

Neoliberal Experiences in Latin America: A Reassessment

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"(Latin) America is ungovernable."
Simon Bolivar

Abstract

Since the 1980s Latin America has undergone its second-worst economic crisis of the century. This paper explores the reasons for and lessons to be derived from the vulnerability and the anomalies of the neoliberal restructuring from the 1980s to the present. Most salient anomalies were structural de-industrialization, privatization with fraud, de-nationalization of national industries, jobless growth, and political corruption. The impact of neoliberal restructuring on society is also enormous: tertiarization of employment, rapid growth of the poor strata, deteriorating quality of social services. Public sector and central power have been gradually losing both the authority and capacity in effectively responding to various social conflicts. So the temptation toward Caesaristic presidency and 'delegative democracy' has been widely spread among the Southern Cone countries. Finally, it is argued that a neostructural alternative based on consensus and democratic institutionalization would be a better option than the neoliberal program which have already produced anti-politics and social anomie.

The Age of Cholera

Beginning four or five years ago, all Latin American countries, with the exception of Uruguay, have busied themselves every summer to fumigate against cholera. In January 1993, some 626 people were infected with cholera and 17 eventually died in Argentina which has a relatively high standard of living. The outbreak of cholera was not limited to where it started in Salta, the northern border state that neighbours Bolivia, but spread even to the outer-laying areas of Buenos Aires. In Brazil, some 24,396 people were infected with cholera in 1992, and of them 319 died (Schwarz, 1993). Peru and Bolivia and the countries in Central America have not escaped the recent resurgence of the cholera epidemic.

Nothing is more symbolic of the dramatic change in Latin America since the 1980s than this phenomenon. Cholera is an epidemic that is closely related to poverty. Thus the cholera breakout is closely related to the expansion of the poverty-stricken strata, and this in turn has been influenced to

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some extent by the stabilization of austerity measures and structural adjustment that have taken place since the 1980s. The Spanish word for cholera, 'colera', has two meanings: 'el colera' which refers to 'cholera' the disease, and 'la colera' which means anger. Thus the double *entendre*: the age of 'cholera' is at the same time the age of 'anger', the anger that arises from the ever-expanding poor segment of the continent.

The 'one hundred years of solitude' in Latin America have not yet come to an end. Rather, it has gone into a new cycle with the 1980s as its turning point. The 'state of compromise'(Estado de compromiso) which had been maintained for half a century since the 1930s fell back into a crisis in the 1960s. Additionally, the import substitution industrialization (ISI) model which had been the backbone of industrialization has undergone a radical dissolution due to the internal and external pressures. The debt crisis of 1982 was not just a problem confined to the economy, but a sign of the erosion and collapse of all the main institutional legacies of the last 50 years.

What began to emerge in this chaos of historical debris was neoliberalism which arrived in Latin America with the world-wide trend of neoconservatism. Now this neoliberalism is redefining the social base with a speed even the military domination in the 1970s could not have matched. President Menem of Argentina and ex-president Salinas of Mexico believed that neoliberalism was the only ticket to enter into the first world (primermundializacion) and proclaimed that there was 'no other alternative'. Many people still hold on to the belief that the recent schismatic changes will raise the Latin American continent up from the mires of stagnation and poverty. This faith remains strong despite the Chiapas uprising, the peso collapse, and the subsequent 'tequila effect'.

The reality, however, -- unlike the optimistic prospects revered by some -- is manifesting itself in diverse forms. In fact, there is a new crisis at hand and the branches of this crisis are shooting out to all possible directions: The economy which has failed to enter a stable orbit of growth, a new round of debt crisis, the expanding poor, the widening income inequality, the rapid denationalization of the industrial base, and tightrope-walking politics caught between 'delegative democracies' and neopopulism are some of the various scenes of this crisis.

This paper will review and reassess the optimistic expectations and prospects about the recent changes, in the light of the various effects brought about by nearly 15 years of neoliberal reform measures. It will, then, focus on some of the critiques laid against neoliberalism in search for alternatives. This paper will also follow up some of the key debates in Latin American social science academia since the 1980s.

'The Lost Decade' and the 'Washington Consensus'

(1) 'The Lost Decade'

The 1980s in Latin America is known as the 'lost decade' (la decada perdida), a period of catastrophic crisis that compares with the depression of the 1930s. All economic indicators recorded negative figures and the economic status of the entire continent dropped down to the bottom rank. UN

Economic Commission on Latin America (hereafter referred to as CEPAL or ECLA) statistics provides some guide to the picture.² The GDP per capita, which provides a crude reflection of the changes in day-to-day life, recorded an 8.3% drop from 1981 to 1989 (the figure excludes Cuba). While Columbia and Chile recorded a growth of 13.9% and 9.6%, respectively, Brazil remained at just below zero, Mexico recorded -9.2%, Argentina -23.5%, Peru -24.7%, Venezuela -24.9%, and Bolivia -26.6%. Cuba, on the other hand, recorded a 33.5% growth in the same period.

If we look at some indicators which reflect the dynamism of the economy, the primary engine of growth for Latin America in the last thirty years were the growth in exports of primary products, the ISI based on domestic market demands, and the steady increase in productive investments, especially through public sector. What was changed, and how? The answer can be found by examining the three domains indicated above through the 1991 CEPAL report.

First, the price indicators of primary products (based on the actual prices of 27 major products) over the last ten years fell by 25%. The worsening trade conditions cannot provide a full picture of the disalignment between Latin American exports and structural changes in the world economy. This disalignment can be seen in the share of the continent's exports in total world trade. In the 1960s the total value of Latin American exports made up 7.7% of the world trade value. This decreased to 5.5% 20 years later, and further to 3.9% in 1988. The value of imports also decreased from 7.6% to 5.9% and 3.3% in the same period(CEPAL 1991:68-9). These indicators reveal the contraction of economic activity, the worsening of trade conditions, and the effect of extreme austerity policy measures which brought about the decrease in the import of semi-finish goods and capital goods needed for production. Intra-regional trade also fell from 16.5% in 1981 to 11.2% in 1988. This reflects the loss of steam for the economic integration movement which reached its peak in the 1960s.

Second, the 1980s also saw the retreat of the ISI strategy based on domestic market demand and a strengthening of the export-oriented industrialization. The export index, which remained 8% in 1980 increased to 17% in 1987, and continued to increase. The need to meet the snow-balling debt repayment obligation brought about even greater acceleration of export-oriented industrialization in the 1990s(CEPAL, 1991:70).

Third, the total investment rate which reflects the share of fixed investments in the GDP also fell by a great margin. The total investment rate, due to the worsening trade conditions, debt repayment, and a drop in foreign direct investment, fell from 23% in 1980 to 16.5% in 1988. The main reason for the decrease lies in the reduction of public sector investment arising from the debt repayment and budgetary deficit suffered by all Latin American governments(CEPAL, 1991:60). The decline in public sector investment, which was the locomotive of growth during the period of ISI, brought about a weakening of private sector investment, thus became a cause for the acceleration of the crisis. The austerity-oriented stabilization policy that was sparked by the need to overhaul the expansive fiscal management contributed to the financial dry-up experienced by businesses and led to investment avoidance and capital flight.

²) In this paper, Latin America includes the Caribbean region.

(2) Crisis of Development Model and the 'Washington Consensus'

The Keynesian model of economic development which calls for active governmental economic activity and intervention was met with strong attacks in the 1980s from neoliberalists. The retreat of the welfare state which formed the backbone of post-war capitalism and its theoretical foundation -- the 'Keynesian consensus' -- brought about the weakening of the economic development strategies that were formulated in the 1940s and 1950s. In Latin America, the ECLA doctrine, the so-called *cepalismo* (structural reformism of the 'CEPAL' school which advocated economic self-reliance, import substitution policy as a means to promote domestic industrialization, and regional economic integration) which had enormous influence on economic policies of populist regimes over the last thirty years began to weaken as the populist regimes were replaced by military regimes. It was replaced by monetarism which began to exercise dominant power in the 1980s. The resurgence of the Austrian school founded on the thoughts of Hayek and von Mises, the monetarism of Friedman and Phelps, the rational expectation hypothesis of Lucas and Sargent, and the public choice theory of Buchanan, Olson, and Tullock in the rise of neoliberal economics greatly contributed in undermining the influence of development theories.

The new growth strategy founded on the 'Washington Consensus' is closely tied to the crisis of the Keynesian consensus, the crisis of development theories, and the contrasting rise of neoliberal economic theories (Bresser Pereira, 1991:83-4). The strength of neoliberalism was magnified by the crisis and eventual collapse of the command economy of existing socialist countries in the 1980s. The 'Washington Consensus' is widely shared by multilateral financial institutions such as IMF and the World Bank, the US Treasury and Federal Reserve Board, finance ministers of G-7, and the leading commercial banks. And it calls the tunes for Latin American economic ministers, academics, and politicians who have been trained in the US. The Consensus contains a simple set of diagnostics and prognostics as follows:

Diagnostics of the Crisis: The main culprit of economic stagnation is excessive growth in the state sector and economic populism. The oversized and inefficient state sector, the protectionism built up in the period of ISI, and the excessive spending policies have eroded the efficiency of the economy. Furthermore, the populist redistributive policy, chronic fiscal deficit, and loss of wage control have brought about the acceleration of the economic crisis.

Prognostics : Get rid of populism, thereby eliminating fiscal deficit and balancing the budget. Privatize the state sector and adopt a market-oriented growth strategy. Minimize the state (sector) as much as possible, and remove all regulations. Open domestic market and abandon protectionist policies which have obstructed the efforts to promote competitiveness. Basically copy the export-drive policy adopted by the East Asian countries, and thus create a 'millenium of the market'.

John Williamson summarizes the 10 major reform policies presented by the Washington Consensus: 1) fiscal discipline, 2) revision of public expenditure priorities, and reduction or preferably elimination of subsidies, 3) tax reform by increasing tax revenues, 4) market-determined and positive real interest rate, 5) a competitive real exchange rate, 6) import liberalization, 7) inducement of foreign direct investment by debt-equity swap and privatization, 8) privatization of public enterprises, 9) deregulation, and 10) tightening of property rights (Williamson, 1990:8-17).

'Populism' and the 'state sector', which have been identified as the main culprits of the economic crisis, are subject to public execution virtually every day. Neoliberalists name the ISI of the populist era as the main reason for the fall of the Latin American economy below the level of the East Asian NICs, and they find the solution in the dissolution of protectionism and in external opening. They are certain that structural adjustment in accordance with the logic of market competition -- in the context of complete import liberalization -- must be the only way out. While governments may differ in the degree with which they adhere to this belief, there is no difference in the general direction. Mexico and Bolivia are in the forefront of the race to neoliberal nirvana, while Argentina, Peru, Venezuela, and Brazil are following closely behind.

No one denies that Latin America has been stricken with corruption, inefficiency, and unrestrained management in the public sector. Hence, no one denies the need for reform. But, we must ask, can the neoliberal structural adjustment program solve all these problems completely? Why is there no mention of the foreign debt which has been the main cause of the economic crisis? Is there no correlation between the Latin American crisis of the 1980s and the high interest rate policy maintained by the advanced industrialized countries from 1982 to 1990 which brought about a net resource outflow?

Results in the 1990s.

The answer put forward by the Washington Consensus to this complex is very simple. It asserts that stabilization, liberalization, and privatization of the economy will automatically bring about growth. Is reality that simple? In the 1990s, macroeconomic indicators of Latin American economies are showing an upturn. Compared to 1988-89, the indicators for 1991-1995 do give an impression of overall price stability and general growth. The 419% inflation rate decreased to 25% in 1995 thanks to the price stability in Brazil. With very few exceptions, rates of GDP growth hovered around 3% before dropping to 0.6% in 1995 due to the Mexican peso crisis in 1994. These signs seem to vindicate the stabilization and structural adjustment program prognosed by the Washington Consensus. The situation, however, calls for a more complex explanation.

<Table 1 follows>

Table 1: Major Economic Indicators in Latin America and the Caribbean

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995*
GDP (1980=100)	106.7	110.1	111.1	112.0	112.4	116.6	120.0	123.9		
Population(Millions)	392.8	400.9	408.9	417.0	425.1	433.2	441.3	449.0		
Per Capita GDP (1980=100)	93.6	94.7	93.6	92.6	91.1	92.8	93.8	95.0		
	<Annual Growth Rate>									
Total GDP	4.2	3.2	0.8	0.9	0.3	3.8	3.0	3.0	4.6	0.6
Per Capita GDP	2.0	1.2	-1.2	-1.0	-1.6	1.8	1.1	1.1	2.7	-1.1
Consumer Price Indexes	64.1	208.9	773.7	1205.7	1185.2	198.6	416.8	887.6	337.3	25.0
Terms of Trade(Goods)	-11.0	-0.9	-0.3	1.2	-0.9	-8.7	-5.6	-0.3	2.7	1.8
Purchasing Power of Merchandise Export	-11.9	7.9	8.2	4.5	5.4	-2.8	2.9	7.1	12.4	12.7
	<Billions of Dollars>									
Exports of Goods(FOB)	77.6	88.7	101.1	111.0	121.9	120.9	127.2	56.4	182.0	223.4
Imports of Goods(FOB)	59.7	67.2	76.7	81.7	94.6	111.8	137.2	166.5	197.2	221.1
Balance of Payment	17.9	21.5	24.4	29.3	27.3	9.1	-10.0	-10.1	-15.2	2.3
Net Payment of Profits and Interests	32.4	31.3	34.0	37.6	34.8	31.0	29.2	33.0	33.4	39.9
Balance on Current Account	-17.4	-10.9	-11.0	-6.7	-6.5	-20.2	-36.9	-46.1	-50.0	
Net Capital Inflows	9.9	15.2	5.3	9.7	20.7	39.3	62.0	66.9	44.9	22.4
Total Disbursed External Debt	401.0	427.4	419.6	422.7	439.1	456.6	468.1	507.4	533.4	573.7
Net Transfer of Resources	-22.5	-16.1	-28.7	-27.9	-14.1	8.3	32.8	34.9	11.5	-17.4

Sources: The statistics for the period 1986-1992 have been taken from *Cepal, Balance preliminar de la econom a de America Latina y el Caribe 1993*, the data for 1993-5 from *Balance preliminar 1995*. The statistics for 1995 are preliminary figures.

It is wrong to claim that Washington Consensus-type stabilization policy had no effect. The inflation rate, which in 1989 and 1990 reached around 1,200%, fell to below 200% in 1991. It rose again in 1993 to 888%. But if one excludes the inflation in Brazil, which at that time suffered severe hyperinflation, the rate in 1991 was 41%. Even Brazil began to feel the effects of the stabilization policy under President Cardoso, contributing to the achievement of a miraculous 25% inflation rate. The GDP growth rate of the whole continent recovered to an average of 3 to 4 % in the period from 1991 to 1996.³ Even Mexico, which in the aftermath of peso crisis suffered a poor -6.6% of growth in 1995 recorded a moderate 4.5% in 1996.

Most of the countries have, in compliance with the prognostics of the Washington Consensus, partially reduced the public debt by privatizing state-owned corporations, and have strived to reach a balance in their austerity budget by cutting back on expenditure. In Mexico, it reached an extreme level to the extent it gave rise to a new terminology, *terrorismo fiscal*. In addition, she maintained her overvalued currency intentionally to bring about disinflation. These extreme measures greatly contributed to suppressing the high rate of inflation in such a short period. The greatest factor which influenced the recent shifts in macroeconomic figures, however, came from the changes in external conditions.

First, there was an easing of external pressure from the decrease in international interest rates.

³) Statistics in this paper are mainly from CEPAL(1993; 1995; 1996).

Remittance of profits and interest payments continued to decrease from 1989 onwards. While the exact understanding of its influence on macroeconomic performance should take into consideration the effect of worsened trade conditions, there is no doubt it was a considerable factor in bringing about stability in macroeconomic figures (Damill et al., 1993:238).

Other effects of the decrease in international interest rates are shown in the flow of capital. In Latin America which had suffered a net transfer of resources throughout the 1980s, domestic and foreign capital began to concentrate in investments in financial assets. This brought about a dampening of capital outflow and an increase in foreign capital inflow. As can be seen in Argentina which succeeded in attracting foreign firms in the privatization process through debt-equity swap, the substitution effect of international interest rates was greater than ever thought possible. For the first time since the debt crisis, the net capital inflow was shown: increasing from 8.3 billion dollars in 1991 to 32.8 billion in 1992.

The net capital inflow had the positive effect of filling the balance of trade deficit brought about by a dramatic increase in imports in the 1990s. However, the continuation of the balance of trade deficit may end up nullifying the hard-won stabilization of macroeconomic performance. Increases in imports would not be a great problem if they are concentrated in capital and semi-finished goods which can contribute to the competitiveness of the industries. But, if they are brought about by a consumer goods influx caused by the collapse of domestic industries, they will, in short time, give rise to considerable problems. The Mexican peso crisis and the tequila effect since the end of 1994 was a materialization of this kind of concern.

The decrease in trade surplus caused by import liberalization has brought about a rapid worsening of balance of payments. It was recorded at 20.2 billion dollars in 1991, 36.9 billion in 1992, and 42.6 billion (estimate) in 1993. The deficit in 1992, if the 15.6 billion dollars surplus recorded by Brazil is excluded, reached an astronomic level. In 1992, Latin America, for the first time since 1983, recorded a trade deficit of 10 billion dollars, which reached 15.2 billion in 1994.

Weak Link in Economic Stabilization and Structural Adjustment

Can the economic performance in the 1990s, characterized by an easing in inflation and slow but continued economic upturn, develop into a long-term trend? How long would the precarious macroeconomic balance brought about by low international interest rates, continued capital inflow, overvalued currency, and disinflation last? The answer to these questions will depend on the continuity of the system of low international interest and capital inflow. But the long-term survival of a national economy would be determined by the capability of individual nations in developing competitive industries within a short period as allowed by the rapidly changing international environment.

Due to the propensity of transnational financial capital to move in high speed in response to short term interest such as changes in interest rate, capital movement can always and at any time reverse itself. Furthermore, the limitations that accompany appreciated currency would make rapid

development in export capacity impossible. Due to these factors, any shifts in external conditions will likely burst the bubble of recent optimism. The recent Mexican experience has shown the dangers of dependence on 'hot money' to fill the enormous trade deficit. The optimism is further dampened by the recent increase in foreign debt across Latin America. As a result, banks throughout the advanced industrialized nations look to the recent developments with a great deal of concern.⁴ In the following sections, we shall examine some of the structural problems created by the Washington Consensus.

There has been real -- albeit slight -- improvement in economic growth following the implementation of stabilization and structural reform policies based on the Washington Consensus. Hyperinflation was curbed and foreign direct investment has been also increasing. As a result, it is possible to assert that Latin America has lifted itself out of the mire of stagnation of the 1980s. However, the volume of investment and domestic savings needed for economic recovery are still very small. As a result, the general economic performance continues to hover well below the levels in the early days of the 1980s. For example, if we take the GDP per capita in 1980 as 100, then despite the recovery, the figure for 1993 still remains short of the 1980 figure at 95. In addition, rates of growth have been moderate 3% per year, falling short of both past performance levels (5.5% between 1945 and 1980) and the level of 6% that CEPAL estimates necessary.

The worst is the fate of industries. Even before the structural adjustment begins to show results with the growth of competitive industries, many strategic industries are being taken over by transnational corporations, and domestic market industries have been swept away by the influx of foreign goods. The structural adjustment so highly acclaimed by governments are understood as 'structural de-nationalization' of economy. The speed and magnitude of de-nationalization easily surpassed the warning level put up by the dependency theorists in the 1970s. The nationalist tone proclaimed by the revolutionary constitution of 1917 in Mexico has been already seriously deformed. Most countries already allowed foreigners' participation in such strategic industries and services as banking, telecommunications, telephone, airlines, port services, etc. The de-nationalization in some Argentinean service sectors has reached high levels. The sovereign right of nation-states in determining economic policy is, in the aftermath of the debt crisis, held largely at ransom by IMF, the World Bank, and creditor banks.⁵ Given this, it is difficult to arrive at any understanding of political and economic stability. The civil protests and failed coup attempts in last few years in Venezuela, the *autogolpe* by civilian President Fujimori in Peru and the subsequent precarious situation, and the Chiapas peasant uprising in Mexico all suggest that there is some serious problem with the

⁴) The total debt size in 1991 was 456.4 billion dollars. However, it increased to 464.8 billion in 1992 and 481 billion in 1993. Although interest/export ratio and total foreign debt/export ratio, and total foreign debt/GDP ratio have fallen slightly, international interest rate has recently began to rise slightly. The situation has prompted the concern of international banks. *Latin American Weekly Report*, 29 April, 1994. p. 162-3. Also refer to June 16th issue, p. 253.

⁵) Argentina has, in 1991, enacted a 'Convertibility Law' (la Ley de Convertibilidad) to fix the value of peso per dollar on one to one basis in order to curb inflationary pressure from weak peso. Following the legislation, the supply of peso is determined by the reserve of dollar in the central bank. Government can be said to have abandoned the power to manage the supply of money (monetary sovereignty) and handed this power over to the people who control the supply of foreign currency (exporters and branch offices of transnational corporations).

Washington Consensus.

(1) Structural De-Industrialization

Most countries in the 1980s ardently pushed a 'structural adjustment' policy as a means to recover the competitiveness of their industries. However, the stabilization policy in compliance with the Washington Consensus, in fact, eroded the various government-led structural adjustment strategies in Latin America through its emphasis on downsizing the state expenditure. Because of fiscal deficits most countries has abandoned or reduced the various industry policy programs which had become institutionalised during the period of ISI. Carlos Ominami, a Chilean economist who has endeavoured to apply the French 'regulation school' theories to the Third World and who had at one time been a cabinet minister in the Aylwin government, portrayed the current trends in a very cynical way. He commented that, except for Brazil, "industrial policy in Latin America is not a state concern but a theme for academic studies. And this is not an exaggeration."(Ominami, 1989:34)

Many countries are flooded with imports but do not possess any robust manufacturing industry which can claim any level of competitiveness. Furthermore, governments do not have the political capability to lead industrial restructuring, while businesses lack economic capability. Ominami's comments refer to this stark reality. Governments are unable to mobilise diverse policy instruments because of the fragile fiscal structure. They are further losing control over the economy, because they have been dissolving the state sector which had traditionally been the backbone of their industrial policy.

Many scholars in Latin America are concerned about this very reality and are, therefore, critical of the Washington Consensus. Professor Bresser Pereira, who at one stage was the Minister of Economy in Brazil under President Sarney and formulated a stabilization policy named after him, criticises that the traditional stabilization policy is wrong in its diagnosis which locates the cause of the crisis in the excessively big state sector. He differs from the Washington Consensus which finds state intervention as the root of the economic crisis. Rather, Bresser Pereira argues that the cause is in the expiration of the potential of the certain type of state intervention, that is, import substitution industrialization. He warns against the calls for abolition of 'state intervention in general' in response to the crisis in 'specific form of intervention'. He calls for an active state intervention in industrial restructuring, even at the risk of a certain level of fiscal deficit. Bresser Pereira recognizes the need to reduce and eliminate the wasteful aspects of the state sector, but denounces the indiscriminate drive of the Color government to privatize everything in sight(Bresser Pereira 1991).

Chilean economist Rosales and Argentine neostructuralists point out that the economic miracle in East Asia was not based on "export-oriented industrialization based on pure market principles", but was made possible by appropriate state intervention and careful regulatory policies. Rosales attacked the analysis of East Asian economies stemming from the Washington Consensus framework which had wide following in Latin America in the 1980s, and criticised the ideological content inherent in such an analysis(Rosales, 1989).⁶

⁶) Similar arguments are found in the works of following scholars. Fanelli, Frenkel, and Rozenwurcel(1991), Gereffi and Wyman(eds.) (1990).

(2) Privatization and De-nationalization

Argentinean telephone company ENTEL was sold off to Stet of France and Telefonica de Espana. They divided the city into north and south, with the south serviced by Telefonica while the north is serviced by Stet. Argentina's national airline too was bought off by Spanish Airline Iberia. The oil market which was controlled by national oil company YPF is now also deregulated with active participation of domestic and foreign private capital. A similar situation is found in Mexico. While foreign participation is low compared to Argentina, privatization has accelerated under President Salinas. The number of state-owned companies (paraestatales), which in 1982 were 1,155, was reduced to 243 in just ten years. Even the rest, including some in oil, electricity, railway, and food distribution, have been gradually transferred over to the private sector under the privatization program. The petroleum industry, which has long been regarded as the pride of Mexican nationalism, is, according to recent reports, 'silently' privatized(Sandoval Carriles, 1993).⁷

Argentina and Mexico has privatized state-owned enterprises with a great gusto in order to achieve fiscal balance. The pursuit of privatization did not based on consideration for enhancing efficiency or national competitiveness, but primarily for refilling the treasury that has bottomed out due to repayment of foreign debt or fiscal reform. As a result, privatization has been undertaken with great haste, causing many problems with follow-up management. Problems are even greater in the cases of privatization of public policy areas such as education, health service, and pension programmes, and service industries such as telephone, telecommunications, roads, and air service, strategic industries such as oil and major natural resources.

Privatization will very likely improve the services for the customers. However, the customers are bound to pay a considerably higher price. In fact, Argentinians and Mexicans have to pay more for telephone services than those in advanced industrialized countries. If privatised enterprises are by nature monopolizing the supply, then the government needs to undertake appropriate regulatory measures to reduce the losses that may be incurred by customers and users. Iberia which had purchased Argentinean national airline closed down a number of regional routes which was not so profitable, and raised air fares drastically, causing a number of uproars from the public. Mexican people are privileged to be the proud users of the most expensive roads in terms of price per kilometer.⁸

The acquisition of privatized enterprises by foreign firms will bring about even greater outflow of national income. The hasty and haphazard manner in which privatization has taken place will have serious negative impact, especially in view of the need to bring about an expansion of national economies. The impact of de-nationalization of the economy will add another dimension to the negative effect.

⁷) However, there has been growing antipathy towards privatization of oil industry in the left-of-center party and even in the governing party with the strengthening of the conservative bloc.

⁸) The toll for the highway linking Mexico City and Acapulco, opened in 1993, so high that there is not any notable difference between the cost of travel by car and airline. As a result, cargo truckers used to take local roads which may take up to twice more time.

Brazil maintains a similar policy orientation towards privatization. However, it has put in place a regulation which limits foreign participation below 40%. Furthermore, privatization of the petroleum and telecommunications industries require a prior constitutional amendment. As a result, the head of the IMF Mission to Brazil has strongly criticised the "anachronistic" Brazilian nationalism. However this Brazilian reticence reflects the larger manufacturing base which requires protection. Thus, Brazilian government has been very careful in implementing privatization policy and has not got itself into an uncontrollable haste. This also reflects the strength of a Parliament that has the final say. President Cardoso barely succeeded in curtailing the state monopoly sectors in the energy, telecommunications, transport systems only by using the *medidas provisionarias*. However, the other Latin American countries, while they may differ in extent, are not so different from Argentina and Mexico.

Many countries, including Mexico and Argentina, allow foreign companies participation in telephone services, air transportation, the petroleum industry, the informatics industry, port facilities, airport terminal services, banking and securities, and insurance services. In most of the countries, foreign firms are treated just like any other national enterprise. The foreign investment law (Ley de Inversiones Extranjeras) enacted in 1993 in Mexico and the various investment provisions of the North American Free Trade Agreement which came into effect in 1994 represent this growing trend most clearly.⁹

A structural adjustment policy which holds market principles as its highest value does not discriminate against nationality. This is epitomized in the question put by Robert Reich, "Who is us?" in an globalized economy, which reflects the new thinking that does not question the nationality of capital, but asks only, how well does the company -- regardless of the nationality of the ownership -- train the domestic workforce and contribute to the creation of value added?(Reich, 1990). However, this question is only meaningful for newly industrialized country or advanced nations. The Latin American experience shows that the contribution of foreign direct investment toward the production of value added or the training of the domestic workforce is not as great as once expected. Furthermore, their backward linkage -- linkage with domestic industries -- is not very significant.

In the case of maquiladora industries in the northern regions of Mexico which have been recently undergoing a rapid expansion, the proportion of value added produced by Mexicans in the total value of the export is only about 25%, while the local content rate also falls at around 2%(Alarcon and McKinley, 1992:82). Most of the investment is concentrated in assembly processing which utilizes cheap labour or extremely high-level technology facilities which make technology transfer difficult due to the sheer gap in technology. As such, the only positive effect of foreign direct investment may be found in its employment creation.

⁹) "Ley de Inversiones Extranjeras," *El Dia*, 13 Diciembre, 1993. This law, which replaces the la Ley para Promover la Inversion Mexicana y Regular la Inversion Extranjeras, brings a legislative harmonisation with NAFTA. It broadened the definition of foreign investment from the traditional understanding of establishment of firms and business activities in Mexico by foreign nationals, to one of providing guarantee for ownership and control of companies. As a result, foreign investors are given 'national treatment'.

(3) Corruption: Crony Capitalism

There is no end to kick-back scandals in the course of various privatization projects undertaken as a part of neoliberal restructuring. Although the basic goal of neoliberal reform is the elimination of rent-seekers, it has failed miserably in eradicating corruption. Neoliberal reform, which aims to remove corruption in the supply side, has in its privatization program, paradoxically, ended up providing a long term and stable monopoly rent to a small number of conglomerates.

In Mexico, most of the profitable enterprises was allocated to members of the Finance Committee of the ruling Institutional Revolutionary Party. It has been the source of unending allegations of corruption and dealing. In 1993, as if to confirm the widespread rumour, a special gathering of the 30 richest businessmen especially invited by President Salinas' Institutional Revolutionary Party became public. It was revealed that they attended a dinner on February 23, 1993, where they were asked to donate 25 million dollars each for the party's political reform programme.¹⁰ The total requested donations --750 million dollars-- was 12 times the amount spent by the two major political parties in the US for the 1992 presidential election campaign. This incident revealed the dirty linens of 'Salinastroika', which did have its merits. The whole incident exposed the inner workings and weakness of the economic reform undertaken by a non-democratic political power.

Robos para la Corona (Robberies for the King), written by an Argentinean journalist Verbitsky, provides a detailed account of various scandals that have occurred under the Menem administration. The book exposes in detail the corruption and disorder that lie beneath the neoliberal policies in Latin America. The stories of Venezuelan President Carlos Andres Perez who was forced to resign due to allegations of money grabbing and commissions, and Brazilian President Collor who had to step down in the middle of his term due to allegations of corruption and money grabbing, do not differ from the common stories found in Latin American countries.

Elliot Abrams, who was once Assistant Undersecretary of the US State Department in charge of Latin American affairs, in his criticism of the recent cases of corruption, referred to Latin American capitalism as 'crony capitalism'(capitalismo amiguista; capitalismo de compinches). He expressed a concern for a mass disappointment about the market reform system due to the close collusion between state power and financial oligarchy, and called for a thorough eradication of corruption(Abrams/Flores, 1993).

The Mexican Peso Crisis and Tequila Effect

The devaluation of the Mexican peso in December 1994 and its subsequent collapse revealed that the Mexican experiment in strict compliance with the Washington Consensus -- which attracted the attention of international financial institutions -- was a castle built on sand. The peso collapse had a

¹⁰) The story was exposed in Washington political circles to be reported in detail by *El Financiero*, 12 Marzo, 1993. The list of guests invited to Ortiz Mena's house, former Finance Minister, is found in *Latin America Regional Report/Mexico & NAFTA Report*, London, 25 March, 1993.

negative impact on the confidence of emerging markets throughout the world. As a result, Argentina, whose central bank's interventive capacity is relatively weak, suffered severely in its aftermath.

Explanations about the cause of the Mexican crisis broadly fall into two categories¹¹. Some see it as a crisis of the Washington Consensus, while others perceive it as a temporary financial crisis brought about by inappropriate management of foreign capital inflow. According to the proponents of the second line of reasoning, such as Jeffrey Sachs, Aaron Tonnel, and Andres Velasco(1995), the crisis originated from a fall in investors' confidence due to the assassination of Colosio, the expansion of domestic loans by the central bank in response to higher interest rates, and the policy mistake of the central government which shifted the peso-denominated public bonds into short-term dollar-denominated public bonds. The first effort to devalue the peso on top of the previous series of errors, according to this argument, drove investors into a panic-like situation.

The explanation of the Mexican crisis in terms of the Mexican government's policy errors or circumstantial factors ignores the deep-seated problems in the structure of not only the Mexican economy, but the whole Latin American economy. The Mexican crisis can be said to reflect most clearly the various structural contradictions inherent in most Latin American countries who are hastily following the prognostics provided by the Washington Consensus. As a result, while the degree and extent may differ, the Mexican crisis can be repeated in other Latin American countries. Therefore, the role of structural factors, such as the profound fragility of the financial system, and the endemic weakness of the Washington consensus model of a market-led/export-led economy should receive more attention.¹²

The goal of the Salinas government is stabilization and restructuring policies was to obtain control over inflation and promotion of growth potential through the establishment of an externally oriented open economy. The government adopted an overall income policy through a series of trilateral pact among labour, employer, and government, and an anti-inflationary policy of marking up the value of peso as a part of its stabilization policy. Furthermore, it undertook an aggressive restructuring program through public sector reform and external liberalization of the economy. On the one hand, the government was aggressive in its pursuit of fiscal balance through austerity measures. On the other hand, it undertook massive privatization, targeting state-owned corporations. Furthermore, in order to enhance the potential for new growth, it adopted a bold program of trade liberalization and efforts to attract massive foreign direct investment. The aggressive foreign direct investment attraction campaign, ultimately, brought about the adoption of the North American Free Trade Agreement.

The two major elements of the Salinas Administration's policies were external opening and market orientation. The Salinas Administrations succeeded in controlling inflation and attracting 97.7 billion dollars in foreign capital from 1989 to 1994 through its stabilization and restructuring policies. However, the hasty external opening caused the collapse of domestic market industries, and massive imports brought about a ballooning of the trade deficit. In order to fill the gap created by the trade deficit, the administration was forced to attract even more foreign capital. However, 72% of the foreign

¹¹) For some detailed multidimensional analyses, see Roett(ed.)(1996). And for a neostructuralist critique and analysis, see Schettino(1995).

¹²) See two very suggestive articles on the issue. Cypher(1996), Rollinat(1996).

capital was in the form of investment in financial assets whose movements are determined by short-term interest rates. Therefore, there was an inherent macroeconomic instability. In fact, the Mexican government was able to maintain an open economy on the basis of the inflow of hot money which had no links at all to domestic production activities. According to Enrique Dussel, Mexico adopted not export-oriented industrialization, but a 'model of industrialization maintained by import'(Dussel 1996).

The policy dilemma for the Salinas Administration's external opening lay in that maintaining the stability of the peso's exchange rate and convertibility was the most important priority once the economy completes its opening. Under this system, everything is determined by real market interest rates. Because of liberalization of interest rates and the elimination of quantitative control on credit, the central bank's role was limited to maintaining the exchange rate and defending the level of the foreign currency reserve. The mediating factor in the course towards the peso crisis was the aftermath of the financial reform.

The 18 banks which were nationalized in 1982 were all privatized from 1989 to 1992. In the same period, the liberalization of interest rates was completed and with the coming of the North American Free Trade Agreement the central bank lost its function as the lender in the last resort. The private banks made the best of the globalization by transforming themselves into banking conglomerates. Supported by stock market boom and speculative investment in financial assets, total financial savings in the GDP grew in the period from 1988 to 1994 from 30% to 50%. The money that gathered at the banks were loaned out to large corporations and the service sector, and as consumer credits. This created a dramatic business upturn in some durable consumption such as automobile, real estate, and other areas. This bubble, however, did not last long.

The continued maintenance of this kind of debt cycle required a continued defence of the appreciated peso by the central bank. However, the overvalued peso was not conducive to the rationalization of domestic producers. The widening gap in the value of the peso in comparison with dollar resulted in worsening pressure on domestic producers. The devaluation of peso in December 1994, accompanied with political crisis, resulted in a massive pressure for sell out. It poured cold water on foreign and domestic investment and subsequently led to the collapse of the peso.

This collapse impacted the emerging markets in other parts of Latin America through the globalized financial network¹³. The so-called 'tequila effect' created negative investment decisions among foreign investors, and made them conservative in their assessment of market confidence and financial risk in the emerging markets. As a result, the stock market in most of Latin American countries in 1995 suffered severe set backs.

¹³) For some detailed analysis, see French-Davis(1997).

Table-2 : The 'Tequila Effect' on the Current Account

Country	Before the Crisis*	After the Crisis**
Mexico	-2,859	-200
Colombia	-2,833	-3,640
Brazil	-1,450	-17,770
Chile	-753	150
Ecuador	-807	-730
Peru	-2,499	-3,490
Argentina	-10,242	-4,400
Venezuela	2,450	5,900

* Estimate in 1994; ** Provisional Estimate in 1995.

Source: Institute of International Finance; Recited from Rollinat(1996), "Anatomie d'une crise financiere: l'Amerique latine et le syndrome mexicain," *Problemes d'Amerique latine*, 21, Avril-Juin, p. 109.

Rollinat(1996: 109)

As seen in Table-2, the current account deficit has decreased considerably for Mexico and Argentina. The decreases for Chile and Ecuador are only slight, while Peru, Columbia, and Brazil experienced a considerable increase. In the case of Mexico, the decrease in capital inflow and in imports due to devaluation and economic downturn, and the increase in exports brought about a normalization of balance of payments. However, Argentina, which suffered severely from the aftermath of the peso collapse, could not undertake a devaluation due to the Convertibility Law. This meant that its adjustment took the form of a rapid decrease in imports and slow down in the capital inflow.

The new stabilization policy in Brazil was linked to high value for the national currency *real* and increase in interest rates. This begs the question: Could the Mexican story be repeated in Brazil? Because unlike Mexico, Brazil's trade dependence is relatively low, and its central bank has much more flexibility in its control over currency. Furthermore, the fluctuation in the value of the real against the dollar has been wider compared with that of Mexico's peso.

Social Shock

(1) Wage and Employment in 'Jobless Growth'

The impact of stabilization policy on society as whole is also enormous. Many countries have reduced social programs for the poorer sectors due to the need to maintain a fiscal austerity. There has been a marked increase in unemployment due to industrial restructuring in the form of privatization, mergers, and bankruptcies. Furthermore, the moderate 3% growth rate per year has meant that new entries to the labour market is also limited. We can call this phenomenon 'jobless growth.'

Real wages for workers, compared to 1980, has also declined considerably. Taking 1980 as the benchmark (that is 100), the changes in real urban minimum wage in 1992 for Colombia, Chile, Costa Rica, and Paraguay remained average or better, while Brazil dropped to 53.2, Argentina to 44.0, and Mexico 42.1, and Peru recorded the worst with 16.3. The extent of the decline that resulted in Mexico

and Argentina, both of which have pursued an extreme form of neoliberal stabilization policy, is a clear indication of the suffering and frustration borne by wage earners.

**Table-3: Evolution of Average Real Wage in Latin America and the Caribbean
(Average Annual Index: 1980=100)**

	1985	1986	1987	1988	1989	1990	1991	1992	1993*
Argentina	113.1	110.0	120.8	93.5	42.1	40.2	56.0	44.0	49.3
Brazil	88.9	89.0	72.6	68.7	72.1	53.4	59.9	53.2	56.2
Colombia	109.4	114.2	113.0	109.9	110.8	197.9	104.3	101.6	105.8
Costa Rica	112.2	118.7	117.9	114.6	119.4	120.5	111.8	111.5	112.8
Chile	76.4	73.6	69.1	73.9	79.8	87.5	95.6	100.0	104.6
Ecuador	60.4	65.0	61.4	53.4	46.5	36.2	30.4	29.5	21.4
Mexico	71.1	64.9	61.5	54.2	50.8	45.5	43.6	42.1	41.6
Paraguay	99.6	108.3	122.6	135.2	137.5	131.6	125.8	115.5	-
Peru	54.4	56.4	59.7	52.0	25.1	23.4	15.9	16.3	-
Uruguay	93.2	88.5	90.3	84.5	78.0	69.1	62.0	60.0	52.4
Venezuela	96.8	90.4	108.7	89.5	72.9	59.3	55.1	60.7	-

Source: CEPAL, *Balance preliminar de la economía de América Latina y el Caribe 1995*.

The trend of 'de-industrialization' accelerated by structural adjustment is bringing about a structural employment squeeze in the formal sectors, especially in the manufacturing sector. In Argentina, unemployment rate has continued to increase despite a growth rate of 3 to 4%. This is the outcome of the imbalance between the loss of jobs due to downturn in domestic demand and the creation of new jobs through growth. As a result, the unemployment rate in Argentina reached a dangerous level of 18.6% in 1995.

Unemployment in the formal sectors in most countries has increased significantly over the last ten years due to the impact of structural adjustment. The decline in the domestic market, the relative decrease in the importance of manufacturing, and the scale down of the public sector had a direct impact on employment. Furthermore, the labour market had excess supply compared to demand, leading to a higher unemployment rate.

However, the official unemployment rate in most of Latin America, with the exception of Argentina, is below 10%. This figure is misleading in that the increased participation of women and the increase in sweatshop-like home work and small self-owned and self-employers hide the real increases in unemployment. The expansion of the 'informal sector' or semi-proletariat is contributing to the suppression of a drastic increase in the official unemployment rate. Most of the people employed in the informal sector are concentrated in service sectors due to the stagnation of the manufacturing sector. Rendon and Salas, who have written extensively on the changes in the Mexican labour market, refer to the current situation as 'tertiarization of employment'(terciarización de empleo)(Rendon y

Salas, 1992).¹⁴ Feminization of the workforce -- the increase in women's participation in both formal and informal sectors -- reflects the need for working families to increase income or compensate for the loss of income, rather than the realization of equal opportunity or equal rights for women in employment. It reflects, therefore, the very difficulty felt by working families to maintain basic livelihood.

Table-4: Urban Unemployment in Latin America and the Caribbean

	1980	1990	1992	1994	1995	1996*
Regional Average	6.2	5.8	6.3	6.4	7.3	7.7
Argentina	2.6	7.5	7.0	11.5	17.5	17.2
Brazil	6.3	4.3	5.8	5.1	4.6	5.7
Chile	11.7	6.5	7.0	8.3	7.4	7.2
Mexico	4.5	2.7	2.8	3.7	6.3	5.7
Peru	7.1	8.3	9.4	8.8	8.8	8.7
Venezuela	6.6	11.0	8.1	8.9	10.9	11.9

Source: CEPAL, Balance preliminar de la economía de América Latina y el Caribe 1996.

*/Preliminary figures.

Figure : The Structure of New Employment in Latin America, 1980-1992

'Informal sector' debates initiated by dependency theorists in the 1970s disappeared from academia following massive criticisms from Marxist and mainstream currents. However the reality since the 1980s has given ground to undertake a re-assessment of the past debate, resulting in a number of important publications and theses (De Soto, 1985; Mansilla, 1992; Luis Coraggio, 1994; Tokman, 1994). Hernando de Soto, the author of a controversial book *El otro sendero* has recently taken up the past debate on the informal sector and identified the current situation as an important sign of the counter-offensive of the market in response to the state failure. De Soto, as a neoliberal, has come out in full support of the functional role of the informal sector in the market economy system. However, while the absence of economic activity in the informal sector may force even more people below the poverty line, it cannot be regarded as an embryo of some future capitalist revolution, but a deformed child given birth by the neoliberal policies that have dominated the scene since the 1980s.

(2) The Spread of Poverty

The reality of the despair that hovers over Latin America is the wide-spreading poverty. According to CEPAL, 46% of the population in the continent in 1990 are categorized as poor with the criteria for poverty being a monthly income of US\$ 60 or less. In 1980, this group of people numbered around 43%. This has increased in 1990 to 46%, with a total of 196 million people. The segment of the population who are regarded as extremely poor (monthly income of less than US\$30) in 1990 numbered 95 million, making up 22% of the population. This is an increase of 3% point compared to

¹⁴) Teresa Rendon y Carlos Salas, "El mercado de trabajo no agrícola en México: Tendencias y cambios recientes", en Centro de Estudios Sociológicos, *Ajuste estructural, mercados laborales y TLC*, México, El Colegio de México, 1992.

the 19% level in 1980.¹⁵ This segment has increased dramatically especially in Argentina, Brazil, Venezuela, and Panama.

The 'new poor strata' (nuevo pobreza) is constituted of people who have been driven into poverty due to the impact of the economic crisis in the 1980s and the neoliberal structural adjustment. They are mainly those who have lost their jobs in public enterprises, the private manufacturing sector, and public utility services. They are accompanied by young people who are unable to find jobs, and pensioners. Given this, the members of the new poor strata are located outside the production system due to their structural dislocation. As such they differ from 'structural poverty' which can be absorbed by formal economic development.¹⁶ The new poor strata is populated mainly by people originating from the lower strata of the urban middle class.

The expansion of the poor strata reflects the widening gap between the rich and poor due to the concentration of social wealth. This, in fact, is the critical weakness of neoliberal structural adjustment policy which is based on faith in the market mechanism. As can be seen in the changes in the Gini coefficient over the 1980s, income distribution worsened in all of Latin America with exception of Uruguay, Colombia and Costa Rica (*Busqueda*, 9 de diciembre).

Multilateral financial institutions, such as IMF and the World Bank, have recently begun to apply a 'compensatory social program' in order to address the problems created by existing stabilization policies. While such a program will fall short of curing the 'new poverty', it is significant that there is a recognition that the expansion of poverty could be a source of danger on economic stabilization.

(3) Social Policy: 'Privatization of Crisis'

Fiscal austerity has brought about a radical cut back in government expenditure on social services. The budget allocation for public health and education in 1990, even in absolute terms, fell below the level it was in 1980. Neoliberal technocrats are intent on privatizing all public services, such as health services and insurance, pension programs, and even the education system. These efforts are complimented by the attempt to transfer the responsibility of the public services to regional or local governments. They point to budgetary shortages as the excuse for these initiatives. Furthermore, as can be seen in the case of Brazil, IMF and the World Bank were known to call for a suspension of fiscal support for social programs as a condition for restructuring foreign debt obligations.¹⁷

¹⁵) CEPAL statistics for 1993; "El 46 por ciento de los latinoamericanos viven en situacion de pobreza". *El D a*, 16 Octubre, 1993.

¹⁶) On the classification, see Karin Stahl, "Politica social en America Latina: La privatizacion de la crisis," *Nueva Sociedad*, n.131, Mayo-Junio, 1994, pp. 49-50.

¹⁷) In return for 'restructuring' the 45 billion dollars in foreign debt under the Brady plan, Brazilian government, as of April 1994, cut back the federal budget by 43% and suspended fiscal support for social programs. This decision was accompanied by a decision to privatize public health and education service. As a result, the government allocation of funds to state and local governments for public health, education, and housing was frozen, and it was rerouted to meet the interest obligations on foreign debt. This signalled the end to national sovereignty in the area of

It is possible to place the blame for the reduction in budgetary allocation for social programs on the overall downsizing of the budget due to the extended economic crisis and austerity. However, it is more difficult for the government to impute the responsibility to others, or to sell off the unprofitable public services to private capital than to sell off the profitable public enterprises. This stems from the fact that most of the public services do not enjoy a stable profitability. This has meant that there are very few who may be willing to take over the responsibility. Furthermore, privatization of public services is likely to generate a widespread resistance as the potential victims of such a change are more or less clearly visible. The absence of noticeable alternative initiative in this area reflects the complexity of concerns that surround this issue(Stahl. 1994:69-61).

Privatization may be welcome by the rich strata as they can receive unlimited quality service at any time. But it would make the various services unavailable for the lower classes who require urgent service at an affordable cost. However, as can be seen in Mexico and Argentina, fiscal outlay for education has already declined drastically, causing a sharp drop in the quality of education provided.

Political Development and Crisis

(1) Political Retreat

The democratization which began to unfold since the 1980s aroused, despite the difficulties wrought by economic crisis, great expectations from the people. However, what remains of it now is uncertain progress in electoral politics mixed with much of chaos as can be seen from the various incidents that rocked the continent: the fujimorazo, an 'autogolpe' orchestrated by civilian President Fujimori, the expulsion of President Andres Perez and the failed military coup d'etat in Venezuela, the expulsion of President Collor under the allegation of corruption in Brazil, the constitutional reform of Argentine President Menem to remove the limit on consecutive terms, the Chiapas peasant uprising and the politically motivated assassinations of the presidential candidate Colosio and the second man in the PRI Francisco Massieu in Mexico, the threat by President Caldera in Venezuela to attempt 'fujimorazo' with the pretext of economic reform, etc. The continent has not known many quiet days due to the unending series of political incidents.

Politicians espousing neoliberalism are raising their voices on the one hand for economic reform and on the other for institutionalization of democracy. However, what is happening is a trend towards power consolidation in a manner of Caesaristic presidency. This trend is captured well by new terminologies that came into fashion, such as 'hiperpresidencialismo' or 'autocratic presidency'. Presidents and technocrats who surround the presidents are wielding supralegal powers in the name of stabilization and structural adjustment. They now form the nucleus of power in many Latin American countries. The effort to eradicate the element of distributional conflict contained in inflation -- which is bound to reflect "prisoners' dilemma" -- requires a strong neutral mediator who can control

social policy. The budget planning and organising is to be under direct monitoring of IMF and World Bank on behalf of international creditor banks(Chossudovsky and Ladouceur, 1994:1506-7).

wage earners and business. However, the neoliberal-minded regimes are intent on completely excluding the interest of workers, while building close alliances, over and beyond a relationship of cooperation, with businesses under the pretext of providing incentives for investment. Political institutions such as parliaments and political parties which need to be empowered through political reform continue to be marginalized from the centre of power. There is not so much attention given to the task of eradicating the negative heritage of corporatism as a part of the endeavour to modernize the interest-mediating institutions. Mass organizations such as trade unions and peasant unions are totally excluded, while employers and business organizations are provided with privileges and benefits.

As long as the institutions of political mediation between the masses and politicians, namely, political parties, trade unions, peasant organizations, and business organizations, remain in their traditional shape, populist tradition is bound to re-emerge in a different guise. Castro Rea, Ducatenzeiler and Faucher(1990) refer to this potential as 'populist temptation.' Populism and corporatism tend to obstruct the rational allocation of social resources to the general masses. Rather, they tend to limit the interest representation to a small segment of elites. As a result, it has serious negative influence on the long term project of democratic consolidation. Such a system will continue to survive unless the society establishes an alternative system of interest articulation and representation.

The public (lo publico) in Latin America has been under constant attack from neoliberalism on the one side and corporatism on the other, with neoliberalism calling for its dissolution through 'savage privatization' by private capital and corporatism calling for selective allocation of the benefits. If corporatism is an old form of privatization, neoliberalism is a new form. The public sector and the central power, under privatization pressures from both sides, are gradually losing the capacity and power to respond effectively to various social conflicts. The civil society is becoming a locus of natural selection, while the potential for violence and conflict is reaching a point of eruption. In addition the general chaos has provided openings for increased violence and political intervention by the drug cartel. Further the situation that exists in Colombia is now spreading to neighbouring Peru, Bolivia, and Mexico. The 'colombianization' is providing an added difficulty to the already overloaded political pressure.

(2) End of the 'Democratic Transition' Paradigm: 'Delegative Democracy' or Ungovernability?

The political scientists who have adopted a minimalist approach to political democratization have applauded the democratic transition in Latin America as a much needed advent of 'procedural democracy'. However, it is doubtful whether there remains anyone who would hold on to that fervour after more than ten years of fluctuation. The democratic transition paradigm led by O'Donnell, Schmitter and Whitehead(1986) had originally presented optimistic prospects for Latin America. It was believed that a civil society which resisted military dictatorships would continue to liquidate the remnants of authoritarianism and lay the foundations of democracy. They found that a new political culture oriented to liberal democracy was consolidating from within the civil society and that the practice of regime shift through elections was becoming established. From this they have concluded that Latin America is now entering the stage of democratic consolidation.

The regular change in government, however, should not be mistaken for consolidation of democracy. The election results in the past few years reveal that new entrants from the periphery, rather than promising candidates from institutionalized political parties, have been successful despite expectations. As can be seen from the election victories of Color of Brazil (Alagoas governor), Fujimori of Peru (former-professor and university president), and Menem of Argentina (Rioja governor), the popular distrust of existing political parties and politicians is wide-spread. While there is some difference among nations, there is a general pattern of unstable party support in elections, increase in non-voting, crisis in party politics and party systems, and unlimited concentration of power in president and technocrats. These are symptoms of the underlying pathological situation of politics.

Even O'Donnell, who was a pioneer of the democratic transition paradigm, has recently recognised the limitation of his past work and called for a much longer historic process rather than the immediate characteristics of transition period. He emphasized the importance of the severity of the socio-economic crisis which has been overlooked in his earlier studies. The new paradigm he presents, however, is couched in terms of 'delegative democracy'. He perceives the current concentration of power and political retreat as a kind of temporary 'dictatorship' of the Roman republic¹⁸ necessitated by the process of democratic refinement. Hence it cannot be judged from the point of view of the existing liberal democratic theory, he asserts, but must be regarded as a sub-type, a 'new animal' called 'delegative democracy'.

Delegative democracies are grounded on one basic premise: he (or eventually she...) who wins a presidential election is enabled to govern the country as he sees fit, and to the extent that existing power relations allow, for the term to which he has been elected. The President is the embodiment of the nation and the main custodian of the national interest, which it is incumbent upon him to define. What he does in government does not need to bear any resemblance to what he said or promised during the electoral campaign--he has been authorized to govern as he sees fit(O'Donnell, 1992:6-7).

According to the logic proposed by O'Donnell, the Salinas government in Mexico, the Fujimori government in Peru, and the Menem government in Argentina are all forms of a democratic system. O'Donnell, unlike in his contribution to the transition theory, pushes aside constitution and other political institution which act as a check of the dictatorship of the administration in the name of 'efficiency', and turns a blind eye to the problems raised by crisis of the representative system and underdevelopment of civil society. While the attitudinal change in his theoretical approach reflects the very difficulty in analysing the complex reality of politics in Latin America, it raises the concern about a possible return to the 'efficiency' of an authoritarian government, just as he implicitly shows in his theories on bureaucratic authoritarianism.

The countries which have achieved some level of progress in political procedure and institutionalization in the last ten years of democratization are limited to Uruguay and Chile, and

¹⁸) The dictatorship that existed in the Roman Empire from 500 B.C. to the 3rd century A.D. allowed the appointment of one of the praetors as a dictator in times of war or revolt for six months to solve the urgent crisis. It was therefore a 'legal' dictatorship and its term was strictly limited to prevent abuse of power(Bobbio, 1992: 159-60).

perhaps Argentina which can be added to the list despite its many shortcomings. The situation, however, in Brazil and Mexico are very serious, while Central America and the Andean states have in general made no real progress towards institutional stabilization. The characteristics of the countries which had a relatively smooth passage toward democratic transition and institutionalization differ greatly from the features pointed out by the transition paradigm. It has not been the characteristics of transition or the game, but an even distribution of power between left and right wing political forces and their effective articulation through a stable party system. Examples of the success story, therefore, are Chile and Uruguay. We can find from history that democratic consolidation is easier to achieve in countries where power is evenly distributed in such a way that it allows mechanisms and principles of check and balance to come into play. It is difficult, on the other hand, to find success stories where there is an extreme imbalance in power, in which one side can overwhelm the other. Therefore, under the current neoliberal climate where economic crisis pressurizes the masses and the fruits of economic reform are monopolized by a small group of oligarchic forces, it would be quite natural to expect a severe structural limitation in democratic consolidation.¹⁹

(3) The Crisis of Political Parties and Party System

The 1980s in Latin America saw the accelerating dissolution of the various social organizations which have emerged in the populist regimes since the 1930s. The social organizations which were formed over sixty years in resistance to oligarchy as a part of the capitalistic modernization project are still being de-constructed by the technocratic anti-politics of neoliberalism. Thus political parties, trade unions, universities, and the mass media which have played the role of mediating institutions or arenas between social actors and the state in the broader project for modernization have fallen into serious crisis.²⁰

The Venezuelan elections in 1993 demonstrate the seriousness of the predicament faced by the political parties in Latin America. The two party system with the Democratic Action Party (AD) and COPEI, the most stable and oldest party system together with the one in Colombia, effectively allocated the various important positions in the administration and parliament for 35 years since 1959. However, this system collapsed due to an electoral coalition of unlikely partners. While the corruption of the previous Andres Perez government may have had a critical impact on the sentiments and behaviour of people towards the two party system, the emergence and rise of left-of-centre political forces such as Causa Radical demonstrated clearly that the days of a closed representative system as existed in Venezuela were numbered.

The hegemonic party system in Mexico has been replaced by the three party system, while the ruling Institutional Revolutionary Party is gripped with serious crisis due to internal divisions among the elite. The conflict between party conservatives and technocrats, which recently has become intensified, has drawn a thick fog over the political future of Mexico. Brazil has more than 15 small to medium parties,

¹⁹) Similar views are found in Boron(1995), Cavarozzi(1992), Ducatenzeiler y OXHORN(1994).

²⁰) Sergio Zermeno summarizes the crisis and deconstruction of the mediating space as the 'defeat of society'. His works which analyse the pathological effect of neoliberalism on social organizations are found in Zermeno(1992; 1993; 1994).

and presidents used to fall into an anomie unable to effectively mobilise the political support of the parties. In Argentina, the amorphous two party system between the Peronist Party and Radical Party is confronted with a totally new situation stemming from the emergence of Frepaso which has brought together the left-of-centre parties. Frepaso, under the leadership of Carlos "Chacho" Alvarez, succeeded to be a second major party in the general election of 1995. The party appealed to the mass by intransigently opposing to the one-man rule of the president and corruption (Cheresky, 1996:29-30).

The crisis of political parties or the crisis of party system reflects the crisis of the *Estado de compromiso* that was established in the 1930s. It is, in other words, a reflection of the political effect of neoliberal structural reform aimed at healing the crisis of the 'state of compromise'. The attempt to overcome this crisis by scaling down the state and expanding the market has brought about a bureaucratization of political power rather than activation of mediatory institutions. While most of the political parties are still in an immature developmental stage, the fiscal crisis of the state has seriously damaged the state's redistributive capacity via political parties.²¹ Hence political parties which mediated the interests of social sectors and served a functional role in political integration have been left in the cold in the process of building a new political order brought about by democratic transition.

As can be seen from the high level of non-voting, voters have become more and more indifferent towards political parties and their support to any particular party has also become less committal. Over the last ten years, the elections in Argentina, Peru, Brazil, and Venezuela have shown, on the one hand, a rapid decrease in support for established political parties, and on the other, a gradual increase in support for neopopulist leaders or new left-of-centre parties. The new trend not only indirectly demonstrates the voters' dissatisfaction with the established party system or the traditional political forces, but also smacks of the anti-politics spread among a population that came to lose their political and social identities.

(4) The Crisis of Corporatist Industrial Relations

For a long time, trade unions have, in the continued recession, lost their militancy as organizations fighting for the rights and welfare of workers. Most of them have turned into an interest organization for the benefit of union bureaucrats. Although there are some exceptions as in the rapid politicization of militant trade unionism like Brazil's Workers' Party (PT), in most countries, unions' negotiating power has suffered critical setback due to de-industrialization and over-supply in the labour market. Wage determination has become subjugated to macroeconomic targets of technocrats who implement stabilization policies. Unions in countries where corporatist labour relations have developed extensively are also faced with serious crisis in representation and leadership.²²

²¹) Martin Tanaka(1993) undertakes a comparative analysis of the crisis of political parties from the perspective of 'crisis of the state of compromise'. He derives four types of outcome through the variables of crisis of state-centredness and economic crisis.

²²) There are many studies of crisis of corporatism in each of the countries in Latin America. For example, see Durand Ponte(1990), Couffignal (1990), Cordova(1989).

Most trade union officials are not elected through regular elections by the members. Rather they are rotated through a bureaucratized mechanism. This has created a considerable distance between the rank and file membership and the leadership, providing the grounds for a crisis of representation. Furthermore, the inability of political leaders to offer benefits in return for political support has meant that union leaders have been unable to be persuasive with their members. This has created, then, difficulty for government to mobilize workers for elections and political support.²³ In a way, it appears that corporatist unions are faced with attacks from two directions: Rank and file members and neoliberal bureaucrats openly speak about their 'uselessness'. The speed of their disintegration, however, is not accelerating at a great rate. This reflects, perhaps, their continued usefulness as a buffer from political pressure arising from economic reform and their continued, albeit not strong, political influence, especially during election time.

Are There No Alternatives?

Albert Hirschman, following a review of the historical trends in the changes in public policy in Latin America, commented that policy objectives were changing too rapidly regardless of the extent of their success. This would lead, he concluded, to worsening of the problems due to intertwining of issues over time:

In Latin America, new, more difficult tasks were continuously presented to the state and society *whether or not* the previous task had been successfully disposed of. Indeed it would almost seem that the less satisfactorily a previous task had been grappled with, the bigger was the jump in difficulty of the next task and the sooner was it introduced (Hirschman, 1981:122).

Hirschman's insight may be applicable to the spread of neoliberal ideas in the 1980s. Latin American neoliberals accepted the Washington Consensus which landed on the continent on the crest of the tidal wave of foreign debt. The process of their acceptance of the new prescription did not arouse or involve any substantial reflection on their past situations or on the new ideas. They have, in fact, refrained from in-depth understanding of the reality and from endeavours to formulate alternatives. They just abandoned themselves to the tide of neoconservatism that swept through the world.

One should not neglect the pressures from international finance institutions and creditor banks which had undertaken concerted effort to prepare the ground for the sowing of the new ideas. IMF and the World Bank, and the US Treasury exploited the moment created by foreign debt crisis and chronic foreign exchange crisis to exert enormous pressures on Latin America to give themselves up to neoliberal stabilization and restructuring. However, the external players, while they were key proponents of the new trend, cannot be held the 'most responsible'. The ultimate responsibility for

²³) Oil workers who form an important force within the labor sector of the Institutional Revolutionary Party, in response to the austerity policies and decline in real wages since 1982, in great numbers voted for the left-of-center candidate.

adjusting the contents and pace of stabilization and restructuring needed to overcome the foreign debt crisis and the crisis in the development model, was firmly located in the hands of national governments and political forces.

CEPAL and scholars known as 'neoliberalists', and the centrist and leftist political forces who support their orientation are currently engaged in an active debate for alternatives to counter the neoliberal offensive.²⁴ These people are actively engaged in developing a comprehensive critique of the Washington Consensus and an alternative development model. They partially share the views of the Washington Consensus which are critical of economic populism, but offer different sets of responses. Rather than a method of privatizing crisis through cutting back or eliminating state intervention, they emphasize the need to readjust the role of the state and develop an active interventionist policy based on a strategic perspective.

They believe in the validity of 'structural reform' espoused by the former 'structuralists' even in the changed context of modern times. They assert that the effort to remove inflationary pressures stemming from the structural bottle-neck phenomenon in the economy and imbalance between sectors requires a comprehensive structural reform at diverse levels and dimensions.²⁵ It is believed that structural reform is needed for -- and contributes to -- the overhauling of the structure of income inequality which has worsened in recent times. It will, therefore, lay the foundations to make 'growth with equity' possible.

The reason why they are differentiated from 'old' structuralists and identified as 'neo-structuralists' is that they accept the rational elements of the neoliberal argument. First, they recognize the importance of dealing with the inflation-propagating mechanisms such as fiscal deficit and increase in money supply in the effort to control inflation. They do recognize that income policy based on control of wage and price would be the central instruments for the control of 'inertial' inflation -- which is a reflection of distributional struggle.²⁶ However, they also recognize, especially in view of the failure of the Cruzado Plan in Brazil and the Austral Plan in Argentina, that policy effect would be severely limited if it is not combined with a control on fiscal deficit. In other words, neo-structuralists maintain the structuralist emphasis on the importance of income policy, but accept, at the same time, the neoliberalist argument that inflation is a monetary phenomenon.

Second, while the neo-structural school is critical of neoliberalists' blanket attack on state intervention, it does recognize the distortion in resource distribution that may arise from the encirclement of the state by rent-seekers. It, therefore, accepts the need to pay attention in the institutional reform of the state to eradicate inefficiency that may arise from incomplete information or prejudice on the part of state bureaucrats or the implementation of regulatory institutions. Another issue of concern in the reform drive, they agree, is the collusion between special interest groups and the public sector. The

²⁴) The people involved in the endeavors to develop critique and alternatives to neoliberal interpretation is identified and grouped as a 'neo-structuralist' school. Overview of the views of this school is found in Ramirez(1993), Kay(1993), Bresser Pereira(1991), Fanelli, R. Frenkel and G. Rozenwurcel (1991), and Gerchunoff and Torre(1992).

²⁵) For neostructuralist policy packages, see Ramirez(1993:1026-7).

²⁶) On inertial inflation, see Bresser Pereira and Nakano(1987).

neo-structuralists, therefore, admit to the damage caused by 'wasteful protectionism' maintained during import substitution industrialization. They conclude, therefore, that past forms of state intervention have been drained of all their potential.

While the Washington Consensus is intent on fixing the responsibility for the crisis on statism or import substitution industrialization (therefore, the fault lies entirely with Latin Americans themselves), the neo-structuralists emphasize the impact of the foreign debt crisis of the 1980s. Neo-structuralists like Bresser Pereira, Gerchunoff, or Torre attempted to theorise the 'fiscal crisis of the state' as the cause of the crisis.²⁷ According to their argument, the originating moment of the fiscal crisis was the military (that is anti-populist) era of the 1970s, while the foreign debt crisis of the early 1980s drained government fiscal reserves through pressure for debt repayment. They point out that the reason for the worsening of the fiscal crisis can be found in governments' adoption of the foreign debt incurred by the private sector. The coinage of the phrase 'nationalization of foreign debt' reflects this phenomenon. Foreign debt crisis compelled the governments to adopt austerity oriented stabilization policies in the 1980s, and this in turn fanned the deepening of the crisis. From this diagnosis of the situation, the neo-structuralists prescribe the need to solve the issues of responsibility and cost-sharing regarding foreign debt in a rational manner in order to overcome the crisis of today. They point out that the greatest problem with neoliberal structural reform lies in forcing the wage earners and lower classes to shoulder the burden of cost for the reform. They also call for need for the domestic and international creditors to share some of the cost of the reform.²⁸

Neostructuralists also differ from the Washington Consensus, in that, they do not identify economic populism as the greatest obstacle in reform. Rather, they find that difficulties for reform are multiplied by the very absence of political and social consensus needed to undertake the reform. For them, economic populism is only an element of the obstacle.²⁹ Neostructuralists are extremely critical of the recent trend where reform measures have become the monopoly of technocrats of governments, while the views of the parliaments and social forces are totally ignored. They, therefore, assert the need to strengthen democratic procedure and institutionalization.³⁰ While there are some who claim that there is a need temporarily to accept the inevitability of autocratic presidency in order to overcome the various institutions and practices which have been corrupted by a long tradition of patron-client relationship, the neo-structuralists argue that a reform which ignores the principles of democracy is likely to revert to authoritarianism.

²⁷) Bresser Pereira, *op. cit.*; Pablo Gerchunoff and Juan Carlos Torre, *op. cit.*

²⁸) We are quite used to locating the responsibility for the economic crisis of Latin America on the absence of management capacity on the part of the indebted. However, the problem is not that simple. Without a recognition of the role and impact of high interest policy maintained by the advanced industrialized countries during 1980s, it is impossible to have a balanced understanding of the mechanism of rapid snowballing of foreign debt. The high interest was the key cause of the decade-long net capital outflow from Latin America which was known to suffer from a chronic shortage of capital. Detailed analysis is found in Dussel (1993) and Gutierrez Perez (1991).

²⁹) It needs to be reminded that the first to criticise economic populism was not neoliberal economists, but structuralists. Given this, the accusation circulated in some quarters that (neo)structuralism is populism would be extremely difficult live with.

³⁰) This kind of view is found in Calderon and Dos Santos (1991).

Neo-structuralists are, therefore, countering the neoliberal call to leave everything to market mechanisms to work themselves out (retrenchment of state and asymmetrical cost shouldering), and are emphasizing the mutual complementarity of market and state intervention in their argument for a shift in the form of state intervention and its structuration. They find that the weakness of the neoliberal position which calls for deregulation and market functions lies in confusion over 'regulation by market' and 'coordination for market'. They, therefore, point out the importance of the state's coordinating function -- over and beyond the function of a 'night-watchman' state -- in the very effort to activate the market.

The principled position of the neo-structuralists is grounded on more realistic concerns. Their concern stems from the recognition of intensified competition between nation-states in the era of globalization. There is an urgent need to develop and establish a new alternative model of development and foster strategic industries which enjoy comparative advantage. And to meet this challenge, the need for even more active and effective state intervention is ever greater than before. Even if the role of the state in cultivating competitive industry can be put aside, the state cannot be done away with in view of the vital importance of the mission entrusted to the state to oversee the strategic investments in social infrastructure, science and technology, and education for a high quality workforce. The neo-structuralists fear that national economies will tumble deeper into the abyss and lag further behind if the state is confined to the narrowly defined role of an accountant for balance of payments.

Conclusion

The instability in Latin America is expanding into a new form as it courses through the neoliberal reform of the 1980s. A stable growth model, democratic consolidation, social equity and restoration of peace: none of these has been achieved to any satisfactory level. The process of globalization has weakened the integrative power of the nation-state, and set society on a course towards disintegration. The power of market force is increasing, but the influence of transnational capital over domestic producers and consumers is overwhelming. National economy has been increasingly controlled by transnational business and local entrepreneurs who have joined them as junior partners. The increased participation of foreign capital has brought about an increased de-nationalization of the national economies.

Political democratization is going through uncertain and unstable paths, while conflict is brewing in every corner of a society ready to erupt at any minute. As can be seen from the recent Chiapas peasant uprising, the labour opposition to President Menem's economic policies in Argentina, peasants and laborers are not standing silently by before the sweeping wreck wrought by globalization and neoliberal reform.

As can be seen in the success of the Brazilian Workers' Party (PT), various political currents critical of the neoliberal project are emerging as significant political forces in the series of elections as the socio-economic crisis is worsening in the aftermath of neoliberal upsurge. The speedy recovery of the left

political forces from the reverberation of post-cold war shock is assisted to a great extent by the neoliberal binge.³¹ Chile's left political party has already participated in a government coalition as a major partner. In some countries, such as Uruguay and Brazil, the left could be said to be on the verge of taking the government. Furthermore, electoral support of leftist forces are increasing markedly in Argentina, Venezuela, and some other Central American countries, except for Mexico. Countries which have a weak tradition of leftist political forces are likely to develop a political polarization as leftist forces gain strength. This, in turn, may give rise to greater possibility for political instability and military intervention. It is not necessary, however, to forecast a sudden rise of the military. Because the wounds of military messianism are not sufficiently healed, the likelihood of a successful military intervention is relatively limited.

Francisco Weffort, a giant in Latin American social science, describes the current situation as 'solitude' rather than the milder term 'dependence', and portrays the people of the continent as a 'forgotten people' in history. Amidst the strong negation expressed in his words 'absence of future' and 'regressive society', Weffort raises hope for a new generation and a third way that throws off the neoliberalism of conservative modernization and populism which has been reduced to a 'chicken game' amongst narrow vested interest groups(Weffort, 1991). It does not matter whether it is known as 'neoliberalism' or by some other name. What is more important is the healing of the wounds wrought by neoliberal structural reform, through a rational alternative based on consensus and democratic institution, and the creation and refinement of a model of stable growth founded on the principles of equity and democracy.

³¹) Luis Maira, secretary general of Chilean Socialist Party outlined the identity of Latin American new left in 1) critique of neoliberalism, 2) critical break away from the experience of existing socialist states. He points out, however, that future-oriented project of the left is still underdeveloped despite the recent quantitative advances(Maira, 1993). However, recently, a large number of scholars are beginning to carefully chart the innovation of Latin America's left. A representative work in this areas is Castaneda(1993).

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