LATIN AMERICA'S STRUGGLE FOR EQUITABLE ECONOMIC ADJUSTMENT*

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MEETING THE INFRASTRUCTURE CHALLENGE IN LATIN AMERICA AND THE CARIBBEAN. Foreword by Shahid Javed Burki. (Washington, D.C.: World Bank, 1995. Pp. 55. $6.95 paper.)

LATIN AMERICA'S ECONOMIC DEVELOPMENT: CONFRONTING CRISIS. Second edition. Edited by James L. Dietz. (Boulder, Colo.: Lynne Rienner, 1995. Pp. 401. $22.50 paper.)

CRISIS AND REFORM IN LATIN AMERICA: FROM DESPAIR TO HOPE. By Sebastian Edwards. (New York: Oxford University Press for the World Bank, 1995. Pp. 364. $22.95 paper.)

COPING WITH CAPITAL SURGES: THE RETURN OF FINANCE TO LATIN AMERICA. Edited by Ricardo Ffrench-Davis and Stephany Griffith-Jones. (Boulder, Colo.: Lynne Rienner, 1995. Pp. 277. $49.95 cloth, $29.95 paper.)

UNSHACKLING THE PRIVATE SECTOR: POVERTY AND INEQUALITY IN LATIN AMERICA. By Paul Holden and Sarath Rajapatirana. (Washington, D.C.: World Bank, 1995. Pp. 108. $10.95 paper.)

COPING WITH AUSTERITY: POVERTY AND INEQUALITY IN LATIN AMERICA. Edited by Nora Lustig. (Washington, D.C.: Brookings Institution, 1995. Pp. 460. $39.95 cloth, $18.95 paper.)

POVERTY AND INEQUALITY IN LATIN AMERICA: THE IMPACT OF ADJUSTMENT AND RECOVERY IN THE 1980s. By Samuel A. Morley. (Baltimore, Md.: Johns Hopkins University Press, 1995. Pp. 222. $42.50 cloth.)

FREE TRADE AND ECONOMIC RESTRUCTURING IN LATIN AMERICA. Edited by Fred Rosen and Deidre McFadyen, foreword by Rubén Zamora. (New York: Monthly Review Press, 1995. Pp. 288. $30.00 cloth, $15.00 paper.)

STRUCTURAL ADJUSTMENT: RETROSPECT AND PROSPECT. Edited by Daniel M. Schydlowsky. (Westport, Conn.: Praeger, 1995. Pp. 250. $59.95 cloth.)

*This essay was written prior to the author's retirement from the U.S. Agency for International Development (USAID). The views expressed herein are his own and should in no way be interpreted as representing the policies of USAID or any other part of the U.S. Government.

BROKEN PROMISES: AGRARIAN REFORM AND THE LATIN AMERICAN CAMPESINO. By William C. Thiesenhusen. (Boulder, Colo.: Westview, 1995. Pp. 226. $59.95 cloth, $19.95 paper.)

STRUCTURAL ADJUSTMENT AND THE AGRICULTURAL SECTOR IN LATIN AMERICA. Edited by John Weeks. (New York: St. Martin's, in association with the Institute of Latin American Studies, University of London, 1995. Pp. 297. $75.00 cloth.)

If the 1980s are now widely viewed as Latin America's "lost decade," what popular label will come to characterize regional economic performance in the 1990s? So far, the current decade can hardly be regarded as one of robust recovery: between 1990 and 1995, the regional economy grew at an average annual rate of only 2.9 percent, or 1.0 percent per capita, and per capita gross domestic product (GDP) in 1995 still had not reached its 1980 peak.[1] Nor, on the basis of current trends, can the 1990s be considered a period of great progress in reducing poverty rates and income inequality.

The 1990s might eventually be known as the decade of structural adjustment. All but a few Latin American and Caribbean countries have now begun to implement significant programs to make their economies more flexible in responding to a rapidly changing world economy. Structural adjustment measures are designed to accelerate economic growth by improving the efficiency of resource allocation through several means: price liberalization, including trade and exchange-rate reforms; institutional reforms such as eliminating barriers to trade and investment, deregulating, privatizing, establishing clear property rights and enforcing them, and improving labor mobility; and societal reforms such as removing discriminatory barriers and shifting government spending from military outlays to social services.

Enthusiasm for structural adjustment is far from universal, however. Even many of its champions have become concerned because the expected benefits, including reduced poverty and inequality as well as more rapid economic growth, have been slow to materialize. Moreover, the Mexican peso crisis of December 1994 and the resulting "tequila effect" on the rest of Latin America and the Caribbean have demonstrated that increased economic openness can raise the potential costs of policy lapses.[2]

1. Comisión Económica para América Latina y el Caribe (CEPAL), *Balance preliminar de la economía de América Latina y el Caribe, 1995* (Santiago: United Nations, December 1995), 49–50.

2. The "tequila effect" refers to the negative repercussions of Mexico's poorly executed devaluation on net capital flows to other Latin American countries. Presumably, the metaphor refers to foreign investors' fears that other countries in the region might also have been secretly consuming strong drink (disguising poor policies). The effect was particularly

Proponents of structural adjustment increasingly have recognized that the reform process takes more than a few years to consolidate and that many private investors will want to see several years of policy continuity before making significant new commitments.[3] Sebastian Edwards argues in *Crisis and Reform in Latin America: From Despair to Hope* that of all the countries in the region, only Chile (where reforms began some twenty years ago) has moved beyond the initiation and implementation stages of policy reform into consolidation, with reforms having broad political support (p. 304). Even in Chile, the extent of adjustment may be questioned because exports still consist largely of raw or processed primary commodities. Peru, the region's fastest-growing economy in 1994–1995, remains far from achieving self-sustaining growth because its economic and political institutions are still weak.

Edwards's *Crisis and Reform in Latin America* is the best starting point for understanding the process of economic reform in Latin America and the Caribbean. Edwards returned to academia in the spring of 1996, after three years as the World Bank's chief economist for Latin America. He effectively incorporates into his analysis the results of much high-quality research on many key issues, although he could have examined the structuralist literature in more depth. The first three chapters provide an excellent overview for the general reader, and the final chapter also speaks to a broad audience. Chapters 4 through 8 are rewarding for economists but assume more technical knowledge and familiarity with the jargon of economic policy reform, even though statistical and mathematical analyses are confined to appendices.

Edwards divides the Latin American and Caribbean countries into early reformers (Bolivia, Chile, and Mexico), second-wave reformers (Costa Rica, Jamaica, Trinidad and Tobago, and Uruguay), third-wave reformers (twelve countries that include the five most populous countries of South America), and nonreformers (the Dominican Republic, Ecuador, and Haiti). He characterizes the period from 1982 to 1987 for most countries as one of muddling through. Market-oriented structural reforms "only acquired full and generalized force in the late 1980s and early 1990s, after attempts to use traditional structuralist-inspired policies to solve the crisis had failed" (p. 8).[4]

strong in Argentina, where a large-scale capital outflow mandated a severe monetary contraction because the exchange-rate regime keeps the Argentine peso at parity with the U.S. dollar through an arrangement like a currency board. The Argentine economy is now estimated to have declined by 4.4 percent in 1995. See *IMF Survey*, 6 May 1996, p. 155. The urban unemployment rate in 1995 averaged an estimated 18.6 percent, compared with 11.5 percent in 1994. See CEPAL, *Balance preliminar*, p. 52.

3. This point is emphasized by Stanley Fischer in the Schydlowsky collection (p. 29), as well as by Holden and Rajapatirana (chap. 3).

4. See *Macroeconomic Populism in Latin America*, edited by Rudiger Dornbusch and Sebastian Edwards (Chicago, Ill.: University of Chicago Press, 1991). An excerpt from this work

Edwards maintains that "a new Latin American consensus" on economic policy has been achieved, based on four factors: macroeconomic stability, the opening of the external sector, a reduced role for the state in the productive process, and, belatedly, the implementation of poverty-reducing policies. Factors facilitating the consensus include the failure of heterodox programs in Argentina, Brazil, and Peru; the collapse of the Soviet Union; the positive examples of East Asia and Chile; the emergence of a large group of well-trained Latin American and Caribbean economists in influential positions; and, to a lesser extent, the influence of the international financial institutions (IFIs).[5] In discussing policy sequencing, Edwards supports the now widespread view that correcting fiscal imbalances should come first, with trade reforms preceding liberalization of the capital account (that is, the removal of constraints on international capital flows).[6]

Edwards recognizes that economic growth, while essential,[7] is insufficient in itself to deal adequately with problems of poverty and inequality. He regards solutions to these problems as necessary to reduce the risk that policy reforms "will stall and even that nostalgic voters will once again favor old populist-style programs" (p. 10).[8] Consolidating the reforms and achieving social peace and stability require more rapid economic growth through improved economic policies, while poverty must be addressed via better-targeted social programs (including subsidies) in the short run and major reforms in education, health, nutrition, and social security programs to raise productivity and incomes over the long run.[9] Edwards also posits that the reduction of poverty and inequality

appears in the Dietz volume under review here. The most spectacular populist policy failure was that of the Alan García government in Peru (1985–1990).

5. Edwards explicitly contrasts this "new Latin American consensus" with the "Washington consensus" on policy reform associated with John Williamson. See *The Progress of Policy Reform in Latin America* (Washington, D.C.: Institute for International Economics, 1990). In other words, Edwards is saying that the reforms are "owned" by Latin American and Caribbean policymakers, not imposed by the international financial institutions. He notes that even the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC or CEPAL) is on board.

6. Early and partial liberalization of the capital account, combined with lax bank supervision and exchange-rate rigidity, contributed significantly to the sharp downturn in the Chilean economy in the early 1980s (see Edwards, *Crisis and Reform in Latin America*, pp. 214–18).

7. Edwards joins many others who are convinced by the "ample evidence that over the medium and long run, faster growth is the main determinant of poverty reduction, improved social conditions, and reduced inequality" (p. 261).

8. Venezuelan voters demonstrated that this risk was very real by returning Rafael Caldera to office in 1994. After failing for two years to reactivate the economy with populist policies, Caldera agreed in April 1996 to adopt an orthodox stabilization and adjustment program that could be supported by the International Monetary Fund (IMF). Venezuelans, better prepared for orthodoxy than when Carlos Andrés Pérez surprisingly embraced it in 1989, responded much more calmly than they had seven years earlier.

9. For an insightful analysis of the mutually reinforcing relationships among economic

would be facilitated by labor-market reforms, arguing convincingly that some current labor-market policies ostensibly serving these goals achieve precisely the opposite effect.

Other persisting problems include the deterioration of physical infrastructure; continued high (albeit lower) rates of inflation; the lack of modern political institutions; the consequences of large capital inflows; and inadequate domestic savings. With respect to domestic savings, Edwards (drawing in part on the experience of East Asia) asserts that the most important initial step is to achieve macroeconomic stability, thus raising government savings. He also stresses the importance of democratic political institutions and an institutional environment that instills confidence in small savers, as exemplified by postal savings systems in East Asia and private social security systems in Chile.

Other Views of Structural Adjustment

Structural adjustment is also a major theme of the edited volumes of James Dietz, Daniel Schydlowsky, and Fred Rosen and Deidre McFadyen. The Dietz collection, *Latin America's Economic Development: Confronting Crisis,* updates a 1987 book co-edited with the late James Street. Each of its eight sections begins with a helpful brief introduction by Dietz. The debate between structuralists and institutionalists, on the one hand, and monetarists, on the other, has been transformed here into one between "neostructuralists" and "neoliberals." Dietz notes that participants in the debate have learned from each other, resulting in a convergence of views on some issues, and he rightly asserts that "[n]o one theory and no one country has a monopoly on knowledge about the proper path of development that can be universally valid" (p. xii).

Some of the older essays in the second edition of *Latin America's Economic Development* might have been dropped in favor of others reflecting the radically changed political economy since 1980. For example, the more recent of the two essays on foreign investment dates from 1981; and Albert Hirschman's well-known piece on divestment, which was provocative in 1969, seems quaint now that direct foreign investment is much more welcome. Two articles on the Prebisch thesis from similar perspectives are unnecessary; José Antonio Ocampo's 1993 essay would have sufficed. Interestingly, one of the most gloomy recent essays on primary-product prices comes from the International Monetary Fund (IMF), of all places.[10] The extensive "neoliberal literature" of the 1980s and 1990s is

growth, education, poverty reduction, and narrower income disparities, see Nancy Birdsall, David Ross, and Richard Sabot, "Inequality and Growth Reconsidered: Lessons from East Asia," *World Bank Economic Review* 9, no. 3 (Sept. 1995):477–508.

10. Carmen M. Reinhart and Peter Wickham, "Commodity Prices: Cyclical Weakness or Secular Decline?" *IMF Staff Papers* 41, no. 2 (June 1994):175–213.

underrepresented,[11] as is the literature on the East Asian experience and its lessons for Latin America and the Caribbean. Gustav Ranis's essay is insightful but dates from 1981 and thus does not reflect the growing forcefulness of East Asian lessons since 1980, including those from China and Indonesia. Editor Dietz's own contribution makes good points on the key role of the state in East Asian development but neglects other significant lessons of that region's experience.

Osvaldo Sunkel's essay demonstrates how structuralism, along with its focus on inward-oriented development, has been transformed into a neostructuralism that accepts much of the neoliberal agenda (including macroeconomic balances, price liberalization, and external competitiveness). But he also calls for sustained, equitable "development from within" based on countries' own capacities to generate savings and technological advances. Sunkel's comments on wage policy illustrate how widely market forces are now respected: he calls for wage moderation in the short run to facilitate generation of an external trade surplus. Sunkel concludes, "Only over the medium and long term, and to the extent that productivity is increased, can greater and fairer wage aspirations be addressed in order to render them compatible with the necessary incentives to the tradable sector" (pp. 375–76).

Sunkel is right in saying that some reform proponents have been excessively ideological in their view of the state. He is close to the mark in contending that for them, "liberalization, deregulation, and privatization are ends in themselves" (p. 366). Also, external donors were quicker to recommend expenditure cuts than tax increases to achieve fiscal balance, although contrary recommendations in countries like Guatemala and El Salvador—with low taxes and large, unmet social needs—demonstrate that ideology was not always overriding. Dietz, however, goes too far in labeling neoliberal policy recommendations as "a generic monoeconomics" (p. 191). Those who have observed firsthand how noted neoliberal advisors tailor their policy recommendations to specific country situations know that they eschew cookie cutters.

These comments notwithstanding, Dietz's *Latin America's Economic Development* remains a useful text for introductory courses on Latin American development. It complements Edwards's *Crisis and Reform in Latin America* by giving students good exposure to structuralist thought and its evolution.

The volume edited by Daniel Schydlowsky, *Structural Adjustment: Retrospect and Prospect,* resulted from a conference held in March 1991.

11. "Neoliberal" or orthodox critiques of structuralism and other heterodox policies are hardly new. A good codification of orthodox critiques of heterodoxy can be found in Ian M. D. Little, *Economic Development: Theory, Policy, and International Relations,* A Twentieth Century Fund Book (New York: Basic Books, 1982). It appeared while the Latin American and Caribbean region was in the midst of its sharp decline in the early 1980s.

During the four-year delay in publication, the twelve contributions were unfortunately not updated. While its geographical coverage is worldwide, three chapters deal specifically with Latin America, and others also discuss experiences in the region. Contributors include both proponents and critics of structural adjustment. Most of the essays were written for the general reader, and some are quite informal in tone. The high price tag, however, makes the benefit-cost ratio of this book unfavorable.

Strong but not ideologically rigid proponents of orthodox structural adjustment include John Williamson, who in discussing Latin American and Caribbean policy reform regrets coining the term *Washington consensus* and admits that Latin Americans did much to forge the convergence of viewpoints. Another such proponent is Stanley Fischer, whose academic leaves have brought him to the World Bank as chief economist and currently to the IMF as First Deputy Managing Director. Fischer notes that a key lesson of the 1980s is that "adjustment programs are more likely to succeed if they are 'owned' by the country that implements them, rather than being seen as an imposition by the IFIs or donor governments" (p. 28). He offers pragmatic advice on the sequencing of reforms and adopts an intermediate position between gradualism and shock treatments.

Lance Taylor, a sophisticated structuralist with Latin American experience, recognizes the need for prompt stabilization but criticizes the IMF for recommending policies that achieve it regressively. He leans toward gradual adjustment, accepts the need for getting (most) prices "right," but also believes that the state has a major role to play in facilitating the adjustment process, including the forging of a "social contract" (as in Mexico in the 1980s) to promote widespread acceptance of the reform process. Taylor looks more to tax reform than to expenditure restraint in moving toward fiscal balance.

The contribution by the late Fernando Fajnzylber discusses the 1990 document that definitively brought ECLAC into what Edwards calls the "new Latin American consensus."[12] In Fajnzylber's view, the state should leave productive activities to private entrepreneurs and focus on "promoting social equity, genuine competitiveness and environmental sustainability" (p. 84). The last of these areas is still not a firm part of the consensus, despite growing lip service. Edwards, for example, pays little attention to environmental issues.

The remaining essay on Latin America is a rewarding exercise by Norberto García and Jaime Mezzara. They simulate changes in the formal and informal labor markets between 1990 and 2000, based on a four-part classification of countries determined by greater- or less-than-average

12. ECLAC, *Changing Production Patterns with Social Equity*, Document No. LC/G.1601 (SES.23/4) (Santiago: United Nations, 1990).

progress in structural adjustment and above- or below-average growth in the labor force.[13] In scenarios of both moderate and high growth, the share of the informal sector is higher in 2000 than in 1990, although it begins to fall in the high-growth scenario before the end of the decade. The strongly positive effects of structural adjustment on labor markets do not occur until after the year 2000.

Fred Rosen and Deidre McFadyen's *Free Trade and Economic Restructuring in Latin America* is a collection of essays originally published in various issues of *NACLA Report on the Americas.* The essays range from polemical works to advocacy pieces, journalism, blandly descriptive articles, and insightful and analytical writing. On the whole, the book is disappointing and below NACLA's usual standards. Although contributors tend to regard neoliberalism as a monolithic ideology,[14] it is neither monolithic nor an ideology, despite the efforts of some proponents to make it so. Nor does neoliberalism necessarily imply loss of social benefits, as the editors and others argue, although such losses have often occurred in the short and even medium run under stabilization and structural adjustment, and some proponents of structural adjustment are ignorant of how it can adversely affect various groups of poor people. Few contributors consider what might happen in the absence of neoliberal reforms or recognize inflation as a major cause of increased income inequality. Rosen and McFadyen lament the lack of a credible alternative to structural adjustment, implicitly recognizing the failure of heterodox models but unable themselves to find another model that produces rapid long-run economic growth as well as short-run equity.

Privatization, Deregulation, Institutional Reforms, and Capital Flows

Several books reviewed in this essay concentrate on specific components of (neoliberal) structural adjustment. Paul Holden and Sarath Rajapatirana's *Unshackling the Private Sector: Poverty and Equality in Latin America* examines the transfer of productive activities from the state to the private sector and the improved climate for foreign investors, based on surveys in eight Latin American and Caribbean countries. While statements such as "statist policies are eventually immiserating" (p. 1) cast an unduly dark light on the role of the state, it seems clear that Latin American and Caribbean governments have contributed much less to the process of development than their Asian counterparts.

Holden and Rajapatirana identify three categories of obstacles to private business growth: macroeconomic and political uncertainty; an uncertain and unstable regulatory framework; and institutional weak-

13. The long publication delay for this book makes obsolete the authors' classification of countries according to progress in structural adjustment.

14. The editors regard free trade as "the globalization of the neoliberal agenda" (p. 15).

nesses, especially regarding property rights and legal systems. They argue that progress in macroeconomic reform (which they evaluate idiosyncratically) has been faster than in regulatory and institutional reform. Holden and Rajapatirana's main contribution in *Unshackling the Private Sector* is their detailed description of how government policy actions affect private business costs. Individual chapters focus on macroeconomic policy, trade policy, regulation, the financial sector, privatization, and institutions and property rights. Each concludes with a useful section on "lessons learned." Lessons such as "Good regulation is critical to the successful privatization of natural monopolies" (p. 87) make it clear that the authors' view of government is more positive than their initial rhetorical excesses suggest.

Policy reforms in Latin America and the Caribbean helped convert a large net capital outflow in the 1980s into a large net inflow in the 1990s. In economies as diverse as those of Argentina, El Salvador, and Peru, these inflows contributed to "Dutch disease" problems: currencies whose value appeared to achieve external balance but were actually overvalued in terms of export competitiveness. Management of these inflows posed major dilemmas, as demonstrated in the excellent book edited by Ricardo Ffrench-Davis and Stephany Griffith-Jones, *Coping with Capital Surges: The Return of Finance to Latin America*.[15] The contributors demonstrate that the combination of capital-market liberalization in the region and the globalization of capital markets has increased Latin American and Caribbean vulnerability to external events. Collectively, they cite a large volume of technical literature on capital flows but keep their discussions of the evidence accessible to nonspecialists in monetary and financial economics. They also make readers aware of data problems, which result in some unresolved inconsistencies.

The first three chapters examine trends in private capital flows from North America (Roy Culpeper), Europe (Griffith-Jones), and Japan (Punam Chuhan and Kwang W. Jun) as well as factors affecting overseas investment decisions by residents of these countries. North America supplies the most capital to Latin America and the Caribbean, followed by Europe, with Japan a distant third. The detailed analysis presented in these chapters emphasizes the importance of domestic considerations in the capital-exporting countries (like interest rates and financial regulations) as well as the Latin American and Caribbean environment in determining the amount and composition of capital flows.

Ffrench-Davis, Manuel Agosín, and Andras Uthoff explain how Chile (the first of three case studies) has controlled foreign-capital move-

15. A major risk in dealing with capital inflows is getting on the sterilization treadmill: countries adopt restrictive policies to offset the monetary expansion resulting from capital inflows; interest rates then rise, stimulating even more capital inflows and the need for more sterilization. But the alternative of letting capital inflows finance growing current-account deficits, given an overvalued exchange rate, is also dangerous.

ments with relative success after a disastrous fling with partial capital-market liberalization between 1979 and 1982. Few countries, however, possess Chile's technical expertise in maintaining overall macroeconomic policy credibility and pragmatically fine-tuning policies that affect external capital movements. In Argentina, examined by José María Fanelli and José Luis Machinea, capital inflows financed a large current-account deficit. The convertibility plan that maintains the peso at parity with the dollar puts the authorities in a bind should capital flows be suddenly reversed. Restoring external balance would require either devaluation with negative effects on policy credibility or an economic contraction at a high political cost. When the dreaded event occurred, following the December 1994 crisis in Mexico (after this essay was written), Argentina opted for the latter course. Its exchange-rate regime barely survived; the political and social cost was indeed high; and the relative-price distortions cited by the authors largely continue. The case study of Mexico (not as strong as the others but still solid) also predates the 1994 crisis. Although José Angel Gurría does not predict it, he notes the importance of sticking with sound policies to minimize the risk of a reversal of capital flows. When policy discipline gave way to election-year politics, Gurría should not have been surprised by the results. In Edwards's view, Mexico's main policy shortcoming in 1994 was the failure to take decisive action to reduce the current-account deficit (*Crisis and Reform*, p. 298).

The major theme of the final chapter of *Coping with Capital Surges*, coauthored by editors Ffench-Davis and Griffith-Jones and Robert Devlin, is that capital flows can be a valuable instrument of economic development. But because capital markets are highly imperfect, "improved information, financial-sector regulation, and broad prudential macromanagement (direct and indirect) of financial flows constitute a public good for which there is a shared role for governments [developed and developing] . . . , coordinated, where relevant, by international organizations" (p. 226).

Structural Adjustment and Poverty

How have structural reforms affected the poor? The incidence of poverty is widely recognized to have increased during the 1980s, although different definitions yield divergent figures on the extent of the problem.[16] For those convinced that GDP growth is the major determinant of changes in poverty rates, this trend is hardly surprising, given that per

16. CEPAL estimates that between 1980 and 1990, the number of poor people in Latin America and the Caribbean increased from 135.9 million to 195.9 million, and the incidence of poverty rose from 41 to 46 percent of the population. See CEPAL, *Panorama social de América Latina: Edición 1993* (Santiago: CEPAL, 1993), p. 100. Morley reports an increase in the number of poor people from 91.4 million to 130.8 million between 1980 and 1989 and a rise in the incidence of poverty from 26.5 percent to 31.0 percent (*Poverty and Inequality in Latin America*, p. 44).

capita GDP fell by 11 percent during the decade. It is difficult, however, to attribute much of the increased poverty to structural adjustment because few countries undertook major adjustments of this nature until the late 1980s. Also, most of the decline in per capita income occurred early in the decade, when external events were adverse and the Latin American and Caribbean economies lacked the ability to respond quickly to a new international economic environment. It may be fair to link part of the short-run increase in poverty to demand-depressing stabilization measures, but one must then ask why stabilization was deemed necessary and what the alternative to stabilization would have been.

For most countries, questions about the relationship between structural adjustment and poverty can be answered only by looking at the 1990s as well as the 1980s. Fortunately, a significant body of literature on this theme is now available, much of it discussed at the Latin American Studies Association International Congress held in Washington, D.C. in September 1995. Albert Berry's provocative essay was notable for documenting a gloomy picture of this relationship, at least for the initial stages of the adjustment process.[17] The volumes by Morley and Lustig are important works that rely on a combination of comparative analysis and case studies. Their messages regarding the relationship between structural adjustment and poverty should give both advocates and opponents pause for reconsideration.

The title of Samuel Morley's *Poverty and Inequality in Latin America: The Impact of Adjustment and Recovery in the 1980s* is misleading in that "adjustment" is defined—quite legitimately—to include not only (neoliberal) structural adjustment but also the forced and unstructured adjustment epitomized by the sharp decline in Peru's economy when the country could not continue to live beyond its means in the late 1980s. The title is also misleading because the book includes a chapter on the 1990s.

In most Latin American and Caribbean countries, according to Morley, "the recessions that accompanied the adjustment process increased both earnings inequality and poverty" (p. 28). Recoveries had the opposite effect, with events in some countries during the 1990s emphasizing the key role of economic growth in reducing poverty. Again, however, Morley employs a broad definition of adjustment, some form of which was inevitable (including recession) in nearly all Latin American and Caribbean countries. A major problem in seeking to relate changes in poverty and inequality to the timing of structural adjustment is that data are not available for all years.

Among Edwards's early and second-wave adjusters, Costa Rica

17. Albert Berry, "The Macroeconomic Context for Policies, Projects, and Programmes to Promote Social Development and Combat Poverty in Latin America and the Caribbean," report prepared as part of the UNDP Project "Poverty Alleviation and Social Development," Sept. 1995.

compiled the best record in reducing both poverty and inequality in the 1980s. Morley attributes this performance to the fact that recovery was led by agriculture, the sector that produced mostly traded goods and the one where most of the poor were concentrated. Chile started adjusting earlier, but significant improvements in poverty were evident only after 1987 and in inequality only in the 1990s. By this time, the combination of sustained rapid economic growth (which raised the demand for unskilled labor) and the expansion of education (which decreased the supply) was pushing up wage rates at the lower end of the scale. In Mexico, income inequalities widened, and different data sets disagree on poverty trends.

Morley hypothesizes that a key factor in the linkages between structural adjustment and poverty is "the size and role of the traded goods sector and the relationship of the poor to that sector" (p. 164). Here Morley really does mean structural adjustment, but not everyone will agree that partial, short-lived programs like those in Argentina and Brazil in the 1980s should qualify as such. Real devaluation, a key component of structural adjustment, will raise the price of tradable goods as well as (relative if not absolute) wages for those producing tradables. Thus the poor should fare better in the early stages of structural adjustment where they are producers but not major consumers of tradables (as in Costa Rica and Colombia) than where they are heavy consumers but not producers (as in Argentina and Venezuela). Morley presents some support for this empirical hypothesis, which now deserves more detailed analysis.

Some of Morley's positions will be considered more controversial. For example, he perceives no case for suppressing real minimum wages during recession given that changes in this variable are correlated with neither the extent of real devaluation nor the GDP growth rate. Some would dispute the contention that the poor are hit especially hard by structural reforms that "take away entitlements, subsidies, and government jobs" (p. 193), especially if these reforms are replaced by better-targeted subsidies. Others may question how Morley has resolved data problems. Still, *Poverty and Inequality in Latin America* is a rewarding book. One of its major contributions is the use of the decomposable Foster-Greer-Thorbecke poverty index, which allows Morley to disaggregate the population in various ways in order to examine the sources of poverty and changes in its incidence over time in Argentina, Colombia, Costa Rica, and Venezuela.

Nora Lustig's edited volume, *Coping with Austerity: Poverty and Inequality in Latin America,* is the product of a conference held in July 1992. The emphasis is on events in the 1980s, but with updates some essays carry the analysis into 1993–1994. Lustig finds that both poverty and inequality increased in the 1980s, although only in about half the countries for which reasonably reliable data are available did the poor bear the brunt of the crisis. In other countries, the burden fell heaviest on middle-income groups. Still, Lustig concurs with Morley in concluding that "inequality is prone to increase sharply during periods of crisis" (p. 35). Because crises are usually caused by a combination of external events and policy shortcomings, she argues that a sound poverty-reduction strategy requires national and international institutions and policies to provide better protection against economic downturns. Lustig and many of her contributors also alert readers to numerous problems in interpreting data on poverty and income distribution.

Because economic growth may reduce poverty only slowly, significant poverty reduction in the short run would require more emphasis on carefully targeted programs for transferring income and assets, programs that are sustainable politically as well as economically. For the long run, Lustig adds her voice to the loud chorus calling for increased public investment in education, especially at the primary level, and an end to subsidized higher education for the well-to-do.

Lustig's introductory essay is followed by four others with a general or regionwide focus. Samuel Morley summarizes the research that produced his *Poverty and Inequality in Latin America* (also under review here). Ariel Fiszbein and George Psacharopoulos examine household survey results in seven Latin American and Caribbean countries at two points in time (1979–1981 and 1989) and find mixed trends in income inequality. The decomposable Theil index, as well as a logit probability model, shows that education affects income inequality and poverty more than any other variable.

Elisabeth Sadoulet and Alain de Janvry apply a dynamic computable general equilibrium model to simulate alternative adjustment policies in Ecuador. They conclude that economic growth is the best way to reduce poverty in the long run, but a sustainable adjustment policy requires targeted programs to protect the poor in the short run. Such programs generally need external funding because of the political costs of domestically financing them during recession. Margaret Grosh presents a matrix using five criteria (administrative feasibility, political feasibility, collateral effects, targeting, and tailoring the solution to the problem) to evaluate six types of poverty-reduction programs. She then applies it to choices made by Bolivia in 1986 and Jamaica in 1988. While her analysis is helpful for guiding policy decisions, Grosh herself admits that "there is very little evidence on program impact" (p. 178), thus highlighting data problems once again.

The remaining chapters of *Coping with Austerity* are case studies of Argentina, Brazil, Chile, Mexico, Peru, and Venezuela. Of this group, only Chile and Mexico undertook serious structural adjustment programs during the 1980s,[18] although all six were forced to adjust in the sense of

18. I am not counting here Venezuela's rocky implementation in 1989 of stabilization and structural adjustment measures that were not sustained.

having incomes fall because of lower levels of available resources, and all experienced rising poverty rates and increased income inequality. The countries that attempted no structural adjustments tended to fare worse than the structural adjusters, although data problems make such comparisons problematical. In the four nonadjusters, Lustig concludes that "the existing [political] coalition made an orderly adjustment impossible" (p. 26). Speculation on why this might have been so would take more space than is available here.

The case studies examine changes in social policies and programs in the 1980s and early 1990s. In Argentina (Luis Beccaria and Ricardo Carciofi), social spending did not fall much, but proactive policies favoring the poor were limited. Proponents of decentralization should be sobered by the lesson that it hurt the quality of education. Social spending in Brazil (Ricardo Barros, Rosane Mendonça, and Sonia Rocha) rose but was not targeted well. In Chile (Dagmar Raczynski and Pilar Romaguera), spending on education and health declined, but some observers believe that decentralization led to improvements in quality and efficiency. A large emergency employment program proved to be an effective safety net. Social spending fell sharply in Mexico (Santiago Friedmann, Nora Lustig, and Arianna Legovini), but the decline was reflected much more in salaries and investment than in delivery of services. In Peru (Adolfo Figueroa), real social spending fell sharply, as did school enrollments, but the infant mortality rate improved. Social spending in Venezuela (Gustavo Márquez) was not cut disproportionately, but spending on administration fared better than that on operational programs. In summary, one does not detect in government policies in these countries the kind of priority placed on investment in human capital that is evident in East Asia.

Agriculture and Infrastructure

Of the three remaining books to be reviewed in this essay, two deal with agriculture and one with infrastructure, both relatively neglected topics. John Weeks's edited volume, *Structural Adjustment and the Agricultural Sector in Latin America and the Caribbean*, is based on conference papers updated in some cases to mid-1994. The editor and contributors are aware of the difficulties of disentangling the effects of structural adjustment from those of stabilization, depressed primary-export prices, weak domestic demand, and other factors, but they sometimes fall short in their efforts to do so.

One major problem is that the depth, duration, and timing of adjustment programs varied considerably in the six countries studied in detail. Brazil, for example, had no structural adjustment program worthy of the name until after the period covered by the case study (1980–1992). Macroeconomic policy after 1980 was concerned at first with stabilization; after 1985, it was unstable, as authors Antonio Buainain and Gervasio de Castro Rezende admit. Argentina too failed to stick with adjustment measures for long during the 1980s, although export taxes began to fall after the middle of the decade. Hector Maletta is cautiously optimistic about how major structural adjustment in the 1990s will affect agriculture, despite only modest results by 1994. Honduras's serious effort at structural adjustment dates from 1990, and its agricultural modernization law from 1992. Andy Thorpe admits that this short time frame makes it difficult to link structural adjustment with agricultural performance, and he complicates matters by incomplete use of available data and an awkward writing style. Some observers believe that Honduran small farmers have fared better since the adjustment than Thorpe feared, but evidence on this point is not yet firm.

Structural adjustment in Jamaica (Ranjit Singh) has been significant but erratic, and major trade reforms date only from 1990. Insufficient attention has been given to the dependence of high-cost banana and sugar production on preferential marketing arrangements abroad. Early-adjusting Mexico saw its initial reforms overwhelmed by the effects of the oil-price collapse in 1986. Michael Redclift's essay seeks to relate structural adjustment in Mexico to environmental damage, but his efforts to demonstrate this link are not convincing. Another early structural adjuster was Chile (Cristián Palma Arancibia), where policy continuity after the disastrous episode of the early 1980s helps explain agriculture's successful overall performance.

Editor Weeks, seeking common patterns in the region, finds no correlation between the degree of external liberalization and agricultural performance, although he recognizes that his simple but useful analytical approach needs verification by more sophisticated statistical analysis. He and other contributors conclude that real devaluation affected agriculture more than trade liberalization. Weeks comments fairly, "international agencies and governments in the region have been too quick at times in applying simple free-market parables that abstract from the ecological characteristics and social organisation of agriculture" (p. 263).

William Thiesenhusen's *Broken Promises: Agrarian Reform and the Latin American Campesino* is avowedly introductory, being aimed at students and policymakers. It relies heavily on other sources (with many direct quotes) but summarizes them efficiently.[19] Although Thiesenhusen engages in consciousness-raising at times, he is good at identifying different points of view and not jumping to conclusions about which perspective might be correct (for example, on the postponement of Phase II

19. These sources include chapters in Thiesenhusen's own important edited volume, *Searching for Agrarian Reform in Latin America* (Boston, Mass.: Unwin Hyman, 1989), and a significant number of studies from the years 1990–1993.

of the agrarian reform program in El Salvador). He includes case studies of Mexico, Bolivia, Guatemala, Chile, Nicaragua, and El Salvador but excludes Peru and Cuba because of the lack of reliable field data. Although the Peruvian data are confusing, a discussion of this major reform effort would still have been rewarding.

Readers would also have benefited from viewing agrarian reform in a more historical and macroeconomic context. The sharp reduction in agriculture's share of the region's GDP, from 16 percent in 1960 to 10 percent in 1980, was a natural outcome of the process of economic growth. It is also surely one reason why agrarian reform has lost political importance since the 1960s, when it was a key element of the Alliance for Progress. Others reasons include the lack of an obvious success story among the major reforms since 1950 and the realization (by Thiesenhusen also) that persistent and widespread rural poverty is explained more by macroeconomic policies than by agrarian structure.

Thiesenhusen argues persuasively the case for further agrarian reform. But he is not optimistic that much will happen in the near future and fears that "*campesinos* are likely to bear the full brunt of privatization" of communal or cooperatively owned land in Mexico and elsewhere (p. 174). Indeed, he believes that the rural poor may fare worse in the 1990s than in the 1980s because of slow economic recovery, declining foreign assistance (which seems true only of bilateral aid), and lack of political will.

Investment in bricks-and-mortar projects, a glamorous component of economic development programs as late as the 1960s, lost its luster as the benefits of investment in human resources came to be more widely appreciated. Yet government spending on infrastructure continued apace in the 1970s because its contribution to development was widely regarded as essential. Indeed, evidence exists that public investment "crowds in" private investment, so long as fiscal deficits do not raise interest rates.[20] During the 1980s, however, Latin American and Caribbean governments generally slashed capital budgets much more than current expenditures in an effort to reduce fiscal deficits aggravated by economic decline and higher interest payments.

The World Bank, in *Meeting the Infrastructure Challenge in Latin America and the Caribbean,* asserts that "[t]he steady erosion of infrastructure in LAC has reduced significantly the region's chances of competing in global markets" (p. 7). Bank analysts calculate that annual infrastructure requirements during 1991–2000 will average 60 billion dollars (in current prices), or 4.4 percent of the 1993 regional GDP (compared with 3.0 percent in the 1980s and 4.1 percent in the 1970s). Because projected

20. See Luis Serven and Andrés Solimano, "Economic Adjustment and Private Investment," *Finance and Development* 29, no. 3 (Sept. 1992):43–45, esp. 44.

lending by the international financial institutions totals far less than this amount, Latin American and Caribbean countries will be greatly challenged to finance the difference. They can do it, the World Bank proposes, with expanded private-sector participation through direct ownership and also public-private partnerships such as service or management contracts, lease contracts, and long-term concessions. A large amount of privatization has already occurred, and anecdotal evidence suggests that service improved afterward. Still, it is doubtful that the 4.4 percent target will be met.

Structural Adjustment and Poverty Reconsidered

The slowness with which the benefits of structural adjustment have appeared in many Latin American and Caribbean countries as well as the disturbing trends in poverty and income distribution that have often accompanied structural change (without necessarily being caused by it) have strengthened support for direct efforts to alleviate poverty. This support reflects the recognition that structural adjustment takes longer to affect economic growth and poverty rates than many of its proponents originally believed. Excessive attention to direct poverty alleviation, however, can divert resources away from long-term investments in human capital (mainly education and health services) and medium-term programs to expand access to productive inputs (particularly land and credit), which ultimately will do more to reduce the incidence of poverty and to narrow income inequalities than direct programs of poverty alleviation. The challenge to policymakers is to find a good balance, given political realities, between consumption (short-term) approaches and investment (long-term) approaches to reducing poverty.

A popular but delayed Latin American and Caribbean response to increased poverty, combining the two approaches, has been what generally are called *fondos de inversión social* (FISs), which finance small-scale infrastructure and other projects in low-income communities.[21] In principle, projects are determined by each community's expressed priorities, and local labor is used for construction, thus providing immediate income along with the infrastructure designed to have long-term payoffs. In practice, top-down decision making, sometimes strongly political, creeps into these programs to varying degrees. Most Latin American countries now have FISs, funding for which comes primarily from loans from the World Bank or the Inter-American Development Bank. Usually established for the explicit purpose of mitigating the negative short-term effects of structural adjustment on groups of poor people, most FISs in

21. The model for these programs is Bolivia's Fondo Social de Emergencia, which dates from 1986. Most FISs were established in the 1990s.

practice have actually addressed generalized poverty, most of which predated structural adjustment.

Despite the proliferation of FISs since 1990, most Latin American and Caribbean countries have adopted only modest measures to address poverty in the short run or to reduce it over the long run except through economic growth, now widely recognized as the best long-run solution. The importance of investment in human resources as a determinant of long-run growth (and income distribution) remains underappreciated by Latin American and Caribbean policymakers. Accordingly, the potential of current structural reforms for reducing inequalities over the long run would seem to be limited largely to the extent that price-liberalization measures eliminate subsidies whose benefits have gone mainly to middle- and upper-income groups and replace them with fewer but better-targeted subsidies. Major improvements in the quantity, quality, and efficiency of education are not generally evident.

Public support for stabilization and planned, rather than forced, adjustment seems to be increasing nonetheless. That is one way, at any rate, to interpret the reelections of Carlos Menem in Argentina and Alberto Fujimori in Peru, along with the continuation in Chile under democratic governments of policies initiated during the regime of General Augusto Pinochet. Chile's performance since 1982 also suggests that structural adjustment eventually pays off in terms of both growth and equity. Or does it? Some observers believe that Chile's recent social gains owe much to targeted programs initiated after the regime change. They may be right, and more research should address this issue. It may also be true that the East Asian countries have successfully achieved equitable growth because they began structural adjustment with much less income inequality than that existing in the typical Latin American and Caribbean country. In any event, unless the region soon registers more progress in both growth and equity, support for structural adjustment will likely diminish.