A Critique of Neoliberalism's Impact in Latin America [excerpts] 2013 by Dr. Ronn Pineo

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Beginning in the 1980s nearly all of Latin America began to take part in a great experiment, the adoption of neoliberal or capitalist free market economic policies. This policy orientation was built upon the belief that neoliberalism would bring growth, economic development, and improve the lives of most residents of the region. While the programs were not always undertaken at the same moment and were not always alike in detail and emphasis, the core principles and experiences were similar enough to allow us to pull back now and draw some general, hemispheric-level conclusions regarding the efficacy of these policies.

Neoliberalism may be generally defined as an economic theory which favors a limited role for the state in the economy. To this viewpoint, the state should act in defense of private property and contract rights, but otherwise should avoid interfering in the functioning of the economy. Neoliberalism involves cutting government spending; balancing the budget; selling off government-owned enterprises; ending government subsidies; a commitment to eliminating price controls on all commodities and services, including basic necessities; letting the market, not government action, set the minimum wage; ending restrictions on foreign ownership of domestic assets; the lowering or elimination of tariffs; and ending restrictions on foreign profit repatriation. The “Washington Consensus” on the virtues of neoliberalism had formed; no other economic ideas need be taken all that seriously.

The IMF [International Monetary Fund] and its sister institution, the World Bank, fully convinced of the virtue and inevitability of free markets, turned their collective attention to advancing these policies around the world. In this undertaking the Latin American debt crisis of the 1980s supplied them considerable leverage. The 1980s brought Latin American’s worst economic downturn ever, a “lost decade.” Average annual GDP growth in Latin America slowed to 1.1 percent, compared to the prior decade (1970-1980) when the economy had grown at 5.6 percent a year. As the crisis deepened, Latin America desperately sought to arrange new loans just to pay the interest due on existing foreign obligations. IMF and World Bank loans were essential, for they signaled to large commercial banks the inherent credit-worthiness of debtor nations. However, IMF and World Bank loans were conditioned upon the adoption of the neoliberal policies. By the mid-1980s three of four Latin American nations were under IMF or World Bank supervision.

Under neoliberal policies from 1990 to 2004, Latin America’s per capita GDP rose at only 1.3 percent a year, seriously outperformed by a region which used the state to help guide development scripts to some extent, South Asia, 3.5 percent per capita annually; to a larger extent, East Asia, 6.7 percent per capita annually; or to a very great extent, China, 8.6 percent per capita year. For the years 1997 to 2007, Latin America’s per capita GDP annual growth rate ranked at the bottom of world, tied with Sub-Sahara Africa.

The years from 2003 to 2008 brought strong economic growth for Latin America as a whole, with a combined average growth rate recording a healthy 5 percent a year compared to the world average of 3.6 percent a year. The top regional economic performers were the winners in the "commodity lottery," where in any given year some primary product exports do particularly well in the international market.[15] Chile and Perú have done well in the commodity lottery, with increased production of copper, fruit, fish, and lumber for Asian markets. By 2008 China and Japan were purchasing a fifth of Peruvian and a quarter of Chilean exports, with raw materials making up three-quarters of shipments.[16] While this growth is good, raw material export is not a pathway to economic development. Focusing on primary product extraction serves instead to reinforce existing productive structures. Economic growth and economic development are not the same thing.

Poverty in Latin America has been reduced substantially in the last three decades. In the late 1980s, nearly half of Latin America's population lived in poverty. Today the fraction is about a third. This marks important progress, and it has continued in some area nations. However, it is worth noting that between 2002 and 2008, poverty contracted most in Venezuela, Bolivia, Nicaragua, and Argentina, countries which had largely abandoned neoliberalism; in Brazil, which had at least partially rejected neoliberalism; and in only two other states, Honduras and Perú, which still remained, at least partially, committed to free market polices.

Income inequality data for Latin America is less positive. In the 1980s and 1990s, inequality increased significantly in Latin America. For example, from 1984 to 1994, the income of the top 10 percent of the Mexico's population rose by 21 percent, while the income of the country's bottom 10 percent fell by 23 percent. Nevertheless, there have been improvements, albeit modest ones, in lowering the Gini coefficient (a measure of economic inequality with 0 being the least inequality—everyone has the same income, and 1.0 being the most inequality—one person has all the income).

In 1970, the richest 1 percent of Latin Americans earned 363 times more than the poorest 1 percent. By 1995, it was 417 times more. Latin America continues to show, by far, the greatest income inequality of any region in the world. Of the 15 most unequal economies in the world today, 10 are in the area. If Latin America's income were only as unevenly distributed as that of Eastern Europe or South Asia, its recent economic growth, though sometimes anemic, would have reduced the percentage of those living in poverty to 3 percent of the population.

From 2002 to 2008, the Gini coefficient of inequality improved in seven Latin American states; five of these seven countries—Venezuela, Argentina, Bolivia, Nicaragua, and Paraguay—have traveled the farthest in rejecting neoliberalism. Outside of these nations inequality stayed the same or even increased, including in the largely neoliberal states of Colombia, the Dominican Republic, and Guatemala.

Significant areas of severe poverty remain in Latin America, expressed along class, racial, gender, and regional divides Poverty underlies poor health, contributing to elevated rates of infant, childhood, and maternal mortality. Of those living in poverty in Latin America, nearly half are children. Due to their undernourishment, a quarter of Latin American children (and as many as half in rural Perú and Guatemala) are stunted in their development. Across Latin America malnutrition is an underlying cause in more than half of the deaths of children under the age of five. In Guatemala maternal mortality among indigenous women is 83 percent higher than the national average. Among the poorest fifth of the Perú's population, 85 percent of births are not attended by trained personnel, compared to only 4 percent among the wealthiest fifth.

Two-thirds of Latin American municipalities do not treat their sewage prior to dumping it into adjacent rivers or the sea. In Panamá, three in ten homes lack access to improved sanitation (sewage disposal), and in Perú, nearly four in ten lack this essential service. Yet with all this effluvium flowing out, still three-quarters of Latin America municipalities do not check public drinking water supplies for impurities. One-quarter of Latin Americans do not have in-home potable water.

In Latin America nearly two-thirds of hospital admissions are due to diseases related to the lack of sanitation. Diarrhea accounts for six of every ten deaths of children under the age of five in Latin America. Fresh water can save lives; for each percentage point increase in potable water coverage, the infant mortality rate drops 1 death per 1,000 live births. Yet, Latin America is falling behind in terms of life expectancy. Life expectancy in Latin America was five years longer than East Asia in the mid-1960s, but by the mid-1990s, it was 1.2 years shorter.

The weight of this evidence leads to an inescapable conclusion. Cambridge economist Ha-Joon Chang has put it most succinctly, "Over the last three decades, economists provided theoretical justifications for financial deregulation and the unrestrained pursuit of short-term profits. They advanced theories that justified the policies that have led to slower growth[and] higher inequality. Economics has been worse than irrelevant. Economics, as it has been practiced in the last three decades, has been positively harmful for most people."

Supporters of the free market approach have continued to counsel patience. They argue that stronger economic growth will eventually come, and that all will benefit in the long run. While neoliberal reforms might cause some short-term belt tightening, defenders explain that such adjustments, though sometimes painful, are necessary for the greatest good. We should not give in to "reform fatigue," but should stay the course.

But neoliberal policies have been in place for over 30 years now. How long is the long run? How long must we wait? As economist John Maynard Keynes famously observed, "In the long run we are all dead." In 1937 U.S. President Franklin D. Roosevelt observed, "We have always known that heedless self-interest was bad morals. We know now that it is bad economics." The age of neoliberalism is ending. It is time for some good economics.

What is to be done?

Latin America has moved away from neoliberal economics in recent years, with several governments reversing privatizations, advancing economic nationalism, and readopting and extending their social programs. The conversation has moved on to the construction of developmental economic policies that are evidence-based and that put urgent human needs first. There has been a renewed spirit of experimentation by progressive governments in Latin America, but what has been missing has been a more complete articulation of an alternative model of economic development. Fortunately, the practical experiences of anti-neoliberal governments coincide with some very important new work in thinking through the broader issues of economic development.

Central to the neoliberal project has been the assertion that the most economically developed nations in the world today achieved their success by carefully following free market policies. This claim, while often repeated, is more often than not historically inaccurate. Industrialization, the core of economic development, came only with considerable government interference with free markets.

To reform Latin American economies, care in building a domestic market is essential. Because pay increases in one area tend to spill over to other areas of employment, good paying jobs in industry tend to raise pay levels for the entire workforce. Unlike Latin America, in East Asia land reform typically came before ISI (Import Substitution Industrializtion], holding down the flood of rural to urban migration, which otherwise could overwhelm the available jobs in industry, driving wages to the subsistence level. On the other hand, if wages rise as well, this helps create a larger home market, and with this, the potential for self-sustaining economic development. As it was, ISI was put in place in Latin America without land reform, even in the 1960s when ECLAC was calling for this critical step. In Colombia, during the ISI decades, about 1 percent of landholders held more than half of the arable land; in Brazil, 3 percent of landholders held about two-thirds of the arable land, and in Bolivia, 5 percent of landholders held about three-quarters of the arable land. This failure in sequencing land reform before government-sponsored industrialization was a key block to economic development.

Paying the price for an increased state presence in the economy will require raising taxes, but the wealthy should be able to pay more. At present, wealthy Latins are undertaxed, and the overall tax structure is highly regressive, falling mostly on the poor. The attitude of too many Latin American élites that avoiding taxes is a “deporte,” a sport, will need to be changed.

Another necessary international step is the opening of the markets of developed nations. This measure has been championed especially by Joseph Stiglitz, who has called for each developed nation to fully open their domestic markets to all goods from nations poorer and smaller in population than themselves. Stiglitz and Andrew Charlton have argued for years that, “Any agreement that benefits the developing countries less than developed countries … should be … viewed as unfair.” Taken together, these measures could begin to open a pathway toward the construction of an alternative vision of development for the Latin American economies. The road we have been on, the free market capitalist approach, has too often failed.

The most troubling aspect of free market thinking is the notion that its policies represent a general extension of human liberty and that free markets and human freedom are the same. The trouble with this is that economic freedom is not paramount over other freedoms. One could argue that it is possible to place a value much higher on the freedom of expression and the freedom of all persons to realize their human potential. Moreover, individual freedoms can stand at tension with common shared rights and goals, and the promotion of these public goods, the commonwealth, may well outweigh the individual’s right to indulge every impulse. To me, the way forward begins by focusing on advancing this common good.