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Synthesis of Country Studies from Latin America

UNDERSTANDING REFORM IN LATIN AMERICA

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Resumen

Este artículo aporta un panorama general del proceso de reformas pro-mercado en ocho países de América Latina, basado en estudios de caso país llevados a cabo en el proyecto “Entendiendo las Reformas” del Global Development Network (GDN). Después de una breve presentación de las reformas en América Latina y en los ocho países del proyecto, el artículo toma algunos temas clave en la economía política de la reforma. Se revisan las condiciones iniciales; el papel jugado por tecnócratas y grupos de interés; la participación política; el peculiar atajo de “las reformas por sorpresa”; algunos temas tradicionales en la literatura de las reformas como el secuenciamiento, el rol de los shocks y del aprendizaje; el rol clave de las características idiosincráticas locales; los complejos procesos de retroalimentación entre las reformas pro-mercado y los procesos políticos; y el reciente vuelco contra las reformas en América Latina. El artículo termina con algunos comentarios sobre posibles lecciones a extraer de estas experiencias.

Abstract

This paper provides an overview of the pro-market reform process in eight Latin American countries, based on country studies undertaken within the Understanding Reform project of the Global Development Network. After a brief presentation of the reforms undertaken, the paper addresses some key themes on the political economy of reform. We review the initial conditions of reform; the role played by technocrats and stakeholders; political participation; the peculiar shortcut to reform represented by “policy switches” (or “neoliberalism by surprise”); as well as some traditional topics in the reform literature (sequencing, shocks, learning); the key role played by local idiosyncrasies; the complex feedbacks between pro-market reforms and the political process; and the recent backlash against reform in Latin America. The paper ends with some remarks on possible lessons from these experiences.

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1 Introduction

Most Latin American countries have undertaken sweeping "market-oriented" reforms over the last two decades. This paper provides an overview of the reform process in eight Latin American countries, based on country studies undertaken within the Understanding Reform project of the Global Development Network.[1] This project had some ambitious questions about the ability to undertake reform, the capacity to successfully implement reform, and the ability of the reforms to deliver the expected outcomes in different countries. We did find quite difficult to provide clear cut comparative answers to these questions from the information provided in the country studies. This was probably the case because the object of analysis is itself quite complex, because the (quite rich) country studies had somewhat different emphases, and because it is inherently difficult to answer any question with 8 data points, even if those data points were clearly measured. Nonetheless, it is an interesting exercise to take a look at these countries together, as there are several common factors to most Latin American reform experiences, as well as some interesting differences among the cases.

The paper proceeds as follows. Section 2 considers the common contextual factors of the reform in Latin America, and provides a brief description of the reforms, as well as an assessment of its outcomes, stressing the difficulty in inferring causal effects of reform. Section 3 provides a glimpse at the richness of the cases providing a sketch of some of the dynamics of the reform process in each of the 8 countries. Section 4 presents our discussion of several of the main themes on the political economy of reforms. Section 5 concludes.

2 The Reform Process in Latin America

2.1 The Latin American Context

Before describing the reform process itself, we provide some brief characterization of the Latin American context. The region followed a common import substituting industrialization (ISI) model in the post-war period. This development strategy reshaped the Latin American economies, societies and institutions. While traditional interest groups linked to the primary sectors reduced their political influence, new social groups with interests in the local industries gained social and political strength.

[1] The countries studied are Argentina, Brazil, Chile, México, Paraguay, Perú, Uruguay and Venezuela. The country studies on which this synthesis is based are listed in the References at the end.

After some time, this inward-oriented development strategy began to show clear signs of exhaustion. The performance of Latin American countries was not good enough compared with the South-East Asian countries that claimed to adopt an almost opposite economic model.[2] The political support of the ISI model was gradually eroding in Latin America when the debt crisis unleashed in 1982 and the failure of early policies implemented by some countries to deal with it – the Austral Plan in Argentina, the Cruzado Plan in Brazil, and the APRA plan in Perú – played an important role in reshaping policy views in the region. It was a turning point in consolidating the view about the failure and unsustainability of the previous development model.

These views were connected to a climate of ideas which had a focal point in the so-called "Washington Consensus", a list of policy prescriptions summarized by John Williamson circa 1990 capturing the conventional wisdom at institutions such as the U.S. Treasury Department, the World Bank, and the International Monetary Fund on policy reforms that would aid development in Latin America. Most of the Latin American countries also had local carriers of those ideas, oftentimes cosmopolitan US trained economists, linked across countries, especially within the region.[3]

Democratic rule was restored between the mid-eighties and the early nineties in the region –this is the case in all the country studies, with the exception of Mexico and Venezuela (in fact, there was a reversal in this last case). This means that, as in the case of transition countries in Europe, the region was struggling with both economic and political transformations simultaneously.

Latin America of course is not homogeneous, but there are some structural characteristics common to most countries in the region that had a bearing on the reform process. The region's competitive advantages are biased in favor of natural resources, and primary commodities explain a large share of exports: minerals and oil in Chile, Venezuela and Perú, agriculture in Argentina, Paraguay, and Uruguay; even in more industrialized Brazil and Mexico primary products are still relevant. This feature impinges on the region's political economy via the so-called natural resource "curse".

The distribution of income and assets in Latin America is highly unequal compared to other regions in the world. As the 2006 World Development Report of the World Bank suggests, income inequality of this magnitude is quite likely a signal of unequal opportunities (rather than of different choices) – World Bank (2005). Because of the structural lack of equity, many Latin Americans did not have the chance to take advantage of the opportunities open by reform; hence many opportunities at the individual level were lost. Besides, groups that were marginalized and segregated did not support

[2] In recent years, the "official" view that the East-Asian model actually rested almost exclusively on market forces and State retrenchment has been challenged (see Rodrik 2003 among others). Nevertheless, it is true that the "South-East-Asian model" was heavily advertised on these terms in Latin America in those years.

[3] As it will be noted later, the form of articulation of these individuals into the policymaking process varies from country to country.

reform and often opposed it actively, fearing that a more competitive environment would do them more harm than good.

The region was affected by common shocks that impinged on the reform path and outcomes (terms of trade, changes in the foreign exchange rate and in the market sentiment concerning the region that create contagion effects). Salient examples include the debt crisis, which was one of the factors starting the reform wave, the large capital inflows of the beginning of the nineties which facilitated the implementation of reforms, and the Russian shock in 1998. While the first two seem to have fostered reforms, the latter seems to have worked against the reforms, as the general public and politicians in many countries see the reforms less favorably due to that macroeconomic crisis.

In several of the countries, the so-called structural reforms came hand in hand with efforts at macroeconomic stabilization. There had been a long list of stabilization attempts before this period, but the macroeconomic stabilization programs that accompanied the structural reforms were usually deeper and lasted more than previous ones. The perception of greater deepness of these stabilization efforts was related to the simultaneous implementation of other components of the reform package.

Also, there have been important “contagion” effects across countries, that is, learning from the interpretation of the (successful and unsuccessful) experiences of other countries in the region.

Having referred to many common factors, it is also important to stress that Latin American countries are quite different in many dimensions. Country size is obviously one of the dimensions in which the region is not homogeneous; a dimension that became particularly relevant for the fate of the inward-oriented ISI model (think about the size of the domestic market in Brazil as compared for instance with Uruguay). Economic and social development show significant variation across countries as well.[4] The historical starting points in terms of social and economic structure, as well as in the details of past policies, were also different in different countries when pro-market reforms began. As stated, Latin America is the most unequal region in the world in terms of income and wealth distribution, but there is a significant heterogeneity within the region. Social indicators as literacy ratios, life expectancy and the like also show much variation. Even when most countries adopted a version of the ISI model in the postwar period, the progress they made in that direction varied considerably in terms, for instance, of the degree of industrialization they reached. This was partly dictated by the size of the domestic market and partly by policy options and political conditions (for instance Paraguay had a relatively open economy even before the pro-market reform era).

In spite of some common institutional heritage from the colonial era, political and institutional history also shows significant variation across countries in Latin America. Most countries in the region

[4] Just to give an example, GDP per capita (in PPP terms) in 2004 ranged from 12468 in Argentina to 1625 in Haiti.

experienced periods of dictatorship in the twentieth century, but while some spent most of the century under those conditions, others did it for relatively short periods. The quality of institutions and the incidence of corruption also varies (Kaufmann et al 2003). As authors of the UR country studies often stress, these different starting points and idiosyncratic characteristics influenced the fate of the pro-market reform.

2.2 What Reforms Were Undertaken and How Far They Have Gone

It is technically complicated to measure reform policies and outcomes, and the results of almost any measurement effort are bound to be controversial. Nevertheless, in order to get a general sense of what has happened in Latin America, we use one of the most comprehensive attempts at measuring reforms, by Eduardo Lora and collaborators at the Inter-American Development Bank. Lora (1997 and 2001) has built an index to measure reform advances; the index is composed by a set of sub-indexes which capture five reform areas throughout 19 Latin American countries for the 1985-1999 period (the areas covered are trade, tax, financial, privatizations and labor reform). Figure 1 shows the path of the Lora index of reform for our 8 Latin American cases in comparison to the regional average. It is evident that the average of the index for Latin American countries as a whole grows considerably throughout the period. Comparing across countries, we can see the persistent and always consistent march of Chile, the explosive trajectory followed by Argentina and Peru (see the big-bang behavior between 1990 and 1995 in both indexes), and the smoother path of the Mexican, Brazilian and Uruguayan cases throughout their series. [5]

<Insert Figure 1>

Lora also defines and computes the "margin of reform" as the difference between the maximum possible value of the index (which is 1) and the current value. The "margin of reform utilized" in a certain period is the ratio between the increase observed in the reform index in the period and the initial "margin of reform", i.e. the share of the initial "margin of reform" that has been "utilized" in the period. Figure 2 presents "the margin of reform utilized" in the five reform areas studied by Lora in 1989, 1995 and 1999, taking 1985 as the initial year. This plot allows seeing performances by area and their progressive advance combined. It is easy to observe that trade policy reform was the fastest and largest one. It was always on top of the motion to finally accumulate almost 76 percent of the original margin available. Financial liberalization was second: it progressed vastly, especially between 1995 and 1999, showing a final index of 0.70 while the 1985 mark had been 0.26. Tax reform and privatization conquered 22 and 26 percent of the original margin available (it is

[5] This statement is partly based on a longer series by Morley, Machado and Pettinato (1999) for the 1970-1995 period. That series shows that for most countries except Chile and Uruguay, most of the action occurs after 1985.

interesting to note that privatization is the only area in which the Lora index starts from 0 everywhere). Finally, labor reform was practically null in accordance with these indicators (actually, the labor reform index exhibited some reversals as it concludes in 1999 in virtually the same position where it started fifteen years earlier).

<Insert Figure 2>

2.3 The Impact of the Reforms

Identifying the impact of pro-market reform is not an easy task. Reform involves a series of policy and institutional changes taking place over a number of years. What outcomes can be ascribed to what policy changes is usually controversial. To deal with that difficulty, and to anticipate some information that we will use in our later discussion, we follow the strategy of summarizing what other analysts as well as the authors of the URP country studies have said on these issues. See Table 1 and Table 2.

<Insert Table 1>

<Insert Table 2>

2.3.1 Economic Outcomes

Everybody agrees that one of the main achievements of the reform era has been the substantial reduction of inflation in the region. This connects to the fact that, in many if not all of the countries, structural reforms have been intertwined with stabilization efforts. In most countries, fiscal consolidation and price stabilization were key components of pro-market reform. Argentina was probably the most celebrated case, where the convertibility plan became the cornerstone of an ambitious reform program (Acuña et al 2005), but other countries in the region also managed to stabilize while implementing structural reforms. A noticeable exception was Venezuela, where president Pérez failed to get the fiscal reform that the country badly needed to achieve macroeconomic stability (Monaldi et al 2004).

However, in recent years and despite the pro-market reforms, financial and exchange rate crisis caused large macroeconomic fluctuations in several countries in the region. Reforms implemented in the eighties and nineties could not insulate Latin-American countries from macroeconomic shocks. Furthermore, it has been argued that macroeconomic imbalances undermined the effectiveness of reform in other sectors. Several analysts argue, for example, that capital account liberalization can be harmful in the presence of macroeconomic imbalances or poor bank supervision (Arteta et al 2001; IMF 2001). Castelar Pinheiro et al (2004) argue that reform could not significantly foster investment in Brazil partly because of weak regulatory institutions, but also because of macroeconomic instability.

The stated main goals of pro-market reforms were to increase productivity and to foster economic growth (Lora, Panizza et al. 2003). Not long ago, most studies used to find that reforms had had positive and substantial effects on economic growth in Latin America (Easterly et al 1997; Fernández-Arias and Montiel 2001; Lora and Barrera 1997). Lora and Barrera (1997), for example, reported that economic reform raised annual GDP growth in the region by almost 2 percentage points. More recent assessments have been less favorable. In recent years, an increasing number of analysts agree on the fact that economic growth in the nineties in Latin America was "disappointing": greater than during the eighties (the "lost decade") but below the rates of the sixties and seventies and far below the rates of the East Asian countries. Recent research conducted in the IFIs conclude that the impact of reforms on growth is less than initially thought and probably temporary (Lora and Panizza, 2002; Loayza et al. 2005).[6]

The UR country studies do not report clear cut findings about the impact of reform on growth. If anything, they suggest that pro-market reform stimulated GDP growth, but only temporarily. Castelar Pinheiro et al (2004) observe that Brazil's economic growth was not particularly strong in the aftermath of the reform. Monaldi et al (2004) assert that the Pérez pro-market reform stimulated economic growth in Venezuela, but the effect was short-lived. Peru experienced high economic growth during most of the nineties, coinciding with the adoption of pro-market reforms, but the process was also temporary (Garibaldi and Molinet, 2004). The only exception seems to be Chile, where Chumacero et al (2005) report sustained growth in the aftermath of reforms.

Reform does not seem to have raised productivity as much as expected either. According to Lora, Panizza et al. (2003), total factor productivity made a small contribution to growth in the nineties in Latin America. Castelar Pinheiro et al (2004) report significant productivity gains in some privatized firms in Brazil, but they also mention that these gains were mostly temporary. Besides, privatization and trade liberalization do not seem to have spurred investment in Brazil. Galiani et al. (2003) report productivity gains in privatized firms in Argentina. These gains were largely associated to reductions in employment, but there is also evidence that privatizations did contribute to increasing investment in Argentina.

[6] Other analysts are even more critical. Rodrik (2003) has argued that comprehensive pro-market reform packages have not been necessary either to begin or to sustain economic growth. He argues that in several cases of economic success, particularly in Asia, the policy recommendations of the Washington consensus were not adopted. See also Ocampo (2005).

2.3.2 Social Outcomes

Lora (2003) reports the following findings on the impact of reform on the labor market in Latin America. (i) There are no systematic effects on the sectorial allocation of employment. (ii) No systematic effects on unemployment. (iii) The reform contributed to widening the gap between the wages of low and high skilled workers. (iv) The new exporting sectors have labor conditions that are at least as good as the traditional sectors, and in several cases, they are better. (v) Labor conditions in the privatized enterprises are worse than in the former state-owned enterprises.

There are different views on the impact of reform on poverty and income distribution. One view is that reforms reduce poverty because they foster growth without affecting income distribution (Gallup et al 1998; Dollar and Kraay 2000a and b; World Bank, 2001). But other analysts have a less positive view. Foster and Székely (2001) show that the income of the poor grows less than average income with economic reform. Other authors mention that trade liberalization may have widened the wage gap. There is also some evidence of a temporary rise in unemployment due to reform. Morley (2000) could not find robust econometric results about the impact of structural reforms on income distribution. He finds that different pro-market reforms had different impacts on inequality in Latin America. Tax reform was regressive and capital account liberalization was progressive. He found non-robust effects for trade, privatization and financial reform.

The UR country studies do not report consistent patterns across countries in the social outcomes of reform. Castelar Pinheiro et al. (2004) assert that reform in Brazil had little impact on inequality and poverty alleviation. It could have contributed to significantly reduce poverty had it been more successful in fostering investment and growth, for inequality remained mostly unchanged. According to them, reform in Brazil was too partial, incomplete and inconsistent to speed up economic growth significantly. Aguilera et al. (2004) emphasize the absence of attempts to modify the highly unequal distribution of resources, particularly land, in the pro-market reform agenda in Paraguay. Acuña et al. (2005) report a significant rise in inequality and poverty during the reform in Argentina, but that was to some extent a continuation of previous trends in the country. Monaldi et al (2004) report that in Venezuela "income distribution has not significantly worsened in the last two decades", but poverty reached the highest levels in Venezuelan history during the Perez's reformist period. Income distribution did not change much and poverty reduced in Uruguay during the reform (Forteza et al. 2004), but the 2002 crisis had a significant negative impact on these two indicators. On the positive side, Chile's stronger growth performance with a relatively unchanged size distribution of income lead to an important reduction in poverty.

2.3.3 Perceptions

Public opinion and political discourse have been turning against pro-market reform in Latin America in recent years, a trend that Lora et al. (2003) have baptized as "reform fatigue". According to Latinobarometer, the percentage of the population that thought that privatization was good dropped from 50 to 25 percent between 1998 and 2003, and the percentage that supported market economy dropped from 77 to 18 percent in the same period.

The attitude of citizens about reform varies across the region. Satisfaction with the market economy is low on average, and has decreased in recent years, but there are significant differences across countries. According to Latinobarometer, the percentage of the population that was either very or pretty satisfied with the working of the market economy in 2004 ranged from 36 percent in Chile to only 5 percent in Perú. The percentage of the population who agreed on that private enterprises are necessary for development ranged from 76 en Dominican Republic to 48 in Bolivia. Most of the population (from 59 to 98 percent) seems to be against privatizations.

2.3.4 Political outcomes of reform

The pro-market reform was obviously conditioned by the domestic political situation, but the reform impacted on domestic politics as well. Later in the paper we address in more detail some impacts of the reform process on the way of doing politics and on the policymaking process of some of the Latin American countries. In this section we focus on the effects that several reforms had on the relative strength of different interest groups. Privatization, trade liberalization and pension reform provide some interesting examples.

As expected, unions of the former SOE were weakened by privatization, but they were not the only ones. In the case of Argentina and Brazil, some domestic firms that traditionally benefited from negotiating with the State in "favorable terms" (through over pricing, for example) were also negatively affected by privatization (Acuña et al 2004; Castelar Pinheiro et al 2004). According to Acuña et al, however, in the case of Argentina these groups were compensated when they actively and successfully participated in the privatization process and got control over firms that made monopoly rents.

Politicians who used the SOE as political platforms or to extract rents were also threatened or negatively affected by privatization. Forteza et al (2005) report that Uruguayan politicians who made successful political carriers in SOE resisted privatization. A similar attitude was adopted by some members of the Chilean army who were ruling SOE during the military government (Chumacero et al, 2005). In the case of Mexico, Garibaldi and Molinet (2004) mention that "privatization and deregulation would add to the opposition from government agents disenfranchised from rents in the state's organizational domain".

In turn, some stakeholders took advantage of the opportunities represented by privatization, including some domestic economic groups, foreign firms and international banks. Castelar Pinheiro et al (2004) reports that in Brazil "Banks, stock exchanges, law and consulting firms providing services to BNDES (the National Bank for the Economic and Social Development) and interested buyers formed an influential group of stakeholders favoring privatization." Some international banks were very active in the privatization process, particularly in Brazil and Mexico. Chumacero et al (2005) report that in Chile several domestic economic groups organized investment companies to take advantage of the privatization and to specifically circumvent restrictions on the concentration of the privatized firms, particularly in the banking system. The lack of effective competition that this concentration of power represented was one of the weak points of several privatization processes in Latin America.

Trade liberalization weakened some domestic groups that had previously benefited from the ISI policies. Owners of the formerly protected firms and the unions created in these sectors count among the losers. In turn, exporters, importers and providers of foreign trade services are among the winners. Beyond these regularities that apply for most countries, there are some interesting peculiarities in some of the country cases. In Chile, many middle and large firms were expropriated during the socialist government that ruled the country between 1970 and 1973. The military government had just turned the firms back to their original owners, when the trade liberalization policy began in 1974. Chumacero et al (2005) argue that in normal circumstances entrepreneurs of the industrial sector would have opposed trade opening, but they did not do it in this case because of the devolution and privatization process that had just taken place.

The pension reform created new stakeholders: the private firms that handle the new pension funds, many of them owned by prominent international banks. Therefore, these international banks became involved in the pension policy in the region, an area that had previously been reserved for domestic players.

3 The Country Cases

As stated in the introduction, answering the questions formulated in the Understanding Reform project is a complex undertaking in general, and it is particularly difficult to reach any conclusive answers from a set of seven papers containing studies of eight countries. From our point of view, one of the messages of this project is the uniqueness of country cases. Reform processes are different experiences, embedded in peculiar political, economic, institutional and social dynamics in each country. In order to distill some of the flavor of these rich cases, in this section we provide a very succinct summary of country narratives from each case.[7] In the next section we attempt to draw somewhat general messages from these cases.

3.1 Argentina

Argentina returned to democracy in 1983 after a much interrupted democratic history. The country had been immersed in a not always consistent State-centered inward-looking development strategy since the 40s. By the 80s there were many inefficiencies, severe external and internal imbalances, and very high inflation. After some partial opening attempts during the military dictatorship, the first democratic government (Alfonsín) did progress in democratization, and some timid trade liberalization, but left with the macroeconomy in disarray. The entering Peronist government (Menem) surprised everybody with its market-oriented turn. It implemented a broad and speedy market liberalization program. From the very beginning it was tied to macroeconomic stabilization attempts, and since 1991 it became connected to the peculiar macroeconomic mechanism of "Convertibility". The overall political and economic dynamics of the reform process became intertwined with the Convertibility regime.

Menem and his entourage decided that the market oriented route was the risky bet to take in a context of great social and macroeconomic chaos. He conveyed several signals to convince skeptical domestic and international economic actors. He maneuvered the institutional and political resources at hand, oftentimes stretching institutions. The support of powerful provincial governors of small overrepresented provinces was key to the passage of reforms, and it was purchased through (federal fiscal) favors. Even though the labor movement was debilitated, some unions and especially union leaders were favored with some privileges. A similar strategy was followed with the business sectors. There were some natural winners in the financial and other sectors. Crucial conglomerates received a "piece of the cake" through privileges in the privatization business. Some import substituting sectors were net losers because their collective action capacity was weakened.

The economy had a strong performance in the first years of the reform. In 1995 Menem was reelected (after maneuvering to change the Constitution and after sailing through the Mexican crisis). The second term was less reformist, and the more negative aspects of the administration became more salient. In 1999 a new coalition was elected, on the promise of maintaining convertibility and some broad aspects of the reforms, while improving on the social front and in transparency. The new government was unable to steer through the difficult external and internal

[7] This summaries are quite selective, but based on statements by the authors of country studies except when explicitly noted. For brevity we avoid citations throughout. We invite the reader to consult the rich underlying studies for more detailed arguments.

situation – the Asian and Russian crises, the appreciation of the dollar, and the Brazilian devaluation put insurmountable pressure on the maintenance of Convertibility. The government left in disgrace in December of 2001, and the Convertibility regime fell. The governments coming afterwards had an anti-reform discourse which seems still prevalent in public opinion. There have been some reform reversals (re-statization of some utilities, export prohibitions, etc) by the time of this writing.

3.2 Brazil

Brazil returned to democracy in 1985, after more than two decades of uninterrupted military governments. The first democratic government unsuccessfully tried to stabilize the economy and made little progress with reform, but since 1990, when Collor de Mello arrived to the presidency, the successive democratic governments carried on a series of market-oriented reforms.

Authors of the country study argue that democratization facilitated the introduction of market-oriented reforms in Brazil. While the military stayed in government, the protective mantle of "national security" and "key-sectors protection" became a standard speech, always blocking a deeper integration into the world economy and, especially, impeding the privatization of large SOEs. This ideological view was present not just at the top of the military regime but also inside the mid-level military officers who were commonly appointed to prominent positions in economic ministries and state enterprises. In the nineties, under democratic rule, a new breed of internationally-minded top civil servants replaced these officers.

According to the country authors, reform in Brazil followed a "**pragmatic way**", meaning that it was gradual, piecemeal, and loosely coordinated. Fragmentation of the political system prevented any group from gaining dominance and forced a negotiated style, leading to gradualism. So, most policies took time, were negotiated, and had to go through multiple veto points. The informal institution of rather fluid ties among state elites and between them and business facilitated consensus building around reform policies, but they had to be negotiated. In this manner, the policy outcomes were unlikely to be extreme.

The actual social and economic outcomes have not been too spectacular, and some discontent against "the reforms" has breaded. Yet, the arrival to office in 2003 of a left-wing party, the PT, has not generated any reversal, suggesting that "pragmatism" is not likely to be displaced soon in Brazilian economic policy making.

3.3 Chile

With ups and downs, Chile followed a basically inward-looking-state-centered development strategy from 1930 to 1973. It was not very different from the experience of other Latin American countries, save probably for the socialist period between 1971 and 1973. This period ended up with a severe socio-economic and political crisis that paved the road for a military coup that inaugurated a dictatorship that would last until the late eighties. The military government pushed a far reaching pro-market reform agenda. This experience is usually regarded as a leading case of market-friendly reforms, not only for the adoption of a shock therapy, but also for doing it well before most other countries in the region.

Beginning in late 1973, several structural reforms were implemented, including the liberalization of most prices, interest rates and wages; drastic reductions in tariffs and the elimination of non-tariff barriers to trade; the strengthening of fiscal and monetary policies; the privatization of more than 500 firms; the reform of the pension program; and the adoption of new policies of competition and regulation. In the early eighties, Chile, like other developing countries, underwent a deep economic and financial crisis. There was some reversal of reforms during this period, but the military government resumed the liberalizing reforms soon after it. Chile returned to democracy in 1990. One of the most notable aspects of the Chilean process is that after the return to democracy in 1990, the center-left coalition that has governed the country since, did not revert the market reform process.

There were several peculiar factors leading the military dictatorship to follow the suggestions of a group of foreign-trained economists towards market liberalization (against the nationalistic tendencies of part of the military). Some possible sources of opposition (such as unions or left leaning parties) were silenced by the dictatorship. Business sectors were relatively grateful since firms were devolved to private owners after nationalization by the previous socialist government of Allende, so that they did not oppose trade liberalization.

The way the transition to democracy was instrumented in the late eighties was key for the consolidation of pro-market reforms in Chile. Consolidation was by no means granted by that time, for the parties that formed the winning coalition (named the *Concertación*) in the 1989 elections had opposed many of the reforms. Also, formerly repressed interest groups could take advantage of the new political environment to voice their demands, pushing the new government towards a less neutral and more lenient fiscal policy. According to Chumacero et al. (2005) several factors contributed to the consolidation of the pro-market reform in the transition period: (a) the good performance of the economy in 1985-1989; (b) the concurrent fall of socialist regimes in Europe; (c) the economic failure of democratic transition in Argentina (that contributed to convince several left-wing politicians of the risks of "heterodox" policies); (d) the intellectual renovation and internationalization of the circles around the Concertación, which lead to a "revaluation of continuity";[8] and (e) several institutional enclaves in the new constitution, increasing the veto power and political relevance of "the right", which forced democratic presidents to follow consensual strategies on economic matters.

Chile seems to be in a path of institutional and policy consolidation. The democratic governments have maintained the core of the economic reforms undertaken during the dictatorship, while steadily (albeit slowly, according to some views) advancing on the social and democratic front. These steps have taken place according to a style of policymaking that is much more consensual and institutionalized than that of other Latin American countries. (IADB, 2005).

3.4 Mexico[9]

Mexico followed inward looking policies since the great depression. The "*Desarrollo Estabilizador*" model delivered growth for many decades, but showed signs of exhaustion in the early seventies. Being Mexico an oil rich country, the oil shock allowed the Mexican governments to postpone reform until 1982. The populist policies adopted between 1970 and 1982 eventually contributed to the failure of the traditional model, including the build up of a large public debt in spite of favorable oil prices.

The reform process was gradual through three administrations from 1982 to 2000. It got momentum around the signing of NAFTA in 1993, which meant an acceleration of trade liberalization (cum preferential access to the US market). Privatization was important, as was foreign direct investment, although some areas are still restricted. The government used privatization proceeds to push a social agenda that facilitated popular acceptance of the reforms.

The reform was lead by technocrats within the dominant party PRI who had to convince PRI politicians that some democratic and economic liberalization was the path to maintaining power, while convincing the public at large of the benefits of the policies so that they kept voting for PRI in the now more open political environment.

[8] The think tank CIEPLAN played a key role in this respect.

[9] This brief summary of the Mexican case draws from Lehoucq et al (2005) as well as from the UR project Garibaldi and Molinet (2004).

Currency overvaluation and current account deficits lead to the "Tequila" crises in 1994. The ensuing period was one of debilitation of PRI machinery and some loss of reputation for the technocrats. After further political liberalization under President Zedillo, a new era of divided government started, Congress as well as regional powers gained more importance. All of this has lead to a strong deceleration and stalemate of reforms.

3.5 Paraguay

The Stroessner dictatorship (1954-1989) was a handbook example of a "**predatory state**", exercising power in the interests of a narrow group of actors in the military and Colorado Party. The rents behind that process became exhausted and this lead to some political opening. Market oriented reforms came along in this context, and politicians paid lip service to them as legitimating their "modernity". Some of the deep determinants did not change, and the predatory state was replaced by a "predatory party". Transition politics were more about "state capture" than about building new state capacity. That lack of technical capacities characterizing the Paraguayan bureaucracy also limits possible benefits of the reform process.

Regarding economic reform themselves, the change was not as pronounced as in other countries because Paraguay was always characterized by a comparatively low density of regulation and a rather open economy. Some pro-market reforms were made on fiscal, financial and trade fronts, as well as some minor privatizations.

Very important obstacles to growth, such as a large sector of loss making state enterprises, a large informal sector and poor institutional conditions of the bureaucracy and judiciary, have not been removed. Neither the Colorado Party, nor any private sector lobby, have pushed for privatization. Public appointments and promotion are essentially dependent upon political loyalty and personal contacts.

3.6 Perú

Perú used to have a centralized oligarchic system based on export led policies until the late 70s and 80s, when an ISI structure with stronger role for the State was introduced. This period ended with the loud crash of Alan Garcia's government in 1989, with GDP falling 16%, 4-digit inflation and no international reserves. At the same time, there was a growing terrorist offensive of Shining Path guerilla, which led to an increase in power for the military.

In this context, A. Fujimori, an outsider to the party system, reached the presidency in 1990. He confronted a complex lack of political and institutional support: no economic team, no Congress majority, and a weak party behind him. His energetic strategy was to rely on the military (partly for the war on Shining Path), to use many emergency decrees, and to obtain legislative delegation to advance key policies. All of this was buttressed by a political architecture of backstage dealings with traditional political parties.

The reform package started with stabilization measures and included shock-therapy reforms in several areas at the same time. The reform path was strengthened since 1992 when Fujimori staged a self-coup closing Congress and the Judiciary for one year. After that, the Constitution was modified and Fujimori reelected.

Reform was a strategy to enhance the survival chances of an outsider president, and was implemented to prove to the opposition and the public that the President could deliver governability in the midst of a major crisis. The Fujimori era ended up in scandal, and that has tarnished the image of the reform process. The current government has been ineffective. Current trends include the revival of popularity of Alan García (and even Fujimori!) and cast some doubts on the future of the reforms.

3.7 Uruguay

Uruguay has been gradually implementing pro-market reforms for several decades. There were several attempts at macroeconomic stabilization, but without a close tie to structural reforms. The triggers of reform have been idiosyncratic across areas. In general, the reform process has been very **gradual**, mostly due to the active participation of opposition groups, not out of a specific plan or strategy.

Gradualism in market reforms and political pluralism and inclusion are two faces of the same coin. Opponents of reform used referendums and plebiscites to slow down and limit the scope of the process. There has been progress in trade and financial liberalization, but very little advance in labor markets and almost no privatization. Public enterprises continue to operate key activities as electricity, telecommunications, oil, and water.

Influence (“learning”) from neighboring countries has been important. During the first half of the nineties, the examples of Chile and Argentina served the purposes of reformers in Uruguay. Events in Argentina in recent years have contributed to undermine the legitimacy of reforms in Uruguay. The resistance to market reforms has always been strong and the deep crisis Uruguay went through, as well as the collapse of Argentina after the IFIs insisted that was the model to follow, contributed to further discredit the pro-market reform agenda.

Some policies and institutions that badly need reform could not be changed sufficiently, leaving vulnerabilities in banking, the fiscal system, bankruptcy procedures, etc. Some achievements such as low inflation, a more open economy, and some improvement in state capabilities have been sustained. In 2005 a left-wing party that had systematically opposed reform came to power. It has so far shown a fairly market-friendly approach.

3.8 Venezuela

Venezuela had an oil-centered development model which seemed to work for many years, and that also sustained an oligopolistic and stable two-party system. That model started to crumble in the late seventies and eighties. In 1989, recently elected president C. A. Pérez adopted a comprehensive reform package, known as *"el Gran Viraje"* (the Great Turnaround), a clear episode of "neoliberalism by surprise." (Stokes, 2001).

Perez initiated this ambitious program with little support from the (then weakened) apparatus of traditional parties. Having witnessed the failure of populism with Alan García in Perú, and the success of market-friendly policies of socialist Felipe González in Spain, he trusted in a group of well-trained technocrats. The population showed immediate discontent, including street riots in Caracas (the *Caracazo*). Opposition was unorganized and this allowed Pérez and the technocrats to get through for a while.

But eventually, political backlash triumphed, the reforms failed, and Pérez did not finish his term. He was never able to convince the public, perhaps because unlike Argentineans before Menem or Peruvians before Fujimori, Venezuelans did not observe a full-blown crisis to justify these policies.

The fact of being an "oil economy" underlies the whole story. Oil wealth enters several ways: 1) influencing political ideology by shaping a historically successful rentist program; 2) shaping cultural myth of a rich country that only has to redistribute oil rents to develop; 3) inducing a clientelistic and corrupt state; 4) allowing to avoid full blown hyperinflationary crisis; 5) creating economic distortions; 6) making fiscal reform harder.

4 Themes on the Political Economy of Reform

4.1 The Initiation of the Reforms

The crisis of the ISI model in the sixties and seventies left Latin American leaders searching for new paradigms. In this context, the pro-market reform agenda began to gain strength, initially pushed by groups of professional economists trained in the US, and reinforced later in the eighties and nineties by the IFIs. The experience of Thatcher in the UK and the fall of communism also contributed to create an environment favorable to pro-market reform. In some countries, these new ideas got through to the ruling army forces. Chile was the leading case, after a short socialist experience that ended with a military coup. To a lesser extent, the military ruling Uruguay in those years began to follow a similar path.

Other countries only began the reform process in the early nineties, after suffering severe macroeconomic instability in the eighties. By that time, Chile had already become an example of a successful reformer that many wanted to reproduce. The debt crisis that blew up in the early eighties gave place to a decade characterized by severe macroeconomic instability in most countries in the region. There were several attempts at heterodox macroeconomic stabilization that failed completely. Argentina, Brazil and Perú are probably the most distinctive cases. The pro-market structural reforms were out of the agenda in those years in most Latin American countries. Even in Chile, the debt crisis caused a partial and temporary reversion of the pro-market reform. It was only after these policies ended up in hyperinflation that the idea of implementing more orthodox stabilization programs bundled with structural pro-market reforms made its way through in the region in the early nineties.

In the 1980s and 1990s, several democratic political leaders who gained elections proposing left-wing platforms ended up adopting the market-friendly package -- the leading examples are Menem in Argentina, Fujimori in Perú and Carlos Andrés Pérez in Venezuela. Some of these presidents were concerned by little more than their political survival in the midst of impending or ongoing macroeconomic crises, and were pretty much open to "anything" that might deliver some short-term economic results that could lead to favorable political results for them. They ended up convinced that some variant of the market-friendly package was the most sensible option they had. Mexico in the eighties also shows a fast change in the paradigms that were dominant in the formerly developmentalist PRI. (In that case, the change was announced before elections.) The speech of the Paraguayan Colorado Party also showed a considerable change in this period, but according to Aguilera et al (2004), that change was more rhetoric than anything else. Uruguayan traditional political parties experienced a much longer and nuanced shift from developmentalism to economic liberalism.

Table 3 provides a succinct and partial summary of some of the main reform triggers in each of the 8 countries. The table combines information provided in the country studies with our own judgment from looking at comparative indicators.

<Insert Table 3>

4.2 Technocrats

Some country studies in the UR project emphasize the role played by teams of local "technocrats" (Chile, México, Perú and, to a lesser extent, Venezuela). Stokes (2001) also provides some interesting accounts of the role played by advisors in some policy switches (Miguel Rodríguez and Moisés Naím in Venezuela, Hernando De Soto in Perú, the Bunge staff and the Cavallo team in Argentina).[10] Other country studies do not stress this point, probably implying that "technocrats" played a less important role in those cases. Castelar Pinheiro et al (2004) say that: "Unlike many countries in Latin America, market reforms in Brazil were not associated primarily with any single president (as for example with Menem or Fujimori) and party coalition in democratic contexts, *or with the rise of a new dominant technocracy* in the executive branch in authoritarian settings (Chile and the 'Chicago boys' or the neoliberal technocracy in Mexico in the 1980s and 1990s)." (Emphasis added). In Uruguay, like in Brazil, there are no clear signs of a rising technocracy during the reform process; although it is true that some politicians complained about the lack of political sensitivity of the "contadores" (meaning the accountants and economists that represented the technical face of the Uruguayan governments). These politicians would probably claim that "technocrats" played a key role in the case of Uruguay, as well. Yet, Uruguayan governments did not count with powerful teams of "technocrats" in the fashion of the "Chicago boys" in Chile, the IESA people in Venezuela, or the group that accompanied Salinas in México. This is not to say that the governments of Brazil or Uruguay lacked well trained professionals. We rather mean that we do not identify in Brazil or Uruguay a group of professionals actively lobbying for their "own" pro-market reform project, at least not in so prominent government positions as it could be seen in other Latin American countries in the same period. The UR-study on Paraguay (Aguilera et al 2004)

[10] The tales in Stokes suggest that the story of the Menem's switch is slightly different from the other two in this respect. It seems as if Menem himself had a more clear idea of what he wanted in terms of economic policy than Fujimori or Pérez did. Nevertheless, it seems pretty clear that a group of economists trained in US universities played a key role in Menem's reform, much alike in the other cases mentioned above.

emphasizes the lack of technical expertise of the bureaucracy and the government teams, implying that no technocracy could be identified in this case.

The involvement of the technocrats into the political process is also different across countries, a factor that is important for the continuity and coherence of initiatives. That imbrication has been deeper in the Mexican case, where they emerged from within the PRI structure and continued to some extent even into the Fox administration. In Argentina the interaction looks more like political leaders picking teams of technocrats "from the shelf" of private think tanks, and replacing whole teams as things don't go well, or political winds change. This has implications for the continuity and quality of policies in general and of "the reforms" in particular. (Spiller and Tommasi, forthcoming, and IADB 2005). This relates to the next point.

4.3 Implementation

Recent literature on reform emphasizes the key role of appropriate implementation and enforcement capacity to determine the outcome of reform (Stein and Tommasi 2005; Rius and van de Walle, 2004; Fanelli and Popov, 2003). It is considered that while the best designed policy packages may generate bad outcomes if implementation fails, policies that are not first-best in terms of design may still render acceptable results if they are well implemented (IADB, 2005).

The quality of public policies in terms of enforcement and implementation varies considerably across countries in the region. Stein and Tommasi (2005) classified the Latin American countries in several key dimensions of their economic policies, one of them being the capacity to enforce and effectively implement the policies. Of the countries considered in this paper, Chile appears as the only one with quite high enforcement and implementation capacity; Brazil, Mexico and Uruguay have intermediate capabilities, while Peru, Venezuela, Argentina, and Paraguay appear with lower implementation quality.

The enforcement and implementation capacities are in turn related to the quality and independence of the bureaucracy, the quality and independence of the judiciary, and the capabilities of the Congress. Stein and Tommasi (2005) show that their index of enforcement and implementation capacity is positively correlated to indexes of congress capability, judicial independence and civil service development across Latin American countries. An independent and highly qualified judicial system is probably the most obvious enforcer of the laws. Delegating the implementation of policies to a professional and independent bureaucracy is also a good enforcement device.

Insufficient coordination between different branches of the government may lead to policy designs that do not take sufficiently into account the difficulties involved in implementation. For example, the Congress may pass a bill that is hardly implementable with the existing human and technical resources in the local civil service. These failures to coordinate policies contribute to the existence of a gap between *de jure* and *de facto* policies, opening the opportunity for discretion.

Some interest groups may find their chance to block reform during the implementation phase, and this can contribute to the gap between de jure and de facto policies. According to Rius and van de Walle (2003) and references there, the decision making process tends to be non-participatory in low-income countries and thus special interests find their opportunity to interfere only during the implementation phase. This may well have been the case of several experiences in Latin America, particularly when politicians that won the elections announcing an interventionist policy adopted the pro-market agenda.

The UR country case studies shed some light on the role of the implementation and the enforcement capacities of Latin American governments for the fate of reform. Chumacero et al (2005) claim that the Chilean military government that initially pushed the pro-market reform replaced the existing bureaucracy with a strong technocracy that contributed to improve the implementation and enforcement capacities of the State. To some extent, this was also the case of Mexico in the eighties and nineties, when new technocrats occupied key positions previously hold by members of the PRI political machine. Brazil followed a different route in that reformers did not replace the existing bureaucracy (Castelar Pinheiro et al 2004). Nevertheless, Brazil already had a relatively good bureaucracy before the pro-market reform era. This allowed the government to delegate the implementation of trade liberalization and privatization to autonomous agencies, which according to Castelar Pinheiro et al. was key for the advance of these reforms. This was not the case of Paraguay, which lacked technical capacity before, during and after the period of reform. According to Aguilera et al (2004) lack of technical capacity was a binding constraint for the effective implementation of reforms in Paraguay.

Fujimori in Peru and Menem in Argentina were among the most enthusiastic reformers in Latin America and showed a surprising capacity to “implement" sweeping reforms in short periods. But they did not strengthen institutional capacity; quite the opposite. They took advantage of informal networks as shortcuts to reform, often overlooking the professional bureaucracy, the Judiciary and Congress. Fujimori was the one who went furthest, closing the Congress, the Judiciary and the Constitutional Court in 1992. Menem did not go that far, but he actively maneuvered to reduce the independence of the Supreme Court, and made use of instruments of dubious constitutionality (Acuña et al, 2005).

4.4 Stakeholders

The initiation of reforms seems to have come mainly from the top of political leadership, with varying degrees of technocratic and foreign influence. This section looks into the "response" of key stakeholders.

The early literature on the political economy of reform devoted substantial effort to understand why entrenched economic interests didn't oppose market-oriented reforms. That very question reflected a relatively low engagement of traditional "interests". A somewhat surprising feeling that one gets from the country papers, is that "distributional coalitions" have been far less important than expected.[11] That is consistent with some recent literature, notably Schneider (2004). As Schneider (2004, p459) argues, "the absence of anti-reform coalition in the case of trade liberalization is especially significant because trade reform affected the allocation of many more resources and the interests of many more economic agents than did the other more targeted market reforms such as privatization or the deregulation of particular sectors." Some of the UR country studies mention that some entrenched interests created during the ISI opposed reform in some specific episodes (Castelar Pinheiro et al for Brazil, Chumacero et al for Chile), but the general view is that they did not play as significant a role as it might have been expected.

There are several non-exclusive explanations for that observation. First of all, the interpretation itself may be somewhat biased by the fact that we are looking at a set of "reforming" countries as opposed to a random sample of countries in the world. The least reformist country in our sample is Venezuela, which nonetheless doubled its Lora Reform Index throughout the period. Another case of less than average reform was Uruguay. Yet, it is our sense that whatever degree of reform was achieved in Uruguay, was achieved in a way that makes it relatively stable consensual and, in some sense, successful.[12]

One possible explanation for the fact that distributional coalitions have been less important than expected is that macroeconomic crisis and the disruptive effects of inflation weakened these groups, opening a window of opportunity for reform. From the country studies of Perú, Argentina, Venezuela, and Mexico it follows that macro disequilibria were key to disarticulating the strategies of the old ISI interest groups to resist reform. In several cases the balance of payments situation was untenable.

Another important reason advanced in some recent literature is that the interests of firms and of economic groups are much more multifaceted, dynamic, ambiguous and variable than expected in

[11] Moisés Naim (1993) referred to these surprisingly unimportant actors as "paper tigers."

[12] We would have a hard time classifying Uruguay as a "failure" to be explained in this regional comparative perspective.

some interest-based accounts of the political economy of policy making (Schneider 2004). In some of the countries (notably Argentina) business interests were co-opted into the reform agenda by clever maneuvering and, in some cases, compensation.

Even though labor market reform has not “progressed according to the plan” in most countries, neither the country papers nor the specialized literature on unions (Murillo 2001) give “the labor movement” much weight in their explanations of the broad aspects of the reform process. Here also there have been some accommodation, cooptation and transactions. Menem in Argentina provides one example of an active policy oriented to divide and co-opt unions, skillfully combining “sticks and carrots” (Acuña et al.). The case of Mexico is also interesting because the ruling party, the PRI, like the Peronist party in Argentina, had traditionally been very close to the trade union movement. However, at the beginning of his term, Salinas de Gortari sent a clear message that the times were changing proceeding against one of the most powerful union leaders, the head of the PEMEX union, accusing him of corruption and criminal activities (Garibaldi and Molinet, 2004). In Venezuela, Carlos Andrés Pérez also belonged to a political party with close ties with the labor movement. But, according to Monaldi et al, by the time Pérez came to office and announced a pro-market reform program, the legitimacy and political strength of union leaders had already been considerably eroded. In other countries, the labor movement was more independent from the State and from the parties that ended up being reformist. In Brazil and Chile, trade unions would not favor pro-market reform, but they were forbidden in Chile when the reform began and relatively weak in Brazil (Castelar Pinheiro et al). The trade union movement in Uruguay has traditionally been strong and independent. Even though trade unionism weakened in the nineties, particularly in the private sector, the unions of the state-owned enterprises played a significant role in getting support for several referenda and plebiscites to vote down some of the reform norms (Forteza et al).

From the country cases we were asked to consider, one gets the sense (consistent with the view of Schneider 2004), that reform (and even reversals) is (are) engineered more at the top of the political game, in interactions with partisan considerations, public opinion, and compensation or bribing of key political actors (such as governors in Argentina) which are not always tied to any particularly relevant socioeconomic interest.

4.5 Inclusiveness of the Political Process behind the Reforms

Schneider (2004) and others argue that countries that reformed by decree without much participation often managed to quickly pass reform packages, but at the expense of greater uncertainty about the ultimate fate of the reform. If reformers have to pass through several veto gates, the argument goes, the policy becomes more predictable and the likelihood of reversal is reduced. Venezuela and Brazil provide two contrasting cases. In Venezuela, few days after taking office, President Carlos Andrés Pérez surprised with a reform that was neither announced during the campaign nor negotiated with the opposition, but it took no longer to reverse it almost completely (Monaldi et al, 2004). In Brazil, President Fernando Henrique Cardoso negotiated the pro-market reform along several years, and there was no reversal, even after the opposition took office. Argentina with Menem and Perú with Fujimori provide two other examples of pro-market reform implemented through political exclusion. Even if the effective occurrence of significant reform reversion is controversial in Perú, the change in the orientation of economic policy in recent years is obvious. Uruguay is another case in which reform was very gradual and partial, mostly due to the effective inclusion of opposition parties and social groups in the negotiation of reform. This participation slowed down reform, but it can be argued that it also contributed to render the economic policy more predictable (Forteza et al 2004).

Political participation might not only contribute to reform because it reduces resistance, but also because it promotes a more open society in which special interests find themselves more constrained. Paraguay could be a good (negative) example of this. Aguilera et al (2004) argue that political participation has been very limited in Paraguay during the reform period, and that this lack of participation was functional to the “predatory state” that in the end blocked the pro-market reform process and any serious development project. An active civil society could contribute to the economic and social development of the country, undermining the “predatory state”.

Referendums were not common in Latin America in the pro-market reform era, with the exception of Uruguay. In this case, the opposition made intensive use of referendum and plebiscites to fight reform. Forteza et al (2004) argue that these instruments of direct democracy allowed opponents to effectively slow down or definitely block reform, but without threatening democratic institutions. Furthermore, they argue that referendums contributed to the consolidation of democracy, because they gave the opposition effective weapons to resist reform within the rules of the system.

Chile is a case in which the bulk of the reform process took place under the Pinochet dictatorship. Yet, the decision of the successive incoming democratic governments of sustaining the main aspects of the market-oriented reforms, together with the consensual and institutionalized policymaking style with which modifications and adjustments have proceeded, has tended to generate an increasingly virtuous circle between reforms, democratic participation, and transparency.

4.6 Neoliberalism by Surprise

Some political leaders in Latin America decided to take a shortcut to reform. Aware that public opinion was not favorable to pro-market reform, they campaigned for left-wing or even populist electoral platforms to get the votes, just to do the opposite when they took office. Among the best known cases are those of Fujimori in Perú, Menem in Argentina and Pérez in Venezuela, but Stokes (2001) counted twelve episodes of "policy switches" between 1982 and 1995.

Public opinion in Latin America has been pretty volatile. The uncertainty people have about the mapping of policies onto outcomes seems to be a key determinant of the volatility of public opinion. Voters who are uncertain about policy outcomes must be more willing to change their opinion about a specific policy when they see unexpected results than more ideological voters who, right or wrong, have stronger opinions. But the uncertainty of voters about policy outcomes may also contribute to the volatility of public opinion when "opportunistic" politicians decide to surprise voters announcing a policy and then switching to a completely different one when they are in office.

In the policy switches, there is a gap between policies desired by public opinion as expressed in elections and policies implemented by elected governments. Hence, when reform took place through policy switches there was an abnormally large distance between desired and implemented policies. Then, when the reform was successful (at least initially so, as in Fujimori or Menem), public opinion changed fast. *Neoliberalism by surprise may have induced high volatility of public opinion.* Policy switchers expected to change voters' minds about pro-market reforms not by convincing them before elections but by implementing the reform by surprise and showing them the good outcomes. They made a big bet expecting a significant change in people's minds. Politicians would not risk a policy switch if they thought that public opinion would not change even if the performance after the reform was very good. Hence some sort of "propensity" of public opinion to change seems necessary for policy switches to take place: there must be a sizeable uncertainty of voters about the mapping of policies onto outcomes for policy switchers to play this game. Otherwise, voters would not change their view about pro-market reform, ascribing good performance to good luck, and the policy switcher would not find the policy switch appealing.[13] *Neoliberalism by surprise would not*

[13] Stokes (2001, pp 61-63) provides a sketchy model with these features, based on Harrington (1993). See also Tommasi and Velasco (1996) and Cukierman and Tommasi (1998a and 1998b).

take place if politicians did not foresee a high potential for significant switches in public opinion, which in turn requires a significant uncertainty of voters about the mapping of policies onto outcomes.

The three leading examples of neoliberalism by surprise eventually led to a failure of some sort. In Venezuela, Pérez could not complete his program and the reform was later reversed. Menem in Argentina and Fujimori in Perú enjoyed some initial success, but this was only temporary. Their governments finished with serious accusations of corruption, and public opinion turned against these presidents and against the reforms in both countries. These results suggest that neoliberalism by surprise is a risky shortcut to reform.

It is important to notice that these "surprises" do not occur at random, but are more likely in countries which have some problems in their polity that prevent a more rational and informed construction of economic policy agendas. As it will be emphasized several times in the paper, countries with weaker State capabilities, and/or with less consensual policymaking processes are those that tend to implement policy in "funny" and oftentimes myopic ways. Notice that those environments often are also those that tend to be associated to corruption. This was at least the case of the three above mentioned leading examples of these political experiments and there are symptoms indicating that corruption contributed to the discredit of the pro-market agenda in these countries.[14]

4.7 Speed, Sequencing, Shocks and Learning

A large part of the literature on economic reforms and on the political economy of reforms has been concerned with the issues of the sequencing and speed of introduction of market oriented reforms (see for instance Tommasi and Velasco, 1996, Liew et al, 2005). From the 8 countries analyzed for this paper, we do not obtain a totally clear picture regarding sequencing issues. The main reading

[14] However, neither all policy switches were associated to particularly high levels of corruption, nor were all pre-announced pro-market experiences free from it. The Venezuelan case is particularly telling in this respect. Stokes (2001, p13) identifies two policy switches in Venezuela, following the consecutive elections of 1988 and 1993. According to Monaldi et al (2005) these policy surprises had completely different impact on public opinion due to the different view people had about the honesty of the president. While Pérez who won the 1988 elections was regarded as corrupt, Caldera who won the 1993 elections was regarded as honest. Riots followed Pérez announcement of an orthodox policy package and calm was the response to Caldera's adjustment policy. The case of Collor in Brazil is an example of a reformist politician who did not surprise, but was accused of serious corruption and was impeached. In this case, corruption of a reformist politician did not apparently discredit the pro-market agenda so much, since few years later President Cardoso managed to push this agenda further again.

that we make of the speed issue is that the countries that went fastest, in general also in a surprising manner, seem to have the least consolidated reform processes. Countries that go more slowly (such as Brazil or Uruguay) seem to go more steadily. Those that “overshoot” via neoliberalism by surprise (Argentina, Perú) seem to fare worst in the medium to long term. But then, there is an obvious endogeneity problem, in that countries that are “forced” by the political equilibrium to act in such a spasmodic manner are themselves those with weaker state capabilities in the first place.[15]

A related issue is that of the “bundling” of structural reforms with macroeconomic stabilization in general, and with peculiar stabilization attempts in particular. As discussed later, in such cases, the fate of reforms in terms of popular acceptance and political viability becomes too tied to later macroeconomic events, even to events to some extent beyond the control of the domestic polity.

Particular sequences of events have shaped perceptions and political strategies about the reforms. There have been peculiar “learning” dynamics within and across country experiences. Many countries in the region have been influenced at some point by the successes of the reform experience in Chile. In turn, within Chile, the relatively good economic situation at the transition to democracy facilitated the decision in favor of reform continuity. (The story might have been different, had the transition taken place around the 1982-83 banking crisis). Also, the left-leaning new democratic government in Chile “learned” from the economic failures of the first new democratic government in Argentina to steer away from “heterodox” economic policies. Uruguayan reformers were boosted by the relative success of both Argentina and Chile during the early 1990s. After the Argentine crisis of 2001-2002, Argentine moved from the “poster child” of the Washington consensus to a “basket case” (Pastor and Wise, 2001), and was used as the case that demonstrated how wrong neoliberal policy recipes were. These experiences reflect the fragility and contingency (on macroeconomic events and political and economic processes) of the opinions of political leaders and the public. (Even greater fragility and volatility than that of professional opinion trends, themselves fairly flimsy and subject to fashions and fads.)

[15] See Stein and Tommasi (2005) and IADB (2005) for a comparative study of State capabilities across Latin American countries and our remarks in Section 5. Countries with better state capabilities seem to be those that take a more “nuanced” approach to reform, and are better able to adjust the “Washington package” to local context.

4.8 *Local Idiosyncrasies Conditioning the Reform Package and the Outcomes*

There seems to be a growing consensus that reform programs must be adapted to local characteristics to be successful. Beyond the general lines of a more open economy and market-friendly approach, reformers had to recognize that taking into account the peculiarities of each country is key for the fate of reform. These local characteristics refer not only to the "hard" economic features that distinguish different national economies, but also to local politics, culture, history and people's opinions about the state and the market. These idiosyncrasies condition not only the outcome to be expected from a given policy package, but also what specific ingredients the reform package will have in each case. By their very nature, it is difficult to identify regularities on what are the local characteristics that matter the most or how they impinge on the reform process, but several of the UR country-case studies illustrate some specific cases.

The studies on Brazil and Uruguay emphasize that in these countries many domestic actors with different interest and views had effective capacity to influence reform. Apparently more than other governments in the region, the Brazilian and Uruguayan governments had to negotiate extensively the specific contents of reform in each area, and hence the process departed markedly from the WC blueprint in both cases. Castelar Pinheiro et al (2004) emphasize the Brazilian "pragmatism" and "piecemeal approach" to reform as a response to the many contradicting influences on the policy-making process in the country. In their view, while being pragmatic Brazilian policy makers were effective in exploiting the opportunities for reform in specific areas, but at the cost of some erosion of the efficacy of the reform process. Forteza et al (2004) prefer to talk about "gradualism" to refer to the Uruguayan reform process (in line with Lora 1997). More important than the label is that they specifically assert that gradualism in this case was not a strategy devised by a pragmatic leader negotiating with powerful special interest groups, but the resultant of the policy making process in the context of a very active pluralist democracy. Without denying that the pace of reform in Uruguay was slowed down by continuous negotiations, Forteza et al emphasize that this way of doing things was an effective way of solving conflicts without undermining the legitimacy of the political system.

This is not to say that the Brazilian and Uruguayan reform processes were alike, though. What particular interests were more active and how they made their way through in these two cases were completely different. While in Brazil reformers had to deal with some powerful groups of entrepreneurs, in Uruguay the most active organized players were unions (mainly of the SOE) and organizations of pensioners. Brazilian entrepreneurs lobbied the government exerting direct pressure based on their economic power. Uruguayan civil society organizations took advantage of their capacity to mobilize considerable number of militants to organize referendums and plebiscites to vote down several pro-market government bills.

Aguilera et al. (2004) mention that politicians in Paraguay have also been pragmatic and even opportunistic. But pragmatism has not been sufficient in this case to foster reform. According to Aguilera et al., weak institutions and the “predatory state” impeded the progress of the reform in Paraguay. In fact, there was more reform rhetoric than actual implementation in this case.

More akin to the orthodox recipe were the reform experiences of Menem in Argentina, Fujimori in Perú, Pérez in Venezuela and Salinas de Gortari in Mexico. And yet, local characteristics of the political system, the society and culture played a key role in these cases too. In those cases the idiosyncrasies showed up more on implementation, and on the effects of reforms and their evolution over time, than on the “titles” of the policies adopted (Tommasi, 2004).

Argentina and México are two distinctive cases in which the same traditional political machines that had been used to push the interventionist-inward-oriented model were later used to pursue the pro-market reform agenda. Menem in Argentina managed to put some very disparate actors together - including the traditional clientelistic Peronist networks - to push reform (Acuña et al 2005). Salinas in Mexico managed to reconcile the traditional PRI (Institutional Revolutionary Party), which had no long before pursued populist policies, with the new pro-market agenda. This “formula” was temporarily successful in these two cases, but failed almost immediately in the case of Venezuela. President Pérez belonged to one of the traditional political parties of Venezuela, a party that had built up a patronage network based on the extensive oil revenues of the country. In his second presidency beginning in 1989 he tried to switch policies towards an orthodox WC type of agenda, but he could not even complete his term in office. One of the reasons for this failure was the lack of support from his own political party.

The case of Fujimori in Perú is different in that he did not have a traditional political machine. On the contrary, he was a newcomer into politics and campaigned emphasizing precisely that, i.e. that he was not “contaminated” with the corruption of traditional politicians. Nevertheless, Garibaldi and Molinet (2004) argue that Fujimori in Perú as well as the PRI in México used “informal networks” to push the policy changes. Fujimori seems to have had an unusually high capacity to build these informal networks in a very short period.

Among the “hard” economic features that distinguish different national economies, there is one that deserves special consideration here, i.e. whether the country is rich in natural resources. The process of development in general and reform in particular have often proved to be more difficult in countries that are rich in natural resources than in other countries, for natural resources tend to promote rent-seeking activities that undermine the development of institutions. Two of the eight Latin American case studies of the UR project are typical examples of this “natural resources curse”, México and Venezuela, both rich in oil. In these two countries oil revenues allowed populist politicians to postpone reform in several periods of their recent history. Also, Monaldi et al (2004) argue that, because of oil wealth, the Venezuelans were not aware of the need for structural reform when President Pérez began in 1989 his second term with an unexpected orthodox reform program. The example of Chile shows that countries can scape from the “natural resources curse”. Chile is rich in copper and yet rent seeking seems to be pretty small in Chile compared to other countries in the region.

Some local idiosyncrasies of the reform process were also dictated by recent macroeconomic history. In no country as in Argentina the macroeconomic stabilization program and the structural reform were so tightly linked. After years of inflation running out of control, the convertibility plan adopted as a shock therapy to defeat inflation became the cornerstone and the landmark of the whole reform program in Argentina in the nineties, and the recent backlash against reform is partly consequence of the deep crisis associated to the traumatic exit from Convertibility.

4.9 Feedbacks Between the Reforms and the Countries’ Political Processes

Market-oriented reforms, like any other policy or institutional change occurred in the context of each country’s preexisting political and policymaking process. According to some authors (Acuña and Tommasi, 2000, Tommasi, 2004) market-oriented reforms were medium-level institutional reforms and not changes in “deep institutions”, and the workings of those deep institutions still heavily condition the performance of economies and societies. Yet, there could be potentially important interactive effects, in which market-oriented measures could lead to changes in fundamental political games.[16] We have already mentioned the fact that the success of market oriented reforms in Chile and some details of the transition to democracy might have created some sort of virtuous connection between political and economic dynamics. A theme in the literature is whether market reforms and fiscal retrenchment reduce the scope of clientelism, and hence transform fundamental political games. The country studies seem to give mixed answers to this question.

[16] This section complements the discussion of section 2.3.4 on the “political outcomes of reform”. That section focused on the way in which the reform policies weakened, strengthened, or even created, different socioeconomic actors. In this section we focus on the electoral and intergubernmental arenas.

Some country studies (México, Uruguay, Venezuela[17]) mention the possibility that the reform reduced the scope for clientelism and patronage, which were typical devices used by the political parties to get support. The paradox is that the same parties that implemented or at least attempted the reform had extensively used clientelistic networks in the past to build their political power. While pushing reform, these parties might have eroded their own basis of political support.

In Argentina, Acuña et al (2005) emphasize the ability of Menem to manage the clientelistic political machineries of Peronism to advance reform. In their view, the pro-market reform does not seem to have significantly eroded clientelism in Argentina, and this might be one of the main flaws of Argentine reform. Additionally, the strengthening of clientelistic subnational machineries, alongside the weakening of some traditional actors such as unions, has reinforced the subnational drag to national policymaking which is one of the key deficiencies of Argentine policymaking according to Spiller and Tommasi (2003 and forthcoming).

A common issue behind these different experiences is the tension between pro-market reform and traditional forms of policymaking in Latin America. Pro-market reform may reduce the scope for clientelism and patronage (perhaps not the case in Argentina), potentially raising resistance among traditional parties. The paradox is that many of the parties that were ideologically closer to the pro-market reform agenda were also the ones with stronger clientelistic networks. They could not openly resist reform, but embraced them with less enthusiasm than what they could have done if reforms had not represented a threat to their political machines (Paraguay could be a leading case, with its extended reform rhetoric and little actual implementation). The other side of this paradox is that some political parties that opposed reform on ideological grounds benefited politically from the erosion of the well established political machines of the parties that implemented or attempted reform – the UR studies for México, Uruguay and Venezuela mention this effect.

[17] Monaldi et al 2004: "…in 1989 Pérez decided, against the polity and the patronage network built around it (most importantly perhaps, against his own party, see below), to embark on a radical solution to Venezuela's economic problems. Doing so, he unveiled the long-hidden ills of the Venezuelan economy, thereby destroying the popular support for the two-party system and for his party in particular."

4.10 The Backlash Against Market-Oriented Reforms in Public Opinion and Political Discourse

Market oriented reforms are far less popular today than they were a decade ago. In very few recent Latin American elections are political candidates explicitly pushing a market-oriented agenda.[18] This phenomenon, dubbed by some observers as "reform fatigue" (Lora and Panizza, 2003), is addressed in several of the country studies.

As stated earlier in this paper, evaluating the effects of "reforms" is a very difficult task even for professional analysts. It is certainly also very difficult for the general public. Current perceptions probably combine some genuine disappointments, perceptual biases, and political gaming.

As described in section 2.3 economic and social outcomes "after the reforms" have been mixed. Yet, it is very hard to disentangle the effects of reforms because of lack of precise counterfactuals. Some micro-level studies seem to indicate that perceptions (for instance on the benefits of privatization) are more negative than justified by actual results. (Martimort and Straub, 2006, Carrera et al, 2004).

This may be due to several factors. An important one seems to be the bundling of structural reform measures with macroeconomic stabilizations, and the subsequent fragility to macroeconomic crisis. The country studies provide highly suggestive accounts of the negative impact of recent economic crisis on the popularity of pro-market policies. Another reason might have been the political overselling of the benefits to be expected from the reform process. Also, in several countries reform was implemented "by surprise" against the will of large segments of the population, which seems to have further undermined the legitimacy of the pro-market agenda. In some of those cases, the reformist government was tarnished by an image of corruption, which spread to the reforms themselves. Also the reforms are associated in the public's mind with a deterioration of income distribution and with the weakening of labor actors.

One of the finest empirical analyses of this phenomenon, by Carrera, Checchi and Florio (2004), studies the ingredients of discontent with privatizations in 17 Latin-American countries. They find that disagreement with privatization is more likely when the respondent is poor, privatization was

[18] Satisfaction with the market economy is low on average and has tended to decrease over time, but with significant differences across countries. According to Latinobarometer, the satisfaction with the market economy in 2004 ranged from 36 percent in Chile to 5 percent in Perú.

large and quick, involved a high proportion of public services, and the country suffered adverse macroeconomic shocks in a condition of high inequality of incomes.[19]

One could conjecture that as countries are recovering from macroeconomic crises or recessions, support for market reforms might recover. Yet, that statement would need to be qualified, depending on whether the recovery is interpreted as associated with the reforms or with reform reversals. The strong anti-reform discourse of the current Argentine government "construes" the recovery as due to the abandonment of the Washington Consensus.[20]

Despite the negative turn in public opinion, there has not been as much reform reversal so far as one might have feared. On the one hand, it might be too early to tell the whole story since political processes are still unfolding in ways that make any clear-cut prediction risky. Venezuela and to a lesser extent Argentina are the countries that have exhibited more reversal;[21] a new government has recently been inaugurated in Bolivia, headed by the indigenous former union leader of coca growers; and the leading candidate for the upcoming Peruvian elections is fairly outspoken against neoliberalism. Yet, such rhetoric not necessarily has implied reform reversals in other cases, such as the Brazilian one, or possibly the Uruguayan one.

On the other hand, even though there is no simple explanation for the "not so much reversal so far", we mention some possible lines coming out of the recent experience in the region. One possibility is that, as Lora and Panizza argue, the "status quo bias" operates now in favor of maintaining reforms. Those who are bound to lose with the policy change plus those who are uncertain could conform a large enough group to block the policy change (Fernández and Rodrik, 1991). Also the pro-market reform has created or strengthened some stakeholders and weakened others in a way that reinforces the reform process. Owners of privatized enterprises, for example, would resist any attempt at statization. In many cases, big international firms participated in this process and are not willing to retrench peacefully. Several international banks are actively participating in the private pension funds created during the reform; it would probably be very costly for the State to reverse this reform.

[19] Interestingly, they also find that more educated respondents are more adverse to privatization.

[20] In fact the recovery seems more likely to be a standard re-bound after a very deep fall, in the context of very favorable external circumstances, with a more aligned exchange rate after the fall of convertibility, exploiting unused capacity built with investments during the reform decade. In relation to this topic, see Tommasi (2004).

[21] And even in a country like Argentina with strong anti-reform rethoric and clear reform reversals in some areas, policy management in some other areas has been fairly consistent (so far) with some of the main tenets of the reform agenda, such as fiscal prudence.

It has also proved to be easier to get political support and form socio-political coalitions against the "neoliberal" policies than in favor of a concrete alternative. There maybe fatigue with pro-market reform, but it does not mean that many citizens would support a full backlash towards the old inward-oriented and state-centered policies. If those policies were not very successful fifty years ago, they are even less likely to be so now when the world is much more globalized. Most Latin American leaders seem to be aware of this fact. Nowadays it is common to hear left-wing Latin American politicians demanding from the developed countries a more open and fair international trade. Besides, in a world in which capital mobility across frontiers has increased significantly, the risk of sudden capital outflows seems to have provided incentives for governments to keep market reforms. This threat is particularly acute for left-wing parties and hence they may paradoxically have stronger incentives than right-wing parties to behave according to market discipline when they take office.[22] (Except perhaps in cases in which their short-term financial position and economic outcomes are not as dependent on foreign capital inflows, as it might be the case by the current Argentine government of N. Kirchner).

Besides, even if the pro-market reform did not deliver the announced outcomes in many countries, the successful example of Chile continues to have important influence in the region. Furthermore, this example maybe be even more influential now than in the early nineties, when the WC agenda was in its apogee. More than fifteen years of democracy have elapsed in which a center-left wing coalition has been in office with no interruptions. All these years, the center-left coalition ruling Chile has consistently pursued market-friendly policies without losing political support and with considerable economic and social success. This Chilean coalition has become a model to follow for some influential left-wing politicians in other countries in the region, and particularly for the newly arrived left-wing governments in countries like Brazil and Uruguay.

5 Concluding Remarks: Quo Vadimus?

This paper attempted to extract some lessons from the reform experiences of several Latin American countries, on the basis of underlying country studies. That exercise led, in its central section 4, to reflections on several key themes in the political economy of reform, reflections which themselves had some elements of "concluding remarks". For that reason, this final section is

[22] Another alternative to "neoliberalism" that is no longer possible is communism. Before the melt down of the Soviet Union, the socialist block represented a credible option for many Latin Americans. Nowadays, only a tiny minority would take a "real socialism" type of model seriously. The European socialism looks like a much more appealing model to follow in these days.

relatively brief, and instead of recapitulating everything said before, it just draws from a few points in order to take a (succinct) prospective look.

Experience has shown that one needs to be very prudent at the moment of evaluating countries' performance and trajectories, because history can change at any turn of the corner. The early evaluations of the impact of market oriented reforms were far more optimistic than later ones. Similarly, a few years ago Argentina was considered a success story, only to become a disaster a few years later.[23] Having said that, we venture here a tentative reading of the paths in which the different countries seem to be moving at the present time.

Pro-market reforms have been taking place in Latin America for several years. In several cases valuable (and perhaps permanent) outcomes were achieved, yet there was underperformance in various fronts, especially when measuring against early promises. The reading of the reform experience is today unfriendly in several countries. The accusation of "neoliberal" has become one of the most successful rhetoric resources to easily discredit anyone who dares to support market-friendly policies in the eyes of large segments of the population.

Broad sectors of the Latin American public, including important social and political actors never felt included in the pro-market reform agenda. There is a view in the region that the agenda was imposed from abroad, a view that seems confirmed by the term "Washington Consensus". The efforts of the international financial institutions to push this agenda disregarding strong local anti-reform feelings might have led to less effective reform processes and to the reinforcement of those anti-reforms feelings. The attempts to impose reforms during dictatorships and "by surprise" in some democracies contributed to the discredit of the agenda.

In recent years, Latin American voters have turned their back towards politicians and political parties that supported the Washington Consensus agenda. Politicians who had strongly opposed pro-market reform won elections in every country in the last years (Brazil, Argentina, Uruguay, Venezuela, Bolivia and Chile). Current polls indicate that this trend may continue in the next election in Mexico and Peru.[24]

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[23] At the time of this writing Argentina has had three consecutive years of growth rates around 10%, which some people read as a great success. We read these results in a very cautious manner, since we believe that the Argentine polity still faces some fundamental problems, and that some of the good current outcomes are bought out of the build up of future difficulties. In any case, in the spirit of the text, even our pessimistic projection has to be qualified by a prudent recognition of the limitations of our knowledge.

[24] Colombia seems to be the unique exception at this point, where reformist President Uribe seems to be succesfully running for reelection.

Nevertheless, the political landscape of Latin American governments today is more heterogeneous than what campaign speeches may suggest. There is on one extreme the case of Chile in which the center-left coalition that rules the country since the return to democracy in 1990 consolidated the reforms. In “the middle”, Brazil and Uruguay seem to be moving in a direction similar to that of Chile: popular parties from the left of the spectrum seem to maintain the previous reformist trajectories, in this case in countries characterized by gradualism and continuity to begin with. In turn, Venezuela and to a less extreme extent Argentina seem to be embarked in a pretty different political project, with some reform reversion and, what is more worrisome from our point of view, with signs of institutional weakening. The recently appointed President Morales in Bolivia campaigned harshly against pro-market policies. It is too early to tell how far his government will actually go in that direction, but it is worth noting that the politics of reform reversal might be intertwined in this country with ethnic conflicts, something that we have not seen so far in the recent Latin American experience.

If that very tentative sketch of the present political dynamics of these countries is not too far off the mark, it suggests that the fate of reforms is correlated with the outcomes of reform, and that both in turn are correlated with more slow-moving (not to say, permanent) “fundamental” local conditions, in particular with local institutional conditions. The ranking of countries in terms of reform outcomes, and reform continuity and sustainability is almost identical to a ranking of State Capabilities developed by Stein and Tommasi at the Inter-American Development Bank, reflected in Stein and Tommasi (2005) and IADB (2005).

Perhaps the main lesson we extract from the experience at this point, is that in democratic settings it is not a good strategy to impose reforms from above or by surprise. Consensus building operating through the social and political specificities of the country is not only a better way to achieve the desired reforms, but even a process for identifying and implementing policies and reforms more suitable for each country. The capacity of countries to achieve such processes seems conditioned by their political institutions and policymaking capabilities.

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Figure 1

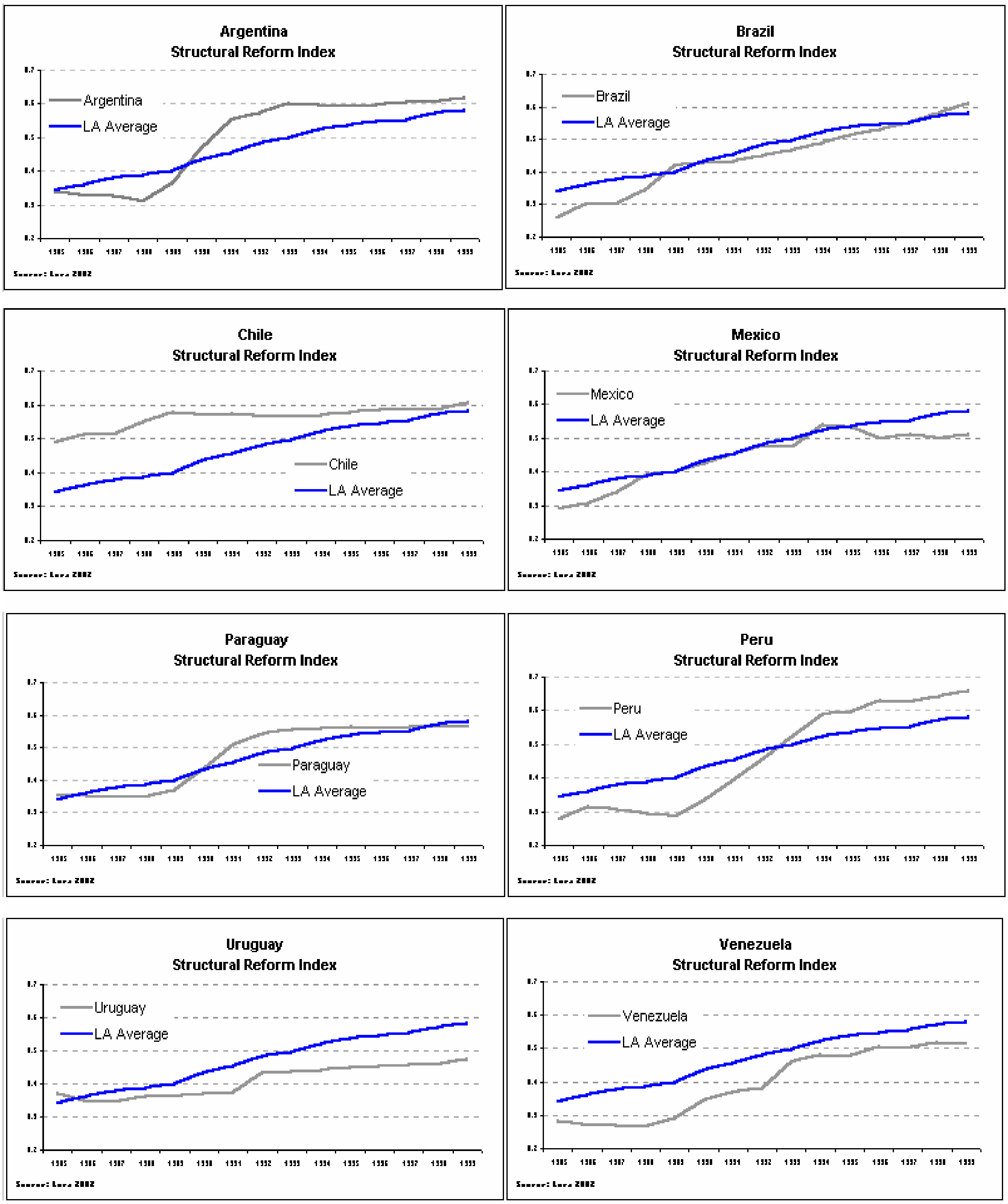
Argentina
Structural Reform Index
Argentina
LA Average
Brazil
Structural Reform Index
Brazil
LA Average
Chile
Structural Reform Index
Chile
LA Average
Mexico
Structural Reform Index
Mexico
LA Average
Paraguay
Structural Reform Index
Paraguay
LA Average
Peru
Structural Reform Index
Peru
LA Average
Uruguay
Structural Reform Index
Uruguay
LA Average
Venezuela
Structural Reform Index
Venezuela
LA Average

Figure 2

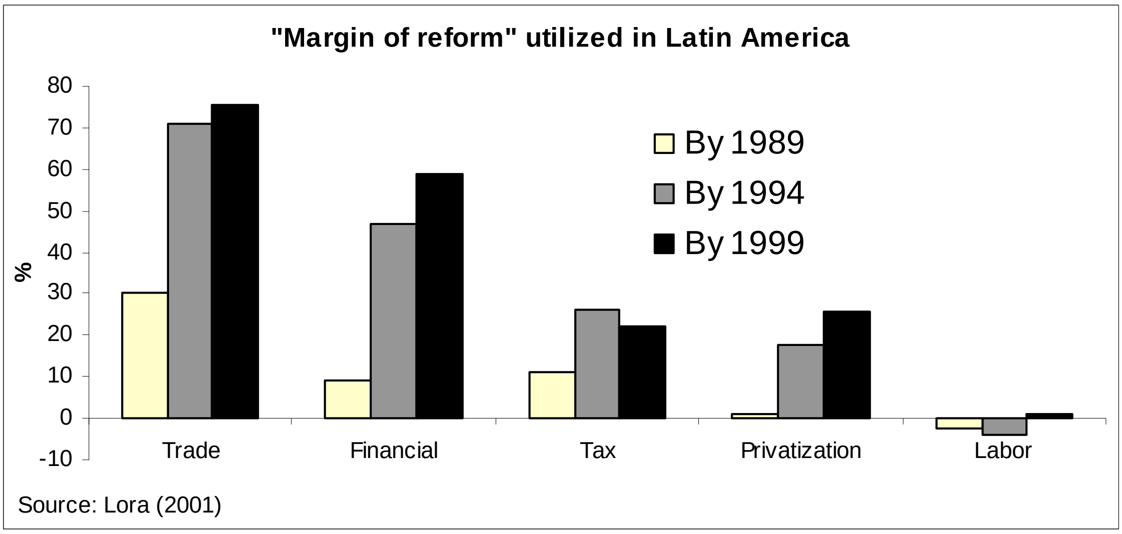
"Margin of reform" utilized in Latin America
%
80
70
60
50
40
30
20
10
0
-10
By 1989
By 1994
By 1999
Trade
Financial
Tax
Privatization
Labor
Source: Lora (2001)

Table 1: Economic outcomes of reform in Latin America

Economic outcomes	Main results	Observations
A) Macroeconomic stabilization		
Early and middle nineties	Fiscal consolidation. Reduction of inflation	Venezuela was an exception. Argentina was the leading case.
Late nineties and two thousands	Exchange rate crises. Banking crises.	Chile was an exception.
B) Economic growth		
Early studies	Positive and substantial effects of reforms on GDP growth (about 2% per year).	Easterly et al 1997; Fernández-Arias and Montiel 2001; Lora and Barrera 1997
Recent studies	Impact on growth is lower than previously thought and temporary.	Lora and Panizza, 2002; Loayza et al. 2005; UR country studies, with the exception of Chile
C) Productivity growth	Some impact on productivity. In some cases might have been temporary	Lora, Panizza et al. (2003); Galiani etl al (2003); Castelar Pinheiro (2004).

Table 2: Social outcomes of reform in Latin America

Social outcomes	Main results	Observations
A) Labor market		
Reallocation of labor	No systematic effects	Lora (2003)
Unemployment	No systematic effects	Lora (2003)
Skill premium	Reform raised the wage gap between skilled and unskilled labor	Lora (2003)
Labor conditions	Deteriorated in the privatized firms. Improved in the new exporting sectors	Lora (2003)
B) Income distribution	There is no consensus among researchers:	
	a) No (or ambiguous) effects of reform on distribution of income	Gallup et al 1998; Dollar and Kraay 2000a and b; World Bank, 2001; Morley 2000; UR country studies.
	b) Negative effects of reform on distribution of income	Foster and Székely 2001; Morley 2000 on tax reform.
C) Poverty reduction	Poverty reduced, because of GDP growth and small effects on distribution, temporary in some cases.	Gallup et al 1998; Dollar and Kraay 2000a and b; World Bank, 2001. Poverty increased in Venezuela during the reforms. Jump in poverty in Argentina around 2001 crisis. Poverty reduced substantially in Chile.

Table 3: Initiation of reforms

Country	Year of inflection point in Lora's reform index	Economic crisis right before?	Other big changes	Reform (firstly) as stabilization device?
Argentina	1989/1990	Yes		Yes
Perú	1990	Yes		Yes
Venezuela	1990	Yes		To some extent
Chile	1975	Yes	1973 milit. coup	To some extent
Paraguay	Not clear – a bit in 1990	Not clear	Stroessner overthrow 1989	No
Brazil	Not clear – a bit in 1988	No		Yes
Uruguay	None – a little step 1992	No		No
Mexico	None – a little step 1993-4 (NAFTA)	No		No