynamic, the policy implications founded upon these patterns must continually be reassessed to determine their validity. That is, if the inflation levels resurge after orthodox stabilization is implemented, if political institutions are suddenly able to mediate societal and international credit interests in hyperinflation and afterwards, or if social groups meet orthodox stabilization with overpowering civil unrest, the public policy implications posited here may lose their validity. Resurgent hyperinflation would seem to indicate that the need for "authoritarian-democratic" orthodox stabilization is an invalid solution, and that the logic for ending chronic hyperinflation falls outside the realm of national public policy. An indication that some societal and international credit interests could be mediated by national public policy would seem to suggest that based on the diversity of hyperinflationary countries which experienced hyperinflation, the states are not as constrained in the policies they adopt as is hypothesized. Finally, if societal groups meet orthodox stabilization with overwhelming civil unrest, not only would the constraining nature of hyperinflation be invalidated, but so too would the call for an authoritarian-democratic public policy orientation. To this end, a postscript chapter has been added as a conclusion. Since most of the thesis was written during and immediately after hyperinflation periods it is intended to balance immediate 1990 crisis patterns with emerging 1991 patterns in order to reassess not only the relative dynamic of these patterns but also the continued validity of the patterns as they relate to the posited policy implication of authoritarian democracy.

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From an economic point of view, the 1980s were not a good decade for Brazil. Perhaps it will be best remembered for a period in which per capita income stagnated, inflation beat all records, investment declined, public finances went into virtual collapse, and foreign debt exploded (NYT: Jan. 7, 1990). By the time the 1980s were ending, Brazil entered 1989 with the highest external debt in the developing world ($115 billion), the highest inflation rate in its history (934% in 1988), negative growth (-0.3%), and capital flight estimated at $7.5 billion a year (Roett 1990:25). 1989 was indicative of the decade in that things only seemed to go from bad to worse. Both capital flight and inflation nearly doubled by the end of the year, with money leaving Brazil totalling about $1 billion a month (NYT: Jan. 7, 1990), while the annual inflation rate surged to 1, 764%

Brazil's social retardation only festered in the 1980s and was perhaps not only a reflection of economic disarticulation, but also a catalyst that led Brazil on a path of economic backwardness. Perhaps two of the worst social ills were the great chasm in the distribution of wealth in the country and the chronically high levels of illiteracy. From a socioeconomic standpoint, Brazil had acquired the rather dubious distinction of being the world's worst distributor of wealth (FT: Jan. 4, 1990). So badly had its record fallen that it outranked India by having the richest 20% of the population earn 67% of the wealth (compared to India's 49%), while the poorest 60% of the population only received 16% of the economic pie (compared to 30% in India) (NYT: Nov. 25, 1989). So evident was this phenomenon that in the March 15, 1990 edition of the New York Times, one editor wrote:

> "Today there are 2 Brazils. A robust private sector prospers amid governmental bankruptcy. First-world affluence in southern cities is offset by third world poverty in surrounding favelas and the backward northeast. World-class aerospace technology coexists with primitive social services" (NYT: Mar. 15, 1990).

Indeed, while per capita income in Brasilia's satellite cities in 1990 was only $667 dollars per capita, income in the capital city itself averaged $1 874 dollars (MH: Jun. 10, 1990). Over 2/3 of Brazil's families survived on less than $500 dollars a month (NYT: Nov. 25, 1989), leaving one in fou

Brazilian children malnourished (CSM: June 4, 1990). Of children aged 1-4, 65% lived in substandardized housing, with the figure reaching 85% in the poorer northeast (CSM: June 4, 1990).

Surely Brazil's educational record in the 1980s was anything but solid, and evidence of illiteracy rates in the country further prove the point. In 1989 approximately 1/4 of the 140 million people who lived in Brazil finished primary education (NYT: Nov. 25, 1989), with 69% of Brazilian children leaving school by the age of 14. Of those who remained, only 8% made it to the eighth grade (WSJ: Jan. 2, 1990). With these levels of education, it was not surprising that 10% of the Brazilian population remained totally illiterate and another 30% persisted as functionally illiterate (Roett 1990:28).

As economic and social conditions deteriorated through the 1980's, people began to abandon the country. In the last two years of the decade over 200 000 young people emigrated to places offering a better future (NYT: Jan. 3, 1990).

What caused these economic and social ills to plague the country? Were they endemic to any developing nation or were they heightened by political ineptitude? Although a certain case could be made for the former, the Brazilian government was by no means an innocent bystander. Years of protectionism, subsidies, price controls and arbitrary decisions about who might invest how much, where, and under what conditions had bred inefficiencies in government spending; and as public debts climbed, international competitiveness waned (JC: Feb. 23, 1990). Government spending intensified in the latter 80's (SALA 1989:834), so that by 1989 the Brazilian bureaucracy was consuming a stunning 26% of the country's GDP (FT: June 21, 1990).

Not willing to curb excessive spending, Sarney's administration turned to foreign credit for financial support. However, by 1986- at the height of the debt crisis- Brazil could no longer keep up on the interest payments of a debt which had reached $70 billion dollars, and thus declared a debt moratorium in February 1987. Although Brazil returned to the good favors of its creditors in 1988, its debt strategy again unravelled in July 1989 when it failed to make an $812 million dollar interest payment to commercial banks. This was primarily due to the fact that Brazil's exchange reserves dropped to a low $5.56 billion dollars, although the country did continue to pay interest on trade lines which were vital to its financing imports and exports (FT: July 6, 1990). By the end of October 1989, Brazil had not made any progress on its loan and entered into a period of "undeclared moratorium". Commercial banks became reluctant to disburse any more funds until Brazil had reached a negotiated settlement with the IMF; but no accord could be signed because its public deficit remained at an unsatisfactorily high level of 4.5% of GDP, over two times the targeted estimate.

Unable to secure outside loans, the Sarney administration began to feel the political pinch when foreign credits dried up, and soon its approval ratings were registered in the single digit percentiles (Roett 1990:25). By January 1989, the Sarney administration was forced to announce an austerity package intended to slow galloping inflation, when the credits dried up with no subsequent government cutbacks. The Summer Package, the third of its kind after the terrible failure of both the 1986 Cruzado Plan and the 1987 Bressner Plan, was intended to reflect the need for economic austerity. It included a currency devalued by 17%, frozen wages and prices, and a new form of currency. As part of the plan, Sarney intended to decrease expenditure by firing 60 000 federal workers, eliminating five government ministries and forty-two state companies, and increasing revenue (after a price freeze) which included increased costs for airfare (up 33%), alcohol fuel (up 31%), gasoline (up 20%), electricity (up 15%), postal services (up 64%), and telephone charges (up 188%) (NYT: July 16, 1990). This, however, was not enough to stem the mounting costs created when the government consistently chose to print money to finance its fiscal pr and by November 1989, optimistic economists were predicting Brazil would be experiencing hyperinflation, while pessimists were predicting economic collapse.

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Why did the Summer Package fail? It failed for two main reasons. Economically, it failed because the Sarney administration, while attacking the symptoms of inflation, did not attack the more fundamental problem, namely, a large public budget deficit financed through an expanding monetary base (Roett 1990:26). More importantly, it failed socially and politically when the Brazilian public failed to back the package, labour refused to budge by pressing for higher wage hikes though strike action, and an obstructionist congress, sensing these sentiments, blocked central austerity measures including the firing of public sector employees and the privatization of state companies. It is interesting to note that this social and political response was much different five months later in a country that had experienced the ravages of hyperinflation for four consecutive months.

To be fair, by the summer of 1989 time had essentially run out for Sarney's administration. Elections were scheduled to take place on November 15, with a runoff election- if required- set for December 17, 1989. By this time, congress and the people seemed to sense that the election would bring about new initiatives and no one was prepared to back a "lameduck" administration that had brought the nation to the brink of financial ruin. After five years of civilian rule, there began to surface a growing conviction that it was the old political-business establishment that was unwilling, or unable, to make the necessary changes demanded by an increasingly polarized society (FT: Jan. 4, 1990). Correspondents sensed feelings emerging which seemed to harbour bitterness towards the oligarchy, and many believed they were the true culprits of the nation's economic and social ills (FT: Jan. 4, 1990). It was in this context that an election campaign began, which pitted a centre-right candidate by the name of Collor de Mello against a self proclaimed socialist by the name of Luis Inacio da Silva, better known as "Lula".

Collor's rise to prominence came in 1987. While governor of Alagoas, he set himself against the hundreds of civil servants- often political appointees- who received astronomical salaries for little or no work (Roett 1990:28). Although born in a wealthy family, he presented himself as a radical reformer, wholly uncompromised with the old order (FT:4 Jan. 1990). His platform was based on ending links between business and government, launching land reform, and changing the distribution of wealth (FT: Jan. 4, 1990). He proposed to do this by cutting state intervention, and by ending the subsidies, price fixing cartels, and corruption that characterized the rule of the former administration (FT: Jan. 4, 1990). "Fiscal reform, privatization, reduced import controls and other modern liberal orthodoxy [were] the basis of his program" (FT: Jan. 4, 1990). More specifically, he planned to accomplish these aims by increasing economic enforcement, halving the number of ministries, selling money-losing state companies, encouraging foreign investment, and lowering trade barriers (NYT: Jan. 7, 1990).

Lula, on the other hand, offered a more traditional remedy by promising to "..rid rotten Brasilia of its parasites", thus allowing the existing statist economy to deliver "..the changes needed to heal the wounds of Brazil's cruelly divided society" (FT: Jan. 4, 1990). In the end, though, it was Collor who won the December 17 runoff election and thus acquired for himself the rather challenging task of turning around a nation that had just slipped into hyperinflation.

Collor won the election on the shoulders of Brazil's poorest, least educated and most rural voters and not so much from the industrialists and old landed oligarchy. Lula garnered his support from the professional middle classes and urban working classes (NYT: Jan. 7, 1990; CSM: Jan. 23, 1990). Collor won the election by a 53-47 margin, with the electorate representing 57% of the total population (NYT: Feb. 9, 1990). It was never obvious that Collor would win the election but, in the end, 35 million Brazilians voted for Mr. Collor, "..the poor because they believed him and the rich because they did not" (FT: Jan. 4, 1990).

Brazil's 1990 bout with hyperinflation was shorter than any of the other Latin American countries that experienced the same economic crisis. However, there were at least three advantages that Brazil had over other Latin American countries which shielded it from the cruel effects of hyperinflation. First, the sheer size of Brazil's economy tended to keep the economy going despite the destructive forces of hyperinflation (NYT: Jan. 7, 1990). Brazil emerged from the 1980's as the world's eighth largest market economy (NYT: Feb. 9, 1990) and one of the largest exporters in the developing world (IMFa 1991:73-75). Backed by inexpensive energy and labour and virtually unlimited iron reserves, the Brazilian steel industry surfaced as the sixth largest in the world (NYT: May 28, 1990) which assisted the country in becoming the third largest exporter of arms (NYT: Feb. 26, 1990). With these considerations, Brazil found it easier to maintain adequate stocks of foreign currency reserves, which made a run on the local currency less likely and thus moderated inflationary pressures.

There were other factors, aside from sheer size, which left Brazil's hyperinflationary experience more restrained than in other Latin American countries. The galloping inflation that preceded and characterized 1989 appeared to produce in Brazil what some analysts call an "artificial boom" (NYT: Jan. 7, 1990). The result was that despite the fact annual inflation shot up over 1700%, companies curiously seemed to thrive as the economy grew by 4% (FT: May 22, 1990). Thus, Brazilian domestic business and MNCs were in sound financial health going into 1990 (FT: May 22, 1990), and therefore could better weather the obvious recession that would be sparked by any orthodox stabilization plan.

No where was this phenomenon more true than in the financial sectors of the Brazilian economy, as the banking industry made windfall gains in 1989. Banco Bradesco, Brazil's largest private sector bank, recorded a $347 million consolidated net profit for 1989, which represented a 74% increase in real terms over the previous year, while its overall assets grew 32% to $19 billion (FT: Jan. 18, 1990). Banks made superprofits from a government policy that used high interest rates to control inflation, and it became very easy to make profits in the context of high liquidity, high rewards, and low risk (FT: Mar.21, 1990). "The superprofits came from the widening gap between the cost of money based on past inflation and interest income calculated on projected future inflation rates" (FT: Mar. 21, 1990). High interest rates discouraged any borrowing- save by those most desperate, such as the government of Brazil- and soon the central government found itself "..paying real gross interest rates of up to 60% a year to finance its local currency debt on the overnight money market" (FT: Mar. 21, 1990). So although the government finances were at the point of collapse, the private sector gained from high inflation and remained quite strong.

Finally, Brazil had the advantage of trade, which saw it register a surplus consistently through the 1980s (IMFa 1989:140-41). In 1988 Brazil generated a record $19 billion surplus in merchandise trade, and while this surplus fell to $16 billion in 1989 (FT: Feb. 20, 1990), it still represented a important steady flow of hard currency. Although a minor trade surplus usually attracts no attention, Brazil's obvious trade surplus precipitated concern as the U.S. in May 1989 threatened sanctions against Brazil if negotiations towards a lowering of import barriers did not pan out (Roett 1990:27). Knowing it could not afford to spurn the U.S., since the U.S. represented nearly a third of all foreign investment (WSJ: July 25, 1990), the Sarney administration wisely took steps to bring down the trade surplus to its expected $10 billion for 1990. Thus, Brazil's trade surplus became a lesser factor when the country entered its hyperinflation crisis.

It was in this scenario that the Brazilian electorate came to put their trust in a man who thought Brazil should meet its problems head on. As economic deterioration continued, even the advantages of Brazil's huge economy, along with its strong domestic industry and consistent trade surplus, were not enough to save the country from sinking into hyperinflation in December 1989. The effects of an economic crisis that brewed for many years were suddenly transformed into their cruel political and economic consequences. The stage was set on January 7, 1990 as Mr. Collor proclaimed in a nationally televised news conference:

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> "The state is inefficient, the state is corrupt, the state is incompetent and the state is gigantic" (NYT: Jan. 7, 1990).

Brazil would have to wait until the president-elect would take office in March, but probably few were to realize the extent of the change that lay before them.

Even before assuming office, however, there seemed a pessimistic anticipation of Collor's chances for success at turning around the Brazilian economy. In fact, there were questions that Brazil would even emerge from 1990 as a democracy. Indeed, Collor did have many obstacles to overcome if his mandate were to come to fruition and perhaps most important of these was a potentially obstructionist congress. Congressional powers in Brazil had been enormously strengthened by the 1988 constitution (FT: Jan. 4, 1990), and it appeared that a change in the presidency would have little impact on economic policy. This appeared to be especially true in Collor's case for implementation of most of his changes depended on the final approval of congress (NYT: Jan. 7, 1990), and congress was due for re-election in October 1990. Some Brazilians, however, believed that Brazil's plunge to hyperinflation would give Collor the support he needed (NYT: Jan. 7, 1990) and perhaps in hindsight that is what may have been the catalyst.

Collor also faced stiff opposition from society, most noticeably in the form of a powerful business elite, which was not used to extensive economic abdication by government. Indeed, it was the monied classes who bailed out the government in the past, albeit at extortionist interest rates (FT: Jan. 18, 1990). Even the popular electorate that chose Collor became an obstacle to his success as expectations were high. These expectations flew directly in the face of advice from some of the "jet-setting economic doctors" like Jeffery Sachs, who warned governments experiencing high inflation not to court popularity (FT: Jan. 4, 1990). Finally, the depth of the crisis and the festering social ills in the country prevented recovery, because it became obvious that rescue through growth alone could no longer be the key to success, "..given Brazil's continuing stagflation and social injustices" (FT: Jan. 4, 1990).

Thus, January 1990 began with expectations of doom and gloom, just as hyperinflation began to have its first effects on the lives of people. Restaurants and hotels stopped accepting credit cards and many employees began moving from a monthly payment system to a weekly system as money became dangerous to hold for longer than necessary (NYT: Jan. 7, 1990). One correspondent noted the fact that contracts were rarely made in cruzados, but rather dollars, and confusion characterized the market place (NYT: Jan. 7, 1990). Labour courts added to Collor's problems by deciding in favour of the wage demands by 60 000 state oil workers who returned to their jobs at the end of January 1990. This not only cost the Brazilian government $13 million in imports of liquefied petroleum gas to cover the immediate demand created by the strike, but also cost them a wage adjusted increase of 31% (JC: Jan. 25, 1990). Yielding to pressure from labour for high wage demands would only serve to deepen and lengthen the crisis. Added to these obstacles was also inept government planning that resulted in a shortfall in the country's sugar cane-based fuel. By January, about 4.5 million alcohol-fuelled vehicles, representing one third of the national fleet and 90% of the new cars rolling off the assembly lines in the previous two years, threatened to stop running and may have contributed to popular dissatisfaction with government (FT: Jan. 4, 1990) Although the ethanol industry was originally created to save precious hard currency, Brazil found itself having to export oil in order to import substitute fuels at costs way above those of crude oil (FT: Jan. 4, 1990). In fact, the only good news during the month of January arose out of the misfortunes of others, as the frost in Florida allowed Brazil to penetrate new agricultural markets (NYT: Jan 1, 1990).

The crisis intensified in February 1990 as inflation rose to a national record-setting 73% (WSJ: Feb. 26, 1990), and Brazil entered its third consecutive month of hyperinflation. By this time money was decreasing in value by 2% a day, savings accounts began offering pre-tax interest rates of 100% (NYT: Feb. 11, 1990), and the average Brazilian family was spending about two hours a day managing their finances (FT: July 2, 1990). The government found it necessary to introduce the new 500 cruzado denomination since the 200 cruzado note was only worth $4.50 on the street (NYT: Feb. 11, 1990). Confusion continued to describe the marketplace as prices varied widely from store to store. One magazine survey even found a man's suit for a higher price than a blender, a small oven, a fan, a toaster, and an electric juicer (NYT: Feb. 11, 1990). One correspondent, in looking back at the problems experienced by one company, wrote:

> "The company had no idea how much interest would be on what they owed, nor in outstanding debts to them, nor what suppliers would charge, nor what they would be able to charge so the variants were endless" (FT: July 2, 1990).

People's hunger for hard currency rose as the dollar increased to 65 new cruzados on the tolerated but illegal black market, while the government gave exporters only 29.72 new cruzados to the dollar at the official rate (WSJ: Feb. 26, 1990). As many as half of the staff in any industry were consumed in managing money, and many people began resorting to financial speculation which was likely to be a more lucrative trade than the business itself (FT: July 2, 1990).

As the economic crisis deepened in February 1990, so too did the brewing social crisis. The two most significant setbacks to renewed order included the food riots in the city of Rio de Janeiro and the huge wage demands made by Brazilian dockworkers and shipworkers. The food riot at the largest wholesale fruit and vegetable market by 800 impoverished Brazilians, which saw fifteen tons of food go missing, showed just how desperate some of Brazil's poor were, and how hyperinflation had seemed to set the conditions for anarchy on a local scale. Perhaps even more unnerving for the government was how striking security guards did not even attempt to stop the looters, and how military police who were called to quell the riot were reported to have stolen food from the looters (NYT: Feb. 11, 1990).

So while the social strains of hyperinflation were first tangibly felt in February, the economic crisis showed no signs of slowing when a top labour court granted striking dockworkers and shipworkers a 147% pay adjustment for inflation, ending an 11-day strike which idled 100 Brazilian ships (JC: Feb. 23, 1990). Although the negotiations involved only two state-owned ship operators (JC: Feb. 23, 1990), they were serious because they further symbolized how a "culture of inflation" was fostered by the fact society had accepted as normal, structurally ridiculous wage and price demands.

At the same time, the state became less and less able to meet the new challenges facing it, as the Sarney administration only fuelled inflation by issuing decrees that added commitments to an already overburdened bureaucracy. They did it by signing in February 1990 a protocol doubling the raw material production capacity of the country's third largest petrochemical industrial park, thus adding $450 million of unplanned public spending to an already threadbare treasury, and by suspending the liquidation of the bankrupt regional development bank, Banco Regional de Desenvolmento Economico (JC: Feb. 23, 1990).

Meanwhile, Collor began picking up support. Opinion polls in February registered he had the confidence of 68% of the public, and that even 37% of da Silva's voters thought Collor would make a good or excellent president (NYT: Feb. 18, 1990). Pessimism turned to optimism with a relatively promising 43% expecting an optimistic or very optimistic future, as the population anticipated a president who campaigned on cutting the government's paternalistic influence in the daily lives of Brazilians and in fighting inflation (NYT: Feb. 11/ 23, 1990). To be sure, Collor remained true to his February promise that, "..(T)he Brazilian population... in the first 100 days of government", could be "absolutely sure" he would "liquidate inflation" (NYT: Feb. 11, 1990). What few were to be aware of was the extent of the self-imposed state of recession the country would have to go through in order for hyperinflation to be cured. They were soon to find out.

"I'm stunned, I've never seen anything so gigantic in my life", said Roberto Mueller, editor of Brazil's leading economic newspaper, when asked what his reaction was to Collor's anti-inflation plan (NYT: Mar. 17, 1990). On March 15, 1990, Collor submitted an anti-inflation shock program intended to bring hyperinflation to a sudden halt and to wean the various elites from dependence on the state. The plan included tremendous fiscal reforms aimed at dramatically tightening expenditures while increasing revenue. In terms of cutting state costs, the plan included a reduction in the number of state ministries to twelve from twenty-three, closing of some government marketing agencies, and cutting the state payroll (WSJ: Mar. 2, 1990). Cutting the state payroll meant the immediate dismissal of 30 000 to 40 000 civil servants who held two government jobs, the release of 160 000 public sector employees in the first hundred days of the administration's term, (BR:Aug. 16, 1990), and the proposed selling of 188 state-run companies which bled the state for a combined deficit of $62 billion (WSJ: Apr. 13, 1990). The government also introduced measures to encourage banks, insurance companies and pension funds to buy state-owned companies by forcing them to purchase privatization certificates that lost 1% of their value each month until they were traded in for shares in state companies (NYT: Mar. 17, 1990). Finally, from an expenditure standpoint, the government suspended the various subsidies that totaled $2.2 billion in 1989 (NYT: Mar. 17, 1990) and discontinued many privileges for state employees, including the sale of 11 000 apartments and houses for civil servants in Brasilia.

In terms of increased revenue, the administration instituted various measures aimed at widening the tax base, including the introduction of income tax on farmers, and a capital gains tax on the gold and stock trades (NYT: Mar. 17, 1990). Overdue tax bills were to be readjusted daily to keep up with the rate of inflation, and the wealthy saw their portion of the burden increase, as taxation of fortunes of $700 000 and over would be subjected to taxes of up to 7/10 of a percent (NYT: Mar. 17, 1990). Finally, the administration introduced large increases for all public utilities including mail, telephone, water, and electricity, and added a 58% rise in gasoline prices (NYT: Mar.

17, 1990). At the same time the government ensured the value of its price increases by concurrently directing businesses to maintain a 30-day price freeze (NYT: Mar. 17, 1990).

Monetarily, the administration had more wrenching initiatives planned. They introduced the fourth currency in as many years with the immediate replacement of the novo cruzado with the new cruzeiro, and promised tight control over the printing of the new currency (NYT: Mar. 17, 1990). As well, the administration promised to stop propping up the value of its highly overvalued currency, a move initially designed to increase government revenue from exporters by allowing the new currency to float with supply and demand. Most important of all, however, was the introduction of a draconian liquidity squeeze, the likes of which have rarely been seen. The plan froze $115 billion out of the $150 billion in Brazil, or about 80% of the money in virtually all banks, for 18 months (NYT: Apr. 10, 1990) by allowing Brazilians to withdraw only the equivalent of $1 200 from their accounts (NYT: Mar. 21, 1990). This effectively allowed the government to declare a moratorium on internal debt. Combined, these monetary reforms stopped inflation immediately, while fiscal corrections stopped the longterm patterns that led the country to this situation in the first place.

There was more to the plan, however. Although Collor encouraged badly needed foreign investment by announcing the gradual phasing out of import barriers and licenses (NYT: Mar. 17, 1990), he also made good on his promise not to "..sacrifice Brazilian growth to pay foreign debt" (WSJ: Mar. 2, 1990), by announcing Brazil would limit the debt servicing payments on its $115 billion foreign debt to $5 billion a year (FT:22 Mar. 1990). Although this was a dangerous move because it threatened foreign credit being used to stimulate dried up domestic investment, Collor chose to "keep the cards in his own hand" rather than trust an unreliable international community that appeared to be very much more interested in lending money to eastern Europe than to South America.

Finally, Collor aimed the government at better eliminating the inevitable mechanisms individuals would use to gain through the above policies. Various "economic crimes" were decreed. 5-year prison terms were set for abuses like exaggerated price increases and hoarding goods for sale, while civil servants were immediately arrested and dismissed if caught abetting tax evasion (NYT: Mar. 17, 1990).

Taken together, the fiscal and monetary reform on a "gargantuan" scale, the new guidelines and policies related to debt and foreign investment, and the stepped up enforcement to see that economic order would be maintained, became commonly referred to as the "New Brazilian Plan". It had the impact of causing the inflation rate to fall from 84% during the month of March to 3% in April. Almost overnight, a worthless Brazilian currency had become "..the nation's most sought after commodity", as prices began tumbling and banks began running out of money (NYT: Mar. 21, 1990; MH: Mar. 22, 1990). The liquidity crunch forced a tremendous decline in the demand for consumer goods (MH: Mar. 22, 1990), as people concentrated on buying only necessities. Within two weeks industry was arrested with at least 200 000 layoffs attributed to the plan. According to one main business lobby, the freeze "paralyzed" 90% of all industrial activity in the heartland of the Brazilian economy: Sao Paulo (WP: Mar. 30, 1990). Construction and the car market ground to a "virtual standstill" (WP: Mar. 30, 1990; FT: Mar. 27, 1990), while the fragile government-run merchant shipping industry threatened to become the first casualty of stabilization (JC: Mar. 26, 1990). Financial sectors reacted even more quickly to the plan, as the Sao Paulo stock exchange plummeted by 50% within the week (MH: Mar. 23, 1990), and frantic stockholders began selling their stocks to get money to live on and do business (JC: Mar. 26, 1990). Confusion and paralysis best described the export sector in March 1990 as the Brazilian Coffee Institute and the Sugar and Alcohol Institute disbanded, submitting these exports to market forces. Currency exchange rate quotes remained conspicuously absent, and left traders with no real sense for the trading dollar value of the new currency (JC: Mar. 26, 1990).

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As Brazil's economic crisis reached its zenith, localized looting again took place, this time in seven supermarkets in Sao Paulo a week after the announced plan (MH: Mar. 23, 1990). Acute fuel shortages caused by striking fuel truck drivers threatened to halt the industrial city. Brazil, however, was not close to falling into anarchy as a result of its socially straining stabilization package, for despite the fact that the package was monumental in its effects, the population remained quite socially and politically united in the period in which the program had the greatest effect. They chose instead to remain loyal to the personage of a legitimate newly elected president. That Collor's election and hyperinflation so directly coincided gave Brazil a distinct advantage in overcoming the potentially socially destructive forces created in stabilization. Necessary legitimized massive economic reforms could be instituted in such an environment.

Indeed, a week after the stabilization was introduced, the New York Times was reporting that, "..(T)he draconian plan [had] widespread support even though people [had] little to spend" (NYT: Mar. 21, 1990). One poll conducted during the month showed that 94% of Brazilians approved jail sentences for "economic crimes" (NYT: Mar. 29, 1990). In fact, the only group not satisfied during this period appeared to be businessmen who found themselves in no position to pay their workers' salaries (WP: Mar. 30, 1990). Some businessmen, however, maintained a more enlightened view, realizing the economic shakeup was a positive step to remove distortions and thus maximize the use of the country's massive resources (FT: Mar. 20, 1990). Labour, meanwhile, applauded the fact that the new program fell heavily on the rich, and even after two weeks of austerity, polls showed overwhelming public support for the plan (WP: Mar. 30, 1990).

Given this public approval, all eyes turned to the Brazilian congress in April 1990, for if Collor did not get the support of congress within 30 days of his decreed law, his new plan would fail as had Sarney's initiatives. Congress, however, found it difficult to block Collor's approval ratings and by mid-April had approved the central elements of his plan (WSJ: Apr. 13, 1990). They did not give the plan a full mandate, though, choosing instead to limit foreign ownership to 49%, and to prohibit the sale of the postal service, the national development banks, as well as Banco de Brasil, the country's largest commercial bank, Petrobras, the state oil company, and Embratel, the national telecommunications giant. (WSJ: Apr. 13, 1990).

In April 1990, the stabilization plan continued to have devastating effects. The Sao Paulo stock index continued to drop until it had reached its lowest level since 1968 (NYT: Apr. 10, 1990). In the industrial belt an estimated 311 000 out of 887 000 unionized workers were placed on paid leave, compared to the near full employment a month earlier (NYT: Apr. 10, 1990). Thousands of miners were reported to have abandoned the goldfields due to the lack of buying power, and in the ranching state of Parana, car dealers who were faced with a 90% drop in sales were offering to trade new cars for cattle (NYT: Apr. 10, 1990). Many businesses were empty (NYT: Apr. 10, 1990), with the wealthier, more exclusive shops suffering the most (MH:5 Apr. 1990). In fact, the only people who seemed to get increased business from the stabilization were psychologists. One claimed:

> "I've been working 14 hours a day since the plan was announced. The rich feel a mixture of panic, astonishment, anger and depression, and they want to talk about it" (WSJ: Apr. 23, 1990).

Meanwhile, Collor's support continued to hover around 70% for the month of April 1990 (MH: Apr. 16, 1990) and it appeared the introduction of the plan had been successful. However, the economic goals of Collor's plan demanded continuous austerity, and by the end of the month support for the plan took a tumble.

By May 1990, most of the wrenching effects of stabilization had occurred, and from this point onward most attention was directed towards problem solving and- in relative terms- "fine tuning". One problem that soon became apparent was that the program had become too encompassing and in order to restore destroyed confidence in savings, the Collor administration began to revive production by injecting money into the economy, so that by mid-May, there were fears that inflation would resurge (WSJ: May 10, 1990). There were also added distortions in the market place that were created as the government introduced an individualized approach to lifting the price freeze (WSJ: May 11, 1990). Perhaps more significant was the socioeconomic reaction to stabilization, such as localized looting by the poor, increased militancy and strike action by labour, and escalated fraud and corruption in business.

Looting by the poor though, was never more than a localized problem in Brazil, and by May 1990 it was virtually impossible to see evidence of it in the western press. Although Cardosa, Brazil's economic minister, had intended that inflation be controlled without the working class paying the brunt, it was in fact the working class and the poor who, in the aftermath of stabilization, felt the impact in the form of high unemployment and slashed wages (WSJ: May 10, 1990). When government cutbacks for civil servants took effect, they fell most heavily on the unskilled and poorly paid workers and not on the civil servants targeted by Collor (MH: June 20, 1990).

The producers also suffered as a consequence of Collor's program, but part of the Brazilian producers' setback could also be attributed to the liberal revolution in the global economy and the desire by many governments to open up trade. The coffee and sugar producers were most profoundly affected when the Collor administration chose not to further subsidize them, and suddenly they found themselves without guaranteed prices, leaving them to spend more money producing their goods than they could receive in the international economy (FT: June 14, 1990; WP: Feb. 27, 1990). After nearly a century of support for the grower, the Brazilian government's sudden policy of free trade brought harsh realities to producers in Brazil. There was, however, some relief for producers when Collor chose to introduce a floating Brazilian currency , rather than an overvalued one. This gave the producer hope that his produce would become competitive abroad, but there continued to be complaints in June that the new cruzeiro was still overvalued (FT: June

14, 1990). Lower exchange rates should have equated to greater Brazilian competitiveness, bigger volume, and larger profit, but volume fell by 13% and the value of exports by 11% (CEPAL:1990:13). The falloff, however, was due mostly to the lagging competitiveness as a result of the lingering overvalued cruzeiro, difficulties in the marketing of soya, and a reduction in the amount of shipments due to labour conflicts from subsectors such as iron, steel, and the automotive industry (CEPAL:1990:14). Thus, although producers yearned for a return to government support, Collor made the situation bearable for producers by devaluing the currency. At the same time he gave other emerging exporters a needed boost, after years of lagging international competitiveness caused by an overvalued currency.

Domestic business, meanwhile, found itself paying for the good years in which prices were fixed by the state. Under such an arrangement, business became parasitic when cartels formed as a result of government's reluctance to issue licenses to competing potential companies in the same field. Under such a corporatist order, price collusion flourished as..

> "..companies would persuade friendly bureaucrats to increase prices, knowing that, with no foreign competition allowed, they would always have a guaranteed market. Business would readily agree to wage increases, knowing that, in their protected environment, these could be passed on to consumers" (FT: Aug. 29, 1990).

With Collor's stabilization program, business no longer could simply become experts at only lobbying and managing their money in the context of high inflation, protectionism, and indexation. Under the new scheme, no longer could business flourish by underhanded business practices, for in the new spirit of openness, business had to stand on efficiency since government had abdicated its supporting role. Summing up the situation , the chairman of one packaging company remarked, " People made profits on inflation and on cash surplus. Now they will profit on efficiency and productivity" (WSJ: May 10, 1990).

Even though by the end of May 1990, business was able- through a variety of subterfuges and frauds- to secure an estimated release of between $10 billion and $40 billion of the frozen $115 billion (MH: May 22, 1990), they were starkly to feel the effects of stabilization. More specifically, the business community would see a recession cut dramatically into industrial input, so much, in fact, that by the beginning of June the heavily industrialized region of Sao Paulo experienced its sharpest decline in nine years (FT: June 1, 1990), and by the end of July, companies there had laid off 171 00 workers, the most in ten years (CSM: July 23, 1990). Similarly, retail sales in the region were reported to have fallen off by 17% in the January-June time frame (CSM: July 23, 1990), and all over it appeared people were buying less (WSJ: May 10, 1990). Certain industries like textiles, chemicals and petrochemicals, knew the ramifications of the new industrial policy for them would be disastrous (JC: July 5, 1990). Foreign business ,too, would not be exempt from the recessionary impact, with companies like Caterpillar Inc. expecting a 1990 loss after a $100 million profit in 1989, and Autolatina having to lay off 28 000 workers and dealing with violent strikes (WSJ: July 25, 1990).

Most business, though, could look forward to better days in the not so distant future. The same could not be said about labour. Only eight months after Brazil entertained the idea of electing a socialist union president, it began to witness a disintegration of union power of immense proportions (FT: Aug. 2, 1990). It is true that union power showed its strength in the stabilization period between April and June 1990 when the number of working days lost to strikes rose by 928% (BR: Aug. 13, 1990), but it was also true that overall for the first seven months of 1990, the total number of workers participating in strikes and the total number of strikes in Brazil were only half that of 1989 (BR:Oct. 25, 1990). After over 50 years of collaboration between the state, business, and unions, the plan to liberalize the Brazilian economy destroyed the conciliatory business-labour relationship that fuelled high inflation (FT: Aug. 2, 1990). The Collor administration, which felt it should no longer foster the inefficiency, perhaps most exemplified in companies such as the state-run National Steel Company (CSN), also appeared to abandon labour. In this instance, productivity was undermined by debt and worker demands, with debts for the steel company exceeding $4 billion and labour demands reaching 166% (FT: Aug. 2, 1990). Labour was "routed" in Brazil, and the declaration to leave politics by da Silva in August left socialists with no credible leadership and no promise of brighter future.

The state, then, had secured what it needed, an abdication of its recorded statist past. The Brazilian state had successfully brought itself out of hyperinflation in a one-shot-affair, although there were continued obstacles and problems in the aftermath of stabilization. Congress and the courts provided some of the most head-on confrontation. Congress did it by rejecting a presidential decree that limited the powers of local labour courts (MH: June 2, 1990), and by passing cost-of-living increases in July aimed at pacifying a population preparing for congressional elections in October, and which had to be vetoed by Collor to stop resurgent inflation (CSM: July 23, 1990). The courts did it most noticeably when the Brazilian Supreme Court, at the end of June, vetoed the administration's attempt to reduce the pay of 34 000 civil servants (FT: June 29, 1990), and when banks and pension funds won legal injunctions exempting them from having to buy privatization certificates as a penalty for the huge profits made during hyperinflation (FT: Aug. 16, 1990). Labour also provided a lasting credible opposition to liberalization, perhaps most noticeably in major strikes across the country including those by port workers (MH: June 2, 1990), oil refinery employees (JC:21 June, 1990), state-run steel company employees (JC: July 24, 1990), bus drivers and subway engineers (MH: July 12, 1990), with wage demands often reaching the triple digits. However, the state would not budge, and even when striking Ford workers went on a violent rampage in July 1990 (JC: July 24, 1990), and striking electricity workers were accused of sabotage in a ten hour blackout in the capital city of Brasilia in August 1990 (FT: Aug. 22, 1990), the state remained conspicuously low key and unmoving.

Neither did external forces in the form of debt payments deter the Collor administration from giving up tight control over the stabilization program. Although foreign credits would be critical to any future recovery, the Collor administration felt they could afford to refrain from tackling the debt problem until the Brazilian economy was revived. In either event, the Brazilian strategy seemed to rely a lot more on foreign investment than on foreign credit. When Brazil bought back their debt using the hard currency reserves made by selling state-owned companies, they did so without paying the interest that accumulated to service the debt. The U.S. Export-Import Bank responded by suspending credit for purchases of U.S. exports by the Brazilian private sector, but the Collor administration still refused to be intimidated. Thus, little conciliatory progress was made in 1990, and 1991 looked to promise even less when by the end of October 1990 the Collar administration only agreed to set a $2.4 billion ceiling for debt payments (BR: Oct. 25, 1990).

There were also continuing adjustment problems that the administration had to solve throughout its first year. Refusal by banks and pension funds to buy privatization certificates (FT: July 20, 1990) and the fact that the privatization programme was expected to only make $2 billion instead of the projected $7 billion in the first year of the plan, were both headaches the government had not anticipated (BR: Sep. 20, 1990). Similarly, the government found it necessary, in July 1990, to introduce a punitive tax on short-term investment in order to curb stubborn inflation (FT: July 26, 1990) and to intervene heavily in the domestic gold market in order to manage the dollar-cruzeiro exchange rate (FT: July 27, 1990); but these represented rather minor adjustments after stabilization had already been successfully introduced.

What stabilization, liberalization, and abdication did cost the administration was general upheaval and intervention in the lives of people on a scale never before seen in Brazil (ML: May 20, 1990), and the declining support that inevitably goes along with such action. Three months after stabilization was introduced, Collor's support plummeted to 36% from 71% of the population (FT: June 25, 1990). There was a twisted irony of the situation, however, with October congressional elections. The result of these elections was that while not giving Collor's small Partido de Reconstrucao Nacional (PRN) much representation, voters completely destroyed Lula's party and left Collor with the support of people he could do business with in congress (BR: Oct. 25, 1990). The suddenness of Collor's reforms and the four continuous months of destabilizing hyperinflation followed by heavy stabilization must have had a large impact on social attitudes and the political articulation of those attitudes.

Economically, the Collor administration had made a turnaround so great that it made Cardosa boast:

> "Never in Brazilian history, and, dare I say, in recent world economic history, has such a significant adjustment of public accounts been effected in such a short period of time" (BR: Aug. 16, 1990).

In fact, there was reason to boast as government expenditure that cost up to 9.15% of GDP was turned into an operational surplus of 1.22% (BR :Aug. 16, 1990). Similarly, with the dismantling of a protectionist past, Brazilian capital- already generally cooperative with foreign capital- continued to be so, and promised to help bring in badly needed investment to stem recessionary tendencies.

Socially, the administration succeeded in having relatively moderate social repercussions of its program, while ensuring the objective of stopping hyperinflation. Just as importantly, that no resurgent "culture of inflation" materialized for the rest of the year, surely must be counted among the greater successes of the Brazilian experience.

Politically, the administration had succeeded in changing the role of the Brazilian state to one which was more in line with the demands placed on it by a developing economy.

> "Freed from the obligation of making new and large investments in the productive sector, the state [could] concentrate its efforts on its typical activities, such as providing education, public health services, national security and law enforcement- in short, disbursing the fruits of national wealth" (BR: Aug. 16, 1990).

This transition in the role of the state was made by a president who long said that he wanted to be Brazil's last presidential president and its first parliamentary president- but who felt that in order for this to be reality had to make frequent use of "provisional measures" to push his policies through many obstacles. The obstacles Collar had to face, however, were perhaps less significant than the obstacles that faced other Latin American leaders that also had to cope with hyperinflation.

In summary, Brazil generally seemed to have mirrored many of the hyperinflationary patterns. Near bankruptcy, created through indebtedness, set the stage for hyperinflation. Once hyperinflation occurred, initially the state was incapable of bridging international credit interests with domestic interests, however, new elections gave the incoming president the social backing he needed to repress societal demands in favour of international creditor demands. Once in office the new administration moved decisively towards orthodox stabilization after years of gradualism failed to bring down chronically high inflation levels. In implementing orthodox stabilization policies, it was the poor and labour classes which eventually suffered the most in the ensuing recession. In response to orthodox stabilization unemployment rose, wages were cut, organized strike action declined, and societal cleavages deepened. On the other hand, hyperinflation was controlled, central bank reserves were up, and the government had achieved it by confronting harsh economic reality with "authoritarian-like" emergency decrees. However, no steps towards greater social democracy were taken in the aftermath of stabilization, and by the end of 1990 the country again had fallen into galloping inflation.

The hyperinflationary crisis patterns are confirmed in the Brazilian case. Sarney's gradualist strategy was abandoned for Collor's shock plan. It was a plan made necessary by the inability of the Sarney administration to link national interests with international interests. Finally, it had the impact of dismantling labour power in the aftermath of stabilization.

ARGENTINA

Almost the entire Argentine economic history appears to be one big oddity. It is a country rich in resources, self-sufficient in energy, contains one of the world's best granaries, and has a highly educated homogeneous population, but has for almost a century verged on Third World status (WP: Apr. 23, 1990). Why it has not been able to emerge as a fully advanced industrialized liberal democracy, when the conditions for it seem so ripe, remains a mystery. Thus, Argentina's curious hyperinflationary experience in the last two years, which saw hyperinflation reappear despite recessionary stabilization, stands as an "oddity within an oddity". Remarked a former Public Works minister of the two surges in hyperinflation in mid-1989 and at the beginning of 1990:

> "Argentina is the only country in the world where recession, which in theory stabilizes markets and brakes inflation, has been accompanied by two bouts of hyperinflation (SC: July 5, 1990).

So intriguing was the Argentine experience, that it attracted the interest of the world's best economists, but four months after the last round of hyperinflation they were largely unable to account for why Argentina had to go through two three-month bouts of crises (SC: July 5, 1990).

Argentina, by no means, had the inherent structural advantages Brazil had in dealing with hyperinflation. It had no huge economy which could shield it from the effects of hyperinflation, no strong private sector which could weather stabilization, and no large trade surplus from which to deflect the economic repercussions of hyperinflation. In the context of these disadvantages alone, the Argentine hyperinflation riddle loses much of its mystery.

However, there were other disadvantages that gave Argentina an inferior chance of overcoming hyperinflation besides the structurally inherent safety mechanisms possessed by Brazil. Perhaps one of the most detrimental to Argentina was its history of class conflict and the strong ideology of statism which surfaced to combat it.

Since the 1940s, the political scene in Argentina was marked by tensions between the shifting alliances of the workers, the middle classes, and the agricultural/ exporting interests (Pothier

1982:189). These conflicts made it difficult for Argentina to plan its development, apportion out gains and losses, and shape economic changes; it was condemned to a bad mixture of political instability, populism, and rigid interest group structure (Pothier 1982:190). Under such conflict, distributional contention flourished, and in the absence of a strong social agreement over distribution and lack of strong legitimate government authority needed to impose consensus, high inflation became inevitable (Pothier 1982:191).

Peronism surfaced in the 1930s under such historical conditions and grew as a movement. It was a way of overcoming the high distributional conflict in a developing economy, by denying its existence and subduing the rigid interest group structure with populism. The crux of Peron's ideology may best be described by himself when in 1953 he advised a Chilean president saying:

> "Give to the people especially the workers, all that is possible. When it seems to you that you are giving them too much, give them more. You will see the results. Everyone will try to scare you with the spectacle of an economic collapse. But all of this is a lie. There is nothing more elastic than the economy which everyone fears because no one understands it" (Pothier 1982:186).

Simply put, the rationality of living beyond means, made Peronism an attractive political ideology.

More specifically, the Peronists traditionally stood for state-led growth, the creation and maintenance of a far-reaching welfare state system, and opposition to the dominance of the network of both personal and family financial interests that controlled the Argentine economy (Calvert 1990a:172). Its doctrine of "social property" called for the means of production and resources to be divided between the state, private capital, and the workers, but the theoretical sharing of resources proved itself incapable of implementing viable economic policy (CSM: Feb. 28, 1990). Instead, Argentina was left to a chronic state of high inflation and political instability.

This form of rightist socialism saw the size of the state expand dramatically in the 1940s as the government, instead of relying on unemployment insurance and welfare, hired thousands of employees for the state-owned enterprises (NYT: May 14, 1990). The size of the state continued to grow since Peron (NYT: May 14, 1990). By 1990, the state of Argentina was ranked as the eighth largest company in the world (NYT: Feb. 12, 1990), hiring some 2.3 million people or about 30% of all salaried job holders in the country (NYT: May 14, 1990). The statist approach which dominated Argentina for over half a century, stifled the growth of market capitalism as business was forced to give up its right to compete with the state (CSM: Feb. 28, 1990).

The history of class conflict and the well defined Peronist heritage within that context, however, shows only a part of the picture why Argentina inherited for itself constraining structures making it difficult for it to deal with hyperinflation. The other side of the picture was represented by the military juntas (1976-83) who tried to expunge Argentina of its Peronist past. The more immediate reason why Argentina entered hyperinflation was because of a debt crisis, created not so much as a result of the indebtedness from the nationalization of Peron, but in the 1970s from the tremendous increase in the supposed free market policies of the military government of General Videla (Calvert 1990a:170). The central element of his economic policies involved the overvaluing of the peso, financed through borrowing. This policy in turn contributed to a consumer boom among military and middle class supporters, leaving Argentine industry destroyed and the country bankrupt. (Calvert 1990a:170) The military regime's decision to statize the private debt accrued in this period only served to burden the new democratic government with the responsibility to service approximately 90% of the total debt (Smith 1990:3). By 1983, bankrupt and debt ridden, the military Junta gave the reins of power over to the duly elected civilian government of Alfonsin.

When Alfonsin did assume the leadership, he, like his predecessors made a bad situation worse through his unwillingness to sustain the austerity measures which were necessary but unpopular amongst the Radial party's traditional supporters, who believed strong-state intervention was necessary in the economy (Calvert 1990a:170). In early 1985, however, he did try to bring austerity to the country with the introduction of the Austral Plan. The plan included a temporary freeze on wages, prices, and exchange rates for an agreement from international creditors to stretch out the debt payments. As well, the government promised to raise taxes, reduce subsidies, and resist printing money to finance its budget deficit. The plan initially worked, with inflation falling to two percent a month, but because the government could not indefinitely curb wage demands by public employees or sell debt-ridden state companies, high inflation returned to the country (NYT: June 18, 1989).

By 1987, it became much harder for Alfonsin to make a bid for austerity when the Peronists swept the September 1987 congressional and gubernational elections, but he did try again in April 1988. With the Primavera Plan, Alfonsin sought to deregulate prices, which were generally climbing since late 1985, by attracting financing from the IMF, World Bank, and the U.S. (Wynia 1990:13). The plan introduced a strong anti-export bias and a strong austral backed by foreign credit, which was viewed as necessary in order to revive sagging per capita economic growth rates while at the same time preventing an explosion of inflation (Smith 1990:26). The decision to let the central bank attempt to prop up an overvalued currency, even when the flow of hard currency slowed dramatically in response to tighter foreign credit, left Argentina in a situation again of large capital outflow. This made it not only have to

> "..cope with the normal conflicts over distribution, associated with the inter-sectoral income transfers induced by high inflation but also and simultaneously [made it] cope with the negative sum payoffs stemming from a net reduction in the society's collective wealth" (Smith 1990:4).

The plan collapsed, when Argentina's creditors, unhappy about the government decision to suspend loan payments earlier that year, cut new credit and soon it became impossible for the central bank to both prop up the austral and to hold prices down (Wynia 1990:13). The result was very serious, for in a matter of a few weeks, the central bank sold millions of dollars in the free currency market in a vain attempt to prop up the exchange rate (Smith 1990:27). This led the way for massive government subsidy of capital flight, very high short-term interest rates, falling investment, and overall strengthened recessionary tendencies (Smith 1990:27).

The fiscal crisis of the state and the immediate crisis of public confidence in the austral, created when exchange controls were lifted, resulted in massive capital flight as people converted their money into dollars, leaving the central bank no reserves to stem the mounting devaluation of the currency (Calvert 1990:170). The unresolved debt crisis and the persistent outflow of domestic savings abroad had a harsh impact on domestic investment and left little hope for Argentina as an attractive option for foreign investment (Smith 1990:29). The plan that called for growth with austerity led instead to stagflation. In the aftermath of Alfonsin's failed plan his popularity (and that of his Radical party) dropped dramatically and led to the decision by the president to leave office six months ahead of schedule, just while opinion polls were registering 3% approval ratings (Calvert 1990:170).

When hyperinflation did appear in Argentina, it did so in a decade with the country experiencing the fourth worst cumulative variation for per capita GDP of all Latin American countries (behind Guyana, Nicaragua and Peru; (CEPAL 1990:26), and while the economy was contracting (-2.85% GDP in 1988 and -4.5% in 1989). Thus, in the context of "stagnation within stagnation" the stabilization program imposed zero-sum payoffs, including income losses for organized labour, sectors of the middle class, and the weaker sectors of commerce and industry (Smith 1990:4). The large foreign debt made foreign investors hesitant and any proposed austerity would have paralyzed an already weak private sector (MH: Aug. 29, 1990). From an economic point of view Argentina's hyperinflation was a "catch-22".

Socially, the government also had structural constraints. Not only did Argentina have a similar distribution of wealth as Brazil's- with the top 10% earning 46% of the wealth- (Smith 1990:30) but, it also faced a fairly powerful union movement strengthened by fifty years of state corporatism

(CSM: Feb. 28, 1990). Any austerity program had to combat serious opposition from a public sector which had carried over 2 400 strikes in Argentina since 1985 (FT: Apr. 19, 1990). Peter Calvert recognized that,

> " The belief in the power of large corporations.. [had] also to be seen as part of a general problem: that any Argentine government [had] to tackle the entrenched power of corporate interests, both business and labour " (Calvert 1990:172).

Summarizing the main failures and constraints leading to hyperinflation, it was the statist heritage financed through foreign borrowing which contributed to a huge external debt and indirectly to massive capital flight, depleted foreign reserves, and hyperinflation. Argentina's accumulated external debt, created (in part) by a huge and inefficient state bureaucracy, was built upon the seemingly antagonistic but in actuality fairly consistent ideologies of Peronism, "military doctrinism", and "Civic-Radicalism". These political movements relied on increased statism and borrowing to offset the distributional crisis, and significantly contributed to perhaps Argentina's greatest structural weakness: the external debt.

Capital flight, depleted foreign reserves, and eventual hyperinflation all had their roots in Argentina's external debt. The external debt, which had expanded to $63 billion in 1989 (CEPAL 1990:34) was by 1990 costing the Argentine government 5.5% of its GDP just to maintain a regular flow of payments (MH:29 Aug. 1990). This did not even include Argentina's exploding domestic debt.

Thus, the noticeably absent safety mechanisms of economic size, a strong private sector, a growing economy, or a large trade surplus, and the fact economic crisis erupted in a country with large inequalities of wealth, strong business and union power, and high indebtedness, combined for cumulative structural weaknesses that left Argentina in a disadvantaged position to solve hyperinflation. By April 1989, it was obvious Argentina was on the verge of a dire economic crisis and in May 1989 it became the second South American country within a year to experience hyperinflation.

Argentina, like Brazil, slipped into hyperinflation in the same political context, namely at the end of a "de-legitimized" administration's term and within an election campaign. Argentina's election pitted the Peronist candidate Saul Menem against Alfonsin's successor as leader of the Radical Party Eduardo Angeloz. Despite the fact Angeloz was running on a ticket of accumulated economic failures, and the fact workers', businessmens', and farmers' livelihoods had taken a tumble during Alfonsin's term (FT: Apr. 7, 1989), the polls preceding the election only predicted a small advantage to Menem, with a large portion of voters remaining undecided (FT: Apr. 7, 1990).

Menem, chosen as the Peronist candidate in the first ever direct party election (Wynia 1990:13), ran a vaguely defined campaign which portrayed him as a champion of the poorest sectors of Argentine society (Calvert 1990:172). Menem pleaded in the campaign,

> " Follow me!...For the hunger of the poor children, for the sadness of the rich children, follow me! For the tables without bread follow me! (WP: Apr. 24, 1989).

Promising everything to everyone, Menem made assurances of a "productive revolution" and a future of improved living standards and national self-respect, but remained vague as to how he would accomplish these objectives (FT: Apr. 7, 1989). He promised both higher wages to workers and a return to a disciplined economy to business (WP: Apr. 24, 1989). Many expected he would revive the tradition of state largesse within the restrictions imposed on him by a exhausted economy (NYT: May 16, 1989).

Angeloz, meanwhile, offered a more realistic albeit less optimistic future by promising to sell inefficient debt-laden state companies, end subsidies, gather taxes, and establish Argentina as a free market exporting nation (NYT: Apr. 26, 1989). The failures of Alfonsin's administration were too deep, though, and it was Menem who was elected by a 10% margin (NYT: May 16, 1989). However, it was the platform of Angeloz that Menem would subscribe to in the aftermath of the campaign.

The first bout of hyperinflation hit Argentina while the government was virtually bankrupt and threatened the fragile democracy with three ascendingly difficult months, with inflation rates going from 80% in May 1989, to 115% in June 1989, and 195% in July 1989. Just prior to hyperinflation central exchange reserves fell to a dangerously low level of $500 million, tax revenues dropped markedly, and short-term public debt serviced by treasury bonds began to mature (FT: May 24, 1989). In an attempt to restore stocks of foreign capital, the administration freed exchange rates (FT: Apr. 15, 1989), and let interest rates for local currency shoot up to 300% (FT: May 24, 1989). However, so low had confidence fallen in the austral, that exporters refrained from exchanging hard currency for australs and even when the economic minister threatened to force them to exchange it was to no avail (FT: Apr.22, 1989). By the end of May 1989 the administration was forced to retreat to a fixed exchange rate in a concerted effort to stem hyperinflation (FT: May 30, 1989).

In just one month, hyperinflation inflicted such economic damage that the government began printing the 50 000 austral note to replace the largest denominated 5 000 austral note (NYT: May 31, 1989). In response to critical hard currency reserves estimated at $200 million, or enough to cover imports for less than one month, the government imposed a liquidity squeeze on the economy. When the Alfonsin administration decided to freeze all bank accounts by allowing depositors to withdraw the equivalent of only $100 dollars from their accounts, a social backlash against an illegitimized leadership resulted. After less than a week food riots, lasting four days and representing the largest outbreak of violence in twenty years, erupted in some of Argentina's largest cities (WP: June 1, 1989). Fourteen were left dead in the violence, 80 seriously injured and over 2000 arrested (FT: June 3, 1989; JC: June 2, 1989). This outbreak of violence could partially be attributed to the fact thirty percent of Argentina's population were so poor that they could not afford even basic necessities (WSJ: May 11, 1989).

Meanwhile, the crisis in June 1989 showed no signs of abating as shop workers, civil servants, and university lecturers saw their demands of pay increases in excess of 100% met (FT: June 16, 1989). Even though many workers' real wage equivalents plunged to the levels of Bolivia, Paraguay, and Peru (WSJ: June 22, 1989) the government continued to print money (NYT: June 12, 1989).

Eventually hyperinflation had its impact on industry and investment. Industrial production was estimated to have dropped by 15% a month between April and June 1989 (NYT: June 12, 1989). The accumulated outflow of capital in June was estimated at $50 billion (NYT: Dec. 28, 1989), giving Argentina one of the world's worst ratios of capital flight with the total value of money leaving the country even higher than that of Brazil (WSJ: Sep. 25, 1989). By the end of June, foreign reserves were at $150 million, leaving Argentina effectively bankrupt (FT: June 22, 1989). That month the government began rationing foreign currency sales to individuals and corporations to $1000 limits (JC: June 26, 1989). Bankrupt and illegitimized, the Alfonsin administration was forced to give up the reins of power early, as Menem was left faced with the daunting task of turning back hyperinflation.

By the end of June 1989, the Treasury was only gathering enough revenue to cover 28% of the state's monthly expenditures (FT: June 23, 1989), and Menem responded to the crisis in the only way possible, by increasing revenue and decreasing costs. Gary Wynia wrote:

> "Menem had little choice; he had to force Argentines to accept austerity, unpopular as that might be. Austerity was not a Peronist solution, but it was dictated by an ugly reality that everyone recognized" (Wynia 1990:16).

Menem brought a stabilization plan to Argentina called "surgery without anesthesia", which resembled a flexible version of the failed Austral Plan. The plan had two essential components, including immediate emergency decrees to correct the most immediate problems, and two bills aimed at the long-term reduction of the size and cost of the Argentine government. The emergency package corrected the most immediate problems with the Argentine state, namely critically low foreign currency reserves, through a major currency devaluation of 53% (MH: July 12, 1989), a rise in public utilities and tariffs by between 250 and 600%, followed by a controlled freeze on prices and wages to secure the value of the austerity measures (FT: July 12, 1989). The administration softened the blow of the emergency package by promising to hold the price of basic foodstuffs (FT: July 12, 1989), giving a payment of approximately $12 dollars to all public and private sector workers, and by indexing wages with immediate advances to its employees equal to June earnings against July salaries (JC: July 11, 1989).

Passed in September 1989, after the immediate impact of the emergency decrees, the second more long-term steps to curb hyperinflation were made in the legislation of the State Reform Bill and the Emergency Bill. The State Reform Bill authorized the "most sweeping and audacious privatization drive" an Argentine government ever attempted (CSM: Sep. 11, 1989), without which, Menem claimed, the government could not control its finances (Wynia 1990:15). The Emergency Bill, which allowed the executive to rule by decree for 180 days, and a further six months if needed, introduced a wide range of budget cutting measures (CSM: Sep. 11, 1989). Some of the more salient parts of this bill included suspension of all forms of subsidy, a 50% cut in the industrial production benefits for half a year, the removal of trade barriers to foreign investment, the suspension of laws requiring the state to buy goods from Argentine suppliers, and the ability to jail tax evaders (FT: Aug. 10, 1989).

Throughout the most wrenching times of stabilization, Menem had acquired for himself the strong support of at least 80% of the population (WP: Aug. 13, 1989), and few Argentines, regardless of ideological persuasion, doubted that significant reforms were necessary if the country's economy was to avoid collapse (Smith 1990:2). Even in privatization, Menem looked to have made no enemies as early spring polls showed that 70% of Argentines favored such action (FT: Mar. 22, 1989). Labour through the initial months of stabilization remained surprisingly supportive. Said one labour chief:

> " If this plan had been designed by a non-Peronist we would have been out on the streets by now [Aug 13], fighting it (WP: Aug. 17, 1989).

Finally, he did not have the obstructionist congress that Collor faced thanks to the 1987 congressional election victories.

Although Menem, had proportionately worse economic problems than did Collor, he also had less social and political barriers that directly opposed him in the early months of stabilization. Why then did Menem's first attempt at stabilization fail, such that by January 1990 Argentina was again having to combat hyperinflation? Although details are still rather preliminary, it appears Menem failed on two accounts. He failed in a sociopolitical sense, by not keeping firm resolve in his decisions, and he failed as a pawn in a very deep economic crisis.

William Cline, an economist for the Institute for International Economics in Washington, believed the Menem administration first stumbled politically in October 1989 when it failed to oppose a 70% wage increase over six months that was negotiated by big labour and big business and represented a return to a more traditional Argentine economy (NYT: Jan. 30, 1990). Not only did the Menem administration contradict the spirit to liberalize the economy by giving in to the wage demands, but they also raised subsidies to tobacco farmers, from $90 million to $140 million, which also was in contradiction to liberalization of the economy (WSJ: Dec. 14, 1989). Likewise, the refusal to reduce the payrolls at even one of the 118 money-losing state-owned companies showed political irresolve on the part of the administration (WP: Dec. 16, 1989).

Why Menem retreated to a more populist stance in all these instances, even after economic realities dictated he move away from such a position, it is difficult to determine. These measures, though, appeared to hamper Argentina's collective will to solve its economic problems. Commented one correspondent:

> "Menem..tried to cushion the blow of fundamental changes.. to the failing economy. He..delayed plans to fire government workers, moved slowly on ending expensive business subsidies, compromised with the unions on wage increases, and cobbled together various social programs to help the poorest of the poor" (FT: Feb. 23, 1990).

The severity of Argentina's economic crisis, however, was foundational, and if lack of political will triggered the ruin of Menem's first stabilization plan, it was the magnitude of the economic crisis which brought it down. While Menem had returned to the good graces of the IMF early in the year by making promises to lower inflation, reduce the fiscal deficit, and stimulate the economy to around 6% growth for 1990, chances for receiving an IMF stand-by loan all but disappeared by the end of the year when it became obvious the economic crisis would render Argentina unable to pay off any of its debt without critically draining dollar reserves needed to finance development (Wynia 1990:15,35). Because the crisis was so deep, the Menem administration was unsuccessful in its bid to hold the exchange rate at 650 australs to the dollar, for whenever it did the black market rate climbed to more than 1000 to the dollar (LAT: Feb. 1, 1990), leaving hard currency flowing much more readily into the underground economy than into the official economy. The administration's bold decision to end price and exchange controls in an attempt to crush the black market, build up central bank reserves, and stem the run on the local currency did not work because the government's internal debt, which required banks to loan up to 80% of their short-term deposits to cover the foreign debt (LAT: Feb. 1, 1990) encouraged inflation and capital flight when investors rejected high interest rates in a worthless local currency for lower interest rates in an unrestricted exchange for American dollars (NYT: Dec. 13, 1989; CSM: Dec. 27, 1989; WSJ: Dec. 14, 1989; LAT: Feb. 1, 1990). The postponement of payments on the massive internal debt, further heightened fears of the worth of the austral, and its value plunged, paving the way for hyperinflation. Thus, irresolute political will, restrictive social structures, popular expectations, and harsh economic reality combined in Argentina to bring down Menem's first stabilization plan and 1989 ended with the country entering into the second round of hyperinflation.

By January 1990, the economic problems of most other Latin American countries "paled" in comparison to those of Argentina (WSJ: Jan. 3, 1990). The year started ominously as consumer goods rose by more than 100%, in response to a government gas price increase of 50% (NYT: Jan. 1, 1990). Monthly interest rates rose to 600% (WSJ: Jan. 3, 1990). Investment fell to 9% of GDP which was insufficient to cover the depreciation of capital stocks and was the lowest of any country outside sub-Saharan Africa (FT: Jan. 4, 1990). So many people turned to the underground economy to seek relief from the official economy that the economic minister warned speculation had reached the proportions of "collective suicide" and that Argentina was on the brink of ".. the final phase of hyperinflation, the destruction of the whole monetary system, and the complete paralysis of all productive and commercial apparatus" (CSM: Jan. 11, 1990).

Meanwhile, average wages had fallen to half their value a year ago (CSM: Jan. 19, 1990), and labour, determined not to simply accept the brunt of hyperinflation, made concerted efforts to keep wages linked to prices. Many public and private sector unions secured wage increases between 100 and 170% in January (FT: Jan. 31, 1990), including the country's armed forces. Menem's personal intervention to lift a suspension of 300 railway machinists during this month, after warning in November during a lengthy railroad strike that "A network which strikes is a network which closes", illustrated the administration's desire not to ostracize labour (FT: Jan. 4, 1990).

It appeared the social unrest which accompanied the second bout of hyperinflation threatened not only the social will needed to combat hyperinflation but also the legitimized political will needed to lead it. Popularity for Menem dropped to 40% in January 1990 from 80% during the intrusive period of stabilization in July 1989 (CSM: Jan. 19, 1990). The poor became his worst opponents as his promise of a better life did not come to fruition, and the austerity policies needed to combat hyperinflation threatened to exact their heaviest toll on the poorest Arg ..tines (CSM: Jan. 19, 1990). He still received the support of conservative voters and the business community who were in favour of his efforts to eliminate the budget deficit, (CSM: Jan. 19, 1990) but he lost the traditional support of otherwise divided trade unions and ineffective domestic industry who directly opposed the selling of nationalized industries which lost $8.5 million/day (FT: Jan. 4, 1990; NYT: Jan. 30, 1990). In January 1990 labour engaged in over 75 different strikes which was more that double the amount for the same month throughout the last decade (FT: May 15, 1990). Privatization posed a dual threat for not only did it threaten union jobs but it also threatened the political clout of union leadership. The Radical Civic Union Party made matters worse for Menem, by their refusal to be drawn into the crisis (CSM: Jan. 19, 1990), which further stymied his attempts to forge a unified legitimate political will.

As economic and social unrest came to a head in January 1990, the Menem administration took determined steps to control hyperinflation. The government tried to restore confidence in the austral by promising not to print any more australs (NYT: Jan. 2, 1990) but the public had heard unrealized promises like that before. More importantly, the administration introduced a massive liquidity squeeze which converted all but a million australs ($800) of depositors' savings into a ten-year government bond called BONEX (NYT: Jan. 30, 1990). Although BONEX could be used at face value, prevailing disbelief in the government's ability to guarantee interest in dollars left tne bonds trading at only half their face value. This liquidity squeeze was part of Menem's declared "war on speculation" (NYT: Jan. 30, 1990) and was aimed at eliminating the 7-day deposit account which was used by speculators to "jump in and out of U.S. dollar positions at will "(CSM: Jan. 11, 1990). However, the rest of the population suffered also as many had come to rely on high interest rates to protect them from a depreciating currency created when government printed australs to pay for its internal debt (LAT: Feb. 1, 1990). Suddenly, they too had almost 60% of their savings removed and had to wait ten years to recoup their principal and interest. Nevertheless, the main objective of combatting speculation was accomplished without sacrificing those in greatest neec (NYT: Jan. 30, 1990), and despite the government's low popularity ratings, business groups and unions "cautiously supported" the government's decision to restrict local currency (WSJ: Jan. 3, 1990). Of course, one reason why many big businesses remained supportive was that they had negotiated private deals with government which allowed them to buy bonds from small savers at 45 cents on the dollar and use them to pay taxes at their full dollar value (WSJ: Feb. 26, 1990).

By February 1990, with monthly inflation still over 60%, the economy in deep recession and with more than twelve million out of 33 million underemployed or out of a job, optimism in the leadership of Menem appeared to wane (WP: Feb. 23, 1990). The austral plunged dramatically in February from 1870 to the dollar to 5600 (FT: Feb. 28, 1990), magnifying the large amount of capital held in foreign currency outside the country. While the austral was trading over 4000 to the dollar, there was estimated to have been the equivalent of $1.6 billion in australs circulating in the country, compared to $40 to $50 billion in accounts outside the country. (WP: Feb. 23, 1990). With the exchange rate at over 5500 real capital in the country became even more scarce.

Meanwhile, industries in February were expecting to "suspend" more than 30% of their workforce, and the banking sector- both private and public- were "on the point of collapse" (FT: Feb. 21, 1990). Stores were closing because they did not know what prices to charge (WSJ: Feb. 26, 1990). Real wages plunged to a record low (WP: Feb. 23, 1990). Figures released by INDEC suggested that only 37% of the workforce could earn salaries sufficient to maintain their families at a basic subsistence level (Calvert 1990:171). Huge lines of people waiting for food coupons formed outside of the Trade Union Confederation, and in working class neighborhoods soup kitchens proliferated (LAT: Feb. 1, 1990).

ARGENTINA

Fears of a social explosion surfaced in February 1990 as people wondered whether the poor would again resort to widespread looting (WP: Feb. 23, 1990). It was not uncommon to hear taxi drivers saying "..they would welcome an invasion by the U.S." (NYT: Feb. 21, 1990). Menem's hold on the four million trade unionists appeared to slip in this period, as 15 000 demonstrators rallied in Buenos Aires against his plans for privatization (WP: Feb. 23, 1990). Some social unrest, such as looting in the industrial cities of Cordoba and Rosario and the occupation of the city hall in a suburb of Buenos Aires by hundreds of people demanding promised welfare checks, contributed to the sense of tension in the country (WP: Feb. 23, 1990). The Army Chief of Staff reaffirmed that his forces were ready to maintain order if necessary (WP: Feb. 23, 1990).

However, while economic and social malaise was reaching its peak, concrete political steps were being taken to stem the fiscal deficit which played a primary role in the resurgence of hyperinflation. In February 1990 the administration announced a variety of measures to curtail government spending, including decisions to: 1) balance the national social security budget, 2) cut the number of central government bureaucrats, 3) make provincial governments pay their debts to state-run companies, 4) cut subsidies for provincial government deficits, 5) work towards the elimination of "privilege pensions" and, 6) cut support to state-run companies (except railways) (FT: Feb. 20, 1990). The administration, not wanting to make some of its earlier mistakes, let hyperinflation run its course by allowing prices, wages, and exchange rates to be determined by the market (FT: Feb. 20, 1990), although it did make $30 payments to private sector workers to help offset the damaging effects of hyperinflation. Perhaps most importantly, however, the administration made important privatization decisions which promised to curtail government spending and bring in badly needed government revenue. In February 1990, a privatization timetable was announced for the larger companies and included ENTEL, the state-run telecommunications company, Aerolineas Argentinas, the national airline, ELMA, the state shipping line, and YPF, the state-run oil company (FT: Feb. 16, 1990).

In March 1990, hyperinflation continued out of control at about 96%. The economic situation continued to exact its toll on central bank governors as the 5th new chief stepped in to office in the last ten months (FT: Mar. 14, 1990). The deputy economic minister also stepped down in March (FT: Mar. 15, 1990) and the economic minister, Erman Gonzalez, appointed himself to the treacherous position as the country's central bank governor (NYT: Mar. 22, 1990). Meanwhile, the austral had lost 99% of its value over the past year (MH: Mar. 6, 1990) and plunged dramatically again in March to 6000 to the dollar (WP: Mar. 4, 1990). Prices across Argentina were no longer quoted in australs but dollars (JC: Mar. 19, 1990), and many shopkeepers saw no escape from the wage and price spiral. Complained one baker:

> "I just had to raise prices by a total of nearly 200 percent, and the people can't afford to buy our products.. Meanwhile, my costs have gone up 300 percent" (WP: Mar. 4, 1990).

Whereas the economic crisis may have crested in February, the social crisis was perhaps the greatest in March. Court clerks, teachers, professors, and doctors were all on strike in March 1990 (MH: Mar. 6, 1990). Menem's popular support plummeted to 26% (FT: Mar. 30, 1990). Labour voiced their dissatisfaction in a variety of ways. 2500 state employees occupied a branch of the state-run BHN bank to protest the government cost cutting program (NYT: Mar. 6, 1990). 2000 civil servants threw rocks and oranges at a provincial legislature to protest cuts in federal spending (MH: Mar. 8, 1990). Perhaps most dramatically, however, a protest and general strike by over 70 000 people at the end of March was the greatest show of mass dissatisfaction with the Menem administration (FT: Mar. 30, 1990).

Dissatisfaction, however was not only limited to labour, and the fact that the poor, including impoverished women and children, raided supermarkets in Rosario, Tucuman, and Mendoza illustrated that social discontent was not simply a local or sectoral phenomenon (NYT: Mar. 2, 1990).

Others, meanwhile, chose to protest by leaving the country, and the hundreds of people who lined up outside foreign consulates each day for passports and emigration papers was perhaps the saddest reminder that Argentina was a country in desperate times (WP: Mar. 4, 1990).

The Menem administration was not unaware that the difficult decisions they were making were generating social unrest. The economic minister appealed for collective unity on nationwide television saying there was a "real danger" hyperinflation "..could lead from economic anarchy to social and political anarchy" (WP: Mar. 19, 1990). Menem recognized the same social tensions when he issued a decree authorizing the military to act within Argentine borders in case of "social upheavals" that may have resulted from the economic crisis (WP: Mar. 19, 1990).

However, the Menem administration again threatened to become irresolute in dealing with the economic crisis, when the "painful and grave" economic measures added in March were anything but impressive (FT: Mar. 7, 1990). Indeed, for all the talk about stabilization, the administration only managed to make three marginally meaningful economic decisions. These decisions were to enforce immediate retirement for civil servants at or above retirement age, suspension of civil servants who were within two years of retirement age but who still received full salaries for two years, and the immediate closing of one state bank, the BHN-Banco Hipotecario Nacional (FT: Mar. 7, 1990). The fact that the IMF suspended its stand-by loan to the Argentina government at the beginning of the month for not reducing its February treasury deficit of $40 million (FT: Mar. 1, 1990), and the fact that the government made promises to increase state sector wage spending from $16.6 million to $74.9 million effective April 1st (FT: Mar. 7, 1990) only added to the belief that the Argentine government seemed determined to repeat its past mistakes.

By the middle of April 1990, however, the austral, after three months on the free exchange, ended its nosedive against the American dollar and hyperinflation ended (IMFa, Feb. 1991:93). It appeared the increased revenue of tax reform, the liquidity squeeze, government cost-cutting measures, and the move to a free exchange rate all added to the increase of both foreign reserves and total reserves of the central bank (IMFa, Dec. 1990:47; IMFa, Jan. 1991:84). Thus, the Argentine government was left with higher central bank reserves, a free-floating currency that had stabilized, and an economic crisis that had subsided. Although the administration did tinker with the wage rate, it did not back down on its policy of a free exchange rate. However, the long term statist reasons why it had to face hyperinflation still had to be addressed. Without privatization the foreign and domestic debt would easily eat into the gains made by the Argentine government in stabilization. Thus, even though hyperinflation was defeated, Menem continued in his crusade to sell off the major assets of the Argentine state.

Although the economic crisis of hyperinflation subsided by the end of April 1990, the country fell into a deep recession and by May the GDP had shrunk by more than 10% since the last summer (NYT: May 14, 1990). The IMF did resume payments on a $1.4 billion stand-by loan in response to Argentina's successful reaction to hyperinflation, but Argentina's massive debt still threatened its economic viability. Argentina still remained one of the region's largest per capita debtors (IMFa, March 1990:32-33), its greatest debtor in arrears (LAT: May 22, 1990), the second highest external debtor as a percentage of export of goods and services (CEPAL 1990:35), and the fastest growing external debtor (CEPAL 1990:34).

Inequality in the distribution of wealth only went from bad to worse in the third quarter, and threatened the country with social unrest. While in 1984, nine million , or roughly 1/3 of the population were classified as poor (with half having inadequate housing) (NYT: July 22, 1990), by the middle of 1990, public health, education, housing, and social services were all long past the point of bankruptcy (FT: July 12, 1990). Solidarity bonds, offered to the poor as a means of defending themselves from the crisis, only got "bogged down" in "mismanagement" and "corruption" (NYT: July 22, 1990). Menem had cut the flow of regular food baskets of basic necessities (NYT:

July 22, 1990) for over a year and the great majority of the effort to stop poverty was left to churches and charities (NYT: July 22, 1990).

The social repercussions of economic malaise, however, were not as strong as they had been in the midst of the hyperinflation-stabilization cycles. That is not to say there were no social problems in the aftermath of stabilization for indeed there were problems. Crime was noted to have increased with the onset of recession and unemployment (MH: Aug. 3, 1990). Looting and rioting again threatened to break out in the city of Rosario (FT: Aug. 30, 1990). The most powerful trade union in the country (UOM Union Obrera Metalurgica) launched a week-long campaign of work stoppages against the industry's employers for wage demands in excess of 35%, which not only threatened stabilization but also the government's new non-interventionist role in business-labour disputes (FT: July 3, 1990). Finally, and perhaps most threateningly, throughout the summer months rumors of coups by elements within the army persistently surfaced (FT: July 26, 1990; WSJ: Apr. 26, 1990).

Despite the potentially destabilizing forces of crime, poverty, work stoppages and military discontent that had emerged in the aftermath of the second stabilization, the social temperature of the country moderated from April 1990 onward. Menem's second stabilization was immediately applauded by a supportive demonstration, at least twice the size of the antagonistic demonstration staged by the General Labour Confederation two weeks earlier (NYT: Apr. 8, 1990). By July 1990 opinion polls showed that 62% of the population had a positive view of the president despite concern for the country's chronic economic problems (FT: Aug. 15, 1990). This marked a significant jump from 26% approval ratings taken at the end of March (FT: Mar. 30, 1990).

Finally, the political will necessary to make difficult economic decisions within the developing economy showed no signs of abating in the second stabilization. The Menem administration from April onward made consistent steps to liberalize the economy. In labour policy not only did the administration work towards legislation which curtailed strikes in "essential services" (FT: Apr. 19, 1990) but it also made a decree which limited the ability of public employees to strike (LAR: Oct. 25, 1990), and made a resolution declaring null all collective wage agreements (LAR: Oct. 25, 1990). It continued to make determined steps towards cutting the budget deficit. By July 1990 the Defense budget had fallen 80% in one year (from $1.3 billion to $300 million), half of the debt-ridden branches of the BHN were closed (FT: July 19, 1990), and by September 1990 the state had 58 000 less employees than it did in 1986 (LAR:Sep. 20, 1990). Cutting costs also allowed the government to liberalize the trade sector and it did so by making large tax cuts on some of its principal agricultural exports (FT: Aug. 7, 1990), helping turn a trade deficit of $1.3 billion into a surplus of $300 million (CEPAL 1990:15). It also lowered its import rates on imported foodstuffs (SC: Sep. 13, 1990). Finally, and perhaps most importantly the administration followed through on its campaign of privatization.

The administration started modestly with the privatization of 31 of its secondary and natural gas fields for a reputed cash price of $260 million (FT: July 12, 1990). It sold the country's flag-carrier Aerolineas Argentinas for $260 million paid over five years, $2.01 billion in Argentine foreign debt certificates, and a promise from the buyer to invest $683 million in the airline over five years (FT: Nov. 26, 1990). The administration culminated the year with a massive privatization of ENTEL, the state-run telecommunications company, for $5.03 billion in a debt-for-equity- swap, $214 million in cash, and a promise from the buyer to invest $600 million in the company over the next two years (FT: Nov. 13, 1990). By the end of the year, the government's privatization plan brought in a cash injection of at least $780 million.

That is not to say that all the administration's actions were beyond reproof, for indeed there were many fine-tuning problems in the aftermath of stabilization. Refusal by state agencies to make the budget cuts demanded by Menem threatened to leave a large public deficit (SC: Sept. 13, 1990), just like privatization confusion and difficulties for buyers in coming up with initial cash payments (LAR: Oct. 11, 1990) threatened badly need government revenue. However, none of the decisions the Menem administration had to make were together as severe or as concentrated in time as the measure taken in the hyperinflation-stabilization cycles.

In summary, Argentina's hyperinflationary patterns were also reflective of the overall hyperinflationary patterns. Bankruptcy and political delegitimization set the stage for hyperinflation in Argentina as it had in Brazil. The newly-elected president responded to hyperinflation with "authoritarian-like" emergency decrees, similar to what Collor had done in Brazil. However, unlike Collor, Menem failed in his bid to control hyperinflation. As has been documented, the second attempt to control hyperinflation succeeded where the first had failed because the Menem administration followed through on its intended reforms and did not contradict the spirit of these reforms. As a result the 1990 stabilization plan was much harsher and more authoritarian in nature. A massive devaluation, a sustained liquidity squeeze, significantly curtailed government spending, and heavy privatization succeeded in bringing monthly inflation to single digits for most of the year. Thus, movement towards decisive stabilization, as opposed to gradualism, could be seen in the transition of Argentina's political responses to hyperinflation.

In Argentina, as in Brazil, it was labour and the poor who most profoundly felt the effects of stabilization. Labour responded through protests, strikes, demonstrations, and violence, while the poor responded with localized looting. Whereas business groups also suffered in the recessionary period after hyperinflation, increased fiscal and monetary conservatism by the government ultimately benefitted them more than labour groups. It was the international creditors which gained the most. Self-induced recession provided the means by which the Argentine government was able to mediate social demands with international creditor demands. Also similar to the Brazilian experience, the Argentine government responded to hyperinflation by cutting consumption, and promising but not delivering to increase its debt servicing. As a result, the external debt has also increased in Argentina, despite fundamental restructuring, leaving likely renewed economic crisis and unlikely the possibility Argentina will be able to return to more "democratic" policy-making in the foreseeable future.

The Argentine hyperinflationary patterns are interesting because they illustrate how a country is constrained to follow a particular pattern. Forms of gradualism and "watered-down stabilization" characterize many of the Argentine governments' strategies prior to March 1990. The Austral Plan, the Primavera Plan, and Menem's first stabilization plan all failed, but in each can be seen a movement towards greater fiscal and monetary conservatism. Politically, each also shows how Argentine governments failed to mediate international interests with national interests. The Austral plan failed because Alfonsin was unable to subdue societal demands, the Primavera plan failed because he was unable to attract international creditor support, and Menem's first stabilization plan failed on account of both reasons. Finally, the social [illegible] pattern of the dismantling of labour power in response to firm stabilization can be seen in the second more successful stabilization attempt by Menem. The post-stabilization recession had served to disorganize labour.

PERU

Peru's general hyperinflation-stabilization graph is very similar to Argentina's. That is, it experienced periods of high inflation, with occasional periods of hyperinflation. The Peruvian experience, however, is different from Argentina's because 1) the stable inflation levels were generally higher and 2) when hyperinflation occurred it did so for shorter periods and in more spectacular rises. The Peruvian inflationary experience between 1988 and 1990 illustrates the advantages and disadvantages of a gradualist approach to hyperinflation.

The history of Peru is one of underdevelopment and authoritarianism. Until 1980, Peru's only other sustained period of civilian rule in the 168-year history of the nation as an independent country was from 1895-1914 (Palmer 1990:5). Democracy, when it returned to this developing country, however, did not bring about a better economic future for the average Peruvian citizen. A developing economy in the context of mounting debt problems and political irresolve made high inflation endemic to Peru.

The military government of Velasco came to power in 1968 and succeeded in becoming the longest running military establishment to govern Peru before it yielded to the Belaunde government in 1980 (Palmer 1984:47). Much of Peru's recent economic difficulties date back to the "..mid-1970s when the multiple reform initiatives of the military government (1968-80) began to exceed the government's capacity for them " (Palmer 1990:5). Although the Velasco regime had an ambitious agenda which sought to enhance the national security of the country through its "reformist developmental ideology", overall it had failed in its two biggest aims (Palmer 1984:48). The regime had failed to create a " fully participatory democratic system" of government in Peru and had failed to eliminate the country's heightened condition of dependency (Palmer 1984:48). By 1979, after eleven years of military government the country was in a worse economic situation than it had been in 1968.

Although economies around the world were also growing at a slower rate in the 1970s, the economic growth indicators in Peru appeared to be worse than the worldwide norms. Economic growth in Peru from the postwar period to 1966 averaged 5.4% per year, while from 1975 to 1980 it only averaged 1.7% (Palmer 1984:50). Between 1968 and the end of 1979 the Peruvian debt had climbed from $801 million to $7.9 billion, annual inflation rose from 19% to 67%, the value of the sol fell markedly, unemployment climbed from 5.9% to over 8%, and real wages had fallen to 73% of 1974 levels (Palmer 1984:50). Meanwhile, the annual number of major strikes had nearly doubled to 577 over the same time frame and the number of workers involved in strikes had risen by almost five-fold to 517 000 from 108 000 (Palmer 1984:50).

For a variety of reasons, Peru was poorer in 1980 than it had been in 1968 and even the return to civilian rule did not alleviate the country's underdevelopment. The civilian government of Belaunde (1980-85) faced several constraints in public policy including the worldwide recession in 1982, a devastating drought in 1983, and the emergence of the terrorist organization Shining Path in 1980 (Palmer 1984:51). In 1985, the populist candidate Alan Garcia won the impressive mandate of the population and was inaugurated in office in only the second peaceful transition of electoral power since 1914 (Palmer 1984:41). Whereas the previous years had created the setting for hyperinflationary crises, it was the Garcia administration which had sealed the economic fate of the country.

After assuming office in mid-1985, Garcia's consumption-oriented policy for Peru brought the country two years of impressive economic growth. The economy grew by 9% in 1986 and 7% in 1987 (LAT: Nov. 15, 1988). Garcia's popularity grew with consumer spending but the growth was an artificial growth based on the savings made when the government of Peru limited payments of foreign debt to only 10% of the country's export earnings (NYT: Aug. 28, 1988). By the end of 1987, the foreign exchange reserves used to finance the economic growth had been used up and

> "..the government deficit widened: inflation rates increased dramatically: real wages plummeted, and efforts at reconciliation with the IMF failed because of sharp government infighting" (Palmer 1990:6).

With foreign currency unable to continue sustaining the economy, Garcia faced a choice in 1989. He could either restore ties with the IMF and foreign banks in order to restore foreign exchange reserves or he could slow domestic growth and stimulate exports without foreign creditor support (NYT: May 14, 1989). Garcia, however, pursued a third option which was to convince businessmen to invest the large profits they had made in the Peruvian "boom" (NYT: May 14, 1989). This proved to be a false hope, though, and business profits left the country instead (NYT: May 14, 1989).

Domestic business was encouraged to pursue the option of capital flight because of the government's policy of maintaining a fixed exchange rate in the context of rising inflation (NYT: Oct. 20, 1988). Simply put, it made good economic sense for companies to make their profits, exchange them into dollars with an overvalued currency, and invest them outside the country before government credits and subsidies dried up. The confidence among investors did fall when subsidies and credits could no longer be generated (Palmer 1990.6) and, Garcia's isolationist strategy, instead of raising domestic investment, contributed to its fall by 14% a year during the 1980s (JC: Apr. 14, 1990).

In July 1987 Garcia, in a bid to stem capital flight and without the consultation of his economic advisors, abruptly announced the takeover of the country's private financial institutions. Wrote one correspondent:

> "His objective...was to stop capital flight and "democratize" credit. He was gambling that small businessmen would welcome the end of the cozy alliance between big banks and major industrial groups... but the move back-fired... Peruvians were skeptical. The public sector was already renowned for its inefficiency and corruption" (NYT: May 14, 1989).

Thus, by nationalizing the banking industry, Garcia severed domestically generated private sources of capital needed to sustain the economic growth in the strategy he pursued. With foreign creditors and domestic business unwilling to build the economy, and with the centre-left populist based political support of Garcia incapable of generating a feasible economic alternative, the country drifted between economic malaise and economic crisis between 1988 and 1990.

Besides the historically specific developmental path of Peru which contributed to the economic crisis, there must be added the structurally constraining features about the country which also inhibited developmental public policy. Peru had many structural constraints which inhibited development and made it virtually impossible in the context of hyperinflation.

The country always found it difficult to develop even though it has significant mineral resources including gold, silver, iron, oil, lead, copper, tungsten, mercury, and molybdenum. In 1990 it was the second poorest country in South America after Bolivia (WP: Apr. 22, 1990). Its food production was roughly 30% lower in 1989 than it was in 1969 (JC: Apr. 14, 1990), and by September 1990, one in ten Peruvians were eating U.S. donated food everyday (MH: Sep. 4, 1990). In 1990 Peru ranked as one of the world's worst distributors of wealth, with the top 10% of the population owning 53% of the nation's wealth (LAT: June 13, 1990).

This poor distribution of wealth led to other social problems. Malnutrition, which in 1970 affected one million people or 7% of the population, was by 1988 affecting five million people or 23% of the population (NYT: June 12, 1989). By the end of 1990, almost 40% of Peruvian children under the age of six suffered from serious malnutrition (MH: Oct. 15, 1990). While the population expanded at an annual rate of 2.5% (LAT: Nov. 20, 1990), (making it one of the highest in Latin America), the inability of the country to take care of its children was disconcerting. In 1990 the infant mortality rate in the country was 114 per 1000, and of every 1000 children born in Lima, 81 died before the age of one (MH: Oct. 15, 1990). 128 out of 1000 Peruvian children died before the age of 5, putting the country on par with some African countries (LAT: Nov. 25, 1990). Thus Peru's poverty was in itself an obstacle to development.

Similarly, the traditional practices of subsistence agriculture by the predominantly Indian and mixed races of the country meant that some, by choice, participated on the margins of the national society and economy (Palmer 1984:39). When Garcia took office in 1985, only about 1/3 of the work force was fully employed (JC: June 10, 1989). However, many did not want to live according to traditional ways and the deep poverty and disparity in wealth contributed to the generation of a " savagely violent guerilla movement" (WP: Apr. 18, 1990).

Ranked as "perhaps the most-radical subversive group in the world" (WSJ: Nov. 24, 1989), the Shining Path, mounted a terrorist threat that has steadily grown from its conception in 1980. Drawing on the support from the young and the poor it has become an increasingly violent threat to state security. The movement is strongest in the outlying regions like Ayacucho,

> "..where life expectancy is 51 years (in Lima it is 70), where 15% of residents have potable water and the state offers no one in rural areas electricity, roads, schools, or hospitals, only repression" (WP: Apr. 22, 1990).

In a village which could not defend itself from the Shining Path or the Peruvian army, many died trying to defend their meager livelihoods (NYT: May 7, 1990). In the process of trying to suppress the Shining Path, Peruvian security forces became one of the worst violators of human rights (WP: Apr. 22, 1990). In the meantime, the movement gained in strength.

> " In October 1981, emergency laws were imposed for the first time on part of Peru; they covered only 2% of the population. Now about 50% of all Peruvians live under emergency law. In 10 years, the war between the Shining Path and the government has cost about 20 000 lives. Damages are estimated at $16 billion or about 85% of Peru's gross national product" (WSJ: July 20, 1990).

Peru, like Bolivia, was also hindered by having to rely on a drug-trade of about $1 billion a year (NYT: July 4, 1990). In 1990 it was estimated that about one million people in Peru depended on the coca harvest for their livelihoods (NYT: Nov. 18, 1990). The Peruvian state was in a "no-win situation" by having to declare illegal an economically profitable drug trade in order to not alienate itself from international credit.

The country's heavy reliance on the mining industry was also a constraint to development. Peru's mining industry in 1988 accounted for 11% of all non-communist world zinc, 8% of all lead, 6% of all copper, and 15% of all silver production (FT: Dec. 14, 1988). The industry accounted for roughly 13% of Peru's GDP, half of its foreign exchange earnings, and over 1.5 million jobs (FT: Sep. 21, 1990). A minerals-based export economy such as Peru was thus subject to a variety of constraints including changing prices on the international market, foreign investment, and foreign technology (Palmer 1984:41). The high reliance on mining also gave the mining industry increased power in dealing with the state. This power seemed to be used as 1989 witnessed a $450 million loss of revenue to the government in labour strikes throughout the year (NYT: Sep. 18, 1989).

Another constraint to development was the centralized nature of the state itself. Whereas the state in Brazil and Argentina had nationalized the productive elements within the country, the character of Peruvian statism was somewhat different. In Peru, the state did not so much take over business and industry as it regulated it. The state defended the oligopolistic and monopolistic interests of elite business and prevented the ascendance of a new bourgeois class (WSJ: Mar. 17, 1987). Although its 800 000 bureaucrats (WSJ: Feb. 23, 1990) were nowhere near the percentage of civil servants working in Argentina, the state-business bond in Peru may have been stronger.

Public policy contradictory to overall economic development, created through a strong business-state bond constricted development. That is, political action in Peru largely constricted the economic development of the country as a whole. Although it made economic sense for Peru to develop its export trade with its abundance in mineral resources, the government continually weakened the export sector through its reliance on an overvalued currency and high inflation (NYT: Sep. 18, 1989). This led to one million percent accumulated inflation between 1985 and 1990, while over the same period the GDP had fallen 5% (FT: June 7, 1990). Per capita production stagnated and remained at 1960 levels in 1990 (FT: June 7, 1990). The government had indeed succeeded in protecting the interests of a large and powerful business elite, but in the process had stifled economic development. Thus, the political aims of the government constrained development.

Hernando deSoto, in his book, The Other Path, picked up on this theme. By looking at three major areas of the informal economy (housing, the retail trade, and transportation), he showed how it had been virtually impossible for poor individuals to become legal participants in the formal economy. He believed the reason that capitalism failed so badly in Peru (or Latin America for that matter) was because it was never tried, and what passed for capitalism was economic control exercised by a business-government elite (WSJ: Mar. 17, 1987). The evidence he gave was convincing:

> "For instance, if playing by the rules, a group of low income families would be obliged to spend nearly seven years to obtain the right from the authorities to build on a vacant site. To possess even a street vendor's licence takes 43 days of commuting between bureaucracies and costs the equivalent of 15 times the minimum monthly wage. To set up a small clothing plant was found to take 289 days, plus the navigation of 10 solicited bribes" (FT: June 22, 1989).

Thus, Mr. deSoto contended, a black market was created by Peruvians unwilling or unable to be constrained by the regulations and restrictions of government (WSJ: Mar. 17, 1987). As a consequence, 60% of Peru's economy remained outside the legal economy and in Lima alone the black market employed nearly 500 000 people (NYT: Jan. 22, 1989). According to his study, of 331 markets in the capital, 274 were built by black marketeers (NYT: Jan. 22, 1989). Between 1960 and 1984, $8 billion worth of housing was built by the black market while only $173 million worth was built by the state (NYT: Jan. 22, 1989). Thus, the inefficiency and corruption of the state constrained economic development.

There are perhaps many other constraints that left Peru with an underdeveloped economy. Whatever these constraints, the point is that the origins of underdevelopment in Peru were complex and multi-natured. Hyperinflation could not be attributed to any one factor. Poverty, a poor distribution of wealth, a subversive terrorist organization, the drug trade, a conservative bureaucracy linked with the interests of domestic business, a pragmatic black market, a heavy reliance on the mining sector for economic development, and a noticeable disarticulation between political and social ends all shaped Peru's economic underdevelopment in a highly particular manner. Together they created the setting for an economic crisis that noticeably began to unfold by the middle of

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1988.

September 1988 was the first month of hyperinflation (114%) and was by far the biggest monthly inflation rise in Peruvian history (WSJ: Oct. 4, 1988). The foreign debt largely grew in response to Peru's inadequate interest payments and was expected to reach $6 billion by the end of the year (FT: Sep. 28, 1988). The country was effectively bankrupt with hard currency reserves $260 million in the red at the beginning of the month and by the end of the month $400 million in the red (WSJ: Sep. 27, 1988). According to bank officials the only gold left in the central bank vaults consisted of mainly antique coins, medals, and family heirlooms (WSJ: Sep. 27, 1988).

Hyperinflation occurred in response to the third government-initiated austerity package of the year (FT: Sep. 28, 1988). The package sought to reduce the fiscal deficit (which was accounting for 10% of GDP), boost exports, and curb inflation (FT: Sep. 28, 1988; FT: Nov. 12, 1988). The measures of the package included a quadrupling of the price of gasoline, an end to Peru's multiple exchange rate system, a series of higher taxes, wage increases for lower income groups, a freeze on state hiring and most official state travel, and a 120-day price freeze (WSJ: Sep. 8, 1988; LAT: Sep. 25, 1988).

The price freeze, however, was announced 10 days prior to its implementation and, rather predictably, prices rose quickly (WSJ: Sep. 8, 1988). By the end of the month the cost of most household essentials had almost tripled and the purchasing power of most Peruvians was halved (NYT: Oct. 20, 1988; FT: Sep. 28, 1988). The price-freeze was lifted after less than a week because the price controls were causing speculation and hoarding by merchants once hyperinflation had been triggered (WSJ: Sep. 23, 1988). Business suffered as a result of hyperinflation. Only four cars were sold in Peru in September 1988 and beer sales were down 90% (NYT: Oct. 20, 1988).

Protests against the austerity package left 25 injured, "numerous" arrested, and caused "considerable" damage (MH: Sep. 16, 1988). Looters tried to sack stores in one of Lima's poorer neighborhoods but the government firmly reminded residents that the city was still under a state of emergency because of terrorist violence (WSJ: Sep. 8, 1988). Perhaps that was why there were no large spontaneous protests during a month in which inflation had went up five-fold.

However, polls revealed that social support for the government was very low. Much of Garcia's popularity was based on "..conceding higher wages, increased subsidies and stimulating a domestic boom through the non-payment of foreign debts" (FT: Sep. 28, 1988). The austerity program, however, was in opposition to these goals and thus it was not surprising to see that Garcia's popularity dropped. Polls in September 1988 showed approval ratings for Garcia had dropped to 16% from 96% in August 1985 (WSJ: Sep. 27, 1988). The increasing reliance on austerity was in antithesis of what Garcia had stood for in his first two years in office and had alienated traditional political backing without making inroads to other support.

In October 1988 labour responded to the failed austerity and hyperinflation in a more confrontational manner. Peru's largest trade union, the General Confederation of Peruvian Workers (CGTP), defied the government and staged a one-day strike which was supported by representatives of the civil service, mining communities, farmers, and market workers (FT: Oct. 12, 1988). The government responded by having police arrest thirty union leaders and hundreds of local people (LAT: Oct. 14, 1988). In a separate incident one student was shot dead and four others were injured in an anti-government rally at Lima State University (FT: Oct. 14, 1988). A few days later 60 000 Peruvian miners started a second strike within a month (FT: Oct. 17, 1988). With the increase in labour militancy, the left-of-centre president responded by declaring the country in a state of emergency and authorized mining companies to dismiss workers who participated in any illegal strikes (FT: Oct. 25, 1988).

The miners went back on strike because the government refused to pay the agreed upon indexed wages in the context of hyperinflation (FT: Oct. 26, 1988). The strike was significant because it was supported by over 70% of the Peruvian miners and cost the state between four and five million dollars a day in foreign exchange earnings (FT: Oct. 25/ 26, 1988). When the strike eventually ended, after nearly two months, it had cost the government $300 million, or 1/4 of the country's mineral export income (MH: Dec. 14, 1988).

Meanwhile, the livelihoods of average Peruvians deteriorated. Undernourishment was said to affect over 40% of the population (NYT: Oct. 30, 1988). Acute malnutrition, which normally dropped after harvesting season, was on the rise (NYT: Oct. 30, 1988). People were reported to have dropped milk from their diets and many were only eating one meal a day (NYT: Oct. 30, 1988). There were at least 1500 communal kitchens operating in Lima alone during October (NYT: Oct. 30, 1988). Hyperinflation seemed to spark increased black market activity with an estimated 20 000 free lance money changers operating in the capital city (NYT: Oct. 24, 1988).

By November 1988, inflation had fallen back to 25% but the labour unrest showed few signs of subsiding. The Garcia administration tried to continue its anti-inflationary policy by issuing a decree limiting wage increases to 40 000 intis (about $40), however, this was withdrawn after three days of strikes by bank employees, textile workers, and employees of other state companies (FT: Nov. 9/ 12, 1988). More than 90% of miners were on strike during the month, and in Lima on one occasion the strike turned violent when miners attacked a government building (FT: Nov. 11/ 19, 1988). Miner leaders organized a week of demonstrations, marches, and hunger-strikes in an attempt to mobilize opinion towards their demands (FT: Nov. 29, 1988). In at least three separate incidents during the month, police were called upon and fired tear gas and bird shot to disperse rallied students and Peruvian miners (MH: Nov. 30, 1988).

At the end of November 1988 the government announced another austerity package. The measures of the package included a devaluation of the inti by 50%, the eventual elimination of subsidies for food over the next six months, and an increase in the monthly minimum wage from 15 000 intis to 24 000 intis (FT: Nov. 24, 1988). The near doubling of minimum wages and the halving of the purchasing power of the inti to a certain extent offset each other, illustrating that Garcia and the APRA party were still reluctant to enact orthodox free market reforms (LAT: Nov. 15, 1988). In the aftermath of Garcia's "watered down" November austerity package the finance minister resigned (FT: Nov. 28, 1988). After a year retreating from his professed ideology, Garcia announced he would retire from politics after he had completed his term of office (LAT: Nov. 20, 1988).

Meanwhile, the economic situation, although subsided from the September crisis, was still not very encouraging. There were indicators of economic malaise. Although the central bank had increased its foreign reserves to $60 million (FT: Nov. 12, 1988), it was announced in November that the government oil company was still losing $300 million a year (LAT: Nov. 15, 1988). The highest denominated inti had fallen to a value of $2 U.S. (LAT: Nov. 15, 1988). The manufacturing output in November was 47% less than it was in November 1987, while high inflation still had not been overcome (WSJ: Jan 6, 1989). Even though the free market exchange rate was 500 intis to the dollar, exporters still only received 250 intis for each dollar earned from export, and thus trade dropped (LAT: Nov. 15, 1988).

By December 1988, the economy had contracted by 9% from the previous year (NYT: Jan. 15, 1989), even though no drastic recessionary stabilization package had eradicated high inflation. Per capita GNP had fallen by 11.1% in 1988 (WSJ: Feb. 23, 1990), and 2/3 of Lima's working age population were living in shantytowns (WP: Dec. 26, 1988). Over 150 000 people emigrated in 1988 (LAT: Nov. 11, 1989).

As well, there appeared to be no real political solution e[illegible] the coming year as Garcia handed in his resignation as the APRA leader but retained the presidency (FT: Dec. 22, 1988). If 1988 was a difficult year, 1989 promised to be more difficult.

By January 1989, Garcia's support had fallen to 13% (WSJ: Jan. 6, 1989), and rumors of an imminent military coup circulated throughout the country (NYT: Jan. 15, 1989). Garcia announced another "gradualist" austerity package at the beginning of the month (FT: Jan. 27, 1989). The package appeared harsher than the November package and called for a 28.5% devaluation of the inti, a 60% increase in the price of basic food staples, and a 30% wage increase for most workers (WSJ: Jan. 9, 1989). Again labour launched a 24-hour protest strike with bankers, fisherman, and over 600 000 civil servants leading the mobilization (FT: Jan. 12, 1989).

In February 1989 another small austerity package was introduced by the Garcia administration. The inti was devalued by 24% (to 920 to the dollar from 700), food and fuel prices were increased by roughly 30%, and minimum wages went up 20% (FT: Feb. 2, 1989). Before the February austerity measures, the purchasing power of Peruvians had already fallen by 70% since September 1988 (FT: Feb. 2, 1989).

Meanwhile, the economic benefits of austerity started to show. Between September 1988 and February 1989 the government had managed to reduce its monthly subsidies from $125 million to $30 million, reduce imports, and double its income (FT: Feb. 2, 1989).

However, the social cost of continued austerity was mounting and "..almost every day there [were] demonstrations, sometimes violent, by workers striking for pay increases to keep up with inflation" (WP: Feb. 20, 1989). As well, a surge in terrorism by the Shining Path had left over 40 power pylons blown up in the previous few months, industrial plants dynamited, and 35 policemen killed by guerrillas in February alone (JC: Feb. 15, 1989).

March 1989 brought another austerity package to the country which included a 23.3% devaluation of the inti, a 33 to 50% increase in consumer prices for basic foods, a 28% increase in the price of gas, and a 30% increase in the monthly minimum wage rate (from 42 000 inti to 55 000 inti or about $46) (JC: Mar. 3, 1989). This was the same month that Venezuela's subsidy cutting plan on gasoline and bus tickets set off widespread rioting that left at least 100 people dead (JC: Mar. 3, 1989).

Meanwhile, the living standards of Peruvians fell. Described one correspondent:

> "Bread cannot be had because the government has not paid its grain import bills. Soldiers in the barracks get a sweet potato for breakfast. An army general gets a monthly salary of $60. Power failures, unemployment, and terrorism are rife. And who cares about the myriad changes in the exchange rates, which are even more frequent than those in finance ministers (four in one year)" (JC: Mar. 16, 1989).

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Since the government had fallen behind more than six months in debt payments to the Interamerican Development Bank (IADB), the bank chose to suspend development loans to Peru, meaning that the last source of foreign credit had been cut off from the country (JC: Mar. 9, 1989).

April 1989 witnessed more austerity, but whereas the past austerity packages were announced on a monthly basis, the April austerity program was announced as a series of weekly measures. The first week the inti was devalued 20%, the second week another 9%, the third week another 4.5%, and in the final week oil and gas prices went up 15% (FT: Apr. 3/ 22, 1989).

Labour responded to the austerity. Miners began a 72-hour protest strike against the government's inability to comply with the agreements reached in December 1988 (FT: Apr. 27, 1989). 10 000 judiciary workers were also on strike because the government could not afford to pay them (FT: Apr. 12, 1989). 8000 doctors went on strike protesting inadequate facilities for patient care, pay demands and working conditions (FT: Apr. 12, 1989).

However, it was the Shining Path who represented the greatest threat to state security. A government crackdown on Lima universities by some 2600 police and soldiers (FT: Apr. 21, 1989) and a separate incident involving one of the fiercest gun battles in the 9-year history of the guerilla movement (which left 62 guerrillas dead) (MH: Apr. 29, 1989), illustrated the government's intolerance towards illegal opposition.

May 1989 brought more austerity and terrorism to the country. The government devalued the currency only once during the month. The inti was devalued by 10.4%, and wages were increased by 30% to almost $40 a month (FT: May 3, 1989). The Shining Path went on the offensive during April and May, and on May 12 declared a three day "armed strike" against the government (FT: May 12, 1989). Under fear of retaliation approximately one million people in the country obeyed the "armed strike" (NYT: June 12, 1989). Threats from the Shining Path during the previous few months had resulted in the resignation of dozens of mayors and other civil authorities (CSM: May 2, 1989). The prime minister quit in May after two congressmen were put to death by the guerrilla movement (FT: May 9, 1989).

Meanwhile, the economy continued to decline. Between January and May 1989 it had fallen by 22.8% (NYT: Sep. 18, 1989). For the next six months the monthly inflation rate continued to hover around the mid-twenty range. By June 1989 the government had resorted to devaluing the inti on a 1% daily basis (LAT: June 9, 1989). The constant devaluations had allowed exports to rise sharply in the first half of the year (FT: Aug. 15, 1989); however, real wages continued to suffer and by September 1989 prices had gone up eight-fold in only nine months (NYT: Sep. 18, 1989). The economy had effectively become "dollarized" by September 1989 with most goods in the capital city priced in American dollars (NYT: Sep. 18, 1989). Although Peru never experienced "true" hyperinflation in 1989, the monthly inflation rate never dipped below 20%.

Between June 1989 and November 1989 the government continued to face stiff opposition from legal and illegal sources. The miners went on an 18-day strike in August 1989 (FT: Feb. 20, 1990), after inflation had left them earning less than $2 a week (FT: Aug. 15, 1989). However, the greatest threat to the political leadership continued to be the Shining Path. Articles about terrorism dominated the western newspaper releases of Peru in July. In October 1989, the Shining Path launched a major terrorist offensive in order to disrupt local and regional elections that were to be held in November.

"Red October" was one of the bloodiest months ever in the history of the guerrilla movement (LAT: Oct. 17, 1989). Mayors and local candidates were executed at a rate of three to four a day (LAT: Oct. 17, 1989). More than 60 office holders and candidates were killed in late September and early October. 174 people died in the first 12 days of October. (LAT: Oct. 17, 1989). From January to October 1989, approximately 2400 people were killed nationwide, including 93 officials (LAT: Oct. 17, 1989). The October offensive caused the resignation of hundreds of local officials and candidates (LAT: Oct. 17, 1989). By the end of the month the government was forced to declare a state of emergency in Lima for the second time in six months (LAT: Oct. 25, 1989).

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On November 4th, a faceoff between the Shining Path, who declared another "armed strike", and the political leadership who called for a countermarch against the terrorist group on the same day, turned out to be "inconclusive", with only marginal popular support offered to either group (WP: Nov. 4, 1989). Peruvians seemed to sense apathy and disinterestedness were the best defenses for their livelihoods.

Peruvians, however, did not let the violence deter them from voting in the November 1989 regional and municipal elections. Although the elections were held in the context of tight security and curfews, and despite the fact elections did not take place in some of the more remote regions due to the resignation of candidates, the elections were largely a success (WSJ: Nov. 24, 1989; MH: Nov. 17, 1989). In fact, in Lima there was a record turnout of voters (WSJ: Nov. 24, 1989).

The APRA party lost the most in the election, taking only 18% of the votes, while Vargas Llosa's Fredemo (Democratic Front) party was the big winner, taking 37% of the national vote (WSJ: Nov. 24, 1989). Independents took 30% of the vote (WSJ: Nov. 24, 1989).

Late November-early December saw the Garcia administration try to dislodge itself from the four years of credit isolation by attempting to change its poor credit image. To this end, it aimed to resume payments to the IMF, including $42 million in overdue interest payments, and to find countries willing to stand surety for the $800 million IMF arrears until it repaid it on concessionary terms (FT: Nov. 28, 1989).

1989 ended in Peru with annual inflation reaching 2775% (FT: Jan. 17, 1990). After an 8.6% contraction in the GDP in 1988, the economy fell another 10.9% in 1989 (CEPAL 1990:25). The GNP per capita fell by a further 14.2% from 1988 (WSJ: Feb. 23, 1990). Real wages had fallen by 45.5% after falling 24.9% in 1988 (CEPAL 1990:27). Peru's debt had climbed one billion to $17.7 billion, leaving the country having to pay 29.4% of its export of goods and services just to keep up with interest payments alone (CEPAL 1990:34). The debt amounted to almost four times the value of the annual export of the country (CEPAL 1990:35).

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1989 was also the bloodiest year of terrorism. 3198 people were killed in political violence in 1989, up from 1986 people in 1988 (NYT: Jan. 11, 1990). Terrorism had created $3 billion in economic damage in 1989 alone (MH: Feb. 4, 1990).

By February 1990 there were "... massive strikes in all sectors of the country's economy" (MH: Feb. 4, 1990). Jail workers were on strike, bus services were unpredictable because of frequent work stoppages, postal workers were three months behind in their deliveries, and water pressure was weak or non-existent in many places throughout the country (MH: Feb. 4, 1990). Miners, bank clerks, and construction workers all went on strike later in the month (FT: Feb. 20, 1990; MH: Feb. 20, 1990). Most of the strikes were focussed on wage demands as real wages had [illegible]0% in the past year (WSJ: Feb. 23, 1990). The economy had deteriorated so much that it was possible to buy individual matches because some people could not afford a box of matches (WSJ: Feb. 23, 1990).

Meanwhile, there were growing fears that the guerrilla movement would take advantage of the economic situation, uniting students and workers in their opposition towards the state (MH: Feb. 4, 1990). However, presidential elections were only two months away and people chose to voice their dissatisfaction through their ballots.

The 1990 election campaign saw the right-of-centre Fredemo candidate Vargas Llosa emerge as the early leader for the April 9th elections (WSJ: Feb. 23, 1990). Llosa stood as a liberal reformer who wanted to bring a free-market agenda to Peru (MH: Feb. 4, 1990). Said Llosa about his liberal ideology:

> "And power brings out the worst in human beings... I think that is why I have come to liberalism. If there is a system of generalized distrust toward power, that is liberalism. True liberalism believes that power is a danger and that it has to be dispersed-pulverized- in society. That is why I believe that the best defense the human race has against that threat to the individual is to disperse power within society in a way that no group, no party can really subordinate others to their convenience or to their will" (WSJ: Apr. 6, 1990).

More particularly, Llosa's program depended on "..shrinking the state bureaucracy, legalizing the underground economy, distributing land titles to peasants, and eliminating price controls and protectionist subsidies " (MH: Apr. 8, 1990). His methods for implementing his program called for "..an immediate radical attack on inflation, with a drastic reduction of the fiscal deficit" (FT: June 7, 1990). As an admirer of deSoto he promised to transform Peru's "..mercantilist practices, monopolies and protectionism of local business towards a free market economy (FT: June 7, 1990). The state was to have limited its role to more essential services. Publicly owned enterprises, estimated to cost the state $2.5 billion annually, would have been privatized (FT: June 7, 1990).

Llosa's support in [illegible] April 9th election and the June 11th runoff election came from big business, a coalition of [illegible], and the upper and middle classes (MH: Apr. 30, 1990; FT: June 7, 1990). His [illegible] generally was strongest among the more-educated European-descended voters of the coast and tended to alienate the lesser educated Indian and mixed-races (NYT: June 11, 1990).

His main contender, Alberto Fujimori, a soft-spoken Japanese-Peruvian academic representing the centre, rose out of political obscurity in less than two months prior to the election. In just five weeks, his popularity rose from 3% to 30% of the popular electorate (WP. Apr. 11, 1990). Fujimori gained support largely through a simple message of "honour, technology and jobs" (LAT: Apr. 10, 1990). His proposal for economic development was based on "technological advancement without recession, under an umbrella of protection" (WP: Apr. 20, 1990). Fujimori was expected to continue a "gradualist" approach to reduce inflation to 100-200% while maintaining the purchasing power of workers and reactivating the economy (FT: June 7, 1990). He was expected to "..introduce a new strong currency pegged to the dollar with selective price controls " (FT: June 7, 1990). He called for cutting the budget deficit by raising utility rates, ending costly subsidies, improving tax collection, and selling small state companies (NYT. June 7/ 13, 1990). However, he asserted a commitment to labour stability and the maintenance of large state companies and promised not to layoff civil servants (JC June 12, 1990). Finally, he wanted to restore ties with foreign creditors by resuming payments on a foreign debt which had climbed to $19 billion (JC: June 12, 1990).

Fujimori's support during both election campaigns came from a coalition of interests including small business, workers, peasants, evangelical Christians, the underemployed, and major leftist parties (WP: Apr. 11, 1990; FT: June 7, 1990; NYT: June 11, 1990). He relied on unpaid evangelical Christians to spread his message throughout the country (WP: Apr. 11, 1990), and repeatedly warned Peruvians of Llosa's radical free market program which he thought would harm the poor (LAT: June 12, 1990).

With voting being compulsory in Peru, virtually all of the 10 million eligible voters registered to vote in the April election (FT: Mar. 15, 1990). Despite the fact the election was tarnished by terrorist threats and charges of vote fraud (NYT: Apr. 9, 1990), the election went ahead. Voter turnout was low in some of the outlying Andean provinces where guerrillas had declared an "armed strike" and roughly 65 people were wounded in terrorist incidents on election day (NYT: Apr. 9, 1990).

The three months leading up to the election were again the bloodiest ever in history of the guerrilla campaign (MH: Apr. 15, 1990). 428 civilians, 288 Shining Path members, 60 security officers, and 3 guerrilla-linked drug traffickers were killed (MH: Apr. 15, 1990). 779 total victims,(or 9 per day), died in election related violence (MH: Apr. 15, 1990).

Llosa won the election with 33% of the popular vote compared to Fujimori's 24% and Castro's 14% (NYT: Apr. 9, 1990). However, because no candidate had a simple majority of the popular vote, Fujimori and Llosa contested the presidency in a runoff election on June 11th, 1990. In the runoff election, Fujimori won 57% of the vote compared to 36% for Llosa. (WSJ: June 15, 1990). At least ten people died in political violence on the June 11th election day (LAT: June 12, 1990).

Peruvians were to see that Fujimori, once elected, would follow a political agenda very different from the one he promised. In his inaugural speech, he explained that "..."harsh measures" were needed to revive the economy because he was inheriting a "chaotic and exhausted economy"" (AGR: Sep. 16, 1990). After the election he "..stressed commitment to free market ideals and to repairing relations with foreign creditors" (LAT: June 12, 1990). In less than two weeks after the election, the Fujimori administration allowed the inti to fall 25% on the parallel market (MH: June 28, 1990), and admitted that they were preparing a shock stabilization program similar to that launched in Brazil (MH: June 28, 1990).

Meanwhile, "dozens" of unions were on strike throughout the month of June 1990, and supplies of bread, gasoline and other essentials were "scarce" (MH: June 28, 1990). By July 1990 the country again experienced hyperinflation (63.5%). With the inti still falling 1% a day, thousands of money changers went into business offering instant exchange for those who required it for their daily transactions (NYT: July 4, 1990). Although the inti was the only means of legal exchange in Peru, the government tolerated the money changers, even though they did not pay taxes (NYT: July 4, 1990).

By August 10th, the government was ready to introduce a shock stabilization package that Fujimori had promised he would not impose during the election campaign. The aim of the program was to drastically cut consumption and thereby close a large fiscal deficit (LAT: Oct. 14, 1990). Development through export then was to provide the means by which the country's economy would grow (CSM: Aug. 13, 1990). At a general level, the stabilization program included: 1) an increase in the price of public services, gasoline, and basic food items, 2) a major reform of the tariff system towards the liberalization of trade, 3) a restructuring of the state's investment policies, 4) a scaledown of the state apparatus, and 5) an introduction of new regulations aimed at promoting domestic and foreign investment (AGR: Oct. 1, 1990).

More specifically it meant that the price of gasoline rose 30-fold, the price of bre[illegible] [illegible], and the cost of noodles went up four times (WP: Aug. 10, 1990). It included large [illegible] the prices of electricity, water, and telephone service (AGR: Sep. 16, 1990). The plan meant the elimination of the official exchange rate or the "controlled flotation" of the inti to its true U.S. dollar levels (320 000 inti to the dollar) (WP: Aug. 10, 1990). It meant a modification of the tariff system, including a 10% tax on exports (AGR: Sep. 16, 1990), with the aim of creating a single unified system within two years (FT: Oct. 11, 1990). It included the eventual privatization of "..virtually all the country's state-run firms" (AGR: Aug. 2, 1990). Finally, it meant large scale tax reform, including a one-time tax on personal and business assets (AGR: Sep. 16, 1990), and the reorganization of customs, ports, and airports to increase the country's international competitiveness (FT: Oct. 11, 1990).

The immediate social response to the austerity plan was not entirely predictable. Some Peruvians accused Fujimori of breaking his promises (WP: Aug. 10, 1990). Crowds of shoppers mobbed markets in scattered disturbances in Lima's shantytowns, and overall four people were killed, twelve wounded and thousands arrested in incidents throughout the country (CSM: Aug. 13, 1990). Miners went on strike to protest the measures (FT: Aug. 22, 1990).

However, what was less predictable was the fact that the program did not lead to greater immediate social unrest. In Venezuela much smaller price rises had left 300 people dead (CSM: Aug. 13, 1990). Said one observer:

> " It's incredible that there hasn't been a more powerful social explosion, given that it's not just a problem of the scale of prices, but also of a total shortage [of goods]" (CSM: Aug. 13, 1990).

One correspondent suggested that perhaps after 15 years of "economic depression" Peruvians were used to austerity (CSM: Aug. 13, 1990).

Meanwhile, the austerity package was to have powerful economic effects. Nearly all of the month's 397% inflation occurred in the first half of the month, with prices falling rapidly a week into the austerity program (JC: Aug. 17, 1990). National production fell 15% in August alone (LAT: Dec. 8, 1990). After six weeks, at least 7000 small and medium-sized companies had shut down, consumer sales fell by between 50 and 70%, and over 800 000 construction workers were unemployed (LAR: Sep. 20, 1990).

By September 1990, mobilization against the austerity program stiffened. 35 000 state bank workers, 20 000 teachers, 70 000 miners and many others including oil workers, construction workers, telephone workers and social security system workers were on strike during the month (JC: Sep. 24, 1990; AGR: Oct. 1, 1990). The mining strike which lasted for over a month cost the government about $400 000 a day, and had cost the government over $30 million when it was finally resolved (FT:Sep. 12/ 20/28, 1990) Construction workers engaged in violent demonstrations with police (JC: Sep. 24, 1990) and sanitation workers protested the austerity program by spreading garbage through the capital city (LAR: Sep. 27, 1990).

Meanwhile, other factors threatened to unravel the austerity program. In September, Fujimori's popularity fell to 37% in the countryside, and only 30% in Lima (LAR: Sep. 20, 1990) An unexpected drought left 1/3 of the cultivated land unseeded and threatened the livelihood of three million peasants, 2/3 of which were described as "extremely poor" (LAR: Sep. 27, 1990). Initially it also appeared that stabilization was not helping the economy. Virtually all the savings the government had secured by cutting various subsidies were being spent on the "social compensation programme devoted to providing the basic needs of the country's seven million poor (JC: Aug. 10, 1990).

Fujimori kept firm in his resolve for austerity, however, and at the end of September 1990 he announced sharp cuts in import tariffs from 200% to 50% (FT: Sep. 24, 1990). In October 1990, he cut central government payments to regional governments (FT: Oct. 25, 1990) and began servicing the country's debt to the Latin American Integration Association and to the IMF (ML: Oct. 7, 1990). After one month of austerity, some of the benefits of stabilization came to the state. By October, the state had increased its foreign reserves to $200 million (ML: Oct. 7, 1990).

The social cost of the program was continued layoffs and strikes. The Labour minister estimated that up to 500 000 more Peruvians would be left unemployed in the last three months of the year (ML: Oct. 7, 1990). Again many labour unions went on strike during October including oil, electricity, mining and railway employees (MH: Oct. 17, 1990).

Meanwhile, the export sector, which was to lead the country towards economic recovery was not responding to the government's austerity plan (ML: Oct. 7, 1990). The industry was demanding a more favorable exchange rate as a condition for investment (ML: Oct. 7, 1990).

By mid-October, the country's GNP had shrunk by 20% since 1988 (LAT: Oct. 14, 1990), and the marketplace could best be described as "chaotic". Prices in one shop could be up to five times higher than those in a similar shop (LAT: Oct. 14, 1990), and while most Peruvians could not afford even the basic necessities, supermarkets were overfilled with unbought goods (LAT: Oct. 14, 1990).

By November 1990, however, the most wrenching effects of stabilization had already occurred. The plan had increased the number of Peruvians living below the poverty line by five million to twelve million; however, economic indicators in November seemed to signal that the government was getting its finances in order (LAR: Nov. 22, 1990). International reserves were up by $600 million, tax collection was up from 3.5% of GDP to 8% (LAR: Nov. 22, 1990), the fiscal deficit fell from 8% of GDP to zero (FT: Nov. 21, 1990), the country's trade imbalance of -$100 million had been corrected to $600 million (FT: Nov. 21, 1990), and the government continued its payments on the portion of the foreign loan owed to the IMF, World Bank, and other lenders (WP: Nov. 13, 1990). Mobil corporation signed a $107 million oil exploration contract with the state (NYT: Nov. 10, 1990), showing that foreign investors were interested in the somewhat revived Peruvian economy.

As the harshest effects of stabilization ended, Fujimori's popularity climbed. By the end of November his popularity was at 57% (FT: Nov. 21, 1990). However, the Peruvian state, like the other Latin American states examined, also found it necessary to crack down on labour in the aftermath of stabilization. Labour opposition to Fujimori's program was strong and a nation-wide general strike by public service workers was perhaps the strongest show of public dissatisfaction during the month (FT: Nov. 13, 1990). In response, the government began firing 6000 striking state workers, who had refused to return to their jobs a week later (MH: Nov. 20, 1990).

By the end of the year, Peru's economy still had not completely recovered. The economy had shrunk by 12.2% in 1990 and unemployment and underemployment were estimated at a precariously high level of 70% (LAT: Dec. 4, 1990). The government again found it necessary to raise gasoline prices -this time by 60% (FT: Dec. 18, 1990). There was some room for optimism in the future of the Peruvian economy, however. The manufacturing sector had regained its mid-year levels, and by December 1990, sales were only 10% down from December 1989 (FT: Dec. 18, 1990).

Although the Peruvian economy did not show signs of complete recovery from the hyperinflationary crisis of July and August, it did at least appear to be moving in the right direction. A near brighter future for this country, however, is by no means certain.

In summary, the state patterns of hyperinflationary collective behaviour are evident in the Peruvian case. Political instability and delegitimization, together with a myriad of other constraints, led to bankruptcy, which set the stage for hyperinflation. The gradualist strategy of Garcia succumbed to the emergency stabilization strategy of Fujimori. Although the election of Fujimori did not initially promise to be a significant turn to fiscal and monetary conservatism, orthodox stabilization became the government's strategy. Garcia failed to mediate the interests of international capital by following a consumption-oriented public policy approach which alienated foreign investors and creditors. Fujimori succeeded in dramatically slowing down inflation with his "authoritarian-like" emergency measures made possible through a realignment of political forces. However, by the end of 1990 it was obvious than neither had inflation been slowed indefinitely, nor, had democratic initiatives been seen to have helped the divided country.

The general hyperinflationary crisis patterns in Peru, then, hold true. Years of gradualism were abandoned for orthodox stabilization when hyperinflation appeared in July 1990. The failure of the Garcia administration to mediate the most articulated interests of the country with the interests of international creditors contributed significantly to his downfall. Whether Fujimori can align these interest has yet to be seen, however, given domestic and international constraints the prospects are not good. The social hyperinflationary crisis pattern of the dismantling of labour power is likewise evident. The Fujimori stabilization plan meant massive layoffs and a disorganization of labour power.

BOLIVIA

When Bolivia slipped into "true" hyperinflation in April 1984 it was the first time in 35 years that such a fate had befallen any country (Sachs 1987:279; Mann 1989:171). Its eighteen months of hyperinflation during 1984 and 1985 were at that time the most rapid inflationary outburst in Latin American history (Sachs 1987:279). The crisis was also very unique because it was the first time that hyperinflation arose not in the immediate aftermath of a foreign war, a civil war, or a political revolution (Sachs 1987:279). That is not to say that there was no connection between political events and economic disintegration in Bolivia. For indeed, its violent tradition, with 189 military coups in its 161 year history, attests to the fact armed conflict was not foreign to the country's economy. Rather, the Bolivian case showed that hyperinflation could erupt in a period of relative peace.

There were many opinions as to why Bolivia fell into hyperinflation. In the aftermath of hyperinflation the Bolivian bureaucracy believed it was due to the growth of money-losing state companies under the various military administrations since 1964 (JC: Oct. 1, 1985). Some attributed the crisis to the military government of general Banzer (1971-78). The Banzer government not only favored the growth of the tertiary sector (where inefficiency and corruption were thought to be widespread) (ML: Oct. 28, 1984), but also contracted an estimated 2/3 of the country's foreign debt (NYT: June 27, 1984).

Others argued that the global economic environment was the main determinant in Bolivia's hyperinflationary experience. Loans due in the context of rising U.S. interest rates, the fall in the price of tin on the world market, and Argentina's delay in paying a $210 million debt it owed to Bolivia for the purchase of natural gas were all events largely beyond the control of the country (ML: Oct. 28, 1984), yet these events significantly contributed to the hyperinflationary economic crisis.

Still others, attributed hyperinflation solely to the inefficiency and corruption of the Siles until October 1982 after a general strike and withdrawn U.S. aid forced the military to relinquish its power. He headed a coalition of leftist political parties including a pro-Moscow Communist Party, the Christian Democrats, and his own Nationalist Revolutionary Movement. Although the Siles administration was commonly thought of as weak and ineffectual, the accusation that this first civilian government was the sole source of economic crisis did not bear scrutiny, for when Siles and his administration came to power, they inherited a country with fundamental economic problems. Right from the beginning it faced large social and economic difficulties, including trying to satisfy the social expectations of the electorate in an economic setting characterized by galloping inflation, an inability to secure foreign credits, and a contracting economy (-6.6% GDP in 1982) (Sachs 1987:280).

Under such expectations the deficit grew rapidly as the government spent more while it received less. The non-financial public sector as a percentage of GDP grew from 9.1% in 1980 to 29.5% in 1984, while throughout the same period the government experienced a drop in tax ratios from 8.8% to 2.9% (Mann 1989:170). By 1984, the state deficit exceeded government revenue by five times and equalled 1/4 of the country's national product (JC: Oct. 1, 1985) On several occasions the Siles government tried to enact stabilization but "..in each case the programs were overturned by public protest, key constituencies of government, or by the government's political opposition in congress" (Sachs 1987:280). Despite six stabilization packages between 1982 and 1985 the Siles government never did stop hyperinflation in Bolivia (Sachs 1987:280).

Finally, some economic experts, such as Jeffrey Sachs, argued that it was a combination of the unstable military regimes before civilian rule and the weak civilian rule of the Siles administration which were the causes of hyperinflation (Sachs 1987:279). Between 1978 and 1985 there had been 11 governments in Bolivia, five of them brought to power by military takeovers (WP: July 16, 1985). As Sachs argued,

> 1985, a series of incompetent and sometimes corrupt governments destroyed the country's international credit-worthiness and its capacity to service its foreign debts. Loans from abroad dried up, and without foreign loans successive governments resorted to printing money to pay for government expenditures" (NYT: Apr. 20, 1986).

The cutoff of lending and the increase in the international interest rates in the early 1980s led to inflation tax and eventually to the collapse of the entire tax system (Sachs 1987:280).

While general political, historical, economic, and social conditions all edged Bolivia towards hyperinflation, there were two immediate causes that may have sealed the fate of the country. One was the insistence by the Siles administration to overvalue the peso (JC. Oct. 1, 1985). In the context of high inflation this led to a thriving black market, smuggling on a "massive" scale, and the cessation of tax collection (JC: Oct. 1, 1985). The second was a drought that hit the country in 1983 which undermined the economic foundation of the country's fragile economy with an estimated $300 million in crop losses (WP: Jan. 17, 1984) and cut domestic agricultural production by nearly 25% (LAT: Apr. 19, 1985). Together these immediate and general factors worked in concert to give Bolivia economic crisis.

When hyperinflation did occur in Bolivia it did so in a country with significant structural constraints which hindered its ability to cope with economic crisis. The very small size of the economy, the fact that it was shrinking, and that it had a trade deficit (IMFa 1990:242-43), all hindered Bolivia in its ability to prevent hyperinflation. However, besides these economic constraints there were also socio-political constraints that gave Bolivia a structurally inferior ability to enact stabilization prior to hyperinflation.

The fact that Bolivia's total population was nearly 50% peasants (LAT: July 12,1985), and that it had the lowest per capita income in South America ($350 per annum) (WP: Aug. 5, 1985; LAT: Nov. 6, 1985), gave little maneuver for any austerity program in a largely impoverished nation. Similarly, that drought and floods preceded hyperinflation meant that at least 40% of the population enter the official economy. Thus, Bolivia's poverty could be viewed as a constraint.

As well, that Bolivia's largest export, coca paste, placed the country at political odds with the hemisphere's greatest potential benefactor was another structural constraint. The coca paste trade was believed to be worth more than $1 billion, making it more valuable than the country's total legal exports (FT: June 14, 1985). It was estimated that Bolivia produced 49 000 metric tons of coca leaf in 1984, or about the second most of any other country in the world (NYT: Oct. 9, 1985). Indeed, farmers could make up to twenty times the average per capita income ($7000) harvesting coca on just one hectare of land (LAT: Dec. 2, 1985). So Bolivia's recovery from hyperinflation not only had to be made from an impoverished position but it also had to be made in the context of falling legal exports (tin and oil) and potentially valuable- but illegal- exports.

Finally, Bolivia had to cope with hyperinflation as a statist regime. By 1984 government-ownership and intervention in the economy was extended to oil companies, metal refining, sugar industry, and banks (LAT: July 14, 1985). In fact, state-owned enterprises accounted for about 65% of the official economy (WSJ: July 19, 1985), and were responsible for roughly 80% of the country's export earnings (NYT: Aug. 30, 1985). Large state enterprises, however, were seriously overmanned. For example, YPFB- Bolivia's oil company and leading exporter, while it lost $50 million in 1984, in the same period hired seven new workers per day (JC: Oct. 1, 1985). Similarly, Comibol (the state mining company) hired 2000 workers in 1983 and kept them throughout 1984 despite the fact the company lost $195 million (JC: Oct. 1, 1985). By 1985 the company had 28 000 employees of which 65% were surface workers (FT: Oct. 17, 1985).

Much of the reason why Bolivia had such a large state when it was obvious it could not afford it could be attributed to the strong union movement in Bolivia. Under the direction of Juan Lechin and the Confederation of Bolivian Workers (COB), labour remained a strong political force in Bolivia throughout the country's first bout with hyperinflation. The fact that strikes averaged could mobilize opposition to business and government.

The small poor polarized statist country of Bolivia was to have great difficulty in overcoming 18 months of near continuous hyperinflation. By January 1984 with the treasury effectively empty and annual inflation estimated at 300% (WP: Jan. 18, 1984), the future of Bolivia looked bleak. Economic production was down 20% since 1981 (WP: Jan. 18, 1984), and just servicing the country's external debt required almost 75% of the national income (WP: Jan. 24, 1984). Siles was without his fourth cabinet after his coalition ministers resigned after a November stabilization package provoked two national strikes and a congressional vote of censorship in December 1983 (NYT: Jan. 27, 1984; WP: Jan. 18, 1984). Even Siles was censored for "anti-constitutional and autocratic conduct" when he finally appointed a new cabinet against the advice of the legislature (MH: Jan. 27, 1984).

By March 1984, the mounting debt problem had foreign creditors "clamoring" for a solution to Bolivia's foreign debt (WSJ: Mar. 2, 1984). Price controls on a long list of essential items which kept prices well below production costs helped create an even greater debt problem (WSJ: Mar. 2, 1984).

Meanwhile, social unrest and polarization were steadily mounting. Food riots were almost a daily occurrence in the cities (WSJ: Mar. 2, 1984). Strikes had "crippled" commerce (WSJ: Mar. 2, 1984) and one hungerstrike by 4000 union leaders who threatened to organize a general strike resulted in a wage increase for workers from the government's threadbare treasury (WSJ: Mar. 2, 1984). Business responded to successful strikes by staging shutdowns (WSJ: Mar. 2, 1984). Indeed, Bolivia was anything but unified when in April 1984 it slipped into hyperinflation.

The administration seemed to realize the key to recovery was to obtain badly needed credits from abroad and prevent widespread smuggling (NYT: May 1,1984), so it imposed a stabilization plan towards those ends (FT: Apr. 19, 1984). Siles responded to the onset of hyperinflation by products (up 300%) as well as a 75% devaluation of the peso (WSJ: Apr. 16, 1984).

The immediate social response to the austerity plan was a large demonstration in La Paz by approximately 70 000 industrial workers, miners, and farmers, followed by a general strike (FT: Apr. 19, 1984). The national trade union (COB) which led the mobilization demanded: 1) the sale of central bank gold reserves to finance investment, 2) a moratorium on servicing the foreign debt, 3) nationalization of private banking, 4) state intervention in the marketing of foodstuffs and, 5) worker control of management in private enterprises (FT: Apr. 19, 1984).

May 1984 brought more hyperinflation with prices increasing 55%. Labour unions started the month with a 72-hour general strike protesting the government's austerity program, after government and workers reached an agreement to keep essential public services operating (NYT: May 1, 1984). By the end of May, however, month-long strikes by central bank employees, oil workers, and miners threatened to "cripple" the country (WSJ: May 21, 1984) and the Siles administration responded by calling the national guard to take over the central bank (WSJ: May 21, 1984).

In June 1984 the inflation rate dropped dramatically, probably due to the fact so much commerce was shut down from strikes than anything else. Whatever the case, hyperinflation threatened to return as the government, in response to union pressure, gave labour a 130% wage increase and suspended its debt servicing payments (NYT: June 11, 1984). It later agreed to limit its debt servicing payment to 25% of its expected $800 million in export earnings (WSJ: July 9, 1984) even though it was scheduled to pay $997 million in 1984 (NYT: June 11, 1984).

In July 1984, in a bizarre coup attempt, Siles was abducted and held for nine hours. The coup attempt was not supported by the armed forces (WP: July 1, 1984) and he was returned to office the same day, but it illustrated the weakness of the government. Labour, again, went on the offensive at the end of the month when 40 000 federal employees demanding higher pay began a employees, judges and telephone operators and included wage demands in excess of 100% (MH: July 31, 1984). The workers returned to their jobs at the end of August after a 29-day walkout (WSJ: Aug. 23, 1984).

The future in Bolivia looked very bleak in August 1984. In just one year, the government

> "... had to cope with near-bankruptcy, 1000% inflation, general strikes, food riots, droughts, floods, three coup plots, and the kidnapping" [of the president] (NYT: Aug. 12, 1984).

There were daily rumors that Bolivia was going to turn to communism to solve its economic problems (NYT: Aug. 12, 1984).

Meanwhile, the government's decision to crackdown on the "narcodollar" pipeline emanating from Chapare' served to push the pervasive black market value of the dollar from 3000 to 10 000 pesos (NYT: Sep. 12, 1984). With this surge in the black market value of the dollar, the government was "forced" to take hold of the economy by partially devaluing the peso (NYT: Sep. 12, 1984). It instituted an exchange rate of 5000 pesos to the dollar for non-essential purchases, while it maintained its 2000 pesos exchange rate for the purchases of medicine, food, construction, agricultural, and transportation supplies (WSJ: Aug. 20, 1984).

However, the devaluation only seemed to spark price rises as the monthly inflation rate surged to over 30% in September 1984. The largest denominated bill in Bolivia was worth only fifty cents at the official rate and on the black market only seven cents (MH: Sep. 30, 1984). Money was wrapped in thick bundles and the equivalent of $100 U.S. dollars required a stack of bills over thirty centimetres high (MH: Sep. 30, 1984). To buy a washing machine required a briefcase full of money (MH: Sep. 30, 1984).

By October 1984, two years after the return to civilian rule, the state entered into perhaps its most precarious phase. In those two years GDP had fallen by 10%, the currency depreciated 7000%, and the money supply had risen more than 2000% (ML: Oct. 28, 1984). Wages had risen hyperinflation was met with shortages. Most stalls in public markets were closed and the few that were open were selling at prices three to four times higher than the officially decreed rates (ML: Oct. 28, 1984). There was

> ".. no meat because the livestock farmers..refuse[d] to give up their cows. There [was] no bread because the bakers prefer(ed) to smuggle out their flour. There [was] no rice, sugar, cooking oil, or pasta either. The shelves in chemists' shops [were] almost bare" (ML: Oct. 28, 1984).

The state was also in a crisis- a crisis of legitimacy. The Bolivian cabinet all resigned at the beginning of the month after severe disagreements over economic policy (FT: Oct. 19, 1984). It was over two weeks before Siles was able to again fill the posts (FT: Oct. 19, 1984). A correspondent with the Manchester Guardian decribed the situation:

> "The government has indeed given up taking initiatives. It is half-heartedly trying to counter, one by one, the many attempts being made to destabilize it. It has lost authority and credibility. It is giving into pressure and blackmail. Peasants take hostages to force the government to build a road or a bridge; oil workers do likewise in order to get pay increases. And miners are decreeing co-management in publically owned corporations.
>
> Bank employees refuse to comply with currency devaluation instructions. Manual workers in the waterworks department cut off the water supply to the president's residence to force compliance with their demands. And the employers confederation [claiming to represent 90% of private sector companies] has ordered all its members to reject any measure damaging to their interests" (ML: Oct. 21, 1984).

In November 1984, COB began its sixth general strike of the year in an attempt to force the government to find solutions to Bolivia's economic problems. Siles responded a week later by conceding to hold presidential elections a year earlier than scheduled (MH: Nov. 21, 1984). The election was held July 1985 and the newly elected president assumed office August 1985, the same month a legitimate stabilization plan was introduced which eventually succeeded in eradicating hyperinflation in Bolivia.

Meanwhile, Siles attempted to institute austerity measures in December 1984, by decreeing large increases in the prices of food and other products and a 78% devaluation of the peso. However, these measures were protested by COB and a strongly supported general strike again of general strike when basically no commercial activity functioned (WSJ: Feb. 7, 1985). After just over two years in government, Siles had gone through 74 ministers and 6 cabinets (WSJ: Feb. 7, 1985).

By February 1985 hyperinflation had reached 189% a month, and eleven months of near continuous hyperinflation began to exact a near ridiculous economic situation in Bolivia. Prices changed hourly as annual hyperinflation was set for a course of 116 000% (WSJ: Feb. 7, 1985). A weighed mail sack of currency worth $500 was worth $320 two weeks later (WSJ: Feb. 7, 1985). A chocolate bar sold for 35 000 pesos. Five minutes later, it cost 50 000 pesos and the stack of money needed to buy it outweighed the chocolate (WSJ: Feb. 7, 1985). Tons of money were printed to keep the economy going, making the purchase of money the third-largest import after wheat and mining equipment (WSJ: Feb. 7, 1985). Factories, private banks, and shops were frequently closed (WSJ: Feb. 7, 1985). When shops were open "... sidewalks brimm(ed) with citizens lining up to buy meat, milk, and eggs at scalper's prices" (WP: Feb. 16, 1985). The only "vibrant" sector of the economy appeared to be the cocaine trade (WP: Feb. 16, 1985).

Social unrest was the direct result of this economic disarticulation. Workers had on various occasions resorted to taking business executives hostages in order to receive wage demands (WP: Feb. 16, 1985; WSJ: Feb. 7, 1985), and even cabinet ministers had been taken hostage by civil servants (NYT: Dec. 16, 1984). Nearly every day the country was "wracked" by strikes or delayed by peasant union roadblocks (WP: Feb. 16, 1985).

The Bolivian government again responded by trying to rationalize the economy. It devalued the peso by nearly 81% and also raised the price of food, gasoline, and transportation (up 400%) (WSJ: Feb. 11, 1985). Again the workers union responded with a large demonstration through the capital city and an organized general strike (NYT: Mar. 20, 1985). This caused one bank manager to comment:

is really the working class that suffers most" (NYT: Mar. 24, 1985).

On March 6, 1985 an estimated 60 000 demonstrated against the February price increases (MH: Mar. 6, 1985). Three days later the workers union organized a general strike aimed at protesting the devaluation of the peso and price increases (NYT: Mar. 9, 1985). The general strike resulted in the closure of government offices, banks, and mines which together produced 51% of the government's foreign exchange (NYT: Mar. 20, 1985). Siles responded by offering a 165% increase in the minimum wage and a temporary freeze in prices in return for an end to the strike. Workers, however, rejected the proposal which did not include index-linked wages and more permanent price controls (FT: Mar. 15, 1985). On March 15, an estimated 50 000 workers again marched through the streets this time demanding the resignation of the Bolivian government (FT: Mar. 15, 1985). Meanwhile, the general strike was costing almost $10 million a day (NYT: Mar. 19, 1985) and had cost the Bolivian government an estimated $110 million or about 10% of expected revenue from export earnings (NYT: Mar. 20, 1985). Siles presented a better offer to the unions promising workers a role in running the government and a 332% wage increase if they stopped the strike (WP: Mar. 19, 1985). Again labour refused. On March 20 the workers again marched through the streets of La Paz, some even calling for a popular workers' state (NYT: Mar. 20, 1985).

However, the March general strike did not end like other general strikes with the state backing down. On March 24, 1985 COB voted to end the 16-day general strike after the government called out the army to patrol the streets and threatened to fire state workers who did not appear for work (MH: Mar. 24, 1985). The cycle of: 1) state-directed austerity program, 2) union-led demonstration and general strike and, 3) government back-down to labour, had temporarily been discontinued by the government's first time decision to mobilize troops to stop social unrest (NYT: Mar. 21, 1985).

inflation had left the 100 000 peso bill worth $2 on the official exchange (NYT: Apr. 8, 1985). According to one newspaper:

> "The price of flour rose by 50,500 per cent between November 1982 [and February 1985], cooking oil went up by 111, 458 per cent, and a visit to the doctor cost 157,745 per cent more.." (FT: Apr. 15, 1985).

In 1982 the private banking system in Bolivia had $600 million in deposits, but by April 1985 it had fallen to around $10 million (NYT: Apr. 8, 1985). Credit cards were no longer accepted (NYT: Apr. 8, 1985). Hotel bills had to be paid in suitcases of money (NYT: Apr. 8, 1985).

When the government tried making life easier for workers bv controlling the prices of basic food items, producers either did not sell the produce or smuggled it into Brazil and Peru (NYT: Apr. 8, 1985). People continued to respond to the irrationality of the official economy by resorting to the black market and the illegal purchase of dollars (NYT: Apr. 8, 1985).

May 1985 brought another devaluation and more price increases by the government. Only three months after the 81% February devaluation, the government devalued the peso by 40% (to 75 00 to the dollar from 45 000) increased the price of fuel by 50%, and bread by 75% (NYT: May 22, 1985). However, in order to stem the social unrest that characteristically followed such a move, the government also ordered employers to raise their wages by six-fold in order to offset the effects of hyperinflation (NYT: May 22, 1985).

June 1985 witnessed the return of monthly hyperinflation. Banks were finding it very difficult to attract deposits (FT: June 14, 1985). One joke circulating around La Paz was that at least hyperinflation had stopped robberies, because there was no vehicle big enough to make it worthwhile (FT: June 14, 1985). The state was expected to run out of foreign currency in three months notwithstanding the $22 million a month owed by Argentina for the purchase of natural gas (FT: June 14, 1985). The government's budget deficit was believed to have jumped from 20% of the GNP in September 1984 (MH: Sep. 30, 1984) to 200% of the GNP by June 1985 (FT: June 14, falling personal incomes and the falling prices of its principal exports, oil and tin (FT: June 14, 1985). The state-owned enterprises only contributed to the capital hemorrhage. YPFB, the state oil company, announced its $129 million debt in June (FT: June 14, 1985). Meanwhile, in some parts of Comibol tin was being produced for more than the corporation received for it on the world market (FT: June 14, 1985).

Despite the return of hyperinflation in June 1985 there was little evidence of mobilized dissatisfaction against the government. Perhaps the huge wage increases won at the end of May and the fact scheduled elections were only a month away together served to dissipate a social explosion in the face of chronic economic crisis.

The election campaign saw the emergence of two rather conservative leaders dominate public opinion polls. General Hugo Banzer, leader of the ADN Party and the officer who seized power in a military coup in 1971 to become the leader of Bolivia for seven years, was the more conservative right-wing candidate (FT: June 14, 1985). The other candidate was Victor Paz Estenssorro, who led the country in the revolution and social upheaval of 1952 but who since had become increasingly conservative (FT: June 14, 1985). Polls prior to the election showed that of the 71% of the potential electorate registered (NYT: July 15, 1985), 70% favored either Paz or Banzer (LAT: July 12, 1985). Said one western European diplomat about the somewhat surprising emergence of the two main candidates:

> "Bolivia is basically a leftist country, but we are going to see an election dominated by the right and the centre-right" (WP: July 14, 1985).

Labour leaders were "alarmed" at the possible return of the strong anti-communist Banzer and that their privileged position with the government threatened to become undone (LAT: July 12, 1985). While business never supported Siles, they looked forward to the election as both candidates promised to be less labour-oriented o epitomize a choice by the Bolivian people for "... more authority after a weak, populist jovernment, buffeted by inflation and labour turmoil" (LAT: July 14, 1985). Banzer promised to inflict painful surgery without anesthesia" on the Bolivian economy in order to stop hyperinflation (LAT: uly 14, 1965). More concretely, he promised to stop printing new money, free the exchange rate. nd cut the public deficit (LAT: July 14, 1985). Banzer's economy relied on private enterprise and laced a greater emphasis on agriculture in place of Bolivian dependence on mining (LAT: July 14, 985). Said Banzer, " We need to shift away from the state capitalist model where 80% of the conomic activity is in the hands of government" (WP: July 14, 1985). If elected he was expected o ask congress for emergency powers to suspend the right of workers to stage what he termed political strikes" (LAT: July 14, 1985)

Paz Estenssorro represented the centre-right of the Bolivian political spectrum. Unlike lanzer, he promised to hold down the social costs of economic reform (WP: July 14, 1985). His nore ambiguous program included privatizing state companies, reducing the fiscal debt, and ending nancial speculation (WP: July 14, 1985). He believed Banzer's "anti-state attitudes" would result n "grave social dislocations" (WP: July 14, 1985).

Banzer won the July 15 election amid rumors of a coup (NYT: July 31, 1985), but he did iot obtain the absolute majority needed to avoid a runoff election by the newly elected congress. 'o win the presidential election in Bolivia required one candidate to receive 50% of the public vote. f no candidate received the mandate of the popular electorate, congress was required to elect the resident among the three candidates receiving the highest votes (LAT: July 14, 1985). Although lanzer received 29% of the vote compared to Paz's 26% (WP: Aug. 5, 1985), Paz had more political ympathies in congress. In a somewhat surprising move, congress chose for the first time a resident who did not win the popular vote, and on August 5 Paz was inaugurated as president of lolivia (WP: Aug. 5, 1985).

Despite Paz's election, many observers viewed the election as a "fundamental shift to the right" for Bolivia (WP: July 16, 1985). One political columnist for the Bolivian newspaper El Diario noted:

> " The Bolivian people have gone to the right. This is a dramatic reality that the Marxist parties must confront, with their dogmas and ideologies in ruins" (LAT: July 12,1985).

Mr. Cole, a noted finance professor from Guatemala, characterized Bolivia's election in the Wall Street Journal as "widespread disenchantment with the left" (WSJ: July 19, 1985). Thus, it appeared Bolivia too saw a capitulation of worker power in the later stages of the hyperinflation crisis.

The election did not slow the pace of hyperinflation much however, and in July and August 1985 the official economy continued to "rage out of control". Credit virtually ceased to exist as checks were no longer accepted, undermined by the erosion of public confidence in the banking system (WSJ: July 19, 1985). The unemployment rate was at around 20% (WP: July 14, 1985). More than 95% of government spending was financed through central bank credit (WSJ: July 19, 1985).

People responded to such economic crisis by abandoning the official economy. Because wages lagged considerably behind prices, people's survival depended on the underground economy (WSJ: July 19, 1985). By July 1985 "virtually everyone" speculated in U.S. dollars (LAT: July 12, 1985). "Lawyers, accountants, hairdressers, even prostitutes [gave up] working to become money changers in the streets" (WSJ: Aug. 13, 1985). One money changer claimed she could make as much in one day as she earned as a bookkeeper for an entire month (WSJ: Aug. 13, 1985).

Tons of Bolivian ore were known to have been smuggled into Peru, making that country a significant exporter of tin despite the fact it did not produce its own tin (WP: July 14, 1985). State oil refinery workers were believed to have smuggled 15% of Bolivia's gasoline to Brazil at costs of twenty cents per gallon and prices of four dollars per gallon (WSJ: Aug. 13, 1985). Workers staged strikes and stole from bosses (WSJ: Aug. 13, 1985). Bosses smuggled production, took out fake loans, and evaded taxes to get dollars for speculation (WSJ: Aug. 13, 1985). One company received a government loan in dollars to buy spare parts for its tractors, but used the money for speculation (WSJ: Aug. 13, 1985).

Citizens hoarded gas and sold it at up to ten times the official rate (WSJ: Aug. 13, 1985). Whole families, including grandparents and infants, were known to have lined up at state gas stations with plastic containers to buy kerosene at subsidized rates and sell them to intermediaries (WSJ: Aug. 13, 1985). Eventually the kerosene would wind up in the hands of drug producers (WSJ: Aug. 13, 1985). Government staffers worked 1/3 of the day and spent the rest of their time marketing items they had hoarded as a hedge on inflation (WSJ: Aug. 13, 1985). They refused to hand out forms without a bribe (WSJ: Aug. 13, 1985). Commented one senator, " We've learned you must be an idiot to do things by the rules" (WSJ: Aug. 13, 1985).

When Paz assumed the leadership amidst such conditions, the state was bankrupt and had no straightforward prospect for credit from any source (FT: Aug. 6, 1985). Once in power, however, he made a distinct change in his orientation towards the economy. In many ways, Paz, like Menem and Fujimori, followed a policy not dissimilar from the one outlined by his main political opponent. Once in office, Paz promised to cut the budget deficit at no matter what cost (FT: Aug. 6, 1985) and open the state-dominated economy to foreign investors, including joint ventures in the important sectors of oil and mining (WP: Aug. 7, 1985). He promised to implement a free exchange rate for the peso and vowed to significantly crack down on the cocaine trade (WP: Aug. 7, 1985). Perhaps most importantly, he wanted to revive badly needed foreign credit by introducing austerity to appease the IMF and foreign commercial banks (FT: Aug. 6, 1985).

On August 29, 1985 the Paz administration unveiled its Supreme Decree No. 21060 - The New Economic Policy, which was aimed at ridding Bolivia of chronic hyperinflation (WSJ: Oct. 25, 1985). The severe measures taken appeared unprecedented in Latin American history (WSJ: Aug. 30, 1985). The plan ".. went beyond macroeconomic stabilization to include fiscal reform, trade liberalization, internal price decontrol, and the decentralization of public enterprises" (Sachs

1987:281). More specifically the plan: 1) devalued the peso by 95% (to 1.5 million to the dollar), 2) raised the price of gasoline ten-fold, 3) froze public employee wages until December 1985, 4) eliminated price subsidies for food products, 5) abolished all price controls, 6) eliminated virtually all import and export restrictions, 7) overhauled the tax system to increase the wealthy individuals portion of tax, 8) simplified wage and salary legislation, 9) deregulated the Bolivian banking system and, 10) reorganized state companies including the elimination of central government employees of Comibol and YPFB and the complete elimination of CBF, the holding company of the state-owned agro-industrial enterprises thought to be accountable for up to 50% of the entire public deficit (WSJ: Aug. 30, 1985; JC: Oct. 4, 1985; WSJ: Oct. 25, 1985; NYT: Apr. 20, 1986).

The measures were viewed optimistically by business leaders and U.S. officials (WSJ: Aug. 30, 1985), as the rise in public sector prices led to the immediate rise in government revenue by several percent of GNP (Sachs 1987:281). The U.S. and other governments responded by promising to aid Bolivia with $200 million to ensure the effectiveness of the program (WSJ: Aug. 15, 1985).

Once again, however, labour organized to torpedo government measures aimed at liberalizing the economy. The miners led the protest against the government austerity program with a 48-hour strike beginning September 1, 1985 (MH: Sep. 1, 1985). On September 4 there was a demonstration by 10 000 workers as the measures had produced a ten-fold rise in the price of food (NYT: Sep. 4, 1985). The army confined half their troops to barracks to quell any unrest (NYT: Sep. 4, 1985). On September 5 COB organized a 48-hour general strike and threatened to carry it on indefinitely unless the Paz administration changed its economic program (NYT: Sep. 5, 1985). Even though the government threatened to fire strikers and use soldiers to prevent violence, the workers extended their two-million-dollar-a-day general strike (NYT: Sep. 20, 1985). After nine days of general strike the Paz administration put the army in charge of seven of the most important state-transportation (MH: Sep. 14, 1985). On September 18 the government arrested seven union leaders in hopes of ending the 14-day general strike (MH: Sep. 18, 1985). Finally, on September 20 the government declared a state of siege and declared martial law (NYT: Sep. 20, 1985). Hundreds of soldiers, supported with tanks, took up positions in the country and at least 520 people were arrested including 150 labour activists and 18 members of the executive committee of COB (NYT: Sep. 20/ 21, 1985). Juan Lechin, the leader of COB, was also arrested (NYT: Sep. 20, 1985). In La Paz, the national guard used tear gas to disperse student demonstrations (NYT: Sep. 20, 1985). The state of siege lasted for 90 days (NYT: Dec. 19, 1985) and empowered the police to hold people without charge for 48 hours (NYT: Sep. 20, 1985). According to the law all labour assemblies and marches were banned as were public gatherings of three or more people on the streets between midnight and dawn (NYT: Sep. 20, 1985).

The next day demoralized rail, telephone, and oil workers, who had their jobs done by military personnel during the strike, returned to work (NYT: Sep.21, 1985). The following day work resumed in all of Bolivia's public enterprises despite the urging of underground leaders of COB (MH: Sep. 22, 1985). September 1985 ended with the forced acquiescence of labour support and hyperinflation ended.

Having successfully stopped labour wage demands, Paz's austerity plan brought prices down. However, the poorest wage earners, who collected the equivalent of $10 to $15 a month, were hardest hit financially (JC: Oct. 1, 1985). It cost a family of three roughly $12 a month just to pay for bus fares and bread (JC: Oct. 1, 1985). Meanwhile, the wealthier Bolivians enjoyed the levelling off and even drop in prices of eggs, chicken, and fruit (JC: Oct. 1, 1985).

By November 1985 the worst of the economic crisis was over. The exchange rate stabilized at one million pesos to the dollar after reaching 1.5 million in August and bank checking accounts which had dipped to $3 million rose to over $40 million (LAT: Nov. 6, 1985). Credit started coming by November became the country's largest single source of revenue, earning $20 million monthly (LAT: Nov. 6, 1985). The inflation rate was less than 1% (FT: Nov. 20, 1985). The Bolivian government had stopped hyperinflation and became a model for South American countries that were to later experience the same crisis.

That is not to say that Bolivia did not face other economically trying times in the aftermath of stabilization. Already in November 1985 the fall in tin prices cost the government an estimated $180 million and led to the closure of some mines (WSJ: Nov. 11, 1985). The fact that it cost Comibol $20 to produce a pound of tin which it could sell on the world market for only $5 was to become a great cause for concern (LAT: Nov. 6, 1985). Similarly, the fact that as many as 40 000 workers were expected to be laid off before the end of the year raised concerns (WSJ: Nov. 11, 1985). The deep recession that followed stabilization threatened public support for the anti-inflation measures and led to the government issuing another state of siege in August 1986 (NYT: Aug. 29, 1986). That the U.S. held up foreign aid to Bolivia until it cut its coca paste production also contributed to important economic problems (WSJ: Nov. 11, 1985). Finally, that the government would be able to successfully take on the powerful entrenched interests of some inefficient domestic business was by no means certain.

However, with a generous $100 million emergency aid package raised by the United Nations in December 1985 (specifically Venezuela contributed $25 million, Argentina $20 million, Spain $20 million, Brazil $15 million, Colombia $10 million and the Andean Development Corporation $10 million), and with foreign currency reserves back up to more than $100 million since Paz lifted emergency controls, the most pressing period in Bolivian economic history drew to a close (LAT: Dec. 2, 1985; FT: Dec. 3, 1985). Two and a half years later the same chronic hyperinflation crisis would hit another small state in the region: Nicaragua.

In summary, a turbulent political and social past had produced in Bolivia a ravaged economy, giving it the distinction of being the first of several countries to experience recent hyperinflation. The patterns that emerged in the Bolivian experience, although perhaps exaggerated, were to be felt by all the other recent hyperinflationary countries. The fluctuating political environment in Bolivia, the inflexible social forces, and the insignificant position of the Bolivian economy in the world economy proved to be too great of barriers to the linkage of national and international interests. This inability led to debt and bankruptcy, and eventually to a political reorientation based on the principles of fiscal and monetary conservatism, a strategy dictated by harsh economic reality. The election of Paz over Banzer appeared to signify the triumph of gradualism and moderation, however, orthodox stabilization was not avoided. During stabilization labour groups mobilized. It was only through the show of force that the stalemating effects of organized labour were defeated allowing stabilization to work. Stabilization in Bolivia, though, was also short-lived and was met with generous international credit (most of it originating from regional sources) as the state began to take significant steps towards managing its economy and its people. That same degree of emergency credit has so far not reached the other hyperinflationary countries. International credit allowed the interests of national capitalists, foreign investors, and the state to reform along developmental lines and gave incentive to labour groups for not having to absorb the full brunt of debt servicing and repayment.

The general economic, political, and social hyperinflationary patterns hold true in Bolivia, but not completely. In the Bolivian case hyperinflation acted as a catalyst which substituted gradualist austerity measures for orthodox stabilization, however, the political hyperinflationary crisis was eventually overcome. Bolivia was eventually able to meet national interests with international interests. Bolivia, unlike any other hyperinflationary country was able to mediate the interests through the infusion of creditor donations and the committment to authoritarian democracy. This in turn led to the cessation of hyperinflation, a drop in mobilized opposition, and the return to a more developmental economy.

NICARAGUA

Of all the Latin American countries that have experienced hyperinflation, perhaps none have experienced the same length of crisis, the same severity of crisis, and a bleaker outlook for continued crisis than Nicaragua. Since the 1979 revolution, the economic status of Nicaragua has fallen markedly. In the aftermath of the revolution the Sandinistas promised to revamp Nicaragua into a state-run economy, to reduce its dependence on the U.S., and to redistribute resources for a more equitable division of wealth (WP: Dec. 25, 1988). After taking power they nationalized the banking industry, foreign trade, natural resources, and other sectors of the economy. They nationalized many farms and industries and introduced price controls, production quotas, and rationing.

Initially, the Sandinista government succeeded in dealing with the many problems that faced Nicaragua. Illiteracy was reduced from more than 50% to only 17% of the population by 1980 (FT: July 19, 1989). Health care improved in the country (FT: July 19,1989). 20% of the rural population directly benefitted from the agrarian reform (FT: July 19, 1989).

However, the Nicaraguan economy steadily declined through the 1980s. In 1987 a severe drought had "decimated" the staple bean crop in Nicaragua (WP: Jan. 22, 1988) and world prices for cotton and sugar fell markedly (WP: Jan. 22, 1988). Although workers' wages had been increased by 900% during 1987, the average worker's salary was only worth 6% of the 1979 level (WP: Jan. 22, 1988).

By January 1988, the Nicaraguan economy had entered into hyperinflation and continued to waver in and out of hyperinflation for three years. By 1988, agricultural production had fallen to 1/3 its pre-revolutionary value, inflation was headed towards 40 000% a year, and despite the fact the Soviet bloc was subsidizing the Nicaraguan economy by about $166 per capita, real wages were still only 20% of pre-revolutionary levels (WP: Dec. 25, 1988; FT: Apr. 21, 1988).

By 1989, per capita output had fallen 1/4 since 1980, while the average living standards of cotton and coffee were down by 50% and 75% respectively (WP: July 2, 1989). Exports were down to 5% of total sales from 60% attained in 1982 (MH: Feb. 15, 1989). In the early 1970s the Nicaraguan economy had one of the highest growth rates in Latin America (NYT: June 26, 1989) but throughout the 1980s it had one of the lowest (CEPAL 1990:26).

What had caused this economic decline, and once Nicaragua entered hyperinflation what constricted public policy from responding to it through orthodox stabilization? Although the Nicaraguan economy has been described as both the " worst of capitalism and of communism" (WSJ: Jan. 22, 1988), it has had a multitude of constraints which has pushed it towards a hyperinflation crisis. Some of these constraints include: a small economy largely dependent on international trade, a predominantly agricultural export economy dependent on changing weather patterns, declining prices for its main exports including cotton and sugar, a fairly socialist government ideology which in the context of an underdeveloped economy contributed to statist government structures and fiscal deficits, a large defense budget made necessary through a 9-year civil war against a U.S.-backed guerrilla movement, a black market which drained the government of fiscal responsibility and social support, and a mounting debt problem which foreign creditors and investors shunned.

Together these constraints made economic development in Nicaragua difficult, and in the context of hyperinflation virtually impossible. 1987 ended with the government earning $240 million from all exports and forfeiting $337 million in damages in its war against the contras (WP: Jan. 22, 1988). The defense budget of the Sandinista government consumed 55% of the national budget for 1985, 1986, and 1987 (WP: Jan. 22, 1988). In order to pay for the fiscal deficit, the government increased the amount of money in circulation by fourfold in 1987 alone (WP: Jan. 22, 1988).

By January 1988, the Nicaraguan economy entered hyperinflation. Inflation was expected to reach 13 000% for 1988 (WP: Jan. 22, 1988), and the black market was generating over 50% of in January alone (LAT: Feb. 8, 1988). The gross national product was falling, unemployment was widespread, and shortages were common (WSJ: Jan. 15, 1988). The U.S. embargo had left supermarkets full of "bizarre selections" of products, while staples were "few" (WP: Jan. 22, 1988). State farmers were accused of using their preferential access to government subsidies for profits on the black market (WSJ: Jan. 15, 1988). Electricity was rationed in Managua for the first time in six years due to the fact several key electrical towers were blown up by the contras (WP: Jan. 25, 1988). Deterioration in living conditions for the population put pressure on the Sandinista government to resolve its longstanding war against the contras (WP: Jan. 22, 1988). There appeared to be "widespread agreement" that the U.S.-backed contras were the prime cause of economic deterioration (WP: Jan. 22, 1988).

On January 17, 1988, the Nicaraguan government attended a Central American summit in which it agreed to: 1) suspend the state of emergency in the country, 2) hold peace talks with the contras, 3) begin incorporating the armed groups into the civil service upon achievement of a ceasefire, and 4) promise to hold free and fair elections within an established time frame (WP: Jan. 18 1988). Despite the fact Ortega vowed to leave office if he lost in free elections (WP: Jan. 31, 1988), the Reagan administration did not trust the Sandinista government and pressed for a $36.25 million aid package to the Nicaraguan rebels, including $3.6 million for the purchase of weapons (NYT: Jan. 27, 1988).

In February 1988 the state of emergency was lifted in Nicargua and the press was freed (NYT: Feb. 3, 1988). In response, the U.S. House of Representatives voted against aid for the contras. However, while the Sandinista government was making steps at stemming a hemorrhaging defense budget, two months of hyperinflation began to exact a tangible social and economic toll.

Inflation had reached 92% in February and the government introduced its harshest austerity program since 1979 (WP: Mar. 5, 1988). In a move which was seen as a sharp turn from the path the "new cordoba". The new cordoba was worth 1000 times as much as the old cordoba and was initially fixed at 10 to the U.S. dollar (WP: Feb. 15, 1988). The move to bring in a new currency and introduce significant devaluations was in response to "production problems" and "shortages of many goods" which in turn contributed to a thriving black market (WP: Feb. 15, 1988). Under the currency exchange system an individual could exchange no more than ten million old cordobas, unless they explained how they had obtained the money (NYT: Feb. 21, 1988). Since many individuals had attained the money through hoarding and speculation, 11% of the old currency was not exchanged (NYT: Feb. 21, 1988). Meanwhile, the government almost immediately enacted a massive devaluation of the new cordoba which left many farms and factories immediately unprofitable (WP: Mar. 5, 1988). Because many Nicaraguan firms owed their survival to government subsidies, many closed when the government increased the cost of a dollar by 143 times (WP: Mar. 5, 1988). Within a week after the devaluation, the black market re-emerged with the dollar trading for six times its legal value (WP: Mar. 5, 1988).

The government also quintupled wages, increased prices by as much as 250%, raised sales taxes, and eliminated gas and transportation subsidies (WP: Mar. 5, 1988). The legal prices for some basic products such as rice, beans, corn, and cooking oil were so low that vendors held stocks off the market, while prices for meat and eggs were so high that few Nicaraguans could afford them (WP: Mar. 5, 1988). The government responded to the "paralyzed" economy by arresting dozens of people caught involved in the black market (WP: Mar. 5, 1988).

The government also cut the budgets of all ministries by 10% and combined several agencies into one Ministry of the Economy (NYT: Feb. 21, 1988). Those government workers who went on strike were fired, and in the first week in March hundreds of strikers were dismissed by the government (MH: Mar. 4, 1988). The government hoped that the overall package would slow inflation by cutting the money supply, reducing the fiscal deficit, simplifying economic management,

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After over a month of austerity and hyperinflation, prices began falling. Monthly inflation had fallen to less than 30% by April 1988 from 82% in March 1988. As well, distortions in prices were reduced as a result of the abandonment of the multiple-tier exchange rate system (FT: Apr. 21, 1988). The divergence between the official and parallel exchange rates were reduced to a factor of seven rather than a thousand (FT: Apr. 21, 1988), leaving less incentive for Nicaraguans to participate in the black market. The price realignment depressed demand closer to the supply capabilities of the wartorn economy (FT: Apr. 21, 1988).

The Sandinista government, however, still faced very foundational economic problems. Although the ceasefire with the contras was good economic news (NYT: Apr. 2, 1988), the government was still "virtually bankrupt" at the end of April after two months of austerity. Thus, it remained unable to manipulate the money supply through interest rates, and direct savings towards needed investment (FT: Apr. 21, 1988). The government was forced to intervene "in the credit market through the central bank, to provide the necessary finance to both private and public sectors" and this in turn created further inflationary pressure (FT: Apr. 21, 1988). Foreign credit agencies remained hesitant about giving money to a country whose government spending accounted for approximately 70% of the GDP (FT: Apr. 21, 1988). Over 50% of the spending was still dedicated to defense, and 16% of the GDP was used to finance the deficit by printing money (FT: Apr. 21, 1988). Meanwhile, the Reagan administration was considering new ways of tightening the trade embargo on Nicaragua (NYT: Apr. 5, 1988).

The economic cost of austerity was the hardest for fixed income earners of Nicaragua (FT: Apr. 21, 1988). Most families managed to survive by having more than one income, with the extra income likely coming from the informal economy (FT: Apr. 21, 1988). At the end of April 1990 unemployment was expected to go from 30% to 35% (MH: Apr. 26, 1988), as the government began dismissing 20 000 state employees (almost one government employee in 10) in its ongoing efforts but those who refused had their workman's compensation cancelled (MH: Apr. 26, 1988). Meanwhile, the government also introduced 300% price increases for food at the end of April 1988 (MH: Apr. 26, 1988), making it even more difficult for fixed wage earners.

The Sandinista government felt it had no choice but to impose these austerity measures. Complained Luis Carrion, a Sandinista commander on the 9-man directorate:

> "We postponed the measures several times...because of the political cost, the political difficulty. Finally we convinced ourselves that there was no alternative" (MH: Apr. 26, 1988).

During April 1988 the social and political costs of stabilization mounted. By mid-April, labour conflict was "..reaching its highest level in Managua since the 1979 revolution" (NYT: Apr. 14, 1988). Thousands of workers were on strike demanding wage increases for pre-austerity levels (NYT: Apr. 14, 1988). The irony of a Marxist government confronting Marxist trade unions was obvious (NYT: Apr. 14, 1988).

Although inflation fell to below 20% in May, the purchasing power of Nicaraguan workers had fallen by 2/3 in just three months (NYT: May 16. 1988). Meanwhile, the government campaign against the unions continued. It fired 4000 construction workers for their refusal to return to work. Even sharp street confrontations with police (WP: Apr. 30, 1988), a hunger-strike by 28 construction workers (LAT:2 May 1988), and labour support by opposition leaders (NYT: May 5, 1988), did not stop the Sandinista government from maintaining its rather inflexible position with the unions.

With the Nicaraguan infrastructure deteriorating, the government launched another harsh austerity programme in June 1988. Ortega claimed that the Nicaraguan economic crisis was "deep and serious" and maintained that the economy could only survive by adopting measures "..similar to those taken by capitalist countries" (NYT: June 16, 1988).

With these statements he established the setting for another "major policy shift" (NYT: June 16, 1988). The government devalued the new cordoba from 13 to the U.S. dollar to 80 (FT:June

June 16, 1988). Although the government would occasionally announce guidelines on prices of basic products (NYT: June 16, 1988), after June 15th wages and prices were regulated by market conditions (NYT: June 16, 1988). It promised to restrict credit and regulate interest rates to reduce the money supply thereby "forcing" businesses to invest their profits (NYT: June 16, 1988). To reduce the foreign trade deficit, the government announced 30% cuts in imports of military equipment, agricultural production goods, and diplomatic spending (NYT: June 16 1988). Although exports brought $270 million a year to the country, imports were accounting for $700 million a year and even Soviet bloc monies of $400 million a year failed to cover the trade deficit (NYT: June 16, 1988).

It was hoped that the large devaluation of the new cordoba along with the many steps taken by the government to make itself more fiscally responsible would dampen or remove inflationary pressures. They were wrong. Instead devaluation and hyperinflation continued to bring about economic crisis. The economy continued to deteriorate in July 1988. Inflation went from 65% to 82%. The June austerity package had resulted in thousands of layoffs, and had targeted annual inflation for 10 000% (MH: July 17, 1988). Unemployment had reached 35% in Managua and was still rising (MH: July 17, 1988).

In the context of massive devaluation, unemployment, and hyperinflation, a social explosion became the most immediate threat to the Sandinista government (MH: July 17, 1988). The government used tear gas and rifle butts to break up a rock-throwing anti-government rally in the town of Nandaime , which left 38 arrested and scores injured (MH: July 17, 1988; NYT: July 11, 1988).

Realizing the potential for more violence, the government tried to prevent further unrest. They closed the opposition daily newspaper, La Prensa, and the anti-Sandinista radio station, Catolica, for their coverage of the violence in Nandaime (MH: July 17, 1988). They confiscated owners planned to subvert the economy by failing to invest enough money to maintain sugar production (NYT: July 15, 1988). They evicted the U.S. ambassador to Nicaragua, Richard Melton, and seven American diplomats for inciting domestic unrest in the country (MH: July 17, 1988).

In August 1988, the Sandinista government moderated their social position as inflation fell from 82% to 20%. Both La Prensa and Catolica had been returned to their pre-July status. The economy, however, continued to deteriorate. The new cordoba had been devalued three times between the mid-June austerity package and the beginning of August (MH: Aug. 1, 1988). Between February and July it had experienced one of the world's most striking devaluations, falling 566% in just five months (CSM: Aug. 3, 1988).

On the other hand, it might be argued that the devaluations were "too little too late". Most of the devaluation came two months after the start of the planting season, which made it too late to encourage agricultural producers to spend more money on planting their crops (MH: Aug. 1, 1988).

From another perspective, the Sandinista government was doomed in whatever policy they followed. The U.S. embargo had put the government in a "no win situation". When the government devalued the currency and made imports more expensive in a country where 40% of industry was U.S.-made (CSM: Aug. 15, 1988), not only did it discourage productive capacity, but it also caused domestic industry to raise prices for a new round of inflation (MH: Aug. 1, 1988). In fact, one economist claimed that the trade deficit was so great that to double an increase in exports over imports would only worsen the deficit (CSM: Aug. 3, 1988). Thus, to many economists a resumption of hyperinflation in September 1988 was not surprising (NYT: June 17, 1988).

By September 1988 widespread poverty was very evident. The government devalued the new cordoba for the fourth time since February and increased wages from 35-60% (WP: Sep. 3, 1988). The value of the new cordoba went from 80 to the U.S. dollar to 180 on the official rate (WP: Sep. 3, 1988). For the first time, claimed many western newspapers, Nicaraguan poor were starving

(MH: Sep. 19, 1988). The average worker was earning between one and two dollars per week and was given emergency food supplies to feed their families (MH: Sep. 19, 1988). Commented one correspondent:

> "Hundreds of dirty, barefoot children have filled the streets, attempting to sell cigarettes, matches or used newspapers to earn a few pennies for their families. Beggars, thieves, and prostitutes seem to be on every street corner (MH: Sep. 19, 1988).

The number of mothers seeking aid from hospitals for their malnourished children was up twofold (MH: Sep. 19, 1988). The June austerity package had "virtually eliminated" the black market by the beginning of September (FT: Sep. 3, 1988), leaving many Nicaraguans without alternative means of survival. The orthodox package had left few people with surplus cash in local currency to buy dollars (FT: Sep. 3, 1988).

The power of nature and the power of government compounded the declining economic livelihoods of Nicaraguans in October 1988. The plunge in the value of the new cordoba continued. On October 3rd the government announced further austerity measures. The new cordoba was devalued 77%, prices for gasoline doubled, and government workers received 35% pay increases (WP: Oct. 3, 1988). The U.S. dollar was worth 460 new cordobas at the beginning of the month but had fallen to 1100 at the end of the month (MH: Oct. 30, 1988). Continued economic crisis started to impact on the health of Nicaraguans. Although most were still healthier than Hondurans and Guatemalans, during October it was discovered that up to 2/3 of Nicaraguan children were suffering from malnutrition (NYT: Oct. 16, 1988).

To make matters worse, hurricane Juan descended on Nicaragua in late October, creating indiscriminate damage to the war-torn impoverished country. The hurricane had left nearly 187 000 Nicaraguans homeless, destroyed 20 000 homes, demolished 67 bridges, washed out 670 kilometres of roads, wrecked dozens of schools, cost an expected $40 million in export losses, and had "ruined" much of the fishing industry (MH: Oct. 30, 1988). The overall economic cost of the hurricane was roughly $828 million. With no aid expected from the U.S. government and inflation expected to surge to well over 40 000% annually, the future looked grim for Nicaragua (FT: Nov. 18, 1988; MH: Oct. 30, 1988).

By November 1988 hyperinflation had doubled to 112% from 60% in October. By the end of the month some new cordoba notes were literally worth less than the paper they were printed on (JC: Nov. 30, 1988), and the newly-introduced largest-denominated 5000 new cordoba note was five times larger than the largest old bill but was only worth $2.50 U.S. (LAT: Nov. 19 1988).

Meanwhile, the only significant social response to economic crisis was emigration (LAT: Nov. 20, 1988). By the middle of December about 300 000, or 10% of the population, were believed to have emigrated in 1988 (NYT: Dec. 13, 1988). Unfortunately for the country, many of those who left were most of the trained professionals and technicians needed to rebuild the economy (NYT: Dec. 25, 1988). Because the trade union movement was so heavily dominated by the Sandinista party, trade union resistance to hyperinflation and the austerity measures was "almost non-existent" (FT: Jan. 24, 1989). In fact, despite the economic crisis, a survey of 1800 Nicaraguans in December showed that 30.8% intended to vote for the Sandinista party in the 1990 election, while only 25.4% said they supported various opposition parties (LAT: Mar. 6, 1989).

1988 ended with the country in a worse economic situation than in 1987. Final figures for Nicaraguan hyperinflation were highly contradictory and estimates ranged from 26 000% to 50 000% (FT: Jan. 24, 1989). After a year of analysis, CEPAL claimed hyperinflation reached 43 000% in the 12 months ending in January 1989, signifying an average monthly rate of 60% a month during 1988 (CEPAL 1989:7). The total gross domestic product fell by 8% in 1988 (CEPAL 1989:18). Over 30% of the workforce remained unemployed at the end of the year (NYT: Dec. 25, 1988). The public deficit in 1988 was the biggest since the Sandinistas came to power and amounted to 27% of the GNP, financed entirely by monetary emission (FT: Jan. 16, 1989). Summarizing the year's events,

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> "In a dramatic U-turn one year ago, the government threw all the textbook remedies at the twin fiscal and balance of payments deficits that were causing the country's economic instability. Demand was screwed down, government spending slashed, subsidies suspended, exchange rates realigned, price controls lifted, and interest rates raised sharply. Government planners then looked on in horror as the inflation rate got worse, the two deficits widened further, and a slump was precipitated which has been unprecedented in Nicaragua's history" (FT: Jan. 24, 1989).

While some economists believed the currency was beyond the point of collapse (NYT: Dec. 25, 1988), others thought the economy could be turned around with the infusion of foreign credit and foreign investment. Attempts at orthodox stabilization in Nicaragua in 1988 occurred without a major influx of foreign financing needed to sustain development (FT: Jan. 24, 1989), and perhaps this more than anything else left Nicaraguan public policy during the year destined for failure. Meanwhile, some economists warned that inflation could exceed 100 000% in 1989 (JC: Jan. 5, 1989).

The government began 1989 with a 54% currency devaluation (the 7th drastic reduction in a year) and cut subsidies on transportation and defense spending (JC: Jan. 5, 1989). Fuel prices went up 115% and transportation fares went up 20 000%, leaving 20-30% of family incomes spent on public transportation (FT: Jan. 6, 1989). The 1989 budget deficit was reduced from 51% of total spending to only 13% of the planned budget (WSJ: Mar. 24, 1989; FT: Jan. 16, 1989). The Sandinista government vowed to introduce "drastic budget cuts" and promised to cut government spending by 29% for all departments (WP: Jan. 1, 1989). The Interior Ministry was to be cut by 40% in 1989 (WP:1 Jan. 1989). Major efforts to broaden the tax base and reduce tax evasion were also to be introduced (FT: Jan. 16, 1989). By mid-January the government announced further 20% budget cuts in some departments, even though government spending had already been "cut dramatically" (MH: Jan. 17, 1989). Even army spending was reduced 29% from 1988 (MH: Jan. 17, 1989).

By the fourth week in January 1989, the Financial Times announced that Nicaragua had devalued the currency for the second time in a month, leaving the U.S. dollar equivalent to 2300 new cordobas (JC: Jan. 26, 1989). Meanwhile, the revived black market value of the U.S. dollar was 5500 new cordobas (NYT: Jan. 31, 1989).

The economic and human toll of hyperinflation on labour continued to be felt in 1989. By January, the purchasing power of workers had dropped 96% from February 1988 and salaries had stagnated at $10 dollars per month (CSM: Jan. 23, 1989). Labour started to take on a slightly more confrontational role when 4500 Nicaraguans, representing the most extensive coalition of anti-government demonstrators ever assembled, marched through the streets of Managua in a peaceful but lively rally (LAT: Jan. 16, 1989).

On January 30th, Ortega announced further government cutbacks that reduced the national budget by nearly 50% and required the firing of up to 35 000 government workers (NYT: Jan. 31, 1989). While western analysts claimed the measures marked a further major policy shift, Ortega insisted that the measures represented "..a way to have socialism within the context of the Central American reality" (NYT: Jan. 31, 1989). The proposed layoffs amounted to one percent of the population or, "..the equivalent to a sudden layoff of more than two million people in the U.S." (NYT: Feb. 1, 1989). The new program planned to cut government spending by 44% and called for an 18% cut in spending for direct government operations (NYT: Feb. 2, 1989). Credit and exchange rate subsidies were to be cut by 92%, credits to producers were to be cut 26%, and direct and indirect government investment were expected to fall by 52% (NYT: Feb. 2, 1989).

The January 1989 austerity package was designed to stimulate private investment and re-integrate the Nicaraguan economy with international markets by allowing the new cordoba to float at free exchange rates if inflationary pressures permitted it (NYT: Feb. 2, 1989). The fiscal cuts were designed to cut costs while the devaluations allowed the exporters to pierce international markets. Although the plan took significant steps towards the normalization of foreign trade and loosening private property and thus even in February 1989 domestic business remained skeptical to the government's austerity policies (MH: Feb. 15, 1989; NYT: Feb. 2, 1989).

On February 7, 1989 the government devalued the currency for the third time, making the U.S. dollar worth 2700 new cordobas (MH: Feb. 7, 1989). By the end of February, Nicaragua was out of hyperinflation for the first time in five months. Meanwhile, the new cordoba had lost so much value that it virtually ceased to function as a currency (NYT: Feb. 1, 1989). Credit, banking, and exchange procedures had essentially collapsed (NYT: Feb. 1, 1989). The dollar had become the only reliable means of exchange other than barter or payment in kind, and by February 1989 it became so popular that even the government began paying dollar-denominated incentives to encourage production in important sectors of the economy (NYT: Feb. 5, 1989). With 10% of Nicaraguans emigrated in the previous year, remittances became one of the most important sources of foreign income (NYT: Feb. 5, 1989).

In March 1989, the government continued to attempt to control inflation and revive the economy. It announced the 6th devaluation in two months, bringing the new cordoba value to 4200 from 3800 to the U.S. dollar (NYT: Mar. 2, 1989). It brought the parallel and official exchange rates to virtually identical levels (FT: Mar. 10, 1989). The agriculture minister promised the government would not expropriate any more private enterprises even if production fell (WSJ: Mar. 31, 1989), and the new agrarian reform law put an end to government seizure of land (FT: Mar. 7, 1989). Many exporters were allowed to keep 100% of their dollar earnings (WSJ: Mar. 24, 1989). The government allowed interest rates to shoot up to a record 50% a month, because it stopped printing new cordobas (WSJ: Mar. 24, 1989). By the end of the month the new cordoba had stabilized to 5000 to the U.S. dollar (WSJ: Mar. 24, 1989) and inflation fell to roughly 20%; however, high interest rates threatened to prevent farmers from buying fertilizer and planting in the 1989 crop season (WSJ: Mar. 24, 1989). Meanwhile, the black market remained virtually inactive during March due force since June 1988 (FT: Mar. 10, 1989).

Correspondents reported a noticeable increase in child malnutrition, food theft, street begging, and scavenging in garbage dumps in the early months of 1989 (WSJ: Mar. 31, 1989; LAT: Mar. 6, 1989). By March a noticeable erosion of Sandinista support had become apparent. Polls showed that Sandinistas only had a slim 3% lead over the National Opposition Union (UNO) (WP: Mar. 3, 1989). About 40% of Nicaraguans blamed the Sandinista government for the state of affairs in Nicaragua, and a surprising 40% supported no political ideology (WP: Mar. 3, 1989).

Discussion over amendments to the electoral and information laws dominated the political and social agenda throughout much of April 1989. The amendments were aimed at making free and fair national elections scheduled for February 25th, 1990 (NYT: Apr. 8, 1989).

In May 1989, Ortega went on a three week western European trip in search of financial aid to allow farmers to finance spring planting (LAT: May 23, 1989). Ortega managed to acquire pledges for $48.6 million which was enough capital needed to finance planting (LAT: May 23, 1989).

By June 1989, Nicaragua had been labeled as the poorest country in the western hemisphere, as consumption had been cut 70% since 1979 (NYT: June 26, 1989). Per capita output had fallen to $300 per year, putting it below that of Haiti and on par with Somalia and Sudan (NYT: June 26, 1989). Exports paid for only 25% of the cost of the country's imports and more than 1/2 of the total export earnings for 1989 were already spent through borrowing by the end of 1988 (NYT: June 26, 1989). 70% of the country's industry was "..on the verge of bankruptcy" (WP: June 5, 1989).

Meanwhile, the value of the new cordoba crashed in the first two weeks of June 1989. Its value had fallen from 10 025 new cordobas to the U.S. dollar to 26 250 (NYT: June 15, 1989). The official exchange rate for the new cordoba plummeted 110% in a single day (NYT: June 15, 1989). The sudden crash sparked widespread hoarding, fast spending, and black marketeering (NYT: June

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161% inflation in a two week period in June (NYT: June 26, 1989). Overall consumer prices rose 62% in the month. Ortega accused businesses of fueling inflation by speculating in dollars (NYT: June 14, 1989), and despite the government's promise to respect private property, it expropriated three sugar companies and three coffee farms for failing to meet production quotas (WP: June 23, 1989; NYT: June 26, 1989). Ortega also threatened further expropriations to the private enterprises that tried to "sabotage" government economic reforms (WP: June 23, 1989).

July 1989 saw a continued deterioration in economic and social support for the governments agenda. A civil servant's salary amounted to only 1/3 of the income the government acknowledged was necessary for its citizens to survive (WP: July 19, 1989). War and hurricane damage amounted to almost $13 billion (WP: July 2, 1989) and in view of the continued U.S. economic embargo, the government had few policy alternatives. Money that had been lent to farmers to buy supplies was largely used to purchase dollars, starting a run on the new cordoba and leading to massive devaluations in June 1989.

Meanwhile, support for the Sandinistas had fallen to roughly 25% (WP: July 2, 1989) and opposition parties were enjoying a 2-1 margin over the Sandinistas in public confidence (MH: July 15, 1989). Almost 50% believed the opposition could guarantee a better future for Nicaragua, while over 50% believed the opposition could solve the economic crisis (MH: July 15, 1989).

Although inflation was at a comparatively low level of under 10% in August 1989, a combination of droughts and downpours were expected to cut the country's harvest to a fraction of its expected size (NYT: Aug. 13, 1989). With the economy not deteriorating as rapidly during September and October 1989, with the contras disbanding, and with the opposition party still largely unorganized, the Sandinistas appeared to experience an upsurge in popular support. Although much of the polling during the months leading to the February 1990 election showed widely contrasting results, an internal poll taken by the Sandinistas and an independent poll taken by population by September (ML: Oct. 15, 1989; CSM: Sep. 26, 1989).

By November 1989, however, it was obvious that the ongoing economic crisis had still not reached its zenith. The fight to gain control over the currency and inflation had left the economy in a deep recession and had cut into Sandinista support (NYT: Nov. 7, 1989). The industrial sector was estimated to have shrunk by 20% in 1989 (NYT: Nov. 7, 1989). The official exchange rate of the new cordoba was 32 000 to the U.S. dollar, while the parallel rate was allowed to surge past the official rate to 42 000 to the U.S. dollar (MH: Nov. 16, 1989). This allowed the government to make money on currency exchange at the cost of discouraging exports and encouraging black marketeering.

Meanwhile, "..in dozens of interviews in Managua and surrounding areas, low income workers from the public and private sectors alike expressed despair about their economic circumstances" (NYT: Nov. 7, 1989). In November a typical government-paid laborer could not have afforded a pair of shoes but could have spent 1/6 of his monthly salary on feeding a baby for 3-4 days, or 1/20 of his salary buying a pound of pork (NYT: Nov. 7, 1989). Complained one labourer,

> " By the time we get paid, the money has already been spent just to pay for food"..He said most families had given up eating meat and many had been reduced to eating one meal a day" (NYT: Nov. 7, 1989).

Many peoples' survival depended on barter, payments in kind, gifts from relatives abroad, and unrecorded transactions on the black market (NYT: Nov. 7, 1989).

Meanwhile, it was unlikely that the government would enact any more economic shocks in order to revive the economy, because elections were only three months away. For the next three months political leadership needed to control the economy was lacking.

UNO appeared to be gaining public support during November 1989. While opinion polls showed Ortega leading Chamorro by up to 3-4 times during September, by November Ortega only appeared to have a slight lead (FT: Nov. 13, 1989).

3500% (CEPAL 1989:2) from 43 000% in 1988, it was controlled with the help of 32 devaluations over the two year period, causing the new cordoba to plummet to 42 000 to the U.S. dollar from 10 in February 1988 (WP: Jan. 8, 1990). The devaluations had allowed the exports to rise from $235 million in 1988 to $295 million in 1989, but they still remained at roughly 1/3 of pre-revolutionary levels (MH: Feb. 21, 1990).

By January 1990 , the election campaign was in full swing. Although the opposition parties had mobilized themselves into a coherent alternative party to Sandinista rule in March 1989, it was September 1989 before they had elected a leader for the party. Violeta Chamorro, a conservative business woman with no clear-cut ideology and little experience as a politician, was elected to lead a coalition of at least 14 diverse parties under the National Opposition Union (MH: Sep. 15, 1989). UNO, however, was very poorly financed (WP: Oct. 13, 1989) and it was only by the end of January 1990 that the Nicaraguan government approved $9 million of U.S. aid donated to UNO and the Supreme Electoral Council. Under Nicaraguan law external funding for opposition parties could only occur if 50% of the capital donated went to the council to finance the overall election expenses (LAT: Oct. 1, 1989).

Initially UNO was deliberately vague about its agenda for a new Nicaragua (FT: Nov. 13, 1989), perhaps because party infighting demanded it (LAT: Sep. 30, 1989). However, just two weeks prior to the election the coalition had forged a political agenda (WSJ: Feb. 27, 1990). The National Opposition Union stood for the principles of: 1) free enterprise, 2) economic efficiency, 3) private property, 4) social equality, and 5) subordination of the state (WSJ: Feb. 27, 1990). They stood for orthodox stabilization through freezing the state budget, imposing austerity measures, eliminating unessential state subsidies, privatization of most state agencies, land reform in support of the landless peasants, increased taxes, and converting the country's armed forces towards public works projects (WSJ: Feb. 27, 1990; MH: Feb. 21, 1990). In many respects UNO stood for a

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The Sandinista platform, on the other hand, was based on the principle of promoting and strengthening the cooperative movement and associated peasant organizations as the fundamental pillars of the economy (FT: Sep. 26, 1989). The FSLN promised: to institute agrarian reform to benefit 25 000 additional families, to double the number of private phone lines, to build 6000 houses every year, to give schoolchildren milk and food subsidies, to provide homes with electricity, to build new roads, to import new buses and trucks, and to reduce the rates of illiteracy and infant mortality (MH: Sep. 25, 1989). However, because the Sandinistas had kept political power so much to themselves, and because the economy was in such a crisis, the Sandinistas had to rely on the rather vacuous campaign slogan that, "Everything will get better" (CSM: Dec. 15, 1989).

Political agendas which both parties subscribed to included: 1) improving relations with the U.S., 2) broadening ties with potential creditor countries, 3) deregulation of the private sector, 4) property guarantees to new investors, and 5) attraction of exiles for national reconstruction (MH: Feb. 21, 1990).

UNO won the election by a 55-41 margin but fell short of the 2/3 majority needed to make constitutional changes (WP: Feb. 27, 1990; LAT: Feb. 28, 1990). The Sandinista government, however, was not scheduled to transfer power until April 25, 1990, so for the next two months UNO had to be content planning to govern.

One of UNO's priorities was to renegotiate the high debt the country had accumulated and enter into a structural adjustment agreement with the IMF (FT: Feb. 28, 1990). By the end of February 1990, Nicaragua's external debt had reached $7.35 billion (FT: Feb. 28, 1990). Many analysts in February remained skeptical that UNO would be capable of attracting the necessary investment needed to revitalize the economy (NYT: Feb. 28, 1990). In either event they were not sure UNO would have the fortitude and social backing to introduce more severe austerity in order to get IMF financial backing.

president, promised that UNO would be able to halt Nicaragua's hyperinflation in 100 days (LAT: May 19, 1989). To do so he had to deal with the deficit which was running around $500 million for more than five years, or twice as much as the country's annual exports (FT: Feb. 28, 1990). His prediction was wrong.

March 1990 brought signs of temporary relief to the economic situation in Nicaragua. Although the new cordoba had fallen to 70 000 to the U.S. dollar and unemployment was hovering around 33%, the Soviet Union promised it would continue its economic aid of $333 million per year, the U.S. lifted its trade embargo, and inflation had fallen to just over 20% (LAT: Mar. 3, 1990; MH: Mar. 14, 1990).

However, other signs pointed to a bleaker future. There remained only $8 million in central bank cash reserves in March 1989, and further devaluations and black marketeering threatened if the country did not improve its foreign reserves (FT: Mar. 15, 1990). Thousands of guns had been distributed to Sandinistas throughout the month (LAT: Mar. 8, 1990), not only intimidating the newly-elected government but also threatening to disrupt the transition of power itself. A week after the election, labour leaders were already demanding immediate wage increases from the Chamorro government (LAT: Mar. 3, 1990). The Sandinista government enacted significant changes to Nicaraguan laws, giving away large amounts of government property and granting immunity from unprosecuted crimes committed during their reign of power (NYT: Mar. 9, 1990). In April 1990 the government increased the minimum wage for some workers by 400% (MH: Apr. 11, 1990), helping not only to create potential division but also hindering stabilizing economic recovery.

In the week leading up to April 25th 1990, the day Chamorro assumed leadership in the country, the Sandinista unions began eight strikes against government agencies, some of them winning 100% wage increases (LAT: Apr. 25, 1990). Almost immediately upon assuming office the Chamorro government cut the value of the new cordoba in half (from 70 800 to 140 000), and prices devaluation appeared to spark hyperinflation as consumer prices rose 135% in May. It also sparked labour unrest. On May 11th, 40 000 government employees of the Sandinista unions went on strike, signalling the most disruptive strike in eleven years (LAT: May 11/ 19, 1990). Although the Chamorro government eventually agreed to a 60% wage compensation for the combined effects of devaluation and hyperinflation, strikers demanded 200% pay raises along with government assurances of job security (LAT: May 11, 1990; MH: May 12, 1990). Initially Chamorro threatened to fire the striking workers but after six days of general strike, the walkout ended in a draw. The government agreed to 100% salary increases but did not promise the strikers job security (WP: May 18, 1990).

Meanwhile, farm export production quotas were also threatened (LAT: June 7, 1990). Chamorro's plan called for farm exports to revive the economy; however, the mid-May decree, that restored property rights to Nicaraguans dispossessed by the Sandinista government in the name of the peasants and called for the eventual privatization of most state farms, met with stiff resistance from the Sandinista-run Farm Workers Association (LAT: June 7, 1990).

Labour unrest subsided, however, during the month of June. The pledged $300 million from the U.S. and other donor countries started to reach the country (LAT: June 8, 1990) and the fairly drastic cuts in the Sandinista army in the first 100 days of the Chamorro government (LAT: June 16, 1990), perhaps created a slightly renewed sense of optimism in the country.

Nevertheless, by July 1990 that optimism was rapidly "fading into gloom and dejection" (LAT: July 8, 1990). By July 9th, 1990, the country had experienced its 20th devaluation in the value of the new cordoba since April 25th (MH: July 9, 1990). The value of the new cordoba was falling so fast that shopkeepers had to change their prices several times a week (LAT: July 8, 1990). It had already fallen to 450 000 to the U.S. dollar (LAT: July 8, 1990). By the second week in July, the Sandinista unions were also into their second general strike in three months (LAT: July 8, 1990).

offices, public transportation, telephone and mail service, and government-owned agricultural, construction and textile businesses (LAT: July 8, 1990). Again the government strikers demanded large pay increases and job security, but to this they added demands that the government protect peasant land distributed under the Sandinista land reform programs (WP: July 10, 1990). The government responded by announcing a 43% salary increase for lower paid government workers and a promise to give 65 000 government employees indexed wages, but it did not stop the strike (LAT: July 8, 1990). After a few days of violent clashes between government strikers and police, which left five killed and over 90 injured, the 10-day old general strike ended (WP: July 13, 1990). In return for ending the general strike, which had cost an estimated $24 million (LAT: July 19, 1990), the government conceded to: 1) grant all government workers salary increases, 2) suspend government-instituted programs to rent confiscated land back to previous owners, 3) compensate hundreds of bureaucrats fired by the government, 4) provide job protection for strikers returning to work, 5) promise to enact minimum wage legislation no later than September 1990, 6) promise to refinance state-owned textile, metal, and transportation industries to save jobs and, 7) restore free bus service for strikers and some workers (WP: July 13, 1990). The two general strikes had thus stalled the government's efforts to cut budget deficit and left the planned reforms "delayed by weeks" (WSJ: July 24, 1990).

The general strikes also seemingly convinced the government that major reforms would not be possible without the support from labour and opposition forces. Thus, the government began working on a new economic plan during August 1990 (FT: Aug. 21, 1990). The new plan focussed on a longer, more gradual, 36-month time frame during which deregulation, trade liberalization, and foreign investment reforms would be enacted (FT: Aug. 21, 1990). The new plan was delayed, however, due to the Supreme Court's decision that elements of the plan, including firing Nicaraguan

September it accounted for $2.5 million of the $50.7 million in national currency (NYT: Sep. 16, 1990). The gold cordoba was intended to be permanently fixed at parity with the U.S. dollar and was meant to " erase the memory of hyperinflation in the peoples minds" (NYT: Sep. 16, 1990). The gradual introduction of the gold cordoba, while the new cordoba was devalued, was introduced first to farmers and exporters to promote trust in the new currency among key producers (LAT: Mar. 3, 1990; CSM: Sep. 19, 1990).

In September 1990, Nicaragua's economic slide gained momentum. More than 70% of Nicaraguans were living in "extreme poverty", and unemployment was estimated at more than 40% (CSM: Sep. 19, 1990). The drought during the summer months compounded the problem (CSM: Sep. 19, 1990). The public sector deficit, however, had been reduced from $35 million in May 1990, to $11 million by August, and to $7 million in September (CSM: Nov. 7, 1990; NYT: Sep. 16, 1990). By the end of September 1990, the government moved to avert potential large scale protests scheduled for the beginning of October, by lowering utility bills for the poor, suspending layoffs for public employees, and giving food to hungry peasants (LAT: Sep. 29, 1990). The measures seemed to work as the Sandinista labour union-directed campaign of national civil disobedience scheduled for October 2nd failed badly, drawing a few hundred people in Managua where 60 000 were expected (FT: Oct. 2/ 3, 1990).

Meanwhile, further economic austerity was anticipated. By the second week in October 1990 the central bank had announced its 39th devaluation since April 25th, as the value of the new cordoba fell to 1.32 million to the U.S. dollar (FT: Oct. 9, 1990). Utility rates were dramatically increased in the third week in October. A typical family utility bill with electricity jumped from $8 per month to $117 per month, while average wages remained around $100 per month (LAT: Oct. 21, 1990). By the end of October, unemployment was estimated at nearly 50% (CSM: Oct. 31, 1990).

On October 27th, the government introduced legislation designed to end the economic stalemate and begin to revive the economy (CSM: Nov. 18, 1990). Called "concertacion" (consensus-building), the aim of the plan was to introduce a gradual approach to moving public employees to the private sector "as and when alternative employment could be found" (FT: Nov. 16, 1990). Mayorga, the influential central bank president, quit as a result of the less drastic measures approved by Chamorro (CSM: Nov. 7, 1990).

Less drastic austerity meant that foreign credit became even more important to economic recovery. The foreign minister was sent by mid-November on an international drive to raise capital to help payoff Nicaragua's $350 million in arrears in multilateral debt. The U.S. gave Nicaragua duty-free access to the U.S. market for a wide range of goods under its Caribbean Basin Economic Recovery Act (JC: Nov. 13, 1990).

1990 ended for Nicaragua in much the same way it began- facing a very difficult economic future. The government planned to increase government spending by 22% to $499 million in 1991 in order to offset the mobilization of social opposition. However, by mid-November it still faced a fiscal deficit of $150 million, $91 million of which was covered by foreign loans (FT: Nov. 16, 1990). As there remained virtually no domestic savings, it was speculated that the government would abandon its policy of gold cordoba parity with the U.S. dollar (FT: Nov. 16, 1990). This could lead to a loss of confidence in the new currency and further months of devaluation and hyperinflation.

Meanwhile, further substantial foreign credit seemed unlikely. By mid-December less than 1/3 of the money approved by the U.S. Congress in June 1990 had been disbursed to Nicaragua (LAT: Dec. 13, 1990). Little of the $120 million pledge from the industrialized countries that met in Rome in the spring of 1990 had been delivered (WP: Dec. 13, 1990). Undoubtedly, some of the capital destined for Nicaragua was approved before the gulf crisis. The events within Iraq, Kuwait, and many east European countries undoubtedly channeled foreign credit interests away from unstable and unprofitable Nicaragua.

As a result, the country remains in economic crisis. Faced with a $10 billion foreign debt equivalent to between 30 and 40 times annual exports, an annual trade deficit of about $500 million, a politically intractable fiscal deficit, 170 000+ soldiers, rebels, and refugees seeking employment, per capita incomes which make it one of the poorest countries in Latin America, prices which are nearly equivalent to those in the U.S., a world economy very much preoccupied with other parts of the world, a strategically insignificant population to encourage foreign assistance, (FT: Dec. 5, 1990; WP: Dec. 13, 1990) and a host of other socioeconomic constraints, the country seems "destined" for continued economic underdevelopment.

In summary, Nicaragua epitomizes the patterns of hyperinflationary crises in many ways. A multitude of constraints and a huge debt set the stage for hyperinflation. The state found itself incapable of governing in the manner it had before, and increasingly resorted to authoritarian conservative policies to correct its economic crises. With hyperinflation tearing at the very fabric of society, the state found it necessary to introduce increasingly coercive measures. These measures hit hardest at organized labour and the disadvantaged groups. High unemployment, labour conflict, higher prices, significant drops in living standards, even poverty and malnutrition were the identifiable consequences. Eventually, these stabilization policies had the impact of destroying organized opposition, however, in this instance international credit appeared unusually reluctant to complete the international-national link. The fact that Nicaragua had acquired for itself the distinction of being a "thorn in the side" to the hemispheres greatest potential creditor undoubtedly figures into the equation and goes a long ways towards answering the question: If Nicaragua had followed monetary and fiscal conservatism why had it not reaped the benefits?

The economic, political, and social hyperinflationary crisis patterns are confirmed in the Nicaraguan experience. There existed a direct correlation between hyperinflation and the movement towards orthodox stabilization from gradualism as a means by which to solve the crisis. The political hyperinflation patterns easily identify Ortega's inability to mediate the most articulated interests of Nicaragua with the interests of international capital. Finally, the social hyperinflationary

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crisis patterns illustrate the dismantling of labour, and disadvantaged group power as the toll of post-stabilization recession was felt. It now remains to be seen whether these patterns justify the democratically authoritarian economic measure to which all these countries ascribed.

POSTSCRIPT

This thesis has attempted to prove the existence of preliminary hyperinflationary crisis patterns and outline their present day policy implications strictly through the application of empirical evidence. It has done so with the hope that the crisis patterns and implications could be discovered before they became practically irrelevant and that these patterns would help uncover the general solutions to the problem of hyperinflation. The multidimensional framework of the thesis was intended to steer clear of simple clear cut discipline-biased solutions to the problem. It attempted to trace the most significant variables and constraints in the collective human equation of hyperinflation. It tried to take what economists, sociologists, historians, and political scientists would consider essential to any explanation and integrate these variables into an intelligible practical whole. This chapter, then, has been added to evaluate what light this thesis has shed on the problem of hyperinflation and what conclusions it has made. It is a chapter about the answers this thesis provides and the new questions it raises. It has been added to re-evaluate the ongoing validity of the crisis patterns which emerged, how these patterns changed or remained the same, and how they continue or discontinue to relate to the posited public policy implication of authoritarian democracy. The overarching question then is twofold. Do there exist crisis patterns within hyperinflationary crises and if so, is authoritarian-democracy the optimum strategy to meet the problem? The answer to both these question must remain a qualified yes, perhaps more qualified on the latter account than on the former.

The hyperinflationary crisis patterns are evident but due to the varieties of economic, social, and political forces at work, the extent of the crisis patterns vary. Economically all states moved towards orthodox stabilization from gradualism as the extent of the crisis became more apparent. All the countries, to a greater or lesser extent, found it necessary to impose some form of emergency economic measures despite ideological bias. This was perhaps most evident in the Nicaraguan and Peruvian cases. In a sense, hyperinflation demanded stabilization if the governing authority was to remain in power.

POSTSCRIPT

Politically, all states found it increasingly difficult to mediate national interests with international interests. National interests demanded development and prosperity whereas international interests demanded exploitation and accountability. Gradualism was a public policy which tried to mediate the interests on a "tit-for-tat" basis, but it failed largely due to the fact it was labour and the disadvantaged groups which were required to sacrifice for the sake of national and international business interests. It aggravated and made political the question: Who should pay the cost? It became a dysfunctional strategy when labour mobilized to oppose its sacrificial role, when disadvantaged groups became too impoverished to pay the costs, when corruption, speculation, and black-marketeering became the logical coping strategies, and when governments could not convince their citizens to return to the formal economy. An abandoned and corrupted formal economy left little incentive for foreign creditors and investors to complete the linkage between international and national interests. Eventually, all the states went bankrupt, or virtually bankrupt, before they enacted stabilization. Bolivia and Nicaragua faced months of hyperinflation before they enacted stabilization, while Brazil acted almost immediately. Obviously there were many variables that impacted on why countries had to go through a greater or lesser amount of economic turbulence before decisive political action was taken. Election timing, previous other hyperinflationary episodes, ideological bias, and distribution of wealth all fit into the equation. However, the undeniable conclusion is that countries eventually responded to hyperinflation with emergency fiscal and monetary conservatism within a democratic framework.

This "authoritarian-like" strategy had to work within the arena of democracy because it required extensive reorganization and self-imposed cooperation from all segments of society. A seizure of control by a military dictatorship was unlikely during these periods for not only would it have had to coerce the country into submission, but it would also have inherited a literally bankrupt and indebted state.

The social crisis patterns illustrating the dismantling of labour power in the aftermath of stabilization complete the rationale for authoritarian-democratic public policy. That is, stabilization became the only non-revolutionary way possible by which the country could escape the developmental impasse. Emergency stabilization destroyed labour power by inducing a heavy recession, encouraged economically marginalized groups to participate in the formal economy through assistance programs to the most disadvantaged, constricted unproductive channels of obtaining capital by monetary restructuring and economic anti-corruption campaigns, and encouraged foreign credit and capital investments through promises of a leaner government bureaucracy and a return to the formal economy. Of all the groups governments found it necessary to restructure, only labour and domestic business could provide significant opposition. Generally domestic business chose not to oppose the reforms because ultimately stabilization would benefit them, although there were significant variations in who benefitted the most. The same could not be said for labour as all countries experienced higher prices, relatively lower wages, and higher unemployment as a result of stabilization. However, unlike gradualism, stabilization served as a means by which to "divide and conquer" labour power. That is not to say labour did not try to mobilize in the face of stabilization for indeed in most countries, particularly in Bolivia, it did [illegible] to mobilize. In the end, though, the coercive strength of the state and the eroding effects of recession were too much for labour leaders to counteract.

Together, then, the increasing failures of gradualism, the increasing need for linkage between national and international interests, and the destructive labour power potential of stabilization led all hyperinflationary countries towards the same optimal strategy: authoritarian-democracy.

However, was authoritarian-democracy as successful a strategy in bringing development as it had been in ridding hyperinflation? The answer to this question is probably no. Undoubtedly authoritarian-democracy often destroyed the developmental impasse, but it did so at significant costs and in marginal and unequal returns. Even to say stabilization always ended economic gridlock would not be true for almost all the countries examined showed a return to hyperinflation even after stabilization reforms. Overall, however, stabilization has led to lower levels of inflation for longer periods than has the strategy of gradualism.

Developmentally, authoritarian-democracy has been less successful. The most significant contributing factor for this lack of results is that international credit has not responded in good faith to the national stabilization reforms. Credit and debt restructuring reforms have been slow to respond to swift and sudden national reforms. Only in Bolivia can it be said that sustained low levels of inflation have been maintained, and that was largely due to the generosity of regional creditors with significant interests at stake. Although inflation rates have subsequently dropped to respectable levels, the ongoing debt crisis threatens to unravel the progress made in the remaining four countries.

This recognition magnifies the role international creditors play in the cessation of hyperinflation and the progress towards sustained development. While authoritarian-democracy becomes the optimum non-revolutionary strategy for hyperinflationary countries, it is rendered completely ineffective without the infusion of international credit. The analysis of Nicaragua more than any other country examined illustrates the validity of this statement. The linkage between national and international interests in hyperinflationary countries cannot be met solely through national stabilization; international credit is required. Although authoritarian democracy goes a long way towards drawing international credit it cannot guarantee it. Often the policy is a gamble, albeit a somewhat forced gamble, that does not guarantee results. Much of the logic behind renewed development and discontinued hyperinflationary episodes lies outside the spectrum of national public policy, even a public policy like authoritarian-democracy which conforms so closely to the interests of international capital. If the competition for international credit is tight, and the economy in question is weak and small even the harshest authoritarian-democratic public policy may not be enough to attract foreign credit. The events in eastern Europe, the rising indebtedness of [illegible]

World countries, and the recessionary tendencies now evident in the world economy do not bode well for these Latin American countries in the near term.

What, then, does the future hold for these countries? This is a very difficult question, and one which cannot be answered with any degree of accuracy. Perhaps the only way that this can be done with any semblance of reliability is to outline very broadly construed political options and generally assess these options against their likelihood based on previous events. I would like briefly to consider three such options.

The first option would be that the international community comes to the aid of these hyperinflationary countries and increases the credit necessary to their sustained development. It would be an option characterized by the mediation of national and international interests and would see increased international credit traded for sustained authoritarian democracy. It is an option not completely cloaked in idealism for there are many theorists (modernization theorists in particular) who believe that such assistance would not only bring development to the subject country but would also bring development to the world economy. It is, however, an option that appears unlikely. International credit is slow to move and only seems to move when it is lured or coerced to move. In these Latin American countries there exists at present no identifiable reason why creditors would significantly increase their contributions in the near term In fact, as has already been alluded, there is virtually every reason to believe that the trickling of foreign credit will be even further limited.

The second and third options, then, are based on the premise that foreign credit to these countries remains constant, and as a result the gap between international and national interests will not be filled. One such option would be for the countries examined to continue their "authoritarian-like" economic reforms based on the suppression of societal demands and on eroding democratic support. Eventually social unrest, dictatorships, and perhaps even revolutionary violence could become prevalent; however, whether this volatile situation could coerce international credit is uncertain. If the states could suppress the unrest while maintaining production levels there would remain no role for international credit other than to keep the "system working". If production levels fell markedly and social unrest threatened the state, perhaps international credit would be used in a more mediating role.

The final option which exists is for the countries examined to move towards joining forces with similarly disadvantaged countries within a regional economic bloc. Such a bloc might demand that international credit become more mediating and accommodating than it currently is with these individual countries. However, such a bloc would be very difficult to form and would not only be eroded by constant ethnic, racial, and national cleavages but would also be bombarded by the constantly destabilizing forces of international credit. It is a prospect not altogether certain within western Europe let alone in Latin America, and for this reason it must remain an unlikely option.

Thus, we can only estimate that what the future holds for these countries will probably be very similar to what the past has held- continued authoritarian economic policy under the guise of democracy if possible, and with international credit being used to moderate or exploit the system as the situation dictates. Sustained hyperinflation, then, could be seen as an indicator that international creditors must be prepared to become more accomodating and fill the gap national public policy cannot fill- a recognition made obvious through a reflection of the patterns and policy implications of recent hyperinflationary episodes.

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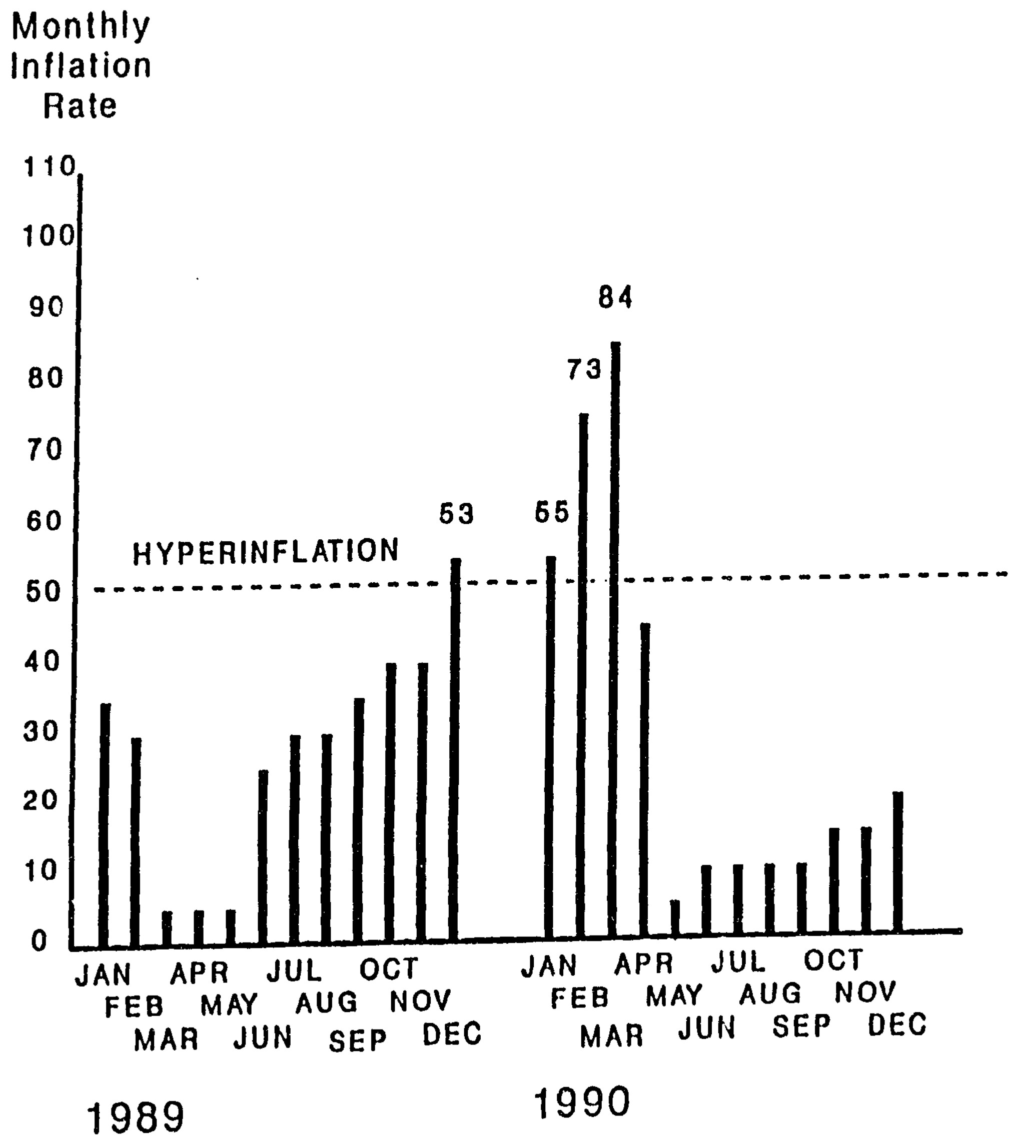
Abbreviations of Newspapers and Periodicals Consulted

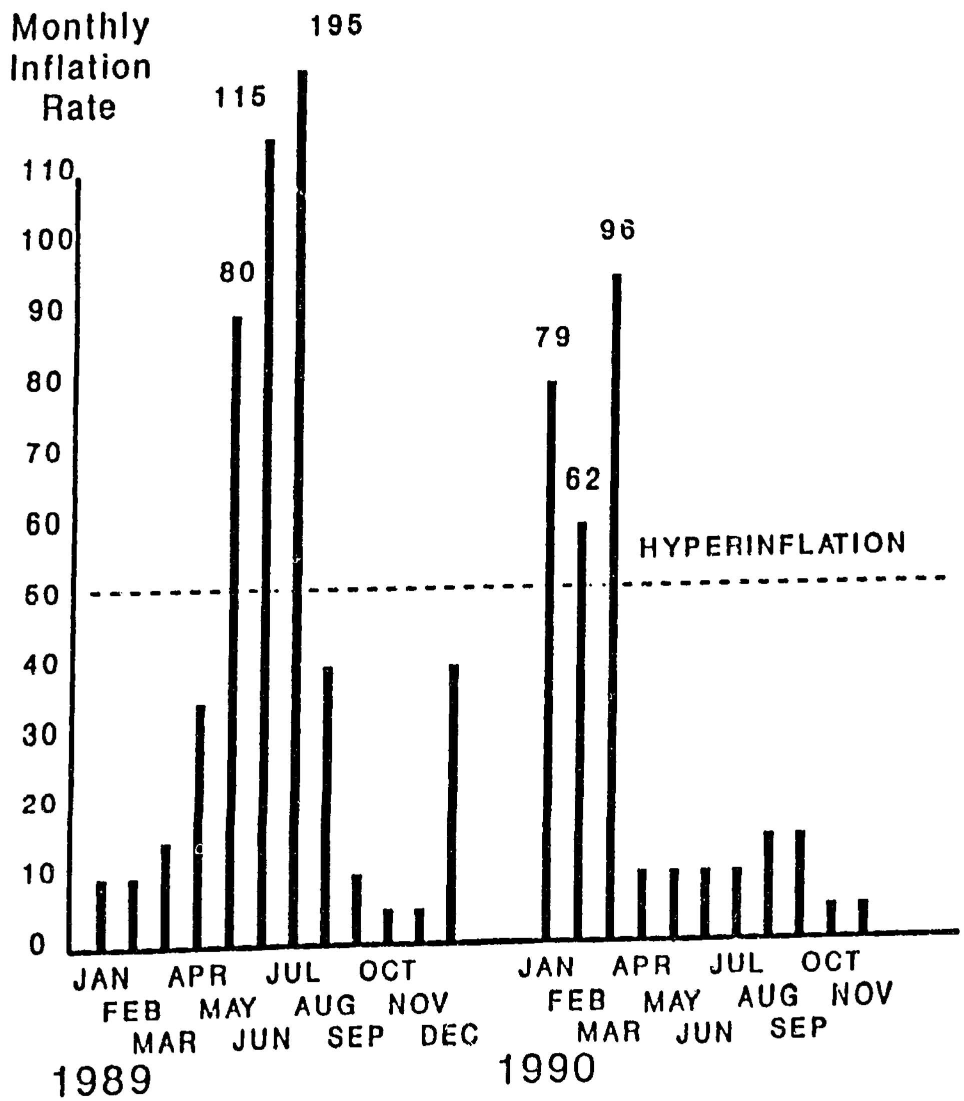
AGR . . . . Latin America Regional Report: Andean Group
BR . . . . Latin America Regional Report: Brazil
CEPAL . . . . Preliminary Overview of the Economy of Latin America
CSM . . . . Christian Science Monitor
FT . . . . Financial Times
JC . . . . Journal of Commerce
LAR . . . . Latin American Weekly Report
LAT . . . . Los Angeles Times
MH . . . . Miami Herald
ML . . . . Manchester Guardian (Le Monde-weekly English edition)
NYT . . . . New York Times
SALA . . . . Statistical Abstract of Latin America
SC . . . . Latin America Regional Report: Southern Cone
WSJ . . . . Wall Street Journal
WP . . . . Washington Post

APPENDIX

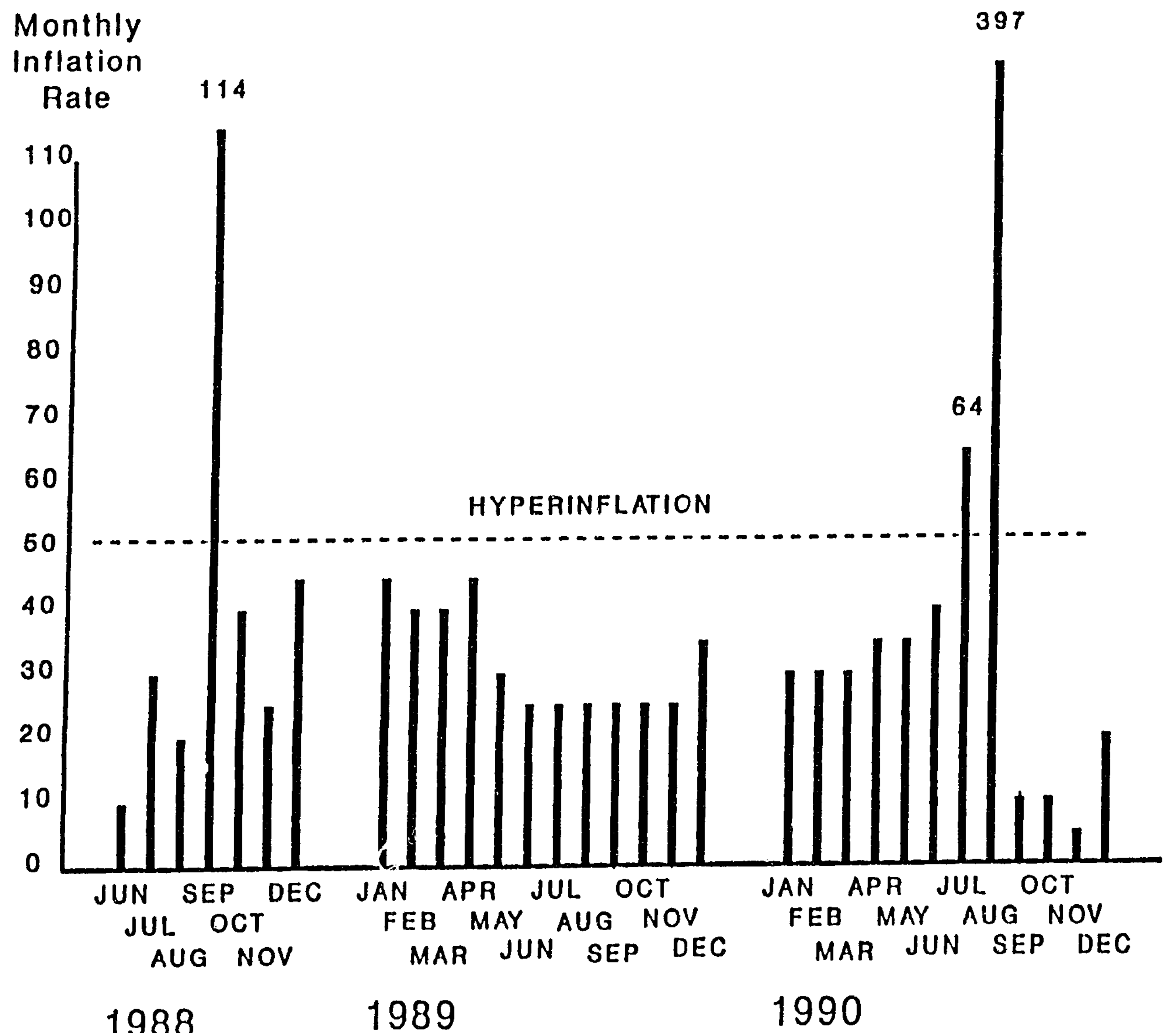
BRAZIL'S MONTHLY INFLATION RATE (1989 - 1990)



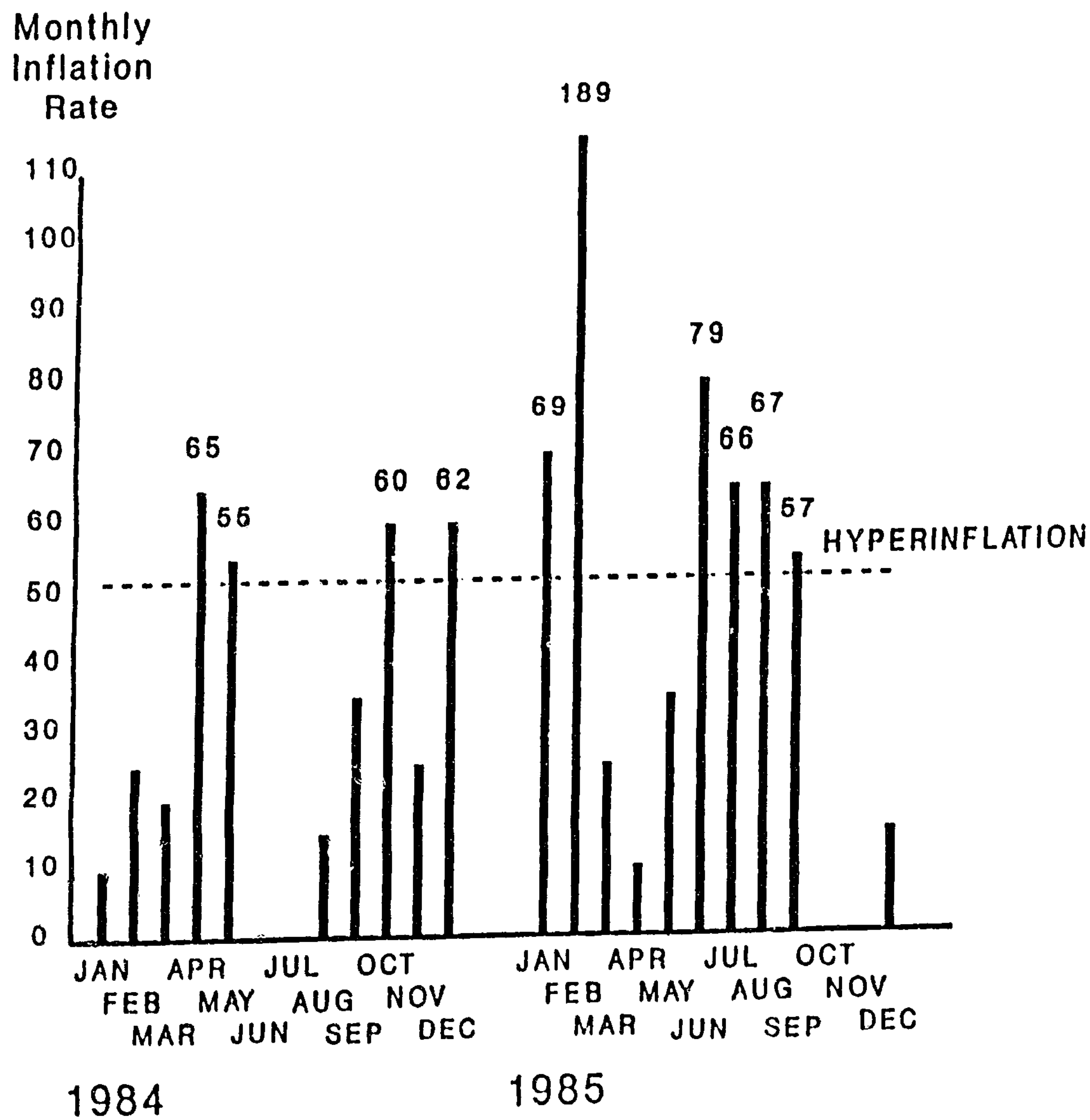
ARGENTINA'S MONTHLY INFLATION RATE (1989 - 1990)



PERU'S MONTHLY INFLATION RATE (1988 - 1990)



BOLIVIA'S MONTHLY INFLATION RATE (1984 - 1985)



NICARAGUA'S MONTHLY INFLATION RATE (1988 - 1990)