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Polarizing Mexico: The Impact of Liberalization Strategy by Enrique DUSSELPETERS, Boulder, Colorado: Lynne Rienner Publishers, 2000, 249 pp., ISBN 1-55587-861-X (bound). *Growth, Employment and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean* by Barbara STALLINGS and Wilson PERES, Washington, D.C.: Brookings Institution Press and United Nations Economic Commission for Latin America and the Caribbean, 2000, 252 pp., ISBN 0-8157-8087-7 (paper).

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necessarily as well known as they should be in the USA and English-speaking (reading) countries.

The book is clearly to be recommended to all researchers and students interested in issues pertaining to the family or to work, or to both at the same time. A bibliography at the end of each chapter offers references making possible a more in-depth exploration of some issues, either the Regulationist School, family issues or work and employment issues. I do not think any other English publication presents this particular perspective, and this fact certainly justifies the translation and updating of this book.

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Since 1982 the economies of the poorer countries of the Americas have been profoundly restructured along the lines prescribed by the "Washington Consensus." The standard list of prescribed policies includes: (a) radically reducing tariff and non-tariff barriers to trade; (b) eliminating foreign exchange and capital controls; (c) deregulating major industries, including finance; (d) selling most public corporations; (e) reducing union collective bargaining power and promoting labour market "flexibility"; (f) reducing central bank political accountability and narrowly focusing monetary policy on minimizing inflation; (g) cutting social expenditures to balance government budgets without regard to the business cycle; and (h) eliminating most government subsidies, including those targeted on the poor (e.g., food subsidies for the urban poor, cheap credit for small farmers). The new policies were generally introduced as "structural adjustment" conditions attached to World Bank, IMF, and government loans to refinance foreign debts.

Proponents of this "neoliberal" (i.e., market liberalization) reform package argued it would have four sets of desirable effects. First, it would improve macroeconomic stability (i.e., end hyper-inflation, chronic trade deficits, and massive currency devaluations). Second, it would increase exports, hence foreign currency earnings, hence capacity to meet foreign debt payments. Third, it would increase foreign investment levels and allocate investment more efficiently, increasing labour productivity and economic growth rates, thereby boosting formal sector job creation and real wages. Finally, it would reduce income inequality as farmers were paid more for their products, and unskilled workers were paid more relative to skilled workers.

The books under review ask which of the promises made by neoliberal reformers have been realized, and where they have not been, what went wrong. Enrique Dussel Peters, an economist at the National Autonomous University (UNAM) in Mexico City, offers the most detailed and penetrating analysis of the effects of the liberalization of Mexico's economy that this reviewer has encountered in English. Stallings and Peres are researchers at the United Nations'

Economic Commission for Latin America and the Caribbean (ECLAC). They survey the main findings of a larger research effort conducted by individual country experts, in cooperation with ECLAC researchers, in the nine countries of the region with the longest experience of neoliberal reforms: Mexico, Brazil, Argentina, Chile, Costa Rica, Jamaica, Colombia, Bolivia and Peru. They stress the substantial differences among their cases: some countries were in much more severe crisis than others at the outset of the reforms; Chile started the reform process a full decade before the rest, under the auspices of Pinochet's military dictatorship; Mexico began the reform process with a much more developed manufacturing sector; and so on. These and other differences notwithstanding, Stallings and Peres identify striking similarities across their cases that can be traced to the neoliberal policies that they all implemented.

Both studies focus mainly on the experience of the 1990s. This is fair. The 1980s—known as "the lost decade" in Latin America—began with the crisis of the "import substitution industrialization" (ISI) strategy of economic development that had prevailed in the region since the 1930s. The decade ended with the inherently difficult transition to the radically different neoliberal model. If we wish to evaluate the functioning of the neoliberal model, we need to look at the years when it was fully in place.

Our authors find that neoliberal policies were very successful in reducing inflation to single digits, and boosting foreign investment and export earnings. However, the reforms did not prevent uncontrolled currency devaluations in many countries, including the three largest. Worse, the reforms probably made such devaluations more likely and more destructive when they occurred. Contrary to expectations, average trade deficits were higher in the 1990s than that had been under ISI (1950-80): 0.4 versus -2.1 percent of GDP. All nine countries examined experienced a deteriorating trade balance in the 1990s, suggesting that this problem is endemic to the neoliberal model, rather than a transition era problem [S&P, 104-5]. An important reason for the growing deficits was increased foreign direct investment (FDI) by transnational corporations (TNCs). These investors—whether they built new plants or, as was more common in the 1990s, bought out existing firms [S&P, 172-3]—tended to import more than they exported, even though they were primarily responsible for major increases in exports [S&P, 175]. Balance of trade deficits could be corrected by regular, gradual devaluations, but massive inflows of FDI and portfolio investment pushed up exchange rates until short-term investors and currency traders got spooked, as they did in Mexico in 1994-5, Brazil in 1998, and Argentina in 2002. At that point, they bolted from the currency *en masse,* causing devaluations that far overshot desirable adjustments. The increased scale of foreign investment, the import bias of TNC investment, the short-term orientation of much portfolio investment, and the increased ease with which it enters and exits the country—all of these things were encouraged by neoliberal policies.

Massive devaluations caused inflationary surges because indispensable imports now cost much more in the local currency. Central banks raised interest rates in efforts to stabilize the exchange rate and fight inflation, slowing down the economy in the process. Unemployment rose and government revenues fell, leading to expenditure cuts (since budgets were not allowed to go very far out of balance even in a recession) that reinforced market dynamics. These dynamics resulted in economic growth at half the pace logged under ISI: the weighted average for GDP growth in the nine countries was 6 percent between 1950 and 1980, but only 3.2 percent from 1991 to 1998 [S&P, 90].

Slowing growth combined with the adverse shift in exchange rates left many borrowers, including deregulated banks, unable to pay the interest on their foreign debt. More money then had to be borrowed to refinance these loans and halt the run on the currency, adding to the foreign debt principal. So, for example, Mexico owed about $90 billion to foreign creditors in 1982, but in 1998, after 15 years in which it had paid an average of $10 billion to foreign creditors each year, Mexico owed $161 billion [DP, 80].

There was little or no net job creation in the manufacturing sector, despite its increased exports, for two reasons. First, for every new TNC job created, there were job losses as small and medium-sized firms, once protected by tariffs, succumbed to new competition. Second, while ISI manufacturing was characterized by extensive backward linkages to domestic suppliers, TNC manufacturers severed many of these links and imported far more of their non-labour inputs [S&P, 167]. About 60 percent of the new jobs created in the seven countries for which data was available were in the "informal sector" (i.e., non-wage/self-employed, plus firms with less than 20 employees). In Brazil, the absolute number of formal sector jobs actually fell in the 1990s; all net job creation was in the informal sector [S&P, 119]. The informal sector has very low labour productivity, so its growth helps to explain why aggregate labour productivity growth fell from 3.2 percent under ISI (1950-80) to 1.7 percent in the 1980s and 1.8 percent in the 1990s. Mexico had the worst performance on this score, with only 0.3 percent annual growth in aggregate labour productivity the 1980s, and zero growth in the 1990s [S&P, 96]. This despite the fact that Mexico enjoyed a 25 percent improvement in manufacturing sector labour productivity between 1988 and 1996 [DP, 97].

Wage trends were even more discouraging. In 1998, formal sector real wages were still only 70 percent of their 1980 levels in Argentina and Mexico, and only one third of their 1980 level in Peru [S&P, 121]. Real wages in the Mexican manufacturing sector fell about 10 percent between 1990 and 1999, even though labour productivity increased by about 60 percent. Workers in the other six countries did experience real wage gains in the 1990s: the mean improvement was about 2.4 percent per annum [S&P, 121]. However, these statistics overstate the improvement for many workers because the formal sector's share of total employment was shrinking in most of these countries. In 1998, the mean Mexican wage in the "total economy," which includes informal sector workers, was only 57 percent of its 1980 level. Moreover, it fell 23 percent between 1995 and 1998 [DP, 72].

Between 1980 and 1998, labour productivity growth far outpaced real wage growth in five of the eight countries for which data are available, the exceptions being Bolivia, Brazil, and Colombia. In the 1990s, however, this divergence continued only in Argentina, where real wages stagnated while labour productivity increased by 26 percent. Elsewhere, wages rose a little faster than productivity in five of seven cases, while lagging slightly in the other two (Peru and Colombia) [S&P, 96, 121]. However, real wages in manufacturing—the sector that enjoyed the greatest productivity growth in the 1990s—increased in relation to average wages in only three countries (Chile, Costa Rica, and Mexico); in four others, manufacturing wages fell relative to the average, and the others showed no change [S&P, 197]. The implication is that in at least six of nine countries, manufacturing sector real wage and productivity growth rates were still diverging in the1990s.

Comparing the most recent data from the 1990s with the average for the pre-reform period, Stallings and Peter find declining individual income inequality in Chile, Costa Rica, and Peru, and growing inequality in Brazil, Mexico, Colombia, Argentina, and Bolivia [S&P, 129-31]. In 1984, the two bottom deciles in Mexico's income distribution had 9.8 percent of the income of the two top deciles; by 1996, they had only 8.7 percent [DP, 154-5]. There was also growing polarization between skilled and unskilled workers, and growing concentration of land and associated income in the countryside [S&P, 127, 180-1].

Dussel Peters concludes that "It is historically not possible to return to ISI, but neither is it socially or economically sustainable to continue with liberalization." Stallings and Peres agree. Both authors reject calls by the World Bank and other champions of neoliberal reform for a "second generation" of reforms, targeted on increasing labour market flexibility and privatizing pensions and other social programs on the Chilean model [S&P, 216]. But what is the alternative? Dussel Peters says little on this score. His book's primary purpose, it seems, is to demonstrate the contradictions of the neoliberal model in Mexico.

Stallings and Peres begin their discussion of alternatives by articulating two principles that should govern future policy-making, both of which were frequently violated during the first round of reforms: first, "avoid across-the-board policy recommendations.... Latin America and the Caribbean countries are currently in very different situations.... What will work for one is not necessarily appropriate for another"; and second, "obtain the necessary information and engage in the appropriate analysis *before* making irreversible policy decisions" [S&T, 210]. These principles limit the authors' willingness to make general policy prescriptions. Still, they have identified a number of common pathologies, and their recommendations address these. They argue that substantial increases in public spending on education will make a positive contribution to both equity and growth. To create more formal sector jobs, they favour greatly increased public spending on labour intensive infrastructure (e.g., housing), and more credit for micro and small enterprises. To deal with the negative impacts of increased dependence on an increasingly volatile global economy, they argue for commodity price stabilization funds, controls on short-term capital flows, and more stringent banking system regulation [S&P, 210-21]. Their proposals may not be sufficient, but they are surely steps in the right direction.

These books should be read by anyone wishing to understand and improve upon the dynamics of neoliberal restructuring in the Americas. Their authors would likely agree that their work only begins this challenging task. One important omission in Stallings and Peres' analysis is the role that organized labour has played in the last twenty years, a role that has varied dramatically across their cases. Dussel Peters recognizes and (briefly) discusses the critical role that Mexico's "official" unions, and the social pacts that they signed with successive governments from 1987 on, played in depressing wage gains [DP, 52, 144-7]. But neither book gives due attention to the role of organized labour and labour law in the alternative economic order for which they call. As students of industrial relations, we must ensure that these critical questions are a central part of the growing conversation concerning why and how to move beyond the neoliberal model in the Americas.

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