



# Neoliberalism in LA

Lecture for LAPE

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# Overview of Lecture

- ☞ Part I: Overview of Neoliberalism
  - Diagnosis
  - Philosophy
  - Historical Record
  - Objections/Answers
  - Current/Future Scenario
- ☞ Part II: Case of Chile

# Diagnosis

- ✓ Key focus is on distortionary and debilitating fx of inflation: on XRs, inv
- ✓ Key policy instrument is MP; FP control also implicit; both must be tight
- ✓ Balanced macroeco policies are the sine qua non of growth
- ✓ Secondary reforms involve liberalization: privatization, deregulation, trade and domestic openness
  - avoid *rent-seeking* & max. efficiency through mkt. competition (poor don't benefit fr. state)
  - public goods now can be pvded pvately

# Philosophy

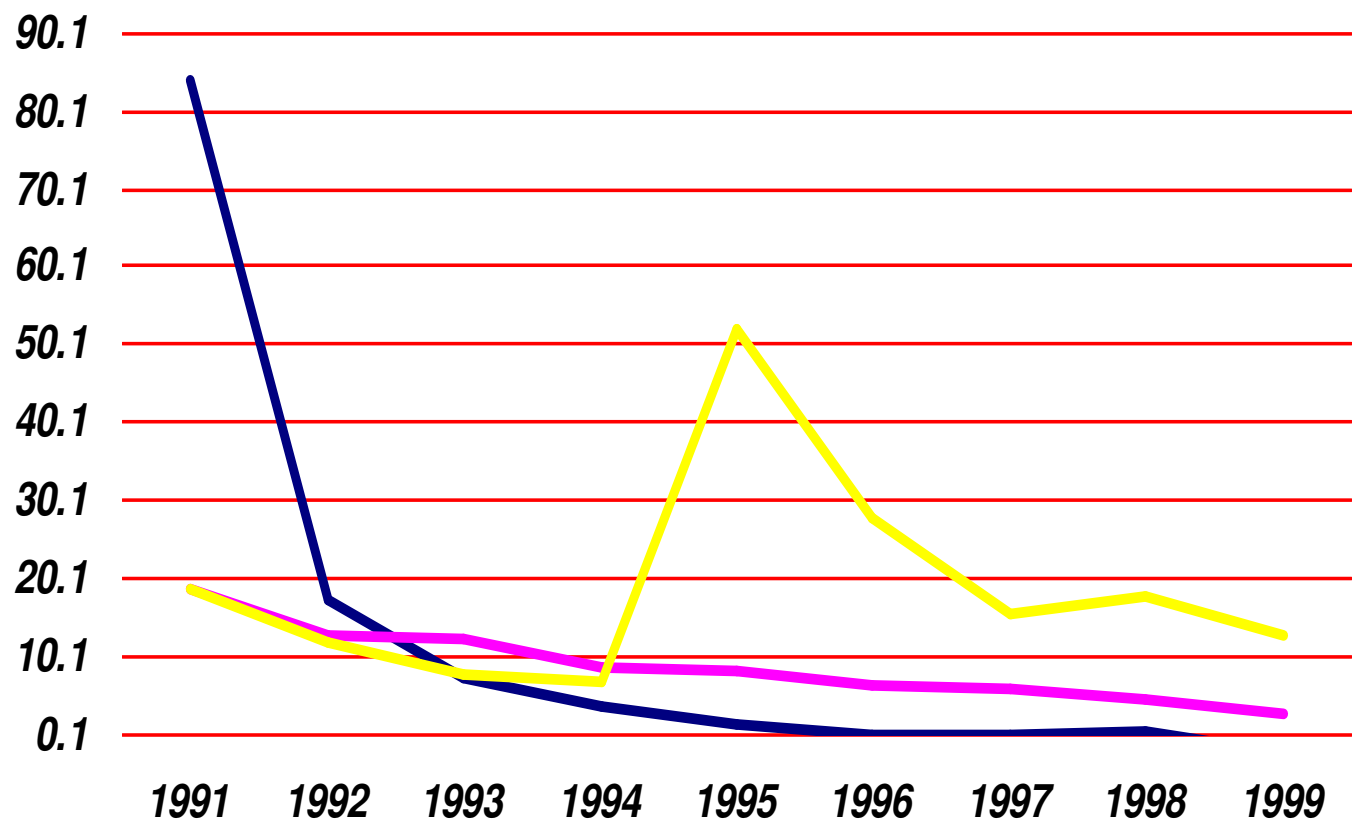
- Markets (incl free trade) are the best arbiters of economic decision making
- Governments have a ltd. role in making sure mkts function, and some basic safety net (though mktized solns poss)
- Democracies are political mkts
- Stable macroeconomics lds. to entrepreneurship & growth lifts all boats
- Consumers are primary beneficiaries

# Historical Record

- 1<sup>st</sup> policy implementation in 1970s- yrs. of stagflation
- Spread of neoliberalism in midst of debt crisis & Reagan/Thatcher revolutions
- Inflation under control for first time
- Growth volatile, impressive inc. in inv.
- Worsening \*relative inequality, better targeting of social programs

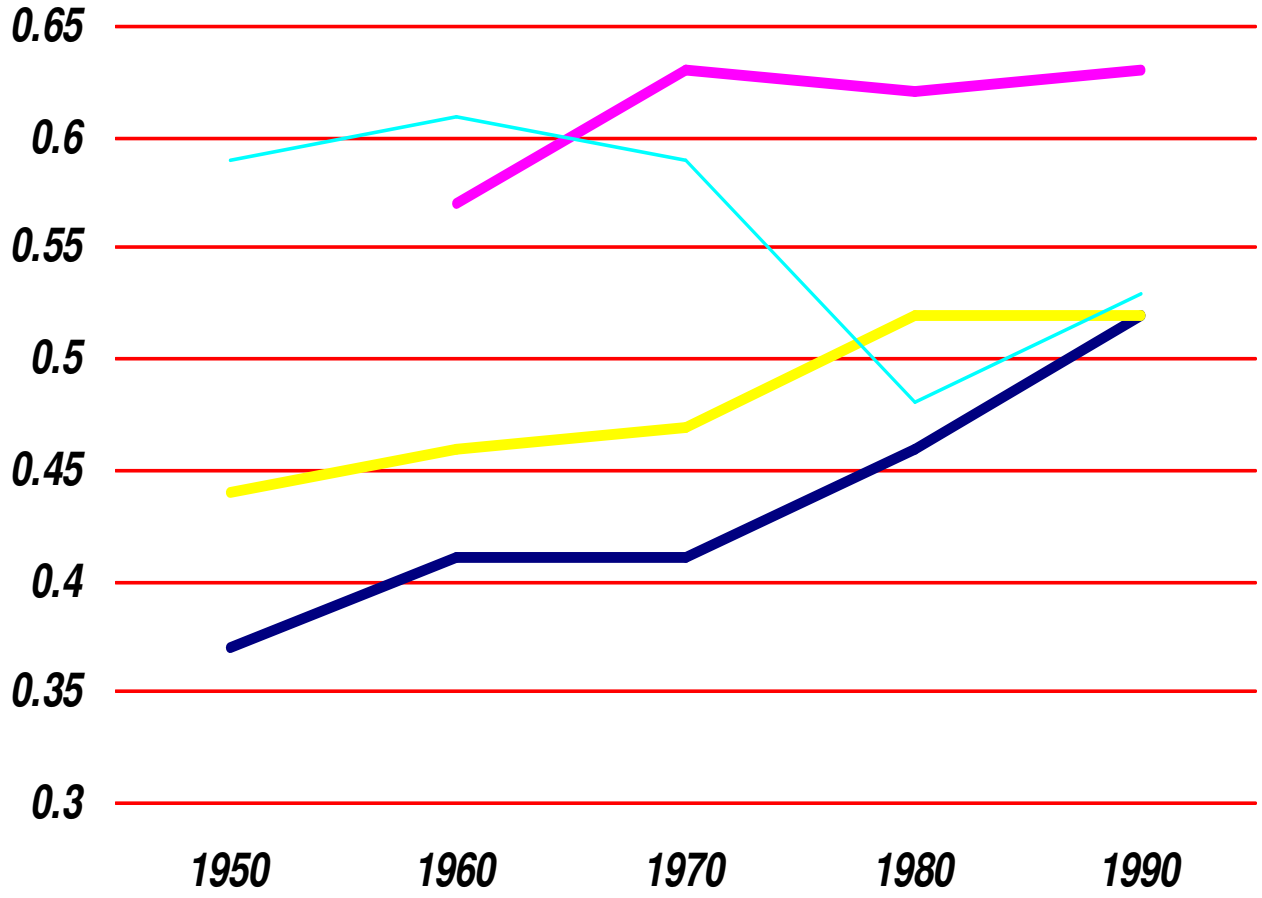
# Inflation

Source: CEPAL



— Argentina — Chile — Mexico

# Gini Inequality Index



— Arg — Brz — Chile — Mexico

# Objections/Answers

- ☞ Inequality inc.s- revolution implausible; A. > soc. inv. needed; progressive tax reform; debt relief; Tobin tax
- ☞ X growth ltd. in spread- sector and Y-wise- A. No- So integration agreements; entrepreneur.
- ☞ Market distortions- oligopolies; corruption; env/L problems: A. regulatory reform, financial system devt., governance 2G reform
- ☞ NAFTA agreements w. lead to even greater exploitation- A. record on maquilas is mixed, env'l protection may be needed; but evid. of both job creation and value-added learning
- ☞ South-South integration? unrealistic- these are competing nations w/little history of eco cooperation; all nations are dependent

# Future scenario

- Neoliberalism must deliver and spread more widely economic growth
- Sustained growth dep.s on investment in human resources and X diversification, which dep. in turn on debt relief and FP reform
- Macroeconomic stability good start, but not enough (2<sup>nd</sup> generation of growth)
- Neoliberalism touches much wider implications: now a cultural zeitgeist of individual consumerism

# Case of Chile

- ☞ Allende situation = PE chaos
- ☞ Waffling- 1973-75; Shock Treatment, 1975-77; Macro takeoff 1978-82
- ☞ 1982-84, major recession + shakeup
- ☞ 1984-89, renovation: emphasis on Xs, pension reform
- ☞ 1989 democratic transition
- ☞ Concertacion takes over, continues similar policies
- ☞ Why did the new democratic govts buy the model?
- ☞ Are there lessons for other LA countries?

**Table 3: Chile's Macroeconomic Performance Under Pinochet and Concertacion**

	Alessandri	Frei Montalva	Allende	Pinochet	Aylwin	Frei Ruiz-Tagle	Lagos
	1959-64	1965-70	1971-73	1974-89	1990-93	1994-99	2000
GDP growth	3.7	4	1.2	2.9	7.7	5.6	5.4
Inflation rate	26.6	26.3	293.8	79.9	17.7	6.1	4.5
Unempl. rate	5.2	5.9	4.7	18.1	7.3	7.4	10
Real Wages	62.2	84.2	89.7	81.9	99.8	123.4	134.4

Notes: real wages- 1970 index

Source: Ffrench-Davis 2002, Table 1.1, p.7

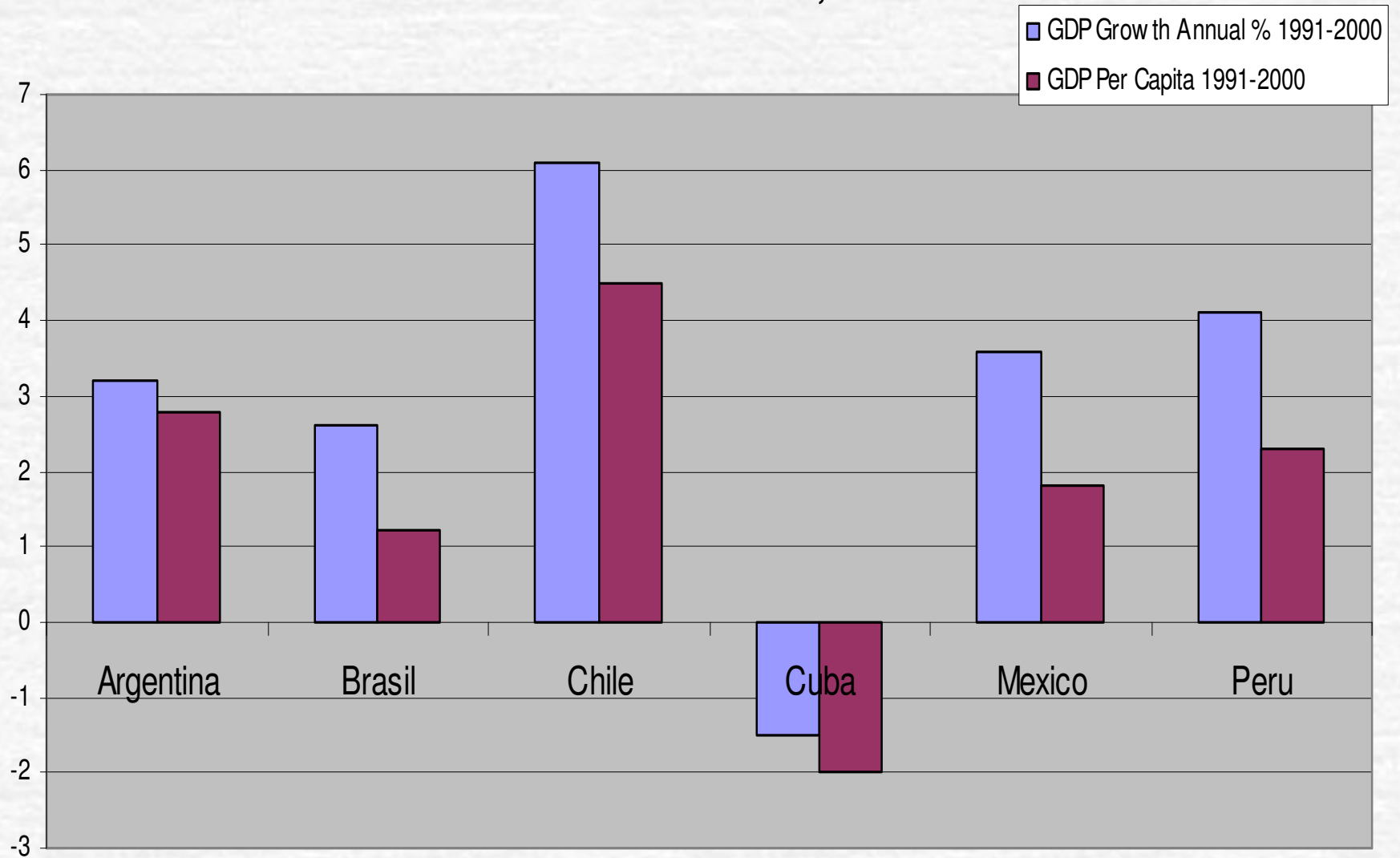
	1985-89	1990-2000
UnEmployment Rate	8.1	6.6

Notes: annual average

Source: IMF

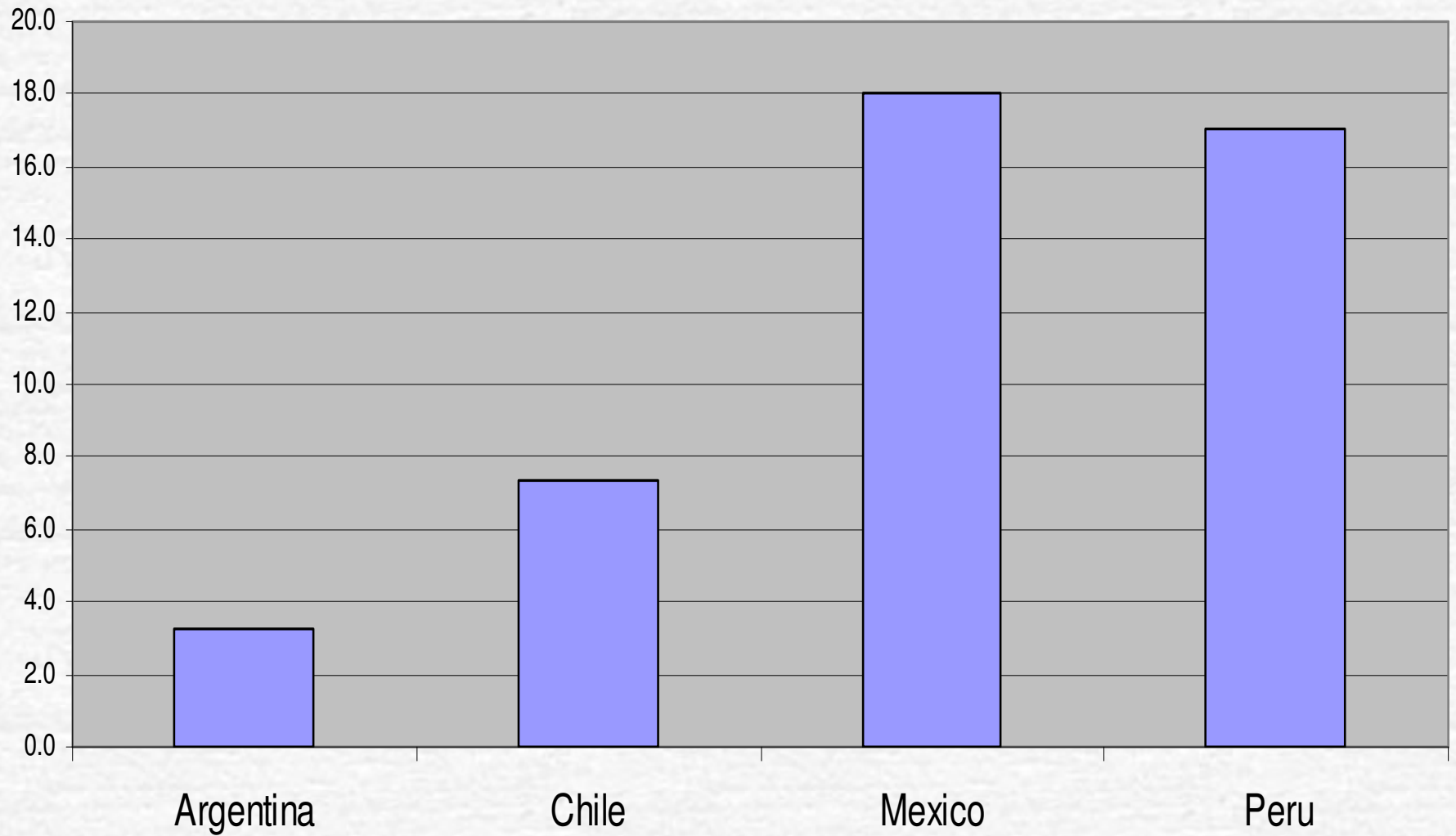
Note: Only available years

## Chile: Growth Performance, 1991-2000



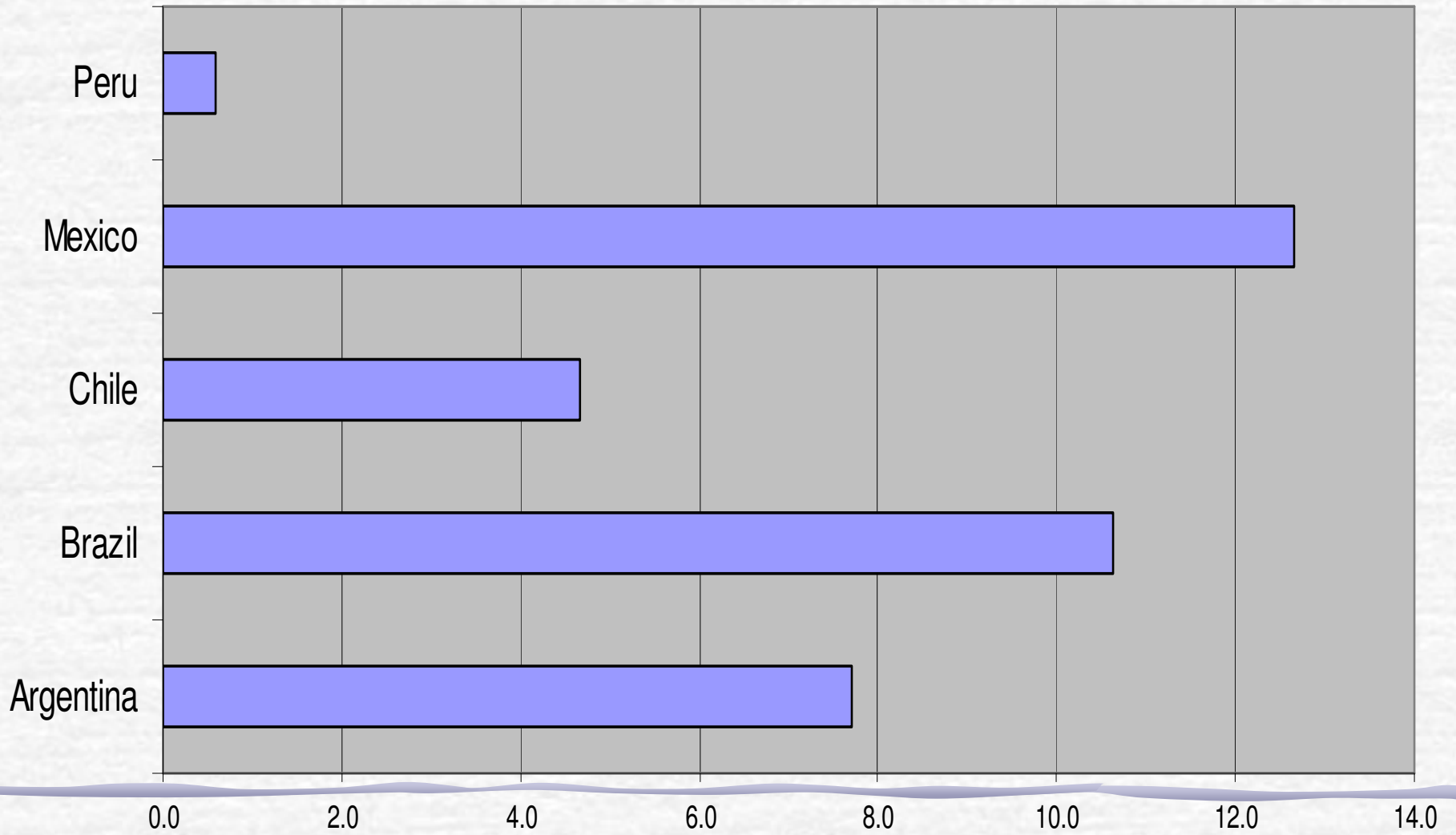
CPI% change 1992-2000

Note: Brazil = 513



# Debt Service, 1997-2000

(ave, % of Xs)



# Discussion

- ☞ In what ways is neoliberalism (mis)used in conversations about globalization?
  - Why so many contradictions? Why do some take neoliberalism so personally?
  - Does globalization mean neoliberalism is inevitable?
- ☞ If neoliberalism is a disaster, why does it persist in LA?
- ☞ Can it be reformed?
- ☞ What alternatives to neoliberalism, that are politically feasible, would you suggest?