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Neoliberal transition in Latin America: examining the gap between theory and practice. The cases of Chile and Mexico

Transición Neoliberal en Latinoamérica: examinando la brecha entre teoría y práctica. Los casos de Chile y México

Rafael Guerrero Rodríguez*

Abstract

The adoption of profound reforms in favour of free-trade around the globe became common practice, and turned neoliberalism into the most influential economic ideology of the last quarter of the 20th Century. This article examines the effects of the introduction of neoliberal reforms in the context of Latin America. Two cases were chosen for this purpose: the case of Chile and the case of Mexico. Both examples are very useful to understand the complexity involved within the neoliberal process in Latin America as well as to identify some of the main causes for its failure. The main conclusion is that neoliberalism will maintain its status as the main economic ideology in the world, despite its meagre developmental outcomes.

Key words: Neoliberalism, Latin America, Development, Economy, Inequality.

Resumen

La adopción de reformas profundas a favor del libre comercio se volvió una práctica común alrededor del mundo, convirtiendo al neoliberalismo en la ideología económica más influyente del final del Siglo XX. Este artículo examina los efectos de la introducción de reformas neoliberales en el contexto de Latinoamérica. Intenta dilucidar la brecha que existe entre los postulados centrales de esta ideología económica y la experiencia de implementación. Dos casos fueron escogidos para este propósito: el caso de Chile y el caso de México. Ambos ejemplos son muy útiles para entender la complejidad que existe detrás del proceso neoliberal en Latinoamérica así como identificar las posibles causas de su falla. La principal conclusión de este artículo es que el neoliberalismo mantendrá su estatus como principal ideología económica en el mundo, a pesar de sus cuestionables resultados en cuestión de desarrollo.

Palabras clave: Neoliberalismo, Latinoamérica, Desarrollo, Economía, Inequidad.

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Introduction

Neoliberalism has dominated the development discourse since the 1970s (Harvey, 2005). Trying to define neoliberalism means facing some great problems. It can be said, in general terms, that neoliberalism is an economic theory that emphasises deregulation and reduction of the state (Rösch, 1998). The most influential measure supporting neoliberalism ideology materialized in the Washington Consensus.¹ The clear failure of neoliberal policies to deliver faster growth in developing countries -in some instances it has actually produced slower growth- has contributed to a backlash that has significantly discredited it (Palley, 2004: 6). The objective of this paper is to describe the economic effects of the neoliberal process in Latin America in order to address the particular interests of this special issue. Two cases will be examined for this purpose: 1) the case of Chile, as an example of a very active state -in the form of dictatorship- implementing a package of neoliberal reforms under a strong developmental discourse, and; 2) the case of Mexico, exemplifying also a very active state but operating in a

completely different manner due to the conflicting circumstances of this country during the 1980s and 1990s, characterized by recurrent economic crises, a turbulent political environment, and profound geopolitical pressures. The rationale behind the selection of these two cases in particular lay with the fact that these countries had the fastest record in the implementation of neoliberal reforms in the region.²

Considering the information presented in the selected cases, it is argued here that neoliberalism, as many other development strategies, has not delivered the expected social and economic outcomes as a result of its practice. Even though the neoliberal momentum remains unaltered despite the increasing social discontent at the global level due to its questionable efficiency in terms of development. Although neoliberalism failures have been accepted to some extent in forums such as the Post-Washington Consensus³, the shift towards a 'hybrid'⁴ alternative of development is still too far away to be foreseen. It is clear that the mere existence of a development discourse based on sustainable principles does not guarantee this

¹ The concept of the Washington Consensus was first presented in 1989 and 1990 by John Williamson, an economist from the Institute for International Economics, an international economic think-tank based in Washington, D.C.. (Yergin *et al*, 1998). Williamson used the term to summarise the commonly shared themes among policy advice by Washington-based institutions at the time, such as the International Monetary Fund, the World Bank, and U.S. Treasury Department, which were believed to be necessary for the recovery of Latin America from the financial crises of the 1980s (Clyde, 2005).

² Mexico ranked second only after Chile in terms of the length of time that the reforms have been in place (Pastor and Wise, 1997: 420).

³ A failure to understand economic structures within developing countries, by focusing on too narrow a set of objectives, and on too limited a set of instruments. See for instance Siglitz (1998).

⁴ With 'hybrid' I mean, the combination of neoliberal principles and the new proposed development theories such as 'Sustainable Human Development Approach', 'Neostructuralism', 'Alternativa Latinoamericana', among others.

transition. In this sense, the continuation of the neoliberal influence is expected in the years to come due to the prevailing economic structure that is characterized by an environment of free markets and dominance of industrialized countries over developing ones.

The structure of the article is divided into four main sections. Section one will describe the neoliberal theory, including its historical evolution, its main postulates and some of the criticisms that emerged as a consequence of its practice around the world. Section two will present the methodology employed in this paper, including a description of the analytical framework and data collection strategy. Section three will focus on the Chilean case, reviewing the historical and political background, the adopted reforms and the role of the state in this process. The fourth section will describe the Mexican case, situating the particular context where specific neoliberal measures were adopted as well as the role of the state in the evolution of this process. This paper concludes with a discussion section by reviewing the main findings of this research as well as the identification of possible research directions in the near future.

Neoliberal theory, self-interest over the community

“Let fall those who must fall. Such is the jungle of...economic life. A jungle of savage beasts, where the one who can kill the one next to him, kills him. That is a reality” (Green, 1995: 55).

For twenty-five years after World War II (1945-1970), Keynesianism constituted the dominant paradigm for understanding the determination of economic activity. The theory that dominated post-war development theory was “Structuralism”, drawing attention on the significance of capital accumulation, externalities in production processes and manufacturing economic growth (Önis, 1995: 99). However, as time passed, “Structuralism” started to reveal a weakness based on a blurred conception of economics and the political process underlying effective state intervention.

During the 1970s, the Keynesian impulse suffered a clear reversal as a result of several social and economic dislocations (Palley, 2004). These disturbances were associated mainly with the Vietnam conflict and oil price shocks⁵. Before the propagation of neoliberal policies through the “Washington Consensus” in the 1980s, mainstream explanations of the development process and development goals were both conducted within a national frame of reference. National development policies thus,

⁵ See Palley (2004: 3) for more details.

were mainly geared towards the achievement of local objectives (Gore, 2000: 790).

Two events can be regarded as the formal inauguration of the period of neoliberal policy dominance: the appointment of Margaret Thatcher as Prime Minister of the United Kingdom in 1979, and the election of Ronald Reagan as the President of the United States of America in 1980 (Palley, 2004: 6). Thus, *laissez-faire* liberalism ideology was strongly advocated in the early 1980s. The key norms playing a decisive role in this process were the ones contained in the “Liberal International Economic Order” (LIEO). These norms were propagated through a persuasive political discourse where an intrinsic ethical superiority of economic liberalism was fiercely advocated. In addition to the former, several theoretical and empirical analyses were conducted and publicised in an attempt to demonstrate that conformity to LIEO norms would lead to better development outcomes, not simply for the world community as a whole, but also for individual nation-states (Gore, 2000: 793).

During the 1990s, after the process of implementation of neoliberal reforms around the globe, extreme market fundamentalism was to some extent softened⁶ leading to the emergence of a more market-friendly approach to development (Gore, 2000: 792). The World

Bank report “The State in a Changing World” (1997)⁷ made an important contribution in this regard helping to re-think the neoliberal ideology to a certain extent. This document widely described the examples of the rapid growth experienced in some East-Asian economies (Hong-Kong, Singapore, South Korea and Taiwan) and recognized the crucial role of these governments in the process through a reinvigoration of regulatory institutions.

Neoliberal theory

As highlighted previously, it is a hard task to try to define neoliberalism. This is in great part because neoliberalism is not a mode of production like capitalism or feudalism. In other words, it means it has no set attributes. Neoliberalism, rather, is understood as a theory of political economic practises that proposes that human well being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong property rights, free markets and free trade (Harvey, 2005: 2). Neoliberalism is also a philosophy, in which the existence and operation of a market are valued separately from any previous relationship with the production of goods and services, without any attempt to justify them in terms of their effect on the production of goods and services. The opera-

⁶ This was a consequence of the constant struggles and recurrent economic crisis in those countries that adopted the suggested policies.

⁷ Available at http://wdronline.worldbank.org/worldbank/a/c.html/world_development_report_1997/abstract/WB.0-1952-1114-6.abstract

tion of a market or market-like structure is seen as an ethic in itself, capable of acting as a guide for all human action, and substituting for all previously existing ethical beliefs (Treanor, 1997).

Neoliberalism is derived from two principal theoretical influences: neoclassical economics (supporting a strong interventionism from the state in search of welfare economics with intellectual rigour but without popular appeal) and the Austrian Libertarian theoretical tradition (coming from a tradition completely 'anti-state'). Neoliberalism has been also associated with 'New Political Economy', rejecting 'Neoclassical' welfare economics as benign and as an agent of social welfare. Under this perspective, the state is no longer regarded as acting in the public interest but in the private interest of a few. Even though it is accepted that markets can fail, it is believed that government intervention only makes matters worse (cf. Colclough and Manor, 1991).

Palley (2004: 1) says that 'neoliberalism' has within it two core theories: a theory of income distribution (factors of production - labour and capital- get paid what they are worth under a supply and demand process) and; a theory of aggregate employment determination (free markets will not let valuable factors of production -including labour- go to waste; instead, prices will adjust to ensure that demand is forthcoming and all the factors are em-

ployed). A general characteristic of neoliberalism is the desire to intensify and expand the market, by increasing the number, frequency, repeatability, and formalization of transactions. Thus, neoliberalism seeks to pursue economic stability by controlling inflation and reducing fiscal deficits, the opening of the markets to the rest of the world, and liberalising domestic product and factor markets through privatization and deregulation (Gore, 2000: 789-90).

Green (1995: 245) points out that the state is part of the problem, not the solution in economic terms. The function of the state in neoliberal thinking is very closely related to Robert Nozick's theory of the minimal state⁸, but just in theory. In practice, governments play an important role not only in the implementation of reforms but also in their enforcement. The ideal state envisaged by public choice theorists is a state that provides property rights and basic infrastructure services (Önis, 1995: 101).

The main question that arises at this point is: why neoliberalism has consistently failed to deliver the development outcomes for which it was created? It is important to point out that neoliberalism has proven to be an unachievable project. According to Hinkelammert (1984), neoliberal theory pretends to be "a real

⁸ The only sort of state that can be morally justified is what Nozick calls a minimal state or "night-watchman" state, a government which protects individuals, via police and military forces, from force, fraud, and theft, and administers courts of law, but does nothing else (IEP, 2007).

human and social interpretation...through transcendental concepts that can only be conceived but not applicable in the practice (seen in Vergara, 2008: 2). Despite the great criticism generated from the negative outcomes through the implementation of neoliberal policies in several countries, advocates have consistently ignored them, leading neoliberalism to maintain its status as the main economic ideology in the world, influencing crucial political and economic decisions. Following this argument, it can be said that the neoliberal influence is based more on its power structure rather than on the validity of its arguments or efficiency on the ground. Vergara (2008) points out that neoliberalism has become a political and economic discourse at the disposal of the elites to control the economic system that is constantly reinforced through the dissemination of an individualist and selfish conception of society.

There are many authors supporting the idea of political power behind the influential role of neoliberalism in economic decisions (see for example Adler and Gil, 2002; Ferreira and Gutiérrez, 2005; Mendez, 2008; Ruiz, 2012) that negatively affect societies around the world. Nevertheless, it is important to ask: to what extent this condition is true in Latin America and more particularly in the cases of Chile and Mexico? Although there exists a vast literature in regards to the effects (economic, social, cultural) of neoliberal policies in Latin

America (see for example Arteaga and Martuccelli, 2012, Cadena, 2005; Cámara, 2009; Revueltas, 1993; Salazar, 2004; Saldaña, 2007; Toussaint, 2012, just to mention some), there are few studies that explore the politics and power structures behind neoliberalism. This paper wanted to address this gap by comparing two emblematic cases in Latin America aiming to identify particular patterns of behaviour by those who were within the spheres of political power and decision-making. Next section will describe the methodology employed in this research to collect and analyse the information.

Methodology

In order to analyse the process of the introduction of neoliberal policies in the Latin American context, this research decided to use the analytical framework of “New Political Economy” (see Leftwich, 2006). This framework was chosen due to its conceptual proposal that assumes that the process of formulation and implementation of policies are allocated not on the basis of efficiency but rather according to power. In this sense, three different levels of power are identified: 1) situational power, understood as the individual’s ability to make concrete decisions within the political arena; 2) organizational power, conceived as the ability to define the rules of the game by elites, and; 3) structural power, understood as the way in which the po-

litical and economic system favours certain interests over others.

It is argued here that the neoliberal process can be better understood in terms of the power of actors and their position in the social and political system that is analysed. Frameworks to the analysis of neoliberal policies frequently look on the effects in the national economies historically as a means of contextualising the associated problems (Edelman, 2009). Unlike this type of analyses, this paper

adopted the methodological proposal of Harris (2013) aiming to systematise the analysis of the two cases chosen (Chile and Mexico). This methodological proposal departs from the identification of major drivers to describe the evolution process derived from key structural features as well as relevant individuals and organisations, their motivations and the types of relationships and balance of power between them.

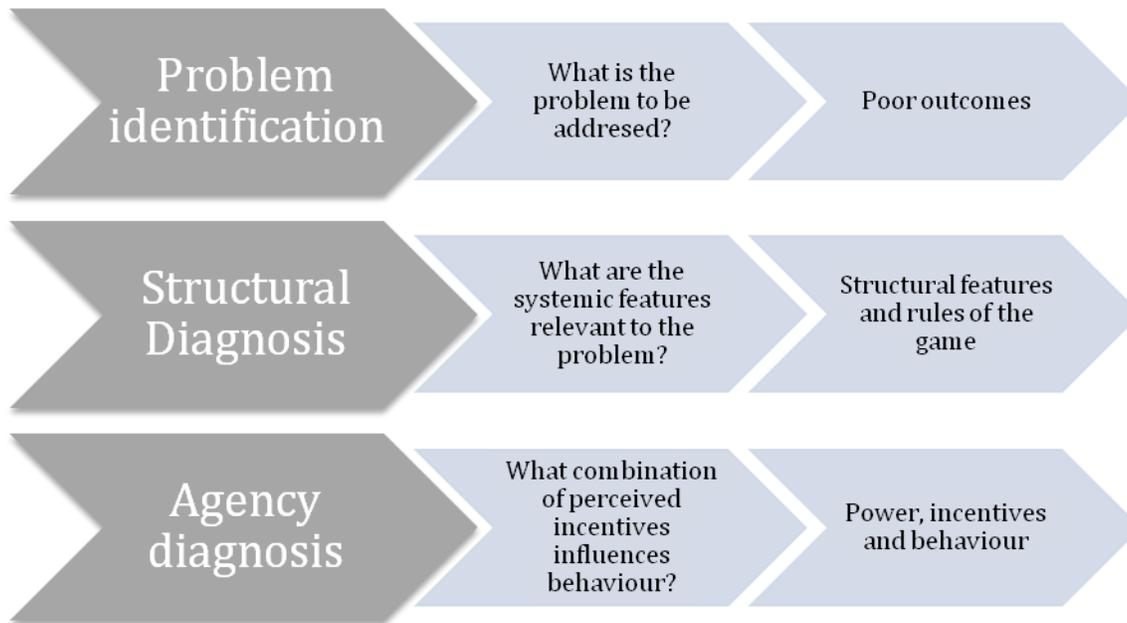


Figure 1. Analytical framework
Source: Adapted from Harris (2013: 5).

The problem identified in this paper was the consistent failure of neoliberal policies to deliver development in the case of Latin America. With regards to the structural and agency diagnosis, this paper systematically examined the historical context, the reforms adopted (eco-

nomic mainly) as well as the role of the state in this process. It is important to note that Harris (2013) framework considers a prescription category including the construction of intervention alternatives to solve the problem identified. This paper does not include this category of

analysis since the main objective of this study is to provide only an exploratory panorama. Nonetheless, it is believed that the identification of these general features might serve to gain a better understanding of the complexity behind this process away from the economic and efficiency rationale.

The neoliberal process in Latin America

a) The case of Chile⁹

Historical context

The beginning of neoliberal revolution in Chile took place in 1973, mainly because there was a set of internal and external reasons for this to happen. The political environment was in a turbulent process of transformation. During this period, many Chileans believed that the armed forces would hold power only for a short period of time and then call for new elections. Yet, it soon became clear that the military had planned not only to destroy the political left but also to transform both, politics as well as society. Such an enterprise, however, could not be achieved in a few years. In the eyes of the military leaders, the main responsibility for the complicated situation in Chile lay in the prevailing political structure present at the time based on a liberal-

democratic ideology. Therefore, the "weak" political system had to be transformed into a so-called "authoritarian democracy" (Ferreira and Gutiérrez, 2005; Kern, 1998).

General Augusto Pinochet played a key role in this process directing the political transition towards this "authoritarian democracy". According to Kern (1998), the Pinochet administration can be divided into three main phases: the first phase (1973-1977) was characterized by the total repression of leftist ideologies and worker and union movements¹⁰. For some, this stage can be regarded as the most influential in terms of implementation of neoliberal policies (cf. Murray, 2012; Silva, 1993; Taylor, 2003). The second phase (1977-1982) was characterized by the recrudescence of political prosecution of possible political opponents. New political rules took the form of a new constitution after a controversial plebiscite that entered into effect in 1981. This new constitution prevented Marxist groups from participating in politics, gave the military a constant political role, and increased the power of the president. Finally, the third phase (1982-1987) was characterized by economic depression and crisis which led to the questioning of

⁹ The Chilean case is focused mainly on the Pinochet administration because the most radical adoption of neoliberal policies was seen during this period. The Aylwin administration will also be reviewed in less detail, focusing the attention on the additional social policies with the neoliberal model.

¹⁰ A group of economists became very influential during this period; their main conviction was that private forces should guide economic and social activities, not the state. They believed that an export-oriented, market-driven economy with substantial foreign investment would automatically lead to economic success. Privatization became a key tool and many of the state-owned companies were sold or returned to private hands. It was a structural revolution based on neoliberal thinking (Kern, 1998).

the economic strategy adopted by Pinochet and the so-called ‘Chicago Boys’¹¹.

The discontent of the Chilean population against these economic struggles led to a democratic transition during the period 1988-1989. The victory of Patricio Aylwin in 1989 was seen as the culmination of the dictatorship giving room to the civil government.¹² The Chilean government sought to achieve a more equitable distribution of wealth, but within the macroeconomic limits imposed by neoliberal ideology and without taking unnecessary risks of inflationary disequilibrium (Braite-Poplowski, 1998). Yet, social policy received more attention and investment in pursuing the alleviation of poverty as the main objective of the civil government since then.

Economic reforms

Beginning in 1973, as a result of the takeover of power by the Pinochet regime, this state-controlled and closed economy rapidly became

a free-market, free-price economy, fully liberalized and world-integrated. The economic importance of the government and the public sector decreased and that of the private sector increased (Steiner, 1998). The Chilean ‘miracle’ (1973-1982) began to take form as a radical change of economic policy under the severe application of neoliberal measures. The main reforms were: the liberalisation of the market and prices (1973-74); more than 3,000 prices were set free and control was only maintained for essential goods and those that lacked a competitive market; the privatization of state-owned enterprises (1974-76), out of the 500 state-controlled enterprises only 15 firms remained in the public sector in 1980; the liberalisation of the domestic financial market (1975-76), the majority of Chilean banks were privatized and interest rates which had always been controlled in Chile were set free in 1975; a fiscal reform (1974-75), producing a reduction of public expenditure and 20% sales added value tax without exemptions; a new exchange-rate policy (1979), the nominal exchange rate, was fixed to the U.S. Dollar, and open-door frontiers to the world market (1973-79), reaching a tariff of 10% and encouraging more imports (Ibid). In addition to these measures, the market model permeated other areas of society through the ‘Seven Modernisations’ program which included reforms in labour, social security, the health-care system, education, municipi-

¹¹ The “Chicago Boys” were a group of economists who studied at the School of Economics in Chicago during the course of an exchange programme with a Chilean University. This allowed a transfer of the ideas of Friedmann and Hayek to Chile. Although in the paper they were technocrats, they had the support of General Pinochet to implement the neoliberal scheme. Pinochet delegated the responsibility of economic policy to them and their leader, Sergio de Castro, who would become Minister of Economic Affairs in 1975 and later Minister of Finance (see Steiner, 1998).

¹² Even though the political transition took place, most of the neoliberal policies remained. However, the new government was keen to include equity issues in the political agenda, this being the basis towards Chilean democracy consolidation (Braite-Poplowski, 1998).

pal control, reform of jurisdiction and agrarian politics (see Arteaga and Martuccelli, 2012; Saldaña, 2007).¹³

After the economic crisis of 1982,¹⁴ the Chilean government had to intervene liquidating and nationalising banks and assuming the outstanding debt of bankrupt financial institutions in order to maintain the flow of foreign investment into the country (Steiner, 1998). Thus, the idea of a fixed exchange rate with the dollar was abandoned. After the implementation of a maxi-devaluation of the local currency, a policy of daily devaluation was put into effect. There were also adjustments to tariffs fluctuating from 20% to 35% in 1984 (Taylor, 2003). In 1986, the Chilean government utilized a different method for privatization, known as ‘people’s capitalism’. This strategy intended to sell stocks of state-owned enterprises to a large number of national citizens in order to hinder the creation of new conglomerates.

Aylwin’s administration maintained the economic model based on market orientation, although this time particular emphasis was put on the export of wine, fruits and fish. One of the main strategies of Aylwin’s government

was to stop the privatisation process, despite the protests from local entrepreneurs who claimed that this measure was taken against the basic principle of individualism and participation in the market (Ruh, 1998). Thus, the main agenda of local entrepreneurs became the continuous support of the privatization of the last state-owned companies. For example, the copper enterprise CODELCO, Banco del Estado, the petrol-firm ENAP, the electricity-firm Colbún, the service company EMPORCHI, and several further services and telecommunication-firms (Ibid, 1998). Aylwin argued against the privatization of these companies because they worked “well” and “efficiently” (Imbusch, 1995: 430).

The role of the state

As it has been discussed, the period of strong adoption of neoliberal reforms took place during Pinochet’s administration. An important reason for the great success of the ‘Chicago Boys’ in restructuring the Chilean economy compared to others was, in fact, due to Pinochet. Obviously the Chilean technocrats had more opportunities to carry out these reforms faster than any other country in Latin America. This can be explained due to the great confidence of Pinochet in the technocrats and his support of the implementation of these measures, even against resistances among the military. The absolute leadership of Pinochet of the military can also be regarded as another factor

¹³ Although the intention of this article is to mainly discuss economic reforms, this program also played a key role in the Chilean neoliberal process.

¹⁴ The exchange-rate policy implemented in 1979 has been considered the main cause of the large trade and current-account deficits of 1980 and 1981" (see Patricio Meller, 1992: 31)

for the Chilean situation that strengthened the ‘Chicago Boys’ position (Rösch, 1998).

The active role of the Chilean state in the neoliberal transition can be explained since Pinochet’s dictatorship provided unrestricted room for manoeuvre to the ‘Chicago Boys’ to apply all the necessary economic reforms for the sake of development. During the economic crisis of 1982, the state was very active intervening directly in the conflict in order to ensure the continuation of foreign investment into the country. Even during Aylwin’s administration, the intervention of the state was not lessened; actually there was only a process of readjustment from ‘pure’ neoliberal policy towards new political reforms closer to social objectives, at least at discursive level.

It has to be noted that while neoliberal ideology argues for taking the state out of the market, the introduction of market-oriented reforms, in practice, required extremely authoritarian states in order to suppress opposition, (Önis, 1995: 104) as was experienced in the case of Chile.

b) The case of Mexico¹⁵

Historical Context

¹⁵ The Mexican case will be focused on the administrations of Miguel De La Madrid and Carlos Salinas for the same reasons as the Chilean case. The Zedillo administration will be mentioned as a period of economic recovery and adjustment of neoliberal policy.

It can be said that two important historical factors have shaped the political economy of Mexico: the asymmetrical relationship to the United States of America (US), and the legacy of the Mexican revolution (1910-1917) (Hamilton and Mee, 1993: 121). The Mexican economy has relied in great measure on the exports and imports to the US¹⁶, the predominance of US investment among the largest commercial firms in Mexico as well as the relative total foreign investment.

From 1917 to 1940 a period of economic restructuring took place, consisting of the progressive elimination of barriers to capitalism production and establishing the role of state as guardian of natural sovereignty, protector of labour and peasant rights, and promoter of economic development (Hamilton and Mee 1993: 122). Between 1940 and 1970, Mexico achieved constant economic growth per year (6% on average), what is referred as ‘the Mexican miracle’¹⁷. During this period, the state exercised great control over the economy through the proliferation of state-owned firms operating in almost every productive sector. This situation provoked a shift leading Mexico from being an agriculture-based towards a semi-

¹⁶ 70% of its exports and 65% of its imports, while Mexico only represents 4% and 7% respectively to the US (Hamilton and Mee, 1993: 121).

¹⁷ Mexico had proceeded from a primary import-substitution model to a secondary import-substitution with some export-oriented industrialisation (Hamilton and Mee, 1993).

industrial economy heavily relying on technological imports for domestic production.

Despite the great problems caused by the emergence of black markets due to the lack of quality of the products produced by state-owned enterprises, the administration of President Luis Echeverría (1970-76) attempted to revive the economic impulse experienced during the period of the “Mexican Miracle” through massive state investment and establishing controls on foreign investment and technology imports (Hamilton and Mee, 1993: 123). Despite the economic shocks derived from the crisis of energetics in the early 1970s, the subsequent administration (José López Portillo, 1976-1982) took advantage of an unexpected increase in international oil prices in the second half of that decade. In addition to the former, the successful exploration of extensive oil reserves¹⁸ in the south of the country contributed to change the perception of a negative economic panorama. This new source of financial resources served as the main base to expand public expenditure leading to an increase in the public debt to catastrophic proportions in the years to come.

During the 1980s, presidents and their cabinet members tended to have a different educational background from their predecessors (most of them specialised in law). This time,

Mexican policy-makers paid particular attention to obtain academic degrees mainly in economics, often including studies at important institutions such as Harvard University in the US. During the administration of President Miguel De La Madrid (1982-1988), a deep economic crisis took place and an extensive negotiation to restore Mexico’s financial viability with international institutions such as the World Bank and the International Monetary Fund was sought. This economic crisis made Mexico more vulnerable to the demands of these institutions in terms of economic policy. The pressures to adopt neoliberal policies from these institutions constituted an important factor in the decision by the Mexican government to execute a stabilisation emergency policy and implement a package of structural reforms of economic adjustment.

The entrance to the General Agreement on Tariffs and Trade (GATT) in 1986 revealed government intentions to move towards a full-market economy. During the administration of President Carlos Salinas (1988-1994), the projected structural reforms took place favouring the implantation of neoliberal ideology in the country. The promotion of the North American Free Trade Agreement (NAFTA) signed by the US, Canada and Mexico in 1994 made official

¹⁸ Both governments relied heavily on foreign loans. External debt increased considerably during the 1970s until the collapse of oil prices in 1981.

the formal entrance of Mexico into the international market.¹⁹

Despite great enthusiasm caused by the adopted measures at the interior of the country, a new economic collapse took place at the beginning of President Ernesto Zedillo's administration (1994-2000). The original sin that led to this new crisis is to be found in the expropriation of commercial banks that weakened and rendered a fragile channel for privatisation and credit expansion (Haber *et al*, 2008). In addition to the former, other signs revealed the financial vulnerability that Mexico was experiencing at the end of 1994. Among these signs were a semi fixed exchange rate, a sizable current-account deficit resulting in a large extent from a huge credit expansion, not from the overvaluation of the exchange rate, as often claimed, a substantial rise in U.S. interest rates, and a trigger consisting of political tensions which accumulated during 1994 (Gil-Diaz, 2006). Thus, Zedillo's administration faced the great task of implementing a new austerity plan which meant patently regressive growth (Hamilton and Mee, 1993: 126).

Economic Reforms

In Mexico, the major impetus to undertake economical liberalisation came from technocrats within the state (many of them US trained as previously mentioned), radical business groups and major interest groups alienated by the process of bank nationalization (see Ruiz, 2012; Toussaint, 2012)²⁰. Nevertheless, the economic liberalisation process was opposed by small and medium industrial groups who objected particularly to the rapid dismantling of protectionism (Pastor and Wise, 1997: 425). Mexico's process towards economic liberalisation had its origins in the economic crisis of 1982, which led to the questioning of the Import-Substitution Industrialization economic model utilized until then.

The main economic adjustment reforms during the De La Madrid administration were: severe local currency devaluation, substantial reduction in state spending, tax reform, profound withdrawal of subsidies for main activities, a trade liberalisation plan, and massive privatization of state-owned enterprises (see Middlebrook, 2004; Revueltas, 1993). The Mexican government focused mainly on macroeconomic stabilization in which the main goal was to ameliorate the external debt problem and to reduce government expenditure. This decision produced a retrenchment of state participa-

¹⁹ NAFTA meant to Mexico (relatively) unrestricted access to the large US market that would attract both Mexican capital from abroad and foreign capital (see Hamilton and Mee, 1993: 126).

²⁰ Ironically, economic liberalisation was preceded by a dramatic and potentially far-reaching interventionist reform: the nationalisation of Mexico's private banks in September of 1982 (Hamilton and Mee, 1993: 130).

tion in agriculture, reporting a 76% decline in public investment from 1982 to 1989 (Pastor and Wise, 1997: 437).

The main objective of neoliberal reforms centred on the promotion of productivity and profitability in the agricultural sector, mainly through the recapitalization of the sector and the encouragement of private initiative. Tariffs on agricultural products thus were lowered as well as state subsidies and the guaranteed price was eliminated (Pastor and Wise, 1997: 440). The Salinas administration was more far-reaching in its efforts to privatize state-owned enterprises and the banks, and to liberalize domestic prices, foreign trade and investment. The major mining and steel firms, the telephone company and the remaining shares in the nationalized banks were privatized. Under the discourse of the need to stabilize the macroeconomy, three measures were adopted: an income policy (wage and price guidelines), which included a series of pacts between government, private businesses and labour unions; a contention of inflationary impetus, and; a commitment to maintain the local currency with further liberalisation of imports (Middlebrook and Zepeda, 2003). The next measure was to turn to foreign investment that consisted of highly mobile portfolio capital and the adoption of NAFTA (Cámara, 2009; Pastor and Wise, 1997: 435).

Despite the implementation of these reforms, the Salinas government attempted to adapt the social role of the state to new economic restraints and redefine it to the limit of its intervention in the context of the neoliberal strategy. In this sense, two huge social programs were implemented: PRONASOL and PROCAMPO²¹. These social programs enjoyed notoriety during this period, however their outcomes can be considered modest in comparison with their expectations. As mentioned, Zedillo's administration faced serious economic problems to resolve leading Mexico to implement a strong program of fiscal and monetary discipline. Along with this austerity program, Zedillo's administration focused mainly on the continuation of the trade liberalisation process and the implementation of structural reforms²². Social policy was also considered, but this time it was focused on three main points: poverty alleviation, education and health-care, and nutrition (see Cadena, 2005).

²¹ PRONASOL (National Program of Solidarity, acronym in Spanish) was designed to provide infrastructure support for schools, electricity and drinking water, assistance in the creation of diversified microindustrial enterprises in the countryside and restructuring the debts for low income producers. PROCAMPO (Support Program to Agriculture, acronym in Spanish) was launched in October of 1993 as a 15-year direct income subsidy for producers of corn and other base crops who were likely to suffer losses to trade-related competition (Pastor and Wise, 1997: 438).

²² These reforms included liberalisation in: ports, airports, railroads, natural gas, electric power and legal reforms to petrochemical sector.

The role of the state

The new liberalism of the De La Madrid and Salinas administrations had challenged not only long-standing beliefs regarding the role of the state in economic development but also the basic principles of the Mexican revolution incorporated in Mexico's constitution and its subsequent laws (Hamilton and Mee, 1993: 127). The nationalization of banks in 1982 and their subsequent privatization in 1989 can explain the degree of intervention in the Mexican 'neoliberal' state. It is important to note that liberalization in Mexico occurred in a context of a profound economic crisis. The transition, however, was softened to some extent with the implementation of social programs and subsidies in order to prevent opposition.

The US training and education of the three reviewed Mexican presidents might explain their strong commitment to neoliberal thinking. Additionally, domestic and external pressures also played an important role for Mexico in the decision to change from a protectionist state to a neoliberal one. Thus, the role of state in implementing neoliberal reforms was more than decisive in spite of the neoliberal principle of a minimal intervention of the state. In practice, the transition process for this country has been gradual and continuously reshaped. The recognition of the state of the limitations of the neoliberal model has resulted in the promotion of new policies and reforms leading this

country to re-adopt control of decisive activities of the economy.

Even though neoliberal currents underscore the importance of reducing the decision making power of the state, the Mexican case revealed that the imperatives of political survival will often dictate the need for continued state intervention through discretionary compensation policies (Morton, 2003: 643).

Conclusions

The Latin American experience presents a perfect frame that describes the politics of the neoliberal transition. One question that is pertinent is, why and how some states have been more effective²³ than others in the implementation of neoliberal reforms? The answer to this question seems to point towards the configuration of each particular case that includes political legacies and power relations.

Chile, on the one hand, presented a blind neoliberal commitment without considering the possible negative consequences and the social costs that such enterprise might bring. The severe crisis of 1980s revealed the inconsistencies of the neoliberal model and brought to the discussion the necessary adjustments to the model in order to achieve the promised development objectives. Aylwin's and subsequent administrations (Eduardo Frei, Ricardo Lagos,

²³ With "effective" I mean the adoption of neoliberal measures without assessing their performance.

Michelle Bachelet, and Sebastián Piñera respectively) have attempted to deal with the neoliberal legacy and somehow compensate the imbalance between economic and social objectives caused by the measures adopted. However, the full exposition of the Chilean economy to the global environment has brought negative consequences difficult to revert in the short and medium term.

Mexico, on the other hand, was practically pushed to adopt the neoliberal model as a consequence of the pressure to obtain foreign funds to restore its economy. Although it is true that Mexican technocrats also received the political support to implement neoliberal policies, they did not enjoy the great room for manoeuvre as their Chilean counterparts. Mexican policy-makers were constantly subjected to the political pressure of the hegemonic party in power (PRI) as well as of the society in a way. NAFTA was portrayed as the panacea to solve the constant economic struggles, however, for a number of different reasons, it did nothing but worsen the situation in some economic sectors to the point of annihilation. The administration of President Zedillo was very active in terms of implementing structural reforms as well as to adopt policies of free markets. Even though social policies were not the priority of his administration due to the economic crisis, there was recognition of the need to formulate compensatory policies in the subsequent years.

The coincidences between these two cases clearly shed some light on the complexity process of neoliberal transition in Latin America. These examples showed that the neoliberal process required a full presence of the state as well as a strong ideological commitment from the political elite with the benefits of free-market precepts. What these two cases do not clearly reveal, however, are the particular private interests that fuel this process and remained outside the public scene and that were equally important for this to happen. The information in this paper can help locate those economic sectors where both governments paid more emphasis and thus trying to make some conclusions. Nevertheless, neoliberal advocates have made great efforts to portray neoliberalism as an apolitical development strategy. This paper has tried to confront this view to some extent. There is recognition of the limitations of this paper in terms of analytical scope and reforms detail, nevertheless it is believed it provides a general panorama to understand how neoliberal transition proceeded in these contexts.

Apparently the political agenda of the region is focused on the search of re-adapted models of economic development that can deliver better outcomes. This had to be an integral process taking into consideration not only macroeconomic objectives as happened in the past, but also political strategies that can reconcile

government, business and civil society's interests. However, this utopian panorama seems difficult to achieve given the prevailing economic and political conditions in Latin America and the rest of the world. The economic crisis of 2009 might signify alert signals for those countries that still believe in the benefits of a neoliberal economy. Reshaping practices does

not mean an impoverishment of neoliberal theory; rather, it implies mere readjustments to control social discontent. A new direction, however, will pose new challenges not only in the manner in which governments conceive development but also in the way in which politics are exercised. •

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