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CONTENTS

Neo-liberal structural *reforms in Latin America:* the current situation

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Latin America is currently undergoing a strategic turnaround with far-reaching implications: from an inward-oriented form of development with heavy State intervention in production and the system of prices, to an outward-oriented development strategy in the context of a free market, with the private sector playing the leading role. This study analyses the seven main reforms associated with this neo-liberal strategy. It concludes that all these reforms could have positive effects if properly implemented, but in fact the most successful of them have been tax reform, the opening-up of trade, reform of the pension system and, to a lesser extent, privatization processes. The most unsuccessful and costly policies have been those associated with macroeconomic stabilization programmes and financial liberalization, for the idealistic views of the neo-liberal school regarding the presumed automatic virtues of the market mechanisms blinded them to some vital shortcomings which hinder the possibility of smooth and rapid movements towards an equilibrium situation.

I

Introduction

It is a well known fact that since the mid-1980s, and even earlier in some countries, Latin America has been undergoing a strategic turnaround of a magnitude which has no precedent at least since the 1930s. This has been reflected in measures such as the following (Williamson, 1990; Fanelli, Frenkel and Rosenwurcel, 1992): i) liberalization of almost all prices; ii) a tendency to deregulate the main markets (above all those of capital and foreign exchange, and to a lesser extent the labour market); iii) elimination of most subsidies; iv) efforts to secure fiscal balance; v) generalized elimination of almost all non-tariff barriers; vi) radical and rapid reduction of customs tariffs, which have gone down from effective rates of protection of around 100% in the mid-1980s to current average tariffs of less than 20%; vii) reduction of the number of tariff brackets from an average of over 60 to only three at the present time; viii) privatization of public enterprises in competitive sectors (except for some strategic natural resource-based enterprises) and in natural monopolies (such as electricity and telecommunications) for amounts totalling between 5% and 10% of GDP; and ix) privatization of many functions previously considered as being exclusive responsibilities of the State, such as social security and part of health and education.

The initiation of this new development model was due to a combination of various factors (Ramos, 1993): first, the external debt crisis gave rise to heavy macroeconomic imbalances and the subsequent stagnation which was characteristic of the 1980s, the "lost decade"; second, although the progress which accompanied the import substitution industrialization (ISI) strategy was on a scale without precedent in the region, in the mid-1970s this model began to give sharply decreasing yields which were reflected in the stagnation of total factor productivity; and third, theoretical and empirical criticisms of State interventionism began to be levelled in the North and were taken up by Latin American neoliberal circles, which attacked such interventionism not only because of its alleged inefficiency but also for trying to create a modern Welfare State on the basis of a weak economic structure.

The principles which inspired this turnaround –the market economy, private ownership, fiscal prudence and the leading role of the private sector– are of course shared by both the main currents of present economic thinking: neoliberalism on the one hand, and neostructuralism on the other. Neoliberalism, however, must take the credit for having speeded up that turnaround by its merciless criticism of the previous strategy, its insistence on the importance of trade openness, and its unswerving defence of the virtues of the market.

Nevertheless, the real distinction between neoliberalism and the social democratic regimes of Europe and the neostructural currents in Latin America is that neo-liberals are firmly convinced that, with few exceptions, the set of measures referred to above is both a necessary and a sufficient condition for growth and, basically, also for equity. They maintain that if this model fails to give the desired results, this is due to rigidities derived from the interventions of the economic policy and institutions. Neostructuralists (Sunkel, 1991), in contrast, attribute many of the most important rigidities to critical flaws, segmentation and gaps in those same factor markets, so that they question whether that set of measures will automatically result in growth, and still less in equity. They therefore call for State intervention to correct these critical flaws and claim that the notable success of the newly-industrialized Asian countries, in terms of both growth and equity, is due precisely to such intervention.

There are two typical attitudes to the neoliberal reforms. One attitude considers the structural reforms inspired by neoliberalism to be the quintessence of good economic policy, while the other considers that this model involves excessively high costs, especially as regards its impact on distribution. In the following sections, I shall develop two theses. One is that although in general terms the reforms make sense in the long run, there have been serious technical errors in their application, because the local neoliberals idealize the market and seem to attribute to it the capacity to adjust rapidly, automatically and effectively to any kind of disturbance or policy change. The other is that, while recognizing that there have been costs in terms of distribution due to the neoliberal approach, I nevertheless maintain that most of the reforms could be effected without regressive costs if applied judiciously and accompanied by additional measures to avoid or relieve distributive problems. If my views are correct, then the proposed economic reforms could be useful for other countries, provided they eschew the prejudices so typical of the local brand of neoliberalism.

II

A global appraisal of the structural reforms

Perhaps the most striking aspect of the major turnarounds that have taken place in almost all the countries of the region is that it is not the success of this new development model which has sparked off the reforms, because the signs of success are still quite few in number and feeble. Thus, the growth rate of the region since the inception of the trade openness process (which generally began towards the end of the 1980s, except in Chile) has not even reached 3% per year, compared with the rate of 5.6% per year registered in 1945-1980: a period when import substitution industrialization (ISI) prevailed (table 1).

Even if we calculate the annual growth rate as from the entry into effect of trade openness, and only after inflation had been brought down (so as to eliminate the effects of recessions possibly attributable to stabilization policies), we see that it is still below that of the ISI period (an average of 4.4% compared with 5.6%). In the region, only Chile, Ecuador and Panama have recovered levels of investment similar to those registered before the 1980s (of the order of 20% of GDP). In reality, the only general indication that these new measures are bearing fruit is the rise in industrial productivity (by around 6% per year), but this has been registered for too short a period (1990-1994) to allow firm conclusions to be drawn from it (table 2). Consequently, nearly ten years after the initiation of the reforms, we are still living off the promise rather than the reality of good results.[1]

Furthermore, the limited progress which has accompanied the reforms has tended to be concentrated.

TABLE 1

Latin America: Annual average growth rates of gross domestic product and exports

	Gross domestic product				Volume of exports		
	1925-1945	1945-1980	1980-1990	1990-1995	1950-1980	1980-1990	1990-1995
Latin America	3.5	5.6	1.2	2.6	4.3	5.3	7.7
Argentina		3.1	-1.5	5.3	3.1	7.1	6.3
Colombia		5.2	3.5	3.6	3.7	6.4	7.4
Costa Rica		6.7	2.1	4.0	6.2	4.3	11.5
Chile		3.6	2.7	7.2	4.4	6.6	11.4
Ecuador		6.8	2.1	3.5	6.9	6.2	9.5
Mexico		6.7	1.2	0.9	5.8	8.8	9.2
Peru		5.1	-1.0	5.5	4.9	-2.3	7.1
Uruguay		2.6	-0.4	3.4	1.7	5.0	3.7
Venezuela		6.7	-0.2	2.8	1.5	1.6	5.8

Source: ECLAC, Division of Production, Productivity and Management.

[1] This rough conclusion coincides with other appraisals which are beginning to be made. They include in particular those made by the Inter-American Development Bank (IDB), which, although already in circulation, are currently only for purposes of discussion. Although these studies find that the reforms improved the situation compared with the 1980s, they coincide in finding that there is still a long way to go in order to equal the growth rates achieved through ISI between 1945 and 1980, and they note that the reforms –especially those in the capital and labour markets– could give bigger dividends if they were intensified. If these findings are true, then it may be wondered why, under ISI and with the same weaknesses of the factor markets, growth was so much faster then than now. For this reason, I think that these studies have not taken sufficient account of the needlessly high costs of many macroeconomic policies which have been badly designed or badly implemented, as well as their delayed effects. If we accept this point, this means admitting that, for an effective stabilization policy, the orthodox policy of balancing the fiscal accounts is not enough: much more important factors are the way deficits are reduced –by slashing expenditure, or by increasing income– and the implementation of successful efforts to coordinate the inflationary expectations of the economic agents. These are the Achilles' heel of orthodox macroeconomic policies.

TABLE 2

Latin America: Annual average growth rates of industrial productivity

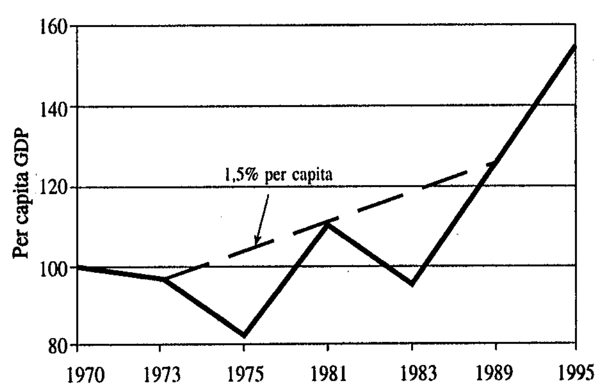
	1970-1980	1980-1983	1983-1990	1990-1994
Argentina	3.1	2.7	2.0	8.8
Brazil	2.4	2.3	-0.3	9.7
Chile	2.8	4.5	-3.4	2.8
Mexico	1.7	0.8	4.3	2.3
Rest of Latin America [a]	1.0	1.0	-0.2	0.9
Latin America as a whole	2.0	2.0	0.8	5.9

Source: ECLAC, on the basis of official figures.
[a] Barbados, Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Jamaica, Panama, Peru, Uruguay and Venezuela.

rather than benefitting the bulk of the population, for in most countries real wages have grown less than the per capita GDP, or have even fallen, while poverty has increased in absolute terms. Although much, if not all, of the greater concentration in income distribution is due to the macroeconomic imbalances deriving from the debt crisis and the subsequent stabilization attempts, the fruits of the reforms have still not reached the bulk of the population.

These mediocre results are true even in the much-vaunted and longest-standing example of application of the neoliberal model: that of Chile, where per capita growth between 1973 and 1990 amounted to barely 1.5% per year (figure 1) and, because of the high rates of unemployment marking this neoliberal period, the percentage of poor families rose from around 30% to over 40% (Bosworth, Dornbusch and Labán, eds., 1994; Corbo, Lüders and Spiller, 1996).

FIGURE 1
The Chilean miracle
(Evolution of per capita GDP)



In fact, the Chilean results are impressive if we only take the period in which the fruits of the neoliberal model were being reaped and exclude the period in which the costs of installing this model had to be paid (1973-1983). Thus, in the twelve years between 1983 and 1995 Chile did indeed register steady and significant growth of nearly 6.5% per year, its export volumes grew by almost 11% per year, and unemployment went down from 30% in 1983 to 7.2% in 1989 and 5.6% in 1995.

Obviously, recording the benefits without including the costs would be a most unscientific expedient, and furthermore I am convinced that many of the economic and social costs of establishing the neoliberal model in Chile could have been avoided if the authorities had taken a less dogmatic stance than that favoured by the local neoliberal supporters.

It is also important to note that even in Chile there were substantial deviations from the pure neoliberal model. Thus, between 1984 and 1989 non-traditional exports were promoted through the "simplified drawback" procedure, which was really an elegant way of disguising a subsidy: 10% of the total gross value of their production was returned to exporters, and this more than offset the customs duties on their imported inputs. At the same time, in the agricultural sector efforts were made to offset the generalized effects of the external debt crisis which was severely affecting both the tradeable and non-tradeable sectors, by establishing "price ranges" which, although movable, fixed a minimum producer price higher than international levels, when the latter fell below domestic prices.

These deviations naturally became even more pronounced after 1990, with the coming of democ-

Although still based on the neoliberal model, the democratic development strategy was modified to give the State a more active role in the simultaneous pursuit of both growth and equity (not one after the other, as prescribed in neoliberal theory). The economic and social results improved in this second period (1990-1995): GDP grew by 6.5% per year, exports increased by 11% annually, and both the investment coefficient and national saving reached record levels of close to 27% of GDP. Moreover, productivity, which had risen by less than 1% per year in the period 1983-1988, began to grow by nearly 4% per year, while annual inflation went down from 21% to 8% (the first single-digit inflation in 50 years) and unemployment sank to 7%. Furthermore, thanks to the increased productivity, the stronger trade union movement, the aggressive but consensus-based increase in the severely depressed minimum wage, and the substantial increase in taxation (rather more than 2% of GDP), real wages rose by almost 4.5% per year and it was possible to make significant increases in long-neglected investments in human capital (in health, education and housing) and in minimum pensions and family allowances. As a result, the percentage of poor people went down markedly to less than 30% of the population and there was an improvement in income distribution. Finally, the inflow of very short-term capital was checked in order to minimize cyclical fluctuations and avoid sudden falls in the real exchange rate. The fact that a neoliberal model could be modified in this way shows that what really determine the true nature of the model are not the specific measures in themselves, but the approach, priorities and values of those responsible for implementing economic policy.

III

An appraisal of the seven main neoliberal structural reforms

Although the costs of the set of reforms inspired by neoliberalism have been high, while the benefits (with only a few exceptions) have so far been quite meagre, it would be interesting to determine: i) if all the reforms were equally costly or most of the costs were due to only a few of them; ii) which costs were due to errors of implementation and should therefore be avoidable, and which were due to intrinsic flaws in the neoliberal approach, and iii) if the reforms comprise a single unitary package, or if they can be separated from one another.

The following sections will draw up a balance-sheet of the seven main structural reforms, focussing on their essential features and showing their differences of instrumentation or approach compared with neostructuralism. These reforms are: i) anti-inflation and adjustment policies; ii) tax reform; iii) trade openness; iv) financial liberalization; v) privatization; vi) pension system reform, and vii) measures to deregulate the labour market and make it more flexible (Annexes 1 and 2 give details of what happened in respect of these reforms in 11 countries of Latin America and the Caribbean).

1. Anti-inflation and adjustment policies

a) *Anti-inflation policies*

A necessary condition for lowering inflation is to reduce expansion of the money supply, which normally makes it necessary to reduce or if possible completely eliminate the fiscal deficit. Orthodox neoliberal theory, however, tends to argue that this condition is not only necessary but also sufficient in itself (accompanied, at the most, by wage controls to ensure that wages are readjusted not only according to past inflation but also in line with the target inflation) (Ahamed, 1986; Kiguel and Liviatan, 1988). Experience shows, however, that in all too many cases neoliberal-type anti-inflation programmes give rise to serious recessions: for example, falls in GDP of 15% in Chile in 1974-1975,[2] 8% in Venezuela in 1989, and 6% in Peru

[2] It is only fair to acknowledge that this Chilean recession was aggravated by a sharp fall in the terms of trade. Even so, it may be noted that Bolivia suffered a much bigger fall in 1985-1986 yet was able to put an end to its hyperinflation (of the order of 20,000% per year) with a much smaller recession (a drop of "only" 3% of GDP).

in 1990. This usually takes place because the authorities fail to adopt additional measures to assure producers that if they adjust their prices according to the targetted inflation, the suppliers of their inputs will do the same. It is essential to coordinate monetary control and fiscal policies with measures designed to guide expectations and the behaviour of the economic agents in line with the targetted inflation, and not only past inflation (Frenkel, 1995; Kiguel and Liviatan, 1992).

It is precisely the adoption of combinations of measures of this type that explain the successful anti-inflation programmes of Argentina in 1990 (without any fall in the product), Mexico in 1988 (with a slight expansion in the product), and Brazil in 1994 (with growth of nearly 5% in the product).[3] Among these coordination measures are the very sophisticated measures taken in Brazil, which gradually converted the main prices of the economy (public service charges, rents, wages) into a new unit of account, the Real, with constant purchasing power and pegged to the U.S. dollar through the exchange rate; explicit coordination measures, like the Economic Solidarity Pact established between producers, workers and the Mexican Government in order to secure a joint and simultaneous slow-down in rises in prices, wages, the exchange rate and public service charges; and the Convertibility Act in Argentina, which anchored the New Peso to a value of one U.S. dollar, limited expansion of the money supply in pesos to the inflow of dollars, de-indexed contracts, and restructured the entire public debt with a maturity of over seven days into ten-year bonds, payable in dollars but with an interest rate only equal to LIBOR (which brought down fiscal expenditure in respect of interest payments by almost 5% of GDP!). Naturally, these coordination measures were accompanied by monetary and fiscal policies to control aggregate demand.

b) *Policies to adjust to external imbalances*

In order to adjust to a permanent external imbalance, two sets of policies are needed: on the one hand, policies to control expenditure (higher interest rates, higher taxes, lower public expenditure) in order to reduce imports and reorient production towards exports, and on the other hand, policies (such as devaluation) designed to reallocate resources to tradeable activities and to shift expenditure towards non-tradeables. In practice, however, reduction of expenditure takes place much more quickly than reallocation of resources (since the latter requires time to move factors from a declining activity to a growing one), so that the orthodox neoliberal programme tends to generate unnecessarily severe recessions (Arellano, 1988). It is therefore hardly surprising that the most serious recessions in the region in 1981-1983 took place in the three countries applying neoliberal policies at that time: Chile, with a 15% drop in GDP; Uruguay, with a 14% drop, and Argentina, with a decline of 12%, compared with an average decline in GDP of only around 5% in the other countries of the region.

In view of this slower action of reallocation policies, neostructuralists propose that strong (although transitory and selective) additional incentives should be given to non-traditional exports (which are the most elastic in the short term), while temporarily raising the import duties on importable goods for which there is unused production capacity within the country. An example which bears out this approach is the fact that although Brazil was one of the countries hardest hit by the external upsets of 1981-1983, its GDP only went down by 3%, thanks largely to its very active policy to promote non-traditional exports. Another noteworthy point is that, after a 15% contraction in 1982-1983, the Chilean economy recovered by 6% in 1984 after a non-neoliberal minister temporarily raised customs tariffs to 35%, and this recovery was subsequently consolidated when a minister who followed neoliberal theories but was more pragmatic than many neoliberals established support price ranges for agricultural producers (many of whom were not cultivating their land because of their high level of indebtedness) and introduced a subsidy for new non-traditional exports.

2. Tax reform

A necessary condition for keeping macroeconomic imbalances within manageable bounds is to reduce or even if possible eliminate the fiscal deficit. From the macroeconomic point of view, it makes no difference whether this is achieved by reducing expenditure or by increasing taxes. It does make a difference from the point of view of growth and equity, however. Because of their urge to minimize the size of the State, neolib-

[3] It is essential, of course, to combine policies designed to coordinate expectations with real reductions in the fiscal deficit. If this is not done, the anti-inflationary results will be only transitory, as they were in the 1980s in the case of the Plan Austral in Argentina, the Plano Cruzado in Brazil, and the Inti Plan in Peru.

erals systematically prefer to reduce expenditure. Neostructuralists, however, prefer to raise the tax burden, because on average its incidence on the private sector is much lower in Latin America than in the OECD countries (16% versus 25% of GDP; see ECLAC, 1992), and it is important to keep up a certain minimum level of investment in human resources and physical and scientific infrastructure, as well as ensuring that the population has at least a minimum of income and services. It may be noted, by the way, that if this burden were a serious discouragement to saving, then it would be difficult to explain how the most successful country in the region, Chile, not only had the highest private sector tax burden in 1989 (around 20% of GDP) but actually raised this to nearly 22% with the increase in taxes approved by the democratic government in 1990 in order to use the increased revenue to increase long-postponed social expenditure. In spite of this tax increase, in 1995 saving reached an all-time peak of the order of 27% of GDP and the product grew by nearly 7% per year between 1990 and 1995.

Both schools of thought agree, however, that except in a very few cases the rates of taxation, which already seem high on paper, should not be raised further. Instead, i) most of the wide range of tax exemptions or preferences for regions, sectors, State enterprises, etc. should be abolished; ii) a systematic effort should be made to stamp out tax evasion, and iii) the tax base should be expanded. Thus, for example, in Chile before the 1975 tax reform, the "general" tax rate was 7%, 12%, 17%, 35% or 40% depending on the source of income; the list of exemptions occupied 164 pages, and the sales tax varied from 8% to 24% according to the product in question, with nearly 130 exemptions. Simplification of this complex tax structure was essential both for expanding the tax base and for reducing tax evasion.

Indeed, the 1975 Chilean tax reform was one of the neoliberal successes that has attracted least attention. It introduced the Value Added Tax (IVA) in place of the sales tax, because the latter led to the inefficient verticalization of production in order to minimize the cumulative effect of the sales tax; taxes were indexed in order to maintain the level of revenue in real terms in times of inflation; tax rates were made uniform for all taxpayers of similar types, and almost all the existing exemptions were abolished. The reform not only corrected inefficient and inequitable distortions but also rationalized and simplified the tax legislation, significantly broadening the tax base. Moreover, this simplification, greater uniformity and rationalization made it possible to initiate a systematic campaign against tax evasion which raised fiscal revenue by four percentage points of GDP in four years ... without increasing any tax rates!

Once the tax legislation had been simplified, it was possible to carry out the campaign against tax evasion (Eyzaguirre, 1985; Fuentealba and Marshall, 1990) by: i) dismissing and drastically punishing the most senior corrupt officials in the internal revenue service, especially if they were supporters of the government, in order to give greater credibility to the fight against corruption in the civil service; ii) making the tax inspectors take technical examinations, dismissing the most poorly qualified 50% of them, and considerably raising the salaries of those who were kept on; iii) drastically punishing tax evaders, beginning with the most notorious cases in order to show that there would be no exceptions, with temporary closure of businesses on the first offence and permanent closure on the second, and iv) computerized control of tax information, with cross-references by source, and impersonal and automatic computerized selection of taxpayers to be subjected to exhaustive spot checks, thus guaranteeing equal and non-discretional treatment.

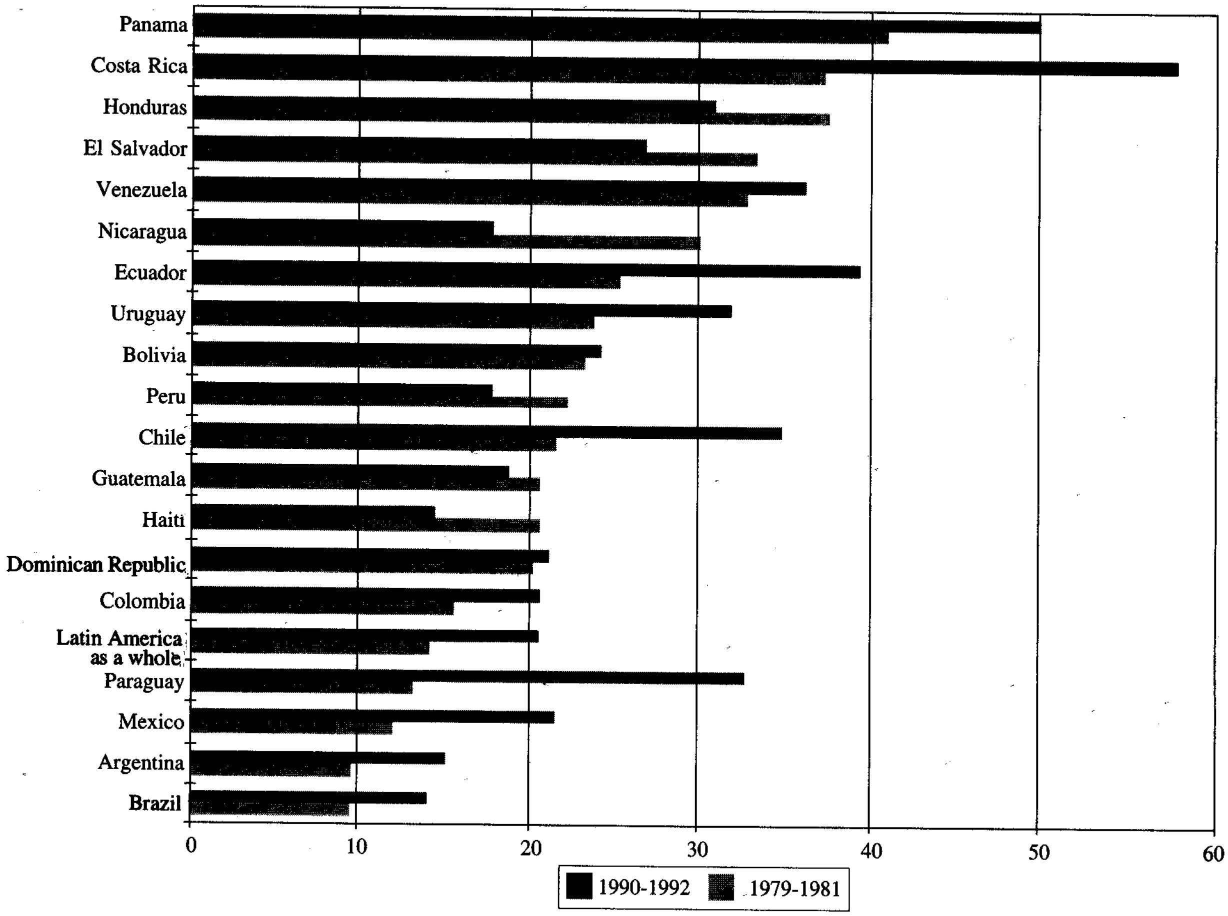
What was lacking in the 1975 Chilean tax reform was an attempt to seek more progressive distribution of the tax burden by changing the tax structure to include more direct taxes (which are generally more progressive than indirect taxes) instead of increasing existing taxes. The 1978 Mexican tax reform, for example, increased the share of direct taxes in the tax burden, broadening the taxable direct income base to include not only labour income but also capital gains, rents, dividends and non-financial income. In this way, it was possible to reduce the tax burden on the five lowest-income deciles by two percentage points of GDP, while the burden on the richest two deciles was increased by two percentage points (Carciofi, Cetrángolo and Barris, 1994; Gil Díaz, 1987).

3. Trade openness

Although neoliberals and neostructuralists disagree as to whether tariff protection was beneficial or not at the time for promoting the industrialization and growth of the region, both schools of thought agree that the increasing reorientation of the region's production platform from the narrow confines of the domestic market to the broader and more dynamic markets available abroad has long been overdue (Krueger, 1978; ECLAC, 1995a;

FIGURE 2

Latin America and the Caribbean: Ratio of exports of goods and services to GDP
(Percentages)



World Bank, 1993). Indeed, as tariffs are an indirect tax on non-traditional exports (a point which neoliberals justifiably stress), it is necessary both to reduce them and to raise the exchange rate if it is desired to promote such exports.

In general, the results of the process of greater trade openness confirm the arguments in its favour: the share of exports in the regional GDP has risen from 14% before the trade openness exercise to a current level of over 20% (figure 2); exports of manufactures (many of them non-traditional for the region) have doubled their share in total exports to 50%, and since 1990 manufacturing productivity has risen by some 6% per year, indicating that greater openness has led to greater specialization (figure 2).

The only negative aspect is that the share of manufactures in GDP has gone down from 26% to 24%. Many analysts perceive a kind of "de-industrialization" in the slow growth of industrial output since 1980 (a little over 1% per year, compared with almost 6% per year in the 1970s), which they attribute to the over-rapid external openness of the region. However, the figures suggest that this "de-industrialization" was not due to the increased trade openness and the assumed consequent loss of competitiveness of local industry,[4] but to theserious macroeconomic imbal-

[4] It must be emphasized that the effect of the greater trade openness cannot be evaluated without taking into account the level and evolution of the real effective exchange rate, for a reduction of tariffs in the mid-1980s, when the real exchange rate was high as a result of the debt crisis, would have a very different effect (generally speaking, positive and expansionary) from a reduction carried out when the exchange rate was low or there was a heavy inflow of capital, with a consequent tendency towards appreciation of the exchange rate (as occurred in the region in the late 1970s and has occurred once again from 1991 onwards).

TABLE 3

Latin America: Annual average growth rates of industrial value added

	1970-1980	1980-1983	1983-1990	1990-1994
Argentina	1.6	-2.8	-0.8	6.9
Brazil	9.0	-5.6	2.2	2.8
Chile	1.1	-5.8	6.4	6.3
Mexico	6.3	-1.6	3.5	2.3
Rest of Latin America [a]	5.0	-1.9	2.4	3.1
Latin America as a whole	5.8	-3.5	2.1	3.4

Source: ECLAC, on the basis of official figures.
[a] Barbados, Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Jamaica, Panama, Peru, Uruguay and Venezuela.

ances which affected the region in the 1980s. Thus, as we saw earlier, the belated and subsequently abrupt adjustment policies in 1981-1983 sharply reduced aggregate demand and especially industrial production (which fell by 10%), while the slow industrial recovery as from 1983 (around 2½% per year) was due to inflationary pressures or to poorly designed or poorly applied anti-inflation policies in that period (table 3).

Furthermore, greater trade openness is seen to be a poor explanation of the slow industrial growth of the 1980s –when the real effective exchange rate registered at the time of the greater openness was generally high– because imports of manufactures in 1989 were lower, even at current dollar prices, than in 1980 (table 4), whereas national manufacturing output was 6% higher. In fact, it was the region's exports of manufactures which grew most in this period (80%), converting the region's manufacturing trade deficit of US$ 25 billion in 1980 into a surplus of US$ 8 billion in 1989. Consequently, in general terms there was no replacement of local manufactures by imports in the 1980s.

In the manufacturing sector, the greatest effect of trade openness was felt as from 1990, when trade liberalization was accompanied by a heavy inflow of capital into the region, which led to a significant loss of competitiveness for the great majority of countries in the region because of exchange rate appreciation (close to 10% in the 1990-1995 period).[5] As a result, imports of manufactures more than doubled and the industrial trade balance declined from a surplus of US$ 8 billion in 1989 to a deficit of US$ 49 billion in 1994 (see table 4). Even so, this was not a case of de-industrialization either, because almost two-thirds of the increase in imports of manufactures was accounted for by capital goods, which do not usually compete with local industry. Indeed, national production of capital goods also grew as from 1990, because the investment coefficient rose and the growth rate of the industrial product increased slightly from 2.1% per year in 1983-1990 to 3.4% per year in 1990-1994 (see table 3).

It may be concluded, then, that trade openness has not in itself been harmful for the region. The negative effects have not been due to such openness but rather to the exchange rate appreciation resulting from the heavy inflow of capital and the drop in domestic demand caused by macroeconomic imbalances and the often costly stabilization attempts. The question of whether trade openness could have been even more beneficial, especially for non-traditional exports, is another matter, however, and opinions differ in this respect.

Although both neoliberals and neostructuralists agree on the importance of international trade linkages in the region's present stage of development, neostructuralists consider that neutral export incentives are not enough: they feel that special temporary additional incentives are needed for non-traditional exports. They consider that as both those who discover new export products in which the country can be competitive and those who succeed in breaking into new inter-

[5] The same reasoning may be applied to the Chilean trade openness of the mid-1970s. In that case, most of the "de-industrialization" took place in 1974-1975, not because of the trade openness but because of the depression caused by the anti-inflation policies applied. Likewise, the decline in Chilean manufacturing competitiveness as from 1979 was due much more to the exchange rate lag –caused by the fixing of the exchange rate for anti-inflation purposes and financed by heavy external indebtedness– than to the lowering of tariffs.

TABLE 4

Latin America: International trade in manufactures, 1980-1994

	1980	1985	1989	1990	1993	1994
Exports						
Foodstuffs	13 602	9 002	13 134	13 752	14 640	17 805
Consumer goods	4 135	4 104	7 127	7 490	10 007	10 712
Intermediate goods	18 377	25 111	33 809	34 015	35 646	39 905
Capital goods	5 780	8 253	14 892	15 150	23 507	27 710
Total	**41 894**	**46 469**	**68 961**	**70 407**	**83 800**	**96 133**
Imports						
Foodstuffs	5 165	2 376	911	5 785	8 264	9 932
Consumer goods	3 282	1 698	3 773	4 248	9 000	10 393
Intermediate goods	25 240	15 803	24 538	25 608	39 345	44 835
Capital goods	33 597	19 025	28 219	35 117	68 796	80 216
Total	**67 284**	**38 903**	**61 440**	**70 758**	**125 405**	**145 376**
Trade balance						
Foodstuffs	8 437	6 625	8 223	7 966	6 376	7 874
Consumer goods	852	2 406	3 355	3 242	1 006	319
Intermediate goods	-6 863	9 307	9 271	8 407	-3 699	-4 930
Capital goods	-2 781	-10 772	-13 327	-19 967	-45 289	-52 506
Total	**-25 390**	**7 567**	**7 522**	**-351**	**-41 606**	**-49 243**

Source: ECLAC, on the basis of official figures.

national markets with traditional export products are equally worthy of being viewed as "Schumpeterian innovators", they both deserve temporary special incentives for their efforts, since the penetration of international markets is the real "infant industry" that should be promoted in order to achieve greater competitiveness.

4. Financial liberalization

Proper functioning of the capital market is essential for a market economy. It is hardly surprising, then, that neoliberals heavily criticize interest rate controls, preferential lines of credit for certain activities and sectors, and restrictions on the inflow and outflow of capital (McKinnon, 1973), because they believe that liberalization of this market will increase saving and improve the allocation, and hence the efficiency, of investments.

The first and biggest financial liberalization exercises in the region were carried out in the mid-1970s in Uruguay, Argentina and Chile. Since then, this market has gradually been liberalized in the rest of the region, especially as regards interest rates and the inflow and outflow of capital. So far, however, the expected positive effects on saving have not been observed in most countries. In reality, national saving has been more sensitive to increases in the fiscal surplus and compulsory saving policies (through pension systems) than to additional rises in interest rates.[6]

On the contrary, instead of increasing saving, additional increases in interest rates have often reflected heavy imbalances associated with the imminent collapse of financial systems, as occurred in the neoliberal experiences of three Southern Cone countries in the 1970s (Díaz-Alejandro, 1984; Ramos, 1986). Indeed, the existence of interest rates of 20% to 25% per year in real terms for several years was an extremely abnormal sign when the economies in question were only growing by about 5% per year. Such rates were a

[6] Of course, this may also be because financial liberalization has coincided with recessions caused by the heavy macro-economic imbalances suffered by the region. It may also be due, however, to the fact that, once a reasonable real interest rate has been attained, additional increases have ambiguous effects on saving: although a rise in innerest rates ncourages the postponement of consumption (i.e., the substitution effect is positive), raising interest rates on past savings makes it easier to achieve a given amount of savings, which leads to lower rates of saving.

reflection, among other things, of an inflated demand for credit due to changes in net worth caused by big movements in relative prices. These movements were associated with trade openness, financial liberalization and persistent macroeconomic imbalances: the activities favoured by these factors needed credit for expansion, while those which were adversely affected needed money to stave off their collapse.

Obviously, it is not normally possible to pay such high interest rates systematically for such a long time when the economy as a whole is only growing by around 5% per year. What made it possible in this case were two phenomena associated with financial liberalization.

First, in the Southern Cone this liberalization coincided with the heavy external indebtedness of the late 1970s. As a result, the values of domestic assets, including very specially those traded on the Stock Exchange, increased several times in real terms (16 times in Chile between the end of 1975 and the end of 1980, and 4 times in Argentina between early 1978 and early 1980). Because of the high value on paper of enterprises' assets, which grew even faster than real interest rates, the indebtedness/assets ratio did not seem to be at risk, and firms confidently believed that they would be able to pay their debts, especially if they also believed that in the long run real interest rates would go down to their normal levels (5% to 7% per year).

Second, the regulations were very permissive regarding loans by banks to firms belonging to the same economic group as the banks in question (by three-way credits through "paper firms" and cross-lending among groups). Instead of safeguarding the interests of their depositors and their own assets, the banks placed themselves at the service of their parent groups. Consequently, when the inflow of capital slackened they were obliged to keep on lending, because if the debtor firms failed, then the groups (and hence the banks themselves) would become insolvent.

Consequently, the persistence of such high interest rates and the "bubble" of asset prices depended on a growing inflow of foreign capital and the corresponding exchange-rate lag that that inflow made possible. Neither of these factors was sustainable in the long term, however. Once the inflow of capital slackened, firms could no longer pay their debts, the values of their assets collapsed, and the banks found themselves with a portfolio ofernment then had take over this private debt (i.e., "socialize" it).[7]

Thus, the financial liberalization exercises in the Southern Cone turned out to be one of the worst disasters in neoliberal history. As the critics of these exercises pointed out, the capital market is different from other markets: it is not a question of exchanging one good for another, as in, say, the potato market, but of exchanging one good (money) for a future promise. Thus, this market is not only rationed by price (higher interest rates) but also by quantity (provision of a smaller loan than that requested), since a higher interest rate may indicate higher profitability or a bigger risk. Regulation is therefore needed in order to ensure that banks do not take excessive risks, winning large amounts if they are lucky, or, if they are not so lucky, merely losing their own limited assets (but also the much greater assets of their depositors). Furthermore, as this is a market which adjusts very rapidly, it tends to absorb and reflect the imbalances of other markets (exchange-rate lag, "bubbles" in asset prices, recession in the goods and labour markets), so that it is dangerous to carry out financial liberalization in the midst of serious macroeconomic imbalances, when the key prices of the economy are still significantly removed from their long-term equilibrium values (Corbo and Fischer, 1994).

5. Privatization

If the private sector is to recover its leading role in development, then privatization –at least of non-monopoly production firms– should be a top priority for neoliberals, for the assumption is that management will be more efficient and innovative if the resources handled are private funds (as in the private sector) rather than public ones (as in the public sector). Likewise, whereas private enterprise has a clear objective –to maximize its profits– public enterprises usually have multiple aims: not just to make profits, but also to generate employment; to play a distributive function by charging lower prices, at least for the needier groups; to favour domestic production by buying domestic inputs even though they are more expensive or of poorer quality; to locate their activities in less-developed areas, even if this increases their costs, and

[7] Argentina "socialized" this debt by "liquefying" it: that is to say, it accepted an explosive upsurge of inflation while keeping the debts at fixed interest rates. Chile, however, "socialized" the debt without sacrificing its anti-inflation achievements. It did so through intervention by the Central Bank, which took their bad debts off the banks' hands and paid them with fresh money, in return for an undertaking that the banks would return this money out of their future profits, although without fixing any final date for this.

so forth. It is therefore hard to know what their primary function is, and whether they are fulfilling it well.

The region currently welcomes the idea of privatization both because of the above arguments and because of pressing fiscal needs (Cardoso, 1992; Kikeri, Nellis and Shirley, 1994). Indeed, privatization has brought fiscal income equivalent to 1% or 2% of GDP per year, and cumulative totals of the order of 5% to 10% of GDP.

Although the structuralist school supported public sector intervention in production activities in the past, this was for reasons which are mostly no longer valid. Among these reasons were the fact that many projects required so much capital that in those days they could only be carried out by public or foreign entities; that there was a lack of private business initiative, so that the public sector had to step in to make up for this lack, and that many activities, because of the economies of scale involved, only allowed for the existence of a single firm, so that the public sector had to carry them out in order to avoid monopolistic abuses. With the growth of capital markets, the more professional quality of business management and greater trade openness, however, these arguments have gradually been losing their validity. Consequently, neostructuralists now welcome the idea that the public sector should withdraw from production functions and concentrate on the key functions that only the State can carry out. In fact, the main current discrepancy between neoliberals and neostructuralists in this respect is that the former support privatization almost at any cost, whereas the latter emphasize that enterprises should be privatized on the best possible conditions of price, regulation and transparency (Hachette and Lüders, 1992; Cominetti and Devlin, 1994). Indeed, if privatization is going to make an enterprise more efficient, then the most appropriate sale price for the government is that which is close to the income flow that the activity in question will have when it is privately managed, rather than the value it currently has under public management.

This means that privatization operations should only be carried out, as far as possible: i) with enough potential buyers to ensure competition in the tendering process, and not in a hasty manner with few potential buyers and insufficient capital; ii) after due stabilization and liberalization, and not in the midst of a recession, when the price will be lower and the discount rates will be higher; iii) tradeable activities must be privatized first, and only later non-tradeable and monopolistic activities; iv) in the case of natural monopolies, the applicable rules must be perfectly clear, since in the absence of clear regulations the bidders will tend to offer lower prices, in order to protect themselves against possible future regulations; and v) the privatization operations must be carried out with the utmost transparency, and only after external audits of the accounting position of the firms. Measures must be taken to prevent the purchase of firms by their current managers (except perhaps in the case of small and medium-sized firms), because these managers will have privileged internal information on the firms, and efforts should also be made to prevent their purchase by big conglomerates or banks. In order to comply with these conditions, privatization should be carried out only gradually: an approach which is perfectly possible in Latin America because altogether these firms rarely account for more than 10% to 15% of GDP.

6. Pension system reform

Until the 1981 Chilean reforms, the prevailing pension system in Latin America was based on the "pay-as-you-go" principle, in which the contributions of the active labour force financed the pensions of retired persons. This system thus redistributed resources from the present generation to the previous one,[8] in that it paid pensions according to a predetermined percentage of workers' maximum incomes (those of their last years of working life), and these pensions were higher than the present value of contributions. This system was possible: i) as long as the ratio of assets to liabilities was maintained or increased, and ii) as long as wages tended to rise with the development process. This inter-generation transfer would become problematical, however, if growth of the population and of the labour force slackened, so that the ratio of assets to liabilities would fall, and if benefits began to diverge from contributions, leading to collusion between workers and employers to make excessively low contributions during most of a worker's working life and only make proper contributions in the last few years (because these years are the only ones that matter for calculating the worker's pension). Unfortunately, most of the pension systems used in the region have suffered from both of these problems, so that they have gradually been running up actuarial

[8] To a lesser extent, it also permitted the redistribution of resources among retired persons of the same generation.

deficits[9] and also cash deficits equivalent to 2% to 6% of GDP, especially in the case of the older systems.

The pension system favoured in recent years is based on individual capitalization. It is also a form of forced saving, since it obliges workers to save a certain percentage of their wages each year in a special account. Their pension is a direct function of their contributions and the yield on the investments made by the Pension Fund Management Company (AFP) to which they belong during their working life.[10] There is therefore less incentive to under-declare wages,[11] so that the rate of saving will rise (or the deficit will be smaller than under the pay-as-you-go system). A second advantage is that, since it is a question of funds which are invested and not merely distributed, this does away with the tendency of the pay-as-you-go system to distribute the surpluses generated (especially at the beginning, when there usually are surpluses) in the form of greater benefits for those already receiving pensions, instead of establishing reserves and investing them wisely to cover future commitments. Thirdly, the existence of these forced savings makes it possible to strengthen the region's feeble capital markets, especially in terms of the generation of resources for long-term investments.

Although these three benefits are by no means insignificant, it must be noted that there is a cost and a risk, and it is necessary to clear up an error or misunderstanding. The cost is that the competition among AFPs to attract clients significantly increases their management costs. Thus, a typical AFP spends nearly 20% of the ten percentage points that it collects from a worker's income on efforts to attract members from other AFPs by publicity, sales campaigns, etc., without any benefit for the members themselves.

In order to reduce the cost of excessive transfers from one AFP to another, and in view of the fact that most workers only want a "normal" level of low-risk returns on their funds, it is recommended that they should be offered the possibility of investing in a pension fund which undertakes to pay the average rate of return of the AFPs as a whole, in return for their undertaking not to transfer out of that pension fund for x years.[12] This would markedly reduce collection costs, resulting in considerably lower commissions than those currently charged and higher pensions, at least for those choosing this alternative; in contrast, a person who wanted the possibility of leaving his AFP in search of possibly higher future yields would be free to do so, but would have to pay a higher commission to cover the cost of his transfer.

Furthermore, it is recommended that workers' contributions should be collected by a single agency, whether State-run or privately operated by concession, for it costs much less to collect contributions on a centralized basis and it is much easier for an employer to deduct the necessary amounts from his payroll and pay them to a single collection agency (Diamond and Valdés, 1994). The agency in question would then transfer the contributions to the appropriate AFP. At all events, this system would maintain the central principle of capitalization in individual accounts.

The risk referred to above is that when the new pension system is set up, in the absence of fuller information, there is a strong tendency for workers to sign up with the AFP that seems to be soundest and most solvent. Consequently, AFPs connected with major banks or big corporations will have a natural advantage which will give rise to a strong tendency towards concentration, with perhaps two or three AFPs controlling 75% of all accounts. This problem could be relieved if, as we proposed earlier, the resources are collected by a central agency and the management of packages of resources is

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9 A pension system may not have a cash deficit, but it may nevertheless have an actuarial deficit if it is accumulating future commitments which are not matched by current income: thus, for example, if life expectancy after pensionable age increases or there is a decline in fertility, as is currently occurring in the region, it may be calculated that the ratio between the working-age population and those over 65 will go down from 12.6 at present to 8.7 by the year 2020. This will mean a commitment 30% greater for each active participant, thus making it necessary to start generating cash reserves as of now (through higher contributions or lower benefits) in order to cope with this reduction in the number of active persons per pensioner.

10 In fact, however, since many workers only earn low wages, the pension for which they will be eligible at the end of their working life may be so low that the State may decide to supplement their forced savings with a fiscal contribution so that their pensions will reach a socially acceptable level. The Chilean pension reform provides for such a minimum, so that it involves an inter-generational distributive element.

11 There will still be an incentive to under-declare wages, however, especially in the case of young people or temporary workers who prefer money right now rather than in the distant future, if the rate of readjustment is greater than the probable profitability of the system.

12 Furthermore, this "average" fund could offer two alternatives: one providing minimum risk and low profitability, with investments in fixed-income instruments, and another offering higher risks and profitability, through an "average" portfolio of stock market investments. In this way, workers could choose, within "normal" levels of risk, the combination of profitability and risk that best suited their needs.

then awarded by tender to some seven or ten different investment agencies for investment over a given period according to the risk criteria laid down in the tender conditions.

The error or misunderstanding we mentioned is that of believing that the individual capitalization system will significantly increase net saving. It is quite true that the new system generates net private savings at the beginning, when the inflow of resources is large (typically from all the new workers or the younger ones) and the outflow of pensions is only small, but this private saving is offset by a corresponding fiscal deficit,[13] since the old system must keep up expenditure on pensions but now no longer receives the contribution of new workers, who now pay into the new system. Moreover, although this new fiscal deficit may be "financed" with loans from the AFPs, the government will generate an additional deficit equivalent to the difference between the rate of interest on deposits (which it paid before) and the rate of interest on loans which it must now pay. Thus, as a first approximation, the individual capitalization system does not generate an increase in saving.

In fact, extra saving will only be generated if the government decides to eliminate this deficit by making additional cuts in its expenditure or increasing its income. If this is done, then saving increases parallel with the introduction of the new pension system, but not because there is greater private saving but because there is a bigger saving effort on the part of the public sector. This is what happened in Chile, where the initiation of the pension system based on individual capitalization gave rise to a fiscal deficit amounting at its peak to some 5% of GDP. Net saving only increased because the government took measures to reduce that deficit by, inter alia, raising pensionable age to 65 (instead of the possibility of retiring after a certain number of years of service), thereby increasing revenue and shortening the period during which pensions would be payable. In addition, it reduced all pensions by 10% and cut other expenditure not connected with the pension system.

The moral of all this is clear: the increase in net national saving accompanying the introduction of the new individual capitalization pension system, and the amount of resources available for strengthening the domestic capital market, will depend on the additional effort made by the public sector to reduce or eliminate the fiscal deficit that the new pension system will generate.

Consequently, the most urgent reform that pension systems need is to eliminate their deficits, which should be achieved by balancing their income and their actuarial commitments, not just their cash situation. Once this has been done, the authorities can consider whether they should continue with a reformed pay-as-you-go system (with investment of reserves) or change to an individual capitalization system with competition in both the collection and investment of contributions, or with centralized collection arrangements and competition in the investment of the resources collected.

7. Labour market reform

Neoliberals attribute much of the unemployment problem to rigidities in the labour market created by well-meaning but mistaken public policies and institutions such as severance payments, high minimum wages, restrictions on entry into certain trades, and strong trade unions, to name only a few. They therefore advocate flexibilization and deregulation of the labour market and restrictions on the power of the trade unions. There is no doubt that restrictions on entry into certain trades, such as that of dockers, for example, can strike a mortal blow at the competitiveness of an open economy. It is also quite true that in sectors making intensive use of capital and key natural resources –such as copper in Chile and petroleum in Mexico and Venezuela–, or in natural monopolies such as the electricity industry, many workers often receive wages far above their opportunity cost (World Bank, 1995). Likewise, the aggressive trade union movements of closed economies must adjust to the competitive conditions of open economies.

Neostructuralists, for their part, consider that save in exceptional cases such as those mentioned above these rigidities do not have much significance for the great majority of the labour force, who are not highly unionized and whose main problem is the low productivity of the jobs which are open to them. According to this school of thought, the high level of underemployment typical of the region is due to other types of rigidities, in markets complementary to the labour market. Thus, for example, segmentation of the capital market means that funds for long-term investments are

[13] This deficit would be identical to the apparent new saving, except for the lower level of under-declaration that the individual capitalization system may achieve.

only available to the small nucleus of firms which are quoted on the Stock Exchange or have access to international capital, so that they tend to work with excessively capital-intensive technologies, while the bulk of the labour force has to work in firms with little capital and hence in low-productivity jobs.

With regard to the labour market itself, neostructuralists consider that, in general, the worst rigidities –those responsible for higher unemployment and lower productivity– are due much more to contractual practices than to the prevailing legislation. For example, there is no legislation that requires wage readjustments in periods of high inflation to be made as a function of past rather than future inflation. Nevertheless, this is a frequent practice which leads to inertial inflation, or to unemployment if the government persists in its aim of significantly lowering inflation.

Likewise, if there is a recession and the overall demand for labour declines, it would be better to resort to a reduction in the number of hours worked by the labour force as a whole. However, the customary practices –not the prevailing legislation– mean that such a generalized fall in demand results in unemployment for some workers instead of being shared by all, and this has negative effects from both the macroeconomic and the distributive standpoints.

Finally, it is because of customary contractual practice –not the legislation– that workers are paid for the number of hours worked rather than for their output, which leads to lower productivity and more unemployment (ECLAC, 1992). In contrast, if a significant proportion of workers' income (say 20 - 25%, as in Japan) were linked to the performance of their firm, department or team, the incentives and social pressure for improved productivity would be greatly strengthened (Blinder, 1990). Moreover –and this is equally or even more important– in periods of lower demand firms with such participative wage systems will tend to lower their prices in order to keep up their sales, production and ultimately employment, since the variable component of wages will also go down, whereas traditional firms will tend to maintain their prices but reduce output and employment, because their wages are fixed by contract (Weitzman, 1984). In boom periods, in contrast –unlike traditional firms, which will tend to increase their prices more than their output in order to make quick profits– firms with participative wage systems will be more likely to expand their output and labour force than to raise their prices, because if they did raise them this would automatically increase the part of wages that varies in line with the economic performance of the firm.

IV

Some lessons

The most successful changes made by the neoliberals have been tax reform, the opening-up of trade, and pension system reform. The increase in trade openness has been quite successful even when carried out rapidly (especially in situations of scanty capital inflow), and so too has been the reform of social security systems, especially when the government was able to reduce or eliminate the public deficit that such reform involves. Likewise, privatization has been successful too, except when carried out over-hastily or in the absence of clear rules, without a suitable regulatory framework or due attention to the possible concentration of wealth. In contrast, it seems to us that liberalization of the labour market has been given too much prominence in view of the problems it is supposed to tackle (unemployment and underemployment). The wisest measure of the local neoliberals, however, was not any particular reform, but their appreciation of the fact that the private sector was now in a position to take on the leading role in development and their decision to assign it that role and insist that resource allocation must be centered on the market.

The most costly reforms –both in economic terms and in terms of income distribution– were the anti-inflation and adjustment policies and financial liberalization. The first-named reforms –since they were aimed at securing quick adjustments in prices but not in the volume of production, even in situations of serious imbalances, and were therefore confined to the use of only a few instruments– were accompanied by unnecessarily severe recessions, while the latter reforms led to the collapse of the banking system for lack of the regulatory safeguards which are essential in a very special type of market where confidence is vital. Finally, there was systematic neglect of income distribution considerations, both by sins of omission (for example, in Chile the firms which had been nationalized or placed under State management between 1970 and 1973 were returned to their owners later in that decade without charging capital gains tax) and of commission (the biased approach of displaying great concern at the rigidities of the labour market but paying little or no attention to those of the financial market).

In real life, of course, no economic policy is ever completely free of errors, but the striking feature of these reforms –including those in the case of Chile, which is held up as a model to be emulated– is the great magnitude of the errors committed, which were due above all to the blind faith of the local neoliberals in their ideology. In macroeconomic policy, there were serious biases as regards the speed and automatic means with which the balances were restored, because since it was believed that markets adjust quickly, it was felt that State intervention was unnecessary; in the case of financial liberalization, the financial market was treated as though it was just another merchandise market: little attention was given to its regulation or to its very special feature of being a market where current payments are made in exchange for promises of future repayment. With regard to the costs involved in terms of income distribution, these were due both to earlier errors and to the blind faith of local neoliberals in the trickle-down effect and their neglect, if not downright contempt, of distributive considerations.

The fundamental error of local neoliberals has thus been their blind, uncritical faith in the virtues of the market: they acted as though market clearing prices are the same as long-term equilibrium prices, but of course this is not so: if other markets are not balanced (such as a merchandise market with inflated prices, or a foreign exchange market with exchange-rate lag), then the market clearing prices in the other markets (such as the credit market) are not long-term equilibrium prices, because they have had to absorb the imbalances of the other markets. If –as neoliberals tend to believe– it is believed that the key prices at any given moment are always equilibrium prices, then there will be a tendency to minimize or misinterpret elements that point in the opposite direction, such as the persistence of very high real interest rates for long periods of time, financial bubbles in the assets market, serious exchange-rate lags, perilous levels of domestic and external indebtedness, highly volatile capital inflows or high rates of unemployment and idle capacity. In effect, neoliberals' faith in an ideal market –if they are free, then the key prices at any given moment must necessarily be correct, since they are fixed by the market– rules out all question of government intervention, which is seen purely as a source of distortions.

If they discard such preconceptions, other countries could adopt many neoliberal reforms and concerns without suffering their high costs, and many of their problems could be corrected as suggested above. Indeed, doubts about the sufficiency and automatic nature of the market forces lie at the roots of neostructuralism (Sunkel, 1991), although this school of economic thought stems not only from criticism of neoliberalism but also from self-criticism of structuralists' assumption that every market flaw calls for State action, as though only the market were imperfect. Today, there is an awareness that this too is an idealized view, in this case of the State, which is seen as being free from all limitations and imperfections. Consequently, neostructuralists consider that State action must be selective and must be focussed on the flaws, segmentation and most critical gaps in the market, which neoliberals tend to overlook (ECLAC, 1990, 1992 and 1995a); on the slow and inequitable spread of technological know-how, which means that total factor productivity in our firms is less than a third of that of companies in developed countries; on the absence of a private capital market for investments in human capital and the general underinvestment in this area; on the virtual absence of a long-term capital market, except for the few firms whose shares are traded on the Stock Exchange, which means that the expansion of firms is limited not by their expected future profitability but by their capacity for financing their investments out of their own resources; on the absence of a foreign exchange futures market, which obliges the Central Bank to simulate a future price and intervene in the exchange rate; and on the lack of active policies to promote non-traditional exports and to encourage the export of traditional products to new markets.

If these gaps and imperfections were corrected, this would broaden the productive base and eventually place the region on the road to rapid development, as

ANNEX 1

Latin America: Main features of trade, financial and macroeconomic policy reforms

	Trade reform	Financial and capital market reform	Macroeconomic policy reform
Argentina	1976-1981 Elimination of prohibitions and quantitative restrictions. Reduction of tariff rates. Reduction of tariff dispersion. 1981-1989 Reversal of reform process; establishment of sectoral and regional promotion systems. 1991→ Elimination of prohibitions and quantitative restrictions. Reduction of tariff rates. Reduction of tariff dispersion. Elimination of promotion systems.	1978-1981 Broad opening of capital account. Elimination of barriers to foreign investment. Broad deregulation of capital account. Radical liberalization of interest rates and credit. State guarantee for 100% of deposits. 1987-1990 Development of mechanisms for regulation of the system. 1991 → Broad deregulation of capital market. Elimination of barriers to foreign investment. Autonomy of the Central Bank. Maintenance of segmented financial system.	1978-1981 Pre-announced exchange rate guidelines. Fiscal deficit. Passive monetary policy. 1991 → Convertibility Act (fixed exchange rate). High domestic interest rates. Fiscal adjustment: heavier taxation, less expenditure and more privatization. Passive monetary policy.
Bolivia	1985 → Elimination of quantitative restrictions. Unified import rules. Single, uniform tariff.	1985-1990 Deregulation of interest rates. Minimum guarantee on deposits. Broad deregulation of capital market. Elimination of barriers to foreign investment. 1988 Regulatory and supervisory framework. 1990 Liquidation of sectoral banks.	1986 → "Dirty Float" exchange rate system. Free convertibility. Monetary restriction. High interest rates. Fiscal adjustment: heavier taxation, less public expenditure, more tariffs.
Brazil	1987 → Reduction of tariffs. Reduction of prohibitions. More flexible financial programmes for imports. Reduction of number of special import systems. 1990 → Elimination of administrative restrictions. Elimination of most fiscal incentives. Gradual reduction of tariffs.	1988 Legal recognition of multibanks. Deregulation of entry into financial activities. Sale of indexed financial assets issued against government bonds. Short-term deposits with daily liquidity. Development of the futures and options market.	1987 → Situation of severe instability. Successive failed stabilization processes. 1994 → "Plano Real". Coordination of prices, wages and rents by conversion into currency units of account (URVs). Exchange rate used as nominal anchor.
Colombia	1985-1989 → Gradual partial reduction of tariffs. Gradual reduction of export subsidies. 1990 → Drastic reduction of tariffs. Elimination of prior import licenses. Reduction of tariff dispersion. Elimination of export subsidies.	1990 → Installation of subsidiaries in banking system. Liberalization of entry into the system. Elimination of restrictions on foreign investment. Liberalization of interest rates. Partial liberalization of foreign exchange market. Prohibition of attraction of foreign-currency deposits. Autonomy of the Central Bank. 1993 New regulatory act.	1990 Reform was preceded by heavy devaluations. Stability and maintenance of macroeconomic balances.

Annex 1 (continued)

	Trade reform	Financial and capital market reform	Macroeconomic policy reform
Costa Rica	1986 → Gradual reduction of average tariff rate. Gradual reduction of tariff dispersion. Fiscal incentives for exports. Simplification and reduction of export formalities.	1984-1988 Maintenance of State banking system. Reduction of regulations and controls on the system. Liberalization of interest rates, except for lines of credit to small and medium-sized firms. Development of private commercial banking system. Development of supervision of the system. 1992 Broad opening of capital account.	1986 → Gradual steady rise in the real exchange rate. Exchange rate float with Central Bank intervention. Macroeconomic stability. Control of fiscal deficit.
Chile	1974-1979 Reduction of average tariff rate. Elimination of non-tariff restrictions. Uniform tariff. 1984-1991 Support price ranges for agricultural products. Introduction of anti-dumping system. Simplified drawback for minor exports.	1974-1981 Privatization of banks. Deregulation of interest rates. Opening-up to foreign investment. Reduction of restrictions on sale and purchase of foreign exchange. Restrictions on external credits. Further development of the system through the investments of the Pension Fund Management Companies (AFPs). 1983-1987 Development of regulation and supervision. 1991-1994 Reduction of restrictions on movements of foreign capital. Autonomy of the Central Bank.	1974-1978 Unified exchange rate and mini-devaluations. Fiscal adjustment: drastic reduction in public expenditure. Passive monetary policy. 1979-1981 Fixed exchange rate. 1984-1990 Heavy devaluation. Stabilization. 1991-1994 Currency float with Central Bank intervention. Control of money supply expansion (sterilization).
Jamaica	1980 Gradual elimination of quantitative restrictions. 1985 → Elimination of import licenses for raw materials and capital goods. 1986 → Gradual reduction of tariffs to match those of CARICOM. Reduction of tariff dispersion.	1982 → Establishment of Agricultural Credit Bank and National Development Bank: allocation of long-term credit to production sectors through financial intermediaries. 1985 → Increase in supervision of the financial system. Introduction of open market operations by the Central Bank.	1980 → Stabilization and structural adjustment programme. 1984 → More flexible foreign exchange policy. 1985 → Fiscal adjustment.
Mexico	1985-1994 Partial elimination of quantitative restrictions. Incorporation of anti-dumping system. Elimination of prior permits for imports of consumer goods. Simplification of tariff system to only five rates. Maintenance of import restrictions in the case of motor vehicles, microcomputers and pharmaceuticals. Elimination of export subsidies. Reduction of industrial promotion measures.	1989 Deregulation of interest rates. Broad opening of the capital account. Elimination of restrictions on foreign investment. 1990 → Reprivatization of the commercial banking system. Access of foreign investors to financial markets. Access of domestic investors to security sales abroad. Rules for the control and supervision of the financial system.	1989 → Stabilization policy with nominal exchange rate anchor. Coordination by consensus of readjustments in key prices and wages. Fiscal adjustment policy. 1994 Massive devaluation.

Annex 1 (concluded)

	Trade reform	Financial and capital market reform	Macroeconomic policy reform
Peru	1979-1980 Elimination of import barriers and prohibitions. Reduction of tariff rates. 1985-1990 Total reversal of the process. 1991 → Elimination of export subsidies. Total abolition of import prohibitions. Reduction of tariff rates. Reduction of tariff dispersion. Introduction of drawback arrangements. Target of achieving a single uniform tariff by 1995.	1991 → Liberalization of foreign exchange market. Broad opening of capital market. Unrestricted opening-up to foreign investment. More flexible interest rates. Deregulation of bank credit. Development of multibanks. Development of regulation and supervision of the financial system.	1979-1980 Exchange rate lag. External imbalance. 1982-1984 External debt crisis, devaluation, and reversal of the reform process. Speeding-up of inflation. 1985-1990 Expansionary fiscal policy. Balance of payments crisis. Marked instability. 1991 → Stabilization. Fiscal adjustment: more expenditure, more privatization. Exchange rate lag. Monetary anchor. Balance of payments problems.
Uruguay	1974-1978 Elimination of prohibitions and non-tariff barriers. Expansion of subsidies and benefits for non-traditional exports. Reduction of taxes on traditional exports. 1978-1982 Simplification of tariff system. Gradual reduction of tariffs. Elimination of subsidies and tax incentives for exports. 1985-1993 Adoption of five tariff brackets. Reduction of tariff rates. Preferential interest rates for exports.	1974 → Broad opening of capital market. Gradual elimination of controls on interest rates. Elimination of compulsory reserve requirements. Liberalization of the foreign exchange market. Public banks maintain long-term lines of credit.	1974-1978 Economic stabilization programme. 1978-1982 Pre-announced exchange rate and sharp revaluation. 1985-1993 Fiscal adjustment. Exchange rate float with Central Bank intervention.
Venezuela	1989-1990 Elimination of prohibitions and restrictions. Elimination of special-purpose taxes. Gradual reduction of tariffs. Elimination of tariff exemptions. Adoption of countervailing taxes to protect local industry. More flexible administrative procedures for exports. Elimination of tariffs on raw materials, parts, components, semi-manufactured goods and export inputs. Introduction of a system for the return of taxes.	1989-1990 Reduction of interest rate regulation	1989-1990 Stabilization programme. Fiscal adjustment. Unified, free, flexible exchange rate. 1993 Introduction of exchange controls.

Source: ECLAC, 1995b

ANNEX 2

Latin America: Public sector reforms

	Tax reform	Pension system reform	Privatization and reform of public enterprises
Argentina	1976 Ordering and simplification of tax legislation. Indexing arrangements for taxes. Elimination of export duties. General application of value added tax (IVA). 1976-1981 Unification of IVA rates. Expansion of profits tax base. Elimination of banking and stock exchange secrecy. 1990-1992 Suppression of export taxes. Elimination of industrial promotion systems. Uniform treatment of profits for both residents and non-residents.	1994 Reform of social security system.	1990 → Privatization of public services, without first of all putting them on a sound financial basis. Absence of real competition in tendering processes. Maintenance of monopolistic nature of markets. Deregulation of the oil market. 1992 Sale of gas and electricity services. 1993 Sale of YPF and iron and steel companies.
Bolivia	1986 Simplification of tax system. Reduction of tax rates. 1987 Establishment of Ministry of Revenue Collection, subsequently incorporated as a department of the Ministry of Finance. 1988 → Strengthening and rationalization of institutions.		1985-1986 Radical employment cuts in mining and the State industrial enterprises. Far-reaching reform of COMIBOL and YPF. Adoption of criteria based on maximization of profits and thorough rationalization. 1992 Privatization Act. 1993 Capitalization project for the main public enterprises.
Brazil	1965 Ongoing corrections in tax rates and allocation at the various levels of State organization. Numerous reforms in the income tax system. 1988 Process of decentralization of tax revenue.		1991 → Special measures governing the participation of foreign firms in the privatization process. Privatization operations in: petrochemicals (15 companies), fertilizers (5 companies), iron and steel (9 companies) and other sectors (5 companies). 1995 Privatization process in the area of public services.
Colombia	1974 → Increase in rates and progressiveness of direct taxes. Elimination of a number of incentives and exemptions. Unification of taxes on different types of companies. Correction of financial income for inflation. Introduction of the current value added tax (IVA).	1991 → Initiation of reform of the social security system.	1987 → Privatization of only a small number of State enterprises of marginal importance.

Annex 2 (continued)

	Trade reform	Financial and capital market reform	Macroeconomic policy reform
	Establishment of the National Tax Superintendency. Improvement of the system of collection through the banking system. 1992 → Reduction of tax on remittances by foreign firms. Foreign investment funds placed in the "non-declaring" category. Introduction of system for the return of taxes.		
Costa Rica	1994 Increase in taxation of consumption. Reduction of export taxes. Reduction of business profits tax. General application of sales tax. Increase in wealth tax. 1992 Elimination of exemptions and introduction of higher penalties for tax evasion.		Substantial increase in public service charges. 1984 Privatization of most of the public enterprises in the State conglomerate CODESA. 1985-1990 Privatization of 40 public enterprises.
Chile	1982 Replacement of sales tax with value added tax (IVA). Elimination of exemptions and special tax rates, even for public services. Improvement of the monetary correction system. Elimination of taxes on capital gains and net worth. 1976-1986 Policies designed to reduce tax evasion. 1984 Reduction of income tax. Expenditure tax. 1990 Increase in business income tax and IVA.	1980 Reform of the social security system: introduction of a system of individual capitalization based on membership in private pension funds providing old age, disability and survivors' pensions from the compulsory contributions of members.	1974-1977 Reprivatization of enterprises taken over by the previous government. 1982-1983 Reversal of privatization process through State intervention to rescue the financial system. 1985 Speeding-up of privatization of traditionally State-owned enterprises. 1990 New role for the Production Development Corporation (CORFO).
Jamaica	1986 → Sporadic simplification of tax system. Reduction of tax rates. Increase in tax base. Strengthening of institutions. 1991 Introduction of a general consumption tax, similar to a value added tax, to replace a variety of consumer taxes.		1983-1984 Rationalization of public enterprise management. 1985 → Privatization of public enterprises: services and telecommunications, hotels, sugar and banana industries.

Annex 2 (concluded)

	Trade reform	Financial and capital market reform	Macroeconomic policy reform
Mexico	1970-1976 Increase in income tax coverage. Increases in special-purpose taxes. Coordination of federal sales tax with the rest of the states. 1978-1982 Simplification of indirect taxes; introduction of value added tax (IVA). 1987-1989 Reduction of effective rates of business, income and personal taxes and expansion of the tax base.		1984-1988 Privatization of small and medium-sized enterprises. 1989 Privatization of large enterprises in strategic and non-competitive sectors. Prohibition of foreign investment through debt-equity swaps. 1990 → Privatization of ports, highways, airports, power stations and even prisons. Improvement of the competitive environment for public enterprises (deregulation of prices).
Peru	1991 Simplification of tax system. 1993 Simplification of income tax. Strengthening of the general sales tax. Elimination of exemptions. Restructuring of tax administration. Development of systems to check evasion. 1994 Process of reform and modernization of SUNAT. Training of staff and functional and economic autonomy. Modernization of the National Customs Service.	1993 Reform of the social security system (still underway): the system is to be privatized, with individual capitalization of employees' contributions, but the old system will remain in being.	1992 Privatization of ten small enterprises for a total of US$ 209 million. 1993 Privatization of mining, air transport and oil marketing companies for a total of US$ 300 million. 1994 Privatization of several large companies, the most important of which was the Peruvian telephone and telecommunications company CPT-ENTEL, for a total of US$ 3.1 billion. Introduction of the "Citizen Participation" system which gives Peruvians the chance to buy shares in State enterprises. Regulation of monopolistic activities and unfair competition, and adoption of consumer protection measures.
Uruguay			1974 → Privatization of financial services. Privatization of ports and transport services.
Venezuela	1994 Simplification of tax structure. Introduction of value added tax (IVA).		1989 → Restructuring of enterprises: industrial retooling and rationalization of management. Modernization of regulatory framework. Privatization of small enterprises.

Source: ECLAC, 1995b.

occurred in all the successful late-developing countries. Recognizing this would also mean admitting, however, that in order to achieve rapid growth it is not enough merely to ensure that "prices are right". Rapid growth depends on systematic efforts in the field of production to bring our productivity closer to that of the developed countries, to leapfrog certain stages, and thus take advantage of the best international practices which are also the most suitable for our countries. It is true that innovation and the spread of technological know-how are a kind of "black box" for economists, but the fact that they are not easily handled with our traditional instruments does not mean that they are not important. The fact is that a high growth rate of total factor productivity has been a common feature of all the successful late-developing countries. It is therefore essential to promote policies aimed not only at improving the system of prices but also at systematically raising productivity.

(Original: Spanish)

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