

Lance Taylor, Ed., *After Neoliberalism: What Next for Latin America?*. Ann Arbor, MI: The University of Michigan Press, 1999.

Latin American countries undertook radical reforms to their macroeconomic and developmental policies between the late 1980s and early 1990s. The prevailing import substitution industrialization strategy was replaced by a new market-oriented paradigm, and the attainment of macroeconomic stability became a crucial policy goal. This very useful volume provides a description of the reform process and its results in Mexico, Argentina, Brazil, Chile, Colombia, and Peru.

A major merit of this volume is that it provides detailed descriptions and analysis about the recent economic reforms in Latin America. The reader should be aware, though, that the title of the book is somewhat misleading. The main purpose of the country essays is the evaluation of the reforms up to the second half of the 1990s. Although many of them are critical about the effects of the reforms, they neither forecast the future effects of the current policies on economic growth and income distribution or propose alternative policies. As a result, the answer to the question "What next for Latin America?" is left to the reader. Fortunately, the content of the country essays is rich enough for an informed debate about possible answers to that question.

The country essays, written by leading Latin American economists and scholars, cover the period going from the second half of the 1980s to roughly 1996, although some of them offer brief outlines of the preceding ten or twenty years. Most essays have a similar structure, including separate sections on the two pillars of the reform process:

macroeconomic stabilization and market-oriented reforms including trade liberalization. Yet, the emphases and narrative differ from essay to essay, reflecting both the authors interests and significant differences in country experiences.

Of the countries studied, Chile was the precursor in the implementation of neoliberal reforms. This country stabilized inflation, adopted conservative fiscal policies, privatized state enterprises, and liberalized trade in the 1970s. As a result, the essay by Andrés Solimano does not focus on the reform process in itself, but on the effects of Chile's early reforms on the country's economic performance since 1985. Because this performance was outstanding in many respects, Solimano tends to view the Chilean reform process in a favorable light. Among other things, he emphasizes the role of privatization and trade liberalization in opening up new opportunities for business creation and innovation and the role of macroeconomic stability in creating a favorable climate for private investment. Finally, Solimano mentions a series of new policy initiatives on issues that has not been satisfactorily addressed by the neoliberal reform agenda, such as educational reform and evaluation of the environmental impact of large investment projects.

Three of the countries included in the volume, Argentina, Brazil, and Peru, share similar characteristics. They experienced hyperinflation in the late 1980s or early 1990s, implemented so-called “heterodox” stabilization plans that failed to control inflation, and wended up applying shock stabilization programs based on a sharp cuts in monetary expansion and the creation of a new national currencies. These shock stabilization programs were very effective in controlling inflation and became prominent political achievements of the administrations of Menem in Argentina, Fujimori in Peru, and

Cardoso in Brazil. Moreover, their success created a favorable momentum for the introduction of further economic reforms. Both Argentina and Peru launched radical privatization programs almost simultaneously with the stabilization programs, and these two countries and Brazil deepened substantially the liberalization of their foreign trade as part of the stabilization package.

The country essays on Argentina, Brazil, and Peru emphasize a common problem associated with the stabilization programs. Part of their success resided in their use of the nominal exchange rate as a nominal anchor, which was facilitated by the large inflows of capital to the region during most of the 1990s. Because the devaluation of the nominal exchange rate was less than the inflation rate in the post-stabilization period, the real exchange rate tended to appreciate in these countries. As a result, the profitability of the tradeables sector declined. Amadeo, in his essay on Brazil, provides estimations of this declined profitability. The combination of trade liberalization and an appreciated exchange rate led to a process of restructuring in these countries, particularly in manufacturing. Amadeo points out to the destruction of domestic networks of producers as a potentially negative consequence of the reforms, noticing that those networks played an important role in the development strategies of South Korea and Japan. Dancourt essay on Peru takes a longer, developmental view on the effects of exchange rate appreciation and the demise of protectionism. One of his conclusions is that the reforms have brought Peru back in time to the 1950s and 1960s, when the development model was based on the exports of raw materials. Such model would not be able to generate sufficient jobs to alleviate Peru's serious problem of underemployment.

Similarly to Argentina, Brazil, and Peru, Mexico also used the nominal exchange rate as a nominal anchor to control inflation during the late 1980s and early 1990s, which resulted in the appreciation of the real exchange rate. But differently from those countries, Mexico experienced a large exchange rate devaluation as a result of the balance of payment crisis of 1995. According to Lustig and Ros, the devaluation corrected the profitability squeeze of the tradeables sector and led to a robust expansion of manufactured exports. Despite this successful response, these authors are concerned about the exclusion of large segments of the population from these new dynamic sectors.

How one should read the evidence presented by the country studies? The editor of the volume draws on Karl Polanyi's *The Great Transformation* to argue that the current Latin American zeal about free-market policies is likely to fade away in future if the new policies do not address the enduring problems of poverty and social inequality that characterize the region. Such scenario is certainly possible, but it does not imply in itself a return to the previous stage of pervasive state controls on the functioning of markets. It may also be consistent with a more active state in the areas of education and environmental protection, and with better institutions in support of markets. Although it is still too early to assess whether the reforms will be consolidated or dismissed, this book is very helpful for an interim evaluation of the Latin American experience till the second half of the 1990s.