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**Book Review — Digitized Version**

[Book Review of] Latin American adjustment, John Williamson (Ed.): Washington, Institute for International Economics, 1990

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deutlich, daß Umweltprobleme nur in interdisziplinärer Kooperation gelöst werden können. Hierzu leistet der von Gerd Rainer Wagner herausgegebene Band einen wesentlichen Beitrag.

Peter Michaelis

**Williamson, John (Ed.),** *Latin American Adjustment: How Much Has Happened?* Washington 1990. Institute for International Economics. XV, 445 pp.

The 1980s have frequently been labeled as a lost decade for Latin American economic development. For the region as a whole, per-capita output is estimated to have declined by almost 10 percent during this period. Most economies were (and many of them still are) characterized by stagflation, an extremely skewed income distribution and a considerable foreign debt overhang. The credibility of Latin American governments was substantially eroded with the result that international creditworthiness was badly impaired and domestic capital was channeled abroad rather than invested at home.

Prima facie, it cannot be ruled out that another lost decade lies ahead of Latin America. In the 1990s, worldwide competition for capital is likely to become fiercer, inter alia due to the EC-1992 program and economic reforms in Eastern Europe. It is open to question whether Latin America is prepared to meet this additional challenge. Pessimists point out that the foreign debt issue is still unsettled, notwithstanding the Brady plan with its move towards officially-sponsored debt relief. Moreover, muddling through continues in at least some of the region's major economies. And even where the deep-seated causes of the economic malaise are tackled in a more consistent and comprehensive manner, it may take considerable time to restore the confidence of foreign and domestic investors.

This view was dismissed as overly pessimistic at a conference held by the Institute for International Economics in November 1989 (published with a lag of only six months!) and especially by its organizer and the conference volume's editor, John Williamson. The principal objective was "to reassess the course of Latin American adjustment in the wake of profound political and economic changes in a number of Latin American countries after mid-1985" (p. XIII). Three questions figure prominently:

- Is there agreement on the internal adjustment measures required to restore economic growth?
- To what extent have the Latin American countries implemented such policies?
- Do the economic results so far confirm the wisdom of the dominant paradigm on economic adjustment?

In a background paper, *Williamson* sets the ground for the conference proceedings by specifying what is meant by economic adjustment (Ch. 2). He identifies ten policy areas in which a fairly broad consensus might exist on what countries in Latin America and elsewhere should do (the so-called "Washington consensus"): fiscal discipline, public expenditure priorities, tax reform, financial liberalization, exchange rates, trade liberalization, foreign direct investment, privatization, deregulation, and property rights. The basic content of this agenda is summarized as macroeconomic prudence, outward orientation and domestic liberalization. The bulk of the conference volume (Chs. 3 to 6) is then devoted to case studies on eight individual countries (Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela) and two groups of smaller economies (the Caribbean and Central America). The case studies are presented by well-known experts from the countries themselves and discussed by renowned mem-

bers of the development jet-set. The papers provide evidence on the extent to which the “Washington consensus” on adjustment policies commanded also local support in the countries under consideration, describe the policy reforms that have been implemented, summarize the economic developments and relate, to a greater or lesser extent, the latter to the policies pursued.

Subsequently, Latin American adjustment and the need for external support are dealt with in more general terms in a panel discussion (Ch. 7), an after-dinner speech by *Enrique Iglesias* (Ch. 8), and a comprehensive summary assessment by the editor (Ch. 9) which is based on the evidence presented in the previous sections. Actually, the reader who is not so much interested in country-specific details might get all important messages from the conference by studying the concluding essay “The Progress of Policy Reform in Latin America”, which has also been published separately by the Institute for International Economics in the series *Policy Analysis in International Economics*. The major points made are as follows:

- “In recent years there has been a remarkable transformation in the attitudes of Latin American policymakers” (p. 353). The widespread belief that the region as a whole has failed to adjust to the debt crisis is considered as an erroneous perception that may even jeopardize the prospects of carrying ambitious reform programs to fruition.
- The emerging consensus among international economists on priority areas of policy reform is shared in many Latin American countries (Brazil and Peru being the most notable exceptions at the beginning of the 1990s). A great deal has already been achieved particularly with respect to fiscal consolidation, tax reform, competitive exchange rates, import liberalization, and openness towards foreign direct investment. The progress is significantly less impressive, however, as concerns the reordering of public expenditure priorities, factor market liberalization, privatization, deregulation, and creation of an enabling environment (the latter including institutional reforms such as establishing independent central banks).
- In most of the countries under consideration, the adjustment measures implemented so far have not yet succeeded to restore high and robust economic growth. But “there are signs of hope” and “there is nothing in the record of the 1980s to suggest that the thrust of the policy reforms urged on Latin America has been misconceived” (p. 410).
- Industrialized countries should help to increase the probability that policy reform in Latin America will succeed. A definitive restructuring of foreign debt is “by far the most important contribution they can make” (p. 420). Surprisingly, trade policies of developed countries are not mentioned in this context.

The answer given to the question “Latin American Adjustment: How Much Has Happened?” is clear-cut: quite a lot! This conclusion is backed by a wealth of information which – to generalize a comment made by *Sweder van Wijnbergen* – is not new, “but seeing it all put together . . . made for a rather astounding picture” (p. 181). Nevertheless, the reviewer remains skeptical on whether the region will be able to prevent the 1990s from being another lost decade. To use Williamson’s words, but slightly rearranging the summarizing sentence: It is certainly true that “a lot more is happening than Latin America is being credited with in the industrial countries” and only “some countries have undertaken few reforms at all”, but it is equally true that “few countries have undertaken *comprehensive* reforms” (p. 420; emphasis added).

Williamson is of course aware of the need for a reform program to be consistent, comprehensive and credible in order not to fail. He has stressed this precondition for success not only when he was in Bolivia in August 1985 (see the interesting personal recollection of this visit on pp. 354 ff.). Why is it then that questions of consistency, credibility, and timing and sequencing are dealt with only cursorily in the conference volume? Is it because closer attention paid to these crucially important issues would

have unmasked the “Washington consensus” as a rather small common denominator, given the fact that “we do not have a consensus on the amount of time that the adjustment measures need to mature, or on the proportions and the sequencing of the instruments with which we are working” (Iglesias, p. 349; for a similar statement, see the comments by *Susan Collins* on pp. 303 ff.)? Or is it because a serious evaluation of these questions might have resulted in a less optimistic judgement of how much has actually happened in Latin America?

Peter Nunnenkamp