RESEARCH REPORTS AND NOTES

ASSESSING LATIN AMERICAN NEOLIBERALISM:
Introduction to a Debate

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Abstract: The present set of Research Notes, which were first presented at a forum on Latin America's market reforms held at the 2003 Latin American Studies Association Congress, investigates the economic and social repercussions of the neoliberal wave that swept across the region during the 1990s. Have market reforms brought greater economic stability and stimulated growth? How have they affected crucial social issues, such as unemployment, poverty, and inequality? After Weyland's introductory explication of these questions, the Research Notes by Evelyne Huber and Fred Solt and by Michael Walton advance divergent assessments of neoliberalism's successes and failures. Huber and Solt argue that overall, Latin America's market reforms have yielded disappointing results in terms of economic stability and growth, social equity, and the quality of democracy. In particular, countries that enacted more radical reforms or that took especially drastic steps towards change performed less well than nations that proceeded more cautiously and gradually. By contrast, Walton argues that market reforms have increased growth while not significantly exacerbating economic instability and social inequality. And to the extent that neoliberalism fell short of expectations, the problem did not emerge from market reforms as such, but from deficiencies in the institutional context in which these reforms were enacted.

The neoliberal reforms that swept across Latin America during the last two decades have profoundly affected the region's socioeconomic and political development. In the minds of many observers, they constitute

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as important a "critical juncture" as the adoption of import-substitution industrialization (ISI) and its frequent political complement, populism, in the 1930s and 1940s (see Collier and Collier 1991, particularly, 772–74). In fact, the wave of profound market reforms dismantled the mainstays of ISI and eroded important legacies of populism, such as corporatist structures of interest representation (Hagopian 1998). Trade liberalization opened up Latin America's closed, heavily protected economies to stiff foreign competition; the elimination of many restrictions and regulations on foreign direct investment attracted international investors who brought modern technology; and the privatization of public enterprises reversed decades of growing state interventionism and sought to turn the region's coddled private sectors, which had often lived off of public subsidies,[1] into true entrepreneurs and the main engine of economic development. This fundamental change in the region's development model also had profound implications for society and politics; its immediate repercussions in these spheres ranged from increasing unemployment to significant upheavals in several countries' party systems.

Now that more than a decade has passed since the majority of Latin American countries initiated the move to neoliberalism, it is time for scholars to take stock and assess the socioeconomic and political repercussions of the market reform wave. So far, analyses of the *causes* and *processes* of the region's dramatic embrace of free-market economics have predominated in the literature. Over more than a decade, authors have produced a number of outstanding theoretical accounts and a wealth of studies on specific countries or aspects of the market reform process.[2] These investigations have greatly advanced scholarly understanding of the conditions and factors that led so many countries to enact momentous reforms that most observers had not anticipated.

By contrast, systematic assessments of the socioeconomic and political *consequences* of the move to free-market economics have only begun to appear recently. Given the volatility of Latin American economies, and of the world economy as a whole, it was difficult to draw firm, reliable conclusions right after the initiation of neoliberalism. In fact, the very nature of market reform, which prescribes the "bitter pill" of tough adjustment in the hope of curing the economy of longstanding ills and ushering in a new era of prosperity, made it prudent to wait for some

1. In Brazil's colorful political discourse, this practice was called "mamar nas tetas do Estado;" the battle cry of many reformers was therefore, paradoxically, to "privatize the private sector."

2. See, for instance, Nelson 1990; Haggard and Kaufman 1992, 1995; Bresser Pereira, Maravall, and Przeworski 1993; Conaghan and Malloy 1994; Haggard and Webb 1994; Smith, Acuña, and Gamarra 1994; Williamson 1994; Kingstone 1999; Murillo 2001; Snyder 2001; Stokes 2001; Teichman 2001; Williams 2001; Corrales 2002; Eaton 2002; Weyland 2002; Madrid 2003.

stretch of experience to unfold before drawing inferences on the performance of the new development model. To evaluate the recipe of "short-term pain for long-term gain" in a way that was both valid and fair, it was necessary to give economies a chance to emerge from the transitional recession often caused by structural adjustment and to realize the hypothesized growth potential of the new development model.

So now, after more than a decade of free-market economics in most Latin American countries, the time has come to conduct systematic evaluations of neoliberalism's socioeconomic results and political repercussions. Indeed, several scholars have already begun to make important forays in this direction, some of them in the *Latin American Research Review* (see, for instance, Londoño and Székely 2000; Stallings and Peres 2000; Morley 2001; Weller 2001; in *LARR*, see Berry 1997; Sheahan 1997; Portes and Hoffman 2003). Furthermore, the international financial institutions, powerful promoters of the free-market approach, have compiled a wealth of data and conducted innumerable assessments (see, e.g., Inter-American Development Bank 1998, 13; World Bank 1998; Wodon 2000; De Ferranti et al. 2004). Other international organizations, such as the UN Economic Commission for Latin America, have presented more critical analyses (e.g., CEPAL 1997).

This new research agenda addresses a number of crucial questions that I will briefly outline. First is the question of whether neoliberal reforms have brought greater economic stability to Latin America. The ISI model was plagued by a seemingly irresistible tendency towards increasing inflation as well as frequent balance-of-payments crises. While price rises have clearly moderated dramatically over the last decade, we must ask whether trade liberalization has boosted international competitiveness and export success, thus breaking Latin America's longstanding foreign-exchange bottleneck. Or by contrast, has financial liberalization exposed the region to new sources of volatility, especially highly mobile capital flows, which can create new boom-and-bust cycles? And are Latin American economies defenseless in the face of such capital movements, or can government regulations—for instance, the capital controls adopted for years by Chile—successfully rein in this danger?

Second, after the "lost decade" of the 1980s, we need to assess whether neoliberal reforms actually put Latin America onto a new growth trajectory. Before the international economic shocks starting in the 1970s—for instance, the drastic increase in international oil prices—several Latin American countries were among the highest growth performers in the world. Thus, has the revamping of the region's development model restored this growth potential? Have newly open economies found lucrative niches in stiffly competitive global markets, as Chile did in an exemplary fashion from the mid-1980s onward? Has the removal of stifling state interventionism unleashed domestic entrepreneurial initiative and attracted dynamic foreign investors, who bring state-of-the-art technology and access to international marketing networks? By contrast, has radical neoliberalism dismantled the administrative structures of states, thus preventing them from effectively making crucial contributions to systemic competitiveness and from resolving variegated market failures? As another possibility, to what extent has market reform been enacted in such a haphazard, politicized, and corrupt way that it cannot achieve its growth—enhancing promise because rent-seeking groups obstruct efficiency gains? For instance, did the privatization of public enterprises and services, which was often used by governments to buy political support from powerful business sectors, fail to boost competition and simply substitute public monopolies with private monopolies, offering huge extra profits to politically "connected" entrepreneurs without improving service quality and lowering prices?

A third set of questions that we need to address concerns how high and enduring the social costs of drastic market reform have been. Specifically, has unemployment, which was widely anticipated as a transitional problem, begun to recede as displaced workers have found new, well-paying jobs in sectors that received a substantial growth boost from market reform? As a result, has the precarious, disproportionately poor "informal sector" started to shrink, while the formal sector, which provides workers with labor contracts and social benefits, has begun to grow? Moreover, how have market reforms affected overall social outcomes, especially the extent and depth of poverty and inequality in society? Has the initial fear that neoliberalism would enhance economic efficiency at the cost of exacerbating social inequality, materialized across the region? Or has neoliberalism also had surprising equity-enhancing effects, for instance by canceling the "inflation tax" that previously so disproportionately burdened the poorer sectors? And to what extent have the anti-poverty programs advocated and largely financed by international financial institutions managed to bring effective relief to destitute sectors, maybe even easing social inequality? In short, what has been the net impact of these counteracting tendencies?

Early assessments to these important questions tended to diverge widely. Advocates of market reform expressed high hopes in greater economic stability, significantly higher growth, and limited social costs. By contrast, leftist critics of neoliberalism foresaw pronounced economic volatility, low growth, and lasting social damage, including a substantial aggravation of Latin America's already extreme levels of social inequality. Yet now, with a longer period of evaluation, it has become increasingly obvious that the reality—as usual—lies somewhere between these two extremes. Moreover, the experiences of different countries, and of different sectors and groups within these countries, seem to vary substantially. As a result, it is crucial to bring systematic empirical data to bear to arrive at valid assessments of the performance of Latin America's new market model.

To begin taking stock of this incipient debate and provide further inducement for Latin America specialists to focus on this important topic, the *Latin American Research Review* organized a roundtable on "Neoliberalism in Latin America—Successes and Failures" at the XXIV LASA Congress in Dallas (March 2003). Four leading specialists offered their views: Luiz Carlos Bresser Pereira, Marcelo Cavarozzi,[3] Evelyne Huber, and Michael Walton, who filled in for David de Ferranti, the World Bank's Vice-President for Latin America and the Caribbean. Since the latter two presentations advanced contending views on the same specific issue, and thus made for a great exchange, the *LARR* editors invited those authors to write up their ideas in the following Research Notes, which we very much hope will stimulate further discussion among *LARR* readers. Indeed, our hope is that scholars will feel inspired to investigate in their area of specialization the "big questions" analyzed in the following exchange—and will then send the resulting manuscripts to *LARR*. In their concerted effort to publish cutting-edge research, the *LARR* editors will be particularly happy to consider articles that break new ground in this way.

Finally, an important related topic that has only recently begun to attract systematic scholarly attention is neoliberalism's effect on politics, especially on patterns of political representation; on the processes and outputs of political decision making; and on the stability and quality of democracy. While many authors have touched on these important issues, in-depth investigations have been all too rare (for exceptions, see for example, Hagopian 1998; Oxhorn 1998; Ryan 2001; Stokes 2001; Kurtz 2004). But the time has come to examine the repercussions of drastic market reform on Latin American party systems and other structures of interest representation, such as corporatist unions and business associations; to probe the new constraints that economic openness may impose on governmental policy-making; to analyze the links between neoliberalism and the resurgence of populism in the region; and to assess the repercussions of market reform on the sustainability and quality of democracy. Latin America specialists thus face a wide-open agenda for promising research—and *LARR* stands ready to review article manuscripts on these crucial topics.

3. Professor Cavarozzi presented the core findings of his new co-authored book (Garretón, Cavarozzi, Cleaves, Gereffi, and Hartlyn 2003).

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