



Views from the periphery: futures of neoliberalism in Latin America

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ABSTRACT *The political economy of Latin American countries seems increasingly characterised by neoliberal approaches. Economic factors at the global and continental scale seem to reinforce this trend. This article explores the social bases of neoliberalism not only in terms of the technocratic but also of the wider social and political base. The connections between neoliberal reform, people and places are explored through examining the nature of export-orientated growth, the transformations of labour markets, the social impacts of reform, poverty and the changing social provision of the state. The contradictions within the neoliberal model are examined before the future of neoliberalism and the prospects for alternative development strategies and sociopolitical scenarios are considered. In particular, the arguments from neostructuralist contributions are assessed and some of the contrasts between neoliberal and neostructural theories identified.*

A new political economy is being constructed in Latin America, as national economies become radically restructured and transformed and new social arrangements are being created within national societies. It would seem that the dynamic nature of the world capitalist market is being seen in a new and more positive light in much of Latin America, at least by the new governing classes. Latin American economies and societies are reacting to these changes and strengthening their links to an increasingly competitive and interdependent world. The demands of these changes are creating stresses in Latin American society that seem to be falling unevenly on the poor. However, such changes are taking place within a continent of democratic governance, which provides opportunities to challenge what has become the new paradigm.

This paradigm has been called by many neoliberal.¹ This paper wishes to explore the future of neoliberalism.² There will be three stages to the argument. The first will attempt to explain the prevalence of neoliberalism in contemporary Latin America, at least among the governing circles. It will do this partly by examining the economic, technocratic, social and political bases of the neoliberal model in Latin America. Second, there will be an attempt briefly to evaluate the neoliberal model and investigate its problems and deficiencies, particularly in terms of economic outcomes, labour markets, social impacts, poverty and the changing social provision of the state. Finally, the paper will focus on the future of neoliberalism, exploring the contradictions apparent within the model, the

different forms that neoliberalism has taken and the relationship between neoliberalism and neostructuralism.

Explanations for the contemporary prevalence of neoliberalism

Why has neoliberalism become the dominant paradigm of the 1990s in Latin America? There are at least two geographical scales that are relevant: the global and the Latin American. At the global scale, the package of economic reforms is strongly supported by international institutions such as the World Bank and IMF—hence the relevance of the label that the consensus was forged in Washington (Edwards, 1995). It is worth pointing out that over the past 50 years the IMF and World Bank have made many such recommendations for the liberalisation and management of Latin American economies, which have often been ignored. Nevertheless, these international institutions gave strong external support to the adoption of a neoliberal framework. The technocracies of these institutions combined with networks of economic and political advisers throughout Latin America to actively push for reform, particularly in the wake of the debt crisis.

The neoliberal model has had surprising converts in other parts of the world. The late 1980s and early 1990s saw the collapse of the Soviet system and the ‘alternative’ economic model of state-directed, centrally planned economies. The introduction of market reforms in Eastern Europe and the countries of the former Soviet Union, and the apparent vigour with which governments and the populace shifted from planned to market economies, gave neoliberal reform considerable impetus in Latin America. Latin American governments recognised that the political economy of neoliberalism had become the basis for policy in what could be identified as ‘competitor’ regions in the world economy. It thus became paramount, according to Latin American Treasury ministers, to ‘modernise’ their economies in order to make them more competitive in world markets. Such modernisation is necessary in order to successfully attract foreign investment from global corporations that have a wide range of options of where to invest. This became the justification for the ‘lack of alternatives’ argument towards adoption of the neoliberal model.

In a similar way, Latin American economic ministers could look to the economic success of certain East Asian countries, which had embarked on outward-orientated policies since the 1960s (though with strong state involvement), and thereby justify more export-orientated strategies for Latin American countries. It was often argued that open economies and market orientation had led to the economic success of the NICs of East Asia and their own rapid recovery from the debt crisis of the 1980s (Edwards, 1995; World Bank, 1987). Thus the East Asian model was ‘consumed’ in Latin American policy circles as a version of neoliberalism, even though this provided at best only a partial explanation (Gereffi & Wyman, 1990; Jenkins, 1991).

At the Latin American scale of analysis, there seem to be a number of historical and comparative factors to point out. First of all, in the 1980s neoliberal policies provided a framework for extricating Latin American economies from the severe debt crisis of that decade, in which access to external finance was suddenly curtailed. In many countries the adoption of a new

paradigm also constituted a wider response to the perceived economic failure of the previous political economy paradigm of inward orientation (Kay, 1989; Dietz, 1995). The intellectual justification of inward orientation had come from structuralism and dependency theories (Kay & Gwynne, 2000).

Second, the decade of the 1990s has witnessed big advances in the globalisation of the Latin American economy, with capital flows, trade and investment increasing significantly, at least until the end of 1997 (Edwards, 1995). The inward-orientated model was effectively cutting Latin American economies off from the advantages (and problems) of being more fully inserted into a globalising world economy. Neoliberal policies provided the framework for Latin American economies to increase trade with other world regions and increase inward investment and capital inflows from firms and banks in those regions.

Third, there is the question of the link between neoliberal reform and governance. During the late 1980s and 1990s, the link between neoliberal policies and democratic governance has become particularly strong in Latin America (Haggard & Kaufman, 1995)—particularly through transitions to democracy in former authoritarian governments. There have been significant shifts from authoritarian to democratic governance in all Southern Cone countries and Brazil during the 1980s and 1990s. In all cases there has either been a shift towards or a maintenance of neoliberal economic policies in the aftermath of the democratic transition. Shifts to neoliberal reform did not always come immediately. In the mid- to late-1980s, heterodox stabilisation plans were attempted in Argentina (the Plan Austral of Alfonsín) and Brazil (the Plan Cruzado). However, these plans met with failure and thus allowed the neoliberal paradigm to gain further influence. It could be argued that the failure of these stabilisation plans helped to persuade the population that the bitter pill had to be swallowed. There was no soft option to the shock treatment in order to stop the trend of rampant inflation. Furthermore, political parties that came to power after the demise of the authoritarian governments that instigated neoliberal policies have subsequently maintained them (as in the case of the 'Concertación' in Chile and the governments of Aylwin and Frei). These parties have argued that democratic governance allows for and encourages greater public participation and representation in the policy process.

In order to consider the present nature of neoliberalism and its future sustainability, it is important to assess how firm are the bases of consensus for this paradigm and what the challenges are to this consensus. Has any social consensus been achieved in order to support the neoliberal order or is it just a technocratic consensus of government circles and their advisers?

The technocratic and economic base

It has been argued that the growth of technocratic support for the neoliberal model emerged as a reaction to the deficiencies of the previous inward-orientated paradigm based on protected markets and industrialisation. Economic growth based on import-substitution industrialization (ISI) had encountered both economic and political difficulties (Gwynne, 1985). The technocratic argument was

that, thanks to the power of the state in the ISI model, opportunities for private investment were crowded out, fiscal budgets became characterised by permanent and large deficits and inflation tended to be high or hyper. In addition, firms engaged in ISI production (whether public or private) had become inefficient and uncompetitive internationally.

These economic difficulties were compounded by the political. Industrial firms continued to demand higher rates of protection in order to survive, a factor that discriminated against exporters and agricultural producers. In some countries the emergence of a substantial industrial base had given rise to an industrial working class that was gaining in political significance. Meanwhile industrial firms emphasised the high social contributions that they were burdened with and complained about the expensive nature of the rudimentary welfare states that were being created.

The technocratic forces that came to favour neoliberal strategies were not only defined by what they were against but also by what they were in favour of. The theoretical attraction of free market models, a smaller state and the importance of achieving macroeconomic stability were some of the main themes (Gwynne, 1990). The great majority of technocrats had been research students in the economics and business schools of US universities (Centeno & Silva, 1998). Before the debt crisis such technocrats had presented neoliberal policy alternatives but had been unable to command sufficient political support for their implementation. After the debt crisis this changed dramatically and they became the main agents of economic change not only through direct political appointments (such as Treasury ministers) but also through the range of advisers and civil servants required by government. They became part of an international network of advisers all broadly sympathetic to market-orientated solutions, macroeconomic reform and outward orientation as a way out of the debt crisis.

In spite of delays this new government technocracy has evolved in most Latin American countries. In Argentina and Peru the delay lasted until the early 1990s, in Brazil until the mid-1990s. In these countries the technocratic elements supporting more market-orientated policies had to struggle for the policies to come into place—against the continuation of both populist and inward-orientated policies. Indeed, in Peru, it should be remembered that Fujimori actually came to power on the back of a populist agenda in the 1990 election. It was only after extensive consultations with influential international institutions and networks of Latin American (and Peruvian) technocrats that he became converted (and forcefully) to the neoliberal agenda. Thus, technocrats became influential agents in the installation of the new paradigm.

The economic package of reforms has focused on at least five main areas: fiscal management, privatisation of state firms, labour markets, trade and financial markets (Edwards, 1995). Fiscal reform has emphasised the need for the reduction of budget deficits, the creation of strong budget and tax offices and even an independent central bank (as in Chile in 1989). In countries such as Argentina, Chile and Peru, Treasury ministers have used this policy in order to justify the slashing of public expenditure, particularly in economic sectors—but also in social areas. As neoliberal policies have evolved, the need to increase public spending in social areas, such as education, health and welfare, is often

identified, as in Chile during the 1990s (though it is not so evident in Argentina and Peru). Fiscal reform has also been linked to policies of privatisation (as in Argentina). Privatisation has had the objective of eliminating inefficient and insolvent state enterprises, thereby reducing government expenditure. Furthermore, the sale of these firms to the private sector has boosted income for government during restructuring, when government finances are at their most vulnerable. However, this can only be a short-term palliative, lasting as long as there are state enterprises to privatise. Furthermore, strong regulatory bodies are needed so that, in areas of potential monopoly (such as electricity production and distribution), it is ensured that the private sector companies will actually work more efficiently than those of the former public sector.

Another key, though less publicised, neoliberal reform is that of restructuring labour markets. New wage and employment bargaining systems have been introduced, giving more power to employers and less to trade unions. New employment laws have been passed in order to make labour markets more flexible and to reduce the social security contributions and responsibilities of employers. Overall, these reforms have restructured labour markets in favour of employers, as they have gained a more flexible system of hiring and firing and lower wage and non-wage costs.

Private sector employers are seen as the key targets of trade reform. In essence, trade reforms are concerned with making Latin American economies more outward looking and private sector firms keener on becoming more competitive in the international market place. Trade liberalisation has emphasised the need to promote exports and to reduce tariffs on imports. Such reform is deemed to create more international competition for firms so that they change from producing just for the home market and raise their horizons to global markets. At the same time, governments are supposed to avoid industrial policy and encourage the inward flow of direct foreign investment from multinational companies.

Financial market reform has also had the objective of reducing government intervention and aiming for the operation of free markets, in which national markets become increasingly influenced by global investors and speculators. However, working towards market-determined interest rates can have consequences that are both favourable (increased inflow of capital) and unfavourable (increased volatility of capital inflow from global financial institutions). The Mexican crisis of late 1994 showed up the unfavourable impacts of high volatility very clearly and, to a certain extent, the policy emphasis changed in its aftermath. It is now understood that financial deregulation needs to be combined with stronger oversight of banks through an effective and efficient Superintendency of Banks as well as curbs on short-term speculative capital.

These are the core of the neoliberal reforms that are being put in place to varying degrees in Latin American countries by the new technocratic class (Edwards, 1995). It is worth emphasising that the paradigmatic transformations in political economy have not been similar in all countries. The commitment to and extent of neoliberal reform in Latin America varies substantially. It ranges from Chile (with over two decades of reform and a shift from authoritarian to democratic governance), to Argentina and Peru (late but committed converts)

and on to Venezuela (where conversion to neoliberal reform between 1989 and 1992 was short-lived and became closely involved with corruption). There are considerable variations then in the practice of neoliberal reform in Latin America. However, the Brazilian conversion to a form of neoliberalism under President Cardoso in the mid-1990s (Cammack, 1997; Cunningham, 1999), seems to indicate that a new continent-wide paradigm is being adopted. Thus, as a continent, Latin America is shifting towards a closer integration with world markets, but its constituent parts are doing so at different rates.

There has been an important distinction as to whether the technocratic force pushing the neoliberal agenda in Latin America has been linked to democratic or authoritarian governments. Within democratic structures, government ministers and technocrats needed to explain and justify the concepts behind radical policy changes to a wide public. Within authoritarian governments, such changes were imposed from above, often with little justification or consultation. Technocrats within authoritarian governments tended to become more ideological as a result, able to impose what they regarded as theoretically consistent policies but unwilling to listen and react to the many who suffered from the fundamental restructuring of the economy. Meanwhile, technocrats within democratic governments have often been both less rigidly ideological in their policy formulation and more willing to adapt policy to political realities.

The social and political base

It is worth emphasising that the neoliberal model had little social and political base in the early stages of its evolution—apart perhaps from a limited number of entrepreneurs associated with export industries (Klak, 1998). In general, entrepreneurs in the protected sectors of agriculture, finance and industry were not supportive of more outward-orientated policies, as this would bring increased competition and would change their political influence in relatively closed markets. How did the social and political base develop?

In many countries it developed as a response to the impacts of the debt crisis and the need to shift power to export-producing sectors and, subsequently, to foreign investors—both in terms of finance and of productive capital. In the 1990s there has been a surprising extension of the political base as centre-left coalitions and governments (as in Chile and Brazil, for example) have been converted to neoliberal economic reform. A range of social democratic parties have come to adopt the Washington consensus (Bresser Pereira, 1996), although emphasising the need for social policies and welfare programmes to smooth over the hardships of the transition and the restructuring process. The widening of the political base supporting neoliberal reform has given it a wider sense of social support and legitimacy.

Thus, although there was little original social support for the neoliberal model, this has steadily gained ground throughout the last decade. The expansion of social support through the adoption of a revised and modified model (more socially concerned but still market-orientated) has been notable. In conclusion, one can point to three elements:

- (1) Social support for the neoliberal model, although limited originally, has steadily gained ground—both in terms of the number of countries adopting the policies (the late arrival of Brazil to reform has been important) and in terms of internal social support.
- (2) The achievement of macroeconomic stability has helped the neoliberal programme achieve wider legitimacy (as in the governments of Fujimori, Menem and Cardoso, where they achieved stability after previous more heterodox and populist models had been tried and failed).
- (3) After the initial substantial shock in which poverty and unemployment increase dramatically, gradual improvement *can* occur in these variables (as in the case of Chile but not yet Argentina). As employment increases, the neoliberal framework can perhaps gain social support within those poorer groups that are gradually finding waged employment.

The neoliberal model evaluated

Despite the increasing social consensus surrounding it, the neoliberal model is nevertheless being contested, particularly in the social area. Peasant movements in southern Mexico, Brazil (the landless peasant movement) and Ecuador, movements representing the urban poor in squatter settlements and ecological movements taking up environmental issues at the local scale provide examples of this. This section will first assess any economic shortcomings of the model before assessing the social impacts associated with it.

Economic shortcomings of the model

The neoliberal model has extended its influence largely because of the economic gains that it has provided. However, are there any economic shortcomings to the model? Apart from the Chilean case, the model still suffers from low savings rates; this problem was a fundamental factor in explaining the Mexican crisis of the mid-1990s (Otero, 1996). In terms of the public sector, the tax base is relatively low and tax evasion high. As regards the private sector, sweeping reform to private pension funds has been associated with a significant rise in the savings rate in Chile (Barrientos, 1996). However, other countries have not followed the example and the Chilean pension funds have suffered heavily from declining stock values during the late 1990s. High interest rates on their own do not seem to have changed savings habits in most of Latin America. Indeed, greater access to credit in the wake of financial liberalisation has appeared to fuel consumerism and high indebtedness (Sklair, 1994). As a result, Latin American economies still depend heavily on external finance, either in the form of private capital flows or foreign investment.

By making Latin American economies more closely integrated into the global economy, the neoliberal model has also made them more dependent on, and hence vulnerable to, global economic shifts. As with the structuralist arguments of the 1950s, Latin American economies are still concerned about the wide fluctuations in world prices for primary commodities. With exports of these products growing rapidly at the end of the twentieth century, particularly in

small countries, their potential vulnerability is being accentuated—as between 1998 and 1999 when most primary product prices were at low historic levels. In addition, economies are now more vulnerable to changes in strategy (and profitability) of international finance.

Furthermore, although neoliberal economic policies have provided reasonable rates of economic growth once they have become firmly established, this has been associated with increasing inequality (Bulmer-Thomas, 1996). Within the framework of market-orientated economics, benefits have been concentrated among the more successful entrepreneurs and executives of the private sector. Entrepreneurs specialising in exports and finance and large national companies that have been able to restructure successfully have been some of the main beneficiaries of the reforms.

Labour markets transformed

In contrast, labour has suffered much more heavily than holders of capital during economic restructuring. The adoption of an outward-orientated economic policy has normally been associated with large increases in unemployment in key industrial sectors, at the same time as the privatisation of state firms has been characterised by a significant loss of labour. Growth in export-orientated sectors has taken much longer to generate adequate employment opportunities. This has created the need to restructure labour markets radically in order to lower wage costs, to have a more flexible hiring and firing system for employers and to lower employers' non-wage costs (as in employers' insurance contributions). Employers have further been able to reduce costs by adopting short-term contracts and more subcontracting for the supply of parts and services (Thomas, 1996). This has increased the importance of informal arrangements in productive activities.

The state has also tried to reduce the power of trade unions in order to reduce worker protection and lower labour costs (as in Chile and Peru). Increased employment of female labour (particularly in areas of agricultural exports and assembly industries) has been another feature. Labour has increasingly suffered reduced bargaining power, with the acquiescence or indeed active support of the state. These processes have often been perceived as the necessary prerequisites to produce a more flexible labour market and to create more competitive labour conditions for employers in the international market place. Overall, labour has become more vulnerable and insecure through the growth of short-term contracts, the shift to more competitive labour markets and the decline of social security. Unless workers are skilled and/or possess a marketable knowledge, they become destined for either low wages or, even worse, underemployment and periods of unemployment.

Social impacts of reform

The transformations of labour markets introduces the wider theme that neoliberal reform has been associated with negative effects in such social areas as income distribution and poverty. These negative effects can be seen in the impact of

neoliberal reforms in at least five areas of the labour market (Bulmer-Thomas, 1996).

- (1) Unemployment rate: trade liberalisation, fiscal and labour market reform have combined to substantially increase unemployment during the economic crisis and the process of economic restructuring. Those companies unable to compete with foreign firms in the domestic market lay off workers, governments drastically reduce the numbers of civil servants and short-term contracts make temporary unemployment more common.
- (2) Real minimum wage: labour market and fiscal reforms have normally operated to reduce the minimum wage in real terms—both to save government spending on social provision and to maximise employment during economic restructuring. Although the real minimum wage declines during the economic crisis, it can subsequently increase once economic growth becomes more sustained (as in Chile since the late 1980s).
- (3) Real wages: trade liberalisation, fiscal and labour market reform have all tended to exert downward pressure on real wages—as companies face more competition from overseas firms, as governments increase wages and salaries at lower rates than inflation and as greater flexibility enters the labour market. Again a distinct sequencing can be found, with real wages declining during the first phase of economic restructuring but with slight increases occurring once the labour market subsequently tightens.
- (4) Wealth effects: the impact of fiscal reform, the liberalisation of trade and domestic capital markets and increased inflow of foreign capital has been to substantially increase the wealth of the top two deciles of income earners—the capitalist class in general and entrepreneurs in particular.
- (5) The urban informal sector. This corresponds to that part of the urban economy that is small-scale, avoids regulation and covers a wide variety of activities. During the phase of economic restructuring the informal sector tends to expand as more enterprises wish to enter the unregulated sector. However, subsequently it can decline as it becomes easier for small-scale enterprises to comply with the more limited regulations required of a deregulated formal sector. It has been argued (de Soto, 1989) that the urban market does offer opportunities for many (as in petty commerce). However, as Thomas (1996) and Roberts (1995) point out, these are basically survival strategies and enterprises will normally remain with low levels of capital accumulation and therefore income. It would be interesting to know the level of support for the economic model from these sectors. Again support would probably emerge when economic growth resumes. Increased subcontracting from larger firms to small-scale informal enterprises would be one example of such trickle-down mechanisms operating.

Thus the social impacts of neoliberal reform are both considerable and substantial, although it is important to indicate a certain sequencing—normally a period of drastic change (increased unemployment, declining wages), followed once economic growth picks up by a period of gradual improvement. Does this period of gradual improvement reduce inequalities as well? It is difficult to judge at present. In the longest historical surveys of the relationship between neoliberal

reform and inequality (Altimir, 1994; Scott, 1996), there is a tendency for improvement *after* the crisis of economic restructuring—during which income distribution becomes considerably worse. Even so, it is the upper two deciles which have performed consistently well during economic reform, thanks to the great advantages enjoyed by those owning capital and earning high salaries because of their business skills. The middle four deciles tend to be relatively static or even declining, while the lower four deciles remain with low and declining percentage proportions of national income.

Within states that have shifted from authoritarian to democratic governance, there is greater evidence of integrating social policies into neoliberal reform packages with the objective of achieving greater social equity—or neoliberalism with a human face as it has been called. The democratic transition in Chile after 1990 saw a significant shift in social priorities, as tax increases were directed to pay for greater spending on social welfare, education and health. However, there seems to be less commitment to social policies in other countries experiencing neoliberal reform.

Poverty and the changing social provision of the state

One of the strongest criticisms of the neoliberal model has been its inability to tackle poverty. Indeed, there has normally been a substantial increase in poverty as structural adjustment policies (the shock treatment) have been enforced. After the debt crisis of the 1980s there was discussion of a social debt, society's debt to the poor and underemployed (between 30% and 50% of the population of most countries). There was the idea that this debt had to be paid alongside that of the foreign debt. However, whereas many countries have arranged the latter debt, the social debt continues. The poor are characterised by poor health and high infant mortality rates. When epidemics break out, as with cholera in Peru in the 1980s, it is the poor, with their low levels of sanitary infrastructure, that suffer most. The social debt remains high and even the Inter-American Development Bank (1996) recently emphasised the need to rebuild the continent's social infrastructure and social services.

However, in general, the state has tried to reduce its long-term commitment to social provision and to create more market-driven forms of social support. Notable here is the case of pension reform, in which the private sector takes control of workers' contributions, the investment of those contributions and the delivery of social and pension benefits (Barrientos, 1996). This reduces the fiscal burden and shifts resources from the state to the private sector, giving greater opportunities for the private sector to invest. The private sector has also been encouraged to invest in the health and education sectors. However, this has normally been associated with two-tier systems of social welfare, with only the upper and wealthier middle classes able to afford the high costs of private schools and health provision. The poorer majority is left to fend for itself within an under-funded and low-quality public service. With the reduction of social welfare provision from the state, there is an increased role for non-governmental organisations (NGOs) in helping with skills and livelihoods for the poor both in

rural and urban areas. However, overall, inequality of access to social welfare has become a characteristic of the new economic model.

Future of neoliberalism

During the 1990s in Latin America globalisation has been intimately linked with the shift to neoliberal policies. During this decade, the governments of most countries of mainland Latin America have integrated their national economies more closely with the global economy. In particular this has been achieved through trade liberalisation and the deregulation of financial markets; increased trade, capital flows, investment and technology transfer have normally resulted. The more global framework for Latin American economies has coincided with a shift from authoritarian governments (that were still significant in the 1980s) to democratic governance, so that at present all 16 mainland Latin American countries have governments elected through the ballot box. Thus the Latin American state in the 1990s has transformed itself into a democratic system at the same time as reducing its direct influence over the economy (through privatisation and deregulation) and cutting the size of the public sector through fiscal reform.

Before assessing the future of neoliberalism, it is worth exploring any contradictions in the theory and application of the model. During the 1990s neoliberalism achieved rapid economic growth but with increasing income inequality, more exclusion and less social protection. Nevertheless, this has taken place within a Latin American continent that has shifted to democratic frameworks. However, as Gills and Rocamora (1992) argue, in the transition from authoritarian to democratic regimes in Latin America, institutions have failed to broaden popular political participation in a meaningful way. In these elite democracies, social reform agendas that could have established the basis for broader popular participation and greater social equity have been abandoned. Indeed, Green (1995: 164) argues that the application of the new economic model 'has ripped the heart out of democratization, turning what could have been a flowering of political and social participation into a brand of "low-intensity democracy".'

Many question how the economic model can be orchestrated within democracies in which large numbers of the electorate are not enjoying the benefits of economic growth. Is democracy sustainable under such conditions? Or does the continuation of the economic model rely on technocratic governments? Does the model rely on the necessity for economic growth and increasing integration within global consumerism? Has neoliberalism become responsive to local needs?

Some neoliberal policies have tried to become closer to local needs by decentralising powers and functions from the central state. Reforms to local government (Nickson, 1995) have tried to provide services more responsive to local needs and with clearer local targeting. These reforms have attempted to increase efficiency while legitimating the reduced state at the local level. NGOs have in the past helped in this process. However, NGOs have tended to be captured by the state during the democratic transition. Although there are some

positive factors in this (qualified personnel moving into democratic local government), there are also substantial negative factors. These include: much reduced budgets and staff; lack of alternative perspectives; losing a certain degree of autonomy because of reliance on public funding (as opposed to international organisations); not being that closely linked to local needs.

However, the realities of decentralisation in many countries that have attempted it (such as Chile and Bolivia) are more akin to deconcentration—the shifting of functions down to the local scale but without many powers of decision making. In this way, deconcentration has been more closely linked to the idea of maintaining a small state but being able to provide cheaper and more efficient social services at the local scale without any increased resources.

To what extent will the contradictions of the neoliberal model be recognised and social movements be created outlining alternative development strategies and sociopolitical scenarios? It could be argued that, in order to make Latin American countries more competitive in a globalising world, neoliberal reform cannot simply be about making economies more market-orientated. The Chilean case shows that substantial and critical institutional reforms have to take place over a long period of time in order for a Latin American country to become more competitive and less prone to international crises. Institutional reform in Chile has stretched over a period dating from 1964 and has emerged from a wide variety of political ideologies. Reforms to landholding, to the ownership of national mineral wealth (notably copper), to health and personal pensions, to financial institutions and to taxation have been notable examples that have occurred under governments of widely different ideologies. Martinez and Diaz (1996) argue that it is the combination of these profound institutional reforms with market-orientated neoliberal policies that lie behind Chile's sustained economic success during the 1990s. This has a major significance for the theme of sustaining economic growth within an increasingly competitive world.

The future relationship of the state with the process of economic change is thus a key issue. The ideological shift to limited government involvement in the economy may not produce the modernised, competitive economy that is anticipated from neoliberal reform. If this is the case, sustained economic growth will not occur—which is seen as the prerequisite for governments to address the social debt and begin to rectify the highly unequal patterns of income distribution.

There is also the question of the relationship between economic integration, neoliberalism and globalisation. By 2005 it is planned that the Americas will be one large free trade zone. This will involve integrating the dominant economy of the twentieth century with 16 much smaller but highly diverse countries in Latin America. Geopolitical reasons have become important additional factors in this process. Neoliberal reform and the opening up of formerly inward-orientated economies have produced a more successful record of economic integration in the 1990s than in the 1960s, the previous decade in which economic integration was seen as a key international policy in Latin America (Gwynne, 1994). In geopolitical terms, it will still be necessary to resolve the problems inherent in a strong centre-periphery pattern that economic integration of the Americas (in contrast to other schemes) will be characterised by.

It is important to emphasise that the neoliberal model has evolved—from an often narrow and economic interpretation to the Washington consensus and on to a more social democratic interpretation in Chile and Brazil. Indeed some form of convergence between neoliberalism and structuralism seems to have occurred in some parts of Latin America. There is a reappraisal of the theories of the 1950s and 1960s and the evolution of a neostructuralist position since the late 1980s.³ It could be argued that neostructuralism has gained some influence over government policy in Latin America, such as with the Concertación regimes of Chile and the administration of F H Cardoso in Brazil in the 1990s.

Neostructuralism has taken on board some elements of neoliberalism, while retaining some of the core structuralist ideas. While some authors have dismissed neostructuralism as being merely the human face of neoliberalism and its second phase (Green, 1995: 189) it is certainly true that there has been a shift of structuralism towards neoliberalism. However, there are differences, which concern mainly their respective views on the relationship between developed and developing countries, as well as between state, civil society and the market.

The neoliberal view is that further liberalisation of the world economy is required and that this will benefit the developing countries considerably. In contrast, neostructuralists, as well as dependency writers, view the world economy as a hierarchical and asymmetric power system which favours the centre countries and the TNCs in particular. They are thus more sceptical about further liberalisation, believing that it will act to enhance the inequalities between and within countries; powerful global groups located in developed countries would ensure that the benefits of global liberalisation were channelled in their favour.

As for the relationship between state, civil society and the market, neostructuralists give a more important role to the state in the process of social transformation and are eager to involve the disadvantaged groups of society in this process, particularly as it has tended to exclude them. In contrast, many neoliberals desire a minimalist state, putting the market at centre stage as they believe it to be the most effective transformative force; the less constraints that are put on the free operation of the market, the better for the national economy, society and polity.

Neostructuralism should not be interpreted as caving in to neoliberalism, nor as an indication that structuralism was wrong, but rather as an attempt to come to terms with a new reality. In this sense structuralism is showing an ability to adapt to changing historical circumstances rather than remain frozen in the past. Certainly structuralism made mistakes, as with its trade pessimism and technocratic conception of the state. Despite the shortcomings of neostructuralism it is the only feasible and credible alternative to neoliberalism in present historical circumstances. The main lesson neostructuralists take from the East Asian NICs is the need to integrate selectively into the world economy and create competitive advantages through a well designed industrial policy. Such an industrial and export policy continually tries to exploit niches in the world market and shift upstream to more skilled, technologically advanced and higher value added industrial ventures. Policies to improve the knowledge base of the economy and national technological capability are seen as crucial for long-term growth. Thus

the importance of education continues to be emphasised, although less mention is made of the need for land reform, since this has become a politically sensitive topic in many Latin American countries.

Neostructuralism places more importance on market forces, private enterprise and foreign direct investment as compared to structuralism but argues that the state should govern the market. However, in neostructuralist thinking the state no longer plays the pivotal developmental role that it did under structuralist ISI. State enterprises are largely limited to providing essential services like health and education and no longer undertake direct productive activities through ownership of industrial enterprises. Also the ability of the state to steer the economy is limited, as protectionism and subsidies are used only in a restricted and sporadic fashion, in stark contrast to the ISI period. The imperative of achieving and maintaining macroeconomic balances is recognised, as price and fiscal stability are now a condition of growth, which was not necessarily the case in the past. Another key element of neostructuralism is its greater concern for equity and poverty reduction, requiring special action by the state and also involving NGOs.

The position with regards to the world market is much changed, as export orientation rather than import substitution is now the strategic direction which the economy has to take. But this shift towards world markets by the neostructuralists takes place within a strategy of 'development from within'.

It is not demand and markets that are critical. The heart of development lies in the supply side: quality, flexibility, the efficient combination and utilisation of productive resources, the adoption of technological developments, an innovative spirit, creativity, the capacity for organisation and social discipline, private and public austerity, an emphasis on savings, and the development of skills to compete internationally. In short, independent efforts undertaken from *within* to achieve self-sustained development. (Sunkel, 1993: 8–9, emphasis).

This means that it is the country, through the guidance of the state and its intermediary organisations, which decides in which particular direction it wishes to develop its links with the world economy. Choices are, however, restricted by the forces of globalisation, as mentioned earlier. Another key element in neostructuralism is the achievement of competitive advantages in certain key productive areas in the world market by selective liberalisation, integration into the world economy and an export-orientated industrial and growth policy. Neostructuralists are keen advocates of 'open regionalism', which they hope will enhance Latin America's position in the world economy while at the same time reducing its vulnerability and dependence (see ECLAC 1994, 1995). They recognise that there are benefits for countries to be part of a relatively open world-trading and financial system but hope that open regionalism will build up regional firms and institutions that may alleviate some of the effects of the asymmetric world economic system.

The neoliberal model has restructured the political and economic system but has created new interest groups, particularly in finance capital and exporting companies. In addition, it has become apparent that a closer relationship with the global restricts the internal room for manoeuvre of virtually all Latin American

governments. Opening up to the global economy has been a disciplining force for both capital and labour in Latin America. Mistaken policies, or those policies *perceived* as mistaken by international capital, are penalised, eg by a rapid withdrawal of finance capital. However, if the neoliberal model is to continue, it must also continue to evolve in terms of providing improved social conditions. Convergence with, or a paradigm shift to, neostructuralism appear to be pathways for the early part of the next century.

Notes

- ¹ The use of the term 'neoliberal' has numerous problems in terms of its ideological connotations. In international policy circles, the term 'Washington consensus' (Williamson, 1990) tends to be used, indicating virtually the same package of reforms. In their original formulations, neoliberal reforms have normally emphasised economic reform as opposed to social policies or political reform (Kay, 1993). It is perhaps for this reason that some writers have talked about 'the new economic model' (Bulmer-Thomas, 1996).
- ² Part of this article continues the reflections by one of the authors on development theories and neoliberalism published in an earlier issue of this journal (Kay, 1993) and is a shorter and revised version of the joint chapter by the authors in Gwynne and Kay (1999).
- ³ For some key writings on neostructuralism, see Rosales (1988), Ffrench-Davis (1988), Sunkel and Zuleta (1990), Fajnzylber (1990), ECLAC (1990, 1992), Lustig (1991), and Ramos and Sunkel (1993). For a comparison between neoliberalism and neostructuralism see Bitar (1988). For a critical assessment of neostructuralism see C van der Borgh (1995).

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