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Critical Junctures? Privatization Policy in Brazil and Argentina at the Start of the Century

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Abstract: This paper uses the critical junctures framework developed by Hogan and Doyle (2007) to determine if there were critical junctures in privatization policy in Brazil and Argentina at the start of the 21st century. The framework constitutes a rigorous approach to the identification of crisis, ideational change, and policy change. It is used to examine the economic disasters in Brazil in 1999 and Argentina in 2001. Previously, we would have had to wait decades before making such an assessment, as there were few tools with which to identify critical junctures, and these were usually only effective long after the event.

Keywords: critical Junctures, macroeconomic crisis, ideational change, policy change privatization policy.

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INTRODUCTION

For institutionalists (Gorges 2001; Mahoney 2000; Pierson 2000) periods of abrupt change are generally regarded as initiated by crises. This has resulted in scholars differentiating the past into periods of normalcy, and critical junctures. Despite critical junctures importance to the analysis of temporal processes, the concept has received limited attention (Pierson, 2004). To address this weakness the paper modifies, and improves upon, Hogan and Doyle's (2007) critical juncture framework.

This framework is built upon the hypothesis that a crisis induced consolidation of a new idea – replacing an extant paradigm – leads to significant policy change. If this is the case, such a framework would be capable of explaining why certain crises lead to critical junctures in policies, whereas others do not. The differentiating factor would be ideational change, which would make identifying ideational change a predictor of policy change.

Hogan and Doyle's (2007) framework is employed in examining the economic problems in Brazil in 1999, and in Argentina in 2001, to test for critical junctures in privatization policy. If crisis and ideational change are identified, along with third order policy change in privatization policy, the framework would lead us to conclude there was a critical junctures in privatization policy. Prior to this framework being developed we would have had to wait decades before making such a pronouncement.

SECTION 1: CHARACTERISTICS OF THE CRITICAL JUNCTURES CONCEPT

Development paths funnel units in particular directions, with the consequence of increasing returns, and resultant irreversibilities (Mahoney, 2003: 53; Pierson and Skocpol, 2002: 9). Critical junctures constitute branching points that set processes of change in motion, resulting in the adoption of an institutional arrangement from among alternatives (Mahoney, 2000: 512). Views vary as to the duration of a critical juncture. For some it constitutes a brief period in which one direction or another is taken, while for others, it is an extended period (Mahoney 2001). The concept has been employed in comparative politics. Both Collier and Collier (1991) and Mahoney (2001) used similar frameworks in their analyses of developments in Latin and Central America. For them, critical junctures took decades to come about, while their after effects were of shorter duration. Hogan (2005; 2006) questioned whether these periods of change were in fact incremental, and should be considered examples of conversion as developed by Streeck and Thelen (2005).

In relation to short term change, Haggard (1988: 91) argued that economic depression brought

into question existing institutions, and resulted in dramatic change. Garrett and Lange (1995: 628) showed that electoral landslides created critical junctures by producing mandates for policy change. Casper and Taylor (1996) employed the concept in analyzing liberalization of authoritarian regimes, while Hogan's (2005; 2006) remoulded framework was used to examine change in trade union influence over public policy

Critical junctures are regarded as highlighting the importance of the past in explaining the present. They 'suggest the importance of focusing on the formative moments for institutions' (Pierson, 1993: 602). But, these studies are all postdictive, concentrating on history. If focusing on the formative moments of institutions and policies is critical, only doing so long afterwards is a significant weakness for the concept. These limitations have led to the development of the framework tested here.

SECTION 2: CRITICAL JUNCTURE FRAMEWORK

The framework developed by Hogan and Doyle (2007) consists of three sections. The first section is devoted to examining macroeconomic conditions to determine if there was a crisis. In this case we employ double (20) the number of observables implications set out in the original framework. This is to add veracity to the nature of our findings. The second section of the framework is designed to identify ideational change. It is made up of two subsections, to identify extant ideational collapsed and to identify new ideational consolidation. Here there are eight observable implications. The third, and final, section of the framework is structured to identify the nature of policy change. This is made up of three observables, all of which are derived from Hall's (1993) three orders of policy change. If a case study satisfies the observables in all three sections of the framework then there is a critical juncture.

Ideational change is the link between crisis and policy change. The nature of the ideational change, in the wake of a crisis, will determine the type of policy change that occurs. Thus, through understanding ideational change, the framework aims to explain why only some crises are followed by radical changes in policies.

Hogan and Doyle (2007) argue that in the absence of ideational change the level of policy change, in response to crisis will be of the first or second order, but not the third.¹ Policy instrument settings, and the instruments themselves may change, but without ideational change the hierarchy of goals underpinning policy will remain unaltered. In this manner, a crisis can be examined to see if it has led to change in the ideas underpinning policy. If ideational change is discovered then radical policy change can be predicted,

if ideational is not discovered, then something less than radical policy change is likely. Therefore, Hogan and Doyle's (2007) framework contains within it a predictive element.

Previously, we would have had to wait decades after a crisis before declaring if a critical juncture in policy had occurred. With the framework utilised here that waiting time is eliminated.

SECTION 3: RESEARCH QUESTION AND METHODOLOGY

Research Question

The research objective is to determine if there were critical junctures in the privatization policy of Brazil and Argentina at the start of the 21st century. This will be determined using Hogan and Doyle's (2007) critical junctures framework. The central hypothesis is ideational change, in the wake of a crisis, leads to radical policy change. We must ascertain whether the difficulties in those economies were crises, if crises are confirmed did they led to ideational change with regard to privatization, and, if ideational change is confirmed, did this led to a radical change in privatization policy.

Case Selection, Time Frame, Privatization Policy

Latin America is turning left (Castañeda, 2006). 'Political parties, which can broadly be characterised as being from the left and the centre left are in power, have been in power or have good chances of gaining power' (Panizza, 2005: 716-717), at national, state and municipal levels. The reasons for this are not particularly complex, given the region's unparalleled socio-economic inequalities, and persistent levels of indigence, that have become increasingly associated with the last quarter century of neoliberal restructuring and democratic reform (ECLAC, 2005). However, this political development has also seen the emergence of politicians and political movements exhibiting many characteristics of 'classical' era populism – advocacy of economic nationalism, redistributive social policies, and increased state-intervention in the economy.²

What merits attention is that the apparent resurgence of the left in the region has occurred along to two lines – the radical populist left and the reformist left (Castañeda 2006; Panizza 2005). The latter was the radical orthodox left that successfully reconstructed in accordance with the new political realities of neoliberal globalisation. Responding to popular demands, it seeks to mitigate the negative excesses of the neoliberal model through gradual reform and regulation. This raises questions as to why in some cases the region witnessed the emergence of reformist left-of-centre forces, while in

others it saw an apparent return to the populist policies of the past.

Economic crisis is a proxy for "generative cleavages" as it render politics highly fluid (Garrett, 1993: 522), generating debates concerning economic models, which can lead to radical ideas to replace existing paradigms. As such, economic crises may be a crucial independent variable explaining the re-emergence of populism in the region. Thus, the economic situations in Brazil (1999), and Argentina (2001), are examined. In Brazil, President Luiz Inácio Lula de Silva of the *Partido dos Trabalhadores* (PT – Workers Party), has been characterised as belonging to the more moderate reformist left, while his counterpart in Argentina, Nestor Kirchner, is frequently accused of old style populism (Castañeda, 2006; Panizza, 2005). Change in privatization policy is focused upon as it is a core tenet of conservative economic restructuring. Change in such a policy may indicate wider changes in macroeconomic policy.

SECTION 4.1: IDENTIFICATION OF MACROECONOMIC CRISIS

The critical junctures literature is invested with the concept of crisis. This places 'particular emphasis on the tensions leading up to a critical juncture' (Collier and Collier, 1991: 32). Any of a range of external shocks are cited as explanations for policy change (Greener, 2001; Golob, 2003: 373).

Crises tend to be rare events rendering definition and identification difficult (Yu et al., 2006: 439). Consequently, how do we identify a crisis? Stone (1989: 299) argues that a situation does not become a problem until it is regarded as controllable. But, if something is controllable it must be measurable, otherwise how would we know if we are controlling it? Thus, a crisis must be quantifiable. Kaminsky et al., (1998) and Berg and Pattillo (1999) advocated individual variables when quantifying currency crises. Pei and Adesnik (2000: 138-139) developed a broader range of criteria for identifying macro-economic crises: annual inflation rate greater than 15 per cent, stagnant or negative annual gross domestic product (GDP) growth, and historians and other analysts' descriptions of significant deterioration in economic and financial circumstances. For Garuba (2006: 21), Kwon (2001: 105), and Solimano (2005: 76) a macro-economic crisis can be identified through the general indicators and perceptions of growth, inflation, employment creation, poverty reduction, and their combined socio-psychological burden on society. Here we seek to identify macroeconomic crises with greater certainty, through the use of quantitative and qualitative measures.

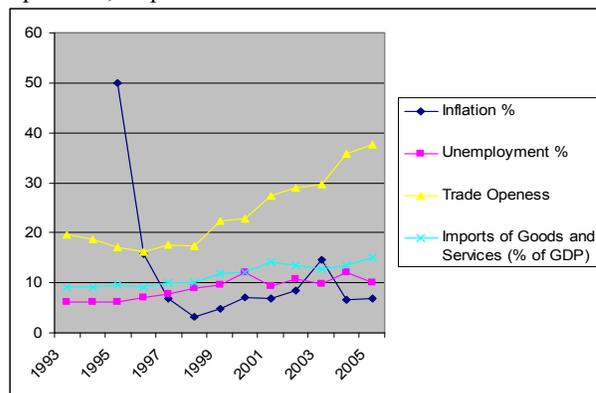
Defining anything as a crisis, including a macro-economic downturn, requires subjective and objective deliberations (Pei and Adesnik, 2000: 139).

Consequently, González (2005: 93) suggests the adoption of a multifaceted approach. Agents must diagnose, and impose on others, their notion of a crisis before action to resolve uncertainty can take meaningful form (Blyth 2002: 9). This fits with Hay's (1999: 321) perception of a crisis as the triumph of a simplifying ideology. Consequently, we develop a broad range of observable implications, which include, and build upon, the objective and subjective criteria of previous studies. These twenty observable implications accept that a macro-economic crisis constitutes a severe economic low point (See Appendix A for observables). We argue that at least 50 per cent of all observable implications, for which there are findings, should point to economic crisis.

Brazil - Crisis: 1998-2000

Brazil undertook an inflation stabilization programme in 1994, the Plano Real (Netto, 1999), pegging the *real* to the dollar. This reduced inflation from 50 per cent per month to 3.2 per cent annually by 1998 (Figure 1). However, there was substantial exchange rate appreciation during this period, making Brazilian goods relatively more expensive, contributing to an alarming current account deficit by 1997 (Bulmer-Thomas, 1999: 730).

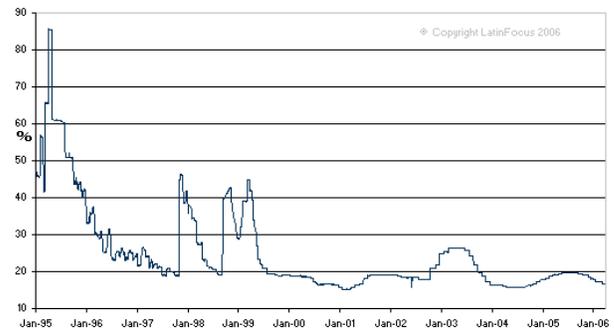
Figure 1: Inflation; Unemployment; Trade Openness; Imports



Source: Data Gob, Government Indicators Database; Instituto Brasileiro do Geografia y Estadística

Interest rates doubled as the repercussions of the Asian crisis reached Brazil (Figure 2), indicating the fragility of its financial situation (Heymann, 2001: 16). At the same time, inflation began rising again, reaching almost 5 per cent by 1999. Nevertheless, the authorities promised a new assault on fiscal problems, now aggravated by higher interest payments on government debt.

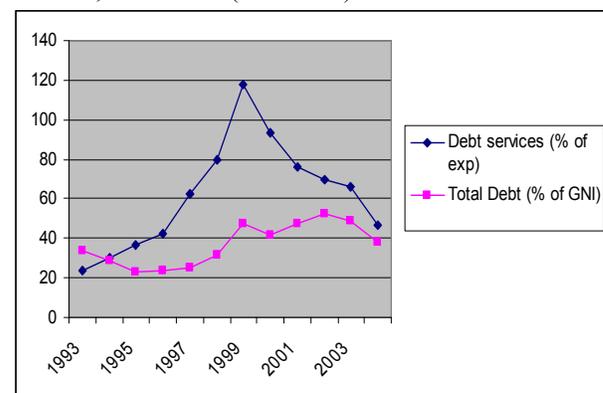
Figure 2: Brazilian Interest Rates 1995-2006



Source: Banco Central do Brasil

However, the government, with an eye to the 1998 elections, failed to make good on its commitments, and the budget deficit grew to 8.4 per cent of GDP. As a result debt/GNI increased to almost 32 per cent by the end of 1999 (Figure 3).

Figure 3: Debt Services (% of exports of goods and services; Total Debt (% of GNI)



Source: Data Gob, Government Indicators Database

But, following the Asian crisis, and Russian bond default, investors became risk averse (Kaminsky et al., 2003: 51), this evidenced by Standard and Poor's, Moody's and Fitch's downgrading of Brazil's credit rating (Table 1). By 1999 Brazil was not considered a safe bet in terms of investment, although it improved somewhat subsequently.

As \$30 billion fled the country in September, the central bank raised interest rates to 43 per cent. Unemployment reached 9 per cent by the end of 1998, while imports, and trade openness declined. President Fernando Cardoso, safely re-elected, announced measures to slash the deficit, restore confidence, and right the economy.³

However, the *real* came under attack in October 1998. A \$41 billion IMF-led rescue package was arranged in November.⁴ But, President Cardoso was unable to get an IMF supported budget (tax increases/spending cuts) through the legislature.⁵ The possibility of debt default arose. As much of the

country's foreign debt was short term this was a daunting burden.⁶ The upper classes, convinced devaluation of the *real* was inevitable, began withdrawing investment from Brazil. The fall in gross capital formation for 1998 reflected this (Figure 4).

Table 1: Credit Ratings

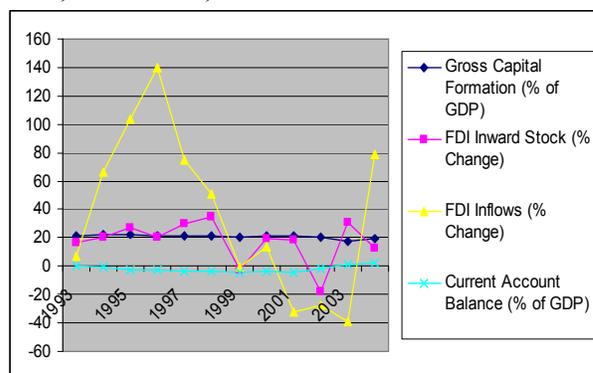
	1999	2000	2001	2002	2003	2004
Moody's	B2	B1	B1	B1	B2	B1
S & P	B+	B+	BB-	B+	B+	BB-
Fitch	BB-	BB-	BB-	B	B+	BB-

Source: Moody's Investor's Service; Standard & Poor's; Fitch IBCA; at <http://www.latin-focus.com/latinfocus/countries/brazil>

As dollars fled the country, and FDI went elsewhere, the prospects for the economy, and the value of the *real*, grew bleak.

To defend the currency, the central bank pushed to 50 per cent,⁷ increasing the cost of servicing public and private debt, to the extent investors became convinced a default was coming, to be followed by a currency collapse. Consequently, high interest rates, instead of slowing the tide of dollars leaving Brazil, accelerated the process. When the governor of Minas Gerais announced a 90 day moratorium on repayments to the federal government the game was up.⁸ This announcement, and fear that the governors of Rio de Janeiro and Rio Grande do Sul could do likewise, threatened the country's fiscal integrity (Rothkopf, 1999: 91). Foreign investors fled Brazilian capital markets (Cattaneo, 2001: 228). With the central bank losing \$2 billion a day,⁹ the World Bank initiated crisis talks.¹⁰

Figure 4: Gross Capital Formation; FDI inward stock; FDI Inflows; Current Account Balance



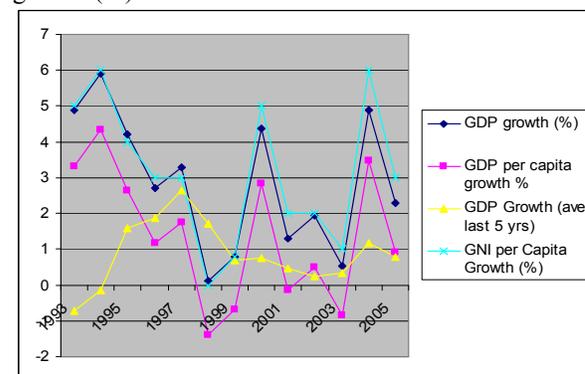
Source: Data Gob, Government Indicators Database

Despite pledges not to,¹¹ the exchange rate band was widened to accommodate a modest devaluation in January 1999 (Roett and Crandall,

1999: 279). While the *real*/dollar exchange rate had been close to parity prior to devaluation, it plummeted to two for one by February. Debt services as a percentage of exports almost doubled, rising to 120 per cent by 1999 (Figure 3). The decision to devalue damaged the government's credibility, putting severe pressure on the central bank, whose diminished foreign currency reserves were preventing another devaluation.¹² However, devaluation did not stop the hemorrhage of dollars. The inflow of FDI, and FDI inward stock, both declined in 1999, relative to previous years, reflecting a loss in investment (Figure 4). Paul Krugman warned that Brazil was at risk from anyone who could take money out of the country.¹³

The Sao Paulo stock exchange plunged 10 per cent on the day of devaluation. However, within a few weeks this policy collapsed, forcing the resignation of a second central bank governor. Arminio Fraga, the new governor, floated the currency.¹⁴ There was widespread fear of a return to the high inflation of the 1980s, and a default on public debts (Bulmer-Thomas, 1999: 729). The country experienced significant declines in industrial output and GNP.¹⁵ The percentage of the population below the poverty line surpassed 25 per cent.¹⁶ The New York Times – observing that Brazil was in crisis, with capital fleeing, and state governments defying the central authority¹⁷ – predicted a debt default.¹⁸ Yet, most indicators of economic performance did not reach decade long lows (Figure 5). In fact, real GDP grew in 1998, albeit by only 0.1 per cent, and grew by 0.8 per cent the following year. However, GDP was to rise by 4.5 per cent in 2000, while the highest inflation rate in 2000 was 7 per cent.¹⁹ GNI per capita growth stagnated between 1998 and 1999, before gradually recovering.²⁰

Figure 5: GDP Growth(%); GDP per capita growth(%); GDP growth(5 yr. av); GNI per capita growth (%)



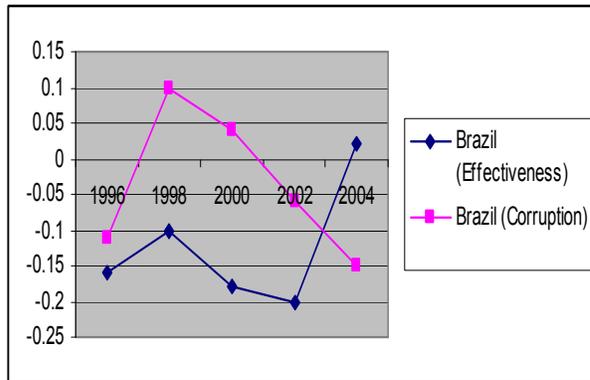
Source: Data Gob, Government Indicators Database

'Many commentators in the first half of 1999 assumed that Brazil would have to restructure its debt (a euphemism for default)' (Bulmer-Thomas, 1999: 736).

Summers (2000: 5) rated the situation as a major financial crisis. By early March the Brazilian central bank was still struggling to prop up the *real*.²¹ However, the bank's framework for targeting inflation made progress, and it regained credibility. Economist Henry Kaufman argued that Brazil's problems were a reflection of slowing international economic activity.²² For investment strategist Barton Briggs the devaluation was part of a creeping deflation.²³

Yet, by the middle of the year the *real* had recovered. Inflation did not rise, nor output fall, by as much as expected, while interest rates gradually declined (Heymann, 2001: 16). By August financial analysts were predicting the economy would contract by 1 per cent, compared with earlier estimates of 5 per cent.²⁴ Hakim (2000: 110) argues that the country succeeded far beyond anyone's expectations in recuperating from the crisis. This success was reflected in the citizens' opinions of their government's performance and its level of corruption, with them rating its effectiveness as -0.18²⁵, only slightly below the world average of 0, and its corruption at 0.04²⁶, slightly above the world average of 0 (Figure 6).

Figure 6: Governmental Effectiveness and Corruption Measures



Source: Data Gob, Government Indicators Database

Summers and Williamson (2001: 56) argued the central problem for Brazil was a pegged exchange rate that lacked the measures necessary to make the peg stick. Although Brazil avoided economic prostration, as it is Argentina's main trading partner meant the depreciation of the *real* left the peso, also pegged to the dollar, overvalued. This was to have devastating consequences for Argentina (Kamensky et al., 2002: 52).

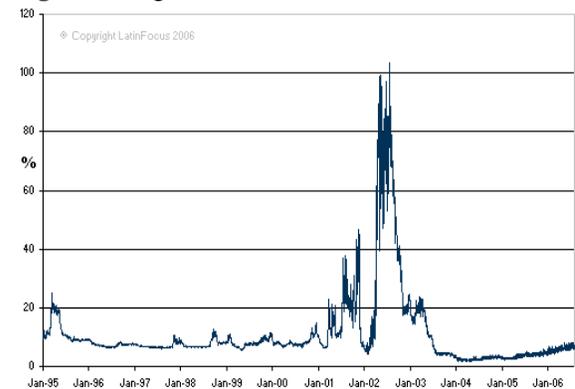
Argentina - Crisis: 1999-2002

For most the 1990s the Argentine peso was pegged to the dollar. During these years the dollar appreciated in against other currencies, and so did the peso. This

resulted in the overvaluation of the peso, especially in relation to the Brazilian *real*. While Argentine exports declined, imports increased, and the national debt, denominated in dollars, grew rapidly.

After recovering from a short recession following the 1995 Mexican crisis, Argentina's economy was hit again in 1998. International financial turmoil in the wake of the Asian crisis, and anxiety over the Brazilian economy, resulted in high interest rates (Figure 7), a stock market plunge, and slow growth.²⁷ According to *The Economist* the Argentine economy shrunk by 3.2 per cent in 1999.²⁸ The national debt, denominated in dollars, double between 1993 and 2001 (Mulraine, 2005: 7). But, hailed as an example of free market reforms, Argentina was permitted to further indebt itself. By the late 1990s Argentina was facing a dilemma. To break the link with the dollar and permit the peso depreciate would improve the country's export situation, but would drive the national debt higher.

Figure 7: Argentine interest rates 1995-2006



Source: Banco Central de la República Argentina.

In early 2000 the government began cutting spending and increasing taxes, to close the budget gap (Saxton, 2003: 10) which had reached 3.8 per cent (Desai, 2003: 177). The government bet the contradictory effects of its decision would be offset by the boost to confidence from putting the public finances in order – allowing interest rates to fall. However, this ignored the fact that the economy was shrinking, and would result in further reducing the already diminishing tax base. As it was deficit spending that “got Argentina into its mess,” in the first place,²⁹ the tax increases, instead of reviving the economy, drove it into stagnation.³⁰ There was, according to Fronti et al., (2002: 12), a genuine crisis of economic fundamentals. In November 2000, Standard & Poor's downgraded Argentina's credit rating to BB-, suggesting it faced major uncertainties regarding its capacity to meet its financial commitments. Moody and Fitch soon did likewise (Table 2). By late 2000 the country was experiencing economic stagnation and political confusion.³¹

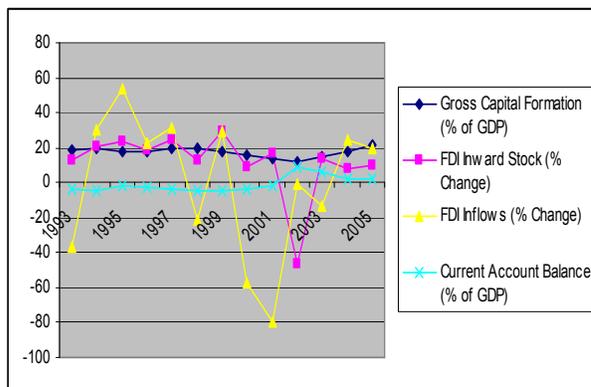
Table 2: Credit Ratings

	1999	2000	2001	2002	2003	2004
Moody's	B1	B1	Ca	Ca	Caa1	Caa1
S & P	BB	BB-	SD	SD	SD	SD
FitchI	BB	BB	DDD	DDD	DDD	DDD

Source: Moody's Investor's Service; Standard & Poor's; Fitch IBCA; at <http://www.latin-focus.com/latinfoocus/countries/argentina/argeiratings.htm>

Surveys discovered pessimism about the economy, with 32 per cent of people believing they would be worse off in 12 months.³² This mood darkened as tension increased between Argentina and the IMF (Eichengreen, 2003: 75). Financial analyst Mailson da Nobrega argued that “the crisis in Argentina has become permanent.”³³ If the peso was kept pegged to the dollar exports would continue to fall, and the national debt continue to grow. If the peso was unpegged from the dollar its value might collapse, and although exports would grow, the national debt would explode. In late 2001 capital flight reached 6 per cent of GDP, and the government found itself increasingly unable to meet debt repayments (Kaminsky et al., 2003: 63). On 30 November \$1.3 billion fled the banks, and the central bank’s net reserves slumped by \$1.7 billion.³⁴ The slump in gross capital formation, and the reversal of FDI inflows (Figure 8) bears witness to the declining attractiveness of Argentina as an investment option. With the effective freezing of bank accounts on 1 December, to stop the run on the banks, the crisis exploded onto the streets. Bonelli (2004: 216) points out that billions of dollars of investment had left the country.

Figure 8: Gross Capital Formation; FDI inward stock; FDI Inflows; Current Account Balance

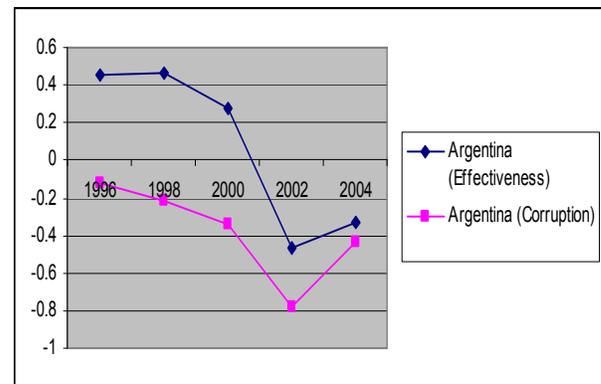


Source: Data Gob, Government Indicators Database

The *Wall Street Journal* described the situation in Argentina as chaos.³⁵ *The Independent* declared Argentina to be in political and economic

meltdown.³⁶ When Argentine daily *Pagina/12* declared the country to be locked in crisis, it began receiving calls from politicians to reign in its headlines.³⁷ By this stage economics and finance ministers began resigning.³⁸ Following violent protests, in which many were injured and killed, the government collapsed in late December. Now, recession, crushing debt, and political paralysis, assumed epic proportions.³⁹ Citizens declining confidence in their government was reflected in the effectiveness index falling from 0.28 in 2000, well above the world average of 0, to -0.47 in 2002 (Figure 9). While Argentines regarded their government as somewhat corrupt in 2000, with a score of -0.34, this had fallen to -0.78 by 2002. Starr described the Argentine economy as being driven into the ground,⁴⁰ while De Rosa pointed out that the reason for the crisis was government spending, which outpaced revenue collection,⁴¹ partly due to enormous corruption.⁴²

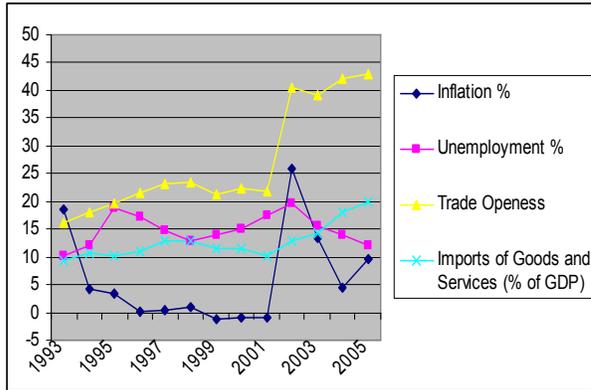
Figure 9: Governmental Effectiveness and Corruption Measures



Source: Data Gob, Government Indicators Database

President de la Rúa’s successor Ramón Puerta was in office two days when succeeded by Adolfo Saa. Saa declared a debt moratorium, but a few days later Argentina announced the biggest default in history - \$132 billion.⁴³ By this time unemployment had surpassed 18 per cent.⁴⁴ Saa then announced the creation of a new currency, the *Argentino*, a solution to the shortage of cash. However, this currency never came into being. Saa was in office two days when replaced by Eduardo Camaño, who lasted just three. In January 2002 new President Duhalde unpegged the peso from the dollar, and it promptly lost 75 per cent of its value, triggering rapid inflation (Gurter, 2004). This had an immediate impact on the remaining debt, which tripled in value. The jump in inflation between 2001 and 2002 was dramatic, climbing from -0.17 to almost 26 per cent (Figure 10). Imports of goods and services slumped, reflected in the declining trade openness.

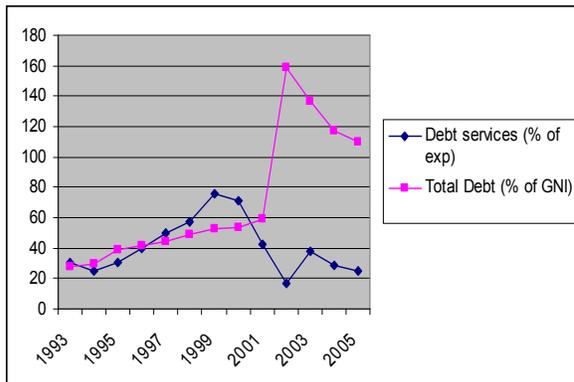
Figure 10: Inflation; Unemployment; Trade Openness; Imports



Source: Data Gob, Government Indicators Database

All the while the central bank, struggling to stabilize the currency's value,⁴⁵ spent vast amounts of foreign exchange (Desai, 2003: 173). 'Because most debt instruments in Argentina were denominated in dollars, the depreciation of the [peso] made it impossible for borrowers to earn sufficient money to repay their dollar-denominated loans' (Cavlo and Mishkin, 2003: 101). The depreciation of the peso also diminished gross national income. Thus, despite the debt default, and the fall in debt services as a percentage of exports from 70 per cent in 2000 to just above 40 per cent in 2001, the remaining debt as a percentage of GNI increased dramatically, reaching 160 per cent. That both indicators in Figure 11 simultaneously veered dramatically in opposite directions is a clear indication of a troubled economy. The financial sector had gone into meltdown.

Figure 11: Debt Services (% of exports of goods and services; Total Debt (% of GNI)



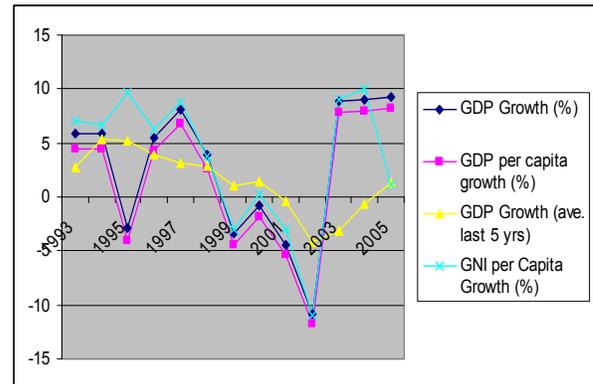
Source: Data Gob, Government Indicators Database

The public was enraged over the economic mess, soaring unemployment, and the disappearance of their savings.⁴⁶ An indication of how negatively they regarded the economy, and their suspicions of political corruption, was the clamour for dollars.⁴⁷

Daseking et al., (2004: 1) argued it was one of the worst economic crisis in the country's history, a view echoed by many economists (de la Torre et al., 2002; Feldstein 2002; Mussa 2002).

After an initially populist line, President Duhalde sought to work towards a solution with the IMF. But, the political response to the crisis, and the actions of the five presidents who dealt with it, was chaotic. By early 2002, Argentina was in the midst of a depression.⁴⁸ GDP growth, and GDP per capita growth were both down over 10 per cent (Figure 12). These declines were mirrored in the decline of GNI per capita growth, and GDP growth averaged over five years. Real GDP fell by 28 per cent between 1998 and 2002, while real wages declined by 23.7 per cent, inflation reached 41 per cent, and unemployment peaked at 23.6 per cent (Saxton, 2003: 1).

Figure 12: GDP Growth (%); GDP per capita growth (%); GDP growth (5 yr. av); GNI per capita growth (%)



Source: Data Gob, Government Indicators Database

In 2002 the number of people below the poverty line doubled to 60 per cent, while growth contracted by 4.4 per cent.⁴⁹ All measures of economic performance had sunk beyond decade long lows. It was a crisis of unprecedented financial turmoil, and a shocking drop in output (Guidotti, 2006). For Zanetta (2004: 176) this constituted the utter collapse of Argentina's economy. For Miller et al., (2005: 1) a 'full-blown financial crisis where the collapse of the exchange rate and the paralysis of the banking system precipitated an Argentine Great Depression.'

Table 3 – The Identification of Macroeconomic Crisis

The Observable Implications	Argentina 99-02	Brazil 98-00
O1. Main GDP indicators stagnant/negative?	X	X
O2. GNI per capita PPP growth stagnant/negative?	X	X
O3. 50% + of population below poverty line?	X	
O4. Total debt above 100 of GNI?	X	
O5. Debt services exceed 100% of exports?		X
O6. Importations and trade openness declined?	X	X
O7. FDI inflows, and FDI inward stock decline?	X	
O8. Gross capital formation as % of GDP declined?	X	X
O9. Annual inflation greater than 15%?	X	
O10. Annual interest greater than 15%?	X	X
O11. Annual unemployment greater than 15%?	X	
O12. Decline in sovereign credit rating?	X	X
O13. Corruption and gov. effectiveness problematic?	X	
O14. Opinion polls regard the economy in crisis?	X	X
O15. Media regard economy in crisis?	X	X
O16. Commentators regard economy in crisis?	X	
O17. Central bank regard economy in crisis?	X	
O18. Domestic/international orgs regard economy in crisis?	X	X
O19. Politicians regard economy in crisis?	X	
O20. Gov. pronouncements on economy consistent with crisis management approach?	X	
Economic Crisis	YES	YES

From Table 3 it is clear that Argentina (1999-2002), satisfied nearly all above observable implications (95 per cent) for macroeconomic crisis. Brazil (1998-2000) satisfied half of the twenty observable implications, and therefore also constituted an economic crisis. The next section examines both periods of economic difficulty for changes in the ideas underlying privatization policy.

4.2 IDENTIFICATION OF IDEATIONAL CHANGE

Previous policies are discredited due to their implication in a crisis (Levy, 1994). Although economic crises can have great impact they will not determine policy, whose formulation is ‘centred in domestic political and ideational processes’ (Golob, 2003: 375). Ideas determine policy choices due to uncertainty over the workings of the macro-economy, the difficulties of interpreting policy effectiveness, and the lack of agreement over what constitutes “correct” macro-economic policy (McNamara, 1998: 57). When an economic model is in difficulty, windows of opportunity (Kingdon, 1995) appear in which change agents contest the viability of the prevailing paradigm. They present new ideas to replace the ones upon which existing policy is based. We contend that significant policy change depends on actors reaching consensus upon, and subsequently

consolidating around, a particular set of new ideas. These ideas determine the path of subsequent policy, as policy-makers work within a framework of ideas and standards that specify not only the goals of policy, but the instruments to be used to achieve these goals, and the nature of the problems they are addressing (Hall, 1993: 279). ‘Ideas facilitate the reduction of...barriers by acting as coalition-building resources among agents who attempt to resolve the crisis’ (Blyth, 2002: 37). They are the casual mechanisms of change in any critical juncture (Golob, 2003).

Once agents coalesce around a set ideas purporting to offer a solution to current economic woes, and an alternative to the current paradigm, *they* attempt to ‘inject’ these into the policy domain. We contend there are three groupings of *change agents*. The most important are what Dahl (1961) termed ‘political entrepreneurs.’ They are similar to Kingdon’s (1995) concept of policy entrepreneurs, which constitute our *second group of change agents*. Policy entrepreneurs encompass civil servants, technocrats, academics, economists and interest groups etc., who engage in policy innovation, and have access to decision makers. Policy entrepreneurs are responsible for producing ideas, but the political entrepreneur injects these into the policy process. The final group of change agents are outside influences, including the media, and international organizations, such as the OECD. They

critique an existing economic paradigm, advocating a new set of ideas as an alternative.

Should a broad range of agents agree the prevailing paradigm is inadequate, and should be replaced, the first stage of Legro's (2000: 419) model of ideational change, collapse, will have occurred. Five observable implications seek to identify the generation of new economic ideas and extant ideational collapse (See Appendix B). However, 'even when ideational collapse occurs, failure to reach consensus on a replacement could still produce continuity, as society reflexively re-embraces the old orthodoxy' (Legro 2000: 424). In the wake of ideational collapse, the issue is reaching consensus on a new set of ideas. If consensus is achieved it constitutes the second stage of Legro's model – consolidation – agents co-ordinating a replacement set of ideas to the reigning consensus. This can be seen in political entrepreneurs consolidating their innovations' by combining a mixture of interests to produce a winning coalition (Sheingate 2003: 192-193). Three observable implications seek to identify new ideational consolidation (See Appendix B).

Brazil – The Armouring of a Policy

Privatization was initially considered in Brazil in 1979, when the government created the National Program for Public Sector Rationalisation. It was not until the implementation of the National Plan for Privatization (PND) in 1990 that the process was kick-started (Mueller, 2001). In July 1981, the military government attempted to initiate privatization, passing legislation for transferring public companies to the private sector. A commission was created to oversee this process (Werneck, 1991). However, as foreign investors were barred, only 20 state-owned companies were privatised. The World Bank described this effort as a 'classical example of failure' (Treisman, 2003: 100). In November 1985, with the creation of the Interministerial Privatization Council, the legal impediment to foreign investors was removed, and the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) was given a central role in the process. This was crucial, as an economist at the bank, Ignácio Rangel proved highly influential in disseminating the benefits of privatization to powerful interest groups (Werneck, 1991: 62).

However, the process stalled, and in 1988 it appeared this policy would go no further with the creation of a new constitution which restricted privatization and created state monopolies in telecommunications, oil, and gas (Treisman, 2003). However, as neoliberal ideas, and policy prescriptions, gained salience, President Collor de Mello, and his successor Itamar Franco, began attacking nationalist economic policies. Economic

ideas were used to attack the statist economic paradigm: 'We have a government that is too large.'⁵⁰ Eventually Collor de Mello pushed through the PND, and the idea of privatization was slowly institutionalised.

Ironically, it was under President Cardoso, a social democrat, that privatization became widely accepted. With the PND now institutionalised, privatization was implemented aggressively. Cardoso, desperate to banish hyperinflation, adopted many neoliberal policy prescriptions. Between 1994 and 1999 the state divested itself of 124 companies.⁵¹ By 1998 'the entire telecommunications and railway sectors, the largest ports, some of the main highways, much of the electricity distribution and generation sectors, and some water and sanitation services had been transferred to private control' (Treisman, 2003: 94). Mueller (2001) argues that privatization had become so embedded due to judicial independence, and the autonomy of regulatory bodies, that it would be extremely difficult for an administration to reverse course.

Brazil – Any Ideas out There?

Following the devaluation of the *real* in 1999 and the subsequent economic crisis, there was widespread disillusionment with the economic model. Only 25 per cent of Brazilians expressed satisfaction with the market economy,⁵² and privatization policy, in particular, lost significant support. Only 26 per cent felt satisfied with the level of public services after privatization, while support for privatization dropped to 33 per cent by 2003.⁵³

The PT, and their Presidential candidate Luiz Inácio Lula de Silva, began attacking conservative economic policies during the 2003 election. Lula's platform was built upon a promise to tackle the social and economic ills generated by this model:

If at one time during the 1990s the current model was able to awaken hope of economic and social progress, today we are left with an enormous feeling of deception. Now after eight years of this model, the Brazilian people have determined that the fundamental promises have not been fulfilled and their hopes only frustrated... The dominant feeling ... is that the actual model has exhausted itself [Lula, 2002: 1].⁵⁴

During the election Lula's energy advisor, Luiz Pinguelli Rosa announced that 'the period of neoliberalism is gone in Brazil. The privatization phase has come to an end.'⁵⁵ Furthermore, Lula pledged to take a tougher regulatory line with privatised companies,⁵⁶ and probe controversial privatizations.⁵⁷ Lula, and running mate José Alencar, expressed doubts about the extent of privatization conducted in Brazil.⁵⁸

Although dissatisfaction with neoliberalism, and privatization, emanated from the PT and Lula, there was a lack of public support for this policy. Consequently, a mild form of ideational collapse occurred. However, although Lula constituted a change agent, he failed to present any alternative policy in lieu of state divestiture. He did not promote renationalisation, mainly to calm the markets. Instead, Lula called for an end to outright privatization (unremarkable, considering there was little left to sell), and rather, made commitments to increase state involvement in certain sectors. No alternative idea was presented to replace privatization as policy. New ideational consolidation did not occur.

Argentina – The Armouring of a Policy

Argentina is renowned for aggressive privatization. After a considerable amount of re-privatization in the 1970s⁵⁹ a hiatus was reached.⁶⁰ It was not until the election of Raul Alfonsín that privatization was reconsidered (González-Fraga, 1991). Alfonsín's first attempt at privatization came with the creation of Commission 414, to professionally manage the process (González-Fraga, 1991: 78). Progress was slow, leading Alfonsín to launch the Ministry of Growth in 1985, claiming privatization was needed 'to get maximum work productivity.'⁶¹ The Ministry was responsible for stimulating private sector growth in areas traditionally reserved for the public sector. This, combined with the creation of the *Directorio de Empresas Públicas* (DEP), was expected to divest Argentine of burdensome companies, enabling debt repayments, reducing public sector deficits and tightening fiscal policy (González-Fraga, 1991: 78). However, only four state-owned enterprises were privatised, and the policy was deemed a failure (Treisman, 2003).

Carlos Menem accelerated privatization. Menem, like many contemporary regional leaders, adopted conservative economic ideas, and translated them into policy. He was determined to reduce the role of the state, and 'privatise everything privatisable' (Treisman, 2003: 96). With anti-state feelings rising following 1989's hyperinflation, and with monetarist-based conservative policies presenting an alternative economic paradigm, popular approval for privatization soared (Goldstein, 1998). For Menem, eager to tighten fiscal policy and reduce budget deficits, privatization appeared ideal. He began to institutionalise privatization policy, first with the Economic Emergency Law, declaring a state of emergency in the public sector, and more importantly, the Public Sector Reform Law, which specifically allowed for privatization (Goldstein, 1998). This law empowered the executive to privatise state-owned enterprises without Congress's

approval (Treisman, 2003), embedding privatization as a legal and acceptable policy.

Menem began privatizations with the sale of telecom company ENTEL in 1990. However, the transaction became mired in allegations of corruption, and it was not until appointment of Domingo Cavallo as Economy Minister, that privatization, as policy, became embedded (Goldstein, 1998). Cavallo instituted a range of liberalising structural reforms as he set out to 'shock the economy.' He made the dollar legal tender, pushed for greater efficiency in tax collection, removed trade barriers by joining the Mercosur, and promised to sell all state-owned enterprises by 1992 (Goldstein, 1998). Although the 1992 deadline was missed, between 1991 and 1994, Menem and Cavallo privatised over 90 per cent of state enterprises (Treisman, 2003). Between 1988 and 2001, Argentina sold 171 state companies.⁶² By 2000, privatization had become institutionalised as state policy.

Argentina – Ideas to Pierce the Armour

Following the economic crisis, and subsequent political and social turmoil, there was widespread criticism of the economic model, which was perceived to be at the heart of the crisis. Privatization, a tenet of conservative economic restructuring, received particular attention as a major force behind Argentina's woes. Consequently, critiques of government policy became widespread, and opinion turned against privatization.

Both trade unions and civil society groups organised demonstrations against increases in public utility tariffs, and planned privatizations of national banks.⁶³ Public opinion turned against the free-market economic paradigm, with 51 per cent of Argentines feeling the country was going in the wrong direction, while only 15 per cent were satisfied with the market economy.⁶⁴ Public opinion, associating privatization with this model, displayed remarkable dissatisfaction. When asked if privatization had been beneficial, only 12 per cent of Argentines agreed.⁶⁵

Even conservative newspapers such as *El País*, began criticising privatization as viable policy,⁶⁶ while former Brazilian President Cardoso, who oversaw the privatization of many Brazilian state enterprises, claimed the economic crisis in Argentina was due to excessive liberalisation, including excessive privatizations.⁶⁷ With agents agreed on the inadequacy of the current policy, ideational collapse had occurred.

Nestor Kirchner, although a member of the ruling *Partido Justicialista* (PJ), ran in the 2003 election on a platform attacking neoliberalism, and the policy of privatization that had characterised Argentina under Menem. Three of the four presidential candidates argued for greater state regulation.⁶⁸ During the campaign Kirchner criticized previous privatizations, arguing that 'it's necessary to recover the railways, and analyze the [privatization] contracts.'⁶⁹

Kirchner's calls for renationalisation created jitters on capital markets. Share prices fell 8.6 per cent on the Argentine exchange when it became evident that Kirchner would win the May run-offs.⁷⁰ Kirchner argued for revision of all privatization contracts.⁷¹ Kirchner openly attacked Menem's privatization of state oil company YPF.⁷² The electorate echoed these sentiments, with over half supporting the renationalisation of privatised firms.⁷³

There was a clear alternative to privatization. When the economy collapsed in 2001, agents began criticising the conservative free-market economic model and privatization. Public opinion swung against privatization and this, along with media and commentators' criticisms, ensured ideational collapse. Kirchner presented himself as a change agent who could inject new ideas into the policy domain. During the election an alternative to privatization was presented, around which agents coalesced. This involved the halting of privatizations, the re-nationalisation of companies considered essential for the public good, and, where necessary, public-private partnerships rather than wholesale privatizations. Kirchner, once these alternatives had been consolidated, was, with election victory in 2003, charged with the task of attempting to pierce the armoured policy of privatization.

Table 4 – The Identification of Ideational Change

The Observable Implications	Arg 99-02	Brazil 98-00
Ideational Collapse		
O1. Media questioning efficacy of current model and/or specific policy areas.	X	
O2. Opposition parties critique current model and propose alternative ideas – at elections their platform are built around these alternative ideas.	X	X
O3. Civil society organisations critique the current model, reflecting Hall's coalition-centred approach.	X	X
O4. Widespread public dissatisfaction with current paradigm, observable through opinion polls, protests etc.	X	X
O5. External or international organisations critique current model or, actively disseminate alternative economic ideas.	X	
	Y	Y
New Ideational Consolidation		
O6. A clear set of alternative ideas are evident	X	
O7. A clear change agent (political entrepreneur) to inject these new ideas into policy arena is evident	X	
O8. Political Entrepreneur combines a mixture of interests to produce consensus around a replacement paradigm	X	
Adoption of New Idea	YES	NO

Of the case studies, only Argentina constituted an economic crisis. Following this crisis, there was widespread criticism of privatization policy. As Table 4 shows, all observable implications were satisfied, confirming extant ideational collapse, and new ideational consolidation. Kirchner, as political

entrepreneur, proposed an alternative idea to privatization, namely re-nationalisation, leading to ideational change. However, as events in Brazil did not constitute an economic crisis, the framework did not lead us to anticipate finding ideational change. Although privatization policy was challenged there, no alternative was consolidated, and consequently, ideational change did not occur.

The next section tests for radical changes in privatization policy. Based upon the results so far, the framework leads us to anticipate finding radical policy change in Argentina, but not Brazil. This prediction is based upon Argentina experiencing economic crisis, and ideational change, while Brazil did not.

4.3 IDENTIFICATION OF CHANGE IN GOVERNMENT ECONOMIC POLICY

The final issue is discovering if there were radical changes in privatization policy. The observables here, as developed by Hogan and Doyle (2007), are based upon Hall's concept of first, second and third order change (1993). Hall (1993: 291) argued that policy failures, and exogenous shocks, can set off processes that lead to great ideational change, resulting in a re-examination of the belief systems through which policy has been generated – a paradigmatic (third order) change. These observables incorporate the notion of swift change developed by Hogan (2005), and enable us differentiate both normal and fundamental shifts in a

country's policies. As we are dealing with the concept of a critical juncture we must assume change is fast. As we are searching for a paradigm shift in policy this must encompass the below observables.

O1. If privatization policy instrument settings changed (swiftly) there may have been a radical change in government privatization policy.

O2. If the instruments of privatization policy changed (swiftly) there may have been a radical change in government privatization policy.

O3. If the hierarchy of goals behind privatization policy changed (swiftly) there may have been a radical change in government privatization policy.

Brazil

Once elected, it appeared Lula wanted to disembed privatization policy, and translate the economic ideas of his campaign into policy. He announced the government wished to renegotiate contracts with privatised electricity companies⁷⁴, and Dilma Rousseff, the Mining and Energy Minister, unveiled a working group to advise the government on regulatory issues relating to privatizations.⁷⁵ This came amidst rumours the government was considering re-nationalising *Eletropaulo*, the country's biggest power distributor.⁷⁶ José Dirceu, PT Chief of Staff, stated that the period of privatization was over, although the government would not re-nationalise former state-owned companies.⁷⁷

However, with the PND still in place, and under pressure from the IMF on debt repayments, in December 2003 Lula announced the privatization of *Banco de Estado de Maranhao*, and three regional banks.⁷⁸ Shortly thereafter, Minister of Transport Alfredo Nascimento announced the PT would privatise seven motorways.⁷⁹ Lula came under fire from the media, the electorate, and elements of the PT for what appeared to be maintenance of privatization policy.

In response to his critics Lula passed decree MP 144/03, excluding federal government-owned electricity companies from privatization.⁸⁰ He created the *Empresa de Pesquisa Energetica* (EPE),⁸¹ a company responsible for long term energy expansion plans, and which reduced the autonomy of the regulator. This marked an increased role for the state in the energy sector. Lula, desperate for infrastructural investment, re-iterated that the government no longer supported wholesale privatization of state-owned enterprises, but favoured mixed models,⁸² with ownership remaining in state hands. This indicates that Lula shifted policy somewhat. In December 2004 he approved the Public Private Partnership Bill (PPP), wherein wholesale privatization of state-enterprises would cease. Instead, private firms would invest in state-owned-enterprises, which would remain in state hands. This came on the back of *Plano Plurianual*, an investment strategy requiring 191 billion *reais* (US\$65.7 billion) for priority infrastructure.⁸³

Lula, under IMF pressure, was forced to privatise a number of state banks, something he had promised not to do. However, he increased

government involvement in sectors he considers crucial. Although the PPP bill is, to an extent, a product of the old privatization policy, it indicates a shift towards capitalisation of state-owned enterprises, with the state retaining ownership; and in key sectors such as energy, retaining control. However, outright privatizations are still acceptable. In terms of the previous privatization policy under Cardoso, the instrument settings have changed, but the instruments themselves, and the hierarchy of goals, remain the same. As such, this constitutes a first-order change in Brazilian privatization policy.

Argentina

Once elected, Kirchner began to disembed privatization policy, appointing Daniel Azpiazu, advisor to the newly created Ministry of Federal Planning and Public Works, to review private utility contracts. Azpiazu's report critiqued Argentina's privatization process for engendering social inequity.⁸⁴ Additionally, Kirchner's Economy Minister, Roberto Lavagna, stated that a number of state-owned banks, due for sale before the election, would not be privatised.⁸⁵ This, coupled with the Financial Restructuring Unit, responsible for reforms in the financial and banking systems, signalled a shift towards interventionist government policies.⁸⁶

Furthermore, Kirchner, under IMF pressure to increase utility prices, announced his intention to renegotiate public service contracts. Decree No. 311/03, created the Public Service Contracts' Analysis and Renegotiation Unit, headed by Roberto Lavagna, and Planning Minister Julio de Vido. This was to analyse and renegotiate 61 privatization contracts including water services, gas, and electricity.⁸⁷ The magnitude of this policy shift sent capital markets into tailspin, forcing Interior Minister, Anibal Fernández to stress that Kirchner was not launching a socialist revolution.⁸⁸ Following reviews by the Public Service Contracts' Analysis and Renegotiation Unit, Kirchner fined electricity companies 9 million pesos, for 'unjustifiable cuts' in service.⁸⁹ In November, 2003, he revoked the contract of *Grupo Macri*, who operated the postal service, for failing to repay a debt of 296 million pesos to the government.⁹⁰ The postal service reverted to state control, and has remained there.

In June 2004, Kirchner rescinded the contract of rail operator *Metropolitano SA*⁹¹, which held the concession on trains in Buenos Aires, arguing the company no longer provided reasonable service. This was followed by the creation of a state-owned oil company, to increase government involvement in the energy sector.⁹² This came amidst rumours that Kirchner planned to renationalise oil firm Repsol-YPF. Shortly thereafter, the government rescinded the radio frequency concession to *Thales SA*⁹³ and renationalised

Table 5 – The Identification of Change in Government Economic Policy

The Observable Implications	Arg 99-02	Brazil 98-00
O1. If privatization policy instrument settings changed there may have been a radical change in privatization policy.	X	X
O2. If the instruments of privatization policy changed there may have been radical change in privatization policy.	X	
O3. If the hierarchy of goals behind privatization policy changed there may have been a radical change in privatization policy.	X	
Radical Change in Privatization Policy	YES	NO

the company, after it fell behind on the concession fee. The government also took control of the San Martín railway line and *Enarsa* energy holding.⁹⁴ Finally, in August, the government revoked the satellite licence of *Nahuelsat SA*, handing the project to a state-run firm. The Argentine Communications Secretariat stated the service was a resource to ‘be used in the public interest.’⁹⁵

Kirchner’s aggressive anti-privatization policies, garnered him increasing support. Over 78 per cent of Argentines believed foreign owned utilities should be nationalised.⁹⁶ In 2005, Kirchner fined three water and electricity companies for failing to provide adequate services.⁹⁷ In 2006, following the decision by shareholders of the Suez group to pull out of their water provision contract, due to tariff freezes, Kirchner revoked the water-supply contract of *Aguas de Argentinas*, which reverted to state control.⁹⁸

There has been a reversal of policy in Argentina, with the ending of outright privatizations, and re-nationalisations, specifically in the provision of public goods. This indicates greater state control in the economy, and outright control in areas considered essential public services. The instrument settings, the instruments themselves, and the hierarchy of goals behind privatization policy, embedded in Argentina under Menem, have changed. This constitutes a third order change in Argentine privatization policy.

As the situation in Brazil did not constitute an economic crisis, the framework did not lead us to anticipate finding either ideational change, or paradigmatic change in privatization policy there, nor did we. We conclude from our findings that, the devaluation of the *Real* in 1999, and ensuing economic difficulties, led to a first-order change in privatization policy – no critical juncture.

We identified economic crisis and ideational change in Argentina in 2001. According to the framework ideational change is the differentiating factor between crises that lead to paradigmatic policy change, and those that do not. Thus, at the end of the

previous section the framework led us to anticipate finding a third order change in Argentine privatization policy, which we identified in Table 5. According to the three stage framework, economic crisis, ideational change, and radical change in privatization policy together constitute a critical juncture in Argentina’s privatization policy.

5. CONCLUSION

Critical junctures are central to our understanding institutional change (Pierson, 2004). However, until the development of Hogan and Doyle’s (2007) framework, the concept was postdictive. In their three stage framework, a critical juncture consists of: crisis, ideational change, and radical policy change, with ideational change the crucial constituent. The paper employed this framework on economic upheavals in Brazil (1999) and Argentina (2001) to determine if there were critical junctures in privatization policy. Privatization policy was concentrated on as it is a central tenet of conservative economic restructuring.

According to the framework, the deterioration of the Brazilian economy in 1999 was not an economic crisis. Instead of ideational change, there was minor ideational collapse in relation to privatization policy. As no alternative ideas were consolidated to replace extant policy, the old ideas endured. In the absence of ideational change there was a first order change in Brazilian privatization policy. The 1999 economic upheaval in Brazil did not lead to a critical juncture in privatization policy.

The economic malaise in Argentina in 2001 constituted an economic crisis as defined by the framework. Following this crisis, alternative ideas were proposed to replace the existing policy of privatization, and a clear change agent (Kirchner) was identified. Ideational collapse, and subsequent consolidation of a new idea, was identified by the framework. Finally, a paradigmatic (third order) change in privatization policy was uncovered. The 2001 crisis in Argentina resulted in ideational change, followed by a radical change in privatization policy, which, the framework considers a critical juncture.

Previously, researchers would have had to wait decades before ascertaining whether economic upheavals resulted in critical junctures in a policy area. With this framework, researchers, after identifying a crisis, need to discover if the ideas underpinning their policy of interest have changed. If there was ideational change they should be able to predict a third order change in that policy is coming, or, if it has already taken place, that it constitutes a critical juncture. Alternatively, if there was no ideational change they should be able to predict that existing policy will endure. The framework, a significant advance for political science, reasserts the value of the critical junctures concept.

6. NOTES

- ¹ Here the model borrowed from Hall's conception of first, second and third order change. See Hall (1993).
 - ² Cammack, 2000; Castañeda, 2006; Knight, 1998; Panizza, 2005; Roberts, 1995; Weyland, 2003.
 - ³ The Economist, 21 November, 1998, p. 23.
 - ⁴ *ibid.*, 30 January, 1999, p. S12.
 - ⁵ The New York Times, 28 February, 1999, p. 1.
 - ⁶ The Daily Mail, 16 January, 1999, p. 83.
 - ⁷ The Independent, 4 December 1999, p. 18.
 - ⁸ Business and Finance, 25 January, 1999, p. 36.
 - ⁹ The Evening Standard, 15 January, 1999, p. 41.
 - ¹⁰ The Daily Mail, 14 January, 1999, p. 2.
 - ¹¹ The Washington Post, 11 February, 1999, p. A31.
 - ¹² The Daily Mail, 15 January, 1999, p. 65.
 - ¹³ New York Times, 29 January, 1999, p. 1.
 - ¹⁴ Financial Times, 4 March, 1999, p. 6.
 - ¹⁵ Business and Finance, 19 August, 1999, p. 10.
 - ¹⁶ Brazil, <http://www.indexmundi.com/g/g.aspx?c=br&v=69>
 - ¹⁷ The New York Times, 31 January, 1999, p. 16.
 - ¹⁸ *ibid.*, 31 January, 1999, p. 16.
 - ¹⁹ The Economic Intelligence Unit – Country Report: Brazil, March 2003.
 - ²⁰ <http://www.iadb.org/datagob/index.html>
 - ²¹ The Times, 3 March, 1999, p. 12.
 - ²² New York Times, 18 February, 1999, p. 1.
 - ²³ The Guardian, 22 January, 1999, p. 24.
 - ²⁴ The Washington Post, 5 August, 1999, p. A01.
 - ²⁵ <http://www.iadb.org/datagob/index.html>.
- Government Effectiveness Index combines in an aggregate index many of the available indicators related to government effectiveness. The index ranges from 2.5 and -2.5. A value of 0 indicates the average of the world sample.
- ²⁶ <http://www.iadb.org/datagob/index.html>. Control of Corruption Index combines in an aggregate index many of the available indicators of corruption. The index ranges from 2.5 and -2.5. A value of 0 indicates the average of the world sample.
 - ²⁷ New York Times, 6 February 1998, p. 1.

- ²⁸ The Economist, 7 – 13 October, 2000, p. 77.
- ²⁹ Business Week, 11 February, 2002, p. 26.
- ³⁰ The Economist, 7 – 13 October, 2000, p. 77.
- ³¹ *ibid.*, 11-17 November, 2000, p. 84.
- ³² New York Times, 24 November, 2000, p. 3.
- ³³ Newsweek, 23 July, 2001, p. 24.
- ³⁴ The Economist, 8 December, 2001, p. 12.
- ³⁵ Wall Street Journal, 21 December, 2001, p. 9.
- ³⁶ The Independent, 21 December, 2001, p. 3.
- ³⁷ The Guardian, 5 January, 2002, p. 12.
- ³⁸ The New York Times, 15 December, 2001, p. 1.
- ³⁹ Wall Street Journal, 21 December, 2001, p. 9.
- ⁴⁰ Newsweek, 21 December, p. 25.
- ⁴¹ *ibid.*, 17 December, p. 25.
- ⁴² Business and Finance, 21 January, 2002, p. 60.
- ⁴³ The Times, 24 December, 2001, p. 12.
- ⁴⁴ *ibid.*, 26 December, 2001, p. 1.
- ⁴⁵ The New York Times, 17 January, 2002, p. 1.
- ⁴⁶ The Financial Times, 27 February, 2002, p. 11.
- ⁴⁷ Financial Times, 27 March, 2002, p. 18.
- ⁴⁸ Newsweek, 21 December, 2001, p. 25.
- ⁴⁹ The Economic Intelligence Unit – Country Report: Argentina, January 2002.
- ⁵⁰ Ozires Silva, the Minister for Agriculture in an interview. The Toronto Star, 3 April, 1990.
- ⁵¹ World Bank Privatization Database.
- ⁵² Latinóbarometro 2003.
- ⁵³ *ibid.*, 2003.
- ⁵⁴ From a *Letter to the People of Brazil* – available at www.pt.org.br
- ⁵⁵ Oil Daily, 11 December, 2002.
- ⁵⁶ Latin American Economy & Business, March, 2003.
- ⁵⁷ O Estado de Sao Paulo, 10 May, 2002.
- ⁵⁸ The New York Times, 13 April, 2003.
- ⁵⁹ Re-privatization involved selling formerly bankrupt enterprises that had been taken over by the state, as their function was considered politically expedient.
- ⁶⁰ Apart from the privatization of urban transport in Buenos Aires. See Glade (1991).
- ⁶¹ United Press International, 28 June.
- ⁶² World Bank Privatization Database.
- ⁶³ The Buenos Aires Herald – Nation at a Glance, 8 February, 2003.
- ⁶⁴ Latinóbarometro 2003.
- ⁶⁵ *ibid.*
- ⁶⁶ *El País - La errónea privatización del Estado* – 4 April, 2003.
- ⁶⁷ Agência Brazil: Radiobrás – 22 April, 2004.
- ⁶⁸ The Buenos Aires Herald, 1 April, 2003.
- ⁶⁹ *ibid.*
- ⁷⁰ *ibid.*, 29 April, 2003.
- ⁷¹ World Markets Analysis, 11 February, 2003.
- ⁷² The Buenos Aires Herald, 21 February, 2003.
- ⁷³ *ibid.*, 1 April, 2003.
- ⁷⁴ Valor Economico, 25 February, 2003.
- ⁷⁵ Latin American Economy and Business, March, 2003

- ⁷⁶ *ibid.*
⁷⁷ World Markets Analysis, June 16, 2003
⁷⁸ Latinnews Daily, 18 December, 2003
⁷⁹ Latin American News Digest, 19 July, 2004
⁸⁰ World Markets Analysis, 29 January, 2003
⁸¹ *ibid.*
⁸² *ibid.*, 8 February, 2005.
⁸³ Morrison & Foerster LLP, 26 April, 2006.
⁸⁴ Latin Trade, October, 2003
⁸⁵ The Buenos Aires Herald – Changing Gear on Privatization, 28 May, 2003.
⁸⁶ *ibid.*
⁸⁷ *ibid.*, 11 July, 2003.
⁸⁸ *ibid.*
⁸⁹ *ibid.*, 25 May, 2003.
⁹⁰ Noticias Financieras, 21 November, 2003.
⁹¹ World Markets Analysis, 14 February, 2005.
⁹² The Buenos Aires Herald, 25 May, 2003.
⁹³ AFX European Focus, 27 January, 2005.
⁹⁴ The Buenos Aires Herald, 30 March, 2006.
⁹⁵ Total Telecom, 20 August, 2004.
⁹⁶ World Markets Analysis, 19 April, 2005.
⁹⁷ Wall Street Journal, 19 January, 2005.
⁹⁸ World Markets Analysis, 22 May, 2006.

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Appendix A

Economic Crisis Observable Implications

- O1.** If annual GDP growth (Pei and Adesnik, 2000); GDP growth per capita; and GDP growth averaged over 5 years were stagnant or negative, then the economy may have been in crisis.
- O2.** If GNI per capita ppp growth was stagnant or negative, then the economy may have been in crisis.
- O3.** If more than 50 per cent of the population were below the poverty line, then the economy may have been in crisis.
- O4.** If total debt as a percentage of GNI was above 100 per cent, then the economy may have been in crisis.
- O5.** If debt services exceed 100 per cent of exports, then the economy may have been in crisis.
- O6.** If the importation of goods and services; and the level of trade openness declined, then the economy may have been in crisis.
- O7.** If FDI inflows, and FDI inward stock declined, then the economy may have been in crisis.
- O8.** If gross capital formation as a percentage of GDP declined, then economy may have been in crisis.
- O9.** If the annual inflation rate was above 15 per cent (Pei and Adesnik, 2000), then the economy may have been in crisis.
- O10.** If the annual interest rate was above 15 per cent, then the economy may have been in crisis.
- O11.** If the annual unemployment rate was above 15 per cent, then the economy may have been in crisis.
- O12.** If the country's credit rating, as measured by Moody, Fitch) declined, then the economy may have been in crisis.
- O13.** If corruption and government effectiveness declined, then the economy may have been in crisis.
- O14.** If opinion polls regarded the economy in crisis, then the economy may have been in crisis.
- O15.** If the national media regarded the economy in crisis, then the economy may have been in crisis.
- O16.** If economic and political commentators regarded the economy in crisis, then the economy may have been in crisis.
- O17.** If the central bank regarded the economy in crisis, then the economy may have been in crisis.
- O18.** If both domestic and international organisations (OECD) regarded the economy in crisis, then the economy may have been in crisis.
- O19.** If elected representatives regarded the economy in crisis, then the economy may have been in crisis.
- O20.** If government pronouncements on the economy in crisis management approach, the economy may have been in crisis.

Appendix B

Idea Generation Observable Implications

Ideational Collapse

- O1.** The media questions the efficacy of the current model and/or specific policy areas.
- O2.** Opposition political parties critique the current model and propose alternative ideas – at election time their platform will be built around these alternatives.
- O3.** Civil society organizations, e.g. labour unions, employer organizations, consumer groups etc. critique the current model, reflecting Hall's (1989: 12) coalition-centred approach.
- O4.** Widespread public dissatisfaction with the current paradigm, observable through opinion polls, protests etc.
- O5.** External or international organizations critique the current model and/or actively disseminate alternative ideas.

New Ideational Consolidation

- O6.** A clear set of alternative ideas, developed by policy entrepreneurs, are evident.
- O7.** A clear change agent (political entrepreneur) injecting new ideas into the policy arena is evident.
- O8.** The Political Entrepreneur combines a mixture of interests to produce consensus around a replacement paradigm.