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The devious maze of the international order: the importation of reforms

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This paper seeks to make a historical review of the models which have guided the international economic order since the last century: how and why they evolved until bipolarism spilled over into international relations and the neoliberal ideology took root. It also examines the adjustments that the countries on the periphery have made in order to adapt to these models. In Latin America, the abrupt opening of frontiers and the abolition of protectionism, but without an appropriate institutional framework, have given rise to lower economic development, deterioration in the social field, and the discrediting of democracy. This analysis, when applied to specific changes which have taken place in the models adopted and the way they have been implemented in the region, reveals their relative degrees of validity and the existence of considerable areas of leeway which have so far been insufficiently exploited.

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I
Introduction

For over two decades, the basic neoliberal economic policy package has remained unaltered in spite of the succession of governments of different political inclinations which have taken office all over Latin America. At best, proposals have been put forward for second- or third-generation reforms designed to make up a posteriori —a decade later— for the shortcomings or imperfections of the original measures.[1]

The initial proposals were successful in correcting the imbalances in prices, the fiscal accounts and external indebtedness which plagues the Latin American economies in the 1980s, but in most cases they were a resounding failure in terms of satisfying the basic popular demands: promoting growth, employment and distributional equity; strengthening social rather than merely political democracy, or taking full advantage of the removal of frontiers all over the world.

Furthermore, in a number of cases the presidential candidates, such as Fujimori and Menem, won their election on the basis of anti-neoliberal policy platforms, only to turn later into singularly enthusiastic implementers of the reforms contained in the Washington Consensus. Even social democratic governments have had to curb initiatives seeking to depart from the prevailing orthodox approach, because of the risk of losing the support of foreign interests or powerful domestic groups. Thus, the policies and objectives of governments, whatever their political leaning, have never been independent of the unitary concept which has determined the common denominators of the continent or, hence, of the approaches taken by preceding governments, even when there has been a transfer of power from one political party to another. It is hardly surprising, then, that the strategies applied have proved to be almost identical even when there has been a change of the political groups in power, thus failing to reflect the people's will. It is therefore important to explain how the roads to be followed are defined, how national priorities and objectives are chosen, and how the national social and political balances are reconciled with those of the external economic environment.

A decisive influence has undoubtedly been exerted in this by the new configuration and rules of the world order, which have found the Latin American countries not only ill-prepared but also weakened by the effects of the 1980s debt crisis. When countries are struggling to cope with the imbalances of that decade, the international financial agencies make their support subject to compliance with certain conditions. These criteria have sometimes caused national policies to follow directions other than those that the governments would have chosen of their own free will. It should be noted that these rules have been multiplied in recent times and have been aimed at promoting the adoption of neoliberal-type structural reforms rather than favouring development.[2] Under the pressure of these circumstances, governments have adopted compromises which have caused them to open up their markets and dismantle protectionist measures, those reflecting authoritarian and populist approaches, and many of the measures for the protection of workers and businessmen.

Free trade, deregulation and the withdrawal of the State from productive activities run counter to criteria, values and policies for which the free play of the market is only an imperfect substitute, especially when the systems of institutions of the countries concerned are incipient or suffer from serious gaps. Let us take two simple examples. Financial liberalization, in the absence of mechanisms to regulate the market, has given rise to a wave of banking crises in much of Latin America. Likewise, the abrupt elimination of frontiers has created a system in which competition is not between equals but often between advanced foreign producers and backward domestic producers, with

[1] See Williamson (1990) and Kuczynski and Williamson (2003).

[2] The programmes of the International Monetary Fund (IMF) have been criticized as being over-restrictive, as being designed to compress demand, and as neglecting the development of the countries concerned. In the opinion of Feldstein, the IMF should resist the temptation to force reforms on the countries. The criticisms of the World Bank have accused it of giving up the financing of investment projects and concentrating instead on the promotion of globalizing reforms, while paying little attention to protection of the environment and increasing the supply of public goods. See Feldstein (1998), Rodrik (2000), Kapur and Webb (2000), Kahn and Sharma (2001) and Buira (2003).

effects which have been destructive but rarely in the Schumpeterian sense.

At all events, by being forced to enter more or less abruptly into a globalized world, the countries of the region are being forced to absorb enormous historical imbalances, since their institutional structure is incompatible with the demands of markets that know no frontiers, and the mix of winners and losers in the political and economic game has been radically altered. While the countries of the periphery naturally do not have much influence on the direction of the changes in the international order, they have to cope with the problems of the speed and manner in which their economies have to absorb the resulting changes. In effect, the one-sided impact of the reforms gives rise to a disorderly and divided transition within the countries which impedes the formation of flexible national consensuses that can facilitate economic and political change.

It is important to limit the division of common interests that were previously united by nationalism. Today, the Latin American societies are deeply divided internally: the interests of labour groups are divided between skilled and unskilled workers, between those working in the modern sector of the economy and those in the informal sector, and between those employed in big firms and those working in small and medium-sized enterprises. The same sort of thing occurs in the business sector: there is a division of interests between foreign and domestic investors, between importers and those producing for the domestic market, between large firms and smaller ones, and between the real and financial sectors of the economy. Similar divisions exist among the different social groups, political parties and between the provinces and metropolitan areas of the countries.

All this has led to internal divisions: while the alliances which have been formed between the national and foreign elites ensure the punctual fulfillment of international demands, national arrangements to lighten the enormous social costs of the relevant changes are constantly put off. For this reason, people have begun to be disappointed with democracy, to feel that elections do not serve to change anything, and that one government is much the same as another.

In the following pages, we will try to put the models of the world economic order in their proper dimension: to strip them of their sacred aura. Thus, section II makes a historical review of the forces which originally led to the disappearance of the colonial world and subsequently to the end of the bipolarity of international relations, giving way eventually to the predominance of the neoliberal ideology which has resulted in tensions between the world order and national democracies and between free trade and the domestic development of the Latin American countries. In section III, the level of abstraction of the analysis is lowered in order to make a critical analysis of specific changes over the last half-century in the models advocated by the central countries for the development of the periphery. These changes have modified the validity of these rules and reveal that there are substantial areas of leeway which have so far been only poorly exploited by the Latin American countries.

II
Historical overview

In the first half of the past century, colonialism finally disappeared and a number of totalitarian regimes collapsed. Between 1945 and the present day, the number of sovereign nations increased from 45 to almost 200.[3] The prevailing ideas led to the creation of a large number of States which, in order to be members of the international community, had to make themselves responsible for their internal order and development, thus representing a further step in the process of Westernization of the nations.

Looking back, the breakdown of the colonial pact involved deep changes in the international order and the way societies on the periphery link up with it. Many of the forms of support previously given by the metropolitan countries and the linkages with the latter in terms of trade, production specialization and finance were cancelled or reduced. There were, however, new opportunities for the establishment of links with a broader range of developed countries, and above all there was more room for the economic and political independence of the newly independent nations. Libertarian ideas and struggles between the dominant countries softened the demands made on subordinate countries, facilitating the reorientation of their internal forces towards the interests of the Third World.[4]

At this time, modernization of the State was considered to be essential in order to achieve an effective development strategy. Nationalism and social engineering were therefore put forward as ways to liberalize the development of the former colonies and the countries of the periphery in general. This, together with the changes in economic and social structures brought about by the changes in the international order, made it necessary to abandon rigidly economistic approaches and embrace instead the broader concepts of political economy and integrated social development.[5] The world order of the time needed legitimate States able to keep order and seek the well-being of their countries.

Likewise, the end of the Second World War and the desire to avoid possible conflicts between nations (especially the superpowers) led to the creation of the Security Council as the supreme political organ of the United Nations and guarantor of international collective security. Within this Council, the power of veto possessed by its five permanent members served as a means of impeding the dominance of one or the other of the great blocs into which the world was divided. At the same time, the extension of the competitive struggle of the Cold War to the Third World increased the opportunities both for development support and for the freedom of governments to run the economic and social affairs of their countries within a range of predominantly Keynesian styles.

This situation favoured more intensive development on the periphery, especially in Latin America. Since economic and political models are ideological constructs which inevitably reflect the rationalization of interests, as well as the consensual views of First World academics, however, they are not and cannot be unchangeable. Through them, the central countries seek to regulate the behaviour of the countries on the periphery and lay down the conditions for their incorporation into the international community. There are incentives and punishments which range from access to the markets of the industrialized countries to political alliances or ostracism.

In a dependent relationship it is not necessary for a country to be a colony in order to suffer limitations on its sovereignty, nor does full sovereignty depend on being a member of the United Nations (Badie, 1992). As long as the First World holds the economic, political and military power and its institutions generate the ideas that guide the world, develop the most advanced technologies and products and fix the rules of the international order, the countries of the periphery will continue to be subordinates even though they may have some leeway for action. In any case, the emancipation histories of those countries usually involve the idea of integration, not separation: they are the stories of peoples excluded from the main community of nations who strive to gain entry to it and follow its rules. This explains the enormous integrating power of universal models which also usually bring with them the formation of alliances of interests between the

[3] See Croeker, 2003, pp. 32-45.
[4] See Cardoso and Faletto (1970), Furtado (1965), Migdal (1988) and Dos Santos (2003).
[5] See Cardoso and Faletto (1970).

elites of the dominant and dominated countries, leading to a symbiotic relationship from which it is hard to escape.[6]

In the second half of the twentieth century, the changes in the economies of the industrial societies speeded up. The forces of production and cross-border trade created situations of mutual dependence between countries which came up against the safeguards characteristic of national sovereignty. At the same time, private or semi-public actors emerged who weakened the power of national governments. More recently, the collapse of the socialist countries became another central element in the changing realities and models, by doing away with the division of ideological approaches that marked the early post-war years.

The disappearance of bipolarity from the world and the new world economic conditions clamour for far-reaching reformulations of the models governing the international order. The transnationalization of production and trade demands the abolition of frontiers and the international convergence of national economic and social policies – and even cultures – in order to ensure the security of trade, production and capital flows from the world centres.

This accounts for the emphasis on deregulation, the opening up of frontiers, the elimination of State participation in production, and the elevation of price stability to the level of a central objective of governments. The former concern for the domestic well-being of countries and for growth has given way to the requirements of globalization as such. In exchange for the renunciation of economic sovereignty, a boost has been given to the formal modernization of democracy and the international convergence of political systems to correspond with the Anglo-Saxon model.

There has been undeniable progress in this latter respect, as reflected in the decline in authoritarian regimes on the periphery, but this progress has remained incomplete because in many cases it has not been possible to ensure sustained development or to meet the needs of the population in terms of employment, income, security or access to social services. To a certain extent, the progress in terms of the formalization of the political order has been cancelled out by the disturbing effects of economic change. This is where the tensions caused by the unrealistic assumption that economic and socio-political phenomena are independent of each other becomes apparent: an assumed independence which is necessary if one wishes to maintain the illusion of national sovereignties untouched by the new international order.

Changes in the universal rules of conduct of States have caused breaks with the past, especially in the case of nations on the periphery. Thus, the war in Iraq led to the abandonment of the political multilateralism of the Security Council; in Africa the new nation-States have not yet been consolidated, but must already be dismantled for the benefit of globalization; and the civilizing promises of the dominant discourse about free trade and formal democracy are already crumbling: first, because of the growing inequalities within and between countries, and second, because there are States which are formally democratic and sovereign but have their hands tied when it comes to meeting reasonable demands by their citizens.

The abandonment of the goals for Third World growth is in stark contrast with the emphasis and efforts placed on reducing inflationary pressures and creating a favourable climate for transnationalized trade or investment flows. The concentration of efforts on the stabilization of prices all over the world has been tremendously persistent and successful. Thus, after standing at almost 16% in 1985-1989 and over 30% between 1990 and 1994, world inflation sank to 4% in 2000-2003. Between the first and last periods, the average rise in prices went down from 4% to 2% in the advanced countries, from 48% to less than 6% in the developing economies as a whole, and from 186% to 8% in Latin America. This was achieved at the cost of innumerable institutional reforms, policy changes and social sacrifices: suffice it to mention the abolition of national frontiers, deregulation and the decline of national monopolies, the independence of central banks, or extreme fiscal discipline, carried to the point of ruling out any type of anti-cyclical action.[7]

Much less effort has been made to raise and equalize world growth, however. The world economy is in a phase of unsteady development: it grew at the rate of 3.6% per year between 1985 and 1989, 1.4% between 1990 and 1994, and 3% between 2000 and 2003, while Latin America reached only 1.5% in these last four years. On average, the rise in per capita income between 1975 and 2000 shows that the gap between rich and poor is widening still further: the countries with high levels of human development registered an increase of 2.1% per year, those with intermediate

[6] See Said (1993).

[7] See Rogoff (2003).

levels 1.6%, and the poorest nations, only 0.5%. Latin America also lost ground, since its per capita GDP grew by only 0.7% per year over this quarter-century period.[8]

The post-modern tension between world-level demands and those of the national democracies is eroding the foundations of nationalism as the primary source of identity and of unity of the citizens around collective goals such as development or the defence of their own interests. Over the last two decades, at least in Latin America, the first-named demands have been punctually met, but the satisfaction of the second ones has been systematically postponed. It is paradoxical to see how the efforts to democratize the peripheral States have taken place side by side with a relentless assault on nationalism, which, like it or not, captures the imagination and aspirations of the people and, above all, seeks self-government for society. For two decades now, in Latin America vital State functions have been turned over to the hidden hand of globalized markets and governments have renounced the use of the main instruments of social engineering and the underlying development and employment policies.[9] As a result, countries have been put in a position where foreign investment and the sale of the best national enterprises to foreign owners are used to provide – but only temporarily – the resources to shore up the economic apparatus of the first-, second- and third-generation neoliberal reform process, while the social structures and ultimately the prestige of democracy itself continue to crumble. The ideologized view that the State commits all kinds of errors, while the hidden hand of the market possesses all kinds of virtues, is still alive, although the market has shown itself to be deaf to almost all the legitimate demands of the citizens of developing countries.

As a result, the social tensions associated with the dominant model have grown so strong that they can no longer be concealed. This is shown by facts ranging from the social decay and symptoms of ungovernability that affect the underdeveloped areas, and the failure of the members of the European Union to comply with their budget ceilings, to the failures of the Seattle (1999) and Cancún (2003) ministerial meetings of the World Trade Organization. It is also shown by the persistence of hunger, poverty and disease in vast areas of the world,[10] even including some segments of the industrialized nations.

Like it or not, globalization and its demands have closed off the ways towards incorporation into the industrialized world that were followed by the nationalist societies of Germany, Japan or the United States itself. The leeway in this respect has narrowed and changed, since the international rules now in vogue do not permit industrial protectionism and subsidies, public enterprises, or the fixing of national economic priorities or maintenance of deficits by governments. These privileges are now confined to the advanced countries, as shown by their anti-cyclical policies or the protection given to their agriculture and industry: for these and other reasons they have budget deficits much higher than those considered acceptable for peripheral countries[11] and they permit the absorption by the public authorities of the losses of their big enterprises.[12] Likewise, the governments of the First World maintain or adopt protectionist measures in response to domestic political or electoral pressures, in violation of the spirit or letter of international laws and agreements. The refusal to do away with agricultural subsidies, the agonizingly slow opening up of their markets for textile products, or the recent protectionist actions of the United States government (in the case of steel, among others) are typical examples of flagrant imbalances in the international trade regime which prejudice above all the countries of the periphery.

At the present time, one way of incorporating countries into development with a view to future access to the First World is that followed by India, China or the south-east Asian countries. These countries have been orthodox in the defence of their interests and heterodox in their observance of the universal models. Their elites and governments have united to establish development strategies, create economic power centres, apply industrial policies, subsidies and tax reductions and attract investments, while at the same time mixing improvements in the well-being of the population with sometimes repressive social policies. In this way, they have weakened their economic and technological dependence relationships, obtained greater leeway for action, and at the same time taken advantage of the worldwide opening up of markets.[13]

Another way, albeit slower and more uncertain,

[8] See UNDP (2002).
[9] See Ibarra (2003).
[10] According to the United Nations, over 1,150 million people had to survive on less than a dollar a day in 1999. See UNDP (2002).

[11] The budget deficit of the United States is 5%-6% of GDP, that of Germany 3-4%, that of France 3-4%, and that of Japan 7%. See IMF (2003) and OECD (2003).
[12] Such as Chrysler, Air France, savings and loan associations, the Capital Risk Management Fund and Japanese banks, to name only a few. See Ho and Lin (1991).
[13] See Amsden (2001).

would be to redouble the efforts made in international forums to secure a change in the universal models so as to make them more equitable and favourable for the development of the periphery. In this field, as the Fifth Ministerial Conference of the WTO (Cancún, 2003) showed, real progress still seems to be far off in view of the vested interests and reluctance of the advanced countries. Nevertheless, some progress is being made. The First World's concern to channel aid preferentially to the poorest areas of the globe, as manifested at the International Conference on Financing for Development (Monterrey, 2002), seems to be a step in the right direction, although halting and incomplete, provided such aid is not linked to a demand that the beneficiary countries must first carry out the first-, second- and third-generation reforms.

The innovative proposals made in the developing world present a wide range of variants. Because of their enormous population and internal diversity, China and India are areas of multinational integration which even represent or could represent serious political and economic challenges to the leading world centres. This enables them to enjoy greater freedom to remodel the rules governing the world order. The south-east Asian countries, under the protective umbrella of Japan and the other giants of the region, have benefited and continue to benefit from degrees of political and economic heterodoxy not enjoyed by other areas of the periphery.

In Latin America, the possibilities seem smaller, but by no means non-existent. Central America has not yet succeeded in reaching the stage of political integration or even of the convergence of national economic policies. Paradoxically, the experiment of the Central American Common Market and the possible political union which was to follow it (there is already a Central American Parliament) has been held up by the abolition of trade frontiers worldwide and the multiplicity of rules for the new world order which were designed for nation-States. The Mercosur countries have better prospects because of the joint size of Brazil and Argentina, but in addition to the sequels of the various crises they are faced with political and economic strategy disparities which do not appear to be easy to reconcile, especially against the background of the existing international tensions and the continental free trade project sponsored by the United States. In the case of Mexico, there are opportunities which have not yet been exploited because of its proximity to the United States and its integration with that country's vast markets. In short, the possibility of freely shaping the future of Latin America seems to be running up against hegemonic influences which hinder the formation of innovative systems of its own. Even greater obstacles stand in the way of the evolution of Africa and the Moslem Arab world, but even there initiatives are being put forward.

All in all, however, the available options for independent development are shrinking (Chang, 2002), and against all the ideas of nationalism this is leading almost inexorably to the political incorporation of the Third World countries into the multinational integration blocs into which the world of the future will probably be divided and which will be on a more even footing for competing with each other. Naturally, the advance of the globalizing post-modern model will lead to a significant loss of cultural, social and economic diversity in the world, as well as keeping citizens far removed from participation in the decisions which most affect their social life, especially in the case of the groups which will be absorbed by the dominant power centres. The process of the merging or integration of countries is already well advanced in Europe, although less so in North America, and it could still run into obstacles, resistance and even ethnic prejudice in various parts of the world.

Looking into the future, this process –together with the gradual abandonment of multilateralism by the great economic and political centres of the world– hints at a return to a multipolar world in the not so distant future, with all the advantages and disadvantages that that entails.[14] At the same time, the shortcomings and failures of economic neoliberalism and the war against terrorism suggest the possible return –however remote it may be– of political economy, in the sense of creating a more balanced relationship between the economy and society, between the State and the market, and between the rights of the individual and collective or basic human rights.

[14] See Kennedy (1993), Connelly and Kennedy (1994) and Kupchan (2003).

III
The importation of reforms

The economic models and paradigms we import are not immutable: they change with circumstances and with the inevitable confrontations between forecasts and actual results. We may refer, for example, to the evolution of the conceptions of the industrialized countries – which we accept for ourselves – about the development of the periphery. These conceptions frequently place emphasis, in a general and simplified manner, on some fundamental obstacle to progress, leaving aside any other order of priorities.

History permits us to clarify these questions. Between 1940 and 1950 underdevelopment was explained by the insufficiency of investment and saving, which should be made good through the entry of international funds. It was believed that by increasing capital formation it would be feasible to move the factors of production from low- to high-productivity sectors. International trade was considered to be good, but not sufficient to open the doors of development: consequently, some protectionism and moderate external account deficits, to be covered by injections of capital from abroad, were considered to be acceptable, as was the transfer of resources from traditional to modern activities with support from active industrial policies, even if this was reflected in fiscal deficits, provided these were only small.

Some progress was made in these ideas during the following years (the 1960s and the first half of the 1970s), when it was discovered that the insufficient supply of entrepreneurial cadres was limiting the absorption of resources from the First World and reducing the effectiveness of the promotional measures of governments and international agencies. Following this logic, the deliberate promotion of business training and measures to make up for shortcomings in this respect were incorporated into government programmes. The peripheral countries were persuaded to set up development banks, to encourage joint investments in strategic areas of the economy, and to strengthen national capacity for training and project evaluation. Contrary to what it is doing now, the World Bank promoted the establishment of development banks all over Latin America, set up the International Finance Corporation –hich provides backing for private enterprises and projects– and the Economic Development Institute for the training of business cadres. Up to this point, the changes made in the models may be described as fine-tuning which does not depart from the basic tenets of the international order of the early postwar years and of Keynesianism.

From then on, however, the recommendations by the First World to the peripheral countries changed rapidly until they penetrated to the core of the countries' economic policies. Now, the central objective ceased to be the lack of saving, investment or business capacity: these were only petty sins. The new diagnosis held that the problem lay in a distorted price structure which limited the absorption of labour and led to sub-optimal rates of GDP growth. The main blame of this phenomenon was laid at the door of State interventionism which aggravated faulty resource allocation, promoted the use of capital-intensive techniques, and gave rise to unproductive rents protected by official policies. The remedy therefore lay in competitive exports with a high labour content. To this end, it was recommended to open up markets and do away with subsidies and all protectionist measures, including State participation in production. The technological backwardness or deficient trade networks of the peripheral countries did not matter, as the market would soon reveal the real competitive advantages of each country.

This was how the neoliberal explanation of development began. Countries must abandon State Keynesianism at the economic level and nationalism in the political field. On the one hand, governmental failures and the inability of the State to take the place of the wisdom of the market were highlighted as the reason for the main structural imbalances in the economy, while on the other hand it was held that renewed access to development could be achieved through an increase in exports, which depended on the liberalization of product and capital markets.

In practice, however, an increase in export trade is not something that can be achieved immediately, nor is it easy to make exports the driving force of developing economies. In contrast, the abolition of frontiers is usually accompanied by an avalanche of imports which destroys domestic enterprises and favours the formation of privileged export enclaves, while foreign investment, rather than giving rise to new products and jobs, often serves only to finance the transfer of the best domestic resources and enterprises into foreign hands. Furthermore, such investment can hardly take the place of public investment in infrastructure or human capital or the supply of many non-tradeable goods and services (energy, transport or essential production services), and much less can it define a country's long-term strategy for its insertion in world markets.

Nevertheless, the views of the centres prevailed. The Latin American countries liberalized their markets and deregulated their economies, in the belief that this would open the door to rapid development or win the First World's acquiescence. What actually happened was at variance with these hopes, however: over more than two decades (1980-2000) the pace of Latin American development fell to half of that reached in the previous thirty years, with high levels of unemployment, marginalization and enormous maladjustments in the labour market. Reformulation of the models was therefore called for.

The abundance of skilled human resources was rapidly identified as the reason for the success of some nations (Southeast Asia), while a shortage of such resources was an obstacle to development. The World Bank's 1991 annual report repeats the neoliberal discourse of previous years, but it adds a new ingredient: investment in human capital as a precondition for development (World Bank, 1991). This represented some progress in the model, but it does not solve all the problems, for the training and optimal use of human capital requires growth and complementary facilities which are not created spontaneously by the market.

A revisionist approach to the First World's recommendations gained greater strength in the second half of the 1990s. Once again, the contrast between the meagre results and the enormous social costs of the Latin American reforms based on greater openness, as compared with the success of the activist governments of the Asian countries, led to an exercise of reformulation and the rediscovery of the State as the appropriate agent for leading the transition to globalization. Without good governance, it was said, the reforms would not give the expected results or secure the development of the peripheral countries. This assertion was correct, but insufficient, as the proper play of democracy cannot be reduced merely to questions of administrative efficiency, as suggested. Reluctantly, it began to be accepted that the State and the political sphere have an essential part to play in the handling of domestic political reforms and external relations.[15]

Good governance, or at least better governance, is undoubtedly essential for achieving sustained development. There is a risk, however, that excellence in this respect may be made a prior requisite for gaining access to the solidarity and aid of the First World, as was made clear at the International Conference on Financing for Development (Monterrey, 2002). Adapting to a world without frontiers, completing institutional reform, applying healthy macroeconomic and microeconomic policies, deregulating markets, guaranteeing the rule of law, eliminating corruption, lessening the complaints of those who have lost as a result of the changes made, and achieving so many of the other requirements implicit in the term "good governance" is practically equivalent to having already solved the basic obstacles not only to development but also to the transition to a world without frontiers. Like it or not, sustained development, democratic modernization and adaptation to the new international order are slow and painful processes of adjustment which can hardly be imposed as entry conditions that could only be satisfied by the most advanced nations of the world, not the poorest ones.

The last migration of the paradigm advocated by the international financial organizations – which is not shared by the whole of the First World – seems to raise the concerted fight against poverty to the level of an international priority. In view of the fact that social decay is getting worse rather than better, poverty is no longer seen as being exclusively the result of government errors and over-regulation of markets, but is also attributed to systemic effects of the new international order.

This fundamental qualitative leap forward is expressed in the *World Development Report 2000-2001* (World Bank, 2001a), which proposes a three-pronged strategy that goes beyond the economic level to address political issues. First, it recommends multiplying the economic opportunities of the poor by measures to strengthen their income from scarce assets (land and education) through both market-based and non-market-based policies. Second, it supports the strengthening of social safety nets in order to reduce the extreme vulnerability of the excluded segment of

[15] See World Bank (1993 and 1997), Stiglitz (1998), McGuire (1997), Ibarra (2001), Abramovitz (1989) and Rodrik (1995).

the population. Third, it suggests reforms designed to transfer greater political power to the poor so that public institutions will be more ready to attend to their demands. Finally, it admits that there are multiple ways to development and to the eradication of poverty, and the specific ways adopted must depend on national priorities. Thus, it is beginning to be accepted that it is wrong to recommend standardized policies, in view of the diversity of the historical and institutional situations of each country, and to put economic, social and political reforms in watertight compartments where they have no mutual influence.

This represents an enormous leap forward, because it is now admitted that the importance of relations based on the market, as an area of competition among individual private actors acting strategically to gain profits, must be viewed in more relative terms and must be complemented by political relations based on a very different logic: the sovereignty of the people, the State of law, and other practices for democratic participation and consensus-building.[16] This clearly brings out the underlying unresolved tension between the values of the market and those of democracy.

Much has been said on what the peripheral nations should do to achieve success in their access to the globalized world. Little has been done, however, to make the conditions of competition more equitable and to create institutions to limit the polarizing effects of the free play of the market, that is to say, to create an institutional architecture which is sufficiently transnational to humanize development and make it sustainable. Over twenty years ago, the Brandt Report put forward some indispensable political actions for this purpose, when it asserted the need to give the countries of the South a more equitable share of international power and decision-making, to allow their production centres to grow, to regulate the practices of transnational enterprises, to ease the debt burden, and to promote development (Brandt, 1980).

As we have seen, the First World development model has been constantly evolving, and the institutions and policies of the peripheral countries have also changed at its behest, at the cost of enormous disparities with their actual situations. The great leap forward of the twentieth century took place when national economic sovereignty was sacrificed for the benefit of greater openness and the return of its powers to the market, with the objectives of each country being made subordinate to the goals of a globalized world. Development aid thus gave up the financing of investment projects and openly embarked instead on the task of promoting the neoliberal reform process. Now, while continuing to insist on the maintenance of the parameters of that process, the fight against poverty has been added to the model, as though there were no contradictions between the two goals.[17]

The changes in international conceptions on development are due to some extent to a better understanding of the problems, but they primarily reflect the changing interests of the powers which formulate and reformulate those paradigms. The proposals have been completed and fine-tuned, as shown by the identification of the so-called second- and third-generation reforms (which strictly speaking should have accompanied or preceded the reforms initially promoted), but they are still far from addressing the complex dilemmas of the neoliberal transition of the various peripheral countries,[18] especially the establishment of a new stable balance between the functions of the market and those of the State.

Let us look at a typical case. The financial openness process, or global financial integration, as it is now called, was carried out in most of the Latin American countries on the unproven assumption that it would have positive effects on economic growth and the deepening of financial flows. Subsequently, empirical studies made by the IMF[19] concluded that no robust and significant relation could be found between financial integration and development. Furthermore, in the case of the peripheral countries a frequent association was found between financial

[16] See McCarthy (1995).

[17] As already noted, the distribution of the international funds to combat poverty depends on countries being granted a seal of "good governance" for satisfying the main requirements of the neoliberal reform process. According to the World Bank, "Although some empirical controversies persist, government performance is increasingly accepted by researchers and especially by policymakers as a guide to aid allocation. Government performance is generally agreed to include economic policy, other anti-poverty programs, and the quality of governance and institutional capacity" (World Bank, 2001b, p. 93). The new ingredients added to the model do not eliminate the linking of aid with the application of the reforms advocated by Washington but are additional to this requirement.

[18] The paradigmatic components of the Washington Consensus are now accompanied with a host of new reforms designed to promote profound institutional changes (good governance, reform of the legal system, reform of property rights, labour reforms, eradication of corruption, reform of the regulatory system) which, if implemented, would supposedly make good shortcomings in the initial measures of the Consensus. See Williamson (1990).

[19] See Rogoff and others (2003) and Agosin and Ffrench-Davis (1996).

liberalization and increased volatility of consumption (the latter variable was considered to be a better than GDP as a measure of the well-being of the population) or proclivity to crises and contagion. By imposing small controls on capital, Chile was able to avoid the serious pro-cyclical problems due to oscillations in short-term foreign capital flows.

On the other hand, the IMF's studies seem to show that there is a certain minimum organizational and institutional threshold below which financial integration does not help countries much and may even cause them damage. This happens in the absence of a solid legal and supervisory infrastructure, codes of conduct for transnational corporations, and low levels of corruption, among other factors. It would be hard for most of the countries of the periphery to meet these requirements, because of their backwardness and the fact that their institutions corresponded to the previous system of financial protectionism and not to full internal and external financial freedom. Consequently, the institutional framework which was essential for the transition was absent, incomplete or only incipient, as well as often corresponding to a level of development not yet reached by the those countries. The Mexican banking crisis is a clear example of long-standing disparity between reforms and an outdated institutional framework.[20]

By way of conclusion, we cannot but note the inconstant nature of the models proposed by the First World and the imperfections of the transnational institutions and their conceptions on how to harmonize the economic and social development of the peripheral countries with the place they are forced to occupy in the new world order. Economies are integrated and become interdependent, but the transnational institutions needed to lessen the polarizing excesses of the market are yet to be created or else are at an extremely incipient stage. This is why it is necessary to proceed cautiously rather than unquestioningly adopt the model rules which the central countries want to impose. The imported models are usually over-simplistic in failing to take account of the mutual influences between the economic, political and social spheres, and they are also at fault in seeking to standardize policies and reforms without bearing in mind the special historical and institutional features or degree of development of each individual country. Consequently, these models should not be viewed as immovable dogmas but rather as flexible guidelines for international coexistence, within which to incorporate and safeguard each country's own goals and interests. Ultimately, the success of modernization and development programmes depends on them springing from proposals which are broadly shared within each country, not on copying outside ideas supposed to be applicable to all nations.[21] This, and no other, was the road which the United States, Germany and Japan followed in their entry into the industrialized world and which is being followed by South Korea, Taiwan, China and India today.[22]

(Original: Spanish)

[20] See Ibarra (1998).

[21] These criteria are already beginning to be taken into account in the new rules on conditionality adopted by the Executive Board of the IMF late in 2002 (IMF, 2002).

[22] See Bourgin (1989), List (1885), World Bank (1993), Amsden (2001), Skocpol and others (1985), Komiya and others (1988), and Stiglitz and Yusuf (2003).

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