NEOLIBERALISM IN LATIN AMERICA:
Good, Bad, or Incomplete?*

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This Research Note looks at the recent Latin American record in economic and social development from the perspective of the effects of "neoliberalism." There are at least two ways in which neoliberalism is commonly used: a narrow usage, that refers to a shift in a subset of policies to a greater reliance on markets; and, a broader usage, that implies a wholesale change in the relationship between the state and society, with a more vigorous embrace of the market being part of a generalized withdrawal of state provisioning and action. The first clearly occurred in most of the region in the 1980s and 1990s. We will argue that shifts to a greater dependence on markets were usually beneficial, probably disappointing relative to the expectations of advocates, and certainly incomplete as a development strategy. The effects on growth, stability, and inequality depend crucially on other factors, including the distributions of assets, structural policies (for example, on social development and infrastructure) and political and social institutions.

The broader view of neoliberalism is harder to assess. The Latin American state has had a varied and checkered history in relations with its citizens. Its reach has always been highly unequal in effect, especially with respect to social provisioning. Its impact has at times been repressive of basic citizenship rights. While less of this type of state action is desirable, a broad neoliberal view, in the sense of the radical retreat to a minimal state, is generally bad for development. However, in many ways, such a prism is not a very useful way of looking at the recent experience: while there have been significant shifts from an import-substitution (and in some countries, corporatist) model, this has not involved a wholesale retreat of the state. As an alternative, we suggest that, as a matter of analytical approach and development practice, it is of fundamental

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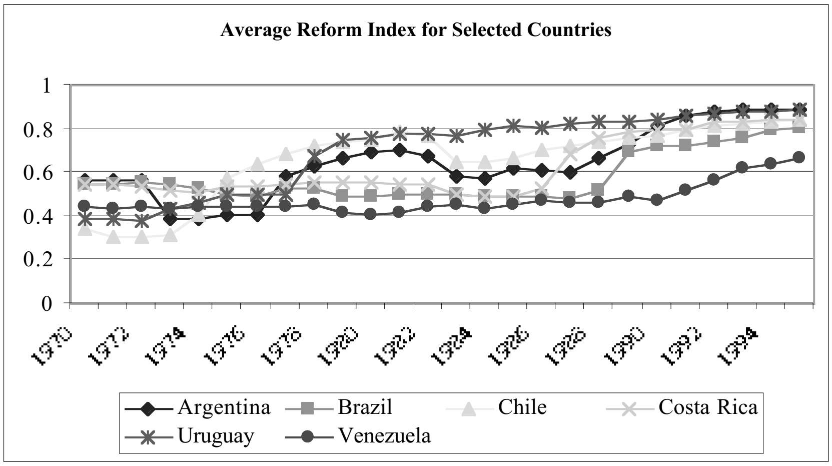
importance to link market and government policies to the institutional context in which they occur, considering both political and sociocultural dimensions.

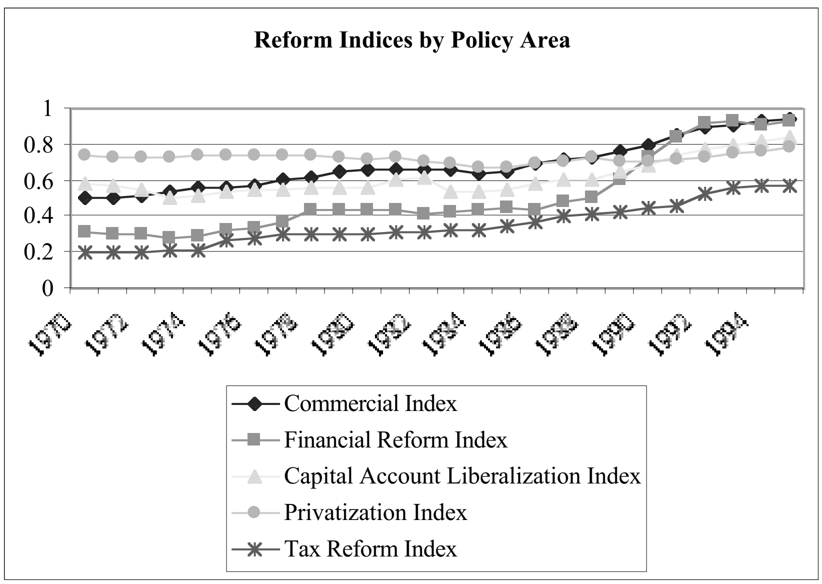
The remainder of the paper is in two parts. The first looks at the economic and social effects of market-oriented policies with respect to the three questions posed by Kurt Weyland in his introduction: on growth, economic volatility, and social conditions. (Effects on politics are left to others more qualified than this author.) The second part develops the theme that in both interpreting and shaping policy choices it is necessary to have an expanded view of the development process that takes into account the explicit interactions among economic processes, assets, institutional contexts, and inequality. This is in the spirit of shifts in thinking on economic development that occurred amongst some thinkers in the late 1990s and early 2000s (see, for example, Stiglitz 1999; Hoff and Stiglitz 2001; Basu 2003; Acemoglu et al. 2002; Rodrik 2003a, 2003b). These shifts constitute a major change, at least with respect to a simple or radical view of neoliberalism, or "market fundamentalism" in Stiglitz's terminology. To the extent that such a radical view was advocated (and actual experiences varied across countries), it needed major revisions. Other recent accounts discuss in more detail the history and updating of the "Washington Consensus" set of policies (Birdsall et al. 2001; Kuczynski and Williamson 2003).

How does this assessment compare with that of the companion paper by Evelyne Huber and Fred Solt? (See Huber and Solt in this volume.) There is support for the conclusion of Huber and Solt, when they say, "What we are arguing against is precisely the pressure to implement a standard set of neoliberal reforms regardless of context" (162). There is also considerable agreement on the centrality of a set of specific policies that they associate with social democratic models—for example in social provisioning and broad-based safety nets—as necessary complements to market-oriented policies. The differences lie in two areas. First, our interpretation of the evidence on the effects of at least a subset of market-oriented reforms is more positive and differentiated, and we do not share the rather sweeping conclusions on the negative effects of large or sharp reform changes on growth, volatility, and inequality. Second, in this paper we place more emphasis on the interactions between political and social institutions and policy choice—it is not just a question of choosing a different policy mix, whether social democratic or otherwise.

ASSESSING ECONOMIC AND SOCIAL EFFECTS OF NEOLIBERALISM

Advocates of a shift to greater market-orientation in Latin America hoped for great benefits in economic development, stability, and distribution. Stability would flow from greater fiscal and monetary





Source: Morley, Machado and Pettinato 1999. The upper chart shows the simple average for individual countries across all reform indices; the lower one shows the simple average for reform areas across countries.

Figure 1 Indices of Policy Reforms in Latin America

prudence. Growth would be spurred through the effects of a greater reliance on markets and a deepened economic integration on efficiency and investment. Income distribution would improve through the reductions in opportunities for rents and corruption, which had been created

Table 1 The Growth and Volatility of Output Per Capita in Latin America and the Caribbean, East Asia and Industrialized Countries

	1960–70	*1971–80*	*1981–90*	*1991–99*
Median growth in output per capita				
Latin America and the Caribbean	2.36	2.08	-0.02	1.76
East Asia	3.75	3.90	2.43	2.25
Industrialized countries	3.50	2.58	1.98	1.83
Median volatility in output per capita				
Latin America and the Caribbean	0.0162	0.0271	0.0285	0.0165
East Asia	0.0219	0.0261	0.0254	0.0247
Industrialized countries	0.0130	0.0174	0.0121	0.0099

Source: Loayza, Fajnzylber and Calderón 2002.

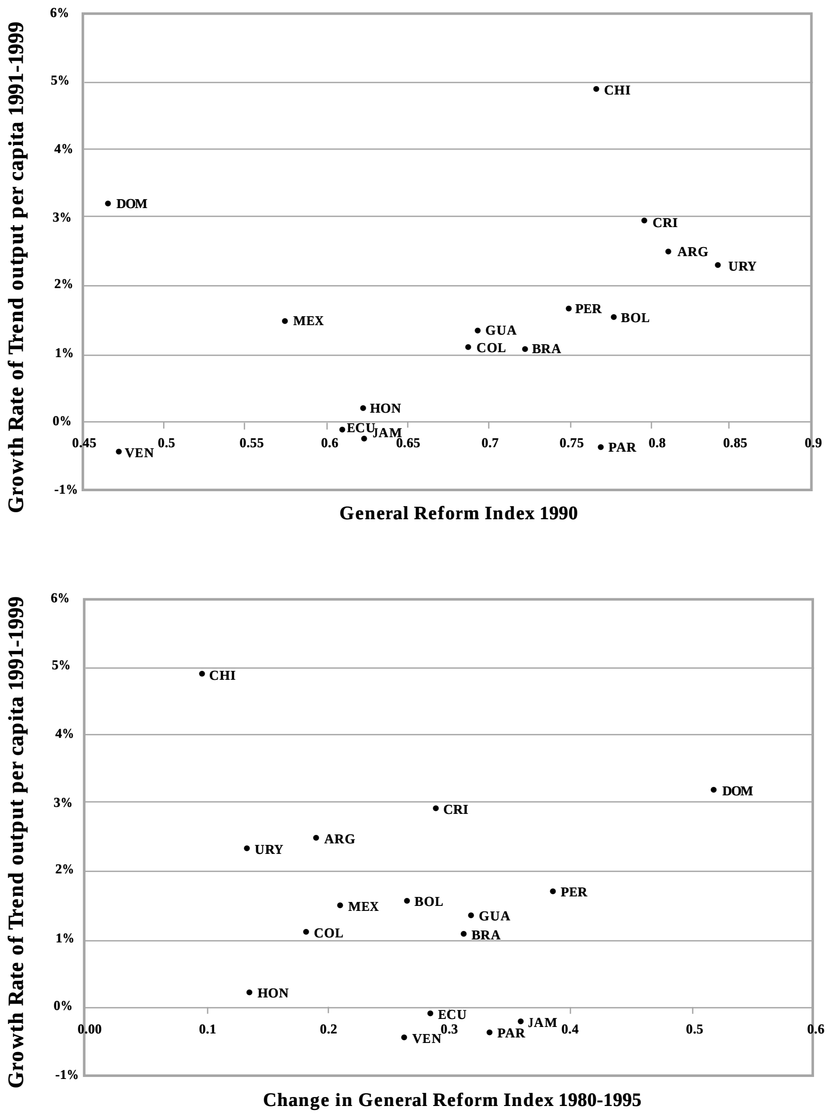
NOTE: Growth in output per capita is the average of the annual change in the permanent component of log output per capita; volatility of output per capita is the standard deviation of the cyclical component of log output per capita. Detrending was undertaken using a band-pass filter.

by interventionist structures, and the rising rewards to unskilled labor from greater trade (as some economic theories would predict.) There was the model of East Asian success as a benchmark—stellar growth with equity seemed to have been associated with the rapid insertion of these economies into the global economy. What happened?

To assess policy influences, there is a need to specify what is meant by increased market orientation. Take a "Washington Consensus" list: fiscal-monetary prudence in the macroeconomic arena, trade liberalization, privatization, financial sector deepening and capital market-opening in the market arena, as well as tax reform and property rights. For market-oriented areas, trends in policy stance are illustrated by the ordinal indices presented in Morley et al. (1999), who update work by Eduardo Lora. Huber and Solt use the general reform index from this source in their paper. As figure 1 shows, there were substantial changes, especially for trade, financial and capital account policy.

Impacts on Growth

With respect to aggregate growth, the overall performance of the region was significantly better in the 1990s than in the "lost decade" of the 1980s, but with the exception of Chile (until recession hit at the end of the decade) performance fell far short of the East Asian tigers and did not fully recover to rates of growth achieved in the 1960s and 1970s (table 1). Can the growth improvements that did occur be related to reforms? Huber and Solt report better growth in the 1990s of countries with a higher synthetic index of reform levels, but worse outcomes for those



Source: Morley, Machado, and Pettinato 1999; Loayza, Fajnzylber, and Calderón 2002.

NOTE: The upper graph plots growth in the 1990s against the *level* of policy reform (averaged across all sub-indices); the lower graph plots growth against changes in the policy reform index between 1980 and 1995. Correlation coefficients are not significant in either graph.

Figure 2 Indices of Reform and Growth Rates in the 1990s that had bigger or more rapid *changes* in this index. While an interesting point of departure, we believe that this type of analysis is misleading. The groups of countries are small and the groupings unconvincing: those with either large or sharp changes include many small Central American countries and Peru (that went through the roller coaster from the García to Fujimori administrations), as well, perhaps surprisingly, as Brazil in the category of sharp changes. As figure 2 illustrates, the patterns reported by Huber and Solt are not robust—there is no statistically significant correlation between the variables shown.

More important, to assess the effects of policies, it is necessary to control for the many other influences on growth. Recent cross-country econometric work seeks to do this in a global context (Loayza et al. 2002), using a global database on growth experiences and then applying the results to the Latin American experience. The analysis includes a wide range of variables standard to the growth literature, and specifically separates out cyclical from longer-term effects. It finds that more open trade and deeper financial sectors are associated with higher growth, while higher inflation, higher cyclical volatility, and banking crises are bad for growth.[1] Latin American growth in the 1990s was if anything slightly higher than would be predicted by the global results, suggesting that modest performance was not due to a weaker Latin American response to the changes in policy and other conditions. The reforms were good for growth, but were insufficient to shift countries to East Asian style performance. The absence of a magical transformation was not because of any Latin American exceptionalism—the relatively modest improvement in performance was to be expected with the benefit of (statistical) hindsight. Furthermore, market-oriented and stabilization policies are by no means the only source of higher growth. This cross-country analysis also finds that education and infrastructure matter; whereas more government (controlling for these other factors) is a drag on a growth. Effective state action is important to these areas, and East Asia has invested substantially more in both areas.

Impacts on Volatility

Greater economic stability through prudent fiscal-monetary policy is central to the "Washington Consensus" view. Indeed, two of the major changes in the region between the 1980s and 1990s have been the reduction of high inflation and some improvement in the fiscal and debt positions. These also led to lower volatility of growth than in the 1980s—and lower volatility also than in East Asia (table 1). We again do not find

1. For details of econometric issues, including the approach to dealing with endogeneity, see Loayza, Fajnzylber and Calderón (2002).

evidence of heightened volatility amongst more vigorous reformers noted by Huber and Solt.

While there have been gains, the past decade was also deeply marred by crises in Mexico during 1994 and 1995 and in Argentina and Venezuela since 2000. These have had profound effects on both economic conditions and the well-being of the people. The scourge of instability has not been resolved. In most cases internal problems—especially of public and private debt—were powerfully magnified by the herd-like and destabilizing behavior of private financial capital flows. This has led to a shift in thinking on policies toward the opening of capital accounts. It is now generally recognized that this is desirable only after robust financial systems have been developed.

Impacts on Inequality and Social Conditions

The region's high and persistent income inequality is of direct concern to citizens (Latinobarómetro 2002), increases poverty, and is probably a source of lower aggregate development (for a review, see De Ferranti et al. 2004). The most striking fact is the *resilience* of high inequality, through many different policy regimes over the past few decades. As table 2 shows, the 1970s saw some tendency for mild reductions in inequality, and the 1980s a more marked tendency for increased inequality in the context of macroeconomic difficulties. The 1990s has seen a more mixed picture: more countries experienced increases than declines in inequality, but there is no overall pattern. Most striking has been Argentina's very large rise before and during the crisis; though Mexico actually experienced a slight decline in inequality in its crisis, and Brazil a modest but significant distributional improvement over the decade.

Did market-oriented reforms have an impact? In terms of the big picture it is hard to find dramatic influences. This was the conclusion of an extensive study by Morley (2001) for United Nations Economic Commission for Latin America and the Caribbean (ECLAC) in the 1990s. As figure 3 illustrates, for the 1990s there is *no* simple bivariate relationship between changes in inequality and aggregate indices of the level or change in reform in the past decade. Attempts to separate out the effects of particular reform dimensions reveal a more complex picture. Table 3 summarizes results from three studies that essentially use the differential timing of reform changes to try and identify apparent effects on inequality. These suggest that trade liberalization, financial liberalization, capital account opening, and tax reform were associated with increases in either wage or household income inequality; different results were found for privatization in the two studies that included this variable.

More compelling is the evidence from a series of more detailed studies on the interactions between the supply and demand for different

Table 2 Changes in Inequality in Latin America and the Caribbean in the 1970s, 1980s, and 1990s

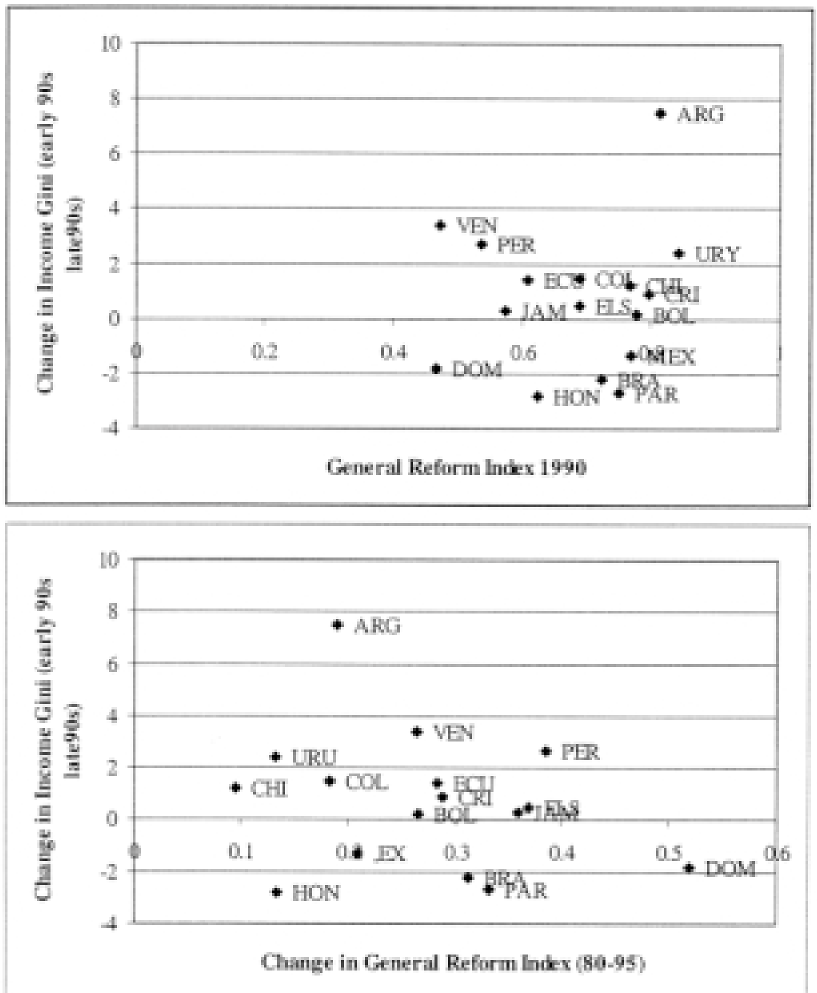
	1970s		*1980s*		*1990s*	
Country	*Londoño & Székely (i)*	*Morley/ Altimir (ii)*	*Londoño & Székely (iii)*	*Morley/ Altimir (iv)*	*Székeley (v)*	*De Ferranti (vi)*
Argentina		+		+		+
Bahamas	-	+	+	=		
Bolivia				+	+	
Brazil	=	- or =	+	+	=	-
Chile	+	+ or =	+	+	=	+
Colombia	-	- or +	=	+ or -	=	=
Costa Rica		- or =	=	=	=	= or +
Dominican Rep.	=		+	+		
Ecuador					=	+
El Salvador					+	= or +
Guatemala	=		+			
Honduras	=		=		+	-
Jamaica	=	=	-	-	-	=
Mexico	-	-	+	+	=	= or -
Nicaragua				+	=	
Panama	-		+	+	=	=
Paraguay					+	
Peru	-	+ or =	=		+	+
Uruguay		+ or =		-	=	+
Venezuela	-	-	=	+	+	+

Source: Londoño and Székely (2000); Morley (2001); De Ferranti et al. (2004).

NOTE: + denotes an increase and – a decrease in inequality

categories of workers, especially across skills (see Sánchez-Páramo and Schady 2003 for a six-country analysis that is quite representative of other country studies). These find systematic evidence of increases in the demand for skilled labor, at secondary and especially tertiary levels, that has only partly been offset by a rising supply. The work supports the view that these skill-biased demand changes were mediated by trade opening (if not due to classical Stolper-Samuelson effects of increased trade) and other reforms, which induce technical and organizational changes that favored higher skills. There is some evidence that the shift is once-off; in both Chile and Mexico, the two countries that are more integrated into the international economy, the demand shift to high-skilled labor appears to have leveled off (De Ferranti et al. 2003).

Incomes are only one dimension of well-being. All societies also value health, education, access to basic services, security, and self-esteem. One measure of government effort in these areas is the level of social spending. Spending was often squeezed in the difficult macroeconomic times of the



Source: Morley, Machado, and Pettinato 1999; World Bank 2004.

NOTE: The upper graph plots *changes* in the Gini index in the 1990s against the *level* of policy reform (averaged across all sub-indices); the lower graph plots changes in the Gini against changes in the policy reform between 1980 and 1995. Correlation coefficients are not significant in either graph.

Figure 3 Indices of Reform and Changes in Inequality in the 1990s

1980s. However, for the 1990s there have been considerable advances. As figure 4 shows from ECLAC's analysis, social spending per person rose substantially and systematically across almost all countries in the region. This was due to a combination of the effects of growth, rising aggregate spending, and shifts from non-social spending. While a significant share

Table 3 Estimated Effects of Policy Reforms on Inequality

Study:	*Morley/ ECLAC*	*Behrman, Birdsall & Székely*	*López*
Variable:	*Gini index*	*Wage differentials*	*Gini index*
Trade liberalization	+	0	+
Financial liberalization	0	+	+
Capital account liberalization	-	+	—
Tax reform	+	+	—
Privatization	0	-	—
All	0	+	—

Sources: Morley (2001); Behrman, Birdsall and Székely (2001); López (2003).

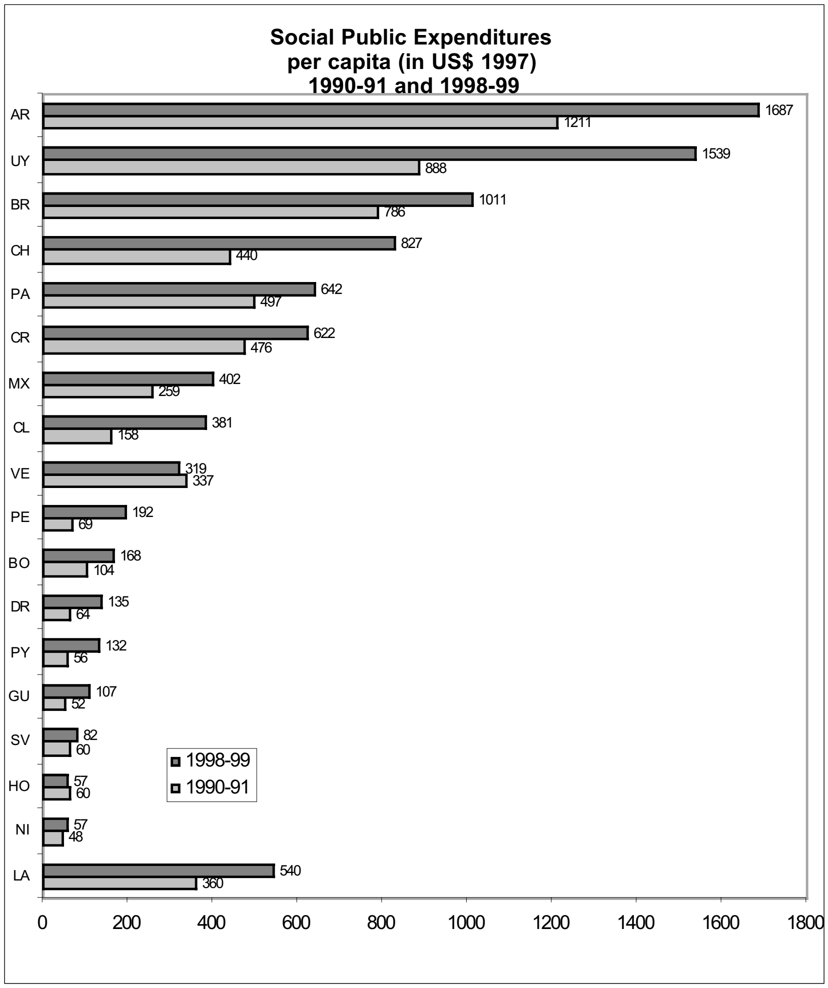
NOTES: + denotes inequality increasing, - denotes inequality reducing, 0 means no robust effect. Morley and Behrman et al. are for LAC; López for a global database.

went into expanded social security spending, which is typically regressive, for many other categories of social spending the expansion was highly progressive (De Ferranti et al. 2004). This was driven in large part because of expansions toward near-universal coverage in basic services—notably in basic education and health, electricity, and water—with the degree of progressivity depending on initial levels of coverage. This was complemented by a wide range of experiments in transfers to poorer groups, such as Mexico's "Oportunidades" (previously "Progresa") program of transfers to very poor households, conditional on children attending school or clinics. Brazilian farmers' pensions, while not linked to market-based reform (they were initiated between 1973 and 1974 and extended in the 1988 Constitution), are another example of a program that has effectively eliminated extreme poverty for this group.

ON THE NEED FOR AN EXPANDED PRISM—THE ROLE OF INSTITUTIONAL CONTEXT

A quick scorecard on market-oriented reforms thus finds some gains for growth and possibly adverse effects on inequality, notably via the increased demand for skilled labor. These reforms were consistent with a large and often progressive growth in social spending. However, focusing on policy choices presents a highly incomplete approach to assessing development successes and failures in Latin America, whether of market-oriented policies or other domains.

Recent work in development economics places much more emphasis on the *variable* effects of policies or actions conditional on the context, especially with respect to asset ownership and political and social institutions. Take the two areas of growth and service provision. A recent review of growth experience and theories by Dani Rodrik (2003a)



Source: ECLAC.

Figure 4 Public Social Spending Per Person in Latin America and the Caribbean

argues that successes (and failures) are not explicable by a standard list of solutions, but occur in varied institutional settings. Economic fundamentals such as the influence of markets, responses to incentives, and the importance of (some form of) property rights always matter. But the particular configurations of policies and institutions vary greatly between, say, China's and Chile's high growth episodes. The opposite is also true: China's non-private township and village enterprises were extraordinarily dynamic in the 1980s and early 1990s for a particular mix of factors flowing from recent history; such a policy mix could well be disastrous in the typical Latin American country.[2]

It is striking that quite similar considerations apply to the much more "micro" area of service delivery. The historical model of public provision by public servants under the benign, social-welfare maximizing gaze of ministry officials has not proved a success. This is not because it was public sector, but because the model was hopelessly incomplete on the determinants of the behavior of actors both within the public sector (from policymakers to frontline workers)[3] and among the public sector, households, and private providers.[4] Here too, there is recognition that there are some fundamentals—incentives matter to both public sector workers and households, voice and accountability are important at some level—but a lot of other "institutional" or contextual factors determine how interventions work or do not work. Centralized schooling produces the highest quality outcomes in the region in Cuba, but very poor results in Honduras. There are a host of experiments in decentralized schooling, with a wide variety of results. Decentralization to lower levels of governments can have different outcomes, even within the same country, depending on the extent to which local conditions are conducive to local elite capture, as opposed to allowing political groupings to both improve governance and equity.

These perspectives have an important implication: once development practitioners and economists recognize the centrality of institutions and context, it becomes much more important to understand how policies work in particular situations and to avoid recipes or magic bullets. Sorting out what matters is likely to involve looking at a range of factors, including, for example, the salience and nature of clientelism, extent of genuine political competition, histories of horizontal alliances across poorer groups, and socio-cultural questions associated with social difference and mobilization, and the behaviors of front-line workers.

How does this relate to the Latin American record on economic and social conditions, and their links with "neoliberalism"? We emphasize one set of issues of particular salience to the region. Latin America is characterized both by weak institutional conditions and high levels of inequality in terms of asset ownership and political influence. There is at least some

2. See also Rodrik (2003b) and the review of fashions in development thought and the anti-panacea conclusions in Lindauer and Pritchett (2003)

3. See Tendler (1997) for one account of the complex dynamics of what makes frontline workers behave differently in the poor Northeastern state of Ceará, Brazil.

4. See Pritchett and Woolcock (2002) and World Bank (2004) for discussions.

evidence to suggest that the mix of "weak and unequal" institutions is both self-perpetuating and pernicious to both growth and stability.

Cross-country work finds Latin America's institutions to be weak for a wide range of indicators, from (lack of) constraints on the executive, to the rule of law and control of corruption, whether these come from survey-based subjective assessments or considered views of political scientists. Moreover, a number of econometric analyses on global data bases find institutional weakness to be an important correlate of long-run economic performance. There are issues of potential two-way causation, since higher incomes may be causative of more effective institutions. Daron Acemoglu, Simon Johnson, and James Robinson (2002) find a robust, exogenous influence from historically determined elements of institutions to long-run economic performance, while Acemoglu et al. (2002) find adverse long-run influences on macroeconomic stability. They relate this to historically formed institutional structures that tended to protect elite influence originally traced back to colonial times. Unequal and weak institutional structures continued, in various forms, in the transition to independence in the nineteenth century and the spread of formal democracy in the twentieth century, and are still salient today.[5] Shocks can bring latent distributional conflict into the open, with persistent effects where institutional mechanisms for the resolution of such conflict are weak (Rodrik 1999).

The brief review of the record and of work on context and institutions suggests the following for policy. Policies oriented toward the market and macroeconomic stability are often sensible, but are seriously incomplete, especially with respect to interactions with inequality and institutions. The selection of policies and their effects need to be interpreted in terms of *interactions* with the structure of asset ownership (including economic, human and cultural capital) and how institutions work. This has a number of implications for development practice. We conclude with a few observations on this.

Social Policies

As Huber and Solt also emphasize, inclusive social policies are essential for both distribution and growth, and are central *complements* to market-oriented policies. Core elements of this involve redistributive expansion of education, health, social protection, in ways that command middle class support. For education it is important that policies and institutions combine access to quality education for all social groups (including indigenous groups and Afro-Latinos) with opening up of

5. See Engerman and Sokoloff (2002) for a discussion of history and De Ferranti et al. (2004) for a general discussion.

tertiary education, now very much the domain of elites. The case for this is heightened by the effects of trade expansion on the premium for skills. Similarly, institutions for social protection that involve efficient risk-management mechanisms for all groups (for old age, unemployment, health and harvest risks) and redistributive social assistance for the very poor (see De Ferranti et al. 2000) should be integral, permanent parts of social policy, designed to deal with the idiosyncratic risks faced in "normal" times and expand automatically when crises occur.

However, this is far from an old-style redistributive agenda—often advertised under populist auspices in Latin America. Indeed, a recognition of distributional and institutional factors can lead policy in ways that deepen rather than weaken areas associated with a market-oriented approach.

Macroeconomic Policy

Economists often advocate greater prudence in good times, including contracyclical fiscal policy (De Ferranti et al. 2002; Perry 2003). This rarely happens, or happens only in institutionally stronger countries such as Chile. More common are debt build-ups in good times, allowing spending expansions that help avoid facing up to distributional conflict—as occurred in Argentina and Brazil in the 1990s. When crises occur, this often leads to shifts in income shares from labor to capital, with some persistence in these shifts. Diwan (1999) interprets the role of crises as a means of digesting and allocating losses, with a heavier burden borne by formal labor. In a similar vein, recent work on the distributional effects of financial crises finds that these are costly and highly regressive, both because big borrowers or creditors move their money out quickly, or get bailed out, and because the fiscal costs of such bailouts are paid for by reduced future spending or higher taxes. The net effect of this is particularly costly to poorer groups, especially in light of other evidence that spending expansions would otherwise have been progressive (Halac and Schmukler 2003; De Ferranti et al. 2004).

These findings imply that greater, not less, macroeconomic and financial prudence will typically be needed to reduce the risk of crises, and avoid the typically regressive bailouts when financial crises occur. Policies to reduce debt and strengthen financial systems can underpin a more stable growth path, but will often require facing up to distributional conflicts in good times.

Trade Policy

Trade expansion is associated with higher growth, but distributional effects are mixed. As an example, assessment of the impact of NAFTA on Mexico finds differential effects dependent on the characteristics and context of different groups. With respect to farmers, there were generally positive influences on Mexican agricultural performance, but with little if any benefits to poorer farmers—especially in the South and amongst indigenous groups.[6] This was because the latter group lacked the land, capital, extension services or marketing infrastructure to benefit, problems exacerbated by conditions of land and social conflict, and social exclusion. Public action to deal with these issues is necessary for more equitable gains from trade opening—in addition to the general need for expansion of quality education noted above.

A related issue is that of asymmetric trade opening. The continued protection of labor intensive sectors—especially agriculture and labor-intensive manufacturing—in the United States, Europe and Japan can sharply reduce the potential economic benefits from increased trade, whether in multilateral or bilateral trade deals. When bargaining power is also asymmetric there are particular risks that potential benefits of opening up to poor producers and countries will be restricted.

Privatization

Privatization of utilities has become one of the most controversial and least popular of market-oriented policy areas in Latin America. Yet recent empirical surveys find, on average, positive effects on efficiency, generally progressive effects on access, and mixed (but often positive) effects on prices (Chong and López de Silanes 2003; McKenzie and Mukherjee 2003). This area also illustrates how the effects of policy change depend crucially on both context and design. In the absence of a clear, transparent, and competitive process, there are risks of loss of receipts via corruption. In an apparently extreme case, receipts from the first round of Nicaraguan privatizations never appeared in the fiscal accounts, in the context of broader concerns over corruption in the country. Within the water sector there is wide variety of experiences. In Argentina, privatization at the municipal level has been documented to have brought significant gains in terms of reduced infant mortality in poor households as a consequence of increased access and the reduction of water-borne diseases (Galiani and Schargrodsky 2002). But there are large differences even within the same country. In Bolivia, the infamous attempted privatization of water in Cochabamba was a fiasco in design and execution, driven in part by a totally inappropriate, and high-cost investment decision on water provision.[7] By contrast, the La Paz-

6. See Lederman, Maloney, and Servén (2003).

7. The World Bank pulled out because of diagnosis of the inappropriateness of the privatization and investment strategy, and expected costs to households—especially with respect to alternatives.

El Alto privatization brought distributional gains and the decline of poverty, in terms of both access and pricing—as a consequence of a better-designed process, including greater participatory involvement of affected communities.

While privatization can be associated with corruption or the monopoly power of privatized utilities, the variety of experiences shows that these risks can be reduced, and the potential gains increased by effective design. In the privatization process, open, competitive, and transparent bidding and award procedures are essential. After privatization, independent regulators that protect the public interest (rather than that of either the sector or government, both of whom have an interest in high profits and associated tax receipts) and open consumer complaints are decisive. It is also important to recognize that the public sector will continue to play a central role in infrastructure provision—privatization accounted for only half of new investment even at its peak in the 1990s, while the gap between Latin American and East Asian levels of infrastructure widened. However, a continued role for the public sector also means tackling the problems of inefficiency and clientelistic capture that was a feature of old-style public utilities in the region.

Property Rights

The strengthening of property rights was part of the original Washington Consensus and is often associated with protecting the interests of capital and the rich. This too depends on the distributional design and contextual interactions. Weak property rights are often bad for *both* growth and inequality. When property rights are weak, there is a greater need and potential for discretionary alliances between private elites and the state, leading to the effective privatization of what should be a public good. Haber et al. (2003) explore how this led to relatively high but unequal growth in Mexico even in turbulent periods, since the *selective* guarantees of property were effected by alliances between powerful economic groups and the government. This underlines the broader conclusion of work in this area, which stresses the need for agendas of strengthening of property rights that are strongly equalizing. This in particular implies strengthening of the land rights for the urban poor, and well-designed rural land reform, including, where appropriate, recognition of indigenous land rights.

Innovation Policy

A final illustration concerns the importance of innovation policy for rapid growth. This involves taking action in two areas where markets typically fail: in the market for knowledge itself, through a variety of institutional mechanisms, including links between universities, government laboratories, and intellectual property rights; and in supporting firms to “learn to learn” via mechanisms such as incubators, technological parks, and clusters. Successful countries, such as Finland, Israel, and Korea, have typically got the basics right through various means of engaging in the global knowledge economy and taken action in these two areas. There are important lessons for Latin America here (see De Ferranti et al. 2003).

CONCLUSIONS

Where does this leave an assessment of neoliberalism? If this is interpreted in its broad sense, of a wholesale retreat of the state and reliance on markets, neoliberalism is clearly undesirable, and hopelessly incomplete as a development strategy. If the concern is rather over the value of macroeconomic prudence and a set of market-oriented policies, then these are an essential part of the development process in Latin America, on grounds of growth, stability, and inequality. However, the particular mix and sequencing needs to take account of, and be complemented by, public action in a range of areas, from social provisioning and infrastructure expansion, to greater accountability and the social incorporation of excluded groups. Only with a combination of market-policies, equalizing expansion of assets and influence, and political and social institutional development will Latin American countries get onto robust paths of rapid and equalizing social and economic advance.

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