The Rise of Latin America's Two Lefts

Insights from Rentier State Theory

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In recent years, the left has made a surprising comeback in Latin America. From 1998 onward, left-wing parties, movements, and leaders have won government power in eight countries in the region. While in some nations such as Chile leftist presidents took office with the support of an ongoing center-left coalition, in many other countries the left displaced centrist or right-wing forces, as in Bolivia, Brazil, Ecuador, Nicaragua, Uruguay, Venezuela, and arguably Argentina.[1]

This widespread turn to the left was unexpected, given that neoliberal reforms had been enacted throughout the region in the 1990s. The economic project of the right—privatization, trade liberalization, deregulation, and the general dismantling of state interventionism—seemed to establish its predominance. Even governments of a populist or leftist extraction implemented orthodox market reforms, giving up their earlier projects of structural transformation and determined redistribution. The right seemed to have won, especially in terms of policy orientation and governmental decision making. The left suffered political defeat or self-destruction in many countries, such as Argentina, Brazil, Ecuador, El Salvador, Nicaragua, and Peru; it survived in other nations, including Chile and Bolivia, only by renovating its program and embracing a good deal of the market reform agenda. In this light, the return of the left after 1998 is surprising. What accounts for it?

Moreover, the leftist wave of recent years is not uniform. The new governments range from the cautious *Concertación*, a solid coalition of centrist and left-wing parties in Chile, to the radical populism of Hugo Chávez in Venezuela. Other governments align between these extremes, with contemporary Brazil and Uruguay closer to Chile, Bolivia and Ecuador tending to follow Chávez's path, and Argentina oscillating in between. Thus, there is great diversity among Latin America's leftist administrations. Rather than constituting a uniform wave, they are better seen as a series of ripples and eddies.[2]

To gain conceptual clarity, several observers have proposed classification schemes, which are useful for highlighting major points, although they inevitably disregard finer nuances. In a much cited essay, Jorge Castañeda has distinguished a "right left" of moderate, responsible orientation from a "wrong left" driven by unreconstructed radicalism and voluntarist activism.[3] The present article starts by reconsidering Latin America's two strands of leftism and offers a new interpretation of Castañeda's "right left." The renovated, moderate left that currently governs Chile, Uruguay, and Brazil has recognized a basic claim of the political right, namely, the need to respect constraints, especially the limitations arising from global capitalism and domestic market reform and from liberal, representative democracy. By contrast, the radical left repudiates these constraints and seeks a bolder transformation.

The article then examines the reasons and the results of this fundamental difference in policy orientation. Why have the governments of Ricardo Lagos and Michelle Bachelet in Chile, Luiz Inácio Lula da Silva in Brazil, and Tabaré Vásquez in Uruguay pursued socioeconomic improvements inside the confines of the market system, whereas Hugo Chávez in Venezuela, Evo Morales in Bolivia, and Rafael Correa in Ecuador have proclaimed a frontal attack on neoliberalism? Moreover, what have been the results of these divergent policy orientations? Has Chávez, the leading proponent of radicalism, fulfilled his promises of boosting the life chances of the poor? Or does the gradual reform approach of the moderate left hold greater prospects of lasting success?

Neoliberalism did not directly prompt leftist radicalism. The strongest backlash occurred in Venezuela, which had adopted relatively few market reforms. The institutions highlighted by contemporary political science do not seem to be the decisive independent variables either. A party system collapse does not clearly precede the rise of radical leftists—as a true cause would—but can partly result from their emergence. Rather than being the product of a strong party system, leftist moderation can go hand in hand with a process of institutional consolidation, as the Brazilian case suggests. Since institutions can be quite flexible and change surprisingly fast, it is problematic to attribute a decisive causal role to them.[4]

The crucial factor is the boom and bust cycle of rentier states, especially the natural resource bonanza of recent years and the windfall gains accruing to Venezuela, Ecuador, and Bolivia. These rents discredit the neoliberal insistence on constraints, suggest the availability of great opportunities, and stimulate radicalism and voluntarist attacks on the established socioeconomic and political order. By contrast, in countries that lack a rentier economy, such as Brazil and Uruguay, or that have more limited natural resource wealth and control the proceeds through exceptionally strong, entrenched state institutions, such as Chile, the left feels compelled to work inside the confines of the new market economy and of representative democracy. Bolivia's move from leftist moderation to radicalism immediately after the discovery of huge natural gas reserves provides striking evidence for this novel twist on rentier state arguments.[5]

This explanation has profound implications for the performance and promise of radical versus moderate leftists. Rather than tracing a new development model ("twenty-first century socialism"), the populist left led by Chávez is largely reviving the traditional rentier model, which took Venezuela from a fabulous boom in the 1970s to a terrible bust and lengthy decline in the 1980s and 1990s. Drastic increases in public spending and debt suggest that the Bolivarian Republic is on a similarly unsustainable path.[6] By contrast to the risks inherent in radical leftism, the slow, gradual reform path pursued by the moderate left in Chile, Brazil, and Uruguay looks more promising in the long run.

Right versus Left: The Issue of Constraints

Historically, a principal difference between right and left concerns the issue of constraints on socioeconomic and political change.[7] The right insists on limitations that one challenges at one's peril. By contrast, the left believes in ample chances for improvement: "A new world is possible!" The right cautiously wants to preserve existing structures, whereas the left boldly seeks structural transformations. The right postulates an unchanging human nature, but the left sees people as socially constructed and believes in the perfectibility of humankind.

Accordingly, the right depicts the market as the "natural" product of individuals' self-interest pursuit and competitive orientation. The best the state can do is guarantee the market's smooth functioning by safeguarding property rights and exercising some regulation, such as antitrust laws. By contrast, the left wants to submit the economy to collective, majoritarian, democratic decision making. Ideally, it intends to use social and political criteria in guiding the allocation of economic value. The rationality of planning shall tame or replace the "anarchy" of the market. Since socioeconomic and political institutions are products of human action, they can be reshaped by deliberate interventions. By contrast, the right worries that, if one does not properly feed the goose that lays the golden eggs, if one confines it to a narrow cage, and if one makes it work too hard, it will stop performing its alchemistic trick or even die.

This long-standing debate deeply shapes the disagreements between rightists and leftists and among different strands of leftism in contemporary Latin America. Neoliberalism, the right-wing advocacy of thorough-going market reform, sought to impose a sense of limitation: the market is there to stay, it has global dimensions, and it imposes significant constraints on sovereign countries, especially in the Third World. Neoliberalism rejected efforts to mold deeply or even abolish the market, such as democratic marches into socialism (Chile 1970–73), radical military reformism (Peru 1968–1975), heterodox adjustment efforts (Argentina 1985–87, Brazil 1986–87, Peru 1985–87), and the heavy-handed state interventionism prevailing in Latin America in general, as wrong by design and condemned to failure. Orthodox economists stressed the need to protect market rules, guarantee stability, and maintain equilibrium, for economic and social reasons. Economic populism, a charge of leftist irresponsibility applied to presidents as diverse as Juan Perón (1946–55), Salvador Allende (1970–73), and Alan García (1985–90), is bound to fail, ruin the economy, and end up hurting the most its intended beneficiaries, the poor.[8]

Neoliberalism thus taught a sober realism and urged the acceptance of economic constraints. Governments should spend only what they collect through nondistortionary, permanent taxes. Countries should import only what they can finance through reliable sources of foreign exchange. If governments accept these limitations, the market produces higher and more sustainable growth than state interventionism, radical reformism, or socialism. Properly treated, it yields a stream of golden eggs that diminishes poverty, enhances mass prosperity, and allows the government to extend social benefits.

The Issue of Constraints in Latin America

The worldwide collapse of socialism, the downfall of protectionist state interventionism in the debt crisis of the 1980s, the striking failure of heterodox adjustment in Argentina, Brazil, and Peru (1985–87), the long growth boom (finally) achieved by neoliberal Chile after 1985, and similar albeit short-lived bonanzas engineered by market reformers Carlos Menem in Argentina (1991–94) and Alberto Fujimori in Peru (1993–95) induced leftist forces in several Latin American countries to embrace the basic outlines of the market model. They abandoned the quest for systemic transformation and pursued changes that would not disrupt the market. This ideological renovation, a switch from activist radicalism to moderate reformism, took hold especially in Chile, Argentina, Peru, and Mexico, temporarily in Bolivia (1989–2000), and eventually in Uruguay and Brazil. Rather than try to make the goose lay platinum eggs, little gold nuggets, or bricks for low income housing, leftist parties throughout Latin America decided to keep the bird well-fed, safe, and comfortable and hoped to use the resulting wealth to enhance economic prosperity, social justice, and citizenship.

This renovated, moderate left thus recognized the fundamental constraints emanating from global capitalism and domestic neoliberalism and pursues change inside these constraints. In this sense, it is a "right left," yet in a less normative meaning than Castañeda implies. It acknowledges a core claim of the right, but maintains its traditional commitment to social justice and greater equality. In the view of these pragmatic leftists, the market leaves sufficient room to overcome stringent orthodoxy (neoliberalism narrowly defined), and the payoffs of economic dynamism allow for the alleviation of pressing social needs. Investments in human capital and income security for the poor can further both economic development and social progress. The gradual reforms advocated by the renovated left, which applies negotiation and compromise rather than confrontation, take time but reduce the risk of reversals. While the structural and world-historical setting distinguishes this moderate approach significantly from European social democracy, it shares the central strategy—to introduce reforms inside the market system.

In Venezuela, Bolivia, and Ecuador, by contrast, a radical left emerged out of popular rejection of the market model, nationalist skepticism about globalization, fierce repudiation of the established political class, and a questioning of pluralist, representative democracy. Inveighing against neoliberalism, leaders such as Chávez, Morales, and Correa reject many limitations and constraints. At least in their rhetoric, they replace cautious reformism with a missionary politics of redemption and pursue a profound transformation of the political and socioeconomic order. They roll back privatization through efforts at nationalization, much more stringent regulation, and the promotion of cooperatives with collective property. They intervene in the market by decreeing new rules and regulations—often without much consultation—and by boosting public spending drastically.

Why has this renewed radicalism taken hold in some countries while moderation has prevailed elsewhere? What accounts for this striking difference?

A Backlash against Neoliberalism?

The most common explanation for this revival of radical leftism stresses the problems and failures of the market reforms adopted throughout Latin America in the 1990s. Announced with great fanfare as the means to put the region back on a path towards sustainable growth and economic prosperity, neoliberalism has not succeeded in fulfilling its promises. While restoring economic stability by combating runaway inflation and other disequilibria, the newly liberated markets have underperformed in terms of growth and especially employment generation. Temporary growth spurts have been followed by renewed crisis and adjustment, and efficiency-enhancing measures and greater exposure to foreign competition have further contracted formal labor markets. As employment has become even more precarious, popular discontent with the actual functioning of the new market model has run high throughout the region.

Yet while dissatisfaction with neoliberalism has certainly played an important role in the reemergence of the radical left, the relationship is much less direct than is often claimed. Interestingly, the backlash took hold especially in countries that had never enacted the full neoliberal program, Venezuela and Ecuador. After an unsuccessful stop-and-go process of market reform, important sectors in these countries rejected this bitter pill without swallowing it fully.[9] Bolivia had given market reform a serious try, and the left had indeed moderated or been weakened for many years. But disappointing growth and persistent poverty led many people eventually to regard neoliberalism as a failure. Paradoxically, however, this turn to rejection happened soon after the government of Gonzalo Sánchez de Lozada (1993–97) had managed to boost growth and implement an ambitious package of economic, social, and citizenship reforms that went far beyond the stereotype of neoliberalism. It sought to address a wide range of progressive concerns through constitutional reform, popular participation, decentralization, bilingual education, and basic health care.[10]

While in Venezuela, Ecuador, and Bolivia discontent with neoliberalism played a major role in the rise of the radical left, it is therefore difficult to attribute this rejection directly to the objective performance of market reform. Other factors must have played an important role as well.

Weak Party Institutions?

Many observers highlight political-institutional characteristics of party systems that had a moderating impact on leftist parties and movements in some countries but allowed for radicalism in others.[11] The strong or gradually strengthening party systems in Chile, Uruguay, and Brazil and the lasting popular roots of Peronism in Argentina set limits to the rise of outsiders and drew leftist forces into centripetal competition with rightist and centrist forces, which exerted a strong moderating pull. Even when the left won government power, it could not dominate the whole political system and profoundly revamp established institutions through constituent assemblies, which the radical left has used for its transformatory project. Instead, leftist governments, compelled to forge coalitions with centrist or even rightist forces in Chile and Brazil, have to work inside the confines of the existing political order. This institutional limitation has greatly stifled any remaining temptation to push for a fundamental restructuring of the economic and social order.

By contrast, the radical left has captured power in collapsing party systems and has managed to push aside the thoroughly discredited political class that had ruled before. Taking advantage of this vacuum, it has pursued a hegemonic project and invoked popular sovereignty to revamp the institutional framework through new constitutions. It has used a majoritarian, plebiscitarian discourse to dismantle checks and balances and concentrate power in charismatic leaders. Thus, institutional weakness has allowed for the resurgence of a radical left.

Institutional factors have clearly contributed to the emergence of two different strands of leftism in Latin America. In particular, they help to account for left moderation in Chile and Uruguay and for the emergence of radical outsiders in Venezuela and Ecuador. But where party system strength changed rather quickly, as in Bolivia and Brazil, institutions are better seen as intervening variables than as true causes.[12] Also, since institutional weakness is difficult to measure, institutionalism has some difficulty assessing the cause independently of its presumed effect.[13] The definitive proof that established parties were weak appears precisely in the successful rise of radical challengers. In fact, the collapse of party systems in Venezuela, Bolivia, and Ecuador did not precede the rise of radicals but coincided with it. These charismatic leaders have done all they can to destroy the old parties, which were not moribund before.

Bolivia's parties, for instance, were celebrated in the 1990s for their capacity to forge political pacts that sustained controversial market reforms—an indication of strength.[14] Indeed, these parties managed to neutralize a first crop of populist leaders, Carlos Palenque and Max Fernández, by including them in governing coalitions. Exchanging their outsider status for access to patronage, these populist forces faded quickly. Thus, in the 1990s Bolivian parties displayed surprising strength.[15] But shortly thereafter, these seemingly strong parties saw their hold over the electorate evaporate.

Conversely, Brazilian parties were long depicted as "inchoate" and weak.[16] But in the 1990s this fluid party system experienced rapid consolidation. Electoral volatility diminished significantly, and parties managed to form reasonably stable governing coalitions. While a populist outsider, Fernando Collor de Mello, had taken the presidency by electoral assault in 1989, established parties managed to capture the chief executive office thereafter. Thus, institutional factors can change with unexpected speed. Therefore they cannot easily serve as independent variables that fully explain the emergence of two variants of leftism.

Moreover, institutionalism does not offer a complete explanation. It highlights permissive causes, such as the opening that a collapsing party system provides for leftist radicalism. But institutionalism does not explain the impetus and moving cause behind leftist radicalism. Other factors must matter, as well.

Natural Resource Bonanzas and Windfall Rents

A more fundamental cause of the radical left's rise is the availability of huge raw material rents in Venezuela, Ecuador, and—with the discovery of voluminous gas reserves—Bolivia. By contrast, Brazil, Argentina, and Uruguay do not have rentier economies. Each country's leading commodity yields only 10–19 percent of exports, compared to a striking 75 percent, 64 percent, and 52 percent in Venezuela, Ecuador, and Bolivia, respectively.[17] Even Chile's leading commodity, copper, provides only 33 percent of export revenues and is less important for public finances than Venezuela's petroleum and, prospectively, Bolivia's gas. Moreover, Venezuela has long had an institutionally weak petrostate that has never managed to limit the impact of oil's notorious boom and bust cycles.[18] By contrast, Chile first built the core of a strong state under Diego Portales in the 1830s and then conquered its natural resources by defeating Bolivia and Peru in the War of the Pacific (1879–84).[19] Taking advantage of this head start in state building, Chile has cemented a firm institutional framework. It smoothes out volatile export proceeds through a well-functioning stabilization fund, which is insulated from governmental discretion, partisan politics, and popular pressures. Through this entrenched state institution, the country guarantees economic equilibrium despite tremendous fluctuations in copper revenues.[20] By contrast, Venezuela's politicized state has been defenseless against such sharp up- and downswings, and Bolivia's even more dilapidated state seems headed in the same direction.

Tremendous resource wealth, the experience of booms in Venezuela, and the hope for them in Bolivia have undermined the persuasive power of neoliberalism. The abundance in the ground and the resulting windfall gains make the neoliberal quest for wealth creation through productivity, efficiency, and competitiveness look unnecessary. Instead, the main task seems to be the equitable distribution of the natural wealth and the corresponding income streams.[21] Therefore, politics reigns supreme, and the economy plays a subordinate, purely instrumental role in popular consciousness.[22]

Rich natural endowments and the influx of enormous rents in boom times undermine the neoliberal insistence on limitations. Anything seems possible—ultra-cheap gasoline for Venezuelan drivers, subsidized food for the poor *barrios* of Caracas, and free health care for all Bolivians, as Morales promised in 2006. Given seemingly unlimited possibilities, the only issue is political will. This sentiment offers a standing invitation for the unreconstructed activism of the radical left.

Seemingly limitless rents stimulate a propensity towards risk-taking. As visitors of Las Vegas who initially win a large amount are willing to risk this unexpected gain and "gamble with the house money," so people use windfalls for risky bets, cognitive experiments have shown.[23] This tendency to take chances with unearned income helps explain the irresistible temptation facing governments of rentier states to spend the sudden revenue boost created by commodity booms with abandon. They start huge investment projects and expansive social programs, incurring spending commitments that are unsustainable when international commodity prices fall. They squeeze domestic and foreign business and attack their political enemies, promoting dangerous polarization and confrontation. In the economic and political sphere, they display a pronounced tendency to incur risks.

The boom and bust cycle of rentier states, not smoothed out by a well-institutionalized stabilization fund as in Chile, seems to underlie the rise of radicals in present-day Latin America. In Venezuela, the long hangover from the oil boom of the 1970s and the resulting economic decline and social deterioration decisively discredited the established parties, which had been models of institutional strength before.[24] This bust, a typical problem of rentier states, put ever more people in the "domain of losses," induced them to take great risks by voting for a radical outsider, and catapulted Chávez into the presidency in 1998.[25] The renewed bonanza engineered in part by Chávez's OPEC policy has been decisive in keeping this self-proclaimed socialist in power despite the serious conflicts he has provoked. A torrent of revenues, captured by this plebiscitarian leader through the destruction of institutional safeguards, has allowed him to repudiate neoliberalism, try to trace an alternative development model, and turn ever more radical over time.[26]

The Crucial Cases of Brazil and Bolivia

Can this rentier theory better explain the emergence of two different strands of leftism than the party system argument? Countries where the main causal factors of these rival accounts experienced significant change, Bolivia and Brazil, are particularly instructive for this analysis. Interestingly, both countries for years underwent a similar process of institutional consolidation and leftist moderation, but then the discovery of huge gas reserves triggered radicalization and party system collapse in Bolivia. Thus, Brazil represents a baseline scenario unfolding in the absence of windfall rents, whereas Bolivia's experience shows the dramatic change caused by the sudden appearance of natural resource wealth.

The Quick Consolidation of the Brazilian Party System Institutionalist arguments claim that Brazil's left switched from radicalism to moderation because a firm institutional framework pulled it into centripetal competition for the median voter with the center and right. In fact, however, party strength did not precede leftist moderation but emerged in tandem with it. The near victory of the socialist Workers' Party (PT) in the 1989 presidential elections and its huge lead in vote intentions in early 1994 induced the center and right to form a defensive alliance and to stabilize Brazil's economy and democracy. Their success ensured established parties continued support and made radicalism unpromising, inducing the PT to renovate its ideology and seek to attract centrist voters.[27]

In the late 1980s most Brazilian parties were anything but models of organizational strength but were classified as "inchoate." According to institutionalist arguments, this weakness provided an opening for the unreconstructed left to capture government power. In fact, PT leader Luiz Inácio Lula da Silva, quite radical at that time, almost won the presidency in 1989. And in 1994 he was so far ahead in vote intentions that established politicians, such as conservative ex-president José Sarney, almost swung their support to him for opportunistic reasons.

However, rather than pave the way for leftist radicalism, institutional weakness in Brazil ended up having the opposite effect. It stimulated efforts at institutional fortification that eventually led the left to abandon radicalism. In 1994 the threat of a Lula victory scared rightist and centrist politicians and influential business sectors, especially because Brazil was in the middle of an uncertain process of structural adjustment. Thus, the country's economic and political fate was at stake. Reacting to this perceived danger, centrist and rightist sectors aligned behind Finance Minister Fernando Henrique Cardoso, a former leftist who now embraced market reforms. An elite insider and skilful operator, Cardoso aptly used the specter of "bearded toad" (*sapo barbudo*) Lula to reconstruct the partisan alliance that had sustained Brazil's transition to democracy in the 1980s. The resulting political strength allowed him to push through congress an economic stabilization plan that finally stopped runaway inflation and catapulted him into the presidency. The ambitious sociologist then took a host of measures to cement economic equilibrium, retrench state interventionism, and reform education and health policy.

Economic stabilization and renewed governability guaranteed Cardoso and his party coalition continued support. Therefore, electoral volatility diminished considerably, and Brazil's party system began to consolidate. The leftist challenge and the center-right's embrace of market reform also clarified parties' ideological position for voters. Both developments drew the radical PT into competition for the median voter. To win government power, it had to abandon calls for socialism, soften its program, and focus more on promising concrete benefits for poorer sectors.[28] This moderation, which accompanied the coagulation of Brazil's party system, finally allowed the PT to capture the presidency in 2002.

Thus, firm institutions were not an "uncaused cause" that drove the left's retreat from radicalism. Instead, Brazil's party system varied considerably in institutional strength—more than institutionalism can easily accommodate. Suffering initially from institutional weakness, established parties responded to a radical leftist threat with a defensive alliance that managed to restore economic and political stability. This fairly rapid consolidation, in turn, led the left to accept the confines of the existing economic and political system and enter into centripetal competition, rather than pursue an outsider strategy of attacking and overturning the established order.

Bolivia's Turn from Stability and Moderation to Radicalism The strengthening of Brazil's party system makes the stark inflection in Bolivia's trajectory particularly puzzling and turns it into the test case for the rival arguments assessed here. Bolivia's parties are commonly regarded as "inchoate."[29] However, from 1985 to 2000 they actually guaranteed governability, even during brutal economic adjustment.[30] They even absorbed new challengers that arose from protest voting. During this phase of temporary consolidation, which paralleled Brazil's experience, the Bolivian left disappeared or moderated greatly. Why, then, has the final outcome differed so starkly from Brazil? The discovery of huge natural gas deposits and the sudden hope for enormous revenue windfalls were crucial—stimulating leftist radicalism and undermining the grip of the established parties. A bout of the resource curse pushed Bolivia off its path toward consolidation.

Battered by long-standing political turmoil and social strife, Bolivia's parties in the early 1980s clearly deserved their classification as "inchoate." Electoral volatility ran high, organizational discipline and roots in society were weak, and fragmentation was pronounced. Party weakness exacerbated the instability that Bolivia suffered after its tortuous return to democracy in 1982 and helped to cause 25,000 percent hyperinflation in 1984–85. The country was about to fall in the abyss, and low party institutionalization held a good part of the responsibility.

But to avert a catastrophe, established forces miraculously closed ranks, overcame long-standing political divisions and personal hatreds, and forged pacts that restored governability and state authority and facilitated a determined attack on the economic problems. A shock plan of stabilization brought back economic equilibrium.[31] The government of Victor Paz Estenssoro, supported by a center-right party coalition with a majority in congress, disarticulated left-wing radicalism and suppressed protests. Political tranquility returned.

In this setting, the left that had survived crisis and adjustment moderated greatly. In particular, the Movement of the Revolutionary Left (MIR) abandoned ideological stridency and turned into a system-sustaining mainstream party.[32] To win the presidency in congressional bargaining—Bolivia's way of selecting the chief executive in the absence of an electoral majority—MIR leader Jaime Paz Zamora in 1989 allied with conservative ex-dictator Hugo Banzer. In exchange for capturing the top office, Paz Zamora promised to continue market reforms.[33] Thus, in response to renewed economic and political stability, Bolivia's left clearly deradicalized, following the same course as its counterparts in Chile and later Brazil.

Although Bolivia failed to achieve high economic growth, the enactment of market reform, the pragmatic, opportunistic coalitions among former political enemies, and the sharp moderation of the left did not impose a punishing electoral cost on the mainstream parties. Certainly, populist protest movements arose and won more than 10 percent of votes in 1989 and above 25 percent in 1993. But the established parties reacted deftly and managed to weaken their appeal. To win in 1993, lily-white Gonzalo Sánchez de Lozada, a successful business magnate who speaks Spanish with a gringo accent, boldly nominated an indigenous leader as his vice-president, shoring up his mass support. Moreover, he and his successor coopted the new populist movements by offering them participation in the government. Giving up their outsider status in exchange for patronage, these challengers to the established parties faded quickly. Bolivia's political mainstream thus achieved a remarkable accomplishment: defeating significant populist contenders.[34] Parties that had looked desperately weak a mere decade before now displayed surprising strength. A perceptive analyst argued in the mid 1990s: "According to the criteria proposed by Scott Mainwaring and Timothy Scully, Bolivia has a relatively well-institutionalized party system (and not the inchoate, volatile system that they claim it has)."[35]

But as soon as observers depicted Bolivia as a model of party coalitions and pacted presidentialism, the newfound tranquility came under challenge. Ironically, these renewed problems were triggered by a striking success of neoliberalism: the discovery of huge natural gas reserves in the late 1990s. Attracted by the generous terms offered by market reformers, transnational companies invested large sums in prospecting and attained rapid success.[36] Suddenly, this desperately poor country became rich.[37] It was as if Bolivia had won the jackpot in a lottery. This huge windfall seems to have affected people's mindset in predictable ways. Why respect the constraints emphasized by neoliberals? The newfound wealth, once it was properly exploited and used for the country's benefit, would allow people finally to fulfill their long neglected economic and social needs. Patience and belt-tightening, which Bolivians had stoically accepted for many years, now turned unbearable. Rather than efficiency and productivity, the mantras of neoliberalism, generous distribution became the motto of the day. After years of relative calm, the newfound wealth stimulated a wave of demands, gave rise to a multitude of contentious movements, and allowed for the emergence of a radical left. Popular support for road blockages, the preferred form of illegal protest, increased in Bolivia after the discovery of gas reserves and was very high compared to other Latin American countries.[38]

The resulting wave of contention and rebellion, which began in early 2000, immediately after the increase in proven gas reserves, certainly had other root causes as well, such as indigenous mobilization and state deficiencies.[39] A recession after 1998 exacerbated tension by imposing sacrifices that the new gas wealth made difficult to accept. Moribund ex-dictator Banzer (1997–2001), who overcompensated for his brutality in the 1970s with indecision now, proved inept at addressing the protest movements.[40] Upon returning to the presidency in 2002, Sánchez de Lozada tried to calm popular discontent with social benefit programs, but increased spending aggravated a fiscal crisis that forced him to propose a new round of adjustment.[41] In response, violent protests erupted in early 2003, and another rebellion in late 2003, which quickly centered on the government's neoliberal gas export policy, compelled the president to resign. Successor Carlos Mesa made concessions to popular movements while safeguarding foreign investors' core interests. But this compromise course left all sides discontent, and Mesa had to step down in mid 2005. Anticipated elections brought the triumph of Evo Morales, charismatic leader of the radical Movement to Socialism (MAS).

During these years, the natural gas issue contributed in two principal ways to the discrediting of the mainstream parties and the resurgence of leftist radicalism, a striking reversal of the trends prevailing from 1985 to 2000. First, the generous investment regime with which neoliberal governments in the 1990s attracted multinational investors and engineered the discovery of huge gas deposits soon came to appear as an unjustified sellout that allowed foreign business to "steal" the country's resource wealth. Accordingly, the MAS' 2002 election program accused the mainstream parties of "treason against the fatherland" and "handover of the national patrimony almost free of charge to the voracity of international capital."[42] In this framing, the newfound gain was threatened by immediate loss. As cognitive psychology has demonstrated, fear of loss weighs heavily on people's mind; they are much more determined to prevent a loss than obtain a gain of equivalent magnitude.[43]

This strong loss aversion triggered growing criticism of governmental gas policies and stimulated an outburst of resource nationalism. These sentiments found particular receptivity in Bolivia because they resonated with a long-standing sense of victimization. All neighbors had taken away some part of the national territory, most painfully Chile by conquering the coastal provinces and denying Bolivia access to the sea. Nationalists also charged that throughout Bolivian history foreigners had exploited the country's resource wealth but left its inhabitants impoverished, a pattern starting centuries ago with Potosí's silver mines.[44] Since the neoliberal governments followed economic efficiency considerations and sought to export Bolivia's gas to the U.S. via Chile, they imprudently roused both of these memories of victimization.[45] Thus, deep-seated loss aversion and the resulting determination to defend the new treasure from greedy foreigners triggered furious resistance to economically rational but politically suicidal development plans.

Second, the newfound resource wealth stimulated expectations of enormous windfall gains.[46] While large investments were required to develop the gas industry, many popular sectors anticipated the voluminous rents and saw them as a golden opportunity for finally fulfilling their long-neglected demands.[47] This perception of impending riches made the neoliberal emphasis on constraints unconvincing. While Bolivians had displayed great patience with stabilization and adjustment during the 1980s and 1990s, from 2000 onward they pursued their interests and needs with ever greater forcefulness. The window of opportunity that the future bonanza was expected to open up triggered a competitive dynamic; many sectors wanted to "get their foot in the door" and claim part of the windfall in order not to lose out again.[48] As I witnessed during field research in La Paz in mid 2002 and as the "gas war" of late 2003 made obvious, many groups that protested in the streets added the gas issue to their specific demands; for instance, people who felt cheated by the 1997 pension privatization attacked the government's gas export plans as well.[49] The linkage between these seemingly unrelated issues came from the belief that proper usage of Bolivia's new riches could finally satisfy a multitude of sectoral demands.[50]

In general, the anticipated windfall seems to have triggered risk acceptance. Visitors to Las Vegas eagerly risk unearned gains; if a small initial investment yields a mountain of chips, they are willing to "gamble with th[is] house money."[51] Similarly, the revenue streams that Bolivia's gas wealth was expected to yield stimulated boldness. People advanced their demands ever more forcefully and resorted to violent contention, at a much higher rate than in other Latin American countries.[52] Protest movements engaged in "wars," such as the "water war" of 2000 and the "gas war" of 2003. Evo Morales' radical MAS used this climate of rebellion to link its initial core concern, the defense of coca-growing peasants, to broad national issues and to give these struggles a clearer direction by trying to capture government power.[53] For this purpose, MAS combined electoral efforts and contentious street action. These protests and roadblocks undermined governability, forced the resignation of Presidents Sánchez de Lozada and Mesa, and paved the way for Morales to win the presidency.

The new government has displayed the typical risk acceptance stimulated by anticipated windfall gains.[54] The new vice-president estimated these gains at 80–100 billion dollars over the next few decades, ten to twelve times Bolivia's GDP![55] Through an ostentatious military occupation, President Morales quickly "nationalized" the gas industry, damaging its relationship with the largest investor and buyer, Brazil's state oil company. Through attacks on the opposition, the media, and independent institutions such as the judiciary, he has fomented polarization, like Hugo Chávez. Through a stream of "anti-imperialist" rhetoric, he has endangered Bolivia's preferential access to the U.S. market and risked the livelihood of many artisans and informal entrepreneurs in the MAS stronghold of El Alto.[56] Disregarding the potential fluctuation of gas revenues, the government is incurring permanent spending commitments by extending social programs, including a school grant and a "universal" health plan. Indeed, in the campaign for the 2006 constituent assembly elections, Morales made highly generous promises, such as "free health care for all," which would be difficult to finance under any circumstances.[57] Thus, the imminent bonanza has induced the government to take significant economic and political risks, fueling the radicalization of Bolivian politics.

In sum, the newfound gas wealth stimulated leftist activism, delegitimated the constraints highlighted by neoliberalism, and undermined established political parties. As Bolivians expected their country to turn into a rentier economy and receive enormous revenue streams, prudence and moderation gave way to demands for a fundamental transformation and a willingness to use protest and contention to force this breakthrough. Bolivia's experience and the striking contrast to Brazil show how a change in proven resource wealth can dramatically inflect a country's institutional trajectory.

Commodity Booms—and Busts

As the case studies of Brazil and Bolivia corroborate, institutional characteristics of party systems were not decisive causes for the rise of radical leftism in some countries and leftist moderation in others. Instead, fabulous commodity rents were more important. Organizational patterns are more flexible and open to change than institutionalism tends to assume. As Bolivia's experience shows, the discovery of huge commodity deposits can undermine a party system that had displayed surprising signs of strength. Resource windfalls have causal priority to party institutions. This finding supports rentier state arguments.[58]

This explanation suggests that the development approach pursued by Venezuela's Chávez and his emulators in Bolivia and Ecuador holds great risks and limited payoffs, especially in the medium and long run. The rentier model's Achilles heel is that raw material booms sooner or later end in busts. Governments that phenomenal rents have made risk-acceptant are unprepared for these downswings. As the illusion of unlimited income streams bursts, the crisis hits particularly hard. Governments have spent the extra revenues not only on investment projects or debt reduction, as Chile does with excess copper proceeds.[59] Instead, they imprudently incur lasting expenditure commitments by using fluctuating raw material proceeds for permanent programs. They extend subsidies and social benefit schemes whose continuation the favored sectors expect, demand, and fight for. The result is economic and political trouble. Once the booming economy overheats and the government overspends, inflation rises and hurts especially the poor, radicalism's proclaimed beneficiaries. And when the government faces diminishing revenues and feels compelled to renege on its expenditure commitments, riots can erupt, as in Venezuela in early 1989.

The recent revival of leftist radicalism in Latin America, therefore, seems to stand on quicksand. Artificially boosted by the current raw material bonanza, its sustainability is questionable. While power concentration in Venezuela and its gradual advance in Bolivia may allow Presidents Chávez and Morales to survive socioeconomic decline, the promises and surprisingly limited accomplishments of leftist radicalism on the economic and social front will be endangered. Any recession, crisis, or bust will probably impose most suffering on poorer sectors, which depend on the targeted subsidies and social programs that radical leaders have extended.

Limited Accomplishments of the Radical Left

Disregard for constraints and risk-seeking inspired by massive raw material rents have limited the accomplishments of radical leftism even in boom times. In Venezuela, the experience with the longest track record, drastic increases in public spending have fueled inflation. The political confrontation stoked by Chávez has hurt economic growth and employment generation. And the striking institutional weakness of the state, which ideological purges, populist politicization, and unaccountable personalism have exacerbated, has limited the social payoffs of new policy programs.

Chávez's efforts to trace a "Bolivarian" alternative to neoliberalism have yielded meager results. As the president has substituted expertise with political activism, a realistic, viable model for a new type of economy has failed to emerge.[60] Instead of announcing and pursuing a systematic development plan, Chávez has pursued a variety of initiatives and has enacted a host of regulations and controls, often in a nontransparent manner that has created uncertainty among domestic and foreign investors. Price and exchange controls have failed to stop inflation and begun to create shortages. And the exorbitant increases in government spending that underlie the recent growth spurt look unsustainable once oil prices diminish.

Rather than design a new plan for the future, Chávez has revived Venezuela's oil rentier model. In boom times, the Venezuelan state always deepens its economic interventionism, creates a wealth of spending programs, and pursues an activist, leftist foreign policy. During the 1970s bonanza, for instance, Chávez's nemesis, Carlos Andrés Pérez (1974–79), nationalized the oil industry, created huge state enterprises, bought diplomatic support by supplying his circum-Caribbean neighbors with cheap oil, led the Third World struggle for a New International Economic Order perceived as a big threat by industrialized countries, and spouted a great deal of leftist, nationalist rhetoric.[61] While using more confrontational strategies and belligerent rhetoric, Chávez has added surprisingly little to this traditional mix. In fact, modifications he has introduced make his development policies economically even less sustainable. Chávez has prioritized social spending, which strengthens his political support, but has neglected economic investments, through which Pérez sought to "sow the oil" and promote sustained growth. Even oil exploration has diminished greatly, raising doubts about Venezuela's capacity to maintain its levels of production and export. Most important, oil rentierism is not a promising long-term strategy. Busts come sooner or later, and they have always hit Venezuela hard, as the suffering of the 1980s and 1990s demonstrates.

Chávez's social accomplishments are also more modest than his rhetoric suggests. As sympathetic observers admit, it took the "Bolivarian Revolution" a full six years—until early 2005—to achieve any reduction in income poverty and unemployment over 1999, when the president took office.[62] The intense confrontation that Chávez promoted and that prompted a coup attempt in 2002 and a ruinous business strike in 2002–3 imposed great costs on the country, including the poor.[63] The long persistence of poverty and unemployment is a striking failure in light of the recent oil price boom, which on earlier occasions produced significant improvements in popular well-being.

Moreover, despite the antineoliberal rhetoric, Chávez's social policies ironically share design features with neoliberalism. Like the successful programs adopted in Chile and Brazil, Chávez's schemes do not have universal coverage but are targeted at the poor, a core principle of neoliberal social policy.[64] But by contrast to Chile and Brazil, Chávez's Misiones are highly politicized. The government distributes benefits by political criteria, as statistical analyses confirm.[65] This politicization, which prioritizes electoral payoffs over social needs in resource allocation and which commonly produces waste and corruption, gives Chávez's social policies significantly lower quality than their counterparts in Brazil and Chile. Thus, even on the social front, the prototype of leftist radicalism in contemporary Latin America has not had an impressive performance.

The Accomplishments of Moderate Leftism

The limited economic and social success of Chávez's radicalism and its precarious sustainability make the slow, gradual accomplishments of the moderate, market-conforming left look comparatively good. Chile's impressive growth record and the social programs introduced or reinforced by the center-left Concertación and implemented by an institutionally strong state have greatly diminished poverty and indigence. Whereas reliable socioeconomic surveys classified 13 percent of the population as extremely poor in 1990, this number shrank to 3.2 percent by 2006; the total number of poor people fell from 38.6 percent to 13.7 percent.[66] These accomplishments helped millions of people and seem to be sustainable, based on Chile's strong economy, export success, and institutionalized social programs, rather than a temporary commodity boom.[67] Indeed, despite the recession of 1998–99, the 2000 figures for poverty and indigence were lower than in 1998, which in turn had fallen since 1996.[68]

This social progress rested on the Concertación's decision to maintain the market model imposed by Pinochet's dictatorship. Rather than reverse the neoliberal reforms they had criticized while in the opposition, the new government parties of the center-left embraced free initiative, competition, and openness to the global economy. Indeed, although less zealous in privatization, they lowered external tariffs even further. Yet they also sought to enhance Chile's striking export success with a number of market-correcting and market-supporting measures, such as help for business efforts to upgrade Chile's comparative advantages, investment in research and development, and labor training.[69] They thus departed from strict neoliberalism while upholding the basic structure of the market system. This prudent strategy has yielded considerable economic, social, and political success.

Brazil has achieved similar accomplishments—albeit of lesser magnitude—since the center-left took over the presidency in late 1992, after President Collor's impeachment. "Social democrat" Fernando Henrique Cardoso, first as virtual prime minister under mercurial President Itamar Franco (1993–94), then as two-term president (1995–2002), laid the most important groundwork for this success by restoring economic stability, adopting pragmatic market reforms, and enacting institutionalized social programs that distributed benefits not as personal or political favors but by general poverty criteria.[70] In these ways, Cardoso eliminated the inflation tax burdening disproportionately the poor, slowly created employment, improved Brazil's surprisingly dismal social indicators, and gave poorer people more human capital and income security. As a result, poverty diminished from 35.3 percent of the population in 1993 to 26.7 percent in 2002.[71]

As regards economic strategy, Cardoso gradually enacted market reforms to give Brazil's economy greater dynamism than it had displayed since the 1980s debt crisis. A wide range of measures, such as deregulation, public enterprise privatization, and entitlement reform, followed the trade liberalization decreed by President Collor in 1990. In these ways, Brazil moved away from heavy-handed state interventionism, yet with less neoliberal dogmatism than Argentina and Peru.

Upon reaching government power, President Lula da Silva (2003–present), whose socialist Workers' Party had fiercely attacked Cardoso's cautious market reforms, decided to forego radicalism and follow Cardoso's policy course with surprising faithfulness. The new president credibly committed himself to maintaining the basic outlines of the market model and refrained from reversing earlier liberalizing measures. Despite a slowdown of social policy innovation, Lula harvested considerable socioeconomic improvements and political payoffs. The poverty rate, which had fallen only slowly from 29 percent in 1996 to 26.7 percent in 2002, declined significantly to 22.8 percent in 2005.[72]

Brazil's accomplishments, however, have remained more limited than Chile's. A crushing tax burden, approaching 40 percent of GDP by some calculations, stifles economic growth. Moreover, the Brazilian state does not boast the institutional strength achieved by Chile, as the failure of Lula's initial flagship initiative, the Zero Hunger program, demonstrates. Yet, despite these limitations, the betterment in the lives of numerous poor people seems more sustainable than the more precarious accomplishments of Bolivarian Venezuela.

Theoretical Conclusions

This article advances a novel explanation for the emergence of two strands of leftism in contemporary Latin America. Neither the outcomes of market reforms nor party system features fully account for leftist moderation in Brazil, Chile, and Uruguay and radicalism in Venezuela, Bolivia, and Ecuador. The resource bonanzas accruing to the latter countries were crucial, as well. Fabulous commodity rents seem to make compliance with the constraints highlighted by neoliberalism unnecessary. Triggering risk acceptance, the striking windfall has stimulated leftist activism and radicalism. By contrast, the absence of such a windfall in Brazil and Uruguay and its more limited extent and institutional sterilization in Chile induced the left there to accept a basic tenet of the right, work inside the confines of the established economic and political system, and seek improvements through gradual reform. Given the temporary nature of commodity booms, this prudent course holds greater promise for sustainable progress than the ambition of the radical left, which may sooner or later experience the well-known resource curse.

This argument adds to theories of the rentier state.[73] These approaches depict resource wealth and the resulting revenue streams as a cushion for established elites to avoid political risks by keeping the burden of taxation low and by buying off potential opposition with plentiful patronage.[74] Yet while this risk aversion may prevail in normal times, my case study of Bolivia indicates two transitional situations under which natural resource wealth can trigger pronounced risk acceptance. First, a generous, liberal investment regime for multinational companies can be perceived as imposing unbearable costs by allowing foreigners to "steal" the national patrimony and deprive the domestic citizenry of its rightful share of the wealth. This loss frame can take hold even if the investment incentives were decisive for the discovery of the treasure in the first place. People's strong loss aversion then prompts fierce efforts at recovery, which can be accompanied by ideological radicalism and violent contention. Second, an international price boom can unleash such a flood of revenues that elites and citizens are willing to gamble with this windfall gain. As the bonanza stimulates risk acceptance, governments embark on pharaonic investment schemes, as Venezuela did in the mid 1970s, or incur permanent spending commitments by extending generous subsidies and social programs, as Venezuela, Bolivia, and Ecuador are doing now. On the political front, they pick fights with domestic and international adversaries and do not refrain from making enemies. As booms sooner or later yield to busts, this boldness can carry a heavy price.

At a more basic level, the two new insights rest on cognitive-psychological findings about loss aversion and risk acceptance in intertemporal choice, especially the disposition toward "gambling with the house money."[75] Thus, they have a firm, scientifically grounded microfoundation, which is arguably more solid than the ideal-typical postulates underlying conventional rational choice theory.[76] In fact, these kinds of findings have inspired the "behavioral economics" that has swept the dismal science in recent years.[77] With these advances, cognitive explanations for the resource curse are not necessarily "ad hoc" and deserve to be taken more seriously than has been suggested.[78]

NOTES

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