

LATIN AMERICAN DEVELOPMENT THEORIES AND NEOLIBERALISM with visiting speaker Cristobal Kay

Report by Gabriela Agatiello

On October 4th, 2004, visiting speaker **Cristobal Kay** from the Institute of Social Research in the Netherlands gave a talk entitled Latin American Development Theories and Neoliberalism.

Kay commenced his presentation by giving a brief overview of the various protest movements that have manifest themselves in reaction to a neoliberal model that benefits a few at the expense of the majority. He highlighted the current political and social instability in Bolivia, where discontent with the model is evident in the latest uprising, and pointed to the negative impacts of neoliberal policies on Ecuador's indigenous population, which gave rise to a movement that culminated with the overthrow of their own government. In Chiapas, the Zapatistas have been at the forefront in challenging neoliberalism and its policies, and Argentina, a country originally hailed as the model country for the neoliberalist project, is only now gradually re-emerging from the economic crisis unleashed when the whole model collapsed. Discontent with the model is also evident in the rising popularity of anti-neoliberal political leaders like Lula da Silva in Brazil and Hugo Chavez in Venezuela; leaders who were elected based on their anti-neoliberal platforms. Kay, however, questioned the extent to which these leaders have been successful in implementing an alternative model. In his opinion, one of the main reasons why political leaders have not been able to work outside the neoliberal framework is because there is a lack of alternative models or national projects that can adequately contest the neoliberal model.

Looking back at history, Kay sees the rise of the neoliberal approach as a result of both internal and external

dynamics. Highlighting the internal, he pointed to the failure of ISI (Import Substitution and Industrialization) as a development model, resulting in the debt crisis of the 1980s and the "lost decade of Latin America," where massive unemployment, high inflation, and rampant poverty and inequality were widespread. With the failure of ISI, Latin American countries found themselves cash strapped to pay back their debts, opening up the way for the World Bank, the IMF and their package of structural adjustment policies (SAPs).

In analyzing the impact of external factors, Kay pointed to other countries that had experimented with the model. International financial institutions such as the World Bank and IMF were quick to point to the rapid economic success of the Asian Tigers as evidence that the neoliberal model was the only way to take Latin American countries out of the current economic crisis, bring about sustainable economic development and breathe life into their stagnant economies. Strict policy prescriptions accompanied this shift in paradigm, with an emphasis on privatization, promotion of exports, deregulation, foreign investment, paying back the debt and a shrinking back of the state.

With the implementation of the neoliberal model, countries like Argentina began to experience a drop in inflation, initially giving the model much needed legitimacy. Exports became the most dynamic sector in the economy with the highest rate of growth. However, after the initial phase, the export boom, controlled mostly by a few multinationals, had not created much employment and had benefited only a small group of elites. Some of the negative impacts that accompanied the implementation of the model

included the weakening of labour unions, increasingly precarious working conditions, instability of Latin American financial markets, a significant drop in wages, and greater inequality in income distribution. For all the expectations that neoliberal restructuring would bring about unprecedented growth rates, the actual figures since the 1980s show a growth rate less than half of what it had been from the 1950s to the 1980s under ISI.

After highlighting some of the failures of the neoliberal project in Latin America, Kay went on to discuss the relevance of past development theories to today's context, specifically addressing the relevance of dependency theory. He pointed out that now more than ever there is a case to be made for a centre-periphery view of the world, where the income gap between rich countries in the North and developing countries in the South continues to grow. The mechanical transfer of wealth from the North to the South continues and increasingly evident is the asymmetry within the region of Latin America, as evidenced in the income gap between poorer countries like Bolivia and Guatemala, and more economically advanced countries such as Chile and Mexico. There has also been a tremendous growth in the informal sector where low wages and precarious employment are the norm. Financial dependence on international financial institutions has increased immensely, resulting in greater vulnerability and decreased state control over policy and governing of their own countries. As Kay pointed out however, an inherent problem with the dependency model is that it fails to prescribe an alternative set of policies that governments can implement.

With the failure of neoliberalism and the lack of an alternative offered by dependency theorists, Kay proposed that we pay closer attention to neo-structuralism and what it can offer as an alternative development model. This approach emerged as an alternative during the 1990s as a structuralist strand of dependency theory. It was touted as development from within – a new structuralist approach to Latin America – after the failure of dependency theory to offer any concrete alternatives. ECLAC (Economic Commission for Latin America and the Caribbean) has been one of the main proponents of this alternative approach. The goal of the model is to promote growth with equity. It prescribes the introduction of new technology and an increase in productivity with a more aggressive move into export markets. A highly skilled labour force is thus an imperative, requiring a substantial investment in the education of its population. A sustainable increase in productivity also means a reliance on competitive advantage and not comparative advantage, created through industrial, education and development policy. As Kay emphasized in his discussion, the point is to increase the productive capacity of labour, to have a skilled intensive population, and thus a higher demand for labour. As for integration into the world market, it is left up to the country to choose how they want to integrate themselves globally. It is not a decision for the IMF or the World Bank to make.

The idea is to integrate equity into the model. As Kay pointed out, equity is understood through the model's economic and social dimensions and its future sustainability. Central to the model is minimizing the proportion of people living in poverty; promoting development of latent skills available in society; making it a point to exclude discrimination based on gender, race, or ethnicity; and ensuring that power and wealth are not concentrated in the hands of a few elite that impede future generations from continued development. According to Kay, viewing the model through these three dimensions we see how the neo-structuralist approach tries to combine growth with equity.

Kay highlighted Chile as an example of a country that has followed the neo-structuralist approach and has been more or less successful. A more aggressive implementation of the model is evident in the 1990s, with growth and equity as its cornerstones. Now Chile is often cited as the country with one of the lowest poverty rates in Latin America and ranks amongst the best in the world in terms of its Human Development Index. The country has experienced the highest rate of growth since the 1980s. However, Kay was quick to point out that its record of combating inequality has not been as successful. The benefits of increased productivity continue to go to the highest social class. With this in mind Kay ended his talk by questioning the possibility of having growth with equity. Why is it so difficult? Is it possible to have a model that addresses both dimensions?

When the floor was opened up for questions several members of the audience voiced skepticism over efforts to implement the neo-structuralist model in Latin America. The model was criticized in that it fails to tackle some fundamental questions, such as the power inequality between actors. In ECLAC's agenda of promoting neo-structuralism, there are no policy guidelines that address these concerns.

Kay agreed and expressed the need for a more focused look at power relations in Latin America. He was critical of the absence of a movement in Chile to push the government towards a more substantive democracy and of the rapid privatization of anything publicly owned. He pointed to a fundamental shift in core ideology amongst the Chilean population, where individualism and the utility-maximizing principle permeate everyday life.

Other concerns raised by the audience had to do with the inefficiencies of the state seen as central to the various, economic, social and political problems of Latin America. The issue of ethnic diversity and the inadequate role of the state in this context was also raised, and it was pointed out that in the majority of Latin American countries, there is a

section of society that does not see itself as part of the nation or as contributors to the state. Kay agreed that there was a need to look at the problems of the state but pointed to the difficulty of dealing with states that have such high levels of corruption and that make promises and then fail to deliver. He pointed to a state system that has been captured by the industrial bourgeoisie for their own interests.

Kay ended the discussion by pointing out that the state no longer has the power or appropriate mechanisms to counteract the negative effects of globalization. The state has been taken out of economic policy, which is now predominantly made by the market. He was doubtful of the ability of Latin American countries to fight global inequality on their own and proposed that the answer may lie in anti-globalization movements and a solidarity of developing countries that could effectively challenge neoliberal policies and counteract the negative effects of globalization.

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