

Latin American Neostructuralism:
The Evolution of a Paradigmatic Synthesis

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Abstract

A new paradigm for economic development as emerged in Latin America that promises to combine reactivated economic growth with social equity and political democracy. Latin American neostructuralism constitutes a pragmatic paradigm for development that overcomes the revolutionary and fundamentalist idealism that had earlier characterized development approaches in the region. The evolution of the neostructuralist synthesis is traced through the development crisis of the 1980s and into the restructuring of the 1990s. The integrated policy framework is then deconstructed to show how neostructuralism justifies its policy recommendations, revealing its core assumptions and contradictions. The limit of the neostructuralist synthesis is found to be its tendency to reduce the complexity of development issues to mechanical problems, curable by simply implementing enlightened economic policies.

December 7th, 2009

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Chapter 1:

Introduction

Latin America has undergone several drastic socioeconomic transformations in the last quarter of the 20th century. Practically serving as the laboratory for various approaches to development, Latin America has often witnessed rapid and dramatic swings in its policy orientations. In the wake of a catastrophic developmental crisis in the 1980s, a neoliberal wave swept over the region, replacing the previous state directed development model of the post-war era with a new, market-centered approach. Yet by the turn of the 21st century, it has been increasingly recognized that the neoliberal ideal is neither practical nor sufficient for the region to address its basic developmental challenges. Just at this time, the neostructuralist approach burst on to the scene, promising to achieve the widely desired reactivated economic growth, but to do so in a more humane and socially acceptable way.

Neostructuralism was officially founded in 1990 with *Changing Production Patterns with Social Equity*, published by United Nations Economic Commission on Latin America and the Caribbean (ECLAC 1990). Neostructuralism has served as the overarching development paradigm and analytic framework guiding thinking of the ECLAC, the most influential economic think tank in the region. By the early years of the 21st century, neostructuralism has emerged as the leading development paradigm for the region, most strongly informing the governments of Chile and Brazil. It is also serving as a reference point for alternative approaches to development and as an anchor for discourse and debates amongst the regions main development institutions.

Neostructuralism aims to draw upon the best insights of both the earlier state-led structuralist paradigm and the newer market-oriented neoliberal paradigm, to form a new, more integrated and holistic development vision. It attempts to combine economic growth, social equity, and political inclusiveness in a mutually reinforcing way, overcoming some of the trade-offs between these goals that had characterized earlier development paradigms. Neostructuralism promises to do so by harnessing the advantageous forces within the globalization process not by resisting them, but by a careful insertion into the globalization process and by a constant effort at realignment to changing circumstances. As a result, the neostructuralist paradigm, and the governments embracing its key proposals, have been celebrated in the region as hailing a return to pragmatism, after decades of failed revolutionary and fundamentalist idealism.

Having recently emerged as the leading developmental paradigm in Latin America, critical discussion of its role as an innovative approach to development is lacking. This is compounded by the tendency of critical analyses to be carried out from perspectives already partial to neostructuralism, and if not, favouring one of its paradigmatic predecessors, state-led structuralism or market-led neoliberalism. Consequently, neostructuralism has been described both as an updated structural approach, and alternatively and as moderated neoliberal one. These studies tend to underestimate the innovative theoretical combinations that make up neostructuralism's core ideas. This study will thus focus on evaluating neostructuralism from the perspective of its own proclaimed objectives, accepting critiques and insights from both ECLAC's structuralist past and the more recent neoliberalism.

The main question to be addressed is how does the neostructuralist synthesis overcome the dialectic differences between its paradigmatic predecessors, structuralism and neoliberalism, into a new paradigm that has eclipsed both earlier ones? So far neostructuralism has been very successful at availing critiques from either the structuralist or neoliberal camps. How can neostructuralism combine both structuralism's focus on the 'system', and neoliberalism's focus on the 'individual'? What are the limitations of this synthesis, and what is over-expressed? Particular attention will be placed on the role of the state in the developmental process. The focus on the role of the state should reveal the nature of the synthesis given that structuralists basically viewed it as an essential agent for overcoming structural blocks to development, whereas neoliberals saw it more as overbearing and the chief problem getting in the way of development.

To cast light on this problem, we will look into the nature of the relationship between neostructuralism and its predecessors, both structuralism and neoliberalism. It is acknowledged that neostructuralism is both more – and less – than the average of structuralism and neoliberalism. Some ideas have been disregarded, others modified, while a whole new set of innovative conceptions and theorization has been created. At the same time, the neostructuralist synthesis has generated new internal contradictions, stemming from omissions and inconsistencies. Even so, the discursive armour of neostructuralism has proven formidable, as it weaves a web of checks and fail-safes that has so far resisted most critical challenges. In order to sidestep some of these discursive roadblocks, the analysis will undergo a comprehensive analysis of its main policy proposals. The nature of the proposed state interventions into the market and their

justifications will be highlighted to reveal exactly how neostructuralism views the proper balance between the market and the state. Corrections for market failures at a microeconomic level, competition policies at a meso-economic level, and overall productive orientations at macro levels will be examined. The study will also situate the rise of neostructuralism in its historical context. The natures of neostructuralism's conceptual and theoretical innovations are intimately tied to the widespread restructuring projects in the region, the weakness and decline of structuralism, and the exhaustion of neoliberal reforms. First, however, we must clearly define neostructuralism in the broadest sense, and deconstruct its many meanings and conceptual innovations.

What is Latin American Neostructuralism?

Latin American Neostructuralism can be defined, in the broadest sense, as a development paradigm. While only partially applicable to paradigms in the social science, neostructuralism meets Kuhn's (1962) definition of a paradigm. It contains a worldview, a set of methods, and a body of intellectuals engaged in its reproduction. In some ways, neostructuralism serves to resurrect the field of development economics from its terminal decline experienced in the 1980s. Neostructuralism was being formulated in the context of the ascendance of orthodox economics, that is, economics that is the same in both developing and developed countries. The subfield of development economics was ejected from the economics departments of many universities in the 1980s, losing its academic standing and intellectual authority. Neostructuralism reverses this trend, proposing

economic concepts, theories, and models that are specific to the Latin American region, making use of many heterodox tools.

At the heart of neostructuralism is a comprehensive development strategy. It proposes to identify the main obstacles to development and to advance a plan of action suitable to achieve the established objectives. The development strategy includes both long-term and short-term considerations that together form a strategy for immediate, persistent and progressive change in a desired direction. While many of its recommendations are geared towards policy makers, the integrated strategy speaks to the role of all kinds of actors, from transnational corporations, to civil society, entrepreneurs, the government, and labour. The strategy aims to propose a way forward that highlights the common interests of these various actors, so that to the maximum extent possible they work in together in a concerted way.

Neostructuralism also serves to offer a policy framework and specific recommendations in almost all areas of public policy. From macroeconomic, to productive development, to social and environmental concerns, neostructuralism's integrated policy framework ties these together. Furthermore, these various realms of public policy are integrated so that all work synergistically and complementarily, rather than focusing on their own specific concerns. By way of these recommended policies, neostructuralism moves from the theoretical realm into really existing action-oriented proposals. These proposals are almost always designed to be immediately implementable as well. Far from being idealist or revolutionary, the policies aim to work at the margins of the status quo with a significant attention to political feasibility.

The main desired outcomes of this strategy are the achievement of economic growth and the equitable distribution of its fruits. Neostructuralists highlight the synergies between growth and equity while downplaying the contradictions, with the aim of creating a wide base of support. The means of achieving these goals, in the neostructuralist paradigm, are to attain a kind of international competitiveness that goes beyond the simple profitability of individual firms, to include the socioeconomic system as a whole, a kind of “systemic competitiveness.” This new idea of competitiveness is based heavily on the concept of social cohesion. Only through collective, concerted action, can Latin American economies hope to compete in the ever more competitive international arena. Owing to this requirement for social cohesion, neostructuralism attains its principle systemic character.

Fernando Leiva (2009) offers an important insight to define neostructuralism as not only a development strategy, but also as a “grand narrative” of the path towards “progressive modernity”. Neostructuralism essentially offers both the proposed pathway (modernization), and the destination (modernity). Leiva argues that for neostructuralists, “the actions of the state and political institutions have to create new types of expectations, new citizens, and new ways of understanding citizenship—that is, a new political culture—as well as those attitudes and behaviours congruent with this new master narrative.” Cooperation, and solidarity-based modernization are to replace previous conflictive approaches, allowing for new social accords that promote a negotiated solution to conflicts. In this way, neostructuralism forcefully displaces revolutionary and idealistic paths to modernity, absorbing a vast array of social demands into a unified development “imaginary”.

Finally, it must be noted that Latin American Neostructuralism is very much a work in progress. Having gestated in the late 1980s, it was founded in 1990, but has since been updated, modified, and expanded to include many different dimensions of development. From the beginning, neostructuralists pointed out that they did not claim to have all the answers, and that the debate over development is not over. A sense of humility can be detected in the key documents. Jose Antonio Ocampo, former Executive Secretary of ECLAC noted: "The enormous intellectual challenges and practical tasks that are involved in the recognition of these factors should foster a sense of humility. The idea that 'we already know what must be done' is nothing more than a sign of arrogance on the part of the economics profession, which has only worsened since the rise to dominance of orthodox development thinking in the 1980s" (Ocampo 2001). In this way, neostructuralism remains flexible enough to incorporate a learning process as the results of reforms come in, and as the rapidly changing global economy continues to pose new challenges.

Rise of Latin American Neostructuralism

Latin American neostructuralism grew in influence over the course of the 1990s. At the time of the publication of its founding document in 1990, the climate of opinion in development circles, especially those in Latin America, reflected the ascendance of the neoliberal paradigm. The rise of neostructuralism was thus closely intertwined with the decline of neoliberalism, as one grew to displace the other. Even though neoliberal ideas reached the pinnacle of their influence around 1990, the wider development landscape

continually changed, incorporating new ideas, shifting focus, and addressed the major global economic changes then taking place.

The origin of neostructuralism was the development crisis of the 1980s. After the outbreak of the debt crisis in 1982, Latin America found itself caught between the imperatives of external adjustment and internal stabilization. Efforts to reach a new macroeconomic equilibrium were enormously costly for the region. As a result, the 1980s have come to be known as the “lost decade” for development. After decades of political instability and military dictatorship in the region, civilian governments slowly returned to power over the course of the 1980s, culminating in the defeat of Pinochet in the 1989 referendum in Chile. Neostructuralism thus addressed questions of political expediency and feasibility in the context of these new and often fragile democracies.

In addition to these new sociopolitical realities, neostructuralism emerged in the context of a new and evolving intellectual climate. The collapse of the Soviet empire was the most dramatic factor, clearly undermining all efforts at planned economic models. In addition, orthodox neoclassical economics, which was heavily employed by the neoliberal reformers, was also being updated. A new group of growth theories emerged that took better account of technological change and endogenous growth dynamics. As well, the 1980s saw the rise of New Institutional Economics, which tends to compliment neoclassical economics with an increased focus on institutions, transaction costs, and long term path dependencies in economic development (Ficker and Kuntz 2005).

Overall, neoclassical economics grew to incorporate a more diverse set of variables, including technology, institutions, information asymmetries, and market failures. These theoretical developments, combined with an early picture of the economic

results of the neoliberal reform process, led to the inauguration of the “post-Washington Consensus” (Stiglitz 1998). This meant that even US based development institutions, the guardians of orthodoxy in development thinking, were beginning to recognize that while less state intervention in the economy was called for, the state did have a strategic role to play to support markets and ensure their smooth functioning. In this way, there were increasing calls to ‘bring the state back in’.

The United Nations Development Program also pioneered the idea of human development (UNDP 1990). Moving beyond econometric characterizations, this new approach put human development at the centre, necessitating an increased focus on education, social welfare, health, opportunity, and participation. The human development index drew attention to the non-economic dimensions of development.

Ocampo remarked that by the turn of the 20th century, these new concerns were being felt at all levels of the development community: “recent events and the discontent they have generated have, in turn, spurred a constructive debate that promises to enrich the development agenda. The last few years have indeed made the debate somewhat more pluralistic. Alternative views of development have made some headway” (Ocampo 2002). Even so, the so called post-Washington Consensus was largely seen as just adding on these new concerns to a still intact core favouring unbridled marketization. Ocampo went on to lament, that “new concepts and areas of emphasis are often mere “add-ons” to what is, by and large, the same policy agenda, with new generations of reforms simply being appended to what are regarded essentially as the correct foundations. Seen in a less favourable light, they are merely new garments draped over the same ideas. Markets, particularly financial markets, have not really internalized the need for a new

development agenda.” As a result, both the WC and the PWC suffered from a lack of credibility. By the early 21st century, they came to be seen as a “damaged brand name”, that “instead of prosperity, the consensus now emits the poisonous odors of a recipe concocted in Washington by a cabal of inept technocrats who are out of touch with the realities of poor countries or, even worse, are in the pockets of Wall Street” (Naim 2002). The need then, was not just to patch up the ailing neoliberal paradigm but to propose a new paradigm, with social, environmental, and equity concerns integrated with the drive for smooth functioning markets.

From this point, one can see how the situation in Latin America was ripe for a more holistic development paradigm to emerge, and displace, the faltering neoliberal paradigm. Neostructuralism thus found its first early expression in Chile with the rise of the Concertación government in 1990. Much later, after 2003, it grew to inform a number of governments, especially Lula’s Brazil, and more recently in Uruguay. By 2009, neostructuralism has moved to the very centre of the development debate, displacing the Washington centred institutions, and causing them to reach a theoretical impasse – with the current trend that they are increasingly adopting neostructuralists’ ideas or risk becoming irrelevant.

What is being said (and written) about Neostructuralism: How is it understood today?

There has been only a limited amount of critical analysis of the neostructuralist paradigm. During the 1990s, neostructuralism rose from under the radar of critical development

theorists, as they were more concerned with the evolution and crisis of neoliberalism. When neostructuralism gained more attention with the rise of centrist political regimes in Latin America in the 21st century, it was often taken for granted as being a better, more humane, moderated, or pragmatic development model. Many analyses compare neostructuralism to neoliberalism and come to the basic conclusion that neostructuralism is superior because of its increased attention to institutions, political processes, and equity (Kirby 2003). Nevertheless, a few critical strands have emerged, with only limited agreement between them of the developmental significance of neostructuralism, its origins, and its relationship with neoliberalism and structuralism.

It is most widely accepted that neostructuralism has had to adjust its analytic framework to the realities of Latin America's New Economic Model (NEM) and its position in the rapidly evolving world economy. Some argue these change have been for better or worse, but all of them recognize that the new developmental environment has been a central concern of the new paradigm. ECLAC's Osvaldo Rosales commented that the new global environment favours an orientation towards the world market, and necessitates innovation and flexibility. He argues that consequently both the socialist model and the market model do not meet the new regime requirements that Latin America must address (Rosales 1995). For him, it is necessary to combine the old progressive ideas of equity and social justice with external restraints of international competitiveness. The idea is that neostructuralism should maintain the same basic social concerns, but needs to address different economic requirements, so the path to achieve the social goods must change. This sentiment that neostructuralism has had to adapt to new circumstances is shared not only by ECLAC insiders, but also by critical

development intellectuals. Gwynne and Kay find the same: “neostructuralism should not be interpreted as caving in to neoliberalism nor as an indication that structuralism was wrong but rather as an attempt to come to terms with a new reality... In this sense (neo)structuralism is showing an ability to adapt to changing historical circumstances rather than remain frozen in the past” (Gwynne and Kay 2004). This sense that it was necessary to adapt to the new globalization process can be seen in ECLAC documents themselves, where it is argued that it would be impossible to resist globalization, and it is a better option to adapt to it (ECLAC 2002). The more moderated tone that Lula himself held once he was elected is reflected in some of his statements and views on the new circumstances. Lula explained his new position: ‘I changed, Brazil changed’, he repeated on Brazilian T.V. (Reid 2007).

It is important to note that the first manifestation of neostructuralist thought was in the late 1980s, and was in a response to the highly regressive and costly adjustment programs being imposed on Latin America from the International Development Institutions. As a result, some of the early critiques of neostructuralism are limited to these short term macroeconomic considerations in the context of the drive for stabilization and adjustment, rather than on any long term development strategy (Bitar 1988; Ffrench-Davis 1988). Even so, well into the 1990s the legacy of the crisis was central in the new formulations, as Sunkel argued that the neostructuralist paradigm’s pragmatism resulted in large part from efforts to “synthesize and render consistent the guiding principles underlying the manifold proposals suggested to overcome the crisis” (Sunkel 1993). Nevertheless, in the wake of the shortcomings of these heterodox stabilization efforts, Sunkel sees neostructuralism as returning to incorporate the long

term considerations that were once at the heart of structuralism: “the neostructuralists returned for inspiration to the positive legacy of Latin American structuralism... as a consequence of the change of historical circumstances in which they were formulated, the neostructuralists revised some of their assumptions and tried to remedy their deficiencies.”

There is also an agreement that neostructuralism represents a more pragmatic approach to development. Neoliberalism has been often criticized for being excessively idealist, and unable to offer practical solutions in the really existing world. This sentiment was reflected in the founding documents of neostructuralism itself that presented a sense of urgency, and the requirement to propose practical solutions, not idealistic utopian visions. Two of the founders of the neostructuralist paradigm commented: “the region’s crisis is serious enough without adding to it a narrow minded and simplistic view of reality... because the region faces enormous challenges and the scarcity of resources is greater than ever, an innovative and renovated approach is required... it becomes imperative again to analyze and understand the real nature and full complexity of economic issues” (Ramos and Sunkel 1993). This gives us a sense that the architects of neostructuralism opted for pragmatism based out of necessity, rather than by giving up on their long term hopes for Latin America’s transformation. This sense that short-term challenges must be dealt with first, with a mind to keep as many long term paths to more substantial structural change open for the future, is present in many of ECLAC’s documents. In a CEPAL Review article published in the same year as *Changing Production Patterns*, two neostructuralists, in their comparison between neostructuralism and neoliberalism, find the same: “it would appear that on the basis of pragmatic

considerations and the lessons of experience correctly interpreted, our countries are moving towards a compromise between the less extreme neoliberal positions and the traditional economic conceptions of Latin American development, duly reformulated” (Sunkel and Zuleta 1990). Years later, it was recalled how the pragmatic tone of neostructuralism was directly related to the new climate of opinion regarding development strategy in the wake of the major world political and ideological transformations: “this compromise between the two proposals is derived perhaps from frustrating experiences in one camp or another, from the crisis conditions which continue painfully and interminably, and from the less ideological and more pragmatic attitudes that are beginning to dominate in these first years after the cold war” (Sunkel 1993). This suggests that the ends have changed less than the means to achieve them.

The characterization of pragmatism has been especially applied to the Latin American governments, in particular to Chile’s Concertación and Brazil’s PT. Javier Santiso (2006) argues that these new governments, which are strongly influenced by the neostructuralist paradigm, represent a new “political economy of the possible”. Santiso argues that this move towards pragmatism was a result of the costly learning processes of the impossibility of either socialist revolution or pure marketization. These centrist governments are also praised by other commentaries of contemporary Latin American development, who fault both the ardent neoliberal extenders, and the radical bloc for their un-sustainability, polarizing effects and lack of compromise (Reid 2007).

Some have emphasized how neostructuralism has played an important role in the political process and discourse in these new fragile democracies. The limits of what is acceptable to talk about have been expanded as a “rise of polycentric development

coalitions” holds out the possibility “to deepen and effectively extend democracy beyond the electoral arena to include basic issues related to the construction of more just societies in the hemisphere” (Korzeniewicz and Smith 1999). The astute critic of neostructuralism, Fernando Leiva, argues that neostructuralism has reshaped the entire political discourse: “it is in the realm of politics more than the strictly economic where neostructuralist conceptualizations seem to be currently having their greatest impact... It is here where neostructuralism fully assumes its role as providing a grand narrative for Latin America’s path toward modernity in the twenty first century” (Leiva 2009). Proponents of neostructuralism argue that the new politics provides a new opportunity to achieve social cohesion and thus international competitiveness. However, Leiva finds that the particular way that institutions and politics have been reinserted into the development debate have led to the unexpected “heterodox paradox”, that “in the quest of international competitiveness, Latin American neostructuralism’s carefully crafted policies aimed at consensus building, expanding participatory governance, and fostering a new type of civil society–state alliances deepen the subordination of the public sphere and society’s noneconomic realm to the logic of private transnational capital”. Thus there is an agreement that the new politics does serve to enhance international competitiveness, but it is debatable at what price this comes and whether or not it truly represents a step forward.

The conceptual and theoretical innovations of neostructuralism have been met with skepticism by some associated with the Critical Development School. They argue that a main result of the neostructuralist approach to development is to “implement ameliorative measures”. These measures serve to disarm and co-opt the more radical

social movements that have grown in recent years. The new politics subsumes basic demands for a more equitable distribution of income and better political representation (concrete demands) with a new subjectivity, where identity politics and cosmetic changes speak to these concerns but leave the core of the capitalist restructuring project intact. They see neostructuralism as basically stabilizing an in danger development model, and can thus be seen as a logic next step in the process of capitalist restructuring in the region. For these reasons, they label the new neostructuralist informed governments as “pragmatic neoliberals” (Petras and Veltmeyer 2000).

James Petras argues that while the rhetoric of these new governments speaks to fundamental changes in favour of people-centric development, the real significance of the neostructuralist policies are far more modest. Petras finds the real divergences from the neoliberals are in the details: the fine print of individual contracts, the levels of taxation, royalties, rents, joint ventures, technology transfers and directorship representation (Petras 2006). In fact, after having been given a free ride for so long, Petras argues that the new relationship between capital and state is really only being modernized, that the terms under which Latin American states allow foreign TNCs to operate are merely being updated to global standards found elsewhere. From this perspective, neostructuralism, rather than being visionary and innovative, is really playing a game of catch up after years of weakness vis-a-vis global capital.

While some of its critics argue that neostructuralism can be seen as a logical extension of neoliberalism, ECLAC argues that neostructuralism can more accurately be seen as a logical next incarnation of structuralist thinking. Ricardo Bielschowsky, who wrote the official economic history of ECLAC of the last 60 years, argues that

neostructuralism maintains the main analytic focus as the earlier structuralism (Bielschowsky 1998). Overall, he sees a pragmatic combination of continuity and change that has brought the structuralist framework up to date in the new globalization era. He states that “throughout its history, ECLAC has maintained the same methodological and analytical approach,” and that far from being an extension of neoliberalism, it can be seen as “alternative and contrary to orthodox macroeconomic and neoliberal thinking on resource allocation.” The similarities with neoliberalism are more to do with the fact that they both exist in the same historical era, that is, they both address similar challenges. Neostructuralism was necessarily “continually fine-tuned and interpretations renewed, to adapt to new historical contexts.” Bielschowsky sees the transformations that neostructuralism encompassed that made use of the neoliberal theories as strategically necessary given the challenges at hand. The changes “made it possible to build bridges with those Latin American and Caribbean governments that had persevered with the reforms, without abandoning the original structuralist analytical edifice” (Bielschowsky 2009). A number of parallels and modifications are traced: “In the structuralist period, attention was drawn, among other things, to unfavourable “centre-periphery” relations, deterioration of the terms of trade, external imbalance and structural inflation, the import-substitution dynamic, regional integration and dependency. In contrast, the neostructuralist stage highlights ideas relating to unfavourable international engagement and asymmetries in the era of globalization, external vulnerability and business cycles, open regionalism and the global, regional and national agendas.” From this perspective, neostructuralism represents a strong continuity with the past, with changes mostly associated with the new international and domestic context. The central similarity is seen

to be the view that the state is still an essential agent in the development process, and its strategic use, beyond its market stabilizing functions, are necessary to tackle social problems and promote development.

While ECLAC and Bielschowsky see a fundamental continuity between neostructuralism and structuralism, Leiva argues that the most important contributions of the structuralist tradition have been abandoned. Fernando Leiva's *Latin American Neostructuralism: Contradictions of Post-Neoliberal Development* (Leiva 2009) is the most up to date and insightful critical analysis of the neostructuralist paradigm, and his analysis serves as the point of departure for this study. Leiva uses an innovative methodology to analyze neostructuralism that goes beyond the received literature that focuses on "extended comparison of policy dichotomies (short-term versus long-term, markets versus institutions, export-promotion, etc.) [The existing literature] rarely investigates the modes through which these contending claims are produced." Leiva instead uses a hybrid approach, which combines a critical political economy with a discourse analysis. This allows him to peel back neostructuralism's "imposing tapestry" and determine how the paradigm constructs concept-meanings. This represents a leap forward in paradigmatic "theoretical self-awareness." This methodology allows Leiva to determine the meaning of neostructuralism, not just at the discursive level, but as it relates to existing social power.

Leiva finds that neostructuralism represents a break with the structuralist past, insofar as it marginalizes power relations from the analysis of the region's political economy. His principal argument of the relationship between neostructuralism and structuralism is that: "By renouncing to structuralism's methodological legacy—namely a

focus on how economic surplus is produced, appropriated, and distributed within a single, world capitalist economy—Latin American neostructuralism becomes analytically impotent in adequately explicating the scope of the qualitative transformations experienced by Latin American capitalism over the past decade.” He sees neostructuralism as shifting the focus away from this key developmental variable to its own detriment. “Rather than redrawing property rights or redistributing the economic surplus, this framework displaces the centre of gravity of policy intervention from economics to the realm of subjectivity, symbolic politics, and the cultural dimension.” Thus, contrary to its stated objectives, once neostructuralism interfaces with existing social power, it leads to “the politico-economic consolidation, legitimization, and furtherance of the process of capitalist restructuring initially set in motion by neoliberal ideas and policies.” Leiva sees structuralisms original insights as now more necessary than ever, making their rejection all the more tragic.

The neostructuralist synthesis at times represents a confusing combination of concepts, theories, models and policies. Yet we study it, because “despite the shortcomings of neostructuralism it is the only feasible and credible alternative to neoliberalism in present historical circumstances—at least for the time being” (Gwynne and Kay 2004). It is often the case that the leader of the pack catches most of the flack, for necessary and beneficial reasons. We must be careful not to passively accept neostructuralism’s innovations, even if they represent a welcome break from the past. The critical discussion of neostructuralism may benefit the paradigm itself, as it is accepted that neostructuralism is a paradigm under continual reformulation and refinement.

Methodology and Analytic Framework

This study makes use of four main methodological strands to shed new light on the problem and advance the literature on the topic. First, the analytic framework used to situate the question and thus reveal key issues to address is a critical political economy. Development policy comes about through political channels, and has far reaching economic consequences. Furthermore, the political actors that control the implementation of development policy often have economic stakes in the outcomes themselves. The critical component is necessary because development issues are intimately conditioned by power relations, and a normative acceptance of developmental discourse would not allow us to peel back, as Leiva quotes, neostructuralism's "imposing tapestry" to reveal the hidden interests, agendas, and powers with which neostructuralism is involved.

The first major methodological component of the study is a discourse / policy analysis. ECLAC has produced a number of 'institutional books' since 1990 that outline the basics of the neostructuralist paradigm. Every year or two a new book covers a new topic, and these collectively give a sense of the official ECLAC thinking and its changes over time. This study will focus on these institutional books, not only focusing on what is talked about, but how they go about framing problems, how recommended policies are justified, and what is not talked about.

The study will also draw upon insights gained by the authors attending of the annual ECLAC summer school on Latin American economies 2009. This two month summer school, run by the ECLAC División de Desarrollo Productivo y Empresarial (DDPE), covered all aspects of ECLAC thinking, including many lessons on the history

of ECLAC and changes in its thinking about development issues. This component was especially useful to see how ECLAC frames development problems, that is, their own methodologies. While most of the policies they talked about were already known from the institutional books, the time spent at ECLAC helped to reveal how decision making processes happen, how problems are framed, and how ECLAC goes about solving them.

The final component of the methodology was composed of informal interviews with ECLAC division managers. While attending the summer school, the author spoke with several prominent neostructuralist thinkers. These conversations supplemented the official ECLAC publications with more candid admissions of the limits to the neostructuralist paradigm. These conversations contributed to an understanding of the institutional limits that ECLAC must adhere to, and how the authors felt about the reasons for the movement from structuralism to neostructuralism, which often differed considerably from official ECLAC statements.

Thesis Statement

The thesis and main finding of this study is that neostructuralism is structuralist in essence, and neoliberal in form. That is to say, neostructuralism maintains the essential structuralist vision of the agency of the state in the development process, but tempers this enthusiasm by making use of neoclassical tools to measure the costs of these actions, thus creating a *balance*. The advantages of structuralist inspired interventions are weighed against the costs that neoclassical economics can measure, thus creating an optimal amount of state intervention. This is not to say that neostructuralism can be equated with

neoliberalism. Neostructuralism accepts the neoliberal critique of the state but holds out a strategic role for it to play that goes beyond the neoliberal focus of security, private property rights, and basic regulations. Neostructuralism actually proposes that the state take a strategic role to alter the productive structure in ways that promote their objectives of growth with equity. It is argued that neostructuralism is neoliberal in form, because neostructuralism attempts to achieve these objectives through neoliberal associated neoclassical economics, while almost always achieving its goals not by direct statist development initiatives, but rather by state supported market development.

Even so, while many of the state interventions that neostructuralism proposes seem at first glance to be structuralist in nature, many are more alike to neoliberalism. The overwhelming majority of state interventions into market affairs occur with the aim to support market based development. They correct market failures, support market-regulating institutions, and extend market regulating principles beyond the economic realm to the rest of society. When designing these interventions, they use modified neoclassical methods to find optimal conditions for intervention, with careful attention to the political consequences of market distortions. With the inherent instability of neoliberal political economies becoming apparent, the neostructural 'reforms to the reforms' clearly had the effect of stabilizing and consolidating the market based model.

However, the essence of the neostructuralist development strategy shares with structuralism a belief that it is both desirable and practical to purposefully orient the entire productive structure, in this case, towards the world market. While neoliberalism is often associated with outward oriented development, to be precise, this is only a result of the natural reorientation of the productive structure due to market signals. Neoliberalism,

on the contrary, does not believe that the state should, or can in a sustainable and efficient way, interfere with the overall productive orientation. Although structuralism purposefully oriented the structure inwards, and neostructuralism outwards, they share the same main belief that the state *can* and *should* orient it one way or another. This aspect of neostructuralism is the least justified. It is one thing to argue for the state to correct for market failures that can be defined and overcome in an efficient manner, but it is quite another to suggest that the state should decide how the entire productive structure should be oriented. Slightly broadened neoclassical tools are used to justify the correction for market failures, but no consistent explanation is offered to justify the intervention into the overall productive orientation. In contrast, one wonders how neostructuralism did not learn from the mistakes of structuralism. After promoting inward oriented development for so long, and having that turn out to be unsustainable, it is surprising that the neostructuralists turn around and argue for an outward orientation.

The theoretical innovations involved regarding social cohesion are the most original, not finding clear predecessors in either structuralism or neoliberalism. The drive for a collective effort to support the development strategy is sympathetic to neoliberal concerns for personal liberties, as participation is made strictly voluntary. Yet at the same time, the need for social solidarity, and the benefits of collective action harkens back to structuralist ideas of the importance of equity as a basis for development.

The main contradiction that neostructuralism produces is undoubtedly the “heterodox paradox” (Leiva 2009). While neostructuralism explicitly argues that economic objectives must become subordinated to social objectives, the effect of the drive for a consensus on the strategy has the opposite effect; the social realm becomes

increasingly subservient and dominated by the logic of the most powerful transnational economic forces. Neostructuralism suffers from a kind of 'mission creep'. Whereas the strategy begins with a humble effort to restore growth and promote its equitable distribution, over time it has grown to demand that all manner of social behaviour to be geared to support this objective. In effect, the neostructuralist vision comes to serve an example of what life would be like if economists ruled the world.

Structure of the Argument

The analysis begins in Chapter Two by uncovering the main ideas, policy recommendations, and developmental outcomes of both of neostructuralism's paradigmatic predecessors. It has become common to divide Latin America's recent history of economic development into two phases: the first dominated by structuralist ideas, often called inward-oriented development, and a second neoliberal period, with an outward orientation. This analysis will allow us to relate neostructuralism to structuralism and neoliberalism, regarding its main ideas and policy proposals. Secondly, this chapter will serve to provide the historical context for the emergence of neostructuralism after the decline of neoliberalism in the 1990s. This context will demonstrate the historical momentum that thrust neostructuralism to the forefront of the development debate. From the historical perspective, it becomes clear that the essence of structuralism, neoliberalism, and neostructuralism need to be considered in context of the development situation in which they operated. The similarities and differences between are not always

visible on the face of their policies, but how these policies related to the actual existing situations in Latin America that they were addressing.

Once the context for the emergence of neostructuralism is established, Chapter Three will discuss the reformulations that ECLAC underwent in the 1980s, culminating in the new paradigmatic synthesis. Neostructuralism went through a kind of learning process, where both the valuable insights and faults of the previous paradigms were acknowledged. The core neostructuralist concepts, theories, and models are deconstructed to reveal how neostructuralism combines seemingly contradictory elements into a unified development strategy. Special attention will be paid to the neostructuralist formulation of the role of the state in the development process. Neostructuralists see a key role for the state, however they recognize the limitations and dangers of state interventions, and accordingly integrate a number of checks and balances to these proposals. The analysis will carefully examine the justification of these interventions and reveal their theoretical basis.

Chapter Four will look at the integrated policy framework that accompanies the neostructuralist development strategy. Not only does the policy framework cover macroeconomic, productive development, social, and international policy dimensions, it does so in an integrated way where each component works towards the achievement of the overall strategy. The integrated policy framework is the clearest insight into the real meaning of neostructuralism, as it lays bare the policy and the practical meaning of the paradigm. The policy recommendations are combined with a discussion of the unique mode of regulation that neostructuralism employs. This mode of regulation makes it clear

that neostructuralism makes use of modes of social coordination that go beyond market signals to include voluntary trust and solidarity based networks.

The paradigmatic synthesis does make use of a number of valuable innovations, however, as a result of omissions and inconsistencies, it also produces a number of contradictions. Chapter Five examines neostructuralism on a theoretical and policy level, to determine what is not talked about, and what is not sufficiently justified. Overall, Leiva's thesis is confirmed, that neostructuralism avoids any discussion of the influence of power in the development process, and the obstacles to development that certain powers are posing. The strategy is excessively cooperative, looking for common ground wherever it can, but it fails to recognize the sometimes unfortunately necessity of conflict. The reality of contemporary Latin American capitalism, in the context of extreme income inequality, means that now more than ever power relations are at the heart of the developmental problems. In some cases, it can be argued that when looked at from how neostructuralism interfaces with existing social power, it even serves to support these anti-developmental powers. Certain reforms that should be front and centre in the paradigm are found completely missing or underdeveloped, because of the opposition that some powers pose to them.

There is no doubt that neostructuralism is a major step forward for the region in thinking and practice of development. Nevertheless, it is not enough. The social unity in support of the strategy needs to be tempered against the necessity to dissent, and oppose trends that benefit some at the expense of others. This need should carry over into the political realm – voters should balance the gains that compromise and concertation give with their own long-term strategies to work for the highest, uncompromised goods of

freedom and social justice. The study concludes with a brief conclusion, expanding upon some of the main conclusions, and suggests new areas of research.

Chapter 2

Historicizing Neostructuralism

The analysis will begin with a long-term historical image of Latin America that will help to frame the momentum of development progress in Latin America. Latin America has undergone a remarkable transformation in the last century, yet certain patterns remain intact. The historical review will focus on the nexus of three interrelated currents: development strategies; the policy making dynamic; and development outcomes. This historical review after 1945 will focus on the emergence and evolution of two major development paradigms that were the precursors to neostructuralism: structuralism and neoliberalism. While neither paradigm could be said to have been truly implemented in practice, they nonetheless have served as important ideational pulls for development policy making.

Structuralism, which emphasized the importance of state planning and intentional industrialization, was influential in the early post-war years, coinciding with the era of inward looking development, from 1930-1980. The reasons for its rise, the mechanics of the industrialization process, and its exhaustion in the 1970s will be examined. Neoliberalism, focusing on individual initiative as a motor force for development and market directed economics, grew in part because of the problems associated with the development model, and was an important ideational pull from the 1970s onwards. The analysis will show how these development paradigms have risen to influence and declined in policy making in Latin America. Policy makers learn from past mistakes, find

boundaries, while certain ideas gestate in the long term. This will give a historical sense of the developmental momentum when neostructuralism emerged.

Finally, the chapter will conclude with an outline of the historical development moment in which neostructuralism appeared: its germination during the debt crisis of the 1980s, its emergence during the height of neoliberalism's influence, and its rise to prominence as the neoliberal ideal was no longer seen as a useful. How exactly did policy makers come to accept the superiority of the neostructural paradigm over the previous neoliberal one? What function did the neostructural paradigm serve in the context of the maturation of the new economic order? These questions will be focused on as the analysis moves through the long-term, high-level sweep of Latin America's developmental history.

Early Economic Development

Early economic development in Latin America was slow and turbulent. Contact with Europe and the United States allowed Latin America to take advantage of imported knowledge and technology that fueled its development. However, Latin America's comparatively weak power in the international arena meant it would have to guard against international powers from conditioning Latin America's economic system to serve foreign interests.

During the late 19th and early 20th centuries, Latin America increasingly integrated into the British-led free trade imperial economic system (O'Brien 1997). Economic policy was dictated by the short-term needs of the ruling oligarchies, and not

by any coherent strategy. Development was fueled by the export of unprocessed commodities and the importation of advanced manufactures (Weaver 2000). Imported transportation technologies were especially beneficial, as railroads linked the interior of the continent to the ports, and steamships provided a cheaper and faster means of reaching foreign markets. While some success was had in reducing institutional and other barriers to trade, up until the 1930s, the Latin American region remained the most protected in the world (Coatsworth 2005).

Different economic activities with similar outputs had markedly different economic consequences. Some activities, such as the production of guano in Peru, typifying a natural resource enclave economy, had little dynamic consequences in the rest of the economy. By contrast, the pampas economy in Argentina had much stronger forward linkages, with firms centred in the port city of Buenos Aires milling the wheat, slaughtering the animals, and packing, storing, and loading the goods on ships (Alejandro 1970). Throughout the export led era, Latin America experienced some economic growth and improvements in social indicators of welfare. Even so, this period also brought a large increase in inequality, owing largely to the vast giveaways of land to the politically well connected, at the expense of indigenous and peasant people.

Latin American institutions that facilitated these activities were woefully underdeveloped. Institutional legacies included unpredictable and biased judiciaries, uncertain property-rights enforcement, high political risk, and economic barriers that blocked the participation of potential entrepreneurs (Dye 2006). The persistence of institutional formations over time suggest that the practices that emerged during the

colonial era set Latin America on a “path dependence” that tended to reinforce historical inequalities (Engerman and Sokoloff 2002).

The period from 1914 to 1945 has been described as one of dislocation and experiment (Thorp 1998). Several shocks of various types resulted in a slow shift away from exports and towards industry as the focus of economic dynamism. The Great Depression is often taken as the key event that marked the demise of the export led growth model. The collapse of world trade made clear how unreliable it was to rely so heavily on external markets for essential goods. At the same time, new social demands and political actors emerged for better wages and working conditions, coming from the growing middle and working classes, tied to the banking, merchandizing, and social infrastructure sectors. As a consequence, the ruling oligarchies were widely displaced by nationalist-populist regimes favouring industrialization. The first major moves toward strategic industrialization began during this time, with the state becoming more willing to participate in economic affairs. However, as the early forms of industrialization that emerged after the Great Depression were byproducts of the deficient functioning of the international economic system, they were a “sub-optimal solution” (Cardenas, Ocampo et al. 2000). These developments were closely associated with the rise of the Keynesian interventionist state and the ‘New Deal’ in the US. After the great depression in the US, a welfare state was constructed, while the state grew to manage economic arrangements with the power to both discipline capital and labour.

The Structuralist Paradigm and Inward Oriented Development

In the early post-war years, a democratic wave swept Latin America, bringing with it high hopes of economic development and political inclusiveness. Owing to their independent nation-state status, the Latin American republics played an important role in the creation of the United Nations system. In 1948, the UN established ECLAC, to act as a clearinghouse of information, analysis, and policy advice to member governments. As executive secretary of ECLAC from 1950, Raul Prebisch was central in the formulation of ECLAC's analytic framework and policy orientation, constituting a development paradigm later labeled Latin American structuralism. This structuralist paradigm emerged during a period of lively investigation into issues of underdevelopment, and the growth of a distinctly heterodox approach to development economics, such as those by Singer, Nurkse, Lewis, and Rosenstein-Rodan.

The analytic approach that Prebisch pioneered to studying Latin American underdevelopment was historical-structural. This approach understands the problems facing Latin America as a series of blockages resulting from the particular inherited cultural, social, and institutional circumstances of each country. This approach was non-orthodox at the time, as Prebisch felt that while received theory provided some useful tools, this general knowledge had to be re-invented locally to provide effective solutions (Bielschowsky 1998).

The basis of the structural paradigm was an understanding of the history and dynamics of the development of the entire world economy, and Latin America's particular position and insertion within it. The operating unit of structuralism was the 'system', in this case, Latin America as a component part of the world capitalist

economy. This was a break from prevailing neoclassical orthodoxy at the time, which focused on the 'individual'.

Prebisch hypothesized the division of the world economy as having an industrial centre and a largely agrarian periphery. These regions were linked by a process of unequal exchange, whose dynamics were detrimental to the development of the periphery. A high demand growth for industrial goods of the centre was contrasted against a low demand growth for primary goods of the peripheral areas. This imbalance would necessarily lead to balance of payments difficulties and foreign exchange shortages in the periphery. This imbalance was made worse by a hypothesized secular deterioration in the terms of trade between primary and industrial goods. Within this world economic system of unequal exchange, the structuralists aimed to understand how economic surpluses were generated by export activities only to be transferred overseas back to the centre, or used up for luxury consumption in the periphery.

Within Latin America, the structuralists advanced the concept of structural heterogeneity. This heterogeneity has come to be understood as having many dimensions. The dynamic worked against labour, as a slow growth in demand resulted from a sluggish investment ratio, compounded by the tendency for production methods to be capital intensive in a context of an abundance of labour (Bielschowsky 2009). It was also noticed that high productivity sectors could exist side-by-side with very low productivity sectors, while lack of forward linkages prevented productivity gains to be transferred between them. These problems were made worse by an institutional framework unable to promote investment or support technical progress. Finally, much of Latin America was characterized by non-capitalist and colonial era structures that behaved entirely

differently than regularized markets would, meaning that received wisdom and their assumptions often did not apply.

From this basic analytic framework, the structuralists believed that while market forces were a good starting point to allocate resources, they were not enough. The particular historical-structural conditions in Latin America meant a different kind of state was necessary than that which was suited to the centre economies. The strategy saw a central role for the state in planning the economy in order to break out of a self-reinforcing cycle of underdevelopment. In many cases the existence of acute blockages to development meant that specific state interventions to correct them could bring more benefits than the costs associated with the interventions. The state was to adopt a comprehensive development strategy, whose principal aim was to promote a domestic industrialization process. It was to create an endogenous growth engine that could generate and assimilate technical progress. The state was to provide for a more strategic engagement with the global economy by modifying the exchange rate, providing protective tariffs, and restricting foreign direct investment. Specific industrial policies were to be used to foster the absorption of technical progress and its diffusion throughout the economy. The state was to allocate significant shares of economic resources, by capturing rents from exports and agriculture, and redirecting them towards industry. Income redistribution policies, a land tax, and agrarian reform were seen as essential to overcome obstacles to the deepening of the industrial process and improving efficiency and equity. Institutional, financial, agrarian, and fiscal reforms were added to the policy agenda, in an aim to deepen and broaden the drive for productive development.

Economic Policy Making

Development strategy was one key aspect of post-war economic policy making, but by no means was the structuralist paradigm absolutely followed. The structuralist thinkers at ECLAC served to provide a theoretical basis for state planning, while rationalizing the process already underway.

Economic policy making during the post war years was discontinuous and caught between polarizing forces. Populists in favour of a deepened industrialization, more structural intervention, and progressive redistribution, found themselves in opposition from the domestic upper classes as well as by the United States' empire (Halperin 2008). The Cuban revolution in 1959 proved a powerful ideational influence in Latin America in favour of revolutionary state planned economies. More radical streams of structuralism such as dependency theory emerged, which emphasized the negative aspects of international trade and favoured socialist revolution. Authoritarian tendencies countered by suppressing popular demands, and in doing so maintained or exacerbated income inequalities, further fueling the flames of populism. It proved quite difficult to reach a middle ground between these extremes, and moves toward some policies, such as income redistribution, were never successfully implemented. The instability that this dynamic produced invited foreign intervention by the US, which favoured authoritarian regimes as predictable allies. The US supported Alliance for Progress economic development project was designed to offer an alternative to the Cuban model and keep Latin American developments on a course that served US strategic and commercial interests.

Nevertheless, throughout most of Latin America, Import Substitution Industrialization (ISI) emerged as a concise development strategy, especially in the medium and larger republics. The objective of ISI was to produce domestic industrial products that were previously imported. The ISI model was to progress through successive stages, from the substitution of simple consumer goods, to durables, and finally to capital goods (Love 2005). Four main factors determined the course of the emergence of this industrial policy: the disruptions caused by wars; balance of payments difficulties; growth of the domestic market; and official development policy (Hirschman 1968). The principal policy instruments used to promote ISI were the following: protective tariff and/or exchange controls; special preference for domestic and foreign firms importing capital goods for new industries; preferential import exchange rates for industrial raw materials, fuels and intermediate goods; cheap loans by government development banks for favoured industries; the construction by governments of infrastructures designed to complement industries; and the direct participation of government in certain industries, especially heavy industries such as steel in which neither domestic or foreign private capital was willing to invest (Baer 1972).

Performance of Inward Oriented Development

Overall, in both large and small republics, the inward oriented development era coincided with a rapid economic growth. From 1945-73, Latin America's GDP grew by an average of 5.3 percent per year, while productivity (output per capita) grew at 3 percent per year. This economic expansion brought with it impressive progress in social indicators of

welfare as well. A study by Astorga et Al. (2003) shows that Latin Americans improved their standard of living the fastest during the period from 1940-1980. The middle class expanded, facilitating better investments in public utilities and other infrastructure. The service sector expanded, which met the demands of the growing formal sector and businessmen. The rapid industrialization also facilitated learning by managers and workers, accelerating productivity gains and introducing new ways of organizing production (Bruton 1989).

By the late 1960s, however, the industrialization program ran into serious problems. Policy makers were unable to adjust policies rapidly enough to changing circumstances, while certain desired policies were not able to be implemented due to political opposition and entrenched interests. During the inward oriented phase, domestic markets did expand and industrialization took place, but external dependence remained high, in technology, production, and ownership patterns (Sunkel 1993). The process also failed to generate an endogenous entrepreneurial class for dynamic expansion. Latin America also failed to progress, as East Asia was doing, from ISI for the domestic market to production for the external market. Multinational branch plants were not drawn to Latin America not for their ability to compete in the international market, but rather to extract monopoly rents from protected markets. Tariff levels were allowed to rise, as the people most affected by them – consumers – had little political voice. The tariffs built up in a manner so that each balance of payment crisis brought successively higher levels of protection in a process that built up “geologically” (Cardenas, Ocampo et al. 2000). As a consequence, grossly inefficient firms arose, that were highly uncompetitive from the standpoint of world markets.

The structuralists were aware of many of these deficiencies and they tried to address them in modified recommendations, though they were not enough. Nevertheless, the longstanding export pessimism began to wane in the 1970s, owing partially to a increase in Latin America's NBTT between 1970 and 1980 (Ocampo and Parra 2003). An export promotion strategy that the structuralists developed involved grafting onto the already existing ISI framework a set of initiatives designed to increase the profitability of manufactured exports. While the promotion of exports did raise the share of manufactures in exports, it was unable to increase total exports sufficient to provide a new dynamic growth centre. Most of the medium and smaller sized countries in the Andes and Central America chose to develop their primary product export sectors. The desire to capture increasing shares of the booming export revenues led to several nationalizations of strategic exporting sectors, especially oil in Bolivia, Venezuela and Ecuador. However, simultaneous increases in imports during this period more than offset the rise in exports after 1975, maintaining a precarious balance of payments situation, which in non-oil exporters after 1973 resulted in persistent macroeconomic vulnerability.

Even with the faults that were undermining the vitality of economic development, Latin America continued to exhibit progress in the 1970s. There were persistent increases in social welfare, wages, infrastructure, and education. The problems of the system were masked by an abundant access to cheap international credit, so that as macroeconomic imbalances grew and inflation accelerated, there was little incentive to correct them. Given the abundance of foreign financing at this time the problems could have been much more effectively addressed. Given this lost opportunity, Sunkel has long argued that the 1970s was the true lost decade for development. In light of this failure to adjust,

some of the problems that the development model was manifesting became increasingly the target of well-aimed criticism from a resurgent neoliberal approach to development, not just in Latin America but throughout the world.

The Neoliberal Paradigm and Outward Oriented Development

The 1970s marked an important turning point in thinking about development economics, both in the developed and developing world. The focus on free trade between nations was undoubtedly influenced by the decades of stability after the war had ended. As well, the return of neoclassical economics provided economists with ever more precise ways of framing economic problems and suggesting where to look for solutions. Neoclassical economics never disappeared during the post war decades in Latin America. Beginning in the late 1960s, these neoclassical perspectives were enriched by an increased formality, comparability, and statistical rigor – a long over due and necessary adjustment to its 19th century methodologies (Krugman 1997).

The neoclassical analysis provided a means to quantify the costs associated with state interventions and economic planning. These insights were used by a growing neoliberal paradigm to argue for a radically different development strategy. Neoliberal development theory holds that the ‘individual’, not the ‘system’ as in structuralism, is the key analytic unit. Individuals, aggregated into markets, would provide the most optimal allocation of economic resources. Neoclassical economics is based on the aggregation of individual economic agents and firms, from the premise that individuals try to maximize utility, and firms try to maximize profit. While historical obstacles to development may

exist, neoliberalism holds that these kinds of obstacles are best overcome by creative individual initiative. Historically inherited inequalities, even if grossly unfair, were best remedied not by coercive redistribution, but by unleashing the power of each individual to develop themselves. Neoliberals thus favoured free trade, private initiative, and very little economic intervention by the state. Neoliberals argued that the state should be limited to providing security, upholding the enforcement of contracts, maintaining a system of jurisprudence, and the provision of a limited amount of public goods that met the strict requirements of a public welfare function (Friedman 1962). Neoliberals saw wider state interventionism as well-intentioned, but ultimately counterproductive. The recommendations of the neoliberals were two-fold. On the one hand they favoured the dismantling of the state planning apparatus in order to reduce economic distortions, while on the other they supported the strengthening and extension of private property rights.

The neoliberal school was increasingly vocal in its criticisms of the prevailing economic development strategies in Latin America beginning around 1970 (I.M.D. Little 1970). The basis of these critiques of the structuralist economic paradigm was that the autarkic promotion of industrialization prevented each country from achieving its maximum comparative advantage in world markets. They added that in the Latin American context of underdeveloped institutions and relatively weak policy planning abilities, the state was especially unable to have the required information or incentive to allocate resources efficiently. Thus, the overvalued exchange rates which normally accompanied the industrialization programs would serve to unjustly punish exports and agriculture. Multiple exchange rate mechanisms designed to favour certain types of imports would encourage speculative and unproductive behaviour.

The rapid expansion of the East Asian economies during this time underlined, from the neoliberal point of view, how important exports were to growth. However, it would be more precise to say that the neoclassical economists only supported exports indirectly. They believed the growth of exports would be a natural evolution of the withdrawal of state from the economy. Similarly, they did not argue for primary commodities production explicitly, but rather, left unto its own, the market would decide what to produce. Thus, some of the key questions occupying structuralist development theories, concerning the level of industrialization or the correct exchange rate, were seen as missing the point by the neoliberals. By the mid 1970s, the neoliberal social philosophy and the neoclassical economics that it employed began to inspire radical restructuring projects in favour of marketization.

Early market oriented reformers

Latin America generally attempted half-hazard export promotion schemes in the 1970s, but it was in the southern cone that a more comprehensive project was attempted. This first wave of neoliberal inspired restructuring occurred at a time when highly repressive military governments ruled the region. The emphasis on freedom in the economic sphere was thus combined with authoritarianism in the political sphere.

The policy reversals in Chile under the Pinochet dictatorship were the most dramatic in Latin America at the time. A group of economists known as the 'Chicago boys', who had trained under Milton Friedman and Arnold Harberger at the University of Chicago, agitated for a profound neoliberal overhaul. By the late 1970s, the Chicago

boys had taken over key economic policy positions within the government, and from that base, they launched their free-market revolution.

Tariffs were reduced to an average of 10 percent by 1979, coming down from over 100 percent in 1973. Public spending was reduced to one-half its 1973 level by GDP (O'Brien and Roddick 1983). Almost all of the nationalizations that occurred during the Allende period were reversed, and some privatizations of even more longstanding strategic sectors took place, with the exception of the large national copper company. Prices were freed and the banking system and financial markets were deregulated. A new pro-business labour code was established and social security was privatized. Macroeconomic management was distinctly monetarist, with inflation being managed by demand management and a contraction of the money supply. These reform measures were also undertaken, although to a markedly lesser degree, in Argentina and Uruguay under their own dictatorships, as well as in Peru after the transition to civilian rule in 1978.

After some initial economic growth and a fall in the inflation rate, these early reformers succumbed to economic crises along with the rest of Latin America in the early 1980s. In fact, the debt crisis hit these countries especially hard, with Chile's GDP falling by 14 percent in one year. The rapid and un-sequenced financial liberalization created distortions that resulted in financial panic when the inflows of capital of the late 1970s were reversed in the early 1980s (Ffrench-Davis 2002). The period of radical market oriented reforms also brought a more pronounced concentration of wealth, as capital was better positioned to take advantage of the new arrangements, whereas organized labour was repressed and was disproportionately forced to bear the burdens of adjustment.

These early reformers were unusual in that they preceded the major shift in the developed countries towards neoliberalism. The global neoliberal shift was used as a way to restructure out of a profitability crisis that was manifest in the capitalist core countries. By making use of the widely popular ideology of freedom, the project aimed to restore primacy of finance over production, secure conditions for the penetration of developing world markets and counter their demands for a more democratic world order, reestablish the dominance of capital over labour, and to dismantle costly elements of welfare state. This global restructuring project found political expression in UK and US in neoconservative governments, and the trigger was pulled in 1979 by the US Federal Reserve, which precipitated a worldwide recession, and thus provided for a chaotic environment that was more amenable to be reorganized along the new order (Harvey 2003). Latin America was eventually swept along in this new tide, and did so from a very disadvantageous position.

The Debt Crisis, Stabilization and Adjustment

The key turning point in Latin America's economic development, often taken as the transition point between inward and outward oriented development, was the outbreak of the debt crisis in 1982. The debt crisis was generalized, with nearly all countries of Latin America finding themselves having major difficulty servicing their external US Dollar debts, regardless of previous policy orientation. Essentially, the crisis resulted from a crisis of over-borrowing, made all the more dangerous by the ability of the US Federal Reserve to exert monopoly control over the interest rates and availability of new credit.

Throughout the 1970s the external debt of Latin America grew, especially by the big three borrowers, Brazil, Argentina, and Mexico. They were incentivized to borrow by the artificially low interest rates set by the US Federal Reserve. When interest rates spiked after 1979, the US and world economy were thrown into a deep recession. The demand for Latin America's exports plummeted, and the terms of trade turned against them, exacerbating balance of payments difficulties. International lenders expressed procyclical behaviour, so that just when Latin America needed new loans the most, banks were unwilling to lend. This combined with a massive capital flight in 1981-82, meant it was increasingly difficult to service the debt.

The debt crisis triggered a decade of economic chaos in the region, with unprecedented socioeconomic setbacks, and a very slow and difficult adjustment. The immediate challenge was external adjustment, that is, a correction in the balance of payments and the generation of a massive trade surplus in order to service the debt. Linked with the challenge of external adjustment, was internal stabilization, that is, the control of runaway inflation. These challenges were to be tackled in the context of major macroeconomic uncertainty, and a massive outflow of resources (Ramos 1993).

By 1983 three-quarters of Latin American countries were then under IMF agreements, all of which were of the "upper credit tranche" involving a high degree of conditionality. The IMF demanded policies that were essentially geared with the singular objective of liberating funds in order to maintain debt service payments. The dominant adjustments that the Fund required were the following: a devaluation of the currency, the reduction of the fiscal deficit, the promotion of a trade surplus, and the liberalization of prices, except the price of labour, which was fixed by a public sector wage freeze. The

IMF's orthodox stabilization program was thus inherently contractionary, as only through the destruction of demand could the trade balance improve. The overall effect of this austerity in the midst of the recession was strongly pro-cyclical, which severely jeopardized long-term investment and growth. Governments resorted to printing money to meet shortfalls, thus causing rampant inflation, which from 1982 to 1988 averaged 240 percent.

A few heterodox stabilization programs were attempted, with the goal to restore balance without provoking a major recession. These programs combined demand management policies with supply strategies that were to shift resources from non-tradable to tradables. Price controls were to guide expectations, providing a buffer while new income streams came online. After some initial success, these programs failed in their objectives and in some cases aggravated the crises. By the end of the 1980s, there was still no clear resolution to the debt crisis, and macroeconomic volatility persisted.

Democratization and the New Economic Model

The adjustment and stabilization programs were occurring in a context of the return of civilian rule to the region after decades of widespread military governments. While grassroots demands were in part the impetus for the transition, it remained a negotiated transfer between political, economic, and military elites. During the transition it was agreed not to stir up democratic aspirations too much; the new order would be a low intensity democracy (Gills, Rocamora et al. 1993). As a result of harsh military repression, a widespread atomization of civil society occurred, resulting in a passive

conformist attitude, and a radical de-politicization. Popular disenchantment with politics did not wane with the return of civilian rule, as they remained distrustful, suspicious of corruption, and felt excluded from the process. A sense of insecurity prevailed, and violence increased (Munk 1989). The democratization was complicated as demands for correcting social injustices met with very little capacity of the state to deliver.

One solution used by the new governments was to technocratize economic policy making (Gwynne and Kay 2004). Specialized economic teams, often foreign trained, were seen as essential to ensuring confidence. They served as intermediaries between governments and international capital, while insulating politicians from economic failures. Economic development became a technical, not political problem. In order to further avail the public, a strategy of replacing political participation with consumer demands propagated, fueled by a large increase in TV viewership and the transnationalization of culture. Liberty to consume replaced political rights, and social mobility and personal achievement were contained to the domain of private satisfactions.

The climate of opinion in Latin America dramatically shifted when the collapse of the Soviet Empire undermined for all forms of planned economies. By the early 1990s, the “end of history” was declared; liberal free-market democracies had won. Now no longer confined to a small group of academic, military and business cliques, the new economic model established itself in the mainstream common sense.

A first comprehensive proposal of what was needed to adjust to the new environment arrived in the mid 1980s (Balassa 1986). While this proposal was initially not well received, the contours of this market oriented restructuring program were outlined in a much more influential document, *What Washington Means by Policy*

Reform (Williamson 1990). Its main policy proposals, the lowest common denominators that were being demanded by the Washington based institutions, came to be known as the Washington Consensus (WC). The next year, the World Bank weighed in with its “market friendly” form of development in its *World Development Report* (WorldBank 1991). These ideas formed the basis of the restructuring projects in the direction of neoliberalism that were being implemented widely in the region at the time. The restructuring project began in 1985 and accelerated at the turn of the 1990s, and was centred on three areas: liberalization, deregulation, and privatization.

The liberalization campaigns focused on three particular markets: foreign trade; the financial system; and the labour market. The liberalization of trade was supported by a growing body of evidence that found that economies most exposed to international trade flows had the highest growth rates. The decline of tariffs and non-tariff barriers to trade were dramatic, whereas progress in labour market reform advanced the least. Average tariffs fell from around 42% in 1986 to around 21% in 1990, and to roughly 12% in 1995 (Paus 2004). The new liberalized structure was supposed to move resources from the previously capital and import intensive import substituting investments and towards sectors involving natural resource exploitation and labour intensive production, in accordance with static comparative advantages. The reduction in tariffs would serve to shake out uncompetitive import substituting industries, while benefiting consumers with lower prices (Dijkstra 2000).

The deregulation campaign was meant to make it easier for new entrepreneurs to open business, thereby unleash the private creative spirit, and increase employment and overall productivity of the economy. At a meso-economic level, some re-regulation

occurred, as institutions of economic regulation were imbued with market testing mechanisms. There was also a drive to break the influence of the government over monetary policy, leaving the central bank to set interest rates autonomously. Privatization of state owned enterprises was designed to increase firm efficiency, while reducing structural distortions resulting from government planning (Chong and Lopez-de-Silanes 2005). The privatization of state assets, which gained momentum in the latter half of the 1980s, was also a means whereby the state could reduce costs on loss making enterprises, while gaining one-time influxes of money that could service the debt, in so called 'debt for equity' swaps.

While the New Economic Model is often viewed in terms of its macroeconomic components, the heart of the NEM rests on microeconomic foundations (Reinhardt and Peres 2000). Individual economic agents were to allocate resources efficiently, with the state limited to setting the rules for the game. Industrial policy almost disappeared altogether, with only limited programs for the promotion of credit, and the building of strategic scientific and technical infrastructure.

The economic performance of the reforms has been mixed. Among the most significant advances has been in the area of controlling inflation. Owing largely to a large reduction and stabilization of fiscal deficits, and a slowdown in the issuance of new money, inflation has decreased from an average of 400% during the 1980s to around 10% percent by the year 2000. The boughs of hyperinflation have also disappeared, which had earlier seen inflation rise to 1200% in 1990, levels very damaging to economic development. The reduction of inflation also looks impressive when compared to levels during the ISI era of about 20% (Ramos 2000).

The era of the NEM has also seen a slight diversification of the production structure, especially with regards exports. Export growth has been very rapid, growing at about 9% per year in the 1990s. This rate was over four times greater than export growth during the ISI era. The export profile has also diversified to incorporate a greater percentage of non-traditional exports. The level of traditional exports has fallen from 75% in 1980 to 50% by 2000. Over the 1990s the proportion of manufactures in exports has also increased.

Even though the NEM has ushered in drastic cuts in social spending, the provision of basic infrastructure and public services did improve as well. Poverty rates declines slightly from there very high 1980s levels, and this has largely been attributed to increases in social spending after 1990. Overall, the region registered some growth from 1990 to 1994 and in 1996. This growth was an important contributor to the consolidation of the reform agenda. However, this growth has since been shown to be a result of the large capital inflows that returned to the region, rather than as a result of the reforms themselves. Indeed, even proponents of the NEM admit that the actual growth effects of the reforms so far implemented have been disappointing.

Contrasting with rapid growth in exports and modest economic growth, the NEM has been associated with poor productivity growth (Rozenwurcel 2006). Labour productivity grew at rates much slower than during the ISI period. The reforms also had a negative impact on the distribution of income (Peres and Stallings 2000). Investment ratios still remain below their 1970s levels. The growth of international competitiveness of exports has largely been the result of frequent devaluations, rather than increases in productivity. The rise in exports is also contrasted against a fall in high technology

exports and services, such as engineering, informatics, and telecommunications (ECLAC 2008). There has been a marked move towards the informalization of the labour force. In the agricultural sector after the reforms, production has increased, but employment has fallen. The number of small farms has drastically fallen, and inequality in the distribution of land and income from agriculture has increased.

The NEM has also been associated with enormous and growing transfer of real assets abroad. Much of this transfer has been a result of debt service. Debt service ratios have improved recently, but the quantities remain massive. These transfers are combined with increases in royalties, rents, and profit remittances towards foreign-based TNCs (Petras and Veltmeyer 2007). As the much sought after foreign direct investment has bought up existing assets in Latin America, transfers abroad increase in tandem as the restrictions and conditions for the availability of FDI have all but disappeared. Much of this FDI has also been used to buy up existing productive capacity, capture shares of domestic markets, especially telecommunications and other utilities, rather than for the creation of new production. The gains from privatizations, often sold to foreign TNCs, did not bring in nearly as much income as they were worth, owing to the rushed nature and non-transparent nature of the negotiations.

The particular combination of trade and financial liberalizations, when combined with overvalued exchange rates that were the product of pro-cyclical financial flows, meant that most of Latin America experienced a significant deterioration in their external accounts during the 1990s (Ocampo and Martin 2003). A large proportion of these deficits have been financed by public and private external indebtedness. The increased financialization of the economy after the reforms is one of the most salient features of the

new economic order. The continual increase in foreign indebtedness and the reliance on foreign capital inflows combined to magnify the external vulnerability and financial fragility of the region. Sudden stops in capital inflows were able to precipitate major financial and currency crises in nearly every country in the region. These crises, while emanating from the financial domain of the economy, had serious effects on the real economy (in why have all failed UNU). The most important of these crises happened in each of the big three economies: Mexico (1994-95), Brazil (1998-99) and most dramatically in Argentina (2001-02).

The Historic Moment of Neostructuralism

The rise and fall of paradigms, as we have seen with structuralism and neoliberalism, are closely associated with the prevailing historical conditions regarding their developmental performance and the policy making dynamic. Neostructuralism was born, and grew to prominence in a particular historic moment of Latin America's history, although at a country level the transition was specific, and in some places has not yet begun.

The neostructuralist paradigm was born in the context of a generalized development crisis. This crisis was much more severe than the conditions prevailing during the emergence of structuralism or neoliberalism. Thus, especially in the founding document of neostructuralism (ECLAC 1990), a sense of immediacy can be detected, of pragmatic, achievable objectives, rather than idealistic distant futures. As well, it was founded at a time of the apex of neoliberal globalization's ascendance. It is thus not surprising that neostructuralism accepted the basic tenants of the new economic model,

especially with regards the openness to the world market. Even so, over the course of the 1970s and 1980s, as neoliberal development theory and neoclassical economics gained prominence, the special economic field of development economics was all but eliminated from economics departments. Neostructuralism aims to reactivate the lively traditions of the 1950s and 1960s that apply economic theory to the specialized contexts of developing countries. One neostructuralist remarked on how younger economists, trained strictly in the neoclassical synthesis, lacks the creative thinking and adequate breadth of knowledge that comes from the loss of a distinctly Latin American tradition of independent, valuable, and enriching cultural heritage (Sunkel 1993).

Neostructuralism then came into prominence in policy making circles as the neoliberal reform agenda became exhausted. The market reform agenda was largely inspired by neoliberal idealism; it was understood that a move *towards* neoliberalism was desired, but it was not clear how much was possible or desirable. Thus, neoliberalization continued up until reform fatigue set in. By the second half of the 1990s this is exactly what happened, as earlier political strategies for the implementation of reforms such as deception or authoritarianism became difficult to sustain, and social movements in opposition to the reforms grew. By the early years of the 21st century, Latin American governments emerged that were committed to the new economic model but hesitant to undergo more restructuring. Instead, they focused on modulating the contradictions and social tensions that had emerged as a result of the reform process, while humanizing the role of government.

It becomes clear that neostructuralism played a very different role than neoliberalism had. Rather than being idealistic, it focused instead on accepting the status

quo, and progressively modifying from there at the margins. In the prevailing context of neoliberalism's ascendance it would have been impossible to challenge it directly. Instead, it "captured neoliberalism's thunder" (Leiva 2009) right at the time when neoliberalism was losing its ability to be a viable ideational pull for policy makers. In this sense neostructuralism was a complimentary successor to neoliberalism. The neoliberal paradigm's focus on marketization was less able to handle social and political counter forces. As these counter forces grew, the extent of neoliberalization was accepted as sufficient, and neostructuralism took over. From this position, neostructuralism could rebalance the development agenda through progressive improvements.

Neostructuralism from a pragmatic stance that accepted the status quo and intended to cause change gradually at the margins of policy spaces, served to deepen and generalize the marketization program into the social and political realm. In doing so, oppositional forces to the new economic model were pacified, as the new approach attempted to address their concerns. The neostructural paradigm aims to construct institutions of social intermediation that are better suited to meet the needs of the new economic model. Increased attention to poverty and equity serve to counteract social tensions, while the focus on consensus and cooperative action subsumes political opposition. The overall effect of neostructuralist policies is thus to stabilize the system, consolidate the reforms, and provide new avenues for constructive reformulations that maintain the coherence of the economic model.

The momentum of Latin America's development history thus seems to have been caught between opposing dialects revolving around the proper role of the state in the development process. Structuralism found the state to be too weak, while neoliberalism

too overbearing. The lessons and failures of these two approaches to the role of the state were thus central in the neostructuralist approach. Accepting the neoliberal's successful reduction in the scope and size of the state, neostructuralism would instead argue for a different kind of state, focused on its efficiency, and strategic capacity to promote development. It was then, in large part, the failure of both 'good revolutionaries' and 'well intentioned free-marketers' (Santiso 2006) that served as the historical backdrop for the emergence of pragmatic neostructuralism.

Chapter 3:

The Neostructuralist Synthesis

Neostructuralism should be considered as a unique paradigm in its own right. Over years of reformulation, ECLAC produced the neostructuralist synthesis that attempted to build off of insights provided by both structuralism and neoliberalism. The struggles to address the deficiencies in the structuralists thinking, while overcoming the narrow neoliberal focus were at the heart of the new paradigm. The new paradigm brings together a diverse set of innovations by creating new concepts and new modes of theorization. The course of thinking that ECLAC theorists went through in the course of the 1980s is instructive in how they arrived at the main principles. In particular, neostructuralism drew heavily from Fernando Fajnzylber, former head of the United Nations Industrial Development Organization. By exploring the evolution of thinking at ECLAC, the intellectual convergence at the end of the 1980s that produced the neostructuralist synthesis and the focus on the new conception of the role of the state will reveal how neostructuralism overcomes seeming contradictory ideational pulls.

Evolution of ECLAC thinking

The first formulation of ECLAC's thinking on Latin America's economic development challenges was centred on theorizing about the structure of the worldwide economic system and the ways in which surpluses were generated and transferred within that system. From this perspective, ECLAC argued that Latin America was in a disadvantaged

position and that a concerted drive by the state was necessary in order to deliver economic development. Industrialization was the linchpin of the strategy, and this was to be achieved by substituting previously imported goods with domestically manufactured ones. Elements of this ISI development strategy were widely implemented in the region in the 1950s and 1960s, especially in the medium and larger republics.

By the 1970s, ECLAC's influence on economic policy had declined, while a strategy of export promotion and export substitution gained ground. With the arrival of the debt crisis and the 'lost decade' of the 1980s, the state ceased to be a useful agent for development as it was captured by the forces of organized business that no institution was strong enough to contain (Iglesias 2006). A decade of costly stabilization and liberalization ensued, guided by the principles of the "Washington Consensus".

Meanwhile, ECLAC was engaged in a process of self-reflection, learning, and reformulation. In the early years of structural adjustment, ECLAC proposed a program of "expansionary adjustment" that involved renewed lending from the creditors, and an easing of fiscal austerity. These ideas manifested in the unsuccessful heterodox stabilization programs of the late 1980s. The chief concerns of this incipient neostructuralist focus were short term macroeconomic in nature. In terms of long term development strategy, there was less of a consensus on what direction to take. The former head of ECLAC during the emergence of neostructuralism comments on ECLACs projected image: "For many years, there was no synthesis of the internal debate into a renovated and coherent message, but rather different proposals that offered ambiguous and even contradictory signals regarding the institutional stance" (Rosenthal 2000). As a result, ECLACs influence was in serious jeopardy. It was basically unclear to which side

the new ECLAC should lead – back to its structuralist roots or along the new neoliberal lines: “Some staff members leaned toward defending the cepalino message of yore, while others were finding certain merits to the theoretical winds that were starting to blow, specially in the Southern Cone.” Rosenthal eventually chose to adopt Fajnzylber’s ideas (Fajnzylber 1990), and together they crafted the outlines of the new paradigm.

Just as the neoliberalism was achieving dominance by 1990, ECLAC launched its new development paradigm with *Changing Production Patterns with Social Equity*. A wider body of work that was produced in circles associated with ECLAC since that time has come to be known as neostructuralism, of which the above mentioned is a component part. This successor to structuralism shared several analytic elements with its predecessor, however, as it was produced in a very different global economic and intellectual context, its ultimate policy prescriptions diverged considerably.

The new neostructuralist paradigm attempted to learn from both the limitations of the then dominant neoliberal paradigm and also the shortcomings of its structuralist predecessor. The challenge for the neostructuralism was to take advantage of the insights, tools, models, and concepts of both these paradigms. If it were to overcome and displace both previous paradigms, it would need to produce a synthesis of the previous opposing ideas. The synthesis could not merely be a combination of elements of each, as this would have produced too many internal contradictions. It had to propose an entirely new analytic framework, a new vision of development, whose internal consistency and discursive innovations could not be challenged by either of its forebears. The synthesis began with a critique of the earlier paradigms, to understand their strengths, limitations, and ultimate usefulness for the new paradigm.

Neostructuralists recognized that neoliberalism was based on an extreme, unbounded rationality. Neostructuralists, like the structuralists before them, argued that individual economic choices are based on historical-cultural customs that cannot be captured within a narrow reading of economic behaviour.

One the most significant critiques of the neoliberal paradigm was its focus on static, rather than dynamic comparative advantages. Neoliberals argued that each country ought to specialize in whatever it could produce most competitively at any given time. As a consequence, it was argued that neoliberalism offered little hope for escaping a heavy dependence on the production of primary commodities (Peres 2006).

The neostructuralists recounted the problematic history of neoliberal experiments since the 1970s. They showed that drastic liberalization programs, especially in the financial domains, can lead to widespread destabilizations, the spread of economic bubbles, rampant speculation, and ironically widespread anti-competitive behaviour. The dangers of this destabilization were amplified by to the reductions of the state apparatus that accompanied neoliberal reforms. There was an increased recognition that private interests may undermine the social interest just as much as an overbearing state could. Neoliberalism, especially the New Political Economy school associated with it, identified several weaknesses with the prevailing models of state interventions, but they failed to recognize market generated problems. They used the ideal of a perfectly competitive economy in their models, but this ideal was never realized in practice.

Neostructuralists also pointed out that neoliberalism was highly idealistic. It offered an ideal model with which to strive to, but it suggested no way of moving from the really existing situation towards that model. It was almost as if initial conditions did

not matter, and all restructuring programs in all countries should be alike, and as rapid as possible. Finally, the neostructuralists argued that the neoliberal inspired structural adjustment programs of the 1980s were unnecessarily highly regressive. The reduction in aggregate expenditure that these programs required proved to have major social consequences, causing unprecedented increases in inequality.

Neostructuralists also looked back to the earlier problems with the structuralist paradigm, including the reasons for its decline and ultimate demise. They accepted one of the main criticisms leveled against it, that it had an excessive confidence in the value of state interventions. Structuralists had always held that private actors were the foundation of any development model, but they failed to recognize the potential drawbacks of state interventions, causing them to grow unchecked. While the neostructuralists support a strong and capable state, they balance this with an acknowledgement of the limits to interventions and the risks that they carry.

The neostructuralists also pointed to the exaggerated and prolonged pessimism that structuralists held with regard foreign markets. Originating with the Great Depression, structuralists viewed international markets as unreliable, both as a destination for its exports and also a market for essential imports needed for industrialization. This export pessimism unfortunately carried on through the 1950s and 1960s, even while global trade expanded at unprecedented rates.

There was also a recognition that the structuralist paradigm was less able to respond to short-term fluctuations. The style of macroeconomic management promoted was unable to handle conjunctural problems, especially of the financial and monetary

types. Overall, the structuralists were excessively focused on long-term trends, and failed to recognize the significance of short term macroeconomic balances.

The structuralists were also faulted for focusing too much on the demand and circulation sides of the productive structure, and not enough on the supply. The growth of the domestic market was a way to encourage industrialization through its backward linkages but this happened at the expense of an efficient, productive, and competitive productive supply.

The New Neostructural Strategic Development Vision

The neostructuralist development vision begins by addressing the immediate challenges facing Latin America. It is understandable, after the lost decade for development, that any new development strategy should place the reactivation of growth at the forefront of the agenda. Latin America had for centuries experienced growth, even if at times erratic, up until the 1980s crisis. However, it has always proved difficult for Latin America to reconcile economic growth with an equitable distribution of income. Early neostructuralists made use of a metaphor of the 'empty box' (Fajnzylber 1990) to describe the frustrating tendency of Latin Americas productive system to produce growth without equity. The so-called 'trickle down effect' never materialized in Latin America. Attempts to start growth, and afterwards work for a more equitable distribution, have historically failed. Nevertheless, using a broad arrange of cross country studies, neostructuralists argue that growth and equity are not necessarily mutually exclusive (ECLAC 1992). There are a number of different types of growth that are especially

reconcilable with equity, and a number of different policies that can promote their complementarities.

They argue that economic policy should not only be concerned with promoting growth, but also with consideration to the distributional impacts of that growth. Similarly, they argue that social policy ought not only to consider equity, but also with the aim of promoting competitiveness enhancing social policies. Neostructuralists thus do not merely try to promote one goal at the expense of the other, but to achieve a maximum degree of complementarity between them. Too often, ECLAC pointed out, the antagonisms of the two objectives are highlighted, whereas opportunities for their mutual promotion are overlooked. The goal then, is to strengthen complementarities and reduce trade-offs. In order to achieve these integrated goals, neostructuralists see an important role for the state. Pure market oriented approaches tend to sacrifice equity too much for growth, from the standpoint of the social good. The state thus has a role to play to guide market behaviour to promote the virtuous positive feedback loops between growth and equity. Neostructuralists highlight how policies directed at human capital accumulation and productive employment have especially strong effects at promoting both growth and equity, and are consequently at the centre of the strategy. Direct transfers to the poor, though sometimes necessary in the cases where social justice demands it, do have positive equity effects but often occur at the cost of reduced growth.

Finally, neostructuralists cannot imagine a political climate able to reconcile the difficult challenges between growth and equity that is not democratic. In this way, the neostructural paradigm is an integrated program with a total socio-economic vision. It aims to combine economic growth, social equity, and political democracy. These three

goals must ultimately be promoted as one, and the heart of the strategy is to advance a series of “virtuous circles” that are mutually supportive. Neostructuralists argue for a national consensus amongst government planners, the private sector, and civil society around the fundamentals of the development project. There must be a social consensus behind development drive, given the systemic and integrated nature of the challenge. The extremes of populism and technocratic policy making must be brought together through democratic consensus and participation. Neostructuralism thus goes beyond market-centric forms of social coordination to include networks of trust, consensus, and cooperation (Leiva 2009).

In order to promote these different yet related goals, neostructuralists argue that a widespread industrial restructuring is inevitable. The previous industrialization period from the 1930s to the 1970s has been described as being based on two main drivers, neither of which particularly promoted the virtuous circles desired (Ramos and Sunkel 1993). The natural resource sector was chronically underdeveloped, with few links to the rest of the economy, and the industrial sector’s growth was dependent on protected markets. Furthermore, the two sectors had few links. Instead, neostructuralism calls for the utilization of an industrial strategy based on the technical innovation of the processing of the natural resource base. In this way, neostructuralism combines the structuralist’s focus on investment, and the neoliberal’s focus on competitiveness, into a unified drive for competitive investment.

There are several components to the integrated solution to the ‘black box’ problem, signifying the difficulty in absorbing and generalizing technical progress in the production fabric (Fajnzylber 1990). Some innovative concepts have been advanced in

this respect, and certain thematic areas have been emphasized. They include: the centrality of technical progress; genuine competitiveness; systemic competitiveness; proactive labour flexibility; and the investment and consumption patterns.

Neostructuralists see a fundamental role for technological transformation in their overall strategy. The purposeful absorption of technical progress is able to support sustained increases in productivity, and these gains will further productive employment, the linchpin of growth and equity. In order to compliment this dynamic, the strategy is focused on those subsections of industry that are especially good at incorporating and disseminating technology to the wider productive structure. The overall aim in this regard is a “creative domestic effort to shape a productive structure that is functional to the specific national deficiencies and potentials” (Fajnzylber 1983). In Latin America, given their moderate level of industrial progress, the adaption and absorption of existing technology was desired.

In order to achieve these goals, neostructuralists argue that Latin America must meet the new regime requirements of the globalization process. They argued that the type of globalization that Latin America had so far been involved with was not optimal, and that there were other ways to engage with the global economy that were more beneficial. In particular, they argued for a “high road” to globalization (ECLAC 1990). The difference between the high and low roads depends on the way the globalization process is regulated at the global, regional, and national levels; on the macroeconomic regimes used to balance the conflicting forces within; as well as the micro-foundations of integration with the new global production structure. The heart of the strategy to achieve this high road to globalization was to increase exports and to incorporate in them a higher

technological content. The problem with the previous, low road to globalization was that the basis of its competitiveness was on low wage costs and devaluations. This meant that social equity was incompatible with economic growth. Higher technological content could break the cycle of low return export growth that had previously characterized the primary export sector. While neostructuralists see globalization as inevitable, they do see that the particular form it takes is directly related to the policies chosen to manage it: “Although forceful technological and economic processes underlie it, there is no doubt that the globalization process can be shaped, and indeed the form that it has been assuming has largely been shaped by explicit policy decisions” (Ocampo 2002). From this perspective, globalization can be turned into a positive force if enlightened policies are adopted – deeper structural problems with globalization are not considered.

Neostructuralism makes use of a new conception of competitiveness, especially at the international level. They define competitiveness as the ability to retain or gain market share, while increasing the standards of living of the people, in the context of an increasing exposure to international markets. While neostructuralism does accept the neoliberal focus on competitiveness as a benchmark for productive progress, it holds that competitiveness must be understood in the socioeconomic context of each country. That is, a country’s competitiveness is not just the average competitiveness of the firms in a given country. Rather, neostructuralists develop a conception of structural, or systemic competitiveness (OECD 1986). This conception accepts that competitiveness is partially a function of the management of individual firms, but it also includes the competitiveness of the wider productive structure, the scientific and technological infrastructure, the education system, and the existence of support services, such as financial, engineering,

design, and transport. These externalities determine international comparative advantages beyond what would be expected by any given firms internal organization and the price system. From this perspective, it is not individual firms that compete in global markets, but entire social systems. Brazil competes with Korea, just as Brazilian car manufactures compete with Korean car manufacturers. For this reason, neostructuralists see further reason for the use of the state to help integrate these various aspects in a coherent way that supports the overall competitive industrial transformation. The systemic nature of competitiveness also underlines the neostructuralist drive for efforts to unify entire nations around the development strategy.

In support of the promotion of systemic competitiveness, neostructuralists support a reorientation of labour relations (ECLAC 1992). Whereas neoliberals were hostile to trade unions, as they were a form of market monopoly that could distort ideal prices, neostructuralists hold that they have a role to play in supporting equitable growth. However, they argue that the nature of the trade unions must change. In previous years, the labour movement was characterized by confrontation with capital and management. However, in the new international environment, neostructuralists argue that labour and management need to come to terms with their common interests. From this perspective, management is no longer the strategic enemy of labour, but rather international competitiveness is. Thus, labour needs to accept certain productivity enhancing measures as compensation for higher wages, thus maintaining the firm's international competitiveness.

Neostructuralists accept the idea that in recent years a new techno-economic paradigm has emerged, that increasingly demands flexibility in the organization of

production. From this basis, labour is to accept 'proactive labour flexibility', including increased ease of hiring and firing employees. They are to be compensated by increased support for education and training, in a coordinated effort with the wider social policy. These proposals are to increase the flexibility of individual firms to adapt to rapidly changing conditions, to help workers adjust to the new labour market, and to support the overall systemic competitiveness of the economy.

Another central concern neostructuralism are the growth and equity effects of investment and consumption patterns. They argue overall, investment rates are too low, that savings and investment can be supported by specific state actions. Private and public austerity can both contribute, and wage earners must also increase their savings rates. The patterns of consumption are criticized for the tendency of the upper income strata to mimic the unsustainable and wasteful consumption patterns of the United States. These patterns reflect a minimal concern for the internal requirements of socioeconomic integration and the promotion of a solid international insertion (Fajnzylber 1990). Increased attention should also be paid to make sure that the institutional framework exists for the efficient channeling of savings into investment.

These summarized thematic areas constitute the core drive for productive transformation in the context of increasing levels of equity. In addition, neostructuralism in a broad sense adheres to a number of principles that help define the systemic character of the project. While neostructuralists recognize the importance of foreign actors, such as TNCs with subsidiary companies operating in Latin America, as well as FDI, they insist that the main agents for development in this new paradigm must be found locally. The neostructuralist paradigm represents an attempt to develop "from within" (Sunkel 1993).

Latin America must find its capabilities and advantages and leverage them so that it can push outwards to participate in the global economy and reap the potential rewards that this interaction promises. In a broader sense, the paradigm seeks to develop from within – to outwards. Neostructuralists are also conscious of the need to combine short and long term strategies. Structuralism's focus on the long term structures was needed to be combined with the neoclassical tools that are useful to define short term equilibriums. In effect, short-term strategies are at the forefront of the neostructuralist strategy, but these short-term proposals are always selected in such a way that they also contribute to, or at least do not undermine, the long term effort.

Overall, neostructuralism shares much in common and in difference with its structural and neoliberal predecessors. The essence of the strategy clearly shares the most in common with structuralism. Both share the belief that a strategic development agenda, including the state's role within it, are able to, and should, guide the economy towards a specific kind of productive structure. While neostructuralists do emphasize exports, thus an outward oriented strategy, this emphasis has more in common with structuralism than neoliberalism. The essence of neoliberalism is not to argue for an outward orientation, but rather, from a 'neutral state of affairs', the economy would adjust as necessary, which just happened to be towards the world market. While structuralism argued for inward oriented development, the important aspect in common, given that the international and domestic conditions were so different, is that both structuralism and neostructuralism both argue that the correct productive orientation can be determined and worked towards. In addition, technology has long been a central feature of structuralist thinking, and it continues on in neostructuralism. In terms of the strategic development plan, the

neoliberal influence is most noticeable in terms of the main agents for development, the private sector. The characteristic neostructuralist thinking of “government-assisted, free market” places private actors at the forefront. The rational and entrepreneurial dynamism of individuals remain at the centre, with the state designed to a supporting role.

A Better Balance Between the Market and the State

The neostructuralist paradigm argues that lessons can be learnt from both structuralism’s excessive confidence in state interventions, as well as the neoliberal’s basic critiques of them. The balance between the state and the market would play a foundational role in the wider neostructuralist development strategy. Were the neostructuralists to view the state as the solution, or the problem to development? The most striking part of the neostructuralist position on the role of the state is that they view the size of the state is not as important as its capacity to efficiently execute the strategic development agenda. A large state may be unable to effectively intervene in ways required, whereas a small state, modernized and efficient, may be able to act with more forcefulness (Iglesias 2006).

In addition, there is a call to reconsider what is meant by the role of the state. Ocampo argues that “rather than being restricted to State actions, the concept of public policy should be understood as any organized form of action that pursues objectives of collective interest. This definition of public policy is in keeping with an awareness of the need to open up opportunities for participation by civil society and to work to overcome a crisis of the State that affects the developing world and, indeed, the world at large” (Ocampo 2001). This reflects the neostructuralist view that there are a whole set of actors

in between the individual and the state that all have roles to play when it comes to the public good.

In this sense, neostructuralism shares more in common than structuralism, at its core, neostructuralism holds that the state can, and should, intervene in markets beyond a basic regulatory way. The state should envision a type of production structure that is conducive to meeting developmental goals and guide the economy to that structure. Neostructuralism argues that the market, in its current state, is unable to efficiently organize economic behaviour on its own, because it is plagued with structural distortions, incomplete markets, asymmetric global integration, and a host of externalities, especially those related to learning processes. Overall, the development paradigm may be described as a “government assisted, free market strategy.” Some of the core areas of focus for state action are summarized in the following terms:

The central economic function of the state may be defined as devising a strategic vision of the development process, maintaining basic macroeconomic balances and an appropriate investment climate, reordering incentives and relative prices in the economy in a manner that is consistent with this vision, and achieving the constructive commitment of all social and political sectors to the strategy, by means of dialogue and concertation. A state that is efficiently organized around this central function could be called a ‘concerting state’, and it can be argued that this is what is suitable for this new stage of development in Latin America, characterized by the revival of democracy and increasing private sector responsibility in the development process (Salazar-Xirinachs 1993).

While neostructuralism does not accept the minimal neoliberal state, it does make use of a number of neoclassical tools for evaluating state actions and attempts to find the optimal type and amount of intervention. Intervention was seen as sometimes necessary but it was also necessary to understand the consequences of state actions. Neostructuralism makes use of, but does not limit itself to, the *general theory of*

distortions and welfare in this respect. This theory had grown in influence in the 1970s as it provided concrete ways of modeling state interventions and other distorting effects on the economy. Neostructuralism makes use of a flexible version of this theory that takes more non-market factors into account, such as the institutional environment. The neostructuralists also sought to expand the application of a rationalized treatment of distortions beyond the realm of state interventions, and into the realm of endogenous structural distortions, an area that had occupied the concerns of developmental economists for decades. Some of the interventions deemed necessary owing to endogenous market distortions were the following: promotion or stimulate missing markets, such as those for long term capital, futures markets, and foreign exchange; strengthen incomplete markets, such as that for technology; eliminate or correct structural distortions, such as the concentration of property, the segmentation of capital and labour markets; and eradicate or compensate for market imperfections arising from economies of scale, externalities, and learning.

Neostructuralism essentially tries to find out how the state can be used to structure and regulate markets so their theoretical virtues can be realized. Markets are seen to be desirable only if they are efficient. To do this, they also make use of another neoclassical tool, the *second best theory of welfare economics*. This allows economists to model how an economy may transition from any given distorted state toward a desired ideal state. Empirical evidence shows that assumed improvements in welfare do not necessary occur when selected distortions are removed, but rather, the welfare effects of distortions happen systemically. This is a significant finding, as it shows that not always are less distortions better. Rather, the net effect of a greater number of distortions may result in a

more efficient economy. Because the markets will never be free of distortions, it is always necessary to model different scenarios of distorting effects, rather than simply argue that less distortions means more efficiency.

In light of the concluded necessity for state interventions, the neostructuralists sought to overcome the previous fault that structuralism showed in this area. The New Political Economy school had earlier highlighted the tendency of interventions to continually increase, owing to the fact that the beneficiaries of interventions are often concentrated, thus able to effectively lobby the state in favour of them, whereas the losers of interventions are usually spread out throughout the economy, thus being unable to articulate their interests (Krueger 1974). In order to overcome this tendency, and to maintain an optimal amount of state intervention, they must be subject to controls that prevent their so-called 'geological' build up. This tendency calls for the use of a host of automatic stabilizers and counterbalancing mechanisms in economic policy. Some proposed strategies to achieve this are: establish a cap on the total amount of subsidies given, so that there is a competition over their use, thus favouring their optimization; promote the flexibility of subsidies, and possibly even legislating that subsidies need to be temporary, and subject to renewal; and to establish a maximum ceiling on the total amount of tariffs, so that as certain tariffs are increased, the others must decrease so that the total amount remains the same (Salazar-Xirinachs 1993).

In addition, neostructuralists argue that the guidelines for interventions should be transparent and limited. A key idea is to remove distortions at the source, rather than chasing follow-on effects. This will reduce the total number of distortions and increase their efficiency. It is argued that interventions should be kept under tight control, because

if there are too many, the effects of each intervention become more clouded and it is hard to know which ones are working and what needs improvement. This kind of control over policy-making was not done by the structuralists, as there was a great lack of the data and the tools to make sense of them in those years. This new kind of intervention can be summarized by “effective selectivity” (Fajnzylber 1989).

Given that Latin American governments are to pursue these strategic interventions in a context of very limited resources and capabilities, neostructuralists argue that a clear, economy wide set of intervention priorities should be established. They argue for a new techno-economic and organizational paradigm guiding policy interventions. Elements of this paradigm include: the role of flexible strategic planning mechanisms; decision-making processes and the implementation of plans of action in a changing and intrinsically uncertain world; and the importance of management, or complexity handling, including the ability of both public and private agents to reach agreement in a complex environment (Kliksberg 1988). These measures are seen to be able to increase the overall efficiency of policy management.

The neostructural paradigm also calls for a reorientation of the focus of state functions. Neostructuralists argue that the entrepreneurial and productive functions of the state have become less necessary, while the basic and auxiliary functions have become more crucial. Some of the basic functions of the state, that neostructuralists argue need to be focused on include: the legal framework; the police and security forces; the maintenance of macroeconomic equilibrium; equity; savings and investment; infrastructure development; the provision of basic health services; and an advanced education system (Stiglitz 1998). In the neostructural paradigm, these functions are seen

to be the bedrock of state activities, and should never be sacrificed for the promotion of other functions. Some auxiliary functions of the state that neostructuralism sees to be also necessary, but secondarily to the basic functions and depending on available funding and capacitation are: the support of competitiveness; human resources; technology development; the enhancement of the regulatory environment; access to credit and financial intermediation; and scientific and technical infrastructure. Neostructuralists hold that a strengthening of these functions does not imply the growth of the state, but rather the improvement in its management (Iglesias 2006). Neostructuralists see a smaller role for the entrepreneurial functions than had the structuralists. This is partly because since the 1950s, the domestic entrepreneurial management class has grown in its ability to take over these functions from the state. In this way the state's involvement becomes more focused, with targeted interventions limited to those that produce the highest returns. This will help keep the overall development goals clear and allow the state to focus on its priorities.

As part of limiting the state's direct involvement in entrepreneurial and productive functions, neostructuralists support the privatization of some SOEs. Privatizations can occur in combination with strategic subcontracting, shifting management duties onto the private sector. The state should limit its involvement to areas where private interests are interested in capturing monopoly or other rents. For those state-owned enterprises (SOEs) that the state will retain, the neostructuralists have several recommendations. In general, their management and efficiency could be improved substantially, by changing the expectations of them. SOEs should overhaul their strategic plans, and scrutinize their objectives and instruments. SOEs are often called upon to do

much more than a private company would be, complicating their management. As a result, managers often circumvent regulations, causing inefficiencies at the firm and a lack of fulfillment of the basic objectives. This occurs especially because there are few effective control mechanisms over the management of SOEs. As a result, neostructuralists argue that SOEs should be given more autonomy to set prices and policy. Strategic objectives can be coordinated with state managers, but internal resource allocation is best achieved autonomously at the firm level. SOEs should not be required to provide extensive subsidies through their own price system. One solution to the general problem of the strategic management of the SOEs is to promote their transparency. With increased public awareness of the activities of SOEs, they will be more inclined to institute rigorous quality control mechanisms. Neostructuralists also argue that private-public partnerships are generally preferable to complex bureaucratic schemes. The key is to establish the right set of incentives that ensures that all major actors continually work towards the overall objectives of the strategic development vision.

Part of the rationale for privatization is the improvement in the state's fiscal accounts. In the context of the austerity imposed by the debt crisis, the state finds itself with very little resources to work with. Consequently, neostructuralists argue that the state should regain control of its spending, including where possible by limiting debt service payments, while increasing tax revenues where necessary. By restructuring spending, and consolidating income, the 'fiscal space' to implement the development objectives may be gained. Arguments have been put forward to, whenever possible, to preserve spending on crucial areas such as those directed towards human capital

accumulation. As well, they do argue that higher rates of pay for government managers could increase efficiency, if these were combined with staff reductions, generalized rationalizations, and the use of subcontracting activities.

In order to achieve all of these goals, the neostructuralists argue the state must be modernized, decentralized, and depoliticized. The central government is often overloaded with responsibilities, whereas local peculiarities and participation would make better use of limited resources. Increased participation at the local levels would also help foster a sense of consensus in all levels of government towards meeting the strategic development objectives.

In the neostructuralist paradigm, the state and the market are viewed as indispensable agents and strategic partners. While market based mechanisms of economic organization are at the centre of the project, the state is recognized as an important actor to ensure that these markets run smoothly and provide the highest level of social returns. The neostructuralists found that markets are often incomplete or absent altogether, and that the state was necessary to support market based activities. Neostructuralists qualifies their support for state involvement by arguing that the state must act in a democratic, pluralistic, and participatory manner. From this perspective, the state's direction of the economy must faithfully respect the will of the masses, and must be subject to changes (Ocampo 2001). In order to maintain support for the agenda, a concerted strategy is required that establishes a consensus amongst state planners, the main private actors, together with civil society. With a wide base of support, the state will be able to undertake reforms that entail high short-term costs that promise greater long-term returns.

The neostructuralist synthesis clearly combines elements of both structuralism and neoliberalism. The use of the concept of systemic competitiveness can be seen as the linchpin of the synthesis. The systemic character of the economic structure is a theme long focused on by structuralists, while competitiveness has been the focus of neoliberals. By envisioning the entire economy, at the national level, as the unit of analysis, neostructuralism successfully combines both concerns. The elaboration of the role of the state seems to owe most of its innovations to the advancement of measurement tools. Now that it is possible to quantify the results of various kinds of interventions, it similarly becomes possible to promote the active intervention of the state while doing so in a way that does not promote un-productive rent seeking behaviours. In each sense, neostructuralism tends to expand the frontiers of its analysis, taking more into consideration than either the structuralists or neoliberals had. This allows it to incorporate more analytic considerations, while its discursive complexity and systematic movement through a series of analytic steps keeps the overall drive clear.

Chapter 4:

The Integrated Policy Framework

Latin American neostructuralism does not only provide a theoretical basis for understanding the problems of underdevelopment in the region, but it also puts forward concrete proposals for change. Whereas national governments are often found to lack sufficient institutions to coordinate policies in the economic, social, and environmental realms, the neostructuralist agenda attempts to form an integrated policy framework, in which all components reinforce the overall development strategy.

In this strategy, it is not the case that the economic policy supports growth, and the social policy supports equity. This approach would lead to dead-ends and costly trade-offs that could undermine the strategy. Instead, the policy agenda envisions a complete socioeconomic transformation, and uses policies from all areas to work towards this common goal. Even while the vision of neostructuralism is quite strong, the policies that they put forward are usually quite feasible, and reflect the real policy making situation as much as possible without country specific recommendations. In this way, neostructuralism does not propose a utopian vision, but rather, a vision of marginal changes. They accept the status quo, and attempt to move from there in the desired direction. In this way neostructuralism can appear to be strongly neoliberal in its orientation, and that certainly would be the case in early years, having accepted most of the structural reforms in favour of marketization and a reduction in the role of the state. However, neostructuralism holds out the hope for continual progressive and cumulative

change that might eventually lead somewhere altogether different than the neoliberal ideal. In essence, neostructuralism attempts to 'make the current system better', rather than proposing a completely new system. Many of the recommendations have changed over time, as neostructuralism matured and a learning process occurred as the results of the restructuring project became clear.

The major components of the agenda are outlined. The macroeconomic and productive development components situate Latin America in the world economy and propose ways of improving its position in the new global production structure. The social agenda shows how the development strategy involves an integrated socio-economic transformation. Finally, ECLAC's position regarding regional and global integration shows how it views the potential benefits of globalization.

A Broad View of Macroeconomic Stability

There are a considerable number of innovations regarding macroeconomic management in the neostructuralist paradigm. ECLAC has not produced an institutionalist book specifically on the topic of macroeconomics, however the contours of their macroeconomic vision are clearly understood. One institutionalist book, *The Fiscal Covenant* (ECLAC 1998), provides us with a detailed description of neostructural fiscal policy, while other aspects of the macroeconomic regime are outlined in several publications by leading neostructuralist economists. Jose Antonio Ocampo provide us with ideas for strengthening countercyclical macroeconomic management in the era of liberalized financial markets and turbulent boom-bust cycles (Ocampo 2008). Ricardo

Ffrench-Davis helps to expand the scope of macroeconomic thinking beyond what he describes as financieristic macroeconomics, into the critical realm of real macroeconomic stability (Ffrench-Davis 2005).

The guiding principles of neostructuralist thinking of macroeconomics are flexibility and consistency. Each country will have at its disposal different institutional and regulatory instruments, and these will have to engage different macroeconomic situations. The flexibility allows for overcoming rigid models of the past that ignored important local differences, while consistency is associated with stability as it gives investors predictable insights of future policy. This approach overcomes the shortsightedness of orthodox neoliberal prescriptions and provides a consistency and long term sustainability lacking from structuralist formulations.

Over the course of the neoclassical counterrevolution in development economics, the meaning of macroeconomic stability changed. The old Keynesian view was related to economic growth and full employment, making use of countercyclical tools to manage aggregate demand to meet these objectives. This focused with the rise of neoliberal thinking, which focused on low inflation, getting prices right, and maintaining a fiscal balance. The neostructuralists argue that the orthodox neoliberal prescription is a much too narrow reading of macroeconomic stability, and that the neoliberal measures of stability have become ends in themselves rather than means to achieve economic development. Instead, neostructuralists argue for a broad view of macroeconomic stability, that will inevitably entail numerous trade-offs between key indicators. Neostructuralists argue macroeconomic management must deal firstly with stability in the real economy. Real economic vulnerability is of critical importance, and macroeconomic

cyclicality and volatility is damaging to growth and equity. The main thrust of neostructuralist macroeconomic management is thus to keep the economy at a high capacity utilization, close to the production possibilities frontier. Within this framework, neostructuralists view macroeconomic imbalances as dangerous when they reach certain critical limits, within which room for movement should be provided. It is mainly outlier prices and ratios that may result in market prices diverging considerable from social prices.

Given the number of conflicting objectives that macroeconomic regimes must address, neostructuralists view fiscal policy is crucial. While fiscal deficits are seen as acceptable in certain situations, attention should be paid towards the inter-generational effects of spending patterns. Fiscal policy has a powerful redistributive function as well, and is at the centre of efforts to promote synergies between growth and equity. Neostructuralists argue that public savings can play an important role in increasing investment ratios, in place of low domestic savings and volatile and unstable foreign investment. However, neostructuralists identify an obstacle with using fiscal resources in this manner. Fiscal accounting methods tend to lump capital investments together with current expenditures. With the increased emphasis that had been placed on the fiscal balance, the state was discouraged from making potentially profitable investments. Instead, it is argued that fiscal policy be based on inter-temporal solvency. This will allow capital investments to be accounted for over the course of the maturity of their financing conditions, which will be offset by the future returns that they will provide.

The cornerstone of the overall macroeconomic regime proposed by neostructuralists is counter-cyclical policy. This objective aims to reduce volatility and

moderate boom-bust cycles in the economy. The return of growth in the 90s was welcome, but this growth was often very cyclical and had negative effects on the diversification and development of the productive structure. Measures were thus supported that would stimulate the economy during cyclical downswings, while restricting spending during boom periods. This type of management was not natural to the system, as financial markets tend to support pro-cyclical spending behaviour. Counter-cyclical fiscal policy is one way managing these cycles, and a flexible macroeconomic regime offers several possible tools. These include: primary spending caps that are linked to growth in output levels; stabilization funds that accumulate during boom periods, so as to provide a fiscal bonus during downturns; and a host of automatic stabilizers such as unemployment insurance.

Neostructuralists recognize that not only does fiscal spending tend to exacerbate cyclical trends, but the private sector can too. The domestic financial systems in Latin America tend to amplify the macroeconomic effects of external shocks. Vulnerable private balance sheets are able to precipitate crises, which often result in costly bailouts, while preventing the financial system from providing its core functions. The lack of prudent regulations in the wake of the financial liberalizations combined with the inherent pro-cyclicality of international financial markets exacerbates these problems. Neostructuralists argue that the macroeconomic regime should adhere to a comprehensive liability policy that makes sure that private as well as public deficits do not pose systemic risks to the capital account. Neostructuralists also argue that the establishment of selective capital controls can be a useful tool in this regard. A tax on incoming capital may reduce speculation and instead favour long-term flows.

In attempting to address these problems, neostructuralists recognize that countries may be punished for their interventions, so credibility is of utmost importance. They see an important role for cooperation with regional development banks and the IFIs in order to produce transparent and confident systems of regulation. Some guidelines to achieve this stability are: guard against the unsustainable accumulation of debt, especially foreign currency denominated debt; regulate against euphoria during boom periods, including through the use of controls on capital inflows; and the establishment of a liability policy.

There are also calls to further develop local currency financial markets, as dollarization of financial assets and liabilities is suboptimal. Prudential macroeconomic management can allow for a significant diversification of assets into domestic currencies. This strengthening of local financial systems must pay particular attention to extend financing capabilities to small and medium sized enterprises, which have thus far been underfinanced relative to their potential profitability.

Another element of the new macroeconomic agenda is tax reform. Neostructuralists argue that a system with few, but broad taxes, preferably using uniform rates of taxation, is preferable to a complex system with multiple nominal rates. This system will allow for the administrative system to be streamlined while reducing tax evasion thereby increasing revenues. They also argue that the potentially negative equity effects of selectively lowering marginal tax rates must be balanced against the positive impacts this has on investment levels.

The management of the exchange rate has been the subject of continuing debate since the founding of the new paradigm. Two major pulls on the exchange rate are identified, emanating from the trade and financial domains of the economy. Exchange

rate regimes ought to avoid the two extremes of a pure float and a fixed peg. Instead, they argue that a managed float within a desired band can provide the best flexibility for reconciling competing interests. A managed float is argued to be possible, even with few capital controls, provided that the overall macroeconomic framework allows for coordination of fiscal, monetary, and exchange rate policies. Neostructuralists hold that active intervention into currency markets may be necessary to maintain a competitive exchange rate and overall macroeconomic stability.

Development as Productive Transformation

The new strategy of development as productive transformation with equity is the successor to the earlier industrial policies of the ISI era. In the new paradigm, structural transformation of production is necessary in order to achieve the high road to globalization. Neostructuralists claim that the lack of productive development policies is one of the key reasons why the liberalization of trade and the establishment of macroeconomic equilibrium did not bring about the promised growth. The project for productive development revolves around: increasing the volume exports; diversifying the export structure; increasing quality by incorporating technology; and transferring productivity gains from the leading export sectors to the rest of the economy. In this way, neostructuralists support an export oriented production structure, explicitly favouring the export sector above others. The entire gambit of productive development policies is associated with structuralism. The neoliberal paradigm held that the state had no role to play to guide the economy in this way. Nevertheless, neostructuralism rescues the idea of

productive development policies, and applies them to the open economy situation accepted as necessary in Latin America. The ECLAC institutional book *Productive Development in Open Economies* (ECLAC 2004) provides a recent comprehensive review of how productive development policies can help achieve the desired growth with equity.

One of the key issues that productive development policies try to address is the infant industry argument. This holds that it is beneficial to protect or support new industry (in this case, pioneering export firms) until they are strong enough, having grown and went through cumulative learning processes, to expose themselves to the world market and maintain or gain market share. This argument is similar to how a family would protect its children until they are strong enough to live on their own. Competition is good for firms, but so is selective nurturing. Chang points out that almost all successful developed countries used some form of infant industry protection in their earlier industrializing years (Chang 2007). Neostructuralists find the case for infant industry protection sufficient to warrant targeted support for those industries with especially high propensities to accumulate and disseminate technical progress to the rest of the economy.

Even with the asymmetries and inequalities that mark the global economy, neostructuralists argue that fluid access to global production is necessary in order to develop the productive structure. Neostructuralists support the gradual liberalization of trade to be joined by the establishment of full-fledged meso-economic policies. These include: active competition policies; public regulation of non-competitive markets or markets with strong externalities; and the correction of market failures in factor markets, particularly the markets for long term capital, technology, and land. The challenge is to

take advantage of opportunities that liberalization presents while avoiding costly segmentation in production structures that is difficult to reverse (Cimoli and Katz 2003).

Latin America's international position in the new global production structure is to be improved by diversifying product and destination markets while incorporating more locally sourced value added into the exports. A number of measures to achieve this are available: eliminate the anti-export bias in prices of inputs; support pioneering export firms that create both product and market innovations; maintain an active commercial diplomacy to lift barriers in developed countries, especially value added discrimination; support for export financing and insurance, especially for SMEs; and provide information about export markets, standardization, and procedures. The plan envisions entrusting this export promotion strategy into a single capable institution that can coordinate its efforts throughout the economy. All these initiatives should be moderate, so as to preserve market incentives; they should be temporary; subject to performance requirements; and they should be stable over government changes so as to foster confidence.

While increased value added content in exports is a part of the program, neostructuralists argue that growth is more accurately associated with the accumulation of resources and capacities in the economic system. They point out that productivity growth is associated with increased exports, especially those with a high degree of processing and technological content. Ocampo (2001) defines the neostructuralist view of growth dynamics as "intrinsically tied to the structural context, which is made up of productive and technological apparatuses, the configuration of factor and product markets, the characteristics of entrepreneurial agents, and the way in which these markets and agents relate to the external environment."

The expansion of these resources depends on productive and technological linkages, entrepreneurial capacity, and the fostering of productive clusters. There is to be a shift from vertical technology policies towards horizontal ones, aiming to remedy static market failures and spread public goods. Components of this shift include: dissemination and diffusion of best technologies in use; continuing to improve systems and networks of technological information; improve conditions for financing technological development of firms; direct fiscal incentives for research and development for those firms that introduce innovations; improve the alliance among enterprises by simplifying procedures; and access information and fiscal stimulus. These horizontal policies may be combined with vertical ones in areas where technological innovation clusters exist. Information-communication technologies have recently been highlighted as a sector that should be targeted for support in this manner.

Neostructuralists identify national innovation systems as essential components of productive transformation. Neostructuralists supports a clear regional trend in terms of initiatives to encourage the integration of productive chains, increase local value-added content, and incorporate knowledge into activities with proven capacity to compete successfully on international markets. The innovation policies promoted by neostructuralists are associated with neo-Schumpeterian ideas of productive transformation. Innovation, defined in this way, is simply doing old things in new ways. These activities that have a proven ability to compete are mainly the primary export sectors, as well as the maquilas. Innovation systems based around these sectors aim to increase the density of both up and down-stream linkages, so as to increase the level of locally sourced value added, while leveling productivity gains between sectors that have

shown tendencies for rigid divisions. This innovation policy will also aim to identify and support the creation of new, dynamic comparative advantages that emerge from productive diversification.

While this paradigm calls for the expansion of export sectors that heavily rely on natural resources, it also argues that natural capital ought to be used not just for extracting temporary rents, but that these sectors need to be integrated more thoroughly with the wider production system on the basis of research and conservation (ECLAC 1991). Policies in this area must switch from being reactive, to proactive, given the rate of environmental degradation. Investment should be targeted to productive techniques that are environmentally clean, and whose competitiveness is based on a wide accumulation of human, physical, and natural capitals. To achieve this goal, environmental accounting must extend beyond the local, national, and regional levels into a continent-wide perspective. From this view, the poor savings in the region looks even worse when natural capital losses are factored in. These inefficiencies can be moderated with specific efforts to recognize natural capital costs; identify the capacity of public policy to correct market flaws caused by the absence of effective pricing and ownership regimes; coupled with the acknowledgement of incomplete markets for numerous natural resources and environmental services. These problems must not be addressed on their own, but must be integrated into the overall framework of productive transformation. Various policy tools can potentially address some of the problems with natural resource exploitation, including incentivizing companies to factor in natural capital costs through the use of tax rebates, subsidies and tax exemptions. The twin principles of both 'polluter' and 'consumer' pays should guide policies with regard environmental externalities.

Given the major pressures for restoring growth, the fierce competition for fiscal resources of the state, and the debilitated institutions for effective regulation, neostructuralists view successful productive transformation as based on the combination of policy instruments, action and opportunity for public intervention that is best adapted to the specific development problems that an economy faces, its capacities, and available resources. As well, given that the old ISI policies are no longer useful, and much of the apparatus for implemented productive development policies has been lost during the restructuring phase, it will be necessary to reconstruct the framework for these policies, which provides an opportunity to do so in a way that avoids tendencies for 'government failure' and other types of rent seeking that plagued earlier approaches.

Social policy, Citizenship, Social Cohesion

The objective of achieving growth with equity requires a central role for social policies. Many of these policies are completely new to either neoliberalism or structuralism. Neostructuralists aim to move beyond a narrow econometric view of development and incorporate social, cultural, and political dimensions to the debate. It is argued that Latin America needs to embark upon an intensive process of human capital formation and thus allow for higher knowledge content in production. Social transformation is thus closely linked with productive transformation to the ends of achieving a high-road to globalization based on a systemic competitiveness. To this end, structural determinants of income inequality must also be addressed. These ideas are outlined in the main

neostructuralist institutional documents and are recently expanded upon in *Shaping the Future of Social Protection: Access, Financing and Solidarity* (ECLAC 2006).

There is also recognition that the economic system must be subordinated to social objectives, in line with new thinking of development that emphasizes human development and expanded freedoms (Ocampo 2002). With these objectives in mind, it is important to form integrated policy frameworks, where social policy is streamlined with economic policy, while the social effects of economic policies are better represented. One problem the neostructuralists have identified is the lack of institutions that are able to coordinate social and economic policies in an integrated way. Opportunities for greater social equity to contribute to increased growth, productivity, and investment abound, but it has so far proven difficult to coordinate these goals. Institutional development is thus a key area of neostructuralist concern regarding the promotion of pro-growth and equity social policies.

The new social policy attempts to move beyond the three guiding principles proposed by the World Bank of opportunity, security, and empowerment. Neostructuralists suggest that increased attention needs to be given to a widespread access to resources, basic protections, increased voice, and participation. Once basic protections are established, the poor will be better able to undertake positive risks, associated with innovation. Through increased participation, the poor should be able to 'act for themselves' and be agents of their own development. Some measures to achieve this are providing technical, financial, and marketing services for micro-enterprises, self-employed and peasants. The new social policy must also continually adapt to the needs of the poorest sectors. "Policies aimed at democratizing access to production assets (capital,

technology, training, and land) are thus critical for both growth and equity” (Ocampo 2001). These objectives necessitate increased representation of the most under-privileged groups.

The new social agenda calls for addressing the root cause, not symptoms, of social inequalities, including education, employment, income distribution, and its gendered and ethnic dimensions. From a long term perspective, the focus of the social program rests on inter-generational inequity, that is, the mechanisms by which problems are transferred to the younger generations. Breaking this link is seen as necessary for long-term success. To achieve these objectives, social policy should be guided by three basic principles: universality, solidarity and efficiency. Decentralization of policy making as well as increased participation of the private sector are seen to be useful to achieve efficiency. The focus on universality and solidarity reflect the fact that social policies are the foundations of social cohesion.

In order to adapt to these changes, the new social covenant rests on four pillars: consistency with the foundations of macroeconomic policy; job creation; social protection; and education and training. The social protection system should be designed to facilitate re-training and re-entry into the job market. If unemployment results in increased entries into the informal market, their productivity needs to be supported, by adapting social protection systems to their characteristics, meanwhile promoting their formalization. The social agenda also addresses the structurally heterogeneous labour markets that are typified by the informal labour sector. In addition to achieving labour market flexibility, the policy needs to be consistent with macroeconomic sustainability.

The tax requirements of the social policy agenda needs to be transparent so that socially acceptable levels are achieved.

The social agenda has had to take into account the major transformations in the Latin American economies, as liberalization has entailed new social risks. The earlier focus on lifetime employment has been replaced by frequent job changes and skill requirements. This has been combined with an increased entry of women into the labour force, more mechanization, and an increased importance of skilled labour. New technologies and work processes also require increased creativity, initiative and versatility. Specialization has become less important as a more diverse set of skills is being demanded. Therefore, basic skills are more important to develop if workers are to have a knowledge base that enables them to adapt to new jobs. The reality of less job certainty and increased need for flexibility furthers the need for robust social protections that prevent people from falling into a vicious poverty trap in the short-term, when they may be well suited for the labour market in the long -term.

Education has considerable potential long-term effects on equity, but the condition for them to materialize is that sufficient high-quality jobs be created. In addition, education policies must recognize skill-dependent income distributions so that the poorest sectors are not left behind. The new education policy must also recognize that education is not only desirable for human capital accumulation, but also for developing political democracy, increasing self-realization, and citizenship. Some ideas for achieving these goals are improving secondary school graduation rates; adapting the educational system to the needs of the labour market; and reducing international and social gaps in the use of information technologies.

In addition to the equity concerns of the social agenda, there has been increased attention to the ideas of citizenship, and rights. These ideas are elaborated on in the institutional book *Equity, Development and Citizenship: a global view* (ECLAC 2000). Generally speaking, the neostructuralists accept the framework proposed by the United Nations, specifically in their Millennium Declaration. It is noted that throughout Latin America, even during times of economic growth, the people are losing their sense of belonging, and previous ties of solidarity are weakening. There is a renewed emphasis of the need to 'create society', on the basis of tolerance and respect for differences. To this end there must be a greater participation of all social sectors in civil and political processes, especially the hitherto excluded parts. Contrary to the climate of opinion during the transition years to democracy when it was agreed upon not to stir democratic aspirations too strongly, the neostructuralist approach sees increased participation in political life as essential to arrive at equitable and sustainable policies.

The new neostructuralist paradigm argues that inequity is not compatible with sustained competitiveness. The cultivation of human development is a great opportunity to link growth with social equity. Indeed, the new social policy reflects how integrated the entire development project is aiming to be, and how insufficient economic metrics of progress can be. In general, the social policies supported use justifications much more abstracted than neoclassical welfare economics requires to be justified, while emphasizing the structured nature of social inequity that has long been a central part of ECLAC thinking.

An Agenda for International Reform

ECLAC has analyzed the globalization process as it relates to Latin America's development, and suggested a number of common objectives for the countries of the region to collectively work towards in *Globalization and Development* (ECLAC 2002). ECLAC begins by suggesting that efforts to resist any process as powerful as the current globalization process will eventually fail. Furthermore, there is no need to try, as globalization can be harnessed for collective benefit. Finding ways to build a more equitable form of globalization and to achieve the best possible position within that process are, consequently, the best option.

In reviewing the global order and Latin America's position within it, neostructuralism finds that realities change rapidly. Volatility is noticed to be one of the most striking features in this regard. Frequent and severe financial crisis plagued the region throughout the 1990s, and capital and investment flows have varied greatly. The growth and collapse of investment flows into Latin America reflects another salient aspect, that of the productive and technological restructuring of the world economy, especially since 1990. The collapse of the Soviet bloc and the integration of its member states into the liberalized world order, the rapid growth of China and India have radically altered the global economic landscape. The integration of global value chains, the hyper segmentation of demand markets, and the particular ways that TNCs organize production internationally continue to pose new challenges for international policy making. Overall, the most dangerous element of the international order is the presence of structural asymmetries. These asymmetries are the focus of the neostructuralist thinking regarding

global reform. Developing countries are far more vulnerable than developed countries to international economic volatility, technological progress is extremely concentrated in the developed countries, and the great mobility of capital is not matched by an equal mobility of labour. Complementary initiatives at both the regional and global level are seen to be useful to correct these asymmetries.

Neostructuralists envision a virtuous circle of national, regional, and global institution building. Instead of a single system in charge of regulating the global economy, a network of institutions that overlap and compliment each other will lead to the most desirable outcomes. The basis of this program is the idea of an 'Open Regionalism'. Integration at the regional level need not be exclusive, but can actually co-exist and compliment hemispheric and even global integration schemes. The regional agenda has several important facets. Macroeconomic coordination is central. Sub-regional integration projects have already made large advances in this area, providing useful peer review mechanisms to help solidify national financial and regulatory systems. This initiative is based on dialogue, information exchange, and the adoption of common macroeconomic rules. The regional agenda also calls for the strengthening of regional financial institutions and development banks. In particular, it sees an increased role for the Latin American Reserve Fund to use regional resources to provide exceptional financing to member nations facing severe shocks. The Open Regionalism agenda also calls for a harmonization of regulatory mechanisms. In the context of consolidated markets and increased intra-regional investment, these measures will become more necessary to ensure fair competition rules, while preventing TNCs from taking advantage of regulatory loopholes.

At the global level, the agenda argues for the development of institutions that respect diversity, and are underpinned by interdependence. Part of the problem with the international policy making dynamic is that no institution exists to effectively protect interests of small states. For this reason, the smaller developing countries are encouraged to coordinate their interests and speak with a more collective voice in the international arena. Several important innovations are desired that can positively enhance Latin America's international position and prospects for reaping more benefits from its international insertion.

Among them is the increased provision of global public goods, of which international macroeconomic stability is the most important. Macroeconomic stability benefits all countries as they collectively benefit from the externalities generated by a stable investment and trade climate, and the dangers of contagion are reduced. An increased coordination of the major economies, possibly under the jurisdiction of the IMF, can buffer against macroeconomic instabilities and exchange rate spillovers that create volatility. The global agenda also sees the possible elevation of the IMF into a lender of last resort for the entire world economy. It is envisioned that Special Drawing Rights (SDRs) could be used for financing in this regard, instead of the normal channels through member governments. International regulation and supervision of financial transactions is also desperately needed. At the very least, an increased provision of information regarding these transactions will allow all regulators to better design programs to manage the risks of financial markets. A new system for the regulation of capital flows to developing countries is also seen as desirable. The excessive mobility of capital has meant that developing countries have had to remove most restrictions and

taxes on capital flows, so as to attract investment. However, this makes it more difficult for developing countries to make the most of these flows and increases the tax burden on less mobile factors of production.

The IMF is also seen as a useful instrument to support macroeconomic stability in developing countries. In particular, it is argued that the IMF should play a more proactive role in supporting developing countries aims to administer countercyclical macroeconomic management. When private financial markets behave strongly procyclically, making it difficult and costly to adjust to cyclical downturns, the IMF should step in to provide support. In addition, a more enhanced role is seen for multilateral development banks, both regional and international. These development banks have proven essential for small and medium developing countries to fill in strategic financing gaps that are created when international finance tends to discriminate against smaller countries and long-range projects.

The neostructuralist global reform agenda also calls for specific efforts to reduce the asymmetries in technological concentration. A great majority of research and development takes place in the developed countries, which in and of itself has many positive externality effects on the production structure. In terms of international trade, there is balance between the protection of intellectual property rights of the leading researchers and the needs of developing countries to benefit from a global public good, knowledge. The current trend towards more strong intellectual property rights is viewed as dangerous in this regard, as it has basically a regressive effect on the world asymmetries in technology. ECLAC calls for the liberalization of agricultural markets in

the developed countries and the dismantlement of the Multi-fibre agreement, which undermines Latin America's efforts move up the value added chain.

The global environment is also seen as a global public good, and efforts should be taken by all countries to work toward common objectives. The neostructuralists closely associate themselves with the United Nations environmental agenda, in part outline at the Rio de Janeiro conference in 1990. Energy efficiency is seen as a core principle, and to this end they support the Kyoto protocol on reducing carbon dioxide emissions. Biodiversity and conservation efforts also play prominently, and in the Latin American context, the preservation of wild forests is seen as crucial. Neostructuralists argue that it is neither desirable nor possible to 'level the playing field' between developed and developing countries regarding their environmental impact. Consequently, there is an acknowledgement of shared, but differentiated responsibilities. The developed countries are seen to shoulder a greater burden of the costs of protecting the environment.

The full inclusion of migration in global development discussions is also long overdue. The asymmetric liberalization of factors of production means that the less mobile elements, primarily labour, suffer. The positive global growth impacts of increased migration levels are highlighted, as are the impact of remittances on some of the Latin American economies. A global pact on migration policy can help address these concerns, while promoting the more balanced integration of migrants into host-country societies.

Overall, the policies associated with neostructuralism seem to borrow from neoliberal and structuralist ideas. The key concern for the productive structure and its effects on growth and equity is clearly structuralist. Neostructuralists do not accept the

neoliberal's 'neutral' or 'leave it alone' stance toward the productive orientation. In addition, while the correction of market failures and meso-economic policies play an important role in the neostructuralist program, they do not share the neoliberal focus on the strengthening of private property rights generally. This is particularly evident in the environmental agenda, where neoliberals would argue that the principle problem is ownership of pollution, rather than the externalities it generates, as neostructuralists focus on. While the main thrust of the policy agenda does seem to be decidedly structural, the ways of achieving desired changes are often influenced by neoliberalism. In particular, the desire to quantify and measure the potential effects of policies using neoclassical tools is prevalent throughout. The overriding concern, that state interventions need to be justified is neoliberal, however the neostructuralists see more space existing for these types of interventions.

Chapter 5:

Omissions and Contradictions

We have seen how neostructuralism has combined elements of both structuralism and neoliberalism. We have also seen it embark upon a number of conceptual innovations, which provide a new basis for policy recommendations not found in either of its predecessors. However, some of these innovations come with new contradictions as well, stemming from insufficiently justified arguments or outright omissions of key dynamics. These omissions revolve around a few key themes: analytic entry point; justification of export bias; non-economic costs; the “heterodox paradox”; and power relations. Specific cases where pressing developmental problems are not addressed as a result will show the limits to the synthesis and the balance of tradeoffs between the ideal forms from which it draws from.

Analytic Entry Point: Economic Surplus vs. International Competitiveness

Neostructuralism uses a different analytic entry point than either of its previous paradigmatic predecessors. Neostructuralism frames much of its strategy for productive development around the idea of international competitiveness, recently enhanced with a systemic character. This focus on competitiveness has replaced the earlier structuralist focus on the economic surplus, and has led to major differences between the two paradigms.

The original structuralist thinking was very much concerned with how economic surpluses were generated, transferred, and invested in the world-wide economic system. The identified how surpluses were generated by those with access to scarce resources, how these surpluses were appropriated by a small investor class, how they were transferred overseas as profit remittances, or used for luxury consumption. Given how the heterogeneous production structure mean that low wages debilitated the internal market and limited demand growth, they thought it was central to capture the economic surplus and redirect it toward productive industrialization. Elite profitability could not be counted on to reinvest surplus productively.

Neostructuralism uses a different analytic entry point, that being international competitiveness. In the new globalized market, the imperative is to maintain and gain market share. They implicitly argue that due to open capital markets, the surplus is no longer possible to capture. Surplus can leave Latin America at will, or come in as FDI or other investments from generation elsewhere. The key is to be competitive internationally so that part of the worldwide surplus naturally gravitates there. It is less efficient, and indeed impossible under globalization to control surplus, thus it is a better strategy to incentivize surplus to invest domestically.

Nevertheless, as a result of abandoning the notion of the economic surplus and replacing it with international competitiveness, neostructuralism updates itself to the new economic realities of the 21st century but also seriously limits its ability to understand, much less correct, certain dynamics of contemporary Latin American capitalism. Under the new framework, the socioeconomic system can do everything it can to achieve competitiveness, but the resulting profitable firms that may result will be under no

obligation to reinvest that surplus back into the economy. The whole system is to be designed to ensure profitability of firms, yet nothing is asked of them in return other than the direct employment benefits the activity generates. Too often highly competitive firms repatriate their profit overseas or to financial markets, draining much needed capital from the region.

This is a one sided relationship that can only result in growing inequality as the people sacrifice for private sector profitability. In this case, a key analytic insight of structuralism, the economic surplus, has been abandoned, because the basic regime requirements of globalization prevent and control of it. The effects of the lack of control of the surplus can be massive. During the commodities boom phase in 2006, profit remittances of transnational corporations operating in Latin America amounted to over 2 percent of GDP per year (Ocampo 2007). Partly for this reason, the commodities boom could not be fully used as a source of funding for a more widespread industrialization drive. If it is impossible to capture the surplus as was possible in the early post war years as the neostructuralists argue, it remains critical that the development paradigm at least try to model and understand how the surplus moves, so that strategic efforts can be made to take advantage of opportunities for productive reinvestment where possible. Instead, the entire productive development agenda pays very little attention to this dynamic.

Justification for Export Bias

The neostructuralist proscription for the productive orientation of the economy seems to borrow from both neoliberalism and structuralism. The neostructuralists argue that the

overall macroeconomic and productive development frameworks should purposefully support an outward orientation – that is, biased towards exports to the world market. This bias seems neoliberal, because the neoliberals argued that a correction towards the world market was what the market wanted to do. However, it is essentially more structuralist, because it argues that a specific orientation is both possible and desirable. The neoliberals only suggested that the economy would orient itself outwards as a result of the natural correction from the previous inward orientation (Balassa 1991).

This orientation is very weakly justified in the neostructuralist framework. It is one thing to argue that market failures, externalities, and time lags in learning processes justify state interventions. These things can be measured and accurately targeted by state interventions. However, it is quite another to argue that the entire economy should be biased toward a certain market. Neoliberals have long argued that it is impossible to make a correct decision because of the enormous amount of information required to make the calculation. It is already quite difficult for individual firms to know exactly how much to produce for the internal versus external market. On an economy-wide scale, the amount of information is far beyond what the state can manage.

It is almost ironic, after structuralism was critiqued for having an unjustified inward bias, that the neostructuralists would turn around and impose an outward bias. This bias towards the external market is especially troublesome given several other related concerns. Export growth has not resulted in expected wider economic growth, and has resulted in especially little job creation. As well, the leading export sectors are increasingly dissociated from the internal productive economy, especially small and medium sized firms. The recent global recession and the collapse of world trade once

again indicate how it can be dangerous to rely on the world market so heavily. Production for the internal market or the world market is a decision for individual firms, not the state.

Another salient result of the neostructuralist productive development policies in favour of exports to the world market are its inability to link the distributional effects of the productive structure to its dynamics of accumulation (Leiva 2009). One of the main reasons for the structuralist arguments in favour of an inward oriented development was that the growth of production was linked to consumption – producers had an interest in increasing wages because the consumers of their products were their very employees. This supported a widespread development drive between industry, labour and the state. However, under the export oriented model that neostructuralism supports, distribution has been delinked from accumulation. It is no longer in the interests of producers to increase wages, because the market for their products is overseas and has no relation to their employees. For this reason, the so-called ‘spurious’ type of competitiveness of wage reductions and devaluations have been so common in Latin America during the recent expansion of exports. This is not to argue for a specifically inward orientation, but rather only as a critique of the neostructuralist support for an outward orientation, and the fact that they do not explicitly recognize the increased difficulty in increasing the wage bill when exporting producers do not have an interest in the same.

Non-Economic Costs

Neostructuralism tends to underestimate the non-economic costs associated with some of its policy measures. The general pattern is that all policy and even the overall

development drive is seen through the lens of an economist, despite efforts to broaden its scope. Two examples illustrate this pattern.

Neoliberalism enthusiastically supports many different kinds of regional integration schemes, including NAFTA. Trade agreements such as NAFTA are praised for the economic benefits they provide given the more efficient access they provide to the northern markets. They argue that these advantages are on the whole, more important than the economic costs. However, the critics of these trade agreements point out many other costs besides the economic ones (Vilas 2002). In the case of NAFTA, there has been a loss of economic sovereignty, as more and more areas of policy are outsourced to private regulating bodies. Regulations have grown to replace laws, and public officials are left with less and less avenues to redress popular disenchantment. NAFTA in particular does far more than just regularize markets, but in many ways is the building bloc of much more significant continental unions, the implications of which escape neoliberalists attention. Suffice it to say, neoliberalists completely ignores any of these concerns and focuses narrow mindedly on short term econometric considerations.

In a similar way, this tendency is reflected in the neoliberalist support for innovative use of advanced biotechnology in production. As part of an emerging branch of industry, biotechnology is singled out as an important area to both take advantage of and to increase research and development. These again are taken based on their economic benefits. Profitability in the biotechnology sector is high, and potential applications of GMO seed crops, for example in the production of Soy, seem clear. However, again, the non-economic concerns, principally environmental, but also ethical concerns, escape the attention of the neoliberalists. The potential damage that GMO crops can do both to

humans, wildlife, and the soil itself are well documented, but are not considered (Schurman and Kelso 2003). More seriously, even in the environmental component of the neostructuralist policy framework, these considerations play a very minor role. Overall, the neostructuralist paradigm is exactly what we should expect if economists do not only provide policy recommendations, but actually write entire development strategies. There is a tendency for neostructuralists to over-step their expertise. In their drive to form an integrated development vision that is as holistic as possible, they tend to underestimate the diversity of experience and knowledge required to make informed decisions about issues that pertain to far more than just economic efficiency. The ideal economist – as an advisor, showing the different efficiency outcomes of different policy decisions, is lost when economists pretend to know what is best for society as a whole.

Heterodox Paradox

An interesting contradiction that Leiva uncovers in neostructuralist thought is the so-called “heterodox paradox” (Leiva 2009). The orthodox paradox was recognized far earlier when reforms designed to limit the state’s involvement in the economy ironically increased the power of the central state to direct economic outcomes. The heterodox paradox, by parallel, involves the relationship between the drive for social cohesion and cooperation with the dynamics of export oriented accumulation. It is understandable that in the wake of the lost decade, economic objectives were front and centre in the development strategy. The imperatives of adjustment and stabilization took precedence over long term social development – or rather, they were seen as prerequisites for

sustainable development. However, neostructuralists argued that for too long economic objectives were being worked towards with only follow on consideration of their social impact - enter growth *with* equity. The neostructuralists were supposed to rebalance the economic realm with the social, that is, re-subordinate the economic to the social. However, in the neostructuralist paradigm, the opposite tends to occur. In combining social and economic objectives into an integrated strategy, the economic objectives are taken as fixed and unmovable, whereas the social goals are geared to support the overall export oriented production structure. The heterodox paradox represents the tendency for measures that are designed to increase the participation and activity of social elements in the development process, to have an unforeseen effect that causes an increased and deepened subordination of the social realm to the logic of transnationalized corporate accumulation. The policy of social cohesion attempts to have the entire society work towards the common goal of systemic competitiveness, but with transnational corporations in the driver seat of investment decisions, the entire social realm resultantly plays to their tune.

Leiva finds evidence for the manifestation of the heterodox paradox with his innovative application of a methodology that filters the neostructuralist paradigm through really existing social formations of power. Thus, while neostructuralism did bring back institutions and politics back into the development realm, they did so in a way that carefully circumscribed their roles and had ready made jobs for them to do – to support the export drive and competitiveness of exporting firms. This kind of politics is reminiscent of the early days of democratization where the real significance of the return of civilian rule was quite short of real democracy – it was limited to a kind of democracy

that supported the New Economic Model. While consensus and cooperation certainly are preferable to coercion as a means of social coordination, the benefits are quite parochial when the objective of social coordination is already defined, and largely benefits transnational capital. The result of the heterodox paradox is that localities, municipalities, and the various layers of popular participation are being used to channel discontent, ensuring social control (cohesion), stability, and thus competitiveness. Nowhere is it necessary to address the underlying issues that are the impetus for the popular discontent.

The focus on this limited type of social inclusion can actually serve, in a strategic sense, to undermine drives for social concerns (Petras and Veltmeyer 2005). Social inclusion of this type tends to co-opt the more independent social movements who are representations of dissatisfactions among the people. Leaders are co-opted, and the support base is divided and pacified. The social inclusion policies provide an avenue for these frustrations to be vented while not addressing any of the underlying concerns. Thus, the social policy serves to disarm more radical demands and reincorporate them into a the development drive, at the minimum muting their demands, and at the worst serving to redirect their energies in support of the very type of development the social movements were protesting. Instead, social movements are 'organized to consume', rather than to organize politically in a way that challenges existing power structures.

Power Relations

The Achilles heel of the neostructuralist paradigm is its inability to address key developmental dynamics that are characterized by strong power relations. The policy

recommendations that neostructuralism provides, in the name of political feasibility, never challenge powerful groups. This results that key policies which could promote growth with equity are not considered, while the policies that are promoted too often simply serve the interests of the powerful.

Most central focus of neostructuralist thought is on cooperation. Opportunities for collective action with the aim of collective benefits are emphasized wherever possible. However, this comes at the cost of omitting sometimes necessary element of conflict in the development process. Neostructuralists are essentially spineless in the face of opposition – key policies that could have major benefits are rejected if power dynamics get involved. Very few of the neostructuralists policy recommendations have the effect of challenging a small group of powerful interests for the benefit of society as a whole. From this perspective, neostructuralism can be seen as very mechanistic. It sees the development potential as the result of simply enlightened policy, and never as a result of struggle against anti-developmental influences. “The result is a utopian view of Latin American economies” (Leiva 2009). To stress the point my metaphor, if Latin America was a slave camp, neostructuralists would reject overturning basic slavery institutions on their high political cost. An unfortunate effect of this inability to challenge power is that the overall framework tends to reinforce existing power asymmetries. More can be asked of the poor and weak, because they are less able to resist, meaning they tend to bear the brunt of the adjustment costs. This, of course, is antithetical to the stated objectives of growth with equity.

Both structuralism and neoliberalism attempted to address issues of power, but arguably, both did more so than neostructuralism. Structuralism was strong in its

treatment of power. The structuralists often recommended targeted income redistribution policies that were seen as necessary to overcome inherited, unjust, and socially perverse ownership patterns, especially land ownership. These inequalities were seen to have resulted from a biased property rights enforcement that systematically favoured the wealthy. As well, their address of the economic surplus directly challenged the interests of the owners of production. In a sense, the structuralists actually modeled patterns of power to understand why certain problems displayed such a frustrating tendency to persist. The structuralists did not hesitate to speak truth about developmentalist problems, even if they challenged powerful interests, or even if the policies were unlikely to succeed. Prebisch himself said that one needs to strike a balance between class cooperation and conflict (Halperin 2008). While redistributive measures and deep transformation were not always followed because of power dynamics, they were at least willing to propose them. This balance between cooperation and conflict is found missing in neostructuralism.

Neoliberalism sidesteps the issue of power relations, arguing that in a perfectly competitive market, and with a restricted state, power could not use the state unfairly to gain advantage. The central concern of the neoliberals was that powerful forces could capture the state apparatus and use it for their own good – a kind of socialism for the rich. In addition, their emphasis on competitive markets meant that powerful firms would always be at the discipline of the market and competition, leaving the consumer to benefit the most. While the neoliberal framework has been criticized for inadvertently supporting powerful interests, to be fair the paradigm does attempt to address them, even if in the

real world the paradigm is not sufficient to withstand the onslaught of powerful manipulations.

Compared to both structuralism, and neoliberalism, neostructuralism displays a complete ineptitude in dealing with power relations. Part of the reason for this could be that in the context of a return to fragile democracies, neostructuralists strategically chose to not address conflicting issues, in the hopes that the nascent bud of democracy may have time to gestate and fortify itself. Later then, power could be dealt with. As well, from an institutional point of view, ECLAC in the late 1980s was struggling to remain relevant in the development debate. Given the ascendance of neoliberal ideas, neostructuralism could be seen to have systematically ejected power issues so as not to challenge the existing power structure, making it more attractive to those holding the reigns of policy making. This can be seen as a sign of weakness, that power was not addressed for fear of marginalization. Finally, in the context of the fall of the Soviet Union and the return to non-ideological viewpoint, neostructuralists perhaps confused the necessity of conflict with revolutionary social transformation projects of the past that challenged power head-on. In attempting to be more pragmatic, neostructuralism unfortunately also ignores issues of conflict.

Fernando Leiva identifies three major aspects of Latin America's development dynamic that are systematically under-addressed as a result of ECLACs incapacity to address power relations: transnationalization, financialization, and informalization. He argues that these three processes are interrelated, and should be expected to grow as their underlying drivers are supported by the neostructuralist development project. The growing transnationalization of production is argued to effectively disempower the state

from being able to discipline capital, a key ingredient in all developmental states. Transnational corporations have huge leeway and an interest to not transfer technology, especially under the so-called Open Regionalism agreements, or invest their surplus incomes back into Latin America. The transnationalization of production is linked to the financialization of the economy, as international capital has free access to direct investment decisions. The financialization results in increasing shares of income accruing to financiers, resulting in little if any job growth, and a large export of capital. Financialization is also linked with informalization, as only the largest and internationally linked exporters get access to finance, the local economy is largely left out. Informalization also is a key product of the increased flexibility requirements that neostructuralism supports. Overall, these three dynamics, the major over-arching patterns of development at the present time, are not sufficiently addressed. Neostructuralism no doubt discusses these trends, but they do so from a sanitizes perspective of the Latin American economy that ignores the idea that the interests of TNCs and internationalist financiers may run contrary to the interests of the people at times. Consequently, efforts to benefit one may come at the expense of the other, and drives for cooperation to benefit everyone may be ignored by power or systematically used to strengthen their own position at the cost of others.

There is also a generalized lack of critical thinking of power issues where it arguably matters most, regarding international institutions. Two examples illustrate the point. The neostructuralist paradigm sees a strong role for cooperation with the IMF to ensure macroeconomic credibility. It also sees the IMF as being useful to coordinate the major economies so as to provide a global public good. However, ECLAC completely

shies away from a critical discussion of the IMF and the powers that control it. It is not considered that the IMF may work for an agenda that is not apparent based on its own declarations. More critical analyses have shown the IMF to be largely an agent of international banking circles whose interests in Latin America can hardly be said to be developmentalist. However, in ECLAC's desire to be diplomatic, it does not consider these possibilities, causing it to recklessly favour cooperation with the institution.

The same occurs in another area. A key part of ECLACs current environmental agenda is the climate change component. ECLAC essentially accepts the position of the UNEP and IPCC that this is a catastrophic threat and that carbon regulation should be a key priority. However, they do not consider other analyses that suggest that major world imperialist powers are using the environmental agenda to prevent and control the development of developing regions. The entire UN climate change project is now being highly criticized for this reason, yet ECLAC dangerously accepts the need to reduce Latin America's carbon impact. This is extremely anti-developmental, has huge consequences for growth prospects, and will do little for the environment. ECLACs inability to see how, even at high levels of international development making, power dynamics are key to understand and unwind if real development is a possibility.

Neostructuralists seem unwilling to challenge powerful interests in the area where it has the most potential to achieve their stated objectives. ECLAC has, in the neostructuralist era, paid little attention to issues revolving around taxation. Their policy recommendations are very general and universally applicable, uniform tax rates, widening tax base, lowering tax evasion. However, they do not discuss the real elephant in

the closet when it comes to tax policy – who pays taxes? Are taxes, on the whole, progressive, or regressive?

Neoliberalism spends much effort to find the causes for the region's inequality by looking at the dynamics of the production structure. They correctly acknowledge that in Latin America, after tax income distribution is extremely unequal, far more unequal than the developed world. This is a key obstacle for development. However, if the structure of production were really the issue, then the same should be observed in before tax distribution of income. But it is not. Latin America actually has a before tax income distribution that is comparable to the developed world. The majority of the difference between Latin America and the developed countries results from the fact that in the developed countries, taxation is highly progressive, with the rich paying the most. As a result, their after tax GINI coefficients drop dramatically. This does not occur in Latin America. Instead, after tax GINI falls only slightly, and in some countries it actually increases. That the poor pay the majority of the tax burden in Latin America is an egregious injustice, and should be a key priority to address in any development strategy. The failure to tax the rich is the primary reason for Latin America's income inequality. Yet because of the political resistance of the wealthy, this simple measure that could do so much to promote equity is ignored. A small oligarchic element pays no taxes at all, further skewing income distribution and creating an unlevel playing field. ECLAC should at least make clear that tax policy is a major issue, rather than just ignore this glaring reality. More good in terms of distribution of income could come simply from changing the tax structure to those that are common in the developing world than all the other ECLAC recommendations put together, even if they were successful. It is truly absurd

for neostructuralism not to pay more attention to this reality, unless of course, one understands that they are not willing to challenge power.

No one would prefer to promote conflictive solutions to cooperative ones. However, in certain circumstances, conflict is a necessary component of progress. This can be argued especially the case in Latin America, with such an extreme income inequality. Its position at the lower levels of the world power structure also suggest that confronting certain powers may be required to promote development. In earlier epochs, it was clear that one component of a developmentalist state was the ability of the state to discipline both capital and labour. This often meant forcefully overruling the interests of certain powers, in projects such as land reform or corporate restructuring. Yet in the neostructuralist paradigm, the tendency for transnational economic powers to increasingly dominate the economic system results in the increasing impotence of the state to discipline capital. This results in a vicious circle of increasing transnationalization and financialization, and the increasing inability of the state to challenge these powers. The longer this goes on, the more conflictive solutions must be. The best solution is to address them immediately before social unrest becomes so great that the conflict and chaos that may result might not be able to be positively channelled to correct social injustices and better society as a whole. Neostructuralism needs to rediscover and reclaim the essential duty to promote social justice, even if it requires that power must be challenged.

This limitation of neostructuralism can be understood because of the limitations placed on it because it is a UN institution. The analysis and proposals of ECLAC need to be roughly in line with the overall UN development mission. As well, since ECLAC is

funded by its member governments, it is not surprising that it favours cooperation over conflict – what government would fund a think tank that argued for subversive actions against itself? Though this is a limitation of ECLAC, we cannot really hold it against them. ECLAC is what it is, and has much to offer in its own right. However, it would not be too much to ask ECLAC to be more clear about the limitations of the synthesis in this regard, or even just be clear about what its paradigm is most useful for, instead of claiming to be a complete solution to development problems.

Post-Crisis Development

The neostructuralist paradigm has undergone several changes in its 19 year history. This analysis has looked at aspects that were present in its founding 1990 form, as well as more recent additions and reformulations. Neostructuralism has continually showed an ability to adapt to changing circumstances, while broadening its own theoretical horizons. The 2008-2009 global crisis and recession has had a major effect on the development course in Latin America, and is bound to cause changes to the paradigm (ECLAC 2009). The crisis has already highlighted some of the vulnerabilities of neostructural paradigm. These issues are the subject of increased emphasis in the wake of the crisis.

The global crisis has transmitted to Latin America through a number of channels. A drop in world demand, worsening terms of trade, a higher cost and reduced availability of international credit, declining tourism and reduced remittances have all negatively impacted economic development in the region. Improved macroeconomic management and financial savings from the boom period means that South America is now better

prepared to deal with the recession than in times past, but these can only be temporary measures, as the Latin American economy must adjust to the new global realities post-crisis. While ECLAC has not produced a keynote document outlining its position on how development strategy will broadly adjust to the crisis, indications are present through its tentative analyses of the crisis. Interviews with ECLAC staff and presentations during the ECLAC summer school 2009 give a sense of the direction the strategy is headed.

ECLAC quickly released a set of recommendations to member governments in the immediate aftermath of the crisis. ECLAC argues against the rise of protectionism, arguing that this would be a dead-end and counterproductive. On the contrary, renewed efforts are to be placed on completing the Doha round of trade negotiations at the WTO. More trade liberalization, not less, is seen as necessary to address the crisis. Macroeconomic volatility is to be guarded against by the use of counter-cyclical macroeconomic management. In the context of this cyclical downturn, ECLAC recommends that governments do what they can to increase stimulus, by way of fiscal spending and monetary expansion.

For the longer term, it is acknowledged that a few key trends need to be considered in any post-crisis development strategy. One is that the North American and European markets cannot be counted on as a source of demand growth in the future. The crisis has brought growth in these economies to a stand still, while estimations are that they will continue to grow at slower rates in the future. These markets are expected to be increasingly replaced by the Chinese and Indian markets that have shown a great resilience during the global recession. As a result of their continued expansion, commodity prices are expected to remain buoyant. The ongoing financial turmoil in

world markets is by contrast expected to result in a reduced availability of international credit for the foreseeable future.

One key event that directly challenges the logic of neostructuralist development has been the decline of world trade. Neostructuralism has always argued that exports to the world market are the most dependable route to high productivity jobs and technological advancement. However, in a way similar to how the Great Depression ushered in a period of export pessimism, the current world recession is questioning the viability of relying so heavily on export markets. It could be that if this crisis turns out to be more prolonged than expected, more consideration for the development of the internal market is warranted. For now it seems ECLAC is betting on the continued rapid expansion of China, a bet not historically unjustified.

Overall, ECLAC staff seems to be of the opinion that the crisis marks the end of a super-cycle in neoliberal reforms. Market liberalization is blamed for causing the crisis, and it is no longer viewed as a major development objective going forward. Instead, there must be a renewed emphasis on the role of the state, and specifically its regulatory and supervisory functions. This is in line with neostructuralist thinking for sometime already, but the political conditions will certainly increase the impetus for these actions. The crisis could be seen as a reference point officially ending the neoliberal era and beginning the neostructural era for this reason. The challenge for neostructuralism is to take the new global economic realities into consideration and propose a modified development strategy moving forward that even if it makes use of increased state interventions, does so with the utmost attention for their justification and rationalization – advancements at the heart of neostructuralism's innovative approach to the age-old problem of state versus market.

Chapter 6:

Conclusion

This research began with the mission to unravel how neostructuralism combines elements of structuralism and neoliberalism into a new development paradigm that has so far proven more durable and appropriate to current conditions than its predecessors. There are clearly elements of both structuralism and neoliberalism present in neostructuralism, but the ability to render compatible the different foci of these paradigms into a consistent whole comes from neostructuralism's innovative concepts and theories. These new ideas flow together through a series of analytic steps: social cohesion; genuine competitiveness; systemic competitiveness; open regionalism; the high road to globalization; and virtuous circles. Neostructuralism has so far withstood critiques from all sides, though its efficacy will be continually challenged, both by intellectual critique and by new unforeseen circumstances.

Neostructuralism shares some basic characteristics, and deviates from, the main ideas of both structuralism and neoliberalism. Neostructuralists share the structuralist belief in the basic usefulness and agency of the state to promote development. The types of states they argue for are different, yet they both see the state as an essential and positive developmental force. They also share a belief that it is possible and desirable to orient the productive structure at the highest levels. Structuralism promoted an inward orientation – production for the domestic market to achieve import substitution, and

neostructuralism promotes production for the world market by way of exports. They also share a central concern for equity, that is, they view equity as essential for development.

Neostructuralism differs from structuralism in that it no longer begins with a world systemic approach that attempts to understand Latin America's unique global position. Neostructuralists surely try to understand Latin America's international insertion, but this is not the foundation of the analysis, but rather attempts to inform the strategy. Neostructuralists also do not focus on the idea of the economic surplus, as was central in structuralist thinking. International competitiveness has grown to displace the centrality of the surplus, though as we have seen, competitiveness is seen to be more useful a concept in the globalization era with little capital controls. Neostructuralists also combine, much more than structuralists had, both long-term and short-term strategies. Neostructuralist strategies are often preoccupied with short-term considerations, but policy recommendations in the short-term are always favoured that have positive long-term effects. Long term initiatives are not always front and centre, but they are always adopted when possible.

Neostructuralism also has much in common with neoliberalism. Both accept that individual initiative must be at the centre and the driver of development. Neostructuralists argue for a strong and capable state, largely to make sure that the benefits of individual initiative – the efficient allocation of resources in free markets – is realized. Neostructuralists are also aware of the costs of state interventions. While neostructuralists are not as vehemently opposed any form of state intervention as are neoliberals, they do recognize their costs and attempt to strategically limit state interventions to an optimal amount.

The main difference between neostructuralism and neoliberalism is the belief that it is both possible and desirable to orient the production structure. While both are associated with increasing exports to the world market, neoliberalism fundamentally strives for a 'neutral state of affairs', whereas neostructuralism explicitly argues for an outward orientation. Neostructuralism also does not adopt the neoliberal focus on extending private property rights as a solution for development. Indeed, neostructuralism often argues for policy induced resource transfers that would offend a neoliberal's sense of individual sovereign ownership.

The synthetic aspect of neostructuralism that is so successful at combining aspects of both earlier paradigms is its attempt to combine a systemic, economy wide analysis while maintaining a focus on the individual. The systemic competitiveness concept allows neostructuralists to midwife the neoliberal focus on competitiveness in free markets with the structuralists concern with systemic dynamics. As a result, structuralists cannot complain that neostructuralists do not take into consideration the functioning of the totality of the economic system, and neoliberals must accept that neostructuralists focus on competitiveness in free markets. Individuals remain the essential agents of development, but they are placed within the national economic structure of which they are apart to analyze them. However, neostructuralism has been critiqued for its weakness on the systemic level. The abandonment of the economic surplus and the failure to supplement it with any other coherent theory of development at the world level means that the systemic aspect of neostructuralism is limited and cannot offer many insights into development problems at the national level.

The neostructuralists make use of a similar combination when it comes to the proper role of the state in the development process. Neostructuralists combine the structuralists' insistence that the state is a useful agent, with the neoliberal critique of the state, by attempting to quantify both the benefits and costs of state interventions in an aim to find an optimal amount of intervention. Neostructuralism has thus been said to promote "government assisted, free markets."

Overall, neostructuralism is a more complex paradigm than its predecessors. This increased complexity and theoretical specificity have allowed neostructuralism to incorporate a vast array of concerns into a coherent overall strategy. This complexity at times makes it seem like neostructuralism is a non-development paradigm; it is simply a combination of the best insights regardless of where they come from. Even so, the theoretical glue that its main concepts and ideas provides is enough to give neostructuralism its own paradigmatic character that separates it from others.

The main price that neostructuralism pays for this innovative combination is its inability to tackle power relations. It is likely that, should conflict be accepted as a key component of strategic development, then the entire focus of neostructuralism would change. This does not necessarily, though it has been argued, to make neostructuralism impotent to tackle the really existing dynamic obstacles to development in Latin America. Rather, it means that neostructuralism can be used as a reference point for all kinds of social actors, and when common interests do exist, it would be beneficial to use their insights. However, neostructuralism cannot be seen as *enough*, social actors must go beyond neostructuralism's cure all policy proposals to press for changes that might entail conflicts that the diplomatic ECLAC does not want to take part in.

The neostructural paradigm also suffers from what might be described as “mission creep”. The paradigm began with the singular objectives of restoring growth and equity to the region. This was understandable after a decade of no growth and regressive transfers of wealth. However, this focus has hardly changed in the first 19 years of its existence. They continue to view growth and equity as the only real results that might represent development. Neostructuralism is essentially an economic paradigm that sees all problems through an econometric lens. Neostructuralists ask that social, political, and economic actors all work toward their strategic agenda, but they do not see that a national development drive must include, indeed should be founded on, non-economic issues.

The dominance of the economic realm over the social goes deeper than the fact that most neostructuralist thinkers are economists. The drives for social cohesion, concertation, and cooperation have the effect of subsuming independent social demands to the logic of transnationalized capitalist reproduction. Neostructuralism does indeed reincorporate social and political dimensions to the development process, but does so in a limited way that makes sure that social demands do not challenge the requirements of the transnationalized sector. From a long term perspective, the drive for social cohesion can actually directly undermine some of the social goals that neostructuralism aims to redress. The heart of the problem is that neostructuralism attempts to achieve growth and equity, but does not start from ground zero – from a coherent global theory of development and underdevelopment. The social dimension, while thoroughly integrated, is largely an add-on or appendage to the logic of transnationalized capitalist reproduction.

As a result, many of neostructuralism's proposals to improve social equity merely affect the symptoms of social problems, rather than their roots.

For a development paradigm with the scope of neostructuralism's vision, one would expect many more dynamic aspects – including issues of the organization of government, the system of law, personal liberties, etc. While ECLAC is an economic development think tank, they should recognize this themselves too, and know that econometric recommendations will never be enough to deliver true development, and political actors must think about what is at the heart of development, what is the basis of free and just societies. Development paradigms in general could benefit from an increased theoretical self-awareness in this respect. Development economists are great at recommending economic structures that promote efficiency, but their specialization does not equip them with the knowledge needed to remake entire social systems. Development economists, if they do want to propose system wide integrated socioeconomic transformations, must bring non-economic perspectives into the fold, or at least limit their own advice to the realm of the different efficiency outcomes of different policy scenarios, and leave the deciding up to the democratic process.

The neostructuralist paradigm has proven very able to integrate new economic theories and realities into its framework, meaning that it will prove very difficult for any new economic development paradigm to challenge it in a significant way. The weaknesses of neostructuralism suggest however, that the development paradigm that grows to dialectically challenge neostructuralism could come from another basis altogether, perhaps from the perspective of individual rights, social justice concerns, or one which embraces political revolution. In the meantime, neostructuralism serves as a

step in the right direction, and should continue to be used as a reference point for discussions revolving around strategies and prospects for a better future.

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