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Growth models and comparative political economy
in Latin America

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Growth models and comparative political economy in Latin America¹

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Abstract

The paper analyses the growth models of Argentina, Bolivia, Brazil, Chile, and Mexico since 1996. We depart from the typology proposed by Bizberg (2019) and apply a growth decomposition based on the Sraffian supermultiplier (Freitas and Dweck, 2013). We argue that the growth models perspective, introduced by Baccaro and Pontusson (2016), contributes to understanding the diversities of capitalism in Latin America. We find that the commodities boom oriented the countries towards export-led growth models, especially in Bolivia, Chile, and Mexico. Brazil and Argentina presented a hybrid growth model, with higher household consumption, and government expenditure along with exports growth. After the commodities boom, the export-led model was no longer feasible for commodity exporters. Mexico sustained the existing model, based on low-value-added manufacturing exports. Brazil and Argentina reduced public expenditures generating economic stagnation. Chile and Bolivia increased public expenditure, sustaining growth at a slower pace. This work extends the growth models perspective to emerging countries, considering former contributions of the Latin American political economy. It also highlights how the growth models evolved in tandem with changing international conditions. Finally, the paper opens a research agenda for the political economy of stagnation in Latin American economies.

Keywords: Latin America, Comparative Political Economy, Growth Models, Supermultiplier, export-led growth, state-led growth.

JEL: O54, O57, O11, P16.

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1. Introduction

The study of the diversities of capitalism has a long history in Latin America. Anibal Pinto (1976) defines *styles of development* as “the way human resources and materials are organized in order to answer what, for whom and how to produce goods and services”. For Anibal Pinto, the analysis of *styles of development* should evaluate two connected characteristics: (a) the productive structure and its relationship with the international insertion and (b) the composition of the demand and income distribution. Pinto also noticed the lack of a unified classification for comparing development across Latin American countries, so that different authors addressed “styles, models, systems, structures, patterns, profiles” of development. Decades later, the literature on Latin America still lacks a common language, reasoning in terms of “development strategies” (Schneider, 2013), “patterns of development” (Gaitán & Boschi, 2015), and “diversities of capitalism” (Bizberg, 2019; Bizberg & Théret, 2012).

We argue that an analysis based on the growth model perspective (Baccaro & Pontusson, 2016) may shed new light on these long-term debates in Latin America. Baccaro and Pontusson (2016) reject supply-side theories that inform the Varieties of Capitalism literature (Hall & Soskice, 2001; Schneider, 2013). As an alternative, the growth model perspective draws on Post-Keynesian demand-led growth theories and investigates the social blocs that support each country's growth model.

We analyze the evolution of growth models for five selected Latin American countries – Argentina, Bolivia, Brazil, Chile, and Mexico – for the period of 1996-2018. We also introduce the Sraffian supermultiplier approach (Freitas & Dweck, 2013; Freitas & Serrano, 2015) into the growth models perspective (Baccaro & Pontusson, 2016). The supermultiplier approach brings to the forefront the “autonomous components of demand” and reclaims an analysis of its socio-political determinants (Morlin *et al.*, 2022).

Export-led growth, sometimes mixed with state-led growth, was the dominant growth model in Latin America from the middle 1990s till 2014. Since 2014, countries have presented lower growth rates, resulting from different strategies to cope with the fall of commodity demand. Only Mexico kept the previous growth model, while Brazil and Argentina faced stagnation. In Bolivia and Chile, a diversity of sources of demand sustained growth, revealing a hybrid response to the external challenge. In contrast with European growth models, which strongly changed after the 2008 crisis (Hein *et al.* 2021; Kohler & Stockhammer, 2021), Latin American growth models were stable until the fall in commodity prices in 2014.

This paper is divided into four sections besides this introduction. The second section summarizes the literature on the political economy of growth in Latin America and presents the theoretical framework of the growth models perspective. The third section presents our methodology of growth decomposition based on the Sraffian supermultiplier growth theory. The fourth section presents the growth decomposition of Latin American countries from 1996-2018, showing the existence of two growth models during the commodities boom and the disruptive change following the fall in commodities demand. The last section presents the main conclusions.

2. The political economy of growth in Latin America

Dependency theory in its multiple strands was always interested in the possibility of development in countries structurally constrained by external demand⁴. As Theotonio dos Santos (1970, p. 236) explained, a dependent country is one whose economic development is “conditioned by the development and expansion of another country”. In some non-Marxist dependentist views, dependence does not emerge only from international structures but also relies on the domestic political alliances (Cardoso, 1977)⁵. Mahoney and Rodríguez-Franco (2018, p. 22) show that important concepts introduced by the Dependency Theory are now built into the mainstream theories of development. Dependency theory as a frame of analysis could be included in the larger tradition of comparative-historical analysis (Mahoney & Rodríguez-Franco, 2018, p. 28). A long-standing tradition analyzed how economic elites affected development trajectories in Latin America, emphasizing the role of social and political factors. For instance, Albert Hirschman (1968) argues that the exhaustion of the import-substituting industrialization was due to inadequate social structures, especially the lack of elites committed to industrialization.

The dismissal of the Dependency Theory was propelled by the fast growth of Asian countries during the 1970s. The theory seemed unable to explain the development of previously peripheral countries. The Asian success prompted a large literature on the benefits of liberalization to growth, which at the same time questioned dependency theories and the desirability of import substitution industrialization (Bhagwati & Srinivasan, 1978). Neoclassical models argued that market conforming policies enabled the export-led models responsible for increasing national productivity and improving growth performance. By contrast, Developmental State literature evidenced that liberalization policies were not adopted in the extension claimed but were combined with institutional strengthening and building of social coalitions supportive to export-led growth model (Amsden, 1985; Haggard, 2015)⁶ Besides, a rationally oriented bureaucracy promoted private enterprise through incentives to sectors that promoted development (Evans, 1985). In Latin America, decades of Import Substitution entrenched this model in business interests. The shift in policy towards a more outward-oriented direction would thus have required a particularly powerful and independent state (Haggard, 2015, p. 55).

Since the inaugural neoliberal path in Chile in the 1970s, liberalization processes have spread across Latin American countries to varying degrees. The intensity of the liberalization depended on the political regime and the relative power of prior import substitution actors (Etchemendy, 2011). In the example of Chile, liberalization was conducted under a dictatorship in which ISI actors were politically weak. Thus, as proposed by the original varieties of capitalism (Hall & Soskice, 2001), liberalization did not lead to complete convergence of national economic systems in Latin America. In fact, national divergences may deepen once specialization requires different productive capacities and techniques better achieved by specific economic institutions. Varieties of capitalism approach distinguish liberal and coordinated market economies. Liberal Market economies, as the USA and the United Kingdom, organize firm relations via hierarchies and market arrangements. In coordinated economies like Germany, Scandinavian countries, and Japan, firm relations occur in strategic interactions and collaborative networks. The distinction between coordinated and liberal market economies is evidenced by deeply differing industrial relations, education and training systems, corporate governance, inter-firm relations, and worker-management

⁴ Palma (2008) discusses the multiple strands of Dependency Theories. See also Reis and Antunes de Oliveira (2021).

⁵ As Cardoso (1977, p. 12) explains: “Dependency analyses in the years 1965-68 were preoccupied much less with the external conditioning of the Latin American economies, which was taken for granted, than with the development of a type of analysis that could grasp the political alliances, the ideologies, and the movement of structures within the dependent countries.”

⁶ Haggard (2015, p. 55) adds that “labor weakness and even outright repression appeared integral features of an [Asian] export-oriented model that rested on low-wage labor, labor market flexibility, and managerial autonomy on the shop floor”.

relations. Hall and Soskice argued that both capitalist types could sustain growth, but each followed its institutional path. Among liberal economies, the complementarity among institutions would lead to mastering radical innovations, while among coordinated economies it would lead to incremental innovation and quality production.

For relying on a rationalist-functionalist approach, Varieties of Capitalism assumes that current institutions are built to enable successful economic performance (Streeck, 2011). Economic policymaking would be effective when it induced better forms of coordination among private-sector actors. The main policy goal is to improve the institutional framework, avoid opportunism, eliminate uncertainty, and minimize transaction costs. The state has a limited role in leading economic activity since “outcomes are too complex to be dictated by regulation” and “states generally lack the information needed to specify appropriate strategies” (Hall & Soskice, 2001, p.46). The limits of the proposed dual typology led to the creation of a great number of alternative typologies (Coates, 2015; Boyer, 2005; Amable, 2003). As Streeck (2011) points out, the unending number of typologies reinforce skepticism about the validity of general typologies of capitalism⁷. Noteworthy, the extension of VoC concepts to Latin American countries required additional typologies since the original approach did not provide tools for analyzing underdeveloped economies.

Ben Schneider (2009; 2013) defines Latin America as composed of “hierarchical market economies”. The author highlights four features of labor and capital that characterize the region’s capitalism. First, on the capital side, a large relation of foreign direct investment to GDP is derived from the prevalence of *multinational corporations*, which spread technology hierarchically and impose centralized planning of investment. Second, national companies are usually part of *diversified business groups*, usually family-owned, formed by dozens of separate firms in variegated sectors. Third, labor markets are extensively regulated, but large informal markets obstruct the effective application of rules. Therefore, workers have short-term links with firms and no links with other workers, hampering syndical organizations and creating *segmented labor markets*. Finally, *educational skills are low* because governments spend little on unemployed education, and firms spend little on their employees. Schneider (2013) also addresses Latin American political systems, arguing that they favor incumbents who try to sustain the core economic institutions. In this sense, economic and political institutions are perversely complementary and explain the lack of innovation and the persistence of structural heterogeneity in Latin American countries.

Schneider’s firm-centered approach was criticized for not analyzing how states shape divergent development outcomes in Latin America (Sanchez-Ancochea, 2009)⁸. In fact, once Schneider focuses on similarities among Latin American countries, he disregards the contrast among development strategies. In contrast, Boschi (2011) argues that state-led capitalism prevails in Latin American countries. In this view, state action is the fundamental promoter of development projects, affecting the organization of infrastructure, science and technology, and financing. Channels of contact between the state and entrepreneurial elites grant facilities to the national capital and help consolidate the largest business groups.

⁷ Streeck (2011) also criticized methodological nationalism, economicism, functionalism, and the use of static comparative in the approach. VoC’s reliance on firm-centered analysis and rational-choice institutionalism has hidden power and distributive relations. Fundamental relations, as the conflict between profit-seeking and social counter-movements, are absent from the analysis (Streeck, 2011).

⁸ Schneider (2013, p. 21) argues that state development strategies would be mainly constrained by the hierarchical economic institutions (multinationals, business groups, segmented labor markets, and an undeveloped skill system), by technological frontiers in production, and by trading patterns, elements highlighted in a firm centered approach.

2.1. From Varieties of Capitalism to Growth models

VoC focuses on corporate finance systems, industrial relations, and vocational training systems, ignoring the role of demand. In this supply-side perspective, policies that expand aggregate demand only affect output in the short-run (and only in case output is below natural output). A persistent increase in demand leads to accelerating inflation in the long run.⁹ As a response, the Central Bank increases the interest rate, bringing demand back to its supply-determined path. In the best scenario, monetary policy can bring output to its potential level (determined by technology) and involuntary unemployment to zero, equalizing wages to labor productivity. Since wages are determined by labor productivity in the long run, functional income distribution cannot be analyzed from a political perspective, consisting of a strictly technical variable.

Lucio Baccaro and Jonas Pontusson (2016) propose the growth models perspective, based on demand-led growth theories rejecting the supply-side perspective of Varieties of Capitalism. Demand-led growth theories are able to explain fundamental capitalist phenomena such as the secular stagnation, the hysteresis of potential output, and the failure of austerity to restore growth, that are not explainable by VoC. Moreover, Baccaro and Pontusson (2016) treat distributive struggles as a key factor in the evolution of growth models, emphasizing the question of who benefits from a given growth model.

In the growth models perspective, government responses to crises could tell us about the composition of the dominant social bloc (Baccaro and Pontusson, 2019). Baccaro and Pontusson (2019) translate the coalitional literature, usually applied to welfare regimes and labor relations, to the context of growth models and macroeconomic policies. From this perspective, a country's growth model rests on a hegemonic sectoral bloc with specific macroeconomic requirements and shapes the policy choice of governments. Baccaro and Pontusson (2019) propose introducing a Gramscian mechanism by which hegemonic discourses absorb labor interests. Social groups excluded from the dominant bloc may have their demands largely neglected or simply ignored. Importantly, hegemonic domination would produce a legitimating discourse able to convince others that the bloc's interests are the national interest. Therefore, a crisis or an exogenous reduction in growth and government revenues could be followed by policies that privileged hegemonic sectors and disregarded the requirements of excluded sectors.

A shortcoming of Baccaro and Pontusson's analysis is the choice of a Kaleckian strand of demand-led growth theory. Although the choice of a demand-led theory is an advance in comparison with VoC approaches, the Kaleckian theory hardly fits together with their analysis of growth led by autonomous components of demand (see Morlin *et al.*, 2022). A growth model with autonomous components of demand (where exports or government expenditures lead growth) is actually provided by the literature on the Sraffian Supermultiplier (Freitas e Serrano, 2015; Allain, 2014; Lavoie 2016).

The Sraffian supermultiplier (henceforth supermultiplier) is a theoretical contribution to demand-led growth theory originally proposed by Serrano (1995) that has been extended lately (Freitas & Serrano, 2015)¹⁰. By particularly highlighting the role of components of aggregate demand that do not generate

⁹ See Hope and Soskice (2016). For criticism of this view, see Stockhammer (2021, p. 5-6) and Morlin *et al.* (2022).

¹⁰ The (super)multiplier effect is greater than the traditional Keynesian multiplier, in which consumption is the only induced expenditure (so that the Keynesian multiplier is determined by the propensity to consume). The Sraffian supermultiplier preserves important Keynesian conclusions, while extending those results to the long run (Cesaratto, 2015). The term supermultiplier comes from the accelerator in the investment function, since it considers capacity generating private investment as an induced expenditure. Investment thus follows the capital stock adjustment principle, so that permanent increases in demand induce the expansion of productive capacity.

productive capacity, the supermultiplier provides interesting conclusions to heterodox macroeconomics solving long-lasting shortcomings of demand-led theories of growth (Allain, 2014; Lavoie, 2016; Cesaratto, 2015).¹¹

By emphasizing the autonomous components of demand - exports, government expenditures and debt-financed household expenditures - the supermultiplier approach fits well with the theoretical growth models explored by Baccaro and Pontusson (2016). Autonomous components of aggregate demand are those not directly determined by the current level of income. Government expenditure, exports, public investment, and consumption financed out of credit; all consist in autonomous components of aggregate demand. Those expenditures turn out to be the fundamental cause of economic growth in the long run. In its turn, induced expenditures are directly determined by the level of income, as, for instance, household consumption and imports. The private investment follows the principle of adjustment of productive capacity, so that permanent increases in demand at normal prices induce the expansion of productive capacity, allowing production to fulfill the increased demand (Serrano, 1995)¹².

3. Methodology

We analyze the growth models of five Latin American economies - Argentina, Brazil, Bolivia, Chile, and Mexico. The analysis of the period from 1996 until 2018 is complemented by a periodization that allows us to explore the effects of the 2008-2009 crisis and the cycle of commodity prices. The novelty of the analysis is the application of the supermultiplier decomposition (Freitas & Dweck, 2013) into a comparative growth models perspective (Baccaro & Pontusson, 2016) for Latin American countries.¹³ The supermultiplier approach distinguishes between autonomous and induced demand. Autonomous expenditures have a direct effect on output, for increasing final demand, and indirect one given the proportional stimulus to consumption and investment. The indirect effect is described by the supermultiplier, which is determined by the domestic content of production, propensity to consume, and propensity to invest. Those variables multiply the autonomous components of demand: government expenditures, exports.

As an example, consider that government expenditure is increased by a certain amount. This increase generates a flow of income of the same amount, which, by its turn, implies a subsequent process of increase in consumption and private investment that will cause a greater increase in aggregate income. This reveals the true contribution of each expenditure to economic growth, which would not be caught by a simple analysis of the rate of growth of each component of aggregate demand. Besides, variations in the value of the supermultiplier (caused by changes in the marginal propensities to consume and to invest) also have a separately measured impact on growth (Freitas & Dweck, 2013).

¹¹ In particular, this approach introduces a *flexible* accelerator investment function without necessarily generating Harrodian Instability (Freitas & Serrano, 2015). The model has motivated further developments in demand-led growth theory, see, for instance, Pariboni (2016), Nah and Lavoie (2017), Palley (2019), Fiebigger and Lavoie (2019).

¹² In this approach, changes in income distribution have temporary effects on the rate of growth, but no permanent impact (Freitas & Serrano, 2015). A permanent increase in the wage-share leads to an increase in the marginal propensity to consume, which means an increase in the value of the supermultiplier. This leads to a temporarily larger rate of growth, generated from the faster growth of consumption and aggregate demand. However, as the supermultiplier stabilizes, the economy would converge towards the rate of growth of autonomous expenditures (Freitas & Serrano, 2015).

¹³ A complete exposition of the decomposition methodology is in the Appendix I.

Data came from Cepalstat (the database of the Economic Commission for Latin American and the Caribbean), originally coming from each country’s system of national accounts. We adjusted the methodology according to the availability and comparability of data across the five countries.

The country selection followed Bizberg’s (2019) categorization of Latin American countries, as exposed in table 4¹⁴. The selection allows us to understand how the growth model analysis relates to the traditional categorizations, while the supermultiplier contributes to the comparison of the growth models. Traditional classifications express diverging paths of liberalization and corresponding capitalism diversities consolidated after the 1980s (Etchemendy, 2011; Bizberg & Théret, 2012; Bizberg, 2019). Accordingly, Latin American countries are classified according to two dimensions: productive structure and socio-economic configuration.

Table 1: Selection of Latin American Countries

	Rentier	Diversified
Liberal	Chile	Mexico
Redistributive	Bolivia	Brazil, Argentina

Source: Authors elaboration based in Bizberg (2019).

The first dimension concerns productive structure diversification, distinguishing more diversified economies from rentier economies. In our sample, rentier economies are represented by Chile and Bolivia, whose output is primarily led by the extraction of natural resources. In contrast, in Argentina, Brazil, and Mexico, the relevant role of commodity exports is accompanied by the relevance of manufacturing for domestic or foreign consumption.

On the socio-economic dimension, countries are classified with respect to the degree of importance of market institutions for organizing production and distributing income. In one extreme, we find higher reliance on markets for organizing value creation and distribution. In the other extreme, socio-political compromises are central for productive coordination (Boyer, 2019; Bizberg, 2019). Countries that followed liberalization during authoritarian regimes were less prone to protect national business and workers, originating more market-oriented economies, such as Chile and Mexico (Bizberg, 2019; Etchemendy, 2011). Hence, Chile and Mexico share a liberal regime, while Argentina, Bolivia, and Brazil share a social (or redistributive) regime. We synthesize this division in Table 1.

¹⁴ For a categorization of Latin American economies before the state-led industrialization of the 1930’s, see Bertola and Ocampo (2012, p. 13), who divided three categories: the southern cone, the African American countries and the Indo-American countries. The southern cone (Argentina, Chile and Uruguay) explored temperate-zone agriculture and had a larger European descendant population. Brazil, an Afro-American country, specialized in tropical agriculture. Some Indo-American countries - such as Bolivia and Mexico - had a stronger mining export sector.

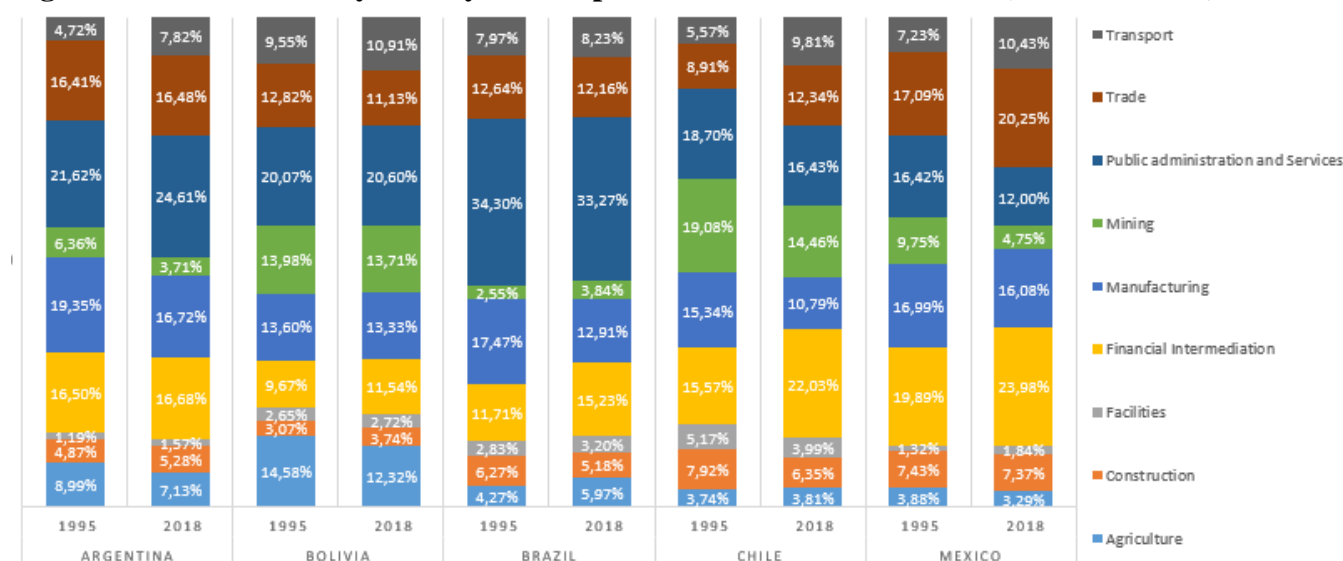
4. Growth models and diversity of capitalisms in Latin America

4.1. Growth models in Latin America (1996-2018)

The selected countries present a diversified sample of Latin American economies regarding the productive structure. As we can see from Figure 1, the three countries characterized as redistributive had a larger share of government participation in output. In Argentina and Bolivia, public services increased since 1995, while in Brazil they remained stable at a higher level. On the other hand, in Mexico and Chile, the smaller participation of Public Administration in output was further reduced, in contrast with high and increasing shares of trade and transport.

The decrease in manufacturing and the increase in financial intermediation are noted in every country. Financial intermediation reached almost a quarter of the GDP in Mexico and Chile. Brazil's increased participation of mining and agriculture in value-added seems to evidence the reprimarization of production (Araújo *et al.*, 2012)¹⁵. Interestingly, data on value-added by activity do not suggest a reprimarization trend for other countries.

Figure 1 – Value added by activity for sample Latin American countries (1995 and 2018)



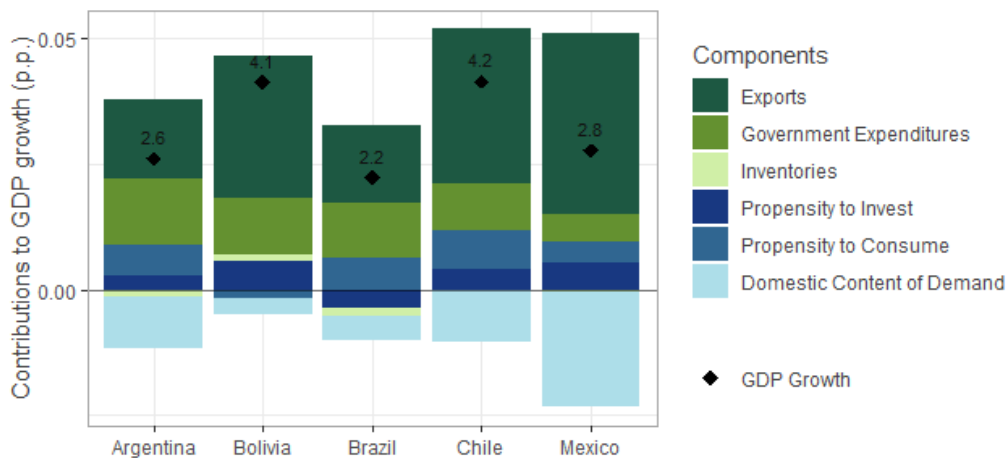
Source: Own elaboration. Data from Cepal Stat.

Latin American economies presented an important role of exports, with a relevant effect of government in the redistributive countries, when we consider the whole period. Figure 2 presents the average contribution to the growth of each component of demand for the period from 1996 to 2018. Exports were the principal driver of growth in Bolivia, Chile and Mexico¹⁶. Government expenditures were at least as important as exports in Brazil and Argentina, with a pronounced role also in Bolivia, which are classified as redistributive countries in Bizberg's (2019) typology (see table 1).

¹⁵ Although no conclusion on the extent of reprimarization can be obtained without considering the change in relative prices – which was mainly in favor of primary commodities.

¹⁶ The proportion of trade to GDP reached 87% in Bolivia in 2014, peaked at 72% in Chile in 2011 and 76% in Mexico in 2018.

Figure 2: Average contribution of components of demand, selected countries, 1996-2018.



Source: Authors' elaboration. Data from Cepal Stat. **Note:** Green scale represents components of autonomous demand and blue scale components of the supermultiplier.

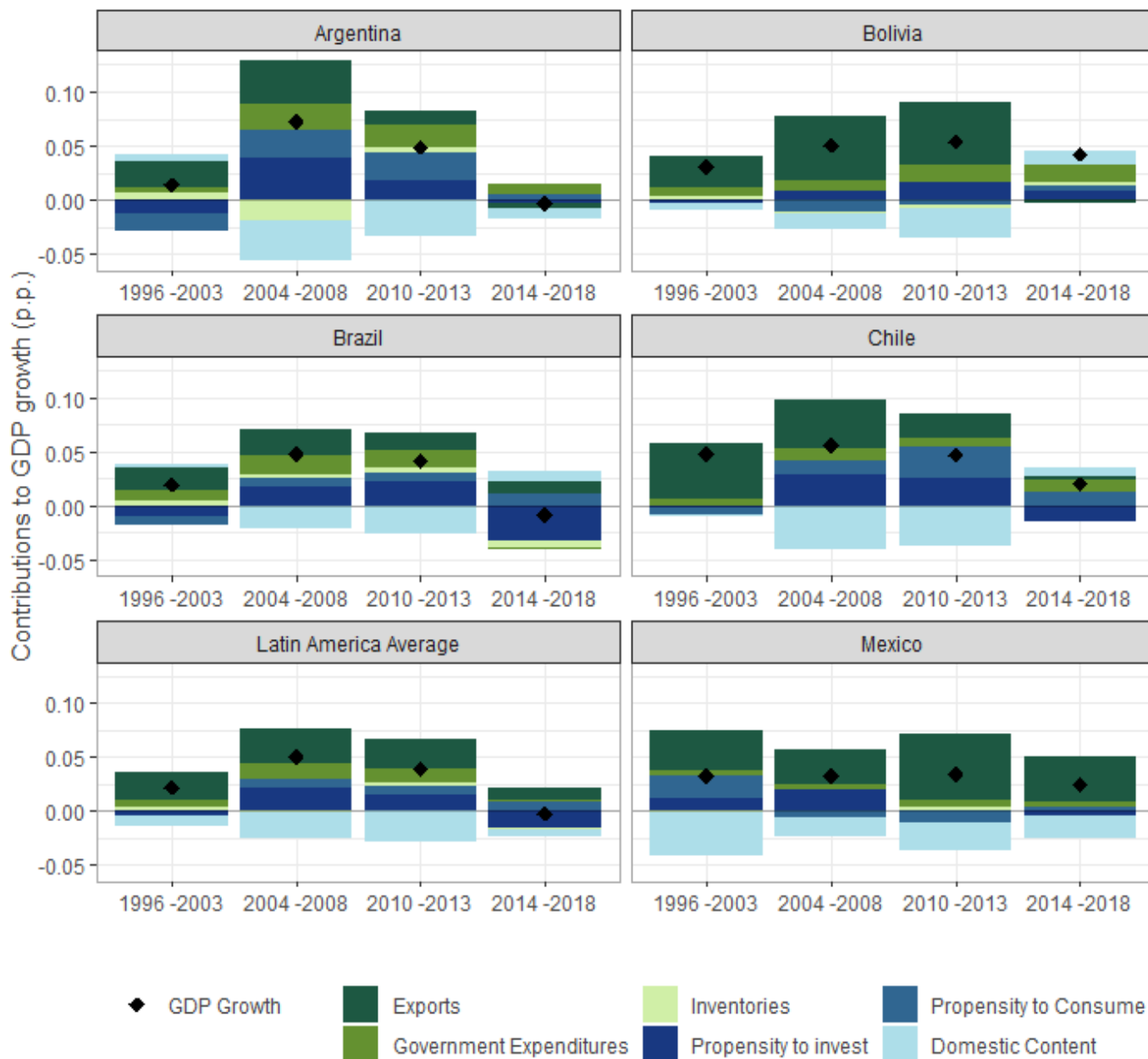
All countries faced an increase in imports, which led to a smaller share of the domestic component of demand. The reduction of the domestic content of demand is noteworthy in Mexico, where manufacturing is based on *maquiladoras*, companies that add low value to imported products to re-export it. As Mulder (2009) highlights, the reliance on export processing zones which incorporate little value added leads to weak links between exports and the possibilities of growth. The impact of propensity to consume was positive for all countries except Bolivia. Finally, the propensity to invest showed a positive contribution in all countries but Brazil¹⁷.

Although the long-term picture shows that all Latin American countries relied on exports to grow, more detailed analysis shows a different picture. While in the period of 2010-2013 the growth models remained relatively stable, after 2014 growth slowed down and exports could not sustain the former high growth, as shown in Figure 3¹⁸. A general question in the growth models literature is whether the 2008-2009 crisis led to changes in the world growth models (Hein *et al.*, 2021, Kohler & Stockhammer, 2021). Contrary to European countries, Latin American countries sustained their existing growth model after the 2008-2009 crisis but faced hard times after 2014.

¹⁷ In Brazil, the negative average impact of the propensity to invest reflects its huge decrease observed during the period of crisis (2014-2018).

¹⁸ The results for the year of 2009 are included in the Appendix II, due to scale differences. Due to the international crisis, in the year of 2009 the growth models of Latin American countries completely differ from former and subsequent patterns. The heavy fall in exports was compensated by an increase in the domestic content of demand. In the Brazilian case, the strong credit incentives led to a big increase in consumption, which was not present in the other cases. These dynamics of the crisis didn't affect the long term growth models, as noticed in Figure 4.

Figure 3: Supermultiplier Growth decomposition for selected periods



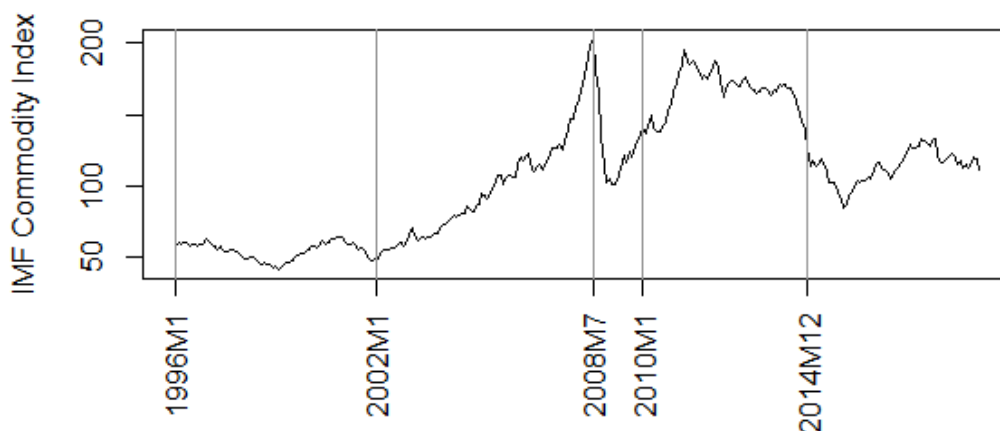
Source: Authors' elaboration. Data from Cepal Stat. Note: Green scale represents components of autonomous demand and blue scale components of the supermultiplier.

Growth models analyzed evolved in tandem with the periods defined by changes in commodity prices. The crucial points in the series of commodity prices coincide with a periodization of patterns of the composition of aggregate demand. In fact, structuralist economists have long acknowledged the importance of terms of trade in shaping development paths (Bielschowsky, 1998).¹⁹ Exports not only provide dynamism by stimulating demand but also relax the external constraint to economic growth

¹⁹ Historically, those authors were concerned with the secular deterioration in the terms of trade, *i.e.*, the Prebisch-Singer hypothesis (Prebisch, 1949).

(Bértola & Ocampo, 2012; Caldentey & Moreno-Brid, 2019). The supply of commodities for international markets was essential for the growth model of Latin American economies during the past decades (Caldentey & Vernengo, 2010; Svampa, 2015)²⁰. Increased demand for commodities by China led to steady growth of commodity prices until the 2008 crisis. After the crisis, prices rebounded quickly and were sustained at a high level until 2014, when the slowdown in Chinese growth led to steadily low prices. These movements in commodity prices are exposed in figure 4.

Figure 4: IMF commodity index 1996-2018



Source: Author's elaboration from IMF data.

After financial and commercial liberalization, Latin American countries had to cope with increased international competition, especially for their manufactured exports. The series of financial crises - Mexico in 1995, Brazil in 1999, and Argentina 2001 - reversed the expectations of a bright future after liberalization (Reis & Antunes de Oliveira, 2021, p. 9). The Argentinian industrial sector was heavily damaged by international competition and by exchange rate overvaluation. Heavy industry has shrunk in Mexico, while the *maquiladoras* expanded in the north of the country. Chile and Bolivia made a strong return to basic commodity exports. Brazil, which reached higher levels of industrialization in the 1980s, also presented deindustrialization, but at a slower pace (Bielschowsky *et al.*, 2013).

Argentina and Brazil followed a more balanced model of growth during the initial period analyzed, with strong participation of the public sector. In these economies, improvement in terms of trade eased governments advances in redistributive policies, leading to the growth of consumption. Accordingly, the increase in propensity to consume presented a positive contribution to growth for all the countries, except for Bolivia where its impact was negative and almost null. In the redistributive model, commodity exports are expected to ease external financial constraints, while manufacturing industries grow to produce mainly for the domestic market. State arbitrates between international and national capitals, financial interests, and popular classes, which are all potentially included in the dominant social coalition. In Argentina, during Nestor and Cristina Kirchner governments, there was a deepening of economic concentration and national commodity exporters were increasingly more influential in policy in contrast with a smaller influence of foreign companies (Gaggero & Schorr, 2017). Despite the reintroduction of import substitution policies, at the end of Cristina Kirchner's presidency, macroeconomic imbalances had already moved industrialists' support away from the government (Couto, 2017). The coronation of the lost of

²⁰ Svampa (2015) exposes the environmental conflicts arising from neo-extractivism in Latin America. The author shows also the possibilities arising from alternative policy paradigms as the *buen vivir*, which inspired policies in Ecuador and Bolivia.

support was Mauricio Macri's election in 2016, which symbolized the return of the pendulum back to free marketeers.

Brazil presented a virtuous cycle of growth during the 2000s, enjoying the commodities boom and pushing consumption through income distribution and credit (Serrano & Summa, 2012). An important component of the boom was a cycle of domestic credit, pushed by innovations in the credit to households and on the increased activity of public banks, especially after the 2008 crisis²¹. During the global financial crisis, the country successfully adopted expansionary and redistributive policies to foster demand (Barbosa-Filho, 2010). After 2011, however, fiscal consolidation progressively reduced the growth pace (Serrano & Summa, 2015), while the Brazilian government also cut taxes and restrained public investments, endorsing private business agenda (Carvalho, 2018). The fall of commodity prices arrived when economic performance was poor and the political coalition unstable. In 2015, a disastrous effort of reordering coalitions by means of austerity measures, together with corruption investigations in public companies, generated a huge economic and political crisis.

The cases of Chile and Bolivia are noteworthy because even though both countries specialized in commodity exports, they followed different institutional and political paths. Bolivia adopted a redistributive stance, where the more interventionist state taxes the extractive companies in order to redistribute part of the created wealth. Strong social actors exert pressure in the state, which becomes more sensitive to social demands. Although often associated with Venezuelan Bolivarianism, the government of Evo Morales promoted a great proximity with business, for instance, when it avoided a radical agrarian reform (Cunha-Filho, 2017). On the other hand, Chile is the stylization of a rentier liberal capitalism. However, it is important to highlight that even in Chile, the state has been active in promoting upgrade, but mainly vertical upgrading departing from resource-based industries (Gaitán & Boschi, 2015). In the last period (2014-2018), both Bolivia and Chile presented modifications in their growth models increasing public expenditure. Table 2 summarizes the main findings of the different growth models, during and after the commodities boom.

Table 2: Growth Models in Latin America

	1996-2013	2014-2018
Argentina	Mixed State-Export led	Stagnation
Brazil	Mixed State-Export led	Stagnation
Bolivia	Export-led	State-led
Chile	Export-led	State-led
Mexico	Export-led	Export Led

Source: Authors' elaboration.

Mexico could sustain growth after the commodities boom, for its adoption of a growth model less dependent on commodity exports. Correa *et al.* (2012) questioned the stability of the Mexican growth model, due to its embrace of unregulated financial flows. Moreover, the more stable growth cannot be taken for granted since it is still highly dependent on North American imports. By the end of 2019, growth in Mexico was already decelerating due to lower US demand by imports. Given the low participation of

²¹ The role of domestic credit is less pronounced in the presented decomposition because consumption is considered an induced component of demand, for a different view, see Pariboni (2016).

the public expenditures on GDP, Mexico's growth model has few alternatives for lower external demand periods. Not to mention the domestic regional inequalities that have been stimulated by its growth model.

4.2. Political economy of aggregate demand in Latin America

The economic system in the periphery of capitalism was historically shaped by the connection with core economies. Latin American economies are thus strongly influenced by the pattern of inclusion in the international labor division, as argued by the Latin American Structuralist tradition (Prebisch, 1949; Rodríguez, 2006). Dependency theory has emphasized the constraints these economies face in development and sovereignty. Although dependency is still important nowadays, an exclusive focus on productive structure cannot fully account for the diverging paths among peripheral economies. Regulationist authors have highlighted the degrees of sovereignty in economic policy decisions (Boyer, 2012; Miotti *et al.*, 2012). The status of the domestic monetary regimes and the choices of modes of integration into the international economy are expressions of this political sovereignty (Boyer, 2012). In fact, despite the similarity to what concerns the dependent condition, we can still find a diversity of growth models within Latin America, meaning that dependency cannot explain the whole story.

International shocks shape the economic scenario faced by Latin American economies. However, countries respond in different ways to these shocks. The growth contributions disclosed by the decomposition confirm the diversity of growth models followed by Latin American countries. Bizberg (2019) describes the structural factors that condition the absorption of international shocks and shape the domestic response. Economies with a diversified productive structure and foreign trade are less vulnerable to these shocks. In particular, Mexico's export growth was less dependent on commodities with respect to the other economies. At the same time, the remaining countries followed a trend of exports' reprimarization. Consequently, Mexico was the only country able to maintain its previous growth model after the downturn in commodity prices.

In contrast, the liberal/redistributive typology characterizes the coalition sustaining a country's growth model. Nevertheless, redistributive strategies are contingent on foreign conditions. A fall in terms of trade can cause external disequilibrium that constraints the policy space of peripheral economies. Porcile and Sanchez-Ancochea (2021) argue that these price shocks tighten the distributive conflict and contribute to political instability. A fall in terms of trade also reduces the growth rate compatible with the Balance of Payment constraint (Caldentey & Moreno-Brid, 2019; Morlin, 2022). In Latin America, the president's approval rating and desire for political change are strongly influenced by external conditions. Political dissatisfaction increases significantly when commodity prices are low (Campello & Zucco, 2020).

The downturn in commodity prices tightens the conflicts over income distribution (Porcile & Sanchez-Ancochea, 2021) and fiscal resources (Campello & Zucco, 2020). Hence, it damages the ability (and willingness) to maintain redistributive policies and real wage growth. Retreating from these policies, however, undermined workers' support to the coalition behind the growth model of redistributive-diversified countries (Bizberg, 2021). The Mixed State-Export growth model was thus replaced by economic stagnation in Argentina and Brazil after 2014. The disruption in their growth model into stagnation reveals the fragility of the social coalition behind this growth model (as suggested by Bizberg, 2021). In turn, stagnation was followed by reforms that weakened workers' bargaining power and partially reverted the previous redistributive process. Argentina saw increasing poverty and extreme poverty rates since 2017 and a fall in the wage share after 2016 (INDEC, 2019). Brazil presented a reversion on the previous trend of real wage and the fall of inequality - Gini Index increased after 2015.

Nowadays, dependency on core economies is mainly a financial dependency (Tavares, 1972; Vernengo, 2006; Reis & Antunes de Oliveira, 2021). In demand-led growth theory, this dependency takes the form of an external financial constraint to economic growth: the Balance of Payments constraint.²² From a demand-led growth viewpoint, the balance of payments constraint is the main obstacle to the growth of peripheral economies (Thirlwall, 1972), consisting of a financial constraint associated with the availability of international currency (dollars) (Freitas & Dweck, 2013).

Latin American countries are usually subject to vulnerabilities coming from the volatility of capital flows and sudden changes in terms of trade (especially because of the high share of primary commodities in the total exports) and depend on foreign trade to obtain inputs, capital, and consumption goods. A country can sustain a lasting deficit position in a trade account if it can attract enough international currency by other means – such as capital flows and direct foreign investment. A lasting surplus in the balance of payments allows for the accumulation of foreign reserves and is not expected to be corrected by an automatic mechanism. On the other hand, a deficit position cannot persist for long since it leads to unsustainable loss of foreign reserves or pressure over the exchange rate. Sooner or later, authorities will reduce the pace of economic growth by imposing a contraction in aggregate demand to cope with instability coming from the balance of payments position (Freitas & Dweck, 2013).

Domestic policies, however, reveal how countries cope with the external constraint. Industrial and technological policies that effectively induce structural change can increase the income elasticity of exports and relax the external constraint (Cimoli *et al.*, 2020; Cimoli *et al.*, 2009; Morlin, 2022). While these policies improve the economic performance, the lack of them explains why Latin America failed to achieve sustainable convergence with the developed world since the 1960s (Cimoli *et al.*, 2009). This persisting pattern contributed to the loss of capabilities and the loss in the diversification of production in the last decades (Cimoli *et al.*, 2020).

When the external constraint is not binding, macroeconomic policy can boost domestic demand to push economic growth. Domestic autonomous expenditures thus play a fundamental role. Fiscal policy can either stimulate or restrain the growth of demand. Therefore, demand-led growth allows for two distinct growth regimes in peripheral regions: balance of payments constrained growth and policy constrained growth (Freitas & Dweck, 2013, p. 168).²³

Historically, "periods in which foreign exchange was in greater supply were invariably also times when domestic demand grew more rapidly" (Bertola & Ocampo, 2012, p. 157) in Latin America. Fast export growth relaxed the external constraint, opening room for the growth of domestic demand, which played a decisive role in the period of State-led industrialization.²⁴

²² The external constraint consists of a financial constraint to an economy relying on imported inputs and final goods that can only be purchased with an internationally accepted currency (see Morlin, 2022). Internationally accepted currency can be obtained mainly through exports, foreign investment, remittances, or by accepting foreign liabilities.

²³ See also Morlin (2022, p. 5-7) for an explicit discussion of these regimes in a supermultiplier model.

²⁴ Despite the typical notion of an inwards oriented growth, exports played "a pivotal role" in the import-substitution industrialization, being "not only as a source of foreign exchange for all the countries and as a source of government finance for those with major mining industries, but also as an engine for economic growth in a number of economies in the region." (Bertola & Ocampo, 2012, p. 156). For this reason, Bertola and Ocampo (2012, p. 157) claim that a simple demand decomposition "used to estimate the different demand factors' contributions to economic growth tends to underestimate the importance of external trade policies, since periods in which foreign exchange was in greater supply were invariably also times when domestic demand grew more rapidly (1945-57 and 1967-74)".

Government expenditure is central for the politics of demand. In general, the government can influence the pace of growth through direct public expenditure and by coordinating the pace of investment of public companies. A classical work of Kalecki (1943) justifies the political opposition of business to the use of fiscal policy in order to pursue full employment. When discussing the end of the Golden Age, Steindl (1979) extends Kalecki's conclusions regarding the "political business cycle" to the discussion of the long-term trend of the economy. The focus of policy on controlling budget deficits and inflation affirmed a "stagnation policy", which permanently reduced the pace of economic growth. This interpretation has also been introduced in interpretations of the Secular Stagnation (as in Hein, 2016). Finally, the weakening of government policy instruments transfers political power from bureaucrats to the private sector, avoiding the imposition of interventionist policies without considering the particular interests of a given sector (see, for instance, López, 2012).

Stagnation policies appeared in the cases of Argentina and Brazil as a response to the commodities downturn. These policies evidence the weakness of the political coalition supporting the redistributive growth model (Bizberg, 2021). The growth model of redistributive countries also relied on policies such as income transfer, minimum wage raises, and consumption subsidies. Consumer credit has also been employed to boost domestic consumption. The policy of Central Banks and public banks' activity can stimulate the growth of consumption financed out of credit. According to Pontusson and Baccaro (2018, p. 8), "government policies are clearly of critical importance for the political economy of housing and household debt and that the analytical categories of the mainstream CPE tradition shed remarkably little light on this important topic". Nevertheless, sustainable debt-to-income ratios require that other autonomous expenditures, as government demand, grow in tandem with credit consumption (Pariboni, 2016). Austerity policies thus also harm this growth driver in the medium term.

5. Conclusion

Comparative Political Economy cannot rely only on supply side theories, as it did in the Varieties of Capitalism literature (Baccaro & Pontusson, 2016). Rather, it must study the drivers of economic growth, found in demand, and the underlying dynamics of conflict over distribution and power. Autonomous expenditures, drivers of growth in the supermultiplier, have been analyzed in demand-side CPE analysis. The distinct role of autonomous expenditures leads to the discussion of the political economy of government expenditures, exports and debt-financed consumption. An analysis based on the political economy of the autonomous components of demand (Morlin *et al.*, 2022) can also contribute to understanding the coevolution of growth models between central and peripheral economies.

Exports were a fundamental source of growth for all countries until 2014, when the commodity boom ended. With their larger domestic market and redistributive policies, Argentina and Brazil had presented more balanced growth models, which we classified as Mixed State-Export led for relying also on government expenditures and domestic consumption. By its turn, Bolivia, Chile, and Mexico had relied more strongly on export-led growth during the commodity boom. Latin American countries presented high GDP growth rates in the first years of the XXI century due to the increased demand for commodities. Chinese demand enabled Latin American countries to adopt export-led growth models, relaxing financial constraints (Medeiros & Cintra, 2015). The structural complementarity in the commodities market was accompanied by increased competition in the manufacturing markets, which hampered industrial upgrade.

The end of the commodity boom handicapped export-led growth models, with the exception of Mexico where the proportion of trade to GDP did not fall until 2018. After the commodity boom, the only effective growth model for commodity exporters was a combination between state-led growth and increased household propensity to consume, presented in Chile and Bolivia. While in Chile and Bolivia the public expenditures either grew or were maintained at high levels, in Brazil and Argentina it grew at a slower pace, or at negative rates. This resulted in the maintenance of growth levels in Chile and Bolivia and periods of recession and stagnation in Brazil and Argentina. In the Mexican case, the reliance on North American imports may also present challenges. The trade war promoted by the USA has reflected in slower GDP growth in Mexico for the year 2019.

Argentina and Brazil responded to the downturn in commodity prices with policies that led to stagnation. These countries present a more diversified productive structure and institutions that, according to Rodrik (2001), should make them less vulnerable to external shocks - in comparison with the rentiers Bolivia and Chile. The institutionalist view cannot explain the shift in these two countries, which came from the fragility of the political coalition supporting their growth model. The reason behind the slowdown of exports can be clearly traced to the decreased Chinese demand, but the reason for the slowdown in government expenditures is less direct. Especially in countries with a sovereign currency, the politics of fiscal policy are not determined by fiscal constraints but involve political mechanisms such as those highlighted by Kalecki (1943). The political determinants of the different paths in government expenditures are the relevant enterprise to be pursued in future work.

The diversities of Latin American capitalism must be analyzed in light of the previous developments of dependency theory, Latin American Structuralism and the regulationist approach. Our results support the role of domestic political dispute in explaining the contrasting performance across countries, in line with these approaches. Latin American countries lack a robust political coalition that supports an inclusive growth processes (Bizberg, 2021). Poor economic performance in recent years has been followed by poor social outcomes. The reduction of poverty rates and inequality seen before 2014 was partially reversed. Stagnation hits strongly lower income strata and challenges political stability. Inequality thus becomes even more pressing. Any strategy to achieve inclusive growth must also aim for sustainable development, which is largely hindered by the extractivist nature of the export-led growth in the region (Svampa, 2015).

Further research could explore the role of debt financed household consumption. The growth decomposition presented did not account for the role of autonomous consumption (as the consumption financed out of credit or wealth rather than the current income), due to the lack of comparable data. Introducing an estimate for this variable would provide a more detailed growth decomposition, particularly for the cases of Brazil and Argentina. However, consumption financed out of credit tends to be less relevant in developing countries, so that our analysis provides a plausible approximation. Finally, additional data on the distribution and sectoral decomposition of growth could enhance the analysis of the dynamics of the propensity to consume and its effects on growth.

6. References

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Appendix I – Growth Decomposition Methodology

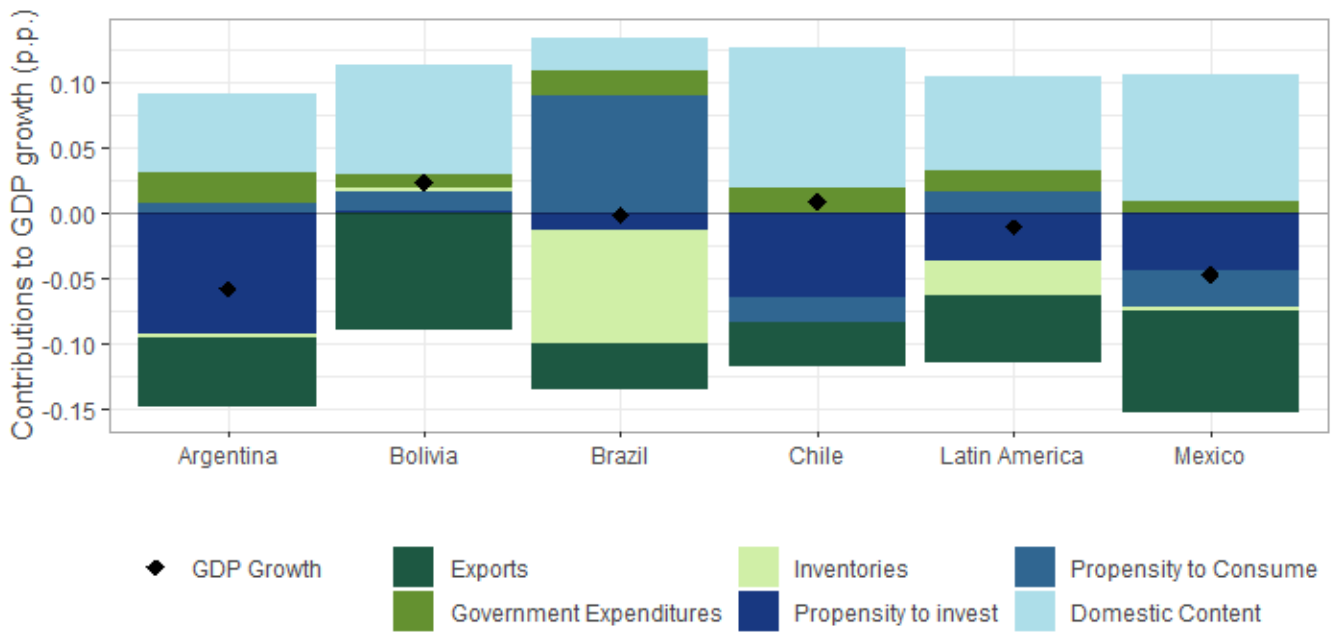
The decomposition of GDP growth into the contribution of each component of demand follows the formula below, as in Freitas and Dweck (2013),

$$g = \alpha_1 \left[\frac{C_0}{Y_0} \right] g_c + \alpha_1 \left[\frac{I_0}{Y_0} \right] g_h + \frac{\alpha_1}{\mu_1} g_\mu + \alpha_1 \left[\frac{X_0}{Y_0} \right] g_x + \alpha_1 \left[\frac{G_0}{Y_0} \right] g_G + \alpha_1 \left[\frac{E_0}{Y_0} \right] g_E$$

The supermultiplier (α) is the ratio between output and autonomous expenditures (plus change in inventories), for the same period. The share of domestic content in aggregate demand (μ) is equal to one minus the rate between imports and total aggregate demand (that is, the complementary value of the share of imported content in demand), Variable g stands for the rate of growth of GDP, g with a subscript stands for the rate of growth of the variable corresponding to the index, α is the supermultiplier, μ is the share of domestic content in aggregate demand, C stands for consumption, c stands for the marginal propensity to consume, I stands for investment (Gross Formation of Capital), h stands for the propensity to invest, X stands for the exports, G stands for the government expenditure, E stands for the variation in inventories, subscript I corresponds to the current period (for which the rate of growth is observed), subscript 0 correspond to the previous period (to which the rate of growth refers),

From this formula we obtain two sets of variables that affect GDP growth: the autonomous demand components and supermultiplier components. The autonomous demand is composed in our decomposition by exports, government expenditures and change in inventories. The supermultiplier components are the propensity to consume (c), the propensity to invest (h) and the domestic content (μ), In the long run, growth is determined by the rate of growth of autonomous components, but shocks on the supermultiplier variables have level effects on the GDP.

Appendix II – Growth Decomposition in the year of 2009



Source: Authors' elaboration. Data from Cepal Stat. **Note:** Green scale represents components of autonomous demand and blue scale components of the supermultiplier.