Book Review Essays

Slippery Slopes: Globalization, Market Reforms, and Austerity Politics

Author: Carol Wise

Abstract

This essay reviews the following works:


The International Context

The books reviewed in this essay reflect a virtual renaissance of scholarly and policy-oriented work in the subfields of comparative and international political economy as these relate to the Latin American region. The first five books listed above are thoroughly researched and, for the most part, clearly argued. Together, they carry the reader from...
the initial implementation of market reforms in the region in the late 1980s and early 1990s, all the way up to the present. These books are rich with case studies, thick description, and careful analyses. Be it fiscal policy (Tasha Fairfield), income distribution (Arie M. Kacowicz), austerity politics (Stephen B. Kaplan), voter preferences and cleavages (Daniela Campello), or the role of the International Monetary Fund (Claudia Kedar), these authors have clearly advanced the state of the art concerning the intricacies of implementing market reforms, sustaining them, and dealing with their effects. The sixth book, *Designing Industrial Policy in Latin America* by Ben Ross Schneider, is more of a policy primer. It offers an analysis of those business-government structures in the region that have proved most effective in generating promotional policies in various economic sectors and at differing levels of government.

The first decade of the twenty-first century has been nothing short of a game changer for Latin America. Three main trends stand out: the rapid rise of China in the region, boosted by its 2001 entry into the World Trade Organization (WTO); the commodity price boom that took off in the early 2000s, driven largely by Chinese demand; and, the 2008–2009 global financial crisis, from which the region quickly rebounded. Let me elaborate briefly on each of these trends in turn, as they set the context within which the five issue areas just mentioned (fiscal policy, income distribution, austerity politics, voter preferences, and multilateral involvement) are analyzed by all of these authors. I will then turn to an explicit discussion of the books at hand, including an analysis of their similarities, differences, and joint contributions to the field of Latin American political economy at large.

**Latin America in the 2000s: An Epochal Shift**

It has taken nearly two decades to register the extent to which the “rise of China in Latin America” has altered the region’s political economic landscape.1 With its 2001 entry into the WTO, China gained most-favored-nation status and immediate access to world markets. For Latin America, what had previously been a trickle of Chinese imports quickly became a flood, as China exported everything from toys and wood furniture to high-value-added intermediate manufacturing inputs into regional markets. The pressure on domestic industrial sectors has been intense, although many countries have been able to balance against this deficit either by selling massive amounts of commodities to China (e.g., Argentina, Brazil, Chile, Colombia, and Peru) or by deepening their economic ties with the United States (Mexico and the Central American bloc). One response has been increased protectionism, while another has been the revival of and resort to industrial policy. On this point, Schneider’s book is timely as it lays out explicit criteria (“information exchange, allocative authority, and constraints on rent-seeking,” 28) for more effective state-business collaboration in the promotion of different sectors and overall competitiveness. I elaborate on this book later in the essay.

A second phenomenon that occurred almost in tandem with China’s WTO accession was its burst of demand for primary commodities. WTO entry upped the ante for China, as the maintenance of high growth led by the expansion of manufactured exports meant the need for ever-increasing quantities of primary products. Endowed with few natural resources of its own, China remains remarkably dependent on the import of a range of commodities in order to fuel the world’s second largest economy and to feed the biggest national population on earth.2 As Mother Nature would have it, South America, in particular, is home to those very commodities that China needs to propel its development model to a more mature stage. Under the impulse of voracious Chinese demand, prices soared for oil, copper, iron ore, soybeans, and fishmeal, kicking off a commodity lottery that surpassed that which ended with the onset of World War I (Kacowicz, 87–88).

Recall that the period prior to these two China shocks was one of slowing growth in Latin America and—perhaps with the exception of Mexican policy makers—disillusionment with the policies of liberalization, privatization, and deregulation that had been prescribed by the Washington Consensus. Stephen Kaplan beautifully captures how, on the heels of the 1989 Brady Plan for debt restructuring, the quick and simultaneous liberalization of trade and finance in the early 1990s prompted the flow of capital into regional stock and bond markets. This securitization of capital inflows, exciting as it was, also set the stage for massive capital outflows when political and/or economic trends
signal instability. This particular scenario was one of several causes of the massive exchange rate and banking crises that erupted in Mexico (1994), Brazil (1999), and Argentina (2002). Once the currency hits the proverbial fan and inflation inevitably flares, the menu of options usually boils down to some form of austerity (Kaplan, 21–22). Apart from small, open economies like Chile, Costa Rica, and Peru, the rest of the region had hit a low-growth reform hiatus during the 2000–2003 global recession, with timeworn International Monetary Fund (IMF) austerity measures seeming the only way out.

Then, quite suddenly, the commodity lottery struck and the region would sail on China’s tailwinds for the next decade (2003–2013). Kacowicz (107) notes that “the region as a whole grew 5.6 percent in 2007, the fourth consecutive year of growth of more than 4 percent.” Argentina, having thrown in the towel with the IMF amid its 2001 US$100 billion debt default, and thus declared a “basket case” by Washington, literally took off. Brazil and the rest of South America followed, preferring thereafter to pursue “an independent approach vis-à-vis the IMF” (Kedar, 189). A number of countries paid down external debt, reduced their budget deficits, stockpiled large foreign exchange reserves, and launched targeted social policy programs. As Campello observes, during these “good times” democratic regimes held steady and foreign portfolio investors were more relaxed about left-right cleavages on the electoral front. Hindsight shows, moreover, that the “first phase” of market reforms—that is, the institutionalization of sound macroeconomic policies in the realm of fiscal, monetary, and exchange rate mechanisms—had taken hold. With the exception of Argentina and Venezuela, inflation rates in Latin America were running in the single digits during the first decade of the 2000s.

This last statement was put to the test when the third phenomenon struck: the 2008–2009 global financial crisis (GFC), the impact of which was considered to be greater than the shocks that hit the global economy in 1929. As US$1 trillion drained from the US stock market on September 29, 2008, it was unimaginable that Latin America would remain unscathed. And yet, for all but Mexico, China’s quick rebound from the GFC enabled Latin America to ride the crisis out on China’s shirrtails. Mexico, being more tightly integrated with the US market, was beholden to US economic recovery and thus much slower to rebound. But by 2010 the overall picture looked rosy. For perhaps the first time ever, the bulk of countries in the region had resorted to countercyclical fiscal policies to cushion the external shocks from the GFC. Another first is that not one Latin American country was compelled to turn to the IMF. In fact, Brazil made the November 9, 2009, cover of The Economist magazine under the title “Brazil Takes Off.”

However, in the world of commodity price booms, what goes up inevitably comes back down. The plunge began with oil prices in 2012–2013, which by early 2016 had dipped below US$30 per barrel. The slowing of Chinese growth from its thirty-year average of 9–10 percent annually down to about 6.5 percent showed how swiftly a negative GDP shock from China could dampen world growth. For the Latin American region, just as China’s positive GDP shock was a godsend from 2003 to 2013, its reversal has been a jolt. The pain has been acute for those that were the most celebrated countries just three years earlier—Brazil and Argentina. The books reviewed here offer two main insights on the region’s post-boom slump: (1) although considerable reforms have been undertaken they are still not sufficient to sustain growth (aggregate and per capita) over the long run, as elite business preferences and global economic pressures tend to pull in the opposite direction; and, (2) reform progress and sound growth from 2003 to 2013 helped to loosen the ideological parameters for politics, policy making, and statecraft, although in some unpredictable ways.

Second Image Reversed

Two Argentine Case Studies (Kacowicz and Kedar)
The title of this section refers to Peter Gourevitch’s seminal 1978 article in which he declares that “international relations and domestic politics are ... so interrelated that they should be analyzed simultaneously, as wholes.” Gourevitch cautions, moreover, that “however compelling external pressures may be, they are unlikely to be fully determining ... an explanation necessarily entails an examination of politics: the struggle among competing
responses.” With varying emphases, the authors of the first five books listed above are all working at this nexus of international politics/economics and domestic responses. I start here with the books by Kacowicz and Kedar, both of whom have written on Argentina, the one country to be included as a case study in all of these first five books. Although these first two authors make some attempt at comparative analysis, at the end of the day these are old-fashioned country case studies. Both books leave the reader yearning for a more explicit linking of international and domestic variables.

In *Globalization and the Distribution of Wealth: The Latin American Experience, 1982–2008*, Arie Kacowicz enters a very crowded field, one that he contends is badly in need of a political (versus an economic) analysis. He situates his argument within a traditional international relations framework, including reference to liberalism, radicalism, and the realist/statist paradigms. Kacowicz nails his mast to the latter, explaining that it facilitates the “intermestic” approach, which he identifies as the linchpin of his study. “The *intermestic model,*” he explains, refers “to the state as a critical (but not always effective) *active transmission belt* or intermediary actor, between the structural forces of economic globalization and the structural characteristics of a given society” (10). The author embeds his intermestic approach in the realist school and imbues it with literature from the 1980s on “strong” versus “weak” states. Very detailed definitions of globalization, poverty, and inequality are offered and Kacowicz distinguishes between poverty and equality, stating that globalization can impact one without the other.

The takeaway from this book is that globalization has led to growth and some poverty reduction but has done little to ameliorate inequality, mainly because of weak national governments in Latin American countries. He advocates for a Tony Blair-like “third way,” achieved by strong democratic states with good rule of law and low corruption. All of this sets up the analysis for the Argentine case study, which is not well integrated into the conceptual material that precedes it. In other words, the author’s intermestic claims do not entirely shine through. The author’s bottom line is that President Carlos Menem’s neoliberal reforms of the 1990s exacerbated poverty and inequality, and the country’s 2001–2002 financial crisis further deepened these unfavorable trends. This is nothing new, and it is not clear why a book published in 2013 would halt the analysis on the eve of the GFC in 2008. Kacowicz leaves us with the notion that distributional challenges were being effectively addressed under the Peronist Party president, Néstor Kirchner (2003–2007). This is true, although the return of double-digit inflation has eaten away at these gains.

Claudia Kedar’s book, *The International Monetary Fund and Latin America: The Argentine Puzzle in Context*, reviews much of the material in the book by Kacowicz but from the standpoint of the country’s interactions with the IMF. Kedar is the one historian in the group of authors reviewed here, and her text offers a rich and detailed account of Argentina’s relationship with the IMF since the country’s incorporation into the Bretton Woods institutions in 1956. Kedar coins her analytical framework as “The Routine of Dependency,” which “exists at varying levels over time and emerges as an integral component of the IMF’s and the borrower’s economic and political life” (3). This book is as much a history about the IMF’s dealings with the Latin American region as it is about Argentina. Although the title of the book refers to the Argentine “puzzle,” this is not spelled out clearly. If the author is arguing for some sort of Argentine exceptionalism, that is, that the Argentine–IMF relationship was more acrimonious and asymmetrical than the IMF’s relationships with other countries in the region over the post–World War II period, this is a stretch. In Peru during the 1970s, for example, the ruling Revolutionary Government of the Armed Forces declared the local IMF representative “persona non grata” and promptly sent him packing.

For all of its richness, this book never probes the ways in which the implosion of the IMF–Argentina relationship in 2002 may have affected the Fund itself. This is a lost opportunity. Kedar cites numerous interviews with former IMF Western Hemisphere director, Claudio Loser, who held that position from 1994 to 2002, but does not mention that he was abruptly fired for the Fund’s abject failures in Argentina when the bottom dropped out. Albeit meekly, the IMF has since strayed from its monetarist moorings in voicing support for certain kinds of capital controls in the aftermath of the GFC; and, some prominent Fund economists have recently questioned and even rejected the usual
orthodox austerity measures prescribed by the IMF as too recessionary and hampering of growth. In the case of Greece, the Fund has recently done a remarkable about-face, calling for less austerity and even some debt forgiveness as this sad saga now approaches its tenth anniversary. Surely the Fund’s debacle with Argentina played some role in triggering these incremental policy shifts within the IMF. Some careful consideration of this question would have enhanced Kedar’s contribution.

Like Kacowicz, Kedar interprets the post-2003 period in Argentina under President Néstor Kirchner and President Cristina Fernández de Kirchner (2007–2015) as a success. Kedar’s routine of dependency framework becomes a “routine of detachment” in the final chapter of her book. But detachment from what? Although the IMF has been out of the picture for more than a decade, the Argentine economy came to a complete standstill when the commodity price boom ended in 2013. The more likely culprit for the country's halting growth is the capital squandering and considerable reform backsliding that has occurred in the 2000s, on everything from upholding the rule of law, to controlling corruption, to regulatory oversight. The books by Campello, Fairfield, and Kaplan poignantly explain this cycle of bust to boom to bust: when the chips are down, as they have been since 2013, party politics become more divisive and business elites will side with international markets, taking a good chunk of the electorate with them.

The late 2015 election of Argentine president Mauricio Macri on a right-leaning, business-friendly ticket is a case in point. Similar to the neoliberal Menem era in the 1990s, Macri appealed to voters’ fears of rising inflation and plummeting growth—not to mention the stiff import and capital controls imposed by his predecessor. The new economic team’s first order of business was to settle old debts from the 2001 default, resulting in the country’s rather grandiose return to international bond markets in 2016. Argentine elites have thus triggered yet another “routine,” to use Kedar’s term. While Kedar emphasizes the international roots of the country’s plight, this strikes me as a typical case of path dependence, one in which the development trajectory becomes “a story of inevitability in which the past neatly predicts the future.”

This present routine painfully captures the country’s inability over time to harness its vast natural resources and rich endowment factors to enduring political and economic institutions.

Other Takes on Globalization

Three Brilliant Arguments (Campello, Fairfield, and Kaplan)

Campello, Fairfield, and Kaplan have all taken up Gourevitch’s mantle as each analyzes their respective policy/political economy issue areas against the backdrop of globalization, with domestic effects and responses being their dependent variable. It helps to remember that during the post–World War II era Latin America was a very reluctant newcomer to the notion of globalization. Under authoritarian duress, Chile made the first big leap in the mid-1970s. However, it took well into the 1980s for political and economic elites across the region to grasp fully that by borrowing massively from offshore commercial banks in the 1970s, the region had inadvertently integrated into international financial markets. After hitting bottom with a handful of hyperinflationary blowouts (Argentina, Bolivia, Brazil, Peru) and collapsed state finances, countries turned to the Washington Consensus, not out of an affinity for neoliberal policies but because by the early 1990s policy makers had become convinced that it was their only remaining option. Interestingly, policies that seemed harsh and radical at the outset of market reforms—for example, curtailing fiscal deficits, reducing subsidies, market-based interest rates, tax reform, competitive exchange rates, and attracting foreign direct investment—are now par for the course for any emerging economy looking to make it in global markets. This is the departure point for all three of the books reviewed in this section.

In The Politics of Market Discipline in Latin America, Daniela Campello takes up the question of left–right political cleavages. She argues that during the “bad times” (in conditions of dollar scarcity, high interest rates, and low commodity prices) globalization and the resulting financial integration will force a moderation in leftist distributional policies. During the good times like 2003–2013 (when there are high commodity prices, low international interest rates, and dollar abundance), politicians and policy makers have increased room to maneuver
and are thus more likely to move leftward on the left–right continuum. Through well-crafted case studies on Argentina, Brazil, Ecuador, and Venezuela, she highlights how private investors can work to constrain the policy choices available to national governments by making credible threats of capital flight. Campello rightly notes the debilitating effects on aggregate and per capita growth rates when large, mobile capital inflows are followed by abrupt outflows. Latin America has been hard hit by these fickle capital movements, as even a trivial media comment concerning a possible shift in the US Federal Reserve Bank’s interest rate policy can quickly trigger capital flows in either direction.

Let me play devil’s advocate with regard to two of Campello’s assumptions. First, although this book was published a good five years after the 2008–2009 GFC, the author makes short shrift of this event. In fact, I would argue that Latin American policy responses to the GFC somewhat challenge her notion that countries in the region invariably move toward orthodoxy and right-leaning policies during the “bad times.” The data show that at least two of her case studies (Argentina and Brazil), plus Chile and Peru, engaged in countercyclical fiscal policies meant to cushion the burden of adjustment to the GFC, and this overrode the usual right–left cleavages.

Second, the comments made throughout this analysis about Argentina’s “not borrowing” after the 2001 debt default are somewhat ambiguous. Campello suggests that this could be a reasonable option given that policies demanded by financial markets can exceed the benefits associated with capital inflows (219). To be clear, with its 2001 bond default Argentina may have frozen itself out of northern capital markets until the election of Macri in late 2015; however, the author needs to consider that alternate financing was readily available to Buenos Aires during this freeze from Fernández de Kirchner’s new best friend: China.

In her book *Private Wealth and Public Revenue in Latin America*, Tasha Fairfield explores the types of power creditors and investors exert over national tax policies. These private actors hold both instrumental power (political clout) and structural power (investment, capital flows) and use both of these to discourage tax increases. Competitive pressures from globalization make business elites sensitive to tax reform, and in Latin America their effective lobbying has kept most progressive/distributional taxes off the government agenda. Fairfield has compiled three case studies—Argentina, Bolivia, and Chile—according to the following instrumental power variables (258): cohesion, relationships with legislators, and relationships with the executive. Chile ranks “strong” on all three variables, and this sheds light on why progressive tax reform there has moved only incrementally, despite the country’s social democratic persona. Argentina ranks weak on all three variables in the 2000s, and this sheds light on the ability of the Fernández de Kirchner administration to raise agricultural export taxes to 35 percent in late 2007, up from 10 percent in 2002. My own two cents: an export tax of this magnitude would indeed be unimaginable in contemporary Mexico or Brazil, countries where instrumental power is weaker than in Chile but certainly more cohesive than in the case of Argentina. Fairfield’s third case, Bolivia, is an intermediate example in this typology, as fiscal reforms in this country are more beholden to context-specific variables.

As for structural power, Fairfield compares reform outcomes in three tax issue areas (taxing interest earnings, bank information access, and a financial transactions tax) across the cases of Argentina and Chile. Here, she masterfully shows how the weak cohesion of business elites in Argentina resulted in the two successful reform outcomes (bank information access and a financial transactions tax), while Chile’s more unified and powerful business elites were able to push all but bank information access off the legislative agenda. In contrast with Argentina, and against the literature pointing to the salience of elite cohesion in obtaining significant economic reform, this one issue area in Chile saw just “limited reform.” From this analysis Fairfield surmises that “even in the neoliberal era, structural power is not the monolithic force described in early business politics literature (280).”

Based on the Argentine government’s success with imposing agricultural export taxes, Fairfield states that it helped “to sustain a macroeconomic model that proved highly successful for growth and poverty reduction.” This may have been so up through the GFC, but a decade later it is simply not the case. Unfortunately, the government’s highly
touted countercyclical fiscal expansion in response to the GFC kept right on going once growth resumed in 2010. With state coffers rapidly draining, Fernández de Kirchner’s economic legacy upon her departure in late 2015 was financial repression, double-digit inflation, cooking the national statistics on inflation and growth to reflect favorably on her administration, and gutting Central Bank reserves to sustain her political spending.16

In *Globalization and Austerity Politics in Latin America*, Kaplan’s research puzzle begins with the noticeable absence of political business-cycle spending in Latin America over the past two decades compared with its blatant use in the United States and other developed countries. He argues that because of their recent experiences with hyperinflation, Latin American governments have instead been implementing political austerity cycles, which are inflation and deficit-spending averse. If a Latin American country has most of its debt in bonds and has had a history of hyperinflation, then it will opt for political austerity regardless of electoral calendars. This is precisely where Argentina now sits on the political austerity curve.17 If a country has its debt funded by other means and has no significant history with inflation, then policy makers will have more leeway to pursue a political business cycle. Debt to bondholders makes governments especially vulnerable because bondholders can sell their bonds quickly at the first sign of deviation from austerity policies, causing “sudden stops” in credit flows. Kaplan asserts that the choice to adhere to neoliberal economic orthodoxy by national governments is a political one, and is now often made even in the absence of pressing international constraints.

Kaplan has no illusions about Argentina—or any other Latin American country for that matter—braving it alone indefinitely outside of global capital markets or raising incomes and reducing poverty through inflationary growth. A former senior economic analyst at the Federal Reserve Bank of New York, Kaplan joins Campello and Fairfield in analyzing the effects of private actors and global capital markets on domestic policy-making. Whereas Campello writes about the pressures of capital mobility from the standpoint of partisan politics and economic policies associated with left–right political cleavages, and Fairfield focuses on business and economic elites as the transmitters of fiscal policies that cater to global capital markets, Kaplan writes about the actual nature of these capital markets and their inherent bias toward austerity policies. The country case studies offered in his book include Argentina, Brazil, Chile, Ecuador, and Venezuela. Kaplan’s focus is on global bond markets, in particular, and he argues that in all of these country cases, including populist Venezuela under President Hugo Chávez (1999–2013), the combination of global market pressures and fears of a return to high inflation have prompted policy makers to tread cautiously regardless of partisan platforms.

Although Kaplan does not consider the Mexican case, it bolsters his argument: policy makers there have choked off growth since the early 1990s by numbly adhering to neoliberal economic orthodoxy, even when external constraints are not fully binding. It was, for example, the only country in Latin America to raise interest rates when the GFC struck, for fear of inflationary pressures on domestic agricultural products. All three of the authors reviewed in this section lament this pattern of orthodoxy trumping fiscally progressive distributional and social capital policies in the countries examined here. As I mentioned earlier, even the IMF has lightened up on this point, with three prominent staff recently arguing that “in the case of fiscal consolidation, the short–run costs in terms of lower output and welfare and higher unemployment have been underplayed, and the desirability of countries with ample fiscal space of simply living with high debt and allowing debt ratios to decline organically through growth is underappreciated.”18 Kaplan notes the design of micro–level interventions in the region, such as conditional cash transfer funds, that can buy goodwill without blowing a hole in the budget. But, as he argues, this is no substitute for the kinds of productive, growth–inducing capital investments that are still so sorely lacking.

**What (Exactly) Is to Be Done?**

**Industrial Policy by Any Other Name**

Schneider’s book is the outlier here, as it represents a synopsis of a career’s worth of work for which he has become so well–known and respected. His analysis complements the books by Campello, Fairfield, Kacowicz, and Kaplan, as
Designing Industrial Policy in Latin America speaks to medium-term strategies which push well past doctrines and ideology. The rejection of purposeful state economic intervention and targeted promotion of designated strategic sectors went to the core of the Washington Consensus manifesto published by John Williamson in 1990. Mexico took the first bite of the forbidden apple when former trade secretary Jaime Serra Puche announced in 1992 that “the best industrial policy is no industrial policy.” This was of course an abrupt U-turn for a country that had prospered on state promotion over the post–World War II era in sectors that now represent the commanding heights of the Mexican economy: electronics, machinery, autos and auto parts, petrochemicals, and high-end garments and textiles. Since the country’s entry into the North American Free Trade Agreement (NAFTA) in 1994, policy makers have relegated technology transfer and industrial promotion to foreign investors. Without casting specific aspersions, this is surely a contributing factor to Mexico’s poor economic performance and miserable per capita growth over the past three decades.

As I noted earlier, Chinese exports to the region consist primarily of manufactured goods of higher added value, and this has been especially challenging for countries like Brazil and Mexico, both of which produce and export industrial outputs that are similar to those of China. Given that China is now the quintessential developmental state, the world’s top exporter, and ranked number one in the application of technology to its domestic productive structures, Serra Puche’s 1992 mantra is clearly obsolete. With the rapid rise of China in the region, the issue today for countries like Brazil and Mexico is not whether the state should intervene in the promotion of more diverse and competitive exports, but rather how. Designing Industrial Policy in Latin America takes us up to the eve of this question but never addresses it explicitly. Alas, this treatise on the “New Developmentalism” cries out for an update. As Chinese exports continue to burrow through the electronics and auto parts sectors in Argentina, Brazil, and Mexico, displacing producers in both domestic and third markets, all three countries have fallen back on ineffectual protectionism. At the very least, this book should address some truly new industrial strategies to counter this unprecedentedly fierce competition.

This book is successful, however, in its thorough coverage of business and state relations in Latin America up until the new millennium. Schneider undertakes three main tasks: a review of the literature on the institutional features of industrial policy and the different configurations of joint government–business councils designed to promote exports of higher added value within various countries; a critique of those government–business councils and the actual policies and experiments that have been embraced across the Latin American region; and, a contextual exploration of how promotional government–business councils in Latin America have fared in the face of big business and within political systems based on some combination of majoritarian presidentialism and proportional representation within the legislature. The first two tasks just mentioned represent the core contribution of this book.

After reviewing the best of the literature on industrial policy (which some Latin American leaders are now calling “competition policy” or “technology policy” in order to distinguish present approaches from the earlier heavy-handed state invention based on import-substitution and protectionism that prevailed up to the 1980s), Schneider dispenses with how-to blueprints and instead sets up basic criteria to guide government–business endeavors in the promotion of designated sectors and products. The first criterion is “real information exchange between business and government,” in recognition that asymmetries in knowledge about markets, pricing, and other key variables can sink even the best intended efforts at industrial promotion. The second is “authoritative allocation,” which refers to the designated ability of a given entity to distribute/redistribute resources (e.g., subsidized loans, grants, training programs, minimum wages, or infrastructure investments). Third, through a carefully designed set of incentives and disincentives is the obvious need to place some explicit constraints and oversight on rent-seeking.

Schneider also distinguishes between active and passive policies, with the weight of each depending on the particularities of a given country’s institutional landscape, endowment factors, and technical capacities. Passive industrial policies, such as lower transport costs and streamlined regulations, entail lower costs to business and
demand less of the government in terms of monitoring; active industrial policies, which are most common in East Asia, require more information and transparency from business, and entail higher subsidies but also higher performance standards, closer government monitoring of company performance, and sanctions for underperformance. Between the lines, strategies based on active industrial policies also appear to require a more sophisticated developmental state which, outside of Chile, has yet to emerge fully in Latin America. Still, this book is full of numerous examples of fruitful government–business collaboration, be they economy-wide, sectoral, and/or subnational efforts. These include, for example, the promotion of wine in Argentina and Chile, biodiesel in Brazil, and information technology (IT) clusters at the state (versus federal) level in Mexico.

Does Designing Industrial Policy in Latin America place perhaps too much faith in the ability of government–business collaboration to rise to the occasion in resuscitating established sectors and launching new ones? After all, Fairfield’s study of business power and tax politics showed us that tight public–private coalitions in Chile handily stalled progressively designed reforms around tax increases on business interest earnings and financial transactions. In the present juncture, government–business interactions in Argentina, Brazil, and Mexico, for instance, have spawned a wave of protectionism directed primarily toward China. Where are the vision, creativity, and agency that gave rise to the regional examples just mentioned (wine, biodiesel, IT)? In the end, Schneider is clear–headed about the costs and opportunities inherent in industrial policy, which “is about creating businesses for the future, but also in the immediate run ... tailoring policies and mechanisms for business–government collaboration to actual existing firms” (55).

Final Comments

The value of the books by Kacowicz and Kedar reviewed here lies in the wealth of knowledge that each offers on the Argentine case. While both authors fall a bit short in linking domestic and international variables into a more dynamic explanation, this does not entirely take away from the contribution of both. As for the books written by Campello, Fairfield, and Kaplan, each is a tour de force; when read together, they offer a compelling and illuminating journey into Latin America and the international political economy in the new millennium. All walk the reader through Latin America’s tighter integration into global capital markets and offer carefully considered causal explanations for political economic outcomes with regard to their respective issue areas. Through the use of mixed methods and process–tracing fieldwork interviews, these authors readily capture the interactive dynamic of global and domestic variables. Schneider’s book complements the work of all but Kedar, as Schneider launches the development debate onto a more proactive plane—one that has become all the more urgent in the face of relentless Chinese competition, which derives from its own daunting developmental state.

Notes


Pastor and Wise, “Goodbye Financial Crash.”


Pastor and Wise, “Goodbye Financial Crash.”


Pastor and Wise, “Goodbye Financial Crash.”


Williamson, Latin American Adjustment.


Wise, “Playing Both Sides of the Pacific.”

Author Information

Carol Wise is associate professor of international relations at the University of Southern California. She has written widely on trade integration, exchange rate crises, institutional reform, and the political economy of market restructuring in the Latin America region. Wise is author of the forthcoming book, Dragonomics: The Rise of China in Latin America (Yale University Press, 2018), which analyzes the rapid economic ties that have developed between
Slippery Slopes: Globalization, Market Reforms, and Austerity Politics. Carol Wise. Published: 12 December 2017. Discussions of market reforms and policies like universal basic income are becoming more prevalent, and we will soon begin to see the effects of new redistributive wealth policies in many countries around the world. If world leaders in business and government truly embody a stakeholder approach to development, opportunities to fight poverty will present themselves hand-in-hand with good economic policy.