The Mexican Economic Crisis of 1982 and the Brazilian Economic Crisis of 1999: Critical Junctures in Economic Policy?

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I. Introduction

Crises are often blamed for bringing about abrupt institutional/policy changes (Mahoney 2000; Pierson 2000; Gorges 2001). Crises are seen as providing political leaders with the opportunity to implement new

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plans. The result is a tendency to link economic crises with radical institutional/policy changes. However, this fails to take account of, nor does it attempt to understand, those instances where an economic crisis, instead of being followed by radical policy change, is followed by extant policy continuity. Blaming crises for radical policy change misses subtleties at the heart of the process.

Despite the importance applied to critical junctures in our perception of change, our understanding of the concept is limited due to the limited attention that has been paid to it (Pierson 2004). Critical junctures have been examined using unwieldy frameworks (Collier and Collier 1991; Mohoney 2001), counterfactual analysis (Fearon 1996), and case specific criteria (Hogan 2005; 2006). This has restricted our ability to identify and compare critical junctures, and to differentiate them from other forms of change, such as incremental change, that over decades might transform a policy or institution.

Just because a crisis comes before a radical policy change does not indicate a cause and effect relationship, which scholars (Thelen and Steinmo 1992; Mahoney 2000; Pierson 2000; Gorges 2001) have sometimes assumed. The critical juncture framework developed by Hogan and Doyle (2007; 2008) contends that such a linkage is an oversimplification, failing to take account of the specific circumstances involved. It argues that an economic crisis is a necessary, but insufficient, condition for radical economic policy change. According to the framework, a critical juncture consists of crisis, ideational change, and radical policy change. The framework rests upon the hypothesis that a crisis induced consolidation of a new idea –replacing an extant idea– leads to significant policy change. Thus, the framework should be capable of explaining why certain crises lead to critical junctures in policies, whereas others do not, as the differentiating factor between them is ideational change. The framework contends that without ideational change the level of policy change, in response to a crisis, can be of the first or second order, but not the third.[1)] Ideational change is the intermediating variable between crisis and policy change.

Crisis + **Ideational change** + **Policy change** = **Critical juncture**

〈Figure 1〉 Critical Juncture Approach

This framework has been used to examine change in macroeconomic policy in America, Britain, Ireland, and Sweden. Here, the macroeconomic difficulties affecting Mexico at the start of the 1980s, and Brazil at the turn of the 21st century, are examined and compared using this framework. Our objective is to discover if the economic difficulties affecting both countries constituted crises, and, if so, did these lead to changes in the ideas underpinning their macroeconomic policies, and the subsequent nature of Mexican and Brazilin macroeconomic policies. Using Hogan and Doyle's (2007; 2008) framework will provide an insight into the mechanics of policy change, and the value of employing a critical junctures framework that produces comparable results, even thought the cases selected for examination are separated politically, geographically, and temporally. The framework's applicability across countries, and time, is of particular value, as it makes the concept of the critical juncture less nebulous and case specific, thereby enhancing its significance to our understanding of policy change. Was macroeconomic policy in Mexico in the early 1980s, and in Brazil in the early 2000s, a continuation of, or a break with, the past?

1) Borrows from Hall's (1993) concept of first, second and third order change.

II. The Characteristics and Uses of the Critical Junctures Approach

Critical junctures are seen as branching points that set processes change in motion. The literature sees critical junctures resulting in the adoption of an institutional arrangement from among alternatives (Mahoney 2000, 512). Thereafter, the pathway established funnels units in a particular direction (Mahoney 2003, 53).

For some, a critical juncture constitutes a brief period in which one direction or another is taken, while for others, it is an extended period of reorientation (Mahoney 2001). The concept has been employed in comparative politics. Collier and Collier (1991) used a critical juncture framework in their analyses of labour movements in Latin America. Mahoney (2001) employed a similar framework examining the liberalisation of Central America. For Collier and Collier (1991) and Mahoney (2001) critical junctures took decades to occur. Hogan (2005; 2006) questioned whether these periods were instances of incremental change, labeled by Streeck and Thelen (2005) periods of conversion.

In relation to short term change, Garrett and Lange (1995, 628) showed that electoral landslides created critical junctures by producing mandates for policy change. Casper and Taylor (1996) employed the concept in analysing liberalisation of authoritarian regimes, while Hogan's (2005; 2006) remoulded the framework to examine change in trade union influence over public policy. Karl (1997) employed the concept of critical junctures in analyzing how "petro-states" became locked into problematic development pathways, while Gal and Bargal (2002) used critical junctures to analyze occupational welfare in Israel. Flockhart (2005) used critical junctures to explain the gap between Danish voters and their politician's attitudes towards the European Union (EU).

The literature is inconsistent in how it quantifies, and differentiates, critical juncutres from other forms of change. However, the fact that Hogan and Doyle's (2007; 2008) framework is rigorous may resolve this. It should produce consistent findings, enabling us to determine whether the changes to Mexican and Brazilian economic policy constituted critical junctures.

III. The Countries Selected for Examination

Through studying politics on a comparative basis we can discover trends, and achieve an understanding of broader characteristics (Blondel 1995, 3). The value of comparison is the perspective it offers, and its goal of building a body of increasingly complete explanatory theory (Mahler 1995). Comparative historical analyses, concerning different time periods, is also beneficial (Lieberman 2001, 5). To provide different, but comparable cases, we draw our case selections from two countries, separated by two decades.

Mexico in (1981-1983), and Brazil (1999-2003), are examined based upon the criteria of “most similar” and “most different”. The selection requirements for “most similar” are that both countries are Latin America states, in the time periods examined are democratic, and are presidential federal republics. Both countries’ economies are amongst the world’s largest. In terms of differences, Brazil was colonised by the Portuguese, while Mexico was colonised by the Spanish, giving them different cultural heritages. Brazil is almost 5 times the size of Mexico, has twice the population, but has a shorter history as a democracy. In the early 1980s Mexico had import substitution policies (Panizza 2005), while by the late 1990s Brazil was operating a free market approach (Panizza 2005). Their similarities will ensure ‘the contexts of analysis are analytically equivalent, to a significant degree’, while their differences will place the ‘parallel processes of change in sharp relief’ (Collier 1997, 4).

IV. Policy Change and Identification

Policy change must be seen in the context of societal and political change. Utilizing Hogan and Doyle's (2007; 2008) framework, we examine macroeconomic policy change in discrete stages. The first examines the economy to see if it was in crisis. A crisis implies prevailing policy cannot be sustained without deterioration (Haggard and Kaufman 1995, 14). To test for economic crisis we develop observable implications. The framework's second stage tests for ideational change. New ideas can change the policy environment (Pemberton 2000, 790). But, how ideas influence policy is something theorists have long grappled with (Taylor 1993). Where do ideas come from? How do they relate to failing policies? Why do ideas underlying a failing policy sometimes change, resulting in policy change, whereas other times they remain unaltered? To answer this, a second set of observables, based on Legro (2000), are set out. The framework's third stage tests for policy change. These observables are based upon Hall (1993), tying together the concepts of policy change, societal learning, and the state.

IV.1. Testing for a Macroeconomic Crisis

Scholars regularly 'agree that severe recessions make significant structural changes possible as they render politics highly fluid' (Garrett 1993, 522). However, economic crises are rare, rendering definition difficult (Yu et al. 2006, 439). How do we identify a crisis? For Stone (1989, 299) a situation does not become a problem until it is controllable. But, it is controllable it must be measurable, otherwise how would we know if we are controlling it? Thus, even economic crises must be quantifiable.

Berg and Pattillo (1999) advocated examining individual variables when quantifying currency crises. Pei and Adesnik (2000, 138-139) developed a range of criteria for identifying macroeconomic crises: annual inflation greater than 15 percent, stagnant gross domestic product (GDP), and historians and other analysts' descriptions of deterioration in economic circumstances. Frankel and Rose (1996, 351) define a "macroeconomic crisis" as a stagnant economy, where investment is in decline, inflation, interest rates, and unemployment are above 15 percent, and actors perceive an economic crisis. For Solimano (2005, 76) a macro-economic crisis can be identified through indicators and perceptions of growth, inflation, employment creation, and poverty.

We seek to identify macro-economic crises through quantitative and qualitative measures. Defining anything as a crisis, including a macro-economic downturn, requires subjective and objective deliberations (Pei and Adesnik 2000, 139). Consequently, González (2005, 93) suggests adopting a multifaceted approach. Agents must diagnose, and impose on others, their notion of a crisis before collective action to resolve uncertainty can take meaningful form (Blyth 2002, 9).

We use a range of observable implications which seek to identify change in nominal economic performance, as well as in perceptions of economic health (Hogan and Doyle 2007; 2008).

01. If GDP growth was stagnant/negative, the economy may have been in crisis.
02. If debt as a percentage of GNI was above 100 percent, the economy may have been in crisis.
03. If inflation was above 15 percent (Pei and Adesnik 2000), the economy may have been in crisis.
04. If the interest rate was above 15 percent, the economy may have been in crisis.
05. If unemployment was above 15 percent, the economy may have been in crisis.
06. If opinion polls find the public regard the economic in crisis, the economy may have been in crisis.

07. If the media regarded the economy in crisis, the economy may have been in crisis.

08. If economic and political commentators regarded the economy in crisis, the economy may have been in crisis.

09. If the central bank regarded the economy in crisis, the economy may have been in crisis.

10. If both domestic and international organisations monitoring economic performance regarded the economy in crisis, then the economy may have been in crisis.

11. If elected representatives regarded the economy in crisis, the economy may have been in crisis.

12. If government pronouncements on the economy were consistent with a crisis management approach, the economy may have been in crisis.

The Mexican Economy in the Early 1980s

After 1945 Mexico sought growth through import substitution (Narula 2002). Industries developed behind import quotas. This increased the country's international trade, decreasing its foreign dependence. The model succeeded as there was demand for Mexican raw materials. However, it created a private sector dependent upon state protection (Hernández 2008).[2)]

President Echeverria's (1970-1976) administration allowed fiscal and monetary discipline collapse (Serra-Puche 2008),[3)] marking the exhaustion of the policy of "stabilising development" (Narula 2002). Rubio (2008) [4)]

2) Luis Miguel Beristain Hernández, PhD. in Administrative Sciences. Business and Politics professor, Director of Professional Development, Enterprise Development and Social Development at ITESM (Interviewed July 2008).
3) Jaime Serra Puche, PhD. in Economics. Mexican Politician. Secretary of Commerce and Industry in 1988; Treasury Secretary in 1994; and Mexico's representative in NAFTA negotiations in early 1990s (Interviewed June 2008).
4) Luis Rubio, PhD. in Political Science. Mexican writer on politics, and economics (Interviewed July 2008).

blames the failures of stabilising development on falling agricultural exports, rapid population growth, and middle class disillusionment with its inability to express itself in a one party (Institutional Revolutionary Party (PRI)) dominated culture. However, once oil reserves were discovered by Petróleos Mexicanos (PEMEX), the state oil company, in the late 1970s (Calderón-Madrid 1997), the hope was that oil revenue would stabilise the economy. However, this only circumvented the dangers of immediate crisis, without resolving the economy's structural problems (Nelson 1990, 95). This was evidence of the temporary solutions often sought by Mexico's political elite (Tournaud 2008).[5]

Once the country became a net petroleum exporter pressure grew to expand public spending. The number of state owned enterprises quadrupled to 1,200 (Calderón-Madrid 1997). Under President Portillo (1976-1982) expenditure outstripped petroleum revenues and an anaemic taxation system (Solís 1981). As a consequence, the economy began to overheat (Appendix A). To finance these projects Mexico borrowed \$78bn. by 1981 (Alarcon and McKinley 1992). The state's share of fixed capital formation increased to 50 percent (Fitzgerald 1978, 277). As inflation surpassed 25 percent the peso became overvalued, and the competiveness of exports, apart from oil, diminished (McCaughan 1993). 'The merchandise trade balance deteriorated' as 'imports rose while nonoil exports earning stagnated' (Nash 1991, 494).

Mexico was poorly positioned when oil prices fell in response to a weakening world economy in the early 1980s.[6] Compounding matters, PEMEX and the *Secretaría de Programación y Presupuesto* (SPP), declared oil production would be insufficient to reactivate the economy.[7] Recession in the US reduced demand for Mexican goods, while a sharp

5) Nicolas Foucras Tournaud, PhD. in Political Science. Head of the Political Science department, ITEMS (Instituto Tecnológico y De Estudios Superiores de Monterrey) Campus Monterrey (Interviewed August 2008).
6) *Time Magazine*, 22 February, 1982.
7) *Magazine Nexos, Sociedad, Ciencia y Literatura,* January, 1982. "De Díaz Mirón a Díaz Serrano".

increase in interest rates there reduced the money supply, and put pressure on Mexico's debt servicing, as US banks had lent the country $25 billion. Servicing Mexico's debt reached $16 billion, more than its revenues from oil (Cornelius 1985, 89). 'Collapsing oil prices and rising international interest rates erased Mexico's prosperity' (Starr 2006, 53).

By 1982, as confidence in the economy waned, Mexicans began converting pesos to dollars at 25 billion pesos a day.[8] The gravity of the situation came to international attention on August 13, 1982, when:

> The government fired the shot heard around the world, announcing that it could not meet interest payments coming due within the next few days and initiating negotiations for bridge loans and rescheduling agreements with the US Treasury, the IMF, and the private commercial banks (Nelson 1990, 97).

Mexico's economic indicators pointed towards crisis (Appendix A) (Dornbusch and Edwards 1991). GDP contracted by 0.6 percent in 1982 and 4.2 percent in 1983, while the inflation reached 58.92 percent in 1982 (Katz 1994). Output fell in all industries,[9] unemployment jumped towards 15 percent,[10] while more than 20 million people, half the workforce, were underemployed (Cornelius 1985, 92). Compounding matters, US banks stopped lending to Mexican companies as they already owed US$600 million in interest.[11] The budget deficit stood at 16.5 percent of GDP.[12]

In 1983 inflation reached triple digits, the national debt continued to rise, and the level of capital formation slackened (Appendix A). According to Edwards (1995, 17) this was the worst crisis to hit Mexico since the Great Depression. *The Third World Magazine*,[13] *Gestión y*

8) *Time Magazine*, 30 August, 1982.
9) ibid.
10) ibid., 20 December, 1982.
11) ibid., 1 January, 1983.
12) ibid., 20 December, 1982.
13) *The Third World Magazine*, October, 1983. "IMF: quick fix- slow poison".

Estrategia,[14] and *Time Magazine*[15] referred to Mexico's difficulties as a crisis. Mexican economic magazine *Proceso* regarded 1982 as Mexico's worst recession.[16] *The Third World Magazine* argued the country was effectively bankrupt.[17] Minimum wages were insufficient to meet the needs of most Mexicans (Lustig 1986). Opinion polls found great scepticism concerning the economy (Basañez 1985).

During 1982 the peso was devaluated twice in order to increase exports (Katz 1994), but the economy could not hold onto dollars. New short term loans were taken to counteract capital flight, but did nothing (Jiménez 2006). *Banco de México's* reserves dried up in a matter of weeks.[18] In his Sixth Annual Presidential Report, Portillo stated that the economy was experiencing the worst crisis in its history.[19]

Bailey (1980, 54) identified trends that produced economic panic: excessive government outlays; $15 billion in short-term loans which funded capital flight; an overvalued peso; and dollarization. Despite growing by 8 percent annually between 1978 and 1981, by the end of 1982, Mexico faced one of the severest crises in its history (Barker and Brailovsky 1983).

The Brazilian Economy in the Late 1990s

Brazil undertook an inflation stabilization programme in 1994, the *Plano Real* (Netto 1999), pegging the *real* to the dollar. Inflation fell from 50 percent per month in 1995 to 3.2 percent annually by 1998 (Appendix B). However, there was substantial exchange rate appreciation, making Brazilian goods relatively more expensive, contributing to a current account deficit by 1997 (Bulmer-Thomas 1999, 730).

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14) *Gestión y Estrategia*, Calderón, Gilberto, July, 1991. "Privatización de la Banca en México".
15) *Time Magazine*, 15 July, 1987. "Last Bow of the Inflation Tamer".
16) *Proceso*(1982), Mexican economic and political magazine, "La Devaluación de 1982," No. 306, September 11.
17) *The Third World Magazine*, December, 1983.
18) *Latin America Regional Reports*, 13 August, 1982, p. 1.
19) Sixth Annual Presidential Report of President López Portillo, September 1, 1982.

Interest rates doubled as the repercussions from the Asian financial crisis reached Brazil, indicating the fragility of its situation (Heymann 2001, 16). Simultaneously, inflation began to rise, reaching 5 percent by 1999. Nevertheless, the authorities promised a new assault on fiscal problems, now aggravated by higher interest on government debt. However, the government, with an eye to the 1998 elections, failed to make good on its commitments, and the budget deficit grew to 8.4 percent of GDP.

Following the Asian crisis, and Russian bond default, investors became risk averse (Kaminsky et al. 2003, 51), reflecting the downgrading of Brazil's credit rating.[20] As $30 billion fled the country in September 1998, the central bank raised interest rates to 43 percent. By November President Cardoso, safely re-elected, announced measures to slash the deficit, and right the economy.[21]

However, the *real* came under speculative attack in November 1998. To defend the currency, the central bank pushed interest rates to 50 percent,[22] increasing the cost of servicing public and private debt to the extent that investors became convinced a default was inevitable. High interest rates, instead of slowing the tide of dollars leaving Brazil, accelerated the process. The governor of Minas Gerais's announcement of a 90 day moratorium on debt repayments to the federal government,[23] and fears that the governors of Rio de Janeiro and Rio Grande do Sul would do likewise, threatened the country's fiscal integrity (Rothkopf 1999, 91), sending investors fleeing the Brazilian capital markets (Cattaneo 2001, 228). With the Brazilian central bank losing $2 billion a day,[24] the World Bank initiated crisis talks.

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20) Brazil's rating in 1999; Moody: B2, S&P: -B; Fitch: -BB. See Moody's Investor's Service; Standard & Poor's; Fitch IBCA; at http://www.latin-focus.com/latinfocus/countries/brazil.
21) *The Economist*, 21 November, 1998, p. 23.
22) *The Independent*, 4 December, 1999, p. 18.
23) *Business and Finance*, 25 January, 1999, p. 36.
24) *The Evening Standard*, 15 January, 1999, p. 41.

A $41 billion IMF-led rescue package was arranged.[25] But, President Cardoso was unable to get an appropriate budget (tax increases/spending cuts) approved.[26] The possibility of default arose. The upper classes, convinced devaluation of the *real* inevitable, began withdrawing investment from Brazil. The fall in gross capital formation for 1998 reflected this capital flight (Table 2). As foreign direct investment (FDI) went elsewhere the prospects for the economy, and the value of the *real*, grew bleak. Unemployment hit 9 percent by the end of 1998.

Despite pledges not to do so,[27] the exchange rate band was widened to accommodate devaluation in January 1999 (Roett and Crandall 1999, 279). While the *real*/dollar exchange rate, which had been close to parity, plummeted to two for one by February. Debt services as a percentage of exports reached 117 percent by 1999.[28] Devaluation also put pressure on the central bank as its diminishing foreign currency reserves were the only thing preventing further devaluation.[29] However, devaluation did not stop the haemorrhage of dollars.

On the day of devaluation, the Sao Paulo stock exchange fell 10 percent and within a few weeks this policy collapsed, forcing the resignation of a second central bank governor. Arminio Fraga, the new governor, floated the currency,[30] but the country plunged into recession with declines in industrial output and GNP.[31] The percentage of the population below the poverty line surpassed 25 percent.[32] *The New York Times* –observing that Brazil was in crisis, with capital fleeing, and state governments defying the central authority[33]– predicted a debt default.[34]

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25) ibid., 30 January, 1999, p. S12.
26) *The New York Times*, 28 February, 1999, p. 1.
27) *The Washington Post*, 11 February, 1999, p. A31.
28) *The Independent*, 14 January, 1999, p. 1.
29) *The Daily Mail*, 15 January, 1999, p. 65.
30) *Financial Times*, 4 March, 1999, p. 6.
31) *Business and Finance*, 19 August, 1999, p. 10.
32) Brazil, http://www.indexmundi.com/g/g.aspx?c=br&v=69
33) *The New York Times*, 31 January, 1999, p. 16.
34) ibid., 31 January, 1999, p. 16.

Real GDP was stagnant throughout 1998 and 1999 (Appendix B), while GDP per capita fell by 1.39 and 0.7 percent in the same period.[35] However, the inflation did not surpass 7 percent.[36]

'Many commentators assumed Brazil would have to restructure its debt (a euphemism for default)' (Bulmer-Thomas 1999, 736). Summers (2000, 5) regarded this as one of the major international financial crises of the 1990s. By early March 1999 the Brazilian central bank was still struggling to prop up the *real*.[37] According to Summers and Williamson (2001, 56) at the heart of the Brazilian crisis was that its pegged exchange rate lacking sufficient institutionalisation of the measures necessary to make the peg stick.

〈Table 1〉 The Identification of Macroeconomic Crisis

The Observable Implications	**Mexico 1981-1983**	**Brazil 1999-2003**
01. Was GDP growth was stagnant?	X	X
02. Was total debt as a percentage of GNI was above 100%?	X	
03. Was annual inflation was above 15%?	X	
04. Was the annual interest rate was above 15%?	X	X
05. Was the annual unemployment rate was above 15%?	X	
06. Did opinion polls find the public regarded the economic in crisis?	X	X
07. Did the media regard the economy in crisis?	X	X
08. Did economic and political commentators regard the economy in crisis?	X	X
09. Did the central bank regard the economy as in crisis?	X	X
10. Did domestic/international organisations regard the economy as in crisis?	X	X

35) Data Gob, Governance Indicators Database, http://www.iadb.org/DataGob/
36) The Economic Intelligence Unit - Country Report, Brazil, March, 2003.
37) *The Times*, 3 March, 1999, p. 12.

11. Did elected representatives regard the economy as in crisis?	X	X
12. Were gov pronouncements on the economy were consistent with a crisis management approach?	X	X
Economic Crisis	**X**	**X**

According to the framework Mexico experienced a macroeconomic crisis, as it satisfied all observable implications (Table 1). The economy was stagnant, debt out of control, inflation and interest rates very high, and the general perception amongst politicians, economic commentators, and the media, was of crisis. Although Brazil (1998-2000) satisfied only 70 percent of the observables (Table 1), we argue that it experienced an economic crisis. This is because its economy was stagnant, investment was declining, and the media, public, and economic commentators, regarded the economy in a crisis.

In terms of severity, Mexico's crisis was more acute than Brazil's. This is clear from developments in Mexico at the time, and is also borne out by all of the above observables pointed to a crisis there. Thus, although both states experienced economic crises during the years in question, their severity differed. Holding with Hogan and Doyle's (2007; 2008) critical juncture framework, which argues that a crisis induced consolidation of a new idea –replacing an extant idea– can lead to significant policy change, the next section will see if ideas underlying the economic policies in both states changed at these times.

IV.2. Testing for Ideational Change

Previous policies can be discredited due to their implication in, or inability to right, a crisis (Levy 1994). Although economic crises can have great impact they will not determine policy, whose formulation is 'centred in domestic political and ideational processes' (Golob 2003, 375). Hogan and Doyle's (2007; 2008) framework contends that significant policy change depends upon actors reaching consensus upon, and consolidating around, a new set of ideas. This corresponds to McNamara's (1998, 4-5) argument that actors utilize new ideas to chart policy strategy. 'Ideas facilitate the reduction of […] barriers by acting as coalition-building resources among agents who attempt to resolve the crisis' (Blyth 2002, 37). Ideas are the casual mechanisms of change in a critical juncture (Golob 2003). Thus, ideational change stands between a crisis and policy change.

Hogan and Doyle's (2007; 2008) framework contends that new ideas are introduced by three groups of *change agents*. Combinations of these agents constitute a policy network (Hall 1993). The most important are what Dahl (1961) termed 'political entrepreneurs'. Political entrepreneurs 'exploit moments of instability' and 'invest resources in the creation of a new policy, a new agency, or new forms of collective action' (Sheingate 2003, 188-190). In a crisis, a political leader, usually an opposition leader, will seek new ideas to rectify the ills of an existing policy paradigm. The second group are Kingdon's (1995, 179-183) 'policy entrepreneurs'. These are agents who spread ideas to replace the current paradigm. They may be civil servants, technocrats, academics, economists and interest groups. The final group of change agents consists of outside influences: the media, the OECD, IMF and the World Bank. They critique an existing economic paradigm, advocating a new one. Both policy entrepreneurs and outside influences are responsible for producing ideas, but, political entrepreneurs introduce ideas into the policy process.

According to Legro's (2000, 419) two-stage model of ideational change, if agents agree the existing paradigm is deficient and should be replaced, the first stage –ideational collapse– has occurred. These are the observables for ideational collapse:

Ideational Collapse

01. The media questions the efficacy of the current model.

02. Opposition political parties critique the current model and propose alternative ideas –at election time their platform will be built around these alternatives.

03. Civil society organizations, e.g. labour unions, employer organizations, consumer groups etc. critique the current model.

04. Widespread public dissatisfaction with the current paradigm, observable through opinion polls, protests etc.

05. External/international organizations critique the current model and/or actively disseminate alternative ideas.

Change agents in the form of policy entrepreneurs, and outside influences, propose a solutions. However, 'even when ideational collapse occurs, failure to reach consensus on a replacement could still produce continuity, as society reflexively re-embraces the old orthodoxy' (Legro 2000, 424). The crucial issue is reaching consensus on a new set of ideas. If consensus is achieved it marks the second stage of Legro's model –consolidation– agents coordinating a replacement set of ideas. This can be seen in political entrepreneurs consolidating innovations by combining a mixture of interests to produce a winning coalition (Sheingate 2003, 192-193). Oliver and Pemberton (2004) identified this process as "policy learning". Below are the observables for new ideational consolidation.

New Ideational Consolidation

06. Clear alternative ideas, developed by policy entrepreneurs, are evident.

07. A clear change agent (political entrepreneur) injecting new ideas into the policy arena is evident.

08. The Political Entrepreneur combines a mixture of interests to produce consensus around a replacement paradigm.

Policies are protected by underlying ideas. The greater the consensus encompassing an idea the more protected the policies derived from it. Protected policies represent continuity, whereby once a policy has become institutionally embedded, 'policy-making becomes possible only in terms of these ideas' (Blyth 2001, 4). Referring to policies as protected is similar to Golob's notion of 'policy frontiers' (2003, 363).

The Ideas Underlying Mexican Macroeconomic Policy

Populist-redistributive models were implemented by PRI presidents between 1934 and 1976 (Sandersen 1983, 319). When Portillo came to office he was forced to contemplate reduced expenditure due to the oil crisis (Woodhead 1980). However, the discovery of oil changed everything, with Portillo adopting a patronage model embracing industrialisation and expansive state expenditure (Bailey 1980). This produced high growth, however, the economy remained vulnerable.

> Rather than pay the political price that sweeping redistributive policies-especially tax reform-would have entailed, the Portillo administration (1976-1982) sought to expand the entire economic pie and increase the role of the state in the economy, as banker, entrepreneur, and employer (Cornelius 1985, 88).

Despite oil revenues, the economy became fuelled on borrowing and declining real wages.[38] However, once oil prices fell, and interest rates spiked, Mexico faced the prospect of debt default. The ideas underlying extant economic policy underwent a rethink. By mid March 1982, President Portillo's administration introduced an economic stabilization plan.[39]

During the 1982 presidential election all contenders focused on the crisis. Miguel De La Madrid, a fiscal conservative, was the PRI's

38) *The Times*, 10 September, 1982.
39) *Time Magazine*, 29 March, 1982.

presidential candidate.[40] He was 'among the leaders of the conservative faction based in the treasury' (Nelson 1990, 98). Shifts in a more conservative direction within the PRI led to De La Madrid's selection (Villegas 1981). Mexican society was in turmoil, and free market supporters wanted a president who would support the rights of private property (Luna et al. 1987). The choice of De La Madrid constituted a rupture with the PRI's revolutionary ideology (Cárdenas 2008).[41]

During the campaign, De La Madrid stressed the differences between his proposed government and that of Portillo. "Crises come about because the government tries to consolidate all interests at the same time [...]" declared De La Madrid.[42] His proposed government would mobilise resources to change the economy's direction.[43] 'In the post-1982 environment, policy options and instruments appeared limited [for Mexico], which as a debtor was subject to the conditionality imposed by the International Monetary Fund (IMF)' (Golob 2003, 375).

In his inauguration address De La Madrid declared that a new economic approach was needed.[44] Sources of external finance dried up in the aftermath of the crisis, while oil revenues remained stagnant (Hernández 2008). Locked into a harsh IMF bailout, negotiated by the outgoing administration, De La Madrid presented a programme for policy change.[45] To maintain economic, political, and social order, a break with the past was required. Acting as a political entrepreneur, De La Madrid selected his ministers from the conservative wing of the PRI (Nelson 1990, 98). He wanted to take policy to the right, stabilizing and opening the economy (Lustig 1992, 28). The new administration

40) ibid., 5 October, 1981.
41) Cuauhtémoc Cárdenas. Mexican politician, active in Mexican politics in the 1980s and important political representative of Mexico's opposition parties (Partido de la Revolución Democrática [PRD]).
42) *Latin America Regional Reports*, 4 June, 1982, pp. 1-2.
43) ibid.
44) First Annual Presidential Report of President Miguel De La Madrid, 1September, 1983.
45) *La Devaluación*, 11 September, 1982, No. 306.

prioritized integration into the world economy by attracting FDI; and focusing on high tech industries.

The Ideas Underlying Brazilian Macroeconomic Policy

The state played an important role in Brazil's development (Goldstein 1999, 675). After the first oil crisis the Geisel administration implemented an expansionary growth strategy (Pinheiro and Giambiagi 1999, 7). However, the rising nation debt burdened the economy, and as interest rates rose servicing this debt became problematic (Baer 2001). GDP growth stagnated to 1.2 percent per annum during the 1980s (Berg et al. 2006, 46). After a half century of import-substitution industrialisation the economy was opened in 1990 under President Collor (Berg et al. 2006, 49).

The 2002 election saw widespread discontent with the market model due to the *Real Crisis* and persistent indigence (Samuels 2006). Luiz Inácio Lula de Silva and the *Partido dos Trabalhadores* (PT) initially contested the election attacking the market-friendly policies of Cardoso. The PT's program for government, *Concepção e Diretrizes do Programa de Governo do PT para o Brasil* emphasized state intervention and poverty reduction.[46] Public opinion echoed these sentiments.[47]

Following market jitters concerning statist policies, Lula announced he would not reverse capitalist reforms, but would seek to make them fairer.[48] Market fears were exacerbated by the meltdown of the Argentine economy, and worries that Brazil might also default.[49] Investor anxiousness sent the value of the Real tumbling again.[50] In

46) *Concepção e Diretrizes do Programa de Governo do PT para o Brasil,* Partido dos Trabalhadores(2002), São Paulo.
47) Latinobarómetro(2003), *Informe Resumen: La Democracia y la Economía* -available at http://www.latinobarometro.org/fileadmin/documentos/prensa/Espanol/2003.pdf
48) *Time Magazine*, 19 August, 2002.
49) ibid.
50) ibid., 2 December, 2002.

response, the PT released a toned down *Programa de Governo do PT*.[51] Just before the election, to assuage investors confidence, Lula released *Carta ao Povo Brasileiro* (Letter to the People of Brazil). It stated that he was not going to implement the leftist ideology of the PT if elected (Flynn 2005, 1246). It suggested he would seek to ensure economic stability, and did not criticize free market policies.[52] Lula was cognisant of his impact upon the market, and 'that economic autarchy [was] not an option for an export-driven economic powerhouse'.[53] He recognised that a program that might result in default would make it difficult for him to implement his social policies.[54]

Ideational contestation occurred, but Lula failed to present an alternative to an open economy. Recognising economic realities, he moderated his rhetoric, and moved to the right.[55] Closing the economy, and renationalizing firms, would scare investor (Weyland 2004, 144). Throughout the campaign Lula sought to 'reassure foreign investors and financial markets that he [was] not a reckless Marxist firebrand'.[56] His only sop to the past was to call for an end to outright privatisations (unremarkable, as little was left to sell). Lula came to recognise the need for growth within the context of the extant economic regime, in order to achieve his social agenda.[57] No alternative idea to the open economy was consolidated.

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51) *Programa de Governo do PT*, A Herança Social, Partido dos Trabalhadores(2002), São Paulo, parágrafos 21 & 22.
52) *Carta ao Povo Brasileiro,* Partido dos Trabalhadores(2002), São Paulo.
53) *Time Magazine*, 4 October, 2002.
54) ibid.
55) *The Washington Times*, 24 November, 2002, p. 2.
56) *The New York Times*, 30 October, 2002, p. 26.
57) *The Washington Post*, 6 November, 2002, p. 1.

〈Table 2〉 The Identification of Ideational Change

The Observable Implications	Mexico 1981-1983	Brazil 1999-2003
Ideational Collapse		
01. Media questioning efficacy of current model.	X	
02. Opposition parties critique current model and propose alternative ideas - at elections their platform are built around these alternative ideas.	X	X
03. Civil society organisations critique the current model.	X	X
04. Widespread public dissatisfaction with current paradigm, observable through opinion polls, protests etc.	X	X
05. External or international organisations critique current model or, actively disseminate alternative economic ideas.	X	
New Ideational Consolidation	**Y**	**Y**
06. Clear alternative ideas are evident	X	
07. A clear change agent (political entrepreneur) to inject these new ideas into policy arena is evident	X	
08. Political Entrepreneur combines a mixture of interests to produce consensus around a replacement paradigm	X	
Adoption of New Idea	**Y**	**N**

In relation to Mexico, see from (Table 2) that all observable implications concerning extant ideational collapse, and new consolidation, were satisfied. Vast expenditure, based on the belief that oil revenues could support rapid industrialisation, led the country to the brink of bankruptcy. This resulted in widespread criticism of the economic policy of import substitution, and as a result the ideas underpinning it collapsed. De La Madrid, acting as a political entrepreneur, championed a new set of ideas on opening the economy.

For Brazil, we see from (Table 2) that three of the observable implications concerning ideational collapse were satisfied, while no observable for new ideational consolidation was. Although the free market model was challenged in Brazil, no viable alternative was presented. Lula's opposition to economic openness mellowed as he came to recognise that turning his back on international finance/markets would make it impossible to achieve his social policies.

Thus, although both countries experienced economic crises, only in Mexico did the ideas on how to manage the economy change. There, changes agents, led by a political entrepreneur in De La Madrid, consolidated around a replacement set of idea. In Brazil, a political entrepreneur, willing to take policy in a new direction, was absent.

Next we examine both countries for changes in economic policy. Based on the results so far, Hogan and Doyle's (2007; 2008) framework leads us to anticipate finding radical economic policy change in Mexico, due to ideational change, but not in Brazil, due to the absence of ideational change.

IV.3. Identification of Policy Change

McNamara (1998) argues that new ideas change the wider policy environment. The level of policy change depends upon the preceding variables, but is also central to determining if there was a critical juncture. Based on Hogan and Doyle's (2007; 2008) framework we hypothesise that once there is political entrepreneur led consolidation around a new set of ideas policy change should follow. The observable implications are based upon Hall's (1993) concepts of first, second, and third order change. Hall (1993, 291) argued that exogenous shocks, and policy failures, discredit the old paradigm, leading to a re-examination of the belief systems through which that policy was created –a paradigmatic, or third order, change. The observables set out below enable us identify, and differentiate, normal and fundamental shifts in policy. They also incorporate the notion of swift and enduring change (Hogan 2005).

01. If economic policy instrument settings changed (swiftly and for longer than one government's term of office) there may have been a radical change in government economic policy.
02. If the instruments of economic policy changed (swiftly and for longer than one government's term of office) there may have been a radical change in government economic policy.
03. If the hierarchy of goals behind economic policy changed (swiftly and for longer than one government's term of office) there may have been a radical change in government economic policy.

Mexican Economic Policy

The first policy response to the crisis, from Portillo's administration, sought to keep domestic interest rates competitive (Looney 1985, 112), while incentivising exports. For decades free trade was 'the policy option that dare not speak its name' (Golob 2003, 370). In his inaugural address in December 1982[58] De La Madrid outlined an austerity program –Programa Inmediato de Reordenación Económica (Lustig 1998, 29). He sent a draconian budget to Congress,[59] while the budgets of 1982-1984 represented sustained austerity (Cornelius 1985, 117).

The ideas underlying state-led development, based on import substitution industrialisation collapsed. The government 'embraced an approach toward liberalisation, privatisation and deregulation' (Pastor and Wise 1997, 421). These policies had a significant impact upon Mexico's economic, and social, development (Cornelius 1985, 84). The new approach to the economy focused on using international forces as promoters of liberalisation (Middlebrook 2004). However, a major concern was Mexico's inability to compete in foreign markets, and its inadequate level of saving.[60] De La Madrid's administration signalled its desire for new FDI by relaxing restrictive FDI laws (Cornelius 1985,

58) ibid.
59) ibid.
60) *Latin America Regional Reports*, 4 June, 1982, pp. 1-2.

115), permitting Mexican businesses form international partnerships (Tournaud 2008).

De La Madrid pegged the peso at a more "realistic" exchange rate, and introduced plans to restructure the bureaucracy. He implemented conventional monetary and fiscal austerity, more extensive trade liberalisation, and a less confrontational approach to the IMF (Nelson 1990, 63). 'Acceptance of the IMF embrace [was] a major break-through' (ISG 1982, 1720), as it permitted Mexico avoid a debt moratorium (Looney 1985, 121). The initial adjustment package sought to ameliorate external debt through a reduction of government spending and devaluation. This enabled Mexico reach its IMF targets for reducing the public sector deficit, unfortunately it had a severe recessionary impact (Pastor and Wise 1997, 421).

De La Madrid recognised that his administration could not rely on oil exports.[61] The solution to financing development was sought through privatising public enterprises, of which 1,155 were sold off (Hernández 2008). De La Madrid sought to combine macroeconomic stabilisation and structural change, with a focus on export orientated manufacturing (Cornelius 1985, 110). This was part of the objective of integrating Mexico into the world economy.

The relationship between the private sector and the state transformed (Middlebrook 2004). The neoliberal reforms made the private sector a key player in reviving the economy (Beristain 2008; Tournaud 2008). Business organisations became engaged in debates over economic policy, where previously the private sector had been kept at a distance (Golob 2003, 371).

De La Madrid's approach focused on development with a social objective, but based upon economic reality.[62] Reform changed the country's social ideology (Hernández 2008; Rubio 2008). Thus, Mexican economic history can be divided into before, and after, 1982

61) *The Third World Magazine*, December, 1983, p. 72.
62) *Latin America Regional Reports*, 4 June, 1982, pp. 1-2.

(Cárdenas 2008; Serra-Puche 2008). Mexico started down a different path under De La Madrid. In the wake of economic crisis, and change in the ideas underlying economic policy, Mexico experienced a third-order macroeconomic policy change. The market replaced regulation, private ownership replaced public ownership, and competition replaced protectionism (Pastor and Wise 1997, 421).

Brazilian Economic Policy

Prior to his inauguration investors were concerned that Lula would be unable to manage the 9th largest economy in the world, and that his policies would be dominated by PT ideology (Flynn 2005, 1245). They also feared a debt default, as in Argentina. When Lula assumed office in January 2003 his appointment of Antonio Palocci, who had privatised utilities during the 1990s, as finance minister, and Henrique Meirelles, a free market economist, as head of the Central Bank, signalled his economic intentions.[63] His economic staff was made up of those who had abandoned the populist ideas of the PT (de Castro and de Carvalho 2003, 484). Palocci assured investors that the new government would pursue fiscal restraint, low inflation and an open market.[64]

This assuaged fears of a lurch to the left (Edwards 2007, 74). The PT government, abandoning radicalism, maintained the free market, and budgetary stability, of its predecessors. It kept a grip on the money supply and implemented severe spending cuts.[65] By not taking the economy in a new direction, but working within established frameworks, financial markets gained confidence (Edwards 2007, 73).

Instead of revising Brazilian macroeconomic policy the PT reversed its own position, as signalled in the *Carta ao Povo Brasileiro*. Some saw this adoption of the economic program of the outgoing Cardoso administration as betrayal of the ideals upon which the PT was founded

63) *Time Magazine*, 2 March, 2003.
64) *O Estado de São Paulo*, 18 December, 2002, p. 18.
65) *New York Times*, 10 April, 2003, p. 10.

(Bourne 2008, 153). Radicalism was replaced with an orthodox approach to economic management. Nevertheless, improved the exchange rate, and reduced the risks associated with Brazilian government bonds. The economy responded, growing by 5 percent in 2004, up from 0.5 percent in 2003 (Flynn 2005, 1223), and it began to run a current account surplus.

The president established a number of high profile posts on social policy, to help the poor (de Castro and de Carvalho 2003, 484). Lula, through *medidas provisória* (provisional decree) 144/03, ensured the state electricity company, *Eltrobras,* and its subsidiaries *Eletronorte, Chesf, Furnas* and *Eletrosul* would be exempt from the *Programa Nacional de Desestatização* (The National Program of Destatisation: PND), created under Collor.[66] However, José Dirceu, PT Chief of Staff, assured the markets that the government would not re-nationalise companies.[67] Nevertheless, there was surprise in November 2003, when the privatization of state banks, which Lula had opposed while waiting to assume office, proceeded.[68] To encourage foreign investment, Lula unveiled plans for public-private partnerships. Private firms could invest in state enterprises, which largely conformed with President Collor's PND.

By the end of Lula's first term, it was clear his economic policies were a continuation of his predecessor's. Acceptance of a disciplined approach to the economy gained him the support of previously wary investors.[69] The instrument settings of economic policy may have changed, but the instruments and hierarchy of goals underling economic policy remain the same. What changed was 'the PT's programmatic trajectory: the support for the financial economic sector, previously so harshly criticized' (Bianchi and Braga 2005, 1761).

66) *Latin America News Digest*, 30 January, 2004.
67) *World Markets Analysis*, 16 June, 2003.
68) *Gazeta Mercantil*, 10 November, 2003.
69) *The Washington Post*, 6 November, 2002, p. 1.

〈Table 3〉 The Identification of Change in Government Economic Policy

The Observable Implications	Mexico 1981-1983	Brazil 1999-2003
01. If industrial policy instrument settings changed there may have been a radical change in economic policy	X	X
02. If the instruments of industrial policy changed there may have been radical change in economic policy	X	
03. If the hierarchy of goals behind industrial policy changed there may have been a radical change in economic policy	X	
Critical Juncture in Macroeconomic Policy	**Y**	**N**

In Mexico we identified an economic crisis and ideational change. According to the framework, ideational change is the differentiating factor between crises that lead to paradigmatic policy changes, and those that do not. At the end of the previous section our indentifying ideational change in Mexico led us to anticipate a third order change in Mexican macroeconomic policy, which we identified in (Table 3). According to Hogan and Doyle’s (2007; 2008) three stage framework, the economic crisis, ideational change, and radical change in privatisation policy constituted a critical juncture.

Although there was an economic crisis in Brazil, there was no ideational change. The absence of ideational change led us to anticipate the absence of radical policy change. This was confirmed in (Table 3). The inability of Lula to champion an alternative set of economic idea resulted in only a first-order change in economic policy. There was no critical juncture in Brazilian macroeconomic policy.

V. Conclusion

We examined two economic upheavals, Mexico (1981-1983) and Brazil (1999-2003), to determine if there were critical junctures in their economic policies. To answer this question we employed Hogan and Doyle's (2007; 2008) three stage framework for identifying critical junctures. Our findings were a critical juncture in Mexican economic policy, but relatively minor change in Brazilian economic policy.

According to the framework the economic malaise in Mexico (1981-1983) constituted an economic crisis. The ideational foundations of extant economic policy collapsed in 1982, in the midst of this crisis. Import substitution and the restrictions imposed upon FDI were perceived as failing. In this context, De La Madrid assumed the role of political entrepreneur, fostering an alternative set of ideas on economic management. Change agents, led by the political entrepreneur, consolidated around the idea of opening the economy to free trade - a reversal of previous policy. De La Madrid altered the setting, instruments, and hierarchy of goals behind Mexican economic policy - third order policy change. Thus, there was a crisis, ideational change, and radical change in economic policy, what the framework rates a critical juncture.

The framework also identified an economic crisis in the Brazilian economy (1999-2003). Although ideational collapse occurred, Lula, the likely candidate to fulfil the role of political entrepreneur, declined the opportunity to champion change agents' alternative ideas on managing the economy. Consequently, a coherent policy alternative was not injected into the policy making environment. Instead, Lula, and his party, performed a u-turn, accepting the market friendly ideas of the outgoing Cardoso administration, which they had previously criticised. In the absence of ideational change there was only a first order change in Brazilian economic policy.

Hogan and Doyle's framework provided valuable insights into the policy change processes in both countries. As the framework possesses a level of rigor the results it produced are comparable, though the cases examined are from different countries in different decades. By situating the cases in a comparative context, the framework permits us to see how changes in economic policy arise. The significance of employing this framework is that make the identification of what is, and what is not, a critical junctures more straightforward. The early 1980s witnessed a dramatic shift in Mexican economic policy, this in the wake of economic crisis, collapse of the ideas underlying protectionism, and consolidation of a new set of economic ideas under political entrepreneur De La Madrid. In Brazil, 20 years later, the absence of a political entrepreneur, despite an economic crisis, ensured that an alternative set of economic ideas was not consolidated, leaving the foundations of extant policy intact. The economic policy changes, instituted by De La Madrid, served as a cornerstone for Mexican economic policy going forward.

Appendix

<Appendix A> Mexico's Economic Indicators, 1977-1983

Year	Unemply (%)	Inflation (%)	Government Debt to GNI ratio	Growth Rates in Real GDP	Gross Capital Formation % of GDP
1977	8.8	29	39.18	3.38	22.84
1978	6.9	17.45	35.86	8.96	23.6
1979	5.7	18.17	32.79	9.69	25.95
1980	4.2	26.36	30.53	9.22	25.73
1981	**4.2**	**27.93**	**32.59**	**8.77**	**25.94**
1982	**6.8**	**58.92**	**53.3**	**-0.63**	**21.56**
1983	**6.9**	**101.7**	**66.53**	**-4.2**	**19.77**

Source: Data Gob. [WWW document]. http://www.iadb.org/DataGob/index.html Mitchell, R. B.(2007), *International Historical Statistics: The Americas 1750-2005*. 6th ed., Macmillan: Basingstoke; Fleck, S. and C. Sorrentino(1994), "Employment and Unemployment in Mexico's Labour force," *Monthly Labour Review*, November (3).

<Appendix B> Brazil's Economic Indicators, 1997-2003

Year	Unemply (%)	Inflation (%)	Government Debt to GNI ratio	Growth Rates in Real GDP	Gross Capital Formation % of GDP
1997	7.8	6.9	25.0	3.3	21.5
1998	9.0	3.2	31.4	0.1	21.1
1999	**9.6**	**4.8**	**47.3**	**0.8**	**20.4**
2000	**12**	**7**	**41.7**	**4**	**21.5**
2001	**9.4**	**6.84**	**47.2**	**1.31**	**21.2**
2002	**10.8**	**8.45**	**52.6**	**1.93**	**19.9**
2003	**9.7**	**14.7**	**48.4**	**0.5**	**17.3**

Source: Data Gob. [WWW document]. http://www.iadb.org/DataGob/index.html Mitchell, R. B.(2007), *International Historical Statistics: The Americas 1750-2005*, 6th ed., Macmillan: Basingstoke.

Abstract

This paper utilises a new critical juncture framework to help us determine whether changes to Mexican macroeconomic policy in the early 1980s, and Brazilian macroeconomic policy at the turn of the century, were clean breaks with the past, or continuations of previously established policy pathways. The framework consists of three elements, which must be identified in sequence in order to declare, with some certainty, if an event was a critical juncture. These are crisis, ideational change, and radical policy change.

Key Words: Mexico, Brazil, Economic, Critical, Juncture / 멕시코, 브라질, 경제, 결정적인, 전환기

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