

**CRITICAL REVIEW: EDWARD, S 2010, LEFT BEHIND: LATIN AMERICA
AND THE FALSE PROMISE OF POPULISM, CHICAGO UNIVERSITY
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Nicolás Horacio Martins¹

The Australian National University

Master of Public Policy Candidate

nicolashmartins@gmail.com

RESUMEN

Sebastián Edwards analiza un tema polémico de la historia económica Latinoamericana reciente: la incidencia del populismo en el deterioro de las instituciones políticas y, como consecuencia, el retraso en el progreso material del continente. Edwards examina la década de los '90 y argumenta que, contrariamente a la opinión pública en general, las consecuencias negativas de las políticas emanadas del Consenso de Washington en América Latina se debieron a su deficiente y parcial aplicación. A su vez, pronostica un futuro sombrío para aquellos países que se encuentran gobernados desde mediados de 2000 por gobiernos de tipo populista. El presente trabajo indaga sobre el marco conceptual del autor y realiza un análisis crítico de la obra, argumentando que, si bien coincide en la importancia de las instituciones como condición necesaria para alcanzar un crecimiento económico sostenible, la falta de estudio de la dimensión política y cultural internacional de la historia latinoamericana reciente reduce el trabajo del autor a una mera promoción del enfoque neoliberal como única solución de políticas públicas.

PALABRAS CLAVE

Populismo; Neoliberalismo; Consenso de Washington; Políticas Industriales; Teoría Centro-Periferia; Políticas Públicas; Desarrollo Económico; Argentina; Brasil; Chile; Ecuador; Bolivia; Venezuela; América Latina.

SUMMARY

Sebastian Edwards discusses a controversial field in recent Latin American economic history: the incidence of populism in the deterioration of political institutions and the consequent delay in the material progress of the continent. Edwards reviews the 1990s and argues that, contrary to the public opinion, the negative consequences of the 'Washington Consensus' policy recommendations in Latin America were due to a poor and partial application of them. In turn, Edwards predicts a bleak future for countries that are being ruled by populist governments since mid-2000s. This paper investigates the authors' conceptual framework and provides a critical analysis of his work arguing that, while agreeing on the importance of institutions for sustainable economic growth, the lack of study of the international political and cultural dimensions of the

¹ AusAID Development Awards 2012 international scholar. Master of Public Policy (Economic Policy Specialisation) candidate at The Australian National University (Australia). Magister in Applied Economics (Universidad Católica Argentina). Bachelor of Business Administration (University of Buenos Aires, Argentina)

recent Latin American history reduces the author's work to a mere promotion of the neoliberal approach as the only public policy solution.

KEY WORDS

Populism; Neoliberalism; Washington Consensus; Industrial Policy; Center-Periphery Theory; Public Policy; Economic Development; Argentina; Brazil; Chile; Ecuador; Bolivia; Venezuelal; Latin America.

1. INTRODUCTION

Edwards, S 2010, *Left behind: Latin America and the false promise of populism*, Chicago University Press, Chicago.

Left behind – Latin America and the false promise of populism is one of the most recent literatures revisiting a persistent challenge for Latin-Americans: the quest for economic development under fragile political institutions. This book offers an interesting analysis of the roots of the classic stop-and-go cycles that characterised Latin American economies during the twentieth century, with an emphasis on political institutions as the underlying problem since the independence days. It was written by Sebastian Edwards, a Chilean born – and – raised economist who has had a relevant career in the World Bank as a Chief Economist for Latin American and Caribbean Region, as well as in the University of Los Angeles and in the National Bureau of Economic Research.

Edwards argues that, contrary to public opinion, the so-called neoliberal economic policies implemented in many Latin American countries during the 1990s were not the cause of recent economic failure. He claims that it was the incompleteness of these reforms in terms of modernising the economy and its institutions that led most of these countries to a mediocre economic performance. The majority of Latin American countries, he argues, remain among the most regulated, protected and distorted economies in the world and lack the necessary market-friendly institutions to profit from globalisation. Furthermore, he emphasises that their government bureaucracies continue to be large and inefficient to provide quality basic public goods such as health, education and infrastructure.

Although the author addresses fairly well the main shortcomings of the political and institutional background affecting Latin America's poor economic performance throughout its recent history, his work neglects many relevant historical events that affected Latin America in the last century. This essay summarises Edwards' arguments for further free-market economic reforms and against populist policies. Then, Edwards' analytical framework is critically examined by taking into consideration additional historical circumstances that influenced Latin America's recent development path and other issues not addressed by the author. Finally, this essay draws on the New Structural Economics approach to contrast with Edwards' policy recommendations.

2. SUMMARY OF THE BOOK

The book is divided into four parts. The first three parts describe and analyse the different periods of economic and political development of Latin America: from the independence days to the rise of the Washington Consensus; from its policy implementations to the subsequent recurrence of crisis; and from there to the current populist revival. The last part focuses on Edwards' view of the challenges Latin America faces in the twenty-first century.

First, Edwards addresses the causes of the long decline of Latin America. He begins with the flawed Spanish colonization, compared to the British, in terms of consolidating weak institutions characterised by highly centralised political systems, lack of law-abiding behaviour and an uneven distribution of land. These factors, he argues, led to fairly undemocratic societies, high

level of corruption and political instability from the independence days on. The adoption of massive protectionist measures since the 1930s as an inward-oriented development strategy derived, according to Edwards, into growing public deficits, production bottlenecks, foreign currency shortages and endemic inflation, all of which increased the gap with industrialised countries. Inefficient state owned enterprises, increasing foreign indebtedness and pervasive currency shocks –Edwards concludes – led to rising unemployment, high labour informality and declining income per capita. The 1980s, later called ‘the lost decade’, finally meant the end of government-led economic strategies and the incipient embrace of market-oriented economic policies.

The second part of the book focuses on the implementation of the Washington Consensus recipes during the 1990s and the recurrences of crisis afterwards. The author argues that market-oriented reforms were, in reality, partially applied since many distorted economic policies and overregulation remained in place and, at the same time, contracts enforcement, property rights and the judiciary system were not improved. In parallel, higher nonwage component of labour costs, difficult access to credit markets, heavy tax burden, protectionist regional trade agreements and overvalued exchange rates undermined a sustainable economic performance. By relying on several indicators from a variety of global indexes – such as World Bank’s ease of doing business, Fraser Institute’s protection of property rights, International Country Risk Guide’s degree of corruption and Freedom House’s protection of civil liberties – Edwards supports the thesis that Latin American institutions remained weak. This is followed by a more in-depth analysis of countries that suffered from incomplete economic reforms, such as Mexico during the Tequila Crisis and Argentina at the 2001’s burst. Chile, on the contrary, is exposed as the ‘Latin America’s Brightest Star’ in successfully achieving pro-market economic reforms.

The third part addresses the ‘populist’ reaction in many Latin American countries after the disappointment at the outcomes from the pro-market reforms and its alleged responsibility for the ensuing economic crisis. In this line, however, Edwards differentiates between the traditional twentieth-century-populism pursued by charismatic leaders such as Perón and Vargas – which he characterises as unsustainable cycles of fiscal expansion, government intervention, protectionism and income redistribution – and the new generation of neopopulists – with a harder rhetoric towards globalisation and capitalism, but still less inclined to expansionist fiscal and monetary policies, at least until 2008. Edwards counter-argues the neopopulist speech through the advocacy for greater trade openness, further investment in human capital and the strengthening of political institutions as tools for economic success. Then, he examines the different economic strategy followed by two leftist political leaders: Chávez, as the new exponent of neopopulism in Venezuela, and Lula da Silva, regarded as the one who avoided the populist temptation in Brazil. Chávez implemented massive social programs through an interventionist regime which led to high levels of inflation and foreign exchange restrictions, while nationalising key strategic assets, monopolising the three branches of government and achieving indefinite re-elections. Lula, instead, adopted market-oriented policies in order to deepen Brazil’s economic modernisation and macroeconomic stability, while pursuing targeted social policies for poverty alleviation.

Finally, Edwards envisages three different clusters of Latin American countries after the global financial crisis. The first group represents those countries that will stick to populist policies, such as Bolivia, Ecuador and Venezuela. The second group consists of those who will not embrace the populist approach but will not perform the necessary reforms to foster productivity and growth (most Central American countries and, perhaps, Argentina and Brazil). The third group, instead, is composed by a few of highly-productive, innovative and developed ‘Latin tigers’, led by Chile and – perhaps – followed by Peru and Colombia. He concludes that, unless Latin American countries undertake the necessary structural reforms to achieve sound economic policies and consistent political institutions, they are deemed to fail once again and face even greater challenges in the near future, such as the propagation of the narcotics business and other illicit activities.

3. EVALUATION

Edwards builds his analysis of Latin American economies on the neoclassical conceptual framework. Three generally accepted principles are regarded by mainstream economists as key factors to explain long-term economic development: 'institutional strength and transparency', 'policies that promote competition, efficiency and exports' and 'keeping inflation under control and avoiding major currency crises' (2010, p.12). While these principles are necessary to analyse the economic performance of any particular country, they are sufficient neither to account for all the influential factors of a country's political and economic trajectory nor to fully ascertain the extent to which a nation can succeed in its development process.

Regarding the strength of neoclassical principles, the New Institutional Economics has long shed light on the importance of institutions for reducing transaction costs (Coase 1960), as well as on the need for enforcement of formal rules in tandem with informal rules in order to guarantee property rights and incentives for people to be productive (North 2001). Latin American countries seem to have failed to meet this principle several times in history taking into account recurrent episodes of flagrant corruption and coups d'état. As for the second principle, the import substitution industrialisation strategy adopted by many countries did not achieve the desired outcomes in terms of scale economies and internationally efficient production processes, even though there have been a number of Latin American companies that became internationally competitive (Katz & Kosacoff 1998, p.7). Finally, macroeconomic stability has generally been undermined by growing government expenditures which led to public sector deficits and, consequently, to increasing inflation rates. The generally overvalued exchange rates more often than not led to current account deficits and derived in currency shortages. All these self-reinforcement mechanisms ultimately led to what was later known as the stop-and-go economic cycles (Ranis 1996, pp. 137-138).

In the Argentinean case, Edwards' argument of incomplete Washington Consensus reforms remains valid. During the 1990s Argentina embarked on a market-oriented structural reform; however many of the policy requirements for 'success' were not implemented. Although initially the convertibility system allowed knocking out inflation, the need for a gradual devaluation in order to achieve a competitive exchange rate was never considered. Instead, the government stuck to an overvalued currency pegged to the dollar. This undermined the formerly protected local industry which, under a recent trade liberalisation, was driven out of business by cheaper imports. As a result, the unemployment rate went up and the social safety net was neither able to guarantee previous living standards nor to facilitate a rapid job-reinsertion (Gerchunoff & Torre 1996, pp. 763-767). Furthermore, fiscal discipline was never achieved as the fiscal deficit averaged 3.7 per cent of GDP from 1991 to 1994 and 4.6 per cent between 1995 and 2000 (Bulacio & Ferullo 2001, p. 5). In addition to the above, current account deficit began to increase from 0.2 per cent of GDP in 1991 to 4.8 per cent of GDP in 1998, averaging 3.5 per cent in the period 1991-2000 (IMF World Economic Outlook 2012). These increasing deficits were unwisely financed by international financial institutions; foreign debt rocketed, and the lack of macroeconomic stability led to the 1998's economic recession and finally to the 2001's Argentinean default (Bonvecchi & Porta 2003, pp. 22-24). After almost a decade of steady economic growth since late 2002, today's Argentina seems to be revisiting some of the old bad economic policies: fiscal deficit, high inflation and overvalued exchange rate embedded with highly distorting government regulations are beginning to lead towards economic stagnation once again.

Although Edwards' analysis of Latin America's economic policies during the twentieth century is fairly accurate, he does not take into account many foreign issues that challenged a more outward-oriented economic strategy for Latin American countries and also contributed to the deterioration of its democratic institutions. After World War II the European Recovery Programme shaped by the United States, also known as The Marshall Plan, imposed a series of economic conditions to European countries that seriously affected global market-seeking opportunities for Latin America. Furthermore, as Perkins et al. (2013, pp. 692-693) claim, the Prebisch-Singer thesis of declining terms of trade for commodities remained valid – essentially in non-oil exporting developing countries – until the 2000s. Ultimately, at least until the late 1970s, there was a broad consensus on the Keynesian macroeconomic paradigm and dirigiste industrial policies as reasonable developmental strategies, not only among developing countries

but also across Europe and several multilateral development institutions (Lin 2012, pp. 3-4). Regarding political institutions, the influence of the Cold War in Latin American countries recurrently undermined the stability of democratic governments. The presence of communist guerrillas supported by the USSR and Cuba, on the one hand, and the uprising of dictatorships endorsed by the United States, on the other, led to the abortion of many governments attempts to restore sound economic policy. In Argentina, for example, Perón's 1952 Stabilisation Plan followed by a more open policy to foreign investment was interrupted by a coup d'état in 1955. Similarly, a decade later, president Frondizi's sensible developmental strategy was branded as Marxist and aborted by another military coup in 1962.

Recent economic research also suggests that the neoclassical approach might not be the most suitable strategy for developing countries to follow, at least, in the beginning. As Lin (2012) points out, it has been observed that most developing countries that were able to overcome the middle-income trap did not stick to either the first wave of government-led economic development strategies nor to the second wave of neoliberal market-driven reforms, but actually followed a third way of what can be called 'New Structural Economics'. This economic stream relies upon market institutions as a basic mechanism for resource allocation, but at the same time, understands the active role of government as a key player in the dynamic coordination of investments for economic modernisation as well as for balancing negative externalities. Rodrik (2003, p. 33) demonstrates that 'successful developing countries have almost always combined unorthodox elements with orthodox policies'. East Asian countries generally complemented outward-oriented strategies with industrial policies – also known as hard governments – and achieved steady economic growth and development. China gradually evolved from a centrally-planned economy in the late 1970s to a successful market-oriented economic process in 2000 by avoiding the classic 'shock therapy' implementation of structural adjustment. The latter led the former Eastern Europe soviet countries to a catastrophic decrease in GDP and higher unemployment levels in the 1990s.

With regard to Latin America's future, three years have gone by since Edwards published his book and some of his predictions remain in place. Venezuela, after Chávez' demise, seems to be heading towards a more sluggish economic cycle with persisting inflation, currency restrictions and – lately – increasing shortage of basic goods (Caselli 2013). Recent general elections have also been considered fraudulent by many and there is a risk of institutional collapse. Argentina has also deepened the populist process initiated by the Kirchner's administration. After restoring economic growth in 2010 and 2011, Argentina slowed down again the pace of its economy in 2012, achieving 1.9 per cent of GDP growth (IMF World Economic Outlook 2012). Because of increasing capital fights and trade imbalances, Argentina introduced foreign exchange controls, nationalised the oil firm YPF and established import quotas for intermediate goods. More recently, a controversial judicial reform has taken place which is deemed to threaten the separation of powers (Gilbert 2013). Brazil, on the other hand, remains in doubt. While it has achieved a remarkable level of macroeconomic stability in the last decade and implemented targeted social programmes with excellent results in terms of poverty alleviation, its economic growth plummeted from 7.5 per cent of GDP in 2010 to 2.7 per cent in 2011 and 0.9 per cent in 2012 (IMF World Economic Outlook 2012). Brazil's future growth remains an open question, at least until after the hosting of the forthcoming Olympics and World Cup.

Edward's impassioned support for broad neoliberalist reforms, on the other hand, appears to have prevented him from foreseeing some recent achievements by countries that are considered populists and possibly led him to underestimate the shortcomings of some privatisation policies by non-populist countries. In 2012, despite the recent string of nationalisations, Bolivia took advantage of increasing liquidity in the global credit markets through a US\$ 500 million 10-year bond issue priced at 4.875 per cent yield – two thousand basic points below Vietnam's and Chile's previous issuances (Navarro Espinosa & Benson 2012, Schipani 2012). Bolivia's economy has been growing at a steady pace of around 5 per cent of GDP since 2010 and, due to prudent macroeconomic policies, has also diminished the country's debt level while rising international reserves (IMF World Economic Outlook 2012). In the case of Ecuador, although it is currently suffering from institutional dysfunctions similar to

Argentina, it has been broadly recognised by an ongoing educational reform which includes not only increased budget expenditures for reparation and building of new schools in impoverished places, but also improving the quality and consistency of teaching. President Correa has managed to impose a policy of minimum standards for existing teachers through a set of evaluation schemes, which include a one-year training programme if they lack the necessary skills, and then the requirement to re-sit the test (The Economist 2009). In case they fail to achieve the minimum government standards, teachers are faced with dismissal. Ecuador's public universities will also have to account for their own budget administration; and by 2017, all professors will be required to have a master's degree while many others will also have to exhibit a doctoral degree (Neuman 2012). Chile, on the contrary, faced a number of student protests in 2011 and 2012, known as the Chilean Winter, demanding a more direct participation of the state in the secondary education as well as a wider access to universities, most of which are currently private and terribly expensive for an average citizen (Franklin 2011). But, at the far end, these protests are related to the perception of a high level of inequality by an important part of the Chilean society. Latin America's 'Brightest Star', as Edwards calls it, though its good macroeconomic management and steady economic growth, still maintained an unequal Gini coefficient of 0.521 in 2009. Argentina, meanwhile, reduced inequality from 0.463 during the period between 1993 and 1997 to 0.445 during the 2003-2007 period (World Bank World Development Indicators 2013).

4. CONCLUDING REMARKS

In sum, Edwards provides a well-argued analysis of the consequences of the main economic policies implemented by Latin American countries throughout history. He draws heavily on the need to streamline institutions, foster high quality educational systems and carry out sound macroeconomic policy in order to achieve a sustainable process of economic development. Furthermore, his stress on the importance of strong systems of property rights, transparent judiciary powers and political accountability as the only effective way to achieve reasonable economic incentives is commendable. However, there is no single policy strategy to fulfil these reforms. A gradient of alternatives, ranging from lower to higher state intervention, is available to policymakers while still making room for a market-driven process of economic development.

While Edwards' bias for an 'acid' neoliberalist approach calls for more free-market deregulation and, presumably, a minimum role of the state, existing evidence – ranging from historically developed countries to recently developed ones – supports the advocacy for a more balanced strategy. It is not that government intervention itself is wrong, but bad interventionism is. The latter includes voluntarist economic policies which tend to undermine long-term macroeconomic stability instead of focusing on upgrading the country's structural endowments and improving the conditions for the development of sectors which are more related to a country's comparative advantages. A limited but strong government that embraces the recommendations of the New Structural Economics and, at the same time, addresses the needs of those who might be temporarily negatively affected by the structural change process should be, in my view, the best path to Latin America's success.

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