

to the Brazilian reality), his interaction with institutional politics, and his multiple interlocutors and disciples. Furthermore, Santos effectively brings Caio Prado into dialogue with contemporary debates in the Brazilian left over the agrarian problem and discussions about sustainability. Though perhaps beyond the scope of Santos's endeavor, it is worth noting Caio Prado's relevance to contemporary party-based Socialism (à la the Workers' Party or PT), as well as to Brazil's vibrant social movement sector, which continues to grapple with the reconciliation of group-specific interests with a "unified front."

Raimundo Santos is of the conviction that it is impossible to understand 20th-century socio-political thought and practice without examining the cultural politics of Brazilian Communism. His book, focusing on one particularly influential Marxist historian, proves this point skillfully and convincingly.

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BARBARA STALLINGS and WILSON PERES: *Growth, Employment and Equity: The Impact of Economic Reforms in Latin America and the Caribbean.* Washington, DC: Brookings Institution Press, 2000.

This book is the result of years of work by a large team of economists and regional specialists established at the United Nations Economic Commission for Latin America (ECLA). It is clearly one of the most comprehensively researched and authoritative studies done on the topic yet. To be sure, it is much too early to give any sort of definitive assessment on the reforms, but the time is ripe to sketch a preliminary picture. The study is very representative of Latin America, focusing on nine countries (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Jamaica, Mexico, and Peru) comprising 81 percent of the region's total population and 90 percent of its Gross Domestic Product (GDP).

The wide gamut of Latin American reforms are generally separated into two groups: "first generation" reforms (defined by the study as import liberalization, domestic financial liberalization, capital account opening, privatization, tax reform) and "second generation" reforms (including regulation, public administration, the judiciary, education, and others). The study is concerned with the latter. Reforming the region's institutions is no less crucial, but this second wave of reforms now underway is much more challenging and will take longer to implement. The nine project countries are, in turn, divided into two groups according to whether they are aggressive or

cautious reformers. Not surprisingly, those that started with especially negative conditions, including high inflation rates, low growth performance and a high degree of economic distortions, adopted the neoliberal package of changes with more zest. Aggressive reformers were Argentina, Bolivia, Chile and Peru. The others, not so critical of past performance, adopted a more gradual, selective approach. In order to render the reforms amenable to econometric analysis, a reform index is created, resulting from five sub-indexes –one for each of the five reforms mentioned above.

The main message of the volume is simple: econometric evidence shows that reforms have had a small impact when one looks at the aggregate regional averages and only when delving into country, sectoral and microeconomic levels does one find evidence of significant change. To make comparisons with the 1990s, the anomalous 1980s are generally discarded and the base period 1950-1980 is adopted instead. (As the authors explain, past studies that have adopted the 1980s as a point of reference to assess changes are clearly biased, since this is an anomalous period characterized by stagnation and deteriorating social conditions as a result of the debt crisis.) At the aggregate level, what has been the impact of reforms? Overall, growth recovered with respect to the lost decade of the 1980s, but it was below the base period. Exports increased significantly, but imports grew even faster, and thus the advent of larger trade deficits. Investment and productivity simply recovered the levels achieved during the base period that slipped during the lost decade. Inequality increased slightly, but at a much slower pace than during the 1980s.

In short, one must come to terms with the apparent paradox that "the biggest policy changes in a generation... resulted in fairly modest changes in performance at the aggregate level (pp. 203-204)." A number of explanations are put forth to resolve this contradiction: reforms worked slowly due to the uncertainty they generated and to macroeconomic instability; they were frequently inconsistent with one another; international forces increased both uncertainty and inconsistency; different countries and firms differed in their ability to respond to changes; and reforms were incomplete and need complementary policies to make them efficient.

Developing nations are often victims of outside economic events over which they have little control. Harvard economist Dani Rodrik has found statistical evidence to conclude that the ability to maintain macroeconomic stability in the face of turbulent external economic conditions is the single most important factor accounting for diversity in growth rates over the past twenty-five years. Latin America has not historically fared well in this department. How has the international economic environment affected Latin American economic performance in the past ten years? The region's share of

the world's global capital flows has increased both in terms of Foreign Direct Investment (FDI) and portfolio flows. Capital flows and economic growth are found to be closely linked: increases or decreases in the level of flows closely mirror changes in overall growth. What has characterized capital flows in the 1990s is their high volatility –due to the increased presence of bonds, portfolio equity and commercial bank loans as a percentage of total flows. Capital poured into the region in large quantities during the first half of the decade only to come to a damaging halt as a consequence of the Mexican financial crisis. Later, the Asian crisis brought about a second reversal of capital flows. As the authors point out, when capital flows have declined there has been a contraction in imports, leading to a fall in growth. Large inflows have also led to overvalued exchange rates, punishing investment in tradables and export performance. There is growing consensus among observers that large surges of easily reversible capital inflows are bound to have net negative effects on long-term growth and development.

A second way in which volatility is imported to Latin America is via changes in the terms of trade brought about by swings in crucial primary commodity prices. Stallings and Peres suggest three mechanisms to reduce vulnerability to external economic events. First, through controls on capital inflows and the creation of commodity reserve funds. Second, via new regional integration schemes; third, through increased negotiating power in international decision-making. While no one would deny the benefits of the two last recommendations, prominent economists have criticized the advocacy of any sort of capital controls, considering that this remedy can be worse than the malady itself. What is clear is that this area will be one of continued heated debate and research. Maintaining macroeconomic stability in the face of outside shocks remains one of the crucial tasks for policymakers in the region. Little can be accomplished without it.

The area where this study is innovative with respect to previous ones is in its look at the sectoral and microeconomic levels of analysis. A marked heterogeneity is found in the response to the reforms of economic sectors and types of firms. Capital formation was concentrated in a few subsectors, mostly capital-intensive. Meanwhile, labor-intensive tradables experienced slow growth, damaging job creation prospects. If enterprises are categorized according to size, large ones saw most growth and increased productivity. One of the conclusions drawn by the authors is that microeconomic level research reveals that, contrary to what has usually been said, the region's comparative advantage in a world setting lies not so much in its low-skilled labor force, but rather in its natural resources.

One long-standing problem that the reforms seem to have exacerbated is that of employment creation. The ECLA study coincides with others in

finding that the new economic model has had a negative impact on this score. In the *a priori* scenario, a more efficient allocation of resources would facilitate faster growth, which in turn would result in more job creation. Second, the growth elasticity of job creation would be more favorable due to a shift in investment and the production structure, which would be more labor intensive, overturning the traditional bias in favor of capital. Finally, an emphasis on exports would presumably also create jobs because they were thought to be more labor intensive than import-competing ones. An expansion of employment would also improve equity. Most new jobs would demand low-skilled labor, reducing wages across skill levels. Further, opening the economy would also decrease the gap between profits (capitalists) and wages (wage earners). None of these predictions has materialized. Employment growth in the 1990s has been lower than in the base period. There are two main lessons regarding employment: first, its expansion is closely related to GDP growth; second, the reforms themselves hindered its expansion. Both the relatively low average regional growth in the 1990s and its stop-and-go pattern have caused the lion's share of the employment problem. Moreover, the quality of the employment that has been generated has been of poor quality.

When assessing impact, there is an important methodological consideration to bear in mind. It is necessary to distinguish between a given reform's first and second-round effects. A given reform may have a specific short-run effect on a relevant macroeconomic variable, and another longer-term one via its effect on the trend rate of GDP growth. The second-round effect may counter or reinforce the first-round effect. For instance, trade liberalization has a negative short-run effect on wages via a real devaluation of the domestic currency. But if, as part of the new economic reform package, it contributes to an increased trend rate of economic growth, the impact on wages may well be reversed. As it turns out, a mediocre regional average GDP growth throughout the 1990s has ensured that negative first-round effects from individual reforms have not and will not soon be countered.

Inequality, the region's biggest scourge, has also worsened in the 1990s. Three of the reforms provide consistent econometric results with respect to equity: trade liberalization and tax reform prove to be regressive, whereas capital account opening is progressive. While the reforms were never sold as an attempt to alleviate the region's highly skewed income distribution, they are not neutral with respect to it. This preliminary diagnosis, which coincides with other studies, only accentuates the urgent need to step up the social offensive to wage war on inequality.

At the end of the day, Stallings and Peres must grimly but inevitably come to the conclusion that only Chile "has come near to fulfilling the broad

expectations held out for the reforms (204)." Chile has greatly increased investment and productivity, maintained a balanced current account, and achieved high domestic savings. The result has been average GDP growth of 7 percent for the past 15 years, strong employment creation and something that has eluded the rest of the region: reduced inequality. Can Chile serve as a model for neighbors? To be sure, miracles are not easily reproducible: countries are endowed with different economic structures and histories. Their different starting points conditions possibilities for the future. However, path-dependency is not destiny. The Chilean case remains a powerful example for most Latin American countries and drives home the lesson that there are indeed fruits to be reaped from good policy environments and an active social agenda. Chile's demonstration effect has already been documented.

Although *Growth, Employment and Equity* is not laden with technical jargon, there is an inordinate amount of information compressed into some 200 pages, which makes for dense reading. In fact, this book is a summary of nine separate country volumes and five comparative topic volumes (on rural development, productivity and technology, investment, inequality, and employment) that will soon be published by ECLA. The reader is well advised to refer to the individual in-depth studies of particular interest.

All in all, perhaps another decade will need to transpire before more definitive and comprehensive assessment of the reforms can be made –among other reasons, more data will allow for more robust econometric conclusions. But what becomes evident after reading this book is that these much-trumpeted changes in economic policy produce no short-run miracles; they are a necessary but not sufficient condition for improved economic and social outcomes. In a very apt metaphor, economist Sebastian Edwards has compared the Latin American experience with development to climbing automated stairs that descend. One has to keep climbing just to stand still. In the long run, first-generation reforms will need to be accompanied by a new institutional and administrative framework, and by a social offensive (sustained investment in health and education) that upgrades the region's stock of human capital.

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