

**THE RISE OF THE LEFT IN
LATIN AMERICA:
AN ALTERNATIVE TO NEOLIBERAL GLOBALIZATION?**

by

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This is to certify that I have examined this copy of a master's thesis by

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STATEMENT OF AUTHORSHIP

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ABSTRACT

The emergence of resistance movements in different parts of the world against the neoliberal globalization shows that there is a room for alternative even if the dominant discourse tries to impose TINA (There is No Alternative) rhetoric. In analyzing the ever-expanding nature of neoliberal globalization and the increasing level of resistance, especially in Latin America, this thesis draws upon the concepts of two master theorists: Antonio Gramsci's concept of counter-hegemony and Karl Polanyi's notion of counter-movement. Depending on this theoretical background, the recent wave of left resurgence in Latin America and to what extent leftist governments offer alternative policies to neoliberal globalization are analyzed. In order to better understand the process of rise and demise of neoliberalism and the subsequent rise of leftist governments, Venezuela is examined as a case study. Turkish neoliberal experience is also elaborated on in order to provide a comparative perspective.

Keywords:

Resistance, neoliberal globalization, left, alternative, Latin America, Venezuela, Hugo Chávez, Turkey

ÖZET

Dünyanın farklı yerlerinde neoliberal küreselleşmeye karşı gelişen direniş hareketleri, neoliberalizmin alternatifin bulunmadığını söyleyen baskın söylemin aksine alternatiflerin var olabileceğini göstermektedir. Bu tezde neoliberal küreselleşme ve neoliberal küreselleşmeye yönelik direniş hareketleri incelenirken Antonio Gramsci'nin karşı-hegemonya ve Karl Polanyi'nin karşı-hareket kavramının yer aldığı teorik çerçeveden faydalanılmıştır. Bu teorik çerçeveden hareketle Latin Amerika'da son yıllarda yükselişe geçen sol partilerin neoliberal küreselleşmeye ne ölçüde alternatif oluşturabildikleri incelenmiştir. Neoliberalizmin güçlenmesi, ardından neoliberal deneyimlerin getirdiği olumsuzluklar neticesinde sol partilerin yükselişe geçmesi Venezuela örnek olayı ele alınarak incelenmiştir. Tezin son kısmında yer alan Türkiye'deki neoliberal deneyime ilişkin bölüm ise karşılaştırmalı bir bakış açısı sağlamayı amaçlamaktadır.

Anahtar Sözcükler:

Direniş, neoliberal küreselleşme, sol, alternatif, Latin Amerika, Venezuela, Hugo Chávez, Türkiye

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CHAPTER 1

INTRODUCTION

The left seems to be on the rise in Latin America in the last decade. Leftist parties took over in many Latin American countries like Venezuela, Brazil, Argentina, Uruguay, Bolivia, Ecuador, Chile and Paraguay. Although there are substantial differences between different leftist parties and the Latin American region is far away from constituting a coherent bloc of leftist governments, it would not be wrong to argue that the left is displaying an uptrend in Latin America. It is interesting to observe such a leftward turn in Latin America which was once governed by right-wing dictatorships.

The rise of the left in Latin America has received a warm welcome from the critics of neoliberal globalization since it was often perceived as an alternative or at least as a response to neoliberal globalization. However, many leftist governments fell short of meeting the expectations in the sense that they adopted moderate positions and could not present a coherent alternative pathway to neoliberal globalization. A common criticism directed against the leftist governments, in general, is that when in power, they follow a strategy of bending and molding existing political institutions and the free-market economic model rather than implementing radical political and economic reforms. The extent to which leftist governments offer alternative policies to neoliberal globalization is the main issue that I will elaborate in this thesis.

Neoliberalism is used mostly in its economic meaning throughout the thesis. One of the most important characteristic of neoliberalism is the key role assigned to the market; neoliberal policies like deregulation, liberalization and privatization aim at eliminating all interventions into the functioning of the self-regulating market including state intervention. Although economic in essence, neoliberalism also has a powerful ideological component without which neoliberalism would not be seen as the only possible (hegemonic) economic model all over the world. Neoliberal policies were first applied in Chile by General Pinochet in the 1970s; however Reagan administration in the US and Thatcher administration in the UK have been instrumental in generalizing neoliberal orthodoxy and exporting neoliberal policies to the rest of the world in which Keynesian macroeconomic policies fell short of responding to the recession and the crises of the 1970s.

Neoliberal globalization and neoliberalism have been used mostly interchangeably throughout the thesis since the most recent globalization trend which began in the 1980s followed, to a large extent, a neoliberal trajectory. Neoliberal globalization implies the world-scale application of neoliberal policies. Indeed, a large number of countries seemed to agree on neoliberal principles during the 1990s; a convergence which is usually labeled as Washington Consensus. Although some countries and individuals benefited from neoliberal policies, neoliberal restructuring caused inequality, poverty and environmental degradation in other places. As Polanyi (2001: 76) predicted “To allow the market mechanism to be sole director of the fate of human beings and their natural environment... would result in the demolition of society”.

As the devastating impacts of the neoliberal globalization have become apparent, different alternatives were formulated by the opponents. Alternatives to

neoliberal globalization can be grouped under two broad general headings; reformist and radical responses. Radicals totally oppose the neoliberal globalization process, they advocate de-linking from the system. Reformists do not oppose the neoliberal globalization process per se; however they advocate incorporating social dimension to ameliorate the devastating impacts of neoliberal policies.

In Latin America, both radical and reformist responses have been discernible. Venezuela appears to be offering the most radical alternative policies to neoliberal globalization. Therefore I will analyze Venezuela as a case study in order to better understand the dynamics of the leftist alternative to neoliberal globalization. I will position my research question in the theoretical framework of “resistance” and try to assess whether the rise of the left in Latin America can be analyzed as a resistance to neoliberal globalization.

The next chapter analyzes the concept of resistance with the help of theoretical tools provided by Karl Polanyi and Antonio Gramsci. In the third chapter, the rise and decline of neoliberalism in Latin America is discussed with special emphasis on resistance. Then in the fourth chapter, reasons and dynamics of the recent leftward turn in Latin America are analyzed and the extent to which leftist governments are offering an alternative to neoliberal globalization is discussed. Chapter 5 takes Venezuela as a case study and tries to give an account of development of neoliberalism and resistance displayed in Venezuela. Chapter 6 makes a comparison between Turkey and Latin America with the aim of comprehending the process of neoliberal globalization better.

CHAPTER 2

RESISTANCE AGAINST NEOLIBERAL GLOBALIZATION

2.1 Introduction

In analyzing the ever-expanding nature of neoliberal globalization and the increasing levels of resistance directed against it, this chapter will draw upon the concepts of two master theorists of resistance: Karl Polanyi's notion of counter-movement and Antonio Gramsci's concept of counter-hegemony.

Polanyi and Gramsci provide us with useful theoretical tools to comprehend and analyze the "resistance". Both Polanyi and Gramsci focus on the society as the basis of resistance. Polanyi focuses on the contradictory relations between market and society. He criticizes the ever-expanding nature of market and argues that self-regulating market will threaten different segments of society and will lead to resistance on the part of society. Gramsci, on the other hand, focuses on the contradictory tension between state and society. However, in a similar way to Polanyi, society occupies an important space in Gramsci's analysis. According to Gramsci society is the realm of struggle against the state. Therefore, both authors, in different ways see the society as the terrain of contestation against either market or state. Burawoy (2003: 210, 214) argues that Polanyi and Gramsci have a similar conception that perceive the society as the place of both the "containment and

transcendence of capitalism”. Societal responses create new possibilities for challenging neoliberal globalization.

The analysis of Polanyi and Gramsci in this chapter will be confined to their ideas about resistance. First, their ideas about resistance will be discussed and then they will be associated with the Latin American case.

2.2 Polanyi and the Concept of Counter-movement

Polanyi’s concept of “double movement”, which he elaborates in his seminal work, *The Great Transformation*, can be a useful analytical tool in analyzing contemporary neoliberal globalization and the resistance directed against it. Although Polanyi analyzes the 19th century self-regulating market system, it is possible to draw parallels between the 19th century capitalism and the neoliberal globalization of today. If economic liberalism was the organizing principle of society at the time of Polanyi, neoliberalism holds that dominant role today (Munck, 2004a: 252).

Writing back in 1944, Polanyi gives an historical account of the origins and development of 19th century capitalism and argues that self-regulating market is unsustainable. Polanyi explains the expansion of market relations and the ensuing reactions of society to protect itself from the consequences of the very operation of the self-regulating market in the form of double movement. According to Polanyi, expansion of market relations into every sphere of social life constitutes the first movement; whereas reactions of society to protect itself from the detrimental effects of the expanding market constitute the second movement which is called “counter-movement”.

The self-regulating market creates a separate sphere of economy apart from society. All economic systems in Western Europe until the end of feudalism were organized around the principles of reciprocity, redistribution or householding which were institutionalized by motives other than gain. In market societies barter or exchange became the ruling principle, excluding other principles which have governed societies for ages (Polanyi, 2001: 57, 59). This transformation led to the separation of economics from society. In order to ensure the functioning of market economy labor, land and money became commodities which Polanyi calls “fictitious commodities”. As Polanyi (2001: 75) argues:

Labor, land, and money are obviously not commodities...
Labor is only another name for a human activity which goes with life itself... land is only another name for nature, which is not produced by man; actually money, finally, is merely a token of purchasing power.

The project of creating a self-regulating market necessitated this commodification of labor, land and money. However, this fiction created unrest in society in that the fully implementation of self-regulating market would destroy the society and the environment. According to Polanyi, the economy is normally embedded in social relations. Prior to the 19th century, he insists, the human economy was always embedded in society. But, the rise of market economy required the disembedding of the economy from society. By the term “embeddedness” he implies that the economy is not autonomous but instead be subordinated to society and nature (Adaman et.al., 2003: 359).

According to Polanyi the goal of a fully self-regulating market economy that is disembedded is a utopian project; it is something that cannot exist. Polanyi (2001: 3) argues, at the very beginning of his book:

Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness.

In fact, it is possible to draw parallels between the 19th century great transformation which Polanyi focuses on and the neoliberal globalization of the present era in which we also witness disembedding of economy from the society which might and does lead to destructions in the society and the environment surrounding it. However, as the detrimental effects of self-adjusting markets become apparent, people resist for protecting society and nature from destruction created by the market.

Moreover, Polanyi argues that there is nothing natural about the liberal economic order of the 19th century. Market economy is not the result of inevitable or natural economic forces, instead as he (Polanyi, 2001: 147) puts it:

There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course...laissez-faire itself was enforced by the state.

According to Block (2001: 9-10, 20), even though economy is supposed to be self-regulating, the state has to intervene in order to ensure the functioning of the market. Without state intervention, the functioning of the self-regulating market would not be possible. Polanyi (2001: 265) also opposes the idea that the involvement of the state creates oppression by arguing that:

The passing of market-economy can become the beginning of an era of unprecedented freedom. Judicial and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not only for the few, but for all.

According to Polanyi (2001: 156) self-regulating market is unsustainable and it will inevitably lead to spontaneous protective reaction of society since the society cannot tolerate the instabilities and upheavals that a self regulating market creates. While the 19th century market economy was the result of planned actions, the counter-movement that emerged to protect society from the adverse effects of this market economy was unplanned:

The countermove against economic liberalism and laissez-faire possessed all the unmistakable characteristics of a spontaneous reaction. At innumerable disconnected points it set in without any traceable links between the interests directly affected or any ideological conformity between them.

I argue that we can utilize the Polanyian framework in analyzing the contemporary neoliberal globalization which replaced the 19th century self-regulating market. From the Polanyian perspective, neoliberal globalization would not be seen as an inevitable and natural process as its most ardent supporters argue. Indeed, neoliberal globalization is a result of deliberately made choices on behalf of policy makers and governments. Secondly, in the light of the writings of the Polanyi, neoliberal globalization would be seen unsustainable and consequently spontaneous counter-movements that aim at protecting the society from the adverse effects of neoliberal globalization would emerge.

However, the employment of Polanyian framework in order to analyze contemporary neoliberal globalization would require some modifications. A fundamental difference between the 19th century market economy and the contemporary neoliberal globalization is the changing nature of resistance. For Polanyi the society that is protecting itself in the 19th and first half of the 20th century is largely a national society. Yet, the reactions of society to the ever

expanding neoliberal globalization no longer take place at the nation state level. As Mittelman (2000:170) argues the level of analysis would have to be extended from the national to the transnational and/ or global in analyzing the contemporary counter-movements. For the shape that the counter-movements take at present is no longer the same as Polanyi's account of 19th century counter-movements. In the contemporary era of neoliberal globalization, the demands of the society are no longer confined to the level of nation state. Problems like international financial instability, environmental destruction, human trafficking etc. require solutions at the transnational or global level. This is not to claim that the nation state is totally ripped off capabilities and powers to solve these kinds of problems, instead it indicates the changing nature of disruptive and destabilizing effects of the market and the need to find solutions above the nation state level.

However, what is still relevant for contemporary era in Polanyi's analysis of counter-movements is that it does not contain class essentialism. Unlike Marx, Polanyi does not restrict the counter-movement only to the working class. For Polanyi (2001: 159) "class interests offer only a limited explanation of long-run movements in society. The fate of classes is more frequently determined by the needs of society than the fate of society is determined by the needs of classes". In Polanyi's analysis even capitalists from time to time resist the uncertainties that self-regulating market creates and demand protection. Therefore all sections of society, from working class to capitalists, participate in the counter-movement to defend their interests against the disruptive effects of the self-regulating market system.

Polanyi's arguments are relevant for the contemporary neoliberal globalization. Like the proponents of the 19th century self-regulating market,

today's advocates of neoliberal globalization maintain that if all the individuals and firms were allowed to pursue their economic self-interests and there is minimum state intervention into the economic realm, everyone would eventually be better off. Therefore every nation should open up their economies to free movement of goods and capital if they want to reap the benefits of neoliberal globalization. However, Polanyi's analysis shows us that the functioning of the self-adjusting market requires active state intervention. Likewise, global economy needs strong regulatory institutions without which there would be economic crises affecting particular economies and perhaps the entire global economy (Block, 2001: 18).

According to Polanyi, society cannot tolerate economic crises with widespread detrimental effects on them and they will eventually mobilize. Even though the gist of the counter-movement stays the same, the constituent elements of it have been modified in the present context. In the past, agents of resistance were primarily trade union workers; especially in the Marxists analysis working class emerges as the primary agent of revolution. At present, agents of resistance are not restricted only to workers. The counter-movement today consists of many actors ranging from environmentalists to labor unions, from feminists to indigenous people with local demands whose common interest is to protect themselves against the detrimental effects of the neoliberal globalization.

Polanyi was far-sighted in anticipating that counter-movement is not composed of only working class, instead represents the general interest of humanity, and thereby encompasses different segments of society. However, his analysis is restricted to the nation state level and he does not explain how the double movement might operate; counter-movement is somewhat portrayed as an automatic process which comes up when the market economy expands and creates

disruptive effects. In the words of Polanyi (2001: 162) because “different cross sections of the population were threatened by the market, persons belonging to various economic strata unconsciously joined forces to meet the danger”. Therefore counter-movement emerges as a spontaneous self-protective measure of society against the ever-expanding market. Yet, there is no explanation as to how this counter-movement operates in practice (Munck, 2004a: 253, 256). This seems like an important shortcoming in Polanyi’s analysis. Gramsci complements Polanyi in this respect by offering ways of challenging the “hegemony”.

2.3 Gramsci and the Concept of Counter-hegemony

Gramsci’s analysis of hegemony and counter-hegemony sheds light to the present era in the sense that the concepts of hegemony and counter-hegemony help to understand the dynamics behind the contemporary neoliberal globalization and resistance directed against it.

According to Gramsci, hegemony means the ideological predominance of bourgeois values and norms over the subordinate classes. Dominant classes propagate ideas that reinforce their control over politics and economy through their privileged access to social institutions such as mass media. These ideas propagated by the dominant classes form a dominant ideology which legitimates the existing order. Through ideology, ruling classes try to universalize their own interests as the interests of all by presenting them as common sense conceptions; the existing order is made look natural, normal or inevitable and thereby beyond challenge (Deak, 2005: 47).

Hegemony is different from domination in the sense that there is an important element of consent rooted in hegemony; the construction of hegemony depends on maintaining substantial consent. The basis of hegemony is rooted in concrete reforms which benefit at least some sections of the society. If an ideology/ regime became hegemonic it cannot be reduced to just coercion, for that ideology/ regime to take root it should appeal to large segments of society by addressing some of their needs (Sassoon, 2001: 8, 11). Hegemony is characterized by the combination of force and consent, without force predominating excessively over consent (Gramsci, 2001: 248).

Gramsci conceptualizes hegemony as the “spontaneously and freely accepted ethical values” of a dominant class. As such he emphasizes the importance of ideological factors for ruling groups in maintaining power. Therefore, any counter-hegemonic movement should aim at challenging the hegemony at the ideational level by presenting an alternative intellectual, cultural and moral agenda, thereby transforming common sense conceptions (Butko, 2006: 79). Since the establishment of hegemony requires the consent and participation of subaltern groups, there is always the possibility that these groups resist against the hegemony in the cases when coercion replaces consent. Different forms of resistance to hegemony are labeled as counter-hegemony in the Gramscian framework. A counter-hegemonic movement will only be successful through “war of position”.

As opposed to war of movement, war of position is not a direct physical confrontation against the state. Instead, it is nonviolent resistance which aims at transforming common sense conceptions of reality which were imposed by the hegemon. As a result of the process of establishing hegemony, common sense

ideas, morality and customs of the hegemon are widely recognized and accepted among people. Large segments of society accept the reality of the hegemon as absolute truths that cannot or should not be questioned. According to Gramsci these common sense conceptions can only be changed through an intellectual, cultural and moral confrontation; not through a direct physical assault (Butko, 2006: 81).

In the light of the Gramsci's writings, we can argue that neoliberal globalization achieved to establish a hegemonic position all around the world. Hegemony is a structure of values and understandings which are relatively stable and unquestioned. They appear to most actors as the natural order (Gill, 1993: 42). Contemporary neoliberal globalization managed to establish hegemony to the extent that people accept neoliberalism as the natural order of life and believe that they cannot change the existing order.

In line with Gramsci's analysis, there is not only coercion but also consent rooted in the hegemonic position of neoliberal ideology in the contemporary era. Neoliberal policies are applied in different corners of the globe with the expectation that the benefits of neoliberal globalization will trickle down to lower segments of society. However hegemony is not confined to economic realm; hegemony is also a claim to intellectual and moral leadership over the totality of social existence (Öncü, 2003: 307). Ideological aspects of the hegemony help to establish legitimate authority by consent. People are convinced of virtues of neoliberal globalization through the mechanisms of intellectual and cultural domination (Vanden, 2007: 18).

However the legitimacy of neoliberal globalization began to erode as the socially and economically destructive impacts have become more and more evident. Rupert (2003: 196) argues that "coercion was never absent from neoliberal

capitalism, of course, but to the greatest extent possible the exercise of power underlying this system was hidden or disguised”. As the consent has been eroded, resistance against neoliberal globalization arises in different parts of the world, even though it is too early to label it as counter-hegemony. Rupert (2000: 68) argues that as the “contradictions of liberal capitalism” become more apparent these conflicts should intensify. As Gramsci argues (2001: 556):

If the ruling class has lost its consensus, i.e. is no longer “leading” but only “dominant”, exercising coercive force alone, this means precisely that the great masses have become detached from their traditional ideologies, and no longer believe what they used to believe previously, etc. The crisis consists precisely in the fact that the old is dying and the new cannot be born.

I argue that we are passing through exactly such a phase in the sense that neoliberal ideology, to a large extent, lost its legitimacy. There is a remarkable attempt to reform neoliberal policies which can be labeled as Post-Washington Consensus. Although representing a more progressive approach to development, it falls short of overcoming the limitations of neoliberalism (Öniş and Şenses, 2005: 286). Therefore we are experiencing a process that Gramsci describes as “the old is dying and the new cannot be born”.

Whereas Polanyi was unclear about the institutional makeup of counter-movement, Gramsci filled it out with political parties, print media, mass education and all sorts of associations. That is to say, for Polanyi the emergence of a counter-movement was more or less an automatic process and he does not provide any detailed account about the agents of this counter-movement. Gramsci complements Polanyi’s analysis at this point by pointing the civil society as the battleground of revolutionary struggle (Butko, 2006: 89). Counter-hegemony can only be achieved in the terrain of civil society with a long term war of position through which the

dominant paradigms of the hegemony are challenged and changed. However, Gramsci's view of civil society and hegemony is a dialectical one in the sense that according to him civil society is both hegemonic and counter-hegemonic (Katz, 2006: 345). Munck (2004b: 19-20) argues that:

A contextual and historically grounded rereading of Gramsci would show that he conceived of civil society as simultaneously the arena in which capitalist hegemony was exercised and the terrain on which the subaltern classes in modern societies could forge alliances and contest that hegemony.

Classical Marxists viewed the economy as the structure; whereas political, civil, cultural institutions and beliefs as the superstructure. Many Marxists attribute primacy to the economic structure over superstructure in that the economy was perceived as the foundation that determined people's behavior and thinking in the political, ideological and cultural spheres. Gramsci rejects the dichotomy of superstructure and structure and, as opposed to many Marxists, incorporates superstructure into his analysis. While recognizing the economy as the nucleus of hegemony, he argues that hegemony is also constructed in relation to political, moral, intellectual, cultural and ideological questions (Hall, 1987: 20-21). Gramsci was more dialectical rather than deterministic and recognized the importance of culture and ideology by advocating that structure and superstructure influence each other.

Birchfield (1999: 45) argues that it is the "market ideology" which ensures the viability of the neoliberal economic globalization. Without that ideology the structural requirements of increased capital mobility, wage depression, flexible labor, etc. could not be justified and permitted. Under neoliberalism, the ideas of "freedom, individuality and rationality" ensure the sustainability of the exploitative

aspects of capitalism. It is when these ideas no longer appeal to masses that they will be alienated to neoliberal economic system (Butko, 2006: 95).

Another point that Gramsci departs from classical Marxists is that he does not restrict the construction of successful counter-hegemonic movement only to a specific class; namely working class. Instead he advocated incorporating peasantry, petty bourgeoisie with the working class into the counter-hegemonic bloc in order to displace the bourgeoisie (Cox, 1999: 9).

The importance of class alliance in building a counter-hegemonic bloc is still relevant for the contemporary era of neoliberal globalization. Today the working class can no longer be perceived as the main agent of counter-hegemonic bloc. The position of the working class has fundamentally changed as a result of the complex social, economic, political and cultural processes in the era of neoliberal globalization. Also the power and influence of working class organizations have been eroded during this process. The working class is no longer the only class which is disadvantaged by the neoliberal globalization. Therefore, the building of class alliances keeps its relevance and importance today. Butko (2006: 80) argues that “shared perceptions of marginalization, alienation, and subordination” bring people together from diverse economic backgrounds in their effort to resist neoliberal globalization.

In fact, Gramsci’s main focus is on the ideological level and on the need to transform the common sense. In this light, a counter-hegemonic bloc against the neoliberal globalization must focus on ideological sphere and aim at transforming the common sense ideas presented by the neoliberal bloc through formulating an alternative world view and ideological system. A counter-hegemonic bloc would include diverse groups ranging from feminists to environmentalists, from peace

movements to anarchists who are disadvantaged by the neoliberal globalization by different degrees. Thus the biggest challenge arises in bringing together these very diverge groups together in a long term war of position (Cox, 1999: 26).

The most feasible strategy in constructing alternatives to neoliberal globalization seems like building broad social blocs in a Gramscian war of position. Direct assault on the state apparatus in order to challenge the dominance of capitalism has become obsolete in the contemporary era of neoliberal globalization. What is more, resistance is no longer confined only to working class. Instead, it incorporates different segments of society, each disadvantaged by a different aspect of neoliberal globalization. As Gramsci (2001: 349) argues,

An historical act can only be performed by “collective man” and this presupposes the attainment of a “cultural-social unity” through which a multiplicity of dispersed wills, with heterogeneous aims, are welded together with a single aim, on the basis of an equal and common conception of the world.

As can be seen in the above quotation Gramsci does not restrict the belonging to a unity to an economic or social class but emphasizes that who share the same world view can constitute a group. According to Gill (2000: 140) the new forms of collective action does not act necessarily in the form of traditional, institutionalized and centralized structures of political parties; instead they are plural and differentiated and include many different voices.

Contemporary neoliberal globalization achieved ideological hegemony eliminating the imagination of any alternative, let alone the realization. There is No Alternative (TINA) rhetoric promoted by international institutions, multinational companies and various governments all over the world created an environment where people believed that they could not change the existing economic order.

However recent rise of the left in Latin America once again revitalizes the hopes about constructing “another world”.

Whether the left in Latin America is successful in terms of building an alternative is not within the scope of this chapter, however the ideological impact it creates cannot be denied. Actually this is an important development which creates a new motivation that propels people to become agents of change not only in Latin America but also in the rest of the world.

CHAPTER 3

RISE AND DECLINE OF NEOLIBERALISM IN LATIN AMERICA

3.1 Introduction

Before the 1930s, Latin American economies depended on the export of raw materials to the industrialized world in return of which they used to buy manufactured goods. The economic model in Latin America up until the 1930s was export-oriented in which the main source of revenue was the export of primary products. This period was followed by state-led import substitution which intensified and became widespread especially after the Second World War. However beginning with the 1980s, import substitution model was abandoned and neoliberal policies were adopted by one country after another.

In this chapter the historical trajectory of neoliberalism in Latin America will be provided in order to better understand the process leading to the rise of the leftist governments in the region.

3.2 The Concept of Neoliberalism

Neoliberalism can be defined as a political-economic philosophy that entails the promotion of free trade, privatization, deregulation, and minimum state

intervention. Neoliberals define themselves as “liberal” because of their commitment to individual freedom, and “neo” because of their adherence to free market principles of neoclassical economics (Harvey, 2005: 20).

Neoliberalism is usually associated with the liberal tradition that may be traced back to Adam Smith. Liberalism in the economic field mainly argues that state intervention into the economy tends to create inefficiencies and market provides a more efficient mechanism for allocating resources compared to state. According to Clarke (2005: 50) the fundamental assumptions of contemporary neoliberalism have remained essentially the same since the time of Adam Smith. Smith’s attack on the mercantilist state, on the grounds that it derived its revenues from trade restrictions, laid the foundations of neoliberalism. Today, one of the most important tenets of neoliberalism continues to be its attack on state intervention into the economy.

Although neoliberalism is usually associated with the classical economics tradition favoring market liberalization over protectionist mercantilism; neoliberalism means a lot more than just free trade today. As argued by Schwarzmantel (2005: 85), neoliberalism constitutes an ideology since it extends beyond the economic sphere and encompasses all aspects of social and individual life.

Neoliberal globalization holds a hegemonic position in contemporary era to the extent that it leaves no room for the alternatives. The rhetoric of TINA voiced by very different segments of society (opponents and proponents alike) indicates that even the imagination of alternatives is restricted under the hegemony of neoliberal globalization. As Gramsci argues, consent rather than coercion characterizes the hegemony; the consent is created within the subordinate by

presenting the hegemonic common sense as natural and irreversible. According to Harvey (2005: 41), we must look at the everyday practices in order to better identify the material grounding of consent and he argues that neoliberalism penetrated common sense understandings to the extent that neoliberalism is seen as a necessary, even natural way for the social order.

Neoliberal ideas indeed constitute a strong ideology in that they extend beyond the economic sphere, and cover the whole structure of society, as noted by Giroux (200: 52):

Neoliberalism is not simply an economic policy designed to cut government spending, pursue free-trade policies, and free market forces from government regulations; it is also a political philosophy and ideology that affects every dimension of social life.

The depiction of neoliberal globalization as an inevitable and necessarily benevolent process reinforces and facilitates the convergence on the principles of neoliberalism. However, taking into consideration the unfavorable political and social ramifications of neoliberal globalization, and the increasing disturbances on the part of society, we can argue that neoliberal globalization cannot be left without an alternative.

3.3 Import Substitution Industrialization in Latin America

Before the 1930s, Latin American economies depended on the export of raw materials to the industrialized world in return of which they used to buy manufactured goods. The main source of revenue was the export of primary products. However, this did not prove to be sustainable since raw materials being exported could easily be replaced by synthetics or the demand for them could

diminish over time. As such, the reliance on export of one type of raw material left many countries of Latin America vulnerable and dependent on the developments in foreign markets. With the impact of Great Depression this outward oriented, export-based economic model fell apart. In fact, not only in Latin America but also in other parts of the world, the Great Depression had the same impact of creating closed economies protected by high tariff barriers (Potter, 2007: 7).

Following the dissolution of free trade system of the pre-1930s period, the import substitution industrialization (ISI) emerged as the dominant model in the post-war period and inward orientation and state-supported industrialization became key tenets of the economic system. It was argued that all developed countries had industrialized behind high protective tariffs and that it was only after a country had developed a more mature industrial structure that it could become involved in free trade (Prebisch, 1950).

The justification for state involvement into the economy was easily obtained from the international community since Keynesian policies were the order of the day. Soviet industrialization and state-led high economic growth of the European countries justified the application of this kind of state-led, import substitution policies in Latin America. Moreover, Latin American political economy theories of structuralism and dependency further rationalized the process. These theories, mainly developed by ECLAC (Economic Commission for Latin America and the Caribbean) during the 1950s and 1960s under the leadership of Raul Prebisch, contextualized the problems of Latin American countries in terms of asymmetrical relationship in the world economy. Accordingly, the best strategy for the region was prescribed as the industrialization within the framework of a strong state (Gwynne, 1999: 72).

In the context of the import substitution model, state protected the infant industries against foreign competition by increasing tariffs and other trade barriers and provided the infrastructure needed by the new industries. However, the role of state was not restricted to create a favorable environment for the functioning of the economy; the state itself became an important economic actor.

Beginning with the 1970s, the inward-oriented development model in Latin America started to encounter problems just like many countries implementing ISI policies. Some of the problems emerged during the ISI period included creating dependency, inefficient production, labor aristocracy, huge government budget deficits, and high levels of inflation (Frieden, 1991: 48).

In the pre-1930 period Latin American economies were dependent on the importation of final products. In the ISI period, this time capital and intermediate goods needed for production of final goods had to be imported, thereby creating a new type of dependency. What is more, highly protective measures led many domestic firms to produce inefficiently and at high prices. The policies protecting and supporting national industry tended to strengthen labor and capital at the expense of agriculture and the unemployed. Since the government provided protection and subsidization to national industry, it was cheaper for the manufacturers to use capital-intensive technologies than labor-intensive ones. As the Latin American industry became more and more capital intensive, it increasingly fell short of providing employment to the unemployed people. It also created a sort of divide between formal and informal sectors, especially between organized labor and informal labor in terms of salary and security, thereby leading to the emergence of a kind of labor aristocracy. Furthermore, big amount of subsidies provided for the domestic infant industries and welfare expenditure

created an unsustainable burden on the government budget, eventually leading to huge budget deficits. When governments covered these deficits by printing money, inflation started to rise at an increasing rate (Frieden, 1991: 49-51).

3.4 Rise of Neoliberalism in Latin America

The debt crisis of the early 1980s signaled the worldwide shift towards neoliberalism. A new economic model; based on trade liberalization, privatization, financial reforms and labor reforms was adopted following the debt crisis (Munck, 2003: 53). The policies adopted which eventually became known as the “Washington Consensus” (Williamson, 1990) were the result of the need for a new development strategy. This new development model depended on the primacy of individualism, market liberalism, outward-orientation, state contraction and advocated trade liberalization, privatization, decreased public spending and lifting exchange rate controls (Öniş and Şenses, 2005: 263, 264).

The debt crisis was a crucial factor in instigating the widespread application of neoliberal policies in Latin America. It had the effect of legitimizing neoliberal policies in the eyes of the public. In many countries neoliberal recipes were accepted with the expectation that the devastating impacts of the debt crisis would be lessened.

Although the debt crisis was instrumental in generalizing the neoliberal project in Latin America, two Latin American countries had already adopted neoliberal policies even before the debt crisis. In Chile and Argentina, neoliberal policies were put into effect in 1973 and 1976 respectively, following military interventions. In both countries, military interventions were instrumental in putting

an end to the inward-oriented development model and replacing it with the outward-oriented development model. Harnecker (2007: 13) argues that it was possible to create necessary conditions for the capitalist restructuring only through military interventions which repressed popular classes and their social and political representatives. However it is interesting to observe that although neoliberal policies were initially introduced by authoritarian or military regimes in Latin America, later on they were maintained by the following elected civilian governments (Harris, 2003: 368).

Chile's adoption of neoliberal policies under the leadership of General Pinochet was the first experiment with neoliberal state formation according to Harvey (2005:7). The democratically elected government of Salvador Allende was overthrown following the military intervention led by Pinochet in 1973. Immediately afterwards, all social movements and political organizations were suppressed. The economic model being pursued was also shifted from import substitution industrialization to neoliberalism under the guidance of Chilean economists trained at the University of Chicago, known as "Chicago Boys".

In Argentina neoliberal experiment was initiated on March 24, 1976 by the military administration. Military violence was instrumental in suppressing the organized labor and the left in the neoliberal restructuring process the critical elements of which were financial deregulation, opening up of trade and privatization of state sector (Munck, 2001: 71).

Later on, the economic model applied in Chile and Argentina has spread to other countries. Although the application of neoliberal policies began in Chile, they became more established and institutionalized through the influence of international financial institutions during the 1980s. The Keynesian welfare state

system was dissolved to a large extent and state intervention into the economy was replaced with free market mechanisms. Labor markets were made more flexible thereby discarding the full-employment ideal of the Keynesian era. Although different countries have followed different paths in adopting neoliberal policies, by the end of the 1980s neoliberal economic model had become remarkably hegemonic, to the extent that previous welfare and development state models were labeled as archaic (Munck, 2005: 63).

Gwynne and Kay (2000: 142-143) argue that there are at least two geographical scales relevant to the dominance of neoliberal globalization in Latin America. The first one of these is the global level. Latin American countries could not remain outside the influence of international institutions propagating the application of neoliberal policies all over the world. Moreover, economic success of certain East Asian countries which adopted neoliberal policies led to the justification of export oriented strategies for Latin American countries. Secondly at the regional level, neoliberal policies were initially presented as the way out of the debt crisis of 1980s. By the 1980s the import substitution model had been abandoned to a large extent. During the late 1980s and 1990s neoliberal policies became well-established. As such, what Green (1995) terms “silent revolution” which entailed the extension of market forces and corresponding retreat of the state was realized all over the region.

However it is important to emphasize at this point that although there are some generalizations made about Latin America here, it should be noted that it is not a monolithic region, rather it encompasses different countries with different characteristics. The end of inward-oriented economic model came at various times in different countries and each country has its sui generis neoliberal model. There

are considerable variations in the practice of neoliberalism in different countries. Chile was the first country which was converted to neoliberalism and its commitment to neoliberal principles continues till today. Argentina and Peru, for example were late converts although they advanced market reforms successfully. In Venezuela the conversion was quite late; in the 1990s and Venezuela instituted the neoliberal program only partially (Weyland, 2000: 5). That is to say, different countries adopted neoliberal policies at different time periods and at varying intensity. However what is common after the experience of neoliberal policies is the disappointment as the so-called neoliberal economic reform programs have failed to deliver a better life for the majority of Latin American people (Panizza, 2005: 720).

3.5 Explaining the Transition

There are various explanations that try to explain the transition from import-substitution to export-oriented policies. According to Fitzgerald and Thorp (2005: 5) there are broadly two groups of view on this issue. The first group links this policy transition to the ideological coherence and economic soundness of the neoliberal policies. On the other hand, the second group argues that this transition was enabled by the influence of international financial institutions. However, this kind of explanation reflects only a part of reality according to them. The reality is much more complex; what determines the direction of the economic policy is the interaction between external and internal actors.

The policy shift from import-substitution to export-oriented development according to Frieden (1991: 247) was caused by several interactive elements. He

cites the reduction of external resources as the first element. The debt crisis drastically reduced the external resources available to Latin American countries. Therefore, Latin American countries like many other developing countries had to liberalize their economies to find external resources. Another factor instigating policy change was sectoral demands in the domestic market. Policy makers respond to the demands of powerful sectoral groups in the domestic economy. In the ISI period, the powerful sectoral groups were large scale industrialists, government employees, organized labor and firms that were dependent on subsidies. However with the onset of the debt crisis, real currency depreciation and domestic stagnation led many Latin American producers to search for external markets. This, in turn, increased the power of exporting sectors relative to the protectionist sectors.

The role of ideas and the hegemonic influence of the US and US-dominated international financial institutions have also been crucial in transition to neoliberal policies. The idea that neoliberal policies will bring prosperity to the developing countries was disseminated through international financial institutions. They propagated the benefits of liberalized financial flows and trade to both developed and developing countries, thereby increasing the influence of neoliberal policies in those countries.

However, if there were no domestic supporters of these policies, the transition to export-oriented economic policy would not have happened. That is to say, neither the hegemonic US-dominated financial institutions nor international capital can be held solely responsible for the shift in economic policies. Gourevitch (2005: 44) argues that ideas and international influences are very powerful; however to take effect they need power within the country. Although international

factors are crucial, it is ultimately the domestic decision makers who enable a policy shift in the final analysis. Öniş and Şenses (2007: 252) argue that “external dynamics need to be integrated with domestic factors” in order to explain major policy shifts because there are limits to external factors’ ability to “engineer policy transformation”.

Domestic policy makers are key in determining the direction of the economic policies. International organizations or the US cannot directly impose their demands. However, it must be emphasized that, hegemonic powers are very influential in disseminating ideas to developing countries. They are not directly influencing the policy shift maybe, but they are indirectly determining the direction of economic policies through dissemination of ideas.

Through ideational means the neoliberal order has been presented as the only possible economic and social order available after the collapse of the Keynesian welfare state. Gramsci’s analysis is instrumental in understanding the contemporary hegemonic position of neoliberalism all over the world. Contemporary neoliberal globalization achieved an ideological hegemony to the extent that imagination of any alternative was eliminated. TINA rhetoric promoted by international institutions, multinational companies and various governments on the ideational level created an environment where people believed that they could not change the existing order. Therefore we can argue that although domestic actors are the one who ultimately decide on a policy shift in one country, international actors very much influence the decisions taken by domestic actors through shaping key decision makers’ mindset and ideas.

3.6 Decline of Neoliberalism in Latin America

The transition to neoliberal policies in Latin America was quick and intense. For example, in terms of privatization, the region constituted 35 percent of all privatizations undertaken in the world by the beginning of the 1990s. What is more, almost all countries have signed bilateral and multilateral free trade agreements which can be interpreted as an indicator of their commitment to free trade and opening of commerce (Santiso, 2006: 64). North American Free Trade Agreement (NAFTA) which was signed between Mexico, Canada and the US is a good example in this respect.

During the 1990s the shortcomings of the neoliberal model have come to the fore in the form of increasing income inequality, social exclusion and less social protection all over the world. Öniş and Şenses (2005: 267) argue that during the era of neoliberal restructuring the overall growth rate has been lower and the degree of inequality in the global economy has been increased although the record on poverty is rather mixed.

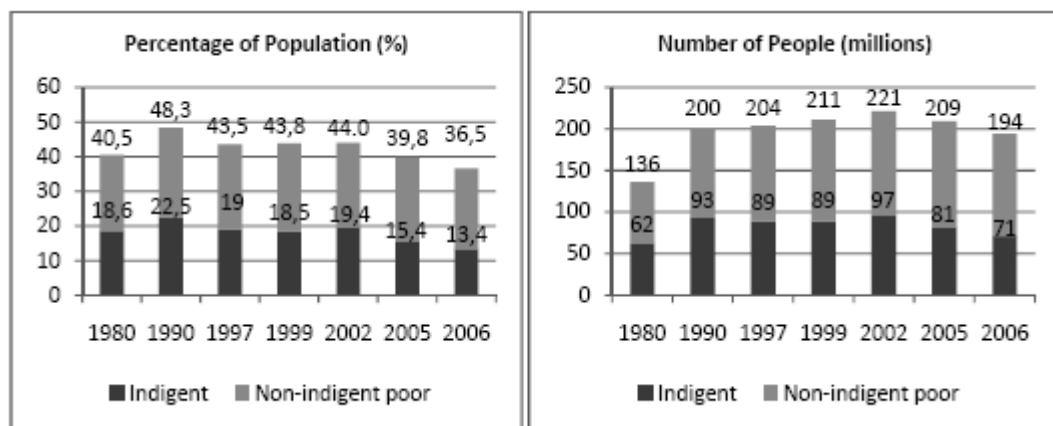
Latin America is a region in which neoliberal policies were applied harshly and intensely. After approximately twenty five years of neoliberal experiment, we can argue that neoliberal globalization could not deliver its promises. Although successful in eliminating the high inflation¹ which was a characteristic of the previous import substitution model, neoliberal model has its own limitations.

The most recent data shows that 36.5 percent of the region's population (195 million people) is still living in poverty and 13.4 percent of the population (71

¹ The inflation was very high during the 1980s, reaching nearly 600 percent in Brazil, 800 percent in Argentina, 1200 percent in Peru and more than 5000 percent in Nicaragua. As of 2000, these rates reached a level below 10 percent for the region as a whole (Santiso, 2006: 88).

million people) is extremely poor. Although poverty rate shows a downward trend, it is only close to the 1980 rate of 40.5 percent. As can be seen in Figure 1, it took twenty five years to reduce the poverty rates to 1980 level which was approximately the beginning of the neoliberal era (ECLAC, 2007: 9).

Figure 1: Poverty and Indigence in Latin America 1980-2006



Source: Social Panorama of Latin America 2007, ECLAC

In terms of income distribution, the region continues to be the most unequal in the world, although there have been improvements in several countries like Uruguay, Argentina and Venezuela (ECLAC, 2006: 14).

Balance of payment problems are still a source of concern as national economies are vulnerable to the shifts in international financial flows. As Saad-Filho (2005: 228) argues, under the neoliberal regime Latin America's foreign debt has increased sharply, while savings and investment have fallen. Fiscal deficits persist in spite of drastic reforms of taxation and expenditure.

Although most of the Latin Americans continue to favor the market system² dissatisfaction with the neoliberal policies is widespread. According to annual polls of Latinobarometro, since 1997, the number of people who believe that the economic situation is bad has increased in 14 of the 17 countries analyzed. Moreover, while earlier privatization was judged positively, a significant majority of Latin Americans now perceive privatization as not being beneficial. Only one-fourth of Latin Americans currently perceive privatizations as positive, whereas nearly half of Latin Americans supported these reforms in 1996 (Santiso, 2006: 89-93).

The financial crises played a major role in revealing the shortcomings of the neoliberal project. The Mexican crisis in 1994 was precipitated by the rush of speculative investors into the country. Mexico started neoliberal policies in the 1980s; foreign trade was liberalized in 1985 and an economic stabilization program was put into force at the end of 1987. As a result of these policies, economic growth was revitalized and inflation could be brought down to single-digit levels for the first time in more than two decades. This favorable macroeconomic environment and the absence of restrictions on capital inflows were instrumental in attracting large amounts of foreign capital to the country (Gil-Diaz, 1998: 303). With the rush of foreign capital, Mexican currency Peso appreciated which increased the current account deficit triggering a speculative attack on the Peso, resulting eventually in the collapse of the Mexican economy in 1994.

The East Asian crisis of 1997 followed similar trends as the Mexican crisis. Between 1994 and 1997, huge amounts of capital rushed into the region after the

² In Mexico, Brazil, Colombia, Peru and even in Venezuela 60-70 percent favor the market system, and this percentage exceeds 50 percent in each country.

countries in the region had liberalized their capital accounts. When these capital flows were suddenly reversed, financial panic led to the devaluation of the currencies and a financial crisis. The currency devaluations in Russia and Brazil in 1998 and 1999 respectively, unleashed a new wave of financial volatility in international markets. Financial crises appeared to spread from one country to another suggesting that the crises in different countries are related (Kawai et. al., 2001). These crises were followed by the crises in Argentina in 2001 and 2002; Turkey in 2000 and 2001 further strengthening the proposition that financial crises have a tendency to spread across countries; a concept which is often referred to as contagion.

Latin America is not only a region of intense application of neoliberal policies, but also a region of active and dynamic resistance directed against them. There has been a wide range of popular resistance to neoliberal policies like street demonstrations, road blockades, strikes, land occupations, and rural uprisings in Latin America. Indigenous mobilizations against water privatizations in Bolivia, the Zapatista movement in Mexico and Landless Rural Workers' Movement (MST) in Brazil are some of the examples of social movements challenging the hegemony of neoliberal policies in Latin America (Petras, 2002: 32). Moreover, a series of political events like the election of Hugo Chávez in Venezuela in 1998, the Argentine crisis and street protests in December 2001, followed by the election of Nestor Kirchner in 2003, the election of Tabaré Vasquez to the Uruguayan presidency in 2004, the election of Lucio Gutierrez in Ecuador in 2002 and the violent protests in Bolivia in 2003 that led to the resignation of President Gonzalo Sanchez de Lozada and the subsequent election of Evo Morales as the president in 2005 revealed general dissatisfaction with neoliberal economic model.

For Polanyi the double movement was inevitable because “markets were not natural; what was natural was people’s inclination to resist the subjugation of all aspects of their life chances to market mechanisms” (Margheritis and Pereira, 2007: 27). The widespread protest movements against neoliberal institutions like the IMF, the World Bank and the World Trade Organization show the growing discontent with the neoliberal policies³. As such, TINA rhetoric began to be questioned although it was viewed as a plausible and inevitable path up until the 1990s when the hegemony of neoliberalism was by and large undisputed.

As Gramsci argues, consent is a necessary component of establishing hegemony. Until the 1990s, the neoliberal model was legitimate in the eyes of developed and developing countries. However, as the social costs of neoliberalism became apparent especially in developing countries and as more and more people realized that neoliberalism could not deliver its economic promises and as the consent by the masses was no longer readily available, it lost the hegemonic position to a certain degree.

Even among the elite level there have been important signs of rising discontent in addition to the masses that have experienced the most devastating impacts of neoliberal globalization like unemployment, poverty and inequality. Joseph Stiglitz, Paul Krugman and George Soros are among those who advocate modifications in the current neoliberal scheme. They put forward critical reflections about the current state of financial structure and argue in favor of regulatory structures and global governance schemes in order to ensure equality (Pal, 2002).

³ These protest movements were highly influential at the beginning of 2000s although they seem to lose their impetus by now. For example Gill (2000: 137) argued that “the protests form part of a world-wide movement that can perhaps be understood in terms of new potentials and forms of global political agency”.

However, as Öniş and Aysan (2000: 121) argue, at the moment, inter-state cooperation and institutional infrastructure necessary for managing the global system seem to be weak. At the national level, there is not a body capable of regulating and managing the system either. As the nation-state has been weakened by the very process of neoliberal globalization, it falls short of meeting the expectations of effectively regulating the neoliberal globalization process.

Electoral success of the leftist parties and the formation of leftist governments in Latin America are interesting in the sense that they seem as a response and strong reaction against neoliberal globalization at the nation state level. They have come to power by offering an alternative and promising to change the direction of neoliberal policies. Popular movements have also contributed to the electoral success of the left in those countries with Chávez's and Lula's electoral successes in Venezuela and Brazil respectively constituting the most prominent cases.

Whether the leftist governments in Latin America are successful in terms of building an alternative to neoliberal globalization is a crucial discussion in the contemporary context. To the extent that the left can offer alternatives in Latin America, the hope that "another world is possible" would increase substantially throughout the world.

CHAPTER 4

THE RISE OF THE LEFT AS AN ALTERNATIVE

4.1 The Left in Latin America

The left in Latin America is traditionally characterized by its radical and militant leanings. The left has often sought to overthrow the capitalist state and change the capitalist production relations in society through revolutionary means and when necessary through force. However, it has been drastically transformed since the early 1970s. Many formerly leftist political parties and organizations moved toward the political center with the impact of key developments occurring at the global level such as the end of the Cold War, the collapse of the Soviet Union and the perceived triumph of neoliberal globalization. Revolutionary movements and insurgent groups have been forced to give up their armed struggles and in many cases absorbed into conventional political process under neoliberal regimes (Harris, 2002: 140). The contemporary left mostly remains within the political party system and no longer sees the violent overthrow of the capitalist state as a feasible option. Instead, the left (at least the mainstream left) is committed to democratic principles and tries to make reformist changes within the limits of neoliberal policies.

This transformation is due to international as well as national dynamics. In the international realm, the collapse of the Soviet Union has undermined the viability of socialism and the sustainability of the radical leftist parties. Moreover,

the widespread acceptance of neoliberal policies by countries in the region has weakened support for the statist model and social welfare programs which were closely associated with the left (Ellner, 1993: 5). The fact that organized labor which traditionally constituted the electoral base of the left has been challenged by the neoliberal policies has also contributed to the decrease in electoral chances of the leftist parties. Furthermore, the end of the Cold War and the emerging orthodoxy that can be summarized with the “end of the history” thesis (Fukuyama, 1992) announcing Western liberal democracy as the final form of human government have led to a belief that socialism and communism are no longer feasible alternatives. These developments made social democracy the only feasible alternative, thereby excluding the more radical options of the left.

Probably the most important factor that led to the transformation in the nature of the left has been the democratic openings in Latin America beginning with the 1980s. During this period, leftist intellectuals and politicians changed their discourse and perspective from Marxism to a new understanding. Ernesto Laclau, a prominent Argentine intellectual, for example argued in favor of center-left coalitions within fragmented multi-party systems rather than pursuing orthodox leftist goals. Working class was no longer seen as essential; class analysis was replaced by an emphasis on political pluralism, political organizations and interest groups (Chilcote, 1993: 177). Electoral politics has led to pragmatism and moderation on the part of the leftist parties. Most of them accepted neoliberal policies as part of the reality in Latin America and aimed at modifying the existing system rather than challenging it.

Although transformed and seemed to favor reform over revolution, the left has maintained some of its major characteristics like commitment to social justice

and income equality. Castaneda (1994: 18) defines the left in Latin America as compromising parties, groups, movements, or political leaders who “stress change over continuity; democracy and human rights over domestic security, and sovereignty over economic integration (free trade, foreign investment, etc.)”. In economic and social matters, the left tends to “stress social justice over macroeconomic orthodoxy, income distribution over well-functioning markets, reducing inequalities over competitiveness, social spending over controlling inflation”.

Actually it is interesting to observe such a leftward turn in Latin America which was once famous for its authoritarian, right-wing governments. Ellner (1993: 17) writing in 1993 predicted that:

That the problems of dire poverty and extreme inequality in Latin America have been intensified by the economic crisis of the 1980s and early 1990s suggests that the Left may recover from its ideological disorientation by reasserting an anticapitalist critique and defending a revised vision of socialism.

The predictions of Ellner have been proved to be true as the political landscape seems to be turning towards the left and the heterodox economic policies increasingly gain support from various governments and policy makers. What were the factors that have caused such a sweeping change in Latin America? What makes Latin America different from the other regions of the world? In this chapter, I will try to analyze the dynamics lying behind the leftist turn in Latin America and try to assess to what extent the left constitutes an alternative to neoliberal globalization.

4.2 Leftward Turn in Latin America

The left seems to make a comeback in the Latin American region. Although the region is not a homogenous bloc in terms of the nature of the leftist governments, there is an overall trend of leftist drift. Over the last decade Venezuela, Brazil, Argentina, Uruguay, Bolivia, Ecuador, Chile and Paraguay were taken over by leftist governments. Although there are substantial distinctions between different leftist governments in terms of economic and social policy, the left resurgence seems like a region-wide phenomenon. The leftward drift in Latin America has also an ideological importance since it undermines the belief that there is no alternative other than neoliberal globalization. The very existence of leftist governments poses an ideological challenge in the sense that people begin to question the so-called irreversible nature of the neoliberal globalization.

There are two points of view concerning the leftist turn in Latin America. One point of view emphasizes the diversity of the left in the region by bringing the differences between various leftist governments in the foreground, while the other perspective perceives the rise of the left as a region-wide phenomenon rather than isolated cases specific to individual countries.

On the one hand, Schamis (2006: 20-21) argues that although the leftist parties share a similar rhetoric in terms of defending a more egalitarian capitalism and a more inclusive political system, they are very different from each other. The political landscape is diverse although there seems to be a general trend of leftward drift in the region. Therefore a differentiation between the “various lefts” that have emerged in Latin America is needed in order to better analyze the recent

developments in the region. Castaneda (2006), in a similar way, argues that there are really two lefts in the region. One left has arisen out of the Communist International tradition, however reconstructed itself and become moderate over time. The other left has its roots in the populist tradition of Latin America and is much more radical and nationalist than the first one. According to Castaneda, the examples of the first type of reconstructed left can be found in Chile, Uruguay and, to a lesser extent, in Brazil. In Venezuela, Bolivia and to some extent in Argentina, the second type of populist left rules. This second type of left has rhetoric appealing to the poor and the marginalized sectors of the society and can be traced back to the nationalist and populist left of the past.

On the other hand, Cleary (2006: 36) argues that despite the differences among the leftists, these differences are often overemphasized. In all cases the left shares a concern with redistribution and social justice, and finds mass support among segments of the population that are severely disadvantaged under the current socioeconomic order.

I argue that it is not possible to talk about *a left* in Latin America, rather there are different *lefts* prevailing in the region. In Brazil the left seems to follow a more moderate strategy of modifying the existing economic and political systems rather than offering a totally different alternative. In Argentina the leftist government follows populist tradition in some respects. In Venezuela and Bolivia the left seems to be offering more radical solutions in challenging the existing neoliberal globalization. However, it would be wrong to label the emergence of leftist governments in the region as totally isolated events. Although the left displays different characteristics in each and every country, there seems to be a general trend of leftist turn in the region. All leftist governments agree that the

neoliberal policies created poverty and inequality in the region and all agree on the need for new and alternative development models.

Besides, categorization of the left into pragmatist and populist (Castaneda, 2006) leads to a classification of good vs. bad left. It implies that “good left” was able to transform itself over the years now it is pragmatic in committing itself to neoliberal principles and democratic values. On the other hand, the “bad left” could not transform itself and follows populist policies at any cost. Therefore, being good is associated with being adhered to neoliberal policies and democratic principles whereas the bad left is being labeled as populist. However, leftist governments do not follow unsustainable macroeconomic policies involving excessive spending and price controls as a populist government would do. Furthermore, all the so-called populist governments are committed to democratic principles as they come to power following free elections and act within the limits of their own constitution and laws.

The so-called reformed communist left usually follows orthodox economic policies, however with special emphasis on social policy. Solutions offered to ameliorate the social problem areas like poverty, health care, housing and education remain within an orthodox market framework. As such, they combine orthodox market economy with progressive social policies. Santiso (2006:5) depicts this kind of policy making as pragmatist and calls it “the silent emergence of the political economy of the possible”. According to him, the present situation of the left in Latin America can be characterized as “pragmatist” and as being committed to the “political economy of the possible”. As such, he considers the adoption of neoliberal policies in Latin America as pragmatist rather than ideological. However, this kind of analysis underestimates the ideological power of

neoliberalism. Although neoliberalism is usually portrayed as a pure economic policy, it also has a very powerful ideological component.

4.3 Reasons of the Leftward Turn

The reasons of the leftward turn in Latin America can be summarized under three headings. The first one is the disappointing results of neoliberal policies. The second one is the nature of mass political mobilization and the last one is the democratization that began in the 1980s.

In fact, unfavorable economic conditions in the region emerge as the most cited reason for the leftist turn (Cleary, 2006). The democratic reforms and the neoliberal economic reform programs being pursued since the 1980s could not deliver the desired results. Macroeconomic stability was realized with decreasing levels of inflation; however this macroeconomic stability did not bring about sustained economic growth or a substantial decline in poverty and inequality.

Moreno-Brid and Paunovic (2006) argue that the key reason behind the emergence of the leftist governments is the disappointing results of the economic reforms inspired by the Washington Consensus. Despite all commitments to applying neoliberal policies, Latin America is still unable to realize high and sustained growth. Besides, the region experienced acute economic crises, most important ones being the Mexican crisis in 1994 and the Argentine financial collapse in 2001.

However Latin America is not the only region in which the neoliberal policies fail to deliver their promises. In Africa and Asia inequality and poverty tend to persist in the countries which have implemented neoliberal policies.

However, it is in the Latin American region, the left has arisen as an alternative. Therefore, there should be another element that may explain the leftist turn in the region. Cleary (2006: 37) argues that the additional factor that explains the success of the left is the nature of mass political mobilization. The leftist governments obtained the support of mass mobilizations in their way to electoral success. The mass mobilization may be in the form of struggles for land reform, worker occupation of factories and other indigenous movements. Whatever form mass mobilization has taken, it has facilitated leftist victories in countries where there were unfavorable economic conditions, mostly arising from neoliberal policies. Stahler –Sholk et. al. (2007: 5) argue that it is these grassroots mobilizations that gave leftist parties an opening and are instrumental in holding them accountable to their base.

Mass mobilizations against neoliberal policies are widespread in Latin America. One of the well-known examples of popular uprising against neoliberal policies occurred in Venezuela in 1989. In the events known as “El Caracazo” masses protested the newly-elected President Andres Pérez on the grounds that he proceeded to implement a new neoliberal package as soon as he got in office, although he conducted an anti-neoliberal campaign before the elections. Popular demonstrations against privatization and trade liberalization have also been prevalent in the region. For example, in October 2003, in Bolivia there was a dramatic revolt against the free market policies applied by President Sanchez de Lozada. Protests by a coalition of labor unions and indigenous people were spurred by the government’s plan to privatize the national gas reserves which eventually led to the resignation of the president and led to the election of Evo Morales as president in 2005. Between 2004 and 2007, mass demonstrations and nationwide

protests erupted in Colombia, Ecuador and Peru against free-trade agreements (Almeida, 2007: 123).

Another element of leftist turn is the shift in the left's approach to electoral politics. In the past, the left avoided the electoral competition instead favoring more radical, anti-systemic options. However, in recent years the left has embraced the electoral politics as a way to realize its objectives. This is not to say that there is a total rupture between the popular movements and leftist governments. For example, in Brazil there is an organic link between the Workers' Party (PT) and the Landless Movement. The support of the Landless Movement was instrumental in the PT's electoral success and election of Lula as the president in 2002, although beginning in 2004 it displayed dissatisfaction with the Lula government (Vanden, 2007: 28).

Lastly, the democratization process that began in the 1980s made political struggles to shift from streets to formal institutional arenas and electoral politics (Almeida, 2007: 124). Marginalized sectors of society could voice their criticisms and demands through democratic elections; a process which resulted in election of leftist governments in many Latin American countries. Castaneda (2006) argues that the social, demographic and ethnic configuration of the region would eventually lead to leftist victories and democratic consolidation facilitated this process.

4.4 Economic Policies of the Leftist Governments

The left turn in Latin America is usually attributed to the dissatisfaction with the neoliberal policies applied in the 1980s and 1990s. These policies entailed

deregulation of the markets, liberalization of trade and finance, and privatization. Price stability, fiscal austerity and market-friendly policies were adopted by governments. As the leftist drift is attributed to the miseries that the neoliberal policies have created in the region, there emerges an expectation that the leftist government would challenge neoliberal policies and offer alternative economic policies.

However leftist governments, to a large extent, are constrained by the region-wide commitment to economic neoliberalism and by increased levels of international economic integration. These factors have constrained governments that are dependent on liberalized trade and international capital from pursuing policies that might threaten capital inflows. Neoliberal policies have often been institutionalized making change difficult even for leftists who are willing to accept the risks involved. In an interview with the BBC, the first indigenous president of Bolivia, Evo Morales has confessed that he feels himself like the “prisoner of neoliberal laws” (Mason, 2006).

According to Vernengo (2005), economic policies of the leftist governments are not very different from their predecessors’ neoliberal economic policies. The continuity of the previous economic policies is most evident in the area of fiscal policy. Leftist governments are careful about sustaining fiscal discipline as their neoliberal predecessors. Their adherence to fiscal discipline means that they follow the neoliberal logic. According to neoliberals, high fiscal deficits lead to inflation and capital flight by generating fears of default. Leftist governments, in line with neoliberal logic, are committed to maintain primary surplus even in times of recession. They do not follow progressive fiscal policies because they fear international community would punish them. However,

maintaining primary fiscal surplus leads to decrease in public investment and spending on social programs.

Leftist governments do not adopt any radical measures like capital control to protect the economy from the adverse international effects. Capital controls reduce the outflow and inflow of foreign capital thereby placing the national government in the control of monetary policy. It was applied temporarily in Argentina after the December 2000 crisis however none of the Latin American countries could institutionalize such a mechanism.

Even the so-called populist governments follow sound macroeconomic and fiscal policies. The Kirchner government in Argentina and the Lula government in Brazil follow to a large extent the same set of macroeconomic policies as their predecessors. They continue to keep substantial primary surpluses even though it may lead to reductions in the budget allocated for social spending. For example, the IMF agreement signed only a few weeks after Lula's election in 2002 included typical recessionary measures maintaining inflationary control and a budget surplus target of 3.75 percent of GDP (Petras and Veltmeyer, 2003: 12). In Venezuela Chávez's 1998 government program designated inflation as the country's central macroeconomic problem.

What makes leftist governments different from the preceding economic policies is most apparent in their greater independence from the International Financial Institutions (IFI). The leftist governments try to strengthen their autonomy vis-à-vis these institutions by reducing the amount of public external debt. The IMF had already lost its legitimacy to a large extent due to the financial crises. Argentine President Kirchner announced in December 2005 the decision to pay off the remaining debt to the IMF of \$ 9.8 billion ahead of schedule, and

declared that “the IMF has acted towards our country as a promoter and vehicle of policies that caused poverty and pain among the Argentine people” (Weisbrot, 2007). Argentina was not the only country paying off its debt to the IMF ahead of schedule. On December 13th 2005, President Lula announced that Brazil would not renew its IMF program and would instead pay the remaining debt of \$ 15.5 billion before the end of 2005. In March 2006, Bolivian President Morales declared that Bolivia had no intention of negotiating a new stand-by agreement with the IMF. In November 2006, the Uruguayan government announced that it would pay its entire debt of \$1.08 billion to the IMF. Venezuelan president Chávez announced in April 2007 that Venezuela would formally end its relations with the World Bank and the IMF; a move perceived as a symbolic move since Venezuela had already paid its debt to the World Bank five years ahead of schedule in 2007 and paid off all its debt to the IMF shortly after Chávez came to office in 1999 (CBS News, 2007).

The loss of influence on the part of the IMF has coincided with emergence of a new lender; Venezuela. When Argentina declared its decision to pay off its remaining debt to the IMF, Venezuela extended a loan of \$ 2.5 billion to Argentina. Chávez declared that “If additional help is needed to help Argentina finally free itself from the claws of the International Monetary Fund, Argentina can count on us”. Venezuela also loaned \$ 500 million to Ecuador and \$ 1.5 billion to Bolivia to help them ameliorate their economic problems (Weisbrot, 2006).

Chávez is also leading the formation of new organization called Bank of the South (Banco del Sur), a development bank funded and run by Latin American countries themselves. The initiative involves Argentina, Brazil, Bolivia, Ecuador, Paraguay, and Venezuela. Chávez argues that this bank will provide an alternative to the IMF and the World Bank in the region. However other countries tend to see

it as a development bank, rather than an alternative (The Economist, May 10th 2007). Whether it will constitute an alternative to the Washington-based lending institutions remains to be seen as it hasn't started its operations yet. However the existence of such an institution clearly demonstrates that the countries in the region would like to have an institution complementary to the IMF and the World Bank, if not an alternative.

In addition to greater independence from IFIs, another point of rupture from the past is the increasing levels of social spending. It is due to deliberate choice on the part of the leftist governments as well as favorable economic conditions. After an average regional growth rate of 1.4% from 1999 to 2003, the region's economies grew by 5.9 percent in 2004 and by around 4 percent in 2005. Favorable economic conditions have enabled leftist governments to increase social spending substantially without inflicting any damage to economic soundness as understood in the neoliberal paradigm. In particular, countries with considerable energy resources like Venezuela, Ecuador and Bolivia could raise the level of social spending substantially due to high global energy prices (Bremmer, 2006: 6).

4.5 The Left as an Alternative

According to Harnecker (2005a: 143) the left means:

the convergence of all the forces that stand up against the capitalist system with its profit logic, which fight for an alternative society based on humanism and solidarity and build upon the interests of the working classes, freeing them from material poverty and the spiritual misery which is bred by capitalism.

According to this definition, the left offers a solution to material poverty and spiritual misery which is caused by capitalism and fights for an alternative society based on solidarity and humanism. In fact, Harnecker's depiction of capitalism is very similar to Polanyi's definition of the nineteenth century self-regulating market economy. Polanyi argues that self-regulating market strips individuals off the social networks since the economy is not embedded in society. However, individuals sooner or later resist the all-encompassing nature of market in the form of what Polanyi names as counter-movement.

Displays of societal resistance have been occurring in Latin America. These can be observed in mass protests against privatizations and market reforms in a number of countries, anti-globalization protests, and the election of leftist governments which intend to change the neoliberal agenda of their predecessors. There is an anti-neoliberal sentiment growing in the region in response to the inequality and injustice that neoliberal policies created since the 1980s. The rise of the left is a reflection of this growing discontent arising from neoliberal policies.

However, electoral success of the leftist parties does not necessarily mean establishing an alternative to neoliberal globalization all the time. Some scholars like Castaneda (2006) argue that options of the left are limited, leftist parties cannot totally rupture with the existing neoliberal structure. They can only bend and mould existing neoliberal policies, rather than offering totally different alternatives. Therefore, they continue with the neoliberal policies when they get into power, even they favor anti-neoliberal policies while in opposition. The left cannot challenge the established hegemony of neoliberal globalization and is instead confined to move within the framework of market economy.

There seems to be two points of view on the issue of developing alternative. On the one hand, scholars like Castaneda (2006) and Panizza (2005) argue that there is little possibility that a wholesale alternative is feasible in the current context. There is little room for alternatives to liberal democracy and market economies. According to Panizza (2005: 718), only incremental changes are possible and policy alternatives should be credible both for citizens and the markets. This view sees the market economy as indispensable and alternatives can only be formed within that framework. Castaneda (2006), in a similar way, argues that the left alternative should be reformist rather than revolutionary and it should combine market economy with social justice. In this view, only gradual reforms within the limits of market economy and liberal democracy are possible. On the other hand, scholars like Gerardo Rénique (2005:1) argue that the region's ongoing social and political transformation threatens the hegemony of global capital and neoliberal ideology. As such, the leftist governments in Latin America offer an alternative pathway to neoliberalism.

Depending on the analysis of Ellner (2006), it is possible to divide the leftist strategy into two for analytical purposes. On the one hand, there is *defensive left* which advocates reformist policies and remains within the limits of market economy and liberal democracy. In the words of Ellner (2006: 398); in the defensive strategy, “the left retreats in the face of adverse conditions produced by globalization and assumes a defensive stand by emphasizing moderate demands”. It bends and molds exiting neoliberal policies, instead of trying to change them altogether. This kind of defensive left is primarily engaged with party politics, although they may acquire the support of social movements from time to time and

they believe the improvements can be done within the existing national frameworks through gaining state power.

Defensive left tries to achieve social justice and nationalist objectives, but by carefully taking into account the constraints imposed by globalization. It aims at reforming and humanizing the existing capitalist structure but not replacing it with a new one. It believes that there are limited options available to the left in the age of globalization. This view is criticized for underestimating the vitality of social movements (Petras, 2005: 152-54).

On the other hand, there is *offensive left* which is more revolutionary in offering a wholesale alternative to neoliberal globalization. Instead of bending and molding the current neoliberal policies, the offensive left tries to form a totally different alternative. It believes that the existing order must be replaced rather than modified in order to create a new society. It emphasizes the importance of grassroots movements. This kind of offensive strategy underlines the anti-imperialist and anti-capitalist nature of the leftist struggle (Petras, 2005).

Defensive Left	<ul style="list-style-type: none">• Reformist• Limits: market economy and liberal democracy• Party politics• Policy reform
<hr/>	
Offensive Left	<ul style="list-style-type: none">• Revolutionary• Wholesale alternative to neoliberalism• Grassroots movements• Far-reaching structural change

The major criticism towards defensive strategies comes from the offensive left for underestimating the significance of social movements. As mentioned above, one of the factors that boosted the leftist victories in Latin America was the left's shift to electoral politics which led to moderation on the part of the left and even pragmatic alliances with the centre or center-right parties to gain electoral success. The left, therefore, became more pragmatic since it had to conform to the rules of existing order and chose to remain within the limits of market economy.

In the case of Latin America, the role of popular movements is particularly crucial. In order to challenge the hegemony of neoliberal globalization the societal responses should be complemented with party politics. There is a divergent array of social movements ranging from Landless Movement in Brazil to indigenous social movements in Bolivia. These social movements play an important role in challenging the neoliberal hegemony. As Gramsci argues, hegemony is constructed by creating consent within the subordinate. Therefore, the process of challenging the neoliberal hegemony would involve not only the act of voting but also constructing movements within society (Motta: 2006, 899).

4.6 Conclusion

The recent leftward turn in Latin America has increased the hopes that “another world is possible” all over the world. However there is controversy about the extent to which these leftist governments offer an alternative to neoliberal globalization. The leftist governments generally remain within the limits of market economy and liberal democracy. As such, they tend to bend and mould neoliberal policies rather than offering wholesale alternatives.

Although there is not a coherent alternative put forward against the hegemony of neoliberal globalization yet, the leftist turn in Latin America is of crucial importance in the sense that it shows that neoliberal globalization has begun to lose its hegemonic position.

CHAPTER 5

THE CASE OF VENEZUELA

5.1 Introduction

Leftist parties seem to be on the rise in Latin America, a trend which began with the election of Hugo Chávez as the president in Venezuela in 1998. The rise of the left is often interpreted as a challenge to the neoliberal hegemony prevailing all over the world, although many leftist governments proved to be only modifying the existing neoliberal order rather than offering any wholesale alternatives.

Although there is a general trend of leftist resurgence in Latin America in recent years, each country and each leftist government in the region has sui generis characteristics. No one country can represent the whole Latin American region and Venezuela similarly cannot be the representative of all leftist governments in the region due to its unique characteristics. However, I have chosen Venezuela as a case since it seems to be offering the most radical alternative pathway to neoliberal policies in the region. Gibbs (2006: 269) argues that the Venezuelan experience is unique since alternatives are institutionalized “from the constitution down to the everyday practices of average citizens”.

According to Flyvbjerg (2006: 226) if a theory could be proved false for a favorable case, it would most likely be false for other less favorable cases. Venezuela is a favorable case for the proposition that “Latin American leftist

governments offer an alternative to neoliberal globalization” in the sense that among Latin American countries it is distinguished as the most critical of neoliberal policies. In line with the reasoning of Flyvbjerg (2006: 226), if the argument that “Venezuela offers an alternative to neoliberal globalization” is proved false as a result of case study examination, then it will likely be false for other cases, i.e. other leftist governments of the region, as well.

Flyvbjerg (2006: 229) further argues that atypical or extreme cases give more information compared to typical or average cases. Venezuela provides much more insight about building an alternative compared to other countries, because it is an atypical case. It is the only country among the leftist governments that has declared its will to follow an explicitly anti-neoliberal and pro-socialist agenda.

Keeping in mind that no one country is representative of Latin American continent I will analyze Venezuela as a case to show whether the leftist governments in Latin America can offer alternative policies to neoliberal globalization. I find this issue important in the sense that if there is really an alternative taking shape in Venezuela; the hegemony of neoliberalism will be undermined, paving the way for the emergence of alternatives in other parts of the world as well.

5.2 Historical Background

The democratic system in Venezuela was established by the Pact of Punto Fijo which ended the military rule in 1958. According to this document, all political parties agreed to respect the electoral process and share power. Regardless of who won the elections, all parties were given some share of economic and political

benefit through access to state jobs and contracts and partitioning of the ministries (Karl, 1987: 83). Setting the rule for political competition, all major political parties with the exception of the Venezuela Communist Party signed the Pact.

The Pact of Punto Fijo set the stage for a stable democratic system in Venezuela. Before the foundation of the democratic system Venezuela had been governed by military governments except for a brief period of democratic rule between 1945 and 1948. In the post-1958 period, political landscape was dominated by two parties, namely social democratic Accion Democratica (AD) and moderate rightists party Comité de Organizacion Politica Electoral Independiente (COPEI) until the election of Chávez as the president in 1998. In the two-party dominated political system of Venezuela, COPEI responded more to the interests of sectors like oil, finance and commerce, favoring free trade and open economy. On the other hand, AD tended to be more responsive to the demands of import-substituting sectors and labor (Frieden, 1991: 185). The ideological difference between AD and COPEI was eroded gradually over the years. As the ideological difference between the two parties became difficult to discern, they have incorporated different classes thereby turning into catch-all parties.

On the economic front, in the period beginning with 1958, the dominant paradigm was import-substituting statist development model. In the ISI period, Venezuelan economy grew rapidly. High oil prices were instrumental in sustaining high growth rates in the economy as well as facilitating the application of ISI policies. According to Hellinger (2003: 27) the material basis which ensured the viability of the system in Venezuela was “the distribution of international oil rents through a system of clientelism”.

Thanks mostly to petrodollars the governments were able to provide generous welfare assistance. Therefore, the democratic system developed by the Pact of Punto Fijo is often referred as subsidized democracy since the viability of the political system depended very much on the economic capacity of the state to finance democracy (Sylvia and Danopoulos, 2003: 64, 65).

The system was well functioning as long as oil prices remained high. The oil boom of 1973-83 and nationalization of foreign oil companies in 1976 ensured high oil revenue thereby the sustainability of the system. High oil revenues together with the availability of international funds led to expansion of the state. High levels of public spending, which increased 96.9 percent between 1973 and 1978, allowed the successive governments to use these funds in creating public employment opportunities and extra subsidies for all segments of society. In 1978 the poverty rate was as low as 10 percent and only 2 percent of the population lived in extreme poverty. While low income groups were benefiting from the increase in social expenditures and new employment opportunities; middle and high income groups were enjoying low tax rates, subsidies, tariff protection and access to cheap credit (Buxton, 2003: 115).

However as the oil prices began to decline in the 1980s, the established patterns of economic and political system began to change. In economic terms, the state was no longer able to afford interventionist policies which eventually led to the adoption of neoliberal policies. In political terms, the modern political party system which was founded by the Pact of Punto Fijo was no longer sustainable since the viability of the system was dependent on the redistributive capacity of the state which was in turn guaranteed by oil revenues.

In fact, the debate over the direction of the economy in Venezuela began relatively late compared to other Latin American countries. We can say that Venezuela is a late convert to neoliberalism as high oil revenue enabled the successive Venezuelan governments to maintain state-led development model for a long time.

The financial crisis which began in 1982 had important repercussions on the direction of the economy in the Latin American continent as a whole. The major impact of the crisis was a decrease in the amount of external funds available to Latin American countries. Venezuela, like many other developing countries, was not able to resort to foreign debt as easily as it had earlier before the crisis. In this funds-scarce environment, support for more outward oriented policies incrementally increased.

Neoliberal policies were first begun to be systematically applied under the administration of President Carlos Andrés Pérez in Venezuela (Kelly, 2000). Carlos Andrés Pérez was inaugurated on February 2nd 1989 for his second term as the president. He was elected for the second term mostly due to his economic success during his first term between 1974 and 1979. What is interesting is that during the election campaign prior to his election as the president second time, he had conducted a campaign which was very critical of neoliberal policies. He criticized the economists working at the World Bank as “genocide workers in the pay of economic totalitarianism” and condemned the IMF as “a neutron bomb that killed people, but left buildings standing” (Ali, 2006). However his criticism of neoliberalism did not prevent him applying neoliberal policies shortly after his inauguration as the president.

The *el paquete economico* (economic package) was applied under the auspices of the IMF and based on orthodox neoliberal principles. According to the Letter of Intent signed with the IMF on February 28th 1989, government spending would be reduced, trade would be liberalized, exchange rates and interest rates would be deregulated. That is to say, the new economic program was aimed at transforming the country from an import-substituting economy toward a market-dominated and export-oriented one.

Rafael Caldera, who came to power after Pérez in 1993, continued to implement market-oriented policies although he had won by criticizing the neoliberal policies applied by the Pérez government. In 1996, Caldera administration began to implement a macroeconomic adjustment program called “Venezuela Agenda” which was reminiscent of Pérez’s economic package (Lopez-Maya, 2003: 83).

5.3 The Events of Caracazo

The events of Caracazo were crucial in revealing the inherent tensions in the Venezuelan society and indicating the beginning of a new era in the Venezuelan history. According to Roberts (2003: 63) “the Caracazo became a symbol of Venezuelans’ resistance to neoliberal reforms”.

As mentioned before, according to Polanyi, self-regulating market is unsustainable and it will inevitably lead to spontaneous protective reaction of society since the society cannot tolerate the instabilities and upheavals that a self-regulating market creates. The events of Caracazo were like the concrete

manifestation of Polanyi's arguments in the sense that the masses protested and resisted against the disembedding of economy from the society.

In Venezuela although the first systematic application of neoliberal policies began under the administration of Pérez in 1989, there were incremental policy changes in line with neoliberal logic beginning in 1983. On February 16, 1983, the Campins government devalued the national currency Bolivar which decreased overnight from 4.3 per US dollar to 7.3 per US dollar. On February 16, the so-called Black Friday, the government also imposed exchange rate controls. Purchasing power of the large segments of the society was substantially decreased due to rising levels of the inflation. As the economic conditions deteriorated, protests started to increase. As such, university students, various civil servants and professionals who felt the declining life conditions had already begun to protest against the economic policies even before the events of Caracazo (Lopez-Maya, 2002: 201).

The events of Caracazo against the neoliberal policies began just after the announcement of the new neoliberal economic package by Pérez administration in February 1989. Immediately after coming to power, Pérez began to implement neoliberal reforms although he had promised the opposite during the election campaign. Actually it was Pérez's own party, AD, which had started implementation of ISI policies in 1958.

On 27th of February, resistance against neoliberal program began in the capital city, Caracas. In the events known as Caracazo, masses poured into the streets. Protests that began as a reaction to increased transport fees were broadened in a short span of time to include the entire neoliberal economic package and other nineteen cities of Venezuela. As the protests spread to all major cities, government

fell short of controlling the protests. The army was called to suppress the revolt which resulted in an estimated 500 to 2000 people losing their lives in the events that continued until March 5 (Collins, 2005: 371).

Politically Caracazo meant the end of Punto Fijo regime and indicated the beginning of a new era that would ultimately lead to the election of President Hugo Chávez in December 1998. Prior to 1989, Venezuela was usually labeled as “near perfect” democracy with its well-functioning democratic system and economy. Favorable economic conditions benefited all segments of society by filtering down to the lower classes in the form of populist benefits and minimized class conflict (Ellner, 2003: 7).

Prior to 1989, Venezuela seemed as an exception in the Latin American continent in the sense that it suffered from neither authoritarian (military) dictatorships nor the unfavorable economic conditions and class conflict that generally characterize Latin American countries. According to “Venezuelan exceptionalism thesis”, Venezuela was differentiated from the rest of Latin America. Political system fulfilled the standards of Western democracies and economic conditions were favorable due to high oil revenue which facilitated a sound economic growth until the oil prices began to decline in the 1980s (Parker, 2005: 39). Thus the events of Caracazo surprised foreign observers and Venezuelans alike.

Buxton (2003: 113) underlines the importance of putting the events at Caracazo into a historical context. By 1988, inflation rate was 40.5 percent, poverty was 38.5 percent and unemployment was a serious problem. Buxton argues that the severe economic conditions were the underlying reason behind the events and that Pérez’s orthodox neoliberal policies intensified the existing situation.

Ellner (2003: 12-13), from a different perspective, draws attention to some flaws in the political system that paved the way to political turmoil in the 1990s. Firstly, political party institutionalization that characterized the Punto Fijo regime became so rigid in the 1980s that political parties dominated all decision making channels. Labor, business and civil society were all represented under the umbrella of political parties AD and COPEI; thus restricting the number of channels available for criticism and making the political system vulnerable.

Second, oil revenue which was a key factor behind steady economic growth, proved to be a destabilizing factor over time. As oil incomes allowed big amount of public sector spending, successive governments committed themselves to big investment projects. However when the oil prices declined, they were left with large amounts of debt which in turn destabilized the economy.

Lastly, political parties, AD and COPEI, aimed at containing all class interests under the banner of one political party. This characteristic of political parties was proved to be essential in terms of preventing class conflict. However because of this characteristic, political parties failed to respond to the demands of lower strata that remained out of organized labor. Lower strata suffered the most from the economic stagnation following the debt crisis. It was therefore no surprise that they became the first ardent supporters of the new regime.

5.3.1 Socio-Economic Reasons behind the Caracazo

The events of Caracazo indicated the beginning of a new era in Venezuelan history. They revealed the social tensions which were pacified with the help of high oil prices until then. The economic crisis which followed the debt crisis and the

market-oriented restructuring programs were instrumental in increasing the social inequalities (Roberts, 2003: 58).

The debt crisis hit the Latin American countries severely. Following the debt crisis economic conditions began to deteriorate causing the 1980s to be named the lost decade for Latin America. Although all countries were affected harshly, Venezuela was affected more than the rest of Latin America in economic terms. According to ECLA, during the 1980s production increased only 1.2 percent in Latin America as a whole; in Venezuela it *decreased* by 0.7 percent. For the first time in its modern history, Venezuela experienced high levels of inflation; reaching 100 percent in 1996. Urban unemployment rate for Venezuela was 31 percent higher than Latin America as a whole (Ellner, 2003: 18).

Per capita GDP, which was at its peak in the late 1970s, declined by 20 percent by the mid-1990s. Real industrial wages and the real minimum wage declined by more than 60 percent between 1980 and the late 1990s. Also per capita social spending decreased by 40 percent. The share of the population living under the poverty line increased from 36 percent to 66 percent, while the share of the population living in extreme poverty rose from 11 percent to 36 percent between 1984 and 1995. In the year 1989 alone, the year in which the neoliberal restructuring program was initiated, poverty rate increased from 46 to 62 percent and the percentage of people living under extreme poverty increased from 14 to 30 percent (Roberts, 2003: 59).

In its modern history, it was the first time Venezuela experienced such unfavorable economic conditions. Before the lost decade of 1980s, high oil revenue rendered the country distinct from the rest of Latin America. However in the 1980s, the belief that Venezuela is an exception began to change since, like any other

Latin American country, Venezuela experienced a downturn. The economic downturn hit the poorer segments of the population more than the rest of society. The increasing levels of urban unemployment boosted the informal economy and social inequality. Slum dwellers increased in number accentuating the friction between the rich and the poor. Traditional parties, AD and COPEI, were neither able to contain class conflict which manifested itself most vividly in the events of Caracazo. They were nor offering feasible solutions to the economic problems.

The application of neoliberal recipes in order to improve economic conditions only further deteriorated the situation. Indeed the neoliberal policies never received the public support that the interventionist policies got before 1989. The established political parties, AD and COPEI could not respond effectively to economic problems that began with the debt crisis. The solution they offered was the application of neoliberal policies. However these policies did not get the support of the large segments of the population as can be seen in the Table 1 below.

Table 1: Support for Neoliberal Reforms under Carlos Andrés Pérez by Social Class, Average 1989-1991 (percent)

	Lower Class	Lower Middle Class	Middle Class	Upper Class
Support neoliberal reforms	23.8	30.1	40.7	51.5
Return to previous economic model	55.1	54.0	43.3	30.7

Source: Kenneth Roberts, Social Polarization and the Populist Resurgence in Venezuela, p.64

As the table shows, support for neoliberal reforms was lowest and the desire for returning to interventionist policies was highest among the lower class. Even 30.7 percent of the upper class, among which the support for neoliberal polices was the

highest, indicated that the previous economic model was superior to neoliberal economic model. Considering that the support for neoliberal policies decrease as we go down through the economic scale, it is no surprise that the most ardent supporters of the new Chávez regime come from the lower economic classes.

As Buxton (2003: 114) argues, the motivation underlying the support of Hugo Chávez by the popular classes lies in the pauperization of the Venezuelan society over time. As the political parties fell short of responding effectively to the economic distress caused by the debt crisis, the legitimacy of the established political parties considerably diminished. What is more, as mentioned previously, the highly institutionalized political party system did not allow alternative channels like civil society or labor organizations to voice people's demands.

In this environment in which established political parties were insufficient to offer viable solutions to the political and economic crisis that the country was going through, the new parties and new political leaders such as Hugo Chávez emerged out of the need for change that was widespread among the population. Table 2 shows the percentage of population favoring radical change, partial reforms or no more changes in the period between 1995 and 1998. As the table shows, while the percentage of population favoring radical change increases over time, percentage of population opting for no change decreases.

Table 2: Percentage of Population Favoring Radical Changes, Partial Reforms, or No More Changes, 1995-1998 (percent)

	1995 3 rd qtr.	1996 1 st qtr.	1997 2 nd qtr.	1998 1 st qtr.	1998 3 rd qtr.
Radical changes	51	55	55	60	63
Partial reforms	26	27	25	20	27
No more changes	17	13	13	13	7

Source: Daniel Hellinger, Political Overview, p. 35

5.4 The Chávez Era

The inherent social polarization revealed itself once again, after the events of Caracazo, in the coup attempt led by the then lieutenant colonel Hugo Chávez in February 1992. The coup attempt which aimed at toppling the Pérez government failed mainly due to lack of organizational consistency in the military. The February 1992 coup attempt and a second failed coup attempt in November later that year, this time led by more senior officials, revealed the conflict between the military and civilian politicians; another deficiency in the Punto Fijo regime (Sylvia and Danopoulos, 2003: 66).

The military was supposed to be an integral part of the democratic system which was established by ending the military rule in 1958. From that moment on, the Venezuelan army became an institutional part of political democracy. In contrast to most Latin American countries, it posed no threat to democratic stability. Moreover, the military seemed to benefit from the Puntofijismo materially. Even in the deteriorating economic conditions of the 1980s, the military budget was increased by three folds (Hellinger, 2003: 41).

The events of Caracazo in 1989 brought the armed forces out of their barracks as the Pérez government called the military to suppress the riots. The confrontation of the military and people in a mass uprising led to questioning of the existing order in some sections of the military that were frustrated by the orders given to them to fire on civilians. The military officers were mostly from lower segments of the society and had received education in civilian universities. Therefore, many officers identified themselves with the masses that they had to suppress rather than with their civilian and military superiors (Norden, 2003: 97).

In 1982, Chávez and a number of young military officers had already founded a clandestine organization within the military called MBR-200 (Revolutionary Bolivarian Movement 200). The officers gathered around MBR-200 were concerned with the political corruption created by the oil boom. After Caracazo, they turned their attention to broader socioeconomic problems; in their meetings they were not only discussing political problems, but they also had the intention of influencing the political processes. MBR-200 was not only confined to military officers, they were able to establish connections with the civilians like the leftist guerilla leaders of the 1960s, leftist intellectuals and activists and forged important military-civil ties (Lopez-Maya, 2003: 75).

Finally on February 4, 1992, MBR-200 led by Chávez started a coup against the Pérez government. However the coup attempt failed and Chávez and other coup leaders were imprisoned. However Chávez had already become a hero when he appeared on national television after the failed coup for just 90 seconds. He admitted the sole responsibility for the failure. He said that objectives had not been met “por ahora” (in English it means “for now”) thereby increasing the hopes

for the future especially on the part of the popular sectors who were attracted by the anticorruption, anti-neoliberal character of the coup attempt (Rohter, 2000).

The general view after the coup was that it was the act of few irresponsible military officers. However, it was actually the manifestation of the disturbances within the system. In fact, the underlying motives of Caracazo and the coup attempt led by Chávez were not very different. Both events show that the democratic system founded by the Pact of Punto Fijo was no longer sustainable in its current form.

Then former president Rafael Caldera⁴ was right in pinpointing the motivations behind the coup d'état by stating just after the failure of the coup:

It is difficult to ask the people to burn for freedom and democracy while they think freedom and democracy are not able to feed them and impede the exorbitant increase in the cost of subsistence; when it has not been able to deal effectively with the blight of corruption. The golpe is censurable and condemnable, but it would be disingenuous for us, without giving attention to their aims, to think that we are dealing with merely a few ambitious officers precipitously launching an adventure on their own account (cited by Hellinger, 2003: 32).

After the failure of the coup attempt that he undertook in 1992, Chávez and his coconspirators were imprisoned but were later freed by President Caldera in 1994. Caldera ran an election campaign as an independent candidate for a second term as president in 1993 and was reelected.

When freed from jail, Chávez and his friends began to travel around the country and began establishing organizational structures. Meanwhile they realized that political rather than military option was more suitable on the way to gaining power. Therefore, the military group known as MBR-200 created an electoral

⁴ He would be reelected as the president later in 1993 for the second time.

structure known as MVR (Fifth Republic Movement; since they believed the fourth republic which began with Venezuela's separation from Gran Colombia has ended) just before the 1998 elections in order to participate in the elections. MVR was not a political party, but an electoral front controlled by the MBR-200. However, later, the success of MVR, especially in the 1998 elections, decreased the impact of MBR-200, causing it to dissolve (Lopez-Maya, 2003: 83).

5.4.1 1998 Elections and Beyond

Chávez entered the 1998 elections as the head of the MVR which sought alliances with smaller political parties on the left. Chávez was backed by a three-party coalition called the Polo Patriótico (PP; Patriotic Pole) which was composed of the MVR, the Movimiento al Socialismo (MAS) and Patria Para Todos (PPT). Five major parties participated in the 1998 elections. At the beginning of the election campaign, Irene Saez who was the mayor of a wealthy district of Caracas was the first on the polls. Chávez and the MVR ran an election campaign based on discourse of anti-liberalism and rupture with the past. He used historical achievements like independence and Federal War in order to appeal to people by boosting their self-esteem and hope (Lopez-Maya, 2003: 84). Two main pillars of his election campaign was his opposition to existing Punto Fijo system which was corrupt and his support for a national economic plan envisioning economic distribution favoring especially the poor. He defined true democracy as the one which is more responsive to the demands of people and at the same time which is able to correct economic inequalities (Norden, 2003: 98).

Towards the end of the election campaign, Chávez emerged as the favorite candidate for the presidency. Therefore the opponents of Chávez and traditional parties AD and COPEI agreed on one candidate Henrique Salas Römer who was a former businessman and former member of COPEI. Despite the efforts of the established political parties, MVR won the elections in 1998 in alliance with other smaller leftist parties by taking 56.2 percent of the votes. Salas Römer got 39.97 percent of the votes; voter turnout was 63.76 percent. This was one of the highest percentage of votes of any president could take in the Venezuelan history.⁵ In two mega-elections held in July and December 2000, Chávez once again became successful and could win control of a majority of seats in Congress and many governorships, mayorships, and state/city councils.

It is important to pinpoint the motivations underlying the support for Chávez by the masses in order to better understand the Chávez phenomenon. The main supporters of the Chávez government have been lower segments of the population since the very beginning of his term as president. The main motivation behind this support comes from the disillusionment of the masses with the Punto Fijo system. Chávez was a person entirely outside of political establishment and promising change especially for the poor and lower-middle sections of the population who were left disadvantaged by the previous neoliberal economic policies.

The first step of Chávez was to change the institutional setting by altering the 1961 Constitution since in the then existing situation balance of power was in favor of the opposition. Although defeated electorally, opposition still had the support of the financial sector, the management of the state oil company PDVSA,

⁵ www.electionguide.org , <http://www.cne.gov.ve/>

majority of the legislative and judicial power, local governors, the most powerful labor union (CTV) and the Catholic Church (Harnecker, 2005c: 19).

A new constitution was drafted by the Constitutional Assembly just after Chávez's election as president in 1999 and it was approved in a national referendum. This was the first constitution approved by popular referendum in the Venezuelan history. In the constitutional referendum which was held on December 15, 1999, the new Constitution was approved by 71.78 percent of the votes as opposed to 28.22 percent.⁶

The approved Constitution indicated the beginning of a new era, the so-called Fifth Republic of Venezuela. The official name of Venezuela was changed to "Bolivarian Republic of Venezuela" (named after Simon Bolivar⁷). Significant political and institutional changes were introduced with the approval of the 1999 Constitution. Uni-cameral legislative system was adopted, putting an end to previous bi-cameral system, with the elimination of the Senate. Three-branch (executive, legislative and judiciary) structure of government was supported by two additional branches, namely Citizen Power and the Electoral Power (consisting of the National Electoral Commission and the Electoral Chamber of the Supreme Court) (Lopez-Maya, 2003: 85).

The overall aim of the Constitution was to change the logic of the previous Punto Fijo regime which was mainly a representative democratic system. The 1999 Constitution aimed at transforming the system by increasing the direct participation of the general population. In article 62 of the Constitution, it was stated that:

⁶ Voter turnout was 44.38 percent. Information available at <http://www.electionguide.org/results.php?ID=822> Accessed on January 11, 2008.

⁷ Simon Bolivar is one of the most important leaders of Hispanic America's struggle for independence from Spain.

All citizens have the right to participate freely in public affairs, either directly or through their elected representatives... It is the obligation of the State and the duty of society to facilitate the generation of optimum conditions for putting this into practice.

While the Constitution aimed at increasing the citizen participation, it also increased the importance and strength of presidency, undermining participatory politics. The presidential term was extended from five to six years with the possibility of one consecutive re-election. However, a recall option was put into the Constitution, in order to limit presidential power. According to the Constitution, if 20 percent of the voters sign a petition to remove the President from office a recall referendum is held (Article 72).

5.4.2 Chávez vs. the Opposition

Since 1998, many oppositional movements have challenged Chávez and his policies. Chávez has survived three general strikes (December 2001, April 2002, October 2002), an oil company lockout in December 2002 which paralyzed the economy for three months, an attempted coup which lasted for only 48 hours in April 2002 and a recall referendum in 2004.

Opposition to the Chávez government accelerated after the passage of forty nine economic laws by the presidential decree in November 2001. These laws included radical reforms like land redistribution and tightening government control on oil industry. The most controversial of these laws was the new Hydrocarbons Law which stated that the state oil company PDVSA would hold a minimum 51 percent of all future joint venture projects. What is more, royalty rates were increased from 16.7 percent to 51 percent (Abraham, 2002). At the same time,

however, the government lowered the income tax levied on oil extraction from 67.6 percent to 50 percent on the grounds that it would be easier to collect royalties than taxes (Collins, 2005: 388).

On December 10, 2001 the major business association of Venezuela, Fedecamaras, started a one day strike to protest the new laws. Its main line of criticism was that the new laws were anti-business, undermined private property rights and were passed without consulting anyone outside of government circles. The main labor union confederation, namely the Confederation of Venezuelan Workers (CTV), also participated in the strike. Although at first it seems weird that both the main business association and labor union confederation participated in the same strike in order to defend the interests of the business circles, it makes more sense when the fact that CTV's disagreement with Chávez over who would control the organization is taken into consideration. A month earlier Chávez government had forced the CTV administration to make a grassroots election in selecting the administration which was rejected by the administration (Wilpert, 2005: 13, 14).

On April 9, 2002 CTV and Fedecamaras started another strike. Although initially it was not as effective as the first strike in 2001, tensions increased as labor groups, business organizations, political opposition and civil society participated in a massive protest demanding the resignation of President Chávez. On April 11, 2002 as protesters and supporters of the Chávez government marched to the presidential palace, a fire was opened on them. Eighteen civilians died and more than 150 people were injured from both the opposition and supporters (Human Rights Watch, 2003).

The opposition claimed that the gunmen who had fired on the protesters belonged to the supporters of the Chávez government, while the Chávez supporters said that they were fired on and claimed that agent provocateurs were involved in the shooting in order to prepare an environment suitable for a military take-over (The Guardian, 22 April 2002).

A group of high ranking military officers demanded the resignation of the President and hours after military officers obliged him to resign, Chávez was brought to an army base near Caracas where he was reported to be held in custody. It was reported that Chávez had resigned and Pedro Carmona Estanga, the head of Fedecamaras, was declared as the interim president on April 13, 2002, just after Chávez's removal from the office. The interim government immediately dissolved the National Assembly and the Supreme Court. What is more, the interim government annulled 49 economic laws which had caused protests and strikes to erupt in the first place (Forero, 2002).

Senior officials in the US government were blamed for their involvement in the brief coup. Officials at the Organization of American States and other diplomatic sources claimed that the US administration was not only aware of the coup in advance, but also endorsed it (Vulliamy, 2002). In fact, the statements made by the US officials just after the coup, seemed to confirm this claim. The Bush administration welcomed the coup as a "return to democracy" (Hilton, 2002). White House spokesman Ari Fleischer said that "We know that the action encouraged by the Chávez government provoked this crisis" (Forero, 2000). When the fact that Chávez was the democratically elected legitimate president of Venezuela when removed from office is taken into consideration, it becomes more and more difficult to understand the US backing of a coup attempt against Chávez.

The media in Venezuela also supported and facilitated the April coup. Chávez and his supporters defined the coup as a “media coup” since the media, except state-run Channel 8, explicitly supported the coup attempt. While they refrained from showing the protests against the coup, they showed American movies instead (Campbell, 2002).

However, the coup attempt failed and Chávez was restored to power after about two days, on April 14, with the support of the masses who poured on to the streets once they learned that Chávez had actually not resigned. Spontaneous demonstrations in support of Chávez erupted demanding the immediate return of Chávez to presidency. Protesters were confronted by the Metropolitan Police and between 50 and 60 people were reported to be dead. As mentioned earlier, none of these protests were broadcast on television (Wilpert, 2007c).

The April 2002 coup attempt was a turning point for Chávez in the sense that opposition forces lost ground and Chávez came out of this event even stronger and more popular. In trying to oust a democratically elected president through a coup, opposition forces lost legitimacy in the eyes of both the national and international public. The success of the demonstrations demanding Chávez’s return to power showed the significant amount of support given by the popular classes to Chávez.

In the background to these opposition movements were the slowing down of the economy after the September 11 attacks and declining popularity of Chávez according to polls. September 11 attacks caused a substantial decrease in oil prices. As oil revenue constitutes an important part of the Venezuelan budget, government had to decrease spending which in turn led to an increase in unemployment. As the economic conditions worsened, Chávez lost popularity since the main component

of his election campaign was to remove the economic inequalities that the neoliberal economic model had created before him. Now that he could not solve the basic problems like unemployment, opinion polls indicated that Chávez' popularity decreased from around 60-70 percent in June 2001 to 30-40 percent in January 2002 (Wilpert, 2005: 14).

The opposition once again tried to oust Chávez through oil industry shutdown in December 2002. It was planned to be short, however it continued until the beginning of February 2003. The strike badly damaged the economy and curtailed the government's oil revenues. Over one-third of PDVSA's workforce was dismissed at the end of the strike (Hawkins, 2003: 1144).

The final attempt of the opposition against Chávez was the August 2004 recall referendum, a clause which was put into the 1999 Constitution by the Chávez administration itself. According to the Constitution, any elected official, including the president, could be subjected to the recall referendum after completing half of his or her term. In order to hold a recall referendum at least 20 percent of registered electorate (approximately 2.4 million people) had to sign the referendum petition. The opposition had collected 3.4 million signatures in November 2003, however only 1.9 million of them were declared to be valid by the Electoral Council. Finally in May 2004, the opposition could collect enough valid signatures and the recall referendum was held on August 15, 2004.⁸ The recall referendum was rejected by 59.10 percent of the voters, while 40.64 percent of the voters accepted the removal of President Chávez from the office (National Election Council of Venezuela).

After all these moves by the opposition, Chávez faced another election at the end of December 2006; at the end of his first term in the presidency. Chávez

⁸ <http://news.bbc.co.uk/2/hi/americas/3247816.stm>

succeeded to overcome the oppositions and was reelected in December 2006 as president for the second term by taking 62.84 percent of the votes. The main competitor of Chávez, Manuel Rosales got 36.9 percent of the votes. Voter turnout was 74.69 percent in the presidential election (National Election Council of Venezuela).

5.5 Venezuela as an Alternative

There are two main views regarding the new era that began with Chávez in Venezuela. On the one hand there are scholars like Schamis (2006: 31) who define his rule as “twenty first century version of patrimonial domination”. According to this view, success of the Chávez rule depends on high oil prices since he finances far-reaching social and popular programs with rising oil prices. Cleary (2006: 46) argues that oil reserves make the country independent in terms of financial resources and due to this independence Chávez can challenge the existing economic system. Bissett (2005: 8) finds his socialist agenda little more than a reformist program which is financed by high oil prices and argues that “Venezuela is no nearer to socialism than Russia when it claimed to have established it”.

On the other hand, there are some scholars arguing that Chávez government constitutes an alternative to neoliberalism and his 21st century socialism represents the most radical break from the Washington Consensus (Rénique, 2005: 6). Lebowitz (2007: 5) argues that while most of the Latin American leftist governments display the characteristics of social democracy, Venezuela is going in a very different direction in the sense that it is both building an alternative to the

logic of the market and mobilizing people around this ideal. According to Gibbs (2006: 265) Venezuela “represents an all-out assault on neoliberal doctrine”.

Being a “good example of bad left” (Lebowitz, 2007) Venezuela under Chávez has a claim of constituting an alternative to hegemonic neoliberal globalization. At the World Social Forum in Porto Alegre in January 2005 Chávez declared:

We must transcend capitalism. We must reclaim socialism as a thesis, a project, and a path, but a new type of socialism, a humanist one which puts humans and not machines or the state ahead of everything.⁹

Indeed, the Chávez era that began in 1998 can be divided into two phases; between 1998 and 2005 the Chávez government seemed to follow a social democratic trajectory. Chávez did not declare his political program to be socialist until January 2005, which signals the beginning of the second phase of Chávez’s presidency, after the opposition’s serious attacks against him were pacified. We can count a coup attempt in 2002, a two-month block out in the oil industry in 2002-2003 and the presidential recall referendum in 2004 among the opposition’s attempts to overthrow Chávez government (Wilpert, 2007a).

In fact, attempts towards building an alternative to neoliberalism have started as soon as Chávez got into office in 1998. The constitution of 1999 was the first step towards this goal. However, Chávez did not voice his intentions about building an alternative in his first years in office as openly as he did at the 2005 World Social Forum. In this section, firstly, the Chávez presidency will be

⁹ http://www.forumsocialmundial.org.br/download/Chávez_speech_EN.pdf

analyzed in two parts, and then the policies which can be named alternative will be analyzed.

5.5.1 First Part: Following a Social Democratic Path

During the presidential campaign prior to the 1998 elections Chávez drew a portrait of a president who would follow a social democratic trajectory once in power. He gave lukewarm messages to national and international business. As soon as he took office, in his first speech to the nation, he declared that they would follow prudential economic management. He retained the finance minister of the previous Caldera government indicating the continuity with the past neoliberal economic programs. Continuity with the Caldera administration also manifested itself in the orthodox macroeconomic policy management. Exchange rate and fiscal policy were not altered. Price and interest rate controls were rejected. Foreign capital was welcomed as long as it remained in line with the national interest (Buxton, 2003: 124). Macroeconomic policy was designed to bring inflation under control. Any radical option like nonpayment of foreign debt was ruled out. All these factors make Chávez government's economic policies seem orthodox.

Constitutional reform was the number one item on Chávez's agenda, as he promised during the election campaign. After taking office in 1999, he called for a national referendum for a new constitution. The new draft constitution prepared by the National Constituent Assembly was approved with 71.78 percent of the votes in a national referendum in December 1999, replacing the 1961 Constitution. The economic clauses of the first draft of the Constitution were limited in number. However in the final form of Constitution the number and scope of the articles

related to economic affairs especially monetary and fiscal policies were increased. According to Kelly (2000) this was due to economic elites' and business circles' opposition. In its final form, the Constitution incorporated mishmash of many principles. It declared adherence to free education for all and free trade at the same time. While it underlined the principal of Central Bank autonomy, it also required the Central Bank to coordinate monetary policy with the Ministry of Finance.

Although the Chávez government was critical of neoliberal policies and there were clauses in the Constitution conducive to creating an alternative economic model, an alternative economic model was not adopted. This was due to domestic and international factors. On the domestic front, many opposition movements challenged the Chávez presidency in the first part of his presidency. What is more, economic conditions were deteriorating, making it difficult to offer any alternative economic model. On the international front, oil prices remained low thereby decreasing the chances of financing an alternative economic model.

Therefore rather than offering a full-fledged alternative to neoliberalism, a third-way approach was adopted. While the market mechanism was maintained, state was allocated a special role in the economy. According to “two-hand formula”, visible hand of the state would correct weaknesses and the imperfections of the market that was supposed to govern by an invisible hand. Chávez defined this as the Venezuelan third-way in which the country could develop endogenous solutions to enduring economic problems (Buxton, 2003: 125).

The interview conducted by Marta Harnecker in 2002 demonstrates Chávez's moderate position related to capitalism. He admits the impossibility of transcending capitalism and describes revolutionary strategy as “figuring out what is possible in the moment” and implies that it is not possible for Venezuela “to

transcend this moment, where the capitalist model has its roots down into the very marrow, not only in Venezuela but also in other countries on whom Venezuela is interdependent like Colombia, Brazil and the United States” (Harnecker, 2005b: 110, 116).

Likewise the general tendency among the supporters of Chávez, like the Chilean economist and adviser for the Venezuelan government Marta Harnecker, was to ensure the cooperation of state and private initiative in order to foster endogenous development¹⁰ (Harnecker, 2005c: 27). We can argue that in the first part of his presidency, Chávez preferred not to diverge too much from the hegemonic neoliberal globalization model since he was restricted both by domestic and international factors. Domestically opposition movements and worsening economic conditions; internationally low oil prices restricted the autonomy of the Chávez government. Therefore in the first part, he could not apply anti-neoliberal policies as easily as he could do in the second part of his presidency; although the necessary clauses were available in the Constitution in both periods. Parker (2005: 40) argues that while Chavismo¹¹ had a tendency to underline existing inequalities rather than developing its own project at the beginning, after six years in office the contours of this alternative began to be sketched.

5.5.2 Second Part: 21st Century Socialism

In his first years in office, Chávez could not offer any alternative to existing economic system since the chances of any alternative being successful were

¹⁰ Endogenous development aims at diversifying national economy especially by supporting small businesses and cooperatives (Wilpert, 2005: 22).

¹¹ The movement built around Hugo Chávez is usually called as Chavismo.

severely restricted by domestic and international factors. Only after the recall referendum resulted in success for him, he declared the beginning of a new phase for the Bolivarian revolution. In the speech he made after the recall referendum in 2004, he said that:

From today until December 2006 begins a new phase of the Bolivarian revolution, to give continuity to the social missions, to the struggle against injustice, exclusion, and poverty. I invite all, including the opposition, to join in the work to make Venezuela a country of justice, with the rule of law and with social justice (Wilpert, 2005: 18).

Chávez declared the intention of creating a new socialism most explicitly at the 2005 World Social Forum. He stated that the socialism of the 21st century should be “a new type of socialism, a humanist one, which puts humans and not machines or the state ahead of everything”. Chilcote (1993: 180) defines socialism as:

The transition to and consolidation of socialism implies meeting the basic needs of all people, ending poverty, satisfying requirements for nutrition, health care, housing, and education, and ensuring employment and redistribution of income. Ultimately socialism involves the socialization of the means of production under public rather than private ownership, but there is little consensus over the extent of state or other collective forms of ownership.

In Venezuela, problems like poverty, unemployment, healthcare, housing and education are on the government agenda and considerable improvements have been realized. However, there is no move towards the socialization of the means of production.

Burbach and Pineiro (2007: 181) argue that Venezuela’s 21st century socialism is very different from the previous socialist systems in which state owned means of production and socialist party dominated the political system. The basic

characteristic of the previous socialist systems was to govern society from top to down. However 21st century socialism which Chávez envisages is human centered. The most important characteristic of new socialism is its “commitment to participatory democracy, the exercise of power from the community level”. Wilpert (2005: 23) argues that the participatory aspect has taken many different forms like the constitutional provision for referendums, increased local democracy and citizen participation in local affairs. Due to participatory democracy, people, especially the poor segments of society, feel more included compared to past.

Chávez was reelected as the president in December 2006 for the second term and he declared he would initiate 21st century socialism. The first attempt towards this direction was the constitutional reforms.¹² Venezuelans voted for the amendments in a referendum on December, 2 2007. The most debated amendments included extending the presidential term from six to seven years, making possible the continual reelection of the president without any limit, suppressing the right to information during state of emergency and ending the Central Bank independence.

68 amendments related to politics, economy, property law, military, culture and society were voted in the referendum (the 1999 constitution is composed of 350 articles). However the amendments were rejected in the national referendum by a slight difference of 50.70 percent to 49.29 percent.

In fact, the amendments created two blocs of supporters and opponents. The proposed reforms created polarization across the society. Students from private and public universities organized large demonstrations against the proposed reform package, while pro-Chávez students organized counter rallies to support the

¹² For a summary of recent constitutional reforms consult <http://venezuelanalysis.com/analysis/2889>

reforms. The opposition parties also criticized the reforms alongside with the private media. Surprisingly, Chávez's former Defense Minister Raul Isais Baduel condemned the constitutional reforms and urged people to vote No. It was surprising in the sense that Baduel had played an important role in restoring Chávez to power in 2002 coup. In the opposition bloc there were students, mostly from private universities, opposition parties, private media, and the business federation.

The opposition bloc argued that Chávez's primary aim was to create an authoritarian regime with the changes which would give him right to continuous reelection and the extraordinary powers in times of emergency. What is more, the reforms related to reducing the Central Bank independence increased worries both in the national and international business circles. Opponents argued that with the reduced Central Bank independence Chávez would have more discretionary powers to determine the direction of the economy.

Supporters, on the other hand, argued in favor of the constitutional reforms since they would increase citizen power according to them. In terms of economic policy a social economy would be created in which state would be responsible for promoting development "based on humanistic values such as the cooperation and the preponderance of common interests that guarantee the fulfillment of the social needs of the people, social and political stability and happiness" (Article 112). A social security fund would be created for the self-employed. The state would no longer be obliged to promote private enterprise. New forms of property, in addition to private property, were introduced. These new forms of property were public (that which belongs to state entities), social

(belonging to citizens), collective (belonging to people or social groups either in social or private form), and mixed (both public and private).

Supporters rejected the accusations of the opponents about authoritarian tendencies of Chávez and the Central Bank independence. They argued that continual reelection would not lead to an authoritarian administration since the president should take the majority of the votes in democratic elections in order to be awarded for reelection. As long as free and democratic elections were used in selecting the president, continuous reelection would not lead to authoritarian regime. What is more, voters can petition for a national recall referendum to oust the president. In terms of Central Bank independence supporters argued that in the current situation the Central Bank was allegedly independent since it was dependent on the international financial centers in making decisions.

Reforms were portrayed as the manifestation of the Chávez's authoritarian tendencies by the opponents however one should keep in mind that all changes to the constitution first had to be approved by the democratically elected National Assembly, and then also approved in a popular referendum. Chávez was elected President in 1998, survived a recall (a clause put into the constitution by Chávez himself) sponsored by the opposition in 2004 and re-elected president in December 2006 elections with more than 60% of the votes. What is more after the referendum of December 2007 he accepted the defeat calmly; a move a dictator would not do. However while accepting the defeat at the referendum he also emphasized that it is "for now" reminiscent of the days in which Chávez appeared on the television after the failed coup attempt in 1992.

5.6 Alternative Being Shaped

Lebowitz (2006) defines the alternative in terms of human development. If the human development is rendered more important than the material growth in one society, then we can assert that there is an alternative being shaped there. Lebowitz argues that this perspective is available in the Venezuelan Constitution. Article 299 guarantees “ensuring overall human development” of Venezuelan citizens and Article 20 says that “everyone has the right to the free development of his or her own personality”.¹³

In this section, policies which might be considered as alternative to neoliberalism will be analyzed. Foreign policy, extensive social policies, and social economy emerge as the main dimensions of the alternative being shaped in Venezuela.

5.6.1 Foreign Policy

Foreign policy of the Chávez era displays a radical rupture with the previous administrations. Venezuela’s leadership of OPEC, regional integration and greater independence from IFIs emerge as the most important aspects of Chávez’s alternative foreign policy.

Oil has been the most crucial factor shaping the development agenda of Venezuela since it was first extracted. As long as the oil prices remained high, the country did pretty well on the economic sphere. Venezuela’s petroleum policy was

¹³ For English translation of 1999 Venezuelan Constitution consult http://www.vheadline.com/printer_news.asp?id=6831

under US influence before Chávez got into office. However as soon as he became the president, Chávez undertook the initiative to transform the country's oil policy and Venezuela began to produce according to OPEC production quotas. Under Chávez, Venezuela became a leading member of the organization. Petroleum has also been used as a tool of foreign policy as nb Venezuela sells petroleum to its neighbors at a discounted rate of 20 percent. Cuba, in particular, has benefited from discounted oil prices (Sylvia and Danopoulos, 2003: 70).

Challenging the neoliberal hegemony prevailing throughout the world by one country is a difficult task. Being aware of this fact, Chávez proposed the foundation of Bolivarian Alternative for the Americas (ALBA) as a regional integration project. ALBA is a response to the US' regional integration project, Free Trade Agreement of Americas (FTAA). ALBA envisions a regional development plan for Latin American and Caribbean countries that aims at increasing the solidarity among these countries by transferring resources to from the wealthy to the poor through exchanging goods in a win-win environment (Collins, 2005: 392).

Among other initiatives towards building a regional integration we can count the Bank of South (Banco del Sur) and continent-wide television network as an alternative to CNN, Televisora del Sur (Telesur). The agreement to create the Banco del Sur was signed on December 9, 2007 in Buenos Aires by Venezuela, Bolivia, Argentina, Ecuador, Brazil, Paraguay and Uruguay. The Banco del Sur was a project of Hugo Chávez who has seen it as an instrument of decreasing the influence of the IMF and the WB on Latin American countries. Chandrasekhar and Ghosh (2008) argue that the foundation of such an organization is a part of a

broader trend of Latin American governments' distancing themselves from the IFIs.

Venezuela under Chávez paid off its debt to the IMF shortly after Chávez came to power in 1999 and paid its remaining debts to the World Bank five years ahead of schedule.

5.6.2 Extensive social policies

Social policies were increased both in terms of both scope and amount under the Chávez presidency. Social programs are funded by the surplus from oil revenue. These social programs are usually known as “missions”, the first of which was initiated in 2003. Twenty two missions are operating right now and they provide social services in the areas of health care, literacy and adult education, subsidized supermarkets, employment training and university scholarship for the poor (Wilpert, 2005: 20).

Education and health emerge as the two most important areas of social policy which seem to make a real difference in the daily lives of people. In Article 83 of the Constitution health is defined as a fundamental social right and responsibility of the State. Moreover, the Constitution prohibits the privatization of health services. Education is also defined as a human right and the responsibility of the state. Healthcare and education became arenas for public participation; citizens are expected to participate in the design and application of healthcare policies at the community level.

In the Mission Barrio Adentro which was launched in April 2003, the main aim has been to provide a doctor for each neighborhood, especially for the poor

neighborhoods which were deprived of health care services during the neoliberal era. Local health committees manage the clinics and doctors live in the local communities. These missions have increased the accessibility of the healthcare services to a large number of Venezuelans. As a result of the activities of this mission, the number of doctors increased from 1.628 for 23.4 million people, to 19.571 doctors for 27 million people as of July 2007 (Weisbrot and Sandoval, 2007: 2).

Mission Robinson was founded to increase literacy. The mission was inaugurated on July 1st, 2003. So far 1.5 million people have learned to read and write in these missions, increasing the literacy rate in Venezuela to 96%. Mission Alimentation provides high quality food and equipment at a reduced price. Subsidized foods provided by the government are distributed again by the distribution system provided by the government in subsidized food markets called MERCAL. The main aim of the mission is to meet the daily nutritional requirements for all citizens. By 2006, there were 15.726 stores throughout the country that sold items at subsidized prices which were 27 percent and 39 percent lower compared to market prices in 2005 and 2006, respectively (Weisbrot and Sandoval, 2007: 4).

Missions are funded by the central state budget alongside with the funds provided by the state oil company PDVSA. Social spending has increased from 8.2 percent of GDP to 13.6 percent between 1998 and 2006, social spending per person has increased by 170 percent in the same period, excluding the social spending made by PDVSA which amounted to 7.3 percent of GDP in 2006 (Weisbrot and Sandavol, 2007: 3).

5.6.3 Social Economy

The Bolivarian Constitution contains a section related to the “Socio-economic System”. The Constitution tries to promote and protect national industry from the ravages of globalization by prohibiting the granting of special privileges to foreign companies, preventing the nationalization of water supply, promoting small and medium-sized businesses and cooperatives through government financing and technical assistance, and prohibiting the nationalization of the oil industry (Collins, 2005: 386).

One of the most important clauses of the Constitution was the special importance attached to cooperatives and workers’ self management. According to Albo (2006) this was what made the constitution “decidedly anti-neoliberal” since it created an alternative economic model by linking democracy with cooperatives and workers’ self management.

Gibbs (2006: 269) argues that Venezuelan experience challenges neoliberal doctrine and questions the elite control of economy. What Chávez government tries to do is to increase the participation of lower classes in economic decisions beginning at the micro level. Self-management at the work place and cooperatives which depends on principles of solidarity and collective property challenge the neoliberal logic which puts profit ahead of human development.

Article 70 of the Constitution puts an emphasis on participation and involvement of people in political, social and economic affairs. People can participate in economic affairs through “self-management, co-management, cooperatives including financial ones, community enterprises and other forms of association guided by the values of mutual cooperation and solidarity”.

Chávez government aims to reconnect economics with society, in other words, to use the terminology of Polanyi, the Chávez government tries to reembed economics into society by increasing the presence of society in the economic decisions. Societal demands can be voiced in economic structures like co-operatives. Gibbs (2006: 270) argues that the Chávez government tries to reconnect society and politics through building participatory processes at the community level and through redistributive policies at the state level.

Lebowitz (2007) argues that the Bolivarian constitution contains the elements of social economy with its emphasis on a “democratic, participatory and protagonistic” society. However, although such experience is crucial at the micro level in terms of challenging the neoliberal logic, at the macro level there is no full-fledged challenge to neoliberalism. Article 112 of the 1999 Constitution says that “the state shall promote private initiative” and in Article 115 “the right of property is guaranteed”. Moreover Article 299 assigns a role to private initiative in “promoting the harmonious development of the national economy” in collaboration with the state.

Another deficiency in the process of building a social economy has been the fact that state ministries and bureaucracies remain largely out of this process. As the bureaucratic structure was inherited from the previous political system, a certain level of resistance was displayed against the new political system headed by Chávez. Therefore the Chávez government preferred to bypass bureaucracy in many instances (Burbach and Pineiro, 2007: 190, 191). However this attitude can cause problems since to bypass bureaucracy increases questions about the accountability and transparency of government.

5.7 Impacts of the reforms

In the previous section, policies which can be named as “alternative” were analyzed. However in order to comprehend Venezuelan experience better, one should also look at the result of these policies. The most criticized aspects of the previous neoliberal experience were the high levels of poverty and unemployment. Therefore, any government which claims to constitute an alternative to neoliberalism should realize better outcomes in these respects.

Poverty rate was 43.9 percent before Chávez had come to power and reached its peak during the first years of the Chávez presidency, reaching 55.1 percent in 2003. However thanks to rapid GDP growth and broad social programs, in 2006 alone, the poverty rate was lowered from 37.1 percent to 30.2 percent and the indigence rate from 15.9 percent to 9.9 percent (ECLAC, 2007).

Real GDP declined by approximately 9 percent in 2002 and 8 percent in 2003; the years in which the economy was hit harshly by the economic strikes led by the opposition. Economic decline was caused mostly by political developments in the country. The years 2002 and 2003 were dominated by the attempted coup against Chávez followed by the oil sector strike which paralyzed the economy. Economic growth was back on track again after the sharp decline in 2002 and 2003. In 2004 and 2005 GDP growth reached 18 percent and 11 percent, respectively. In 2006 economic growth was about 9 percent (CIA, The World Fact Book).

Unemployment rate dropped from 18.4 percent in June 2003 to 8.3 percent in June 2007. At the beginning of the Chávez term as president, in June 1999, unemployment rate was 15 percent. What is more, formal employment has

increased from 45.4 percent to 50.6 percent since 1998 (Weisbrot and Sandavol, 2007: 11-12).

Rising oil prices were instrumental in instigating high growth rates in Venezuela. Oil prices have very much increased since Chávez came to power. However oil prices can decline in future. What would happen to Venezuela's economic performance, if the oil prices decreased? Weisbrot and Sandavol (2007: 6) argue that Venezuelan economy is well prepared for oil price declines. Venezuela has about \$25 billion in international reserves which amounts to 14 percent of GDP. This amount is more than enough for protecting the domestic economy from oil price shocks. What is more, the Venezuelan economy keeps low levels of public and foreign public debt making it relatively easy to overcome any difficulty that may be caused by oil price decline. However any prolonged crisis related to oil prices would probably affect the Venezuelan economy, at least the social programs financed by oil revenue.

5.8 Shortcomings of the Bolivarian Revolution

The recent defeat of Chávez at the national referendum in December 2007 has been a blow to 21st century socialism. With the constitutional reforms which were rejected at the national referendum, Chávez had aimed to establish the institutional base of the 21st century socialism. The defeat at the national referendum was unexpected in both domestic and international circles. However it has provided an opportunity for thinking on the shortcomings of the Bolivarian Revolution.

In fact, the constitutional reforms were controversial even among Chávez supporters. The changes probably would not lead to an authoritarian regime in

Venezuela as the critiques argued before the referendum. However it is also questionable whether they would really promote transition to socialism.

Sustar (2007) argues that the proposed reforms reveal an inherent dilemma in the Chávez movement. The reforms aim at increasing people's participation in decision making and implementing socialism at the grassroots level. However reforms also reveal a tendency to initiate revolutionary change from above. While the creation of communal councils and worker councils can be seen as efforts to strengthen grassroots participation, the additional powers allocated for the president can be seen as efforts to increase the central power.

Wilpert (2007b: 3) argues that the Chávez movement should confront its internal obstacles like clientelism, corruption, and personalism if it wants to be sustainable. Personality cult created around Chávez is a serious problem. Even the most ambitious project of his government, namely the 21st century socialism, is associated with him personally. As socialism is linked to Chávez himself, it is very probable that socialism could be replaced by another leader or President. Hawkins (2003: 1149) argues that it is the personality of Chávez that brings people together rather than specific goals or ideology. Chávez's charismatic leadership also creates a tendency among his supporters to accept what Chávez says without questioning (Wilpert, 2005: 25). This tendency poses a serious threat towards in-party democracy since there is a possibility that decisions are made without any discussion and criticism.

Another shortcoming of the Bolivarian Revolution is that it creates ardent supporters and opponents at the same time. Each government normally has both supporters and opponents. However, Chávez government has created a political environment characterized by constant confrontation. In fact, confrontation is not

confined to political arena. Among people, between the rich and the poor an apparent tension prevails since most Venezuelans from the middle and upper classes feel alienated. If Chávez wants to be the president of all Venezuelans, he should appeal to all segments of society.

The experiment going on in Venezuela increases the hopes that there exists a feasible alternative to neoliberalism. However Venezuela has many characteristics which are applicable to neither the other Latin American countries nor the rest of the world. The most important factor which makes Venezuela non-comparable is its oil wealth. Oil revenue provides Venezuela a certain degree of autonomy in economic matters. As it does not depend on international lending organizations as heavily as the other countries which lack such revenue, it can finance development projects on its own.

Despite the internal contradictions of the Chávez movement, it nevertheless presents the most viable alternative available. It serves as an example for the rest of the world. The success of Venezuela's resistance against neoliberal globalization will depend on its success to institutionalize alternative policies, and more importantly its success of establishing anti-neoliberal culture and politics among Venezuelan people (Collins, 2005: 394). The success of the economic model and the social policies is necessary but not adequate for ensuring the viability of the alternative being shaped in Venezuela. The main challenge for Chávez is to build political hegemony for anti-neoliberal values in society. Actually this does not seem very difficult since the consent that the masses have given to neoliberal model has been significantly eroded.

CHAPTER 6

CONCLUSION: LESSONS FOR TURKEY

6.1 Introduction

Balkan and Savran (2002: xiii) calls Turkey as the “Argentina of the Eastern hemisphere”. Indeed, there are many similarities between Turkey and Argentina, and more generally Latin America. First and foremost, neoliberal policies were initiated at about the same time both under the auspices of IFIs and led to similar consequences. Free market was proved to be devastating in many aspects rather than being a panacea to all the problems afflicting economy. Latin American countries and Turkey experienced disastrous economic crises at about the same time, the most striking being the 2001 crisis experienced in Argentina and Turkey. While Turkey was offered a generous bailout by the IMF due to its increased geostrategic importance in the post September 11 environment, Argentina was deprived of such an aid which led to debt default.

Actually economic crises and their aftermath signaled the beginning of divergence between Latin American countries and Turkey. While Latin American countries embraced more heterodox economic policies after the crises, Turkey continued to implement orthodox IMF programs. In Latin America leftist governments were elected by democratic elections in the hope that they will correct the failures of previous governments. In Turkey AKP (Justice and Development

Party) which defined itself as “conservative democrat” continued with the previous governments’ neoliberal policies and has been instrumental in deepening the neoliberal process in Turkey.

6.2 Historical Trajectory of Neoliberalism in Turkey

In Turkey, during the 1960s and 1970s the dominant economic model was import substitution. Import substitution period was characterized by protectionism, state intervention into economy and high levels of public expenditure. Public expenditures were allocated mainly to heavy manufacturing, capital goods and basic intermediates in order to increase domestic production. Foreign trade was restricted through quotas and fixed exchange rate. The state was the main economic actor; it did not only regulate the economy but was also actively involved in economic life as an investing and producing agent through state economic enterprises (Metin-Özcan et.al, 2001: 225).

Import substitution created a kind of dependency since the raw materials and intermediate goods had to be imported in order to produce the final goods. Between 1950 and 1978 the share of consumer goods in total imports declined from 20.6 percent to 2.9 percent, while the share of raw materials increased from 33.4 percent to 62.4 percent (Ercan, 2002: 24).

As in Latin America, in Turkey towards the late 1970s ISI policies became unsustainable leading to a major balance of payments crisis. The economic crisis brought the end of not only import-substituting policies but also the civilian democracy which was put to an end with a military coup on September 12, 1980. With the exhaustion of ISI policies, Turkey, like many Latin American countries,

initiated an extensive neoliberal program whose purpose was to create an economy integrated with the world markets under the auspices of World Bank-IMF joint program. These liberalization efforts continued with the full capital account liberalization and full convertibility of Turkish Lira in 1989.

According to Öniş and Şenses (2007: 259-262) macroeconomic crises are instrumental in instigating major economic policy changes. Economic crises increase the influence of external actors, while weakening the previous domestic coalition. What is more, economic crises lead to the emergence of new domestic coalitions favoring policy change. In the Turkish case, balance of payments crisis of the late 1970s facilitated the policy shift from import substitution to export-oriented development model by increasing the influence of external actors like the IMF and the World Bank. At the same time the crisis changed the composition of domestic coalition in favor of advocates of neoliberal policies. In the domestic realm the supporters of the neoliberal model increased as ISI policies lost their sustainability.

Military intervention of 1980 also facilitated the policy shift by repressing the opposition, one of the main elements of which was the labor unions. Following the military coup, strikes were prohibited, political parties were shut down and labor unions were suppressed. With the opposition forces silenced, the controversial neoliberal policy package could be implemented without any severe criticism (Ercan, 2002).

Turkey became one of the very first countries implementing neoliberal policies which aimed at liberalization, export promotion and reducing state intervention into the economy. Fixed exchange rate regime was replaced with a managed floating exchange rate system. In fact, Turkey was identified as a success

story in the first years of the neoliberal structuring alongside with Latin American countries like Argentina. Growth was higher and inflation was lower in the 1980s compared to 1990s. Between 1981 and 1988 the average annual growth rate was 5.8 percent and the economy did not experience any major recession (Ertuğrul and Selçuk, 2001: 8).

However, macroeconomic imbalances reappeared after 1987. According to Akyüz and Boratav (2003: 1551) the reversal of regressive income policies and premature financial liberalization were instrumental in distorting macroeconomic balances. The military government and the successive civilian governments had implemented regressive income policies which were terminated with the election of a new civilian government in 1987. What is more, financial liberalization was realized before fiscal discipline had been secured and inflation had been brought under control. This uncontrolled financial liberalization created major imbalances in the Turkish economy in the ensuing years.

Turkey has become fully exposed to external shocks after the capital account liberalization in 1989. The decision of capital account liberalization was taken in an environment of macroeconomic instability, what is more Turkey was lacking institutional structure necessary to regulate the financial sector (Öniş, 2004: 123). As a consequence, Turkish economy was affected disproportionately by the external shocks like the Asian crisis of 1997 and the Russian crisis of 1998. (Ertuğrul and Selçuk, 2007: 9).

Fiscal stabilization component of neoliberal policies was deemphasized in the Turkish context. Fiscal instability combined with full capital account liberalization resulted in three financial crises in 1994, 2000 and 2001 (Öniş, 2006: 245). Following full convertibility of Turkish Lira in 1989, overvaluation of the

currency and the high interest rates offered for government bonds attracted large amounts of short-term capital inflows. Government bond-based deficit financing and high levels of inflation became unsustainable over a short period of time and led to an exchange rate crisis in 1994.

2000 and 2001 crises are usually called the banking crises since they were caused to a large extent by the unregulated banking sector. The November 2000 crisis was the reflection of the weakness in the private banking system while the February 2001 crisis reflected the deficiencies of the public banking system. Alper and Öniş (2004: 27) underline three deficiencies in the Turkish banking system in the 1990s. The first one is the duty losses written by the public banks. The second one is distribution of new banking licenses based on political criteria and the third one is the lack of enough foreign banks.

The economic crisis of February 2001 created miserable results; while output declined, unemployment rose. Although there seems to be a consensus on the negative repercussions of the crisis, Öniş and Bakır (2007: 148) analyze the crisis from a different perspective. According to them the crisis, by strengthening the external anchors, namely the IMF and the EU, led to the acceleration of the political and economic reforms in the post-2001 environment.

6.3 Turkish Neoliberalism in Comparative Perspective

The Turkish neoliberal experience displays similarities with Latin America. Neoliberal policies were adopted at around the same time in Turkey and more or less followed the same path. As in the case of Latin America, Turkey was one of the star pupils of Washington Consensus at the beginning of her neoliberal

experience. The first decade of neoliberal policies was rather successful, but in the 1990s and 2000s the hegemony of neoliberal model began to be eroded by the recurrent financial crises which occurred in the years 1994, 2000 and 2001. Most of the countries of Latin America, similarly, experienced severe economic crises during the 1990s and at the beginning of 2000s.

Another similarity with Latin America is the nature of political regime. As in Latin America, democracy was interrupted by military coups in 1960 and 1980 in Turkey. Although military stayed in power for a short period of time by Latin American standards, it nonetheless constituted an impediment in the democratic opening of Turkey. As in Chile and Argentina, military interruption enabled the smooth transition to neoliberal economic model in Turkey. The military regime which seized power in 1980 was instrumental in creating the favorable environment for the application of neoliberal policies by silencing the labor organizations and mass protests against the adoption of neoliberalism in Turkey.

James Petras (2007) in analyzing the neoliberal experiences in Turkey and Latin America from a comparative perspective argues that neoliberalism has passed through three phases in both cases. The first phase began just after the military coups. The transition to export-oriented development models happened shortly after the military coups. In Chile Pinochet regime between the years 1973 and 1989, in Argentina the military coup of 1976, in Uruguay the military coup in 1973, and in Bolivia the military coup of 1971 created favorable conditions for implementing neoliberal policies without much opposition. In Turkey, the military coup of 1980, in a similar vein, was instrumental in silencing the opposition movements thereby facilitating the implementation of neoliberal policies.

According to Petras (2007), the second phase of neoliberalism is characterized by deepening of neoliberal policies and greater dependence on the IMF. The second phase of neoliberalism in Turkey begins with Bülent Ecevit government in 2001. The second phase of neoliberal policies is embodied by the Cardoso government in Brazil between the years 1994 and 2002. The deepening of neoliberal policies resulted in economic crises both in Turkey and Latin America. However while the economic crises led to massive popular uprisings and rise of leftists governments in Latin America, in Turkey no such oppositional movement emerged.

The third phase of neoliberalism started with 2000s and coincides with the Post-Washington Consensus. The application of neoliberal policies combined with programs designed to alleviate the adverse impact of neoliberal policies like poverty programs characterize the third phase of neoliberal policies both in Turkey and Latin America. The Erdoğan government in Turkey, according to Petras, belongs to the third phase of neoliberalism.

As such although displaying similarities until 2000s, Latin American and Turkish neoliberal experience seem to diverge in the last decade. What we observe in the Latin American region, especially after the devastating impacts of the crises and neoliberal policies were felt by the masses is the rise of the leftist governments in one country after another. One of the major differences between Turkey and Latin American countries can be found in their relations to the IMF. Greater independence describes the relations between the Latin American countries and the international financial institutions. While Latin American countries began to implement heterodox policies, Turkey continued to operate within the boundaries of orthodox IMF programs. As Öniş (2006: 253) argues the crisis strengthened the

position of the IMF in Turkey reflecting the strategic importance of Turkey for the US in the context of post-9/11 environment. In contrast, the strategic importance of Latin America which was known as the backyard of the US for many years has been considerably decreased.

In the Latin American context, financial crises were met with mass protests on the part of society. In contrast to other parts of the world, there has been a process of mobilization emerging from non-traditional politics and social movements. MST in Brazil, Zapatista Movement in Mexico and indigenous mobilizations in Bolivia are examples of these social movements. Similar social movements were also instrumental in Venezuela (Torres, 2005: 10).

In Turkey no such protest against the neoliberal policies and the IMF was observed. According to Öniş (2006: 250) this lack of protest in the Turkish society can be explained by the strength of informal networks. Reciprocity has been an important element in defining the relations within the society and prevented any uprising.

Only mass protest seen in the society was the shopkeepers' protests in different parts of the country. 170 instances of protests by shopkeepers, artisans, and small tradesmen were observed during the first two weeks of April 2001. However these protests were scattered and did not turn into an organized protest movements. The major characteristic of these protests were their spontaneity; most of them were unplanned and protesters did not get involved in any other protest (Gemici, 2004).

Labor seemed to be silent as no organized mass protest was organized by the labor movement. Ercan and Oğuz (2007: 197-198) explains the lack of mass protests on the part of the labor as the result of the capitalists' survival strategies.

As the global competition intensifies, domestic capitalists resort to exploitation of the working class in order to survive. Therefore the protests following to 2001 crisis was dominated by spontaneous actions of small-scale producers rather than organized labor. According to Gemici (2004) protests by shopkeepers and artisans constituted 65 percent of all protests, while the protests by labor and peasants accounted for only 28 percent and 1 percent of all protests, respectively.

Another point of divergence between Latin America and Turkey has revealed itself in the choice of the electorate in the elections held after the economic crises. While the leftist parties were quite successful in the elections in Latin America, in Turkey the left could not emerge as an alternative for the masses. Instead a party with Islamic roots and neoliberal characteristics, namely AKP, won decidedly in two consecutive elections held in 2002 and 2007.

6.4 Resistance to Neoliberalism in Turkey

Considering the adverse economic impacts of neoliberal policies, Turkey shares the same fate with Latin American countries in terms of high levels of income inequality, poverty and low growth rates. In terms of mass mobilization, Turkey seems to lack a culture of mass mobilization which is prevalent in Latin America. However this does not mean that there is no resistance to neoliberal policies in Turkey.

According to Ercan and Oğuz (2007: 175-177) anti-neoliberal strategies in Turkey can be grouped under three headings; national-developmental, liberal-leftist, and class-oriented. National-developmentalists are in favor of national competitiveness and protectionism. They criticize the institutions like the IMF and

the EU for being imperialist and neoliberal. This form of anti-neoliberalism is very widespread among the Turkish labor and the socialist left.

Liberal-leftists criticize the international financial institutions but embrace the EU as an alternative project to neoliberalism. They seem to make a distinction between neoliberalism and globalization. While they are against the economic institutions of neoliberalism, they are not against institutions like the EU. While national-developmentalists see the state as the ally of labor against neoliberal globalization and imperialism, liberal-leftists see the civil society organizations as the agents of transformation.

Class-oriented strategies go beyond state or civil society-oriented strategies. They emphasize that the class dimension underlines both state and civil society. Therefore, any struggle against neoliberal globalization must be conducted by the working class. The basic contradiction is between labor and capital, rather than between state and civil society.

The most vocal critiques of neoliberalism in Turkey seem to be national-developmentalists and left populists rather than class-based alternatives (Ercan and Oğuz, 2007: 174). According to Ercan and Oğuz (2007: 181-183) one of the problems with the national-developmentalists is their over-emphasis on institutions rather than on overall structural dynamics. While they criticize the IMF and World Bank as the cause of financial crises, they overlook the inherent problems of global capitalism which lead to periodic crises. National-developmentalists also make a clear distinction between internal and external factors. While they protest the IMF and its neoliberal policies, they remain silent in the face of internal developments like the labor law accepted by Parliament in May 2003 which recognizes flexible work as legal.

The national-developmentalists also make a distinction between domestic and international capital. This can be observed in the privatization of strategic companies like TÜPRAŞ¹⁴. In a daily newspaper Cumhuriyet, known for its national-leftist tendency, a campaign was started in the wake of the TÜPRAŞ privatization supporting the selling of this strategic industrial complex to national capital. An influential columnist İlhan Selçuk, writing daily for Cumhuriyet, asked on April 6, 2006 that “Isn’t Koç¹⁵ a reliable company? If we do not support the purchase of TÜPRAŞ by a national company, Koç, Islamic capital will buy the company”. Selçuk makes a distinction between Islamic and secular capital and implies national capital is superior to international capital.

Selçuk seems to have written the aforementioned column as a reply to another columnist of Cumhuriyet. Prof. Erineç Yeldan¹⁶ had written on April 5, 2006 that private capital cannot be classified as national versus international. The aim of the capital is simply to make money and private capital, whether national or international, does not take into consideration the national interest. As Ercan and Oğuz (2007: 184-185) argue:

The alternative offered by the national-developmentalists in the end becomes the protection of national industries in international markets, thereby reproducing neoliberalism at the domestic level.

¹⁴ TÜPRAŞ is a acronym for Turkish Petroleum Refineries Corporation and the largest industrial enterprise of Turkey with a total of 27.6 million tons annual crude oil processing capacity. For further information about the company consult www.tupras.com.tr

¹⁵ Koç Holding was established in 1926 and operates in the areas of automotive, consumer durables, financial services, energy, food and retailing, tourism and IT industries. Koç Holding’s combined revenues comprise 12 percent of Turkish GDP, its exports are 10 percent of Turkey’s total exports. For further information about Koç Holding consult www.koc.com.tr

¹⁶ Erineç Yeldan is a professor of economics at Bilkent University, Ankara. He at the same time writes for Cumhuriyet on a weekly basis.

6.5 The Left in Turkey

While the leftist parties in Latin America pose a challenge to neoliberal hegemony, the left in Turkey is far from displaying a coherent resistance to neoliberal globalization. How can we explain the failure of the left in Turkey? Among political parties the biggest leftist party is CHP (Republican People's Party), however the policies and agenda of CHP is not very different from other parties, especially in economic policy area.

In an interview conducted with Deniz Baykal (the CHP leader) in May before the general elections of June 2007, he clearly stated that CHP has no intention of changing the direction of the economy. He said that: "A policy will be formed by taking into consideration that economy has been globalizing, capital movements have become indispensable part of economy and trade has been liberalizing". In an effort to pacify business circles he gave a clear message by saying that "the rules of the economy are set, there is no need to alter market economy". He emphasized that his party was not against foreign capital but they are in favor of attracting long-term foreign capital (Sağlam, 2007).

As the left could not offer any alternative, AKP emerged as the leading party both in 2002 and 2007 elections. Analysis of the factors paving way to the victory of AKP will also shed light to the reasons of the left's failure. The main component of AKP's success lies in its ability to appeal to different and widespread segments of society, especially the poor. However CHP drew a portrait of an elite party, far from the societal demands. Öniş (2007: 249) argues that:

From a European perspective, the striking anomaly of the Turkish experience is that right-of-centre, conservative parties appeared to be more 'society-centered', whereas left-of-centre parties appear to be more elitist and detached from society at large.

AKP drew support from not only the lower segments of society but also from the liberal intelligentsia. According to liberals, as opposed to established parties, AKP could present an alternative vision for Turkey since especially in the first years of its rule AKP seemed to be committed to European Union cause. AKP stood as the only political agent that could “integrate Turkey into a liberalizing and democratizing world”. With its civil society connections, AKP was perceived as “the expression of civil society against the authoritarian state” (Tuğal, 2007).

The AKP government was supported not only by the poor and middle classes, and liberal intelligentsia but also by the business circles that benefited from the favorable economic conditions. Indeed economy seemed to do pretty well especially during the first term of Erdoğan as the prime minister. However this positive economic performance should be qualified since not only Turkey but also other developing countries enjoyed the generous capital inflows coming from the developed world. Such dependence on foreign sources renders Turkey more vulnerable to external shocks. What is more, despite favorable economic conditions, current account deficit continues to be a serious problem for Turkey.

AKP is far from presenting an alternative economic perspective for Turkey as the Erdoğan government has followed orthodox economic policies since the 2002. Turkey is the biggest debtor country of the IMF. The first serious financial problem under the AKP government was experienced in May-June 2006. There were mass protests in the Black Sea region against the neoliberal policies implemented by the AKP government. 80.000 hazelnut producers protested against the government’s decision to cut agricultural subsidies in July 2006 (Tuğal, 2007). Most of the protesters were AKP voters. However the protests were short-lived and did not turn into a massive protest against the neoliberal policies and the AKP.

6.6 Concluding Remarks

Throughout this thesis I have tried to analyze the left's potential as an alternative to neoliberal policies which had devastating impacts on society. Latin America's leftist turn has increased the hopes about the future as leftist governments could change the direction of the economic policies in favor of the disadvantaged. However in most of the countries, leftist governments were proved to simply modifying the existing neoliberal structure rather than offering a distinct alternative. Among all Latin American leftist governments Venezuela has been analyzed as the case study since the policies applied by the Chávez government is often portrayed as the most radical break from the neoliberal policies.

Indeed, the Chávez era that began in 1998 can be divided into two parts; between 1998 and 2005 the Chávez government seemed to follow a social democratic trajectory. Chávez did not declare his political program to be socialist until January 2005, which signaled the beginning of the second part of his presidency, after the opposition's serious attacks against him were pacified. We can count a coup attempt in 2002, a two-month block out in the oil industry in 2002-2003 and the presidential recall referendum in 2004 among the opposition's attempts to overthrow the Chávez government.

In his first years in office, Chávez could not offer any alternative to existing economic system since the chances of any alternative being successful were severely restricted by domestic and international factors. Only after the recall referendum resulted in success for him, he declared the beginning of a new phase for the Bolivarian revolution. In the second part of his presidency, an alternative

appears to be constructed whose contours are most apparent in the areas of foreign policy, social policy and in the creation of social economy.

Despite all these efforts towards building an alternative to neoliberal policies, we cannot assert that Venezuelan experience constitutes a full-fledged alternative since Venezuela is still constrained by the international conditions. We are still living in a neoliberal world and efforts towards building an alternative in one country face limitations of this neoliberal world. As de-linking has lost its feasibility in today's globalized world, building an alternative only in one country is a difficult task even for Venezuela whose oil revenue provides a substantial amount of independence in international relations. Looking from this perspective, initiatives undertaken by Venezuela like the foundation of ALBA as an alternative to FTAA makes more sense since a regional alternative has a bigger chance of survival compared to one country.

However, despite all its drawbacks, I find the Venezuelan experience crucial in the sense that it poses a serious threat to TINA rhetoric at least at the ideological level. It is a sign that TINA, which was once perceived as irreversible, has begun to be questioned. In the last chapter I have included Turkey in order to provide a comparative perspective on the issues of resistance and alternative. Although neoliberal policies created miserable living conditions for the general population, Turkey lacks a coherent alternative movement or political party and the left is far from offering an alternative policy agenda. However, following Polanyi, one can expect a coherent counter-movement to emerge in Turkey sooner or later, as it is not immune from the devastating impacts of neoliberal policies on society and environment.

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