1. Introduction

Joseph L. Love and Werner Baer

During the last decade of the 20th century profound winds of change have swept through Eastern Europe and Latin America. The dramatic political and economic reforms instituted in these regions, including multi-party elections, privatization, dismantling of protective barriers, and openness to foreign capital and ideas, have been transforming everyday life. Democracies have replaced authoritarian regimes, and market-driven open economies have replaced closed and state-dominated ones.

The failures of communism in the former Soviet bloc as an economic and political system, and the economic failures of both authoritarian military and populist regimes in Latin America, combined with pressures from Western governments, banks and international lending agencies, prompted deep structural reforms of a political and economic nature. In Eastern Europe (including Russia), the adoption of market-oriented policies, privatization, democracy, and the de-emphasis on social safety nets has created new societies with widely varying degrees of success in producing growth and efficiency, while simultaneously introducing striking new inequalities.

In Latin America, the limits of import-substitution industrialization, an exaggerated presence of the state in the economy, and the failure of macro-populism, were accompanied by a fiscal impasse resulting from a dissensus about who would pay for the massive investments in infrastructure needed to cope with rapid industrialization and urbanization. These intersecting problems resulted in inefficiency, waste, and in many cases runaway inflation.

In both Eastern Europe and Latin America, one of the goals of the new market-oriented policies in the 1990s was to reduce inefficiency and thereby spur long-term economic growth. Although there have been some successes and many failures from the efficiency/growth point of view in both regions, it is still far from clear whether the new institutional arrangements and policies will redress or worsen social inequities in the long run.

The events of the 1990s have raised important questions for social scientists working in both geographical areas. In the case of Latin America, these include:

1. Why did the market paradigm prevail over populism?

2. Populism and the large presence of the state in Latin American economies were supposed to redress many of the inequities inherited from a previous era, when the private sector and foreign capital were given many freedoms and privileges. Why did this not occur? To what extent does market-oriented neo-liberalism in the 1990s differ from the liberalism of previous eras? Can a privatized market economy result in both growth and greater social equity?
3. What lessons from previous periods of market-oriented policies might be useful in the present era?
4. Do such phenomena as the Chiapas revolt in 1994, the rise of the Movement of the Landless (MST) in Brazil in the second half of the 1990s, the widespread use of armed retainers in Colombia, and the appearance of a populist authoritarian leader (President Hugo Chávez) in Venezuela in 1999 augur a bleak future for neo-liberalism?
5. Are there any serious efforts at developing viable alternatives to market-oriented systems on the horizon?

A similar set of questions arise when considering East European countries:

1. With the collapse of communism, the adoption of a system of market economies, privatization, the decline of traditional socialist safety nets, and the establishment of democracy, what sort of economic and political systems are emerging?
2. How much inequality can the new systems arising in Eastern Europe tolerate?
3. Are there significant differences between the older generations (without skills or time to adapt to the new system) and the younger generations? In other words, is the problem primarily one of generations?
4. Are former communist *apparatchiki* on their way to becoming well-connected business tycoons, similar to the tycoons of Latin America, who often accumulated large fortunes through special political connections?
5. To what extent does political instability or insecurity affect the short and long-term decisions of firms?

There are additional questions which relate to both geographical regions. How do the institutions and practices preceding the advent of neo-liberalism determine the process of economic reform? What is the relationship between political and economic reforms? Why were neo-liberalizers being re-elected in some parts of Latin America (in spite of the high social costs of their actions), while in Eastern European countries they have often been voted out of office?

But the issues are not explicable only in terms of post-1989 or even post-1945 processes. The fact that, in broad terms, the relative rank of national per-capita incomes within both world regions was roughly the same on the eve

of World War II as in 1999, implies that longer-term historical processes need to be considered. Such issues as state intervention vs *laissez-faire* and the ideologies that support such positions have deep historical roots relevant to current problems. Despite some striking similarities between the two regions on these matters, rarely have they been studied comparatively.¹

The transformation of the economic systems of Eastern Europe after 1989 is obviously a more drastic process than the contemporaneous liberalization of the Latin American economies, but the processes are related, because prescriptions prepared for Latin America were applied in Eastern Europe. The Soviet regime and its satellites failed because they could not solve three fundamental problems: The first – and most important – was the long-term effect of poor material incentives for high-quality work, owing in part to limits on wage differentials, and in part to an economic system that assigned low penalties to sloppy work, rent-seeking behavior, and shirking. The second was the inability of the command economy to establish an efficient and dynamic system of relative prices; in fact ‘shadow’ prices of analogous Western goods were often employed. A third underlying factor in the crisis of the 1980s was the secrecy characteristic of the Soviet political system. This policy impeded the diffusion of new techniques across the economy, relative to the technologically-induced efficiency gains of the post-1945 economies of Western Europe, the United States, and Japan.

Latin America’s problems were grave enough, but of a different order. There government bureaucracies were often bloated, transparency was minimal, and the state was viewed as a patrimonial entity by politicians and citizens. In the more economically advanced countries, such as Juan Perón’s Argentina and Getúlio Vargas’s Brazil, macroeconomic populism in the 1950s and later had swollen the size of the state, and had discriminated against traditional export industries to benefit industrialists and workers. Such policies extended into the 1970s, if we classify the Socialist Salvador Allende (President of Chile, 1970–73) as a populist.

Furthermore, external debt was accumulated at low interest rates in the 1970s, owing to the recycling of ‘petrodollars’ after 1973. With the drastic increase in US interest rates in 1979–80 resulting in a similar increase in world interest rates, there was a sharp spike in the cost of borrowing by Latin American countries and in the servicing of their external debt. The decade-long stagnation of the region in the 1980s, accompanied by the collapse of the Soviet Union and the consequent monopolar power of the United States, gave a hitherto unprecedented authority to the coordinated action of the Treasury Department, the IMF, and the World Bank. At the end of the decade, Chile’s impressive performance under the free-enterprise regime of General Augusto Pinochet gave a new prestige to liberalization policies within Latin America and elsewhere.

The ‘Washington Consensus,’ a term coined in 1990 by the economist John Williamson, summed up the views of economists and officials at the IMF, the World Bank, the US government, and Williamson’s Institute for International Economics. This ten-point program emphasized privatization, fiscal discipline, tax reform, freeing the market from constraints in trade policy and interest and exchange rates, and strengthening property rights for domestic and foreign investors. These were the marching orders for Latin American policymakers throughout the 1990s.

But these remedies were also formulated at the time of the collapse of the Warsaw Pact economies, and were applied as *prêt-à-porter* solutions for the ‘transition economies’ of Eastern Europe. According to a Polish expert, Grzegorz Kolodko, such recommendations did not include all the crucial elements for the proper reordering of the East European economies. These essentials were ‘institution-building, improvement of corporate governance of the state sector prior to privatization, and [redesigning] the role of the state,’ rather than simply shrinking its presence in the economy. Partly as a result of the insufficiency of the one-size-fits-all reform program, the former Comecon countries lost a quarter of their combined GDPs between 1990 and 1998. In Kolodko’s opinion, ‘A lack of institutional development turned out to be the missing element in transition policies based on the Washington consensus. Instead of sustained growth, liberalization, and privatization without a well-organized market structure led to extended contraction.’²

To grapple with some of these questions, the editors, with the support of the University of Illinois,³ commissioned twelve papers from internationally-known experts on Latin America and Eastern Europe. They represented five disciplines – economics, political economy, history, sociology, and political science. Their essays were presented at a conference at the University of Illinois, Urbana-Champaign, on April 23–24, 1999. In addition, other specialists on Eastern Europe and Latin America from a variety of institutions were invited to comment.⁴ This volume contains the revised versions of the papers presented, as well as some of the commentators’ remarks.

Two of the chapters offer a historical perspective on the neo-liberal policies of the 1990s. Victor Bulmer-Thomas finds that in the twentieth century, the performance of most Latin American economies was generally poor, when defined in terms of closing the gap in GDP per capita between them and the United States. He argues that over the century the oligarchic state gave way to the bureaucratic state, which was often the captive of its employees, resulting in an inefficient allocation of resources; moreover, the rule of law in the economic sphere was often weak. Although in most countries the state did not contribute to equity through land reform, its actions accelerated the transition to modern capitalist agriculture. The state also did little to improve labor pro-

ductivity and real wages. Its policies of protection resulted in an absence of competitive markets, reducing pressure on firms to innovate.

Bulmer-Thomas notes that despite Latin America's unequal income distribution, it has traditionally experienced low savings rates, but this situation was partially offset by the state's role in maintaining overall investment. Thus, with the retreat of the state in the 1990s, the reliance on the private sector to carry most of the burden of investment implies the need for access to international capital markets through bond issues, and points up the crucial role of bank borrowing and equity investment in future growth. This also means that the state should seek to implement policies which minimize the foreign perception of risk in the country at issue. In the new era of neo-liberalism, globalization has placed constraints on the state's freedom to maneuver.

In the second historical chapter, David Good calls attention to the century-old lag of Russia and Eastern Europe behind the West, and shows how this has preoccupied successive generations in the region. His statistical analysis leads him to conclude that the slow growth in the two decades prior to 1989 cannot be wholly attributed to the nature of the institutions which prevailed under communism. Nor does he find that a center-periphery type of analysis accounts for historically slow growth rates. The region grew rapidly as an exporter of primary goods prior to World War I, while a poorer growth performance occurred with the closing of the economy in the inter-war period. This trend continued into the period of state socialism. The basic reason for the relatively poor growth performance over most of the 20th century, Good holds, was the relative isolation of Central and Eastern Europe from the full force of the commercial revolution centuries ago, so that '... the region entered the modern era not only at low levels of socioeconomic development, but also . . . with relatively weak state structures . . . [And the latter] . . . proved to be highly vulnerable to the shocks of war and depression that characterized the twentieth century.'

Josef Brada's chapter follows, concentrating on the economics and politics of the transition in Eastern Europe. In his view, part of the initial decline in output after 1989 may owe to the stabilization programs which accompanied the transition, while part may have been due to the 'premature abandonment of central planning' and what he sees as the unsuccessful efforts to replace it with market mechanisms. The latter did not function well in the absence of adequate institutional and legal underpinnings.

Brada notes that during the early transition years in many East European countries the decline in consumption was less than the fall in investments, which may account for the relative social tranquility during this period. In addition, he points to the stagnation which preceded the decade prior to the transition, making the initial low growth rates in the new market economies more acceptable to the population. He further explains the lack of social unrest by the

fact that, by the second half of the 1990s, consumption was higher than earlier in the decade for a number of countries.

Brada considers the political process involved in the transition to be as important, if not more so, than the economic transformation. The yearning for new political systems and human freedoms, and for new links to Western societies were such as to more than counterbalance significant economic sacrifices in the eyes of the respective populations. However, Brada also calls attention to those former communist countries where so-called reforms ('pseudo-liberalization') were designed to generate rents for various types of political, ethnic or economic élites. He calls these 'kleptocratic states' which are dominated by single parties or individual politicians. He concludes that transition strategies are determined by a number of variables, including economic, cultural and historical backgrounds.

Laurence Whitehead's chapter concentrates on the privatization aspects of neo-liberal policies in Latin America. He points out the complexity of issues surrounding the privatization of public utilities, such as the telecommunications companies. He shows how difficult it is to introduce competition and to obtain optimum market results through regulation, how concessions can be manipulated for political purposes, and how the judiciary can get involved in quasi-regulatory matters even though its members do not have the training to specify how an economy can be made to function more efficiently.

Whitehead also points out that privatization programs were far from uniform in Latin America. He illustrates this by contrasting the 'root-and-branch' approach of Chile, the incrementalist approach of Brazil and the opportunist approach of Venezuela. He then considers various alternative theories which could explain the upsurge in Latin America's privatization process, ranging from the power of those who share the Washington consensus to alternating cycles of statism and liberalism, and 'catch-up' theories. He concludes on a speculative note, considering that reversals from the neo-liberal trend might occur if the legal system is not strong enough to support the demands of a market economy, or if rising social inequalities were to remain unaddressed.

Marshall Goldman's chapter deals with the phenomenon of the post-communist Russian oligarchs. The fact that a communist system was implanted when a market economy was still embryonic at the time of the 1917 revolution and endured for 70 years was bound to result in a transition process which would be quite different from that taking place in countries '... with a market infrastructure already in place, partly in place, or in place at one time but now dormant.' Therefore, when the communist system collapsed and privatization was introduced, there were '... no meaningful or operational price system, wholesalers, marketers, labor markets, commercial codes, or civil court procedures.' As a result, Russian privatization perhaps uniquely made it

possible for a small number of oligarchs to buy state properties at a fraction of their true worth.

Goldman identifies three categories of oligarchs which emerged: the factory directors, former members of the communist *nomenklatura*, and outsiders. The last-named were considered outside the law under the communist system, many belonging to ethnic minorities. Goldman provides a number of examples of each group. He makes it clear that the oligarchs of the first two groups were not like the US robber barons of the late nineteenth century. The latter constructed their empires by building steel mills, railroads and refineries, while the Russian oligarchs ‘... simply purloined what previously belonged to the state.’ Goldman concludes from the Russian experience that private ownership is not necessarily preferable to state ownership, especially when it takes place in a society where no market and regulatory infrastructure exists.

The chapter by sociologist Anthony Hall concentrates on another aspect of neo-liberalism in Latin America, namely the privatization of nature, or ‘... the gradual appropriation or indirect privatization and enclosure of rural common property,’ which has occurred especially in the Andean highlands and the Amazon basin. In most of the area of the Amazon he surveys, private property ownership had been relatively rare, while over generations collective resource governance had been developed by the users as a way of managing fragile ecosystems. Hall takes as a main theme the indirect privatization of land and natural resources in the Brazilian Amazon region, where since the 1960s governments have encouraged settlement for economic, social and strategic reasons. Through various types of incentives, investments by large groups has been encouraged, especially in cattle ranching. Such holdings encroached on small farmers, as well as native Americans, causing violent conflicts over the control of land and an acceleration of the deforestation of the region. In the cases of Ecuador and Peru, Hall shows how the exploitation of oil and gas production in the respective Amazon region of these countries has also contributed to environmental degradation and has threatened the livelihood of indigenous peoples. The author notes that after decades of passive acceptance of these trends, new social movements arose in the 1990s to resist encroachment by outsiders. He presents three case studies, indicating how countervailing forces, in the form of grassroots organizations, have counteracted unchecked privatization and its negative environmental impact.

In a case study of Brazil, political scientist Lawrence Graham considers the recent experience of that country in the context of an ensemble of Latin American nations undergoing economic and political reform, showing the dilemmas Brazil faces in attempting to combine democratic initiatives and orthodox structural adjustment policies. The first administration of Fernando Henrique Cardoso provides an instructive case study of successful ‘reform-mongering’ in the context of the globalization of the 1990s. Yet his second

administration raises serious questions about the ability of democratically elected presidents without disciplined congressional majorities to sustain reform into a second term. Devaluation in early 1999, the President's diminishing control of the government coalition in Congress, and the reliance on markets to produce further economic restructuring have severely limited Cardoso's capacity to make coherent policy. Although there is a danger that protests by those hurt by market reforms will bring social policy issues to the fore, current trends suggest that a strategy combining decentralization, international support, and commitment to engaging groups in civil society may create sufficient space within the Brazilian system to head off a revolt by voters. If so, Brazil may avoid the fate of Peru and Venezuela, nations where the populace rejected established parties and supported broad presidential powers to thwart market-determined outcomes.

In another case study – this one in Eastern Europe – Daniel Chirot offers a sociologist's perspective on the problems of Romania, a relatively backward East European nation. Chirot argues how little we can understand the problems of economic and social backwardness without an appreciation of local history. He seeks to identify the roots of Romania's underdevelopment, pointing to Orthodox religious tradition, persistent or recurring land tenure patterns in an overwhelmingly peasant society, and a historically truncated experience with capitalist industrialization before 1945. Chirot is 'guardedly pessimistic' about Romanian development, for at least the next generation. Worse yet, for those who seek the rapid transformation of Eastern Europe, is the realization that Romania had a less negative growth experience for 1990–97 than the majority of the countries in the region composed of East Central Europe and the former USSR.⁵

The political scientist Béla Greskovits examines the post-1989 performance of his native Hungary in another country study. Hungary offers a story of relative success, in part because of the fact that the transition to capitalism began well before 1989, in the country's experiment with 'market socialism'. Hungary also had the 'negative' advantage of not having to build a new nation or even a new state (unlike many CIS nations and those of ex-Yugoslavia), since the old state underwent a sweeping transformation. Nonetheless, as measured in GDP per capita (at purchasing power parity), Hungary was well behind Chile, Argentina, and even trailed Mexico in 1997.

Politically, too, Hungary's story was one of qualified success. The post-1989 governments took advantage of the demobilizing policies of the old regime, and this fact, combined with a relatively egalitarian distribution of income, tended to hold collective action in check for the first decade after communism. In the process, the new capitalist democracy had the additional advantage of a relatively good performance of state-operated enterprises. The government and the dominant political parties, together with other strategic élites, managed to

create winners in the new system while neutralizing losers. But the political process still excluded the majority of the population, and the informal economy became the social safety net of the poor: as much as one-third of the Hungarian population retreated into, or remained in, the informal sector.

In his chapter, economist Jacek Kochanowicz offers a broad synthesis of the first decade of the Eastern European transition. He characterizes the economic experience in Eastern Europe between 1945 and 1989, not as underdevelopment, as in Latin America, but ‘misdevelopment’: Economies were overindustrialized, based on outmoded and static technologies. In surveying the contemporary scene, the writer sees a pattern of increasing differentiation, with three broad trends – political and economic convergence with the West, divergence, and drift. East Central Europe, plus Estonia, constitutes the first group; Russia, Belarus, and Ukraine, the second; and Bulgaria, Moldova, and Romania the third. While expressing some optimism about the chances of the first group, Kochanowicz points out that the road leading to Western prosperity is still a rocky one, and points to sharpened disparities in income and wealth across the whole region. Institution-building is still needed everywhere, including a broad acceptance of capitalist ‘rules of the game.’

The differentiation of the three groups of countries leads the author to ask: why is the first group apparently on the road to high per capita incomes and integration with the West? Was it just because of good policies? Good policies, plus strong and skillful leaders? Blind luck? Like Chirot, Kochanowicz argues that the ultimate causes lie deep in the past, that ‘history matters.’ Exposure to Western ideologies, religion, and outlooks was much more extensive in Poland, Hungary, and the Czech Republic, and this centuries-long experience gave those nations advantages in playing what is still a Western game. Nevertheless, following the development theorist Alexander Gerschenkron, Kochanowicz allows for the possibility of successful adaptations of local practices and the development of new institutions to shorten the path to modernity.

Like Kochanowicz on Eastern Europe, economist Albert Fishlow considers the present and possible future of his area of expertise, Latin America. Fishlow finds that for the neo-liberal economic model to be effective, Latin American countries will have to retain as their centerpiece: a low rate of inflation, the state as a regulator rather than as manager, and openness to trade. His message is to hold steady to the course already begun. Fishlow notes that the new model may make it easier for the region to increase its rate of savings, which has been traditionally low because of the governments’ propensity to dissave.

His discussion of the Latin American privatization process dwells especially on the opportunities and possible pitfalls in regulating the recently privatized public utilities, and he concludes that the ‘... test of the new capitalism will be the ability to combine the initiative of investors with the constraint of public regulation.’ Furthermore, Fishlow points to the link between the opening of

Latin America to international trade and the achievement of a permanently stabilized economy. He points to the fact that it was easier at first to increase imports which were financed to a large extent by capital inflow, while exports have grown at a modest rate. The coming challenge is for the region to achieve a substantial increase in its non-traditional exports.

In a chapter rich in wide-ranging comparisons and imaginative speculations, Fishlow points out that beyond implementing the painful short- and middle-term measures resulting from a shrunken public sector and adjustments to the international economy, an essential feature in a successful reform program is institutional change, a problem for the medium and long term for both the state and private economic actors.

The final chapter, by economist Lee Alston attempts to integrate the chapters, showing the centrality of successful political economy in achieving reform. He emphasizes that the perceptions of, and expectations about, economic performance are as important as the performance itself in keeping reform on track. Alston sees the issue of legitimacy at the fore of the political process, until such time as broad consensus is achieved on social and economic goals, and requisite institutions have been reconfigured or created *ex nihilo*. Meanwhile ethnic, religious, and national fragmentation may impede, block, or reverse reforms in Eastern Europe, the successor states to the former Soviet Union, and Latin America.

A successful reform process, Alston argues, is less an issue of the 'big bang' vs. the gradualist approach, than how the reforms are arrived at and carried out. But in general Alston favors the gradualist path, if it results from consensus-building that will prevent a reversal of policy at a later date. Both process and institution-building are important, and institutions must become flexible, efficient, and transparent. The writer also considers how Western countries, trading blocs, and international agencies may influence the reform process, but points out the limitations on their power. He also considers the lessons we might draw from the first decade of privatization in East Europe and Latin America.

NOTES

1. Two recent comparative projects dealing with contemporary economic reforms in Latin America and Eastern Europe are those directed by Carol Graham of the Brookings Institution and Joan Nelson of the Overseas Development Council. Both deal with the extension of market reforms into the area of public goods (for example, education, health care, pensions) through the creation of 'stakeholder' constituencies to sell and consolidate these reforms. See: Graham (1998) and Nelson (1997).
2. See Kolodko (1999), pp. 5, 8. Williamson himself revised his 1990 views seven years later, taking into account experiences in both Latin America and Eastern Europe, adding an emphasis on institution-building, primary and secondary education, and fiscal inducements for protection of the environment.

3. The following units at the University of Illinois sponsored the conference: The Center for Latin American and Caribbean Studies, International Programs and Studies, The Center for International Business Education and Research (CIBER), and the Russian and East European Center. A generous contribution was also made by Cummins Engine Company.
4. See list of participants at the beginning of this volume.
5. This is true even if the Muslim-majority states of the CIS are omitted. See Kolodko (1999), p. 4 (Table 1).

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